



## **Prospectus**

**for the initial public offering in the Federal Republic of Germany and the Grand Duchy of Luxembourg**

of

55,555,000 newly issued ordinary bearer shares with no par value from a capital increase against contribution in cash resolved by an extraordinary shareholders' meeting of the Company

and of

45,455,000 existing ordinary bearer shares with no par value from the holdings of RWE Downstream Beteiligungs GmbH, Essen, Germany, in a base deal and up to 25,252,000 existing ordinary bearer shares with no par value from the holdings of RWE Downstream Beteiligungs GmbH, Essen, Germany, subject to the exercise of an upside option upon decision of RWE Downstream Beteiligungs GmbH, Essen, Germany, in consultation with the Joint Global Coordinators on the date of pricing

and of

up to 12,626,200 existing ordinary bearer shares with no par value from the holdings of RWE Downstream Beteiligungs GmbH, Essen, Germany, to cover potential over-allotments

and at the same time

**for the admission to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange**

of

500,000,000 ordinary bearer shares with no par value (existing share capital)

and of

up to 55,555,000 ordinary bearer shares with no par value from a capital increase against contribution in cash to be resolved by an extraordinary shareholders' meeting of the Company

each such share with a notional value of EUR 2.00 in the share capital  
and with full dividend rights as from January 1, 2016

of

**innogy SE**  
**Essen, Germany**

**Price Range: EUR 32.00 – EUR 36.00**

International Securities Identification Number (ISIN): DE000A2AADD2

German Securities Code (*Wertpapier-Kenn-Nummer*) (WKN): A2AADD

Common Code: 149062238

Trading Symbol: IGY

*Joint Global Coordinators and Joint Bookrunners*

**Deutsche Bank**

**Goldman Sachs International**

*Joint Bookrunners*

**BNP Paribas**

**BofA Merrill Lynch**

**Credit Suisse**

**UBS Investment Bank**

*Co-Lead Managers*

**Banco Santander**

**Berenberg**

**RBC**

The date of this prospectus is September 23, 2016

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# 1 SUMMARY OF THE PROSPECTUS

*Summaries are made up of disclosure requirements known as 'Elements'. These Elements are numbered in Sections A–E (A.1–E.7). This summary contains all the Elements required to be included in a summary for this type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention "not applicable".*

## A. Introduction and Warnings

A.1	Warnings.	<p>This summary should be read as an introduction to this prospectus (the "<b>Prospectus</b>"). Any decision to invest in the shares of the Company (as defined below) should be based on consideration of the Prospectus as a whole by the investor.</p> <p>Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States of the European Economic Area, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.</p> <p>Those persons who have assumed responsibility for the summary, including any translation thereof, or who have arranged for the issuance (<i>von denen der Erlass ausgeht</i>), can be held liable but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or if it does not provide, when read together with the other parts of the Prospectus, all necessary key information.</p> <p>innogy SE (formerly RWE International SE), Essen, Federal Republic of Germany ("<b>Germany</b>") (hereinafter also the "<b>Company</b>" and, together with its consolidated subsidiaries, "<b>we</b>", "<b>us</b>", "<b>our</b>", the "<b>innogy Group</b>", the "<b>Group</b>" or "<b>innogy</b>"), together with Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany ("<b>Deutsche Bank</b>"), Goldman Sachs International, London, United Kingdom ("<b>Goldman Sachs</b>" and, together with Deutsche Bank, the "<b>Joint Global Coordinators</b>"), BNP Paribas, Paris, France ("<b>BNP Paribas</b>"), Merrill Lynch International, London, United Kingdom ("<b>BofA Merrill Lynch</b>"), Credit Suisse Securities (Europe) Limited, London, United Kingdom ("<b>Credit Suisse</b>") and UBS Limited, London, United Kingdom ("<b>UBS Investment Bank</b>", and together with BNP Paribas, BofA Merrill Lynch, Credit Suisse and the Joint Global Coordinators, the "<b>Joint Bookrunners</b>") and Banco Santander, S.A., Santander, Spain ("<b>Banco Santander</b>"), Joh. Berenberg, Gossler &amp; Co. KG,</p>
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		Hamburg, Germany (" <b>Berenberg</b> ") and RBC Europe Limited (trading as RBC Capital Markets), London, United Kingdom (" <b>RBC</b> ", and together with Berenberg and Banco Santander, the " <b>Co-Lead Managers</b> ", and together with the Joint Bookrunners, the " <b>Underwriters</b> "), assume responsibility for the contents of this summary including its German translation pursuant to section 5 (2b) No. 4 German Securities Prospectus Act ( <i>Wertpapierprospektgesetz</i> ).
<b>A.2</b>	<b>Information and notice regarding the use of the Prospectus for subsequent resale or final placement of securities by financial intermediaries.</b>	Not applicable. There will be no subsequent resale or final placement by financial intermediaries which requires consent. Therefore, consent regarding the use of the Prospectus for a subsequent resale or final placement of the Company's shares by financial intermediaries has not been granted.

## **B. The Issuer**

<b>B.1</b>	<b>Legal and commercial name.</b>	As of the date of the Prospectus, the Company's legal name is innogy SE. The Group's commercial name is "innogy". In addition, some of the Company's subsidiaries use other commercial names reflecting other important Group brands, in particular Süwag, LEW Lechwerke, enviaM, ELE, VSE, energis and eprimo (Germany), npower (UK), essent and energiedirect.nl (the Netherlands), ELMÜ, ÈMÀSZ and MÁSZ (Hungary).
<b>B.2</b>	<b>Domicile, legal form, legislation, country of incorporation.</b>	The Company has its registered seat in Essen, Germany, and is registered with the commercial register maintained by the local court ( <i>Amtsgericht</i> ) of Essen, Germany, under HRB 27091. The Company is a European company ( <i>Societas Europaea</i> or SE) incorporated in Germany and governed by European and German law.
<b>B.3</b>	<b>Description of, and key factors relating to, the nature of the issuer's current operations and principal activities, stating the main categories of products sold and/or services performed and identification of the principal markets in which the issuer competes.</b>	The innogy Group is a well-established European distributor and supplier of electricity and gas and an experienced producer of electricity from renewable energy sources with a diversified and well-invested asset base. Anchored in the attractive German market with leading positions in many European countries, as of December 31, 2015 we operated around 570,000 km of electricity and gas grids serving approximately 16.5 million grid customers in Germany and four Eastern European countries, had contracts for the sale of electricity and gas with 23 million customers in eleven European countries and generated electricity with total generation capacity of 4.4 GW (accounting view). 3.6 GW of this capacity stems from renewable sources in nine European countries. We had a total energy production in 2015 of 10.3 TWh (accounting view). In 2015, the innogy Group generated EBITDA of EUR 4.5 billion.

		<p>The Group was formed in a series of transactions that separated the grid &amp; infrastructure, retail and renewables businesses of RWE AG and its direct and indirect subsidiaries and participations from their conventional and nuclear power generation and trading activities (the “<b>Carve-Out</b>”). As such, we believe that we are well-positioned to exploit the opportunities of the ongoing energy transition.</p> <p>We are one of the largest electricity distribution system operators (“<b>DSO</b>”) in Germany (based on distributed volumes) and, according to our own estimates, a leading gas DSO in Germany and the largest gas DSO in the Czech Republic. Given the nature of electricity and gas distribution grids, which function as natural monopolies in their respective regions, our grid business is highly regulated. The regulatory bodies in each country regulate the return we are allowed to earn, which results in stable and predictable earnings. Our aggregate regulated asset base amounts to approximately EUR 13.3 billion, which is the sum of our regulated assets calculated on the basis of the latest notification by the respective regulators or, as the case may be, based on calculations included in the latest filings with the respective regulators, and is generally based on year-end values (as applicable) and excludes pro-rata shares from participations that are not fully consolidated across all countries in which our grid business is active (the “<b>Aggregate RAB</b>”). Germany, where we operate about two-thirds of our regulated electricity and gas grid assets based on concession agreements, accounts with EUR 9.7 billion for the vast majority of our Aggregate RAB. The return we are allowed to earn on our Aggregate RAB is determined by the pre-tax weighted average cost of capital (“<b>WACC</b>”), which varies, from country to country, from currently 5.675% to 7.94% and which is based either on an implied pre-tax WACC (such as in Germany where no specific regulated WACC exists and where we computed an illustrative WACC based on certain assumptions) or a regulated pre-tax WACC.</p> <p>The regulatory framework is subject to periodic change. In Germany, new regulatory periods will start in 2018 for our gas grid and in 2019 for our electricity grid. Although uncertainty exists with respect to the changes to the regulatory framework for the next regulatory period and how they will affect us, we expect our Aggregate RAB in Germany to increase by approximately 9% on the basis of our actual and planned net investments between 2011 and the end of 2016, assuming full recognition of these investments by the regulator. This expected increase</p>
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		<p>may be offset in whole or in part by a lower return we are allowed to earn in the new regulatory periods. Other major changes concern the recognition of investments and the effect of imputed depreciation. Under the current incentive regulatory regime, DSOs are compensated for investments in the distribution grid only with a time lag. Under the new regime, capital expenditures for replacement, restructuring and expansion investments will be reflected in the revenue caps as and when made. DSOs benefit from a base effect (<i>Sockeleffekt</i>) for investments resulting from the base year evaluation under the current regulatory regime. The base effect keeps capital costs constant over the entire regulatory period ignoring imputed depreciation. This base effect will be eliminated. Under both the current and the expected future regulatory regime, our ability to reduce costs is critical to meet the required efficiency improvements and earn the allowed regulated returns.</p> <p>We report our grid activities as part of our Grid &amp; Infrastructure Segment, which also includes a large number of participations, many of them being municipal utilities with an important portion of regulated business, as well as other activities including gas storage facilities. In 2015, Grid &amp; Infrastructure generated EBITDA of EUR 2.9 billion, of which more than 80% was generated from regulated activities.</p> <p>We are a leading retailer of electricity, gas and associated products and services. Of the 23 million customers in our Retail Segment, 8.1 million are located in Germany, 5.0 million in the United Kingdom, 4.7 million in the Netherlands and Belgium and 5.4 million in our East region comprising seven Eastern European countries. We have leading positions in many of our markets, for example, for the supply of electricity in Germany and the Netherlands and for the supply of gas in the Czech Republic and the Netherlands, in the case of Germany based on volumes sold and in the case of the Netherlands and the Czech Republic based on customer contracts in 2015. In addition to our commodity electricity and gas retail business, we offer non-commodity Energy+ products and services, for example Connected Home solutions, to customers with more developed and diverse energy needs as well as electric vehicle charging solutions in more than 20 countries. We are undergoing a comprehensive restructuring and efficiency improvement program in the UK with targeted gross cost savings of GBP 200 million to improve our operational and financial performance in that country. We also believe our retail business has</p>
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	<p>growth potential due to increasing demand from customers in our East region as well as from the cross-selling of commodity products, the up-selling of Energy+ products and the potential entry into new markets. We report our retail activities in our Retail Segment, which in 2015 generated EBITDA of EUR 1.0 billion.</p> <p>We are also active along the entire value chain of developing, constructing, owning and operating production facilities generating electricity from renewable energy sources. Our installed capacity is diversified and mainly comprises onshore and offshore wind farms and, to a lesser extent, hydroelectric power plants with a focus on Germany and the United Kingdom. Based on installed capacity in 2015, we were the number three operator in the offshore wind energy industry. We continue to benefit, to varying degrees, from support schemes (in particular fixed feed-in tariffs) that provide significant price certainty and insulate us to a high degree from wholesale price fluctuations. The average remaining tenor of quasi-regulated earnings from renewable assets is around twelve years. As of December 31, 2015, our development and construction pipeline comprised projects having a total pro-rata capacity of 0.3 GW under construction as well as an additional 4.1 GW under development (pro rata view). Our Renewables Segment, which also includes biomass and biogas energy production facilities and limited solar operations, which we plan to expand, generated EBITDA in 2015 of EUR 0.8 billion. Approximately 60% of the Renewables Segment's EBITDA resulting from the operation of assets was generated from quasi-regulated earnings.</p> <p><b>Strengths</b></p> <p>We believe that our business is characterized by the following competitive strengths:</p> <ul style="list-style-type: none"> <li>• Unique European asset base – anchored in Germany, holding leading positions across many European countries;</li> <li>• Stable business – largely regulated and predictable returns from a well invested asset base;</li> <li>• Strong track record of continuous improvements and potential to extract additional efficiencies;</li> <li>• Deep knowledge and sector understanding – innovation culture as excellent basis for continuous adaptations;</li> <li>• Resilient financial profile – strong cash generation and solid capital structure.</li> </ul>
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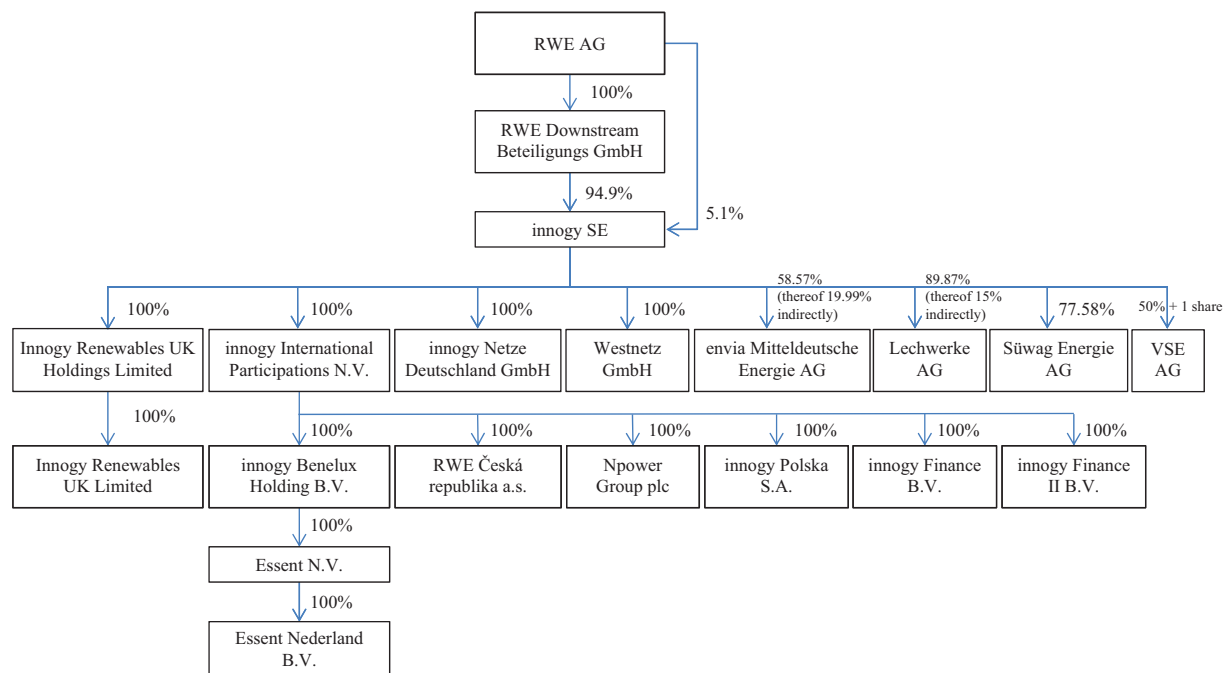
		<p><b>Strategy</b></p> <p>The Group's strategy for achieving profitable growth in the future is based on the following key elements:</p> <ul style="list-style-type: none"> <li>• capitalize on the leading market positions of our segments;</li> <li>• develop new business, including expansion into new regions and business areas;</li> <li>• create options for the future in our innovation ecosystem;</li> <li>• focus on value creation based on a well-defined and disciplined investment strategy for profitable growth.</li> </ul>
<b>B.4a</b>	<p><b>Description of the most significant recent trends affecting the issuer and the industries in which it operates.</b></p>	<p>We operate in the energy sector and associated sectors, which are undergoing a profound transformation due to a trend, promoted by public policy in many jurisdictions, towards sustainable forms of energy production and usage (for example in Germany, under the so-called "<i>Energiewende</i>" concept). The traditional utility model of a centralized, grid-connected power generation structure is now being challenged by the rapid deployment of distributed generation from renewable energy sources ("<b>RES</b>"), smart grid technologies, and smart customer services.</p> <p>In the grid sector, this development has led to challenges to the traditional model, due to variable, bi-directional load flow and the requirement to integrate actively participating consumers, which increase the complexity of the grid and require significant investments into the grid infrastructure.</p> <p>In the retail sector, regulatory efforts have been made to increase competition among energy suppliers and incentivize customers to become more active and benefit from competition.</p> <p>In the renewables sector, the regulatory framework for the promotion of renewable energy was mainly based on guaranteed feed-in tariffs. Lately, in face of rising energy costs for end customers resulting from the energy transition despite decreasing wholesale prices, policymakers have started to implement measures aiming at limiting the costs of the energy transition for end customers while still fostering its environmental sustainability targets. As a consequence, in our core markets, fixed feed-in tariffs are increasingly replaced by tender procedures resulting in a "pay-as-bid" or "pay-as-cleared" (uniform price) remuneration and lower prices for energy from RES.</p>

		<p>Going forward, overall electricity demand is expected to show a slow increase in the markets where we are active, despite political targets to increase energy efficiency. Demand for gas is predicted to decrease in Germany and the UK, while our Central and Eastern European markets are believed to show a demand increase.</p> <p>We view decarbonization, decentralization and digitalization as the most significant recent and continuing trends affecting us and the industry in which we operate.</p> <p><i>Decarbonization</i></p> <p>We expect the amount of energy produced from RES to increase across Europe. Germany with its <i>Energiewende</i> is at the forefront of this development, but European climate targets encourage broader movement in the same direction across Europe. The transition of the energy markets to predominantly RES is reflected in a transition of the role of grid operators and the development of new services and capabilities. In the retail sector, we see increasing demand for energy efficiency products and services. In addition, we are observing an increasing share of customers who are willing to pay a premium for sustainable energy. In the renewables sector, broad political consensus and policy commitment are expected to continue to drive growth across all regions.</p> <p><i>Decentralization</i></p> <p>The power system is increasingly influenced by distributed energy generation, stemming primarily from the strong growth in wind turbines and solar installations. Distributed energy systems comprise not just decentralized generation, but also local energy storage as well as demand response. Many consumers, both households and businesses, have also become producers of electricity which they either consume at the source or feed into the power grid. These so-called “prosumers” differ from classical consumers in their role within the energy system, which has implications for their expectations towards energy suppliers, their grid usage patterns, and their potential future role in balancing supply and demand of electricity.</p> <p>While we expect centralized generation units to continue to play an important role in the foreseeable future, we anticipate the trend towards decentralization to persist. This poses new challenges to the power grid and the distribution network, which will be more challenging and complex in the future than today, requiring significant investments in the grid infrastructure where the vast majority of</p>
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		<p>decentralized systems are connected. In the renewables sector, we are seeing a growing level of interest in decentralized energy production, driven by financial incentives and the interest of certain “prosumers” in contributing to an environmentally more sustainable economy. We have also seen increased interest in demand management, following the change of policy approach from feed-in tariffs supporting decentralized generation to reducing electricity consumption and therefore bills. Further, the decreasing cost of batteries may enhance the future potential of local generation and storage.</p> <p><i>Digitalization</i></p> <p>Digital technology and the resulting changes in consumer behavior and expectations, coupled with corresponding regulatory initiatives, are expected to change the energy market fundamentally. For the grid business, we expect digitalization to increase efficiency and knowledge about the grid power flow status. The smart meter rollout, which the European Union requested all Member States to consider as part of measures to upgrade their energy supply and to tackle climate change, indicates that digitalization will indeed be an important part of future energy business. In retail, the development of smarter electricity and gas appliances has also offered more possibilities for customers to manage their energy usage, as they are given more information on their overall consumption. Customers are therefore increasingly interested in easy energy management tools and solutions. As the switch requires investment in new appliances, customers are also interested in financing solutions, for example a leasing or loan option offered by a partnership bank for their rooftop solar or LED-lighting system. Smart devices and appliances will increasingly be used to help conserve energy.</p>
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<b>B.5</b>	<b>Description of the group and the issuer's position within the group.</b>	The innogy Group is headed by the issuer, innogy SE, with its registered office in Essen, Germany. The following chart provides an overview (in simplified form) of certain direct and indirect shareholdings of the Company and its position within the group as of the date of the Prospectus:
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### Structure of the innogy Group



Note: Simplified structure which includes only certain significant entities of the innogy Group.

<b>B.6</b>	<b>Persons who, directly or indirectly, have an interest in the issuer's capital or voting rights.</b>	<p>Prior to completion of the offering that is the subject-matter of the Prospectus (the “<b>Offering</b>”), RWE AG, Essen, Germany (“<b>RWE AG</b>”) holds in the aggregate 100% of the share capital of the Company: Approximately 5.1% directly, and approximately 94.9% indirectly through RWE Downstream Beteiligungs GmbH, Essen, Germany (“<b>RWE DB GmbH</b>” or the “<b>Selling Shareholder</b>”, and together with RWE AG the “<b>Existing Shareholders</b>”). Upon completion of the Offering, RWE AG will continue to hold approximately 75.0% (approximately 4.6% directly and approximately 70.4% indirectly through RWE DB GmbH) of the Company’s share capital (assuming (i) full placement of the New Shares (as defined below under E.3) as well as the full implementation of the capital increase regarding the New Shares, (ii) the full placement of the Base Secondary Shares (as defined below under E.3) and (iii) a full exercise of the Upsize Option (as defined below under E.3) and the Greenshoe Option (as defined below under E.3)) and therefore will continue to have control over the Company. RWE AG is a listed company. At the end of 2015, around 86% of the shares in RWE AG</p>
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	<p><b>Whether the issuer's major shareholders have different voting rights.</b></p> <p><b>Whether the issuer is directly or indirectly owned or controlled and by whom and description of the nature of control.</b></p>	<p>were owned by institutional investors, while 14% were held by private investors (including employee shareholders). RWEB GmbH, in which the majority of the shares owned by municipalities are pooled, is RWE AG's largest shareholder, owning over 15% as of the end of 2015. The free float of RWE AG's common shares considered by Deutsche Börse in terms of index weighting was 84% at the end of 2015.</p> <p>Each of the shares of the Company entitles the shareholder to one vote at the shareholders' meeting of the Company. There are no restrictions on voting rights. Voting rights are the same for all of the Company's shareholders.</p> <p>As of the date of the Prospectus, the Company is controlled by RWE AG due to RWE AG's ownership of 100% of the voting rights in the Company (in part directly and for the most part indirectly through RWE DB GmbH, as explained above) and, resulting therefrom, its power to govern the financial and operating policies of the Company. Upon completion of the Offering (assuming (i) full placement of the New Shares (as defined below under E.3) as well as the full implementation of the capital increase regarding the New Shares, (ii) the full placement of the Base Secondary Shares (as defined below under E.3) and (iii) a full exercise of the Upsize Option (as defined below under E.3)) and the Greenshoe Option (as defined below under E.3)), RWE AG will continue to hold approximately 75.0% of the Company's shares (including indirectly held shares) and will therefore continue to have control over the Company. The Company and RWE DB GmbH are currently parties to a domination agreement in respect of which notice to terminate has been given to take effect from the end of September 30, 2016.</p>
<b>B.7</b>	<b>Selected key historical financial information.</b>	<p>The audited combined financial statements of the RWE International Group (now the innogy Group) as of and for the financial years ended December 31, 2015, 2014 and 2013 ("<b>Audited Combined Financial Statements</b>") were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("<b>IFRS</b>"). The audited unconsolidated financial statements of the Company for the short financial year from December 11, 2015 to December 31, 2015 (the "<b>Audited Unconsolidated Financial Statements</b>") were prepared in accordance with the German Commercial Code (<i>Handels-gesetzbuch</i>, "<b>HGB</b>"). The Audited Combined Financial Statements have been audited in accordance with International Standards on Auditing and the Audited Unconsolidated Financial Statements have been audited in accordance with section 317 HGB and</p>

		<p>German generally accepted standards for the audit of financial statements, which are promulgated by the Institute of Public Auditors in Germany (<i>Institut der Wirtschaftsprüfer</i>), by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Germany, through its Essen office, Germany ("PwC"), who issued an unqualified audit opinion on each of the Audited Combined Financial Statements and the Audited Unconsolidated Financial Statements.</p> <p>The unaudited interim consolidated financial statements (condensed) of the Company as of and for the six-month period ended June 30, 2016 were prepared in accordance with IFRS for interim financial reporting (IAS 34) ("<b>Unaudited Interim Consolidated Financial Statements (Condensed)</b>").</p> <p>The Audited Combined Financial Statements prepared by the Company reflect the activities of RWE AG relating to its grid &amp; infrastructure, retail and renewables businesses that were separated from RWE AG and transferred to the Company. Therefore, for purposes of the Audited Combined Financial Statements, the grid &amp; infrastructure, retail and renewables businesses of RWE AG are referred to as the innogy Group.</p> <p>A series of assumptions and estimates were made in the preparation of the Audited Combined Financial Statements which go beyond those typically made in the preparation of consolidated financial statements and affect the recognition and amount of assets and liabilities, income and expenses and contingent liabilities, including in particular in relation to income taxes. Our structure and business activities have experienced substantial changes in recent periods in the context of the separation from the Former RWE Group. The Audited Combined Financial Statements include companies that are part of the Group after the legal reorganization, <i>i.e.</i>, after completion of the transfer of the grid &amp; infrastructure, retail and renewables businesses from the Former RWE Group to the Group on June 30, 2016. However, the Audited Combined Financial Statements do not claim to represent the net assets, financial position and operating results or cash flows that would have resulted had the Group existed in its current form since January 1, 2013, nor can the net assets, financial position and operating results or cash flows be extrapolated for future periods or a future reporting date.</p>
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		<p>In the Prospectus, where financial information regarding the innogy Group is labeled “audited”, it means that this information was taken from the Audited Combined Financial Statements or the Audited Unconsolidated Financial Statements. Where financial information regarding the Group is labeled “unaudited” in the Prospectus, it means that such information was not taken from the Audited Combined Financial Statements or the Audited Unconsolidated Financial Statements, but was rather taken either from the Unaudited Interim Consolidated Financial Statements (Condensed) or from the innogy Group’s accounting or controlling records, or is based on calculations of these figures.</p>
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### Selected Financial Information from the Consolidated and Combined Income Statement

The following table shows selected financial information from our consolidated income statement (condensed) for the six-month periods ended June 30, 2016 and 2015, and from our combined income statement for the financial years ended December 31, 2015, 2014 and 2013:

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited, unless otherwise indicated) (in EUR million)		
<b>Revenue (including natural gas tax/ electricity tax)</b> . . . . .	<b>22,780</b>	<b>23,458</b>	<b>45,568</b>	<b>45,681</b>	<b>48,589</b>
Natural gas tax/electricity tax . . . . .	1,127	1,154	2,112	2,175	2,560
<b>Revenue</b> . . . . .	<b>21,653</b>	<b>22,304</b>	<b>43,456</b>	<b>43,506</b>	<b>46,029</b>
Other operating result <sup>1)</sup> . . . . .	-681	-1,020	-1,719 <sup>2)</sup>	-1,777 <sup>2)</sup>	-1,823 <sup>2)</sup>
Other operating income . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	1,104	986	1,205
Other operating expenses . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	2,823	2,763	3,028
Cost of materials . . . . .	16,701	17,658	34,760	35,160	37,429
Staff costs . . . . .	1,432	1,332	2,736	2,754	2,900
Depreciation, amortization and impairment losses . . . . .	923	641	1,634	1,439	2,150
Income from investments accounted for using the equity method . . . . .	98	121	228	234	215
Other income from investments . . . . .	51	112	265	166	70
Financial income . . . . .	528	412	578	445	406
Finance costs . . . . .	980	431	880	1,000	973
<b>Income before tax</b> . . . . .	<b>1,613</b>	<b>1,867</b>	<b>2,798</b>	<b>2,221</b>	<b>1,445</b>
Taxes on income . . . . .	356	443	860	523	551
<b>Income</b> . . . . .	<b>1,257</b>	<b>1,424</b>	<b>1,938</b>	<b>1,698</b>	<b>894</b>

1) Other operating income and other operating expenses are aggregated and reported as other operating result in the Unaudited Interim Consolidated Financial Statements (Condensed).

2) Unaudited.

## Selected Financial Information from the Consolidated and Combined Balance Sheet

The following table shows selected financial information from our consolidated balance sheet (condensed) as of June 30, 2016, and from our combined balance sheet as of December 31, 2015, 2014 and 2013:

	As of June 30,	As of December 31,		
	2016	2015	2014	2013
	(unaudited) (in EUR million)	(audited, unless otherwise indicated) (in EUR million)		
<b>Assets</b>	<b>46,703</b>	<b>57,972</b>	<b>56,504</b>	<b>54,813</b>
<b>Non-current assets</b>	<b>35,880</b>	<b>38,235</b>	<b>35,649</b>	<b>34,427</b>
Intangible assets	11,736	12,178	11,695	11,598
Property, plant and equipment	17,552	18,308	17,309	16,980
Investments accounted for using the equity method	2,140	2,137	2,379	2,404
Other non-current financial assets	581	555	510	478
Receivables and other assets <sup>1)</sup>	1,100	3,085 <sup>2)</sup>	1,951 <sup>2)</sup>	1,550 <sup>2)</sup>
Financial receivables	— <sup>1)</sup>	2,211	1,458	1,139
Other receivables and other assets	— <sup>1)</sup>	866	477	383
Income tax assets	— <sup>1)</sup>	8	16	28
Deferred taxes	2,771	1,972	1,805	1,417
<b>Current assets</b>	<b>10,823</b>	<b>19,737</b>	<b>20,855</b>	<b>20,386</b>
Inventories	473	380	491	444
Trade accounts receivable	4,431	4,551	5,708	7,086
Receivables and other assets <sup>3)</sup>	3,436	12,362 <sup>2)</sup>	11,958 <sup>2)</sup>	10,330 <sup>2)</sup>
Financial receivables	— <sup>3)</sup>	10,425	10,316	8,973
Other receivables and other assets	— <sup>3)</sup>	1,816	1,478	1,184
Income tax assets	— <sup>3)</sup>	121	164	173
Marketable securities	1,905	1,894	1,913	1,702
Cash and cash equivalents	567	550	475	824
Assets held for sale	11	—	310	—
<b>Equity and liabilities</b>	<b>46,703</b>	<b>57,972</b>	<b>56,504</b>	<b>54,813</b>
<b>Equity</b>	<b>6,004</b>	<b>18,460</b>	<b>18,398</b>	<b>16,989</b>
Total invested equity attributable to the owners of the Group	4,280	16,649	16,937	15,654
Non-controlling interests	1,724	1,811	1,461	1,335
<b>Non-current liabilities</b>	<b>26,354</b>	<b>23,700</b>	<b>21,314</b>	<b>22,259</b>
Provisions for pensions and similar obligations	4,485	3,461	4,595	3,582
Other provisions	1,627	1,616	1,887	2,038
Financial liabilities	17,373	15,291	11,786	13,633
Other liabilities	2,182	2,428	2,274	2,186
Deferred taxes	687	904	772	820
<b>Current liabilities</b>	<b>14,345</b>	<b>15,812</b>	<b>16,792</b>	<b>15,565</b>
Other provisions	2,786	2,545	2,613	2,816
Financial liabilities	4,142	3,684	4,687	2,872
Trade accounts payable	3,385	4,553	4,906	5,357
Other liabilities <sup>4)</sup>	4,032	5,030 <sup>2)</sup>	4,586 <sup>2)</sup>	4,520 <sup>2)</sup>
thereof: Income tax liabilities	— <sup>4)</sup>	199	194	181

1) Non-current financial receivables, other receivables and other assets and income tax assets are aggregated and reported as non-current receivables and other assets in the Unaudited Interim Consolidated Financial Statements (Condensed).

2) Unaudited.

3) Current financial receivables, other receivables and other assets and income tax assets are aggregated and reported as current receivables and other assets in the Unaudited Interim Consolidated Financial Statements (Condensed).

4) Income tax liabilities and other liabilities are aggregated and reported as other liabilities in the Unaudited Interim Consolidated Financial Statements (Condensed). Other liabilities as of December 31, 2013, 2014 and 2015 include other liabilities and income tax liabilities as reported in the Audited Combined Financial Statements.

### Selected Financial Information from the Consolidated and Combined Cash Flows Statement

The following table shows selected financial information from our consolidated cash flow statement (condensed) for the six-month periods ended June 30, 2016 and 2015, and from our combined cash flow statement for the financial years ended December 31, 2015, 2014 and 2013:

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited) (in EUR million)		
Cash flows from operating activities . . . . .	407	633	2,755	2,977	3,658
Cash flows from investing activities (before initial/ subsequent transfer to pension plans) . . . . .	4,929	1,926	-506	-3,175	-2,487
Cash flows from investing activities (after initial/ subsequent transfer to pension plans) . . . . .	4,804	1,460	-1,102	-3,685	-2,554
Cash flows from financing activities . . . . .	-5,176	-2,009	-1,593	349	-1,004
Net change in cash and cash equivalents . . . . .	17	96	75	-349	97
Cash and cash equivalents at the end of the reporting period as per the consolidated/ combined balance sheet . . . . .	567	517	550	475	824

### Operating Result and EBITDA

We use the operating result as central key performance indicator to manage our business. We define our operating result as income before tax excluding the financial result and the non-operating result. The non-operating result includes income and expenses that are unusual from an economic perspective, or stem from exceptional events. Typically the non-operating result can include book gains or losses from the disposal of investments or non-current assets not required for operations, impairment of the goodwill of fully consolidated companies, as well as effects of the fair valuation of certain derivatives. Such income and expenses from non-operating activities are reclassified to the non-operating result, and are thus not included in the reported operating result. Our non-operating result is only reported at Group level.

In addition, we use EBITDA as additional key performance indicator to manage our business. EBITDA is defined as operating result before operating depreciation and amortization. It does not include taxes, the financial result or the non-operating result. Operating depreciation and amortization does not include non-operating depreciation and amortization, which is presented as part of the non-operating result.

Operating result and EBITDA are not measures defined under IFRS. As non-IFRS figures, operating result and EBITDA are not presented in accordance with IFRS or any other generally accepted accounting principles.

The following table provides a reconciliation of our EBITDA to the operating result and the income before tax:

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited) (in EUR million)		
<b>EBITDA</b> .....	<b>2,385</b>	<b>2,332</b>	<b>4,521</b>	<b>4,297</b>	<b>4,194</b>
Operating depreciation and amortization <sup>1)</sup> .....	-719	-641	-1,471	-1,438	-1,350
<b>Operating result</b> .....	<b>1,666</b>	<b>1,691</b>	<b>3,050</b>	<b>2,859</b>	<b>2,844</b>
Non-operating result .....	399 <sup>2)</sup>	195 <sup>3)</sup>	50 <sup>4)</sup>	-83 <sup>5)</sup>	-832 <sup>6)</sup>
Financial result .....	-452	-19	-302	-555	-567
<b>Income before tax</b> .....	<b>1,613</b>	<b>1,867</b>	<b>2,798</b>	<b>2,221</b>	<b>1,445</b>

1) Operating depreciation and amortization does not include non-operating depreciation and amortization which is presented as part of the non-operating result.

2) Including (i) EUR 204 million impairments for the gas storage facilities of the Grid & Infrastructure Segment, (ii) gains in the amount of EUR 352 million resulting from the fair valuation of derivatives and (iii) a gain in the amount of EUR 250 million from a compensation payment in connection with the settlement of gas storage contracts with RWEST.

3) Including (i) gains in the amount of EUR 139 million resulting from the fair valuation of derivatives and (ii) gains from disposals in the amount of EUR 54 million, including a subsequent purchase price payment we received for the sale of shares in the wind offshore project Nordsee One in our Renewables Segment.

4) Including (i) impairments in the amount of EUR 167 million, mainly related to the IT infrastructure in our Retail Segment, specifically relating to our UK operations, (ii) positive effects from restructuring in the amount of EUR 15 million, (iii) gains from disposals in the amount of EUR 65 million and (iv) positive effects from the fair valuation of derivatives in the amount of EUR 135 million.

5) Including (i) effects from restructurings in the amount of negative EUR 103 million, partly related to part-time retiree and early retirement contracts, (ii) gains from disposals in the amount of EUR 33 million, and (iii) effects from the fair valuation of derivatives in the amount of negative EUR 14 million. In 2014, no impairments were recorded as part of the non-operating result.

6) Including (i) impairments in the amount of EUR 799 million (mainly related to our Spanish onshore wind farms in the Renewables Segment in the amount of EUR 266 million, our offshore wind farm Nordsee Ost in the Renewables Segment in the amount of EUR 260 million, and our gas storage assets in the Grid & Infrastructure Segment in the amount of EUR 181 million), (ii) effects from restructurings in the amount of negative EUR 315 million, partly related to part-time retiree and early retirement contracts, (iii) gains from disposals in the amount of EUR 211 million, mainly related to the sale of a customer portfolio in the UK to Telecom Plus in the amount of EUR 199 million, and (iv) effects from the fair valuation of derivatives in the amount of EUR 24 million.

**Selected Key Line Items and Other Financial Measures from the Segment Reporting of our Unaudited Interim Consolidated Financial Statements and Audited Combined Financial Statements**

The following tables show selected key line items and other financial measures from the segment reporting of our Unaudited Interim Consolidated Financial Statements and Audited Combined Financial Statements:

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited) (in EUR million)		
<b>Operating result</b> . . . . .	<b>1,666</b>	<b>1,691</b>	<b>3,050</b>	<b>2,859</b>	<b>2,844</b>
Grid & Infrastructure Segment . . . . .	916	956	1,930	1,904	1,938
Retail Segment . . . . .	640	616	830	907	931
Renewables Segment . . . . .	219	234	488	253	200
Other, consolidation . . . . .	-109	-115	-198	-205	-225
<b>Operating depreciation and amortization</b> . . . . .	<b>719</b>	<b>641</b>	<b>1,471</b>	<b>1,438</b>	<b>1,350</b>
Grid & Infrastructure Segment . . . . .	441	417	948	957	852
Retail Segment . . . . .	106	69	158	162	182
Renewables Segment . . . . .	157	137	330	271	248
Other, consolidation . . . . .	15	18	35	48	68
<b>EBITDA</b> . . . . .	<b>2,385</b>	<b>2,332</b>	<b>4,521</b>	<b>4,297</b>	<b>4,194</b>
Grid & Infrastructure Segment . . . . .	1,357	1,373	2,878	2,861	2,790
Retail Segment . . . . .	746	685	988	1,069	1,113
Renewables Segment . . . . .	376	371	818	524	448
Other, consolidation . . . . .	-94	-97	-163	-157	-157
<b>Capital expenditure on intangible assets, property, plant and equipment<sup>1)</sup></b> . . . . .	<b>580</b>	<b>652</b>	<b>2,024</b>	<b>2,060</b>	<b>2,302</b>
Grid & Infrastructure Segment . . . . .	371	370	1,305	1,131	1,117
Retail Segment . . . . .	100	94	287	212	158
Renewables Segment . . . . .	89	178	404	677	975
Other, consolidation . . . . .	20	10	28	40	52

1) Excluding financial investments.

## Net Debt

The following table shows the calculation of our net debt ("Net Debt"). Net Debt is not a measure defined under IFRS. As non-IFRS figure, it is not presented in accordance with IFRS or any other generally accepted accounting principles. Net Debt does not correspond to net financial indebtedness as presented in the Prospectus elsewhere. For example, net financial indebtedness does not include provisions for pensions and wind farm decommissioning.

	As of July 31, 2016	As of June 30, 2016
	(unaudited) (in EUR million)	
Cash and cash equivalents	524	567
Marketable securities <sup>1)</sup>	1,966	1,930
Other financial assets <sup>2)</sup>	325	1,655
<b>Financial assets (A)<sup>2)</sup></b>	<b>2,816</b>	<b>4,152</b>
Bonds and bank debt	11,265 <sup>3)</sup>	11,396 <sup>4)</sup>
Adjustments for the effects of the initial recognition of certain financial liabilities at fair values <sup>5)</sup>	-1,066	-1,089
Other financial liabilities including intra-group loans	6,819 <sup>6)</sup>	10,096 <sup>7)</sup>
thereof: Intra-group loans extended by RWE AG related to debt push-down <sup>8)</sup>	4,988 <sup>9)</sup>	6,004
<b>Adjusted financial liabilities (B)</b>	<b>17,018</b>	<b>20,403</b>
Provisions for pensions and similar obligations (C)	4,659	4,470 <sup>10)</sup>
Provisions for wind farm decommissioning (D)	322	323
<b>Net Debt</b>		
<b>(B)-(A)+(C)+(D)</b>	<b>19,182</b>	<b>21,044</b>

1) Marketable securities also includes non-current securities of EUR 25 million (as of June 30, 2016) and EUR 29 million (as of July 31, 2016).

2) Includes current and non-current financial receivables adjusted for loans against associates and unconsolidated subsidiaries.

3) Thereof EUR 10,802 million of senior bonds (the senior bonds of innogy Finance B.V. and innogy Finance II B.V., hereinafter collectively the "Finance Bonds") (includes EUR 1,066 million of 'step-up' as a result of the initial recognition of certain financial liabilities at fair values; see footnote 5 below). Also includes bank debt (EUR 485 million) mainly related to the financing of consolidated companies that do not participate in the joint cash pool and foreign currency hedge transactions related to intercompany loans (negative EUR 22 million).

4) Thereof EUR 10,922 million of Finance Bonds (includes EUR 1,089 million 'step-up' as a result of the initial recognition of certain financial liabilities at fair values; see footnote 5 below). Also includes bank debt (EUR 497 million) mainly related to the financing of consolidated companies that do not participate in the joint cash pool and foreign currency hedge transactions related to intercompany loans (negative EUR 23 million).

5) In December 2015 in the context of the Carve-Out, we acquired innogy Finance B.V. from RWE AG, including certain Finance Bonds, i.e., twelve outstanding bonds of innogy Finance B.V. denominated in Euro and British Pound Sterling. The aggregate nominal amount of the bonds denominated in Euro at the time of the transfer was EUR 5,380 million. The aggregate nominal amount of the bonds denominated in British Pound Sterling at the time of the transfer was GBP 3,918 million. As innogy Finance B.V. does not constitute a business in accordance with IFRS 3, its acquisition was accounted for as an asset deal. Accordingly, the bonds were initially recognized at their fair values as of the transfer date (December 18, 2015), which exceeded the carrying amount of the bonds as reflected in the consolidated accounts of RWE AG at the time of the transfer. The total difference ('step-up') in our accounts between the recognized value of these bonds and their carrying amount reflected in the consolidated accounts of RWE AG at the time of the transfer (December 18, 2015) was EUR 1,100 million. Our subsidiary innogy Finance II B.V. assumed the obligations under a EUR 600 million Finance Bond originally issued by RWE AG. In accordance with IAS 39, the transaction was recognized at its fair value as of the transfer date (December 28, 2015), and was recorded with an additional 'step-up' of EUR 145 million in our accounts compared to the carrying amount of the bond as reflected in the consolidated accounts of RWE AG at the time of the transfer. We started amortizing the total fair value 'step up' from the date of transfer of innogy Finance B.V. and the bond, respectively. As of June 30, 2016, the remaining fair value 'step-up' of the transactions executed in December 2015 was in aggregate EUR 1,089 million, i.e., EUR 156 million lower than the originally recognized amount as a result of the amortization and foreign exchange effects.

6) Includes EUR 5,998 million of intra-group financings granted by RWE Group, out of which EUR 4,988 million of intra-group loans extended by RWE AG are related to the debt push-down. The remaining intra-group financings of EUR 1,010 million mainly comprise cash pool liabilities with relatively low cost of debt. Between June 30, 2016 and July 31, 2016, such cash pool liabilities owed to RWE AG were reduced by EUR 900 million as a result of the application of proceeds from a cash capital contribution by RWE AG effected in July 2016. In addition, certain intra-group liabilities were settled against intra-group receivables included in other financial assets.

- 7) Includes EUR 9,162 million of intra-group financings granted by RWE Group, out of which EUR 6,004 million of intra-group loans extended by RWE AG are related to the debt push-down. The remaining intra-group financings mainly comprise cash pool liabilities with relatively low cost of debt.
- 8) Debt related to economic assumption of certain debt instruments from RWE AG, including six bonds issued by RWE AG in private placement transactions and two separate finance contracts with the European Investment Bank. While these eight instruments were not legally transferred to the Group, all rights and obligations of RWE AG under or in connection with the finance transactions were economically passed on to the Company under intra-group loan agreements. Some of these intra-group loan agreements include an agio on the outstanding nominal amount of the underlying debt instrument reflecting the difference between the fair market value of such instrument as at June 13, 2016 and the carrying amount of the underlying debt instrument as reflected in the consolidated accounts of RWE AG and accrued interest.
- 9) The reduction primarily relates to the EUR 1,009 million debt-to-equity swap, in which certain loans (including accrued interest) were contributed to the capital reserve of the Company and ceased to exist with effect as of July 31, 2016.
- 10) Includes surplus of plan assets over benefit obligation in the amount of EUR 15 million.

## Adjusted Net Income

Adjusted net income does generally not take into account one-off effects, including the entire non-operating result, and the associated tax effects. We intend to use adjusted net income as a measure for determining distributions under our dividend policy.

Adjusted net income and operating result are not measures defined under IFRS. As non-IFRS figures, they are not presented in accordance with IFRS or any other generally accepted accounting principles.

The following table shows the calculation of our adjusted net income for the six-month period ended June 30, 2016. It corresponds to the calculation of our net income adjusted for the non-operating result (which also comprises costs associated with the Carve-Out and those related to the Offering), effects related to the fair value 'step-up' and effects related to the Carve-Out included in the financial result. For purposes of calculating adjusted net income, we apply a 'normalized tax rate' of 25%. The 'normalized tax rate' is the effective tax rate that we expect to have on a going forward basis in the absence of one-off effects, while our actual effective tax rate was 22% in the period ended June 30, 2016.

	Reported figures for the six-month period ended June 30, 2016	Adjustment (unaudited) (in EUR million)	Adjusted figures for the six-month period ended June 30, 2016
<b>Operating result<sup>1)</sup></b> . . . . .	<b>1,666</b>	<b>—</b>	<b>1,666</b>
Non-operating result . . . . .	399	-399	—
Financial result . . . . .	-452	9	-443
<b>Income before tax</b> . . . . .	<b>1,613</b>	<b>-390</b>	<b>1,223</b>
Taxes on income . . . . .	-356	50 <sup>2)</sup>	-306
Effective tax rate . . . . .	22%	—	25%
<b>Income</b> . . . . .	<b>1,257</b>	<b>-340</b>	<b>917</b>
of which: non-controlling interests . . . .	177	—	177
<b>Net income</b> . . . . .	<b>1,080</b>	<b>-340</b>	<b>740<sup>3)</sup></b>

1) For a more detailed reconciliation of operating result to income before tax, please see the table under "Operating Result and EBITDA" above.

2) Tax adjustments to achieve a normalized tax rate of 25% for the six-month period ended June 30, 2016, which is the effective tax rate that we expect to have on a going forward basis in the absence of one-off effects.

3) Adjusted net income for the six-month period ended June 30, 2016. The strong development of adjusted net income in the six-month period ended June 30, 2016 may not be representative for the adjusted net income in respect of the full financial year 2016.

The following table provides additional information on the composition and the adjustments to the financial result for the six-month period ended June 30, 2016 shown in the preceding table.

	Reported figures for the six-month period ended June 30, 2016	Adjustment (unaudited) (in EUR million)	Adjusted figures for the six-month period ended June 30, 2016
Interest income <sup>1)</sup> . . . . .	149	—	149
Interest expense <sup>2)</sup> . . . . .	-487	63	-424
thereof: Effect related to 'step-up' (amortization) <sup>3)</sup> . . . . .	95	-95	—
thereof: Effects resulting from Carve-Out transactions <sup>4)</sup> . . . . .	-158	158	—
<b>Net interest</b> . . . . .	<b>-338</b>	<b>63</b>	<b>-275</b>
Interest accretion to non-current provisions <sup>5)</sup> . . . . .	-51	—	-51
Other financial result <sup>6)</sup> . . . . .	-63	-54	-117
thereof: effect related to 'step-up' (foreign currency exchange effect) <sup>3)</sup> . . . .	54	-54	—
<b>Financial result</b> . . . . .	<b>-452</b>	<b>9</b>	<b>-443</b>

- 1) Interest income included primarily income from financial receivables from RWE AG that were settled in the six-month period ended June 30, 2016 and from marketable securities with a book value of EUR 1,930 million.
- 2) Includes interest for Finance Bonds (included in bonds and bank debt shown in the net debt table above) at average cost of debt of approximately 5% p.a. and, to a small extent, for loans granted by RWE AG to innogy Group in June 2016 (shown as intra-group loans extended by RWE AG related to debt push-down in the net debt table above) at average cost of debt of less than 2% p.a.
- 3) Amortization from 'step-up' in book value of Finance Bonds (see footnote 2) of the net debt table above). As the terms and conditions of the Finance Bonds, and more specifically the repayment amount and interest rates owed thereunder, were not affected by the transfer of innogy Finance B.V. and the assumption of the EUR 600 million Finance Bond, the 'step-up' is expected to amortize in our accounts over the term of the Finance Bonds.
- 4) Including losses in the amount of EUR 120 million due to the early redemption of intercompany loans. In the context of the Carve-Out, we paid an amount of EUR 2,062 million, which represented the fair value at the date of the transaction, to redeem early non-current loans with a nominal amount of EUR 1,942 million. In addition, we realized losses in the amount of EUR 38 million from the amortization of a balance-sheet 'step-up' of a loan granted to RWE AG (financial receivable).
- 5) Includes mainly interest accretion to provisions for pensions and similar obligations and other non-current provisions.
- 6) Includes effects related to the 'step-up' of EUR 54 million, net gains on the disposal of marketable securities of negative EUR 47 million and interest related to put options of negative EUR 27 million.

<p><b>Significant changes to the issuer's financial position and operating results.</b></p>	<p><b>Recent Developments</b></p> <p>Between June 30, 2016 and the date of the Prospectus, the following significant developments with respect to the financial condition and operating results of the innogy Group have occurred.</p> <p>In connection with the separation of the innogy Group from the Former RWE Group, the Company and RWE AG entered into the Agreement on Basic Principles on July 25, 2016 in order to lay down basic principles for their future cooperation and relationship. Also in the context of the separation, the Company and RWE AG and certain of their respective UK group companies arranged in July 2016 for a sectionalization of certain pension obligations and plan assets in a ratio of 70% (innogy Group) to 30% (RWE Group). We also carried out certain</p>
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		<p>measures to calibrate our capital structure in connection with the separation, including a EUR 0.9 billion cash capital contribution by RWE AG and a EUR 1.0 billion debt-to-equity swap, in which claims from intragroup loans (including accrued interest) were contributed to the capital reserve of the Company. In combination, these two measures reduced our Net Debt by EUR 1.9 billion as of July 31, 2016. On September 7, 2016, notice was provided to terminate the Domination Agreement between the Company and RWE DB GmbH with effect as from the end of September 30, 2016.</p> <p><i>Grid &amp; Infrastructure Segment</i></p> <p>In July 2016, the German Network Agency (<i>Bundesnetzagentur</i> – “<b>BNetzA</b>”) issued a draft determination regarding the imputed return on equity that will apply for the next (third) regulatory periods for electricity and gas in Germany, which proposed lower returns on equity than those applicable in the current regulatory periods. A final determination by the BNetzA is currently expected within the next weeks. In addition, for the next regulatory periods, the BNetzA will be responsible for determining all relevant parameters used in the benchmarking process for the determination of the revenue cap. Moreover, an amendment to the ARegV (the German Incentive Regulation Ordinance – “<b>ARegV</b>”) adopted on June 1, 2016 was approved by the German Federal Council (<i>Bundesrat</i>) on July 8, 2016, and final changes were accepted by the German government on August 3, 2016. The amended ARegV introduces several changes to the currently applicable incentive regulation regime, some of which will have a general effect for all grid operators and some of which will particularly apply to DSOs. The main purpose of the amendment is to improve investment conditions for DSOs for new investments and encourage cost-effective distribution grids for the implementation of the German energy transition. The changes include, among others, the immediate recognition of capital costs for infrastructure investments for DSOs as of the third regulatory periods. Thus, increases in capital costs for replacement, restructuring or expansion investments will be reflected in the applicable revenue caps without time delay and in their actual amount.</p> <p>Since June 30, 2016, the business activities in the Grid &amp; Infrastructure Segment have shown overall a stable development. In terms of investments and operations, the business has developed in accordance with our expectations based on typical patterns for the summer months.</p>
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		<p><i>Retail Segment</i></p> <p>Overall, since June 30, 2016, the business of our Retail Segment has seen a continuation of the developments observed during the first six months of 2016. Especially in our core markets we have been experiencing a continuously high level of competition. Our customer base has developed in line with the fluctuation ranges observed in the past. In these recent months, we have launched some new Energy+ products, such as an assistance product in partnership with an insurance company in Poland, providing customers with professional help in case of breakages at their homes or offices (including plumbers, electricians, heating appliances specialists or office equipment maintenance). The sales of Energy+ products are progressing according with our expectations. Our UK retail business has seen certain operational improvements since June 30, 2016, for example a further reduction of the number of total outstanding complaints by more than 10% until the end of August 2016, while single other parameters, such as late bills outstanding, increased somewhat, but remained within fluctuation ranges which we consider normal. In addition, since June 30, 2016 we are seeing a slight positive trend in customer numbers with a net gain of 35,000 residential customers by the end of August 2016. In September 2016, we began supplying gas to Croatian households (in addition to electricity).</p> <p><i>Renewables Segment</i></p> <p>In July 2016, we obtained all outstanding consents for the construction of two onshore wind farms in Wales, UK (Mynydd y Gwair and Clocaenog), for which the final investment decision is expected in the fourth quarter of 2016 and the first quarter of 2017, respectively. Furthermore, the final investment decision for the German wind farm Eschweiler-Nord, of which we own 51%, was taken. The remaining 49% are owned by municipal partners. In addition, in August 2016 we took the final investment decision for our latest onshore wind Renewable Obligations Certificate ("ROC") project in the UK, Brechfa West. The final decision is subject to the approval of the new overhead line for the grid connection, for which a decision is currently expected in October 2016.</p> <p>At the end of July 2016, we sold our 33.33% stake in Zephyr and the related debt with a gain on sale of EUR 76 million under IFRS. In August 2016, in line with our growth strategy, we entered into an agreement for the acquisition of BELECTRIC, a German-based company present in several countries</p>
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		<p>and active in the design, installation, operation and maintenance of ground- mounted utility-scale and rooftop photovoltaic plants and battery storage solutions. We expect that this acquisition will provide us access to sophisticated technology as well as project execution skills which will complement our existing project development and asset management capabilities. The closing of the transaction is currently expected to take place early in 2017.</p> <p>Moreover, on July 8, 2016, the German Federal Council approved an amendment to the Renewable Energy Act (<i>Erneuerbare-Energien-Gesetz</i>, "EEG") promotion schemes, which will come into force on January 1, 2017. In addition, the promotion of offshore wind installations will be separately regulated under the Wind Offshore Act (<i>Windenergie-auf-See-Gesetz</i>). The general aim of the EEG 2017 is to implement a comprehensive legal framework for the transition of EEG promotion schemes to an auctioning system. The amendment was widely anticipated and we have actively positioned ourselves for the upcoming auctions.</p> <p>Furthermore, since the Renewables Segment has a large asset base in the UK, the conversion of earnings of our UK business into Euro depends on the British Pound Sterling/Euro exchange rate development, so that a weakened British Pound Sterling exchange rate decreases our earnings when these are converted into Euro. The British Pound Sterling has significantly devalued following the Brexit vote on June 23, 2016, but stabilized as of mid-July. However, on a Group level, innogy has established a natural GBP/EUR hedge with a large part of the outstanding debt being in GBP, thus mitigating negative effects of a weakened British Pound Sterling.</p> <p>The following significant changes in the financial condition and operating results of the innogy Group have occurred in the six-month periods ended June 30, 2016 and the financial years 2015, 2014 and 2013.</p> <p><b>Six-Month Periods Ended June 30, 2016 and June 30, 2015</b></p> <p>Our revenue decreased by EUR 678 million from EUR 23,458 million for the six-month period ended June 30, 2015 to EUR 22,780 million for the six-month period ended June 30, 2016. This was driven by a decrease of external revenue in our Retail Segment in the amount of EUR 1,314 million. In Germany, revenue from gas sales was lower due to lower gas prices and a reduction of volumes. Furthermore we observed lower electricity sales to residential and commercial customers ("B2C"). In the UK and the Netherlands/Belgium, customer numbers decreased as</p>
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		<p>a consequence of more intense competition in the retail markets. In the UK, our revenue was also negatively affected by lower sales from levy exception certificates due to the termination of the respective regulation by the British Government. In Eastern Europe, the positive effect of the first-time full consolidation of Východoslovenská energetika Holding a.s. ("<b>VSE Holding</b>") and its subsidiaries in Slovakia was partially compensated by lower sales to industrial customers and resellers ("<b>B2B</b>") and higher discounts in the B2C business in Eastern Europe. The decrease in our Retail Segment was partly compensated by an increase of external revenue in our Grid &amp; Infrastructure Segment in the amount of EUR 578 million. EUR 471 million of this increase was attributable to Grid &amp; Infrastructure Germany, which was mainly a result of higher fees charged for the utilization of our grid, a higher share of direct sales of electricity (<i>EEG-Direktvermarktung</i>) and an increased number of connecting points for renewable energy sourcing units. Grid &amp; Infrastructure East contributed EUR 107 million to the increase of external revenue in the Grid &amp; Infrastructure Segment, which was mainly a result of the first-time full consolidation of VSE Holding group in Slovakia from September 2015 onwards. Furthermore, external revenue of our Renewables Segment increased by EUR 62 million. This was predominantly a result of the commissioning of our large-scale offshore wind farm Nordsee Ost in the course of 2015, which fully contributed to our overall capacity in the first half of 2016, which was partly compensated by a decline of wholesale prices for electricity which affected production not longer subject to a support scheme.</p> <p>At EUR 1,666 million, our operating result remained largely stable for the six-month period ended June 30, 2016 compared to EUR 1,691 million for the six-month period ended June 30, 2015. The operating result in our Grid &amp; Infrastructure Segment decreased by EUR 40 million. A decrease in the operating result of our German grid operations, mainly resulting from increased operation and maintenance costs and higher provisions for old-age part-time employment measures, was largely compensated by better operational performance in Eastern Europe. In Eastern Europe, the operating result of our Grid &amp; Infrastructure Segment was positively affected by higher distributed volumes in the Czech gas business. The operating result of our Renewables Segment decreased by EUR 15 million, mainly due to lower wholesale prices and lower asset sales relating to our renewables portfolio. Lower wholesale prices have a negative impact on those assets that are not or no</p>
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	<p>longer subject to a support scheme. In the first half of 2016 for example, our biggest onshore wind farm in the Netherlands started to gradually lose its price guarantee for produced electricity. These negative effects on the operating result were partially compensated by the availability of the full capacity contributed by two offshore wind farms which were inaugurated in the second quarter of 2015. Lower operating results in our Grid &amp; Infrastructure Segment and our Renewables Segment were partly compensated by an increase of the operating result of our Retail Segment by EUR 24 million, which was mainly attributable to our business in the UK and Eastern Europe. In the six-month period ended June 30, 2015, our operating result in the UK was negatively affected by process- and system-related billing problems. We launched a comprehensive restructuring program to address these issues that is well on track. However, the process- and system-related billing problems resulted in the loss of some UK residential customers in 2015 and caused us to conclude lower margin contracts with some UK customers in order to retain them, which has resulted in sales and earnings shortfalls, the full impact of which has only been felt in 2016. Furthermore, the B2B business was negatively affected by lower customer numbers and margins as a result of a highly competitive market, and lower margins resulting from changes in government legislation regarding climate change levies. A positive effect resulted from lower commodity prices in the first half of 2016. In Eastern Europe, our operating result was positively affected by the consolidated earnings of the VSE Holding group in Slovakia and lower gas purchase costs in the Czech Republic. The increase in the UK and Eastern Europe was partly offset by a decrease of the operating result in Germany and the Netherlands/Belgium. The decrease in the operating result in Germany was due to increased upfront-costs that were not passed-on to customers.</p> <p>In the same period, EBITDA of the Group increased by EUR 53 million from EUR 2,332 million for the six-month period ended June 30, 2015 to EUR 2,385 million for the six-month period ended June 30, 2016.</p> <p><b>Financial Year 2015 and 2014</b></p> <p>At EUR 45,568 million in 2015 and EUR 45,681 million in 2014, our revenue remained largely stable in 2015 compared to 2014. The slight decrease of EUR 113 million was driven by the decrease of EUR 654 million in external revenue in our Retail Segment. The decrease was primarily due to lower supply of electricity to our customers in Germany and</p>
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	<p>in the Netherlands and Belgium. Moreover, some of our retail companies decreased their sales prices which resulted in revenue shortfalls. The decrease in the Retail Segment was partly offset by an increase of EUR 357 million in our Grid &amp; Infrastructure Segment mainly resulting from the promotion of electricity generation from renewable energy sources in Germany, the expansion of our German grid network and the first-time full consolidation of VSE Holding group in Slovakia. Furthermore, revenue in the Renewables Segment increased by EUR 190 million, predominantly due to the commissioning of two large-scale offshore wind farms and increased utilization from higher wind levels.</p> <p>While the revenue decreased slightly, our operating result increased by EUR 191 million from EUR 2,859 million in 2014 to EUR 3,050 million in 2015. To this increase, our Renewables Segment contributed EUR 235 million, which was mainly driven by higher capacity from the commissioning of two large-scale offshore wind farms and increased utilization levels. Furthermore, higher gains from disposals of wind farm development projects contributed to the increase. Furthermore, the operating result of our Grid &amp; Infrastructure Segment increased by EUR 26 million, which was mainly driven by book gains from the revaluation resulting from the first-time full consolidation VSE Holding in Slovakia as well as favorable regulatory changes and weather-induced higher gas sales in the Czech Republic. In the same period, our operating result of our Grid &amp; Infrastructure Segment in Germany decreased due to lower gains from grid disposals. The operating result of our Retail Segment decreased by EUR 77 million, mainly driven by the negative development in the UK as a result of severe process- and system-related issues in the billing of household customers. This was partly offset by an increased operating result in our other regions, mainly due to releases of provisions and efficiency enhancements relating to our German business, one-off gains in connection with the revaluation resulting from the first-time full consolidation VSE Holding in Slovakia and a recovery of the gas business after the mild winter in 2014.</p> <p>As a result of the same effects that affected our operating result, our EBITDA increased by EUR 224 million from EUR 4,297 million in 2014 to EUR 4,521 million in 2015.</p> <p><b>Financial Year 2014 and 2013</b></p> <p>In 2014, our revenue decreased from EUR 48,589 million in 2013 by EUR 2,908 million to EUR 45,681 million. To this decrease, our Retail</p>
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		<p>Segment contributed EUR 3,196 million, mainly driven by significantly lower gas sales volumes due to the mild temperatures. Furthermore, revenue of our Renewables Segment decreased by EUR 140 million. This was partly a result of drastic cuts made by the Spanish government in renewable energy support granted to producers of green energy. This was contrasted by the increase of EUR 443 million relating to our Grid &amp; Infrastructure Segment, which was mainly driven by an increased number of connecting points for renewable energy sourcing units translating into additional revenue for the grid operators in Germany. This was partly offset by reduced market prices for gas storage and lower volumes of gas distributed in our grid network in Eastern Europe as a consequence of the milder temperatures.</p> <p>While our revenue decreased, the operating result increased by EUR 15 million from EUR 2,844 million in 2013 to EUR 2,859 million in 2014. To this increase, our Renewables Segment contributed EUR 53 million, which was mainly due to compensation payments for delays to the completion of one of our wind farms caused by third parties while the cuts made by Spanish regulation in the renewable energy support scheme negatively affected our operating results. In the same period, the operating result of our Grid &amp; Infrastructure Segment decreased by EUR 34 million. This was mainly an effect from a reduction in gas volumes in the distribution business as a consequence of the milder temperatures in 2014 and lower gas storage margins due to the decreased seasonal spread. It was partially offset by higher gains from grid asset disposals and efficiency enhancements in our German business. Furthermore, the operating result of our Retail Segment decreased by EUR 24 million. This was mainly driven by a competition-induced drop in margins in the Netherlands and Belgium, earnings shortfalls in the Czech gas business and higher costs for restructuring measures in relation to our UK IT system and billing issues. The compensating effect from our German retail business was mainly a result of the relatively low operating result in 2013 which was affected by an adjustment of our hedge book in 2013.</p> <p>As a result of the same effects that affected our operating result, our EBITDA increased by EUR 103 million from EUR 4,194 million in 2013 to EUR 4,297 million in 2014.</p>
<b>B.8</b>	<b>Selected key pro forma financial information.</b>	Not applicable. No pro forma financial information is required.
<b>B.9</b>	<b>Profit forecast or estimate.</b>	We expect EBITDA of the innogy Group for 2016 to be in a range of EUR 4.1 billion and EUR 4.4 billion. We expect that in 2016 the Grid & Infrastructure Segment

		<p>will contribute EBITDA in a range of EUR 2.5 billion and EUR 2.7 billion, the Retail Segment will contribute EBITDA in a range of EUR 1.0 billion and EUR 1.2 billion and the Renewables Segment will contribute EBITDA in a range of EUR 0.6 billion and EUR 0.8 billion.</p> <p>For 2017, we expect EBITDA of the innogy Group to be in a range of EUR 4.3 billion and EUR 4.7 billion.</p>
<b>B.10</b>	<b>Qualifications in the audit report on the historical financial information.</b>	Not applicable. The audit reports on the historical financial information included in the Prospectus have been issued without qualifications.
<b>B.11</b>	<b>Insufficiency of the issuer's working capital for its present requirements.</b>	Not applicable. The issuer's working capital is sufficient for its present requirements.

## C. Securities

<b>C.1</b>	<b>A description of the type and the class of the securities being offered and/or admitted to trading, including any security identification number.</b>	<p>Ordinary bearer shares with no par value, each such share with a notional value of EUR 2.00 in the share capital and with full dividend rights as from January 1, 2016.</p> <p>International Securities Identification Number (ISIN): DE000A2AADD2</p> <p>German Securities Code (<i>Wertpapier-Kenn-Nummer</i>) (WKN): A2AADD</p> <p>Common Code: 149062238</p> <p>Trading Symbol: IGY</p>
<b>C.2</b>	<b>Currency of the securities issue.</b>	Euro.
<b>C.3</b>	<p><b>The number of shares issued and fully paid and issued but not fully paid.</b></p> <p><b>The par value per share, or that the shares have not par value.</b></p>	<p>As of the date of the Prospectus, the share capital of the Company amounts to EUR 1,000,000,000 and is divided into 500,000,000 ordinary bearer shares with no par value (<i>Stückaktien</i>). The share capital of the Company is fully paid up.</p> <p>Each of the shares of the Company represents a notional value of EUR 2.00 in the share capital.</p>
<b>C.4</b>	<b>A description of the rights attached to the securities.</b>	Each of the shares of the Company entitles the shareholder to one vote at the shareholders' meeting of the Company. There are no restrictions on voting rights. The shares of the Company carry full dividend rights for their holders for the dividends declared by the Company as from January 1, 2016, <i>i.e.</i> , for the full financial year 2016 and for all subsequent financial years.

<b>C.5</b>	<b>A description of any restrictions on the free transferability of the securities.</b>	Not applicable. The Company's shares are freely transferable in accordance with the legal requirements for ordinary bearer shares. There are no restrictions on the transferability of the Company's shares other than the lock-up agreements described below under E.5.
<b>C.6</b>	<b>An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.</b>	<p>The Company expects to apply for admission of its shares (including the New Shares, as defined below under E.3) to trading on the regulated market segment (<i>regulierter Markt</i>) of the Frankfurt Stock Exchange and, simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard) on or about September 26, 2016.</p> <p>An admission decision regarding the existing shares of the Company and the New Shares is expected to be announced on October 6, 2016. Trading of the existing shares of the Company and of the New Shares on the Frankfurt Stock Exchange is currently expected to commence on October 7, 2016.</p>
<b>C.7</b>	<b>A description of dividend policy.</b>	<p>The Company intends to begin paying dividends in respect of the financial year 2016 and, provided that the business performance remains stable, targets a distribution of between 70% and 80% of the adjusted net income in a given financial year as dividends. The adjusted net income does generally not take into account one-off effects, including the entire non-operating result (which comprises also costs associated with the Carve-Out and those related to the Offering), and the associated tax effects. The Company's ability and intention to pay dividends in the future will depend on its financial position, results of operations, capital requirements, investment alternatives and other factors that the Management Board and Supervisory Board may deem relevant, and any proposals by the Management Board and Supervisory Board regarding dividend payments will be subject to the approval at the shareholders' meeting. The Company's ability to pay dividends will also depend on its subsidiaries making profits and distributing these to the Company or transferring them to the Company under profit/loss transfer agreements. The determination of each subsidiary's ability to pay dividends is made in accordance with applicable law.</p>

## D. Risks

		<p>Prospective investors should carefully consider the key risk factors set out below, together with the other information contained in the Prospectus, when deciding whether to invest in the Company's shares. The occurrence of any of the events described in these risk factors, individually or together with other</p>
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		<p>circumstances, could have a material adverse effect on our business, results of operation and financial position, and investors could lose all or part of their investment. The sequence of risk factors set out below is not a statement about the probability of occurrence, degree or importance of the individual risks.</p> <p>The risk factors are based on assumptions that could turn out to be incorrect. Furthermore, other risks, facts or circumstances not presently known to the Company, or that we currently deem to be immaterial, could, individually or cumulatively, prove to be important and could have a material adverse effect on our business, results of operation and financial position.</p>
D.1	Key information on the key risks that are specific to the issuer or its industry.	<p><b><i>Risks Relating to Our Market Environment and Business</i></b></p> <ul style="list-style-type: none"> <li>• We depend on our ability to manage the complex challenges posed by developments in the energy sector and relevant associated sectors, such as policy shifts towards renewable energy sources.</li> <li>• Our business is affected by economic factors, including risks associated with volatile or uncertain financial and economic conditions.</li> <li>• We face risks arising from the United Kingdom potentially withdrawing from the European Union.</li> <li>• Our EBITDA for the current or the next financial year may differ substantially from the profit forecasts included in the Prospectus.</li> <li>• Our <i>Grid &amp; Infrastructure Segment</i> operates in a highly regulated environment and its profitability is materially affected by price and other related regulation that is subject to change; in Germany, a new regulatory period will start in 2019 for electricity and 2018 for gas.</li> <li>• Competition for concessions on which we depend is intense, so that we may be unable to renew a considerable amount of the concessions we currently hold. In such cases, or if a concession is terminated, we may have to sell the relevant grid infrastructure (which will negatively affect our revenue and may lead to a loss) or we may enter into cooperation agreements that are limited in time.</li> <li>• Increasing decentralized power generation and other factors have made grid operations more complex, requiring additional investments, which may only start yielding a return in the next regulatory period, and increasing storage capacities may lead to less consumption out of the grid. We also face competition from gas substitutes. Furthermore, if we fail to lower our operating costs</li> </ul>

		<p>in the Grid &amp; Infrastructure Segment, or incur higher operating costs, our profitability will be negatively affected.</p> <ul style="list-style-type: none"> <li>• In our <i>Retail Segment</i>, differences between expected and actual demand of our B2B and B2C customers could lead to substantial losses. Demand for electricity and gas may decline due to weather conditions, increased energy efficiency, climate change and other factors outside our control. We may not be able to increase the prices we charge or may only be able to do so with a significant delay, and price increases may be challenged. We also face the risk of intense competition, as well as of declining customer satisfaction, customer losses and increasing churn rates.</li> <li>• We may be unable to successfully implement our restructuring program for the business of our subsidiary Npower Limited in the United Kingdom, and we may incur expenses to comply with regulatory decisions. The standardization of processes may not progress as expected, may cost more than anticipated or result in lower customer service levels.</li> <li>• In our <i>Renewables Segment</i>, our exposure to market prices may increase as support schemes and fixed feed-in tariffs are cut or fade out.</li> <li>• Our energy production could be negatively affected by weather conditions, and differences between expected and actual production levels could negatively affect the planning and hedging strategy of our Renewables Segment. This segment also faces increasing competition for projects. We may be unable to obtain licenses or secure financing, for example, for renewable power generation projects, and may experience disruptions, delays and cost-overruns with respect to such projects. Our growth strategy for our Renewables Segment, which includes plans to enter the utility-scale photovoltaic market and other new markets in general, may fail.</li> <li>• Our Group strategy, including expansion into new products and service fields, expansion into new regions, future acquisitions and divestments as well as major investments, may fail or present challenges.</li> <li>• Our business activities are subject to operational disruptions and accidents.</li> <li>• We face risks relating to longer-term fluctuations in heating requirements and demand, as well as overcapacities. In addition, our mid-term planning is based on several assumptions, including the</li> </ul>
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		<p>development of key economic indicators and other parameters, which are speculative in nature and may in hindsight prove to have been erroneous.</p> <ul style="list-style-type: none"> <li>• We hold a significant number of minority participations, making it difficult for us to control decisions by these companies and to enforce our own group policies. The joint ventures or partnerships we entered or will enter into may fail to achieve the desired results and restrict our business activities.</li> <li>• We depend on the uninterrupted and efficient functioning of our information technology, data collection and processing and process monitoring systems to manage our operations. Our outsourcing partners may deliver their services only partially or not at all, or not observe expected quality standards.</li> <li>• We are subject to reputational risks affecting large energy suppliers, including risks relating to current public debates on energy policy issues.</li> <li>• Work stoppages, strikes or other collective actions can disrupt our operations and adversely affect our results of operation, and rising labor costs might negatively affect our profitability. We may be unable to attract and retain qualified staff in key positions and employees having special technical knowledge. Moreover, we have financial obligations to our employees, in particular retirement obligations, the calculations of which are based on a number of assumptions, which may differ from actual rates.</li> <li>• We may be forced to recognize write-downs or additional impairments, in particular on our tangible assets.</li> <li>• We may not be adequately insured against many operational and other risks.</li> <li>• We face risks associated with our indebtedness and high financing needs and may not be able to generate sufficient cash to service such indebtedness. In addition, covenants and other restrictions under our existing financing agreements and bonds, as well as changes in credit market conditions and declines in credit ratings may restrict our financial and operational flexibility or otherwise negatively affect our business. We are also subject to liquidity risks in connection with our financial liabilities and a potential increase in the sureties under several agreements and schemes, as well as liquidity and other risks relating to the creditworthiness of our customers and business and joint venture partners and claims of insolvency administrators of former customers.</li> </ul>
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	<ul style="list-style-type: none"> <li>• We face risks relating to fluctuations of currency exchange rates, interest rates and commodity prices.</li> </ul> <p><b><i>Legal, Regulatory and Tax Risks</i></b></p> <ul style="list-style-type: none"> <li>• We are subject to significant regulatory and political risks, and our revenue, profits and financial position have been and will be affected by the regulatory frameworks in different ways.</li> <li>• We face risks, especially related to the revenue structure and grid tariffs within the regulatory framework, the introduction of additional statutory obligations and litigation risks due to the high complexity of grid tariff calculation and avoidance of specific charges.</li> <li>• Our licenses, concessions, approvals, certifications, exemptions and/or dispensations which may become more difficult or costly to obtain may be revoked, challenged or not renewed.</li> <li>• In our Grid &amp; Infrastructure Segment, our grid infrastructure, especially in the Eastern European countries, may be built on property for which we do not hold the required land title.</li> <li>• We may have to repay state aid and face risks related to consumer, competition and antitrust laws, rules and regulations, including potential investigations and proceedings, as well as environmental and health-related issues, which may result in liabilities and high costs. We are also subject to risks from disputes and administrative, legal and arbitration proceedings. Moreover, compliance breaches, including breaches of private data protection could result in investigations, fines, additional tax payments, damage claims, payment claims, the termination of relationships with customers or suppliers and reputational damage.</li> <li>• We use standardized sales agreements and standardized terms and conditions, which increase the potential that all contract terms used therein may be invalid or unenforceable if any clause is held to be void. Our price increases in our retail electricity and gas business may in certain cases prove to be invalid.</li> <li>• Our products and services are highly dependent upon our technological know-how and the scope and limitations of our proprietary rights therein. We may infringe on the intellectual property rights of third parties and could therefore be forced to change our product offering or be exposed to additional costs, and we may not have validly</li> </ul>
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		<p>acquired intellectual property rights from our present or former employees and cooperation partners, and may not always validly acquire them in the future.</p> <ul style="list-style-type: none"> <li>• We face risks in connection with renewables obligation certificates in the United Kingdom, including fluctuations in the price of such certificates, and other trading schemes in other jurisdictions.</li> <li>• We are subject to tax risks, and our tax burden could increase due to changes in tax laws or their application or interpretation, or as a result of current or future tax audits.</li> </ul> <p><b><i>Risks relating to Our Separation from the Former RWE Group</i></b></p> <ul style="list-style-type: none"> <li>• We have a short operating history as a separate company, and our efforts to set up administrative, financial and other functions previously provided by RWE AG and its direct and indirect subsidiaries prior to the separation of the innogy Group (together the “<b>Former RWE Group</b>”) may take more time or cost more than expected, or be less successful than anticipated or not successful at all.</li> <li>• Our combined financial information is based on a series of assumptions and estimates that may prove inaccurate and therefore the combined financial information is not necessarily representative of the results we would have achieved as a stand-alone publicly-traded company. Also, our recent organizational changes in the context of the separation from the Former RWE Group may make it difficult to correctly assess our historical past and future Group performance, and the structural measures implemented may lead to higher taxes and/or may be associated with lower future tax benefits than expected.</li> <li>• We may not realize potential benefits from the separation of our business from the Former RWE Group’s other businesses and may be unable to create a new independent market profile in the long term. The separation from the Former RWE Group may lead to decreased purchasing power and may result in a loss of synergies and business opportunities. On the other hand, we will be bound by several procurement, wholesale trading and other contracts with RWE AG and its direct and indirect subsidiaries after the separation of the innogy Group (<i>i.e.</i>, excluding the innogy Group, the “<b>RWE Group</b>”), which may reduce our flexibility to switch to other providers or to carry out these functions in-house.</li> </ul>
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D.3	Key information on the key risks that are specific to the securities.	<p><b><i>Risks Relating to the Offering, the Listing and the Shareholder Structure</i></b></p> <ul style="list-style-type: none"> <li>• RWE AG will continue to exercise substantial influence over the Company following the completion of the Offering and the interests of RWE AG might conflict with the interests of other shareholders. In addition, membership of the same persons on several boards may result in conflicts of interest between the Company, RWE AG and other companies of the RWE Group.</li> <li>• The Company's shares have not yet been publicly traded, and there can be no assurance that a liquid trading market for the Company's shares will develop or can be maintained after the Offering. Moreover, if research analysts do not publish research about our business or if they issue unfavorable commentary or recommendations regarding the Company's common stock, its stock price or trading volume could decline. The share price could also decline due to future sales or market expectations of sales of a substantial number of shares in the Company by RWE AG or other existing or future shareholders, including the Cornerstone Investors (as defined under E.3 below).</li> <li>• The price and trading volume of the Company's shares could fluctuate significantly, and investors could lose all or part of their investment. Future capital increases, any future equity offerings or offerings of instruments convertible into equity or any merger with another entity may dilute investors' shareholdings in the Company.</li> <li>• The Offering might not be completed, in which case investors could lose security commissions paid and be exposed to risks from any short selling of the shares.</li> <li>• The Company's ability to pay dividends will depend in part on the distribution or transfer of profits from its subsidiaries and on our debt covenants.</li> <li>• Shareholders from outside the Eurozone may be subject to foreign currency exchange rate risk.</li> <li>• The proposed financial transaction tax could result in a substantial new tax burden in the secondary market for investors buying the Group's shares and trading them in a European Union member state which implements such a tax.</li> </ul>
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## E. Offer

E.1	<p><b>The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the issuer or the offeror.</b></p>	<p>The Company will receive the proceeds of the Offering resulting from the sale of the New Shares (as defined below under E.3.). RWE DB GmbH, a wholly-owned subsidiary of RWE AG, will receive the proceeds resulting from the sale of the Secondary Shares (as defined below under E.3), a potential sale of Additional Secondary Shares (as defined below under E.3) to the extent the Upsize Option (as defined below under E.3) is exercised and a potential sale of Over-Allotment Shares to the extent the Greenshoe Option (as defined under E.3 below) is exercised.</p> <p>The amount of the proceeds of the Offering as well as the costs related to the Offering depend on the final offer price (the “<b>Offer Price</b>”), which also determines the Underwriters’ commissions, and on the number of shares that will be placed in the Offering.</p> <p>Assuming that the maximum number of New Shares (55,555,000 shares) is placed, the Company estimates that at the low end, mid-point and high end of the price range set for the Offering of the New Shares, gross proceeds to the Company would amount to approximately EUR 1,778 million, EUR 1,889 million, and EUR 2,000 million, respectively.</p> <p>If the Offer Price is set at the low end of the price range and all New Shares being offered are placed, the costs of the Company related to the Offering of the New Shares and the stock exchange listing are expected to total approximately EUR 40 million in the aggregate, including Underwriters’ commissions of approximately EUR 31 million (assuming full payment of the discretionary fee with respect to the New Shares) and estimated other expenses of approximately EUR 9 million (assuming full placement of the Secondary Shares as well as the full exercise of the Greenshoe Option (as defined below under E.3)). Under the above assumptions, the net proceeds to the Company from the sale of the New Shares, <i>i.e.</i>, the gross proceeds less the costs of the Company, are expected to amount to approximately EUR 1,737 million.</p> <p>If the Offer Price is set at the mid-point or at the high end of the price range and all New Shares being offered are placed, the Company expects to incur total costs related to the Offering of the New Shares and the stock exchange listing of approximately EUR 42 million and EUR 44 million, respectively, in the aggregate, including Underwriters’ commissions of approximately EUR 33 million and EUR 35 million,</p>
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		<p>respectively (assuming full payment of the discretionary fee with respect to the New Shares), and estimated other expenses of approximately EUR 9 million (assuming full placement of the Secondary Shares as well as the full exercise of the Greenshoe Option (as defined below under E.3)). Under the above assumptions, the net proceeds to the Company from the sale of the New Shares are expected to amount to approximately EUR 1,847 million or EUR 1,956 million at the mid-point or at the high end of the price range, respectively.</p> <p>RWE DB GmbH will pay such portion of the Underwriters' commissions as is attributable to the sale of the Base Secondary Shares (as defined under E.3), the Additional Secondary Shares (as defined below under E.3) if and to the extent the Upsize Option (as defined below under E.3) is exercised as well as the Greenshoe Shares (as defined below under E.3) if and to the extent that the Greenshoe Option (as defined below under E.3) is exercised. The Company estimates that the overall costs for RWE DB GmbH will be approximately EUR 61 million, EUR 64 million and EUR 66 million at the low end, mid-point and high end of the price range, respectively (assuming in each case full placement of the Secondary Shares as well as the full exercise of the Greenshoe Option (all as defined below under E.3)). The Company estimates that net proceeds to RWE DB GmbH under the above assumptions (in the aggregate) would amount to approximately EUR 2,606 million, EUR 2,770 million and EUR 2,934 million at the low end, mid-point and high end of the price range, respectively.</p> <p>Investors will not be charged with expenses by the Company, RWE DB GmbH or the Underwriters in connection with their role as underwriters. Investors may, however, have to bear customary security commissions (<i>Effektenprovision</i>) and handling fees charged by their account-keeping financial institution.</p>
E.2a	<b>Reasons for the offer, use of proceeds, estimated net amount of the proceeds.</b>	<p>The Company intends to use the estimated net proceeds from the offering of the New Shares (as defined below under E.3) in the amount of approximately EUR 1,847 million (assuming an Offer Price – as defined below under E.3 – at the mid-point of the price range and assuming full placement of the Secondary Shares as well as the full exercise of the Greenshoe Option (as defined below under E.3)) for general corporate purposes. In addition, the Company intends to achieve better access to the capital markets due to the planned listing of its shares on the regulated market segment of the Frankfurt Stock Exchange and, simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard).</p>

		<p>RWE DB GmbH has informed us that it intends to reduce its shareholding in our Group through the placement of the Secondary Shares and that it believes that the Offering is in the interest of the Company as the listing of the shares offers new possibilities of raising equity. Notwithstanding, RWE DB GmbH will continue to hold a substantial stake in the Company (at least 70.4% assuming the placement of all New Shares and the full placement of the Secondary Shares as well as the full exercise of the Greenshoe Option (all as defined below under E.3)).</p>
E.3	A description of the terms and conditions of the offer.	<p>The Offering consists of</p> <ul style="list-style-type: none"> <li>• 55,555,000 newly issued ordinary bearer shares with no par value from a capital increase against contribution in cash resolved by an extraordinary shareholders' meeting of the Company on August 30, 2016 (the "<b>New Shares</b>"); and</li> <li>• 45,455,000 existing ordinary bearer shares with no par value from the holdings of the Selling Shareholder (the "<b>Base Secondary Shares</b>"), of which shares corresponding to an aggregate investment amount of EUR 940 million are expected to be allocated to the Cornerstone Investors as defined and further described below; and</li> <li>• up to 25,252,000 existing ordinary shares with no par value from the holdings of the Selling Shareholder ("<b>Additional Secondary Shares</b>", together with the Base Secondary Shares the "<b>Secondary Shares</b>") subject to the exercise of an upsize option upon decision of the Selling Shareholder in consultation with the Joint Global Coordinators on the date of pricing (the "<b>Upsize Option</b>"); and</li> <li>• up to 12,626,200 existing ordinary bearer shares with no par value from the holdings of the Selling Shareholder to cover potential over-allotments (the "<b>Over-Allotment Shares</b>", together with the New Shares and the Secondary Shares, the "<b>Offer Shares</b>"),</li> </ul> <p>each such share with a notional value of EUR 2.00 in the share capital and full dividend rights as from January 1, 2016.</p> <p>The Offering consists of an initial public offering in Germany and in the Grand Duchy of Luxembourg ("<b>Luxembourg</b>") and private placements in certain jurisdictions outside Germany and Luxembourg. In the United States of America ("<b>United States</b>"), the shares are being offered for sale to qualified institutional buyers as defined in and in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended (the "<b>Securities Act</b>"). Outside the United States, the shares</p>

	<p>of the Company are being offered and sold only in offshore transactions in compliance with Regulation S under the Securities Act.</p> <p>The Offer Shares have not been and will not be registered under the Securities Act, or the securities laws of any other jurisdiction of the United States and may not be offered, sold or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.</p> <p><b>Price Range</b></p> <p>The price range within which purchase orders may be submitted is EUR 32.00 to EUR 36.00 per Offer Share.</p> <p><b>Offer Period and Purchase Orders</b></p> <p>The Offering will commence on September 26, 2016 and is expected to end on October 6, 2016, (i) at 12:00 noon (Central European Summer Time) for retail investors and (ii) at 14:00 (Central European Summer Time) for institutional investors (the “<b>Offer Period</b>”). Retail investors may submit purchase orders in full Euro amounts or Euro cent figures of 25, 50 or 75 cents under the public offering in Germany and Luxembourg during the Offer Period at the branch offices of the Underwriters. Multiple purchase orders are permitted.</p> <p><b>Amendments to the Terms of the Offering</b></p> <p>The Company and the Selling Shareholder reserve the right, after consultation with the Joint Global Coordinators, to increase or reduce the number of Offer Shares, to reduce or increase the upper and/or lower limits of the Price Range (as defined further below in E.3), and/or to extend or shorten the Offer Period. Changes in the number of Offer Shares or the Price Range (as defined further below in E.3) or the extension or reduction of the Offer Period will not invalidate purchase orders already submitted. If such change requires publication of a supplement to the Prospectus, investors who submitted purchase orders before the supplement was published have the right, under the German Securities Prospectus Act (<i>Wertpapierprospektgesetz</i>), to withdraw these offers to purchase within two business days of publication of the supplement. Instead of withdrawing the offers to purchase placed prior to publication of the supplement, investors also have two business days after the supplement’s publication to change their orders or place new limited or unlimited offers to purchase. To the extent that the terms of the Offering are changed, such change will be published by electronic media, such as Reuters or Bloomberg, and, to</p>
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	<p>the extent required by the German Securities Trading Act (<i>Wertpapierhandelsgesetz</i>) and the German Securities Prospectus Act (<i>Wertpapierprospektgesetz</i>), as an ad hoc announcement via an electronic information system and on the Company's website and as a supplement to the Prospectus. Investors who have submitted purchase orders will not be notified individually.</p> <p><b>Number of Offer Shares and Offer Price</b></p> <p>Once the Offer Period has expired, the final number of Offer Shares (including the number of New Shares that the Company will issue) and the Offer Price will be determined jointly by the Company and the Selling Shareholder in their sole discretion after consultation with the Joint Global Coordinators. The price will be set on the basis of the purchase orders submitted by investors during the Offer Period that have been collated in the order book. This is expected to take place on or about October 6, 2016. Consideration will be given to whether the Offer Price and the number of shares to be placed allow for the reasonable expectation that the share price will demonstrate steady performance in the secondary market given the demand for the Company's shares noted in the order book. Attention will be paid not only to the prices offered by investors and the number of investors wanting shares at a particular price but also to the composition of the group of shareholders in the Company that would result at a given price (so-called investor mix) and expected investor behavior. The Company and the Selling Shareholder will not charge investors any expenses or taxes incurred in connection with the Offering.</p> <p>The final number of Offer Shares and the Offer Price are expected to be communicated through an announcement published on or about October 6, 2016 by means of an ad hoc announcement in various media distributed across the entire European Economic Area (<i>Medienbündel</i>) and on the Company's website (<a href="http://www.innogy.com/ir">www.innogy.com/ir</a>). Investors who have placed their purchase orders with one of the Underwriters can obtain information from that Underwriter about the Offer Price and the number of Offer Shares allotted to them, at the earliest, on the first bank working day following the pricing. Particularly if the placement volume proves insufficient to satisfy all orders placed at the Offer Price, the Underwriters reserve the right to reject orders, or to accept them in part only.</p> <p><b>Delivery and Payment</b></p> <p>Delivery of the Offer Shares against payment of the Offer Price and customary security commissions is</p>
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		<p>expected to take place on or about October 11, 2016. The Offer Shares will be made available to shareholders in book-entry form (as co-ownership interests in the global share certificate).</p> <p><b>Cornerstone Investors</b></p> <p>As part of the Offering, Offer Shares in an aggregate investment amount of EUR 940 million from the holdings of the Selling Shareholder will be acquired by funds and accounts under management by direct and indirect investment management subsidiaries of BlackRock, Inc., Delaware, USA (together the “<b>Cornerstone Investors</b>”), in a private placement. The Cornerstone Investors have agreed, subject to certain termination rights and the condition precedent of the closing of the Offering, to purchase Offer Shares at the Offer Price. The Cornerstone Investors have been guaranteed full allocation of such number of Offer Shares for which they have provided a purchase commitment.</p> <p><b>Stabilization, Over-Allotments and Greenshoe Option</b></p> <p>Under the possible stabilization measures which may be taken to support the market price of the Company’s shares and thereby counteract any selling pressure, investors may, in addition to the New Shares and the Secondary Shares, be allotted up to 12,626,200 additional shares in the Company as part of the allotment of the shares to be placed (“<b>Over-Allotment</b>”). In connection with potential Over-Allotments, Goldman Sachs will be provided for the account of the Underwriters in the form of a securities loan (<i>Wertpapierdarlehen</i>) with up to 12,626,200 shares of the Selling Shareholder; this number of shares will not exceed 15% of the sum of the number of (i) New Shares, (ii) Base Secondary Shares and (iii), to the extent the Upsize Option is exercised, Additional Secondary Shares. In connection with potential Over-Allotments, the Selling Shareholder will grant the Underwriters an option to acquire the borrowed shares against payment of the Offer Price less agreed commissions (“<b>Greenshoe Option</b>”, and any such Over-Allotment Shares purchased upon exercise of the Greenshoe Option, the “<b>Greenshoe Shares</b>”). The Greenshoe Option may be exercised at maximum to the extent that shares of the Company have been placed by way of Over-Allotments. The Greenshoe Option shall be exercisable by Goldman Sachs acting as stabilization manager from the date the shares of the Company are listed on the regulated market of the Frankfurt Stock Exchange and must be terminated no later than 30 calendar days after that date (the “<b>Stabilization Period</b>”).</p>
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E.4	<p><b>A description of any interest that is material to the issue/ offer including conflicting interests.</b></p>	<p>In connection with the Offering and stock exchange listing of the Company's shares, the Underwriters have a contractual relationship with the Company and the Existing Shareholders. The Joint Global Coordinators are advising the Company on the transaction and are coordinating the structure and execution of the transaction. The Underwriters will receive a commission upon successful completion of the transaction. In addition, Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany, has been appointed as paying agent and Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany, and Goldman Sachs International, London, United Kingdom, have been appointed as designated sponsors for the Company's shares.</p> <p>Some of the Underwriters or their affiliates have, and may in the future continue to have, from time to time, business relations with us or our Existing Shareholders or other companies of the RWE Group (including lending activities) or may perform services for us or other companies of the RWE Group in the ordinary course of business. For example, certain Underwriters are lenders under a syndicated or bilateral loan or guarantee facility of the Company, RWE AG, the Selling Shareholder or any other company within the RWE Group. Also, the Underwriters might be involved in trading activities (such as FX or interest derivatives) or fee generating business (such as advisory mandates).</p> <p>Furthermore, in connection with the Offering, each of the Underwriters and any of their respective affiliates, acting as an investor for its own account, may take up shares and in that capacity may retain, purchase or sell for its own account such securities and any shares or related investments and may offer or sell such shares or other investments otherwise than in connection with the Offering. Accordingly, references in the Prospectus to shares being offered or placed should be read as including any offering or placement of shares to any of the Underwriters or any of their respective affiliates acting in such capacity. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of shares of the Company. None of the Underwriters intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.</p> <p>The Existing Shareholders, as well as the direct and indirect shareholders of RWE AG, have an interest in the consummation of the transaction because the</p>
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		<p>Selling Shareholder, a wholly-owned subsidiary of RWE AG, will receive the proceeds resulting from the sale of the Base Secondary Shares and a potential sale of the Additional Secondary Shares and Greenshoe Shares. Furthermore, the Existing Shareholders also have an interest in further potential placements of shares in the future. In addition, since the Company will receive the proceeds from the Offering of the New Shares and these will strengthen the equity capital basis of the Company, all direct and indirect shareholders with an interest in the Company have an interest in the implementation of the capital increase to which the Offering relates.</p> <p>There are several contractual relationships that are in place between RWE AG or certain of its subsidiaries and associated companies which are not part of the Group, on the one hand, and the Group on the other. The funds received by the Company from the Offering improve its solvency and that of the Group companies as borrowers under such contractual relationships. The funds received by the Company from the Offering therefore indirectly affect the recoverability of receivables of RWE AG, its subsidiaries and associated companies due by us. Against this background RWE AG as well as the subsidiaries and associated companies of RWE AG being in a contractual relationship with the Company have an interest in the transaction.</p> <p>Some members of the management, further key employees of the Group and certain individuals involved in the preparation and successful completion of the Offering remaining with the RWE Group through the separation of the innogy Group from the Former RWE Group participate in an incentive scheme set up by the Company providing for payments in connection with the preparation and successful completion of the Offering and further implementation of the separation of the innogy Group from the Former RWE Group. Therefore, the aforementioned individuals also have an interest in the consummation of the transaction.</p>
E.5	<p><b>Name of the person or entity offering to sell the security.</b></p> <p><b>Lock-up agreements: the parties involved; and indication of the period of the lock up.</b></p>	<p>The Offer Shares are being offered for sale by the Underwriters (as defined under A.1 above). In the underwriting agreement entered between the Company, RWE AG, the Selling Shareholder and the Underwriters in connection with the Offering (the "<b>Underwriting Agreement</b>"), the Company has agreed vis-à-vis the Underwriters that, for a period of six months after the New Shares of the Company are first traded, it will not (i) announce or effect an increase of the share capital of the Company from authorized capital or contingent capital, (ii) propose</p>

		<p>to its general meeting an increase of the share capital (<i>Direktkapitalerhöhungsbeschluss</i>), or (iii) announce, effect or propose the issue of securities with conversion or option rights on shares of the Company or economically similar transactions, in each case of (i) to (iii) without the Joint Global Coordinators' prior written consent, which consent may not be unreasonably withheld (the "<b>Company Lock-up</b>"). The Company may, however, (x) issue or sell any shares or other securities to employees and members of executive bodies of the Company or its subsidiaries under management participation plans and (y) pursue any corporate actions undertaken by the Company for the purposes of entering into any agreement regarding or resolution upon, the entering into any joint venture or the acquisition of any companies, provided that the parties to the joint venture or acquiring entity to which such shares will be issued agree to be bound by the same lock-up undertaking as the Existing Shareholders. The Company Lock-up does not apply to the capital increase described in the Prospectus.</p> <p>In the Underwriting Agreement, RWE AG and the Selling Shareholder have agreed vis-à-vis the Underwriters that they will not, without the prior written consent of the Joint Global Coordinators, which consent may not be unreasonably withheld, either directly or indirectly, sell, market, transfer or dispose otherwise of shares or other securities of the Company until the end of a period of six months after the shares are first traded on the Frankfurt Stock Exchange. The same shall apply to any transaction economically equivalent to a sale in economic terms, for example the issue of options or conversion rights on shares of the Company (the "<b>Shareholders' Lock-up</b>"). The Shareholders' Lock-up shall not apply to (i) any shares used for stabilization, (ii) transfers to third parties (outside of stock exchanges), (iii) transfers to affiliates of RWE AG, (iv) future pledges granted to one or more banks or their affiliates (including any current or future pledges of shares by RWE AG or any affiliate of RWE AG required by financing banks for the benefit of creditors) and (v) any transfers of shares to one or more banks or their affiliates pursuant to enforcement of any pledge entered into in accordance with (iv), provided in each case of (ii) and (iii) that such transferee(s) agree(s) to be bound by the same lock-up undertaking.</p>
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E.6	<p><b>The amount and percentage of immediate dilution resulting from the offer. In case of a subscription offer to the existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.</b></p>	<p>The net asset value attributable to the shareholders, calculated as total assets less total debt, corresponds to the carrying amount of the shareholders' equity of the Company in its consolidated balance sheet based on the Unaudited Interim Consolidated Financial Statements (Condensed), and amounted to EUR 6,004 million as of June 30, 2016, and would amount to EUR 12 per share, based on 500,000,000 outstanding shares of the Company immediately before the Offering.</p> <p>Assuming aggregate net proceeds to the Company from the sale of the New Shares of approximately EUR 1,847 million, the net asset value attributable to the shareholders – had the Company already received the aggregate net proceeds by June 30, 2016 – would have been approximately EUR 7,851 million as of June 30, 2016 (based on the mid-point of the price range); this corresponds to EUR 14.13 per share (calculated, also in each following case, on the basis of 555,555,000 shares outstanding after full implementation of the capital increase regarding the New Shares). That would correspond to a direct dilution of EUR 19.87 per share or 58.4% for the parties acquiring the Offer Shares at the mid-point of the price range. At the low end and high end of the price range, the net asset value attributable to the shareholders would be EUR 13.93 and EUR 14.33 per share, respectively, corresponding to a direct dilution of EUR 18.07 per share or 56.5% and EUR 21.67 per share or 60.2%, respectively.</p> <p>There is no subscription offer to the existing equity holders.</p>
E.7	<p><b>Estimated expenses charged to the investor by the issuer or the offeror.</b></p>	<p>Not applicable. Investors will not be charged with expenses by the Company, the Selling Shareholder or the Underwriters in connection with their role as underwriters. However, investors may have to bear customary security commissions (<i>Effektenprovision</i>) and handling fees charged by their account-keeping financial institution.</p>

## 2 ZUSAMMENFASSUNG DES PROSPEKTS

Zusammenfassungen bestehen aus geforderten Angaben, die als "Punkte" bezeichnet sind. Diese Punkte sind in den Abschnitten A – E (A.1 – E.7) fortlaufend nummeriert. Diese Zusammenfassung enthält alle Punkte, die für die vorliegende Art von Wertpapieren und Emittenten in eine Zusammenfassung aufzunehmen sind. Da einige Punkte nicht behandelt werden müssen, können in der Nummerierungsreihenfolge Lücken auftreten. Selbst wenn ein Punkt wegen der Art der Wertpapiere und des Emittenten in die Zusammenfassung aufgenommen werden muss, ist es möglich, dass in Bezug auf diesen Punkt keine relevanten Informationen bereitgestellt werden können. In diesem Fall enthält die Zusammenfassung eine kurze Beschreibung des Punkts mit dem Hinweis "Entfällt".

### A. Einleitung und Warnhinweise

A.1	Warnhinweise.	<p>Diese Zusammenfassung sollte als Einleitung zu diesem Prospekt (der "<b>Prospekt</b>") verstanden werden. Bei jeder Entscheidung zur Anlage in die Aktien der Gesellschaft (wie nachfolgend definiert) sollte sich der Anleger auf die Prüfung des gesamten Prospekts stützen.</p> <p>Für den Fall, dass vor einem Gericht Ansprüche auf Grund der in dem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger in Anwendung der einzelstaatlichen Rechtsvorschriften der Mitgliedstaaten des Europäischen Wirtschaftsraums die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben.</p> <p>Diejenigen Personen, die die Verantwortung für die Zusammenfassung einschließlich etwaiger Übersetzungen hiervon übernommen haben oder von denen der Erlass ausgeht, können haftbar gemacht werden, jedoch nur für den Fall, dass die Zusammenfassung irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, oder sie, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, nicht alle erforderlichen Schlüsselinformationen vermittelt.</p> <p>Die innogy SE (vormals RWE International SE), Essen, Bundesrepublik Deutschland ("<b>Deutschland</b>") (im Folgenden auch die "<b>Gesellschaft</b>" und gemeinsam mit ihren konsolidierten Tochtergesellschaften, "<b>wir</b>", "<b>uns</b>", "<b>unsere</b>", die "<b>innogy-Gruppe</b>", die "<b>Gruppe</b>" oder "<b>innogy</b>") sowie Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Deutschland ("<b>Deutsche Bank</b>"), Goldman Sachs International, London, Vereinigtes Königreich ("<b>Goldman Sachs</b>" und, gemeinsam mit Deutsche Bank, die "<b>Joint Global Coordinators</b>"), sowie BNP Paribas, Paris, Frankreich ("<b>BNP Paribas</b>"), Merrill Lynch International, London, Vereinigtes Königreich ("<b>BofA Merrill Lynch</b>"), Credit Suisse Securities (Europe) Limited, London, Vereinigtes Königreich ("<b>Credit Suisse</b>") und UBS Limited, London,</p>
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		Vereinigtes Königreich (" <b>UBS Investment Bank</b> " und gemeinsam mit BNP Paribas, BofA Merrill Lynch, Credit Suisse und den Joint Global Coordinators, die " <b>Joint Bookrunners</b> "), sowie Banco Santander, S.A., Santander, Spanien (" <b>Banco Santander</b> "), Joh. Berenberg, Gossler & Co. KG, Hamburg, Deutschland (" <b>Berenberg</b> ") und RBC Europe Limited (handelnd als RBC Capital Markets), London, Vereinigtes Königreich (" <b>RBC</b> " und zusammen mit Berenberg und Banco Santander, die " <b>Co-Lead Managers</b> ", und gemeinsam mit den Joint Bookrunners, die " <b>Konsortialbanken</b> ") übernehmen gemäß § 5 Absatz 2b Nr. 4 Wertpapierprospektgesetz die Verantwortung für den Inhalt dieser Zusammenfassung einschließlich ihrer deutschen Übersetzung.
<b>A.2</b>	<b>Angaben und Hinweise bezüglich der Verwendung des Prospekts für die spätere Weiterveräußerung oder endgültige Platzierung von Wertpapieren durch Finanzintermediäre</b>	Entfällt. Es ist keine spätere Weiterveräußerung oder endgültige Platzierung durch Finanzintermediäre vorgesehen, welche der Zustimmung bedarf. Daher wurde keine Zustimmung zur Verwendung des Prospekts für die spätere Weiterveräußerung oder Platzierung der Aktien der Gesellschaft durch Finanzintermediäre erteilt.

## B. Emittent

<b>B.1</b>	<b>Juristischer und kommerzieller Name des Emittenten.</b>	Die juristische Bezeichnung der Gesellschaft zum Datum des Prospekts ist innogy SE. Die kommerzielle Bezeichnung der Gruppe lautet "innogy". Darüber hinaus nutzen einige Tochtergesellschaften der Gesellschaft weitere kommerzielle Bezeichnungen, welche weitere wichtige Marken der Gruppe widerspiegeln, insbesondere Süwag, LEW Lechwerke, enviaM, ELE, VSE, energis und eprimo (Deutschland), npower (Vereinigtes Königreich), essent und energiedirect.nl (Niederlande), ELMŰ, ÉMÁSZ und MÁSZ (Ungarn).
<b>B.2</b>	<b>Sitz, Rechtsform, geltendes Recht, Land der Gründung.</b>	Die Gesellschaft hat ihren Sitz in Essen, Deutschland, und ist im Handelsregister des Amtsgerichts Essen, Deutschland, unter HRB 27091 eingetragen. Die Gesellschaft ist eine Europäische Gesellschaft ( <i>Societas Europaea</i> oder SE), die in Deutschland gegründet wurde und europäischem und deutschem Recht unterliegt.
<b>B.3</b>	<b>Art der derzeitigen Geschäftstätigkeit und Haupttätigkeiten des Emittenten samt der hierfür wesentlichen Faktoren, Hauptprodukt- und/oder -dienstleistungs-kategorien sowie Hauptmärkte, auf denen der Emittent vertreten ist.</b>	Die innogy-Gruppe ist ein etabliertes europäisches Unternehmen für den Vertrieb und die Versorgung mit Strom und Gas und ein erfahrener Erzeuger von Strom aus erneuerbaren Energiequellen mit einem breit gestreuten und gut angelegten Anlagevermögen. Mit unserem attraktiven Heimatmarkt Deutschland und führenden Positionen in vielen europäischen Ländern erstrecken sich die von uns betriebenen Strom- und Gasnetze zum 31. Dezember 2015 auf insgesamt etwa

	<p>570.000 km mit ungefähr 16,5 Millionen Kunden in Deutschland und vier osteuropäischen Ländern. Zu diesem Datum bestanden außerdem Strom- und Gasversorgungsverträge mit 23 Millionen Kunden in elf europäischen Ländern, und es wurde Strom mit einer Erzeugungskapazität von 4,4 GW (aus Buchhaltungssicht) erzeugt. Davon stammen 3,6 GW aus erneuerbaren Energiequellen in neun europäischen Ländern. Insgesamt belief sich unser Energieerzeugungsvolumen im Jahr 2015 auf 10,3 TWh (aus Buchhaltungssicht). 2015 erwirtschaftete die innogy-Gruppe ein EBITDA von EUR 4,5 Mrd.</p> <p>Die Gruppe entstand aus einer Reihe von Transaktionen, in deren Rahmen die Geschäftsfelder Netz &amp; Infrastruktur, Vertrieb und Erneuerbare Energien der RWE AG und ihrer unmittelbaren und mittelbaren Tochtergesellschaften und Beteiligungen von deren konventionellen und nuklearen Energieerzeugungsaktivitäten und Handelsgeschäften getrennt wurden (der <b>“Carve-Out”</b>). So sind wir unserer Einschätzung nach gut gerüstet, die Chancen der laufenden Energiewende zu nutzen.</p> <p>Wir sind einer der größten Stromverteilnetzbetreiber in Deutschland (nach der Verteilmenge) und nach eigenen Schätzungen einer der führenden Gasverteilnetzbetreiber in Deutschland und der größte Gasverteilnetzbetreiber in der Tschechischen Republik. Aufgrund der Beschaffenheit der Strom- und Gasverteilnetze, die in ihren jeweiligen Regionen natürliche Monopole bilden, ist unser Netzgeschäft streng reguliert. Die Aufsichtsbehörden in den jeweiligen Ländern regulieren die Rendite, die von uns erwirtschaftet werden darf, woraus sich stabile und planbare Erträge ergeben. Unser <b>“Gesamtes Reguliertes Anlagevermögen”</b> (Summe unseres regulierten Anlagevermögens, berechnet auf Basis der letzten Meldung der jeweiligen Aufsichtsbehörden bzw. auf Basis von Berechnungen in den zuletzt bei den jeweiligen Aufsichtsbehörden eingereichten Unterlagen sowie grundsätzlich unter Zugrundelegung der Jahresendwerte (sofern verfügbar)) beläuft sich auf ca. EUR 13,3 Mrd. Darin sind Beteiligungsanteile aus nicht vollkonsolidierten Beteiligungen in allen Ländern, in denen wir mit unserem Netzgeschäft tätig sind, nicht berücksichtigt. Mit EUR 9,7 Mrd. trägt Deutschland, wo wir rund zwei Drittel unserer regulierten Strom- und Gasnetzanlagen im Rahmen von Konzessionsverträgen betreiben, den weitaus größten Teil zu unserem Gesamten Regulierten Anlagevermögen bei. Die Rendite, die von uns mit unserem Gesamten Regulierten Anlagevermögen erwirtschaftet werden darf, bestimmt sich anhand der gewichteten durchschnittlichen Kapitalkosten vor Steuern (<b>“WACC”</b>), die je nach Land zwischen 5,675% und 7,94% liegen und entweder auf Grundlage von einem impliziten WACC vor Steuern (wie in</p>
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		<p>Deutschland, wo es kein spezifisches, reguliertes WACC gibt und wo wir, basierend auf bestimmten Annahmen, ein illustratives WACC berechnet haben) oder von einem regulierten WACC vor Steuern bestimmt werden.</p> <p>Der regulatorische Rahmen unterliegt einem kontinuierlichen Wandel. In Deutschland beginnen die neuen Regulierungsperioden für unser Gasnetz im Jahr 2018 und für unser Stromnetz im Jahr 2019. Es besteht zwar noch Unsicherheit über die Änderungen des regulatorischen Rahmens für die nächste Regulierungsperiode und darüber, inwieweit sich diese Änderungen auf uns auswirken werden, aber wir gehen davon aus, dass unser Gesamtes Reguliertes Anlagevermögen in Deutschland auf Basis unserer tatsächlichen und geplanten Nettoinvestitionen für den Zeitraum von 2011 bis Ende 2016 um ca. 9% anwachsen wird, unter der Annahme einer vollständigen Anerkennung dieser Investitionen durch die Aufsichtsbehörde. Dieser erwartete Anstieg kann vollständig oder teilweise durch einen Rückgang bei der Rendite, die wir in den neuen Regulierungsperioden erwirtschaften dürfen, aufgehoben werden. Weitere wesentliche Änderungen betreffen die Anerkennung von Investitionen und die Folgen kalkulatorischer Abschreibung (<i>imputed depreciation</i>). Im Rahmen der derzeit geltenden Vorschriften zur Anreizregulierung erhalten Verteilnetzbetreiber einen Ausgleich für Investitionen in das Verteilnetz nur mit Zeitverzögerung. Nach Maßgabe der neuen Vorschriften werden Investitionen zu Ersatz-, Restrukturierungs- und Expansionszwecken bereits im Zeitpunkt der Vornahme in den Erlösobergrenzen berücksichtigt. Verteilnetzbetreiber profitieren von einem Sockeleffekt bei Investitionen, der sich aus der Basisjahr-Evaluierung nach Maßgabe der derzeit geltenden regulatorischen Vorschriften ergibt. Der Sockeleffekt sorgt dafür, dass die Kapitalkosten über die gesamte Regulierungsperiode hinweg konstant bleiben, ohne dass eine kalkulatorische Abschreibung Anwendung findet. Dieser Sockeleffekt wird wegfallen. Sowohl im Rahmen der derzeitigen als auch der voraussichtlichen künftigen regulatorischen Vorschriften ist unsere Fähigkeit zur Umsetzung von Kostensenkungen entscheidend, um die erforderlichen Effizienzsteigerungen zu erreichen und die zulässige regulierte Rendite zu erzielen.</p> <p>Wir berichten unsere Netzaktivitäten als Bestandteil unseres Netz &amp; Infrastruktur-Segments, zu dem auch eine große Anzahl von Beteiligungen gehört, darunter zahlreiche Stadtwerke mit einem bedeutenden Anteil an reguliertem Geschäft, sowie weitere Aktivitäten einschließlich Gasspeicheranlagen. Im Jahr 2015 hat das Segment Netz &amp; Infrastruktur ein EBITDA von EUR 2,9 Mrd. erwirtschaftet, davon wurden über 80% aus regulierten Aktivitäten generiert.</p>
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	<p>Wir sind führend im Vertrieb von Strom und Gas sowie der zugehörigen Produkte und Dienstleistungen. Von den 23 Mio. Kunden in unserem Segment Vertrieb sind 8,1 Mio. in Deutschland, 5,0 Mio. im Vereinigten Königreich, 4,7 Mio. in den Niederlanden und Belgien sowie 5,4 Mio. in unserer Region Osteuropa, die aus sieben osteuropäischen Ländern besteht, beheimatet. Wir sind in vielen unserer Märkte führend, zum Beispiel bei der Stromversorgung in Deutschland und in den Niederlanden und bei der Gasversorgung in der Tschechischen Republik und in den Niederlanden, und zwar in Deutschland gemessen am Absatz, in den Niederlanden und der Tschechischen Republik gemessen an der Anzahl der Kundenverträge im Jahr 2015. Zusätzlich zum Vertrieb unserer Commodity-Produkte Strom und Gas bieten wir sowohl Non-Commodity Energy+-Produkte und Dienstleistungen, z.B. Connected Home-Lösungen, für Kunden mit fortgeschrittenerem und breiter gefächertem Energiebedarf an als auch, in über 20 Ländern, Ladeinfrastrukturlösungen für Elektrofahrzeuge. Wir führen derzeit im Vereinigten Königreich ein umfassendes Restrukturierungs- und Effizienzsteigerungsprogramm mit der Zielvorgabe von Bruttoeinsparungen von GBP 200 Mio. durch, um unsere dortige betriebliche und wirtschaftliche Performance zu optimieren. Darüber hinaus weist unser Vertriebsgeschäft unserer Einschätzung nach aufgrund der steigenden Nachfrage von Kunden aus der Region Osteuropa, infolge des Bestandskundenmarketing (<i>Cross-Selling</i>) von Commodity-Produkten, des Up-Selling von Energy+-Produkten sowie des möglichen Eintritts in neue Märkte Wachstumspotenzial auf. Wir berichten unsere Vertriebsaktivitäten als Bestandteil unseres Vertriebs-Segments, das im Jahr 2015 ein EBITDA von EUR 1,0 Mrd. generiert hat.</p> <p>Zudem sind wir entlang der gesamten Wertschöpfungskette im Bereich der Entwicklung, des Baus sowie des Eigentums und des Betriebs von Anlagen zur Erzeugung von Strom aus erneuerbaren Energiequellen tätig. Unsere installierte Leistung ist diversifiziert und umfasst in erster Linie Onshore- und Offshore-Windparks und (in geringerem Umfang) Wasserkraftwerke schwerpunktmäßig in Deutschland und im Vereinigten Königreich. Gemessen an der installierten Leistung waren wir im Jahr 2015 drittgrößter Betreiber in der Offshore-Windkraftbranche. Wir profitieren auch weiterhin in unterschiedlichem Maße von Fördermodellen (insbesondere von festen Einspeisevergütungen), die eine hohe Preissicherheit und einen hohen Schutz vor Preisschwankungen im Großhandel bieten. Die</p>
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		<p>durchschnittliche Restlaufzeit der Förderung für unsere Bestandsanlagen für erneuerbare Energien, mit denen quasi-regulierte Erträge generiert werden, beträgt ca. 12 Jahre. Zum 31. Dezember 2015 hatten wir Entwicklungs- und Bauprojekte mit einer Gesamtkapazität von 0,3 GW im Bau und weitere 4,1 GW in der Entwicklung (jeweils nach anteiliger Betrachtungsweise). Unser Segment Erneuerbare Energien, das auch Anlagen zur Energiegewinnung aus Biomasse und Biogas und in begrenztem Umfang Aktivitäten zur Gewinnung von Solarenergie enthält, die wir ausweiten wollen, hat im Jahr 2015 ein EBITDA von EUR 0,8 Mrd. generiert. Ca. 60% des EBITDA aus dem Segment Erneuerbare Energien wurden aus dem Betrieb von Anlagen mit quasi-regulierten Erträgen generiert.</p> <p><b>Stärken</b></p> <p>Die wettbewerbsrelevanten Stärken unseres Unternehmens lassen sich unserer Einschätzung nach wie folgt charakterisieren:</p> <ul style="list-style-type: none"> <li>• einzigartiges Anlagevermögen in Europa mit Heimatstandort Deutschland und marktführender Stellung in zahlreichen europäischen Ländern;</li> <li>• solide Geschäftsgrundlage – weitgehend regulierte und prognostizierbare Rendite aus gut angelegtem Anlagevermögen;</li> <li>• überzeugende Erfolgsbilanz angesichts fortlaufender Verbesserungen und Potenzial zur Erzielung zusätzlicher Effizienzsteigerungen;</li> <li>• fundierte Kenntnisse und fundiertes Wissen über die Branche – innovative Kultur, die eine ausgezeichnete Grundlage für eine kontinuierliche Anpassung bildet;</li> <li>• robustes Finanzprofil – starke Cashflow-Generierung und solide Kapitalstruktur.</li> </ul> <p><b>Strategie</b></p> <p>Die Strategie der Gruppe, um zukünftig profitables Wachstum zu erreichen, basiert auf den folgenden Kernelementen:</p> <ul style="list-style-type: none"> <li>• Nutzung der Marktführerstellung in unseren Geschäftsbereichen;</li> <li>• Erschließung von Neugeschäft, einschließlich Ausweitung auf neue Regionen und Geschäftsfelder;</li> <li>• Schaffung von Optionen für die Zukunft innerhalb unseres Innovations-Ökosystems;</li> <li>• Konzentration auf Wertschöpfung auf Basis einer klar definierten und disziplinierten Investitionsstrategie für ein profitables Wachstum.</li> </ul>
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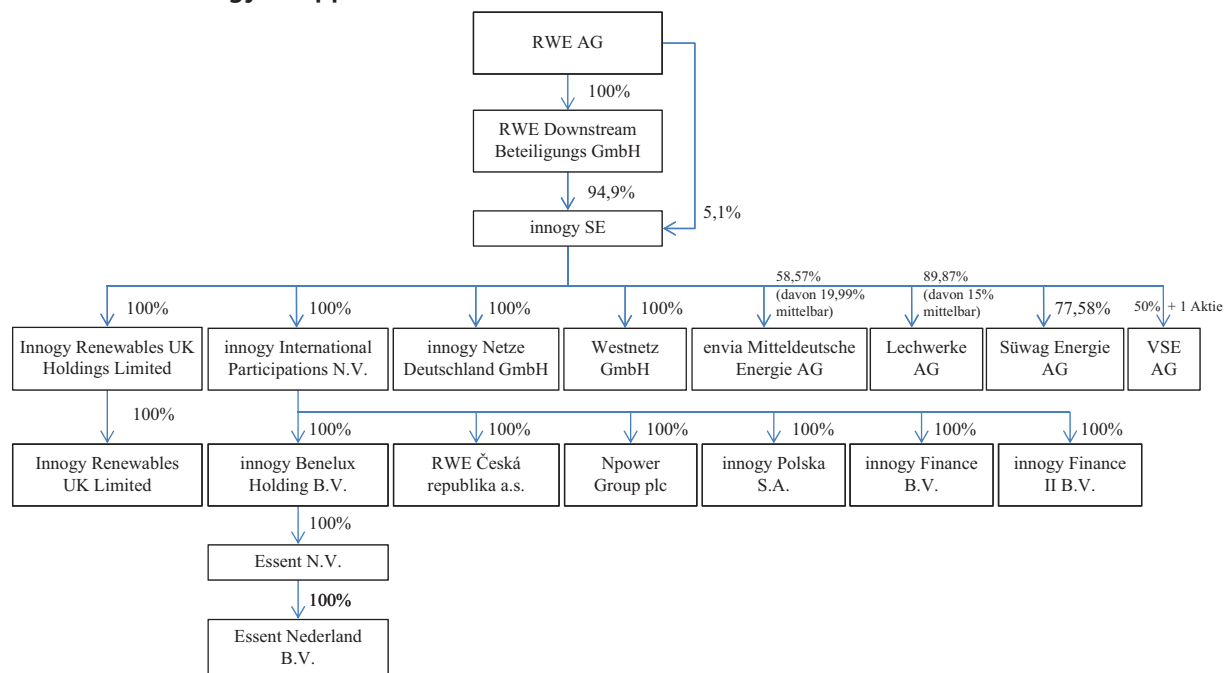
<p><b>B.4a</b></p>	<p><b>Wichtigste jüngste Trends, die sich auf den Emittenten und die Branchen, in denen er tätig ist, auswirken.</b></p>	<p>Wir sind im Energiesektor und damit verbundenen Sektoren tätig, die aufgrund eines von der Politik in vielen Ländern unterstützten Trends hin zu nachhaltigen Formen der Energieerzeugung und -nutzung (beispielsweise in Deutschland im Rahmen der so genannten Energiewende) einen tiefgreifenden Wandel durchlaufen. Das traditionelle Versorgungsmodell einer zentralisierten, netzgebundenen Stromerzeugung wird nun in Frage gestellt durch die rasche Ausbreitung dezentraler Stromerzeugung aus erneuerbaren Energiequellen, intelligenter Netztechnologien und intelligenter Kundendienste.</p> <p>Im Netzbereich stellt diese Entwicklung das traditionelle Modell durch einen variablen beidseitigen Lastfluss und die Notwendigkeit der Integration aktiv beteiligter Verbraucher in Frage, wodurch sich die Netzkomplexität erhöht und erhebliche Investitionen in die Netzinfrastruktur erforderlich werden.</p> <p>Im Endkundensektor wurden von regulatorischer Seite Anstrengungen unternommen, um den Wettbewerb zwischen den Energieversorgern zu verstärken und Anreize für Verbraucher zu schaffen, sich aktiver einzubringen und vom Wettbewerb zu profitieren.</p> <p>Im Bereich der erneuerbaren Energien basierte der regulatorische Rahmen zur Förderung erneuerbarer Energien in erster Linie auf garantierten Einspeisevergütungen. Zuletzt hat die Politik angesichts steigender Energiekosten für Endverbraucher infolge der Energiewende trotz sinkender Großhandelspreise mit der Einführung von Maßnahmen begonnen, um die Kosten der Energiewende für die Endkunden zu begrenzen, dabei aber gleichzeitig die Ziele einer umweltverträglichen Nachhaltigkeit aufrechtzuerhalten. Infolgedessen werden in unseren Kernmärkten feste Einspeisevergütungen zunehmend durch Ausschreibungsverfahren ersetzt, die eine Vergütung nach Gebotspreis (<i>pay-as-bid</i>) oder in Höhe des höchsten noch zugeschlagenen Angebots (<i>pay-as-cleared</i>) (Einheitspreis) zur Folge haben und die Preise für Energie aus erneuerbaren Energiequellen senken.</p> <p>Künftig ist davon auszugehen, dass die Gesamtnachfrage nach Strom in den Märkten, in denen wir tätig sind, trotz der politischen Ziele zur Steigerung der Energieeffizienz langsam ansteigen wird. Bei der Nachfrage nach Gas wird für Deutschland und das Vereinigte Königreich ein Rückgang prognostiziert, während man in den mittel- und osteuropäischen Märkten von einem Nachfrageanstieg ausgeht.</p>
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		<p>Wir sehen die Dekarbonisierung, Dezentralisierung und Digitalisierung als die bedeutendsten neuen und anhaltenden Trends an, die sich auf unser Unternehmen und die Branche, in der wir tätig sind, auswirken.</p> <p><i>Dekarbonisierung</i></p> <p>Wir gehen davon aus, dass sich die Menge der aus erneuerbaren Energiequellen erzeugten Energie in ganz Europa erhöhen wird. Deutschland hat bei dieser Entwicklung mit seiner Energiewende eine führende Rolle inne, aber die europäischen Klimaziele stoßen eine breitere Bewegung in dieser Richtung in ganz Europa an. Der Übergang der Energiemärkte hin zu überwiegend erneuerbaren Energien spiegelt sich in einem Wandel der Rolle der Netzbetreiber und in der Entwicklung neuer Dienste und Fähigkeiten wider. Im Endkundenbereich beobachten wir eine zunehmende Nachfrage nach Produkten und Diensten im Bereich der Energieeffizienz. Zudem beobachten wir, dass immer mehr Verbraucher bereit sind, einen Aufschlag für nachhaltige Energie zu zahlen. Im Bereich der erneuerbaren Energien ist davon auszugehen, dass der breite politische Konsens und das politische Engagement das Wachstum in allen Regionen weiterhin antreiben werden.</p> <p><i>Dezentralisierung</i></p> <p>Die Stromversorgung steht zunehmend unter dem Einfluss der dezentralen Energieerzeugung, und zwar hauptsächlich bedingt durch das starke Wachstum im Bereich der Windkraft- und Solaranlagen. Die dezentrale Energieversorgung umfasst nicht nur die dezentrale Erzeugung, sondern auch die örtliche Energiespeicherung und Anpassungen des Kundenverhaltes auf die Angebotssituation (<i>Demand Response</i>). Viele Verbraucher sowohl im privaten als auch gewerblichen Bereich sind mittlerweile auch selbst Stromerzeuger geworden, die den erzeugten Strom entweder selbst verbrauchen oder in das Stromnetz einspeisen. Diese sogenannten „Prosumer“ unterscheiden sich von der klassischen Verbraucherrolle im System der Energieversorgung, woraus sich Auswirkungen hinsichtlich ihrer Erwartungen gegenüber Energieversorgern, ihres Netznutzungsverhaltens und ihrer möglichen zukünftigen Rolle bei der Abstimmung von Angebot und Nachfrage im Bereich der Stromversorgung ergeben.</p> <p>Zwar gehen wir davon aus, dass zentrale Stromerzeugungseinheiten in der absehbaren Zukunft weiterhin eine wichtige Rolle spielen werden, dennoch rechnen wir damit, dass sich der Trend zur Dezentralisierung fortsetzen wird. Hieraus ergeben sich neue Herausforderungen in Bezug auf das Stromnetz, die</p>
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		<p>in der Zukunft anspruchsvoller und komplexer sein werden als heute, was erhebliche Investitionen in die Netzinfrastruktur dort erforderlich machen wird, wo der Großteil der dezentralisierten Systeme angebunden ist. Im Bereich der erneuerbaren Energien beobachten wir ein zunehmendes Interesse an der dezentralen Energieerzeugung, und zwar angetrieben durch finanzielle Anreize und das Anliegen einer bestimmten "Prosumer"-Gruppe, einen Beitrag zu einer nachhaltigeren und umweltverträglichen Wirtschaft zu leisten. Wir beobachten zudem ein steigendes Interesse im Bereich des Verbrauchsmanagements infolge der Verschiebung des politischen Ansatzes weg von Einspeisevergütungen zur Förderung einer dezentralen Energieerzeugung hin zu einer Reduzierung des Stromverbrauchs und somit der Stromkosten der Endverbraucher. Darüber hinaus könnten sinkende Batteriekosten das zukünftige Potenzial einer örtlichen Energieerzeugung und -speicherung erhöhen.</p> <p><i>Digitalisierung</i></p> <p>Die Digital-Technologie und die sich daraus ergebenden Änderungen des Verbraucherverhaltens und der Verbrauchererwartungen in Verbindung mit entsprechenden regulatorischen Initiativen werden den Energiemarkt voraussichtlich grundlegend verändern. Für das Netzgeschäft erwarten wir durch die Digitalisierung eine Effizienzsteigerung und einen Wissenszuwachs im Hinblick auf den Lastflusstatus bei Stromnetzen. Die Einführung intelligenter Zähler, welche die Europäische Union von allen Mitgliedstaaten als Teil der Maßnahmen zur Verbesserung ihrer Energieversorgung und zur Bekämpfung des Klimawandels gefordert hat, ist ein Indiz dafür, dass die Digitalisierung tatsächlich ein wichtiger Bestandteil des zukünftigen Energiegeschäfts sein wird. Im Endkundengeschäft bietet die Entwicklung von intelligenten Strom- und Gasgeräten Kunden zudem zusätzliche Möglichkeiten zur Steuerung ihres Energieverbrauchs, da ihnen mehr Informationen zu ihrem Gesamtverbrauch an die Hand gegeben werden. Auf Verbraucherseite besteht daher ein zunehmendes Interesse an Geräten und Lösungen, mit denen sie ihren Energieverbrauch leichter steuern können. Da der Übergang Neuanschaffungen erforderlich macht, sind die Verbraucher auch an Finanzierungslösungen interessiert, beispielsweise an von Partnerbanken angebotenen Leasing- oder Darlehensmodellen für ihre Dachsolaranlagen oder LED-Beleuchtungssysteme. Intelligente Geräte und Anlagen werden zunehmend unterstützend beim Energiesparen zum Einsatz kommen.</p>
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<b>B.5</b>	<b>Beschreibung der Gruppe und der Stellung des Emittenten innerhalb dieser Gruppe.</b>	Der Emittent, die innogy SE mit Sitz in Essen, Deutschland, ist die Obergesellschaft der innogy-Gruppe. Die nachfolgende Darstellung gibt (in vereinfachter Form) einen Überblick über bestimmte direkte und indirekte Beteiligungen der Gesellschaft sowie ihrer Stellung innerhalb der Gruppe zum Datum des Prospekts:
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### Struktur der innogy-Gruppe



Hinweis: Vereinfachtes Schaubild, das nur ausgewählte bedeutende Gesellschaften der innogy-Gruppe darstellt.

<b>B.6</b>	<b>Personen, die eine direkte oder indirekte Beteiligung am Eigenkapital des Emittenten oder einen Teil der Stimmrechte halten.</b>	Vor Durchführung des Angebots, welches den Gegenstand des Prospekts darstellt (das <b>"Angebot"</b> ), hält die RWE AG, Essen, Deutschland ( <b>"RWE AG"</b> ) insgesamt 100% des Grundkapitals der Gesellschaft: rund 5,1% unmittelbar und rund 94,9% mittelbar über die RWE Downstream Beteiligungs GmbH, Essen, Deutschland ( <b>"RWE DB GmbH"</b> oder <b>"Verkaufender Aktionär"</b> und zusammen mit der RWE AG die <b>"Bestehenden Aktionäre"</b> ). Nach Durchführung des Angebots wird die RWE AG weiterhin rund 75,0% (davon 4,6% unmittelbar und 70,4% mittelbar durch die RWE DB GmbH) des Grundkapitals der Gesellschaft halten (unter Annahme (i) der vollständigen Platzierung der Neuen Aktien (wie unter E.3 definiert) sowie der vollständigen Durchführung der Kapitalerhöhung bezüglich der Neuen Aktien, (ii) der vollständigen Platzierung der Basis-Sekundäraktien (wie unter E.3 definiert) und (iii) einer vollständigen Ausübung der Erhöhungsoption (wie unter E.3 definiert) und der Greenshoe-Option (wie unter E.3 definiert)) und daher die Gesellschaft weiterhin kontrollieren. Die RWE AG ist eine börsennotierte Gesellschaft. Ende
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	<p><b>Angabe, ob die Hauptanteilseigner des Emittenten unterschiedliche Stimmrechte haben.</b></p> <p><b>Angabe, ob an dem Emittenten unmittelbare oder mittelbare Beteiligungen oder Beherrschungsverhältnisse bestehen, wer diese Beteiligungen hält bzw. diese Beherrschung ausübt und welcher Art die Beherrschung ist.</b></p>	<p>2015 waren rund 86% der Aktien der RWE AG im Eigentum institutioneller Investoren, während 14% der Aktien auf Privatanleger (einschließlich Belegschaftsaktionäre) entfielen. Die RWEB GmbH, in der ein Großteil der von Kommunen gehaltenen Anteile gebündelt ist, ist mit über 15% Ende 2015 größter Einzelaktionär der RWE AG. Der Anteil der RWE AG-Stammaktien in Streubesitz (free float), den die Deutsche Börse bei der Indexgewichtung zugrunde legt, betrug zum Ende des Jahres 2015 84%.</p> <p>Jede Aktie der Gesellschaft berechtigt zu einer Stimme in der Hauptversammlung der Gesellschaft. Es bestehen keine Beschränkungen des Stimmrechts. Es gibt keine unterschiedlichen Stimmrechte für die Aktionäre der Gesellschaft.</p> <p>Zum Datum des Prospekts wird die Gesellschaft von der RWE AG aufgrund der von ihr gehaltenen 100% der Stimmrechte an der Gesellschaft (davon ein Teil unmittelbar und der Großteil mittelbar über die RWE DB GmbH, wie oben erläutert) und der damit verbundenen Möglichkeit, die Finanz- und Geschäftspolitik der Gesellschaft zu bestimmen, kontrolliert. Nach Durchführung des Angebots wird die RWE AG (unter Annahme (i) der vollständigen Platzierung der Neuen Aktien (wie unter E.3 definiert) sowie der vollständigen Durchführung der Kapitalerhöhung bezüglich der Neuen Aktien, (ii) der vollständigen Platzierung der Basis-Sekundäraktien (wie unter E.3 definiert) und (iii) einer vollständigen Ausübung der Erhöhungsoption (wie unter E.3 definiert) und der Greenshoe-Option (wie unter E.3 definiert)) weiterhin rund 75,0% der Aktien der Gesellschaft halten (einschließlich der indirekt gehaltenen Aktien) und daher auch weiterhin die Gesellschaft kontrollieren. Die Gesellschaft und RWE DB GmbH sind derzeit Parteien eines Beherrschungsvertrags, der mit Wirkung zum Ablauf des 30. September 2016 gekündigt wurde.</p>
<b>B.7</b>	<b>Ausgewählte wesentliche historische Finanzinformationen.</b>	<p>Der geprüfte kombinierte Abschluss der RWE International Gruppe (jetzt die innogy-Gruppe) für die jeweils am 31. Dezember abgelaufenen Geschäftsjahre 2015, 2014 und 2013 (der <b>„Geprüfte Kombinierte Abschluss“</b>) wurden in Übereinstimmung mit den International Financial Reporting Standards (<b>„IFRS“</b>), wie sie in der Europäischen Union anzuwenden sind, erstellt. Der geprüfte Jahresabschluss der Gesellschaft für das Rumpfgeschäftsjahr vom 11. Dezember 2015 bis zum 31. Dezember 2015 (der <b>„Geprüfte Jahresabschluss“</b>) wurde in Übereinstimmung mit dem Handelsgesetzbuch (<b>„HGB“</b>) aufgestellt. Der Geprüfte Kombinierte Abschluss wurde in Übereinstimmung mit den Internationalen Prüfungsstandards und der Geprüfte Jahresabschluss wurde in Übereinstimmung</p>

		<p>mit § 317 HGB und den vom Institut der Wirtschaftsprüfer in Deutschland festgestellten deutschen Grundsätzen ordnungsmäßiger Abschlussprüfung durch die PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Deutschland, über das Büro Essen, Deutschland ("PwC"), geprüft, die einen uneingeschränkten Bestätigungsvermerk jeweils zu dem Geprüften Kombinierten Abschluss und dem Geprüften Jahresabschluss erteilt hat.</p> <p>Der ungeprüfte verkürzte Konzernzwischenabschluss der Gesellschaft für den Sechsmonatszeitraum bis zum 30. Juni 2016 (der "<b>Ungeprüfte Verkürzte Konzernzwischenabschluss</b>") wurde in Übereinstimmung mit den IFRS für Zwecke der Zwischenberichterstattung (IAS 34) erstellt.</p> <p>Der Geprüfte Kombinierte Abschluss wurde durch die Gesellschaft erstellt und reflektiert die Aktivitäten der RWE AG in ihren Geschäftsbereichen Netz &amp; Infrastruktur, Vertrieb und Erneuerbare Energien, die aus der RWE AG herausgelöst und auf die Gesellschaft übertragen worden sind. Daher werden die Geschäftsbereiche Netz &amp; Infrastruktur, Vertrieb und Erneuerbare Energien der RWE AG für Zwecke des Geprüften Kombinierten Abschlusses als die innogy-Gruppe bezeichnet.</p> <p>Im Rahmen der Aufstellung des Geprüften Kombinierten Abschlusses wurden mehrere Annahmen und Schätzungen zugrunde gelegt, die über den bei der Aufstellung von Konzernabschlüssen üblichen Rahmen hinausgehen und sich auf den Ansatz und die Werte der Aktiva und Passiva, der Erträge und Aufwendungen sowie der Eventualverbindlichkeiten auswirken, insbesondere in Bezug auf Ertragsteuern. Unsere Unternehmensstruktur und Geschäftstätigkeit haben sich im Rahmen der Abspaltung von der Ehemaligen RWE-Gruppe in den vergangenen Berichtszeiträumen wesentlich geändert. Der Geprüfte Kombinierte Abschluss umfasst Gesellschaften, die nach der rechtlichen Neuordnung, d. h. nach dem Vollzug der Übertragung der Geschäftsbereiche Netz &amp; Infrastruktur, Vertrieb und Erneuerbare Energien von der Ehemaligen RWE-Gruppe auf die Gruppe zum 30. Juni 2016, nunmehr Konzerngesellschaften sind. Der Geprüfte Kombinierte Jahresabschluss erhebt jedoch weder den Anspruch auf eine Darstellung der Vermögens-, Finanz- und Ertragslage oder der daraus resultierenden Cash Flows in der Form, als hätte die Gruppe in ihrer derzeitigen Gestalt seit dem 1. Januar 2013 fortbestanden, noch lässt sich daraus die Vermögens-, Finanz- und Ertragslage bzw. die Cash Flows auf spätere Berichtszeiträume bzw. einen späteren Berichtsstichtag extrapolieren.</p>
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		Soweit in dem Prospekt Finanzinformationen der innogy-Gruppe als "geprüft" gekennzeichnet sind, sind die Informationen dem Geprüften Kombinierten Abschluss oder dem Geprüften Jahresabschluss entnommen worden. Soweit Finanzinformationen in dem Prospekt als "ungeprüft" gekennzeichnet sind, sind diese Informationen nicht dem Geprüften Kombinierten Abschluss oder dem Geprüften Jahresabschluss entnommen worden, sondern dem Ungeprüften Verkürzten Konzernzwischenabschluss oder dem internen Rechnungslegungssystem der innogy-Gruppe oder sie basieren auf Berechnungen auf Grundlage dieser Zahlen.
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## Ausgewählte Finanzinformationen aus der Konzern-Gewinn- und Verlustrechnung bzw. der kombinierten Gewinn- und Verlustrechnung

Die nachfolgende Tabelle zeigt ausgewählte Angaben aus unserer Konzern-Gewinn- und Verlustrechnung (verkürzt) für die am 30. Juni 2016 und 2015 abgelaufenen Sechsmonatszeiträume sowie aus unserer kombinierten Gewinn- und Verlustrechnung für die am 31. Dezember 2015, 2014 und 2013 abgelaufenen Geschäftsjahre:

	Für den Sechsmonatszeitraum zum 30. Juni		Für das Geschäftsjahr zum 31. Dezember		
	2016	2015	2015	2014	2013
	(ungeprüft) (in Mio. EUR)		(geprüft, soweit nicht abweichend angegeben) (in Mio. EUR)		
<b>Umsatzerlöse (inkl. Erdgas-/ Stromsteuer) . . . .</b>	<b>22.780</b>	<b>23.458</b>	<b>45.568</b>	<b>45.681</b>	<b>48.589</b>
Erdgas-/ Stromsteuer . . . . .	1.127	1.154	2.112	2.175	2.560
<b>Umsatzerlöse . . . . .</b>	<b>21.653</b>	<b>22.304</b>	<b>43.456</b>	<b>43.506</b>	<b>46.029</b>
Sonstiges betriebliches Ergebnis <sup>1)</sup> . . . . .	-681	-1.020	-1.719 <sup>2)</sup>	-1.777 <sup>2)</sup>	-1.823 <sup>2)</sup>
Sonstige betriebliche Erträge . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	1.104	986	1.205
Sonstige betriebliche Aufwendungen . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	2.823	2.763	3.028
Materialaufwand . . . . .	16.701	17.658	34.760	35.160	37.429
Personalaufwand . . . . .	1.432	1.332	2.736	2.754	2.900
Abschreibungen . . . . .	923	641	1.634	1.439	2.150
Ergebnis aus at-Equity-bilanzierten					
Beteiligungen . . . . .	98	121	228	234	215
Übriges Beteiligungsergebnis . . . . .	51	112	265	166	70
Finanzerträge . . . . .	528	412	578	445	406
Finanzaufwendungen . . . . .	980	431	880	1.000	973
<b>Ergebnis vor Steuern . . . . .</b>	<b>1.613</b>	<b>1.867</b>	<b>2.798</b>	<b>2.221</b>	<b>1.445</b>
Ertragsteuern . . . . .	356	443	860	523	551
<b>Ergebnis . . . . .</b>	<b>1.257</b>	<b>1.424</b>	<b>1.938</b>	<b>1.698</b>	<b>894</b>

1) Sonstige betriebliche Erträge und sonstige betriebliche Aufwendungen werden im Ungeprüften Verkürzten Konzernzwischenabschluss aggregiert als sonstiges betriebliches Ergebnis ausgewiesen.

2) Ungeprüft.

## Ausgewählte Finanzinformationen aus der Konzernbilanz bzw. der kombinierten Bilanz

Die nachfolgende Tabelle zeigt ausgewählte Angaben aus unserer Konzern-Bilanz (verkürzt) zum 30. Juni 2016 und 2015 sowie aus unserer kombinierten Bilanz zum 31. Dezember 2015, 2014 und 2013:

	Zum 30. Juni	Zum 31. Dezember		
	2016	2015	2014	2013
	(ungeprüft) (in Mio. EUR)	(geprüft, soweit nicht abweichend angegeben) (in Mio. EUR)		
<b>Aktiva</b>	<b>46.703</b>	<b>57.972</b>	<b>56.504</b>	<b>54.813</b>
<b>Langfristiges Vermögen</b>	<b>35.880</b>	<b>38.235</b>	<b>35.649</b>	<b>34.427</b>
Immaterielle Vermögenswerte	11.736	12.178	11.695	11.598
Sachanlagen	17.552	18.308	17.309	16.980
At-Equity-bilanzierte Beteiligungen	2.140	2.137	2.379	2.404
Übrige Finanzanlagen	581	555	510	478
Forderungen und andere Vermögenswerte <sup>1)</sup>	1.100	3.085 <sup>2)</sup>	1.951 <sup>2)</sup>	1.550 <sup>2)</sup>
Finanzforderungen	— <sup>1)</sup>	2.211	1.458	1.139
Sonstige Forderungen und sonstige Vermögenswerte	— <sup>1)</sup>	866	477	383
Ertragsteueransprüche	— <sup>1)</sup>	8	16	28
Latente Steuern	2.771	1.972	1.805	1.417
<b>Kurzfristiges Vermögen</b>	<b>10.823</b>	<b>19.737</b>	<b>20.855</b>	<b>20.386</b>
Vorräte	473	380	491	444
Forderungen aus Lieferungen und Leistungen	4.431	4.551	5.708	7.086
Forderungen und andere Vermögenswerte <sup>3)</sup>	3.436	12.362 <sup>2)</sup>	11.958 <sup>2)</sup>	10.330 <sup>2)</sup>
Finanzforderungen	— <sup>3)</sup>	10.425	10.316	8.973
Sonstige Forderungen und sonstige Vermögenswerte	— <sup>3)</sup>	1.816	1.478	1.184
Ertragsteueransprüche	— <sup>3)</sup>	121	164	173
Wertpapiere	1.905	1.894	1.913	1.702
Flüssige Mittel	567	550	475	824
Zur Veräußerung bestimmte Vermögenswerte	11	—	310	—
<b>Passiva</b>	<b>46.703</b>	<b>57.972</b>	<b>56.504</b>	<b>54.813</b>
<b>Eigenkapital</b>	<b>6.004</b>	<b>18.460</b>	<b>18.398</b>	<b>16.989</b>
Der Muttergesellschaft zurechenbares Eigenkapital	4.280	16.649	16.937	15.654
Anteile anderer Gesellschafter	1.724	1.811	1.461	1.335
<b>Langfristige Schulden</b>	<b>26.354</b>	<b>23.700</b>	<b>21.314</b>	<b>22.259</b>
Rückstellungen für Pensionen und ähnliche Verpflichtungen	4.485	3.461	4.595	3.582
Andere Rückstellungen	1.627	1.616	1.887	2.038
Finanzverbindlichkeiten	17.373	15.291	11.786	13.633
Übrige Verbindlichkeiten	2.182	2.428	2.274	2.186
Latente Steuern	687	904	772	820
<b>Kurzfristige Schulden</b>	<b>14.345</b>	<b>15.812</b>	<b>16.792</b>	<b>15.565</b>
Andere Rückstellungen	2.786	2.545	2.613	2.816
Finanzverbindlichkeiten	4.142	3.684	4.687	2.872
Verbindlichkeiten aus Lieferungen und Leistungen	3.385	4.553	4.906	5.357
Übrige Verbindlichkeiten <sup>4)</sup>	4.032	5.030 <sup>2)</sup>	4.586 <sup>2)</sup>	4.520 <sup>2)</sup>
davon: Ertragsteuerverbindlichkeiten	— <sup>4)</sup>	199	194	181

1) Langfristige Finanzforderungen, übrige Forderungen und Vermögenspositionen und Ertragsteueransprüche werden im Ungeprüften Verkürzten Konzernzwischenabschluss aggregiert als langfristige Forderungen und andere Vermögenspositionen ausgewiesen.

2) Ungeprüft.

- 3) Kurzfristige Finanzforderungen, übrige Forderungen und Vermögenspositionen und Ertragsteueransprüche werden im Ungeprüften Verkürzten Konzernzwischenabschluss aggregiert als kurzfristige Forderungen und andere Vermögenspositionen ausgewiesen.
- 4) Ertragsteuerverbindlichkeiten und andere Verbindlichkeiten werden im Ungeprüften Verkürzten Konzernzwischenabschluss aggregiert als sonstige Verbindlichkeiten ausgewiesen. Übrige Verbindlichkeiten zum 31. Dezember 2013, 2014 und 2015 beinhalten übrige Verbindlichkeiten und Ertragsteuerverbindlichkeiten wie im Kombinierten Geprüften Abschluss ausgewiesen.

### Ausgewählte Finanzinformationen aus der Konzern-Kapitalflussrechnung bzw. der kombinierten Kapitalflussrechnung

Die nachfolgende Tabelle zeigt ausgewählte Angaben aus unserer Konzern-Kapitalflussrechnung (verkürzt) für die am 30. Juni 2016 und 2015 abgelaufenen Sechsmonatszeiträume sowie aus unserer kombinierten Kapitalflussrechnung für die am 31. Dezember 2015, 2014 und 2013 abgelaufenen Geschäftsjahre:

	Für den Sechsmonatszeitraum zum 30. Juni		Für das Geschäftsjahr zum 31. Dezember		
	2016	2015	2015	2014	2013
	(ungeprüft) (in Mio. EUR)		(geprüft) (in Mio. EUR)		
Cash Flow aus laufender Geschäftstätigkeit . . . . .	407	633	2.755	2.977	3.658
Cash Flow aus der Investitionstätigkeit (vor Erst-/ Nachdotierung von Versorgungsplänen) . . . . .	4.929	1.926	-506	-3.175	-2.487
Cash Flow aus der Investitionstätigkeit (nach Erst- /Nachdotierung von Versorgungsplänen) . . . . .	4.804	1.460	-1.102	-3.685	-2.554
Cash Flow aus der Finanzierungstätigkeit . . . . .	-5.176	-2.009	-1.593	349	-1.004
Veränderung der flüssigen Mittel . . . . .	17	96	75	-349	97
Flüssige Mittel zum Ende des Berichtszeitraums laut Konzernbilanz / kombinierter Bilanz . . . . .	567	517	550	475	824

### Betriebliches Ergebnis und EBITDA

Das betriebliche Ergebnis dient uns im Rahmen unserer Geschäftsführung als zentrale Steuerungskennzahl. Das betriebliche Ergebnis definieren wir als Ergebnis vor Steuern ohne das Finanzergebnis und das neutrale Ergebnis. Erträge und Aufwendungen, die aus betriebswirtschaftlicher Sicht ungewöhnlich oder auf Sondervorgänge zurückzuführen sind, werden in das neutrale Ergebnis einbezogen. In der Regel sind im neutralen Ergebnis u. U. Buchgewinne bzw. -verluste aus dem Abgang von Beteiligungen oder nicht betriebsnotwendigen langfristigen Vermögenswerten, Abschreibungen auf Geschäfts- oder Firmenwerte vollkonsolidierter Unternehmen sowie Effekte aus der Marktbewertung bestimmter Derivate berücksichtigt. Da diese Erträge und Aufwendungen aus nicht operativer Tätigkeit in das neutrale Ergebnis umgegliedert werden, sind sie im ausgewiesenen betrieblichen Ergebnis nicht berücksichtigt. Unser neutrales Ergebnis wird lediglich auf Konzernebene ausgewiesen.

Darüber hinaus dient uns im Rahmen unserer Geschäftsführung das EBITDA als weitere zentrale Steuerungskennzahl. Das EBITDA definiert sich als betriebliches Ergebnis vor betrieblichen Abschreibungen. Steuern, das Finanzergebnis oder das neutrale Ergebnis sind darin nicht berücksichtigt. Betriebliche Abschreibungen beinhalten keine neutralen Abschreibungen, die im Rahmen des neutralen Ergebnisses dargestellt werden.

Das betriebliche Ergebnis und das EBITDA sind keine nach IFRS definierte Kennzahlen. Daher entspricht die Darstellung des betrieblichen Ergebnisses und des EBITDA nicht den IFRS oder anderen allgemein anerkannten Bilanzierungsgrundsätzen.

Die nachfolgende Tabelle zeigt die Überleitung des EBITDA zum betrieblichen Ergebnis und dem Ergebnis vor Steuern:

	Für den Sechsmonatszeitraum zum 30. Juni		Für das Geschäftsjahr zum 31. Dezember		
	2016	2015	2015	2014	2013
	(ungeprüft) (in Mio. EUR)		(geprüft) (in Mio. EUR)		
<b>EBITDA</b> .....	<b>2.385</b>	<b>2.332</b>	<b>4.521</b>	<b>4.297</b>	<b>4.194</b>
Betriebliche Abschreibungen <sup>1)</sup> .....	-719	-641	-1.471	-1.438	-1.350
<b>Betriebliches Ergebnis</b> .....	<b>1.666</b>	<b>1.691</b>	<b>3.050</b>	<b>2.859</b>	<b>2.844</b>
Neutrales Ergebnis .....	399 <sup>2)</sup>	195 <sup>3)</sup>	50 <sup>4)</sup>	-83 <sup>5)</sup>	-832 <sup>6)</sup>
Finanzergebnis .....	-452	-19	-302	-555	-567
<b>Ergebnis vor Steuern</b> .....	<b>1.613</b>	<b>1.867</b>	<b>2.798</b>	<b>2.221</b>	<b>1.445</b>

1) Betriebliche Abschreibungen beinhalten keine neutralen Abschreibungen, die im Rahmen des neutralen Ergebnisses dargestellt werden.

2) Enthält (i) Abschreibungen von EUR 204 Mio. auf die Gasspeicheranlagen des Segments Netz & Infrastruktur, (ii) Gewinn von EUR 352 Mio. aus der Marktbewertung von Derivaten und (iii) Gewinn von EUR 250 Mio. aus einer Ausgleichszahlung im Zusammenhang mit der Abwicklung von Gasspeicherverträgen mit RWEST.

3) Enthält (i) Gewinn von EUR 139 Mio. aus der Marktbewertung von Derivaten und (ii) Gewinn von EUR 54 Mio. aus Abgängen, einschließlich einer nachträglichen Kaufpreiszahlung aus der Veräußerung von Anteilen am Offshore-Windkraftprojekt Nordsee One im Segment Erneuerbare Energie.

4) Enthält (i) Abschreibungen von EUR 167 Mio. hauptsächlich im Zusammenhang mit der IT-Infrastruktur im Segment Vertrieb mit konkretem Bezug zum operativen Geschäft im Vereinigten Königreich, (ii) positive Umstrukturierungseffekte im Gegenwert von EUR 15 Mio., (iii) Gewinn von EUR 65 Mio. aus Abgängen und (iv) positive Effekte im Gegenwert von EUR 135 Mio. aus der Marktbewertung von Derivaten.

5) Enthält (i) negative Effekte von EUR 103 Mio. aus Restrukturierungen, die sich zum Teil aus Altersteilzeit- und Vorruhestandsverträgen ergeben, (ii) Gewinn von EUR 33 Mio. aus Abgängen und (iii) negative Effekte von EUR 14 Mio. aus der Marktbewertung von Derivaten. Im Geschäftsjahr 2014 wurden keine Abschreibungen im neutralen Ergebnis gezeigt.

6) Enthält (i) Abschreibungen von EUR 799 Mio. (in erster Linie Abschreibungen von EUR 266 Mio. auf unsere spanischen Onshore-Windparks im Segment Erneuerbare Energien, Abschreibungen von EUR 260 Mio. auf unser Offshore-Windkraftprojekt Nordsee Ost im Segment Erneuerbare Energien sowie Abschreibungen von EUR 181 Mio. auf unsere Gasspeicheranlagen im Segment Netz & Infrastruktur), (ii) negative Effekte von EUR 315 Mio. aus Restrukturierungen, die sich zum Teil aus Altersteilzeit- und Vorruhestandsverträgen ergeben, (iii) Gewinn von EUR 211 Mio. aus Abgängen, in erster Linie aus der Veräußerung eines Kundenportfolios für EUR 199 Mio. im Vereinigten Königreich an Telecom Plus sowie (iv) Effekte von EUR 24 Mio. aus der Marktbewertung von Derivaten.

**Ausgewählte Kennzahlen und Finanzinformationen aus der Segmentberichterstattung unseres Ungeprüften Verkürzten Konzernzwischenabschlusses sowie des Geprüften Kombinierten Abschlusses**

Die nachfolgende Tabelle zeigt ausgewählte Kennzahlen und Finanzinformationen aus der Segmentberichterstattung unseres Ungeprüften Verkürzten Konzernzwischenabschlusses sowie des Geprüften Kombinierten Abschlusses:

	Für den Sechsmonatszeitraum zum 30. Juni		Für das Geschäftsjahr zum 31. Dezember		
	2016	2015	2015	2014	2013
	(ungeprüft) (in Mio. EUR)		(geprüft) (in Mio. EUR)		
<b>Betriebliches Ergebnis</b> . . . . .	<b>1.666</b>	<b>1.691</b>	<b>3.050</b>	<b>2.859</b>	<b>2.844</b>
Segment Netz & Infrastruktur . . . . .	916	956	1.930	1.904	1.938
Segment Vertrieb . . . . .	640	616	830	907	931
Segment Erneuerbare Energien . . . . .	219	234	488	253	200
Anderes, Konsolidierungseffekte . . . . .	-109	-115	-198	-205	-225
<b>Betriebliche Abschreibungen</b> . . . . .	<b>719</b>	<b>641</b>	<b>1.471</b>	<b>1.438</b>	<b>1.350</b>
Segment Netz & Infrastruktur . . . . .	441	417	948	957	852
Segment Vertrieb . . . . .	106	69	158	162	182
Segment Erneuerbare Energien . . . . .	157	137	330	271	248
Anderes, Konsolidierungseffekte . . . . .	15	18	35	48	68
<b>EBITDA</b> . . . . .	<b>2.385</b>	<b>2.332</b>	<b>4.521</b>	<b>4.297</b>	<b>4.194</b>
Segment Netz & Infrastruktur . . . . .	1.357	1.373	2.878	2.861	2.790
Segment Vertrieb . . . . .	746	685	988	1.069	1.113
Segment Erneuerbare Energien . . . . .	376	371	818	524	448
Anderes, Konsolidierungseffekte . . . . .	-94	-97	-163	-157	-157
<b>Investitionen in Sachanlagen, immaterielle Vermögenswerte<sup>1)</sup></b> . . . . .	<b>580</b>	<b>652</b>	<b>2.024</b>	<b>2.060</b>	<b>2.302</b>
Segment Netz & Infrastruktur . . . . .	371	370	1.305	1.131	1.117
Segment Vertrieb . . . . .	100	94	287	212	158
Segment Erneuerbare Energien . . . . .	89	178	404	677	975
Anderes, Konsolidierungseffekte . . . . .	20	10	28	40	52

1) Ohne Finanzinvestitionen.

## Nettoschulden

Die nachstehende Tabelle zeigt die Berechnung unserer Nettoschulden (**“Nettoschulden”**). Die Nettoschulden sind keine nach IFRS definierte Kennzahl. Daher entspricht ihre Darstellung nicht den IFRS oder anderen allgemein anerkannten Bilanzierungsgrundsätzen. Die Nettoschulden entsprechen nicht den Nettofinanzverbindlichkeiten (*net financial indebtedness*), wie sie im Prospekt anderweitig dargestellt werden. Beispielsweise enthalten die Nettofinanzverbindlichkeiten keine Rückstellungen für Pensionen und den Rückbau von Windparks.

	Zum 31. Juli 2016	Zum 30. Juni 2016
	(ungeprüft) (in Mio. EUR)	
Flüssige Mittel .....	524	567
Wertpapiere <sup>1)</sup> .....	1.966	1.930
Sonstiges Finanzvermögen <sup>2)</sup> .....	325	1.655
<b>Finanzvermögen (A)<sup>2)</sup></b> .....	<b>2.816</b>	<b>4.152</b>
Anleihen und Verbindlichkeiten gegenüber Kreditinstituten .....	11.265 <sup>3)</sup>	11.396 <sup>4)</sup>
Bereinigung um die Auswirkungen des Erstansatzes bestimmter Finanzverbindlichkeiten zum beizulegenden Zeitwert <sup>5)</sup> .....	-1.066	-1.089
Sonstige Finanzverbindlichkeiten einschließlich konzerninterner Darlehen .....	6.819 <sup>6)</sup>	10.096 <sup>7)</sup>
davon: Konzerndarlehen der RWE AG in Bezug auf den Schulden- Push-Down <sup>8)</sup> .....	4.988 <sup>9)</sup>	6.004
<b>Angepasste Finanzverbindlichkeiten (B)</b> .....	<b>17.018</b>	<b>20.403</b>
Rückstellungen für Pensionen und ähnliche Verpflichtungen (C) .....	4.659	4.470 <sup>10)</sup>
Rückstellungen für den Rückbau von Windparks (D) .....	322	323
<b>Nettoschulden (B)-(A)+(C)+(D)</b> .....	<b>19.182</b>	<b>21.044</b>

1) Zu den Wertpapieren zählen auch langfristige Wertpapiere in Höhe von EUR 25 Mio. (zum 30. Juni 2016) bzw. EUR 29 Mio. (zum 31. Juli 2016).

2) Enthält kurz- und langfristige Finanzforderungen, angepasst um Darlehen gegenüber assoziierten Unternehmen und nicht konsolidierten Tochtergesellschaften

3) Davon EUR 10.802 Mio. erstrangige Anleihen (die erstrangigen Anleihen der innogy Finance B.V. und der innogy Finance II B.V. nachfolgend gemeinsam die **“Finanzierungsanleihen”**) (enthält einen aus dem erstmaligen Wertansatz von bestimmten Finanzverbindlichkeiten zum Marktwert resultierenden **“Step-Up”** von EUR 1.066 Mio.; siehe Fußnote 5 unten). Der angegebene Wert enthält auch Verbindlichkeiten gegenüber Kreditinstituten (EUR 485 Mio.), die im Wesentlichen im Zusammenhang mit der Finanzierung konsolidierter Gesellschaften stehen, die nicht am gemeinsamen Cash Pool teilnehmen, und Währungssicherungsgeschäfte zu konzerninternen Darlehen (minus EUR 22 Mio.).

4) Davon EUR 10.922 Mio. Finanzierungsanleihen (enthält einen aus dem erstmaligen Wertansatz von bestimmten Finanzverbindlichkeiten zum Marktwert resultierenden **“Step-Up”** von EUR 1.089 Mio.; siehe Fußnote 5 unten). Der angegebene Wert enthält auch Verbindlichkeiten gegenüber Kreditinstituten (EUR 497 Mio.), die im Wesentlichen im Zusammenhang mit der Finanzierung konsolidierter Gesellschaften stehen, die nicht am gemeinsamen Cash Pool teilnehmen, und Währungssicherungsgeschäfte zu konzerninternen Darlehen (minus EUR 23 Mio.).

5) Im Dezember 2015 haben wir im Rahmen des Carve-Out die innogy Finance B.V. von der RWE AG übernommen; hiervon umfasst sind auch bestimmte Finanzierungsanleihen, namentlich zwölf ausstehende auf Euro bzw. Britisches Pfund Sterling lautende Anleihen der innogy Finance B.V. Der Gesamtnennbetrag der Anleihen in Euro zum Zeitpunkt der Übertragung betrug EUR 5.380 Mio. Der Gesamtnennbetrag der Anleihen in Britischen Pfund Sterling zum Zeitpunkt der Übertragung betrug GBP 3.918 Mio. Da die innogy Finance B.V. keinen Geschäftsbetrieb im Sinne der IFRS 3 darstellt, wurde ihr Erwerb bilanziell als Asset Deal erfasst. Entsprechend wurden die Anleihen zunächst zu ihren Marktwerten zum Übertragungsstichtag angesetzt (18. Dezember 2015). Im Zeitpunkt der Übertragung überstieg der Marktwert der Wertpapiere den Buchwert der Schuldverschreibungen, der aus dem Konzernabschluss der RWE AG zum Übertragungszeitpunkt hervorgeht. Die aus dem Abschluss hervorgehende Differenz (**“Step-Up”**) zwischen dem Wertansatz dieser Anleihen und ihrem Buchwert zum Übertragungszeitpunkt (18. Dezember 2015) betrug insgesamt EUR 1.100 Mio. Unsere Tochtergesellschaft innogy Finance II B.V. hat Verbindlichkeiten im Rahmen einer Finanzierungsanleihe über EUR 600 Mio. übernommen, die ursprünglich von der RWE AG begeben worden war. Nach Maßgabe der IAS 39, wurde die Übernahme zum Marktwert zum Übertragungsstichtag (28. Dezember 2015) angesetzt und mit einem zusätzlichen **“Step-Up”** von EUR 145 Mio. gegenüber dem Buchwert der Anleihe, der aus dem Konzernabschluss der RWE AG zum Übertragungszeitpunkt hervorgeht, in unserem Abschluss erfasst. Mit der Übertragung der innogy Finance B.V. bzw. der Übertragung der Anleihe haben wir mit der Abschreibung des aus der Marktwertbewertung resultierenden **“Step-Up”** begonnen. Zum 30. Juni 2016 betrug der verbleibende **“Step-Up”** der im Dezember 2015 durchgeführten Transaktionen insgesamt auf EUR 1.089 Mio., d.h. er war aufgrund der Abschreibung und Wechselkurseffekte um EUR 156 Mio. geringer als der ursprünglich anerkannte Betrag.

- 6) Enthält EUR 5.998 Mio. von der RWE-Gruppe gewährte konzerninterne Finanzierungen, davon EUR 4.988 Mio. von der RWE AG gewährte Konzerndarlehen im Zusammenhang mit dem Schulden-Push-Down. Die übrigen konzerninternen Finanzierungen in Höhe von EUR 1.010 Mio. beinhalten hauptsächlich Cash Pool-Verbindlichkeiten mit verhältnismäßig geringen Fremdkapitalkosten. Zwischen dem 30. Juni 2016 und dem 31. Juli 2016 wurden diese Cash Pool-Verbindlichkeiten gegenüber der RWE AG um EUR 900 Mio. durch Tilgung aus den Erlösen aus einer im Juli 2016 durchgeführten Kapitalzuführung durch die RWE AG verringert. Außerdem wurden bestimmte konzerninterne Verbindlichkeiten mit konzerninternen Forderungen verrechnet, die im sonstigen Finanzvermögen enthalten waren.
- 7) Enthält EUR 9.162 Mio. von der RWE-Gruppe gewährte konzerninterne Finanzierungen, davon EUR 6.004 Mio. von der RWE AG gewährte Konzerndarlehen im Zusammenhang mit dem Schulden-Push-Down. Die übrigen konzerninternen Finanzierungen beinhalten hauptsächlich Cash Pool-Verbindlichkeiten mit verhältnismäßig geringen Fremdkapitalkosten.
- 8) Schulden im Zusammenhang mit der betriebswirtschaftlichen Übernahme bestimmter Finanzschuldinstrumente von der RWE AG, darunter sechs von der RWE AG im Rahmen von Privatplatzierungen begebene Anleihen und zwei separate Finanzierungsverträge mit der Europäischen Investitionsbank. Diese acht Schuldinstrumente wurden zwar nicht in rechtlicher Hinsicht auf die Gruppe übertragen, aber es wurden sämtliche Rechte und Pflichten der RWE AG aus bzw. im Rahmen der Finanzierungstransaktionen in betriebswirtschaftlicher Hinsicht im Rahmen von Konzerndarlehensverträgen auf die Gesellschaft übertragen. Einige dieser Konzerndarlehensverträge sehen einen Aufschlag auf den ausstehenden Nennbetrag des zugrundeliegenden Schuldinstruments in Höhe der Differenz zwischen dem Marktwert des betreffenden Instruments zum 13. Juni 2016 und dem Buchwert des zugrundeliegenden Schuldinstruments, der sich aus dem Konzernabschluss der RWE AG ergibt, nebst aufgelaufener Zinsen vor.
- 9) Der Rückgang steht primär im Zusammenhang mit dem EUR 1.009 Mio. Debt-to-Equity Swap, bei dem bestimmte Darlehen (einschließlich aufgelaufener Zinsen) mit Wirkung zum 31. Juli 2016 in die Kapitalrücklage der Gesellschaft eingebracht wurden und damit erloschen sind.
- 10) Beinhaltet einen Überschuss des Planvermögens über die Vorsorgeverpflichtungen in Höhe von EUR 15 Mio.

### Bereinigtes Nettoergebnis

Im bereinigten Nettoergebnis sind Einmaleffekte, einschließlich des gesamten neutralen Ergebnisses, sowie die damit einhergehenden Steuereffekte grundsätzlich nicht berücksichtigt. Es ist beabsichtigt, das bereinigte Nettoergebnis als Maßstab zur Festlegung von Ausschüttungen im Rahmen unserer Dividendenpolitik zu verwenden.

Das bereinigte Nettoergebnis und das betriebliche Ergebnis sind keine nach IFRS definierten Kennzahlen. Daher entspricht ihre Darstellung nicht den IFRS oder anderen allgemein anerkannten Bilanzierungsgrundsätzen.

Die nachstehende Tabelle zeigt die Methodik zur Berechnung des bereinigten Nettoergebnisses für den Sechsmonatszeitraum zum 30. Juni 2016. Sie entspricht der Berechnung des Nettoergebnisses bereinigt um das neutrale Ergebnis (welches auch Kosten im Zusammenhang mit dem Carve-Out und dem Angebot umfasst), Auswirkungen des aus der Marktwertbewertung resultierenden "Step-Up" und aus Carve-Out-Transaktionen. Für Zwecke der Berechnung des bereinigten Nettoergebnisses wenden wir eine "normalisierte Steuerquote" von 25% an. Unter der "normalisierten Steuerquote" verstehen wir die effektive Steuerquote, die wir künftig auf fortlaufender Basis und bei Abwesenheit von Einmaleffekten erwarten. Unsere tatsächliche effektive Steuerquote für den Sechsmonatszeitraum zum 30. Juni 2016 betrug dagegen 22%.

	Ausgewiesene Posten für den Sechsmonatszeitraum zum 30. Juni 2016	Korrekturen (ungeprüft) (in Mio. EUR)	Korrekturposten für den Sechsmonatszeitraum zum 30. Juni 2016
<b>Betriebliches Ergebnis<sup>1)</sup></b> . . . . .	<b>1.666</b>	—	<b>1.666</b>
Neutrales Ergebnis . . . . .	399	-399	—
Finanzergebnis . . . . .	-452	9	-443
<b>Ergebnis vor Steuern</b> . . . . .	<b>1.613</b>	<b>-390</b>	<b>1.223</b>
Ertragsteuern . . . . .	-356	50 <sup>2)</sup>	-306
Steuerquote . . . . .	22%	—	25%
<b>Ergebnis</b> . . . . .	<b>1.257</b>	<b>-340</b>	<b>917</b>
davon: Ergebnisanteile anderer Gesellschafter . . . . .	177	—	177
<b>Nettoergebnis</b> . . . . .	<b>1.080</b>	<b>-340</b>	<b>740<sup>3)</sup></b>

1) Für eine detaillierte Überleitung des betrieblichen Ergebnisses zu, Ergebnis vor Steuern siehe die Tabelle unter "Betriebliches Ergebnis und EBITDA" oben.

- 2) Steuerkorrekturen mit dem Ziel einer normalisierten Steuerquote von 25 % für den Halbjahreszeitraum zum 30. Juni 2016; dabei handelt es sich um die effektive Steuerquote, die wir künftig auf fortlaufender Basis und bei Abwesenheit von Einmaleffekten erwarten.
- 3) Bereinigtes Nettoergebnis für den Sechsmonatszeitraum zum 30. Juni 2016. Von der guten Entwicklung des bereinigten Nettoergebnis im Sechsmonatszeitraum zum 30. Juni 2016 können nicht notwendigerweise Rückschlüsse auf das bereinigte Nettoergebnis für das gesamte Geschäftsjahr 2016 gezogen werden.

Aus der folgenden Tabelle ergeben sich zusätzliche Informationen zur Zusammensetzung und den Bereinigungen im Finanzergebnis für den Sechsmonatszeitraum zum 30. Juni 2016, das in der vorangegangenen Tabelle gezeigt wird.

	Ausgewiesene Posten für den Sechsmonatszeitraum zum 30. Juni 2016	Korrekturposten für den Sechsmonatszeitraum zum 30. Juni 2016	
		Korrekturen (ungeprüft) (in Mio. EUR)	
Zinserträge <sup>1)</sup> . . . . .	149	—	149
Zinsaufwendungen <sup>2)</sup> . . . . .	-487	63	-424
davon: Abschreibungen und Währungseffekte aus "Step-Up" <sup>3)</sup> . . . .	95	-95	—
davon: Effekte aus Carve-Out- Transaktionen <sup>4)</sup> . . . . .	-158	158	—
<b>Nettozinserträge</b> . . . . .	<b>-338</b>	<b>63</b>	<b>-275</b>
Zinsanteile an Zuführungen zu langfristigen Rückstellungen <sup>5)</sup> . . . . .	-51	—	-51
Sonstiges Finanzergebnis <sup>6)</sup> . . . . .	-63	-54	-117
davon: Abschreibungen und Währungseffekte aus "Step-Up" <sup>3)</sup> . . . .	54	-54	—
<b>Finanzergebnis</b> . . . . .	<b>-452</b>	<b>9</b>	<b>-443</b>

- 1) Zinserträge beinhalten primär Erträge aus Finanzforderungen der RWE AG, die im Sechsmonatszeitraum zum 30. Juni 2016 beglichen wurden, sowie aus Wertpapieren mit einem Buchwert von EUR 1.930 Mio.
- 2) Enthält Zinsaufwand für Finanzierungsanleihen (in der vorstehenden Tabelle mit Nettoschulden als Anleihen und Verbindlichkeiten gegenüber Kreditinstituten ausgewiesen) mit durchschnittlichen Fremdkapitalkosten von ca. 5 % p.a. und zu einem geringen Anteil für Darlehen, die der innogy-Gruppe im Juni 2016 durch die RWE AG gewährt wurden (in der vorstehenden Tabelle mit Nettoschulden oben als Konzerndarlehen der RWE AG in Bezug auf den Schulden-Push-Down ausgewiesen) mit durchschnittlichen Fremdkapitalkosten von weniger als 2 % p.a.
- 3) Abschreibungen aus "Step-Up" beim Buchwert der Finanzierungsanleihen (siehe Fußnote 2) der vorstehenden Tabelle mit Nettoschulden). Da die Emissionsbedingungen der Finanzierungsanleihen – und insbesondere der danach vorgesehene Rückzahlungsbetrag und die danach geschuldeten Zinsen – von der Übertragung der innogy Finance B.V. und der Übernahme der Finanzierungsanleihe über EUR 600 Mio. nicht betroffen waren, wird der "Step-Up" aller Voraussicht nach über die Laufzeit der Finanzierungsanleihen in den Büchern abgeschrieben.
- 4) Enthält: Verluste in Höhe von EUR 120 Mio. infolge der vorzeitigen Kündigung von Konzerndarlehen. Im Zusammenhang mit dem Carve-Out haben wir langfristige Darlehen im Betrag von EUR 1.942 Mio. gegen Zahlung von EUR 2.062 Mio. vorzeitig zurückgeführt, was dem Marktwert am Tag der Transaktion entsprach. Ferner realisierten wir Verluste in Höhe von EUR 38 Mio. aus der Abschreibung auf den bilanziellen "Step-Up" einer Finanzforderung (Darlehen an eine RWE-Konzerngesellschaft).
- 5) Enthält hauptsächlich Zinsanteile an Zuführungen zu Rückstellungen für Pensionen und ähnliche Verpflichtungen und andere langfristige Rückstellungen.
- 6) Enthält Auswirkungen im Zusammenhang mit dem "Step-Up" in Höhe von EUR 54 Mio. und Nettoerträge aus der Veräußerung von Wertpapieren von minus EUR 47 Mio. und Zinsen bezüglich Verkaufsoptionen in Höhe von minus EUR 27 Mio.

	<p><b>Wesentliche Änderungen der Finanzlage und des operativen Ergebnisses des Emittenten.</b></p>	<p><b>Jüngste Entwicklungen</b></p> <p>Zwischen dem 30. Juni 2016 und dem Datum des Prospekts gab es die folgenden wesentlichen Entwicklungen im Hinblick auf die Finanzlage und das betriebliche Ergebnis der innogy-Gruppe.</p> <p>Im Zusammenhang mit der Trennung der innogy-Gruppe von der Ehemaligen RWE-Gruppe schlossen die Gesellschaft und die RWE AG am 25. Juli 2016 eine Grundlagenvereinbarung, um die Grundprinzipien für ihre zukünftige Zusammenarbeit und Beziehung festzulegen. Im Zusammenhang mit der Trennung veranlassten die Gesellschaft und die RWE AG sowie einige ihrer jeweiligen Gruppengesellschaften in Großbritannien ferner im Juli 2016 eine Aufteilung bestimmter Pensionsverpflichtungen und von Planvermögen in einem Verhältnis von 70% (innogy-Gruppe) zu 30% (RWE-Gruppe). Weiterhin führten wir bestimmte Maßnahmen zur Kalibrierung unserer Kapitalstruktur im Zusammenhang mit der Trennung durch, einschließlich einer Barkapitaleinlage der RWE AG in Höhe von EUR 0,9 Milliarden und eines Debt-to-Equity-Swap in Höhe von EUR 1,0 Milliarden, bei dem Ansprüche aus konzerninternen Darlehensforderungen in die Kapitalrücklage der Gesellschaft eingebracht wurden. Gemeinsam reduzierten diese beiden Maßnahmen unsere Nettoschulden zum 31. Juli 2016 um EUR 1,9 Milliarden. Am 7. September 2016 wurde der Beherrschungsvertrag zwischen der Gesellschaft und der RWE DB GmbH mit Wirkung zum Ablauf des 30. September 2016 gekündigt.</p> <p><i>Geschäftsbereich Netz &amp; Infrastruktur</i></p> <p>Im Juli 2016 veröffentlichte die Bundesnetzagentur ("BNetzA") einen Entwurf betreffend die Festlegung der kalkulatorische Eigenkapitalrendite, die für die nächsten (dritten) Regulierungsperioden für Strom und Gas in Deutschland Anwendung finden soll, der niedrigere Eigenkapitalrenditen vorsieht als sie in den aktuellen Regulierungsperioden gelten. Eine endgültige Festlegung der BNetzA wird derzeit innerhalb der nächsten Wochen erwartet. Ferner wird die BNetzA in den nächsten Regulierungsperioden für die Bestimmung aller relevanten Parameter zuständig sein, die in dem Benchmarking-Prozess für die Ermittlung der Erlösobergrenze verwendet werden. Darüber hinaus wurde eine am 1. Juli 2016 angenommene Änderung der Anreizregulierungsverordnung ("ARegV") vom Deutschen Bundesrat am 8. Juli 2016 genehmigt; letzte Änderungen wurden von der Bundesregierung am 3. August 2016 beschlossen. Die geänderte ARegV führt mehrere Änderungen an dem derzeit geltenden Anreizregulierungsregime ein; einige dieser Änderungen</p>
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		<p>werden allgemeine Wirkung für alle Netzbetreiber entfalten, während andere dieser Änderungen vor allem DSOs betreffen werden. Der Hauptzweck der Änderungen ist es, die Investitionsbedingungen für DSOs für neue Investitionen zu verbessern und ein kosteneffizientes Verteilnetz für die Umsetzung der deutschen Energiewende zu fördern. Die Änderungen umfassen unter anderem die sofortige Anerkennung der Kapitalkosten für Infrastruktur-Investitionen der DSOs ab den dritten Regulierungsperioden. Damit werden Erhöhungen der Kapitalkosten für Ersatz-, Restrukturierungs- oder Erweiterungsinvestitionen in den geltenden Erlösobergrenzen ohne Zeitverzögerung und in ihrer tatsächlichen Höhe widerspiegelt.</p> <p>Seit dem 30. Juni 2016 weisen die Geschäftsaktivitäten im Netz &amp; Infrastruktur Segment eine insgesamt stabile Entwicklung auf. In Bezug auf Investitionen und Unternehmungen hat sich das Geschäft in Übereinstimmung mit den Erwartungen entsprechend den üblichen Mustern der Sommermonate entwickelt.</p> <p><i>Geschäftsbereich Vertrieb</i></p> <p>Insgesamt hat das Geschäft unseres Vertriebssegments seit dem 30. Juni 2016 seine in den ersten sechs Monaten des Jahres 2016 beobachteten Entwicklungen fortgesetzt. Insbesondere in unseren Kernmärkten waren wir kontinuierlich einem hohen Grad an Wettbewerb ausgesetzt. Unsere Kundenbasis hat sich im Rahmen der Schwankungen der Vergangenheit entwickelt. In diesen letzten Monaten haben wir einige neue Energy+ Produkte eingeführt, wie ein Assistenzprodukt in Zusammenarbeit mit einer Versicherungsgesellschaft in Polen, welches Kunden im Falle von Störungen zu Hause und im Büro professionelle Hilfe (einschließlich Klempner, Elektriker, Heizgeräte-Spezialisten oder der Wartung von Bürogeräten) anbietet. Die Verkäufe von Energy+ Produkten verlaufen entsprechend unseren Erwartungen. Unser britisches Vertriebsgeschäft hat gewisse operative Verbesserungen seit dem 30. Juni 2016 erfahren wie zum Beispiel eine weitere Verringerung der insgesamt ausstehenden Beschwerden um mehr als 10% bis Ende August 2016, während dagegen andere einzelne Parameter, wie ausstehende verspätete Rechnungen, etwas zunahmen, aber innerhalb des Schwankungsbereichs blieben, den wir als üblich erachten. Ferner sehen wir seit dem 30. Juni 2016 einen leichten positiven Trend bei den Kundenzahlen mit einem Nettogewinn von 35.000 Haushaltskunden bis Ende August 2016. Im September 2016 begannen wir (zusätzlich zu Strom) Gas an kroatische Haushalte zu liefern.</p>
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		<p><i>Geschäftsbereich Erneuerbare Energien</i></p> <p>Im Juli 2016 erhielten wir alle ausstehenden Genehmigungen für den Bau von zwei Onshore-Windparks in Wales, Vereinigtes Königreich von Großbritannien und Nordirland (Mynydd y Gwair und Clocaenog), bei denen die endgültige Investitionsentscheidung im vierten Quartal 2016 beziehungsweise im ersten Quartal 2017 erwartet wird. Darüber hinaus wurden die endgültige Investitionsentscheidung für den deutschen Windpark Eschweiler-Nord, der uns zu 51% gehört, getroffen. Die verbleibenden 49% werden von kommunalen Partnern gehalten. Darüber hinaus haben wir im August 2016 die endgültige Investitionsentscheidung für unser neuestes Onshore-Wind Renewable Obligations Certificate ("<b>ROC</b>") Projekt in Großbritannien, Brechfa West, getroffen. Die endgültige Entscheidung ist vorbehaltlich der Genehmigung einer neuen Oberleitung für den Netzanschluss erfolgt, für deren Erteilung eine Entscheidung noch im Oktober 2016 erwartet wird.</p> <p>Ende Juli 2016 verkauften wir unseren 33,33 prozentigen Anteil an Zephyr und die damit verbundenen Schulden mit einem Verkaufsgewinn von EUR 76 Millionen nach IFRS. Im August 2016 schlossen wir im Einklang mit unserer Wachstumsstrategie einen Vertrag zum Erwerb von BELECTRIC, einem deutschen Unternehmen mit Aktivitäten in mehreren Ländern und tätig in der Planung, Fertigung, dem Betrieb und der Wartung von Freiflächen-Großanlagen- und Dachphotovoltaikanlagen und Batteriespeicherlösungen. Wir erwarten, dass dieser Erwerb uns den Zugriff auf hochentwickelte Technologien sowie Projektabwicklungskompetenzen ermöglicht, die unsere bestehenden Projektentwicklungs- und Anlagemanagement-Fähigkeiten vervollständigen werden. Der Abschluss der Transaktion wird im Moment früh im Jahr 2017 erwartet.</p> <p>Des Weiteren genehmigte am 8. Juli 2016 der Deutsche Bundesrat eine Änderung der Fördermaßnahmen unter dem Erneuerbare-Energien-Gesetz ("<b>EEG</b>"), welche am 1. Januar 2017 in Kraft treten wird. Zusätzlich wird die Förderung von Offshore-Windanlagen gesondert unter dem Windenergie-auf-See-Gesetz geregelt werden. Das allgemeine Ziel des EEG 2017 ist die Schaffung eines umfassenden Rechtsrahmens für den Übergang von EEG-Fördermaßnahmen zu einem Auktionssystem. Die Änderung war allgemein erwartet worden und wir haben uns aktiv für die kommenden Auktionen positioniert.</p>
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		<p>Ferner, da der Geschäftsbereich Erneuerbare Energien ein beträchtliches Anlagevermögen in Großbritannien aufweist, hängt die Konvertierung der Einnahmen unseres britischen Geschäfts in Euro von dem Wechselkurs des britischen Pfund Sterlings zu Euro ab, mit der Folge, dass ein schwacher Wechselkurs des britischen Pfund Sterling zu einer Verringerung unserer Einnahmen führt, wenn diese in Euro umgerechnet werden. Nach der Brexit-Abstimmung am 23. Juni 2016 hat das britische Pfund Sterling deutlich an Wert verloren, stabilisierte sich aber seit Mitte Juli. Auf Konzernebene hat innogy jedoch eine natürliche GBP/EUR-Absicherung dadurch geschaffen, dass ein großer Teil der ausstehenden Schulden auf GBP lautet. Dies mildert negative Auswirkungen des geschwächten britischen Pfund Sterlings ab.</p> <p>In dem zum 30. Juni 2016 abgelaufenen Sechsmonatszeitraum sowie in den Geschäftsjahren 2015, 2014 und 2013 sind die nachfolgenden wesentlichen Änderungen im Hinblick auf die Finanzlage und das betriebliche Ergebnis der innogy-Gruppe eingetreten.</p> <p><b>Erstes Halbjahr 2016 und erstes Halbjahr 2015</b></p> <p>Im Vergleich zwischen dem ersten Halbjahr 2015 und dem ersten Halbjahr 2016 sanken die Umsatzerlöse des Konzerns um EUR 678 Mio. von EUR 23.458 Mio. zum 30. Juni 2015 auf EUR 22.780 Mio. zum 30. Juni 2016. Zurückzuführen war dies auf einen um EUR 1.314 Mio. niedrigeren Außenumsatz im Segment Vertrieb. In Deutschland sind die Umsatzerlöse aus dem Gasabsatz aufgrund niedrigerer Gaspreise und geringerer Absatzmengen gesunken. Des Weiteren war ein Rückgang beim Stromabsatz an Privat- und Geschäftskunden ("B2C") zu beobachten. Im Vereinigten Königreich und in den Niederlanden/in Belgien führte der verschärfte Wettbewerb in den Endkundenmärkten zu einem Rückgang bei der Anzahl der Kunden. Im Vereinigten Königreich wirkten sich darüber hinaus der Wegfall von Einnahmen aus dem Verkauf von Levy Exception Certificates (LECs) infolge der Aufhebung der entsprechenden Vorschriften durch die britische Regierung nachteilig auf die Umsatzerlöse des Konzerns aus. In Osteuropa wurde der positive Effekt der erstmaligen Vollkonsolidierung der Východoslovenská energetika Holding a.s. ("VSE Holding") und ihrer Tochtergesellschaften in der Slowakei durch geringere Umsätze im Geschäft mit industriellen Kunden und Wiederverkäufern ("B2B") sowie größeren Abschlägen im B2C-Geschäft in Osteuropa teilweise wieder zunichte gemacht. Dies konnte zum Teil durch einen um EUR 578 Mio. gestiegenen Außenumsatz im Segment Netz &amp; Infrastruktur aufgefangen werden. Davon</p>
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		<p>entfielen EUR 471 Mio. auf das Segment Netz &amp; Infrastruktur Deutschland, was hauptsächlich auf höhere Gebührensätze für die Nutzung unseres Netzes, einen höheren Anteil der EEG-Direktvermarktung sowie eine größere Anzahl von Anschlusspunkten für die Einspeisung erneuerbarer Energieträger zurückzuführen war. Die verbleibenden EUR 107 Mio. steuerte das Segment Netz &amp; Infrastruktur Osteuropa durch ein Plus beim Außenumsatz bei, was in erster Linie auf die erstmalige Vollkonsolidierung der VSE Holding Gruppe in der Slowakei ab September 2015 zurückzuführen war. Zudem steigerte sich der Außenumsatz in unserem Segment Erneuerbare Energien um EUR 62 Mio. Hierzu hat vor allem die Inbetriebnahme unseres großen Offshore-Windparks Nordsee Ost im Laufe des Jahres 2015 beigetragen, die bereits in der ersten Hälfte des Jahres 2016 in vollem Umfang zur Gesamtkapazität beigetragen hat. Gesunkene Stromgroßhandelspreise, die diejenigen Produktionsanlagen betrafen, die nicht länger von Fördermaßnahmen profitieren, haben diesen positiven Effekt jedoch zum Teil wieder zunichte gemacht.</p> <p>Mit EUR 1.666 Mio. ist unser betriebliches Konzernergebnis in dem Halbjahr zum 30. Juni 2016 gegenüber EUR 1.691 Mio. in dem Halbjahr zum 30. Juni 2015 größtenteils stabil geblieben. In unserem Segment Netz &amp; Infrastruktur verringerte sich das betriebliche Konzernergebnis um EUR 40 Mio. Das Minus im deutschen Netzbetrieb, das hauptsächlich auf gestiegene Betriebs- und Wartungskosten sowie auf höhere Rückstellungen für Altersteilzeitmaßnahmen zurückzuführen war, wurde größtenteils durch eine bessere betriebliche Performance in Osteuropa abgedeckt. In Osteuropa hat sich das betriebliche Konzernergebnis unseres Segments Netz &amp; Infrastruktur aufgrund gestiegener Verteilmengen im tschechischen Gasgeschäft positiv entwickelt. Bei dem betrieblichen Konzernergebnis unseres Segments Erneuerbare Energien hat sich eine Verschlechterung um EUR 15 Mio. ergeben, hauptsächlich infolge gesunkener Großhandelspreise und eines Rückgangs beim Verkauf von Vermögenswerten aus dem Segmentbestand. Niedrigere Großhandelspreise wirken sich nachteilig auf Vermögenswerte aus, die nicht bzw. nicht mehr staatlich gefördert werden. Im ersten Halbjahr 2016 hat beispielsweise die staatlich geförderte Preisgarantie für den erzeugten Strom unseres größten Onshore-Windpark in den Niederlanden begonnen auszulaufen. Diese nachteiligen Auswirkungen auf das betriebliche Konzernergebnis</p>
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		<p>wurden durch die Verfügbarkeit zweier Offshore-Windparks (jeweils mit voller Kapazität) ausgeglichen, die im zweiten Quartal 2015 eingeweiht wurden. Der Ergebnismrückgang in unserem Segment Netz &amp; Infrastruktur sowie in unserem Segment Erneuerbare Energien wurde durch ein Plus von EUR 24 Mio. beim betrieblichen Konzernergebnis unseres Segments Vertrieb teilweise wieder ausgeglichen, das hauptsächlich auf das Geschäft im Vereinigten Königreich und in Osteuropa zurückzuführen war. Unser betriebliches Ergebnis im Vereinigten Königreich wurde im ersten Halbjahr zum 30. Juni 2015 durch Prozess- und Systemprobleme bei der Kundenabrechnung negativ beeinflusst. Wir haben ein umfassendes Restrukturierungsprogramm zur Behebung dieser Probleme aufgelegt, welches auf gutem Wege ist. Die Prozess- und Systemprobleme hatten jedoch zur Folge, dass der Konzern im Jahr 2015 Haushaltskunden im Vereinigten Königreich verloren hat und hat uns dazu veranlasst, Verträge mit Kunden im Vereinigten Königreich abzuschließen, deren Gewinnspanne geringer war, um diese Kunden zu halten. Dies resultierte in Umsatz- und Ergebniseinbußen, die erst in diesem Jahr in vollem Umfang zum Tragen gekommen sind. Des Weiteren wurde das B2B-Geschäft durch niedrigere Kundenzahlen und Margeneinbußen infolge eines wettbewerbsintensiven Marktumfelds beeinträchtigt. Auch Margeneinbußen infolge geänderter gesetzlicher Rahmenbedingungen betreffend die Klimaschutzabgabe (<i>climate change levies</i>) spielten hier eine Rolle. Aus den niedrigeren Rohstoffpreisen im ersten Halbjahr 2016 ergaben sich positive Effekte. In Osteuropa wirkten sich das konsolidierte Ergebnis der VSE Holding Gruppe in der Slowakei sowie die niedrigeren Einkaufspreise für Gas in der Tschechischen Republik positiv auf das betriebliche Konzernergebnis aus. Der Anstieg des betrieblichen Konzernergebnisses im Vereinigten Königreich und in Osteuropa wurde durch den Rückgang dieses Postens in Deutschland und in den Niederlanden/in Belgien zum Teil wieder zunichte gemacht. Ursache für das niedrigere betriebliche Konzernergebnis in Deutschland waren höhere Vorab-Kosten, die nicht an die Kunden weitergegeben wurden.</p> <p>Im selben Zeitraum ist das EBITDA der Gruppe im Vergleich zwischen dem ersten Halbjahr 2015 und dem ersten Halbjahr 2016 um EUR 53 Mio. von EUR 2.332 Mio. zum 30. Juni 2015 auf EUR 2.385 Mio. zum 30. Juni 2016 gestiegen.</p> <p><b>Geschäftsjahre 2015 und 2014</b></p> <p>Unsere Umsatzerlöse sind mit EUR 45.568 Mio. im Jahr 2015 und mit EUR 45.681 Mio. im Jahr 2014 im</p>
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		<p>Vergleich zwischen 2015 und 2014 weitgehend stabil geblieben. Der leichte Rückgang von EUR 113 Mio. wurde durch den Rückgang des Außenumsatzes in Höhe von EUR 654 Mio. in unserem Segment Vertrieb bedingt. Der Rückgang war in erster Linie auf den geringeren Absatz von Strom an unsere Kunden in Deutschland sowie den Niederlanden und Belgien zurückzuführen. Zudem haben einige unserer Vertriebsgesellschaften ihre Verkaufspreise reduziert, was zu Umsatzeinbußen geführt hat. Der Rückgang im Segment Vertrieb wurde teilweise durch einen Zuwachs in Höhe von EUR 357 Mio. in unserem Segment Netz &amp; Infrastruktur ausgeglichen, der in erster Linie auf die Förderung der Stromerzeugung aus erneuerbaren Energiequellen in Deutschland, die Erweiterung unseres deutschen Netzverbundes und die erstmalige Vollkonsolidierung der VSE Holding Gruppe in der Slowakei zurückzuführen ist. Darüber hinaus sind die Umsatzerlöse im Segment Erneuerbare Energien um EUR 190 Mio. gestiegen, und zwar vorrangig aufgrund der Inbetriebnahme von zwei großen Offshore-Windparks sowie einer höheren Auslastung durch ein erhöhtes Windaufkommen.</p> <p>Während unsere Umsatzerlöse leicht rückläufig waren, wuchs unser betriebliches Ergebnis um EUR 191 Mio. von EUR 2.859 Mio. im Jahr 2014 auf EUR 3.050 Mio. im Jahr 2015. Zu diesem Zuwachs trug unser Segment Erneuerbare Energien mit EUR 235 Mio. bei, was hauptsächlich auf eine höhere Kapazität infolge der Inbetriebnahme von zwei großen Offshore-Windparks und höhere Auslastungsgrade zurückzuführen war. Darüber hinaus trugen höhere Buchgewinne aus Veräußerungen von Windpark-Entwicklungsprojekten zu dieser Erhöhung bei. Zudem erhöhte sich das betriebliche Ergebnis unseres Netz &amp; Infrastruktur-Segments um EUR 26 Mio., und zwar in erster Linie aufgrund von Buchgewinnen aus einer Neubewertung infolge der erstmaligen Vollkonsolidierung der VSE Holding in der Slowakei sowie vorteilhafter regulatorischer Änderungen sowie eines wetterbedingt höheren Gasabsatzes in der Tschechischen Republik. Im gleichen Zeitraum ging unser betriebliches Ergebnis in Deutschland aufgrund geringerer Buchgewinne aus Netzverkäufen zurück. Unser betriebliches Ergebnis im Segment Vertrieb ging um EUR 77 Mio. zurück, was hauptsächlich auf die negative Entwicklung im Vereinigten Königreich infolge schwerwiegender prozess- und systembezogener Probleme bei der Abrechnung von Privathaushalten zurückzuführen war. Dies wurde teilweise durch ein höheres betriebliches Ergebnis in unseren anderen Regionen ausgeglichen, und zwar in erster Linie aufgrund von</p>
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		<p>Rückstellungsaufösungen und Effizienzsteigerungen in Bezug auf unser deutsches Geschäft, Einmalerträge in Verbindung mit der Neubewertung infolge der erstmaligen Vollkonsolidierung der VSE Holding in der Slowakei und einer Erholung des Gasgeschäfts nach dem milden Winter von 2014.</p> <p>Infolge der gleichen Einflüsse, die sich auf unser betriebliches Ergebnis ausgewirkt haben, erhöhte sich unser EBITDA um EUR 224 Mio. von EUR 4.297 Mio. im Jahr 2014 auf EUR 4.521 Mio. im Jahr 2015.</p> <p><b>Geschäftsjahre 2014 und 2013</b></p> <p>Im Jahr 2014 gingen unsere Umsatzerlöse ausgehend von EUR 48.589 Mio. im Jahr 2013 um EUR 2.908 Mio. auf EUR 45.681 Mio. zurück. Zu diesem Rückgang trug unser Segment Vertrieb mit EUR 3.196 Mio. bei, was hauptsächlich auf deutlich geringere Gasabsatzmengen aufgrund der milden Temperaturen zurückzuführen war. Zudem verringerten sich die Umsatzerlöse unseres Segments Erneuerbare Energien um EUR 140 Mio. Zum Teil war dies das Ergebnis drastischer Einschnitte der spanischen Regierung bei der Förderung erneuerbarer Energien, die Erzeugern grüner Energie gewährt wurde. Dem stand eine Steigerung um EUR 443 Mio. im Segment Netz &amp; Infrastruktur gegenüber, die hauptsächlich bedingt war durch die erhöhte Zahl von Anschlusspunkten für die Einspeisung erneuerbarer Energieträger, was sich in zusätzlichen Umsatzerlösen für die Netzbetreiber in Deutschland niederschlug. Dies wurde teilweise durch niedrigere Marktpreise im Gasspeichergeschäft und durch infolge der milden Temperaturen geringere Gasabsatzmengen in unserem Verbundnetz in Osteuropa kompensiert.</p> <p>Während unsere Umsatzerlöse rückläufig waren, wuchs unser betriebliches Ergebnis um EUR 15 Mio. von EUR 2.844 Mio. im Jahr 2013 auf EUR 2.859 Mio. im Jahr 2014. Zu diesem Zuwachs trug unser Segment Erneuerbare Energien mit EUR 53 Mio. bei, was in erster Linie auf Entschädigungszahlungen für durch Dritte verursachte Verzögerungen bei der Fertigstellung eines unserer Windparks zurückzuführen war, während sich die Einschnitte der spanischen Regierung beim Fördermodell für erneuerbare Energien auch negativ auf unser betriebliches Ergebnis ausgewirkt haben. Im gleichen Zeitraum sank das betriebliche Ergebnis unseres Netz &amp; Infrastruktur-Segments um EUR 34 Mio. Dies war in erster Linie das Ergebnis einer Reduzierung der Gasmengen im Verteilnetzgeschäft infolge der milderer Temperaturen im Jahr 2014 und der niedrigeren Margen bei der Gasspeicherung aufgrund saisonal geringerer Preisdifferenzen. Dies wurde teilweise durch höhere Buchgewinne aus</p>
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		<p>Netzanlageabgängen und Effizienzsteigerungen in unserem deutschen Geschäft ausgeglichen. Zudem verringerte sich das betriebliche Ergebnis unseres Segments Vertrieb um EUR 24 Mio. Dies war hauptsächlich auf einen wettbewerbsbedingten Margenrückgang in den Niederlanden und Belgien, Ertragseinbußen im tschechischen Gasgeschäft sowie höhere Kosten für Restrukturierungsmaßnahmen in Bezug auf die Herausforderungen im Zusammenhang mit dem IT-System und der Abrechnung im Vereinigten Königreich zurückzuführen. Der kompensierende Effekt aus unserem deutschen Privatkundengeschäft ergab sich in erster Linie aus dem relativ niedrigen betrieblichen Ergebnis im Jahr 2013, was durch eine Berichtigung der Ansätze für unsere Hedging-Geschäfte (Hedge Book) im Jahr 2013 bedingt war.</p> <p>Infolge der gleichen Einflüsse, die sich auf unser betriebliches Ergebnis ausgewirkt haben, erhöhte sich unser EBITDA um EUR 103 Mio. von EUR 4.194 Mio. im Jahr 2013 auf EUR 4.297 Mio. im Jahr 2014.</p>
<b>B.8</b>	<b>Ausgewählte wesentliche Pro-forma-Finanzinformationen.</b>	Entfällt. Es sind keine Pro-forma-Finanzkennzahlen erforderlich.
<b>B.9</b>	<b>Gewinnprognosen oder -schätzungen.</b>	<p>Wir erwarten im Jahr 2016 für die innogy-Gruppe ein EBITDA in der Bandbreite von EUR 4,1 Mrd. und EUR 4,4 Mrd. Wir erwarten, dass hierzu das Segment Netz &amp; Infrastruktur ein EBITDA in der Bandbreite von EUR 2,5 Mrd. und EUR 2,7 Mrd., das Segment Vertrieb ein EBITDA in der Bandbreite von EUR 1,0 Mrd. und EUR 1,2 Mrd. und das Segment Erneuerbare Energien ein EBITDA in der Bandbreite von EUR 0,6 Mrd. und EUR 0,8 Mrd. im Jahr 2016 beitragen.</p> <p>Im Jahr 2017 erwarten wir für die innogy-Gruppe ein EBITDA in der Bandbreite von EUR 4,3 Mrd. und EUR 4,7 Mrd.</p>
<b>B.10</b>	<b>Beschränkungen im Bestätigungsvermerk zu den historischen Finanzinformationen.</b>	Entfällt. Die Bestätigungsvermerke zu den in dem Prospekt enthaltenen historischen Finanzinformationen wurden ohne Einschränkung erteilt.
<b>B.11</b>	<b>Nicht Ausreichen des Geschäftskapitals des Emittenten zur Erfüllung bestehender Anforderungen.</b>	Entfällt. Das Geschäftskapital des Emittenten reicht aus, um die bestehenden Anforderungen zu erfüllen.

## C. Wertpapiere

C.1	<b>Beschreibung von Art und Gattung der angebotenen und/oder zum Handel zuzulassenden Wertpapiere, einschließlich Wertpapierkennung.</b>	<p>Auf den Inhaber lautende Stammaktien der Gesellschaft ohne Nennbetrag (<i>nennwertlose Stückaktien</i>), jede dieser Aktien mit einem anteiligen Betrag des Grundkapitals von EUR 2,00 und mit voller Gewinnberechtigung ab dem 1. Januar 2016.</p> <p>International Securities Identification Number (ISIN): DE000A2AADD2</p> <p>Wertpapier-Kenn-Nummer (WKN): A2AADD</p> <p>Common Code: 149062238</p> <p>Trading Symbol: IGY</p>
C.2	<b>Währung der Wertpapieremission.</b>	Euro.
C.3	<b>Zahl der ausgegebenen und voll eingezahlten und der ausgegebenen und nicht voll eingezahlten Aktien.</b> <p><b>Nennwert pro Aktie, bzw. Angabe, dass Aktien keinen Nennwert haben.</b></p>	<p>Zum Datum des Prospekts beträgt das Grundkapital der Gesellschaft EUR 1.000.000.000 und ist in 500.000.000 auf den Inhaber lautende nennwertlose Stückaktien eingeteilt. Das Grundkapital der Gesellschaft ist vollständig eingezahlt.</p> <p>Jede Aktie der Gesellschaft hat einen anteiligen Betrag des Grundkapitals von EUR 2,00.</p>
C.4	<b>Beschreibung der mit den Wertpapieren verbundenen Rechte.</b>	Jede Aktie der Gesellschaft berechtigt zu einer Stimme in der Hauptversammlung der Gesellschaft. Es bestehen keine Beschränkungen des Stimmrechts. Die Aktien der Gesellschaft sind ab dem 1. Januar 2016, d. h. für das gesamte Geschäftsjahr 2016 und für sämtliche folgenden Geschäftsjahre, in voller Höhe gewinnberechtigt.
C.5	<b>Beschreibung aller etwaigen Beschränkungen für die freie Übertragbarkeit der Wertpapiere.</b>	Entfällt. Die Aktien der Gesellschaft sind gemäß den gesetzlichen Regelungen, die für auf den Inhaber lautende Stammaktien gelten, frei übertragbar. Mit Ausnahme der unter E.5 beschriebenen Lock-up-Vereinbarungen bestehen keine Einschränkungen der Übertragbarkeit der Aktien der Gesellschaft.
C.6	<b>Angabe, ob für die angebotenen Wertpapiere die Zulassung zum Handel in einem geregelten Markt beantragt wurde bzw. werden soll, Nennung aller geregelten Märkte, in denen die Wertpapiere gehandelt werden oder werden sollen.</b>	<p>Die Gesellschaft wird voraussichtlich am oder um den 26. September 2016 die Zulassung ihrer Aktien (einschließlich der Neuen Aktien, wie unter E.3 definiert) zum Handel im regulierten Markt der Frankfurter Wertpapierbörse sowie gleichzeitig zum Teilbereich des regulierten Markts mit weiteren Zulassungsfolgepflichten (Prime Standard) beantragen.</p> <p>Der Zulassungsbeschluss in Bezug auf die bestehenden Aktien der Gesellschaft und die Neuen Aktien wird voraussichtlich am 6. Oktober 2016 bekanntgemacht werden. Der Handel mit den bestehenden Aktien der Gesellschaft und den Neuen Aktien an der Frankfurter Wertpapierbörse wird nach derzeitiger Erwartung am 7. Oktober 2016 aufgenommen.</p>

C.7	<b>Beschreibung der Dividendenpolitik.</b>	<p>Die Gesellschaft beabsichtigt, Dividendenzahlungen für das Geschäftsjahr 2016 aufzunehmen, und strebt – vorbehaltlich einer stabilen Geschäftsentwicklung an – zwischen 70% und 80% des konsolidierten Jahresergebnisses als Dividende auszuschütten. Das konsolidierte Jahresergebnis berücksichtigt grundsätzlich keine Einmal-Effekte, einschließlich des gesamten nichtoperativen Ergebnisses (das auch Kosten im Zusammenhang mit dem Carve-Out und dem Angebot umfasst) und zusammenhängender steuerlicher Effekte. Die Absicht und die Fähigkeit der Gesellschaft, in Zukunft Dividenden zu zahlen, hängt von der Finanzlage, den Betriebsergebnissen, dem Kapitalbedarf, Anlagealternativen und anderen vom Vorstand und vom Aufsichtsrat der Gesellschaft für maßgeblich erachteten Faktoren ab. Jeder Vorschlag des Vorstands und des Aufsichtsrats zur Ausschüttung von Dividenden bedarf der Zustimmung der Hauptversammlung. Die Gesellschaft kann keine Aussage dazu treffen, ob in Zukunft Dividenden gezahlt werden. Die Absicht und die Fähigkeit der Gesellschaft, in Zukunft Dividenden zu zahlen, hängt außerdem davon ab, ob die Tochterunternehmen Gewinne erzielen und diese an die Gesellschaft ausgeschüttet oder unter Ergebnisabführungsverträgen an die Gesellschaft weitergegeben werden. Die Fähigkeit einer jeden Tochtergesellschaft, Dividenden auszuschütten, wird nach Maßgabe der anwendbaren Rechtsvorschriften festgestellt.</p>
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## D. Risiken

		<p>Potenzielle Anleger sollten die nachfolgend beschriebenen zentralen Risiken sowie die übrigen in dem Prospekt enthaltenen Informationen sorgfältig prüfen, bevor sie eine Investitionsentscheidung treffen, ob sie in Angebotsaktien der Gesellschaft investieren. Der Eintritt jedes einzelnen dieser Risiken, ob allein oder zusammen mit weiteren Umständen, kann einen wesentlichen negativen Effekt auf unsere Geschäfts-, Finanz- und Ertragslage haben und Anleger könnten ihre Anlage ganz oder teilweise verlieren. Die Reihenfolge der nachfolgend dargestellten Risikofaktoren enthält keine Aussage über Eintrittswahrscheinlichkeit, Ausmaß oder Bedeutung der einzelnen Risiken.</p> <p>Die Risikofaktoren beruhen auf Annahmen, die sich als unzutreffend erweisen könnten. Weiterhin können sich andere Risiken, Tatsachen oder Umstände, die uns gegenwärtig nicht bekannt sind oder die wir derzeit als unwesentlich einstufen, einzeln oder kumulative als bedeutend herausstellen und diese könnten einen wesentlichen negativen Effekt auf unsere Geschäfts-, Finanz- und Ertragslage haben.</p>
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D.1	<p><b>Zentrale Angaben zu den zentralen Risiken, die dem Emittenten oder seiner Branche eigen sind.</b></p>	<p><b><i>Risiken in Zusammenhang mit dem Marktumfeld und unserer Geschäftstätigkeit</i></b></p> <ul style="list-style-type: none"> <li>• Unser Erfolg hängt von unserer Fähigkeit ab, die komplexen Herausforderungen der Entwicklungen im Energiesektor und maßgeblich damit zusammenhängender Sektoren, wie etwa den Wandel in der Politik hin zu erneuerbaren Energiequellen, erfolgreich zu bewältigen.</li> <li>• Unser Geschäft wird von wirtschaftlichen Faktoren beeinflusst, darunter Risiken im Zusammenhang mit einer volatilen oder ungewissen finanziellen und wirtschaftlichen Lage.</li> <li>• Wir sind Risiken aufgrund des möglichen Austritts des Vereinigten Königreichs aus der Europäischen Union ausgesetzt.</li> <li>• Unser EBITDA im laufenden oder im kommenden Geschäftsjahr könnte wesentlich von den im Prospekt enthaltenen Gewinnprognosen abweichen.</li> <li>• Unser Segment Netz &amp; Infrastruktur agiert in einem hochgradig regulierten Umfeld, und seine Profitabilität wird wesentlich beeinflusst durch Preis- und sonstige damit zusammenhängende Regulierung, die Änderungen unterworfen ist; in Deutschland wird 2019 eine neue Regulierungsperiode für Elektrizität und 2018 für Gas beginnen.</li> <li>• Es herrscht ein starker Wettbewerb um Konzessionen, auf die wir angewiesen sind, sodass wir möglicherweise eine beträchtliche Anzahl der uns derzeit erteilten Konzessionen nicht werden verlängern können. In einem solchen Fall oder falls eine Konzession beendet wird, wären wir möglicherweise gezwungen, die entsprechende Netzinfrastuktur zu veräußern (mit nachteiligen Auswirkungen auf unsere Umsatzerlöse und möglichen Verlusten) oder befristete Kooperationsvereinbarungen einzugehen.</li> <li>• Die fortschreitende Dezentralisierung der Energieerzeugung und weitere Faktoren haben dazu geführt, dass der Netzbetrieb komplexer geworden ist und zusätzlicher Investitionen bedarf, mit denen möglicherweise erst in der nächsten Regulierungsperiode eine Rendite erzielt werden kann; zunehmende Speicherkapazitäten führen zudem möglicherweise zu einer geringeren Abnahme direkt aus dem Netz. Wir unterliegen zudem dem Wettbewerb durch Gas-Substitute. Sollte es uns darüber hinaus nicht gelingen, unsere Betriebskosten im Segment Netz &amp; Infrastruktur zu senken, oder sollten unsere Betriebskosten steigen, wird sich dies nachteilig auf unsere Profitabilität auswirken.</li> </ul>
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		<ul style="list-style-type: none"> <li>• In unserem Segment Vertrieb könnten Abweichungen zwischen der erwarteten und der tatsächlichen Nachfrage seitens unserer B2B- und B2C-Kunden zu erheblichen Verlusten führen. Die Nachfrage nach Strom und Gas kann aufgrund von Witterungsverhältnissen, gesteigerter Energieeffizienz, des Klimawandels oder anderer Faktoren außerhalb unserer Kontrolle sinken. Es könnte uns nicht oder nur erheblich verspätet gelingen, unsere Preise zu erhöhen, und Preiserhöhungen könnten angefochten werden. Wir sind außerdem dem Risiko intensiven Wettbewerbs sowie einer sinkenden Kundenzufriedenheit, einer Abwanderung von Kunden und steigender Kündigungsquoten ausgesetzt.</li> <li>• Es könnte uns nicht gelingen, das Restrukturierungsprogramm für das Geschäft unserer Tochtergesellschaft Npower Limited im Vereinigten Königreich erfolgreich umzusetzen, außerdem könnten dort regulatorische Entscheidungen zu höheren Kosten führen. Die Standardisierung von Prozessen könnte unter Umständen nicht wie geplant voranschreiten, möglicherweise höhere Kosten als geplant verursachen oder eventuell zu Qualitätseinbußen im Kundenservice führen.</li> <li>• Im Segment Erneuerbare Energien könnte unser Marktpreisrisiko ansteigen, da Unterstützungsprogramme und feste Einspeisevergütungen gekürzt werden oder auslaufen.</li> <li>• Unsere Energieerzeugung könnte durch Witterungsverhältnisse nachteilig beeinflusst werden, und Abweichungen zwischen geplanten und tatsächlich erzeugten Mengen könnten sich nachteilig auf die Planungs- und Absicherungsstrategie unseres Segments Erneuerbare Energien auswirken. Außerdem besteht in diesem Segment ein erheblicher Wettbewerb bei Projekten. Es könnte uns nicht gelingen, Lizenzen oder die Finanzierung für Projekte zu erhalten, beispielsweise bei Projekten zur Stromerzeugung aus erneuerbaren Energien; und es könnten Störungen, Verzögerungen und Kostenüberschreitungen bei solchen Projekten auftreten. Unsere Wachstumsstrategie im Segment Erneuerbare Energien sieht unter anderem den Eintritt in den Markt für Photovoltaik-Großanlagen und in andere neue Märkte vor; dies könnte uns jedoch nicht gelingen.</li> <li>• Unsere Konzernstrategie, einschließlich des Einstiegs in neue Produkte und Servicebereiche, der Erschließung neuer Regionen, künftiger Erwerbe und Veräußerungen sowie großer Investitionen, könnte scheitern oder sich als schwierig erweisen.</li> </ul>
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		<ul style="list-style-type: none"> <li>• Im Rahmen unserer Geschäftstätigkeit können betriebliche Störungen und Unfälle auftreten.</li> <li>• Wir sind Risiken aus längerfristigen Schwankungen des Heizbedarfs und der entsprechenden Nachfrage sowie aus Überkapazitäten ausgesetzt. Zudem basiert unsere mittelfristige Planung auf verschiedenen Annahmen, u.a. hinsichtlich der Entwicklung wichtiger wirtschaftlicher Kennzahlen und anderer Parameter, die spekulativer Art sind und sich im Nachhinein als fehlerhaft herausstellen können.</li> <li>• Wir halten eine bedeutende Anzahl an Minderheitsbeteiligungen, bei denen eine Kontrolle der durch diese Unternehmen getroffenen Entscheidungen sowie die Durchsetzung unserer eigenen Konzernpolitik erschwert ist. Die Gemeinschaftsunternehmen oder Partnerschaften, die wir eingegangen sind oder eingehen werden, könnten möglicherweise nicht die gewünschten Ergebnisse erzielen und unsere Geschäftstätigkeit einschränken.</li> <li>• Wir sind bei der Führung unserer Geschäfte auf die unterbrechungsfreie und wirksame Funktionsweise unserer IT sowie der Systeme zur Datenerhebung und -verarbeitung sowie Prozessüberwachung angewiesen. Unsere Partner, auf die wir Dienstleistungen ausgelagert haben, könnten ihre Dienstleistungen nicht erbringen oder nur teilweise oder die erwarteten Qualitätsstandards nicht einhalten.</li> <li>• Wir unterliegen den Reputationsrisiken großer Energielieferanten, darunter Risiken im Zusammenhang mit aktuellen öffentlichen Debatten über energiepolitische Themen.</li> <li>• Arbeitsniederlegungen, Streiks und andere Arbeitsk Kampfmaßnahmen könnten unseren Betrieb stören und sich nachteilig auf unser operatives Ergebnis auswirken, genauso wie sich steigende Personalkosten nachteilig auf unsere Profitabilität auswirken könnten. Wir sind unter Umständen nicht in der Lage, qualifiziertes Personal in Schlüsselpositionen sowie Mitarbeiter mit technischen Fachkenntnissen zu gewinnen und zu halten. Zudem haben wir finanzielle Verpflichtungen gegenüber unseren Mitarbeitern, insbesondere Pensionsverbindlichkeiten, deren Berechnung auf einer Reihe von Annahmen basiert, die von den tatsächlichen Beträgen abweichen können.</li> </ul>
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		<ul style="list-style-type: none"> <li>• Wir könnten gezwungen sein, außerplanmäßige Abschreibungen oder zusätzliche Wertberichtigungen vorzunehmen, insbesondere bei Sach- oder Vermögensanlagen.</li> <li>• Unser Versicherungsschutz gegen viele betriebliche und sonstige Risiken könnte unzureichend sein.</li> <li>• Wir sind Risiken im Zusammenhang mit unserer Verschuldung und unserem hohen Finanzierungsbedarf ausgesetzt, und es könnte uns nicht gelingen, ausreichende Liquidität für den entsprechenden Schuldendienst zu generieren. Darüber hinaus könnten Verpflichtungen und andere Auflagen aus unseren bestehenden Finanzierungsverträgen und Schuldtiteln sowie Veränderungen der Bedingungen am Fremdkapitalmarkt und eine Herabstufung bei Bonitätsbeurteilungen unsere Flexibilität in finanzieller und operativer Hinsicht einschränken oder sonstige nachteilige Auswirkungen auf unsere Geschäftstätigkeit haben. Wir unterliegen zudem Liquiditätsrisiken in Verbindung mit unseren finanziellen Verbindlichkeiten und aus einer im Rahmen diverser Vereinbarungen und Absprachen eventuell erforderlichen Stellung zusätzlicher Sicherheiten sowie Liquiditäts- und sonstigen Risiken im Zusammenhang mit der Bonität unserer Kunden sowie unserer Geschäfts- und Joint-Venture-Partner sowie aus Ansprüchen von Insolvenzverwaltern ehemaliger Kunden.</li> <li>• Wir sind Risiken in Bezug auf Schwankungen von Wechselkursen, Zinssätzen und Rohstoffpreisen ausgesetzt.</li> </ul> <p><b>Rechtliche, regulatorische und steuerliche Risiken</b></p> <ul style="list-style-type: none"> <li>• Wir unterliegen bedeutenden regulatorischen und politischen Risiken, und die regulatorischen Rahmenbedingungen wirken und wirken sich auf unterschiedliche Weise auf unsere Vermögens-, Finanz- und Ertragslage aus.</li> <li>• Wir sind insbesondere bei den durch die regulatorischen Rahmenbedingungen bestimmten Umsatzerlösen und Netzentgelten Risiken ausgesetzt, es besteht das Risiko der Einführung zusätzlicher rechtlicher Pflichten und es bestehen Prozessrisiken aufgrund der hohen Komplexität der Berechnung der Netzentgelte und der Gültigkeit bestimmter Gebühren.</li> <li>• Unsere Lizenzen, Konzessionen, Genehmigungen, Zertifizierungen, Befreiungen und/oder Ausnahmegenehmigungen könnten widerrufen, angefochten oder nicht erneuert bzw. nicht verlängert werden.</li> </ul>
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		<ul style="list-style-type: none"> <li>• In unserem Segment Netz &amp; Infrastruktur kann unsere Netzinfrastuktur insbesondere in osteuropäischen Ländern auf Grundstücken errichtet sein, ohne dass wir die hierfür erforderlichen Rechte haben.</li> <li>• Wir könnten gezwungen sein, staatliche Beihilfen zurückzuzahlen, und unterliegen Risiken im Zusammenhang mit Gesetzen, Regelungen und Vorschriften in den Bereichen des Verbraucherschutz-, Wettbewerbs- und Kartellrechts; hierzu zählen potenzielle Untersuchungen und Verfahren in den Bereichen Umwelt und Gesundheit, die zu Verbindlichkeiten und hohen Kosten führen können. Wir unterliegen zudem Risiken aus Rechtsstreitigkeiten sowie aus Verwaltungs-, Gerichts- und Schiedsverfahren. Zudem könnten Complianceverstöße einschließlich Verstöße gegen Datenschutzbestimmungen Ermittlungen, Geldbußen, Steuernachzahlungen, Schadensersatzforderungen, Zahlungsansprüche, die Beendigung von Kunden- oder Lieferantenbeziehungen sowie einen Reputationsschaden nach sich ziehen.</li> <li>• Wir verwenden standardisierte Lieferverträge und standardisierte allgemeine Geschäftsbedingungen, wodurch sich die Wahrscheinlichkeit erhöht, dass, wenn eine darin enthaltene Bestimmung für nichtig erklärt wird, alle darin geregelten vertraglichen Bedingungen unwirksam oder nicht durchsetzbar sein könnten. Unsere Preiserhöhungen bei Strom und Gas für Endkunden könnten in bestimmten Fällen unwirksam sein.</li> <li>• Unsere Produkte und Dienstleistungen sind in hohem Maße abhängig von unserem technologischen Know-how und dem Umfang bzw. den Grenzen unserer diesbezüglichen gewerblichen Schutzrechte. Wir könnten die gewerblichen Schutzrechte Dritter verletzen und daher gezwungen sein, unsere Produktpalette anzupassen, oder es könnten uns zusätzliche Kosten entstehen; zudem haben wir möglicherweise nicht alle gewerblichen Schutzrechte wirksam von derzeitigen oder ehemaligen Mitarbeitern und Kooperationspartnern erworben und erwerben sie möglicherweise künftig nicht immer wirksam.</li> <li>• Wir sind Risiken im Zusammenhang mit Zertifikaten für Strom aus erneuerbaren Energien (sog. Renewables Obligation Certificates oder ROCs), im Vereinigten Königreich, darunter Schwankungen der Preise für diese Zertifikate, sowie aus anderen Programmen mit handelbaren Zertifikaten in anderen Rechtsordnungen ausgesetzt.</li> </ul>
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	<ul style="list-style-type: none"> <li>• Wir unterliegen steuerlichen Risiken, und unsere Steuerlast könnte sich aufgrund von Änderungen im Steuerrecht oder dessen Anwendung oder Auslegung oder aufgrund laufender oder künftiger Außenprüfungen erhöhen.</li> </ul> <p><b><i>Risiken im Zusammenhang mit der Trennung von der Ehemaligen RWE-Gruppe</i></b></p> <ul style="list-style-type: none"> <li>• Wir sind erst seit Kurzem als eigenständiges Unternehmen tätig, sodass der angestrebte Aufbau von Funktionen in den Bereichen Verwaltung und Finanzen sowie in anderen Bereichen, die zuvor durch die RWE AG und ihre unmittelbaren und mittelbaren Tochterunternehmen vor der Trennung der innogy-Gruppe (zusammen die <b>“Ehemalige RWE-Gruppe”</b>) erfüllt wurden, mehr Zeit in Anspruch nehmen oder höhere Kosten als erwartet verursachen oder nicht erfolgreich bzw. weniger erfolgreich als erwartet sein könnte.</li> <li>• Unsere kombinierten Finanzinformationen basieren auf einer Reihe von Annahmen und Schätzungen, die sich als unzutreffend erweisen könnten, weshalb die kombinierten Finanzinformationen nicht notwendigerweise ein verlässliches Abbild unserer möglichen Erfolge als eigenständiges börsennotiertes Unternehmen darstellen. Zudem könnten die kürzlich im Zuge der Trennung von der Ehemaligen RWE-Gruppe erfolgten organisatorischen Änderungen eine zutreffende Einschätzung unserer vergangenen und zukünftigen Konzernleistung erschweren, und die umgesetzten Strukturmaßnahmen könnten zu einer erhöhten Steuerlast führen bzw. die erwarteten künftigen Steuervorteile könnten geringer ausfallen als erwartet.</li> <li>• Es könnte uns nicht gelingen, den potenziellen Nutzen aus der Trennung unseres Unternehmens von den anderen Unternehmen der Ehemaligen RWE-Gruppe zu realisieren, und wir könnten außerstande sein, langfristig ein neues eigenständiges Marktprofil aufzubauen. Die Trennung von der Ehemaligen RWE-Gruppe kann zu einer verringerten Einkaufsmacht sowie einem Verlust an Synergien und Geschäftschancen führen. Auf der anderen Seite werden wir an verschiedene Beschaffungs-, Großkunden- und sonstige Verträge mit der RWE AG und ihren unmittelbaren und mittelbaren Tochterunternehmen nach der Trennung der innogy-Gruppe (d.h. unter Ausschluss der innogy-Gruppe, die <b>“RWE-Gruppe”</b>) gebunden sein, was unsere Flexibilität, zu anderen Dienstleistern zu wechseln oder diese Funktionen intern selbst zu übernehmen, einschränken könnte.</li> </ul>
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D.3	<p><b>Zentrale Angaben zu den zentralen Risiken, die den Wertpapieren eigen sind.</b></p>	<p><b><i>Risiken in Zusammenhang mit dem Angebot, der Börsennotierung und der Aktionärsstruktur</i></b></p> <ul style="list-style-type: none"> <li>• Die RWE AG wird nach Durchführung des Angebots weiterhin einen wesentlichen Einfluss auf die Gesellschaft ausüben, und die Interessen der RWE AG könnten den Interessen anderer Aktionäre entgegenstehen. Zudem kann die Mitgliedschaft einer Person in mehreren Gremien zu Interessenkonflikten zwischen der Gesellschaft, der RWE AG und anderen Gesellschaften der RWE-Gruppe führen.</li> <li>• Die Aktien der Gesellschaft waren bislang nicht börsennotiert, und es kann keine Zusicherung gegeben werden, dass sich ein liquider Markt für die Aktien der Gesellschaft entwickeln wird oder dieser nach dem Angebot aufrechterhalten werden kann. Falls Research-Analysten keine Angaben über unsere Geschäftstätigkeit veröffentlichen oder sich negativ äußern oder negative Empfehlungen bezüglich der Aktien der Gesellschaft erteilen, könnte zudem der Kurs der Aktien der Gesellschaft fallen und das Handelsvolumen sinken. Der Aktienkurs könnte darüber hinaus aufgrund künftiger Verkäufe oder Markterwartungen hinsichtlich des Verkaufs einer wesentlichen Anzahl von Aktien der Gesellschaft durch die RWE AG oder andere bestehende oder künftige Aktionäre (einschließlich der Cornerstone Investoren, wie unten unter E.3 definiert) fallen.</li> <li>• Der Kurs und das Handelsvolumen der Aktien der Gesellschaft könnten stark schwanken, und Anleger könnten ihren Kapitaleinsatz ganz oder teilweise verlieren. Zukünftige Kapitalerhöhungen, Angebote von Eigenkapitalinstrumenten oder von in Eigenkapital wandelbaren Instrumenten oder ein Zusammenschluss mit einem anderen Unternehmen könnten die Beteiligung der Anleger an der Gesellschaft verwässern.</li> <li>• Das Angebot könnte nicht durchgeführt werden. In diesem Fall könnten Anleger bereits gezahlte Provisionen verlieren und Risiken aus möglichen Leerverkäufen der Aktien ausgesetzt sein.</li> <li>• Die Fähigkeit der Gesellschaft, Dividenden auszuschütten, wird zum Teil von der Ausschüttung oder Abführung von Gewinnen ihrer Tochtergesellschaften sowie von unseren Kreditbedingungen abhängen.</li> <li>• Aktionäre außerhalb der Eurozone unterliegen möglicherweise dem Fremdwährungsrisiko.</li> <li>• Die geplante Finanztransaktionssteuer könnte zu einer wesentlichen zusätzlichen steuerlichen</li> </ul>
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		Belastung für Anleger im Sekundärmarkt führen, die Aktien des Konzerns erwerben und in einem Mitgliedstaat der Europäischen Union handeln, in dem eine entsprechende Steuer eingeführt wird.
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## E. Angebot

<b>E.1</b>	<p><b>Gesamtnettoerlöse und geschätzte Gesamtkosten der Emission/ des Angebots, einschließlich der geschätzten Kosten, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.</b></p>	<p>Die Gesellschaft erhält den aus dem Verkauf der Neuen Aktien (wie unter E.3 definiert) stammenden Erlös des Angebots. Die RWE DB GmbH, eine 100%-ige Tochtergesellschaft der RWE AG, erhält den Erlös aus einem Verkauf der Sekundäraktien (wie unter E.3 definiert), einem etwaigen Verkauf von Zusätzlichen Sekundäraktien (wie unter E.3 definiert), soweit die Erhöhungsoption (wie unter E.3 definiert) ausgeübt wird, sowie einem potentiellen Verkauf von Mehrzuteilungsaktien (wie unter E.3 definiert), soweit die Greenshoe-Option (wie unter E.3 definiert) ausgeübt wird.</p> <p>Die Höhe des Erlöses aus dem Angebot und die Kosten im Zusammenhang mit dem Angebot sind vom endgültigen Angebotspreis ("<b>Angebotspreis</b>"), der auch die Höhe der Provisionen der Konsortialbanken bestimmt, und von der Anzahl der im Rahmen des Angebots platzierten Aktien abhängig.</p> <p>Unter der Annahme, dass die maximale Anzahl der Neuen Aktien (55.555.000 Aktien) platziert wird, schätzt die Gesellschaft, dass der Bruttoemissionserlös der Gesellschaft am unteren Ende, in der Mitte und am oberen Ende der Preisspanne des Angebotes für die Neuen Aktien etwa EUR 1.778 Millionen, EUR 1.889 Millionen bzw. EUR 2.000 Millionen betragen würde.</p> <p>Wird der Angebotspreis am unteren Ende der Preisspanne festgesetzt und werden alle angebotenen Neuen Aktien platziert, betragen die von der Gesellschaft zu tragenden Kosten im Zusammenhang mit dem Angebot der Neuen Aktien und der Börsennotierung im Ganzen voraussichtlich EUR 40 Millionen, einschließlich der Provisionen der Konsortialbanken in Höhe von etwa EUR 31 Millionen (unter Annahme der vollständigen Bezahlung der ermessensabhängigen Provision bezüglich der Neuen Aktien) und voraussichtlicher sonstiger Aufwendungen in Höhe von etwa EUR 9 Millionen (unter der Annahme der jeweils vollständigen Platzierung der Sekundäraktien sowie der vollständigen Ausübung der Greenshoe-Option (sämtlich wie unter E.3 definiert)). Unter den vorgenannten Annahmen wird der Nettoerlös der Gesellschaft aus dem Verkauf der Neuen Aktien, d. h.</p>
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		<p>der Bruttoerlös abzüglich der von der Gesellschaft zu tragenden Kosten, voraussichtlich etwa EUR 1.737 Millionen betragen.</p> <p>Wird der Angebotspreis in der Mitte oder am oberen Ende der Preisspanne festgesetzt und werden alle angebotenen Neuen Aktien platziert, rechnet die Gesellschaft mit Gesamtkosten für das Angebot der Neuen Aktien und die Börsennotierung von etwa EUR 42 Millionen bzw. EUR 44 Millionen, einschließlich der Provisionen der Konsortialbanken in Höhe von etwa EUR 33 Millionen bzw. EUR 35 Millionen (unter Annahme der vollständigen Bezahlung der ermessensabhängigen Provision bezüglich der Neuen Aktien) und voraussichtlicher sonstiger Aufwendungen von etwa EUR 9 Millionen (unter der Annahme der jeweils vollständigen Platzierung der Sekundäraktien sowie der vollständigen Ausübung der Greenshoe-Option (sämtlich wie unter E.3 definiert)). Unter den vorgenannten Annahmen wird der Nettoerlös der Gesellschaft aus dem Verkauf der Neuen Aktien in der Mitte bzw. am oberen Ende der Preisspanne voraussichtlich etwa EUR 1.847 Millionen bzw. EUR 1.956 Millionen betragen.</p> <p>Die RWE DB GmbH zahlt den Teil der Provisionen der Konsortialbanken, der sich ergibt aus dem Verkauf der Basis-Sekundäraktien (wie unter E.3 definiert), der Zusätzlichen Sekundäraktien (wie unter E.3 definiert), wenn und soweit die Erhöhungsoption (wie unter E.3 definiert) ausgeübt wird, und der Greenshoe-Aktien (wie unter E.3 definiert), wenn und soweit die Greenshoe-Option (wie unter E.3 definiert) ausgeübt wird. Die Gesellschaft schätzt, dass die Gesamtkosten der RWE DB GmbH am unteren Ende, in der Mitte bzw. am oberen Ende der Preisspanne etwa EUR 61 Millionen, EUR 64 Millionen bzw. EUR 66 Millionen betragen werden (unter der Annahme der jeweils vollständigen Platzierung der Sekundäraktien sowie der vollständigen Ausübung der Greenshoe-Option (sämtlich wie unter E.3 definiert)). Die Gesellschaft rechnet damit, dass die Nettoerlöse der RWE DB GmbH unter den oben genannten Annahmen jeweils (insgesamt) etwa EUR 2.606 Millionen, EUR 2.770 Millionen bzw. EUR 2.934 Millionen am unteren Ende, in der Mitte bzw. am oberen Ende der Preisspanne betragen werden.</p> <p>Den Anlegern werden von der Gesellschaft, der RWE DB GmbH oder den Konsortialbanken im Zusammenhang mit ihrer Funktion als Konsortialbanken keine Kosten in Rechnung</p>
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		<p>gestellt. Die Anleger müssen jedoch möglicherweise die geschäftsüblichen Effektenprovisionen und Bearbeitungsgebühren tragen, die von ihren kontoführenden Finanzinstituten erhoben werden.</p>
E.2a	<p><b>Gründe für das Angebot, Zweckbestimmung der Erlöse, geschätzte Nettoerlöse.</b></p>	<p>Die Gesellschaft beabsichtigt, den geschätzten Nettoverkaufserlös aus dem Angebot der Neuen Aktien (wie unter E.3 definiert) in Höhe von etwa EUR 1.847 Millionen (unter der Annahme eines Angebotspreises – wie unter E.3 definiert – in der Mitte der Preisspanne und unter der Annahme der jeweils vollständigen Platzierung der Sekundäraktien sowie der vollständigen Ausübung Greenshoe-Option (sämtlich wie unter E.3 definiert)) für allgemeine Geschäftszwecke einzusetzen. Ferner beabsichtigt die Gesellschaft, durch die geplante Notierungsaufnahme ihrer Aktien im regulierten Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zum Teilbereich des regulierten Marktes mit weiteren Zulassungsfolgepflichten (Prime Standard) einen besseren Zugang zum Kapitalmarkt zu erreichen.</p> <p>Die RWE DB GmbH hat uns darüber informiert, dass sie beabsichtigt, ihre Beteiligung an unserer Gruppe durch die Platzierung von Sekundäraktien zu reduzieren und dass sie davon überzeugt ist, dass das Angebot im Interesse der Gesellschaft liegt, weil die Notierungsaufnahme neue Möglichkeiten zur Beschaffung von Eigenkapital bietet. Ungeachtet dessen wird die RWE DB GmbH weiterhin eine wesentliche Beteiligung an der Gesellschaft halten (mindestens 70,4%, unter der Annahme der Platzierung aller Neuen Aktien, der vollständigen Platzierung der Sekundäraktien sowie der vollständigen Ausübung der Greenshoe-Option (sämtlich wie unter E.3 definiert)).</p>
E.3	<p><b>Beschreibung der Angebotskonditionen.</b></p>	<p>Das Angebot umfasst</p> <ul style="list-style-type: none"> <li>• 55.555.000 neu ausgegebene, auf den Inhaber lautende nennwertlose Stückaktien aus einer am 30. August 2016 von einer außerordentlichen Hauptversammlung der Gesellschaft beschlossenen Kapitalerhöhung gegen Bareinlagen (die <b>„Neuen Aktien“</b>); und</li> <li>• 45.455.000 bestehende, auf den Inhaber lautende nennwertlose Stückaktien aus dem Bestand des Verkaufenden Aktionärs (die <b>„Basis-Sekundäraktien“</b>), wobei hiervon Aktien entsprechend einem Gesamtinvestitionsbetrag von EUR 940 Mio. voraussichtlich den Cornerstone Investoren (wie unten definiert und näher erläutert) zugeteilt werden; und</li> <li>• bis zu 25.252.000 bestehende, auf den Inhaber lautende nennwertlose Stückaktien aus dem Bestand des Verkaufenden Aktionärs (<b>„Zusätzliche</b></li> </ul>

		<p><b>Sekundäraktien</b>", zusammen mit den Basis-Sekundäraktien die "<b>Sekundäraktien</b>"), die Gegenstand einer Erhöhungsoption sind, über die von dem Verkaufenden Aktionär in Abstimmung mit den Joint Global Coordinators am Tag der Preisfestlegung entschieden wird (die "<b>Erhöhungsoption</b>"); und</p> <ul style="list-style-type: none"> <li>• bis zu 12.626.200 bestehende, auf den Inhaber lautende nennwertlose Stückaktien aus dem Bestand des Verkaufenden Aktionärs zur Deckung eventueller Mehrzuteilungen (die "<b>Mehrzuteilungsaktien</b>", und zusammen mit den Neuen Aktien und den Sekundäraktien, die "<b>Angebotsaktien</b>"),</li> </ul> <p>jede mit einem anteiligen Betrag des Grundkapitals von EUR 2,00 und mit voller Gewinnberechtigung ab dem 1. Januar 2016.</p> <p>Das Angebot besteht aus einem erstmaligen öffentlichen Angebot in Deutschland und im Großherzogtum Luxemburg ("<b>Luxemburg</b>") sowie Privatplatzierungen in bestimmten anderen Jurisdiktionen außerhalb von Deutschland und Luxemburg. In den Vereinigten Staaten von Amerika ("<b>Vereinigte Staaten</b>") werden die Aktien zum Verkauf an qualifizierte institutionelle Anleger (<i>Qualified Institutional Buyers</i>) gemäß der Definition in und auf Grund von Rule 144A des U.S. Securities Acts von 1933 in der jeweils gültigen Fassung ("<b>Securities Act</b>") angeboten. Außerhalb der Vereinigten Staaten werden die Aktien der Gesellschaft nur im Rahmen von Offshore-Geschäften gemäß Regulation S des Securities Act angeboten und verkauft.</p> <p>Die Angebotsaktien sind nicht und werden nicht nach den Vorschriften des Securities Act oder den Wertpapiergesetzen anderer Territorien oder Besitzungen der Vereinigten Staaten registriert und dürfen in den Vereinigten Staaten nicht angeboten, verkauft oder anderweitig übertragen werden, außer im Falle einer Ausnahme von den Registrierungsvorschriften des Securities Act oder wenn es sich um Transaktionen handelt, die diesen Vorschriften nicht unterliegen, sowie unter Beachtung sämtlicher anwendbarer Wertpapiergesetze der betreffenden Bundesstaaten oder anderer Territorien oder Besitzungen der Vereinigten Staaten.</p> <p><b>Preisspanne</b></p> <p>Die Preisspanne, innerhalb derer Kaufangebote abgegeben werden können, beträgt EUR 32,00 bis EUR 36,00 je Angebotsaktie.</p>
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		<p><b>Angebotszeitraum und Kaufangebote</b></p> <p>Das Angebot beginnt am 26. September 2016 und endet voraussichtlich am 6. Oktober 2016, (i) um 12:00 Uhr mittags (Mittleuropäische Sommerzeit) für Privatanleger und (ii) um 14:00 Uhr (Mittleuropäische Sommerzeit) für institutionelle Anleger (der "Angebotszeitraum"). Privatanleger können während des Angebotszeitraums Kaufangebote in vollen Eurobeträgen oder Eurocentbeträgen von 25, 50 oder 75 Cent im Rahmen des öffentlichen Angebots in Deutschland und Luxemburg in den Niederlassungen der Konsortialbanken abgeben. Mehrfache Kaufangebote sind zulässig.</p> <p><b>Änderung der Angebotsbedingungen</b></p> <p>Die Gesellschaft und der Verkaufende Aktionär behalten sich das Recht vor, nach Rücksprache mit den Joint Global Coordinators, die Anzahl der Angebotsaktien zu erhöhen oder zu vermindern, die Ober- und/oder Untergrenze der Preisspanne (wie unter E.3 definiert) zu senken oder zu erhöhen und/oder den Angebotszeitraum zu verlängern oder zu verkürzen. Durch eine Änderung der Anzahl an Angebotsaktien oder der Preisspanne (wie unter E.3 definiert) oder eine Verlängerung bzw. Verkürzung des Angebotszeitraums werden bereits abgegebene Kaufangebote nicht unwirksam. Sollte eine solche Änderung die Veröffentlichung eines Nachtrags zum Prospekt erfordern, steht den Anlegern, die ihre Kaufangebote vor der Veröffentlichung des Nachtrags eingereicht haben, nach dem Wertpapierprospektgesetz das Recht zu, diese Kaufangebote innerhalb von zwei Werktagen nach Veröffentlichung des Nachtrags zu widerrufen. Anstelle eines Widerrufs der vor der Veröffentlichung des Nachtrags abgegebenen Kaufangebote, haben die Anleger jedoch auch die Möglichkeit, ihre Aufträge innerhalb von zwei Werktagen nach Veröffentlichung des Nachtrags zu ändern oder neue begrenzte oder unbegrenzte Kaufangebote zu platzieren. Sofern die Angebotsbedingungen geändert werden, wird diese Änderung durch elektronische Medien wie Reuters oder Bloomberg und, sofern nach dem Wertpapierhandelsgesetz und dem Wertpapierprospektgesetz erforderlich, als Ad-hoc-Mitteilung über ein elektronisches Informationssystem und auf der Internetseite der Gesellschaft und als Nachtrag zu dem Prospekt veröffentlicht. Anleger, die Kaufangebote abgegeben haben, werden nicht einzeln benachrichtigt.</p>
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		<p><b>Anzahl der Angebotsaktien und Angebotspreis</b></p> <p>Nachdem der Angebotszeitraum abgelaufen ist, werden die endgültige Anzahl der Angebotsaktien (einschließlich der Anzahl Neuer Aktien die die Gesellschaft ausgeben will) und der Angebotspreis gemeinsam durch die Gesellschaft und den Verkaufenden Aktionär nach ihrem Ermessen nach Rücksprache mit den Joint Global Coordinators festgelegt. Der Preis wird auf Grundlage der von Anlegern während des Angebotszeitraums abgegebenen Kaufaufträge, die im Orderbuch verzeichnet worden sind, festgelegt. Es wird erwartet, dass dies am oder um den 6. Oktober 2016 erfolgt. Es wird geprüft werden, ob der Angebotspreis und die Anzahl der zu platzierenden Aktien vernünftigerweise die Erwartung zulassen, dass der Aktienpreis angesichts der im Orderbuch verzeichneten Nachfrage nach Aktien der Gesellschaft eine stabile Entwicklung im Sekundärmarkt zeigen wird. Dabei wird nicht nur auf die von den Anlegern gebotenen Preise und auf die Anzahl der Anleger, die Aktien zu einem bestimmten Preis wollen, sondern auch auf die Zusammensetzung des Aktionärskreises der Gesellschaft, die sich bei einem bestimmten Preis ergeben würde (sogenannter Investorenmix) und das erwartete Investorenverhalten geachtet. Die Gesellschaft und der Verkaufende Aktionär werden den Anlegern im Zusammenhang mit dem Angebot keine Auslagen oder Steuern in Rechnung stellen.</p> <p>Die endgültige Anzahl an Angebotsaktien und der Angebotspreis werden voraussichtlich durch eine Mitteilung am oder um den 6. Oktober 2016 im Wege einer Ad-hoc-Mitteilung in verschiedenen Medien, verteilt über den gesamten Europäischen Wirtschaftsraum (Medienbündel), und auf der Internetseite der Gesellschaft (<a href="http://www.innogy.com/ir">www.innogy.com/ir</a>) veröffentlicht. Anleger, die ihre Kaufaufträge über eine Konsortialbank platziert haben, können den Angebotspreis sowie die Anzahl der ihnen jeweils zugeteilten Aktien frühestens ab dem ersten Bankarbeitstag nach der Preisfestsetzung bei dieser Konsortialbank erfragen. Insbesondere für den Fall, dass das Platzierungsvolumen sich als unzureichend herausstellt, um alle platzierten Aufträge zum Angebotspreis zu befriedigen, behalten sich die Konsortialbanken das Recht vor, Aufträge zurückzuweisen oder nur teilweise anzunehmen.</p> <p><b>Lieferung und Zahlung</b></p> <p>Die Lieferung der Angebotsaktien gegen Zahlung des Angebotspreises und der üblichen Wertpapierprovisionen wird voraussichtlich am oder um den 11. Oktober 2016 erfolgen. Die Angebotsaktien werden den Aktionären buchmäßig (als Miteigentumsanteil an der Globalurkunde) ausgegeben.</p>
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		<p><b>Cornerstone Investoren</b></p> <p>Im Rahmen des Angebots werden Angebotsaktien in einem Gesamtinvestitionsbetrag von EUR 940 Mio. aus dem Bestand des Verkaufenden Aktionärs von mehreren Fonds und Konten, welche von direkten und indirekten Vermögensverwaltungstochtergesellschaften von BlackRock, Inc., Delaware, USA, verwaltet werden (zusammen die <b>"Cornerstone Investoren"</b>), im Rahmen einer Privatplatzierung erworben. Die Cornerstone Investoren haben sich vorbehaltlich bestimmter Kündigungsrechte und unter der Bedingung des Vollzugs des Angebots verpflichtet, Angebotsaktien zum Angebotspreis zu erwerben. Den Cornerstone Investoren ist eine vollständige Zuteilung derjenigen Anzahl an Angebotsaktien zugesagt worden, für die sie ein bindendes Kaufangebot abgegeben haben.</p> <p><b>Stabilisierung, Mehrzuteilung und Greenshoe-Option</b></p> <p>Im Rahmen möglicher Stabilisierungsmaßnahmen, die ergriffen werden können, um den Marktpreis der Aktien der Gesellschaft zu stützen und dadurch einem etwaigen Verkaufsdruck entgegenzuwirken, können den Anlegern zusätzlich zu den Neuen Aktien und den Sekundäraktien bis zu 12.626.200 weitere Aktien der Gesellschaft als Teil der Zuteilung der zu platzierenden Aktien zugeteilt werden (<b>"Mehrzuteilung"</b>). Im Zusammenhang mit möglichen Mehrzuteilungen werden Goldman Sachs für Rechnung der Konsortialbanken im Wege eines Wertpapierdarlehens bis zu 12.626.200 Aktien des Verkaufenden Aktionärs zur Verfügung gestellt; die Anzahl dieser Aktien wird 15% der Summe (i) der Neuen Aktien, (ii) der Basis-Sekundäraktien, und (iii), soweit von der Erhöhungsoption Gebrauch gemacht wird, der Zusätzlichen Sekundäraktien nicht übersteigen. Im Zusammenhang mit möglichen Mehrzuteilungen wird der Verkaufende Aktionär den Konsortialbanken eine Option einräumen, die entliehenen Aktien gegen Zahlung des endgültigen Angebotspreises abzüglich vereinbarter Provisionen zu erwerben (<b>"Greenshoe-Option"</b>, und die in Ausübung der Greenshoe-Option gekauften Mehrzuteilungsaktien, die <b>"Greenshoe-Aktien"</b>). Die Greenshoe-Option kann maximal in dem Umfang ausgeübt werden, in dem die Aktien der Gesellschaft im Rahmen der Mehrzuteilung platziert worden sind. Die Greenshoe-Option kann von Goldman Sachs in der Funktion als Stabilisierungsmanager von dem Tage an ausgeübt werden, an dem die Aktien der Gesellschaft im regulierten Markt der Frankfurter Wertpapierbörse notiert werden und endet spätestens 30 Kalendertage danach (der <b>"Stabilisierungszeitraum"</b>).</p>
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E.4	<p><b>Beschreibung aller für die Emission/das Angebot wesentlichen Interessen, einschließlich Interessenkonflikten.</b></p>	<p>Im Zusammenhang mit dem Angebot und der Börsennotierung der Aktien der Gesellschaft haben die Konsortialbanken eine vertragliche Beziehung mit der Gesellschaft und den Bestehenden Aktionären. Die Joint Global Coordinators beraten die Gesellschaft bei der Transaktion und koordinieren die Struktur und Durchführung der Transaktion. Die Konsortialbanken erhalten nach erfolgreichem Abschluss der Transaktion eine Provision. Darüber hinaus wurden Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Deutschland, als Zahlstelle und Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Deutschland, und Goldman Sachs International, London, Vereinigtes Königreich, als Designated Sponsors für die Aktien der Gesellschaft bestellt.</p> <p>Einige der Konsortialbanken und der mit ihnen verbundenen Unternehmen haben und können zukünftig jeweils Geschäftsbeziehungen mit uns oder unseren Bestehenden Aktionären oder anderen Gesellschaften der RWE-Gruppe (einschließlich Finanzierungstätigkeiten) unterhalten oder Dienstleistungen für uns und/oder anderen Gesellschaften der RWE-Gruppe im Rahmen des gewöhnlichen Geschäftsbetriebs erbringen. Beispielsweise sind bestimmte Konsortialbanken Darlehensgeber eines syndizierten oder bilateralen Darlehens- oder Garantievertrages der Gesellschaft, der RWE AG, der Verkaufende Aktionär oder einer anderen Gesellschaft innerhalb der RWE-Gruppe. Ferner können die Konsortialbanken Beteiligte an Handelsgeschäften (wie Währungs- oder Zinsderivaten) oder provisionsgebundenen Geschäften (wie Beratungsmandaten) sein.</p> <p>Ferner darf jede der Konsortialbanken und jedes mit ihr verbundene Unternehmen im Zusammenhang mit dem Angebot, als Anleger auf eigene Rechnung handelnd, Aktien aus dem Angebot zeichnen und in dieser Eigenschaft solche Wertpapiere und jegliche Form von Aktien oder zusammenhängende Kapitalanlagen halten, kaufen oder verkaufen und solche Aktien oder andere Kapitalanlagen außerhalb des Angebots anbieten oder verkaufen. Dementsprechend schließen Bezugnahmen auf angebotene oder platzierte Aktien im Prospekt das Angebot oder die Platzierung von Aktien gegenüber einer der Konsortialbanken oder einem mit ihr verbundenen Unternehmen, das in dieser Eigenschaft handelt, mit ein. Des Weiteren können bestimmte Konsortialbanken oder mit ihnen verbundene Unternehmen Finanzierungsvereinbarungen (einschließlich Swaps) mit Anlegern eingehen, in deren Rahmen diese Konsortialbanken (oder mit ihnen verbundene Unternehmen) möglicherweise jeweils</p>
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		<p>Aktien der Gesellschaft erwerben, halten oder veräußern werden. Keine der Konsortialbanken beabsichtigt, über den Umfang solcher Investitionen oder Transaktionen mehr Informationen offenzulegen, als dies nach Maßgabe rechtlicher oder regulatorischer Verpflichtungen erforderlich ist.</p> <p>Die Bestehenden Aktionäre sowie die unmittelbaren und mittelbaren Gesellschafter der RWE AG haben ein Interesse an der Durchführung der Transaktion, weil der Verkaufende Aktionär, eine 100%-ige Tochtergesellschaft der RWE AG, den Erlös erhält aus einem Verkauf der Basis-Sekundäraktien und einem möglichen Verkauf der Zusätzlichen Sekundäraktien und der Greenshoe-Aktien. Die Bestehenden Aktionäre haben ferner ein Interesse an möglichen Aktienplatzierungen in der Zukunft. Außerdem haben alle direkten oder indirekten Aktionäre der Gesellschaft mit einer Beteiligung an der Gesellschaft ein Interesse an der Durchführung der Kapitalerhöhung, die Gegenstand des Angebots ist, weil die Gesellschaft den Erlös aus dem Angebot der Neuen Aktien vereinnahmen wird und dieser die Eigenkapitalbasis der Gesellschaft stärken werden.</p> <p>Zwischen der RWE AG bzw. einigen ihrer Tochter- und Beteiligungsgesellschaften, die nicht Teil der Gruppe sind, einerseits und unserer Gruppe andererseits bestehen verschiedene vertragliche Beziehungen. Die der Gesellschaft aus dem Angebot zufließenden Mittel erhöhen die Bonität der Gesellschaft sowie ihrer Gruppengesellschaften als Schuldner solcher vertraglichen Beziehungen. Die der Gesellschaft aus dem Angebot zufließenden Mittel beeinflussen damit zugleich mittelbar die Einbringlichkeit von Forderungen der RWE AG sowie ihrer Tochter- und Beteiligungsgesellschaften uns gegenüber. Vor diesem Hintergrund haben die RWE AG sowie die Tochter- und Beteiligungsgesellschaften der RWE AG, die in einer vertraglichen Beziehung zur Gesellschaft stehen, ein Interesse an der Transaktion.</p> <p>Einige Führungskräfte der Gruppe, weitere Mitarbeiter in Schlüsselpositionen der Gruppe und bestimmte an der Vorbereitung und erfolgreichen Durchführung des Angebots beteiligte Personen, die nach der Trennung der innogy-Gruppe von der Ehemaligen RWE-Gruppe bei der RWE-Gruppe verbleiben, sind an einem von der Gesellschaft aufgelegten Anreiz-Programm beteiligt, das Zahlungen im Zusammenhang mit der Vorbereitung und erfolgreichen Durchführung des Angebots und der weiteren Umsetzung der Trennung der innogy-Gruppe von der Ehemaligen RWE-Gruppe vorsieht. Folglich haben die vorgenannten Personen ebenfalls ein Interesse an der Durchführung der Transaktion.</p>
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E.5	<p><b>Name der Person/des Unternehmens, die/das das Wertpapier zum Kauf anbietet.</b></p> <p><b>Lock-up-Vereinbarungen: beteiligte Parteien und Lock-up-Frist.</b></p>	<p>Die Angebotsaktien werden von den Konsortialbanken (wie oben unter A.1 definiert) zum Kauf angeboten.</p> <p>In dem zwischen der Gesellschaft, der RWE AG, dem Verkaufenden Aktionär und den Konsortialbanken im Zusammenhang mit dem Angebot abgeschlossenen Aktienübernahmevertrag (der <b>“Übernahmevertrag”</b>) hat sich die Gesellschaft gegenüber den Konsortialbanken dazu verpflichtet, ohne die vorherige schriftliche Zustimmung der Joint Global Coordinators – die nicht ohne sachlichen Grund verweigert werden darf – für einen Zeitraum von sechs Monaten nach dem ersten Handel der Neuen Aktien, (i) keine Erhöhung des Grundkapitals der Gesellschaft aus genehmigtem oder bedingtem Kapital anzukündigen oder durchzuführen, (ii) ihrer Hauptversammlung keine Erhöhung des Grundkapitals vorzuschlagen (<i>Direktkapitalerhöhungsbeschluss</i>), und (iii) keine Ausgabe von Wertpapieren mit Wandel- oder Optionsrechten bezüglich Aktien der Gesellschaft anzukündigen, durchzuführen oder vorzuschlagen oder sonstige wirtschaftlich vergleichbare Transaktionen durchzuführen (der <b>“Gesellschafts Lock-Up”</b>). Die Gesellschaft kann jedoch (x) Aktien oder sonstige Wertpapiere an Mitarbeiter und Mitglieder ihrer Leitungsorgane oder ihrer Tochtergesellschaften im Rahmen von Management- und Mitarbeiterbeteiligungsprogrammen ausgeben oder verkaufen und (y) jedwede Kapitalmaßnahmen vornehmen zum Zwecke des Abschlusses eines oder Beschlusses über den Abschluss eines Joint Ventures oder Gesellschaftsanteilserwerbsvertrags, sofern die Parteien des Joint Ventures oder die Erwerbsgesellschaft, an die solche Aktien ausgegeben werden, zustimmen, an dieselben Lock-up-Regelungen wie die Bestehenden Aktionäre gebunden zu sein. Der Gesellschafts-Lock-Up gilt nicht für die im Prospekt beschriebene Kapitalerhöhung.</p> <p>Im Übernahmevertrag haben sich die RWE AG und der Verkaufende Aktionär gegenüber den Konsortialbanken verpflichtet, ohne die vorherige schriftliche Zustimmung der Joint Global Coordinators – die nicht ohne sachlichen Grund verweigert werden darf – weder unmittelbar noch mittelbar Aktien oder Wertpapiere der Gesellschaft zu verkaufen, zu vermarkten, zu übertragen oder anderweitig zu veräußern, und zwar bis zum Ablauf eines Zeitraums von sechs Monaten nach dem ersten Handel der Aktien der Gesellschaft an der Frankfurter Wertpapierbörse. Diese Verpflichtung gilt auch für jede einem Verkauf wirtschaftlich vergleichbare Transaktion, wie etwa der Ausgabe von Option- oder Wandelrechten an Aktien der Gesellschaft (der <b>“Aktionärs-Lock-Up”</b>).</p>
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		<p>Der Aktionärs Lock-Up gilt nicht für (i) Aktien, die zur Stabilisierung eingesetzt werden, (ii) (außerbörsliche) Übertragungen an Dritte, (iii) Übertragungen an verbundene Unternehmen der RWE AG, (iv) künftige Verpfändungen an eine oder mehrere Banken oder mit ihnen verbundene Unternehmen (einschließlich sämtlicher derzeitiger und künftiger Verpfändungen von Aktien der RWE AG oder Gesellschaftsanteilen von mit der RWE AG verbundenen Unternehmen aufgrund Anforderungen von finanzierenden Banken zugunsten von Kreditgebern) und (v) Übertragungen von Aktien an eine oder mehrere Banken oder mit ihnen verbundene Unternehmen im Rahmen einer diesbezüglichen Pfandverwertung, bei (ii) und (iii) jeweils vorausgesetzt der/die Übertragungsempfänger übernehmen die gleichen Lock-up-Verpflichtungen wie die Bestehenden Aktionäre.</p>
E.6	<p><b>Betrag und Prozentsatz der aus dem Angebot resultierenden unmittelbaren Verwässerung. Im Fall eines Zeichnungsangebots an die bestehenden Anteilseigner Betrag und Prozentsatz der unmittelbaren Verwässerung für den Fall, dass sie das neue Angebot nicht zeichnen.</b></p>	<p>Der den Gesellschaftern zuzurechnende Nettovermögenswert, berechnet aus den Gesamt-Aktiva abzüglich aller Verbindlichkeiten, entspricht dem Buchwert des bilanziellen Eigenkapitals in der Konzernbilanz der Gesellschaft auf Grundlage des Ungeprüften Verkürzten Konzernzwischenabschlusses und belief sich zum 30. Juni 2016 auf EUR 6.004 Millionen und würde sich, basierend auf 500.000.000 ausgegebenen Aktien der Gesellschaft unmittelbar vor dem Angebot, auf EUR 12 je Aktie belaufen.</p> <p>Bei einem unterstellten der Gesellschaft zufließenden Gesamtnettoerlös aus dem Verkauf der Neuen Aktien in Höhe von etwa EUR 1.847 Millionen läge der den Aktionären zuzurechnende Nettovermögenswert – hätte die Gesellschaft den Gesamtnettoerlös bereits am 30. Juni 2016 erhalten – zum 30. Juni 2016 ungefähr bei EUR 7.851 Millionen (basierend auf der Mitte der Preisspanne); dies entspricht EUR 14,13 je Aktie (berechnet – genauso wie in den folgenden Fällen – auf der Basis von 555.555.000 im Umlauf befindlichen Aktien nach vollständiger Durchführung der Kapitalerhöhung bzgl. der Neuen Aktien). Dies entspräche einer unmittelbaren Verwässerung in Höhe von EUR 19,87 je Aktie oder 58,4% für die Erwerber, die die Angebotenen Aktien zu einem Preis in der Mitte der Preisspanne erwerben. Am unteren bzw. am oberen Ende der Preisspanne würde der den Aktionären zuzurechnende Nettovermögenswert EUR 13,93 bzw. EUR 14,33 je Aktie betragen, was einer unmittelbaren Verwässerung in Höhe von EUR 18,07 je Aktie oder 56,5% bzw. EUR 21,67 je Aktie oder 60,2% entspricht.</p> <p>Es gibt kein Zeichnungsangebot an die bestehenden Anteilseigner.</p>

<b>E.7</b>	<b>Schätzung der Ausgaben, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.</b>	Entfällt. Den Anlegern werden Kosten der Gesellschaft, des Verkaufenden Aktionärs oder der Konsortialbanken in ihrer Rolle als Konsortialbanken nicht in Rechnung gestellt. Die Anleger müssen jedoch möglicherweise geschäftsübliche Effektenprovisionen und Bearbeitungsgebühren tragen, die von ihren kontoführenden Finanzinstituten erhoben werden.
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## 3 RISK FACTORS

*Any investment in the shares of innogy SE, Essen, Federal Republic of Germany ("Germany") (hereinafter, also the "Company" and, together with its consolidated subsidiaries, "we", "us", "our", the "innogy Group", the "Group" or "innogy") is subject to a number of risks. Prospective investors should carefully consider the risk factors set out below, together with the other information contained in the prospectus, before making an investment decision with respect to the Company's shares. The occurrence of any of these risks, individually or together with other circumstances, could have a material adverse effect on our business, results of operation and financial position. The prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks and uncertainties that we face and that are described below. The sequence of risk factors set out below is not a statement about the probability of occurrence, degree or importance of the individual risks.*

*The risk factors are based on assumptions that could turn out to be incorrect. Furthermore, other risks, facts or circumstances not presently known to us, or that we currently deem to be immaterial, could, individually or cumulatively, prove to be important and could have a material adverse effect on our results of operation and financial position. The value of the Company's shares could decline as a result of the occurrence of any of these risks, and investors could lose all or part of their investment. Investors should carefully consider whether an investment in the Company's shares, including an investment in the Offer Shares, is suitable for them in light of the information in the prospectus (the "Prospectus") and their personal circumstances.*

### 3.1 Risks Related to Our Market Environment and Business

#### 3.1.1 Our success depends on our ability to manage the complex challenges posed by developments in the energy sector and relevant associated sectors, such as policy shifts towards renewable energy sources.

We operate in the energy sector and associated sectors, which are undergoing a profound transformation due to the trend, promoted by public policy in many jurisdictions, towards sustainable forms of energy production and usage (for example in Germany, under the so-called "*Energiewende*" concept).

The Group was formed in a series of transactions that separated the distribution, retail and renewables businesses of RWE AG and its direct and indirect subsidiaries and participations (we refer to RWE AG and its direct and indirect subsidiaries in the Prospectus before such separation as the "**Former RWE Group**" and after such separation (i.e., excluding the innogy Group) as the "**RWE Group**") from their conventional power generation and trading activities. As a result of this separation, the distribution, retail and renewables activities of the Former RWE Group constitute a subgroup comprised of innogy SE and its consolidated subsidiaries (i.e., the innogy Group).

The innogy Group is organized into three reportable segments. In our Grid & Infrastructure segment ("**Grid & Infrastructure Segment**" or "**G&I Segment**"), we mainly function as a distribution system operator ("**DSO**"), connecting the transmission grids as well as electricity and gas producers with grid customers in our distribution areas in Germany and four other European countries (the Czech Republic, Hungary, Poland and Slovakia). In our Retail segment ("**Retail Segment**"), we provide energy and related services and products to 23 million customers (in terms of contracts) in 11 European countries. Our customers comprise both industrial customers as well as resellers (such as other retailers, distributors and grid operators) ("**B2B**") and residential and commercial customers ("**B2C**"). In our Renewables segment ("**Renewables Segment**"), we build and operate mainly onshore and offshore wind and hydro power plants.

The profound transformation of the energy markets, including the proliferation of alternative forms of energy generation and the development of decentralized energy production, pose significant challenges to each of our businesses, which, in addition, are subject to legal and governmental regulation.

As a grid operator, we are subject to strict regulation. In Germany, our main market, we are subject to incentive regulation via the so-called “revenue cap” (*Erlösberggrenze* – “**Revenue Cap**”), which limits the revenue we are allowed to earn from energy distribution via our grid on our so-called regulated asset base (“**RAB**”) and requires that we constantly improve our operational efficiency. Our grid business in Germany depends on concessions that allow us to operate the grid infrastructure. These concessions are granted for a limited period of up to 20 years. Upon expiration, we must compete for them against an increasing number of competitors, including municipalities or municipality-owned companies, in formal public tender proceedings. From an operational perspective, given the disruption of traditional energy markets, mainly due to the energy transition, we have to manage a system where electricity supply and demand are increasingly difficult to balance, given the feed-in from so-called “**prosumers**” (who are customers that generate some of the electricity they consume and also feed electricity into the grid) and also from the increasing amount of energy produced by wind farms and photovoltaic parks, with output being highly dependent on weather patterns, which are highly volatile.

In our Retail Segment, we purchase electricity and gas in the wholesale market based on the demand we anticipate from our customers. This demand is increasingly difficult to forecast, exposing us to potentially substantial losses if demand deviates from our forecasts (in particular, regarding those products in our B2C retail business where customers have full demand flexibility) or if our hedges fail to cover our exposure as expected. We also procure water and district heating which we provide to our customers, though to a lesser extent than electricity and gas. This procurement is also subject to demand fluctuations which can lead to potential losses. The liberalization of the electricity and gas markets has led to increasing competition from existing suppliers, but also from new entrants. Customer churn rates have become a significant challenge, as regulatory initiatives and Internet-based price comparison platforms have not only made it easier for customers to switch suppliers but even encourage them to do so, leading to fierce price competition and margin depression. Moreover, as a result of the expansion of both the share of energy generation from renewable energy sources (“**RES**”) and decentralized energy sources with limited electricity storage capacities, electricity storage is gaining in importance. Different solutions are offered by different providers, including new market participants, which is resulting in a decline in demand for energy retailers. In addition, a potential further decline in demand may result from increasing energy efficiency, climate change, and residential and industrial prosumers increasingly producing and storing their own electricity to cover their demand and, more generally, from their increasing focus on the reduction of energy costs. It cannot be excluded that new alternatives to the existing sources of energy may be identified in the future, which might drive the current commodities out of the market. Moreover, several support schemes introduced by governments may have a substantial impact on the development of the energy markets and the entrance of new players and market roles, as well as on the profitability of its participants.

In our Renewables Segment, we seek to benefit from the trend towards sustainable energy generation. However, building wind farms, our current focus in this segment, is particularly complex, capital intensive and highly susceptible to changes in regulatory policies. While our wind farms may currently benefit from a range of different support schemes, including permitting them to feed a portion of the electricity they produce into the grid at mainly fixed tariffs, these support schemes and fixed feed-in tariffs are being phased out over time. They will increasingly be replaced by more market-based instruments, such as auctions, which will require us to lower our production costs so that we can produce energy at competitive cost. Although the applicable regulatory environment foresees support schemes for RES, a large share of our

produced energy volumes already has to be sold on the wholesale energy market (e.g., in the United Kingdom ("UK"), Spain, Poland, the Netherlands and most of the electricity generated in our hydro power plants in Germany), so that part of our renewables revenue is exposed to volatile market prices and output forecasting risks. These risks cannot be fully mitigated through price hedging strategies. In addition, competitive pressure is likely to increase due to changes in the regulatory frameworks, which are replacing current support schemes by tender procedures resulting in a "pay-as-bid" or "pay-as-cleared" remuneration. Such changes may detrimentally affect our margins, or even result in a lack of profitable renewables projects. Other changes in regulatory policy, which could seek to promote other forms of sustainable energy generation or introduce potentially retroactive cost-cutting regulatory measures, may affect the economic viability of our existing renewables generation portfolio and could render current or future investments in new assets uneconomic. In addition, the already realized increase in electricity production from renewable sources and the trend towards energy efficiency has already resulted in overcapacity for electric power generation. Moreover, we plan to enter new regional markets and expand into new technologies including, among other technologies, utility-scale photovoltaic generation portfolios. Both types of expansion bear risks for our financial position and future profitability.

If we are unable to manage the complex challenges posed by developments in the energy sector and adapt our ongoing business to changes in the applicable regulatory environment, our business, financial position and results of operations will be adversely affected.

**3.1.2 Our business is affected by economic factors, including risks associated with volatile or uncertain financial and economic conditions, which may negatively affect demand for our products, our prices and margins, our access to credit and our customers' and business partners' solvency, among other negative effects.**

Our business is highly dependent on prevailing economic conditions. Demand for electricity and gas, especially by our industrial customers, is heavily influenced by economic activity levels. In a weak economic environment, consumption and industrial production tend to decline, reducing demand and, as a result, prices for energy and related services. The recent recovery of economic conditions in Germany and other European countries in the past few years is still fragile, growth curves have flattened, we are in a low inflation (and partially even deflationary) environment and there is a risk of a renewed recession in some of the countries in which we operate. Moreover, a rebound of the macroeconomic conditions in a given region may not necessarily correlate with a similar upturn in demand, or the prices and margins for electricity and gas.

In our Grid & Infrastructure Segment, the utilization of our grid infrastructure is dependent on economic activity, in particular industrial production. Underutilization due to macroeconomic effects results in temporary revenue shortfalls driven by volume decline and may impose regulatory pressure on pricing in case of longer-term underutilization. While in Germany and the Czech Republic, for example, we may be able to recover the shortfall from an unexpected decrease in grid usage via the so-called "Regulatory Account" over a period of several years, any volume shortfall will have an immediate negative impact on our operating cash flow in the relevant period and the interest provided from such Regulatory Account receivables, if any, may fall short of our financing costs. For more information, see *"3.2.2 We face risks, especially related to the revenue structure and grid tariffs, within the regulatory framework in Germany and other jurisdictions."*

Our Retail Segment is affected by economic conditions, especially in our B2B business. In a weak economic environment, industrial production and hence demand for electricity and gas declines. Declining demand contributes to a decline in wholesale prices, which can lead to lower retail pricing and may negatively affect our margins. See also *"3.1.49 We face risks arising from the volatility of commodity prices."* In an economic upturn, we may not be able to pass through an increase in wholesale prices to our retail customers immediately or at all, which could lead to lower margins. Our margins may also be negatively affected by aggressive pricing policies of competitors.

For the portion of our Renewables Segment's business relating to the sale of electricity generated by our renewable electricity generating assets on non-regulated markets (*i.e.*, markets for which the prices are not completely set or supported, directly or indirectly, by regulation) and therefore subject to price fluctuations, declining wholesale prices result in lower revenues. The challenging economic situation in many European countries in the aftermath of the financial crisis has strained the budgets of several governments and led to an increased focus on energy affordability for end customers, contributing to a reduction of incentives, for example in the renewable energy sector. For example, in Spain, retroactive cuts on feed-in tariffs have had and will continue to have a substantial negative effect on our renewables operations, while in the UK we were affected by the abolition of the exemption from the national climate change levy for green energy consumption in 2015 (see *"3.2.1 We are subject to significant regulatory and political risks, and our revenue, profits and financial position have been and will be affected by the regulatory frameworks in different ways."*). Any future reduction in support schemes or incentives in any jurisdiction in which we operate may have a material adverse effect on the business of our Renewables Segment as well as on our results of operation and financial position.

We face uncertainty relating to the extent to which the ongoing global financial and economic volatility (including the crisis in the Eurozone) will affect the European electricity and gas markets in which we are active and/or wider European electricity and gas markets as well as the markets for renewable energy. An unfavorable general economic environment may lead to our suppliers – due to financial difficulties – no longer being able to comply with their obligations and, as a result, projects being delayed. It may also lead to our customers, including large businesses, going out of business or defaulting on their payment obligations towards us. Furthermore, financial and economic volatility may negatively affect the European capital markets as a result of which it could (temporarily) become more expensive and difficult for us or our subsidiaries to attract financing (both for the refinancing of debt as well as additional funding), or it could become more difficult for us to determine the market value of plan assets and discount rates (which are based on capital markets interest rates) relating to the valuation of our pension obligations. A further worsening of economic and financial conditions, or a new downturn after a period of recovery, may have an adverse effect on our business, results of operation and financial position.

### **3.1.3 We face risks arising from the United Kingdom potentially withdrawing from the European Union.**

In the UK, on June 23, 2016, a referendum on whether the UK should remain in or leave the European Union ("EU") took place, which ended with a simple majority vote in favor of the UK leaving the EU (commonly referred to as "**Brexit**"). While this referendum was non-binding in nature, it is generally expected that the UK government will give formal notice of its intention to withdraw from the EU. The widespread current view is that Brexit will have significant economic, financial and political effects in the UK, the EU and, potentially, the global economy in general. The extent of the future implications is still uncertain and depends, among other things, on the timing and details regarding the implementation of the measures for Brexit and the negotiations to be entered into between the EU and the UK. Therefore, the impact of Brexit on our business, which may be significant, will also depend on the nature of the arrangements that are put in place between the UK and the EU following Brexit. The process leading to the actual exit, if it is effected at all, and then the establishment of a new relationship with the EU is likely to last for a considerable period of time and is currently highly uncertain. Due to political and economic uncertainties triggered by Brexit, we may fail to accurately assess economic prospects and other relevant parameters for our businesses and we may be unable to plan and adapt our operations effectively, with negative impacts on our operational results. See also *"3.1.32 Our mid-term planning is based on several assumptions, including the development of key economic indicators and other parameters, which are speculative in nature and may in hindsight prove to have been erroneous."*

Brexit may result in an economic slowdown or even a downturn in the UK and in other countries. In this case, electricity and gas demand and as a consequence electricity and gas prices may decrease. Hence, our earnings from our retail business and our renewables generation assets in the wholesale market may suffer. Furthermore, in the event of a weak economy, the governments in the UK and in other countries may be inclined to adopt regulatory measures to improve energy affordability for private customers. Those measures may, among others, result in increased retail price regulation, the undermining of our competitive position or in a reduction of the support we receive under some support schemes for renewable energy generation, which would have a negative impact on our business and results of operation. In case of the UK's withdrawal from the EU, UK law may deviate from and replace current European regulations concerning the energy markets. Such new regulations may have a negative impact on our business and results of operation.

Moreover, as a result of Brexit, and the potential economic slowdown or even downturn which may result from it, we may experience a higher risk of default of our customers and counterparties. See also *"3.1.48 We are subject to liquidity and other risks relating to the creditworthiness of our customers and business and joint venture partners as well as claims of insolvency administrators of former customers, which may negatively affect our business, results of operation and financial position."*

Brexit could also have a direct impact on our business due to unfavorable fluctuations in exchange rates. In particular, the British pound sterling has already weakened significantly in the immediate aftermath of the referendum and could weaken against other currencies, including the Euro and the US dollar. If Brexit leads to a further devaluation of the British pound sterling, e.g., against the Euro, any positive contribution from our UK activities to our consolidated operating result, which is accounted for in Euro, and the value of our UK assets as booked in our consolidated balance sheet (also in Euro) will decrease. See also *"3.1.47 We face risks relating to currency exchange rate and interest rate fluctuations."* In addition, the present value of our UK pension liabilities may increase if the interest reference rates for lending funds in British pound sterling decrease as a consequence of Brexit. The discount rate for our domestic pension liabilities may also decrease due to investors looking for safe-haven investments or the European Central Bank's increased purchase of prime-quality bonds as a means of supporting the EU economy. In addition, poor economic development due to Brexit may impair the performance of our pension plan assets, in particular of our equity investments in the UK, which may negatively affect our financial position. See also *"3.1.41 We have financial obligations to our employees, in particular retirement obligations, the calculations of which are based on a number of assumptions, which may differ from actual rates."*

Furthermore, the macroeconomic effect of Brexit on the value of investments in the energy sector and, by extension, the value of our assets and investments, in particular those in the UK, is currently unknown. Brexit could also potentially make it more difficult for us to raise capital and financing and increase our regulatory compliance burden. This could also result in higher operating and finance costs.

There may also be other, currently unforeseen, effects of Brexit both impacting our business directly and the markets in which we operate, and any mitigating actions we may identify may not be effective.

Moreover, it cannot be excluded that other EU countries will follow suit and either actually leave the EU in the future or threaten to leave the EU unless certain concessions are made. Moreover, Scotland, Wales or Northern Ireland may consider withdrawing from the UK. It is also uncertain how Brexit will affect the cohesion of the EU on economic, social and other affairs.

Any of these effects may have a material adverse effect on our business, our revenue, financial position and results of operation.

### **3.1.4 Our EBITDA for the current or the next financial year may differ substantially from the profit forecasts included in the Prospectus.**

The profit forecasts included in the Prospectus for the current financial year and for the financial year 2017 are based on certain assumptions of our management. Such assumptions relate also to factors that are outside of our scope of influence, or can only be influenced by us to a limited extent. Even if the assumptions are currently adequate, they may in hindsight prove to have been erroneous, inaccurate or incorrect. Moreover, it cannot be excluded that based on a review of our financial statements changes are made or ordered, which result in a change to the basis on which we set up our profit forecast. Should one or several of the assumptions or the factors or the underlying basis for the forecast turn out to be erroneous, inaccurate or incorrect, the actual EBITDA of the Group in the current financial year or in the financial year 2017 or, as the case may be, the actual EBITDA of any of our three segments in the current financial year may differ, even substantially, from the forecasts included in the Prospectus.

### **3.1.5 Our Grid & Infrastructure Segment, which accounts for approximately 60% of our operating result, operates in a highly regulated environment and its profitability is materially affected by price and other related regulation.**

Our Grid & Infrastructure segment operates in a highly regulated environment in all the countries in which we operate grids. For example, in Germany, our electricity and gas grid business is subject to a comprehensive regime governing and limiting the revenue we are entitled to earn for a five-year regulatory period. The regulation sets principles to calculate the revenue we are allowed to earn with the distribution of energy through our grid. Whether or not we are able to recover the costs we incur for our operations and whether we are able to realize a profit depends on our costs, particularly in comparison with the other DSOs against which we are benchmarked. If we incur inefficient controllable costs, we are not allowed to fully recover these costs, but have to gradually eliminate them during the regulatory period. Cost reduction, where possible, is therefore a basic requirement for our profitability under incentive regulation. However, the regulator may from time to time take a different view on whether generally controllable costs are efficient or inefficient. In addition, under the current regulatory regime, investments we make are typically only reimbursed with a time delay in the next regulatory period, if accepted by the regulator at all. Furthermore, the calculation of network tariffs is a complex procedure and always prone to errors in judgment and execution. Any differences stemming from these errors may not be reclaimed successfully.

In Eastern Europe, the gas regulatory model in the Czech Republic is incentive-based with a revenue cap, while the electricity grid regulatory regimes in Hungary, Poland and Slovakia are based on a price cap. In Poland, we face the risk that some regulatory parameters (e.g., grid quality parameters for the years 2018-2020, a further approach towards smart meters and balancing meters, including additional remuneration) can be revised by the Polish regulator (URE) within the ongoing regulatory period, which could lead to additional costs that we may not be able to recoup.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.1.6 The regulatory environment for our Grid & Infrastructure Segment is subject to change.**

In Germany, the current regulatory periods for gas and electricity DSOs are set to expire at the end of 2017 and 2018, respectively, and new regulations will apply as of January 1, 2018 for gas DSOs and as of January 1, 2019 for electricity DSOs. Currently, there is still uncertainty with regard to the parameters of the new regulation and how they will be applied, including uncertainty with regard to the cost base recognized towards grid costs in so-called base years (2015 for gas and 2016 for electricity). As this new regime will be the basis for the return for the upcoming regulatory periods mentioned above and decisive for our profitability from 2018 (gas grid) and 2019 (electricity grid) onwards, there is uncertainty with respect to the impact this will

have on our business going forward. The rate of return on equity is a key driver for the determination of the Revenue Caps. For the current (second) regulatory periods for gas and electricity, the German Federal Network Agency (*Bundesnetzagentur*, "BNetzA") fixed the rate of return on the equity portion (based on an "imputed equity ratio" capped at a maximum of 40%) of so-called "new assets" (activation on or after January 1, 2006) at 9.05% (including inflation) and for "old assets" (activation prior to January 1, 2006) at 7.14% (without inflation), in each case before corporate tax and after trade tax. BNetzA will likely determine a lower rate of return on equity for the next (third) regulatory periods. BNetzA proposed a rate of return on equity for "new assets" at 6.91% and for "old assets" at 5.12%. A final determination of BNetzA is expected within the next weeks. The final rates of return may be lower than those previously proposed.

In Eastern Europe, the regulatory periods in the four countries in which we operate overlap partially. In the Czech Republic and Poland, which represent roughly two-thirds of our aggregate regulatory asset base (calculated on the basis of the latest notification by the respective regulators or, as the case may be, based on calculations included in the latest filings with the respective regulators) of our G&I East business, the current regulatory periods will end in 2018 and 2020, respectively. There can be no assurance that the regulatory framework in these countries will not change to our detriment. In Slovakia and Hungary, the new regulatory periods are set to begin in 2017.

For details on the risk that certain of our grid infrastructure may be built on property for which we lack the required land title, see *"3.2.6 Our grid infrastructure, especially in the Eastern European countries, may be built on property for which we do not hold the required land title."*

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.7 Our Grid & Infrastructure Segment depends on concessions, for which significant competition exists, so that we may not be able to renew a considerable amount of the concessions we currently hold.**

In the German operations of our Grid & Infrastructure Segment we depend to a large extent upon regulated concessions, which allow us to construct and operate cables, overhead-lines, stations, pipelines and other infrastructure of a gas or electricity grid under public traffic areas (*öffentliche Verkehrsflächen*). Since such concessions are by law limited to a period of up to 20 years, we are periodically required to renew these concessions in an increasingly competitive environment and with complex procedures; and we increasingly face litigation brought by unsuccessful competitors. We are increasingly confronted with shorter renewal periods and an increasing amount of negotiations with regard to the terms of our concessions, as more cities and municipalities opt for shorter concession periods.

As of June 30, 2016, we had approximately 3,800 concessions in Germany (including our participations in grid companies), thereof approximately 79% relating to electricity, 20% relating to gas and less than 1% to water, with terms generally ranging from five to 20 years. Renewing and expanding our electricity and gas concession portfolio is critical for the success of our grid business. From now until the end of 2020, up to 22% of our current concessions are set to expire (in terms of supplied inhabitants, including concessions for which extraordinary termination rights may be exercised, excluding water concessions). Although we typically seek to renew concessions that expire and win new concessions, we have to compete for them in public tender proceedings. Accordingly, we may not be able to renew expiring concessions or acquire new ones either on favorable economic terms or at all. The concession agreements with cities and municipalities form the basis for a considerable portion of our grid revenues, such that the inability to renew any such concession would have particularly negative effects on our revenues. Maintaining or being awarded many concessions fairly close to each other in a given geographical area is particularly important to us since, for example, this allows us to use employees for maintenance operations more cost-effectively. Therefore, in particular if we are

not able to maintain the desired concession “density”, our grid business and profitability may be negatively affected. Moreover, the loss of a concession with a city or municipality could result in reduced revenues in other areas, e.g., the loss of grid services not directly dependent on the concession itself.

In addition, we entered into various joint ventures and partnership models (e.g., grid participations and participations in municipal utilities), which are in a few cases limited in duration (e.g., subject to termination rights), with a duration generally ranging from 5 to 20 years. Where we are not able to extend expiring partnerships, we face similar risks as in our concession-based business as well as negative signaling effects for related business with the respective municipality. For example, we are currently negotiating an extension of our partnership in respect of medl GmbH, a company operating the grid in Mühlheim, Germany, in which we hold a participation of 49%. As the negotiations have not yet come to an end, it cannot be excluded that we will be unable to extend this partnership beyond its scheduled expiry by the end of 2016.

The challenging financial position of many municipalities and cities in Germany may also negatively affect our concessions business or the terms of concessions granted to us. Municipalities and cities are striving to find new sources of income and they are increasingly taking up the operation of grids themselves (so-called “re-municipalization”). A current draft bill in Germany may make it more attractive for municipalities and cities to regain ownership of grid assets. See also “3.2.2 We face risks, especially related to the revenue structure and grid tariffs, within the regulatory framework in Germany and other jurisdictions.”

Furthermore, we may also lose customers in the non-regulated business of the Grid & Infrastructure Segment, such as municipal utilities, if they are not satisfied with the quality of our products and services, which could negatively affect our revenues from this segment.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.8 If we are unable to renew an existing concession or if it is terminated, we may have to sell the relevant grid infrastructure, which will negatively affect our revenue and may lead to a loss in connection with the sale, or we may enter into cooperation agreements that are limited in time.**

In the event that a concession relating to our grid infrastructure, in which we typically make significant investments, is not renewed, the new designated concessionaire, in Germany, has the right to purchase our local grid infrastructure. The determination of the purchase price varies depending on the legal regime. Under the current regime in Germany, for example, the calculation of the purchase price is based on the net asset value (*Substanzwert*) and in most of our contracts we have agreed to the present asset value (*Sachzeitwert*) of the infrastructure, while a draft bill brought in by the German Federal Government contemplated as an amendment to the German Energy Industry Act (*Energiewirtschaftsgesetz*) proposes using the capitalized earnings value (*Ertragswert*) as a basis instead. A decision of the German Federal Parliament is expected by the end of October 2016. We face the risk that the purchase price realized for the sale of our grid assets may be lower than expected, that it will – in particular due to the new legislation – be lower than what we have received in the past and could in some cases even be below the book value/imputed residual book value of such assets, resulting in us suffering a loss, negatively affecting our financial position. In particular, if the bill proposing the use of the capitalized earnings value is passed in Germany, we expect that a shortfall in the realized price compared to our price expectation could occur more often. In addition, we have in the past faced litigation and may be involved in litigation in the future, regarding repayment claims for a portion of the purchase price received by us in connection with the sale of our grid infrastructure.

Another possibility in cases in which we are unable to renew our concession is that we enter into cooperation agreements or set up new companies with the respective cities and

municipalities, which has already happened in about 65 cases. While these agreements give us the ability to steer and maintain the grid in the future, most of the contracts are limited in time. Therefore our grid business and profitability may be negatively affected after such cooperation agreements are terminated.

In addition, concessions may be terminated (including in cases in which the municipal counterparty makes use of an ordinary termination right which is contemplated in certain agreements) or revoked (for example, if we breach a relevant condition in the concession agreements, or for performance-related reasons). In such cases, we face the same risk as described above for the situation in which we are not able to renew a concession. In a few cases, a special termination right may be triggered by a change of control, *i.e.*, if RWE AG directly or indirectly no longer holds the majority of the Company's shares. Furthermore, our concessions may be challenged by third parties (see *"3.2.5 We depend on licenses, concessions, approvals, certifications, exemptions and/or dispensations, which may be revoked, challenged or not renewed."*).

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.9 Increasing decentralized power generation and other factors have made grid operations more complex, requiring additional investments which may only start yielding a return in the next regulatory period, and increasing storage capacities may lead to less consumption out of the grid.**

We face risks relating to our grids due to more intensive grid usage in Germany, Hungary, Poland and Slovakia, in which we operate as electricity DSO, and increased feed-in from renewable energy and prosumers, who feed electricity into the grid in a varying and unpredictable amount. For example, in Germany, the Renewable Energy Act (*Erneuerbare-Energien-Gesetz, "EEG"*) has in recent years resulted in an increase in decentralized feed-in mainly from photovoltaic and wind electricity sources, which leads to more complex grid operation due to variable load flow. We expect this trend to continue in the future and to be accelerated by the integration of an increasing number of actively participating consumers. This trend, coupled with continuous delays in grid expansion, is expected to lead to structural congestion in the near future, which at TSO level requires further expansion of the distribution grid capacity, and at DSO level creates the need for new solutions in order to manage grid overload. The steady increase in electricity generation from weather-dependent renewable energy sources, which also fluctuate according to the time of day, as well as the rising number of small decentralized generation units presents significant challenges, for example making grid operations more demanding in technical terms and requiring higher investments in the maintenance and expansion of our network infrastructure. Such additional investments will, under the current regulatory system, only be reimbursed with a time delay in the next regulatory period, if accepted by the regulator at all.

In areas with a high penetration of renewable energy generation (e.g., in Germany in particular photovoltaic panels on roofs) and due to the increasing number of electrical small-range interconnected storage facilities (swarm storages), the amount of stored energy may increase. This may lead to declining electricity distributed via the distribution grid in these areas, negatively impacting the earnings of the Grid & Infrastructure Segment and the refinancing of the investments in our grid assets. In addition, the trend towards decreasing energy consumption and higher energy efficiency may also make the current network inefficient. In addition, the increasing electrification of the electricity grid may result in a lower usage of our gas grids, e.g., where electricity is used for heating purposes.

We also face more complexity in our gas grids, as these are used and may be used even more intensively in the future for additional purposes such as "Power to Gas", where excess wind and photovoltaic power is used to produce gas, which is fed directly into the local gas grid. In the Czech Republic, the increase in certain types of renewable energy, such as biomethane, may in

the future affect the usage of our gas distribution grids. In addition, these factors result in an increased risk of more interruptions or other disruptive incidents within our grids.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.10 If we fail to lower our operating costs in the Grid & Infrastructure Segment, or incur higher operating costs, our profitability will be negatively affected.**

In order to maintain our profitability in our Grid & Infrastructure Segment, we are required to continuously lower certain costs, and any increase in profitability requires a reduction in our operating expenses in excess of the efficiency improvements that are required by the applicable regulatory regime. This represents a challenge, in particular in light of the increasing complexity of our grid operations, which typically require us to make additional investments or incur additional operating costs. Our operating cost base includes costs relating to material, repairs and maintenance as well as grid construction costs, costs for energy and logistics, IT, telecommunications and other costs (e.g., in connection with the hardware, installation and use of special products). Our cost base could increase, either through direct cost increases, or if we fail to achieve planned cost-saving or efficiency measures. We may also face price increases in our outsourcing agreements, especially in Germany, or in the procurement of certain materials which are subject to price volatility in certain jurisdictions (e.g., in case of shortages).

We may also incur higher costs in the future in our Grid & Infrastructure Segment, for example through the reinforcement or replacement of certain equipment, such as steel masts, which may not be sufficiently or at all covered by provisions. In addition, the increasing use of electrical swarm or cluster storage systems, where many small storage facilities are interconnected, may require us to incur higher costs for reinforcing electricity grids. Furthermore, severe weather conditions, such as storms, severe cold and flooding, could damage our grid and require us to incur higher than expected replacement costs. Similarly, a reduction in grid usage for any reason could result in higher grid tariffs. This could prompt the regulator to require us to become even more cost-effective and may result in higher costs, for example, to adapt grids and equipment to achieve more stringent efficiency targets, resulting in lower profitability for the Group, as well as a potential write-down of the affected grid assets.

The same applies to potential changes or disruptive developments in the regulatory framework and applicable standards (including amendments to as well as changes in the application of the framework or standards), to the extent that these can have a negative impact on our operating as well as capital expenditures. Unfavorable changes may include, for example, a potential increase in or the introduction of additional regulatory-related costs applicable to us, such as grid fees paid by us to other grid operators, taxes and other cost increases, in particular when the cost increases exceed the amounts considered in our mid-term planning. Besides the traditional grid business, our broadband business as well as our R&D activities could also be negatively affected by such regulatory changes.

We may also face additional liquidity risk from potential changes regarding cost allocations relating to the German EEG and comparable regulations in other countries, which we may only recover with a time delay. Changes may also entail extensive additional maintenance requirements for, for example, gas pipelines and facilities. The future environmental protection framework applicable to us in the different jurisdictions in which we are active may require additional expenditures, for example relating to flood or emission control measures that may affect our Grid & Infrastructure Segment. Changing technological standards or regulation may in general make our grid operations more expensive in the future. For example, tools or materials currently used in our Grid & Infrastructure Segment (such as the insulating gas SF<sub>6</sub> we use in our primary and secondary stations) may become prohibited, forcing us to replace the current transmission stations with new, probably larger ones, which would require more space.

Any such higher costs (e.g., due to significant repair or other costs) could negatively affect our profitability, especially because these costs cannot be passed on to our customers but will, for example, under the current regulatory regime in Germany, typically only be reimbursed with a time delay in the next regulatory period, if accepted by the regulator at all.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

#### **3.1.11 We face competition from gas substitutes and potential risks leading to disrepute of the gas supply industry.**

In the regulated sector for gas distribution, we may face competition from substitutes such as heat pumps, biomass fuels or other fuels that can be used as an alternative to gas. The EU or any national state may adopt measures to prevent or mitigate a dependency on gas from one direction and/or one country, which could lead to increased promotion of gas substitutes. Any such measures would negatively impact our business, in particular our Grid & Infrastructure Segment due to lower use of the grid assets and lower gas storage revenues, and potentially also our gas retail sales in the Retail Segment. Similarly, a fundamental interruption of natural gas supply to Europe (or part of it), or accidents involving a gas explosion, even if caused by third parties, could have a material impact on the reputation of the overall gas supply industry (for example, in terms of reliability of supply) and gas demand. Such a scenario could also further accelerate the adoption of the above-mentioned initiatives regarding gas substitutes. The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

#### **3.1.12 Differences between expected and actual demand of our B2B and B2C customers could lead to substantial losses in our Retail Segment.**

In our Retail Segment, in order to satisfy our customers' electricity and gas demand, we purchase the forecast amount of electricity and gas needed in advance on the wholesale market (for example, one year in advance). We base our forecasts on expected demand. Unexpected or unpredicted changes in the parameters underlying our forecasts, such as changes in load profile or decreases in demand, for whatever reasons (including higher than expected customer losses in our B2C retail business or – depending on the contract configuration – volume risks arising in our B2B retail business), could lead to substantial mismatches between the volumes bought in advance on the wholesale market and the volumes actually needed. If our advance purchases exceed actual demand, we may need to sell the excess volumes on the wholesale market or – in the case of gas – store them temporarily and sell the volumes later. Sell-backs of gas or electricity on the wholesale market may result in losses if the market price has declined compared to the price for which we originally purchased electricity and gas in anticipation of a higher demand. Higher than expected demand may force us to purchase additional electricity and gas at higher than anticipated prices which we may not be able to pass through to our customers. In Poland, demand variation risks also concern certificates of origin, which are purchased in advance based on the forecast amount of electricity expected to be consumed by customers. The prices of these certificates of origin are volatile, so we may have to sell unneeded certificates at a price that is lower than the original purchase price or purchase additional certificates at a higher price in case demand is higher than expected.

We also face the so-called swing risk relating to gas, electricity or combined gas and electricity facilities. Gas or power swing impacts arise from the differences between the forecasted and actual customers' consumption of gas and electricity in the yearly profile (mostly temperature-related). The risk includes the cost variance of having to buy or sell gas or electricity in the short-term wholesale market to cover the difference, and the impact on revenue arising from the change in demand. For example, mild winters tend to reduce gas and electricity consumption and could lead to volume sell-backs at a lower price and decreased revenue. Similarly, unusually cold weather could lead to higher than expected demand and require us to purchase additional gas volumes at higher prices, which we may be unable to pass through to customers.

Mismatches between forecast demand and actual off-take which cannot be predicted in time are balanced out by the network system operator and charged to the supplier, typically at a cost higher than equivalent wholesale prices. Therefore, in the event of such mismatches, our results of operation are exposed to the respective reserve energy prices. For both the balancing energy costs and the purchases and sales on the wholesale market, the extent of our potential losses may increase in the future if market characteristics of the wholesale and balancing energy markets change, for example due to regulatory interventions.

In addition, due to differences between estimated and actual demand, our hedging strategy and the related hedge premiums paid may prove unfavorable to us, for example, in the case of premiums paid for weather hedges. Moreover, certain residual positions cannot be fully hedged at the point of sale, such as positions arising from a mismatch between the granularity of forecast customer demand (e.g., on an hourly basis) and available wholesale products (e.g., seasonal, monthly, quarterly or annual base load contracts), which may lead to a higher exposure in case of any fluctuations that could affect us negatively.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.13 We face the risk of a decline in demand for electricity and gas due to weather conditions, increased energy efficiency, climate change and other factors outside our control.**

The demand, in particular residential demand, for gas, and, to a lesser extent, electricity, is subject to seasonal fluctuations and significantly dependent on weather conditions, especially temperature, with our operations generally experiencing higher demand during the cold-weather months of October through March and lower demand during the warm-weather months of April through September. Demand and, as a result, our retail sales and operating result for electricity and gas may be negatively affected by periods of unseasonably warm weather during the autumn and winter months. Although we use a variety of weather hedges to mitigate these risks, we may be unable to fully cover our exposure to weather conditions.

During the winter, we make higher cash payments to cover the cost of purchasing higher volumes of electricity and gas on the wholesale market. While customers can choose among several payment options (direct debit, upon receipt of the bill, etc.), on average it is possible that during the winter months, and on occasion during the summer, our cash payments to third parties may exceed the cash received by us, and hence our liquidity requirements could increase.

Furthermore, it cannot be ruled out that actual demand for electricity and gas in our Retail Segment will be below our plans and expectations due to other factors, including energy efficiency and climate protection measures (such as improved insulation and energy efficiency in buildings, automated monitoring and regulation of heating systems and lower room temperatures in flats, as well as more efficient production processes leading to reduced energy requirements from our industrial customers), general economic conditions, the price of alternative products, or changing customer behavior or preferences, for example regarding energy savings or increased production and storage of electricity by our consumers (See *"3.1.16 We face the risk of declining customer satisfaction, customer losses and increasing churn rates, in particular in our Retail Segment."*). There is an increasing number of private households and small businesses that produce energy (for example, with photovoltaic technology on their own roof or a small micro combined heat and power ("CHP") plant). Furthermore, industrial customers are increasingly producing and storing energy they produce on their own in order to reduce their energy expenses.

In the past, the above factors, and in particular the trend towards energy savings, have had a dampening effect on electricity and gas consumption in our key markets. For example, due to the increasing energy efficiency of buildings, the connected district heating load declined and may decline further. As a result, the base fee and thus our district heating revenues may fall. In certain countries, it is market standard for customers to have contractually unlimited off-take

flexibility, which increases our exposure to a fluctuation in demand. In cases where an unexpected rise in demand exceeds our forecast demand, we may have to purchase additional electricity or gas in the spot market at higher prices.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

#### **3.1.14 Competition is intense and may result in discounts and lower margins.**

In our Retail Segment we face intense competition in nearly all of the countries in which we operate due to the aggressive tactics of existing market participants and the entry of new suppliers into the marketplace. In some countries, especially in Germany, the Netherlands, Belgium, the UK and the Czech Republic, there is fierce price competition, which has increased with the entry of new market participants. Such new participants often have a lower cost base, allowing them to enter the market with aggressive pricing models and to offer energy at lower prices, to apply aggressive and risky purchase policies or to have a business strategy to accept lower margins or even losses in the short-term.

The ability to source commodities at favorable conditions can provide a retailer with a competitive advantage, so that in times of low or falling wholesale prices, new competitors are typically attracted by temporarily higher margins. The entry of these additional competitors increases competition for us. For example, the general decline in wholesale gas prices between November 2014 and April 2016 in both Continental Europe and the UK put retail quotations under pressure in many countries, resulting in cheaper residential and industrial gas tariffs.

Competition also exists with regard to the scope and quality of services offered. Competitors, especially new smaller suppliers, have historically been more flexible in commodity products and specific niche products and offerings. Furthermore, telecommunication and technology companies have started competing or may compete with us in the future, in some of our grid metering and retail business areas, for example in new technologies we offer such as "SmartHome" products (home automation products with a technology that connects many electrical devices within the home, customized hardware and software solutions for "smart" charging points, etc.), and may be more successful than us at including these costs into their pricing. In some countries, competition is supported by regulation, for example due to exemptions from tariff regulation for certain suppliers. Our retail margins may be negatively affected if we were to continue to grant discounts on non-standard products (*i.e.*, products with a fixed-price tariff, a fixed term or energy-related services), or if we had to lower the price for the standard variable tariff products (commodity products with an unlimited term), for example, to follow promotions offered by competitors (in the past, these have included measures such as a temporary price cap), which put pressure on the retail market, or if customers were to transfer to alternative lower-margin products.

In case standardized grid fees are introduced, as has been discussed several times in Germany in the past, there is the risk that we may no longer be able to charge different retail prices in different regions.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

#### **3.1.15 We may not be able to increase the prices we charge or may only be able to do so with a significant delay, and price increases may be challenged.**

Our ability to increase our retail prices is, to a large extent, dependent upon our contractual relationships and market conditions. For several reasons including, but not limited to, regulatory standards, the intense competition we face and public pressure, for example from consumer associations, we may be unable to pass on increased costs in the form of price increases to our customers immediately or at all, or we may not succeed in passing on the entire cost increase or a significant portion thereof to our customers. Our ability to pass on price increases of wholesale commodities, carbon dioxide market prices, network and system costs and the costs relating to

various obligations placed on suppliers to fund renewable energy and to other governmental energy policy objectives (e.g., cost relating to the capacity mechanism in the UK) and other costs, may also be affected by increased price competition for market share in such markets.

In addition, we have entered into long-term fixed price power purchase agreements with large business customers, or we have guaranteed a certain price to existing customers for a certain period (for example in our discount business eprimo), which hinders us from passing on price increases for the term specified in the agreement or guaranteed to such customers. Moreover, some of our large public or corporate customers enjoy a strong negotiating position. This may impair our ability to renegotiate certain agreements with terms that are unfavorable for us or to pass on cost increases. In the future we may have to renegotiate agreements with individual large customers on terms less favorable to us than the original agreement. For example, the supply and services agreement between our UK retail entity and a large business customer contains clauses requiring the parties to negotiate the allocation of any increased or new industry-related costs (such as “smart” metering costs) and the transfer price mechanism due to changes in the retail market conditions. As a result of such renegotiations, we may achieve lower margins.

We are also dependent on maintaining good relationships with our customers, and any attempt to increase our prices or any other disruption in such relationships could result in the termination of existing relationships and reduced sales of our products and services, and force us to resell the unused portions of electricity and gas on potentially adverse terms. We may, therefore, choose not to pass on price increases. In cases in which we choose to increase our prices, we face the risk that some of our customers may challenge such price increases, which we experienced in the past. In some cases, we have not succeeded in asserting our respective claims and may be unable to do so in the future.

Any inability or delay in passing on increases in the cost of electricity and gas as well as other costs to our customers, the loss of customers and any other factors affecting our retail revenue and margins, could have a material adverse effect on our business, financial position, net assets and results of operation.

#### **3.1.16 We face the risk of declining customer satisfaction, customer losses and increasing churn rates, in particular in our Retail Segment.**

Through our Retail Segment we serve 23 million customers (based on contracts as of December 31, 2015) and our success significantly depends on keeping our existing customers and acquiring new customers. A portion of our customers in our B2C retail business are not bound by long-term agreements and may choose to obtain electricity or gas from our competitors at short notice. The churn rate (which we define as the total customer losses in a given year divided by the average number of customers in the same year) in our B2C retail business has increased considerably in recent years, and may continue to further increase in light of increasing customer willingness to change supplier. In particular in the UK, we have suffered high churn rates in the last years (see “3.1.18 *We may not be able to successfully implement our restructuring program for our npower business in the United Kingdom, and we may incur expenses to comply with regulatory decisions.*”). For example, customers may opt to switch to another supplier if they are unsatisfied with our service quality or the scope or the technical solutions we offer, or if they believe that our prices are too high. This trend is supported (and may continue to be supported in the future) by regulations on transparency of pricing and additional regulatory measures in certain jurisdictions aimed at facilitating switching electricity and gas suppliers. In addition, there are other factors that increase the risk of losing customers, including reasons outside our control. Moreover, the ability and willingness to switch supplier is facilitated by online portals showing a direct comparison between suppliers’ tariffs and supported by competitors’ offers to assume any switching costs on a change of supplier in certain jurisdictions. Furthermore, in certain jurisdictions, we are required to indicate to our customers the most affordable tariffs (see “3.2.1 *We are subject to significant regulatory and political risks, and our revenue, profits and financial position have been and will be affected by*

*the regulatory frameworks in different ways."* and *"3.2.9 We face risks related to consumer, competition and antitrust laws, rules and regulations, including potential investigations and proceedings which may result in fines and damage to our reputation or which may otherwise negatively affect our prices and business in general."*). Any of the above-mentioned factors could lead to a loss of electricity and gas customers even on short notice or our customers switching to our more economical tariffs. In addition, it cannot be excluded that we may suffer higher than anticipated losses of customers, for example, as a result of price increases, which we implement, or changes in public energy policy in Germany and other countries.

A higher willingness among our existing customers to switch to another supplier or to switch to one of our more economical tariffs, and potential higher customer care and customer acquisition expenditures may negatively affect our profitability. In certain countries, for example in the UK and the Netherlands as well as, increasingly, the Czech Republic, under so-called "collective switching" schemes, private customers increasingly form large groups and use their collective bargaining power to negotiate more attractive terms from energy suppliers. These types of initiatives present a further risk, namely a potential loss of customers and revenue. Prices submitted by suppliers as part of collective switches in the UK do not need to be shown on bills as the most competitive tariff of the relevant supplier and thus represent a way for a supplier to offer a more competitive product to a particular group without risking a cannibalization of its customer base. In other regions, we may be legally hindered from enforcing penalties for early termination of a fixed-term retail contract, which could lead to higher churn rates and a decrease in our margins, either from lost volumes due to customer losses or from lower margins for cheaper products offered in order to retain or regain customers who are leaving or willing to leave. Moreover, applicable regulations may limit our ability to conclude fixed-term contracts, which could also lead to higher churn rates and lower profitability.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.17 We face the risk that the standardization of processes may not progress as expected, may cost more than anticipated or result in lower customer service levels.**

Our Retail Segment faces fierce price competition, requiring it to standardize many processes and systems, in particular billing and information technology ("IT") systems, as a way of lowering its operating costs in order to remain competitive. Standardization measures first require additional investments, so we have to commit significant capital, and may cost more than originally anticipated. In addition, these measures may not progress as expected, since standardization processes are prone to time lags and disruptions in their implementation, which may harm our operating business. Moreover, any such disruptions could lead to a lower quality of services, which could result in increased churn rates and negatively impact our profitability. This could have a material adverse effect on our business, results of operation and financial position.

**3.1.18 We may not be able to successfully implement our restructuring program for our npower business in the United Kingdom, and we may incur expenses to comply with regulatory decisions.**

We are in the process of reorganizing the business of our UK subsidiary Npower Limited (our "**npower business**"), which comprises the supply of electricity and gas to both B2C and B2B customers in the UK and forms part of our Retail Segment. In 2015, we noted that the residential division (within B2C retail) of our npower business was performing materially below planned levels. During the course of an internal investigation, several issues were identified, including problems with the implementation of the IT system for customer service and meter measurement/billing systems and processes; deficiencies regarding operational and internal controls, including management reporting; the oversight of outsourcing partners; overly optimistic planning; and cultural and strategic issues. See also *"3.1.36 We depend on the*

*uninterrupted and efficient functioning of our information technology, data collection and processing and process monitoring systems to manage our operations.”*). To address these issues, which, coupled with the impact from external, regulatory and market-related factors, led to high customer losses and a significant deterioration in the financial performance of this business, a turnaround program was set up. The program includes correcting the deficiencies in the customer service and billing IT system, a radical overhaul of management and rationalization of the property portfolio, among other initiatives. With this program, we target gross cost savings in the amount of GBP 200 million until the end of 2018 (as compared to our 2015 cost base), but no assurance can be given that we will be able to achieve this target or any cost savings at all. We have implemented a number of measures and have identified measures that we intend to implement in the future. However, there can be no assurance that we have identified all the issues responsible for npower’s underperformance and additional measures, not yet identified, may be required in addition to those that we have already implemented or plan to implement. In connection with the implementation of this program, we have already incurred, and will continue to incur, extraordinary restructuring expenses and cash-outs, including capital expenditures relating to the optimization of our IT systems and customer handling processes, as well as severance payments. In addition, further restructuring measures and similar programs and initiatives, including headcount reductions, cannot be excluded in the future depending on the development of our business and may also result in significant extraordinary costs. If the extraordinary expenses and capital expenditures we have incurred and continue to incur as part of our restructuring and efficiency improvement measures are not offset by future savings, our financial position may be adversely affected.

In addition, there can be no assurance that the initiatives adopted as part of the npower restructuring program or any other current or future initiatives will bring about the targeted decrease in customer churn rates, the expected gross cost savings, targeted efficiencies and the expected increase in npower’s business potential and earnings within the expected timeframe or at all. Moreover, any significant headcount reductions in connection with any current or future restructuring programs may result in adverse publicity and loss of reputation, and may put strains on our relationship with our employees, employee representative bodies and trade unions. If our efforts to improve our operational efficiency and the ongoing implementation of our npower restructuring program are not successful or are delayed, our retail business in the UK may continue to suffer. In addition, the implementation of any operational improvements may be unsuccessful, result in unexpected disruptions of our processes and may distract management from running our business operations. After the implementation of the npower restructuring plan and any similar future measures, we will still need to prove that the changes are sustainable and that the redesigned processes are suitable for our day-to-day operations including our customer service, IT, internal control processes and our ability to reliably supply our customers with electricity and gas as well as to bill them appropriately. Any failure to implement the measures relating to the npower restructuring plan or any future similar measures or the realization of any of the aforementioned risks during or after the implementation could have an adverse effect on the quality and cost of our products and processes and result in a material adverse effect on our business, financial position and results of operation. Moreover, we face the risk that fines and/or even a sales ban may be imposed on npower retail operations if the number of customer complaints – which had significantly increased during recent years, in particular due to the business disruptions caused by our billing and other relevant systems (and declined in 2016) – are not considerably reduced to a level considered acceptable by the regulator.

Furthermore, the regulator in the UK (the Office of Gas and Electricity Markets, “Ofgem”) as well as the antitrust authority in the UK (the Competition and Markets Authority, “CMA”) have ordered measures applicable to the UK energy sector which we will have to implement. These measures will result in additional costs and expenses and have negative effects on our business in general and on our customer base as they limit our business development and reduce our revenues. See “3.2.9 We face risks related to consumer, competition and antitrust laws, rules

*and regulations, including potential investigations and proceedings which may result in fines and damage to our reputation or which may otherwise negatively affect our prices and business in general."* for more details. In addition, an ombudsman has been appointed in the UK to observe whether we are complying with the measures required. If we do not comply with these measures, or if we fail to achieve any required targets, including the roll-out of "smart" meters, some of which are outside our control, such as, for example, having no more than a certain number of customer complaints, there is the risk that further measures will be adopted by the regulator, including the imposition of fines or orders that require us to stop or start actions that affect our ability to carry out the npower business in the UK. Moreover, due to the above-mentioned shortcomings in our retail business in the UK, we already had to agree to a settlement with the Ofgem for compensation of our customers and payments to Ofgem approved charities and we believe that we are subject to higher attention from the Ofgem and other UK regulators.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.1.19 In our Renewables Segment, our exposure to market prices will increase as support schemes and fixed feed-in tariffs are cut or fade out.**

We operate a portfolio of renewable energy production plants. The electricity we generate in our Renewables Segment only partially benefits from support schemes. For example, the electricity we generate in our large-scale hydropower plants in Germany is for the most part not supported under the EEG. In addition, support schemes are granted only for a limited period of time and thus an increasing portion of our existing wind farms will stop benefitting from these support schemes in the foreseeable future. Furthermore, support schemes may be replaced at short notice and in some countries cancellations with retroactive effect for already installed renewables operations, as has already occurred in Spain, cannot be excluded (see *"3.2.1 We are subject to significant regulatory and political risks, and our revenue, profits and financial position have been and will be affected by the regulatory frameworks in different ways."*). In fact, several EU Member States have aimed at reducing support for new installations for renewable energy sources and have put corresponding measures in place. Currently, approximately 40% of our gross profit in the Renewables Segment does not benefit from support schemes such as fixed feed-in tariffs (for the financial year 2015). To the extent that the electricity generated in our Renewables Segment does not benefit, or only partially benefits, from support schemes, we are exposed to market price fluctuations. Therefore, the development of prices on commodity markets has a material influence on our earnings, especially electricity and – in relevant markets – the prices for green certificates (*i.e.*, tradable commodities proving that certain electricity is generated using renewable energy sources). See also *"3.1.49 We face risks arising from the volatility of commodity prices."* The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.1.20 Energy production of our Renewables Segment could be negatively affected by weather conditions.**

The generation of electricity in our Renewables Segment is subject to weather-related influences and is strongly seasonal. Actual weather conditions may differ from the long-term average weather projections used in our mid-term planning.

Hydroelectric power production depends on suitable water levels in the rivers on which the plants are located and could thus be adversely affected by the absence or low levels of precipitation and of melt water due to, for example, a dry and prolonged summer or a winter with little snow, in particular in Germany, where most of our run-of-river power stations are located. For example, in 2015, we generated less electricity in our hydropower plants than in 2014 due to lower rainfall levels.

Weather conditions, especially extreme weather or long-term climatic change, affect wind power generation, in addition to the general volatility of wind levels to which we are subject. This entails the risk of lower than anticipated generation of electricity from our offshore and onshore wind farms.

In addition, photovoltaic production depends on the level of sunshine. This is relevant for the production of our solar-thermal power plant Andasol 3 in Spain and may become more relevant to us if we decide to invest into photovoltaic plants in the future.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.21 Differences between expected and actual production levels could negatively affect the planning and hedging strategy of our Renewables Segment.**

Fluctuations between expected and actual production levels in the plants of the Renewable Segment may lead to lower revenues than expected for this segment. For example, climate trends may change or be measured inaccurately, and so projections made during the development phase of any plant in our Renewables Segment with regard to the availability of the renewable resources and the resulting profitability of the plant may prove inaccurate.

In addition, our hedging strategy may prove to be unfavorable to us if there are differences between the estimated and actual energy production. For example, if the actual energy output is lower than the volume hedged via wholesale market products, the difference must be bought at potentially higher prices.

Moreover, we could be unable to fulfill our contractual commodity obligations if the contemplated risk buffers and risk mitigation measures are insufficient.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.22 The Renewables Segment faces increasing competition for projects and we may not be able to invest or be interested in investing at all.**

In the Renewables Segment, competition for projects has increased, as many countries have implemented a tender process for energy producers. Auctions or other tender methods with an increasing number of participants are directed to avoid funding of renewables by uniform “one-size-fits-all” support schemes and instead determine such funding in a competitive tender procedure resulting in a “pay-as-bid” or “pay-as-cleared” (uniform price) remuneration. This system results in decreasing tariffs and detrimentally affects our margins for new projects and could lead to us not being able to recover development and other costs for renewable generation assets. In addition, there is growing competition among the different renewable energy sources, such as onshore wind, offshore wind and photovoltaic. In addition, because we lack complete and transparent information, in such tender procedures we may bid a lower price per MWh to be received by innogy under the project than the amount we would have bid had we had knowledge of certain value-diminishing factors. There can also be no assurance that we will be able to win any of such auctions or tender processes, which might ultimately prevent us from recovering development and other costs and lead to a forfeiture of any potential project acquisition premium.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.23 We may not obtain licenses for projects in our Renewables Segment.**

Our regulated activities depend on licenses, concessions, approvals, certifications, exemptions and dispensations in different jurisdictions in order to operate our business, which often require proof of technical and environmental qualifications. For example, we are exposed to risks associated with approvals when building and operating our renewables production facilities.

There is a risk that approvals of new projects are either received late or not at all and that granted approvals may be withdrawn. Depending on the progress of construction work, the applicable support scheme and the contractual obligations to suppliers, this can have a very negative financial impact on our business, particularly in the form of lower feed-in tariffs (which generally decline annually for each installation after commencing operation). Furthermore, there can be no assurance that we will be able to renew our licenses, concessions, approvals, certifications, exemptions and dispensations upon their expiration within the required timeframe or at all, which results in our obligation to decommission the renewables generation facility at our own cost. See *"3.2.5 We depend on licenses, concessions, approvals, certifications, exemptions and/or dispensations, which may be revoked, challenged or not renewed."*

Moreover, the regulated support schemes entail specific obligations which must be fulfilled throughout the support scheme period. For example, in Germany, electricity generated in renewable energy plants has to be measured separately from conventionally generated electricity. If we are unable to comply with the regulatory obligations associated with support schemes, our revenues and results of operation may be materially adversely affected.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

#### **3.1.24 We may not be able to secure financing, for example, for renewable power generation projects.**

In order to conduct our business, uphold our position as a producer of energy from renewable sources and to continue to be competitive, we need to build new renewable energy generation plants, preserve and if necessary enhance our existing plants and equipment as well as develop new products and services, which may involve substantial capital expenditures. In addition, we may require additional financial means to finance acquisitions. Many of the large-scale projects in which we are involved, for example the construction of new offshore wind farms, are dependent on finding project partners and securing non-recourse project financing. In the absence of partners or suitable financing, the construction of such plants cannot be started. We may be unable to find appropriate partners or a consortium of banks willing to finance our projects at all or at acceptable conditions. For example, disruptions in the banking sector and regulatory interventions regarding long-term lending could significantly reduce the availability of project financing and may lead to increased borrowing costs. Should we be unable to find external investors as partners for the realization of projects, we may need to make higher than expected capital expenditures and our risk exposure would be higher. Moreover, in connection with project financing and certain bidding processes, there is sometimes a requirement to provide a certain form of bank guarantee (for example, bid bonds or a security for our equity commitment). Under certain adverse conditions, we may be unable to procure these bank guarantees from corporate credit lines (see also *"3.1.45 Covenants and other restrictions under our existing financing agreements and bonds, as well as changes in credit market conditions and declines in credit ratings may restrict our financial and operational flexibility or otherwise negatively affect our business."*). In certain extreme cases, we may even have to abandon certain projects, which would result in development costs being lost.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

#### **3.1.25 We may experience disruptions, delays and cost-overruns with respect to major projects for renewable power generation.**

In addition to the need for partners and financing, the success of major growth projects such as the construction of a new renewable energy plant (for example, a new wind farm) is dependent on careful planning and execution. Moreover, the so-called financial close of a project, which enables funds to start flowing so that the construction of the project can be started, is subject to the fulfillment of several conditions contained in the respective financing and other project-relevant agreements, many of which are outside of our control. For example, the main approvals

must have been secured and any technical issues clarified. The success of any such project may be also negatively affected in case of opposition or lawsuits brought by citizens or environmental activists, among others.

In addition, the construction, commissioning, operation and ramp-up of such plants to full capacity are, especially for large offshore wind farms, complex processes subject to delays and potential disruptions as well as cost overruns and project cancellations, which would negatively affect our budgeted operating result and could result in impairments for such plants. There may be several causes for such delays or disruptions, including erroneous market or project assessments and calculations, deficiencies regarding project management and implementation, and factors outside of our control, including weather-related factors and difficulties stemming from third parties, among others. Any of these reasons may result in us being unable to amortize the development and construction costs for such projects. Moreover, in certain cases, such as with an ongoing wind offshore project in the UK (i.e., the Galloper project), a potential delay beyond the phase-out deadline for the Renewables Obligations Certificate ("**ROC**") scheme would mean that this project would not be eligible for ROC subsidies, as currently planned (see also "*3.2.17 We face risks in connection with renewables obligation certificates in the United Kingdom, including fluctuations in the price of such certificates, and other trading schemes in other jurisdictions.*").

In some cases, such as with our newly planned Triton Knoll offshore wind farm, for which we entered into a joint venture in February 2015 with a Norwegian company for the joint development of the project, the decision on whether to begin with the construction or not may take a relatively long time (in this case, a decision is currently scheduled for 2017), and may depend to a large extent on factors such as qualifying for support schemes and obtaining the required consents. We may also suffer delays or disruptions in case of any disagreements with, or claims from or against, our project partners, major suppliers or subcontractors, or due to changes in the auction schedule. Furthermore, our project partners may decide to abandon or not go ahead with development projects and we may fail to find alternative partners, which may lead to us being forced to abandon the project altogether and/or recognize related write-downs. For example, the final costs to be capitalized for our new Nordsee Ost wind farm, which was inaugurated in May 2015, may be higher than originally planned due to a potentially higher contract price to be paid to a supplier. Arbitration proceedings are currently ongoing and will likely proceed into 2017. Moreover, in some cases we face risks relating to grid delays, as was the case in our project Nordsee Ost, resulting in lost revenue to the extent that the compensation received from the grid operator does not cover all potential losses. Although in this case we claimed and obtained compensation for delays from the grid transmission operator, we are currently in discussions with the operator and it cannot be excluded that we may have to repay a portion of the compensation paid to us.

Furthermore, we face the risk that the realized expenses in connection with the decommissioning of assets will exceed the decommissioning provisions built for such purpose, or that we will face environmental or other issues in the course of any decommissioning processes.

In addition, in cases in which we, according to our strategy, sell a percentage of our participation in a development project, for example, for an offshore wind farm (in offshore projects, we typically aim to reduce our stake in the project to a minority participation to reduce risks and share the financial burden with partners), to an external investor, a delay at any time of the project can result in the due date for the payment of a purchase price installment being delayed, which would negatively affect our cash flow.

Moreover, we face technological risks resulting from the recent development of certain technologies in the renewables sectors (for example, offshore wind turbines and their grid connections), and the resulting risk of disruptions because of design defects, also due to the fact that we are one of the first adopters of such technologies and therefore there is less experience in the industry with dealing with such malfunctioning and disruptions. For example, monopile foundations of our and other operators' offshore wind turbines constructed around or before

2012, for innogy in particular at the Greater Gabbard wind farm (in which we hold a share of 50%), require remediation due to a design defect which has already resulted and will continue to result in additional costs, risks of interruption of energy production and loss of revenue (*i.e.*, the aggregate of costs and loss of revenues currently estimated at approx. GBP 100 million for the remediation at Greater Gabbard in the period between 2016 and 2022) and could even, if a remediation turns out to be unsuccessful, result in the loss of the respective wind turbine. In addition, there are only a few suppliers that can supply certain kinds of equipment that we require for the construction of renewable facilities and their operation, such as large-scale turbines for wind farms. This fact negatively affects the pricing, delivery and maintenance servicing of such elements.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.1.26 Our growth strategy for our Renewables Segment includes plans to enter the utility-scale photovoltaic market and other new markets in general, which may fail.**

Our strategy involves the expansion into new technological fields, such as utility-scale photovoltaic and battery projects in which our experience is limited, while our competitors and suppliers are well experienced. In these cases, we may face challenges because we are not yet an established player with sufficient experience (including technical expertise) in these technological fields. Our efforts and high investments in such new areas and technologies may not render the anticipated returns within the expected timeframe or at all, or we may face cost overruns in connection with these projects. We may be unable to find adequate partners for certain innovation projects and cooperations, or such initiatives may not bear the expected results.

In August 2016, we entered into an agreement for the acquisition of BELECTRIC Solar & Battery (“**BELECTRIC**”), a German-based company comprising the photovoltaic and battery business of BELECTRIC group. BELECTRIC is active in the design, installation, operation and maintenance of ground-mounted utility-scale and rooftop photovoltaic plants and battery storage solutions, with production facilities in Germany and India and projects in different regions, including Europe, North/South America, the Middle East, North Africa and India. The closing of the transaction is subject to customary conditions as well as reorganizational measures and is currently expected to take place early in 2017. As an engineering, procurement and construction (“**EPC**”) service provider, BELECTRIC offers the installation of turn-key photovoltaic plants and battery storages to its customers. The EPC business is subject to risks such as construction cost overruns (to the extent that such additional costs are not covered by back-to-back contracts with subcontractors), a failure to finish the project at the agreed-upon deadline, interface risks due to the complexity of project execution, including managing subcontractors and suppliers, the risk that suppliers and subcontractors do not deliver as expected or default during projects, that performance guarantees are not met and default risks relating to customers, subcontractors or suppliers. In addition, as an EPC contractor, we will have to issue appropriate sureties and performance bonds, the amount of which typically depends on the size of the project, to third-party project owners which are typically only released after commissioning of the project. We will also face typical project-related risks, in particular regarding the site preparation. In addition, as an operations and maintenance (“**O&M**”) service provider, BELECTRIC manages the operations and is responsible for the proper maintenance of photovoltaic plants vis-à-vis the plant owners. O&M contracts are long-term agreements entered into for a period of typically up to 20 years. We will therefore face the risk of early termination of such agreements (prior to their term), which would result in less than anticipated revenues, as well as cost overruns for maintenance measures which may become necessary and which are not covered by the remuneration agreed upon in the contract or back-to-back by the suppliers of modules, converters and other electrical equipment. In this new type of business for us, we will also face risks such as the volatility of orders, since the photovoltaic business has been highly cyclical in specific regions due to, for example, regulatory changes, changes in tender procedures and economic developments. In the past years, BELECTRIC was performing below expected returns as

a result of a challenging international expansion strategy. Against this backdrop, BELECTRIC implemented a restructuring program. The success of the EPC business will depend on selecting and executing profitable projects. Additional risks relate to country risks (*i.e.*, the risk that projects may be negatively impacted by political, legal and regulatory changes), potential margin pressure in competitive markets and the need to include technological innovations into the projects, which may result in additional, non-calculated costs and thus reduce our return from such projects. Furthermore, BELECTRIC is partly active in countries where we are currently not present and where we do not have experience in doing business.

Any of these factors may have a material adverse effect on our business, results of operation and financial position.

### **3.1.27 Our expansion into new products and service fields may fail.**

Our Group strategy involves the expansion into new lines of business, which require us to become familiar with new sales markets and competitors and to address the related business risks. For example, within our Retail Segment we have recently developed and currently continue to develop new business models and other types of products and services that differ from those currently offered, including products and solutions tailored to suit individual needs for different end customer segments in the changing energy market: so-called Energy+ products. Any technical developments relating to our business, including the operation of our plants and the services we offer, may also affect the demand for our products and services or the profitability of our operations, which applies to all of our segments. In addition, we may be unable to forecast such trends accurately and in a timely manner and could therefore lose market share, especially if competitors were to offer technologically more advanced products or alternatives to our products or services that may be or become more popular or may be perceived as having superior characteristics in terms of environmental protection and energy efficiency (aspects which are becoming increasingly important), or other aspects. In the past, we have granted discounts to our customers for non-standard products (*e.g.*, fixed-price tariffs or energy-related services), and a continuation of this trend would result in lower than planned sales margins and could hinder us in fully recovering the respective product development costs. In addition, projects relating to new types of products may be subject to delays and cost overruns, for example due to the lack of availability of product specifications, design and software issues, testing and passing the required audits. The same applies to other major projects such as the roll-out of the installation of “smart” meters in the UK, the Netherlands and other jurisdictions due to existing or upcoming regulatory requirements (which roll-out is associated with significant capital expenditures and may be subject to delays or technical difficulties) or the implementation of Energy+ growth projects. Moreover, it cannot be guaranteed that any such projects deliver the expected return and that we may be able to fully recover the product’s deployment costs, which could result in the need to impair the affected assets. In addition, other companies may be better placed to offer these products or services (*e.g.*, telecommunications and technology companies).

There can be no guarantee that our efforts and considerable investments in such new areas, technologies and markets will render the anticipated returns within the expected timeframe or at all, or that we may not face cost overruns in connection with any projects regarding new products and services, or that such new products and services may be met with the expected customer acceptance. We may be unable to find adequate partners for certain innovation projects and cooperations, or such initiatives may not bear the effected results. We may also fail to anticipate evolving customer energy management needs and new market trends in order to adapt our product and service offering accordingly, or may fail to pursue promising trends with the adequate strategy and an appropriate allocation of capital and resources. Trends that we currently consider to be potentially interesting for our business (such as energy-related services or, potentially, electric mobility) may become outdated or fail to become as widespread as expected. In such cases, we may be unable to recoup our development costs, and our resources

could be wasted. In addition, in particular in cases in which our competitors are more successful in identifying the right trends and bringing appropriate products and services onto the market, our competitive position may suffer.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.28 Our strategy involves expansion into new regions, which may prove difficult in terms of market environment and culture.**

Our Group strategy involves the expansion into new geographic areas in which we do not yet operate grids or grid infrastructure, or in which we do not yet operate with electricity-generating assets, in particular into the United States of America ("USA"), Ireland and Turkey, as well as countries that are adjacent to regional markets in which we are already active and/or which we believe offer a stable and favorable business environment. For example, we may also expand into the Middle East/North Africa region, in south-eastern Europe, or in other regions in which we expect to achieve synergies in light of our already existing presence, e.g., presence as gas grid operator, but not yet as electricity grid operator. For example, we already supply the market in Slovenia. In countries in which we do not yet have a strong presence, there may be cultural and market differences, a different regulatory and tax environment, and different criteria regarding pricing and other factors than we are used to in our current business operations. In Romania, for example, the right to terminate open market contracts with a notice period of only 21 days increases the risk related to differences between expected and actual demand (see also "3.1.12 Differences between expected and actual demand of our B2B and B2C customers could lead to substantial losses in our Retail Segment.").

In all these cases, we may be unable to build a profitable business and respectable reputation or strong local presence in order to compete effectively in such markets. In other countries, in which we decide to expand based on the available support schemes or tax environment at the time of our expansion decision this environment may change at short notice, reducing or even eliminating the value of our investments.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.29 Our strategy contemplates future acquisitions and divestments as well as major investments that we may be unable to execute successfully.**

Our group strategy contemplates potential future acquisitions and investments in our core business as well as divestments. This strategy depends in part on our ability to successfully identify, acquire, and integrate companies that enhance, on acceptable terms, our distribution grids, renewable energy and retail businesses. In order to obtain the necessary approvals for acquisitions, we may be required to divest other parts of our business or to make concessions or undertakings that materially affect our business.

In addition, there can be no assurance that we will be able to achieve the synergies and returns we expect from any acquisition or investment within the expected timeframe or at all. For example, we may fail to retain key employees, we may be unable to successfully integrate new businesses with our existing businesses, we may incorrectly judge expected cost savings, operating profits, or future market trends and regulatory changes, we may incorrectly assess the profitability of assets or participations we have sold or plan to sell, or we may spend more on the acquisition, integration, and operation of new businesses than anticipated. Moreover, we may fail to adequately assess any risks and liabilities associated with an acquired business. Liabilities that are unknown at the time of the acquisition may materialize. In addition, we may be unable to effectively settle liabilities that are unknown at the time of the acquisition such as legacy tax claims, claims from former employees and claims for breach of contract.

Furthermore, our business plan is based on certain assumptions relating to the disposal of certain participations and business assets, including the disposal of individual grids and

participations. A disposal of participations and business assets generally decreases our future income and our future operating result. We may not be able to realize income from planned disposals, including from the planned sale of grids or renewable energy projects. For example, we may be unable to find suitable buyers for such assets on terms that we consider adequate, and sale processes may take longer or be more cumbersome than expected, or may be interrupted before the signing of a sale and purchase agreement, or may not be carried through owing to regulatory requirements, so that we may be unable to carry out the planned disposals within the anticipated timeframe or at all, or such process may be more costly and time-consuming for us than originally anticipated. In such cases, our results of operation may be negatively impacted (in particular in cases in which we are forced to retain a non-profitable business beyond the expected timeframe) and we may suffer negative liquidity effects because we do not receive the purchase price within the agreed timeframe. Moreover, in case of disposals, the acquiring party may claim against us in connection with guarantees and indemnifications granted by us in the sale and purchase agreement, e.g., if a representation or warranty made by us in such agreement proved to be inaccurate or it were claimed that we failed to adequately disclose existing risks, or if an indemnity event were to materialize (for example, in case of certain past environmental contamination, we could be required to pay for a significant portion of the remediation under certain contracts).

We may require additional financial resources to fund any strategy for growth in the medium to long term, which may be difficult to obtain, or may result in higher costs and additional financial covenants. The implementation of strategies for growth and change may create additional risks for the Group, including problems with the effective integration of operations or separation of divested assets, the implementation of any restructuring or cost-savings programs, diversion of management time and attention away from existing operations, requiring capital that could otherwise be used for the operation and growth of our existing businesses, disruptions to important business relationships, increased operating costs, usage of limited investment and other baskets (i.e., certain threshold amounts) under our debt covenants, difficulties due to lack of or limited prior experience in any new markets it may enter and difficulties in realizing projected efficiencies, synergies and cost savings.

Acquisitions and divestments (as well as major capital expenditure on property, plant and equipment) may give rise to significant risks as these have long-term effects on our portfolio. Furthermore, prices paid for acquisitions may prove to be too high in hindsight, which may lead to significant impairment charges and loss of shareholder value. Planned asset disposals are at risk of not being implemented if offers do not meet our price expectations. In addition, we are exposed to indemnity and warranty risks in connection with disposals.

The realization of any of these risks could have a material adverse effect on our business, as well as on our net assets, results of operation and financial position.

**3.1.30 Our business activities, in particular regarding our existing energy generation facilities and grid facilities and equipment, are subject to operational disruptions and accidents, which could lead to penalties, compensation, loss of revenue and higher costs.**

Each of our business segments is subject to the risk of disruption and accidents for many reasons and disruptions and accidents could lead to penalties, compensation of damages of our customers including compensation of bodily damages and damage to property, loss of customers and revenue (due to both loss of customers and loss of energy production) and higher costs, especially repair costs.

The reasons for any operational disruption in any of our businesses are numerous. We operate interconnected and often technologically complex plants for the generation of renewable energy as well as electricity and gas grids as part of our business operations. In our gas and electricity grids, we depend on the proper operation of these grids as well as on the continued and proper functioning of the electricity plants of our suppliers and the supply of gas. Our operations could

experience unanticipated operational or other problems leading to a power failure or shutdown (and even a simultaneous power failure or outage, or non-standard power supply) due to many factors, including natural catastrophes or extreme weather conditions (for example, heavy storms can damage network equipment or grid elements across voltage levels or our wind turbines, and heavy flooding or flood waves can lead to damage to our hydropower plants), acts of terrorism or sabotage as well as technical malfunctioning or human error, among others.

Uninsured damage can be incurred at our own plants for renewable energy, including damage to major machinery and electrical and other equipment such as turbines, generators, gearboxes, transformers, any part of the buildings or dams, our offshore construction vessel, other facilities, power plant components and at our electricity, gas and water grid stations, substations, cables, overhead lines, pipelines, control- and dispatching center, call center, supervisory control and data acquisition ("**SCADA Systems**"), telecommunication grids and systems and other grid-related facilities as well as to our district heating systems, heat and CHP plants (including boilers and turbines), especially in Germany and the Czech Republic. Operational disruptions may also cause damage to nature and animals (for example in the North Sea) or be subject to criticism by environmental groups or activists. In particular, our offshore wind farms have been prone to operational interruptions in the past. Wind farms are subject to strong load changes due to varying levels of wind flow, including turbulent wind conditions and are more susceptible to unplanned maintenance due to technical disruptions and equipment failures. In particular, serial defects or a transformer failure at a substation, among other defects, would cause a wind farm to stop production entirely until the defects are remedied. Operational risks at our own plants (including steam-producing or CHP plants) and grids cannot be fully excluded. Operational disruptions in our CHP or heat plants may force us to use more expensive sources for heat production, and operational disruptions in our district heating systems may lead to interruptions of our heating supply, thereby reducing revenues and, in specific cases, triggering contractual penalties. Disruptions can also occur at the plants of third parties for which we undertake the distribution and retail sale of electricity and gas. In addition, the construction and start-up of new plants of third parties for which we act as DSO can be delayed or hindered due to, e.g., accidents, faulty materials, late deliveries, lengthy approval procedures, if the required certifications and authorizations are denied, or due to longer than scheduled inspections or on-site projects (such as retrofit facilities).

In the case of our grid business, we have a higher risk of operational disruption with respect to equipment which is used in our electricity, gas and water grids for a relatively long period and even beyond their originally expected lifetime, for example, masts used for our grids. We are facing similar risks with our CHP Nachod plant in the Czech Republic, where the lignite boiler and its turbine are approaching the end of their lifetime. Serial faults or unexpected overuse of facilities may shorten the expected useful life, entailing changes in the manufacturing process, legal requirements regarding processes and materials or load changes in the facilities. In addition, we face risks relating to our grids due to more intensive grid usage in the countries in which we operate as DSO generally and increased feed-in from renewable energy and prosumers (see "*3.1.9 Increasing decentralized power generation and other factors have made grid operations more complex, requiring additional investments which may only start yielding a return in the next regulatory period*"). The electricity market 2.0, a concept that aims at a more efficient integration of electricity production from renewable energy sources (see "*3.2.1 We are subject to significant regulatory and political risks, and our revenue, profits and financial position have been and will be affected by the regulatory frameworks in different ways.*"), is likely to also have secondary effects on our electricity distribution grid and our retail business because it will require further development of our electricity distribution grid to adapt to the steadily increasing load flow (*Lastfluss*) from renewable energy installations and to handle fluctuations between peak and low loads from such feed-in flexibly.

Accidents in any of our businesses, such as electric arcs, explosions or fires in our production facilities and utilities, break-down of masts of overhead lines and break-down of overhead lines as

such, or for numerous other reasons, could result in damage to property and, in certain cases, bodily harm, requiring us to pay substantial damages. Moreover, oil leakages, oil-filled cables in our network and other incidents in any of our sites may cause environmental damage which we have to remedy. In addition, disruption on a higher voltage level may lead to voltages at customer connections that do not meet the defined standards and therefore might lead to damages or injuries. Further examples for technical disruptions at electricity grids include failures relating to installation of non-standard power supplies and materials, improper operation, insufficient quality of grid documentation (such as plans and maps), failures of control systems and any systems, including IT, malicious acts (such as theft, vandalism, cyber-attacks, terrorism or IT viruses) and a loss of the required certifications. In the area of metering, serial defects of any materials, which are installed in large quantities, may lead to substantial replacement and procurements costs, in particular after expiry of the relevant warranties. Moreover, if such equipment placed on customer premises fails, this may lead to damages and additional costs and liabilities. In our gas grid operations we are also exposed to several risks, including gas leakages from pipes or gas equipment for numerous reasons (such as corrosion breaches), including causes beyond our control, such as damages caused by construction work along a gas pipelines, manipulations of gas meters and domestic installations by third parties, or loss of the necessary operation approvals. Disruptions may also occur during the transportation and distribution of gas, and we may also face issues relating to missing easement, loss of remote control ensuring grid operations, malfunctioning of any units, impurities of gas, any mixture of different gas qualities within one gas supply area or capacity congestions at upstream grid interconnection points. Similarly, our gas storage operations are also subject to several operational risks, such as fire, technical damage to compressors, equipment or storage facilities, or surface facilities, leakages, loss of working gas and cushion gas (e.g., in case of a blow-out or gas leakage of a storage facility caused, for example, by a natural disaster, an accident or human or equipment failure), which risks and damages may exceed our insurance coverage. In addition, a well blowout at a storage facility may cause gas leakage and a restricted operation of the facility for a period of time. Uninsured damage may also occur at our storage facilities, including damage to major surface installations such as turbines and gas processing equipment. Furthermore, there is the risk of pollution or contamination in our water and/or gas pipelines and waterworks (e.g., if asbestos fibers are dissolved in water pipelines or other contamination of the supplied water occurs, breaching the regulatory limits), which may result in damages we have to compensate our customers for. We may also face a loss of water facilities and water supplies due to a wide-area electricity outage, for example, besides water leakages.

While the consequences of any disruption or accident may be diverse, any of them could lead to negative impacts on our revenues, including negative impacts stemming from harm to the reputation of the Group as a reliable supplier or of, for example, gas as a safe commodity. A disruption of our business, including due to equipment failure, especially in our grid business, could lead to an interruption of electricity or gas supply to customers, besides significant replacement and/or maintenance costs. Wide-area power outage scenarios cannot be excluded, and these may be too widespread for the dimensions of the de-jamming service of the system operator. Since as a DSO we are generally legally obliged to operate a safe grid, any disruptions, faults, errors and malfunctions in our electrical and gas and water grid amounting to a breach of such legal obligation, including any events of bodily damage, may also expose us to penalties, adverse impacts on quality factors within the respective regulatory frameworks, compensation of damages, including consequential damages at our customers (assets, production plants, other facilities), loss of profit for production disruption to our customers resulting from such interruption and a loss of customers as well as damage to our reputation.

Moreover, in some cases we face risks relating to delays of grid projects, as was the case in our project Nordsee Ost, resulting in lost revenue to the extent that the compensation received from the grid operator does not cover all potential losses. Although in this case we claimed and obtained compensation from the grid transmission operator, the received compensation could be understood as a preliminary payment based on theoretical operating figures and will have to

be corrected by actual losses of the operating wind farm. We are currently in discussions with the operator about a suitable calculation method for this correction. It is likely that we may have to repay a small portion of the compensation paid to us (as reflected in our accruals). We may also have to pay compensation to plant operators to which we are unable to offer a grid connection.

Any damages to, and any unscheduled repair of, our plants and equipment may result in higher than expected costs or lower generation or other downtime, leading to loss of revenue, in particular in cases in which the availability of the facility is not guaranteed by means of a service agreement with the facility manufacturer. For facilities for which we act as plant operator, we may have to pay penalties to grid operators in case of any disruptions. Moreover, disruptions at different stages of the value chain, such as any renegotiations of the contracts with our existing suppliers or the switch of supplier for whatever reason, may result in higher costs and, in case of delays (for example, should compliant “smart” meters not be delivered in time to enable a timely roll-out of such meters in the UK and other jurisdictions where such roll-out may be required under upcoming regulation), in lost revenue or breach of our contractual or legal duties.

Processes in our Retail Segment are characterized by a marked distribution of tasks among different departments and a high demand on data management. In case of any disruptions in our IT systems, deficiencies in the communication or coordination between departments, or a loss of data, we face the risk that our procurement and other processes may not be properly executed and we may incorrectly bill our customers. See also *“3.1.36 We depend on the uninterrupted and efficient functioning of our information technology, data collection and processing and process monitoring systems to manage our operations.”* As a result, we may lose significant revenue, be subject to penalties from regulatory authorities, face substantial costs to solve the issues and our customer satisfaction and reputation may suffer and potentially lead to contract terminations. In addition, factors such as theft of energy or having unknown or unregistered sites to which we supply energy, could, if it occurs on a large scale, also negatively affect our revenue and margins.

The realization of any of these risks could have a material adverse effect on our business as well as on our net assets, results of operation and financial position.

### **3.1.31 We face risks relating to longer-term fluctuations in heating requirements and demand, as well as overcapacities, which could reduce our revenues.**

We are exposed to longer-term fluctuations in heating requirements due to climate change, given the global gradual increase of temperature levels over a long-term period. We expect seasonal, weather-related and other fluctuations in our retail demand to continue to affect our business and results of operation. Furthermore there may be other reasons, such as improved insulation and energy efficiency in buildings, why the demand for electricity and gas will decrease in the future, some of which we currently do not consider material and others, which we currently do not even know. The risk, however, exists, that due to these reasons the demand for electricity and gas will decrease, which will have a negative impact on our operating result in each of our segments Grid & Infrastructure, Retail and Renewables.

We also face the risk that we may have difficulties in finding customers for our gas storage operations in the European market due to the existing overcapacities, or that we may only be able to sell storage capacity at a lower price. This could result in non-sold capacities, impairments to the assets and reduced revenues from this business.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.32 Our mid-term planning is based on several assumptions, including the development of key economic indicators and other parameters, which are speculative in nature and may in hindsight prove to have been erroneous.**

Our mid-term business plans are based, among other factors, on country-specific assumptions regarding the development of key economic indicators such as gross domestic product, consumer prices, interest rate levels, nominal wages, inflation rates, exchange and tax rates as well as capital goods indexes, which we derive from macroeconomic and financial studies. Our key planning assumptions relating to our business activities in Europe mainly relate to the development of commodity prices as well as wholesale and retail prices of electricity and natural gas, CO<sub>2</sub> emission allowances, the development of electricity and gas consumption as well as of energy services and our market shares in the supply of the respective products and services, together with regulatory framework conditions, all of which are susceptible to unforeseen change, including due to deteriorating macroeconomic conditions. Any erroneous assumptions may have a negative impact on our future operational decisions, including investments. For example, we use assumptions concerning consumer price levels for our mid-term planning regarding the calculation of the Revenue Cap applicable to grid operators' grid tariffs for electricity and gas in Germany. These assumptions on key economic indicators and other parameters are speculative in nature and may in hindsight prove to have been erroneous. For example, with respect to our grid operations, actual consumer price indices below prior assumptions may result in lower than expected Revenue Caps and therefore reduced grid revenue and earnings compared with our business plan. Our Retail Segment has also been and may in the future be affected by public policies regarding, for example, the adjustment of electricity prices, as was recently the case in Hungary. If we fail to accurately assess the economic prospects in the regions and market segments in which we operate as well as the relevant parameters for our business, or fail to identify new regions and market segments that develop positively, we may be unable to plan and adapt our operations effectively and miss valuable business opportunities. In such cases, our business, financial position and results of operation may be materially negatively affected and may not develop as expected.

**3.1.33 We hold a significant number of minority participations, in particular in a number of grid companies and wind farms, making it difficult for us to control decisions by these companies and to enforce our own group policies.**

We have entered into several joint ventures and strategic partnerships, for example with respect to electricity and gas grids, innovation/Energy+ areas, retail (e.g., with sales channel partnerships) and renewable energy (e.g., for the operation of wind farms), and expect to continue to do so in the future. In a significant number of these joint ventures or partnerships we only hold a minority position. Thus, our ability to fully exploit the strategic potential in projects or grids that we operate through joint ventures or similar arrangements (for example, with the respective municipalities or cities, in the case of our grid business or renewable generation assets such as wind farms) could be negatively impacted if we were unable to agree with our partner or partners regarding strategy, funding, the implementation of the strategy or any other fundamental matter, or if the decisions taken were not aligned with our own goals and interests. The successful implementation of a present or future project may also be endangered or impaired in case of a deterioration of the relationship among the partners, financial difficulties or insolvency of a joint-venture partner, or through a breach of contract by a partner, the joint venture, or through unforeseen events.

In addition, one of our competitors could gain control over one of our joint ventures, *i.e.*, by acquiring a majority interest in a strategic partner, which may lead to the termination of the collaboration with said joint venture or partner. Even if we decide not to terminate the collaboration or are unable to do so due to the lack of a change-of-control clause, we may not be able to continue to successfully and constructively collaborate with the new controlling shareholder of the joint venture.

The realization of any of these risks may have a material adverse effect on our business, financial position and results of operation.

**3.1.34 The joint ventures or partnerships we entered or will enter into may fail to achieve the desired results and restrict our business activities.**

The joint ventures or partnerships we entered into or will enter into may fail to achieve the desired results due to numerous reasons such as the respective partners not constructively pursuing the same goals or the partners not fulfilling their obligations. Furthermore, future joint ventures might not be approved by the competent authorities and may not be implemented. In addition, any joint venture or partnership may not yield the benefits that we intend to achieve therefrom. Moreover, if we fail to fulfill our obligations under the relevant joint venture and partnership agreements, either in whole or in part, this may lead to claims for damages, contractual penalties or termination of the joint venture or partnerships by the partner or by the joint venture entity.

It cannot be ruled out that, in joint ventures, technologies will be revealed or required to be revealed to the joint venture and/or the strategic partners and that these may use the technologies outside of the project or joint venture exclusively for their own purposes. In particular there is no guarantee that the know-how and trade secrets acquired by the strategic partner during the partnership will not be used or disclosed to third parties after the termination of the joint venture, thereby adversely affecting our competitive position.

Although joint venture and similar contracts are in general designed for a long-term duration, there are contractual and statutory termination rights available to the partners that may allow, under certain conditions, either partner to terminate the joint venture, in which case we may lose part of our investment or be prevented from achieving our expected profit or other benefits. In the event that we decide to divest or withdraw from a joint venture, there is also a risk that no buyer will be found for the shares (or only at unfavorable conditions) or that we are unable to sell the shares for other reasons, or that our partner will claim damages. Furthermore, certain joint venture agreements may contain so-called "drag-along" rights, under which a partner may force us to sell our stake at an inappropriate point in time or on unfavorable economic terms for us. Joint venture agreements may also contemplate "tag-along" rights in favor of our partners, which may make it more difficult for us or even hinder us to sell our stake in the joint venture. In addition, in the event of the loss of a strategic partner or the termination of a joint venture, considerable resources may need to be invested in a new partnership or significant resources may be needed, to the extent that we succeed in finding a suitable partner or financing at all.

It is also possible that joint ventures and similar contracts may restrict our business activities or that certain clauses may be interpreted differently by the parties, for example regarding non-compete clauses. In case a claim is brought before a court, a judge may not agree with our interpretation of such clauses.

The realization of any of these risks may have a material adverse effect on our business, financial position and results of operation.

**3.1.35 We face the risk that our outsourcing and other partners may deliver their services only partially or not at all, or not observe expected quality standards.**

In certain areas of our business, such as customer service or IT, we sometimes use the services of third parties, e.g., outsourcing and project partners. In such cases, the respective rights and obligations are set forth in cooperation and other contracts. Our partners, intentionally or unintentionally, may breach their obligations or only deliver their services partially or not at all. In addition, such partners may fail to observe the expected or agreed upon quality standards, which would reflect negatively upon us. In such cases, our reputation may be damaged and our operations may be adversely affected, leading to a loss of customers, fines or other financial or non-financial harm. In such cases, our business, results of operation and financial position may be materially adversely affected.

**3.1.36 We depend on the uninterrupted and efficient functioning of our information technology, data collection and processing and process monitoring systems to manage our operations.**

We rely to a large extent on globally and locally functioning IT systems in order to carry out our operations, including for the management and monitoring of our assets, business, financial information and various other processes and transactions such as adequate billing and customer service systems. This applies particularly to our billing systems as well as our global enterprise resource planning system, which electronically captures and controls group business and financial transactions. This applies as well to our IT systems for our renewable generation assets which are necessary to operate, control and monitor these assets and their proper operation as well as to the sale of the produced electricity and gas on the market. The data gathered during this operation by the IT system constitutes an important and valuable part of this business. The same applies to the IT systems necessary to operate, monitor and control our grid and the IT system necessary to operate our retail business, including the billing and other processes such as customer pricing and hedging processes. Our ability to effectively manage our business depends on the security, reliability and capacity of these systems and the quality of the gathered data. Computer and data processing systems, including the SCADA System designed for monitoring and supervising our wind farms, grids and related infrastructure (dispatching and control-center, data centers, hardware and wide and local area networks, telecommunication infrastructure and "smart" grid operation center) are exposed to the risk of technical failures, human errors, disturbances, damage, electricity failures, fire, other disasters, computer viruses, hacker and cyber-attacks, data theft and similar events or the breach or lack of implementation of IT security policies by our own staff. Our "SmartHome" products used by our customers may be manipulated, for example by third parties gaining unauthorized access to the system, thus affecting processes managed through such home systems and potentially putting the safety of property and persons at risk for which we may be held liable or which may negatively affect our reputation. This also applies to the charging infrastructure for electric vehicles which we operate in a number of countries. In addition, we may experience problems when migrating from one system or software to another, or when implementing new IT systems or software, or unexpected problems may arise after any such migration or roll-out. We may face revenue leakage if a portion of the delivered electricity and gas remained unbilled or if unbilled volume discrepancies between the amounts shown in the billing system and the actual settlement volume or other discrepancies occur, such as where we use different cut-off dates for the measurement of data relevant to our operations, for example regarding the amount of electricity and gas available in the network and sales volumes. Disruptions to operations or interruptions in operations involving the systems have occurred in individual cases in the past and may occur in the future, which may lead to potentially substantial costs and may damage our reputation.

We experienced significant disruptions in connection with the implementation of a new IT system for billing and customer service system in our UK retail operation npower. The issues arose in 2009 and intensified in 2013 following several years of project development and implementation, because the system failed in many instances to correctly process customer data and match industry data flows, including meter readings. The resulting problems remained undetected following the completion of the system migration. As a result, we were unable to deliver accurate bills in a timely manner to many of our customers in the UK. This led to customer complaints and a considerable loss of customers, higher operational costs due to the increased handling of customer queries and complaints, a significant billing backlog and revenue write-downs in cases in which electricity and gas bills could not be sent within the mandatory twelve-month period, revised estimations of revenue in part due to erroneous billing as well as higher levels of bad debt due to late billing and delayed collections, as well as detrimental pricing developments, among other things, all of which resulted in a significant deterioration in the financial performance of npower. In addition, we faced investigations and administrative proceedings with the UK regulator Ofgem regarding the system deficiencies

(including historic complaints handling performance). The investigation concluded in December 2015 with npower being required to pay billing rebates, individual customer compensation and make charitable donations for a total of GBP 26 million. We strive to solve these issues but believe that the full effectiveness of such steps will only be seen in 2018 or later. However, it cannot be guaranteed that we will be able to successfully tackle all IT issues during the expected timeframe or at all, or that we will not face similar IT failures in the future, including in connection with billing or meter readings, in the UK or in other countries in which we operate (see *"3.1.18 We may not be able to successfully implement our restructuring program for our npower business in the United Kingdom, and we may incur expenses to comply with regulatory decisions."*).

Moreover, although administration and operations-related networks are mostly separated, an interruption in the operations of computer or data processing systems could adversely affect our ability to efficiently maintain our operational processes and to ensure adequate controls. We may also experience disruptions when our IT systems are separated from the current IT infrastructure within the Former RWE Group, for example relating to the migration of our systems and data. See also *"3.3.1 We have a short operating history as a separate company, and our efforts to set up administrative, financial and other functions previously provided by the Former RWE Group may take more time or cost more than expected, or be less successful than anticipated or not successful at all."* Disruptions to or interruptions in our operations, such as the malfunctioning of our operation technology systems for the remote control and surveillance of our renewable generation assets, could lead to energy generation downtime. The disruption of our operation technology systems could, in turn, result in a disruption of our distribution grids for electricity and gas, disruptions of our communications with customers and other processes relating to customer-related data. Such disruptions could also relate to treasury (payment) systems and could result in reputational damage.

Information and communication technology-related risks are particularly relevant given that our IT landscape is partly decentralized and rather complex due to a history of acquisitions of businesses which operated separate and proprietary IT systems. In addition, some of the software used by us is end user-developed by local staff. As a consequence, the different platforms in use for key processes have led and may lead to inefficiencies, such as problems with interoperability, malfunctions and higher costs. We are currently focusing on simplifying and harmonizing our IT landscape by reducing the variety of both products and operation models in order to improve operability, but these measures may be ineffective and we may not be able to achieve the expected results within the envisaged timeframe. Furthermore, our standard Group-wide IT may be disturbed, damaged or disrupted, despite the adoption of different security and other measures such as back-ups and disaster recovery concepts and data center facilities. In the UK, the risk has been accepted to use a single data center for all applications, including those that are highly critical. Furthermore, the loss of data stored on stand-alone devices (such as notebooks or smartphones), computers and servers operated by us or server banks which are operated by third parties may have an adverse effect on the ability to conduct our business operations, or any violation of our internal restrictions regarding privileged access to certain data, may lead to the loss of know-how and may harm our reputation. In addition we may face penalties or further sanctions as we might have breached requirements in connection with data protection laws.

In recent years, we have made significant investments in the IT infrastructure of our subsidiaries and will continue to expend material amounts, including the dedication of staff, to upgrade and maintain our information technology systems to protect against threatened or actual security breaches, which costs may be higher than anticipated, for example in order to respond to unanticipated IT issues. We may not have been able and may not be able to effectively implement measures that will protect us against all of the significant risks to our IT systems. Should certain confidential and particularly sensitive information, for example regarding our business plan or our calculations and estimates regarding future electricity spot market prices, be misappropriated and become available, for example, to competitors, we could suffer a

significant competitive disadvantage and our business could be harmed. Our IT infrastructure is governed by the IT security laws in Germany and other countries in which we operate, thus has to meet high and various IT security standards, which limit cost reduction opportunities through centralization, outsourcing, off-shoring or the use of third-party services.

The realization of any of these risks could have a material adverse effect on our net assets, results of operation and financial position.

**3.1.37 We are subject to reputational risks affecting large energy suppliers, including risks relating to current public debates on energy policy issues.**

As a large listed corporation, our parent company, RWE AG, receives considerable public attention in Germany and Europe and is almost always mentioned during public discussions of controversial energy policy issues, including the debate relating to the shutdown of nuclear power plants and other conventional power facilities. We concentrate our business operations on renewable energy as well as grid distribution and retail and are therefore affected by the ongoing discussions on environmental issues and energy efficiency in Germany and other European countries in which we are active. Customers, politicians, and other stakeholders expect us to play an active leadership role in environmental issues like climate change and water conservation and we believe that this trend will increase in coming years. Our failure to meet these expectations and, more generally, any negative publicity regarding the Group or the energy sector in general, may press speculation and potential or actual legal or administrative proceedings concerning our business. Any disruptions or major accidents relating to our operations, may harm our reputation and our business by reducing the capital markets' willingness to invest in the Company and the general public's trust in the innogy brand and could cause existing customers to terminate their relationship with us or prevent us from winning new contracts. Any general concerns may also lead to increased scrutiny by authorities and more restrictive legislation.

Moreover, any actual or alleged accidents in our plants and grids, safety defects, defective performance, quality defects or environmental incidents, among others, in particular in high-profile, so-called "reference" projects could damage our reputation. Harm to our reputation could also reduce our chances of being awarded concessions or finding suitable project partners.

Furthermore, we may also be indirectly affected, at least for the initial period following the Offering, by any negatively perceived or actual issues relating to the Former RWE Group or the RWE Group generally or in connection with certain conventional forms of electricity generation due to the association of the Group with the Former RWE Group or the RWE Group (see also *"3.3.5 There can be no assurance that we will succeed in creating a new independent market profile in the long term."*).

Blogging and social media activities can heavily influence our business success, as criticism in blogs, forums and social media, based on ecological, ethical or many other considerations, may rapidly spread online, which may damage our reputation and our brands, regardless of whether such criticism is reasonable and based on true facts or not. In our Grid & Infrastructure and Renewables Segments, we may also experience local criticism and resistance from residents living close to newly-built lines, wind turbines or other structure owned or operated by us. As a result of the above factors, investments may be delayed, which could also affect future grid performance and our operating result. In certain jurisdictions such as the USA, Canada and Australia, there have been consumer initiatives against newer, so-called "smart" meters that collect detailed electricity consumption data from customers due to concerns relating to a claimed invasion of privacy, higher costs and alleged electromagnetic pollution. We may face similar discussions and claims in the countries in which we operate relating to "smart" meters or other similar equipment, in particular in the area of so-called "smart home" offerings.

Any of these negative effects could have a material adverse effect on our business, results of operation and financial position.

**3.1.38 Work stoppages, strikes or other collective actions can disrupt our operations and adversely affect our results of operation.**

We are dependent on good relationships with our employees, employee representative bodies, trade unions and other stakeholders. Our relationships with our employees, their representatives and the trade unions could deteriorate, or we could face strikes or other types of conflicts with trade unions or our employees and their representatives. There can be no assurance that we will not experience a material work stoppage, strike or other collective action in the future. Any such actions may disrupt our business and adversely affect our customer relations and results of operation.

**3.1.39 We are exposed to the risk of rising labor costs which might negatively affect our profitability.**

Staff costs represent a significant portion of our cost base. We may face significant wage increases in the future in the countries in which we conduct business, including in mature markets such as Germany and other European countries, for example in connection with renegotiations of existing collective bargaining agreements (*Tarifverträge*) in Germany or other European countries, an increase in social and health insurance costs or changes in the applicable labor legislation. If we are not successful in limiting such increases in staff costs or if cost increases cannot be passed on to our customers or only with delay, this might have negative effects on our financial position and results of operation. While the recently introduced statutory minimum wage in Germany had no perceivable impact on our staff costs, since salaries paid to our employees are based on the applicable collective agreements providing for higher wages, depending on the size of the increase, future increases of statutory minimum wages, but also of general wage levels, both in Germany or abroad, may impact our cost base, directly or indirectly.

A central measure for the adjustment of the number of employees is the adjustment regime under the collective bargaining agreement on the socially acceptable accompaniment of staff adjustment measures (*Tarifvertrag zur Begleitung von Personalanpassungsmaßnahmen*) applicable to the Group, which provides for a certain range of staff adjustment measures, such as, e.g., mutual separation agreements (with severance) or the establishment of an internal staff agency company (*Personalservicegesellschaft*) to which certain employees (whose jobs are no longer sustainable) are offered to transfer. The staff agency company offers qualification and training measures as well as an internal job exchange. In addition, the collective bargaining agreement provides for the option to agree upon mutual termination arrangements (including severance payments). A further adjustment measure is the implementation of senior part-time work arrangements (*Altersteilzeit*, "ATZ") under the applicable German legislation, which allows for a socially acceptable workforce reduction. The aim of such measures is to reduce the number of employees and in combination with a considerable lower reoccupation quota. This measure enables us to save staff costs. The successful implementation of these measures and therefore the realization of the anticipated cost savings depend on the level of acceptance within the groups of employees concerned to which the measure is addressed. It cannot be excluded that the expected acceptance level will not be attained, which could adversely affect our business, results of operation and financial position.

**3.1.40 We are dependent on our ability to attract and retain qualified staff in key positions and employees having special technical knowledge.**

Qualified and motivated staff are one of the key factors of our current business. For example, the efficiency and profitability of our grid business depends on well-skilled engineers, technicians and operational staff with an educational background in electricity and mechanics and experience relating to distribution grids for electricity, gas and water, on highly experienced engineers and technicians for information and communication technology, protection, metering, and hard- and software know-how. In addition, the Grid & Infrastructure Segment needs excellent experts in grid regulation and asset-management. Furthermore, qualified and motivated staff is one of the key factors for the development of our business, in

particular our technological development (for example regarding our renewable energy operations, new topics regarding grid operations, such as electric mobility, “smart homes” and communication infrastructure as well as Energy+ products and services in our Retail Segment) and in order to drive our geographic expansion. We may not be able to attract key staff to fill vacancies or fail to retain key employees. Staff shortages and the loss of key employees could adversely impact our future business development. In addition, there are certain retention risks related to our dependence on individual persons in key positions, particularly at management level. The loss of management staff or employees in key positions could lead to a loss of know-how, or under certain circumstances, to the passing on of this know-how to our competitors, if we lose staff to competitors. A shortage of skilled staff, including qualified external service providers, may lead to difficulties in the pursuit of future or planned projects.

In addition, in particular in the area of Energy+ services and in the Renewables Segment, we may acquire smaller players that are already active in the market (such as specific service partners in the Netherlands) to build up a skill base in new technologies (such as photovoltaic) or geographical markets. There is a risk that key staff from these acquired companies will leave after the acquisition and that thus the objective of acquiring capability and know-how in certain products and services may not be achieved.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.41 We have financial obligations to our employees, in particular retirement obligations, the calculations of which are based on a number of assumptions, which may differ from actual rates.**

We operate funded and unfunded defined benefit pension schemes and defined contribution plans for beneficiaries under arrangements that have been established in the various countries in which we offer employee pension benefits. As of December 31, 2015, we had total pension obligations, including obligations relating to energy allowances (*Energiepreisvergünstigungen*) (benefits in kind), amounting to EUR 13.2 billion, of which EUR 3.5 billion (or 26%) were unfunded.

Our predecessor with respect to such German pension obligations, the Former RWE Group, transferred assets to RWE Pensionstreuhand e.V. in previous years within the framework of contractual trust arrangements. There is no minimum funding requirement. From the assets held in trust, funds were transferred from time to time to RWE Pensionsfonds AG, which falls under the scope of the German Act on the Supervision of Insurance Undertakings, to cover pension commitments to most of the employees who retired prior to the transfer. If a regulatory deficit were to occur in the pension fund, a supplementary payment shall be requested from the employers, including the Group. In addition, our liability as employer shall remain in place independently of the above-mentioned arrangements.

In the financial years 2013, 2014 and 2015, the expenses recorded in our combined income statement (service cost and net interest expenses) amounted to EUR 320 million, EUR 295 million and EUR 304 million, respectively, while pension payments and fund contributions amounted to EUR 256 million, EUR 447 million and EUR 785 million, respectively.

In the financial year 2015, EUR 36 million was paid into defined contribution plans. This amount includes payments made by us and by our predecessor with respect to such obligations, the Former RWE Group, for a benefit plan in the Netherlands which covers the commitments of various employers. This fund does not provide the participating companies with information allowing for the pro-rata allocation of commitments, plan assets and service cost. In our audited combined financial statements, the contributions are recognized analogously to a defined contribution plan, although the plan is actually a defined benefit plan. The rate of the contributions is determined by the fund administrator, calculated as a percentage of the employees’ salaries and paid by the employees and the employers. There are no minimum funding obligations. The contributions are used for all of the beneficiaries. If the funds are

insufficient, the fund administrator can either curtail pension benefits and future post-employment benefits, or increase the contributions of the employer and employees. In the event that we terminate this pension plan, the fund administrator will charge a termination fee. Among other things, the termination fee depends on the number of participants in the plan, the amount of salary and the age structure of the participants. As of December 31, 2015, there were around 1,700 active participants in the plan.

Our main pension arrangements in the UK are part of the Electricity Supply Pension Scheme (“**ESPS**”), which is an industry-wide pension scheme in which we have our own ring-fenced arrangements (*i.e.*, our group of the ESPS). In the UK, corporate defined benefit plans are legally mandated to maintain adequate assets to cover their pension obligations. We regard our group of the ESPS as a defined benefit plan that shares risks among various entities under our common control (independently of the Former RWE Group’s obligations and assets under its separate group of the ESPS). Innogy Renewables UK Limited is responsible for its own defined benefit obligations, assets and costs associated with the group of those of our UK subsidiaries participating in our group of the ESPS (the “**UK Subsidiaries**”) which are formally evaluated on a triennial basis in order to determine our contribution requirements. The trustees of our group of the ESPS have agreed that the first actuarial valuation will be carried out as of March 31, 2016 and will report an agreed deficit of GBP 390.6 million (pension liabilities less plan assets). Pursuant to an agreement with the trustees of our group of the ESPS, our UK Subsidiaries will make annual payments to cover this deficit in accordance with the following contribution schedule: GBP 106 million in 2017 and GBP 39.6 million in each year from 2018 until (and including) 2025. In addition, we have agreed to provide a parent guarantee in favor of our UK Subsidiaries covering their employer contributions to our group of the ESPS in the amount of up to GBP 585 million, which will be reduced by the amounts of these annual payments as and when they are made. The trustees have also agreed that the second triennial valuation will be as of March 31, 2019. This triennial valuation (and any other valuation thereafter) may result in a higher deficit (*i.e.*, the extent to which the assets of our group of the ESPS do not cover our pension obligations) than expected, and thus could lead to higher future contributions. This could have a material adverse effect on our financial position.

Our defined benefit obligations are based on certain actuarial assumptions that can vary by country, including discount rates, life expectancies and rates of increase in compensation levels. We have recognized provisions for unfunded plans and for funded plans to the extent that the funded plans are not fully funded.

A change in actuarial assumptions with respect to, for example, discount rates, changes in salaries and pension levels, life expectancies or staff turnover, could lead to an increase in our pension obligations and to additional provisioning. In past years, the financial and sovereign debt crisis resulted in substantially decreased interest rates in the capital markets which had negative effects on the discount rates and the funding ratio of our pension plans. Changes in actuarial assumptions or under-performance of plan assets could also adversely affect our results of operation and financial position. Differences between the discount rate and actual returns on plan assets can require us to record additional re-measurements. Unfavorable market developments may result in future declines in the fair value of our plan assets or lower-than-expected returns (declining or even negative returns) on current or future investments of RWE Pensionsfonds AG, which may negatively impact the fair value of the respective plan assets and may require us to make additional current cash payments to pension plans or non-cash charges to our line item “other comprehensive income”.

In addition, the majority of the plans’ defined benefit obligations are linked to inflation, so that an increase in inflation rates will result in higher liabilities. The majority of the plans’ assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation rates will also increase plan deficits. The majority of the plans’ obligations are to provide benefits for the life of the member, so that increases in life expectancy will result in an increase in the plans’ liabilities. Furthermore, the legal conditions governing our pension

obligations are subject to changes in applicable legislation or case law. For example, IAS 19 (revised), relating to employee benefits, eliminated the so-called corridor approach and mandates the recognition of all actuarial gains and losses directly in “other comprehensive income” as they occur. We cannot provide any assurance that we will not in the future incur new or more extensive pension obligations due to changes in such legislation and case law, or that such changes will not have an impact on our previous calculations with respect to our pension obligations. Moreover, future amendments to accounting standards may affect our pension obligations. Should this be the case, this could have a material adverse effect on our results of operation and financial position.

### **3.1.42 We may be forced to recognize write-downs or additional impairments, in particular on our tangible assets.**

We are active in an industry that requires significant investments, in particular in the construction, ramp-up, operation and maintenance of our renewables facilities, the construction and maintenance of our gas storage facilities and of grids in our Grid & Infrastructure Segment, research and development, for example relating to gaining reliable measurement data for offshore wind farms or the development of new “smart” products. Any such property, plant and equipment associated with our operations and recorded on our balance sheet, as well as the existing intangible assets, including goodwill, make us susceptible to impairments. As of December 31, 2015, our property, plant and equipment recorded on the balance sheet amounted to EUR 18.3 billion, while the intangible assets recorded on the balance sheet amounted to EUR 12.2 billion and related predominantly to goodwill. Assets with a determined useful life are amortized on a straight-line basis over a period of up to 80 years. A quantitative impairment test is performed if there is an indication of possible impairment. Goodwill is quantitatively tested for impairment on an annual basis or in case of an indication of possible impairment. If the carrying amount of an asset or cash generating unit may not be recoverable, impairment losses may be recorded in accordance with applicable accounting standards, in particular IAS 36. Impairment charges could become necessary in the future if, for example, our prospects deteriorate such that the carrying amounts of our assets are no longer recoverable under applicable Group or statutory accounting rules, in particular IAS 36. Factors leading to impairments include, among others, the negative development of relevant regulatory frameworks (e.g., grid regulation), the negative development of prices (e.g., of electricity prices affecting the value of our renewable generation assets or, as in Slovakia, the regulator re-evaluating the regulated asset base of our fully consolidated DSO), changes in our customer retention, project cancellations or a decline in the realizable margins or overcapacities, which are both applicable, for example, in the gas storage business. In addition, sales of projects or assets below their book value and changes in the cost of capital may trigger impairment charges (see “3.1.8 If we are unable to renew an existing concession or if it is terminated, we may have to sell the relevant grid infrastructure, which will negatively affect our revenue and may lead to a loss in connection with the sale, or we may enter into cooperation agreements that are limited in time.”). Furthermore, the need for write-offs may be triggered by significant volume reductions or disruptive technological innovations, which may make the networks in certain areas obsolete in the future. Continued weak demand for our products, oversupply in the industry, high raw material prices and any other factor with a material adverse impact on our profitability could also result in an impairment. In addition, increases in the applicable discount rates may also lead to an impairment.

In the past three financial years, we have had to recognize several write-downs and impairments. For example, in the financial year 2013, we recognized impairments on our offshore wind farm Nordsee Ost because of cost overruns, and on our Spanish onshore wind farms due to new disadvantageous regulations regarding the support mechanism in Spain. In 2014, we recognized impairments in the Renewables Segment in connection with an offshore construction vessel, which we then sold at the beginning of 2015. We also recognized impairments in connection with gas storage facilities in Germany in 2013, 2014, 2015 and 2016.

Furthermore, we recognized impairments on our wind onshore assets in the Netherlands in 2013 and 2015 as a result of decreasing energy prices and the fading out of support scheme measures. In the UK, we recognized an impairment relating to our IT systems in the Retail Segment in 2015. In the future, we may have to recognize further impairments, for example in connection with new development projects, if they are not realized for whatever reason, including in cases in which a relevant incentive under a support scheme is not granted (the outcome of proceedings for the grant of incentives is typically uncertain), or retroactively changed to our disadvantage, if a tender for participation in a support scheme is lost, or in connection with existing projects and running assets in case of negative price and value development in the respective markets and cost overruns. For example, under the German EEG our German offshore wind farm Nordsee Ost is promoted under the so-called compressed tariff model (*Stauchungsmodell*), which provides for a higher initial tariff for a (minimum) period of eight years, followed by much lower support in the subsequent years and, thus, potential dependency on wholesale prices. Under IFRS, the wind farm is depreciated under the straight line method over the useful economic life of 20 years. This may likely, within the next few years, lead to a situation where the remaining asset book value of the wind farm will exceed its recoverable amount and thus there might be the need for impairing the wind farm Nordsee Ost. In addition, we may need to further impair already impaired assets (for example, the Innogy Renewables Technology Fund I) or other assets (for example, for storage facilities in case of low gas storage prices). Furthermore, it cannot be excluded that we have to recognize an impairment on the offshore construction vessel which we still own if the charter is discontinued, or on our pellet (biomass) plant in Georgia, USA, in case the complete production volume cannot be placed in the market or only at low prices, or on other assets. It can also not be excluded that we may have to write-down the value of certain of our assets in case of state interventions, including expropriations.

Any impairment test requiring the write-down or additional impairment could have a material adverse effect on our business, results of operation and financial position as well as on our ability to pay dividends.

### **3.1.43 We may not be adequately insured against many operational and other risks.**

Due to the nature of the energy industry, companies and their operations in this industry are generally difficult and expensive to insure. Therefore, insurance as a risk management tool is used where deemed commercially appropriate. For a limited period and for certain operations, we will not have our own insurance coverage, but will be insured by group insurance programs of the RWE Group (e.g., regarding D&O, general liability and legal expense cover insurance). During this transition period, any potential damages suffered by the Group and the RWE Group may impact such joint policies and may use up the available insurance limits. Our energy generation plants and other relevant assets and equipment are insured against property damage and, where considered commercially appropriate, business interruption risks, and for all our business activities liability cover applies, subject to deductibles and limits of cover. Our grid infrastructure is not insured against property damage and business interruption, and we are not fully insured against all potential hazards incident to our business, including losses resulting from risks of war or terrorist acts, certain natural hazards (such as earthquakes), environmental damages or all potential losses, including damage to our reputation. It is also not possible to obtain unlimited insurance coverage regarding our operations as DSO, for example, as requested by certain large customers in the transition after the German Regulation on the General Terms and Conditions for the Electricity Supply of Tariff Customers ceased to be in force, during which period we strived to amend existing supply contracts as DSO with a limited liability exposure. In cases in which we have not been able to reach a satisfactory agreement with the customers, we still face a risk of an uninsured liability in case of grid outages and other disruptions. In addition, the price of several different components of our power generation facilities in the Renewables Segment (such as turbines, generators, control elements, etc.) has experienced a significant increase in the past few years and may increase in the future. Thus, it

cannot be excluded that the amount required to replace any such component or larger equipment in case of an accident or technical failure would exceed the insured amount.

If we were to incur a significant liability for which we are not fully insured, such as black-out claims in excess of the insurance coverage, or if premiums and deductibles for certain insurance policies were to increase substantially as a result of any incidents for which we are insured, this could have a material adverse effect on our business, results of operation and financial position.

**3.1.44 We face risks associated with our indebtedness and high financing needs and may not be able to generate sufficient cash to service such indebtedness.**

As of June 30, 2016, our net debt amounted to EUR 21,044 million. 21.2% of this amount was attributable to the provisions relating to pensions and similar obligations. Our net financial debt (calculated as our financial liabilities adjusted for effects of the initial recognition of certain financial liabilities at fair values less our financial assets) totaled EUR 16,251 million as of June 30, 2016.

Our cash flows from operations may not be sufficient to repay all of the outstanding debt, and we may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms, or at all, to refinance the debt. The significant amount of debt that we carry may limit our flexibility to respond to future events and could have a material adverse effect on our business, financial position, operating result and prospects. Furthermore, our actual and future cash requirements may be higher than currently expected. The ability to repay or refinance maturities depends on general economic, financial, competitive, market, legislative, regulatory and other factors, many of which are beyond our control. We cannot guarantee that our business will generate sufficient cash flow from operations, that the cost savings, revenue growth and operating improvements currently anticipated will be realized, or that future debt and equity financing will be available to us on satisfactory terms or at all in an amount sufficient to enable us to pay our debts when due, or to fund our other liquidity needs.

The amount of debt that we intend to incur could significantly affect us and our investors: We may be required to use a substantial portion of our cash flows from operations to make interest payments on this debt, which in turn reduces the cash flows available to fund capital expenditures and other corporate purposes, to grow our business or to pay dividends. As a result, our vulnerability to generally adverse economic and industry conditions as well as the risk of a future downgrade of our credit rating could increase. In addition, future debt costs could increase and thus restrict our future access to debt financing, limiting our ability to borrow additional funds as needed or take advantage of business opportunities as they arise. This could also limit our flexibility in planning for, or reacting to, changes in our business and the industry. In addition, as a consequence of a downgrade of our credit rating, we could be required to collateralize certain obligations, including through providing bank guarantees or cash collateral in cases where we are currently not required to provide collateral or have issued for example parent guarantees, comfort letters or similar instruments. We could thus face a competitive disadvantage compared to competitors that may not be as highly leveraged.

For a transitional period, we will have to rely on funding relations with RWE AG before concluding our own funding set-up. We may not be able to draw on those credit lines which were provided by banks to RWE AG and passed on to us or directly from RWE AG to us due to an event of default at RWE AG (see also "*3.1.46 We are subject to liquidity risks in connection with our financial liabilities and a potential increase in the sureties under several agreements and schemes.*"). Moreover, currently, our rating is determined by our affiliation to the RWE Group which could negatively impact our financing capacity. In particular, this implies that any rating downgrade of RWE Group could have the same consequences as those described in the preceding paragraph in respect of a downgrade of our credit rating. It is not completely within our control to receive a credit rating independent from the RWE Group in the future.

Unfavorable market developments may increase our net debt. On the one hand, the value of our marketable securities could decline due to market price fluctuations. On the other hand,

provisions could increase, e.g., due to declining interest rates or the negative performance of our pension plan assets. See also *"3.1.41 We have financial obligations to our employees, in particular retirement obligations, the calculations of which are based on a number of assumptions, which may differ from actual rates."*

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.1.45 Covenants and other restrictions under our existing financing agreements and bonds, as well as changes in credit market conditions and declines in credit ratings may restrict our financial and operational flexibility or otherwise negatively affect our business.**

Ongoing compliance with covenants under the financing agreements to which we are a party is an important component of our capital management and operations as any breach of the covenants may entitle our creditors to demand an early repayment of the corresponding debt. There can be no assurance that we will be able to comply with our covenants in the future. The Group's external financing is based on a revolving facility agreement (the **"Revolving Facility Agreement"**), guaranteed by RWE AG, with a syndicate of banks under which both RWE AG and innogy Finance B.V. are borrowers, as well as bonds issued by innogy Finance B.V. and innogy Finance II B.V., both subsidiaries of the Company. Both the Revolving Facility Agreement and the bonds include customary general covenants, such as negative pledges, as well as restrictions on disposals and mergers, subject to exceptions and baskets.

The Revolving Facility Agreement provides that the lenders may terminate the agreement if a borrower fails to pay interest or principal when due (subject to a number of qualifications and exceptions) or upon any other event of default (including breach of obligations). If the lenders rely on such provisions to accelerate repayments of any debt owed by us, this could have a material adverse effect on our financial position.

In addition, our covenants and debt-service obligations may restrict our business and financial flexibility, for example by limiting the amount of cash available for acquisitions, and a significant increase in our net indebtedness could result in changes in the terms on which credit is extended to the Group. Upon the occurrence of a change of control, any lender has the right to cancel its commitments and declare its participation in all outstanding utilizations due and payable.

Furthermore, we might be unable to satisfy our additional capital expenditure requirements or refinancing needs in the future, or may only be able to raise additional debt or equity financing at considerable costs.

In addition to the external financing through the aforementioned Revolving Facility Agreement and bonds, our financing is largely based on a number of intra-group loan agreements, including a revolving facility agreement, entered into by the Company as borrower and RWE AG as lender. The potential future restructuring of our financing in order to raise funding on a stand-alone basis may result in higher financing costs and less favorable conditions, or may become bound by more restrictive covenants. For its operational needs for non-cash financing (through letters of credit, guarantees, etc.), the Company relies on un-committed non-cash bank facilities made available to RWE AG. The uncommitted non-cash bank facilities may only be available for a limited period of time or in insufficient amounts to secure our obligations, and we may not be able to obtain separate non-cash facilities on short notice.

Also, a decline in potential future credit ratings may negatively affect our business, for example by prompting counterparties to demand that we put up additional collateral (or if a decline in credit rating is contractually defined as a triggering event for additional collateral), which we may not be able to do at current cost levels and conditions, or generally result in less favorable trading terms with customers and counterparties, for example in the wholesale market.

Bank guarantees for the operational business have until now been provided by RWE AG via guaranteed credit lines at the bank which issues the guarantee. Following the restructuring of the Group and the separation from the Former RWE Group after completion of the Offering, we will have to arrange for our own guarantee facilities with banks. The terms of these facilities are uncertain and may result in higher expenses than in the past. In addition, our financing requirements may in the future be higher and financing may become more expensive than in the past, leading to additional financing costs. In certain cases, we may even face capital market squeezes, e.g., due to our own deteriorated creditworthiness or external capital market disruptions. Should we be unable to finance our capital expenditures in the contemplated manner, our business, financial position and results of operation could be materially adversely affected.

Both the Revolving Facility Agreement and the bonds are guaranteed by RWE AG. Any default at the level of RWE AG (or any of its subsidiaries, including subsidiaries that are not part of the innogy Group) or any breaches of covenants by RWE AG or of its subsidiaries, may cause the revolving facilities (including the Revolving Facility Agreement and the Intra-Group Revolving Facility Agreement (as defined below)) made available to the Company or its subsidiaries to be accelerated or may cause the bonds to become prematurely due and payable. The compliance by RWE AG or its subsidiaries (other than the Company or other members of the innogy Group) is not under the Company's control. In addition, the exceptions and baskets applicable to the covenants in the Revolving Facility Agreement are available only globally on the level of RWE AG and all its subsidiaries. The Company has agreed with RWE AG to coordinate and to share the various exceptions and baskets, but there is no assurance that the exceptions and baskets available to be used by the Company or its subsidiaries will always suffice to address the operational needs of the innogy Group.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

#### **3.1.46 We are subject to liquidity risks in connection with our financial liabilities and a potential increase in the sureties under several agreements and schemes.**

Liquidity risks relate to the danger that our liquidity reserves may no longer be sufficient to meet our financial obligations in a timely manner. Our obligations stem, in particular, from financial liabilities which we must service and which we regularly refinance. Furthermore, we are usually required to provide collateral if mark-to-market instruments from commodity hedging contracts or financial derivatives carry a negative market value.

In addition, as of August 2012, when the European Market Infrastructure Regulation ("EMIR") entered into force, non-financial companies that use non-hedging derivatives above a certain threshold face mandatory clearing of the overall derivative positions. In such case, all "over-the-counter" ("OTC") derivative transactions of all companies of the Group would require clearing or, where a clearing infrastructure is not available, collateralization. This results in the payment of additional costs and the requirement for us to provide additional sureties (which entail an additional liquidity risk), all of which reduce our liquidity and operational flexibility.

Our commodity hedging business gives rise to liquidity risks from collateralization (OTC derivatives) or potentially in the future margining (from exchange traded derivatives). Although we have, subject to defined exceptions, generally agreed with RWE Supply & Trading GmbH to suspend the obligation to collateralize claims between us and the RWE Group until December 31, 2018, such liquidity risks will also apply as of January 1, 2019 to the existing route to the market via the RWE Group entity RWE Supply & Trading GmbH. The amount of such collateral or margin payments is updated on a daily basis according to the mark-to-market changes of the hedges. Similar considerations apply to trading with financial instruments. This can lead to unexpected changes in our financial liabilities and financial assets, thus negatively affecting our liquidity. In Poland, we already enter into trading transactions for electricity, gas and certificates of origin over the Polish Power Exchange, which require providing collateral margins. Moreover, the financial assets on our balance sheet may decline substantially in value

in the future due to changing economic and market conditions, while our liabilities could increase due to capital market volatility, thus affecting our balance sheet and funding ratios. To the extent that we do not collateralize our exposure against counterparties, we face the risk of their creditworthiness (see *"3.1.48 We are subject to liquidity and other risks relating to the creditworthiness of our customers and business and joint venture partners as well as claims of insolvency administrators of former customers, which may negatively affect our business, results of operation and financial position."*).

We may not always be able to raise funds in the equity, debt or money markets. In addition, financial markets may shut down completely due to reasons outside of our control.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

#### **3.1.47 We face risks relating to currency exchange rate and interest rate fluctuations.**

We are exposed to fluctuations in currency exchange rates and interest rates, as well as credit spreads. While we use derivatives to hedge against currency exchange and interest rate risks, we may misjudge the extent to which such hedges are required and thus involuntarily run an open position with no offsetting effect on the balance sheet or income statement.

Our functional and reporting currency is the Euro. In general, we distinguish two types of currency risks. On the one hand, transactional risks consist of value fluctuations of foreign currency payments or payments of amounts which depend indirectly on a foreign currency. The devaluation of the relevant foreign currency reduces the equivalent value in the domestic currency of incoming foreign flows, while an appreciation increases the domestic equivalent of outgoing cash flows. Transactional risks relate to planned or contracted foreign currency payments, also relating to investments (dividends and capital changes involving an unsecured translation risk) and contracted financing transactions. On the other hand, translation risks arise from value fluctuations of consolidated net assets, *i.e.*, from the conversion of the net assets of consolidated subsidiaries which are held in foreign currency.

The principal currencies we transact in, other than the Euro, are the British Pound Sterling (GBP), the Czech Koruna (CZK), the Polish Zloty (PLN), the Hungarian Forint (HUF), the Croatian Kuna (HRK), the Romanian Leu (RON) and the US dollar (USD). Furthermore, energy commodities such as coal and oil are traded in US dollars, which might indirectly affect electricity and gas market prices. Certain currency risks are covered by natural hedges, and we manage short- and medium-term exchange rate fluctuations through hedging transactions by entering into swap, currency forward or option agreements covering our expected exposure to currency exchange rate risks for at least one year, and require our subsidiaries to follow standardized group procedures, limits and guidelines. We base our analysis of our currency risks on a limit system and the "value at risk" concept, which quantifies expected losses arising from changes in market prices with a specific level of probability during specific periods. We usually apply a 95% confidence interval and a holding period of one day. However, as historical price volatility is taken as a basis in these calculations, there is no assurance that the same volatility levels will be realized in the future. In addition, these hedging transactions may prove to be insufficient. In the context of such treasury hedging transactions, we usually exchange collaterals with our hedging counterparties, which might lead to an additional liquidity requirement. In cases in which we do not enter into collateral agreements with our counterparty at all or if posted collaterals do not match the underlying exposure, we are also exposed to the risk of the insolvency of the relevant counterparty. Furthermore, it is impossible to fully hedge exchange rate exposures. Exchange rate advantages could favor the business activities of our foreign competitors, meaning that we may lose customers and suffer a decline in sales. As the foreign exchange markets are characterized by high volatility, exchange rate fluctuations could in the future have a material adverse effect on our net assets, financial position and results of operation. Should we be unable to structure our operations more independently of exchange rate fluctuations, this could have negative effects on our sales and results of operation.

Interest rate risks exist as a result of potential changes in the market interest rate and may lead to a change in fair value in the case of fixed interest-bearing financial instruments, and to fluctuations in interest payments in the case of variable interest-bearing financial instruments. A part of our debt portfolio, including borrowings under the Revolving Facility Agreement (or any substitute loan granted by RWE AG in lieu of a proposed utilization under the Revolving Facility Agreement) and the intra-group revolving facility agreement between the Company (as borrower) and RWE AG (as lender) dated June 13, 2016 ("**Intra-Group Revolving Facility Agreement**"), bear interest at rates equal to EURIBOR or similar benchmarks, in each case adjusted periodically, plus a spread. Furthermore, we will have to refinance our outstanding fixed rate debt in the future at the then prevailing rates. Any significant increase in interest rates could therefore materially increase the cost of debt of both fixed and floating rate instruments and thus result in higher cash outs and higher interest expenses. This could reduce cash flow available for capital expenditures and impair our ability to make principal or interest payments under the Revolving Facility Agreement (or in respect of a substitute loan) and the Intra-Group Revolving Facility Agreement.

Furthermore, market interest rates have an effect on our provisions, as they are the point of reference for determining the discount rates for the net present values of our obligations. This means that declining market interest rates typically result in an increase of our provisions and vice-versa.

The exposure to foreign currency exchange and interest rate volatility and failure to adequately hedge the related risks could have a material adverse effect on our results of operation and financial position.

**3.1.48 We are subject to liquidity and other risks relating to the creditworthiness of our customers and business and joint venture partners as well as claims of insolvency administrators of former customers, which may negatively affect our business, results of operation and financial position.**

Business relations with key customer accounts (in particular under long-term power and gas purchase contracts), major suppliers, banks and hedging and trading partners and to some extent joint venture partners expose us to credit risks in our operating activities and through the use of financial instruments. Our counterparties may not be willing or able to fulfill their respective contractual obligations at all or in full (for example, failure by a counterparty to deliver the agreed consideration for services rendered, total or partial failure to make payments owed on existing accounts receivable, for example due to insolvency, or failure to compensate for potential mark-to-market values of contracts in case of early termination of a contract due to insolvency, as well as the risk of counterparties paying outstanding receivables late). We also face the risk that any sureties and guarantees (such as parent company guarantees) provided may turn out to be invalid or that they cannot be enforced.

In addition, insolvency administrators of former key or large customers have claimed repayment of amounts paid by these customers for services we already delivered. Especially in the Grid & Infrastructure Segment in Germany, German insolvency law places strict conditions on retaining payments for grid usage already received from the insolvent customers, which resulted in repayment claims for very significant amounts from the insolvency administrators of these insolvent customers. As these insolvent customers were mainly Internet-based intermediaries and these customers have become more important in the last years, there may be more similar cases in the future. Such risks apply especially in times of economic crisis. Although we closely track the creditworthiness of our business partners and we in part take out insurance policies to cover payment defaults in certain areas of the Retail Segment, it cannot be excluded that we may fail to identify creditworthiness risks from the onset and that the defaulted amounts will exceed the insured amounts, or will not be insured at all. In addition, in each of our segments we face the risk that, in case of insolvency or default of large customers or suppliers, we may be unable to fully or partially reclaim any outstanding customer payments or supplies from the insolvency

administrator or the customer/supplier, or only after a lengthy procedure, or that the insolvency administrator claims repayment of significant amounts paid to us. Moreover, the insolvency administrator may, under applicable regulations, under certain circumstances claim from us amounts already paid by customers or supplies already paid by us, as the case may be, for certain periods. In certain cases, if a key customer becomes insolvent and/or goes out of business, our energy generation business may be significantly affected, even if the risk of outstanding invoice payments might be covered by our insurance. In such cases, our future revenue flow may be negatively affected, in particular in projects which are primarily tied to a certain local industrial plant as off-take customer. Especially in case of any steam-producing or CHP plants, we may be unable to find an alternative customer for the steam, which – as opposed to electricity – cannot be economically and effectively transported over long distances. In case of a potential insolvency of a major supplier, we may be unable to find an alternative supplier with comparable inputs or services at comparable cost in a timely manner, and any delays may also potentially affect the start, construction, commissioning or ramp up of any of our projects or otherwise disrupt our business activities and cause financial harm, in particular to the extent that such risks are not fully covered by bank guarantees. Moreover, should the retail dunning charges (*i.e.*, reminder charges) in case of late payments or default be reduced in the future, for example due to claims brought by consumer associations (as was the case in Germany, which forced us to reduce the charges) or certain customers, this would negatively affect the results of operation, net income, and cash flow of our Retail Segment.

#### **3.1.49 We face risks arising from the volatility of commodity prices.**

We operate a portfolio of renewable energy production plants as well as a grid network for electricity and gas, and undertake the retail supply of electricity and gas and Energy+ products (energy-related products) to meet customer needs. The development of commodity markets has a material influence on our earnings, especially through the impact of such developments on wholesale and retail prices for electricity and gas. With respect to electricity generated in our Renewables Segment, we are exposed to certain market price risks to the extent that such effects are not mitigated by support mechanisms (*e.g.*, provisions in the EEG which either provide for a fixed price for wind-generated electricity in Germany, or long-term contracts which compensate for fluctuations in wholesale market prices during the support scheme period). A noteworthy exposure to wholesale market prices exists in nearly all regional markets in which the plants of the Renewables Segment are located. Most of the support regimes for existing assets provide for a supported add-on to the wholesale electricity price which still leaves a significant exposure of the assets of the Renewable Segment to wholesale electricity prices. The electricity is sold in the wholesale market, mostly through forward transactions, which are currently mainly carried out through the RWE Group entity RWE Supply & Trading GmbH at market-based rates. In this respect we are subject to both volume and price risks. See also *"3.3.7 Following the separation from the Former RWE Group, we will be bound by several procurement, wholesale trading and other contracts with the RWE Group with varying notice periods prior to termination, which may reduce our flexibility to switch to other providers or to carry out these functions in-house."* While the largest portion of the market price risk of the Renewables Segment relates to electricity, there are also other commodities with an exposure to market price fluctuations, such as green certificates (*e.g.*, renewable obligations certificates in the UK and green certificates in Poland and Italy) and wood pellets. In such cases, negative developments of market prices would harm the business of our Renewables Segment. In certain limited cases, this may also apply to our Grid & Infrastructure Segment.

In our Retail Segment, volatility in wholesale prices may have an impact on the effectiveness of our commodity hedges and the competitiveness of our retail products. For example, the weighted average commodity costs of our "evergreen" (open-ended B2C standard tariff) product are determined by the hedging profile we use and by forward commodity prices. Due to differences between the hedge profiles used by different market participants, fluctuations in commodity prices could result in certain periods in which we incur higher commodity costs than

some or all of our competitors. We may be unable to pass on such higher costs to customers. Similarly, decreasing wholesale prices may lead to higher attrition rates on fixed-price B2C contracts, where penalty clauses for early termination of the contract do not apply, as some customers may terminate their contracts early in order to take advantage of lower-priced products.

We may continue to face downward price pressure in the future. Further decreases in electricity prices would reduce the value of our power stations in the Renewables Segment and of certain electricity purchase contracts concluded at firm prices. Impairments may also have to be recognized, as has happened in the past, in our gas storage business, for example if the seasonal differences in the price of gas and, in turn, the realizable margins on the storage fees that we charge, decline. We may also be unable to fully sell our available storage capacity.

For example, the level of solar irradiation (expressed in number of sunshine hours within a year per square meter of land) has an effect on photovoltaic facilities, and this in turn has a significant effect on the level of electricity generation and electricity prices in general in Germany, given the substantial expansion of photovoltaic capacity under the EEG.

Certain commodity positions (such as the basis risk stemming from differences among several locations or indices) are not hedged by concluding hedging transactions, but rather by means of a risk surcharge. The actual impact of the respective risk may be higher than the risk surcharge, which would negatively affect our results of operation. Moreover, fluctuations in commodity prices may have a negative effect on margins and collaterals, and thus negatively affect our liquidity (see *"3.1.46 We are subject to liquidity risks in connection with our financial liabilities and a potential increase in the sureties under several agreements and schemes."*).

The exposure to commodity price volatility and a failure to adequately hedge the related risks could have a material adverse effect on our results of operation and financial position.

## **3.2 Legal, Regulatory and Tax Risks**

### **3.2.1 We are subject to significant regulatory and political risks, and our revenue, profits and financial position have been and will be affected by the regulatory frameworks in different ways.**

We operate in a highly regulated sector and are subject to numerous laws and regulations in each of the countries in which we operate. This regulatory framework is subject to frequent change and continuous development, regularly expanding but also releasing parts of our activities from regulation. As a producer of energy from RES, as a DSO for electricity and gas, as water supplier and as a retailer for electricity, gas and, increasingly, Energy+ products, we plan our capital expenditure for periods extending over several years and in part decades. Therefore, our business plan and, in particular, our capital expenditure plans are especially affected by political factors and discussions resulting in changes of legal framework conditions for the energy industry, both at the national and European level. Political changes (e.g., changes in government, ruling parties, etc.) support and increase the frequency of change in regulation. Comprehensive reforms of the energy sector are currently on the agendas of many European countries and the European Union ("EU"). As demonstrated by the German energy transition following the reactor catastrophe at Fukushima in March 2011, we may face sudden, unexpected and unpredictable changes in the political and legal framework or its application. Energy markets throughout Europe have been subject to increases in regulatory intervention, partly motivated by the difficult budgetary situation numerous European countries are facing. Legislators, regulators and market participants may not completely foresee all, or may disregard financial impacts on businesses, which may negatively impact our revenues.

It can also not be fully excluded that due to yet unforeseen future amendments to the current legal and regulatory regime in Germany, we may be held liable for historic liabilities of the RWE Group despite the separation.

The realization of any of such risks as well as any of the factors or developments described below could have a material adverse effect on our business, results of operation and financial position.

*Risks Relating to General Regulatory Concepts (Electricity market 2.0 in Germany)*

While the UK and France have implemented a technology-neutral capacity market (which ensures that, in addition to revenue from electricity production, power plant operators receive a payment for making their capacity ready and available), Germany has opted for a further development of the existing energy-only market to the so-called electricity market 2.0 (*Strommarkt 2.0*). This concept aims at a more efficient integration of electricity production from renewable energy sources and generally free pricing for electricity while providing for a capacity reserve from conventional power plants only to ensure security of electricity supply in case of unpredicted or extreme market situations. This concept has been implemented in the Electricity Market Act (*Strommarktgesetz*) and a related ordinance which were recently passed in Germany. However, the reforms may fail to achieve their full desired effect or give preferential treatment to specific energy sources. Although we believe that electricity generation from RES, such as those generated in our Renewables Segment will enjoy a favorable treatment in the electricity market 2.0 concept in Germany, RES important to us now (in particular wind) or in the future (for example, photovoltaic energy) may receive a less favorable treatment than currently expected.

The electricity market 2.0 will require further investments, and consequently result in additional costs. In particular, the higher feed-in levels will make the installation and operation of our grid more complex and costly. The electricity market 2.0 is likely to also have secondary effects on our electricity distribution grid and our Retail Segment. Whereas conventional power plants are traditionally connected to the transmission grids, the vast majority of renewable energy installations in Germany is connected to the distribution grid (approximately 98% of the renewable energy installations, according to the final report of the study prepared by E-Bridge, IAEW and Offis for the Federal Ministry of Economic Affairs and Energy entitled "*Moderne Verteilernetze für Deutschland (Verteilernetzstudie)*", September 12, 2014). Further development of our electricity distribution grid will be required to adapt to the steadily increasing load flow (*Lastfluss*) from renewable energy installations and to flexibly handle fluctuations between peak and low loads from such feed-in. This will require further investments. In addition, the higher feed-in levels will make the installation and operation of our grid more complex and costly (see also "*3.1.9 Increasing decentralized power generation and other factors have made grid operations more complex, requiring additional investments which may only start yielding a return in the next regulatory period, and increasing storage capacities may lead to less consumption out of the grid.*").

Furthermore, it cannot be excluded that, for example in Germany, due to structural congestion (for example as a result of the fast expansion of energy generation from wind paired with a delay in grid expansion), the energy market may be split into two zones or that other countermeasures may be adopted by the regulator which may negatively affect market prices and the revenues of our Renewables Segment or of some of our participations in the Grid & Infrastructure Segment.

Moreover, decentralized generation in Germany is subject to support mechanisms for relieving the distribution grid. However, the recent switch to decentralized, mostly intermittent generation has resulted in a public debate whether these installations really relieve the grid. The German Parliament (*Bundestag*) has stated that a thorough discussion on this issue should be held before the end of 2016. Therefore, we may in the future lose support received under such mechanisms for all or parts of our decentralized, non-renewable German generation, such as CHP plants.

### *Risks Relating to the Grid Regulatory Framework*

In Germany as well as in other countries in which we have grid operations, the structure and business of our grid operations and generation activities are subject to strong regulation. This regulatory framework and its application by the regulatory authorities is complex and subject to frequent, sometimes unexpected and unpredictable change and continuous development, which makes planning of our business difficult and to some extent impossible. One of the issues being debated is how to ensure a secure, cost-effective and environmentally-friendly electricity supply in view of the increasing volume of fluctuating electricity feed-ins and (political) pressure to reduce conventional power generation.

Our distribution system operations in most jurisdictions are required by law to be separate from our generation and retail operations in legal, operational and informational terms as well as in terms of accounting. These so-called unbundling requirements *inter alia* stipulate the independence of the decision-makers responsible for the operation of the grid systems, restrict the exchange of information with intragroup companies and affect staffing of executive positions, thereby reducing group efficiencies. In addition, it is possible that the unbundling requirements will become even stricter in the future for all or for certain DSOs, e.g., by applying the standards applicable to transmission system operators, such as ownership unbundling, or by rescinding exceptions from legal and operational unbundling for DSOs with less than 100,000 connected customers. On the other hand, unbundling requirements are the subject of debate in several countries. In the Netherlands, where ownership unbundling is required on a DSO level, it has been discussed politically and in administrative proceedings whether and, if so, to what extent unbundled group companies of a DSO are allowed to carry out commercial or infrastructure-related activities. By carrying out activities such as providing energy saving advice to customers or facilitating a trading platform, certain affiliates of a DSO compete with non-regulated commercial market participants such as innogy.

In addition, the revenues from our distribution grid operations are regulated by law (see "3.2.2 We face risks, especially related to the revenue structure and grid tariffs, within the regulatory framework in Germany and other jurisdictions."). We are also subject to numerous obligations regarding our grid operations (see "3.2.3 Our grid business faces risks, in particular related to the introduction of additional statutory obligations.").

### *Risks Relating to the Retail Regulatory Framework*

Our Retail Segment is also subject to Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of October 25, 2011 on wholesale energy market integrity and transparency ("REMIT") (for example, for Retail, with respect to data reporting within the B2B area). REMIT requires *inter alia* market participants to register with their competent national regulatory agency and to report wholesale energy market transactions in order to prevent insider trading. Sanctions for violating obligations under REMIT are subject to national law. Under German law, sanctions include administrative fines as well as imprisonment depending on the gravity of the offence. Any violation of REMIT or the related sanctions may have a material adverse effect on our business, reputation, financial position or results of operation. Revenue from our Retail Segment is also affected by different regulatory policies directly aiming at a reduction of energy consumption or indirectly resulting in such reduction by increasing the overall gross electricity prices for end customers. This includes, in particular, compliance with energy efficiency targets, the introduction of more stringent targets, increases in surcharges added to the net electricity price for end customers (in particular in connection with the so-called EEG-levy under the EEG, the liability-levy for offshore wind farms and the KWKG-levy as well as the grid tariffs and applicable reductions under section 19 of the German Ordinance on Electricity Grid Tariffs (*Stromnetzentgeltverordnung*, "**StromNEV**")). Changes to, or an increased or decreased effect of these policies, e.g., on consumer behavior, may have an adverse effect on our revenues.

In the UK, electricity and gas suppliers are responsible for forecasting and recovering the costs from customers relating to the implementation of many regulatory policies aimed at promoting renewable energy and energy efficiency and ensuring security of supply. Uncertainty regarding

the future levels of such costs or changes to the regulatory regime could lead to an insufficient recovery of these costs from our customers (see also *"3.1.2 Our business is affected by economic factors, including risks associated with volatile or uncertain financial and economic conditions, which may negatively affect demand for our products, our prices and margins, our access to credit and our customers' and business partners' solvency, among other negative effects."*). In the Netherlands, the Minister of Economic Affairs announced the introduction of an energy savings obligation, which will most likely be imposed on energy suppliers, to realize 15 to 20 petajoule energy savings with households and small and medium enterprises by 2020 in order to realize the national energy savings target under the Energy Efficiency Agreement. Two possible variations of this measure are now being considered, one being an obligation with targets and fines, the other one consisting of new tendering options for energy suppliers to incentivize them to reach the targets. If the first variation is implemented, the measure foresees high penalties if the targets are not met.

Although retail markets in Europe are generally liberalized, certain Member States have adopted price cuts or introduced special regulated tariffs for certain eligible end customers, households in particular, e.g., for social reasons. We have observed such practices, for example, in Hungary with cuts to electricity and gas tariffs in 2013-2014 and the introduction of the so-called USP as well as price regulation for household customers of incumbents in Poland. We may also face similar interventions in other jurisdictions, such as in the Czech Republic, where the regulator has also indicated that it may re-introduce commodity prices or a margin regulation for certain consumers and has recently introduced non-binding "indicative" gas prices which will be applicable as of the fourth quarter of 2016, or in the UK, where the CMA recently proposed a price cap for charges on prepayment customers (who represent 16% of npower's customer base). Difficult economic framework conditions in any of the markets in which we are present or other considerations (such as the role of "gas supplier of the last resort" that we hold in the Czech Republic) may move regulators to intervene in the gas or electricity supply market, for example, by forcing us to deliver gas to third-party customers on uneconomical terms in case the third-party supplier fails to fulfill its supply obligation. Any such regulatory intervention in retail markets may prevent us from fully recovering our supply costs or otherwise negatively affect our profitability. The Polish gas retail market is subject to price regulation for all groups of customers, including industrial and business customers. However, a decision of the European Court of Justice stated that the Polish price regulations on the gas market were not in line with European regulations. Accordingly, the Polish government presented a plan to implement the Court's verdict and gradually liberalize the gas retail market. However, the implementation of this plan may be delayed, which may negatively impact our retail business in Poland.

In the UK, Edward Miliband, the leader of the Labour Party at that time, had already announced before the May 2015 general elections that in the event of a Labour victory, residential electricity and gas tariffs would be frozen for 20 months. Although the Labour party did not win the election, the announcement put the government under pressure. It reacted by announcing a catalogue of measures to reduce energy costs in order to lower the average residential electricity and gas bill by a total of GBP 50 (about EUR 68 as of December 31, 2015). For example, the state-launched program Energy Companies Obligation ("ECO") was scaled back. ECO obliges the major power providers to finance measures to improve energy efficiency in homes. Since the associated cost has been included in electricity tariffs, ECO has played a major role in increasing energy costs in the past. Residential customers received further relief as the regulator managed to delay the adjustment of network fees. In addition, the government made a one-off payment to energy companies, which they had to pass on to their customers. Taking these factors into account, we lowered our UK tariffs with effect from February 28, 2014. As a result of the aforementioned measures, the energy bills of customers who purchased both electricity and gas from us were reduced by the targeted average of GBP 50. Moreover, the exemption of green energy consumption (levy exemption certificates or "LEC") from the national climate change levy was abolished in 2015, which is currently reducing our profit in our

UK renewables business. Following the elections, the UK government also changed the support scheme for renewable energy sources.

Certain aspects of innogy's business are subject to the European Market Infrastructure Regulation (EU) No 648/2012 of the European Parliament and of the Council of July 4, 2012, on OTC derivatives, central counterparties and trade repositories ("**EMIR**"). EMIR *inter alia* sets clearing obligations for certain standardized OTC derivative contracts, requires risk mitigation techniques for non-standard OTC derivatives (*i.e.*, portfolio reconciliation and dispute resolution, timely deal confirmation, portfolio compression) and introduced an obligation to report all trades in defined instruments to trade repositories. German law requires annual auditing and certification of the company's EMIR compliance by an auditor. Non-compliance with EMIR obligations may be subject to a fine and be made public by BaFin. The decentralized commodity trading set-up within innogy poses a particular non-compliance risk. Currently, this risk is mitigated by delegating crucial parts of EMIR implementations to RWE Supply & Trading GmbH for commodity derivatives.

#### *Risks Relating to the Regulatory Framework Applicable to Renewable Energy Sources*

At EU level, a recent focus has been on the promotion systems for renewable energies. The EU has applied new guidelines on state aid for environmental protection and energy since 2014 in order to assess national support systems regarding their compatibility with EU state aid law. In general, these guidelines aim at harmonizing renewable energy promotion schemes, which shall increasingly include incentive mechanisms such as auction or tender procedures (aimed to increase competition) and eventually expire depending on the level of development of the respective technology. The ultimate aim of EU energy policy is to form a European Energy Union. Such harmonization process could result in the loss of certain advantages under current national law and would require us to undergo extensive implementation steps to adapt to potential new EU legislation.

In addition, the German EEG promotes renewable energy installations depending on the type of the RES and the time the installation first commenced operation and fed electricity into the grid system. Approaches of prioritizing renewable energy generation in Germany are changing constantly and affect (and may continue to affect in the future) our Renewables Segment. For example, the latest revised version of the EEG adopted in 2014 generally changed the then standard remuneration method for new installations from the payment of fixed feed-in tariffs to a supplementary premium compensating the shortfall between the price achieved for the electricity by mandatory direct marketing and the statutory tariffs. In addition, the promotion of ground-mounted photovoltaic installations was the pilot project for a paradigm shift regarding the overall amount of remuneration for renewable energy sources. The idea is that funding will no longer be based on fixed statutory tariffs but rather be determined in a tender procedure resulting in a "pay-as-bid" remuneration. The German Federal Government has announced that it will generally apply such tender procedures to new photovoltaic and wind installations from 2017 onwards, as envisaged in the amended EEG (for photovoltaic and onshore wind farms) as well as in the new Wind Offshore Act (*Windenergie-auf-See-Gesetz*) (for offshore wind farms), both of which will come into force as of January 2017. The amount of capacity to be auctioned will generally be limited depending on the type of RES and the point in time the installation commences operation, and will further be limited in areas where the transmission grid faces extraordinary extension demands. The government's overall aim is to continue the expansion of energy production from RES while at the same time keeping energy prices for end customers stable, which have risen significantly in recent years as a result of the support for RES. This is primarily targeted by a reduction of support for new RES installations. Any reduction in RES support for future or even current installations could have a negative effect on our financial position or results of operation.

Another example is the promotion of the CHP technology. CHP based on renewable energies (*e.g.*, biomethane) is promoted via the EEG, whereas CHP based on fossil fuels (*e.g.*, natural gas) is promoted by the German Combined Heat and Power Act (*Kraft-Wärme-Kopplungsgesetz*,

“KWKG”). Since 2014, the promotion of renewable CHP is no longer attractive since EEG feed-in tariffs have been reduced significantly. On the other hand, profitability of fossil CHP has been limited within the last two years. New plants have to pay EEG-levy or wait for the entry into force of the promotion scheme of the revised KWKG 2016. Further uncertainty results from the planned amendment of the energy and electricity tax law. EEG promotion for existing plants based on biomass will expire within the next five to eight years. Currently, a succession plan is not in sight.

In Spain, the government made drastic retrospective cuts to the feed-in tariffs for renewable energy plants and existing renewable energy producers based on a law which entered into force at the end of December 2013 and related ordinance and ministerial decree in 2014. The fixed feed-in tariffs paid so far were replaced retrospectively to July 2013 by a new compensation system, which ensures that the generation facilities achieve a pre-tax return on capital equivalent to the ten-year average of Spanish government bonds plus 300 basis points. These retrospective cuts negatively affected our Spanish Renewables operations from 2014 onwards by reducing earnings considerably. Even though we maintain the dialogue with policymakers and stress that reliable framework conditions are the basic precondition for companies to invest in energy infrastructure and sometimes even take legal action to try to limit the effects of tariff cuts (such as in Spain, where we (at the time as part of the RWE Group) filed a suit with the International Centre for Settlement of Investment Disputes (ICSID) in December 2014), there can be no assurance that we will be successful in limiting such negative effects or in positively affecting governmental policies in Spain or other relevant countries.

As a result of the Parliamentary elections held in Poland in October 2015, we face the risk of unexpected changes in the legal and regulatory framework that may impact all segments in which we are active in Poland. Poland introduced a new renewable energy support scheme in 2015/2016. It is envisaged that the Polish government will annually determine the maximum price levels and auction volumes for the different types of installations. New assets winning the auction will have a guaranteed price for a period of 15 years at the level offered in the auction. In addition, the regulatory environment in Poland became more challenging for wind energy producers after the parliament adopted a new law in June 2016 imposing new conditions for existing and new wind farms, and new regulations regarding localization of the wind farms. This may significantly limit new investments and lead to financially detrimental results for already existing investments. Any further negative regulatory or legal changes in connection with support scheme mechanisms may lead to a loss in the value of our renewables assets and a reduction of revenues. The recently adopted amendment to the regulatory framework applicable to RES introduces the concept of cooperatives and clusters, which may reduce distributed or sold volume on incumbents' area and therefore may have an impact on retail and grid operating result. A change of the support system for prosumers from the initially planned feed-in tariff-based system to a net-metering system may affect the retail and grid businesses. This net-metering system is designed in a way that for every MWh produced in the prosumer's installation which is fed into the grid, the prosumer will be entitled to a discount in price for energy taken from the grid. As a result of the net-metering approach, the retail business may experience declining sales volumes (due to less electricity being purchased). In addition, the respective retail companies will have to pay to the DSO the variable portion of the distribution fee which is saved by prosumers. This may negatively impact the operating result in our retail business. The new settlement system for prosumers is highly complex and there is no practice yet with respect to its implementation. In addition, there is the risk that new fees to be collected by DSOs or retail suppliers may be introduced.

In Slovakia, under the current support scheme for RES and CHP production, DSOs are obliged to pay out the feed-in tariffs to such producers, but the dedicated tariff for raising the funds to cover the feed-in cost does not fully reflect the costs actually incurred in a given year. Although in the past any such deviations have been settled within a two-year period, there is a risk that, in the future, such deficit will not be settled any more, as the current draft price decree of the regulator does not clearly state how this correction mechanism will be functioning in the future.

Whereas offshore wind farm capacities in the UK are further extended, the government announced a reduced promotion of onshore wind installations due to the high burden of costs of such promotional scheme on consumers and local resistance against new onshore wind farms. In light of this development, we have already reduced our efforts regarding new onshore projects in the UK.

In the Czech Republic, the support scheme for high-efficiency CHP only applies to facilities that started their operations before the end of 2015. If no support scheme is introduced for facilities which started operation at a later stage, or if the support scheme for the existing facilities is modified or cancelled, this could have a negative effect on the financial position and operating result of such installations in the Czech Republic.

In addition, our Renewables Segment is subject to REMIT and thus exposed to the risks relating to such regulation described above for the Retail Segment.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.2.2 We face risks, especially related to the revenue structure and grid tariffs, within the regulatory framework in Germany and other jurisdictions.**

Grid tariffs for access to the electricity and gas distribution grids are one of our main sources of revenue. These tariffs are highly regulated and could be determined by the competent authorities in a way that would have a materially adverse effect on our financial position and results of operations.

In Germany, we derive net income from our distribution grid operations mainly from grid tariffs charged by our German grid subsidiaries (DSOs) to grid customers. As of January 1, 2009, the determination of grid tariffs in Germany is subject to the Incentive Regulation Ordinance (*Anreizregulierungsverordnung*, "ARegV") and a series of regulatory decisions by BNetzA, notably the determination of the Revenue Cap (*Erlösobergrenze*) for each year of a regulatory period. Subsequently, we transpose these Revenue Caps into grid tariffs charged to grid customers. The calculation of grid tariffs is a complex procedure and prone to errors, e.g., in judgment and application. We may be unable to claim any deficits resulting from such errors at a later stage. Hence, the German regulatory framework for Revenue Caps of grid operators has a substantial effect on the revenue we are able to derive from our grid operations.

The (current) second five-year regulatory period for electricity DSOs began on January 1, 2014, and will run until the end of 2018. The next regulatory period is currently expected to run from 2019 to 2023. The second regulatory period for gas DSOs began on January 1, 2013 and will run until the end of 2017; the next is expected to run from 2018 to 2022. This means that according to the current regulations the Revenue Caps for grid tariffs for the upcoming new regulatory periods should be determined in 2018 (for electricity) and 2017 (for gas). In Germany, the determination of the Revenue Caps follows a complex regulatory regime, and is mainly conducted by the BNetzA as the federal regulatory body as well as the regulatory authorities of the Federal States. The determination is based on cost base levels (*Ausgangsniveau*) comprising relevant grid costs during a regulatory period's base year, i.e., 2016 (electricity) and 2015 (gas) for the third regulatory period. In this context, the regulator enjoys wide discretion in relevant aspects of the determination process allowing only for limited judicial control. Due to the complexity and the before mentioned limitations of control, the determination of Revenue Caps is subject to a large number of factors and decisions, each of which may have a significant impact and which cannot adequately be influenced or fully be anticipated by grid operators and their respective regulatory affairs management. In addition, the regulatory regime is sensitive to changes of the statutory framework, (changing) decisions, application and implementation by the regulatory authorities as well as factual changes, over which we have limited or no influence.

Whether or not our costs are generally accepted in the cost base level is determined by the competent regulatory authority. Accordingly, the costs actually incurred for our grid operations

may not fully be recognized for the determination of the Revenue Caps. In the past, risks in the cost assessment generally depended on partial benchmarks that are processed independently from the efficiency benchmarking (see below), and intended to balance effects between an asset owner and the DSO. This focus may, however, be subject to change in future cost assessments. Similarly, the BNetzA intended to introduce process benchmarks and an allocation of overhead costs to the grid related costs on the one hand and costs of other company activities on the other hand. This would have required a separate benchmarking process in addition to the regular cost efficiency benchmarking. If such additional process benchmarking would be introduced in the future, there could be a negative effect on our cost base level. Furthermore, for the purposes of determining the regulated asset base, the relevant activated acquisition and production costs have to be identical to the historic costs and, for example, must not have been recalculated on the basis of current costs taking into account, *inter alia*, qualitative changes of the respective asset. For any deviation, we have to be able to provide a full reconciliation (*Überleitungsrechnung*) between the reported activated costs and the historic costs to avoid any revocation or adjustment of our revenue cap. In certain cases such reconciliation may cover a long period dating back several years or even decades. It cannot be excluded that we may not be able to provide the full reconciliation required. The BNetzA may also change its approach in assessing the cost base levels of DSOs owning and DSOs leasing their grid assets. BNetzA may for instance intensify the assessment of cost base levels for leased grid assets (also in terms of accounting) or increase documentation requirements.

Another key driver within the cost base level is the BNetzA's determination of the interest rates providing for the imputed return on equity. In the current (second) regulatory period, the interest rate amounts to 7.14% for so-called "old assets" subject to the current cost accounting (without inflation) and 9.05% for "new assets" subject to the historic cost accounting (including inflation). For the third regulatory period, the BNetzA issued a draft determination, which is now being subject to public consultation. According to the draft determination, the BNetzA proposed a rate of return on equity for "new assets" of 6.91% and for "old assets" of 5.12%. A final decision of the BNetzA is expected to be taken within the next weeks. We expect that the BNetzA will determine imputed interest rates at levels around those previously proposed. However, it is possible that the final determination of the imputed interest rates will result in rates that are lower than those previously proposed by the BNetzA. A determination of lower interest rates will have an impact on the revenue cap and, accordingly lower our revenues from grid operations and our results of operation. In addition, a lower return on equity may also decrease our rating or for other reasons make it more difficult for us to refinance debt in the capital markets. Shrinking imputed equity may also have an indirect negative impact on our efficiency values as the share of capex-based costs among the different DSOs may differ. Therefore, the benchmarking costs of DSOs with a higher share of capex-based costs will more strongly decrease due to shrinking imputed equity than the benchmarking costs of DSOs with a lower share of capex-based costs. For DSOs with a lower share of capex-based costs this may result in decreasing efficiency values.

Similarly, in most eastern European countries, revenues from our regulated grid business are (indirectly) affected by the interest rate level, which is in most cases considered as input for the regulated parameter weighted average cost of capital ("**WACC**"), which is used for regulatory price-setting purposes. Continuing low interest rate levels might reduce the regulated WACC and the permitted grid revenues.

In addition, in Germany we are subject to an efficiency benchmarking procedure, which leads to different results for DSOs depending on the underlying methodology. Whereas this benchmarking used to be based on a specific set of parameters, of which a few are mandatory parameters (*Pflichtparameter*) for the first and second regulatory period, the BNetzA will for the first time determine the whole set of relevant parameters for the third regulatory period, so there will not be any mandatory parameters in the third regulatory period. If the BNetzA decides, for example, to exclude the line length (*Leitungslänge*) as a relevant parameter, our efficiency values may be adversely affected. It may be that the heterogeneity of DSOs may not be reflected by the benchmarking parameters used. In this case, efficiency values may be

negatively affected. Such efficiency value is assigned to every DSO as a result of the benchmarking process. If an efficiency value is below 100%, the respective grid operator incurred inefficient controllable costs. These inefficient controllable costs generally have to be eliminated on a *pro rata* basis until the end of the applicable regulatory period.

An important factor during the benchmarking process and, thus, for the efficiency value, is the determination of permanently non-controllable costs, because these costs will be fully recognized without any efficiency benchmarking. Hence, to the extent that the BNetzA may in the future no longer categorize certain approved costs as permanently non-controllable costs, this may have a negative impact on the efficiency value and, thus, on the results of our German grid subsidiaries.

Similarly, according to the comparative system of benchmarking our benchmarking results may be negatively affected by efficiency gains of other DSOs. For example, the introduction of peak caps for decentralized electricity production will generally avoid unnecessary grid construction and, thus, increase the efficiency of the grid. Our grid revenues may decline as a result of inferior benchmarking results.

In addition, costs that are not determined as permanently non-controllable costs (*dauerhaft nicht beeinflussbare Kosten*) are adjusted for inflation by the consumer price index ("CPI") and reduced by a so-called adjusted sectoral productivity factor for the grid sector ("**Xgen**") of currently 1.5% per year as determined in the ARegV for the second regulatory period. For the third regulatory period, the sectoral productivity factor will be determined by the BNetzA for the first time. Any increase by the BNetzA will negatively impact our Revenue Cap. The CPI may be lower than we expect. In times of extremely low CPI and relatively high Xgen there is the risk that our nominal revenue may decline. Even non-controllable costs are in some cases reimbursed only with a time delay of two years, resulting in financing risks.

Supply interruptions in our electricity distribution grids in Germany could reduce our Revenue Caps by lowering the reliability of our grids (this is not applicable to gas networks). This reliability is determined by supply interruption ratios for the last three years on the basis of SAIDI (System Average Interruption Duration Index) in lower voltage levels and ASIDI (Average System Interruption Duration Index) in medium voltage levels. Both values are set in relation to reference values that illustrate the average reliability of DSO with a comparable load density. The difference between the reference value and the SAIDI/ASIDI numbers is evaluated by a factor that reflects the network's economic value for the customers in the form of a bonus or malus revenue. This factor may change over time. In case SAIDI/ASIDI and/or the reference function develop negatively, a lower quality element may reduce our Revenue Caps.

As a result of the base year approach for determining the Revenue Caps, we may be unable to recover cost increases incurred during a regulatory period, e.g., due to implementation of new statutory obligations, increased staff costs, costs of materials, cost of debt or investment costs exceeding the Revenue Cap. While the applicable regime provides for an adjustment of the yearly Revenue Cap, this applies only in specific regulated cases, e.g., for non-controllable costs in some cases with a time delay (referred to as "t-2"). The result of this is that even in case of unforeseeable or unpredictable cost increases, we will not generally, but only in limited situations and often with a delay in time, be allowed to increase our grid tariffs. Inversely, a decrease in non-controllable costs will generally also only be accounted for with a time delay of two years. However, any such decrease would then reduce our future Revenue Cap. Accordingly, while a one time decrease in non-controllable costs in a given year would lead to a positive effect in such year, such effect would be compensated two years later by a negative effect. It is possible that a one time decrease of non-controllable costs in a base year could have an impact on the Revenue Caps of the entire following regulatory period, unless the regulator accepts it as a one time effect. Such an effect could in particular result from the recently amended actuarial interest rate for the evaluation of pension related provisions for the purposes of our unconsolidated financial statements, which are prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*). This could also have a material adverse effect on our business, financial position and results of operation.

In addition to the foreseeable changes in application and implementation of the incentive regulation regime by the regulatory authorities and the factual changes mentioned above, the ARegV was recently amended. The German Federal Government adopted a proposal to amend the ARegV on June 1, 2016, which was approved by the Federal Council (*Bundesrat*) on July 8, 2016 (the "**Amended ARegV**") with changes that were accepted by the German Federal Government on August 3, 2016. Although the new regime came directly into force after its publication in the Federal Law Gazette (*Bundesgesetzblatt*) on September 16, 2016, most material changes for DSOs will only take effect for the third regulatory periods starting in 2018 for gas grids and in 2019 for electricity grids. The Amended ARegV introduces several changes to the currently applicable incentive regulation system, which may adversely affect our Revenue Caps. This includes changes to the underlying methodology of the efficiency benchmarking process. One of the current efficiency benchmarking methodologies (the non-parametric Data Envelopment Analysis – "**DEA**") will be adjusted, which may negatively affect efficiency values of mainly smaller DSO but in some cases larger DSOs too. The overall effect may, however, also negatively impact the efficiency value of our DSOs. The Amended ARegV will introduce a regime of annual adaption of the cost of capital. As a result, capital costs for replacement or expansion investments shall be reflected in the Revenue Caps without time delay (capital cost mark-up), while capital costs of assets which are already part of the cost base level will be reduced annually (capital cost deduction). At the same time, certain elements currently used in the determination of the Revenue Caps, such as the cost base effect (*Sockeleffekt*), investment measures and the expansion factor for DSOs will be removed. This new approach may work to the detriment of DSOs that have already made investments in past years since their investments may have considered the (positive) cost base effect. Although the Amended ARegV provides for a transitional period of five years for investments between 2007 and 2016, the period will be too short in order to avoid any negative effects on investments which have been already carried out. Furthermore the Amended ARegV provides for new rules for the process and the determination of the partial Revenue Cap to be transferred in case a concession agreement expires, which may negatively impact formal and material positions of DSOs when negotiating partial Revenue Caps with the new concessionaire. Electricity grid operators with less than 30,000 customers and gas grid operators with less than 15,000 customers may opt for a simplified procedure which currently, *inter alia*, allows them to treat 45% of their total costs as permanently non-controllable costs which are fully recognized for the determination of the revenue cap. Under the Amended ARegV this share of total costs will be reduced to 5%. Accordingly, a larger share of total costs will become subject to further assessments which may reduce the overall revenue cap of our smaller DSOs, such as VSE Verteilnetz.

Our regulatory framework and the grid tariff regulation may in the future also be affected by the introduction of new standards on the European level. We expect that the EU Market Design Package will be proposed by the European Commission late in 2016. This initiative is likely to include a new definition of the role of DSOs. Together with respective national legislation, such an initiative may limit the activities of our DSOs. The package may also include more detailed or additional unbundling provisions, especially for larger DSOs. Finally, direct specifications on a number of issues including the design of incentive regulation and the network tariff system could also be part of the Package. In addition, there has been recently discussion about formally introducing a mandatory DSO entity at the a European level, and assigning the task to this entity to prepare proposals to further harmonize network codes, data management, customer interaction, incentive schemes, network tariff systems and other issues, which might have a negative impact on our DSO business.

In addition to the risks related to the determination of our revenue caps we also face risks regarding a partial transfer of our revenue caps, which may be required either in case of a sale of assets or in case a concession agreement expires. The latter has occurred frequently in recent years in the course of municipalization and may be fostered and further increased by a current draft bill supposed to make it easier for municipalities and cities to regain ownership of grid assets. In each case of transfer of such assets, disputes may arise regarding the purchase price as

well as the part of the revenue cap pertaining to the respective grid part. In the long term any loss of a concession, in particular urban concessions, and, thus, loss of a part of our grid, may result in an increase of our grid tariffs for the remaining parts due to inferior cost distribution, because urban grids in tendency have lower costs per kWh than grids in rural areas. Such increase may cause customers to opt for supply alternatives such as self-production, which would again decrease our revenues.

In the Czech Republic, a Revenue Cap has been used as the main regulatory method for grid tariff calculation. Similar to Germany, the drivers of permitted revenues in the Czech Republic may be subject to regulatory adjustments in the upcoming regulatory period starting as of January 2019. In particular, the competent regulator may re-evaluate the RAB and not acknowledge certain assets. In addition, the regulator will likely determine lower interest rates, since the base rate will be derived from interest rates, which generally declined in the past years. The operating expenditures actually incurred for our grid operations may also not fully be recognized. There is also a risk of permitted revenues not being collected in certain years and correction factors not being recovered in the currently envisaged time frame, *i.e.*, with a time delay of two years.

In Hungary, network tariffs are determined in the form of a price cap every four years, with yearly publication of the actual network tariffs. Before each cycle the energy regulatory authority performs a cost review. The current regulatory period extends from January 1, 2013 to December 31, 2016, which means that the cost revaluations and tariff calculations for the next period will be conducted this year. Although no fundamental changes in the methodology are expected in comparison with the previous cost review, certain regulatory parameters are under review and may be changed during the process. For example, the reallocation of cost elements can be expected due to the acknowledgement of special sectorial taxes, which may be compensated by a slight reduction in WACC, operational expenses and in other cost elements.

In Poland, the regulator also uses a price cap as the regulatory method with respect to the tariff structure based on variable fees (a major part of the revenues). Therefore, distribution tariffs are volume sensitive and any volatility of this parameter can influence DSO's revenues. As long as there is no official commitment by the regulator to introduce a Revenue Cap or change the tariff structure to be more based on fixed fees, the volume related risk will remain. In addition, a new methodology for the calculation of the return on the regulated asset base was introduced in Poland for the regulatory period 2016-2020 based on a new formula, which could have a negative impact on our regulated revenues.

In Slovakia, network tariffs are determined in the form of a price cap based on a bottom-up calculation of allowed costs. The price decision is generally valid for the duration of the entire regulatory period and the key regulatory drivers are fixed (OPEX, RAB, WACC, regulatory depreciation). However, due to the fact that some input parameters change each year (*e.g.*, distributed volumes), the price-cap and tariffs are re-calculated on an annual basis. The current regulatory period will end on December 31, 2016, which means that the cost revaluations and tariff calculations for the next period will be conducted this year. Although we expect no fundamental changes in the methodology, certain regulatory parameters are already under review. We expect a slight increase of WACC for the next regulatory period, a change in the permitted OPEX reflecting the actual OPEX costs of 2012-2016 as well as adjustments in RAB following the revaluation process currently in place.

In any country where we operate network infrastructure, the current regulatory model may be amended by the legislator or regulator, which may decrease our regulated revenues.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.2.3 Our grid business faces risks, in particular related to the introduction of additional statutory obligations.**

We are also subject to numerous obligations regarding grid connection and grid usage and the development and operation of our distribution grids, which have constantly increased during

the past years and are likely to increase further. In particular, we are obliged to operate a safe, reliable and efficient energy supply network on a non-discriminatory basis. This requires, *inter alia*, balancing out fluctuations between the feed-in and take-off of electricity from our grid. In order to be able to balance out differences between the forecast and actual use of electricity by customers, we have to purchase electricity ourselves. On the other hand, a decline in the general consumption of electricity may in the long-term result in an increase of our grid tariffs, which may cause our grid customers to avoid such higher tariffs, e.g., by switching to self-production (prosumers).

Further risks result from increasing energy efficiency obligations. We may in the future be required to assist customers with implementing energy efficiency measures or implement such measures ourselves, without being able to recover the costs related to such measures, e.g., because such measures are not appropriately reflected within the benchmarking process.

Additional obligations involving implementation costs, which may not be fully recognized in the determination of our Revenue Caps in Germany, may also be caused by the gradual replacement of the current meter stock by modern and “smart” meters in the period from 2017 to 2032 (“smart” meter roll-out) as prescribed in the Act on the Digitalization of the Energy Transition (*Gesetz zur Digitalisierung der Energiewende*), which was recently passed by the German legislator. Although the obligation under the new act is *inter alia* subject to the condition of the economic feasibility of such installations, it is currently unclear whether the envisaged and legally determined price limits (*Preisobergrenzen*) will be sufficient to cover the related costs and to create business and, at the same time, be attractive for customers. Customers refusing to have smart meters installed might cause additional costs for DSOs as default metering operators. Furthermore, technical risks exist especially in view of the specifications for smart meters and their regulatory treatment. Smart meters and their operation, among others, will be subject to additional technical and cyber regulations set up by the Federal Office of Information Security (*Bundesamt für Sicherheit in der Informationstechnik*). Risks related to the handling of data may also occur.

Under the new act, the operation of smart meters can also be provided by parties other than grid operators. Such shift of activities originally reserved for grid operators to the general market may have a negative impact on our grid revenues. In particular, such change may negatively impact the recovery of costs for metering investments made in the past which might be replaced by new smart devices before the end of their imputed depreciation. In addition, the contemplated transfer of balancing responsibility from the DSOs to the transmission system operators will result in additional administrative costs, which may not be fully recognized in the determination of our Revenue Caps. Furthermore, a possible revision of roles between DSOs, TSOs and other market participants may further lead to a loss of market shares and business for our DSOs.

In the countries where we operate grid infrastructure, e.g., Poland, a mandatory full smart meter roll-out, if implemented, bears the risk that smart metering investments have to be financed within an agreed CAPEX plan, reducing the financial scope for standard investments and maintenance. We also face the risk of higher than anticipated CAPEX beyond the current plan in cases of a mandatory roll-out.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

#### **3.2.4 Our grid business faces particular litigation risks due to the high complexity of grid tariff calculation and avoidance of specific charges.**

The high complexity in the calculation of grid tariffs based on our Revenue Caps makes grid tariff calculation and the invoicing of grid tariffs prone to litigation.

In addition, we may also have to retrospectively charge grid tariffs to grid customers who benefited from exemptions from, or reduction of, applicable grid tariffs without legal cause,

e.g., because such reduction has been declared legally void by a court of law or unlawful by the European Commission. In case of retrospective changes, we have to undertake major administrative efforts, bear the risk of insolvency of the respective customer, and may not be able to pass-on a charge at all.

Furthermore, the German Federal Supreme Court (*Bundesgerichtshof*) has ruled that certain grid users are entitled to reductions in network tariffs if they are the only users of certain assets, such as commercial customers connected directly to a substation. These reductions must in most cases be applied retroactively for a ten-year period if they have not been granted in the past. It is not certain whether a compensation for these retroactive reductions of network tariffs would be recognized by the regulatory authorities.

A number of grid users have also claimed that network tariffs both before and after the introduction of incentive regulation in Germany have been excessive and accordingly demand compensation. Such proceedings exemplify the particularly high risk of litigation for our grid operations, which mainly results from a fast changing legal framework and the introduction of new laws, which often result in differing opinions on the interpretation of legislation among the authorities, DSOs and third parties, which creates litigation and remuneration risks.

In addition, at a hearing held on June 22, 2016, the Constitutional Court of the Slovak Republic partially accepted a motion claiming the introduction of a fee for the access to the distribution system charged by electricity DSOs to electricity producers (so-called “**G-component**”) was unlawful. The court based its decision on the fact that the competent regulatory authority had exceeded its legal powers by introducing the G-component. As a result of this decision, we (and the other DSOs) may need to stop invoicing the G-component to Slovakian electricity producers that have not concluded an agreement on the access to the distribution system with us as from the date of official publication of the ruling, which will reduce our revenues from fees paid by electricity producers to us to obtain access to the distribution system. In addition, an increase in legal actions against DSOs, including our electricity DSO in Slovakia, cannot be excluded. A first claim against our DSO for reimbursement of payments for the access to the distribution system has already been filed.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.2.5 We depend on licenses, concessions, approvals, certifications, exemptions and/or dispensations, which may be revoked, challenged or not renewed.**

Our business activities depend on licenses, concessions, approvals, certifications, exemptions and/or dispensations in different jurisdictions in order to operate our business. For example, we are exposed to risks associated with approvals when building and operating production facilities, in particular onshore and offshore wind farms, biomass power plants, hydro power plants and – potentially in the future – utility-scale photovoltaic installations, as well as regarding our gas storage facilities. If the operation of such facilities is interrupted or curtailed, this can result in significant production and earnings shortfalls. New projects may either receive late or no approval, and granted approvals may be withdrawn, for example, due to conflicting interests of entities fostering nature protection or neighborhood initiatives. Depending on the progress of construction work and the contractual obligations to suppliers, this can have a very negative financial impact, particularly in the form of lower feed-in tariffs or market premiums, which generally decline and are linked to the commencing of operation, or in form of penalties in case a project which was awarded in the context of an auction is not completed as committed. For example, wind onshore projects in the UK, which were awarded a contract for difference in an auction procedure, have to be completed within a pre-defined year. If this milestone is not met, the total support scheme payments over the project lifetime are reduced in line with the project’s delay. In Germany, we must regularly start constructing our RES installations and commence operations within specific time limits to avoid forfeiture of

construction permits. Even if the grid operator connecting our installation to the grid is responsible for a delay or outage of the grid connection of our RES installations, contractual compensation may be limited or excluded, as is generally the case in grid connection agreements in the UK, or statutory compensation mechanisms such as in Germany may not apply, be limited or provide for deductibles, which would also reduce our revenues.

Furthermore, we may not be able to renew our licenses, concessions, approvals, certifications, exemptions and dispensations upon their expiration within the required timeframe, or at all. In addition, authorities may require us to apply for new licenses in the course of corporate reorganization measures, if such licenses are not transferred by way of legal succession.

In Germany, distribution network operations and district heating are based on contractual rights from municipalities and cities to use public transport routes to lay and operate grids. We may be unable to renew the expiring concessions on favorable economic terms or at all (see also *"3.1.7 Our Grid & Infrastructure Segment depends on concessions, for which significant competition exists, so that we may not be able to renew a considerable amount of the concessions we currently hold."*). In several cases, the concession agreements with the respective cities and municipalities are the basis for a considerable portion of our grid business, so that the inability to renew any such concession would have particularly negative effects on such business. Moreover, the negative financial situation of many municipalities and cities in Germany may also negatively affect the concessions business or the terms of concessions granted to us. In cases in which we are not granted a (new) concession relating to our grid infrastructure, there is, in particular in Germany, the right that our local infrastructure, for which we may have incurred significant capital expenditures, will be purchased by the third party to whom the concession is granted (see *"3.1.8 If we are unable to renew an existing concession or if it is terminated, we may have to sell the relevant grid infrastructure, which will negatively affect our revenue and may lead to a loss in connection with the sale, or we may enter into cooperation agreements that are limited in time."*). In addition, any transfer of grid infrastructure will require a partial transfer of our Revenue Cap pertaining to the transferred grid section, which may result in conflicts regarding the equitable division of the related Revenue Cap generally to be determined by the parties involved. Under the amended incentive regulation regime (see *"3.2.2 We face risks, especially related to the revenue structure and grid tariffs, within the regulatory framework in Germany and other jurisdictions."*), an *ex officio* procedure providing for a statutory division ratio in case the parties involved have not jointly filed for an adjustment of the Revenue Caps within six months has been introduced. However, the concerned DSO may also apply for a preliminary determination of the Revenue Cap before the end of the six-month period. The part of the revenue cap to be transferred may be extraordinarily high, may not properly allocate staff costs and connection charges in the process of the grid transfer and, therefore, negatively affect the results of our grid operations.

In addition, licenses, concessions, approvals, certifications, exemptions and dispensations currently held by the Group may be challenged in court by third parties, such as the challenge filed by a consumers' association claiming that a concession agreement entered into by us in Croatia with the city of Zagreb is null and void. Potential challenges may include allegations that we or one of our current or former business partners engaged in corrupt practices. Any such claims may lead to the revocation of the applicable concessions, licenses or approvals, could lead to criminal investigations and may give rise to operating restrictions. In such cases, this may amount to default under the relevant project financing agreements, leading to a declaration by the banks that all or any portion of the outstanding principal has become due and payable, requiring equity and completion guarantees, and potentially causing a loss of dividends to be paid by the affected Group entity. In the past years, legal challenges by third parties have been filed in particular with respect to our onshore wind installations. We often face opposition in the neighborhoods of these installations, as was the case with the installation of certain of our onshore wind installations in the Netherlands and in Germany. Any allegations that we or one of our current or former business partners engaged in improper conduct in connection with an

application for, or the granting of, licenses, concessions, approvals, certifications, exemptions and dispensations may lead to significant reputational damage and could severely negatively impact our business relationships.

Moreover, granted licenses, concessions, approvals, exemptions and/or dispensations may be subject to revocation, amendments and/or additional conditions being imposed on our regulated activities, which could affect our revenue, profits and financial position. For example, some of our operating licenses, e.g., for gas storage facilities, may be revoked (usually, temporarily, for example for around two years) due to breaches of the conditions imposed on the license, a new evaluation of safety aspects, technical issues or other aspects, which would result in lost revenue. Moreover, the eligibility criteria for such licenses, approvals, certifications, exemptions and dispensations may change from time to time, and may become more stringent in the future, for example, with respect to environmental aspects such as fish bypasses regarding hydropower plants. In addition, new requirements for licenses, approvals, certifications, exemptions and dispensations may come into effect in the future, and a trend can be observed whereby municipalities want to become more involved in the distribution network business, which implies changes to our business model in order to gain or renew the required concession agreements, for example with partnership models tailored to interested cities and municipalities, under which models we effectively dispose of a portion of our network (see also *"3.1.7 Our Grid & Infrastructure Segment depends on concessions, for which significant competition exists, so that we may not be able to renew a considerable amount of the concessions we currently hold."*). In certain cases, we may be negatively affected in the bidding process for a new concession or for the renewal of an existing concession by an adverse political sentiment towards the RWE Group, which could affect us even after our separation from the Former RWE Group. The introduction of any new and/or more stringent laws, regulations, licenses, approvals, certifications, exemptions and dispensation requirements relevant to our business operations may lead us to incur significant additional investment and maintenance costs in order to fulfill new regulatory requirements or may preclude us from continuing with our existing operations or some areas of our business activities, or may limit or preclude us from expanding our business. In addition, relevant regulatory authorities may not grant, extend or renew licenses, approvals, certifications, concessions, exemptions and dispensations as quickly as anticipated, which may result in project delays or facilities being ordered to stop operations for significant periods of time; see *"3.2.1 We are subject to significant regulatory and political risks, and our revenue, profits and financial position have been and will be affected by the regulatory frameworks in different ways."* Our inability to renew necessary licenses, approvals, certifications, exemptions and dispensations required for our operations in a timely manner, could have a material adverse effect on our business, financial position and results of operation. In addition, should RWE AG at some point in the future hold less than 50% (directly or indirectly) in the Company, there is the risk that certain concessions may be revoked.

Moreover, we may also be subject to fines or suffer a sales ban if complaint handling targets are not met in the UK following the disruption of our npower business (see *"3.1.18 We may not be able to successfully implement our restructuring program for our npower business in the United Kingdom, and we may incur expenses to comply with regulatory decisions."*). A sales ban would disrupt the business of our Retail Segment very significantly and also negatively affect our reputation. We have submitted to the regulator evidence that our complaints figures fall below the target levels agreed and the regulator is reviewing our submissions. It cannot be excluded that we may face similar proceedings and risks in other areas of our business.

Regarding our German hydroelectric power plants, we may have to transfer the respective assets on the basis of collateral clauses of our long-term permits for the use of water for the purpose of electricity production or on the basis of contractual obligations *vis-à-vis* public law entities. If such permit or contract expires, is not prolonged for an additional time period or, as in most of the cases, if we discontinue the operation of the power plant, the Federal Republic of Germany, the respective federal state or another public law entity will regularly be entitled to demand a

transfer of all assets essential for the operation (*Heimfall*). Compensation at fair market value is not always prescribed for such transfer, which may have an additional negative financial impact on us.

Moreover, upon expiration of permits for our RES or grid installations, as well as in the case of deterioration of an installation, we may be obligated to decommission and dismantle the installations and to dispose of the installation parts, which may require an expensive process in particular with regard to future environmental standards. Even in case of renewal or prolongation of such permit, we may be required to re-establish technical operability in accordance with new standards.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.2.6 Our grid infrastructure, especially in the Eastern European countries, may be built on property for which we do not hold the required land title.**

Most of the gas grid assets operated by RWE GasNet, s.r.o. (to be renamed GasNet, s.r.o.) and some gas storage assets operated by RWE Gas Storage, s.r.o. (to be renamed innogy Gas Storage, s.r.o., "iGS") in the Czech Republic have been historically laid onto property owned by third parties. The quality of rights, *i.e.*, easements, to use third party properties varies in time and depends on the legislation effective at the time the right was acquired. For a long time easements have also not been registered in the land register, and proof of the existence of such easements depends upon the availability of documents relating to the acquisition of such easements. Should easements be declared non-existent in individual cases by a court of law, we may incur significant expenditure when (re-)acquiring such easements.

In Poland, we do not possess full legal title to certain properties on which we constructed our network infrastructure. This bears the risk of claims of property owners. While we have recognized provisions which, according to our current estimates, cover a significant portion or, in some cases, the entire value of the assessed risks, it cannot be excluded that potential claims may lead to court decisions which are more restrictive for us than anticipated. In such case, the provisions may be insufficient and may need to be adjusted.

For our grid business in other jurisdictions, in particular in light of the long history of our operations, in individual cases we may not have or not be able to prove that we have the relevant title to or right of use for a certain property on which we constructed or laid parts of our grid assets. In such event, we may need to incur capital expenditures in order to secure such rights.

The realization of any of these risks may have a material adverse effect on our business, results of operation and financial position.

### **3.2.7 We need permits and other regulatory approvals for the installation and operation of our grids, which may become more difficult or costly to obtain.**

Our electricity and gas grids as well as water grids in Germany and other countries are also subject to a highly regulated environment (regarding water regulation, by antitrust authorities) which regulates the installation, operation and profitability. For example, we rely on several permits for the installation and operation of our grids. There is uncertainty with regard to the exact content of any new regulations and the applicable parameters. Furthermore, it has become more difficult and more costly to obtain the permits required for the expansion of the DSO grids due to, among other factors, more intensive use of these grids and the associated increased operational complexity (see "3.1.9 Increasing decentralized power generation and other factors have made grid operations more complex, requiring additional investments which may only start yielding a return in the next regulatory period, and increasing storage capacities may lead to less consumption out of the grid."), which negatively affects our business as well.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.2.8 We face repayment risks related to state aid received by us.**

From time to time, we receive grants from public entities for specific funding purposes. For example, in Germany, the state of North Rhine-Westphalia economically supported our activities related to the construction of fish ladders in connection with our hydroelectric power plants and our offshore wind farm participation “Nordsee One GmbH” received grants from the “EU NER 300” program. All grants are subject to several general as well as specific collateral clauses. The use of the amounts granted under support schemes is generally restricted to the specific funding purpose, and we have to provide evidence showing the proper use of the funds. The duty to execute and continue a funded project for a certain period of time and the obligation to transfer funded material not used in the project are also typical examples of conditions imposed on grants. In case we do not comply with the requirements under the grant decision, the competent authority may fully or partially revoke the respective decision. If the grant decision is revoked, we have to repay the amount paid out plus interest, which could negatively affect our financial position and may also make it more difficult for us to obtain public aid in the future. In addition, the revocation of state aid may result in considerable reputational damage.

In addition, in our Renewables Segment, we have received (indirect) support for the production of energy from RES through feed-in tariffs, so-called market premiums or other measures which could be deemed state aid incompatible with the internal market. In a recent decision, the European General Court affirmed a Commission decision holding that German RES feed-in tariffs and market premiums under the German law on renewable energy of 2012 indeed constituted state aid that was, however, compatible with the internal market. There is no guarantee that all past, current or future measures for the promotion of RES will be upheld and not be revoked. Any repayment obligation imposed on us would have a negative effect on our financial position and results of operation. We also face similar risks in connection with other state-funded projects, e.g., R&D projects.

In addition, we may have misinterpreted legal requirements regarding the restrictions of state aid law, and failed to notify a subsidy although such notification would have been necessary under European law, or may experience similar shortcomings in the future with respect to any future grants. In such case, we may also have to refund the respective support received.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.2.9 We face risks related to consumer, competition and antitrust laws, rules and regulations, including potential investigations and proceedings which may result in fines and damage to our reputation or which may otherwise negatively affect our prices and business in general.**

We are subject to applicable consumer, competition and antitrust laws, rules and regulations, and may be exposed to investigations and proceedings. In general, such competition and antitrust laws are designed to preserve free and open competition in the marketplace in order to enhance competitiveness and economic efficiency, while consumer regulations attempt to protect consumers in their dealings with companies. We may become subject to investigations and proceedings by national and supranational competition and antitrust authorities for alleged infringements of competition or antitrust laws, or for breach of applicable consumer regulations. Such investigations and proceedings would bind resources and could result in fines or other forms of liability, which could have a material adverse effect on our reputation, business, financial position and results of operation. For example, in the UK we have been asked by the regulator to provide information on our customer switching objections process, and also face an investigation regarding the roll-out of advanced electricity meters for our business

customers in which we could face a fine, and it cannot be excluded that we will face customer complaints and fines regarding switching, complaint handling performance, billing or other issues in the future. An increasing trend towards complaints and lawsuits brought by consumers' associations can be observed in many jurisdictions. In addition, depending on the particular facts and circumstances, we could become subject to certain limitations on future acquisitions and certain business practices if we were found to have obtained a dominant position in certain markets.

Since March 2013, the German Federal Cartel Office ("**BKartA**") has conducted abuse proceedings regarding allegedly excessive district heating prices against various suppliers, including RWE Energiedienstleistungen GmbH ("**RWE ED**"), which was merged into the Company (district heating activities are part of the Retail Segment). In May 2014, the BKartA issued to RWE ED a current preliminary status report including a revenue comparison of 18 district heating supply systems of RWE ED. After intensive discussions between RWE ED and the BKartA, in March 2015, the BKartA announced a revised district heating revenue comparison. Currently, there are discussions with the BKartA which are aimed at achieving a common understanding of an assessment model to be applied to the comparison of revenues. There can be no guarantee that the outcome of the proceedings against us will be favorable to us or that we will not be subject to other investigations by antitrust authorities, which may result in potential fines and potential damage claims by direct or indirect customers or third parties. Regarding retail prices for water supply, one of our subsidiaries operates in the upper price range. Depending on whether or not the competent cartel offices of the German federal states would consider inherent structural and technical reasons, these prices may expose us to an unfavorable market comparison and subsequent proceedings.

Moreover, in the ordinary course of business we regularly carry out a considerable number of acquisitions and disposals of stakes and participations, including in municipal utilities (*Stadtwerke*). It cannot be excluded that in individual cases involving smaller transactions we may inadvertently fail to make the required prior notification to the BKartA. We have recently detected two such cases. Although we have in the meantime notified the BKartA, we cannot fully exclude that these or other cases may lead to proceedings before the BKartA and, potentially, a fine, which in similar cases in the past amounted to an up-to six digit Euro amount.

In addition, doubts concerning fair competition in the energy sector in the UK have surfaced repeatedly during the debate on energy costs. Switching suppliers is fairly common in the UK as it is in other European countries. Nevertheless, in 2014 the Gas and Electricity Markets Authority ("**GEMA**") referred the energy market to the CMA to conduct an analysis of the competitive environment, which concluded that although the UK wholesale electricity and gas markets were fully functional, competition in the residential and small commercial enterprise sectors could be further advanced. Recently, in its final report released on June 24, 2016, the CMA proposed over 30 measures intended to increase competition and change the retail and wholesale markets from a technical and regulatory perspective. The list of measures include a price cap for charges on prepayment customers (who represent 16% of npower's customer base), which should then run until 2020, facilitating greater competition for this group of customers. To promote engagement, suppliers will have access to a database of customers who have been on the standard variable tariff for more than three years. These measures, combined with multiple interventions detailed in the CMA's final report, are expected to increase levels of churn across the industry and reduce retail margins with potentially negative implications for us and additional costs associated with customer engagement and communications. These interventions concern the wholesale as well as the retail business. As npower is active on both levels, all those remedies will apply to npower's business and therefore will have an impact on it. In addition, some of the remedies included in the CMA report may be implemented in legislation or regulation.

Furthermore, while npower has always operated (based on external advice) its “Hometeam” domestic boiler & central heating care & maintenance products (“DCM”) on the basis that these products are non-insurance products and therefore not regulated Financial Conduct Authority (“FCA”) activities, the FCA could take a different view. Should the FCA decide to investigate and review these products, and following such review conclude that such products are insurance products, the FCA could decide to challenge npower’s activities in relation to DCM and ultimately take action against it. If such action found in favor of the FCA, it could result in sanctions against npower, including fines.

In Poland, for example, we may face investigations or proceedings conducted by the Office for Competition and Consumer Protection, particularly pertaining to practices infringing collective consumer interests, e.g., regarding the application of standard contract terms that have been entered in the Register of Prohibited Clauses, distributing inaccuracies, false or incomplete information or unfair commercial practices or acts of unfair competition. Any such infringement may result in fines and negatively affect our business in general.

In the Czech Republic, the Czech Office for the Protection of Competition has been conducting an investigation regarding competition in the Czech retail gas market since June 2016.

We may also face further investigations or proceedings in connection with competition claims. For example, competition authorities may challenge the prices currently charged in parts of our business that are especially profitable for us, including district heating prices.

The realization of any of these risks may have a material adverse effect on our business, results of operation and financial position.

### **3.2.10 We are subject to risks relating to environmental and health-related issues, which may result in liabilities and high costs.**

Our operations, properties and future acquisitions are subject to various laws and regulations concerning the protection of the environment, including regulation of air and water quality, controls of hazardous or toxic substances and guidelines regarding health and safety. We may be required to pay for clean-up, removal or recultivation costs, such as recultivation of river embankments and, in specific circumstances, for aftercare costs for any contaminated property we currently own or used as operator or have owned or used in the past, which could materially and adversely affect our business.

Environmental laws sometimes impose liability regardless of the owner’s or operator’s fault or even knowledge of the release of substances. Third parties may also initiate proceedings to require decontamination. Therefore, we may be required to initiate a costly, extensive and time-consuming clean-up at one or more of our properties, in addition to facing penalties. Such requirements could have a material adverse effect on our business, results of operation and financial position. In addition, new or amended environmental laws and regulations may result in material increases in our costs.

Other potentially hazardous activities that arise in connection with our business include the operation and maintenance of electricity generation facilities, electricity lines and substations as well as the storage and distribution of gas. We are subject to laws and regulations in various countries governing health and safety matters to protect the public and our employees, who could potentially be harmed by these activities. In addition, there may be other aspects of our operations that are not currently regarded as having or have not proved to have adverse effects on the environment or health but could become so. A potential issue might be that threshold values for electromagnetic fields emanating from distribution lines may be further reduced by laws, which would have an economic impact. In Germany, on a federal level, the 26<sup>th</sup> Ordinance on Electromagnetic Fields Emissions (26. *Bundes-Immissionsschutzverordnung*) establishes certain thresholds of acceptable electromagnetism *inter alia* caused by high-voltage lines. Accordingly, the Federal Ministry of the Environment, Nature Conservation and Nuclear Safety

(*Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit*) is constantly exploring the potential effects of electromagnetic fields on humans. Most recently, plans by the ministry to tighten the thresholds of acceptable electromagnetism have been discussed in the context of grid extensions. As a consequence, the legal environment (applying to new and also existing parts of the grid) may become more restrictive in the future, which could result in increased expenditures for us and potential liability risks in relation to damages claimed by affected persons. Moreover, section 43h of the German Energy Industry Law may be tightened by imposing a duty to cable all high-voltage assets. Based on on-going social and political discussions and alliances against overhead lines, an expansion and tightening of the cabling duty cannot be excluded. This would lead to a significant increase of the investment costs relating to required renewal and upgrading works. The Technical Guidelines for Noise Reduction (*TA Lärm*) may also be tightened, which could have a considerable impact on the construction and operation of our wind farms and other energy generation facilities and lines, and lead to additional costs for new constructions and conversions or limitation of operating hours. Furthermore, we could face additional costs for new constructions and conversions if the German Water Resources Act and the Regulation on Facilities Handling Substances Dangerous to Waster were to be tightened. In addition, the EU Water Directive requires certain improvements based on environmental concerns, such as fish bypasses regarding our German hydropower plants.

RWE Energie, s.r.o. (to be renamed innogy Energie, s.r.o.), which is a gas and electricity retailer in the Czech Republic, and, to a lesser extent, RWE GasNet, s.r.o. (to be renamed GasNet, s.r.o.), which is a gas grid operator in the Czech Republic, are subject to certain obligations to decontaminate polluted soil. These obligations have existed since the privatization of these companies. Pursuant to Czech legislation and various agreements made between these companies and/or their predecessors and the Czech Republic, the Czech Republic is obliged to compensate the affected companies for remediation cost incurred. However, such compensation is subject to a lengthy process, which may indicate that the state is not willing to fully honor its obligations. This may increase the expenditures of RWE Energie, s.r.o. (to be renamed innogy Energie, s.r.o.) and RWE GasNet, s.r.o. (to be renamed GasNet, s.r.o.). Furthermore, there are different views on the ownership of various parts of gas pipelines, which ceased operation prior to the privatization of the Czech gas business. We believe that these assets are still owned by the Czech Republic, while the authorities of the Czech Republic hold the opposite opinion. Should the courts declare RWE GasNet, s.r.o. (to be renamed GasNet, s.r.o.) to be the owner of such non-operative pipelines, we will be obliged to bear the cost of decontamination of such pipelines and surrounding soil, which may result in substantial cost.

In the Czech Republic, four of our six gas storage facilities are exploited natural gas fields, which naturally have unused and decommissioned wells from former gas production activities and that belong to the Czech Republic. The Czech Republic is therefore responsible for any repairs of defects of such decommissioned wells. However, when gas was leaked through one of the decommissioned wells, the respective bodies of the Czech Republic declined to repair and rather forced iGS to repair the defective well. A court later dismissed our claim for damages arguing that the leakage had been caused by the operation of the underground gas storage facility. Should such a situation occur again, we may be forced to repair such leakage at our own expense.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.2.11 We use standardized sales agreements and standardized terms and conditions, in particular in our Retail Segment, which increase the potential that all contract terms used therein may be invalid or unenforceable if any clause is held to be void.**

We entertain legal relationships with a large number of persons, including 23 million contracts with retail customers in several European countries (as of December 31, 2015). In this context,

we use standardized documents, standard-form contracts and standardized terms and conditions, some of which are regulated by law, in particular regarding grid connection of end customers. From time to time, we are subject to litigation, e.g., brought by consumer protection associations, regarding the validity of certain aspects of our terms. If such documents, contracts or terms and conditions turn out to contain provisions that are disadvantageous to us, or if clauses in such documents or contracts are declared invalid and thus replaced by statutory provisions which are unfavorable to us, a large number of standardized documents, contracts or terms and conditions could be affected.

Additionally, standardized contractual terms and conditions under German law (*Allgemeine Geschäftsbedingungen*) have to comply with the statutory law on general terms and conditions, which means they are subject to rigid fairness controls by the courts regarding their content and the way they, or legal concepts described therein, are presented to the other contractual party by the person using them. The standard is even stricter if they are used vis-à-vis private households, who form the vast majority of our customers. As a general rule, standardized terms are invalid if they are not transparent, clearly worded, or if they are unbalanced or discriminate against the other party inappropriately. Due to the frequent changes to the legal framework, particularly with regard to court decisions relating to general terms and conditions, we cannot fully protect ourselves against risks arising from the use of such standardized contractual terms. Even if documents, contracts and terms and conditions are prepared with legal advice, it is not possible to avoid all potential risks from the outset or in the future, as the changes may continue to occur in the legal framework, particularly via case law. We face similar risks regarding standardized sales agreements and standardized terms and conditions in other jurisdictions, for example in Poland.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.2.12 Our price increases in our retail electricity and gas business may in certain cases prove to be invalid.**

Price increases which we implement from time to time may turn out to be invalid. This may be the case if the price adjustment is deemed to be unreasonable (according to section 315 of the German Civil Code) or is declared invalid by a court for other reasons. For example, in 2013, the German Federal Supreme Court changed its case law and overturned price adjustment clauses in special customer contracts which were identical to the statutory price adjustment clauses applicable to household customers. The German Federal Supreme Court's ruling followed a ruling of the European Court of Justice stating that these clauses did not comply with European consumer protection law. There is a risk that this ruling might also affect contracts with industrial customers in Germany and other jurisdiction as well. In addition, an alleged breach of competition regulations may result in a price adjustment being declared invalid. Our provisions, which are designed to address the risk that a price increase may be invalid may not be sufficient to cover the full amount by which our cash flows would be negatively affected in case of a higher than anticipated annulment of our price increases.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.2.13 We may fail to comply with laws and regulations with respect to private data protection.**

We are subject to national and international laws and regulations governing the collection, use, retention, sharing and security of personal data. A failure to comply with applicable laws or regulations could have an adverse impact on our reputation and subject us to penalties or claims, which could have a material adverse effect on our results of operation. The need to comply with data protection legislation results in significant controlling, operational and

reputational risk which can affect us in a number of ways including, for example, making it more difficult to maintain and expand our marketing data and also through potential litigation relating to the alleged misuse of personal data. Regulation regarding data collection and data protection may also become stricter in the future. Thus, new laws, regulations or developments in this field and changes in consumer behavior could interfere with our strategies to use privacy-related information for our marketing efforts within our Retail Segment (including the use of our customer care and billing systems, e-commerce platforms and other systems) and could also have an adverse effect on our business and results of operation.

As a result of significant amendments to laws or regulations in countries in which we operate, we may have to incur higher costs or change our business practices. We also expect compliance to become more complex and to involve higher costs and the increasing risk of non-compliance may give rise to civil liability, administrative orders (including injunctive relief), fines or even criminal charges. For example, the new regulation (EU) 2016/679 on data privacy of April 27, 2016 (the “**General Data Protection Regulation**”) has introduced substantial changes to the data protection regime of the EU, for example regarding intragroup as well as external data transfers and to a large extent replace current national data protection laws by a directly applicable EU regulation. The General Data Protection Regulation will apply as of May 25, 2018 and likely impose a substantially higher compliance burden on our business. In addition, the regulation will increase the maximum level of fines for undertakings to the higher of up to EUR 20 million or 4% of a company’s total worldwide annual turnover.

We are also exposed to the risk that our data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation, by us or on our behalf. If we or any third party service providers on which we may rely, fail to transmit customer information in a secure manner, or if any such loss of personal customer data were otherwise to occur, we could face liability under data protection laws. This could also result in the loss of our customers’ goodwill and deter new customers. There is also a risk of data abuse by any of our service providers for which we may have to assume the liability.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

#### **3.2.14 Our products and services are highly dependent upon our technological know-how and the scope and limitations of our proprietary rights therein.**

We have obtained and applied for a large number of intellectual property rights, such as patents, that are of considerable importance to our business. The process of seeking patent protection can be lengthy and expensive. Furthermore, patents may not be granted on currently pending or future applications or may not be sufficient in scope, duration or strength to provide us with meaningful protection or a commercial advantage, and are subject to expiry. A major part of our know-how and industrial secrets is not patented and cannot be protected through intellectual property rights. Consequently, there is a risk that third parties, in particular competitors, will copy our know-how without incurring any expenses of their own.

In addition, while there is a presumption that patents are valid, the granting of a patent does not necessarily guarantee that it is effective or that possible patent claims can be enforced to the degree necessary or desired. Thus, even where our intellectual property is protected by patents or other intellectual property rights, we may not be able to enforce these rights effectively, and the unauthorized use of our intellectual property, such as product piracy, could harm our revenues and damage our reputation.

In addition, we have entered into a number of license, cross-license, cooperation and development agreements with competitors and other third parties under which we are granted access to intellectual property or know-how of such third parties. It is possible that license agreements could be terminated under circumstances such as a licensing partner’s insolvency or bankruptcy, or in the event of a change of control in either party, leaving us with reduced access

to intellectual property rights to commercialize our own technologies. Furthermore, the licensed patents may be invalid. See also *"3.2.16 We may not have validly acquired intellectual property rights from our present or former employees and cooperation partners, and may not always validly acquire them in the future."*

We have also obtained or applied for trademarks on various brand names. It is possible that our applications may be denied and that we may be unable to register trademarks in other jurisdictions in which we operate or to renew the registrations of our trademarks. Furthermore, the registration of trademarks may not fully protect us against any infringement or third-party claim, which could harm our revenues and damage our reputation.

Moreover, we cannot exclude that some employees may not abide by the terms of applicable confidentiality obligations or agreements and that certain employees may access restricted information which is beyond the requirements of their respective positions, which may result in a loss of business secrets in case such employees were to pass on such confidential information to other persons.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.2.15 We may infringe on the intellectual property rights of third parties and could therefore be forced to change our product offering or be exposed to additional costs.**

Our competitors, suppliers and customers also submit a large number of inventions for intellectual property protection. It is not always possible to determine with certainty whether there are effective and enforceable third-party intellectual property rights to certain processes, methods, product components or applications, including regarding products manufactured by third parties and distributed by us. Therefore, third parties could assert infringement claims, including baseless claims, against us. As a result, we could be forced to cease manufacturing, using or marketing the relevant technologies or products in certain countries or to make changes to manufacturing processes or products. In addition, we could be liable to pay compensation for infringements or could be forced to purchase licenses from third parties to make use of technology. The realization of any of the risks described above could have a material adverse effect on our business, net assets, financial position, cash flows and results of operations.

**3.2.16 We may not have validly acquired intellectual property rights from our present or former employees and cooperation partners, and may not always validly acquire them in the future.**

We may not have validly acquired intellectual property rights from our present or former employees and cooperation partners in the past. In such cases, such persons could continue to hold rights to intellectual property and may demand the registration of intellectual property rights solely in their name, or claim damages from us. It can also not be excluded that current or former employees and cooperation partners may have claims to inventor remuneration which must be fulfilled or which have not been fully fulfilled. In addition, cooperation partners may have claims with respect to inventions made within the scope of the cooperation. The realization of any of these risks could adversely affect our business, results of operation, financial position and prospects.

**3.2.17 We face risks in connection with renewables obligation certificates in the United Kingdom, including fluctuations in the price of such certificates, and other trading schemes in other jurisdictions.**

Under the EU Renewable Energy Directive, the UK is currently committed to meeting 15% of its energy needs from renewable sources by 2020, compared with 3.8% in 2011. It is unclear what

targets, if any, will apply to the UK following the implementation of Brexit. In order to achieve the 15% target, renewable electricity supply from large-scale generation will have to increase substantially by 2020, while additional deployment of renewable electricity will come from smaller generation facilities. The Renewables Obligation ("RO"), introduced in 2002 is a financial policy mechanism for incentivizing the renewable electricity generation. While until 2008/2009, all forms of renewables technology received the same banding of 1 ROC (Renewables Obligation Certificate) per megawatt per hour ("MWh") of renewable electricity, in the period from 2009/2010 to 2012/2013, new bands were introduced for new stations in order to remove overcompensation for lower cost technology and provide incentives for more expensive technology that had significant potential. The present level of the RO is set as the number of ROCs, which is determined through estimating the level of generation in the obligation period up to 18 months in advance multiplied by a headroom percentage of 10%. Under current arrangements, the RO is set for the forthcoming financial year on this basis, with electricity suppliers bound to submit ROCs up to their obligation level. The regulatory entity Ofgem issues renewable generators with ROCs, which are then purchased by energy suppliers at the buyout price or some agreed value. When energy suppliers have submitted their ROCs for the year to meet their RO, they have to pay the buyout price on any shortfall. This money is then transferred into the buyout fund, which is distributed among energy suppliers and transferred to renewable generators according to their agreement with the energy suppliers. The amount that suppliers receive for each ROC they present is called "recycle value". The value of an ROC to a generator thus amounts to the buyout price plus the recycle value. If the level of ROCs submitted to Ofgem is below the forecasted level of generation, then the recycling fund will be larger, and the value of each ROC higher. On the other hand, if the generation level exceeds the predicted level, the value of each ROC will be lower.

Therefore, we are subject to certain risks related to the ROC price under the current system in the UK for our assets from the Renewables Segment in that jurisdiction. For example, if ROCs generation is more than 10% higher than forecast and therefore exceeds the RO level, there may be a significant drop in the value of ROCs because the supply of ROCs would exceed demand. In addition, we may experience delays or other difficulties in obtaining ROC accreditation for any new plants and our entitlement to ROCs may be reduced below our planned levels in future periods. For example, this may occur, if we are not able to operate at the anticipated capacity, to the extent that we are unable to compensate any such reduced generation with additional electrical output from other sources. Uncertainties regarding wind speed and rainfall levels (affecting wind and hydropower output), the start of operations and when ramp-up will be achieved for new plants, increased levels of co-firing and biomass conversions renewable output and the fact that RO eligible generation is expected to be reduced from around 2022 (since the RO is paid for 20 years) under the current regime, make it difficult to predict the level of ROC generation in advance, and may all negatively affect our renewables income in the UK. It can also not be excluded that the calculation method implemented by the government may be driven by the objective of reducing electricity costs or other policies and may be unfavorable to us.

Our UK subsidiary Npower Limited earns a margin by purchasing ROCs from generators at a cost that is lower than the buyout price and recycle value. This income stream will be impacted by fluctuations in demand and supply, as well as by any variance in retail demand volumes, because the calculation of the number of ROCs that can be submitted to Ofgem each year is based on the volume of electricity supplied by that company.

In addition, should the ROC regime be abolished or amended, our UK subsidiary Npower Limited may lose its ability to earn a margin from ROC purchasing. Such risk cannot be excluded, in particular after the UK government abolished the exemption for renewable source energy generators from the climate change levy in August 2015 and given the continuous lobbying for an early change to a fixed price ROC regime even before the planned 2027 change.

Moreover, our UK supply entity may be unable to fully recover the cost of the RO from its customers. The level of obligation is set by the regulator each February for the following April to March (of the subsequent year) period. For suppliers that sell fixed-price supply contracts, this usually means that they are required to estimate the level of the obligation for at least a part of the supply contract.

Similar schemes with comparable risks exist in other jurisdictions, such as in Poland with a system of certificates.

The efficiency certificates support energy efficiency measures and are subject to regulations of the Energy Efficiency Act. The new Energy Efficiency Act, which will come into force in the fourth quarter of 2016 will change the methodology and extend the obligation regarding such certificates. In case of some contracts we might not be able to pass through all costs related to the certificates via adequate increase of our prices, thereby lowering our margins.

The CHP technology in Poland is supported by the mandatory purchase of CHP certificates or the payment of so-called replacement fees. The cost of CHP certificates is included in the prices of long-term contracts. If these costs are eventually higher than expected, we may not be able to recover them from our customers, especially in the case of tariff customers and contracts with public institutions. Potential tariff increases to reflect higher costs may negatively impact our competitiveness.

In addition, a recent amendment to the RES Act in Poland contemplates new rules regarding the obligation to purchase certificates of origin for energy produced from RES. Moreover, the level of RES obligation is unclear starting from 2017, as the level of obligation is to be set by Minister of Energy by the end of August each year for the following year. There is a risk that not all costs related to these certificates will be recovered under the applicable contracts.

Furthermore, as the price of certificates is volatile, the revenues of the Renewables Segment in Poland may be negatively affected.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

### **3.2.18 We are subject to risks from disputes and administrative, legal and arbitration proceedings.**

Individual companies of the Group are involved in out-of-court disputes, litigation and arbitration proceedings in the ordinary course of business, or regarding the acquisition or divestiture of companies and could become involved in additional legal and arbitration proceedings in the future. Such proceedings may involve substantial claims for damages or other payments, including, without limitation, civil damage claims by customers in connection with past or future violations of antitrust laws and/or invalid contractual standard terms and conditions under German law (AGBG), damage claims by subcontractors, payment claims by and refund claims against RES installation operators, joint venture partners and other business partners, and claims resulting from any operational disruptions or failures which may lead to damage to property, bodily damage, supply outages or non-standard power supply. For example, we are involved in arbitration proceedings relating to our Nordsee Ost wind farm, which was inaugurated in May 2015, with a supplier for the project, who claims a higher contract price in the amount of approximately EUR 100 million. Arbitration proceedings before the arbitration tribunal in Hamburg which was established according to the rules of the German Institution of Arbitration (*Deutsche Institution für Schiedsgerichtsbarkeit* e.V. ("DIS")) are currently ongoing and will likely proceed into 2017. We have also faced claims for the retransfer of ownership or monetary compensation in accordance with the German Restitution Act (*Gesetz zur Regelung offener Vermögensfragen* – "**VermG**") by former land or company owners who were expropriated without adequate compensation by authorities of the former German Democratic Republic or by the National Socialist regime. In particular, following a sale of a

property within the scope of the VermG, we may have to forward (part of the) revenues from such sale to the former land owner. Furthermore, Group companies are directly involved in various procedures with public authorities or are at least affected by their results. For example, we are involved in abuse proceedings brought by the BKartA due to allegedly excessive district heating prices against several suppliers, including the Group; see *"3.2.9 We face risks related to consumer, competition and antitrust laws, rules and regulations, including potential investigations and proceedings which may result in fines and damage to our reputation or which may otherwise negatively affect our prices and business in general."* In addition, insolvency administrators of former key or large customers have claimed repayment of amounts paid by these customers for services we already delivered. Especially in the Grid & Infrastructure Segment in Germany, German insolvency law imposes strict conditions on retaining payments for grid usage already received from the insolvent customers which resulted in significant repayment claims from the insolvency administrators of these insolvent customers. As these insolvent customers were mainly internet-based intermediaries which have generally become more important in the last years, there may be more cases in the future. Moreover, in December 2014, an action for annulment of the concession agreement between the Group company Zagrebačke otpadne vode d.o.o. and the City of Zagreb, Croatia, was filed by a consumers association. The case is currently in a preliminary procedure with a preparatory hearing scheduled for September 2016. In a worst case scenario, the potential impact on the Group over the full term of the concession agreement would amount to a nominal value of up to approximately EUR 285 million. We also face actions brought by plaintiffs (some dating back to 2003) claiming that the Company or its legal predecessors received allegedly excessive purchase prices when selling grid assets in the context of a loss of a concession by the Company or its legal predecessors. The German Energy Industry Act (*Energiewirtschaftsgesetz*) does not clearly state how the purchase price has to be calculated in detail. However, the Federal Court of Justice (*Bundesgerichtshof*) ruled in 2014 – reiterating its jurisdiction dating back to 1999 – that the purchase price has to be calculated on the basis of the present asset value (*Sachzeitwert*), while such present asset value must not be substantially above the capitalized earnings value (*Ertragswert*). The outcome of such litigation heavily depends on the assumptions on which the calculation of the capitalized earnings value is based. The Federal Court of Justice has not yet decided which calculation assumptions are legally justified. The amounts in dispute under pending proceedings are in total approximately EUR 73 million (only principal claims without interest). In addition, there are on-going discussions of the German Federal legislation bodies regarding the calculation method of the purchase price, and a change in legislation may result in us receiving lower purchase prices in case a concession is not renewed (see *"3.1.8 If we are unable to renew an existing concession or if it is terminated, we may have to sell the relevant grid infrastructure, which will negatively affect our revenue and may lead to a loss in connection with the sale, or we may enter into cooperation agreements that are limited in time."*). Furthermore, the high complexity in the calculation of grid tariffs makes grid tariff calculation and the invoicing of grid tariffs prone to litigation (see *"3.2.4 Our grid business faces particular litigation risks due to the high complexity of grid tariff calculation and avoidance of specific charges."*), and we currently face litigation with regard to allegedly unreasonable grid tariffs. Some suppliers are claiming re-payment of the allegedly excessive amount from the Company and the Group's grid operators. The suppliers claim that the grid tariffs are unreasonably high and requested that the court determine a reasonable amount of the grid tariffs and re-payment of the allegedly excessive amount (approximately EUR 30 million for principal, without interest).

In the event of a negative outcome of any material legal or arbitration proceeding, whether based on a judgment, award or settlement, we could be obliged to make substantial payments or write-offs. In addition, such proceedings can require management attention in the case of high-profile claims, resulting in significant litigation and arbitration costs and harming our reputation (in some cases, regardless of the merits of the claim and the outcome of the proceedings). We have accrued provisions for potential losses resulting from pending

proceedings before ordinary courts and arbitration courts. However, the claims asserted against the Group exceed the provisions considerably in some cases.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.2.19 We are subject to tax risks, and our tax burden could increase due to changes in tax laws or their application or interpretation, or as a result of current or future tax audits.**

Our tax burden is dependent on certain aspects of the tax laws across several different jurisdictions and their application and interpretation. Tax laws and administrative guidance (relating *inter alia* to their interpretation or application) might be subject to change, possibly with retroactive or retrospective effect. Changes in tax laws (such as Base Erosion and Profit Shifting (BEPS) and Anti-Tax Avoidance Package (ATAP) initiatives) or their interpretation or application or in the amount of taxes imposed on companies could increase our tax burden. As a result of current or future tax audits or other review actions by the relevant financial, customs or tax authorities, original tax assessments could be revised and/or additional taxes, including interest and penalty payments or social security payments, could be assessed in relation to future or previous tax assessment periods which could lead to an increase in our tax obligations, either as a result of the relevant tax payment being assessed directly against us or as a result of our becoming liable for the relevant tax as a secondary obligor due to the primary obligor's (such as, for example, an employee) failure to pay. This may be due to an interpretation or view of laws and/or facts by customs or tax authorities in a manner deviating from the Company's view.

Because we operate in several jurisdictions, we are exposed to tax risks, in particular with regard to the so-called transfer pricing rules that apply in several jurisdictions and in relation to cross border business relationships. Pursuant to such rules, related enterprises are obligated to conduct any intercompany transactions on conditions which would also apply among unrelated third parties concluding comparable agreements (so-called "at arm's length principle") and to provide sufficient documentation thereof, subject to the rules applicable to them in the relevant jurisdiction. In spite of the existing transfer pricing documentation and a careful management of all transfer pricing issues within the Group, we cannot exclude any possible objection by those tax authorities involved. The consequence might be a double taxation of parts of the charged transfer prices in the foreign country and in Germany, which could only be avoided by means of a mutual agreement procedure between the tax authorities in the relevant countries. The possibility that the tax authorities may challenge our compliance with applicable transfer pricing rules cannot be ruled out either.

The value added tax ("VAT") treatment of transactions performed by the Company or its subsidiaries could differ from their qualification by the tax authorities. In case the tax authorities' view of the correct VAT treatment differs, this could have a significant impact on the VAT position of the Company. For example, transactions which have been treated as non-VAT-able or VAT-exempted could be qualified as being subject to VAT (respectively). Therefore, the tax authorities could assess further VAT or challenge the input VAT deduction. As a further consequence, fines, interests and penalties could arise. To maintain legally granted tax concessions (*Steuererleichterungen*, e.g., VAT exemptions) it is required to prepare and keep documentation on file. In case of a lack of documentation, tax concessions could be refused which would lead to an effective VAT burden.

The Company as well as the German and other foreign subsidiaries belonging to the innogy Group are subject to tax audits by the respective tax authorities on a regular basis. The most recent tax audits of the German companies of the Group comprised the financial years 2004 to 2008, and were completed in November 2014. Findings were, in particular, differences concerning the treatment of certain expenses as immediately deductible maintenance costs

(compared to merely amortizable construction costs) and the evaluation of certain liabilities and accruals. Currently, the financial years 2009 to 2012 are audited.

As a result of current or future tax audits or other reviews by the tax authorities, additional taxes (including withholding taxes, real estate transfer tax, capital duty and stamp duty) could be assessed on companies of the Group (for example, in connection with the evaluation of liabilities and accruals, restructuring measures, transaction costs, refund of input-VAT or with intragroup pricing terms or regarding tax deductibility of interest paid) or tax losses carried forward could be reduced, which could lead to an increase in our tax obligations and thus have a material adverse effect on our financial position. Our deferred tax assets (netted with deferred tax liabilities) in the Netherlands amount to EUR 131 million as per June 30, 2016.

The realization of any of these risks could have a material adverse effect on our net assets, results of operation and financial position.

**3.2.20 Our risk management and internal controls may not prevent or detect violations of law, and compliance breaches could result in investigations by the relevant authorities, fines, additional tax payments, damage claims, payment claims, the termination of relationships with customers or suppliers and reputational damage.**

We operate in many countries, mostly within the European Union, but also in the USA, including in certain countries with less stable political, legal and regulatory regimes as well as inconsistent enforcement of laws and regulations, and had 40,342 employees (as of June 30, 2016; full time equivalents). In addition, some of our suppliers and other partners operate in countries which have business environments, legal systems as well as political and cultural influences different from those which prevail in Western Europe, and we only have limited influence over the day-to-day operations of our suppliers and other partners. All these circumstances inherently create a risk that applicable legislation and regulations may be breached.

Our existing compliance processes and controls may not be sufficient to prevent or detect inadequate practices, fraud and violations of law by employees or board members, external service providers and other potential sources of breaches, such as any intermediaries, sales agents, etc. Employees and any of our external service providers and business partners may not act in compliance with applicable statutory provisions (including competition regulation, anti-corruption/anti-bribery legislation as well as data protection laws) and internal guidelines, and penalties or liabilities may be imposed on us, or our business may be otherwise adversely affected. In addition, our compliance system and monitoring capabilities may not be sufficient to prevent violations of legal provisions and internal guidelines, to identify past violations or prevent damages from fraud or similar crimes in the Group. Third parties may attempt to fraudulently obtain money from our group companies or our customers by simple or sophisticated methods, such as sending fake invoices or e-mails.

If we fail to maintain an effective system of internal controls, we may be unable to produce reliable financial reports or prevent fraud. In addition, we may be subject to sanctions or investigation by regulatory authorities. Inappropriate behavior or any compliance breaches could lead to legal proceedings against us, fines, sanctions, court orders affecting future conduct, forfeiture of profits, rescission of existing contracts, exclusion from certain businesses, loss of licenses and certifications or other restrictions, which, in turn, might limit our ability to pursue strategic projects and transactions that may be important for the business.

Furthermore, involvement in potential non-compliance proceedings and investigations could harm our reputation and that of our management, lead to the loss of customers and have a negative impact on our brands and on our efforts to compete for new customers. Customers and/or third parties could also initiate legal proceedings against us for substantial sums of money.

The realization of any of these risks may have a material adverse effect on our business, results of operation and financial position.

### **3.3 Risks Related to Our Separation from the Former RWE Group**

#### **3.3.1 We have a short operating history as a separate company, and our efforts to set up administrative, financial and other functions previously provided by the Former RWE Group may take more time or cost more than expected, or be less successful than anticipated or not successful at all.**

Before completion of the structural measures which concentrated the renewables, grids and retail activities of the Former RWE Group under innogy SE as the parent company of the innogy Group, employees of the Former RWE Group provided numerous services for the business activities grouped together in the Group, particularly in human resources services, employee payroll and benefits administration, information technology services, communications, finance, accounting, legal, tax matters, insurance, credit risk and procurement.

Roughly two-thirds of the individuals performing these tasks at the Former RWE Group will have been transferred to the Group before completion of the Offering. However, we have entered into a transitional service agreement with the RWE Group pursuant to which we and the RWE Group will provide to each other certain transitional services for a period of time following the Offering. It is envisaged that transitional services and functions which the RWE Group provides to innogy Group and which include, among others, human resources, labor law, credit risk, safety, real estate, procurement, regulatory reporting and market analysis services shall be provided for a period ending between around three months following the Offering and the end of 2017, or for certain other services, in particular occupational health, until the end of 2019 at the latest. Our audited combined financial statements and our unaudited consolidated interim financial statements included in the Prospectus reflect adjustments and allocations with respect to corporate and administrative costs relating to these functions, adjustments and allocations for which may prove to be materially inaccurate and the expenses that would have been incurred had the Company operated as a stand-alone publicly-traded entity during the periods presented may have been substantially higher. Our activities in the Netherlands and Belgium as well as certain other services are not covered by the transitional service agreement. Within six months after completion of the Offering, we will consider whether the Dutch and Belgian entities will accede to the agreement. Under the transitional service agreement, we have made support functions available to the RWE Group, which are provided by employees of innogy Group equaling approximately 600 full time equivalents. With the expiry of the term for a specific service, the personnel required to provide the service shall, under the terms of the transitional service agreement, be transferred from the service provider to RWE AG or to another company of the RWE Group as mutually agreed by RWE AG and the Company with the respective group company's consent. Should the staff transfer fail to be implemented, for whatever reasons, RWE AG shall pay to the service provider a financial compensation for the remanent costs. The financial compensation will typically be lower than the actual remanent costs. Therefore, we face the risk that we may have to continue to employ such employees and thus incur higher staff costs than expected, or, in case we terminate the employment contracts, we may have to pay severance payments in an amount not fully covered by the financial compensation paid by RWE AG. Furthermore, the transitional service agreement does not apply to services between the innogy Group and the RWE Group where the service provider has its registered seat in the Netherlands or Belgium. In case the service relationship regarding such services is terminated, the RWE Group is neither required to take over the employees of the innogy Group who provide the respective services, nor to pay a financial compensation covering the costs of possible severance payments.

It is possible that the transitional service agreement together with additional long-term service agreements will be insufficient to cover our needs as a stand-alone company or that such agreement may contain terms and conditions that are not favorable or competitive. Failure by the RWE Group to perform the services provided for under the transitional service agreement may result in operational problems and increased costs to us. If, after the expiration of the transitional service agreements, we are unable to perform these services or replace them in a

timely manner or on reasonable terms, we may experience operational problems and increased costs. The transitional services to be provided by the RWE Group may not function as efficiently as they did before our separation from the Former RWE Group and we may find it difficult to find an adequate replacement to provide similar services, which could have a material adverse effect on our business, financial position, results of operation and prospects. In addition, the RWE Group may in the future discontinue their service as market interface and sourcing partner for Western Europe. In this case, we would have to build up our own capabilities.

We currently use the data processing systems and IT networks of the RWE Group. We intend to largely retain these data processing systems and IT networks for the time being. After the Offering, we will consider further measures to change and adapt data processing systems and IT networks. In the event that changes and adaptations are made, it cannot be excluded that during a transitional period the relevant systems may not properly function or that extra costs may need to be incurred. Switching and adaptation costs may also arise. We may not be successful in effectively and efficiently implementing new systems and transitioning data and we may incur substantially higher costs for implementation than currently anticipated. In addition, it is envisaged that certain IT employees employed by RWE IT GmbH, a subsidiary of innogy SE, who currently service companies of the RWE Group based on service-level agreements, will transfer to these RWE Group companies. The split-up between IT resources for the innogy Group and IT resources for the RWE Group may cause operational difficulties and lead to additional costs.

Prior to the Offering, our business was integrated with the other subsidiaries of the Former RWE Group. Historically, we have shared economies of scale in costs, employees, and relationships with vendors, major customers and other major partners. The transitional arrangements (in particular the above-mentioned transitional service agreement) do not fully capture the benefits that our business has enjoyed as a result of being part of the Former RWE Group. The loss of these benefits could have a material adverse effect on the Group following the Offering. The areas in which we will generally continue to benefit for a certain period of time from certain agreements concluded by the RWE Group include, in particular, insurance, procurement and finance. Depending on the country, other transitional services may be provided. Under the transitional service agreement, individual orders may be cancelled if either the party providing or receiving the services ceases to pertain to the RWE Group or the innogy Group, respectively. Moreover, when the agreement terminates on December 31, 2020, we will have to enter into new agreements in these areas, potentially on less favorable terms. In addition, as an independent company, we may face other challenges in securing financing and guarantees than before.

Generally, our working capital requirements and capital for our general corporate purposes, including acquisitions, research and development and capital expenditures, have historically been satisfied as part of the corporate-wide cash management policies of the Former RWE Group. Following the Offering, we may need to obtain additional financing from banks, public offerings or private placements of debt or equity securities, strategic relationships or other arrangements. As a stand-alone entity, the cost of obtaining additional capital for our business operations and corporate strategy may be higher than if we were still a part of the RWE Group.

It is uncertain how we will perform as a stand-alone publicly-traded entity. Significant changes may occur in our cost structure, management, financing and business operations as a result of operating as a stand-alone publicly-traded entity separate from the RWE Group, which could have a material adverse effect on our business, financial position, results of operation and prospects.

Furthermore, as an independent, new group, our management has limited experience in operating our business as a stand-alone (and following the listing of the Company's shares, as a publicly-listed) company. Following the Offering, we will be responsible for arranging our own funding, managing all of our own administrative and employee arrangements and supervising

all of our legal and financial affairs, including financial reporting and disclosure requirements, and we will incur significant legal, accounting and other expenses that we did not incur as a private company. There is no guarantee that our accounting, controlling and legal or other corporate administrative functions will be capable of responding to these additional requirements without difficulties and inefficiencies that cause us to incur significant additional expenditures and/or expose us to legal, regulatory or civil costs or penalties. Furthermore, the preparation, convening and conduct of shareholders' meetings and the Company's regular communications with shareholders and potential investors will entail substantially greater expenses. We anticipate that our success in these endeavors will substantially depend upon the ability of the Company's management board (*Vorstand*) (the "**Management Board**"), senior management and other key employees to work together. Moreover, the inability of the Management Board or senior management to function cohesively could delay or prevent us from fully implementing our business strategy. Our management will need to devote time to these additional requirements that it could have otherwise devoted to other aspects of managing our operations, and these additional requirements could also entail substantially increased time commitments and costs for the accounting, controlling and legal departments and other Group administrative functions. In addition, we may be required to hire additional employees or engage outside consultants to comply with such requirements, which could increase our costs and expenses and result in dissynergies (e.g., in cases in which a certain function is covered twice).

The realization of any or all of the risks described above could have significant adverse effects on our assets, results of operation and financial position.

**3.3.2 Our combined financial information is based on a series of assumptions and estimates that may prove inaccurate and therefore the combined financial information is not necessarily representative of the results we would have achieved as a stand-alone publicly traded company.**

The audited combined financial statements were prepared with the aim of reflecting the new structure of the innogy Group following the restructuring carried out in the first half of 2016 in the historical financial data. Thus, the audited combined financial statements contained in the Prospectus reflect certain operations historically assigned to business segments of RWE AG which were included in the consolidated financial statements of the Former RWE Group. Accordingly, the historical financial information may not be indicative of the innogy Group's future performance, nor necessarily reflect what the innogy Group's financial position and operating result or cash flows would have been had it operated as a separate, stand-alone publicly-traded entity during the periods presented.

In addition, a series of assumptions and estimates had to be made in the preparation of the audited combined financial statements which affect, for example, the amount and recognition of assets and liabilities, income and expenses and contingent liabilities, including, in particular, income taxes and the inclusion of certain subsidiaries that were owned by the Former RWE Group in the reported periods. The actual values may deviate from the assumptions and estimates used in the audited combined financial statements. Therefore, the audited combined financial statements do not necessarily reflect the assets, financial position, operating result and cash flows which would have resulted if innogy SE had operated as a separate, stand-alone publicly traded entity and the innogy Group had existed as an independent group in its present form during the periods presented. In addition, the financial information contained in the audited combined financial statements may not be indicative of our future performance.

The fact that the companies belonging to the Group in its present form were not historically independent and grouped together in the periods covered by the audited combined financial statements limits their information value. The audited combined financial statements therefore only permit limited information and projections of the performance of the innogy Group and the business activities grouped within it.

**3.3.3 Our structure and business activities have recently undergone substantial organizational changes in the context of the separation from the Former RWE Group, which may make it difficult to correctly assess our historical past and future Group performance.**

Our structure and business activities have experienced substantial changes in recent periods in the context of the separation from the Former RWE Group. The audited combined financial statements contained in the Prospectus include companies that are part of the innogy Group after the legal reorganization, *i.e.*, after completion of the transfer of businesses from the Former RWE Group to the innogy Group on June 30, 2016. However, the combined financial statements do not claim to represent the net assets, financial position and operating result or cash flows that would have resulted had the Group existed in its current form since January 1, 2013, nor can the net assets, financial position and operating result or cash flows be extrapolated for future periods or a future reporting date (see “3.3.2 Our combined financial information is based on a series of assumptions and estimates that may prove inaccurate and therefore the combined financial information is not necessarily representative of the results we would have achieved as a stand-alone publicly traded company.”). Furthermore, the implementation of the reorganization measures in connection with our separation from the Former RWE Group may require additional administrative resources and lead to additional expenses. The recent and prospective organizational changes made in connection with our separation from the Former RWE Group could have a material adverse effect on our business, results of operation, financial position and prospects.

**3.3.4 We may not realize potential benefits from the separation of our business from the Former RWE Group’s other businesses.**

We may be unable to realize the potential benefits that we expect by separating from the RWE Group. These benefits include our ability to focus on our own strategic and operational plans, a more efficient allocation of capital for the innogy Group, a distinct investment identity allowing investors to evaluate the merits, performance and future prospects of the innogy Group separately from those of the RWE Group, and a better tailoring of internal procedures to the nature of the innogy Group’s business and developing effective equity-based compensation to achieve greater alignment of management interests with the innogy Group’s business.

We may not achieve these and other anticipated benefits for a variety of reasons. Following the Offering, we will not have the same access to the financial, managerial and professional resources from which we have benefited in the past and will incur significant costs, which may be greater than those for which we have planned, to replace these resources. In addition, the later stages of the separation and the Offering will require significant amounts of management’s time and effort, which may divert management’s attention away from our business. Furthermore, certain costs and liabilities that were otherwise less significant to the Former RWE Group as a whole will be more significant to us as a stand-alone publicly listed entity, we may be more susceptible to market fluctuations and other adverse events than if we were still a part of the Former RWE Group, and the innogy Group’s business will be significantly less diversified than the Former RWE Group’s business prior to the separation. If we are unable to achieve some or all of the benefits expected to result from the separation and the Offering, or if such benefits are delayed, it could have a material adverse effect on our business, financial position, results of operation and prospects.

**3.3.5 There can be no assurance that we will succeed in creating a new independent market profile in the long term.**

Until the recent past, we operated in the markets as subsidiaries or business areas of the Former RWE Group, mainly under the commercial designations RWE, Süwag, LEW Lechwerke, enviaM, ELE, VSE and eprimo in Germany, npower (UK), essent and energiedirect.nl (the Netherlands), RWE Energie, RWE GasNet and RWE Zákaznické služby (Czech Republic), RWE Polska (now innogy Polska) and RWE Renewables Polska (now innogy Renewables Polska) (Poland), ELMÜ,

ÉMÁSZ and MÁSZ (Hungary), VSE and RWE Gas Slovensko (Slovakia), among others. The commercial designations used by Group companies that do not include the element "RWE" are protected by trademarks (and as business identifiers by law, depending on the respective national legislation). While we own such trademarks, the trademark "RWE" and trademarks that include "RWE" as part of them are owned by the RWE Group. Some Group companies in Germany, Croatia, Slovenia, Hungary, Slovakia and Romania will continue to be permitted to use trademarks including the element "RWE" in connection with products and the element "RWE" as part of the company name following completion of the restructuring measures concentrating the renewables, grids and retail activities of the RWE Group under innogy SE and the Offering, for a transitional period of two years (or less if they cease to be affiliates of Innogy S.E.) under agreements with RWE AG. However, these agreements can be terminated for good cause (*aus wichtigem Grund*) by either party. If we were no longer permitted to use the commercial designations which are owned by the RWE Group, this could have a negative impact on our business, particularly on our sales activities. Moreover, in the process of our separation from the RWE Group we have undertaken a comprehensive and costly rebranding process leading to the new name "innogy" Group. We may fail in successfully establishing the "innogy" brand and being perceived and accepted as an independent company by the market, in which case this could, for example, have a negative impact on our relationship with customers and business partners. Furthermore, we may lose customers who are not prepared to accept the brand change, especially in markets where the RWE brand has a very strong reputation. Some competitors may even abuse our rebranding and try to poach our customers by claiming that RWE is leaving a given market.

In addition, in some countries such as the Balkan states or in Arab countries we may be regarded as a less attractive business partner than RWE AG because on a stand-alone basis we may lose know-how competence in areas such as thermal generation or lack capacity such as our own energy trading capabilities.

If any or all of the risks described above materialize, it could have significant adverse effects on our assets, results of operation and financial position.

### **3.3.6 The separation from the Former RWE Group may lead to decreased purchasing power and may result in a loss of synergies and business opportunities.**

As part of the Former RWE Group, the Group was able to take advantage of a long-standing reputation, size and purchasing power in procuring goods, works, services and licenses for our whole business, such as machinery, equipment, vehicles, materials, construction and other works, repairs, operations and maintenance services, software products and solutions, engineering services, advisory services and other services. As of the date of the Prospectus, we are included in many procurement and other frame contracts of the RWE Group, the vast majority of which would only apply to us as long as RWE AG continues to own a majority interest in the Group. As a separate, stand-alone group following the Offering, and in particular should RWE AG cease to hold a majority interest in the Group at any point in the future, we may lose, or may find it more difficult to procure the goods, works, services and licenses we require for our business. We may incur higher costs due to a decline in purchasing scale or bargaining power if we are unable to obtain other similar goods, works, services and licenses at prices or on terms as favorable as those obtained prior to the Offering with the long-standing reputation, size and purchasing power of the Former RWE Group. For example, for a limited period we will be covered by group insurance programs of the RWE Group (e.g., regarding D&O, general liability and legal expense cover insurance), but will have to take out separate insurance thereafter. During that transition period, on the other hand, any potential damages suffered by the Group and the RWE Group may impact the joint policies and may use up the available insurance limits.

Furthermore, with the separation from the Former RWE Group, we may lose certain advantages that we may have benefited from in the past due to the fact that certain municipalities, mainly situated in North Rhine-Westphalia, Germany, are shareholders of RWE AG.

In addition, in the course of the separation from the Former RWE Group it was decided that a few particularly large customer accounts would remain with the RWE Group and be served by a commodity trading team within the RWE Group. In the future, the RWE Group may directly serve additional large accounts which are currently our customers. This may also lead to a loss of business opportunities for our Group.

Moreover, our counterparties under certain consortium agreements with subsidiaries of the Company in the areas of our grid and retail businesses may exercise extraordinary termination rights if RWE AG's indirect stake in those subsidiaries falls to 50% or below and/or, in addition, RWE AG exercises no other form of control over the Company. We may be unable to dissuade our counterparties from exercising such termination rights.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.3.7 Following the separation from the Former RWE Group, we will be bound by several procurement, wholesale trading and other contracts with the RWE Group with varying notice periods prior to termination, which may reduce our flexibility to switch to other providers or to carry out these functions in-house.**

For the time after our separation from the Former RWE Group, we have entered into different agreements, in particular a wholesale markets interface agreement, a gas interface agreement and certain gas storage agreements, with companies of the RWE Group, under which the parties have agreed that such companies of the RWE Group will provide certain services for the innogy Group. For example, a company of the RWE Group shall act for the time being as exclusive wholesale markets interface for the innogy Group during the term of the agreement for a specific market, so that we commit to buy and/or sell any commodities, such as power, gas and emission certificates, on wholesale or trading markets exclusively through such RWE Group entity, subject to a limited number of exceptions. Similarly, we shall only procure gas from an RWE Group entity in the Czech Republic. These agreements may be terminated by either party, in general in whole or in part (for example, only for one commodity or one country) and in general with two years' prior notice effective as of December 31 of any calendar year, but, for example in case of the gas interface agreement relating to the Czech Republic, it may not be terminated before March 31, 2020. Even if we believe that these agreements have been entered into at arm's length, we are still hindered by the restrictions regarding termination from switching provider or performing these functions in-house for the respective periods and could therefore not react in the short-term, for example, if a third-party provider were to offer a more cost-effective solution. If the RWE Group terminated any of these agreements after the respective minimum term, we would be forced to find another appropriate provider, or negotiate directly with the suppliers ourselves, which could increase the complexity of our current business and our costs. We also face the risk that after the termination of such contracts, we will be unable to renegotiate the contracts or negotiate new contracts on terms favorable to us (especially long-term gas purchase agreements), which could lead to higher purchase costs and thus reduce our margins and competitiveness.

The realization of any of these risks could have a material adverse effect on our business, results of operation and financial position.

**3.3.8 The structural measures implemented to combine the grid and infrastructure, the retail and the renewables businesses of the Former RWE Group under innogy SE may lead to higher taxes and/or may be associated with lower future tax benefits than expected.**

In 2015 and 2016, several structural measures have been implemented to combine the grid and infrastructure, the retail and the renewables businesses of the Former RWE Group under innogy SE as the parent company of the innogy Group. It cannot be ruled out that the structural

measures may result in substantial tax leakages. In addition, tax losses or tax loss carry-forwards might have been forfeited (in particular, in Germany or the Netherlands) as a consequence of one or more of the transaction steps. This could increase the current or future tax burden of our Group and would have a negative impact on the expected amount of deferred tax assets.

In the context of the legal reorganization, certain assets (including goodwill and customer base) and liabilities (including pension liabilities) have been transferred to the innogy Group. Although the tax consequences of these transfers (such as the realization of taxable capital gains and losses) generally occur at the level of the RWE Group as the transferor, the tax treatment of such transfers and, in particular, the evaluation of the transferred asset or liability by the RWE Group (or by the tax authorities after having performed an audit of the RWE Group) may have a negative impact on the future tax treatment of our Group. For example, if RWE AG or the tax authorities allocate a lower value to a transferred asset (such as the goodwill or the customer base), our Group may only be entitled to use a lower depreciation base than expected. This would reduce our future tax benefit on the basis of a re-valuation that is beyond our control. As another example, if the innogy Group had assumed a liability which had not (or not fully) been shown on the tax balance sheet of an entity of the Former RWE Group (e.g., a pension liability), a corresponding book gain to be realized in the tax balance sheet of the assuming entity of the innogy Group in accordance with section 5 para. 7 of the German Income Tax Act (*Einkommensteuergesetz – EStG*) (i.e., the difference of the book value for tax purposes and the fair market value of the liability) depends on how the assumed liability is evaluated by the RWE Group (or by the tax authorities after having performed an audit of the RWE Group) in the tax balance sheet of the transferring entity; this might lead to a higher tax burden than expected on the basis of a re-valuation that is beyond our control.

The realization of any of these risks could have a material adverse effect on our net assets, financial position and results of operation.

### **3.4 Risks Related to the Offering, the Listing, and the Shareholder Structure**

#### **3.4.1 RWE AG will continue to exercise substantial influence over the Company following the completion of the Offering and the interests of RWE AG might conflict with the interests of other shareholders.**

Upon completion of the Offering, RWE AG, Essen, Germany (“**RWE AG**”), will continue to hold on aggregate at least approximately 75.0% of the Company’s share capital (assuming a full implementation of the capital increase relating to the new shares offered and a full placement of the existing shares offered from the holdings of RWE Downstream Beteiligungs GmbH, Essen, Germany (“**RWE DB GmbH**”) in the Offering, and assuming full exercise of the upsize option and the greenshoe option granted in connection with the Offering), namely approximately 4.6% directly and 70.4% through its wholly-owned subsidiary RWE DB GmbH). While RWE DB GmbH has given notice to terminate its domination agreement with the Company with effect as of the end of September 30, 2016, and has committed to manage innogy as a financial investment with operational and strategic independence, certain risks arising from RWE AG’s remaining shareholding cannot be excluded. Due to its remaining shareholding after the completion of the Offering (including its indirect shareholding through RWE DB GmbH), RWE AG will be in a position to exert substantial influence or control at the Company’s shareholders’ meeting and will be able, solely through the exercise of its own votes, to adopt shareholders’ resolutions at the Company that require only a simple majority. Among other things, this means that RWE AG will be able to determine the use of balance sheet profits, resolve certain material capital measures, and set the dividend policy of the Company. RWE AG could also control the composition of the supervisory board of the Company (the “**Supervisory Board**”) and, indirectly, the composition of the Management Board of the Company.

In addition, RWE AG (together with RWE DB GmbH) could solely through the exercise of its own votes adopt and effectively implement resolutions that require the consent of at least three quarters of the share capital represented at the time the resolution is adopted (for example, the creation of authorized or contingent capital, amendments to the corporate objectives, mergers, divestitures and changes in corporate structure including, but not limited to, the conclusion of a domination agreement). Moreover, it should be noted that RWE AG would not be precluded from adopting and effectively implementing these resolutions, even though it has entered into an agreement with the Company, that sets out the basic principles for their future cooperation and conduct towards one another. Furthermore, RWE AG, together with RWE DB GmbH, could prevent a shareholders' meeting from adopting any resolutions if they attend the meeting and vote against the proposal.

Thus, conflicts of interest and differences of opinion could arise between RWE AG and RWE DB GmbH, on the one hand, and the other shareholders, on the other, with regard to the exercise of voting rights in the shareholders' meetings of the Company. If this were to happen, RWE AG and RWE DB GmbH would be able to assert their interests against the will of the other shareholders because they have, together, the majority of voting rights in the general shareholders' meeting. A conflict of interest could, for example, arise if the Company wants to carry out a capital increase and RWE DB GmbH or RWE AG are unable to fully participate, due to a lack of liquidity, in the capital increase but at the same time wants to prevent being diluted, or if RWE AG or RWE DB GmbH plan to sell shares in the Company while the Company envisages to carry out a placement of new shares, or if RWE AG or RWE DB GmbH were to develop competing corporate interests with innogy. A situation in which RWE AG or RWE DB GmbH would not participate in a future capital increase of the Company could also make it more difficult for the Company to raise new capital. Even if RWE AG and RWE DB GmbH do not in fact use their controlling stakes to influence the innogy Group, the possibility of exercising such influence could have material adverse effects on the Company's share price and make it more difficult for the Company to raise capital.

#### **3.4.2 Membership of the same persons on several boards may result in conflicts of interest between the Company, RWE AG and other companies of the RWE Group.**

In addition to the fact that RWE AG will continue to own a majority stake in the Company (including its indirect participation) and may use its influence in the Supervisory Board, the Company is closely integrated in the RWE Group. In particular, as of the date of the Prospectus there is some overlap in board membership of RWE AG and the Company (so-called "dual mandates"). The most important dual mandate is held by the Chairman of the Management Board and Chief Executive Officer of the Company, Mr. Peter Terium, who is also the Chairman of the executive board of RWE AG. In addition, two other members of the Management Board of the Company, Dr. Bernhard Günther and Mr. Uwe Tigges, are currently also members of the executive board of RWE AG. It is envisaged that, following the completion of the Offering, Mr. Terium and Dr. Günther will resign from their respective positions in the executive board of RWE AG, while Mr. Tigges will remain Chief Human Resource Officer and Labor Director of RWE AG until the end of April 2017. In addition, the Chairman of the Supervisory Board of the Company, Dr. Werner Brandt, is Chairman of the supervisory board of RWE AG as well. Since 2016, Ms. van der Hoeven and Ms. Koederitz have served as members of the supervisory board of RWE AG where both of them will presumably resign as of the end of October 2016. Furthermore, Dr. Markus Krebber, who shall be a member of the executive board of RWE AG as of October 1, 2016, is a member of the Supervisory Board of the Company. Those members of the Management Board and the Supervisory Board of the Company who are also members of the executive board of RWE AG, as well as certain employees of the Group, have participated in the long-term incentive plan of RWE AG. Under this long-term incentive plan, the board members as well as certain employees of the Group were obligated to carry out an investment in RWE AG shares. In addition, some parts of the variable remuneration paid to members of the Management Board of the Company were linked to the success of the RWE Group. Moreover,

employees have purchased common shares in RWE AG at a reduced price. These persons may therefore have an economic interest in promoting the affairs of the RWE Group. In some cases, members of boards or other employees of the RWE Group are and will be in the future members of boards of the Group, which could result in a conflict of interest.

In some cases there may be a conflict of interest in engaging in and structuring business relations between the Group and companies of the RWE Group, which may be resolved to the detriment of the Group. In particular, it cannot be excluded that the involvement of the persons holding “dual mandates” and other employees of the Group in the group strategy of RWE AG may result in some of these individuals, who hold offices or other functions in the Group, acting in the interests of RWE AG. The same holds true with regard to the possible individual economic interests of such persons.

The materialization of any or all of the risks described above could have significant adverse effects on our assets, financial position and results of operation.

**3.4.3 The Company’s shares have not yet been publicly traded, and there can be no assurance that a liquid trading market for the Company’s shares will develop or can be maintained after the initial public Offering.**

Prior to the Offering, there was no public trading in the shares of the Company. There is no guarantee that the final offer price will correspond to the price at which the shares are subsequently listed after the Offering or that a liquid trading market for the Company’s shares will develop and become established after the Offering. The fact that RWE AG (together with its wholly-owned subsidiary RWE DB GmbH) will continue to hold at least 75.0% of the Company’s share capital even after a full placement of the Offer Shares limits the number of free float shares in the Company and could, therefore, adversely affect the development and maintenance of a liquid trading market for the shares. Investors may not be able to sell the shares at the final offer price, at a higher price or at all under certain circumstances.

**3.4.4 If research analysts do not publish research about our business or if they issue unfavorable commentary or recommendations regarding the Company’s common stock, its stock price and trading volume could decline.**

The trading market for the Company’s shares will depend on the research reports that research analysts publish about the Group and our business. The price of the Company’s shares could decline if one or more research analysts issue a negative outlook on the Company’s common stock or if those analysts issue other unfavorable commentary, valuations or recommendations regarding the Company’s stock or cease publishing reports about innogy. If one or more of the research analysts ceases coverage of innogy or fails to publish reports on it regularly, demand for the Company’s shares could decrease, which could cause its stock price or trading volume to decline. In addition, in such cases our contract partners under certain agreements relating to financial and commodity transactions shall be entitled to demand additional sureties from us, which could negatively affect our liquidity and reduce our operational flexibility. Moreover, such unfavorable commentary regarding the Company’s stock or the downgrade of our credit ratings could have a significant negative impact on our ability to operate our business and raise financing (see also *“3.1.45 Covenants and other restrictions under our existing financing agreements and bonds, as well as changes in credit market conditions and declines in credit ratings may restrict our financial and operational flexibility or otherwise negatively affect our business.”*).

**3.4.5 Future sales or market expectations of sales of a substantial number of shares in the Company by RWE AG or other shareholders could cause the share price to decline, including after a lock-up or within a lock-up period with bank waiver.**

Upon completion of the Offering, RWE AG will continue to hold at least approximately 75.0% of the Company’s share capital (assuming a complete implementation of the capital increase relating to the new shares offered and a full placement of the existing shares offered from the

holdings of RWE DB GmbH in the Offering, and assuming full exercise of the upside option and the greenshoe option granted in connection with the Offering). The Company's share price could fall substantially if RWE AG sells its shares after the selling restrictions in the lock-up agreement have expired six months after the first day of trading of the Company's shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) or, with the consent of the Joint Global Coordinators, at an earlier date, or if such sales are anticipated by investors. This also applies if other significant shareholders or investors acquiring shares in the Offering, including the cornerstone investors, which have committed to investing a sizable amount in shares of the Company and are not bound by a lock-up, were to sell shares in the market or if such sales are expected.

In addition, the sale or market expectation of a sale of a large number of shares on the part of RWE AG or other significant shareholders could make it difficult for the Company to issue new shares in the future on favorable terms.

**3.4.6 The price and trading volume of the Company's shares could fluctuate significantly, and investors could lose all or part of their investment.**

Following completion of the Offering, the price of the shares in the Company may be subject to substantial fluctuations, especially as a result of changes in our actual or forecast operating result or those of our competitors, changes in the profit forecasts or failure to meet profit expectations of investors and securities analysts, assessments by investors with regard to the success and the effects of the Offering and the strategy described in the Prospectus as well as the assessment of the related risks, changes in the general economic conditions, changes in the shareholder structure and other factors. Furthermore, external factors such as changing demand in the energy markets relevant to our operations, monetary or interest rate policy measures by central banks, regulatory changes or other external factors, seasonal influences or unique events can impact our revenues and earnings and lead to fluctuations in the price of the Company's shares. General fluctuations in share prices, especially for shares of other companies in the markets in which we operate, or a general deterioration in capital markets, can lead to pressure on the price of the Company's shares, and such fluctuations or general deterioration may not necessarily be based on our business operations or earnings prospects.

**3.4.7 Future capital increases, any future equity offerings or offerings of instruments convertible into equity or any merger with another entity may dilute investors' shareholdings in the Company.**

With respect to any future capital increase of the Company, there is a risk that shareholders who are not provided with subscription rights or who do not exercise their subscription rights will subsequently hold a lower percentage of voting and dividend rights in the Company. Some or all investors in certain jurisdictions (particularly in the USA) could be precluded from participating in certain offerings, such as rights offerings. If a shareholder fails to exercise its subscription rights, its share in the Company would be diluted in proportion to the percentage the capital increase represents in relation to the Company's existing registered share capital.

Pursuant to the German Stock Corporation Act (*Aktiengesetz*), moreover, the shareholders' meeting of the Company may in certain cases adopt a resolution on a capital increase to the exclusion of the shareholders' subscription rights. Such resolution requires a qualified majority. In such case, shareholders who are not offered any of the shares to be issued could not prevent the dilution of their shares in the Company unless they purchased additional shares in the secondary market, for example on the stock exchange, even at a higher price if necessary.

In addition, we may seek to raise capital through public or private debt or equity financings by issuing additional debt or equity securities convertible into shares or rights to acquire these securities, or may potentially seek to merge with another entity and exclude pre-emptive rights pertaining to the then outstanding shares in the future. Any additional capital raised through the issue of additional shares may dilute an investor's shareholding interest in the Company if the investor does not exercise, or is excluded from exercising, its subscription rights.

Furthermore, any additional financing that we may need may not be available on terms favorable to it or at all, which could adversely affect our future operations and strategy.

Any additional offering of shares by the Company, or the public perception that an offering may occur, could also have a negative impact on, or increase the volatility of, the trading price of the shares.

**3.4.8 The Offering might not be completed, in which case investors could lose security commissions paid and be exposed to risks from any short selling of the shares.**

The underwriting agreement relating to the Offering entered into among the Company, RWE AG and Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany; Goldman Sachs International, London, United Kingdom; BNP Paribas, Paris, France; Merrill Lynch International, London, United Kingdom; Credit Suisse Securities (Europe) Limited, London, United Kingdom; UBS Limited, London, United Kingdom; Banco Santander, S.A., Santander, Spain; Joh. Berenberg, Gossler & Co. KG, Hamburg, Germany; RBC Europe Limited (trading as RBC Capital Markets), London, United Kingdom (together, the “**Underwriters**”) (the “**Underwriting Agreement**”) provides that the Underwriters can terminate the Offering under certain circumstances. If the Underwriters withdraw from the Underwriting Agreement, the Offering will not take place. Any allocations to investors that have already occurred will be invalid. In this case investors will not have a claim for delivery of the shares of the Company. Claims with regard to any subscription fees that have already been paid and costs incurred in connection with the subscription by an investor are governed solely by the legal relationship between the investor and the institution with which the investor has submitted its offer to purchase. If an investor has engaged in short selling, the investor bears the risk of not being able to fulfill its delivery obligations.

**3.4.9 The Company’s ability to pay dividends will depend in part on the distribution or transfer of profits from its subsidiaries and on our debt covenants.**

In accordance with German stock corporation law, the shareholders’ meeting decides on the payment of dividends on the recommendation of the Management Board and the Supervisory Board. The Company’s ability to distribute dividends in the future will, among other things, depend on the Company’s ability to generate profits, its operating result and financing and investment needs, as well as the availability of a distributable profit or distributable reserves. The decision on the payment of dividends is based on the balance sheet profit, as determined for innogy SE on a standalone basis in accordance with the German Commercial Code (*Handelsgesetzbuch*) and the German Stock Corporation Act (*Aktiengesetz*) and which may differ from adjusted net income in the consolidated IFRS accounts of the Group on which our dividend policy is based. In order to determine the balance sheet profit available for distribution, the annual financial profit or loss must be adjusted with the profit/loss carry forward from the previous year as well as any withdrawals or contributions made to the reserves. Because the Company conducts parts of its operational business through its subsidiaries, its ability to pay dividends depends directly on the ability of its operating subsidiaries to generate income and transfer profits. The determination of each subsidiary’s ability to pay dividends is made in accordance with applicable law and accounting principles on an individual company basis. In addition, the Group’s existing financing agreements include and the future financing agreements will include debt covenants that may restrict the amount of cash available for the payment of dividends (see “*3.1.45 Covenants and other restrictions under our existing financing agreements and bonds, as well as changes in credit market conditions and declines in credit ratings may restrict our financial and operational flexibility or otherwise negatively affect our business.*”). We can make no predictions as to the size of future profits available for distribution, or whether distributable profits will be achieved at all, and hence we cannot guarantee that dividends will be paid in the future.

**3.4.10 Shareholders from outside the Eurozone may be subject to foreign currency exchange rate risk.**

The shares are, and any dividends to be paid in respect of them will be denominated in Euros. An investment in shares by an investor whose primary currency is not Euros exposes the investor to foreign currency exchange rate risk. Any depreciation of the Euro in relation to such foreign currency will reduce the value of the investment in the shares or any dividends in foreign currency terms.

**3.4.11 The proposed financial transaction tax could result in a substantial new tax burden in the secondary market for investors buying the Group's shares and trading them in a European Union member state which implements such a tax.**

On February 14, 2013, the European Commission published a proposal for a directive for a common financial transaction tax in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each a "**Participating Member State**"). The proposed tax has a broad, potentially extraterritorial scope. It would apply to financial transactions where at least one party is a financial institution, and (i) one party is established in a Participating Member State or (ii) the financial instrument which is subject to the transaction is issued in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances.

In relation to many secondary market transactions in bonds and shares, the new tax would be charged at a minimum rate of 0.1% of the aggregate amount of the trade on each financial institution which is party to the financial transaction. The proposed tax provides for the Participating Member States to individually apply the tax at a higher rate than 0.1%. The issuance and subscription and underwriting of the shares that are the subject of the Offering should, however, be exempt. There are no broad exemptions for financial intermediaries or market makers. Therefore, the effective cumulative rate applicable to some dealings in bonds or shares (for instance, cleared transactions) could be greatly in excess of 0.1% of the aggregate amount of the trade. In addition, such a tax could negatively affect our financing costs, since we expect that financial institutions will pass on cost relating to the proposed tax to customers such as the Group which require credit, and the tax would also apply to us to the extent that we trade with financial instruments and derivatives (in such case, the tax would be charged at a minimum rate of 0.01%) on a platform subject to the tax and if we were to be categorized as a non-financial entity subject to the proposed regulation.

The proposal remains subject to negotiation between the Participating Member States and may therefore be altered. Additional member states of the European Union may decide to participate. Prospective investors in the offered shares are strongly advised to seek their own professional advice in relation to the financial transaction tax.

## 4 GENERAL INFORMATION

### 4.1 Responsibility for the Contents of the Prospectus

innogy SE, with its registered office at Opernplatz 1, 45128 Essen, and registered seat in Essen, Federal Republic of Germany ("**Germany**"), and registered with the commercial register maintained by the local court (*Amtsgericht*) of Essen, Germany (hereinafter also the "**Company**" and, together with its consolidated subsidiaries, "**we**", "**us**", "**our**", the "**innogy Group**", the "**Group**" or "**innogy**"), together with Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany ("**Deutsche Bank**"), Goldman Sachs International, London, United Kingdom ("**Goldman Sachs**" and, together with Deutsche Bank, the "**Joint Global Coordinators**"), BNP Paribas, Paris, France ("**BNP Paribas**"), Merrill Lynch International, London, United Kingdom ("**BofA Merrill Lynch**"), Credit Suisse Securities (Europe) Limited, London, United Kingdom ("**Credit Suisse**") and UBS Limited, London, United Kingdom ("**UBS Investment Bank**", and together with BNP Paribas, BofA Merrill Lynch, Credit Suisse and the Joint Global Coordinators, the "**Joint Bookrunners**") and Banco Santander, S.A., Santander, Spain ("**Banco Santander**"), Joh. Berenberg, Gossler & Co. KG, Hamburg, Germany ("**Berenberg**") and RBC Europe Limited (trading as RBC Capital Markets), London, United Kingdom ("**RBC**", and together with Banco Santander and Berenberg, the "**Co-Lead Managers**", and together with the Joint Bookrunners, the "**Underwriters**"), assume responsibility for the contents of the prospectus (the "**Prospectus**") pursuant to section 5 (4) German Securities Prospectus Act (*Wertpapierprospektgesetz*) and hereby declare that, to the best of their knowledge, the information contained in the Prospectus is in accordance with the facts and that no material circumstances have been omitted. Neither the Company nor the Underwriters are required by law to update the Prospectus subsequent to the date hereof except for in accordance with section 16 (1) sentence 1 German Securities Prospectus Act, which stipulates that every significant new factor or material mistake relating to the information included in the Prospectus which is capable of affecting the assessment of the securities and which arises or is noted after the time the Prospectus is approved and before the final closing of the offer to the public or the time when the quotation of the securities commences or trading on an organized market begins shall be mentioned in a supplement to the Prospectus.

Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, pursuant to the respective national legislation of the relevant member state of the European Economic Area, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

### 4.2 Subject Matter of the Prospectus

For purposes of the public offering, the Prospectus relates to:

- 55,555,000 newly issued ordinary bearer shares with no par value from a capital increase against contribution in cash resolved by an extraordinary shareholders' meeting of the Company on August 30, 2016 (the "**New Shares**");
- 45,455,000 existing ordinary bearer shares with no par value from the holdings of RWE Downstream Beteiligungs GmbH, Essen, Germany ("**RWE DB GmbH**" or the "**Selling Shareholder**") (the "**Base Secondary Shares**"), of which shares corresponding to an aggregate investment amount of EUR 940 million are expected to be allocated to the Cornerstone Investors as defined under "**6.1 Subject Matter of the Offering**" and further described under "**6.4 Cornerstone Investors and Cornerstone Investors Agreement**";
- up to 25,252,000 additional existing ordinary shares with no par value from the holdings of the Selling Shareholder (such additional shares, if any, the "**Additional Secondary Shares**", together with the Base Secondary Shares the "**Secondary Shares**") subject to the exercise of an upside option upon decision of the Selling Shareholder in consultation with the Joint Global Coordinators on the date of pricing (the "**Upsize Option**"); and

- up to 12,626,200 existing ordinary bearer shares with no par value from the holdings of the Selling Shareholder to cover potential Over-Allotments (the “**Over-Allotment Shares**” and, together with the New Shares and the Secondary Shares, the “**Offer Shares**”),

each such share with a notional value of EUR 2.00 in the share capital and full dividend rights as from January 1, 2016 (the “**Offering**”).

For purposes of admission to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange, the Prospectus relates to a total of up to 55,555,000 ordinary bearer shares of the Company with no par value consisting of:

- 500,000,000 ordinary bearer shares with no par value (existing share capital); and
- up to 55,555,000 ordinary bearer shares with no par value from the above-mentioned capital increase regarding the New Shares;

each such share with a notional value of EUR 2.00 in the share capital and full dividend rights as from January 1, 2016.

### 4.3 Forward-Looking Statements

The Prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts or events or to facts or events as of the date of the Prospectus. This applies, in particular, to statements in the Prospectus containing information on future earnings capacity, plans and expectations regarding our business, growth and profitability, as well as the general economic and legal conditions and other factors to which we are exposed. Statements made using wording such as “is likely”, “expects”, “assumes”, “estimates”, “plans”, “intends”, “predicts” or “forecasts” may be an indication of forward-looking statements. They can be found in several sections in the Prospectus, for instance in the sections “3 Risk Factors”, “5 Carve-Out and Organizational Measures”, “6 The Offering”, “12 Management’s Discussion and Analysis of Net Assets, Financial Position and Operating Results”, “13 Profit Forecast”, “14 Markets and Competitive Environment”, “15 Business” and “27 Recent Developments and Outlook”.

Forward-looking statements in the Prospectus relate, among other things, to:

- the implementation of our strategic plans and the impact of these plans on our assets, financial position and results of operation;
- the use of the proceeds from the Offering by the Company;
- our expectations regarding the impact of economic, operating, legal and other risks affecting our business; and
- other statements relating to our future business performance and general economic, regulatory and market trends and other circumstances relevant to our business.

The forward-looking statements contained in the Prospectus are based on the Company’s current estimates and assessments. These forward-looking statements are based on assumptions and are subject to risks, uncertainties and other factors, the occurrence or non-occurrence of which could cause actual circumstances, including with regard to our assets, financial position and results of operation as well as our profitability, to differ materially from or fail to meet the expectations expressed or implied in the forward-looking statements. Even if our future results meet the expectations expressed herein, they may not be indicative of the results of any succeeding periods.

Our business is subject to risks and uncertainties which may render a forward-looking statement, assessment or forecast incorrect. Actual results, performance or events may differ materially from those in such statement due to, among other reasons:

- macroeconomic or regional trends and developments in the markets in which we operate, such as general economic growth, demographic developments, developments in consumer confidence and spending levels, interest rates and inflation;
  - the success of our principal product and service offerings;
  - our reputation and the acceptance of our products and services by customers and decision-makers in our relevant markets;
  - changes to, or enforcement of laws and regulations or application requirements, e.g., regulations regarding support for energy from renewable sources, health and safety or product liability, actions taken by legislators and regulatory authorities regarding energy efficiency or carbon dioxide emissions, as well as the regulation of renewable energy sources;
  - the development of international financial markets;
  - volatility in wholesale and retail electricity and in gas prices and grid connection fees;
  - loss of key suppliers or changes in the availability of inputs or components, equipment, services, works and technology used in our business operations;
  - our ability/disability to successfully compete in the power, gas and service markets;
  - changes in the developments of the end-markets and sectors we serve, including power storage or digitalization, among others;
  - currency and interest rate effects;
  - developments in the distribution of electricity and gas and trends regarding the services we offer;
  - our ability/disability to successfully manage future growth, or to expand our business, complete acquisitions and successfully integrate acquired businesses;
  - natural or man-made disasters affecting our property;
  - inadequate protection of our intellectual property rights;
  - changes in the scope or interpretation of competition and antitrust laws;
  - material warranty or product liability claims against us;
  - litigation we may be involved in from time to time;
  - our level of indebtedness and capital structure and the terms of our financing instruments;
- and other factors described in the Prospectus.

Investors should therefore ensure that they have read the sections *"3 Risk Factors"*, *"12 Management's Discussion and Analysis of Net Assets, Financial Position and Operating Results"*, *"13 Profit Forecast"*, *"14 Markets and Competitive Environment"*, *"15 Business"* and *"27 Recent Developments and Outlook"*, which include more detailed descriptions of factors that might influence our business performance and the markets in which we operate.

In light of the uncertainties and assumptions, it is also possible that the future events mentioned in the Prospectus may not occur or may differ materially from actual events. In addition, the forward-looking estimates and forecasts reproduced in the Prospectus from third-party sources could prove to be inaccurate. The foregoing may prevent the Company from achieving its financial and strategic objectives.

The forward-looking statements contained in the Prospectus are only as of the date on which they were made. Investors are advised that neither the Company nor the Underwriters assume any obligation and do not intend, except as required by law, to publicly release any updates or revisions to these forward-looking statements to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or to adjust them in line with future events or developments.

## 4.4 Information from Third Parties

Unless otherwise indicated, statements in the Prospectus regarding the market environment, market developments, growth rates, market trends and the competitive environment in the markets and segments in which we operate are based on the Company's assessments and estimates. These assessments, in turn, are, unless otherwise indicated, based in part on internal market observations and/or various studies.

In drafting the Prospectus, the following sources were used:

- Association of Hungarian Energy Consumers (*Magyar Energiafogyasztók Szövetsége*) Award for the most consumer friendly behavior in 2013 (awarded in 2014);
- Bain, Bain analysis on electromobility, December 2015;
- Bloomberg New Energy Finance, H1 2016 Offshore Wind Market Outlook, 2016;
- Bloomberg New Energy Finance, League Tables, Renewable Asset Owners Wind Onshore, June 2016;
- Bloomberg New Energy Finance, League Tables, Renewable Asset Owners Wind Offshore, June 2016;
- Bloomberg New Energy Finance, New Energy Outlook 2015, Executive Summary;
- CMA, Energy Market Investigation – Final Report, Appendix 2.1: Legal and regulatory framework, June 2016;
- Cornwall Energy, Domestic supplier market share survey Q415 (December 2015), Business electricity market share: 31 October 2015 assessments (January 2016), and Business gas market share: 31 October 2015 assessments (January 2016);
- Czech Energy Regulatory Office (*Energetický regulační úřad*), Yearly Report on Natural Gas Supply and Consumption in the Czech Gas System 2014;
- Database on decentralized renewables capacity in Germany published under [www.energymap.info](http://www.energymap.info); status August 2015;
- DECC, Contracts for Difference (CFD) Allocation Round One Outcome, February 2015;
- DECC, Energy Trends, June 2016;
- DECC, Renewable electricity capacity and generation, March 2016;
- DECC, Regional Statistics 2003-2014: Installed Capacity;
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- E-Bridge Consulting GmbH, Bonn, Germany ("**E-Bridge**"), Institut für Elektrische Anlagen und Energiewirtschaft ("**IAEW**") and the Oldenburger Forschungs- und Entwicklungsinstitut für Informatik ("**Offis**"), final report of the study prepared for the Federal Ministry of Economic Affairs and Energy (research project No. 44/12) entitled "*Moderne Verteilernetze für Deutschland (Verteilernetzstudie)*", September 12, 2014;
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To the extent that information has been sourced from third parties, this information has been accurately reproduced by the Company in the Prospectus and, as far as the Company is aware and is able to ascertain, regarding information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, market studies and analyses are frequently based on information and assumptions that may not be accurate or technically correct, and their methodology is, by nature, forward-looking and speculative.

Irrespective of the assumption of responsibility for the contents of the Prospectus by the Company and the Underwriters (see "*4.1 Responsibility for the Contents of the Prospectus*"), neither the Company nor the Underwriters have verified the figures, market data and other information used by third parties in their studies, publications and financial information, or the external sources on which the Company's estimates are based. The Company and the Underwriters therefore make no representation or warranty as to the accuracy of any such information from third-parties included in the Prospectus and/or for the accuracy of data on which the Company's estimates are based.

The Prospectus also contains estimates of market and other data and information derived from such data that cannot be obtained from publications by market research institutes or from other independent sources. Such information is partly based on own market observations, the evaluation of industry information (from conferences, sector events, etc.) or internal assessments. The Company's management believes that its estimates of market and other data and the information it has derived from such data assists investors in gaining a better understanding of the industry in which companies of the Group operate in and the Group's position therein. The Company's own estimates have not been checked or verified externally. The Company nevertheless assumes that its own market observations are reliable. The Company and the Underwriters give no warranty for the accuracy of the Company's own estimates and

the information derived therefrom. They may differ from estimates made by competitors of the Group or from future studies conducted by market research institutes or other independent sources.

Information contained on any website mentioned in the Prospectus, including our website, is not incorporated by reference in the Prospectus and is not part of the Prospectus.

## 4.5 Documents Available for Inspection

For as long as the Prospectus is valid, copies of the following documents are available for inspection during regular business hours at the Company's offices at Opernplatz 1, 45128 Essen, Germany:

- (i) the Company's articles of association (the "**Articles of Association**");
- (ii) the unaudited interim consolidated financial statements (condensed) of innogy SE prepared in accordance with IAS 34 (*Interim Financial Reporting*), as of and for the six-month period ended June 30, 2016 (the "**Unaudited Interim Consolidated Financial Statements (Condensed)**");
- (iii) the audited combined financial statements of the RWE International Group (now the innogy Group) prepared by RWE International SE (now innogy SE) in accordance with IFRS as of and for the financial years ended December 31, 2015, December 31, 2014 and December 31, 2013 (the "**Audited Combined Financial Statements**"); and
- (iv) the audited unconsolidated financial statements of the Company (at the time bearing the name RWE Downstream Aktiengesellschaft i.G.) prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*) for the short financial year from December 11, 2015 to December 31, 2015 (the "**Audited Unconsolidated Financial Statements**").

The Company's future consolidated annual and interim financial statements will be available on the website of the Company ([www.innogy.com/ir](http://www.innogy.com/ir)), from the German Company Register (*Unternehmensregister*) ([www.unternehmensregister.de](http://www.unternehmensregister.de)) and at the Company's offices, Opernplatz 1, 45128 Essen, Germany. Annual financial reports will also be published in the German Federal Gazette (*Bundesanzeiger*).

## 4.6 Note on Currency

The following table explains the denotation of currencies used in the Prospectus:

Symbol used	Legal currency of
"EUR", "€" or "Euro" . . . . .	the Eurozone, including Germany
"USD" or "US Dollar" . . . . .	the United States of America (" <b>United States</b> " or " <b>USA</b> ")
"GBP" or "British Pound Sterling" . . . . .	the United Kingdom (" <b>UK</b> ")
"CZK" or "Czech Koruna" . . . . .	the Czech Republic
"HUF" or "Hungarian Forint" . . . . .	Hungary
"PLN" or "Polish Zloty" . . . . .	Poland

The abbreviation "t" preceding currency data stands for "thousand", the abbreviation "m" stands for "million" and the abbreviation "bn" stands for billion.

The table below shows the annual average exchange rates as well as the closing rates of the foreign currencies listed against the Euro for the periods listed as set out in the Audited Combined Financial Statements and the Unaudited Interim Consolidated Financial Statements (Condensed), respectively, and used in the Prospectus. Since all subsidiaries of the Company conduct their financial, commercial and organizational activities independently, their respective local currency is the functional currency. In accordance with IAS 21, all items in the consolidated balance sheet, except equity, are translated at the closing rate, while expense and income items are generally translated at the rates applicable at the transaction date. Based on materiality,

average rates are used. Equity is translated at historical rates. Any resulting translation differences are recognized in a separate component of equity. Foreign exchange rate differences arising compared to the prior year are also recognized in a separate component of equity, the foreign currency translation reserve.

Equivalent to EUR	Average					As of				
	2016 (first half year)	2015 (first half year)				June 30, 2016	June 30, 2015	December 31, 2015	December 31, 2014	December 31, 2013
			2015	2014	2013					
1 USD .....	0.90	0.90	0.91	0.76	0.75	0.90	0.89	0.92	0.82	0.73
1 GBP .....	1.28	1.37	1.38	1.25	1.18	1.21	1.41	1.36	1.28	1.20
100 CZK .....	3.70	3.64	3.67	3.63	3.84	3.70	3.67	3.70	3.61	3.65
100 HUF .....	0.32	0.33	0.32	0.32	0.34	0.32	0.32	0.32	0.32	0.34
1 PLN .....	0.23	0.24	0.24	0.24	0.24	0.23	0.24	0.23	0.23	0.24

Source: Unaudited Interim Consolidated Financial Statements (Condensed) and Audited Combined Financial Statements.

## 4.7 Note Regarding the Presentation of Certain Financial Information

For information regarding the presentation of financial information contained in the Prospectus see the respective introductions to the sections headed *"11 Selected Financial and Business Information"* and *"12 Management's Discussion and Analysis of Net Assets, Financial Position and Operating Results"*.

The financial years ended December 31, 2015, December 31, 2014 and December 31, 2013 are also referred to in the Prospectus as **"financial year 2015"** or **"2015"**, **"financial year 2014"** or **"2014"** and **"financial year 2013"** or **"2013"**, respectively. The current financial year, which will end on December 31, 2016, is also referred to as **"financial year 2016"** or **"2016"**.

Financial data in the Prospectus presented as *"audited"* has been taken from our Audited Combined Financial Statements or our Audited Unconsolidated Financial Statements. Financial data in the Prospectus presented as *"unaudited"* is either derived from our Audited Combined Financial Statements, or taken or derived from our Unaudited Interim Consolidated Financial Statements (Condensed) or from our accounting records or our management, or is based on calculations of these figures.

## 4.8 Non-IFRS Measures

Throughout the Prospectus, we present certain financial measures and adjustments that are not defined by IFRS, or any other internationally accepted accounting principles, including adjusted net income, EBITDA, EBITDA margin, Net Debt, non-operating result and operating result (collectively, the **"Non-IFRS Measures"**). We have defined each of the following Non-IFRS Measures as follows:

- **"Adjusted net income"** is defined as net income adjusted for certain special items. Adjusted net income does generally not take into account one-off effects, including the entire non-operating result, and the associated tax effects. We intend to use adjusted net income as a measure for determining distributions under our dividend policy. For a calculation of our adjusted net income for the six-month period ended June 30, 2016, see *"11.5 Adjusted Net Income"*.
- **"EBITDA"** is defined as operating result before operating depreciation and amortization. It does not include taxes, the financial result or the non-operating result.
- **"EBITDA margin"** is defined as EBITDA divided by total revenue and includes the revenue and costs allocated for transactions between the operating segments.
- **"Free cash flow"** is defined as cash flow from operating activities minus capital expenditures in intangible assets/ property, plant and equipment.

- **“Net Debt”** is defined as bonds and bank debt, adjusted for the effects of the initial recognition of certain financial liabilities at fair values, plus other financial liabilities including intercompany loans minus cash and cash equivalents, marketable securities and other financial assets plus provisions for pensions and similar obligations and provisions for wind farm decommissioning.
- **“Non-operating result”** includes income and expenses that are unusual from an economic perspective, or stem from exceptional events. Typically the non-operating result can include book gains from the disposal of investments or non-current assets not required for operations, impairment of the goodwill of fully consolidated companies, as well as effects of the fair valuation of certain derivatives. Such income and expenses from non-operating activities are reclassified to the non-operating result, and are thus not included in the reported operating result.
- **“Operating result”** is defined as income before tax excluding the financial result and the non-operating result.

We present these Non-IFRS Measures as (i) they are used by our management to measure operating performance and indebtedness, including in presentations to the members of our Management Board and Supervisory Board, and as a basis for strategic planning and forecasting, and (ii) they represent measures that we believe are widely used by certain investors, securities analysts and other parties as supplemental measures of operating and financial performance. These Non-IFRS Measures may enhance management’s and investors’ understanding of our financial performance and indebtedness by excluding items that are outside of our ongoing operations, such as income taxes, costs of capital and non-cash expenses. For example, we believe that EBITDA is widely used by investors to measure our operating performance before depreciation and amortization in particular because depreciation and amortization under IFRS can vary substantially from company to company depending on the accounting methods, carrying amount of assets, and capital structure or method by which assets were acquired and are therefore less comparable as a result.

However, these Non-IFRS Measures are not defined by IFRS or any other internationally accepted accounting principles, and you should not consider such items as an alternative to the historical financial results or other indicators of our performance, liabilities or net assets based on IFRS measures. In particular, they should not be considered as alternatives to net income or income before tax as indicators of our performance, profitability or as alternatives to cash flows from operating activities as an indicator of our financial strength. The Non-IFRS Measures, as defined by us, may not be comparable to similarly titled measures as presented by other companies due to differences in the way our Non-IFRS Measures are calculated. Even though the Non-IFRS Measures are used by management to assess ongoing operating performance, indebtedness and these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results, cash flows or assets and liabilities as reported under IFRS.

## 4.9 Note Regarding Figures and Technical Terms

Some figures (including percentages) in the Prospectus have been rounded in accordance with commercial rounding. In some instances, such rounded figures and percentages may not add up to 100% or to the totals or subtotals contained in tables or stated elsewhere in the Prospectus. Furthermore, totals and subtotals in tables may differ slightly from unrounded figures stated elsewhere in the Prospectus due to rounding in accordance with commercial rounding. In the financial statements contained under the heading *“26 Financial Information”* and in the main body of the Prospectus, a dash (“—”) indicates that no data was reported for a specific line item in the relevant financial year or period, while a zero (“0”) is used when the pertinent figure, after rounding, amounts to nil.

A glossary of certain technical and financial terms and abbreviations used in the Prospectus is provided at the end of the Prospectus under the heading *“28 Glossary”*.

## 5 CARVE-OUT AND ORGANIZATIONAL MEASURES

### 5.1 Incorporation of the Company

The Company was founded by RWE Downstream Beteiligungs GmbH i.Gr., Opernplatz 1, 45128 Essen, (which had been founded immediately before by RWE AG) on December 11, 2015, and incorporated by registration on January 5, 2016, in the form of a stock corporation (*Aktiengesellschaft*) under German law and with the legal name "RWE Downstream Aktiengesellschaft". With effect from March 11, 2016, the Company changed its legal form to a European company (*Societas Europaea* or *SE*) by way of a merger by absorption (*Verschmelzung zur Aufnahme*) of Essent SPV N.V., a stock corporation under the laws of the Netherlands with its corporate seat in 's-Hertogenbosch, the Netherlands. On September 1, 2016, the Company changed its legal name to innogy SE. For further details, see "17.1 Incorporation, Entry in the Trade and Companies Register, Name".

### 5.2 Domination Agreement

The Company and RWE DB GmbH are currently parties to a domination agreement (also referred to as control agreement) (the "**Domination Agreement**") in respect of which notice to terminate has been given to take effect from the end of September 30, 2016.

### 5.3 Corporate Carve-Out

Most business activities and assets pertaining to our three business segments, Grid & Infrastructure, Retail and Renewables (the "**Carve-Out Business**"), were already contained within and held by separate legal entities. These legal entities have either been merged into or transferred by way of a share transfer to the Company, in each case either directly or indirectly (the "**Carve-Out**"). For none of the Carve-Out transactions, did we use the instrument of a split-off (*Abspaltung*) from RWE AG. In this way, we sought to ensure that we will not be held liable for RWE AG's historic liabilities (in particular nuclear liabilities) under existing German law. The (direct or indirect) transfer of all assets required for operating the business was completed by June 30, 2016.

In Germany, a significant number of entities were merged directly or indirectly into the Company. This includes RWE Vertrieb Aktiengesellschaft, RWE Effizienz GmbH, RWE Innogy GmbH and RWE Energiedienstleistungen GmbH. These mergers had been effected with a view to streamline the organizational structure of our Group, in particular through centralizing the decision making processes.

The shares in other German entities were transferred, by way of sale or by way of contribution in kind, to the Company or any of its subsidiaries. In particular all shares in the former RWE Deutschland Aktiengesellschaft were contributed to the Company. Thereafter, the legal form of RWE Deutschland Aktiengesellschaft was changed to a GmbH and all shares held by RWE Deutschland GmbH (the company name of which was subsequently changed to innogy Netze Deutschland GmbH) except for shares in grid cooperation entities, in particular those in all municipal utilities (*Stadtwerke*), were split-off to the Company. The Company entered into a lease agreement with innogy Netze Deutschland GmbH in order to integrate innogy Netze Deutschland GmbH's business into the Company. The lease agreement comprises innogy Netze Deutschland GmbH's grid operations division.

The shares in the Carve-Out entities in the Eastern countries (Croatia, Hungary, Poland, Slovakia and the Czech Republic, the latter via a contribution of the Dutch holding company, innogy International Participations N.V.), in Austria, in Dubai (United Arab Emirates) and in the USA, as a first step, were contributed and transferred together with the shares in several German regional operating entities (*Regionalgesellschaften*) to the Company. Among those were in particular the shareholdings in innogy Polska SA, Východoslovenská energetika Holding a.s., Budapesti Elektromos Művek Nyrt., Eszak-magyarországi Áramszolgáltató Nyrt., KELAG-Kärntner Elektrizitäts-Aktiengesellschaft, KÄRNTNER ENERGIEHOLDING BETEILIGUNGS

GmbH, envia Mitteldeutsche Energie AG, Lechwerke AG, Süwag Energie AG, Pfalzwerke Aktiengesellschaft and VSE Aktiengesellschaft. In a second step, the shares in significant foreign entities were contributed into and transferred by the Company to innogy International Participations N.V., in which a significant part of the foreign subsidiaries is now pooled.

In most cases, newly issued shares in the Company were granted as consideration for the contribution of shares. However, for the contribution of shares in certain Eastern and Austrian entities as well as in certain German regional operating entities an additional cash consideration in the aggregate amount of EUR 3.923 billion was paid by the Company in May 2016. Further, for the contribution of shares in innogy International Participations N.V. in March 2016 by RWE AG to RWE Innogy GmbH (which was subsequently merged into the Company) an additional cash consideration of EUR 3.5 billion was paid by RWE Innogy GmbH.

The Company has entered into a management agreement according to which the Company will manage RWE DB GmbH's participation in RWE Rheinhessen Beteiligungs GmbH which will remain a subsidiary of RWE DB GmbH.

The Carve-Out Business in the UK was transferred to the Group by way of sale and transfer of shares in Npower Group plc by RWE Generation UK Holdings plc (formerly RWE Npower Holdings plc) to innogy International Participations N.V. The initial purchase price amounted to GBP 1.438 billion in April 2016. The purchase price was adjusted to reflect the difference between Npower Group plc's pension liability according to IAS 19 (i) already reflected in the initial purchase price and (ii) actually allocated to Npower Group plc after the sale (both calculated as of December 31, 2015). The final purchase price amounted to GBP 1.474 billion.

In the Netherlands the Carve-Out Business was first separated legally from the generation business in innogy Benelux Holding B.V., and as a second step, the shares in innogy Benelux Holding B.V. were transferred from RWE AG to innogy International Participations N.V. The purchase price of EUR 1.256 billion was paid in June 2016.

The minority stake in RWE Power International Middle East LLC, a joint venture with the Dubai Electricity and Water Authority (DEWA), was sold and transferred by RWE Technology International GmbH, an indirect subsidiary of RWE AG, to innogy Consulting GmbH, a subsidiary of the Company.

In the context of the Carve-Out, we also transferred to the RWE Group certain business activities that did not form part of the Carve-Out Business, but were historically owned by companies of the Group. This included the sale of our Czech subsidiary RWE Supply & Trading CZ, a.s. ("**RWEST CZ**"), which operates the Czech trading and wholesale operations, to RWE Supply & Trading GmbH, the sale of our stake in our Hungarian subsidiary Mátra Erőmű ZRt, which operates two lignite mines and power plant in Hungary, to a wholly owned subsidiary of RWE Power AG and the sale of RWE Markinch Limited, which operates a biomass plant in Scotland, to RWE Generation UK plc.

## **5.4 Trademarks and Real Estate**

The trademark "innogy", as well as certain other trademarks forming part of the Carve-Out Business, were legally transferred from RWE AG to the Company; economic ownership of the trademark "innogy" had already been with RWE Innogy GmbH for several years. In addition, according to a license agreement with RWE AG, the Company is entitled to use certain RWE brands on a non-exclusive and non-transferable basis, and with a right to grant sublicenses to its subsidiaries, for a transitional period of two years from termination of the Domination Agreement. As the promotion costs for both the transferred and licensed trademarks were covered by the local advertising budgets of Group companies over the last years, a purchase price as well as the license fees would have already been covered by the Company.

Certain real estate which is used by the Company and its subsidiaries on the basis of lease agreements and basically not required for operations (in particular office space), was sold to the

Company by RWE Service GmbH, a subsidiary of RWE AG. The purchase price amounts to approximately EUR 141 million. The transfer *in rem* will be executed in January 2017. The Company is contractually entitled to a compensation from RWE Service GmbH in the amount of approximately EUR 2.7 million for the assumption of certain obligations linked to the transferred real estate portfolio (e.g., for legally necessary or contractually agreed maintenance services).

## 5.5 Financing

In December 2015 in the context of the Carve-Out, we acquired innogy Finance B.V. from RWE AG, including certain Finance Bonds as described and defined in "*15.17.1.4 Bonds issued by innogy Finance B.V. and innogy Finance II B.V.*", namely twelve outstanding bonds of innogy Finance B.V. denominated in Euro and British Pound Sterling. The aggregate nominal amount of these Finance Bonds denominated in Euro at the time of the transfer was EUR 5,380 million. The aggregate nominal amount of these Finance Bonds denominated in British Pound Sterling at the time of the transfer was GBP 3,918 million.

As innogy Finance B.V. does not constitute a business in accordance with IFRS 3, its acquisition was accounted for as an asset deal. Accordingly, these Finance Bonds were initially recognized at their fair values as of the transfer date (December 18, 2015), which exceeded the carrying amount of these Finance Bonds as reflected in the consolidated accounts of RWE AG at the time of the transfer. The total difference ('step-up') in our accounts between the recorded value of these Finance Bonds and their carrying amount reflected in the consolidated accounts of RWE AG at the time of the transfer (December 18, 2015) was EUR 1,100 million.

Our subsidiary innogy Finance II B.V. assumed the obligations under a EUR 600 million Finance Bond originally issued by RWE AG. In accordance with IAS 39, the transaction was recognized at its fair value as of the transfer date (December 28, 2015), and was recorded with an additional 'step-up' of EUR 145 million in our accounts compared to the carrying amount of this Finance Bond as reflected in the consolidated accounts of RWE AG at the time of the transfer.

We started amortizing the total fair value 'step up' from the date of transfer of innogy Finance B.V. and the EUR 600 million Finance Bond of innogy Finance II B.V. As of December 31, 2015, the remaining fair value 'step-up' of the transactions executed in December 2015 was in aggregate EUR 1,237 million, *i.e.*, EUR 8 million lower than the originally recognized amount as a result of the amortization. And, as of June 30, 2016, the remaining fair value 'step-up' of the transactions executed in December 2015 was in aggregate EUR 1,089 million, *i.e.*, EUR 156 million lower than the originally recognized amount as a result of the amortization and foreign exchange effects.

For further information, see "*15.17.1.4 Bonds issued by innogy Finance B.V. and innogy Finance II B.V.*").

On June 13, 2016, the Company and RWE AG entered into fifteen separate intra-group loan agreements, six of which are based on six bonds issued by RWE AG in private placement transactions (*i.e.*, the PP Intra-Group Loan Agreements described and defined in "*15.17.1.5 Intra-Group Loan Agreements*") and two of which are based on funding raised by RWE AG under two separate finance contracts with the European Investment Bank (*i.e.*, the EIB Intra-Group Loan Agreements described and defined in "*15.17.1.5 Intra-Group Loan Agreements*"). In July 2016, we carried out certain measures to calibrate our capital structure. These included the following: Two additional loans extended by RWE AG to the Company in the aggregate amount of EUR 1,009 million (including accrued interest) were contributed to the capital reserve of the Company with effect as of July 31, 2016 (debt-to-equity swap). Furthermore, between June 30, 2016 and July 31, 2016, cash pool liabilities owed to RWE AG were reduced by EUR 900 million as a result of the application of proceeds from a cash capital contribution by RWE AG effected in July 2016.

Seven additional loans (*i.e.*, the Additional Intra-Group Loan Agreements described and defined in "*15.17.1.5 Intra-Group Loan Agreements*") remain outstanding. Under two of these

intercompany loan agreements, RWE AG granted loans to a subsidiary on April 3, 2009 and on January 12, 2010, that was subsequently merged with the Company in 2016. The outstanding principal amounts of these two loans are EUR 4 million and EUR 7 million.

In the context of the implementation of the Carve-Out until June 30, 2016, we paid EUR 2,062 million, which represented the fair value at the date of the transaction, to redeem early some of the inter-company loans with a nominal aggregate amount of EUR 1,942 million.

In addition, the Company as borrower and RWE AG as lender entered into an intra-group financing agreement providing for a revolving facility of EUR 1.0 billion maturing on December 31, 2018. Finally, the Company, innogy Finance B.V. (a wholly owned subsidiary of innogy International Participations N.V.) and RWE AG entered into the Debt Financing Coordination Agreement (as defined in "*15.17.1.3 Debt Financing Coordination Agreement*") in order to coordinate certain aspects of their co-operation in relation to specific financing aspects, in particular as regards availability for the Company and its subsidiaries of (i) facilities under the Revolving Facility Agreement (as defined in "*15.17.1.1 Revolving Facility Agreement*") and (ii) letters of credit, guarantees or other non-cash credit support instruments under existing letter of credit facilities of RWE AG. Following the accession of innogy Finance B.V. to the Revolving Facility Agreement the available facilities under the Revolving Facility Agreement are split and allocated between RWE AG and the Company (which may borrow under the Revolving Facility Agreement through its subsidiary innogy Finance B.V.). For further details on these financing agreements, see "*15.17.1 Financing Agreements*".

It is envisaged that the Group will be separated from the RWE Group cash pool and an independent cash pool will be established for the Group as of October 1, 2016.

## **5.6 Consideration, Warranties and Effectiveness**

The consideration for each asset and share transfer was reviewed by the Company in order to ensure that the consideration does not exceed the value of the transferred assets or shares. In case an asset or share transfer or a financing agreement qualified as post-formation acquisition of the Company in the meaning of section 52 of the German Stock Corporation Act (*Aktiengesetz*) (*Nachgründung*), the consideration was based on a valuation by the Company which was confirmed by an independent auditor. The warranties for any asset and share transfer were generally limited to the legal capacity of the transferor, legal title and absence of third-party rights, and, for the shares, that the shares are fully paid up.

Generally, share sales and share contributions were made with retroactive economic effect as from January 1, 2016, albeit in some instances with economic effect as from a later date. The legal share and asset transfers have been completed *in rem* in any case prior to June 30, 2016 (except for the transfer of the real property which will become effective in January 2017). The Company and RWE AG have agreed in the Agreement on Basic Principles to implement the limited number of outstanding action items for finalizing the Carve-Out. For further details on the Agreement on Basic Principles, see "*15.17.2 Agreement on Basic Principles*".

## **5.7 Employees and Pension Liabilities**

The operational launch of the Carve-Out Business was on April 1, 2016 on the basis of lease agreements for assets and business operations of certain major German entities including innogy Netze Deutschland GmbH (formerly RWE Deutschland Aktiengesellschaft), RWE Vertrieb Aktiengesellschaft (subsequently merged into the Company), RWE Effizienz GmbH (subsequently merged into the Company), RWE Innogy GmbH (subsequently merged into the Company) and RWE Energiedienstleistungen GmbH (subsequently merged into the Company). On this basis, 3,100 employees were transferred to the Group. By June 30, 2016, about 40,240 employees from German and Eastern operating entities and from Dutch and UK entities as well as certain employees from service entities (e.g., RWE IT GmbH, innogy Business Services Polska Sp. z o.o., RWE Gastronomie GmbH) were transferred to the Group in connection with

the transfer of shares in or merger of the respective entities. Roughly 1,500 further employees relating to the Carve-Out Business have been transferred or will be transferred in a staged process in three waves which are expected to be implemented between July 1, 2016 and January 1, 2017 (for further details as to the transfer of employees, see "15.12 Employees").

Prior to the separation of the innogy Group from the Former RWE Group, RWE AG agreed, *vis-à-vis* certain active employees, former employees with vested pension expectancies and pension beneficiaries of certain of its German Former RWE Group companies (including innogy Group companies), to be jointly and severally liable (*als Gesamtschuldner*) together with the respective German Former RWE Group company for the relevant pension obligations of the respective German Former RWE Group company (*Schuldbeitritt im Außenverhältnis*). In addition, RWE AG undertook, internally *vis-à-vis* the respective German Former RWE Group company, to fulfill its relevant pension obligations for the respective group of employees (*Erfüllungsübernahme im Innenverhältnis*) and provided a corresponding indemnification. This arrangement includes an invoicing of pension service costs incurred by RWE AG (as valuated under German GAAP and corresponding accounting methods) to the respective Former RWE Group company.

In connection with the separation of the innogy Group from the Former RWE Group, this arrangement has been replaced by corresponding agreements between RWE AG and the relevant innogy Group company (partially involving special purpose vehicles) to the extent that RWE AG's obligation *vis-à-vis* certain German innogy Group companies to fulfill their relevant pension obligations for the respective group of employees lapsed.

In separate agreements, the position as trustor of the related plan assets at RWE Pensionstreuhand e.V. has been transferred from RWE AG's accounting group (*Abrechnungsverband*) in RWE Pensionstreuhand e.V. to the Company's respective accounting group in RWE Pensionstreuhand e.V. In case of Westnetz, RWE AG's position as trustor of the related plan assets at RWE Pensionstreuhand e.V. has been transferred to a special purpose vehicle which is contemplated to be merged into Westnetz following the completion of the Offering. In cases where either Group companies or individual employees transferring to or from Group companies in Germany (including the Company) in connection with the separation of the innogy Group from the Former RWE Group (between July 1, 2016 and January 1, 2017) are not covered by the replacement arrangements between RWE AG and the respective innogy Group company, the transfer of corresponding pension liabilities will be arranged directly between the entities involved. Any corresponding plan assets will be shifted from and to the relevant accounting group in RWE Pensionstreuhand e.V., respectively. This transfer of pension liabilities from the Former RWE Group to the Company or relevant innogy Group companies will be implemented soon following the relevant transfer date, respectively.

Depending on the individual effective date of the lapse of RWE AG's obligations *vis-à-vis* certain German innogy Group companies to fulfill their relevant pension obligations for the respective group of employees, RWE AG will have to reimburse the Group to a certain limited extent pursuant to an additional settlement agreement as regards certain of its domestic pension payments until such effective date. We plan to replace any such arrangement following the completion of the Offering. According to IFRS, the expected proceeds under this settlement arrangement do not qualify as plan assets and can thus not be accounted for as reducing our net pension obligations. The Group recognizes a limited amount as reimbursement right, *i.e.*, as a separate asset included in our item line "financial receivables" (*Finanzforderungen*).

In connection with the separation of the innogy Group from the Former RWE Group, and in order to establish separate ring-fenced pension arrangements under the ESPS, RWE AG, the Company and certain of our and RWE AG's UK group companies arranged for the Former RWE Group's pension obligations (assessed on the funding basis) and plan assets under the group of certain UK subsidiaries of the Former RWE Group (the "**Former ESPS Group**") to be sectionalized into legally separate sub-sections in a ratio of 70% (innogy Group) to 30% (RWE Group). Pursuant to this arrangement we have determined our pension liabilities and assets under our section of the Former ESPS Group in accordance with the applicable provisions under UK law

(which requires triennial valuations in deviation from IAS 19). As of March 31, 2016, the total pension liabilities under our section amounted to GBP 3.942 billion and the assets under our section amounted to GBP 3.552 billion. Whereas the sectionalizing has been effected as of the end of July 2016, our Audited Combined Financial Statements and Unaudited Interim Consolidated Financial Statements (Condensed) (reflecting a valuation in accordance with IAS 19) reflect our share in the Former ESPS Group prior to the sectionalizing. See *"11 Selected Financial and Business Information"* as regards our section in the Former ESPS Group reflecting a valuation in accordance with IAS 19 and *"9 Capitalization and Indebtedness"* for our accounting view as of July 31, 2016. We have also entered into an agreement with the trustees to transfer the sectionalized pension obligations and assets of the Former ESPS Group to two wholly independent ESPS groups, one for our respective UK Subsidiaries (i.e., our group of the ESPS) and one for the respective UK subsidiaries of RWE Group. The legal transfer of these pension obligations and assets to our group of the ESPS is expected to be effected within the next months. See also *"3.1.41 We have financial obligations to our employees, in particular retirement obligations, the calculations of which are based on a number of assumptions, which may differ from actual rates."*

## **5.8 Transitional Service Agreement**

The Company entered into a transitional service agreement with RWE AG pursuant to which the Company and RWE AG and their respective affiliates will provide to each other certain transitional services for a period of time even after the completion of the Offering. For further details on the transitional service agreement, see *"21.1.6 Transitional Service Agreement"*.

## 6 THE OFFERING

### 6.1 Subject Matter of the Offering

The Offering consists of

- 55,555,000 New Shares; and
- 45,455,000 Base Secondary Shares, of which shares corresponding to an aggregate investment amount of EUR 940 million are expected to be allocated to the Cornerstone Investors as defined below and further described under “6.4 Cornerstone Investors and Cornerstone Investors Agreement”; and
- up to 25,252,000 Additional Secondary Shares; and
- up to 12,626,200 Over-Allotment Shares,

each such share with a notional value of EUR 2.00 in the share capital and full dividend rights as from January 1, 2016.

The Offering consists of an initial public offering in Germany and in the Grand Duchy of Luxembourg (“**Luxembourg**”) and private placements in certain jurisdictions outside Germany and Luxembourg. In the United States, the Offer Shares are being offered for sale to qualified institutional buyers as defined in and in reliance on Rule 144A under the US Securities Act of 1933, as amended (the “**Securities Act**”). Outside the United States, the Offer Shares of the Company are being offered and sold only in offshore transactions in compliance with Regulation S under the Securities Act. The Offer Shares have not been and will not be registered under the Securities Act, or the securities laws of any other jurisdiction of the United States and may not be offered, sold or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction in the United States. As part of the Offering, several funds and accounts under management by direct and indirect investment management subsidiaries of BlackRock, Inc., Delaware, USA (the “**BlackRock Funds**” and also referred to as the “**Cornerstone Investors**”), have agreed, subject to certain termination rights and the condition precedent of the closing of the Offering, to purchase Offer Shares in an aggregate investment amount of EUR 940 million from the holdings of the Selling Shareholder in a private placement at the Offer Price. The Cornerstone Investors have been guaranteed full allocation of such number of Offer Shares for which they have provided a purchase commitment.

The New Shares will originate from a capital increase pursuant to sections 182 et seq. German Stock Corporation Act (*Aktiengesetz*). The capital increase regarding the New Shares was resolved by an extraordinary shareholders’ meeting of the Company on August 30, 2016. Assuming this capital increase is consummated in the maximum amount and registered with the commercial register of the Company, the share capital of the Company will be increased by EUR 111,110,000.00 to EUR 1,111,110,000.00. The existing shares of the Company, including the Secondary Shares and the Over-Allotment Shares, were created in connection with the change of legal form of the Company (at that time bearing the name RWE Downstream Aktiengesellschaft) into a European company (*Societas Europaea*) pursuant to sections 190, 226, 247 and 248 German Transformation Act (*Umwandlungsgesetz*), sections 2, 17 et seqq. of the Council Regulation (EC) No. 2157/2001 of October 8, 2001 on the Statute for a European company (SE) (the “**SE Regulation**”), an increase of the Company’s share capital which became effective on April 18, 2016 in connection with the transfer of the business division “innogy” to the Company and further capital increases registered on May 23, 2016, June 16, 2016, June 17, 2016, July 11, 2016 and July 27, 2016 (see also “19.3 Development of the Share Capital since the Company’s Incorporation”).

The Offer Shares carry the same rights as all other shares of the Company and confer no additional rights or benefits. All shares of the Company, including the Offer Shares, are subject to and governed by German corporate law, and subject to the provisions of the SE Regulation.

The Company will receive the proceeds from the sale of the New Shares, but must pay certain commissions and expenses relating to the Offering. The Selling Shareholder will receive the proceeds resulting from the sale of the Base Secondary Shares and a potential sale of Additional Secondary Shares to the extent the Upsize Option is exercised and Over-Allotment Shares to the extent the Greenshoe Option is exercised, but must in such case pay a commission in connection thereto.

## **6.2 Existing Shareholders**

Prior to completion of the Offering, RWE AG holds in the aggregate 100% of the share capital of the Company: approximately 5.1% directly, and approximately 94.9% indirectly through RWE DB GmbH, Essen, Germany (RWE AG and RWE DB GmbH are referred to together as the “**Existing Shareholders**”). RWE AG is a listed company. For an explanation on the shareholder structure see “18 Shareholder Structure”. RWE DB GmbH has granted an option to the Underwriters to acquire up to 12,626,200 further shares from its holding in connection with potential over-allotments. See “6.9 Stabilization Measures, Over-Allotments and Greenshoe Option”. Upon completion of the Offering, RWE AG will continue to hold approximately 75.0% (approximately 4.6% directly and approximately 70.4% indirectly through RWE DB GmbH) of the Company’s share capital assuming (i) full placement of the New Shares as well as the full implementation of the capital increase regarding the New Shares, (ii) full placement of the Secondary Shares and (iii) a full exercise of the Greenshoe Option.

## **6.3 Price Range, Offer Period, Offer Price and Allotment**

The price range within which purchase orders may be submitted is from EUR 32.00 to EUR 36.00 per Offer Share.

The Offering allowing investors to submit purchase orders for the shares will commence on September 26, 2016 and is expected to end on October 6, 2016 (the “**Offer Period**”). Retail investors may submit purchase orders under the public offering in Germany and Luxembourg during the Offer Period at the branch offices of the Underwriters. On the last day of the Offer Period, purchase orders may be submitted (i) until 12:00 noon (Central European Summer Time) by retail investors and (ii) until 14:00 (Central European Summer Time) by institutional investors. Purchase orders must be for at least 10 shares and be expressed in full Euro amounts or increments of 25, 50 or 75 Eurocents. Multiple purchase orders are permitted.

The Company and the Selling Shareholder reserve the right, after consultation with the Joint Global Coordinators, to reduce or increase the number of Offer Shares, to reduce or increase the upper/lower limits of the price range and/or to extend or shorten the Offer Period. The Company and the Selling Shareholder may increase the total number of shares offered in this Offering up to a maximum of the total number of shares for which the application for admission to the regulated market of the Frankfurt Stock Exchange has been filed in accordance with the Prospectus or any supplement that may be published. To the extent that the terms of the Offering are changed, such change will be announced through electronic media, on the Company’s website ([www.innogy.com/ir](http://www.innogy.com/ir)) and published, if required by the German Securities Trading Act (*Wertpapierhandelsgesetz*) and/or the German Securities Prospectus Act (*Wertpapierprospektgesetz*), as an ad hoc announcement and as a supplement to the Prospectus. Investors who have submitted purchase orders will not, however, be informed individually. Changes to the number of Offer Shares or the price range or extension or shortening of the Offer Period will not invalidate purchase orders already submitted.

Under certain conditions, the Joint Global Coordinators acting on behalf of the Underwriters may terminate the underwriting agreement even after commencement of trading (*Aufnahme des Handels*) of the Company’s shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (see “23.4 Termination/Indemnification”).

The Selling Shareholder, after consultation with the Joint Global Coordinators, will decide whether to exercise the Upsize Option depending on market demand and using the order book prepared during the bookbuilding process. The Selling Shareholder may increase the number of Base Secondary Shares by up to 25,252,000 Additional Secondary Shares.

Investors are free to withdraw their purchase orders until the end of the Offer Period. In addition, pursuant to the German Securities Prospectus Act, investors who have submitted a purchase order before a supplement is published are granted a period of two business days from publication of the supplement to withdraw their orders, provided that the new circumstance or material mistake that makes a supplement necessary occurred prior to the final expiration of the Offering and prior to the delivery of the shares. Instead of withdrawing the purchase orders placed prior to the publication of the supplement, within two days of publication of the supplement, the investor may change such orders or submit new limited or unlimited orders.

Once the Offer Period has expired, the final number of Offer Shares (including the number of New Shares that the Company will issue) and the final offer price (the “**Offer Price**”) will be determined jointly by the Company and the Selling Shareholder in their sole discretion after consultation with the Joint Global Coordinators. The Offer Price will be set on the basis of the purchase orders submitted by investors during the Offer Period that have been collated in the order book prepared during the bookbuilding process. This is expected to take place on or about October 6, 2016. Consideration will be given to whether the Offer Price and the number of shares to be placed allow for the reasonable expectation that the share price will demonstrate steady performance in the secondary market given the demand for the Company’s shares noted in the order book. Attention will be paid not only to the prices offered by investors and the number of investors wanting shares at a particular price but also to the composition of the group of shareholders in the Company that would result at a given price (so-called investor mix) and expected investor behavior. For further information regarding allotment criteria see “*6.6 Allotment Criteria*”. The Company and the Existing Shareholders will not charge investors any expenses or taxes incurred in connection with the Offering.

The final number of Offer Shares, including the number of New Shares that the Company will issue, and the Offer Price are expected to be published on or about October 6, 2016 by means of an ad hoc announcement in various media distributed across the entire European Economic Area (*Medienbündel*) and on the Company’s website ([www.innogy.com/ir](http://www.innogy.com/ir)). Investors who have placed purchase orders with one of the Underwriters can obtain information from that Underwriter about the Offer Price and the number of Offer Shares allotted to them, at the earliest, on the first bank working day following the pricing. Trading in the Company’s shares may commence before investors have received notice of the number of Offer Shares allotted to them. Book-entry delivery of the allotted Offer Shares against payment of the Offer Price is expected to occur on October 11, 2016. After the Offer Price has been set, the Offer Shares will be allotted to investors on the basis of the offers to purchase then available. Until (and including) October 11, 2016, the Underwriting Agreement may be terminated by the Joint Global Coordinators. In the case of a termination of the Underwriting Agreement, the Offering will not take place, allocations of Offer Shares to investors will become ineffective, and investors will not have any claim to delivery of the Offer Shares. Particularly if the placement volume proves insufficient to satisfy all orders placed at the Offer Price, the Underwriters reserve the right to reject orders, or to accept them in part only.

#### **6.4 Cornerstone Investors and Cornerstone Investors Agreement**

The Company, RWE AG, the Selling Shareholder and the Joint Global Coordinators (each of the Joint Global Coordinators acting on its own behalf and on behalf of the other Underwriters) have entered into a private placement agreement with the Cornerstone Investors (the “**Cornerstone Investors Agreement**”).

The Cornerstone Investors have in aggregate committed to investing a total amount of EUR 940 million under and as part of the Offering. The shares will be purchased from the

holdings of the Selling Shareholder in a private placement. Based on an Offer Price at the mid-point of the price range, the total number of Offer Shares purchased by the Cornerstone Investors would be 27,647,058 Offer Shares, which represent approximately 19.91% of the Offer Shares and in total an ownership of 4.98% of the Company, assuming full placement of the maximum number of New Shares (55,555,000), the Secondary Shares as well as the full exercise of the Greenshoe Option (as defined in "6.9 Stabilization Measures, Over-Allotments and Greenshoe Option").

The placement of Offer Shares with the Cornerstone Investors will be made under and as part of the Offering at the Offer Price per Offer Share. The Cornerstone Investors are guaranteed full allocation of the Offer Shares for which they have provided a purchase commitment.

The obligations of the Cornerstone Investors to purchase and acquire the respective Offer Shares, the Company's obligations to issue the respective Offer Shares, and the Underwriters' obligations to deliver (acting through a settlement agent) the respective Offer Shares, are all subject to the condition precedent that the closing of the Offering occurs. The settlement of the Cornerstone Investors' Offer Shares shall occur simultaneously with the closing of the Offering.

The Cornerstone Investors Agreement may be terminated under certain circumstances, e.g., by the Cornerstone Investors, within twelve hours (disregarding any time during days which are not business days in Frankfurt am Main, Germany) after a release has been published by the Company that includes information that requires the subsequent publication of a supplement to the Prospectus if such information would be reasonably expected to constitute a material adverse development in the condition, financial or otherwise, shareholders' equity, results of operation, business or prospects of the Group, taken as a whole, that makes it inadvisable for the Cornerstone Investors to continue with their investment decision, among other circumstances.

## 6.5 Expected Timetable for the Offering

The anticipated timetable for the Offering, which is subject to extension or shortening, is as follows:

September 23, 2016 .....	Approval of the Prospectus by the German Federal Financial Supervisory Authority ( <i>Bundesanstalt für Finanzdienstleistungsaufsicht</i> ) (" <b>BaFin</b> ")
	Notification of the approved Prospectus to the Luxembourg Commission for the Supervision of the Financial Sector ( <i>Commission de Surveillance du Secteur Financier</i> ) (" <b>CSSF</b> ")
	Publication of the approved Prospectus on the Company's website ( <a href="http://www.innogy.com/ir">www.innogy.com/ir</a> )
September 26, 2016 .....	Commencement of the Offer Period
	Commencement of marketing (roadshow)
	Application for listing filed with the Frankfurt Stock Exchange ( <i>Frankfurter Wertpapierbörse</i> )
October 6, 2016 .....	Close of the Offer Period for retail investors at 12:00 (Central European Summer Time) and for institutional investors at 14:00 (Central European Summer Time)
	Determination of the Offer Price and final number of shares allocated; publication of Offer Price and number of shares placed as an ad hoc announcement

	in various media distributed across the entire European Economic Area ( <i>Medienbündel</i> ) and on the Company's website ( <a href="http://www.innogy.com/ir">www.innogy.com/ir</a> )
October 6, 2016 .....	Registration of the capital increase regarding the New Shares with the commercial register of the Company
	Listing approval issued by the Frankfurt Stock Exchange ( <i>Frankfurter Wertpapierbörse</i> )
	Publication of the listing approval issued by the Frankfurt Stock Exchange ( <i>Frankfurter Wertpapierbörse</i> )
October 7, 2016 .....	First day of trading
October 11, 2016 .....	Book-entry delivery of the Offer Shares against payment of the Offer Price

The Prospectus will be published on the Company's website at [www.innogy.com/ir](http://www.innogy.com/ir) after approval by the BaFin on September 23, 2016. In addition, upon publication a copy of the printed Prospectus and any supplement(s) thereto will be available free of charge during regular business hours at the offices of the Company, Opernplatz 1, 45128 Essen, Germany.

## 6.6 Allotment Criteria

The allotment of shares to retail investors and institutional investors will be decided after consultation with the Joint Global Coordinators. The ultimate decision rests with the Company, RWE AG and RWE DB GmbH. Allotments will be made on the basis of the quality of the individual orders and – in the case of institutional investors – the quality of the individual investors, as well as other important allotment criteria, for example the timing of the order, to be determined after consultation with the Joint Global Coordinators. The Company and the Underwriters will adhere to the "Principles for the Allotment of Share Issues to Private Investors" (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*) issued on June 7, 2000 by the German Commission of Stock Exchange Experts (*Börsensachverständigenkommission*) of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*). "Qualified investors" (*qualifizierte Anleger*) pursuant to the German Securities Prospectus Act (*Wertpapierprospektgesetz*) are not viewed as "private investors" within the meaning of the allotment rules. The details of the allotment procedure will be stipulated after expiration of the Offer Period and published in accordance with the allotment principles.

## 6.7 Stock Exchange Admission and Commencement of Trading

The Company expects to apply on or about September 26, 2016 for admission of its existing shares and of the New Shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange and, simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard).

The decision on the admission of the existing shares of the Company and the New Shares is expected to be announced on October 6, 2016. The decision on the admission of the Company's shares to trading will be made solely by the Frankfurt Stock Exchange at its discretion. Trading of the existing shares of the Company and of the New Shares on the Frankfurt Stock Exchange is expected to commence on October 7, 2016.

## 6.8 Delivery and Payment

The delivery of the Offer Shares against payment of the Offer Price and customary security commissions (*Effektenprovision*) is expected to take place in Frankfurt am Main, Germany, two

bank working days after commencement of trading, *i.e.*, on or about October 11, 2016. The Offer Shares will be made available to shareholders in book-entry form (as coownership interests in the respective global share certificate(s)).

At their discretion, investors may choose to have shares they acquire in the Offering credited to the securities account of a German bank held for their account at Clearstream Banking Aktiengesellschaft, Mergenthalerallee 61, 65760 Eschborn, Germany ("**Clearstream Banking AG**"), or to the securities account of a participant in Euroclear Bank S.A./N.V., 1, Boulevard Roi Albert II, 1120 Brussels, Belgium, as the operator of the Euroclear system, or to Clearstream Banking S.A., 42 Avenue JF Kennedy, 1855 Luxembourg, Luxembourg.

## **6.9 Stabilization Measures, Over-Allotments and Greenshoe Option**

In connection with the placement of the Offer Shares, Goldman Sachs or persons acting on its behalf will act as stabilization manager and may, acting in accordance with legal requirements (Article 5 para. 4 and 5 of the Market Abuse Regulation (EU) No. 596/2014 of April 16, 2014), make over-allotments and take stabilization measures during the stabilization period to support the market price of the shares of the Company and thereby counteract any selling pressure.

The stabilization manager is under no obligation to take any stabilization measures. Therefore, no assurance can be provided that any stabilization measures will be taken. Where stabilization measures are taken, these may be terminated at any time without notice. Such measures may be taken from the date of the commencement of trading of the shares of the Company on the regulated market of the Frankfurt Stock Exchange – expected to be October 7, 2016 – and must be terminated no later than 30 calendar days after this date (the "**Stabilization Period**").

These measures may result in a market price for shares of the Company that is higher than it would otherwise have been. Moreover, the market price may, temporarily, be at an unsustainable level. Stabilization measures shall not be executed above the Offer Price.

Under the possible stabilization measures, investors may, in addition to the New Shares and the Secondary Shares, be allotted up to 12,626,200 additional shares in the Company as part of the allotment of the shares to be placed ("**Over-Allotment**"). In connection with potential Over-Allotments, Goldman Sachs will be provided for the account of the Underwriters in the form of a securities loan with up to 12,626,200 shares of the Selling Shareholder; this number of shares will not exceed 15% of the sum of the number of (i) New Shares, (ii) Base Secondary Shares and (iii) to the extent the Upsize Option is exercised, Additional Secondary Shares. In connection with potential Over-Allotments, the Selling Shareholder will grant the Underwriters an option to acquire the borrowed shares against payment of the Offer Price less agreed commissions ("**Greenshoe Option**", and any such Over-Allotment Shares purchased upon exercise of the Greenshoe Option, the "**Greenshoe Shares**"). The Greenshoe Option may be exercised at maximum to the extent that shares of the Company have been placed by way of Over-Allotments. The Greenshoe Option shall be exercisable by Goldman Sachs acting as stabilization manager and will terminate 30 calendar days after commencement of the stock exchange trading of the shares.

During the Stabilization Period, Goldman Sachs will ensure public disclosure of the details of all stabilization transactions no later than the end of the seventh daily market session following the date of the execution of such transactions.

Once the Stabilization Period has ended, an announcement will be made by Goldman Sachs within one week in various media outlets distributed across the entire European Economic Area (*Medienbündel*) as to (i) whether stabilization measures were taken, (ii) when price stabilization transactions started and when they last occurred, (iii) the price range within which stabilization transactions were carried out for each of the dates during which stabilization transactions were carried out, and (iv) the trading venues on which stabilization transactions were carried out, where applicable. Exercise of the Greenshoe Option, the timing of its exercise and the number of shares concerned will also be announced promptly in the manner previously stated.

## **6.10 Lock-Up Agreements**

### **6.10.1 Lock-Up of the Company**

In the Underwriting Agreement, the Company agreed vis-à-vis the Underwriters that, for a period of six months after the New Shares of the Company are first traded, it will not (i) announce or effect an increase of the share capital of the Company from authorized capital or contingent capital, (ii) propose to its general meeting an increase of the share capital (*Direktkapitalerhöhungsbeschluss*), or (iii) announce, effect or propose the issue of securities with conversion or option rights on shares of the Company or economically similar transactions, in each case of (i) to (iii) without the Joint Global Coordinators' prior written consent, which consent may not be unreasonably withheld (the "**Company Lock-up**"). The Company may, however, (x) issue or sell any shares or other securities to employees and members of executive bodies of the Company or its subsidiaries under management participation plans and (y) pursue any corporate actions undertaken by the Company for the purposes of entering into any agreement regarding or resolution upon, the entering into any joint venture or the acquisition of any companies, provided that the parties to the joint venture or acquiring entity to which such shares will be issued agree to be bound by the same lock-up undertaking as the Existing Shareholders. The Company Lock-up does not apply to the capital increase described in the Prospectus.

### **6.10.2 Lock-Up of the Existing Shareholders**

In the Underwriting Agreement, RWE AG and the Selling Shareholder have agreed, subject to certain exceptions, vis-à-vis the Underwriters that they will not, without the prior written consent of the Joint Global Coordinators, which consent may not be unreasonably withheld, either directly or indirectly, sell, market, transfer or dispose otherwise of shares or other securities of the Company until the end of a period of six months after the shares are first traded on the Frankfurt Stock Exchange. The same shall apply to any transaction economically equivalent to a sale in economic terms, for example the issue of options or conversion rights on shares of the Company (the "**Shareholders' Lock-up**"). The Shareholders' Lock-up shall not apply to (i) any shares used for stabilization, (ii) transfers to third parties (outside of stock exchanges), (iii) transfers to affiliates of RWE AG, (iv) future pledges granted to one or more banks or their affiliates (including, for the avoidance of doubt, any current or future pledges of shares by RWE AG or any affiliate of RWE AG required by financing banks for the benefit of creditors) and (v) any transfers of shares to one or more banks or their affiliates pursuant to enforcement of any pledge entered into in accordance with (iv), provided in each case of (ii) and (iii) that such transferee(s) agree(s) to be bound by the same lock-up undertaking.

## **6.11 Designated Sponsors**

Deutsche Bank Aktiengesellschaft, Taunusanlage 12, 60325 Frankfurt am Main, Germany, and Goldman Sachs International, Peterborough Court, 133 Fleet Street, London EC4A 2BB, United Kingdom, have agreed to assume the function of designated sponsors of the Company's shares traded on the Frankfurt Stock Exchange for a period of at least one year. Pursuant to the designated sponsors' agreements entered into by the Company, on the one hand, and Deutsche Bank Aktiengesellschaft and Goldman Sachs International, as the case may be, on the other hand, the designated sponsors will, among other things, place limited buy and sell orders for shares in the electronic trading system of the Frankfurt Stock Exchange during regular trading hours. This is intended to achieve greater liquidity in the market for the shares. In accordance with sections 76 and 77 Exchange Rules (*Börsenordnung*) for the Frankfurt Stock Exchange, the designated sponsors' agreements stipulate the duties and responsibilities of the designated sponsors. Among other things, the designated sponsors shall be available during trading hours and, upon receipt of a request for a quote, shall promptly supply quotes and enter into transactions on such basis. In addition, the designated sponsors shall provide quotes throughout the auction.

## **6.12 Information on the Offer Shares**

### **6.12.1 Participation in Registered Capital**

All shares of the Company, including the Offer Shares, are ordinary bearer shares with no par value, each representing a notional value of EUR 2.00 and carrying full dividend rights as from January 1, 2016.

### **6.12.2 Voting Rights**

Each of the Offer Shares entitles the shareholder to one vote at the shareholders' meeting of the Company. There are no restrictions on voting rights. Voting rights are the same for all of the Company's shareholders, including the shares held by the existing shareholders RWE AG and RWE DB GmbH.

### **6.12.3 Dividend Rights and Share in Liquidation Proceeds**

The Offer Shares carry the same dividend rights as the other existing shares of the Company, as from January 1, 2016, *i.e.*, for the full financial year 2016 and for all subsequent financial years. In the event of the Company's liquidation, the Company's assets remaining after satisfaction of all liabilities of the Company will be distributed to the shareholders in proportion to their interest in the Company's share capital.

### **6.12.4 Form and Representation of the Shares**

The current Articles of Association of the Company provide for all shares in the Company to be issued as ordinary bearer shares with no par value (*Stückaktien*). All the shares of the Company are or will be represented by one or more global share certificate(s) which will be deposited with Clearstream Banking AG following the approval of the Prospectus. Section 5(2) of the Company's current Articles of Association stipulates that the shareholders' right to the issuance of share certificates representing their respective shares shall be excluded. The form of the share certificates, dividend coupons and renewal coupons is determined by the Company's Management Board with the consent of the Supervisory Board.

### **6.12.5 Preferential Rights in Capital Increases**

In the event of a capital increase against contribution in cash, the existing shareholders have a preferential right to subscribe for the new shares, pro rata to the portion of the share capital represented by the shares they held prior to the offering of new shares. The Company's shareholders' meeting may, however, subject to certain conditions, exclude subscription rights in whole or in part when resolving upon a capital increase or an authorized capital. In case of authorized capital, the shareholders' meeting may also authorize the Management Board to exclude subscription rights. For further details see "*19.9 General Provisions Governing Share Capital Increases and Decreases*").

## **6.13 ISIN, WKN, Common Code and Trading Symbol**

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International Securities Identification Number (ISIN) . . . . .	DE000A2AADD2
German Securities Code (Wertpapier-Kenn-Nummer) (WKN) . . . . .	A2AADD
Common Code . . . . .	149062238
Trading Symbol . . . . .	IGY

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## **6.14 Transferability of the Shares**

The Company's shares are freely transferable. Except for the restrictions set forth in "*6.10 Lock-Up Agreements*" and "*23.5 Selling Restrictions*", there are no prohibitions on disposals or restrictions with respect to the transferability of the Company's shares. See also "*19.2 Certification and Transferability of the Shares*".

## 6.15 Interests of Parties Participating in the Offering

In connection with the Offering and stock exchange listing of the Company's shares, the Underwriters have a contractual relationship with the Company and the Existing Shareholders. The Joint Global Coordinators are advising the Company on the transaction and are coordinating the structure and execution of the transaction. The Underwriters will receive a commission upon successful completion of the transaction. In addition, Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany, has been appointed as paying agent and Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany, and Goldman Sachs International, London, United Kingdom, have been appointed as designated sponsors for the Company's shares.

Some of the Underwriters or their affiliates have, and may in the future continue to have, from time to time, business relations with us or our Existing Shareholders or other companies of the RWE Group (including lending activities) or may perform services for us or other companies of the RWE Group in the ordinary course of business. For example, certain Underwriters are lenders under a syndicated or bilateral loan or guarantee facility of the Company, RWE AG, the Selling Shareholder or any other company within the RWE Group. Also, the Underwriters might be involved in trading activities (such as FX or interest derivatives) or fee generating business (such as advisory mandates).

Furthermore, in connection with the Offering, each of the Underwriters and any of their respective affiliates, acting as an investor for its own account, may take up shares and in that capacity may retain, purchase or sell for its own account such securities and any shares or related investments and may offer or sell such shares or other investments otherwise than in connection with the Offering. Accordingly, references in the Prospectus to shares being offered or placed should be read as including any offering or placement of shares to any of the Underwriters or any of their respective affiliates acting in such capacity. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of shares of the Company. None of the Underwriters intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Existing Shareholders, as well as the direct and indirect shareholders of RWE AG, have an interest in the consummation of the transaction because the Selling Shareholder, a wholly-owned subsidiary of RWE AG, will receive the proceeds resulting from the sale of the Base Secondary Shares and a potential sale of Additional Secondary Shares and Greenshoe Shares. Furthermore, the Existing Shareholders also have an interest in further potential placements of shares of the Company in the future. In addition, as part of the Offering, Offer Shares in an aggregate investment amount of EUR 940 million will be acquired by the BlackRock Funds as Cornerstone Investors. The Cornerstone Investors have agreed, subject to certain termination rights and the condition precedent of the closing of the Offering, to purchase Offer Shares at the Offer Price. See *"6.4 Cornerstone Investors and Cornerstone Investors Agreement"*. With respect to direct and indirect shareholdings in the Company (also relating to future shareholdings) see *"18 Shareholder Structure"*. In addition, since the Company will receive the proceeds from the Offering of the New Shares and these will strengthen the equity capital basis of the Company, all direct and indirect shareholders with an interest in the Company have an interest in the implementation of the capital increase to which the Offering relates.

There are several contractual relationships in place between RWE AG or certain of its subsidiaries and associated companies which are not part of the Group, on the one hand, and the Group on the other. The funds received by the Company from the Offering improve its solvency and that of the Group companies as borrowers under such contractual relationships. The funds received by the Company from the Offering therefore indirectly affect the recoverability of receivables of RWE AG, its subsidiaries and associated companies due by us.

Against this background RWE AG as well as the subsidiaries and associated companies of RWE AG being in a contractual relationship with the Company have an interest in the transaction.

Some members of management, further key employees of the Group and certain individuals involved in the preparation and successful completion of the Offering remaining with the RWE Group through the separation of the innogy Group from the Former RWE Group participate in an incentive scheme set up by the Company providing for payments in connection with the preparation and successful completion of the Offering and further implementation of the separation of the innogy Group from the Former RWE Group (see "*15.12.2 Compensation for Management Staff*").

## 7 REASONS FOR THE OFFERING AND LISTING, USE OF PROCEEDS AND COSTS OF THE OFFERING AND LISTING

### 7.1 Proceeds and Costs of the Offering and Listing

Under the Offering, the Company will receive the proceeds resulting from the sale of the New Shares. The Selling Shareholder will receive the proceeds resulting from the sale of the Base Secondary Shares and a potential sale of Additional Secondary Shares to the extent that the Upsize Option is exercised and Over-Allotment Shares to the extent the Greenshoe Option is exercised.

The amount of the proceeds of the Offering as well as the costs related to the Offering depend on the Offer Price, which also determines the Underwriters' commissions, and on the number of shares that will be placed in the Offering.

Assuming that the maximum number of New Shares (55,555,000 shares) is placed, the Company estimates that at the low end, mid-point and high end of the price range set for the Offering of the New Shares, gross proceeds to the Company would amount to approximately EUR 1,778 million, EUR 1,889 million, and EUR 2,000 million, respectively.

If the Offer Price is set at the mid-point of the price range and all New Shares being offered are placed, the costs of the Company related to the Offering of the New Shares and the stock exchange listing are expected to total approximately EUR 42 million in the aggregate, including Underwriters' commissions of approximately EUR 33 million (assuming full payment of the discretionary fee with respect to the New Shares) and estimated other expenses of approximately EUR 9 million (assuming full placement of the Secondary Shares as well as the full exercise of the Greenshoe Option). Under the above assumptions, the net proceeds to the Company from the sale of the New Shares, i.e., the gross proceeds less the costs of the Company, are expected to amount to approximately EUR 1,847 million.

If the Offer Price is set at the low end or at the high end of the price range and all New Shares being offered are placed, the Company expects to incur total costs related to the Offering of the New Shares and the stock exchange listing of approximately EUR 40 million and EUR 44 million, respectively, in the aggregate, including Underwriters' commissions of approximately EUR 31 million and EUR 35 million, respectively (assuming full payment of the discretionary fee with respect to the New Shares), and estimated other expenses of approximately EUR 9 million (assuming full placement of the Secondary Shares as well as the full exercise of the Greenshoe Option). Under the above assumptions, the net proceeds to the Company from the sale of the New Shares are expected to amount to approximately EUR 1,737 million or EUR 1,956 million at the low end or at the high end of the price range, respectively.

The Selling Shareholder will pay that portion of the Underwriters' commissions attributable to the sale of the Base Secondary Shares, the Additional Secondary Shares if and to the extent that the Upsize Option is exercised and the Greenshoe Shares if and to the extent that the Greenshoe Option is exercised and its pro rata share of the costs of the Offering (see "21.1.8 Cost Coverage Agreement and Indemnity Agreement"). The Company estimates that the overall costs for the Selling Shareholder will be approximately EUR 61 million, EUR 64 million and EUR 66 million at the low end, mid-point and high end of the price range, respectively (assuming in each case full placement of the Secondary Shares as well as the full exercise of the Greenshoe Option). The Company estimates that net proceeds to the Selling Shareholder under the above assumptions (in the aggregate) would amount to approximately EUR 2,606 million, EUR 2,770 million and EUR 2,934 million at the low end, mid-point and high end of the price range, respectively.

Investors will not be charged with expenses by the Company, the Selling Shareholder or the Underwriters in connection with their role as underwriters. Investors may, however, have to bear customary security commissions (*Effektenprovision*) and handling fees charged by their account-keeping financial institution.

## **7.2 Reasons for the Offering and Listing and Use of Proceeds**

The Company intends to use the estimated net proceeds from the offering of the New Shares in the amount of approximately EUR 1,847 million (assuming an Offer Price at the mid-point of the price range and assuming full placement of the Secondary Shares as well as the full exercise of the Greenshoe Option) for general corporate purposes. In addition, the Company intends to achieve better access to the capital markets due to the planned listing of its shares on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange and, simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard).

The Selling Shareholder has informed us that it intends to reduce its shareholding in our Group through the placement of the Secondary Shares and that it believes that the Offering is in the interest of the Company as the listing of the shares offers new possibilities of raising equity. Notwithstanding, the Selling Shareholder will continue to hold a substantial stake in the Company (at least 70.4% assuming the placement of all New Shares and the full placement of the Secondary Shares as well as a full exercise of the Greenshoe Option).

## 8 DIVIDEND POLICY

### 8.1 General Rules on Allocation of Profits and Dividend Payments

Shareholders have a share in the Company's distributable profits determined in proportion to their interest in the Company's share capital. The participation of new shares in the profits may be determined in a different manner. For a European company (*Societas Europaea* or SE) incorporated in Germany, the distribution of dividends for a given financial year and the amount and payment date thereof are resolved by the shareholders' meeting of the subsequent financial year either upon a joint proposal made by the Management Board and the Supervisory Board or upon a proposal of either the Management Board or the Supervisory Board. The shareholders' meeting, which, among other matters, decides on the distribution of dividends, if any, must be held within the first six months of each financial year.

Dividends may only be distributed if the unconsolidated financial statements of the Company show distributable profits (*Bilanzgewinn*). Compared to the Company's combined and/or consolidated financial statements, which are prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to section 315a German Commercial Code (*Handelsgesetzbuch*), the annual unconsolidated financial statements are prepared in accordance with the accounting principles of the German Commercial Code and other applicable provisions of German law ("**German GAAP**"). These accounting regulations differ from IFRS in material respects.

When determining the distributable profit, the net income or loss for the relevant financial year (*Jahresüberschuss/-fehlbetrag*) must be adjusted for profit/loss carry forwards (*Gewinn-/Verlustvorträge*) from the prior financial year and releases of, or allocations to, reserves. Certain reserves are required to be set up by law, and amounts mandatorily allocated to these reserves in the relevant financial year must be deducted when calculating the distributable profit. The Management Board must prepare financial statements (balance sheet, income statement and notes to the financial statements) and a management report for the previous financial year within a statutory deadline and present these to the Supervisory Board and the auditors immediately after preparation.

At the same time, the Management Board must present to the Supervisory Board a proposal for the allocation of the Company's distributable profit pursuant to Article 61 of the SE Regulation in conjunction with section 170 of the German Stock Corporation Act (*Aktiengesetz*). In addition, according to Article 61 of the SE Regulation in conjunction with section 171 of the German Stock Corporation Act, the Supervisory Board must review the financial statements, the Management Board's management report and the proposal for the allocation of the distributable profit and report to the shareholders' meeting in writing on the results. The Supervisory Board must submit its report to the Management Board within one month of the documents being received. If the Supervisory Board approves the financial statements after its review, these are deemed adopted unless the Management Board and Supervisory Board resolve to assign adoption of the financial statements to the shareholders' meeting. If the Management Board and Supervisory Board choose to allow the shareholders' meeting to adopt the financial statements, or if the Supervisory Board does not approve the financial statements, the Management Board must convene a shareholders' meeting without delay.

The shareholders' meeting's resolution on the allocation of the distributable profit requires a simple majority of votes to be passed. The shareholders' meeting may also resolve that the dividends be distributed partially or entirely in kind, for example as a distribution of treasury stock if held by the Company at that time. The Management Board, subject to the consent of the Supervisory Board, may decide to pay an advance on dividends in compliance with Article 5 of the SE Regulation in conjunction with section 59 of the German Stock Corporation Act. Dividends resolved by the shareholders' meeting are due and payable immediately after the relevant shareholders' meeting, unless provided otherwise in the dividend resolution, in

compliance with the rules of the respective clearing system. Any dividends not claimed within the past three years become time-barred. Once the dividend payment claim is barred by the statute of limitations, the claim passes to the Company.

The Offer Shares will be entitled to profit participation beginning January 1, 2016, i.e., for the full financial year 2016 and for all subsequent financial years. The dividends will be paid out in accordance with the rules of the clearing system of Clearstream Banking AG. Since all of the Company's dividend entitlements are evidenced by one global dividend coupon deposited with Clearstream Banking AG, Clearstream Banking AG transfers the dividends to the shareholders' custodian banks for crediting to their accounts. German custodian banks are under the same obligation to distribute the funds to their customers. Shareholders using a custodian bank located outside Germany must inquire at their respective bank regarding the terms and conditions applicable in their case. Notifications of any distribution of dividends resolved upon are published in the German Federal Gazette (*Bundesanzeiger*) immediately after the shareholders' meeting. To the extent dividends can be distributed by the Company in accordance with the German Commercial Code and corresponding decisions are taken, there are no restrictions on shareholder rights to receive dividends.

Neither German law nor the Company's Articles of Association provide for a special procedure for the exercise of dividend rights by shareholders not resident in Germany.

Generally, withholding tax (*Kapitalertragsteuer*) is withheld from dividends paid. For more information on the taxation of dividends see "24.2.2 Taxation of Dividends", "25.1 Taxation of Income derived from, and Capital Gains realized on, the Company's Shares by Luxembourg resident Taxpayers" and "25.2 Taxation of Income Derived from, and Capital Gains realized on, the Company's Shares by Luxembourg non-resident Taxpayers".

## **8.2 Dividend Policy and Earnings per Share**

The Company's ability and intention to pay dividends in the future will depend on its financial position, results of operations, capital requirements, investment alternatives and other factors that the Management Board and Supervisory Board may deem relevant, and any proposals by the Management Board and Supervisory Board regarding dividend payments will be subject to the approval at the shareholders' meeting. The Company's ability to pay dividends will also depend on its subsidiaries making profits and distributing these to the Company or transferring them to the Company through profit/loss transfer agreements. The determination of each subsidiary's ability to pay dividends is made in accordance with applicable law.

The Company intends to begin paying dividends in respect of the financial year 2016 and, provided that the business performance remains stable, targets a distribution of between 70% and 80% of the adjusted net income in a given financial year as dividends. The adjusted net income does generally not take into account one-off effects, including the entire non-operating result (which comprises also costs associated with the Carve-Out and those related to the Offering), and the associated tax effects. Being a European Company (SE) under the SE Regulation and German law, the Company's ability to pay dividends in future years will depend on the amount of distributable balance sheet profits pursuant to the German GAAP in a given financial year.

We can make no predictions as to the size of future profits available for distribution, or whether distributable profits will be achieved at all, and hence we cannot guarantee that dividends will be paid in the future. Moreover, the Company's results of operations set out in the Audited Combined Financial Statements and Unaudited Interim Consolidated Financial Statements (Condensed), respectively, may not be indicative of the amounts of future dividend payments. In addition, RWE AG and its wholly-owned subsidiary RWE Downstream Beteiligungs GmbH will, on the basis of their remaining aggregate interest in the Company's share capital upon completion of the Offering, determine the Company's dividend policy (see "3.4.1 RWE AG will continue to exercise substantial influence over the Company following the completion of the Offering and the interests of RWE AG might conflict with the interests of other shareholders.").

The table below shows our net income attributable to the owners of the Group and our corresponding net income for the period per share in accordance with IFRS for the financial years ended December 31, 2015, 2014 and 2013 (based on the Audited Combined Financial Statements). The net income per share is calculated on the basis of one share with a notional value of EUR 2.00 in the Company's share capital (on the basis of a share capital in the amount of EUR 1,000,000,000, which represents the share capital of the Company as of the date of the Prospectus), unless otherwise stated. The table also shows the net profit/loss of the Company, on an unconsolidated basis, in accordance with the German Commercial Code for the short financial year from December 11, 2015 to December 31, 2015 based on its Audited Unconsolidated Financial Statements (no dividend has been distributed for this period):

	Financial year ended December 31,		
	2015	2014	2013
	(audited, except as otherwise indicated)		
Net income attributable to the owners of the Group in accordance with IFRS in EUR million <sup>1)</sup> .....	1,613	1,467	664
per share, in EUR (unaudited) <sup>2)</sup> .....	3.226	2.934	1.328
Profit (loss) for the financial year attributable to the Company's shareholders in accordance with the German Commercial Code ( <i>Handelsgesetzbuch</i> ) in EUR million <sup>2)</sup> .....	-0.012	—	—
per share, in EUR (unaudited) <sup>3)</sup> .....	0	—	—

1) It should be noted that especially the line items finance costs and taxes on income as included in these figures are not representative for the respective amounts that will be included under these line items in the future net income of the Group.

2) Figures based on an assumed number of 500,000,000 shares, each with a notional value of EUR 2.00 in the Company's share capital, which corresponds to the number of shares of the Company as of the date of the Prospectus.

3) It should be noted that the Company was established on December 11, 2015. In 2015, the Company had no relevant business, and hence, the profit for the financial year 2015 is not representative for any future profits.

## 9 CAPITALIZATION AND INDEBTEDNESS

### 9.1 Capitalization

The following table shows an overview of our consolidated capitalization (including total debt) as of July 31, 2016 (i) derived from the Company's accounting records prior to the implementation of the Offering, (ii) adjusted to reflect the effects of a full placement of the New Shares (assuming gross issue proceeds of EUR 1,889 million at the mid-point of the price range and costs of the Offering of EUR 42 million, see "7 Reasons for the Offering and Listing, Use of Proceeds and Costs of the Offering and Listing").

	As of July 31, 2016	
	(i) Prior to the implementation of the capital increase and the placement of the New Shares	(ii) Adjusted for the effects of a full placement of the New Shares*
	(unaudited) (in EUR million)	
<b>Total current debt<sup>1)</sup></b>	<b>11,926</b>	<b>11,926</b>
<i>of which, guaranteed<sup>2)</sup></i>	5	5
<i>of which, secured<sup>3)</sup></i>	—	—
<i>of which, unguaranteed/unsecured</i>	11,920	11,920
<b>Total non-current debt (excluding current portion of long-term debt)<sup>4)</sup></b>	<b>25,379</b>	<b>25,379</b>
<i>of which, guaranteed<sup>5)</sup></i>	12,099	12,099
<i>of which, secured<sup>3)</sup></i>	103	103
<i>of which, unguaranteed/unsecured</i>	13,177	13,177
<b>Total debt<sup>6)</sup></b>	<b>37,305</b>	<b>37,305</b>
<b>Shareholders' equity</b>	<b>6,115</b>	<b>7,962</b>
<i>of which, share capital</i>	1,000	1,111
<i>of which, legal reserve<sup>7)</sup></i>	4,321	6,056
<i>of which, other reserves</i>	795	795
<b>Non-controlling interests</b>	<b>1,711</b>	<b>1,711</b>
<b>Total capitalization<sup>8)</sup></b>	<b>45,131</b>	<b>46,978</b>

\* To implement the Offering, an extraordinary shareholders' meeting of the Company on August 30, 2016 resolved to increase the share capital of the company by EUR 111,110,000.00 to EUR 1,111,110,000.00 against contribution in cash by issuing 55,555,000 shares each with a notional value of EUR 2.00. Assuming total costs related to the Offering and the stock exchange listing of approximately EUR 42 million (before taxes), the net proceeds of the Offering at the mid-point of the price range would amount to EUR 1,847 million. The legal reserve is expected to increase by approximately EUR 1,735 million. The approximately EUR 1,735 million represent the net proceeds of the Offering at the mid-point of the price range less the increase of the share capital of the company by EUR 111,110,000.00.

1) Total current debt includes current financial liabilities, trade accounts payable, income tax liabilities as well as other liabilities (including lease liabilities) and other provisions. For a separate presentation of the current financial debt see "9.2 Net Financial Indebtedness".

2) Daily settlement exposure guaranteed by RWE AG.

3) Collateral comprises mortgages and similar rights.

4) Total non-current debt includes non-current financial liabilities, other liabilities (including lease liabilities), deferred taxes, provisions for pensions and similar obligations and other provisions. For a separate presentation of non-current financial indebtedness see "9.2 Net Financial Indebtedness".

5) Mainly bonds issued by innogy Finance B.V. and pension obligations which are guaranteed by RWE AG.

6) Total debt represents the sum of total current debt and total non-current debt.

7) Legal reserve represents additional paid-in capital.

8) Total capitalization represents the sum of total debt and shareholder's equity (including non-controlling interests).

## 9.2 Net Financial Indebtedness

The following table shows an overview of our net financial indebtedness as of July 31, 2016 (i) derived from the Company's accounting records prior to the implementation of the Offering, (ii) adjusted to reflect the effects of a full placement of the New Shares (assuming gross issue proceeds of EUR 1,889 million at the mid-point of the price range and costs of the Offering of EUR 42 million, see "7 Reasons for the Offering and Listing, Use of Proceeds and Costs of the Offering and Listing"), (iii) adjusted for the effects of the initial recognition of certain financial liabilities at fair values as of December 18, 2015 and December 28, 2015 and (iv) adjusted for the combined effects of (ii) and (iii).

As of July 31, 2016				
	(i) Prior to adjustments	(ii) Adjusted for the effects of a full placement of the New Shares*	(iii) Adjusted for the effects of the initial recognition of certain financial liabilities at fair values**	(iv) Adjusted for the combined effects of (ii) and (iii) ("Adjusted Net Financial Indebtedness")
	(unaudited) (in EUR million)			
A. Cash <sup>1)</sup> . . . . .	500	2,347	500	2,347
B. Cash equivalents <sup>2)</sup> . . . . .	24	24	24	24
C. Trading securities . . . . .	1,937	1,937	1,937	1,937
<b>D. Liquidity (A)+(B)+(C) . . . . .</b>	<b>2,462</b>	<b>4,308</b>	<b>2,462</b>	<b>4,308</b>
<b>E. Current financial receivables<sup>3)</sup> . . . . .</b>	<b>220</b>	<b>220</b>	<b>220</b>	<b>220</b>
F. Current bank debt . . . . .	92	92	92	92
G. Current portion of non-current debt . . . . .	0	0	0	0
H. Other current financial debt <sup>4)</sup> . . . . .	1,820	1,820	1,820	1,820
<b>I. Current financial debt (F)+(G)+(H) . . . . .</b>	<b>1,912</b>	<b>1,912</b>	<b>1,912</b>	<b>1,912</b>
<b>J. Net current financial indebtedness (I)-(E)-(D) . . . . .</b>	<b>-769</b>	<b>-2,616</b>	<b>-769</b>	<b>-2,616</b>
K. Non-current bank loans <sup>5)</sup> . . . . .	393	393	393	393
L. Bonds issued <sup>6)</sup> . . . . .	10,802	10,802	9,735	9,735
M. Other non-current loans <sup>7)</sup> . . . . .	4,999	4,999	4,999	4,999
<b>N. Non-current financial indebtedness (K)+(L)+(M) . . . . .</b>	<b>16,194</b>	<b>16,194</b>	<b>15,127</b>	<b>15,127</b>
<b>O. Net financial indebtedness (J)+(N) . . . . .</b>	<b>15,424</b>	<b>13,578</b>	<b>14,358</b>	<b>12,511</b>

\* To implement the Offering, an extraordinary shareholders' meeting of the Company on August 30, 2016 resolved to increase the share capital of the company by EUR 111,110,000.00 to EUR 1,111,110,000.00 against contribution in cash by issuing 55,555,000 shares each with a notional value of EUR 2.00. Assuming total costs related to the Offering and the stock exchange listing of approximately EUR 42 million (before taxes), the net proceeds of the Offering at the mid-point of the price range would amount to EUR 1,847 million. The legal reserve is expected to increase by approximately EUR 1,735 million. The approximately EUR 1,735 million represent the net proceeds of the Offering at the mid-point of the price range less the increase of the share capital of the company by EUR 111,110,000.00.

\*\* In December 2015 in the context of the Carve-Out, we acquired innogy Finance B.V. from RWE AG, including certain Finance Bonds, i.e., twelve outstanding bonds of innogy Finance B.V. denominated in Euro and British Pound Sterling. The aggregate nominal amount of the bonds denominated in Euro at the time of the transfer was EUR 5,380 million. The aggregate nominal amount of the bonds denominated in British Pound Sterling at the time of the transfer was GBP 3,918 million. As innogy Finance B.V. does not constitute a business in accordance with IFRS 3, its acquisition was accounted for as an asset deal. Accordingly, the bonds were initially recognized at their fair values as of the transfer date (December 18, 2015), which exceeded the carrying amount of the bonds as reflected in the consolidated accounts of RWE AG at the time of the transfer. The total difference ('step-up') in our accounts between the recognized value of these bonds and their carrying amount

reflected in the consolidated accounts of RWE AG at the time of the transfer (December 18, 2015) was EUR 1,100 million. Our subsidiary innogy Finance II B.V. assumed the obligations under a EUR 600 million Finance Bond originally issued by RWE AG. In accordance with IAS 39, the transaction was recognized at its fair value as of the transfer date (December 28, 2015), and was recorded with an additional 'step-up' of EUR 145 million in our accounts compared to the carrying amount of the bond as reflected in the consolidated accounts of RWE AG at the time of the transfer. For further information, see "15.17.1.4 Bonds issued by innogy Finance B.V. and innogy Finance II B.V."). We started amortizing the total fair value 'step up' from the date of transfer of innogy Finance B.V. and the bond, respectively. As of July 31, 2016, the remaining fair value 'step-up' of the transactions executed in December 2015 was in aggregate EUR 1,066 million.

- 1) Cash is composed of bank accounts in credit as well as cheques, cash money and central bank balances.
- 2) Cash equivalents include deposits with original maturities of up to three months.
- 3) Current financial receivables are composed of financial receivables against affiliated companies, financial receivables against associates and other investments, leasing receivables as well as financial receivables against third parties.
- 4) Other current financial debt includes current portion of financial liabilities to the RWE Group and non-controlling interests, current other financial liabilities, current finance lease liabilities and financial liabilities to companies in which an interest is held.
- 5) Non-current bank loans includes non-current bank debt.
- 6) Bonds issued includes the bonds issued by innogy Finance B.V. and innogy Finance II B.V.
- 7) Other non-current loans includes non-current financial liabilities to the RWE Group and non-controlling interests, non-current finance lease liabilities, non-current financial liabilities to companies in which an interest is held and non-current other financial liabilities.

### 9.3 Contingent Liabilities and Financial Commitments

As of July 31, 2016, the amount of capital commitments totalled EUR 459 million. In addition, unrecognized commitments to provide loans or other financial support to joint ventures amounted to EUR 82 million as of July 31, 2016.

Commitments from operating leases refer largely to rent and lease contracts for storage and administration buildings. As of July 31, 2016 minimum lease payments have the following maturity structure:

	July 31, 2016 (in EUR million) (unaudited)
Due within 1 year . . . . .	193
Due after 1 to 5 years . . . . .	550
Due after 5 years . . . . .	954
<b>Total . . . . .</b>	<b>1,697</b>

As of July 31, 2016, we did not have any material financial lease liabilities.

We have long-term contractual purchase commitments for supplies of gas, which are mostly based on long-term take-or-pay-contracts. Furthermore, we have long-term financial commitments for purchases of electricity. As of July 31, 2016, the minimum payment obligations stemming from major electricity purchase contracts totalled EUR 1,898 million, of which EUR 329 million is due within one year. Payment obligations stemming from the major long-term gas purchase contracts amounted to EUR 1,278 million as of July 31, 2016, of which EUR 241 million is due within one year.

### 9.4 Working Capital Statement

The Company believes that the innogy Group has sufficient working capital for a minimum of twelve months following the date of the Prospectus to meet its present requirements.

### 9.5 No Significant Change

Between June 30, 2016 and the date of the Prospectus, there have been no significant changes in our financial or trading position. For information on current trading and management's view on full year trends, see "27 Recent Developments and Outlook".

## 10 DILUTION

As of June 30, 2016, the net asset value attributable to the shareholders of the Company in its interim condensed consolidated balance sheet based on the Unaudited Interim Consolidated Financial Statements (Condensed), calculated as total assets less total debt, amounted to EUR 6,004 million, and would amount to EUR 12.01 per share, based on 500,000,000 outstanding shares of the Company immediately before the Offering.

Assuming aggregate net proceeds to the Company from the sale of the New Shares of approximately EUR 1,847 million (see "*7 Reasons for the Offering and Listing, Use of Proceeds and Costs of the Offering and Listing*") the net asset value attributable to the shareholders – had the Company already received the aggregate net proceeds by June 30, 2016 – would have been approximately EUR 7,851 million (based on an Offer Price at the mid-point of the price range); this corresponds to EUR 14.13 per share (calculated, also in each following case, on the basis of 555,555,000 shares outstanding after full implementation of the capital increase regarding the New Shares). That would correspond to a direct dilution of EUR 19.87 per share or 58.4% for the parties acquiring the Offer Shares at the mid-point of the price range. At the low end and high end of the price range, the net asset value attributable to the shareholders would be EUR 13.93 and EUR 14.33 per share, respectively, corresponding to a direct dilution of EUR 18.07 per share or 56.5% and EUR 21.67 per share or 60.2%, respectively.

There is no subscription offer to the existing equity holders.

## 11 SELECTED FINANCIAL AND BUSINESS INFORMATION

*The following selected financial and business information of the Group has been taken or derived from the Audited Combined Financial Statements of the Group as of and for the financial years ended December 31, 2015, 2014 and 2013, from the Unaudited Interim Consolidated Financial Statements (Condensed) as of and for the six-month period ended June 30, 2016 (together the “Financials Statements”) or from our accounting records or management reporting.*

*The Audited Combined Financial Statements as of and for the financial years ended December 31, 2015, 2014 and 2013 were prepared in accordance with IFRS as adopted by the European Union. They have been audited in accordance with International Standards on Auditing by PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft AG, Frankfurt am Main, Germany through its Essen office, Germany (“PwC”), who issued an independent auditor’s report thereon as included in the section of the Prospectus entitled “26 Financial Information” and beginning on page F-1. The Unaudited Interim Consolidated Financial Statements (Condensed) as of and for the six-month period ended June 30, 2016, have been prepared in accordance with IFRS as adopted by the European Union for interim financial reporting (IAS 34). The income statements in the Audited Combined Financial Statements and the Unaudited Interim Consolidated Financial Statements (Condensed) were prepared on the basis of the nature of expense method (Gesamtkostenverfahren). For further details on the legal basis of the preparation of the Audited Combined Financial Statements as of and for the financial years 2015, 2014 and 2013 see the notes to the Audited Combined Financial Statements included in “26 Financial Information”.*

*In the Prospectus, where financial information is labeled “audited”, it means that this information was taken from the Audited Combined Financial Statements as of and for the financial years 2015, 2014 and 2013. The label “unaudited” is used in the Prospectus to indicate financial information that was taken or derived from our accounting records, internal management reporting systems, the Unaudited Interim Consolidated Financial Statements (Condensed) as of and for the six-month period ended June 30, 2016 or has been calculated based on information contained in the Audited Combined Financial Statements or the Unaudited Interim Consolidated Financial Statements (Condensed) as of and for the six-month period ended June 30, 2016.*

*Some tables in this section also present non-GAAP measures (not defined under IFRS). These non-GAAP measures are key figures used by our management to monitor the performance of the Group. Non-GAAP measures not included in the Audited Combined Financial Statements are labeled as “unaudited” in the relevant tables, while non-GAAP measures included in the Audited Combined Financial Statements as of and for the financial years 2015, 2014 and 2013 are labeled “audited” in the relevant tables. For further information, see “4.8 Non-IFRS Measures”. All of the financial data presented in the text and tables below are shown in millions of Euro (in EUR million), except as otherwise stated. Certain financial data (including percentages) in the following tables have been rounded according to established commercial standards, whereby aggregate amounts (sum totals, sub-totals, differences or amounts put in relation) are calculated based on the underlying unrounded amounts. As a result, the aggregate amounts in the following tables may not correspond in all cases to the corresponding rounded amounts contained in the following tables. Furthermore, in those tables, these rounded figures may not add up exactly to the totals shown. A dash (“–”) indicates that no data was reported for a specific line item in the relevant period, while a zero (“0”) is used when the relevant figure, after rounding, amounts to nil.*

*Our historical results are not necessarily indicative of the results that should be expected in the future, and our interim results are not necessarily indicative of the results that should be expected for the full year or any other period. Investors should read the following section together with the additional financial information contained in the Prospectus, in particular in*

the sections on “3 Risk Factors”, “12 Management’s Discussion and Analysis of Net Assets, Financial Position and Operating Results” and “15 Business” contained in the Prospectus, as well as in the financial statements, including the related notes therein, as included in “26 Financial Information” of the Prospectus.

## 11.1 Selected Financial Information from the Financial Statements

### 11.1.1 Selected Income Statement Data

The following table shows selected financial information from our consolidated income statement (condensed) or the six-month periods ended June 30, 2016 and 2015, and from our combined income statement for the financial years ended December 31, 2015, 2014 and 2013:

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited, unless otherwise indicated) (in EUR million)		
<b>Revenue (including natural gas tax/ electricity tax) . . . . .</b>	<b>22,780</b>	<b>23,458</b>	<b>45,568</b>	<b>45,681</b>	<b>48,589</b>
Natural gas tax/electricity tax . . . . .	1,127	1,154	2,112	2,175	2,560
<b>Revenue . . . . .</b>	<b>21,653</b>	<b>22,304</b>	<b>43,456</b>	<b>43,506</b>	<b>46,029</b>
Other operating result <sup>1)</sup> . . . . .	-681	-1,020	-1,719 <sup>2)</sup>	-1,777 <sup>2)</sup>	-1,823 <sup>2)</sup>
Other operating income . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	1,104	986	1,205
Other operating expenses . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	2,823	2,763	3,028
Cost of materials . . . . .	16,701	17,658	34,760	35,160	37,429
Staff costs . . . . .	1,432	1,332	2,736	2,754	2,900
Depreciation, amortization and impairment losses . . . . .	923	641	1,634	1,439	2,150
Income from investments accounted for using the equity method . . . . .	98	121	228	234	215
Other income from investments . . .	51	112	265	166	70
Financial income . . . . .	528	412	578	445	406
Finance costs . . . . .	980	431	880	1,000	973
<b>Income before tax . . . . .</b>	<b>1,613</b>	<b>1,867</b>	<b>2,798</b>	<b>2,221</b>	<b>1,445</b>
Taxes on income . . . . .	356	443	860	523	551
<b>Income . . . . .</b>	<b>1,257</b>	<b>1,424</b>	<b>1,938</b>	<b>1,698</b>	<b>894</b>

1) Other operating income and other operating expenses are aggregated and reported as other operating result in the Unaudited Interim Consolidated Financial Statements (Condensed).

2) Unaudited.

### 11.1.2 Selected Financial Position Data

The following table shows selected financial information from our consolidated balance sheet (condensed) as of June 30, 2016, and from our combined balance sheet as of December 31, 2015, 2014 and 2013:

	As of June 30,	As of December 31,		
	2016	2015	2014	2013
	(unaudited)	(audited, unless otherwise indicated)		
	(in EUR million)	(in EUR million)		
<b>Assets</b> .....	<b>46,703</b>	<b>57,972</b>	<b>56,504</b>	<b>54,813</b>
<b>Non-current assets</b> .....	<b>35,880</b>	<b>38,235</b>	<b>35,649</b>	<b>34,427</b>
Intangible assets .....	11,736	12,178	11,695	11,598
Property, plant and equipment .....	17,552	18,308	17,309	16,980
Investments accounted for using the equity method .....	2,140	2,137	2,379	2,404
Other non-current financial assets .....	581	555	510	478
Receivables and other assets <sup>1)</sup> .....	1,100	3,085 <sup>2)</sup>	1,951 <sup>2)</sup>	1,550 <sup>2)</sup>
Financial receivables .....	— <sup>1)</sup>	2,211	1,458	1,139
Other receivables and other assets .....	— <sup>1)</sup>	866	477	383
Income tax assets .....	— <sup>1)</sup>	8	16	28
Deferred taxes .....	2,771	1,972	1,805	1,417
<b>Current assets</b> .....	<b>10,823</b>	<b>19,737</b>	<b>20,855</b>	<b>20,386</b>
Inventories .....	473	380	491	444
Trade accounts receivable .....	4,431	4,551	5,708	7,086
Receivables and other assets <sup>3)</sup> .....	3,436	12,362 <sup>2)</sup>	11,958 <sup>2)</sup>	10,330 <sup>2)</sup>
Financial receivables .....	— <sup>3)</sup>	10,425	10,316	8,973
Other receivables and other assets .....	— <sup>3)</sup>	1,816	1,478	1,184
Income tax assets .....	— <sup>3)</sup>	121	164	173
Marketable securities .....	1,905	1,894	1,913	1,702
Cash and cash equivalents .....	567	550	475	824
Assets held for sale .....	11	—	310	—
<b>Equity and liabilities</b> .....	<b>46,703</b>	<b>57,972</b>	<b>56,504</b>	<b>54,813</b>
<b>Equity</b> .....	<b>6,004</b>	<b>18,460</b>	<b>18,398</b>	<b>16,989</b>
Total invested equity attributable to the owners of the Group .....	4,280	16,649	16,937	15,654
Non-controlling interests .....	1,724	1,811	1,461	1,335
<b>Non-current liabilities</b> .....	<b>26,354</b>	<b>23,700</b>	<b>21,314</b>	<b>22,259</b>
Provisions for pensions and similar obligations .....	4,485	3,461	4,595	3,582
Other provisions .....	1,627	1,616	1,887	2,038
Financial liabilities .....	17,373	15,291	11,786	13,633
Other liabilities .....	2,182	2,428	2,274	2,186
Deferred taxes .....	687	904	772	820
<b>Current liabilities</b> .....	<b>14,345</b>	<b>15,812</b>	<b>16,792</b>	<b>15,565</b>
Other provisions .....	2,786	2,545	2,613	2,816
Financial liabilities .....	4,142	3,684	4,687	2,872
Trade accounts payable .....	3,385	4,553	4,906	5,357
Other liabilities <sup>4)</sup> .....	4,032	5,030 <sup>2)</sup>	4,586 <sup>2)</sup>	4,520 <sup>2)</sup>
thereof: Income tax liabilities .....	— <sup>4)</sup>	199	194	181

1) Non-current financial receivables, other receivables and other assets and income tax assets are aggregated and reported as non-current receivables and other assets in the Unaudited Interim Consolidated Financial Statements (Condensed).

2) Unaudited.

- 3) Current financial receivables, other receivables and other assets and income tax assets are aggregated and reported as current receivables and other assets in the Unaudited Interim Consolidated Financial Statements (Condensed).
- 4) Income tax liabilities and other liabilities were aggregated and reported as other liabilities in the Unaudited Interim Consolidated Financial Statements (Condensed). Other liabilities as of December 31, 2013, 2014 and 2015 include other liabilities and income tax liabilities as reported in the Audited Combined Financial Statements.

### 11.1.3 Selected Cash Flow Data

The following table shows selected financial information from our consolidated cash flow statement (condensed) for the six-month periods ended June 30, 2016 and 2015, and from our combined cash flow statement for the financial years ended December 31, 2015, 2014 and 2013:

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited) (in EUR million)		
Cash flows from operating activities . . . . .	407	633	2,755	2,977	3,658
Cash flows from investing activities (before initial/subsequent transfer to pension plans) . . . . .	4,929	1,926	-506	-3,175	-2,487
Cash flows from investing activities (after initial/subsequent transfer to pension plans) . . . . .	4,804	1,460	-1,102	-3,685	-2,554
Cash flows from financing activities . . . . .	-5,176	-2,009	-1,593	349	-1,004
Net change in cash and cash equivalents . .	17	96	75	-349	97
Cash and cash equivalents at the end of the reporting period as per the consolidated/combined balance sheet . . . . .	567	517	550	475	824

### 11.1.4 Revenue and Selected Non-Current Assets per Region

	EU			Rest of Europe	Other	innogy Group
	Germany	UK	Other EU			
<b>For the financial year ended December 31, 2015</b>			(audited) (in EUR million)			
External revenue (excl. natural gas tax/ electricity tax) <sup>1)</sup> . . . . .	26,323	9,624	7,480	23	6	43,456
Intangible assets, property, plant and equipment . . . . .	14,373	6,374	9,592	—	147	30,486
<b>For the financial year ended December 31, 2014</b>						
External revenue (excl. natural gas tax/ electricity tax) <sup>1)</sup> . . . . .	26,742	9,290	7,403	69	2	43,506
Intangible assets, property, plant and equipment . . . . .	14,125	6,447	8,296	—	136	29,004
<b>For the financial year ended December 31, 2013</b>						
External revenue (excl. natural gas tax/ electricity tax) <sup>1)</sup> . . . . .	27,133	9,281	9,583	29	3	46,029
Intangible assets, property, plant and equipment . . . . .	14,222	5,848	8,381	—	127	28,578

1) Broken down by the region in which the service was provided.

## 11.2 Operating Result and EBITDA

We use the operating result as central key performance indicator to manage our business. We define our operating result as income before tax excluding the financial result and the non-operating result as defined in "12.5.3 Operating Result and Non-Operating Result".

In addition, we use EBITDA as additional key performance indicator to manage our business. EBITDA is defined as operating result before operating depreciation and amortization. It does not include taxes, the financial result or the non-operating result as defined in "12.5.3 Operating Result and Non-Operating Result". Operating depreciation and amortization does not include non-operating depreciation and amortization, which is presented as part of the non-operating result as defined in "12.5.3 Operating Result and Non-Operating Result".

Operating result and EBITDA are not measures defined under IFRS. As non-IFRS figures, operating result and EBITDA are not presented in accordance with IFRS or any other generally accepted accounting principles. For further information please see "4.8 Non-IFRS Measures".

The following table provides a reconciliation of our EBITDA to the operating result and the income before tax:

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited) (in EUR million)		
<b>EBITDA</b> .....	<b>2,385</b>	<b>2,332</b>	<b>4,521</b>	<b>4,297</b>	<b>4,194</b>
Operating depreciation and amortization <sup>1)</sup> .....	-719	-641	-1,471	-1,438	-1,350
<b>Operating result</b> .....	<b>1,666</b>	<b>1,691</b>	<b>3,050</b>	<b>2,859</b>	<b>2,844</b>
Non-operating result .....	399 <sup>2)</sup>	195 <sup>3)</sup>	50 <sup>4)</sup>	-83 <sup>5)</sup>	-832 <sup>6)</sup>
Financial result .....	-452	-19	-302	-555	-567
<b>Income before tax</b> .....	<b>1,613</b>	<b>1,867</b>	<b>2,798</b>	<b>2,221</b>	<b>1,445</b>

1) Operating depreciation and amortization does not include non-operating depreciation and amortization which is presented as part of the non-operating result as defined in "12.5.3 Operating Result and Non-Operating Result".

2) Including (i) EUR 204 million impairments for the gas storage facilities of the Grid & Infrastructure Segment, (ii) gains in the amount of EUR 352 million resulting from the fair valuation of derivatives and (iii) a gain in the amount of EUR 250 million from a compensation payment in connection with the settlement of gas storage contracts with RWEST.

3) Including (i) gains in the amount of EUR 139 million resulting from the fair valuation of derivatives and (ii) gains from disposals in the amount of EUR 54 million, including a subsequent purchase price payment we received for the sale of shares in the wind offshore project Nordsee One in our Renewables Segment.

4) Including (i) impairments in the amount of EUR 167 million, mainly related to the IT infrastructure in our Retail Segment, specifically relating to our UK operations, (ii) positive effects from restructuring in the amount of EUR 15 million, (iii) gains from disposals in the amount of EUR 65 million and (iv) positive effects from the fair valuation of derivatives in the amount of EUR 135 million.

5) Including (i) effects from restructurings in the amount of negative EUR 103 million, partly related to part-time retiree and early retirement contracts, (ii) gains from disposals in the amount of EUR 33 million, and (iii) effects from the fair valuation of derivatives in the amount of negative EUR 14 million. In 2014, no impairments were recorded as part of the non-operating result.

6) Including (i) impairments in the amount of EUR 799 million (mainly related to our Spanish onshore wind farms in the Renewables Segment in the amount of EUR 266 million, our offshore wind farm Nordsee Ost in the Renewables Segment in the amount of EUR 260 million, and our gas storage assets in the Grid & Infrastructure Segment in the amount of EUR 181 million), (ii) effects from restructurings in the amount of negative EUR 315 million, partly related to part-time retiree and early retirement contracts, (iii) gains from disposals in the amount of EUR 211 million, mainly related to the sale of a customer portfolio in the UK to Telecom Plus in the amount of EUR 199 million, and (iv) effects from the fair valuation of derivatives in the amount of EUR 24 million.

## 11.3 Net Debt

The following table shows the calculation of our net debt ("**Net Debt**"). Net Debt is not a measure defined under IFRS. As non-IFRS figure, it is not presented in accordance with IFRS or any other generally accepted accounting principles. For further information please see "*4.8 Non-IFRS Measures*". Net Debt does not correspond to net financial indebtedness as presented in "*9.2 Net Financial Indebtedness*". For example, net financial indebtedness does not include provisions for pensions and wind farm decommissioning.

	As of July 31, 2016	As of June 30, 2016
	(unaudited) (in EUR million)	
Cash and cash equivalents	524	567
Marketable securities <sup>1)</sup>	1,966	1,930
Other financial assets <sup>2)</sup>	325	1,655
<b>Financial assets (A)<sup>2)</sup></b>	<b>2,816</b>	<b>4,152</b>
Bonds and bank debt	11,265 <sup>3)</sup>	11,396 <sup>4)</sup>
Adjustments for the effects of the initial recognition of certain financial liabilities at fair values <sup>5)</sup>	-1,066	-1,089
Other financial liabilities including intra-group loans	6,819 <sup>6)</sup>	10,096 <sup>7)</sup>
thereof: Intra-group loans extended by RWE AG related to debt push-down <sup>8)</sup>	4,988 <sup>9)</sup>	6,004
<b>Adjusted financial liabilities (B)</b>	<b>17,018</b>	<b>20,403</b>
Provisions for pensions and similar obligations (C)	4,659	4,470 <sup>10)</sup>
Provisions for wind farm decommissioning (D)	322	323
<b>Net Debt (B)-(A)+(C)+(D)</b>	<b>19,182</b>	<b>21,044</b>

1) Marketable securities also includes non-current securities of EUR 25 million (as of June 30, 2016) and EUR 29 million (as of July 31, 2016).

2) Includes current and non-current financial receivables adjusted for loans against associates and unconsolidated subsidiaries.

3) Thereof EUR 10,802 million of senior bonds (i.e., the "**Finance Bonds**" described and defined in "*15.17.1.4 Bonds issued by innogy Finance B.V. and innogy Finance II B.V.*") (includes EUR 1,066 million of 'step-up' as a result of the initial recognition of certain financial liabilities at fair values; see footnote 5 below). Also includes bank debt (EUR 485 million) mainly related to the financing of consolidated companies that do not participate in the joint cash pool and foreign currency hedge transactions related to intercompany loans (negative EUR 22 million).

4) Thereof EUR 10,922 million of Finance Bonds (includes EUR 1,089 million 'step-up' as a result of the initial recognition of certain financial liabilities at fair values; see footnote 5 below). Also includes bank debt (EUR 497 million) mainly related to the financing of consolidated companies that do not participate in the joint cash pool and foreign currency hedge transactions related to intercompany loans (negative EUR 23 million).

5) In December 2015 in the context of the Carve-Out, we acquired innogy Finance B.V. from RWE AG, including certain Finance Bonds, i.e., twelve outstanding bonds of innogy Finance B.V. denominated in Euro and British Pound Sterling. The aggregate nominal amount of the bonds denominated in Euro at the time of the transfer was EUR 5,380 million. The aggregate nominal amount of the bonds denominated in British Pound Sterling at the time of the transfer was GBP 3,918 million. As innogy Finance B.V. does not constitute a business in accordance with IFRS 3, its acquisition was accounted for as an asset deal. Accordingly, the bonds were initially recognized at their fair values as of the transfer date (December 18, 2015), which exceeded the carrying amount of the bonds as reflected in the consolidated accounts of RWE AG at the time of the transfer. The total difference ('step-up') in our accounts between the recognized value of these bonds and their carrying amount reflected in the consolidated accounts of RWE AG at the time of the transfer (December 18, 2015) was EUR 1,100 million. Our subsidiary innogy Finance II B.V. assumed the obligations under a EUR 600 million Finance Bond originally issued by RWE AG. In accordance with IAS 39, the transaction was recognized at its fair value as of the transfer date (December 28, 2015), and was recorded with an additional 'step-up' of EUR 145 million in our accounts compared to the carrying amount of the bond as reflected in the consolidated accounts of RWE AG at the time of the transfer. For further information, see "*15.17.1.4 Bonds issued by innogy Finance B.V. and innogy Finance II B.V.*"). We started amortizing the total fair value 'step up' from the date of transfer of innogy Finance B.V. and the bond, respectively. As of June 30, 2016, the remaining fair value 'step-up' of the transactions executed in December 2015 was in aggregate EUR 1,089 million, i.e., EUR 156 million lower than the originally recognized amount as a result of the amortization and foreign exchange effects.

6) Includes EUR 5,998 million of intra-group financings granted by RWE Group, out of which EUR 4,988 million of intra-group loans extended by RWE AG are related to the debt push-down (see "*15.17.1.5 Intra-Group Loan Agreements*"). The remaining intra-group financings of EUR 1,010 million mainly comprise cash pool liabilities with relatively low cost of debt. Between June 30, 2016 and July 31, 2016, such cash pool liabilities owed to RWE AG were reduced by EUR 900 million as a result of the application of proceeds from a cash capital contribution by RWE AG effected in July 2016. In addition, certain intra-group liabilities were settled against intra-group receivables included in other financial assets.

7) Includes EUR 9,162 million of intra-group financings granted by RWE Group, out of which EUR 6,004 million of intra-group loans extended by RWE AG are related to the debt push-down (see "*15.17.1.5 Intra-Group Loan Agreements*"). The remaining intra-group financings mainly comprise cash pool liabilities with relatively low cost of debt.

- 8) Debt related to economic assumption of certain debt instruments from RWE AG, including six bonds issued by RWE AG in private placement transactions and two separate finance contracts with the European Investment Bank. While these eight instruments were not legally transferred to the Group, all rights and obligations of RWE AG under or in connection with the finance transactions were economically passed on to the Company under intra-group loan agreements. Some of these intra-group loan agreements include an agio on the outstanding nominal amount of the underlying debt instrument reflecting the difference between the fair market value of such instrument as at June 13, 2016 and the carrying amount of the underlying debt instrument as reflected in the consolidated accounts of RWE AG and accrued interest. For further information see "15.17.1.5 Intra-Group Loan Agreements").
- 9) The reduction primarily relates to the EUR 1,009 million debt-to-equity swap, in which certain loans (including accrued interest) were contributed to the capital reserve of the Company and ceased to exist with effect as of July 31, 2016.
- 10) Includes surplus of plan assets over benefit obligation in the amount of EUR 15 million.

## 11.4 Segment Information

The following tables show selected key line items and other financial measures from the segment reporting of the Unaudited Interim Consolidated Financial Statements (Condensed), and from the Audited Combined Financial Statements. The financial information is organized by reportable segment and is broken down by operating segment (if applicable). Financial information on the level of our operating segments has been derived from our accounting records or management reporting and has not been audited or reviewed.

### 11.4.1 Grid & Infrastructure Segment

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited, unless otherwise indicated) (in EUR million)		
<b>Operating result Grid &amp; Infrastructure Segment</b> .....	<b>916</b>	<b>956</b>	<b>1,930</b>	<b>1,904</b>	<b>1,938</b>
G&I Germany <sup>1)</sup> .....	636	700	1,282	1,453	1,331
G&I East <sup>1)</sup> .....	280	256	648	451	607
<b>Operating depreciation and amortization Grid &amp; Infrastructure Segment</b> .....	<b>441</b>	<b>417</b>	<b>948</b>	<b>957</b>	<b>852</b>
G&I Germany <sup>1)</sup> .....	318	323	734	769	668
G&I East <sup>1)</sup> .....	123	94	214	188	184
<b>EBITDA Grid &amp; Infrastructure Segment</b> .....	<b>1,357</b>	<b>1,373</b>	<b>2,878</b>	<b>2,861</b>	<b>2,790</b>
G&I Germany <sup>1)</sup> .....	954	1,023	2,016	2,222	1,999
G&I East <sup>1)</sup> .....	403	350	862	639	791
<b>Thereof: Operating income from investments</b> .....	<b>—<sup>2)</sup></b>	<b>—<sup>2)</sup></b>	<b>294</b>	<b>301</b>	<b>299</b>
G&I Germany <sup>1)</sup> .....	— <sup>2)</sup>	— <sup>2)</sup>	233 <sup>3)</sup>	251 <sup>4)</sup>	254 <sup>5)</sup>
G&I East <sup>1)</sup> .....	— <sup>2)</sup>	— <sup>2)</sup>	61 <sup>6)</sup>	50	45
<b>Thereof: Special items<sup>1)</sup></b> .....	<b>59</b>	<b>58</b>	<b>296</b>	<b>187</b>	<b>63</b>
G&I Germany <sup>1), 7)</sup> .....	59	58	153	187	63
G&I East <sup>1), 8)</sup> .....	—	—	143	—	—
<b>Capital expenditure on intangible assets, property, plant and equipment Grid &amp; Infrastructure Segment<sup>9)</sup></b> .....	<b>371</b>	<b>370</b>	<b>1,305</b>	<b>1,131</b>	<b>1,117</b>
G&I Germany <sup>1)</sup> .....	258	284	968	856	841
G&I East <sup>1)</sup> .....	113	86	337	275	276

1) Figures on operating segment level (G&I Germany and G&I East) and thereof items are unaudited.

2) In the Unaudited Interim Consolidated Financial Statements (Condensed), operating income from investments is not separately reported for reportable or operating segments. The operating income from investments of the Group for the

six-month period ended June 30, 2016 was EUR 146 million. The operating income from investments of the Group for the six-month period ended June 30, 2015 was EUR 158 million.

- 3) Including EUR 20 million resulting from book gains from grid disposals and also reported as special item in the table above; see "12.6.1.2.3 Operating Result and EBITDA (Grid & Infrastructure Segment) – Germany" for further details.
- 4) Including EUR 43 million resulting from book gains from grid disposals and also reported as special item in the table above; see "12.6.1.2.3 Operating Result and EBITDA (Grid & Infrastructure Segment) – Germany" for further details.
- 5) Including EUR 7 million resulting from book gains from grid disposals and also reported as special item in the table above; see "12.6.1.2.3 Operating Result and EBITDA (Grid & Infrastructure Segment) – Germany" for further details.
- 6) Including EUR 20 million resulting from book gain from revaluation of the participation in connection with the first-time full consolidation of VSE Holding and also reported as special item in the table above; see "12.6.1.2.3 Operating Result and EBITDA (Grid & Infrastructure Segment) – Eastern Europe" for further details.
- 7) Book gains from grid disposals, see "12.6.1.1.3 Operating Result and EBITDA (Grid & Infrastructure Segment) – Germany" and "12.6.1.2.3 Operating Result and EBITDA (Grid & Infrastructure Segment) – Germany" for further details.
- 8) Book gain resulting from revaluation of the participation in connection with the first-time full consolidation of VSE Holding, see "12.6.1.2.3 Operating Result and EBITDA (Grid & Infrastructure Segment) – Eastern Europe" for further details.
- 9) Excluding financial investments.

#### 11.4.2 Retail Segment

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited, unless otherwise indicated) (in EUR million)		
<b>Operating result Retail Segment</b>					
<b>Segment</b>	<b>640</b>	<b>616</b>	<b>830</b>	<b>907</b>	<b>931</b>
Retail Germany <sup>1)</sup>	276	299	545	358	255
Retail NL/BE <sup>1)</sup>	136	141	194	138	198
Retail East <sup>1)</sup>	143	123	228	184	188
Retail UK <sup>1)</sup>	85	53	-137	227	290
<b>Operating depreciation and amortization Retail Segment</b>	<b>106</b>	<b>69</b>	<b>158</b>	<b>162</b>	<b>182</b>
Retail Germany <sup>1)</sup>	20	17	38	36	24
Retail NL/BE <sup>1)</sup>	21	20	42	53	59
Retail East <sup>1)</sup>	12	2	6	6	23
Retail UK <sup>1)</sup>	53	30	72	67	76
<b>EBITDA Retail Segment</b>	<b>746</b>	<b>685</b>	<b>988</b>	<b>1,069</b>	<b>1,113</b>
Retail Germany <sup>1)</sup>	296	316	583	394	279
Retail NL/BE <sup>1)</sup>	157	161	236	191	257
Retail East <sup>1)</sup>	155	125	234	190	211
Retail UK <sup>1)</sup>	138	83	-65	294	366
<b>Thereof: Operating income from investments</b>	<b>—<sup>2)</sup></b>	<b>—<sup>2)</sup></b>	<b>19</b>	<b>8</b>	<b>8</b>
<b>Thereof: Special items<sup>1)</sup></b>	<b>—</b>	<b>—</b>	<b>-77</b>	<b>15</b>	<b>-134</b>
Retail Germany <sup>1), 3)</sup>	—	—	—	—	-142
Retail NL/BE <sup>1)</sup>	—	—	—	—	—
Retail East <sup>1), 4)</sup>	—	—	42	—	—
Retail UK <sup>1), 5)</sup>	3	-87	-119	15	8
<b>Capital expenditure on intangible assets, property, plant and equipment Retail Segment<sup>6)</sup></b>	<b>100</b>	<b>94</b>	<b>287</b>	<b>212</b>	<b>158</b>
Retail Germany <sup>1)</sup>	23	14	53	46	29
Retail NL/BE <sup>1)</sup>	16	11	25	9	14
Retail East <sup>1)</sup>	16	4	20	9	9
Retail UK <sup>1)</sup>	45	65	189	148	106

1) Figures on operating segment level (Retail Germany, Retail NL/BE, Retail East and Retail UK) and thereof items are unaudited.

- 2) In the Unaudited Interim Consolidated Financial Statements (Condensed), operating income from investments is not separately reported for reportable or operating segments. The operating income from investments of the Group for the six-month period ended June 30, 2016 was EUR 146 million. The operating income from investments of the Group for the six-month period ended June 30, 2015 was EUR 158 million.
- 3) Realized losses in our hedge book under IFRS accounting. See "12.6.2.2.3 Operating Result and EBITDA (Retail Segment) – Germany" for further details.
- 4) Book gain from the revaluation as a result of the first-time full consolidation of VSE Holding in Slovakia. See "12.6.2.2.3 Operating Result and EBITDA (Retail Segment) – Eastern Europe" for further details.
- 5) Includes net effects related to charges concerning erroneous and historical late invoicing and the build-up of provisions for regulatory charges and reviews and net effects related to billing issues due to changes in revenue estimation. See "12.6.2.1.3 Operating Result and EBITDA (Retail Segment) – United Kingdom" and "12.6.2.2.3 Operating Result and EBITDA (Retail Segment) – United Kingdom" for further details.
- 6) Excluding financial investments.

### 11.4.3 Renewables Segment

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited, unless otherwise indicated) (in EUR million)		
<b>Operating result Renewables Segment</b> . . . . .	<b>219</b>	<b>234</b>	<b>488</b>	<b>253</b>	<b>200</b>
<b>Operating depreciation and amortization Renewables Segment</b> . . . . .	<b>157</b>	<b>137</b>	<b>330</b>	<b>271</b>	<b>248</b>
<b>EBITDA Renewables Segment</b> . . . . .	<b>376</b>	<b>371</b>	<b>818</b>	<b>524</b>	<b>448</b>
Thereof: Operating income from Investments . . . . .	— <sup>2)</sup>	— <sup>2)</sup>	102 <sup>1)</sup>	-3	-44
Thereof: Special items <sup>3), 4)</sup> . . . . .	20	51	117	99	-20
<b>Capital expenditure on intangible assets, property, plant and equipment Renewables Segment<sup>5)</sup></b> . . . . .	<b>89</b>	<b>178</b>	<b>404</b>	<b>677</b>	<b>975</b>

- 1) Including EUR 87 million resulting from book gains from the disposal of a 75% share in the Galloper offshore wind project and also reported as special item in the table above; see "12.6.3.2.3 Operating Result and EBITDA (Renewables Segment)" for further details.
- 2) In the Unaudited Interim Consolidated Financial Statements (Condensed), operating income from investments is not separately reported for reportable or operating segments. The operating income from investments of the Group for the six-month period ended June 30, 2016 was EUR 146 million. The operating income from investments of the Group for the six-month period ended June 30, 2015 was EUR 158 million.
- 3) Unaudited.
- 4) These special items comprise: (i) gains from disposal of stakes in Galloper and Triton Knoll wind farms (2015 and 2016), (ii) gains from the disposal of run-off-river plants in Germany (2016), (iii) gain from disposal of Gwynt y Môr grid connection (2015), (iv) special income from claims in connection with the construction of Nordsee Ost wind farm (2014 and 2015), and (v) losses from development projects UK (2013, 2014 and 2015). See "12.6.3.1.3 Operating Result and EBITDA (Renewables Segment)" and "12.6.3.2.3 Operating Result and EBITDA (Renewables Segment)" for further details.
- 5) Excluding financial investments.

#### 11.4.4 Consolidation and Other

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited) (in EUR million)		
<b>Operating result</b> . . . . .	109	-115	-198	-205	-225
<b>Operating depreciation and amortization</b> . . . . .	15	18	35	48	68
<b>EBITDA</b> . . . . .	-94	-97	-163	-157	-157
<b>Capital expenditure on intangible assets, property, plant and equipment<sup>1)</sup></b> . . . . .	20	10	28	40	52

1) Excluding financial investments.

### 11.5 Adjusted Net Income

Adjusted net income does generally not take into account one-off effects, including the entire non-operating result, and the associated tax effects. We intend to use adjusted net income as a measure for determining distributions under our dividend policy.

Adjusted net income and operating result are not measures defined under IFRS. As non-IFRS figures, they are not presented in accordance with IFRS or any other generally accepted accounting principles. For further information please see "4.8 Non-IFRS Measures".

The following table shows the calculation of our adjusted net income for the six-month period ended June 30, 2016. It corresponds to the calculation of our net income adjusted for the non-operating result (which also comprises costs associated with the Carve-Out and those related to the Offering), effects related to the fair value 'step-up' and effects related to the Carve-Out included in the financial result. For purposes of calculating adjusted net income, we apply a 'normalized tax rate' of 25%. The 'normalized tax rate' is the effective tax rate that we expect to have on a going forward basis in the absence of one-off effects, while our actual effective tax rate was 22% in the period ended June 30, 2016.

	Reported figures for the six-month period ended June 30, 2016	Adjustment  (unaudited) (in EUR million)	Adjusted figures for the six-month period ended June 30, 2016
Operating result <sup>1)</sup> . . . . .	1,666	—	1,666
Non-operating result . . . . .	399	-399	—
Financial result . . . . .	-452	9	-443
Income before tax . . . . .	1,613	-390	1,223
Taxes on income . . . . .	-356	50 <sup>2)</sup>	-306
Effective tax rate . . . . .	22%	—	25% <sup>3)</sup>
Income . . . . .	1,257	-340	917
of which: non-controlling interests . . . .	177	—	177
Net income . . . . .	1,080	-340	740 <sup>4)</sup>

1) For a more detailed reconciliation of operating result to income before tax, please see the table under "11.2 Operating Result and EBITDA" above.

2) Tax adjustments to achieve a normalized tax rate of 25% for the six-month period ended June 30, 2016, which is the effective tax rate that we expect to have on a going forward basis in the absence of one-off effects.

3) For a discussion of our historic tax rates, see "12.7.1.9 Taxes on Income" and "12.7.2.11 Taxes on Income".

- 4) Adjusted net income for the six-month period ended June 30, 2016. The strong development of adjusted net income in the six-month period ended June 30, 2016 may not be representative for the adjusted net income in respect of the full financial year 2016. See also "12.5.4 EBITDA" for a discussion of our EBITDA of EUR 2,385 million for the six-month period ended June 30, 2016 and a reconciliation to the operating result and income before tax and "13.3.1 Overview of EBITDA Forecast for the Group's three Segments Grid & Infrastructure, Retail and Renewables and the Group" for our EBITDA Forecast 2016 (as defined therein).

The following table provides additional information on the composition and the adjustments to the financial result for the six-month period ended June 30, 2016 shown in the preceding table.

	Reported figures for the six-month period ended June 30, 2016	Adjustment (unaudited) (in EUR million)	Adjusted figures for the six-month period ended June 30, 2016
Interest income <sup>1)</sup> . . . . .	149	—	149
Interest expense <sup>2)</sup> . . . . .	-487	63	-424
thereof: Effect related to 'step-up' (amortization) <sup>3)</sup> . . . . .	95	-95	—
thereof: Effects resulting from Carve- Out transactions <sup>4)</sup> . . . . .	-158	158	—
<b>Net interest</b> . . . . .	<b>-338</b>	<b>63</b>	<b>-275</b>
Interest accretion to non-current provisions <sup>5)</sup> . . . . .	-51	—	-51
Other financial result <sup>6)</sup> . . . . .	-63	-54	-117
thereof: effect related to 'step-up' (foreign currency exchange effect) <sup>3)</sup> . .	54	-54	—
<b>Financial result</b> . . . . .	<b>-452</b>	<b>9</b>	<b>-443</b>

- 1) Interest income included primarily income from financial receivables from RWE AG that were settled in the six-month period ended June 30, 2016 and from marketable securities with a book value of EUR 1,930 million.
- 2) Includes interest for Finance Bonds (included in bonds and bank debt shown in the net debt table above) at average cost of debt of approximately 5% p.a. and, to a small extent, for loans granted by RWE AG to innogy Group in June 2016 (shown as intra-group loans extended by RWE AG related to debt push-down in the net debt table above) at average cost of debt of less than 2% p.a.
- 3) Amortization from 'step-up' in book value of Finance Bonds (see footnote 2) of the net debt table under "11.3 Net Debt" above). As the terms and conditions of the Finance Bonds, and more specifically the repayment amount and interest rates owed thereunder, were not affected by the transfer of innogy Finance B.V. and the assumption of the EUR 600 million Finance Bond, the 'step-up' is expected to amortize in our accounts over the term of the Finance Bonds.
- 4) Including losses in the amount of EUR 120 million due to the early redemption of intercompany loans. In the context of the Carve-Out, we paid an amount of EUR 2,062 million, which represented the fair value at the date of the transaction, to redeem early non-current loans with a nominal amount of EUR 1,942 million. In addition, we realized losses in the amount of EUR 38 million from the amortization of a balance-sheet 'step-up' of a loan granted to RWE AG (financial receivable).
- 5) Includes mainly interest accretion to provisions for pensions and similar obligations and other non-current provisions.
- 6) Includes effects related to the 'step-up' of EUR 54 million, net gains on the disposal of marketable securities of negative EUR 47 million and interest related to put options of negative EUR 27 million.

## 12 MANAGEMENT'S DISCUSSION AND ANALYSIS OF NET ASSETS, FINANCIAL POSITION AND OPERATING RESULTS

*The following discussion and analysis of our financial condition and operating results should be read in conjunction with the sections "11 Selected Financial and Business Information", "3 Risk Factors", "15 Business" and our Audited Combined Financial Statements as of and for the financial years ended December 31, 2015, 2014 and 2013, and the related notes included therein, and our Unaudited Interim Consolidated Financial Statements (Condensed) as of and for the six-month period ended June 30, 2016, and the related notes therein (together the "Financial Statements"), which are contained in the Prospectus. For further information on the financial statements, see also "4.6 Note on Currency", "4.7 Note Regarding the Presentation of Certain Financial Information" and "26 Financial Information".*

*The Audited Combined Financial Statements as of and for the financial years ended December 31, 2015, 2014 and 2013 were prepared in accordance with IFRS as adopted by the European Union. They have been audited in accordance with International Standards on Auditing by PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft AG, Frankfurt am Main, Germany through its Essen office, Germany ("PwC"), who issued an independent auditor's report thereon as included in the section of the Prospectus entitled "26 Financial Information" and beginning on page F-1. The Unaudited Interim Consolidated Financial Statements (Condensed) as of and for the six-month period ended June 30, 2016, have been prepared in accordance with IFRS as adopted by the European Union for interim financial reporting (IAS 34). The income statements in the Audited Combined Financial Statements and the Unaudited Interim Consolidated Financial Statements (Condensed) were prepared on the basis of the nature of expense method (Gesamtkostenverfahren). For further details on the legal basis of the preparation of the Audited Combined Financial Statements as of and for the financial years 2015, 2014 and 2013 see the notes to the Audited Combined Financial Statements included in "26 Financial Information".*

*A series of assumptions and estimates were made in the preparation of the Audited Combined Financial Statements as of and for the financial years 2015, 2014 and 2013 which go beyond those typically made in the preparation of consolidated financial statements and affect the recognition and amount of assets and liabilities, income and expenses and contingent liabilities, including in particular in relation to income taxes. Our structure and business activities have experienced substantial changes in recent periods in the context of the separation from the Former RWE Group. The Audited Combined Financial Statements include companies that are part of the Group after the legal reorganization, i.e., after completion of the transfer of businesses from the Former RWE Group to the Group on June 30, 2016. However, the Audited Combined Financial Statements do not claim to represent the net assets, financial position and operating results or cash flows that would have resulted had the Group existed in its current form since January 1, 2013, nor can the net assets, financial position and operating results or cash flows be extrapolated for future periods or a future reporting date.*

*Certain information in the discussion below includes forward-looking statements. Since such statements involve inherent uncertainties, actual results may materially differ from the results described in or implied by such forward-looking statements. See "3 Risk Factors", "4.3 Forward-Looking Statements" and "15 Business" for a discussion of important factors that can cause actual results to materially differ from the results described in or implied by these forward-looking statements.*

*In the Prospectus, where financial information is labeled "audited", it means that this information was taken from the Audited Combined Financial Statements as of and for the financial years 2015, 2014 and 2013. The label "unaudited" is used in the Prospectus to indicate financial information that was taken or derived from our accounting records, internal management reporting systems, the Unaudited Interim Consolidated Financial Statements (Condensed) as of and for the six-month period ended June 30, 2016 or has been calculated*

*based on information contained in the Audited Combined Financial Statements or the Unaudited Interim Consolidated Financial Statements (Condensed) as of and for the six-month period ended June 30, 2016.*

*Some tables in this section also present non-GAAP measures (not defined under IFRS). These non-GAAP measures are key figures used by our management to monitor the performance of the Group. Non-GAAP measures not included in the Audited Combined Financial Statements are labeled as "unaudited" in the relevant tables, while non-GAAP measures included in the Audited Combined Financial Statements as of and for the financial years 2015, 2014 and 2013 are labeled "audited" in the relevant tables. For further information, see "4.8 Non-IFRS Measures" and "11.2 Operating Result and EBITDA". All of the financial data presented in the text and tables below are shown in millions of Euro (in EUR million), except as otherwise stated. Certain financial data (including percentages) in the following tables have been rounded according to established commercial standards, whereby aggregate amounts (sum totals, sub-totals, differences or amounts put in relation) are calculated based on the underlying unrounded amounts. As a result, the aggregate amounts in the following tables may not correspond in all cases to the corresponding rounded amounts contained in the following tables. Furthermore, in those tables, these rounded figures may not add up exactly to the totals shown. A dash ("–") indicates that no data was reported for a specific line item in the relevant financial year or period, while a zero ("0") is used when pertinent figure, after rounding, amounts to nil.*

## **12.1 Overview**

The innogy Group is one of Europe's leading distributors and suppliers of electricity and gas and an experienced producer of electricity from renewable energy sources with a diversified and well-invested asset base. Anchored in the attractive German market with leading positions in many European countries, as of December 31, 2015 we operated around 570,000 km of electricity and gas grids serving approximately 16.5 million grid customers in Germany and four Eastern European countries, had contracts for the sale of electricity and gas with 23 million customers in eleven European countries and generated electricity from renewable sources in nine European countries with a total generation capacity of 3.6 GW (according to accounting view as defined below, 3.3 GW thereof attributable to our Renewables Segment with the remainder included in our Grid & Infrastructure Segment) and total energy production in 2015 of 10.3 TWh. In 2015, the Group generated EBITDA of EUR 4.5 billion.

The Group was formed in a series of transactions that separated the grid & infrastructure, retail and renewables businesses of RWE AG and its direct and indirect subsidiaries and participations from their conventional and nuclear power generation and trading activities. As such, we are well-positioned to exploit the opportunities of the ongoing energy transition.

We report our grid activities as part of our Grid & Infrastructure Segment, which also includes our participations, that are mostly related to the grid business, as well as other activities including gas storage facilities. Given the nature of electricity and gas distribution grids, that function as natural monopolies in their respective regions, our grid business is highly regulated. The regulatory bodies in each jurisdiction in which we operate our grid business determine the rate that we are allowed to earn, which results in stable and predictable earnings. Our Aggregate RAB across all countries in which our grid business is active amounts to approximately EUR 13.3 billion (based on the latest notifications from, or filings with, the relevant regulator) with an implied or regulated pre-tax WACC that varies, from country to country, from currently 5.675% to 7.94%. We operate under regulatory regimes with stable revenues for our largest markets. In Germany, for example, new regulatory periods will only start in 2018 for gas and 2019 for electricity. Although uncertainty exists with respect to some of the regulatory parameters for the next regulatory period and how they will affect us, we expect our Aggregate RAB in Germany to increase by up to 9% on the basis of our actual and planned net investments between 2011 and the end of 2016. In 2015, Grid & Infrastructure generated EBITDA of EUR 2.9 billion, of which more than 80% was generated from regulated activities.

We report our retail activities in our Retail Segment. We are a leading retailer of electricity, gas and associated products and services. In addition to our commodity electricity and gas retail business, we offer non-commodity Energy+ and electric vehicle infrastructure services in more than 20 countries to customers with more developed and diverse energy needs. We are undergoing a comprehensive restructuring and efficiency improvement program in the UK with targeted gross cost savings of GBP 200 million (calculated on the basis of the cost base for 2015) to improve our operational and financial performance. In 2015, our Retail Segment generated EBITDA of EUR 1.0 billion.

Our Renewables Segment is active along the entire value chain of developing, constructing, owning and operating production facilities generating electricity and – to a small extent – heat and biomethane from renewable energy sources as well as the production of wood pellets. Our installed electricity generation capacity is diversified and mainly comprises onshore and offshore wind farms and, to a lesser extent, hydroelectric power plants with a focus on Germany and the United Kingdom. We continue to benefit, to varying degrees, from support schemes and fixed feed-in tariffs that provide predictability of prices and insulate us from wholesale price fluctuations. The average remaining tenor of quasi-regulated earnings from our renewable assets is around twelve years. As of December 31, 2015, our development and construction pipeline comprised projects having a total projected capacity of 0.3 GW under construction as well as an additional 4.1 GW under development (both according to pro-rata view). Our Renewables Segment, which also includes biomass and biogas energy production facilities and limited solar operations that we plan to expand, generated EBITDA of EUR 0.8 billion in 2015. Approximately 60% of the Renewables EBITDA resulting from the operation of assets was generated from quasi-regulated earnings.

We have a very diversified customer base. In 2015, 2014 and 2013, no single customer contributed more than 1% to our revenue. With the exception of commodity supply which is received from RWE Supply & Trading GmbH ("**RWEST**") (see "*15.17.3 Electricity and Gas Supply Agreements*"), our supplier base is well diversified. No single supplier had a share equal to more than 10% of our cost of materials in the years 2015, 2014 or 2013.

Maintaining a well-invested asset base yielding largely regulated and predictable returns is one of our top priorities. During the financial years 2013 to 2015, we made capital expenditures of EUR 6.4 billion in aggregate, with our Grid & Infrastructure Segment accounting for more than half of the total capital expenditures. In this segment, we focused on improving and expanding our asset base and components to upgrade our network into a smart, digital distribution grid and to ensure safe and stable grid operations, positioning us to play a central role in the ongoing energy transition. In our Retail Segment, which is based on a business model requiring limited capital expenditure, we invested primarily into our Energy+ business and IT infrastructure. In our Renewables Segment, we invested in the construction of our project pipeline focused on wind farm projects.

## 12.2 Segmentation

We manage our business through three reportable segments, "Grid & Infrastructure", "Retail" and "Renewables". The segments were defined based on the internal reporting to the Management Board as the chief operating decision maker of the Group. For the purpose of preparing the Financial Statements, segment reporting as implemented from the beginning of the operational business activities of the Group on April 1, 2016 was retrospectively applied for the periods under review.

The internal reporting and management of the Group is based on regional and functional principles. The Group is divided into seven operating segments consistent with their economic characteristics and functional principles. The seven operating segments are aggregated into three reportable segments in accordance with IFRS 8.

Our reportable segment Grid & Infrastructure combines our operating segments Grid & Infrastructure Germany ("**G&I Germany**") and Grid & Infrastructure Eastern Europe ("**G&I East**") which show similar economic characteristics in the operating, planning, maintenance as well as development and reconstruction of distribution networks for electricity and gas. Due to EU directives and regulations, the regulatory environment is comparable. The Grid & Infrastructure Segment includes our gas storage business as well as our portfolio of around 370 minority shareholdings in participations, including more than 100 participations in municipal utilities (public or public-private companies in which one or more municipalities hold a majority interest, and which provide certain utility services, e.g., regarding the basic supply of electricity, gas or water, "**Stadtwerke**") and approximately 200 participations in other municipal energy and service providers in Germany. In addition, we participate in around 70 joint grid operating companies with a growing number of municipal partners.

Our reportable segment Retail combines our retail operating segments in Germany ("**Retail Germany**"), in the Netherlands and Belgium ("**Retail NL/BE**"), in our Eastern European countries ("**Retail East**") and in the United Kingdom ("**Retail UK**"), which currently show similar economic characteristics, in particular the supply of electricity and gas products to B2B and B2C customers, as well as a comparable regulatory environment due to EU legislation.

The reportable and operating segment Renewables mainly captures developing, constructing, owning and operating production facilities generating electricity and, to a small extent, heat, wood pellets as well as biomethane from renewable energy sources. The segment has a large asset base especially in Germany and the United Kingdom.

"Other, consolidation" covers consolidation effects and the activities of other business areas which are not presented separately. These activities include the internal group services. Moreover, overhead costs that are not allocated to a particular reportable segment are presented here.

## **12.3 Preparation of the Combined Financial Statements**

### **12.3.1 Separation from RWE AG**

On December 1, 2015, RWE AG announced its plan to bundle its grid & infrastructure, retail and renewables businesses into a new subsidiary and list the shares of this subsidiary on the stock exchange.

For this purpose, the Company was founded in December 2015, in the form of a stock corporation (*Aktiengesellschaft*) under German law and with the legal name "RWE Downstream Aktiengesellschaft". With effect from March 11, 2016, the Company changed its legal form to a European company (*Societas Europaea* or SE) by way of a cross-border merger. On September 1, 2016, the Company changed its legal name to innogy SE.

For further information regarding the establishment of the Company, see "*17.1 Incorporation, Entry in the Trade and Companies Register, Name*". In the first half of 2016, the Former RWE Group engaged in a Carve-Out and reorganization in order to combine the Former RWE Group's grid, renewables and retail businesses within the Group. In this context, the businesses and entities forming the Group were transferred from Former RWE Group companies to the Group. The transfer of all businesses in connection with the legal reorganization was completed by June 30, 2016.

For further information regarding the Carve-Out and reorganization prior to the Offering, see "*5 Carve-Out and Organizational Measures*".

The grid, renewables and retail businesses have historically entered, and will continue to enter, into transactions with RWE AG and its subsidiaries, associates, and joint ventures other than those included in the Group. These transactions primarily include the purchase or supply of commodities, mainly electricity and gas, and the provision of services. Such transactions are described in more detail in "*21 Transactions and Relationships with Related Parties*".

### **12.3.2 Scope of Combination for Combined Financials and Adjustments made for the Combined Financials**

The scope of combination for the combined financial statements of the Group for 2013, 2014 and 2015 was determined on the principles of the legal reorganization approach. This approach is based on the fact that the economic activities that form the new entity were not managed as one division in the past, but the entities are legally bound together within a reorganization process. During the reporting periods of the combined financial statements, the assets and liabilities forming the reporting entity were under common control of RWE AG. The combined financial statements have been prepared on a "carve out" basis from the historical consolidated financial statements of the Former RWE Group contemplating the target structure of the transaction. For further information on the scope of combination for the combined financial statements and adjustments made for the combined financial statements see the notes included in the combined financial statements included in *"26 Financial Information"*.

## **12.4 Principal Factors Affecting the Group's Results**

In the Group, we combine our grid, retail and renewable energy activities which also form our reportable segments Grid & Infrastructure, Retail and Renewables. The operating results of these segments are largely driven by different factors and, hence, they are managed by different principles. However, we believe that the trend toward decentralization as regards the generation of energy will in the long term lead to closer interaction between the businesses. The Group's results are primarily driven by the earnings of the three reportable segments. To the extent earnings are not attributed to a specific reportable segment, they are presented in our Financial Statements as "Other, consolidation".

All three reportable segments are generally characterized by stable operating results and low volatility. In 2015, approximately 60% of our EBITDA was generated by regulated or quasi-regulated activities. The following discussion reflects the principal factors which we believe have, in the periods for which financial information is presented in the Prospectus, contributed to the development of the net assets, financial condition and operating results of the Group. To the extent the following factors relate to a specific reportable segment of the Group, they are discussed because they also affect the net assets, financial condition and operating results of the Group as a whole. We expect that these factors will continue to influence the development of our net assets, financial condition and operating results in the future.

### **12.4.1 Principal Factors Affecting the Operating Results of the Grid & Infrastructure Segment**

The Grid & Infrastructure Segment includes our regulated (e.g., DSOs) and non-regulated grid activities (e.g., grid services to other grid operators), certain activities of the fully consolidated regional utilities (e.g., DSOs, power generation, water) and our gas storage business as well as our portfolio of around 370 minority shareholdings in participations. The Grid & Infrastructure Segment is the largest of our reportable segments in terms of EBITDA. In 2015, more than 80% of the Grid & Infrastructure Segment's EBITDA related to regulated activities (including sales of grid assets). This share of the segment's EBITDA includes earnings both from fully consolidated companies and minority participations.

The results from our regulated grid activities are primarily driven by the return on our regulated asset base as determined under the applicable grid regulation. Additionally, the operating results of our regulated grid business are not affected by most general macroeconomic developments or weather within one regulatory period as the return on our regulated assets is largely independent of short-term fluctuations in the energy volumes transmitted through our networks. An exception is the gas distribution business in the Czech Republic, where results can be temporarily influenced by weather induced volume fluctuations.

With approximately EUR 1.5 billion for G&I Germany and approximately EUR 0.6 billion for G&I East (each for 2015), regulated and non-regulated grid activities represent the majority of the

Grid & Infrastructure Segment's EBITDA. Non-grid business (such as gas storage and water business) represent approximately EUR 0.3 billion (G&I Germany) and approximately EUR 0.1 billion (G&I East), while operating income from investments amount to EUR 0.2 billion for G&I Germany and EUR 0.1 billion for G&I East. Our participations are particularly important in Germany, where we hold around 370 minority shareholdings, including more than 100 participations in municipal utilities (*Stadtwerke*) and approximately 200 participations in other municipal energy and service providers. In addition, we participate in around 70 joint grid operating companies with a growing number of municipal partners. In the periods under review, the operating result and EBITDA of the Grid & Infrastructure Segment included components comparable to net income using the at-equity-method or, as the case may be, the dividends from non-consolidated participations.

#### 12.4.1.1 *Regulation of Allowed Returns*

Distribution grid networks are natural monopolies. In order to ensure fair prices for consumers, safeguard security of supply and incentivize further necessary investments into the grid, the relevant regulators determine as part of the overall regulation the allowed returns from our grid.

Our returns therefore depend on the regulatory environment applicable to our grid operations. In addition, our returns will depend on future regulatory changes and we expect amendments on various levels of the regulation applicable to our grid business as of the next regulatory periods. We expect that these amendments will be driven by the expansion of decentralized renewable energy generation, the integration of customers that generate some of the electricity they consume and also feed electricity into the grid (prosumers) and additional connecting points stemming primarily from the strong growth in wind turbines and solar PV installations in the future, all of which are changing the role DSOs play in integrating these renewable capacities. See also "3.2.2 *We face risks, especially related to the revenue structure and grid tariffs, within the regulatory framework in Germany and other jurisdictions.*"

#### *Grid Tariff Regulation in Germany*

In Germany, we are subject to an incentive regulation, mainly implemented through a revenue cap. The regulation sets principles to calculate the revenue we are allowed to earn with the distribution of energy through our grid. In general, this revenue is determined on the basis of our regulated asset base and operating expenditures as recognized by the regulator in a base year for a regulatory period of five years. Such incentive-based grid regulation provides, in our view, a stable remuneration framework that ensures a regular, predictable income flow.

The applicable revenue caps are based on a framework pursuant to which the remuneration is in general determined for the entire regulatory period. Hence, economically we are not exposed to volume risk, except for forecast deviations, for which a multi-annual compensation mechanism has been introduced (regulatory account). In addition, while the relevant costs to determine the revenue caps are recognized on the basis of a base year for the relevant five-year regulatory periods, permanently non-controllable cost factors are treated as pass-through items for the calculation of the regulated income. Also, any borrowing costs in the base year are treated as pass-through up to an amount equivalent to customary market interest rates. For the current regulatory period (January 1, 2014 until December 31, 2018 for electricity; January 1, 2013 until December 31, 2017 for gas), the regulator fixed the rate of return on the equity portion (based on a maximum equity portion of 40%) for "old assets" (capitalization until the end of 2005) at 7.14% (real, *i.e.*, before inflation) and for "new assets" (capitalization after the end of 2005) at 9.05% (nominal, *i.e.*, including inflation). Both rates are calculated before corporate tax, but after trade tax. For old assets, inflation is recognized in the value of the asset base (valued at current cost accounting), while for new assets (valued at historic cost accounting), the rate of return on equity also includes expected inflation. Any excess equity is treated as debt and remunerated on the basis of the cost of debt, which is determined at the beginning of a

regulatory period based on customary market interest rates. For example, an interest rate of 3.98% for electricity and 4.19% for gas applies with respect to the current regulatory period.

The revenue cap is annually adjusted for certain factors that are subject to frequent change, including certain permanently non-controllable costs, a determined increase in productivity, the consumer price index and certain limited investment measures. Moreover, the regulatory framework adjusts the remuneration for investments relating to changing basic parameters including the growth of renewable energy sources (so-called "expansion factor" for grid expansion in general, including integration of renewable energy sources). Other investments into the regulatory asset base are typically only reflected in the asset base for the next regulatory period, *i.e.*, they are recognized with a time lag.

In Germany, under the current regulatory regime this time lag can be up to seven years due to the length of the regulatory period and the time lag between the base year and the beginning of the regulatory period. Starting with the third regulatory period, this time lag will be eliminated (leading to an elimination of investment measure and the expansion factor), which could be favorable for DSOs with significant investment requirements. The revenue cap is also influenced through a bonus/malus system (quality element) taking into account the optimal reliability of electricity supply that has been a primary objective of the regulatory framework since 2012.

For more information on the applicable regime, see "*16.2.2.1 Regulation of Grid Operations*".

There are several changes which will affect the financial performance of G&I Germany as from the start of the next regulatory period (2018 for gas and 2019 for electricity) onwards. One crucial decision of the regulator is the adjustment of the rate of return on equity. The German Federal Network Agency (*Bundesnetzagentur*, "**BNetzA**") will likely determine a lower rate of return on equity as a key driver for the determination of the revenue caps. For the current regulatory periods, the BNetzA fixed the rate of return on the equity portion (based on an "imputed equity ratio" capped at a maximum of 40%) of so-called "new assets" (capitalization on or after January 1, 2006) at 9.05% (including inflation) and for "old assets" (capitalization prior to January 1, 2006) at 7.14% (without inflation), in each case before corporate tax, after trade tax. The BNetzA proposed a new rate of return on equity for "new assets" of 6.91% (capitalization on or after January 1, 2006) and for "old assets" of 5.12% (capitalization prior to January 1, 2006). A final determination of the BNetzA is expected within the next weeks. We expect that the BNetzA will determine imputed interest rates at levels around those previously proposed. However, it is possible that the final determination of the imputed interest rates will result in rates that are lower than those previously proposed by the BNetzA. Other changes expected to be introduced include the determination of a sectoral productivity factor (Xgen) by the German regulator, the possibility of super-efficiencies in benchmarking results which have been capped previously at 100%, the timely amortization of infrastructure investments, the elimination of the base effect (*Sockeleffekt*) for investments, the recognition of non-wage labor costs, a changed responsibility to balance the regulatory account and structural parameters for the efficiency benchmarking process. For a detailed description of these changes, see "*15.5.5.3 Key Features of the German Regulatory Regime for our Grid Business*".

In Germany, neither the current nor the expected future regulatory framework specifies a regulatory weighted average cost of capital ("**WACC**"). Our actual regulatory returns are calculated separately for each of our subsidiaries operating electricity or gas grids in Germany based on the individual recognized asset base. In order to compare our German operations with grid operations in other jurisdictions an illustrative WACC may be computed on the basis of certain assumptions. Such assumptions include a split of 50% of old assets and 50% of new assets, an equity portion of 40% and an applicable cost of debt of 4% p.a. Subject to the methodological deviations, we estimated the implied WACC on the basis of an illustrative aggregation of the individual returns for the current regulatory period for all of our regulated grid businesses in Germany to amount to approximately 6.1% (before corporate and trade

taxes). Our implied WACC has been presented for illustrative purposes only and does not purport to represent what our WACC or implied WACC would actually have been had it been calculated based on a regulatory regime providing for a regulatory WACC or based on any other assumptions and estimations.

#### *Grid Tariff Regulation in Eastern Europe*

Within G&I East, the regulatory environment shows several conceptual similarities. The regulatory details, however, vary from country to country. In addition, before the start of a new regulatory period, the regulatory framework is typically revised by the regulator. The gas regulatory model in the Czech Republic is incentive-based with a revenue cap, while the electricity grid regulatory regime in Hungary, Poland and Slovakia is based on a price cap. In all four countries, the regimes are transparent and envisage certain incentives for expansion investments and efficiency outperformance is possible. The regulatory periods in the four countries overlap only partially, thus providing additional stability to our G&I East business. In the Czech Republic and Poland, which represent approximately two-thirds of our Aggregate RAB of our G&I East business, we expect stable returns until the end of the current respective regulatory periods (2018 and 2020), which began both in 2016. In Slovakia and Hungary, the new regulatory periods are set to begin in 2017. In Poland, some regulatory parameters (e.g., grid quality parameters for the years 2018-2020, further approach towards smart meters and balancing meters, including additional remuneration) can be revised by the Polish regulator (URE) within the ongoing regulatory period. In all four regimes there is a broadly similar determination of the regulated revenues/price, based on the following key variables: regulated asset base, a regulatory WACC, depreciation and operating expenses. An overview with a summary of the key regulatory features can be found in "15.5.6.5 Key Features of the Regulatory Regime in our Eastern Markets for our Grid Business".

For more information on the applicable regimes, see "16.5.3.2 Grid Operations" (Czech Republic), "16.5.5.2 Grid Operations" (Hungary), "16.5.8.2 Grid Operations" (Poland) and "16.5.10.2 Grid Operations" (Slovakia).

The following table provides an overview of the applicable regulatory WACC (before taxes) in the relevant Eastern European countries in which we operate:

	Regulatory WACC applicable in the period from January 1 to December 31, 2015 (unaudited)
<b>Czech Republic (gas)<sup>1)</sup></b> .....	<b>6.48%</b>
<b>Poland (electricity)<sup>1)</sup></b> .....	<b>7.20%</b>
<b>Hungary (electricity)<sup>2)</sup></b> .....	<b>6.23%</b>
<b>Slovakia (electricity)<sup>2)</sup></b> .....	<b>6.08%</b>

1) Before taxes, nominal (i.e., not adjusted for inflation)

2) Before taxes, real (i.e., adjusted for inflation).

Based on the aforementioned applicable regulatory WACC for each jurisdiction, a WACC for our grid business in Eastern Europe may be computed for illustrative purposes. Assuming that Východoslovenská energetika Holding a.s. ("**VSE Holding**") had been fully consolidated since January 1, 2015, such WACC for illustrative purposes would amount to 6.5% as of December 31, 2015. The implied WACC for G&I East is being presented for illustrative purposes only, combines both nominal and real components and does not purport to represent what our WACC would have actually been had it been calculated based on a regulatory regime or based on any other assumptions and estimations.

In addition to such base returns, G&I East can generate additional returns relating to various operational measures such as reductions in operating expenditures ("OPEX"). Improvements of grid performance and in quality of supply across our East European markets allow us to benefit from regulatory incentives for such improvements. There are local factors that have an important influence on the final result such as the K-factor in the Czech Republic (compensating effects of natural volatility of gas demand due to weather, for example warmer winters) or the RES support scheme in Slovakia, where DSOs have an obligation to purchase electricity generated by renewable energy producers in order to ensure that they are integrated into the distribution system.

#### 12.4.1.2 Development and Regulatory Recognition of Asset Base

Our "**Aggregate RAB**" is calculated on the basis of the latest notification by the respective regulators or, as the case may be, based on calculations included in the latest filings with the respective regulators, is generally based on year-end values (as applicable) and excludes pro-rata shares from participations that are not fully consolidated. Our investments in the Grid & Infrastructure Segment comprise largely investments in the regulatory asset base and therefore affect, over time, the return on such assets. In the periods under review, we invested significant amounts into our asset base. Those investments regularly lead to direct cash outflow and increased depreciation, which for example in Germany is remunerated as part of the revenue cap. In our view, the energy transition (see "*14.1.4 Transition of Energy Markets*") will result in investment needs for our grid networks in addition to our regular investments into our asset base and therefore result in growth in the regulated asset base.

In Germany, the determination of our regulated asset base is in general made with reference to a regulatory base year and for a specific regulatory period, and is subject to the recognition of our investments by the regulator. As of December 31, 2015, our Aggregate RAB amounted to EUR 9.7 billion. The asset base for the next (third) regulatory period will be determined based on cost base levels for the years 2015 (gas) and 2016 (electricity). The level of approved grid costs in the past and the current year are and will be important for the determination of the revenue caps. The revenue caps for grid tariffs will be determined in 2017 and 2018, respectively. In Germany, we expect an increase by 9% on the basis of our German regulated asset base (calculated with reference to the base years 2010 (gas) and 2011 (electricity), respectively, plus net investments (post concession gains/losses) in regulated assets since then until the end of 2015 (gas) and, as expected, until the end of 2016 (electricity), respectively, assuming in each case full recognition by the regulator). Similar to Germany, in certain Eastern European countries, in which we operate gas or electricity grids, new regulatory periods will commence in the near future and allowed revenues may be subject to regulatory adjustments (see also "*15.5.5.3 Key Features of the German Regulatory Regime for our Grid Business*").

The Aggregate RAB in the respective countries in which G&I East operates electricity or gas grids is shown in the table below:

	Aggregate RAB (local GAAP) <sup>1)</sup> in the period from January 1 to December 31, 2015
	in EUR billion (unaudited)
Czech Republic (gas) . . . . .	1.6
Poland (electricity) . . . . .	0.7 <sup>2)</sup>
Hungary (electricity) . . . . .	0.9
Slovakia (electricity) <sup>3)</sup> . . . . .	0.5

Note: All figures are rounded to one decimal place of one billion.

1) Based on the latest notification by the respective regulators or, as the case may be, based on calculations included in the latest filings with the respective regulators. In general terms, Aggregate RABs pertaining to different regulatory regimes are not directly comparable due to significant methodological differences (e.g., accounting rules and depreciation periods)

and differing lengths of regulatory periods. Aggregate RABs stated exclude pro-rata shares of the regulated asset base from participations that are not fully consolidated.

- 2) Includes regulatory 'step-up' in 2014.
- 3) As a consequence of the first-time full consolidation of VSE Holding group in the course of 2015, the Aggregate RAB attributable to VSE Holding group was only recognized from September to December 2015.

Assuming constant foreign currency exchange rates (as of year-end 2011), the Aggregate RAB in our Eastern European countries (excluding Slovakia) increased by 9% between 2011 and 2015.

#### 12.4.1.3 *Success at Concession Renewals and Partnering*

A significant part of our grid business in Germany depends on concessions which are the legal basis for us to operate the grid infrastructure (see "15.5.4 Overview of our Grid Operations"). Currently, about two thirds of our asset base in Germany is concession-based. Concessions are granted for a limited period (typically 15-20 years). Upon expiry of a concession, we have to compete for a new concession against an increasing number of competitors, including municipalities, in public tender proceedings. These tender proceedings are based on quality factors and not price elements. In the last five years, we have experienced a "wave" of concession renewal processes, with approximately 65% of our concessions being up for renewal (on the basis of inhabitants supplied, excluding water concessions) between 2011 and 2015. Based on the number of concessions that were up for renewal, approximately 90% of these expiring concessions were renewed, such as the large concession contracts for Mülheim an der Ruhr and Essen, or were transferred to municipal utilities in which we continue to hold a minority interest and/or provide grid services.

If we are not able to renew our concessions, we regularly aim to enter into partnering agreements with the succeeding holder of the concession. For this purpose we aim to retain a minority participation in the succeeding holder of the concession and to provide a wide range of services to third-party distribution grids (e.g., through our regional grid distribution companies), including the entire management of the grid and a broad range of technical services. In such a case, we continue to participate in the returns from the grid assets: (i) we generate revenue based on the service contract (e.g., service fees or lease payments for the management of the grid company) and (ii) we participate in the net income or, as the case may be, the dividends from these non-consolidated participations, which are reflected in our income from investments. Even if we are not able to retain a minority shareholding, we aim to offer our services to the succeeding holder of the concession.

To the extent we are not able to renew our concessions, we are required to sell the relevant parts of our grid assets to the succeeding holder of the concession. The compensation we receive is generally based on replacement values. In some cases, the capitalized earnings values (*Ertragswert*) are also important reference points in determining the compensation. While this negatively affects the development of our regulated asset base and thus impacts also our regulated returns, the sales of grid assets following a lost concession tender often led to a one-off gain due to a favorable compensation as compared to our lower book values. Gains on asset disposals (grid sales) amounted to EUR 153 million in 2015, EUR 187 million in 2014 and EUR 63 million in 2013.

For more information on risks associated with concession renewals, see "3.1.7 Our Grid & Infrastructure Segment depends on concessions, for which significant competition exists, so that we may not be able to renew a considerable amount of the concessions we currently hold." and "3.1.8 If we are unable to renew an existing concession or if it is terminated, we may have to sell the relevant grid infrastructure, which will negatively affect our revenue and may lead to a loss in connection with the sale, or we may enter into cooperation agreements that are limited in time."

#### 12.4.1.4 *Efficiency Improvements Set by the Regulator and Performance Achieved by Us*

We seek to efficiently manage our cost base and optimize our operating results within a given regulatory framework.

In Germany, our revenue cap may decrease to account for efficiency improvements in our cost base. Such efficiency improvements depend on industry-wide and company-specific factors. Efficiency improvements need to be implemented over the regulatory period as inefficient grid operators are in general not compensated for their controllable costs exceeding the prescribed efficiency levels.

In the periods under review, we were able to implement cost reductions, both in Germany and in Eastern Europe. Sources of cost reductions are typically better processes (for example through mobile workforce management), improved application of technologies (for example through usage of hexacopters for inspection flights) and more efficient investments (for example through grid automation).

Our ability to reduce costs is critical to meet the required efficiency improvements and earn the allowed regulated returns. Any additional cost reductions during a given regulatory period will increase our results of operations for such regulatory period. The regulator typically takes our achieved outperformance into account during the next regulatory review period through a reduction of the revenue cap.

#### **12.4.2 Principal Factors Affecting the Operating Results of the Retail Segment**

The Retail Segment supplies electricity and gas to B2C and B2B customers in eleven countries, most of them with a relatively low degree of price regulation. In the non-commoditized Energy+ and electric-mobility business, we are active in more than 20 countries. The profitability of our Retail business is mostly affected by changes in the number of customers, margins, sold energy volumes, the development of our customer mix (B2B/B2C) and the contribution from our Energy+ business.

##### **12.4.2.1 *Changes in the Number of Customers***

In our Retail Segment, we provide energy and related services and products to 23 million customers (as of December 31, 2015 and based on the number of contracts for electricity and gas). Changes in our customer base are driven by the acquisition of new customers and losses of existing customers. To retain and strengthen our customer base, it is key to offer highly-professional customer service processes and maintain the required quality. We manage our customer acquisition activities, which include own distribution channels, third party channels (such as price comparison websites) and partnerships (such as electronic retailers) by country. We successfully engage in cross-selling gas or electricity as second commodity to our existing customers with a view to maximizing the total number of supply relationships for these two energy types. Consequently, we count our customers on the basis of supply contracts, which results in customers who are being supplied with both, electricity and gas, being counted as two customers for this purpose. Our customer retention policies are focused on proactive customer care measures (such as relocation support) and specialized product offers (e.g., for customers with a high switching risk) or specific product features (e.g., green energy products). Low cost provision of these services (e.g., online customer care) on the one hand, and high customer centricity on the other hand, requires particularly strict process standardization, effective IT support systems, strict performance monitoring and management by key performance indicators.

In the reporting periods, we were able to maintain an overall stable customer base (23.3 million customers as of December 31, 2013, 22.9 million as of December 31, 2014, 23.2 million as of December 31, 2015, in each case determined on the basis of contracts) as a decline in Retail UK was offset by an increase in Retail East, mainly as a result of the first-time consolidation of VSE Holding group in Slovakia. The following table shows the number of customer contracts as of December 31, 2013, 2014 and 2015:

	As of December 31,		
	2015	2014	2013
	(unaudited) (in million)		
<b>Number of customers<sup>1)</sup></b>			
GER .....	8.1	8.0	8.0
NL/BE .....	4.7	4.7	4.7
East .....	5.4 <sup>2)</sup>	4.9	4.8
UK <sup>3)</sup> .....	5.0	5.4	5.7
<b>Total .....</b>	<b>23.2</b>	<b>22.9</b>	<b>23.3</b>

Note: All figures are rounded to one decimal place of one million.

1) Based on number of contracts, i.e., a customer supplied with electricity and gas counts twice for this purpose.

2) Figure for 2015 includes customers after first-time consolidation of VSE Holding group in Slovakia.

3) In order to ensure comparability of the calculation methodology across the regions, figures for UK deviate from those figures reported for the Former RWE Group. The methodology for calculating the number of customers in the UK B2B business has been changed from calculating the number of metering points to calculating the number of contracts.

For more detailed information about our customer base, see "15.6.3 Customer Base".

#### 12.4.2.2 Fluctuations and Changes in Energy Volumes

As of December 31, 2015, the vast majority of the Retail Segment's EBITDA resulted from our commodity supply business for electricity and gas. Therefore, fluctuations in electricity and gas volumes have a significant impact on the overall revenue of the Retail Segment. In general, our overall commodity supply volumes are driven by the macroeconomic environment, the weather and the acquisition or loss of large B2B customers.

The following table shows the volumes of electricity and gas supplied to our customers in the years 2013, 2014 and 2015:

	In the financial year		
	2015	2014	2013
	(in TWh) (unaudited)		
<b>Electricity Volume .....</b>	<b>212.4</b>	<b>214.5</b>	<b>221.8</b>
GER .....	127.9	129.8	132.8
NL/BE .....	18.8	20.5	23.1
East .....	20.4	18.5	18.0
UK .....	45.2	45.7	47.9
<b>Gas Volume .....</b>	<b>243.4</b>	<b>234.2</b>	<b>272.4</b>
GER .....	94.4	88.0	89.6
NL/BE .....	61.6	60.7	83.8
East .....	47.5	46.5	52.9
UK .....	39.9	39.0	46.0

Note: All figures are rounded to one decimal place of one TWh.

In the periods under review, our supply volumes in Germany, NL/BE and the UK declined predominantly due to a long term trend to higher energy efficiencies. In our East European region, it is expected that demand for electricity will increase in the future. Short-term volatility

in our energy volumes arises from weather conditions, which can have a particularly significant influence on our gas volumes. The gain or loss of larger B2B customers has a significant impact on our revenue in the short-term. However, as our B2B business is generally characterized by lower margins, it usually has a limited impact on our operating result and EBITDA. In the longer term, macroeconomic developments have a significant impact on our B2B business.

#### 12.4.2.3 Changes in Customer Composition (Mix Effects)

Our customer base comprises industrial customers and resellers (B2B) and residential and commercial customers (B2C). These two customer groups have distinct economic profiles and any change in our customer mix influences the development of our results of operations.

Our B2B business is characterized by relatively large volumes per customer. We typically deal with specialized and sophisticated procurement departments and face a highly competitive market environment. Our margin and customer development mirror this operating environment. Our operating results depend on our success in signing new business contracts and continuously optimizing our processes and cost positions. In the short-term, our contractual agreements allow us to have high visibility on demand. However, the demand is also subject to long-term macroeconomic developments, which we aim to anticipate and adjust our business accordingly.

Our B2C business, in contrast, is characterized by much lower volumes per customer. Compared to our B2B business, the B2C business is generally also less dependent on macroeconomic developments. Margins in B2C are generally higher and we depend to a significantly lower degree on individual customer accounts. Our B2C business contributed the major part to our Retail Segment's overall EBITDA of EUR 988 million in 2015. While we aim to increase the number of customers with a fixed term of one to three years, the majority of our B2C customers are typically able to switch to another provider on short notice. We aim to limit negative customer churn through superior quality of service and competitive pricing.

Operational Key Performance Indicators	2015	2014	2013
	(unaudited)		
<b>B2C share of volume<sup>1)</sup></b>			
Retail Germany .....	20%	20%	24%
Retail NL/BE .....	54%	53%	50%
Retail East .....	36%	35%	38%
Retail UK .....	50%	53%	64%
<b>Churn rate B2C<sup>2)</sup></b>			
Retail Germany .....	12%	13%	12%
Retail NL/BE .....	21%	21%	20%
Retail East .....	4%	4%	7%
Retail UK .....	14%	14%	13%

1) B2C share based on total gas and electricity volume.

2) Total customer losses in one year divided by the average customer number across the year calculated on the basis of the numbers at the end of each quarter.

Furthermore, we try to mitigate negative customer churn in our traditional brands though the establishment of second brands (discount brands and other channels). For example, we have successfully established our discount brands, eprimo in Germany and energiedirect.nl in the Netherlands. Generally, our discount brands are characterized by lower margins and lower revenue per customer, which are partly offset by lower costs.

	As of December 31,		
	2015	2014	2013
	(in million) (unaudited)		
<b>Customer number eprimo</b> .....	<b>1.3</b>	<b>1.1</b>	<b>1.1</b>
Electricity .....	1.0	0.9	0.9
Gas .....	0.3	0.2	0.2
<b>Customer number energiedirect.nl</b> .....	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>
Electricity .....	0.3	0.3	0.3
Gas .....	0.3	0.3	0.3

Note: All figures are rounded to one decimal place of one million.

#### 12.4.2.4 Success and Profitability of New Non-commodity Products (Energy+)

In the periods under review, we significantly invested in non-commodity products, combined in our so-called Energy+ business.

The Energy+ business is designed to capitalize on new energy needs, which we expect to evolve as a result of the ongoing sector transformation. Compared to the sale of electricity and gas, our traditional commodity products, the Energy+ product range typically shows higher margins, once the respective product has reached maturity level. Our heating businesses and services are currently the main driver for the profitability of our Energy+ business. With an operating result of approximately EUR 70 million, our Energy+ business contributed approximately 8.4% to the Retail Segment's total operating result in 2015. With EBITDA of approximately EUR 110 million, it contributed approximately 11.1% to the Retail Segment's total EBITDA in 2015. We believe that our Retail Segment is well positioned to create options for new business beyond our existing business by capitalizing on our customer base and our extensive knowledge of our customers in combination with our energy, technology and process know how as well as our innovation hub for our customers, our partners and regulators.

#### 12.4.2.5 Margins

Our gross margins depend on the spread that we can achieve between the price we can charge to our electricity and gas customers and the cost of procuring the respective energy in the wholesale markets. In the periods under review, we were part of the Former RWE Group and our procurement activities and hedging were carried out by subsidiaries of RWE AG. Procurement and hedging is generally dedicated to our Retail Energy Management ("REM"). It manages all commodity-related risks and provides the link between the sales units and the wholesale market (mainly through RWEST, see "15.17.3 Electricity and Gas Supply Agreements"), in which it buys the electricity and gas required to meet customers' needs.

The supply side of our margin is driven by the prices that we can charge to our customers and the corresponding energy volumes. In the B2B business, volumes and duration are contractually agreed, whereas B2C contracts typically are entered into for an unlimited period of time and do not determine the volume to be supplied. In the periods under review, the operating results of individual operating segments were materially affected by wholesale price developments, e.g., Retail Germany in 2013 and Retail NL/BE in 2014. We now use strategies to hedge margin risks against market fluctuations, but it is not possible to perfectly hedge all of the commodity-related uncertainties stemming from retail sales in the wholesale market.

For further details regarding procurement and hedging, see "15.6.4.2 Procurement (Across Markets and Segments)".

The operating profitability of our Retail Segment is measured by our EBITDA margin. The EBITDA margin is defined as EBITDA divided by total revenue and includes the revenue and costs allocated for transactions between the operating segments. The following table shows our

EBITDA margin for the six-month periods ended June 30, 2016 and June 30, 2015 as well as for 2015, 2014 and 2013 for each of our operating segments:

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
<b>EBITDA margin</b>	<b>(unaudited)</b>				
Retail Germany . . . . .	3.5%	3.5%	3.3% <sup>1)</sup>	2.1%	1.4% <sup>2)</sup>
Retail NL/BE . . . . .	7.8%	6.9%	5.6%	4.3%	4.0%
Retail East . . . . .	8.1%	6.8%	6.5% <sup>3)</sup>	5.6%	5.3%
Retail UK . . . . .	3.0%	1.6% <sup>4)</sup>	-0.7% <sup>5)</sup>	3.1%	3.9%
<b>Retail Segment . . . . .</b>	<b>4.4%</b>	<b>3.7%</b>	<b>2.8%</b>	<b>3.0%</b>	<b>2.8%</b>
<b>Retail (excluding UK) . . . . .</b>	<b>4.9%</b>	<b>4.6%</b>	<b>4.1%</b>	<b>2.9%</b>	<b>2.5%</b>

1) Includes an adjustment of provisions for legal risks. See "12.6.2.2.3 Operating Result and EBITDA (Retail Segment) – Germany" for further details.

2) Includes realized losses in our hedge book in Germany. See "12.6.2.2.3 Operating Result and EBITDA (Retail Segment) – Germany" for further details.

3) Includes book gain from the revaluation as a result of the first-time full consolidation of VSE Holding group in Slovakia. See "12.6.2.2.3 Operating Result and EBITDA (Retail Segment) – Eastern Europe" for further details.

4) Includes (i) net effects of EUR 52 million related to charges concerning erroneous and historical late invoicing and the build-up of provisions for regulatory charges and reviews and (ii) net effects of EUR 35 million related to billing issues due to changes in revenue estimation. See "12.6.2.1.3 Operating Result and EBITDA (Retail Segment) – United Kingdom" for further details.

5) Includes (i) net effects of EUR 60 million related to charges concerning erroneous and historical late invoicing, the build-up of provisions for regulatory charges and reviews and the release of provisions for customer paybacks and (ii) net effects of EUR 59 million related to billing issues due to changes in revenue estimation. See "12.6.2.2.3 Operating Result and EBITDA (Retail Segment) – United Kingdom" for further details.

The EBITDA margin of our Retail Segment remained stable with 2.8% in 2015, 3.0% in 2014 and 2.8% in 2013. This development included extraordinary effects related to operational difficulties in the UK, and effects from realized losses in our hedge book and the adjustment of provisions for legal risks in Germany as well as the book gain from the revaluation as a result of the first-time full consolidation of VSE Holding group in Slovakia. Excluding Retail UK, our Retail Segment's EBITDA margin significantly improved from 2.5% in 2013 and 2.9% in 2014 to 4.1% in 2015.

#### 12.4.2.6 Restructuring of npower, our UK Operations

In recent years, in particular in 2014 and 2015, our UK business experienced significant disruptions due to the implementation of a new IT system for billing and customer services. Issues arose because the system failed in many instances to correctly process customer data and match industry data flows, including meter readings. This led to a high level of customer complaints, a considerable loss of customers and higher operational costs due to the increased handling of customer queries and complaints. Furthermore, we experienced a significant billing backlog and had to revise estimations of revenue in cases in which electricity and gas bills could not be sent within the mandatory twelve-month period for the UK. In addition, we had to revise estimations of revenue and faced higher levels of bad debt due to late billing and delayed collections. As a result, we incurred significant losses in 2015, and were the subject of increased scrutiny by the regulator Ofgem. The financial impact included net effects of EUR 60 million related to charges concerning erroneous and historical late invoicing, the build-up of provisions for regulatory charges and reviews and the release of provisions for customer paybacks and net effects of EUR 59 million related to billing issues due to changes in revenue estimation that adversely affected our operating result and EBITDA in 2015. We have identified the respective operational issues in our UK subsidiary and performed an extensive analysis of the key reasons, a so called root-cause analysis (see also "3.1.18 We may not be able to successfully implement our restructuring program for our npower business in the United Kingdom, and we may incur expenses to comply with regulatory decisions." and "15.14.2.4 Settlement with Ofgem regarding npower Group Licenses").

The root cause analysis established that our operational difficulties were, among other things, caused by an unsuccessful integration of a new IT system, an inadequate management of outsourcing partners and suppliers as well as the restructuring of resources and locations. In order to address these deficiencies and to return to profitability, we worked with an external management consultant to develop a comprehensive recovery program in order to address these root causes for our underperformance (see “15.6.4.3 *Steering Model, Operations and Turnaround in the United Kingdom*”). We are determined to implement the measures identified in our recovery program, and have developed a plan to achieve our target of gross cost savings of around GBP 200 million (calculated on the basis of the cost base for 2015) by 2018. In addition, we continue to identify and evaluate further OPEX saving initiatives as well as other measures to improve our gross margins and customer satisfaction. With these measures, we aim to reduce our cost base to the level of our competitors and to return to profitability on the basis of high customer satisfaction.

### 12.4.3 Principal Factors Affecting the Operating Results of the Renewables Segment

In our Renewables Segment, the revenue is based to a large extent on quasi-regulated earnings, which depend on the type of technology and the regulatory framework in which the renewable energy generation is located. “**Quasi-regulated earnings**” include fixed feed-in tariffs and price components, green certificates, other public support schemes and long-term contracts. In 2015, approximately 60% of the Renewables Segment’s EBITDA resulting from the operation of assets were generated from quasi-regulated earnings. Support schemes are limited in time. The average remaining support tenor of quasi-regulated earnings from our renewable assets subject to a support scheme is around 12 years, based on capacity-weighted wind assets subject to an unexpired support scheme of approximately 1.5 GW onshore and approximately 1.0 GW offshore (pro-rata view). To the extent electricity produced in power production units does not benefit from a support scheme, it is sold at wholesale prices. The sale of certificates of guaranteed green origin to certain customers (e.g., Deutsche Bahn AG in Germany) allows us to earn some extra revenue.

Our business is to develop, build, own, operate and, under certain circumstances, sell renewable assets. Our operating result is therefore influenced by the proceeds from the sale of individual projects or stakes in such projects. The development of projects and such subsequent disposals have allowed us to share development, construction and return risks with partners and earn premia in our role as developer forming an integral part of our strategy.

#### 12.4.3.1 Installed Capacity and Energy Production, Revenue

The increase in our installed capacity and changes in load factors are the main drivers of our electricity production. In the periods under review, our Renewables Segment showed a significant increase in installed capacity. We benefitted from the general trend towards renewable energy sources. In the periods under review, we mainly invested into large onshore and offshore wind projects. On May 11, 2015, we inaugurated our new and wholly owned offshore wind farm Nordsee Ost, which is located about 60 kilometers off shore with a total net installed capacity of 295 MW. The investment volume totaled approximately EUR 1.4 billion. Our second new offshore wind farm Gwynt y Môr, situated off the coast of North Wales and 50% owned (after a further sale of 10% in 2015), was inaugurated on June 18, 2015. With 160 turbines, Gwynt y Môr has a net installed capacity of 576 MW. The total capital expenditure on Gwynt y Môr, which was allocated to the partners participating in the project, was approximately EUR 2.4 billion (excluding the wind farm’s grid connection).

According to the accounting view, total installed capacity increased from approximately 2.6 GW in 2013 to approximately 2.8 GW in 2014 and to approximately 3.3 GW in 2015 (each as of December, 31). “**Accounting view**” refers to figures taken from our accounts, where all companies that we control (as determined under the applicable IFRS 10) are fully consolidated and 100% of the capacity is included. This is typically the case if we hold a share of more than 50% in that company. Greater Gabbard in which we hold a share of 50% is consolidated with

50% as it is the only joint operation within the Renewables Segment. In the case of Gwynt y Môr we own 100% of the shares of three fully consolidated companies which in total hold 50% of the capacity of the wind farm Gwynt y Môr. Thus, 50% of the capacity of Gwynt y Môr is shown in the accounting view. The capacity of other investments in which we hold a share of less than 50% is not included. To the total capacity as of December 31, 2015, onshore wind contributed the main part of approximately 1.8 GW while offshore wind contributed approximately 0.9 GW and hydro approximately 0.5 GW.

	Accounting view as of December 31,		
	2015	2014	2013
	(in MW) (unaudited)		
Wind onshore <sup>1)</sup>	1,823	1,763	1,667
Wind offshore <sup>1)</sup>	925	511	342
Hydro	525	525	522
Other	7	6	102
<b>Total</b>	<b>3,280</b>	<b>2,805</b>	<b>2,633</b>

Note: All figures are rounded to the next full unit.

1) In addition, we held a 33% participation (ownership stake 130 MW) in the onshore and offshore wind farm portfolio Zephyr ("Zephyr") which we sold in July 2016. The figures presented in the table above do not reflect the 256 MW capacity purchased under the power purchase agreement (PPA) for capacity under management relating to Zephyr.

Given our strategy to develop, build and sell majority and minority stakes in assets, we measure our construction pipeline using the pro-rata view. **"Pro-rata view"** figures reflect our pro-rata share of ownership in the underlying asset. As of December 31, 2015, we had a construction pipeline of 0.3 GW of capacity. Additional 4.1 GW of capacity are under development (each according to pro-rata view). The project development business is complex and capital intensive. Our capital expenditures in the financial year 2015 amounted to EUR 404 million. For the years 2016 to 2018, we have allocated around EUR 1.3 billion for (gross) investments into specific new renewable energy projects which are close to their final investment decision or already under construction. Of our investments into these projects, we expect between 45% and 55% to be attributable to onshore wind, between 20% and 30% to offshore wind, between 10% and 15% to solar, up to 10% to hydropower and up to 10% to other projects, such as day-to-day capital expenditures. In addition, depending on our success in auctions for new projects, there is potential for further investments into renewable energy assets.

The electricity production depends on our capacity utilization and the technical availability of our installations. The actual capacity utilization is usually measured as a load factor (defined as production volume divided by maximum possible volume based on average capacities at the beginning and the end of each year). This is subject to weather-related influences and is strongly seasonal. Factors affecting production volumes include wind speeds, water availability, solar irradiation, extreme weather, curtailment measures by grid operators or due to restrictions from permits and long-term climatic changes (see also *"3.1.20 Energy production of our Renewables Segment could be negatively affected by weather conditions."*) and technical availability. Technical availability, i.e., the time during which a renewable energy source is theoretically available to produce energy, is primarily driven by repair and maintenance time.

Average revenue per MWh, calculated for each of our key technologies onshore wind, offshore wind and hydro power, is a key performance indicator for us to measure our operational and financial performance in the Renewables Segment. **"Average Revenue"** is defined by the revenue generated from electricity produced from the relevant technology minus transaction costs per MWh. It excludes revenue from power sales linked to power purchase agreements given that such revenue is largely set off by the respective purchase costs.

The following tables show the average load factor, production volumes and the Average Revenue for our key technologies onshore wind, offshore wind and hydro power (each as per accounting view):

	Average Load Factor			Production volumes			Average Revenue		
	for the financial year			for the financial year			for the financial year		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
	(unaudited)			(unaudited) (in GWh)			(unaudited) (in EUR/MWh)		
<b>Onshore wind</b>									
Germany . . . . .	21%	17%	17%	997	764	726	95	98	95
United Kingdom . . . . .	30%	27%	27%	806	669	536	135	124	140
Spain . . . . .	25%	26%	29%	997	1,023	1,125	48	33	73
Netherlands . . . . .	27%	25%	25%	478	456	462	110	122	123
Poland . . . . .	26%	25%	26%	499	429	396	70	82	87
Italy . . . . .	19%	21%	22%	111	122	129	145	142	142
Portugal . . . . .	—	—	—	—	—	—	—	—	—
<b>Total/Aggregate</b> . . . . .	<b>25%</b>	<b>23%</b>	<b>24%</b>	<b>3,887</b>	<b>3,463</b>	<b>3,375</b>	<b>91</b>	<b>87</b>	<b>100</b>

Note: All figures are rounded to the next full unit.

	Average Load Factor			Production volumes			Average Revenue		
	for the financial year			for the financial year			for the financial year		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
	(unaudited)			(unaudited) (in GWh)			(unaudited) (in EUR/MWh)		
<b>Offshore wind</b>									
Germany . . . . .	48% <sup>1)</sup>	—	—	625	—	—	192	—	—
United Kingdom . . . . .	43% <sup>1)</sup>	39%	39%	2,124	1,469	1,170	183	160	163
Belgium . . . . .	—	—	—	—	—	—	—	—	—
<b>Total/Aggregate</b> . . . . .	<b>44%</b>	<b>39%</b>	<b>39%</b>	<b>2,749</b>	<b>1,469</b>	<b>1,170</b>	<b>185</b>	<b>160</b>	<b>163</b>

Note: All figures are rounded to the next full unit.

1) Includes production volume of the offshore wind farms Nordsee Ost and Gwynt y Môr which produced their first electricity in the first half year of 2015.

	Average Load Factor			Production volumes			Average Revenue		
	for the financial year			for the financial year			for the financial year		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
	(unaudited)			(unaudited) (in GWh)			(unaudited) (in EUR/MWh)		
<b>Hydro power</b>									
Germany . . . . .	48%	52%	59%	1,564	1,711	1,958	56	61	53
United Kingdom . . . . .	31%	27%	21%	209	176	131	147	144	137
Spain . . . . .	21%	37%	29%	22	39	30	69	65	91
France . . . . .	32%	34%	30%	125	133	119	44	44	43
Portugal . . . . .	17%	40%	36%	24	57	51	91	95	95
<b>Total</b> . . . . .	<b>42%</b>	<b>46%</b>	<b>50%</b>	<b>1,944</b>	<b>2,117</b>	<b>2,289</b>	<b>65</b>	<b>67</b>	<b>58</b>

Note: All figures are rounded to the next full unit.

#### 12.4.3.2 Technology Mix, Regulatory Framework and Wholesale Prices

In the Renewables Segment, our earnings are significantly influenced not only by the production volumes and load factors, but also by the applicable regulatory support scheme (for details regarding the regulatory framework, see “16 Regulatory Environment”). The applicable regulatory support schemes differ from country to country and from technology to technology.

Therefore, the overall mix in our Renewables Segment affects our results of operations. For example, in Germany higher tariffs apply to offshore wind than to onshore wind to compensate for the higher specific investment and maintenance costs and higher development and operational risks of offshore wind farms.

In general, support schemes only apply for a fixed period of time, which may be shorter than the technical life time of a production unit. The average remaining support tenor of quasi-regulated earnings from our renewable assets subject to a support scheme is around 12 years, based on capacity-weighted wind assets subject to an unexpired support tariff of approximately 1.5 GW onshore and approximately 1.0 GW offshore (pro-rata view). With only a limited percentage of our installed wind capacity where support schemes expire before the end of 2020, we benefit from a relatively young wind asset base with an average weighted age of around six years. Regulatory regimes in our core markets increasingly replace fixed feed-in tariffs by tender procedures resulting in a "pay-as-bid" or "pay-as-cleared" (uniform price) remuneration (see "3.1.1 Our success depends on our ability to manage the complex challenges posed by developments in the energy sector and relevant associated sectors, such as policy shifts towards renewable energy sources.").

Changes in regulatory policies may lead to significant changes in returns and profitability, which may result in impairments (see "3.1.42 We may be forced to recognize write-downs or additional impairments, in particular on our tangible assets."). Moreover, such changes may not be limited to the regulation of tariffs for electricity yet to be produced. In 2014, for example, our operating results were negatively affected by regulatory changes in Spain. By a law which entered into force at the end of December 2013 and specified by an ordinance (Royal Decree 413/2014) as well as a ministerial decree in the middle of 2014, the fixed feed-in tariffs paid until this point were replaced retroactively by a new compensation system which considerably reduced our earnings in Spain from 2014 onwards (see "15.14.3.2 Litigation innogy SE and innogy Spain S.A.U. versus Kingdom of Spain"). While the impairment required by such regulatory change was recognized in our non-operating result (see "12.5.3 Operating Result and Non-Operating Result"), the changes in the regulatory requirements affected our operating result in the following years.

Energy produced at most hydro power plants and older wind farms that no longer operate under a regulatory support scheme is sold at wholesale market prices. This results in higher price volatility and currently lower margins due to the level of wholesale prices. In 2016, for example, wholesale prices slightly recovered after a low point in February. In addition, this also applies to countries with support schemes, consisting of a regulated component and a market price component (e.g., wind farms in the UK subject to the ROC regime). In these countries, the development of wholesale electricity prices impacts our results of operation. Depending on the development of the wholesale prices, we may be required to recognize impairments at the end of a regulatory support period. For example, we had to recognize such an impairment for our Dutch onshore wind farms in 2015.

The following table shows the development of the average power price per MWh on the day-ahead wholesale market in the major markets in which our Renewables Segment operates:

Average power price per MWh on the day-ahead wholesale market	For the first half year of	For the financial year		
	2016	2015	2014	2013
		(unaudited)		
UK (in GBP) . . . . .	34.86	40.43	42.10	50.15
Germany (in EUR) . . . . .	24.99	31.63	32.76	37.78
Spain (in EUR) . . . . .	30.12	50.32	42.13	44.26
Poland (in PLN) . . . . .	164.09	157.31	180.48	153.82
Netherlands (in EUR) . . . . .	28.02	40.21	41.18	51.95

#### 12.4.3.3 *Performance of Development Projects*

The project development business has been characterized by significant one-off effects. Sales of stakes in our development projects have in the past resulted in significant one-off gains. For example, in 2015, the disposal of our offshore wind project Galloper contributed EUR 93 million to income and the gain on Gwynt y Môr OFTO assets contributed EUR 30 million. Project related costs of our project development business were affected by significant one-off effects. As customary for developing technologies, we faced issues with the timely completion of individual projects, more specifically in the offshore wind technology. This included the delayed commissioning of wind farms in the North Sea which, among others, led to claims made against the responsible transmission system operator and suppliers of components. In this respect, we received payments from claims that resulted in an income of EUR 12 million in 2015 and EUR 103 million in 2014.

Since 2012, we increased our share of partnerships with financial and industrial equity partners with respect to the assets of our Renewables Segment. Depending on the specific asset, the participation of the partner can either be a minority or a majority participation in a joint venture. The rationale for our partnership approach is to share the risks resulting from projects that are often significant and to balance the effort of capital acquisition according to the relative investment share. Furthermore, it helped us achieve a more diversified portfolio of projects for any given amount of committed capital and a more attractive overall risk-return profile.

#### 12.4.3.4 *Reductions in Operating Costs*

In the periods under review, we were able to significantly reduce our operating and maintenance cost in specific technologies, which positively affected our results of operation. For example, in onshore wind, operating and maintenance costs decreased from EUR 25.20 per MWh in 2013 to EUR 22.30 per MWh in 2015 due to maintenance optimization (e.g., insourcing of works or renegotiation of operating and maintenance contracts).

#### 12.4.4 **Additional Factors Affecting our Results**

In addition to factors specifically relating to one of our reportable segments, our results of operation are affected by the accessibility and cost of funding and currency fluctuations as well as a fair value 'step-up' in relation to certain financings in connection with the Carve-Out.

##### 12.4.4.1 *Accessibility and cost of funding*

In connection with the Carve-Out, financial debt and pension provisions directly related to Group employees or retirees were transferred from the Former RWE Group to the Group (for a detailed description, see "*5 Carve-Out and Organizational Measures*"). We have significant financial liabilities resulting from such transfer of financial debt from the Former RWE Group. While the majority of our debt bears fixed interest rates, interest rate developments will impact the refinancing of our debt and may have a significant influence on our results.

Furthermore, we have no separate credit rating. A future credit rating of the Company or changes in the rating of RWE AG may therefore influence the risk premiums charged under our financing arrangements (see "*3.1.45 Covenants and other restrictions under our existing financing agreements and bonds, as well as changes in credit market conditions and declines in credit ratings may restrict our financial and operational flexibility or otherwise negatively affect our business.*"). We believe that we have a strong financial profile and that our cash conversion rates shown in the past demonstrate our ability to generate strong cash flows.

##### 12.4.4.2 *Exchange Rate Fluctuations*

Our functional and reporting currency is the Euro. However, the Group conducts its business in a large number of countries across the world and in several international currencies. In 2015, approximately 30% of the Group's revenue was generated by operating subsidiaries with a

functional currency other than the Euro. The principal currencies we transact in, other than the Euro, are the British Pound Sterling (GBP), the Czech Koruna (CZK), the Polish Zloty (PLN), the Hungarian Forint (HUF) and, to a lesser extent, the US Dollar (USD).

Changes in exchange rates between foreign currencies that are relevant for our business and the Euro affect our reported operating results and assets and liabilities. Accordingly, fluctuations in the value of other currencies against the Euro, such as in case of the BREXIT referendum in relation to our UK retail business, reduce or increase these subsidiaries' contribution to, among other things, the Group's revenue and profit and thus affect the Group's balance sheet.

In general, we distinguish two types of currency risks. On the one hand, transactional risks consist of value fluctuations of foreign currency payments or payments which depend indirectly on a foreign currency. With the exception of the UK, where we largely finance our activities in the local currency, we generally finance our operations in Euro or in a foreign currency swapped to the Euro. Therefore, fluctuations between other foreign currencies that are relevant for our business and the Euro affect our operating results. The devaluation of the relevant foreign currency reduces the equivalent value in the domestic currency of incoming foreign flows, while an appreciation increases the domestic equivalent of outgoing domestic cash flows. Transactional risks relate to planned or contracted foreign currency payments, also relating to investments (dividends and capital changes involving an unsecured translation risk) and contracted financing transactions. On the other hand, translation risks arise from value fluctuations of consolidated net assets, *i.e.*, from the translation of revenue and costs and assets and liabilities from the functional currency of the relevant entity to Euro. In preparing the Financial Statements, assets and liabilities of subsidiaries are translated into Euro at the foreign exchange rates at the balance sheet date. Income statements of subsidiaries are translated to Euro at the average exchange rates for the period.

For more information on applicable foreign exchange rates, see *"4.6 Note on Currency"*. We manage short-term and medium-term exchange rate fluctuations through hedging transactions by entering into swap, currency forward or option agreements to limit our expected exposure to currency exchange rate risks for at least one year, and require our subsidiaries to follow standardized group procedures, limits and guidelines. While those hedging transactions were concluded in the past via the RWE AG, we started to hedge currency risks directly in the capital market. Our current risk policy is consistent with the aforementioned pattern. For further information related to exchange rate fluctuations, see *"3.1.47 We face risks relating to currency exchange rate and interest rate fluctuations."*

#### 12.4.4.3 Fair Value 'Step-Up' and Amortization Resulting from the Carve-Out Debt Transfer

As part of the Carve-Out, we assumed certain debt instruments (*i.e.*, the **"Finance Bonds"** described and defined in *"15.17.1.4 Bonds issued by innogy Finance B.V. and innogy Finance II B.V."*). While the terms and conditions of the assumed Finance Bonds, and more specifically the repayment amount and interest rates owed thereunder, were not affected by the transactions, some of these transactions resulted in a fair value adjustment (fair value 'step-up') of the assumed Finance Bonds compared to the amounts recognized in the consolidated accounts of the Former RWE Group. The fair value 'step-up' will be amortized over the remaining maturity of the Finance Bonds according to an effective interest rate method. The amortization is recognized as a reduction of interest expense. With respect to the Finance Bonds denominated in a currency other than the Euro, exchange rate effects may lead to higher or lower amortization in the relevant period. The amortization of the fair value 'step-up' has no effect on our cash flows.

The fair value 'step-up' specifically relates to the following two transactions:

- In December 2015 in the context of the Carve-Out, we acquired innogy Finance B.V. from RWE AG, including twelve outstanding bonds of innogy Finance B.V. denominated in Euro and British Pound Sterling. The aggregate nominal amount of the bonds

denominated in Euro at the time of the transfer was EUR 5,380 million. The aggregate nominal amount of the bonds denominated in British Pound Sterling at the time of the transfer was GBP 3,918 million.

As innogy Finance B.V. does not constitute a business in accordance with IFRS 3, its acquisition was accounted for as an asset deal. Accordingly, the bonds were initially recognized at their fair values as of the transfer date (December 18, 2015), which exceeded the carrying amount of the bonds as reflected in the consolidated accounts of RWE AG at the time of the transfer. The total difference ('step-up') in our accounts between the recognized value of these Finance Bonds and their carrying amount reflected in the consolidated accounts of RWE AG at the time of the transfer (December 18, 2015) was EUR 1,100 million.

- Our subsidiary innogy Finance II B.V. assumed the obligations under a EUR 600 million Finance Bond originally issued by RWE AG. In accordance with IAS 39, the transaction was recognized at its fair value as of the transfer date (December 28, 2015), and was recorded with an additional 'step-up' of EUR 145 million in our accounts compared to the carrying amount of the bond as reflected in the consolidated accounts of RWE AG at the time of the transfer. For further information, see "*15.17.1.4 Bonds issued by innogy Finance B.V. and innogy Finance II B.V.*").

We started amortizing the total fair value 'step up' from the date of transfer of innogy Finance B.V. and the bond, respectively. As of December 31, 2015, the remaining fair value 'step-up' of the transactions executed in December 2015 was in aggregate EUR 1,237 million, i.e., EUR 8 million lower than the originally recognized amount as a result of the amortization.

In the six-month period ended June 30, 2016, the amortization of the fair value 'step-up' led to a reduction in interest expense of EUR 95 million. The depreciation of the British Pound Sterling added EUR 54 million to the amortization in the six-month period ended June 30, 2016, which is included in other financial result. As of June 30, 2016, the 'step-up' amounted to EUR 1,089 million. While the positive effect from the amortization will decrease as the relevant underlying Finance Bonds mature, we expect that the amortization effect will continue to influence the development of our net assets and income during the term of these debt instruments.

As of June 30, 2016, the bonds are recorded at a corresponding carrying amount of EUR 10,922 million on our balance sheet, which included the 'step-up' in the amount of EUR 1,089 million.

## **12.5 Definition and Discussion of Certain Financial Measures on Group and Segment Level**

### **12.5.1 External Revenue**

External revenue is defined as revenue from transactions with third parties (including transactions with the RWE Group). External revenue in our Grid & Infrastructure Segment mainly comprises grid fees, EEG levies and to a lesser extent revenue in the gas storage segment. EEG levies are payable under the German statutory support scheme for RES installations to the operators of RES installations by the connecting grid operators and are ultimately charged to the end customers in form of the EEG levy (*EEG-Umlage*). External revenue in our Retail Segment comprises the sale of electricity, the sale of gas and the sale of Energy+ products and energy services as well as pass-through items like grid fees and other fees. External revenue in our Renewables Segment mainly comprises revenue from the sale of self-generated electricity, the sale of "green certificates" in certain jurisdictions and revenue from the sale of wood pellets.

External revenue includes natural gas and electricity tax paid directly by our Group companies. Natural gas and electricity tax are excise duties (*indirekte Verbrauchsteuern*) that are passed-through by the energy supplier to the end customer as part of the gas or electricity price.

## 12.5.2 Intra-group Revenue

Revenue between the segments is reported as intra-group revenue. Internal supply of goods and services is settled at arm's length conditions. Intra-group revenue in our Grid & Infrastructure Segment largely comprises grid fees charged to companies of our Retail Segment, mainly in Germany. Intra-group revenue in our Retail Segment comprises mainly sales of electricity and gas to our Grid & Infrastructure Segment in Germany required for balancing energy and grid losses. Our intra-group revenue in the Renewables Segment primarily comprises sales of electricity and renewables obligation certificates (ROCs) to our Retail Segment in the UK.

## 12.5.3 Operating Result and Non-Operating Result

We define our operating result as income before tax excluding the financial result and the non-operating result. The operating result is not a measure defined under IFRS. As a non-IFRS figure, the operating result is not presented in accordance with IFRS or any other generally accepted accounting principles. For further information, see "4.8 Non-IFRS Measures".

The operating result as reported for our segments and discussed under "12.6 Results of Operation by Segment" is used for internal management purposes. The aggregate operating results of the Group include consolidation effects and the activities of other business areas that are not presented separately, such as internal group services provided and overhead costs that were allocated to our Group. For the six-month period ended June 30, 2016, they amounted to negative EUR 109 million (for the six-month period ended June 30, 2015: negative EUR 115 million). For 2015, they amounted to negative EUR 198 million (2014: negative EUR 205 million; 2013: negative EUR 225 million).

The non-operating result includes income and expenses that are unusual from an economic perspective, or stem from exceptional events. Typically the non-operating result can include book gains or losses from the disposal of investments or non-current assets not required for operations, impairment of the goodwill of fully consolidated companies, as well as effects of the fair valuation of certain derivatives. Such income and expenses from non-operating activities are reclassified to the non-operating result, and are thus not included in the reported operating result. Our non-operating result is only reported at Group level.

The following table provides a reconciliation of the operating result to income before tax:

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited) (in EUR million)		
<b>Operating result</b> . . . . .	<b>1,666</b>	<b>1,691</b>	<b>3,050</b>	<b>2,859</b>	<b>2,844</b>
<b>Non-operating result</b> . . . . .	399 <sup>1)</sup>	195 <sup>2)</sup>	50 <sup>3)</sup>	-83 <sup>4)</sup>	-832 <sup>5)</sup>
<b>Financial result</b> . . . . .	-452	-19	-302	-555	-567
<b>Income before tax</b> . . . . .	<b>1,613</b>	<b>1,867</b>	<b>2,798</b>	<b>2,221</b>	<b>1,445</b>

1) Including (i) EUR 204 million impairments for the gas storage facilities of the Grid & Infrastructure Segment, (ii) gains in the amount of EUR 352 million resulting from the fair valuation of derivatives and (iii) a gain in the amount of EUR 250 million from a compensation payment in connection with the settlement of gas storage contracts with RWEST.

2) Including (i) gains in the amount of EUR 139 million resulting from the fair valuation of derivatives and (ii) gains from disposals in the amount of EUR 54 million, including a subsequent purchase price payment that we received for the sale of shares in the wind offshore project Nordsee One in our Renewables Segment.

3) Including (i) EUR 167 million impairments, mainly related to the IT infrastructure in our Retail Segment, specifically relating to our UK operations, (ii) positive effects from restructuring in the amount of EUR 15 million, (iii) gains from disposals in the amount of EUR 65 million and (iv) positive effects from the fair valuation of derivatives in the amount of EUR 135 million.

4) Including (i) effects from restructurings in the amount of negative EUR 103 million, partly related to part-time retiree and early retirement contracts, (ii) gains from disposals in the amount of EUR 33 million, and (iii) effects from the fair valuation of derivatives in the amount of negative EUR 14 million. In 2014, no impairments were recorded as part of the non-operating result.

- 5) Including (i) EUR 799 million impairments (mainly related to our Spanish onshore wind farms in the Renewables Segment in the amount of EUR 266 million, our offshore wind farm Nordsee Ost in the Renewables Segment in the amount of EUR 260 million, and our gas storage assets in the Grid & Infrastructure Segment in the amount of EUR 181 million), (ii) effects from restructurings in the amount of negative EUR 315 million, partly related to part-time retiree and early retirement contracts, (iii) gains from disposals in the amount of EUR 211 million, mainly related to the sale of a customer portfolio in the UK to Telecom Plus in the amount of EUR 199 million, and (iv) effects from the fair valuation of derivatives in the amount of EUR 24 million.

At EUR 1,666 million, our operating result remained largely stable for the six-month period ended June 30, 2016 compared to EUR 1,691 million for the six-month period ended June 30, 2015. In our Grid & Infrastructure Segment, a decrease of the operating result relating to our German grid operations, mainly resulting from increased operation and maintenance costs and higher provisions for old-age part-time employment measures, was largely compensated by better operational performance in Eastern Europe. In Eastern Europe, the operating result of our Grid & Infrastructure Segment was positively affected by higher distributed volumes in the Czech gas business. The operating result of our Renewables Segment decreased, mainly due to lower wholesale prices and lower asset sales relating to our renewables portfolio. Lower wholesale prices have a negative impact on those assets that are not or no longer subject to a support scheme. In the first half of 2016 for example, our biggest onshore wind farm in the Netherlands started to gradually lose its price guarantee for produced electricity. These negative effects on the operating result were partly offset by the availability of the full capacity contributed by two offshore wind farms which were inaugurated in the second quarter of 2015. Lower results in our Grid & Infrastructure Segment and our Renewables Segment were partly compensated by an increase of the operating result of our Retail Segment by EUR 24 million, which was mainly attributable to our business in the UK and Eastern Europe. In the six-month period ended June 30, 2015, our operating result in the UK was negatively affected by process- and system-related billing problems. We launched a comprehensive restructuring program to address these issues that is well on track. However, the process- and system-related billing problems resulted in the loss of some UK residential customers in 2015 and caused us to conclude lower margin contracts with some UK customers in order to retain them, which has resulted in sales and earnings shortfalls, the full impact of which has only been felt in 2016. Furthermore, the B2B business was negatively affected by lower customer numbers and margins as a result of a highly competitive market, and lower margins resulting from changes in government legislation regarding climate change levies. A positive effect resulted from lower commodity prices in the first half of 2016. In Eastern Europe, our operating result was positively affected by the consolidated earnings of the VSE Holding group in Slovakia and lower gas purchase costs in the Czech Republic. The increase in the UK and Eastern Europe was partly offset by a decrease of the operating result in Germany and the Netherlands/Belgium. The decrease in the operating result in Germany was due to increased costs that were not passed-on to customers.

Our non-operating result increased by EUR 204 million from EUR 195 million for the six-month period ended June 30, 2015 to EUR 399 million for the six-month period ended June 30, 2016. This increase was largely due to increased gains resulting from the fair valuation of derivatives amounting to EUR 352 million. Furthermore, a gain from a compensation payment received in connection with the settlement of gas storage contracts with RWEST amounting to EUR 250 million was mostly offset by impairments for the gas storage facilities of the Grid & Infrastructure Segment amounting to EUR 204 million.

In 2015, our operating result increased by EUR 191 million from EUR 2,859 million in 2014 to EUR 3,050 million. To this increase, our Renewables Segment contributed EUR 235 million, which was mainly driven by higher capacity from the commissioning of two large-scale offshore wind farms and increased utilization levels. Furthermore, higher gains from disposals of wind farm development projects contributed to the increase. Furthermore, the operating result of our Grid & Infrastructure Segment increased by EUR 26 million, which was mainly driven by book gains from the revaluation resulting from the first-time full consolidation VSE Holding group in Slovakia as well as favorable regulatory changes and weather-induced higher gas sales in the

Czech Republic. In the same period, our operating result in Germany decreased due to lower gains from grid disposals. The operating result of our Retail Segment decreased by EUR 77 million, mainly driven by the negative development in the UK as a result of severe process- and system-related issues in the billing of household customers. This was partly offset by an increased operating result in our other regions, mainly due to releases of provisions and efficiency enhancements relating to our German business, one-off gains in connection with the revaluation resulting from the first-time full consolidation VSE Holding group in Slovakia and a recovery of the gas business after the mild winter in 2014.

Our non-operating result improved by EUR 133 million from negative EUR 83 million in 2014 to EUR 50 million in 2015. In 2015, we recognized impairments in the amount of EUR 167 million mainly related to the IT infrastructure in our Retail Segment, specifically relating to our UK operations, which were offset by gains from disposals and revaluations of hedges. In 2014, no impairments were recorded as part of the non-operating result.

In 2014, our operating result increased by EUR 15 million from EUR 2,844 million in 2013 to EUR 2,859 million. To this increase, our Renewables Segment contributed EUR 53 million, which was mainly due to compensation payments for delays to the completion of one of our wind farms caused by third parties while the cuts made by Spanish regulation in the renewable energy support scheme negatively affected our operating results. In the same period, the operating result of our Grid & Infrastructure Segment decreased by EUR 34 million. This was mainly an effect from a reduction in gas volumes in the distribution business as a consequence of the milder temperatures in 2014 and lower gas storage margins due to the decreased seasonal spread. It was partially offset by higher gains from grid asset disposals and efficiency enhancements in our German business. Furthermore, the operating result of our Retail Segment decreased by EUR 24 million. This was mainly driven by a competition-induced drop in margins in the Netherlands and Belgium, earnings shortfalls in the Czech gas business and higher costs for restructuring measures in relation to our UK IT system and billing issues. The compensating effect from our German retail business was mainly a result of the relatively low operating result in 2013 which was affected by an adjustment of our hedge book in 2013.

Our non-operating result improved by EUR 749 million from negative EUR 832 million in 2013 to negative EUR 83 million in 2014. Our non-operating result in 2013 included impairments in the amount of EUR 799 million, mainly due to an impairment of EUR 266 million that was recognized on Spanish onshore wind farms in the Renewables Segment, an impairment of EUR 260 million that was recognized on our offshore wind farm Nordsee Ost in the Renewables Segment and an impairment of EUR 181 million relating to our gas storage assets in the Grid & Infrastructure Segment. Our non-operating result in 2013 also included the gain from the sale of a customer portfolio in the UK to Telecom Plus in the amount of EUR 199 million.

#### **12.5.4 EBITDA**

EBITDA is defined as operating result before operating depreciation and amortization. EBITDA includes income from investments. It does not include taxes, the financial result or the non-operating result as defined in *"12.5.3 Operating Result and Non-Operating Result"*. Operating depreciation and amortization does not include non-operating depreciation and amortization which is presented as part of the non-operating result as defined in *"12.5.3 Operating Result and Non-Operating Result"*.

EBITDA is not a measure defined under IFRS. As a non-IFRS figure, EBITDA is not presented in accordance with IFRS or any other generally accepted accounting principles. For further information, see *"4.8 Non-IFRS Measures"*.

EBITDA of the Group increased by EUR 53 million from EUR 2,332 million for the six-month period ended June 30, 2015 to EUR 2,385 million for the six-month period ended June 30, 2016. To this increase, our Retail Segment contributed EUR 61 million, while EBITDA of our Grid & Infrastructure Segment decreased by EUR 16 million. Our Renewables Segment contributed EUR 5 million to the increase of our EBITDA.

In 2015, our EBITDA increased by EUR 224 million from EUR 4,297 million in 2014 to EUR 4,521 million. To this increase, our Renewables Segment contributed EUR 294 million and our Grid & Infrastructure Segment EUR 17 million. This increase was partly offset by a decrease of EBITDA of the Retail Segment of EUR 81 million.

In 2014, our EBITDA increased by EUR 103 million from EUR 4,194 million in 2013 to EUR 4,297 million. To this increase, our Renewables Segment contributed EUR 76 million and our Grid & Infrastructure Segment EUR 71 million. These increases were partly offset by a decrease of EBITDA of our Retail Segment of EUR 44 million.

The following table provides a reconciliation of our EBITDA to the operating result and income before tax:

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited) (in EUR million)		
<b>EBITDA</b> .....	<b>2,385</b>	<b>2,332</b>	<b>4,521</b>	<b>4,297</b>	<b>4,194</b>
Operating depreciation and amortization <sup>1)</sup> .....	-719	-641	-1,471	-1,438	-1,350
<b>Operating result</b> .....	<b>1,666</b>	<b>1,691</b>	<b>3,050</b>	<b>2,859</b>	<b>2,844</b>
Non-operating result .....	399	195	50	-83	-832
Financial result .....	-452	-19	-302	-555	-567
<b>Income before tax</b> .....	<b>1,613</b>	<b>1,867</b>	<b>2,798</b>	<b>2,221</b>	<b>1,445</b>

1) Operating depreciation and amortization does not include non-operating depreciation and amortization which is presented as part of the non-operating result as defined in "12.5.3 Operating Result and Non-Operating Result".

## 12.6 Results of Operation by Segment

### 12.6.1 Grid & Infrastructure Segment

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited, unless otherwise indicated) (in EUR million)		
<b>External revenue (incl. natural gas tax/electricity tax) Grid &amp; Infrastructure Segment</b>	<b>5,632</b>	<b>5,054</b>	<b>10,176</b>	<b>9,819</b>	<b>9,376</b>
G&I Germany <sup>1)</sup>	5,183	4,712	9,451	9,168	8,639
G&I East <sup>1)</sup>	449	342	725	651	737
<b>Intra-group revenue Grid &amp; Infrastructure Segment</b>	<b>1,605</b>	<b>1,262</b>	<b>3,049</b>	<b>3,225</b>	<b>3,516</b>
<b>Total revenue Grid &amp; Infrastructure Segment</b>	<b>7,237</b>	<b>6,316</b>	<b>13,225</b>	<b>13,044</b>	<b>12,892</b>
<b>Operating result Grid &amp; Infrastructure Segment</b>	<b>916</b>	<b>956</b>	<b>1,930</b>	<b>1,904</b>	<b>1,938</b>
G&I Germany <sup>1)</sup>	636	700	1,282	1,453	1,331
G&I East <sup>1)</sup>	280	256	648	451	607
<b>Operating depreciation and amortization Grid &amp; Infrastructure Segment</b>	<b>441</b>	<b>417</b>	<b>948</b>	<b>957</b>	<b>852</b>
G&I Germany <sup>1)</sup>	318	323	734	769	668
G&I East <sup>1)</sup>	123	94	214	188	184
<b>EBITDA Grid &amp; Infrastructure Segment</b>	<b>1,357</b>	<b>1,373</b>	<b>2,878</b>	<b>2,861</b>	<b>2,790</b>
G&I Germany <sup>1)</sup>	954	1,023	2,016	2,222	1,999
G&I East <sup>1)</sup>	403	350	862	639	791
<b>Capital expenditure on intangible assets, property, plant and equipment Grid &amp; Infrastructure Segment<sup>2)</sup></b>	<b>371</b>	<b>370</b>	<b>1,305</b>	<b>1,131</b>	<b>1,117</b>
G&I Germany <sup>1)</sup>	258	284	968	856	841
G&I East <sup>1)</sup>	113	86	337	275	276

1) Figures on operating segment level (G&I Germany and G&I East) are unaudited. Figures on reportable segment level are audited.

2) Excluding financial investments.

#### 12.6.1.1 Comparison of the Six-Month Period Ended June 30, 2016 and the Six-Month Period Ended June 30, 2015 (Grid & Infrastructure Segment)

##### 12.6.1.1.1 External Revenue (Grid & Infrastructure Segment)

In our Grid & Infrastructure Segment, external revenue increased by EUR 578 million from EUR 5,054 million for the six-month period ended June 30, 2015 to EUR 5,632 million for the six-month period ended June 30, 2016. EUR 471 million of this increase was attributable to G&I Germany, which was mainly a result of higher fees charged for the utilization of our grid, a higher share of direct sales of electricity (*EEG-Direktvermarktung*) and an increased number of connecting points for renewable energy sourcing units. G&I East contributed EUR 107 million to the increase of external revenue in the Grid & Infrastructure Segment, which was mainly a result of the first-time full consolidation of VSE Holding group in Slovakia from September 2015

onwards (see "12.6.1.2.1 External Revenue (Grid & Infrastructure Segment)"). Therefore, the external revenue generated by VSE Holding group is included in the Group's external revenue for the six-month period ended June 30, 2016, but not in the Group's external revenue for the six-month period ended June 30, 2015.

#### 12.6.1.1.2 Intra-group Revenue (Grid & Infrastructure Segment)

In our Grid & Infrastructure Segment, intra-group revenue increased by EUR 343 million from EUR 1,262 million for the six-month period ended June 30, 2015 to EUR 1,605 million for the six-month period ended June 30, 2016.

#### 12.6.1.1.3 Operating Result and EBITDA (Grid & Infrastructure Segment)

The operating result for our Grid & Infrastructure Segment decreased by EUR 40 million from EUR 956 million for the six-month period ended June 30, 2015 to EUR 916 million for the six-month period ended June 30, 2016. This development was a result of the decrease of EUR 64 million for G&I Germany, which was partly offset by an increase of EUR 24 million for G&I East.

Operating depreciation and amortization for our Grid & Infrastructure Segment increased by EUR 24 million from EUR 417 million for the six-month period ended June 30, 2015 to EUR 441 million for the six-month period ended June 30, 2016. This increase was driven by an increase of EUR 29 million for G&I East, which was partly offset by a decrease of EUR 5 million for G&I Germany.

EBITDA of our Grid & Infrastructure Segment for the six-month period ended June 30, 2016 amounted to EUR 1,357 million, a decrease of EUR 16 million from EUR 1,373 million for the six-month period ended June 30, 2015. This was due to a decrease of EUR 69 million for G&I Germany, which was partly offset by an increase of EUR 53 million for G&I East.

#### Germany

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) (in EUR million)	
<b>Operating result G&amp;I Germany</b> .....	<b>636</b>	<b>700</b>
Operating depreciation and amortization G&I Germany .....	318	323
<b>EBITDA G&amp;I Germany</b> .....	<b>954</b>	<b>1,023</b>
thereof:		
Asset disposals (grid sales) .....	59	58

The operating result for G&I Germany decreased by EUR 64 million from EUR 700 million for the six-month period ended June 30, 2015 to EUR 636 million for the six-month period ended June 30, 2016. This decrease was mainly a result of increased costs to operate and maintain the distribution grid and higher provisions for old-age part-time employment measures. Gains on asset disposals from grid sales were largely stable at EUR 59 million for the six-month period ended June 30, 2016 and EUR 58 million for the six-month period ended June 30, 2015.

Operating depreciation and amortization relating to G&I Germany remained largely stable at EUR 318 million for the six-month period ended June 30, 2016 and EUR 323 million for the six-month period ended June 30, 2015.

EBITDA of G&I Germany decreased by EUR 69 million from EUR 1,023 million for the six-month period ended June 30, 2015 to EUR 954 million for the six-month period ended June 30, 2016. In line with our operating result for G&I Germany, EBITDA was negatively affected by increased operating and maintenance cost and higher provisions for old-age part-time employment measures.

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) (in EUR million)	
<b>Operating result G&amp;I East</b> .....	<b>280</b>	<b>256</b>
Operating depreciation and amortization G&I East .....	123	94
<b>EBITDA G&amp;I East</b> .....	<b>403</b>	<b>350</b>

The operating result for G&I East increased by EUR 24 million from EUR 256 million for the six-month period ended June 30, 2015 to EUR 280 million for the six-month period ended June 30, 2016. This increase was mainly a result of higher distributed volumes in the Czech gas business.

Operating depreciation and amortization relating to G&I East increased by EUR 29 million from EUR 94 million for the six-month period ended June 30, 2015 to EUR 123 million for the six-month period ended June 30, 2016. This increase was largely a consequence of the first-time full consolidation of VSE Holding group in Slovakia in the second half of 2015, which resulted in the recognition of additional depreciation in the consolidated accounts for the six-month period ended June 30, 2016 compared to the six-month period ended June 30, 2015.

EBITDA of G&I East increased by EUR 53 million from EUR 350 million for the six-month period ended June 30, 2015 to EUR 403 million for the six-month period ended June 30, 2016. EBITDA was positively affected by the first-time consolidation of VSE Holding group in Slovakia and higher distribution volumes in the Czech gas business.

#### 12.6.1.1.4 Capital Expenditure (Grid & Infrastructure Segment)

Capital expenditure on intangible assets, property, plant and equipment ("**CAPEX**") for our Grid & Infrastructure Segment remained largely stable at EUR 371 million for the six-month period ended June 30, 2016 and EUR 370 million for the six-month period ended June 30, 2015. The EUR 26 million decrease of CAPEX in Germany was fully offset by an increase of CAPEX for G&I East. This increase was mainly the result of the first-time full consolidation of VSE Holding group in Slovakia in the second half of 2015.

#### 12.6.1.2 Comparison of the Financial Years 2015, 2014 and 2013 (Grid & Infrastructure Segment)

##### 12.6.1.2.1 External Revenue (Grid & Infrastructure Segment)

In our Grid & Infrastructure Segment, external revenue for 2015 was EUR 10,176 million, an increase of EUR 357 million from 2014. EUR 283 million of this increase were attributable to G&I Germany. This increase in our German business was predominantly due to higher revenue related to the promotion of electricity generation from renewable energy sources under the German Renewables Energy Act (*Erneuerbare-Energien-Gesetz*) and the expansion of our German grid network.

In 2015, external revenue of G&I East increased by EUR 74 million mainly due to the first-time full consolidation of VSE Holding group, representing the revenue generated by VSE Holding group from September to December. VSE Holding is the holding company in Slovakia that holds our local electricity and gas retail business as well as the electricity distribution grid in Slovakia. In August 2015, we gained control of VSE Holding, due to a contractual arrangement. VSE Holding had previously been accounted for using the equity method. As a consequence of the full consolidation, the Group's external revenue included the external revenue generated by VSE Holding group in Slovakia from September to December 2015.

For 2014, the external revenue of the Grid & Infrastructure Segment was EUR 9,819 million, an increase of EUR 443 million from 2013. EUR 529 million thereof were attributable to our German

business and resulted from an increased number of connecting points for RES units translating into additional revenue for the grid operators in Germany. The increase was partly offset by our business in Eastern Europe which decreased by EUR 86 million due to reduced market prices for gas storage and lower volumes of gas distributed in our grid network as a consequence of the milder temperatures in 2014.

#### 12.6.1.2.2 Intra-group Revenue (Grid & Infrastructure Segment)

In our Grid & Infrastructure Segment, intra-group revenue for 2015 was EUR 3,049 million, a decrease of EUR 176 million compared to 2014. For 2014, the intra-group revenue was EUR 3,225 million, a decrease by EUR 291 million compared to 2013.

#### 12.6.1.2.3 Operating Result and EBITDA (Grid & Infrastructure Segment)

The operating result for our Grid & Infrastructure Segment in 2015 of EUR 1,930 million was largely comparable to 2014 as the increase of the operating result for G&I East (EUR 197 million) exceeded the decrease of the operating result for G&I Germany (EUR 171 million) by EUR 26 million. For 2014, the operating result amounted to EUR 1,904 million, a decrease of EUR 34 million from 2013. This decrease was a result of the negative development of the operating result of G&I East which decreased by EUR 156 million and was only partly offset by the increase of the operating result of G&I Germany of EUR 122 million.

Overall operating depreciation and amortization for 2015 was largely stable with EUR 948 million compared to EUR 957 million in 2014. The decrease for G&I Germany of EUR 35 million was offset by the increase for G&I East of EUR 26 million. Operating depreciation and amortization increased by EUR 105 million from EUR 852 million for 2013 to EUR 957 million in 2014. To this increase, G&I Germany contributed with EUR 101 million the main part.

EBITDA for 2015 amounted to EUR 2,878 million, a slight increase of EUR 17 million from 2014. The decrease of EUR 206 million in G&I Germany was exceeded by the increase of EUR 223 million for G&I East. For 2014, EBITDA amounted to EUR 2,861 million, an increase of EUR 71 million from 2013. In this period, G&I Germany increased by EUR 223 million, which was partly offset by the decrease of EUR 152 million in G&I East.

#### Germany

	For the financial year ended December 31,		
	2015	2014	2013
	(unaudited) (in EUR million)		
<b>Operating result G&amp;I Germany</b> .....	<b>1,282</b>	<b>1,453</b>	<b>1,331</b>
Operating depreciation and amortization G&I Germany .....	734	769	668
<b>EBITDA G&amp;I Germany</b> .....	<b>2,016</b>	<b>2,222</b>	<b>1,999</b>
thereof:			
Asset disposals (grid sales) .....	153	187	63

The operating result of G&I Germany amounted to EUR 1,282 million for 2015, a decrease of EUR 171 million compared to 2014. This decrease was partly due to lower earnings from the disposal of individual grid assets. Gains on asset disposals decreased from EUR 187 million in 2014 to EUR 153 million in 2015. These grid disposals were primarily a consequence of lost concessions. In such cases, we are required to sell the relevant parts of our grid to the succeeding grid operator. Additional disposal proceeds resulted in 2014 from the sale of the extra-high voltage grid from our regional utility Lechwerke AG to Amprion GmbH leading to an additional book gain in 2014 and a lower operating result in 2015. Furthermore, higher maintenance costs for our grid infrastructure and restructuring costs in connection with our early pension scheme contributed to the decrease.

In 2015, operating depreciation and amortization relating to G&I Germany decreased by EUR 35 million from EUR 769 million in 2014 to EUR 734 million. This decrease was predominantly a result of lower impairments on our gas storage assets. In 2014, particularly high impairments were required following a revaluation of the assets in the light of decreasing profitability of the gas storage business as a consequence of lower seasonal spreads. In 2015, we had to recognize additional impairments for our gas storage business, but at a lower level.

EBITDA of our German business decreased by EUR 206 million from EUR 2,222 million in 2014 to EUR 2,016 million in 2015. In line with our operating result for G&I Germany, EBITDA was positively affected by gains on grid asset disposals in 2015 and 2014. Excluding those effects for 2015 and 2014, EBITDA would have decreased by EUR 173 million, mainly due to higher maintenance costs for our grid infrastructure and restructuring costs in connection with our early pension scheme.

In 2014, our operating result in Germany increased by EUR 122 million from EUR 1,331 million in 2013 to EUR 1,453 million. The reasons for the positive development were gains from grid disposals, primarily as a result of lost concessions, which increased from EUR 63 million in 2013 to EUR 187 million in 2014. In addition, as mentioned above, we sold the extra-high voltage grid from our regional utility Lechwerke AG to Amprion GmbH which resulted in higher book gains in 2014. Furthermore, our efficiency-enhancement program contributed to the increase of the operating result attributable to our German business. In 2014, we made further progress in implementing our efficiency-enhancement program launched in 2012. It encompasses numerous measures to reduce costs and increase revenue, through which we intend to increase earnings potential each year. One negative effect compared to 2013 was the impairment on gas storage assets in the amount of EUR 101 million.

In 2014, operating depreciation and amortization relating to our German business increased by EUR 101 million from EUR 668 million in 2013 to EUR 769 million. One major reason for this increase compared to 2013 was the impairment of our gas storage operations amounting to EUR 101 million. Impairments required for our gas storage operations in 2013 were recognized in the non-operating result and did not contribute to operating depreciation and amortization of G&I Germany (see "12.5.3 Operating Result and Non-Operating Result").

In 2014, EBITDA increased by EUR 223 million compared to EUR 1,999 million in 2013. In line with our operating result for G&I Germany, EBITDA was positively affected by gains on grid asset disposals in 2014 and 2013. Excluding those effects for 2014 and 2013, EBITDA would have increased by EUR 101 million, mainly due to efficiency enhancements.

#### *Eastern Europe*

	For the financial year ended December 31,		
	2015	2014	2013
	(unaudited) (in EUR million)		
<b>Operating result G&amp;I East</b> . . . . .	<b>648</b>	<b>451</b>	<b>607</b>
Operating depreciation and amortization G&I East . . . . .	214	188	184
<b>EBITDA G&amp;I East</b> . . . . .	<b>862</b>	<b>639</b>	<b>791</b>
thereof:			
Book gain from revaluation after first-time consolidation of VSE			
Holding group in Slovakia . . . . .	143	—	—

The operating result for G&I East in 2015 amounted to EUR 648 million, an increase of EUR 197 million from 2014. This increase was mainly driven by the revaluation of the participation in VSE Holding in connection with the first-time full consolidation of VSE Holding group in Slovakia which resulted in a book gain in 2015. As the VSE Holding group operates in our Grid &

Infrastructure Segment as well as in our Retail Segment, the relevant items affect the operating results of both reportable segments. An amount of EUR 143 million of the income resulting from the first-time full consolidation of VSE Holding group was attributable to our Grid & Infrastructure Segment, with the remaining EUR 42 million being attributable to our Retail Segment.

In addition to this effect from the full consolidation of VSE Holding group in Slovakia, our operating result was positively influenced in 2015 by a change in the Czech regulation applicable to our gas distribution grids, which resulted in an increased regulatory WACC for the grid. In addition, our operating result was positively affected by higher sales as a result of more favorable weather conditions compared with the mild weather in 2014. These positive effects were partly offset by decreased gas storage margins following the decrease in the difference between summer gas forward prices and winter gas forward prices (seasonal spread) which represents one of the key drivers for the gas storage earnings.

Operating depreciation and amortization relating to G&I East increased by EUR 26 million from EUR 188 million in 2014 to EUR 214 million in 2015. This was also largely a consequence of the first-time full consolidation of VSE Holding group in Slovakia which resulted in the recognition of additional depreciation in the consolidated accounts.

EBITDA of G&I East increased by EUR 223 million from EUR 639 million in 2014 to EUR 862 million in 2015. In line with our operating result for G&I East, EBITDA was affected by the revaluation of the participation in VSE Holding as a result of the first-time full consolidation of VSE Holding group in Slovakia in 2015. Excluding this effect, the increase of EBITDA of G&I East would have been EUR 80 million, mainly driven by regulatory changes in the tariff regulation in the Czech Republic and higher distributed gas volume resulting from more favorable weather conditions.

In 2014, the operating result of G&I East decreased by EUR 156 million from EUR 607 million in 2013. This was mainly a result of a reduction in gas volumes in the distribution business as a consequence of the milder temperatures in 2014 and lower gas storage margins due to the decreased seasonal spread.

Operating depreciation and amortization remained stable at a level of EUR 184 million in 2013 and EUR 188 million in 2014.

In 2014, EBITDA attributable to G&I East decreased by EUR 152 million compared to EUR 791 million in 2013. In line with our operating result, EBITDA was affected by lower gas volumes resulting from the mild weather in 2014 and lower gas storage margins.

#### 12.6.1.2.4 Capital Expenditure (Grid & Infrastructure Segment)

Our CAPEX amounted to EUR 1,305 million in 2015, an increase of EUR 174 million from 2014. Thereof, EUR 112 million were attributable to G&I Germany. This increase was predominantly due to higher investments to improve our grid infrastructure in Germany, especially by Westnetz GmbH, our largest DSO, and Mitteldeutsche Netzgesellschaft Strom mbH, our DSO in the Eastern part of Germany. The increase of EUR 62 million relating to G&I East is primarily a result of the full consolidation of VSE Holding group in Slovakia in 2015 and increased investments into the Hungarian grid. In line with guidance of the Hungarian regulator, we made additional investments into our grid network.

Our CAPEX largely remained stable at EUR 1,117 million in 2013 and EUR 1,131 million in 2014.

## 12.6.2 Retail Segment

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited, unless otherwise indicated) (in EUR million)		
<b>External revenue (incl. natural gas tax/electricity tax) Retail Segment</b>					
Segment	16,668	17,982	34,491	35,145	38,341
Retail Germany <sup>1)</sup>	8,245	8,751	17,301	18,079	18,873
Retail NL/BE <sup>1)</sup>	2,025	2,328	4,241	4,498	6,341
Retail East <sup>1)</sup>	1,801	1,718	3,397	3,193	3,795
Retail UK <sup>1)</sup>	4,597	5,185	9,552	9,375	9,332
<b>Intra-group revenue Retail Segment</b>					
Segment	343	395	577	674	795
<b>Total revenue Retail Segment</b>	<b>17,011</b>	<b>18,377</b>	<b>35,068</b>	<b>35,819</b>	<b>39,136</b>
<b>Operating result Retail Segment</b>	<b>640</b>	<b>616</b>	<b>830</b>	<b>907</b>	<b>931</b>
Retail Germany <sup>1)</sup>	276	299	545	358	255
Retail NL/BE <sup>1)</sup>	136	141	194	138	198
Retail East <sup>1)</sup>	143	123	228	184	188
Retail UK <sup>1)</sup>	85	53	-137	227	290
<b>Operating depreciation and amortization Retail Segment</b>	<b>106</b>	<b>69</b>	<b>158</b>	<b>162</b>	<b>182</b>
Retail Germany <sup>1)</sup>	20	17	38	36	24
Retail NL/BE <sup>1)</sup>	21	20	42	53	59
Retail East <sup>1)</sup>	12	2	6	6	23
Retail UK <sup>1)</sup>	53	30	72	67	76
<b>EBITDA Retail Segment</b>	<b>746</b>	<b>685</b>	<b>988</b>	<b>1,069</b>	<b>1,113</b>
Retail Germany <sup>1)</sup>	296	316	583	394	279
Retail NL/BE <sup>1)</sup>	157	161	236	191	257
Retail East <sup>1)</sup>	155	125	234	190	211
Retail UK <sup>1)</sup>	138	83	-65	294	366
<b>Capital expenditure on intangible assets, property, plant and equipment Retail Segment<sup>2)</sup></b>	<b>100</b>	<b>94</b>	<b>287</b>	<b>212</b>	<b>158</b>
Retail Germany <sup>1)</sup>	23	14	53	46	29
Retail NL/BE <sup>1)</sup>	16	11	25	9	14
Retail East <sup>1)</sup>	16	4	20	9	9
Retail UK <sup>1)</sup>	45	65	189	148	106

1) Figures on operating segment level (Retail Germany, Retail NL/BE, Retail East, Retail UK) are unaudited.

2) Excluding financial investments.

### 12.6.2.1 Comparison of the Six-Month Period Ended June 30, 2016 and the Six-Month Period Ended June 30, 2015 (Retail Segment)

#### 12.6.2.1.1 External Revenue (Retail Segment)

In our Retail Segment, external revenue decreased by EUR 1,314 million from EUR 17,982 million for the six-month period ended June 30, 2015 to EUR 16,668 million for the six-month period ended June 30, 2016. This was mainly a result of lower prices charged to customers and lower gas volumes sold to our customers which was partly offset by the positive effect of the first-time

consolidation of VSE Holding group in Slovakia. In Germany, revenue from gas sales was lower due to lower gas prices and a reduction of volumes. Furthermore we observed lower electricity sales to B2C customers. For Retail UK and Retail NL/BE, customer numbers decreased as a consequence of more intense competition in the retail markets. In the UK, our revenue was also negatively affected by lower sales from Levy Exemption Certificates ("LECs") due to the termination of the respective regulation by the British Government. For Retail East, the positive effect of the first-time full consolidation of VSE Holding group in Slovakia was partially compensated by lower B2B sales and higher discounts in the B2C business of Retail East.

#### 12.6.2.1.2 Intra-group Revenue (Retail Segment)

Intra-group revenue of our Retail Segment decreased by EUR 52 million from EUR 395 million for the six-month period ended June 30, 2015 to EUR 343 million for the six-month period ended June 30, 2016.

#### 12.6.2.1.3 Operating Result and EBITDA (Retail Segment)

The operating result for our Retail Segment increased by EUR 24 million from EUR 616 million for the six-month period ended June 30, 2015 to EUR 640 million for the six-month period ended June 30, 2016. To this development, increases in Retail UK and Retail East contributed EUR 32 million and EUR 20 million, respectively, while the operating result for Retail Germany and Retail NL/BE decreased by EUR 23 million and EUR 5 million, respectively.

Operating depreciation and amortization for our Retail Segment increased by EUR 37 million from EUR 69 million for the six-month period ended June 30, 2015 to EUR 106 million for the six-month period ended June 30, 2016. The major part of the increase (EUR 23 million) was attributable to Retail UK, while Retail East, Retail Germany and Retail NL/BE contributed EUR 10 million, EUR 3 million and EUR 1 million, respectively, to the overall increase.

EBITDA of our Retail Segment for the six-month period ended June 30, 2016 amounted to EUR 746 million, an increase of EUR 61 million from EUR 685 million for the six-month period ended June 30, 2015. This increase was driven by an increase of EUR 55 million for Retail UK and EUR 30 million for Retail East, while EBITDA of Retail Germany and Retail NL/BE decreased by EUR 20 million and EUR 4 million, respectively.

#### Germany

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) (in EUR million)	
<b>Operating result Retail Germany</b> .....	<b>276</b>	<b>299</b>
Operating depreciation and amortization Retail Germany .....	20	17
<b>EBITDA Retail Germany</b> .....	<b>296</b>	<b>316</b>

In Germany, our operating result decreased by EUR 23 million from EUR 299 million for the six-month period ended June 30, 2015 to EUR 276 million for the six-month period ended June 30, 2016. This decrease was mainly a result of higher grid fees, taxes and levies, which were not fully passed-on to our customers.

Operating depreciation and amortization remained largely stable at a level of EUR 20 million for the six-month period ended June 30, 2016 and EUR 17 million for the six-month period ended June 30, 2015.

EBITDA for Retail Germany decreased by EUR 20 million from EUR 316 million for the six-month period ended June 30, 2015 to EUR 296 million for the six-month period ended June 30, 2016. In line with the decrease of our operating result, this was mainly an effect from increased costs, which were not fully passed-on to our customers.

## The Netherlands/Belgium

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) (in EUR million)	
<b>Operating result Retail NL/BE</b> .....	<b>136</b>	<b>141</b>
Operating depreciation and amortization Retail NL/BE .....	21	20
<b>EBITDA Retail NL/BE</b> .....	<b>157</b>	<b>161</b>

The operating result attributable to Retail NL/BE decreased by EUR 5 million from EUR 141 million for the six-month period ended June 30, 2015 to EUR 136 million for the six-month period ended June 30, 2016. While the operating result of Retail NL/BE was positively affected by improved earnings from the business with our household customers, the operating result for the six-month period ended June 30, 2015 reflected the release of various provisions for legal claims, which did not occur in the six-month period ended June 30, 2016.

Operating depreciation and amortization for Retail NL/BE remained largely stable at a level of EUR 21 million for the six-month period ended June 30, 2016 and EUR 20 million for the six-month period ended June 30, 2015.

EBITDA for Retail NL/BE decreased by EUR 4 million from EUR 161 million for the six-month period ended June 30, 2015 to EUR 157 million for the six-month period ended June 30, 2016. In line with the decrease of our operating result, this was mainly an effect of decreased releases of provisions in the six-month period ended June 30, 2016 compared to the six-month period ended June 30, 2015, while EBITDA of Retail NL/BE was positively affected by improved earnings from the business with our household customers.

## Eastern Europe

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) (in EUR million)	
<b>Operating result Retail East</b> .....	<b>143</b>	<b>123</b>
Operating depreciation and amortization Retail East .....	12	2
<b>EBITDA Retail East</b> .....	<b>155</b>	<b>125</b>

The operating result for the six-month period ended June 30, 2016 attributable to Retail East was EUR 143 million, an increase of EUR 20 million from EUR 123 million for the six-month period ended June 30, 2015. This increase was driven by the consolidated earnings of VSE Holding group in Slovakia and lower gas purchase costs in the Czech Republic.

Operating depreciation and amortization increased by EUR 10 million from EUR 2 million for the six-month period ended June 30, 2015 to EUR 12 million for the six-month period ended June 30, 2016. This increase was largely a consequence of the first-time full consolidation of VSE Holding group in Slovakia in the second half of 2015 and other portfolio effects, which resulted in the recognition of additional depreciation in the consolidated accounts in the six-month period ended June 30, 2016 compared to the six-month period ended June 30, 2015.

EBITDA for Retail East increased by EUR 30 million from EUR 125 million for the six-month period ended June 30, 2015 to EUR 155 million for the six-month period ended June 30, 2016. In line with the increase of our operating result, this was mainly an effect from consolidated earnings of VSE Holding group in Slovakia and lower gas purchase costs in the Czech Republic.

## United Kingdom

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) (in EUR million)	
<b>Operating result Retail UK</b> .....	<b>85</b>	<b>53</b>
Operating depreciation and amortization Retail UK .....	53	30
<b>EBITDA Retail UK</b> .....	<b>138</b>	<b>83</b>
thereof:		
Net effects related to billing and regulatory issues <sup>1)</sup> .....	3	-52
Net effects due to changes in revenue estimation <sup>2)</sup> .....	—	-35

1) Net effects related to charges concerning erroneous and historical late invoicing and the build-up of provisions for regulatory charges and reviews.

2) Net effects related to billing issues due to changes in revenue estimation.

The operating result for the six-month period ended June 30, 2016 attributable to Retail UK was EUR 85 million, an increase of EUR 32 million from EUR 53 million for the six-month period ended June 30, 2015. In the six-month period ended June 30, 2015, our operating result in the UK was negatively affected by process- and system-related billing problems (see "12.6.2.2.3 Operating Result and EBITDA (Retail Segment) – United Kingdom"). We launched a comprehensive restructuring program to address these issues that is well on track. However, the process- and system-related billing problems resulted in the loss of some UK residential customers in 2015 and caused us to conclude lower margin contracts with some UK customers in order to retain them, which has resulted in sales and earnings shortfalls, the full impact of which has only been felt in 2016. Furthermore, the B2B business was negatively affected by lower customer numbers and margins as a result of a highly competitive market, and lower margins resulting from changes in government legislation regarding climate change levies. A positive effect resulted from lower commodity prices in the first half of 2016.

Operating depreciation and amortization increased by EUR 23 million from EUR 30 million for the six-month period ended June 30, 2015 to EUR 53 million for the six-month period ended June 30, 2016. This increase was mainly a result of the increase in depreciation due to activation of IT infrastructure projects in 2015 and the start of scheduled depreciation in 2016.

EBITDA for Retail UK increased by EUR 55 million from EUR 83 million for the six-month period ended June 30, 2015 to EUR 138 million for the six-month period ended June 30, 2016. Excluding the net effects related to billing and regulatory issues and net effects due to changes in revenue estimation, which mainly affected the six-month period ended June 30, 2015, our EBITDA in the UK would have decreased by EUR 35 million. In line with the development of our operating result, this decrease mainly reflects the sales and earnings shortfalls associated with the loss of customers, the development towards lower margin customer contracts in 2015 and lower margins in our B2B business, which were only partially offset by favorable commodity costs.

### 12.6.2.1.4 Capital Expenditure (Retail Segment)

CAPEX in our Retail Segment increased by EUR 6 million from EUR 94 million for the six-month period ended June 30, 2015 to EUR 100 million for the six-month period ended June 30, 2016. To this increase, Retail Germany, Retail NL/BE and Retail East contributed EUR 9 million, EUR 5 million and EUR 12 million, respectively, while CAPEX for Retail UK decreased by EUR 20 million. The decrease of CAPEX in the UK was mainly a result of lower project expenditures in our large IT infrastructure projects and a change in the accounting of certain IT project costs which are now recognized as OPEX in our accounts.

## 12.6.2.2 Comparison of the Financial Years 2015, 2014 and 2013 (Retail Segment)

### 12.6.2.2.1 External Revenue (Retail Segment)

In our Retail Segment, external revenue for 2015 was EUR 34,491 million, a decrease of EUR 654 million compared to 2014. This decrease was primarily due to lower supply of electricity to our customers in Germany and NL/BE. Moreover, some of our retail companies decreased their sales prices which resulted in revenue shortfalls. A positive effect, however, derived from the appreciation of the GBP in 2015, which resulted in a more favorable currency conversion of our UK revenue.

For 2014, the external revenue was EUR 35,145 million, a decrease of EUR 3,196 million compared to 2013. This decrease was driven by mild temperatures, resulting in significantly lower gas sales volumes.

### 12.6.2.2.2 Intra-group Revenue (Retail Segment)

In our Retail Segment, intra-group revenue for 2015 was EUR 577 million, a decrease of EUR 97 million compared to 2014. For 2014, the intra-group revenue was EUR 674 million, a decrease of EUR 121 million compared to 2013. This decrease was a result of lower sales to our grid business.

### 12.6.2.2.3 Operating Result and EBITDA (Retail Segment)

In our Retail Segment, the operating result for 2015 amounted to EUR 830 million, a decrease of EUR 77 million compared to 2014. This decrease was mainly driven by the material decrease of the operating result of Retail UK (EUR 364 million), which was partly offset by the increases in Retail Germany (EUR 187 million), Retail NL/BE (EUR 56 million) and Retail East (EUR 44 million). For 2014, our operating result was EUR 907 million, a decrease of EUR 24 million compared to 2013. To this decrease, Retail UK, Retail NL/BE and Retail East contributed an amount of EUR 63 million, EUR 60 million and EUR 4 million, respectively, which was partly offset by an increase of EUR 103 million in Retail Germany.

Operating depreciation and amortization remained largely stable at a level of EUR 158 million in 2015 and EUR 162 million in 2014. In 2014, operating depreciation and amortization decreased by EUR 20 million from EUR 182 million in 2013.

In 2015, our Retail Segment generated EBITDA of EUR 988 million and thereby contributed 21.9% to the consolidated EBITDA of the Group (EUR 4,521 million). Between 2013 and 2015 our Retail Segment's EBITDA decreased by 11.2%. This was mainly driven by a EUR 431 million decline of our UK EBITDA which was partly offset by a higher EBITDA in the other retail operating segments. Specifically, Retail Germany contributed EUR 189 million and EUR 115 million to the increases in 2015 and 2014, respectively. While EBITDA in Retail NL/BE and Retail East decreased from 2013 to 2014 by EUR 66 million and EUR 21 million, respectively, they demonstrated an increase of EBITDA from 2014 to 2015 (EUR 45 million and EUR 44 million, respectively). The overall decrease in the periods under review reflects the problems we had in the UK which still impact our results (see "12.4.2.5 Margins").

### Germany

	For the financial year ended December 31,		
	2015	2014	2013
	(unaudited) (in EUR million)		
<b>Operating result Retail Germany</b> . . . . .	<b>545</b>	<b>358</b>	<b>255</b>
Operating depreciation and amortization Retail Germany . . . . .	38	36	24
<b>EBITDA Retail Germany</b> . . . . .	<b>583</b>	<b>394</b>	<b>279</b>
thereof:			
Realized losses in our hedge book . . . . .	—	—	-142

In Germany, our operating result in the Retail Segment for 2015 amounted to EUR 545 million, an increase of EUR 187 million from EUR 358 million in 2014. The strong increase was driven to a significant extent by releases of provisions, mainly in the amount of EUR 81 million for legal risks in connection with customer supply contracts which were risk adjusted in 2015. In addition, operational performance improvements under our efficiency-enhancement program contributed to the increased operating result. Furthermore, the operating result benefited in 2015 from a larger customer base and higher sales volumes of natural gas to customers due to more favorable weather conditions for gas sales in 2015.

Operating depreciation and amortization remained largely stable at a level of EUR 38 million in 2015 and EUR 36 million in 2014.

In 2015, EBITDA increased by EUR 189 million to EUR 583 million. In line with our operating result for Retail Germany, EBITDA was mainly driven by the adjustment of provisions for legal risks in connection with customer contracts. The remaining increase was mainly due to operational performance improvements under our efficiency-enhancement program, a larger customer base and higher sales volumes of natural gas to customers due to more favorable weather conditions for gas sales.

With EUR 358 million for 2014, the operating result in Germany increased by EUR 103 million from EUR 255 million in 2013. The main reason for this increase was an adjustment of our hedge book in 2013, which affected the operating result in 2013. In the past, we procured energy for our customers to a certain extent up to 60 months in advance to hedge wholesale price developments. Due to the economic crisis in 2008 and 2009, energy prices declined significantly. This resulted in realized losses in our hedge book in the amount of EUR 142 million in 2013. The mild weather in 2014 resulted in lower gas sales, which negatively affected our operating result in 2014.

Operating depreciation and amortization increased by EUR 12 million from EUR 24 million for 2013 to EUR 36 million for 2014. This increase was mainly a result of the depreciation of our biomass activities, which were transferred in 2014 from our Renewables Segment to the Retail Segment. For this purpose, the relevant assets were split-off at book values in an intra-group transaction from RWE Innogy GmbH to RWE Energiedienstleistungen GmbH and reallocated to the Retail Segment.

EBITDA increased by EUR 115 million from EUR 279 million in 2013 to EUR 394 million in 2014. In line with our operating result in Germany, EBITDA was mainly affected by the hedge book effect in 2013. Excluding this effect, Retail Germany would have remained fairly stable in 2014 compared with 2013.

#### *The Netherlands/Belgium*

	For the financial year ended December 31,		
	2015	2014	2013
	(unaudited) (in EUR million)		
<b>Operating result Retail NL/BE</b> . . . . .	<b>194</b>	<b>138</b>	<b>198</b>
Operating depreciation and amortization Retail NL/BE . . . . .	42	53	59
<b>EBITDA Retail NL/BE</b> . . . . .	<b>236</b>	<b>191</b>	<b>257</b>

The operating result in our Retail Segment attributable to NL/BE amounted to EUR 194 million in 2015, an increase of EUR 56 million from 2014. This increase was predominantly due to a recovery in the gas business after the mild winter in 2014. In addition, we successfully marketed new supply offerings. This was contrasted by the fact that we had benefitted to a significant extent from the release of various provisions for legal claims in 2014.

Operating depreciation and amortization decreased by EUR 11 million from EUR 53 million in 2014 to EUR 42 million in 2015. This decrease was mainly driven by the phasing-out of acquired B2B customer relationships in connection with the Essent N.V. acquisition that were amortized over several years and the amortization period ceased in 2014. In addition, depreciation for IT systems decreased due to changes in the IT landscape.

Our NL/BE retail business contributed EBITDA of EUR 236 million in 2015, an increase of EUR 45 million compared to 2014. In line with our operating result for Retail NL/BE, this increase was predominantly a result of higher gas sales due to more favorable weather conditions which was partly offset by lower releases of provisions.

The operating result attributable to our NL/BE business decreased from EUR 198 million in 2013 by EUR 60 million to EUR 138 million in 2014. The significant decrease was predominantly a result of lower gas sales due to the mild weather in 2014 and the competition-induced drop in margins. While we largely hedge such weather induced effects on our NL/BE operations since 2015, we did not enter into such transactions in the periods before 2015. The negative effects were partly offset by the release of various provisions for legal claims, positive effects from higher revenue from new supply offerings and efficiency improvements.

Operating depreciation and amortization remained fairly stable at a level of EUR 59 million in 2013 and EUR 53 million in 2014. The small decrease of EUR 6 million was mainly a result of decreasing depreciation on several smaller items (e.g., IT systems, real estate and office equipment).

In 2014, EBITDA amounted to EUR 191 million, a decrease of EUR 66 million from EUR 257 million in 2013. In line with our operating result, our EBITDA for Retail NL/BE was mainly affected by lower gas sales due to the mild weather in 2014 and the competition-induced drop in margins which was partly offset by the release of various provisions for legal claims in 2014, positive effects from higher revenue from new supply offerings and efficiency improvements.

#### *Eastern Europe*

	For the financial year ended December 31,		
	2015	2014	2013
	(unaudited) (in EUR million)		
<b>Operating result Retail East</b> . . . . .	<b>228</b>	<b>184</b>	<b>188</b>
Operating depreciation and amortization Retail East . . . . .	6	6	23
<b>EBITDA Retail East</b> . . . . .	<b>234</b>	<b>190</b>	<b>211</b>
thereof:			
Book gain from revaluation after first-time consolidation of VSE			
Holding group in Slovakia . . . . .	42	—	—

The operating result for Retail East amounted to EUR 228 million in 2015, an increase of EUR 44 million from 2014. This increase was mainly due to a revaluation as a result of the full consolidation of VSE Holding group in Slovakia, which resulted in a book gain of EUR 42 million (see "12.6.1.2.3 Operating Result and EBITDA (Grid & Infrastructure Segment)").

Operating depreciation and amortization remained stable at EUR 6 million in 2015 and 2014.

EBITDA increased by EUR 44 million from EUR 190 million in 2014 to EUR 234 million in 2015. This increase was mainly driven by the book gain due to the revaluation as a result of the full consolidation of VSE Holding group in Slovakia. Excluding this effect, EBITDA for Retail East would have been fairly stable between 2014 and 2015.

The operating result in 2014 amounted to EUR 184 million, a decrease of EUR 4 million from 2013. This was mainly due to our Czech gas business in which we experienced earnings shortfalls because of the mild temperatures and increased competition.

Operating depreciation and amortization decreased by EUR 17 million from EUR 23 million in 2013 to EUR 6 million in 2014. This was due to several smaller impairments in the Czech Republic (real estate and smaller assets in the decentralized business) in 2013.

In 2014, EBITDA for Retail East amounted to EUR 190 million, a decrease of EUR 21 million from EUR 211 million in 2013. This decrease was mainly due to earnings shortfalls because of the mild temperatures and increased competition.

#### *United Kingdom*

	For the financial year ended December 31,		
	2015	2014	2013
	(unaudited) (in EUR million)		
<b>Operating result Retail UK</b> . . . . .	<b>-137</b>	<b>227</b>	<b>290</b>
Operating depreciation and amortization Retail UK . . . . .	72	67	76
<b>EBITDA Retail UK</b> . . . . .	<b>-65</b>	<b>294</b>	<b>366</b>
thereof:			
Net effects related to billing and regulatory issues <sup>1)</sup> . . . . .	-60	15	8
Net effects due to changes in revenue estimation <sup>2)</sup> . . . . .	-59	—	—

1) Net effects related to charges concerning erroneous and historical late invoicing, the build-up of provisions for regulatory charges and reviews and the release of provisions for customer paybacks.

2) Net effects related to billing issues due to changes in revenue estimation.

The operating result for Retail UK amounted to negative EUR 137 million in 2015, a decrease of EUR 364 million from EUR 227 million in 2014. This decrease was predominantly due to severe process- and system-related issues in the billing of household customers (see "12.4.2.5 Margins"). This led to a billing backlog, higher costs for the restructuring of our activities and the loss of unsatisfied customers. In addition, there was high competitive pressure in the overall market, which led to higher churn rates and a reduction of our margins due to offering discounted products with a view to retaining our customers. In addition, we were facing investigations and administrative proceedings with the UK regulator Ofgem regarding the system deficiencies (including historic complaints handling performance dating back over four years). The investigation concluded in December 2015 with npower being required to pay billing rebates, compensate individual customers and make charitable donations for a total of GBP 26 million (approximately EUR 36 million, based on the average EUR/GBP exchange rate for 2015). The financial impact included net effects related to charges concerning erroneous and historical late invoicing, the build-up of provisions for regulatory charges and reviews and the release of provisions for customer paybacks in the amount of EUR 60 million and net effects related to billing issues due to changes in revenue estimation in the amount of EUR 59 million that adversely affected our operating result in 2015. Other costs in connection with IT infrastructure in the UK in the amount of EUR 167 million were qualified as non-operating expenses in 2015 and are therefore presented in the non-operating result (see "12.5.3 Operating Result and Non-Operating Result").

Operating depreciation and amortization remained largely stable at a level of EUR 72 million in 2015 and EUR 67 million in 2014.

In 2015, EBITDA was negative EUR 65 million, a decrease of EUR 359 million from 2014. In line with the operating result, EBITDA for Retail UK was mainly driven by the process- and system-related issues in the billing of household customers.

The operating result in our Retail Segment attributable to the UK amounted to EUR 227 million in 2014, a decrease of EUR 63 million from EUR 290 million in 2013. This decrease was primarily due to higher costs for restructuring measures in relation to our IT system and billing issues as described above, which were partly offset by a release of provisions primarily for billing issues, bad debt and regulatory issues. In addition, mild temperatures led to lower revenue from the

gas business. Moreover, we suffered from customer losses and the trend to a lower average usage of energy. An additional effect causing 2014 to be below 2013 stemmed from the sale of our Telecom Plus portfolio. In December 2013, we sold two supply companies with a large customer portfolio to the UK-based energy and telecommunications provider Telecom Plus. The reason for the transaction was that UK energy companies were only allowed to offer four electricity and four gas tariffs from 2014 onwards. As the supply companies charged their customers separate tariffs for gas and electricity, keeping them would have further limited our flexibility in terms of pricing. After the transaction, we continued to supply about 770,000 customers with electricity and gas under a long-term supply agreement indirectly via Telecom Plus. However, while the sale led to a gain in 2013, 2014 was burdened by lower margins as a result of the indirect supply structure, which negatively affected our 2014 operating results.

Operating depreciation and amortization decreased by EUR 9 million from EUR 76 million in 2013 to EUR 67 million in 2014. This decrease was mainly due to extending the useful economic life of our B2C billing system.

EBITDA amounted to EUR 294 million in 2014, a decrease of EUR 72 million from EUR 366 million in 2013. In line with our operating result in the UK, EBITDA was mainly affected by the negative effects from the UK billing issues. Excluding these effects, the decrease in EBITDA would have been less significant and would have reflected the lower revenue from the gas business due to milder temperatures, customer losses, the trend to a lower average usage of energy, but also the elimination of the gain from the sale of our Telecom Plus portfolio.

#### 12.6.2.2.4 Capital Expenditure (Retail Segment)

Our retail business is generally characterized by low capital intensity, which is further underpinned by the fact that a significant part of the segment's recent CAPEX was related to IT projects and non-recurring investments into smart meter IT infrastructure in the UK. In addition, a growing share of the segment's CAPEX is related to our Energy+ business. The CAPEX in our Retail Segment represented in 2015 only 14.2% (2014: 10.3%; 2013: 6.9%) of the Group's overall CAPEX. For 2015, our CAPEX amounted to EUR 287 million, an increase of EUR 75 million. In 2014, our CAPEX increased by EUR 54 million from EUR 158 million for 2013 to EUR 212 million for 2014. In the periods under review, our UK CAPEX profile was structurally different from our other operating segments. The increase from 2013 to 2015 was predominantly a result of investments in the UK for the smart meter rollout. The CAPEX increase in Germany was a result of investments in the Energy+ business, mainly higher investments in CHP generation units leased to our customers.

### 12.6.3 Renewables Segment

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited) (in EUR million)		
<b>External revenue (incl. natural gas tax/ electricity tax) . . . . .</b>	<b>396</b>	<b>334</b>	<b>710</b>	<b>520</b>	<b>660</b>
<b>Intra-group revenue . . . . .</b>	<b>179</b>	<b>223</b>	<b>448</b>	<b>305</b>	<b>256</b>
<b>Total revenue . . . . .</b>	<b>575</b>	<b>557</b>	<b>1,158</b>	<b>825</b>	<b>916</b>
<b>Operating result . . . . .</b>	<b>219</b>	<b>234</b>	<b>488</b>	<b>253</b>	<b>200</b>
<b>Operating depreciation and amortization . . . . .</b>	<b>157</b>	<b>137</b>	<b>330</b>	<b>271</b>	<b>248</b>
<b>EBITDA . . . . .</b>	<b>376</b>	<b>371</b>	<b>818</b>	<b>524</b>	<b>448</b>
<b>Capital expenditure on intangible assets, property, plant and equipment<sup>1)</sup> . . . . .</b>	<b>89</b>	<b>178</b>	<b>404</b>	<b>677</b>	<b>975</b>

1) Excluding financial investments.

### 12.6.3.1 Comparison of the Six-Month Period Ended June 30, 2016 and the Six-Month Period Ended June 30, 2015 (Renewables Segment)

#### 12.6.3.1.1 External Revenue (Renewables Segment)

In our Renewables Segment, external revenue increased by EUR 62 million from EUR 334 million for the six-month period ended June 30, 2015 to EUR 396 million for the six-month period ended June 30, 2016. This was predominantly a result of the commissioning of our large-scale offshore wind farm Nordsee Ost in the course of 2015 which fully contributed to our overall capacity in the first half of 2016. This was partly compensated by a decline of wholesale prices for electricity.

#### 12.6.3.1.2 Intra-group Revenue (Renewables Segment)

Intra-group revenue decreased by EUR 44 million from EUR 223 million for the six-month period ended June 30, 2015 to EUR 179 million for the six-month period ended June 30, 2016.

#### 12.6.3.1.3 Operating Result and EBITDA (Renewables Segment)

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) (in EUR million)	
<b>Operating result Renewables Segment</b> . . . . .	<b>219</b>	<b>234</b>
Operating depreciation and amortization Renewables Segment . . . . .	157	137
<b>EBITDA Renewables Segment</b> . . . . .	<b>376</b>	<b>371</b>
thereof:		
Gain on Gwynt y Môr OFTO assets disposal . . . . .	—	30
Gain on disposal of run-off-river plants in Germany . . . . .	10	—
Triton Knoll disposal (deconsolidation profit / premium) . . . . .	10	9
Income from Nordsee Ost claims . . . . .	—	12

In our Renewables Segment, the operating result decreased by EUR 15 million from EUR 234 million for the six-month period ended June 30, 2015 to EUR 219 million for the six-month period ended June 30, 2016. The operating result was affected by several factors. Lower wholesale prices had a negative impact on those assets that are not or no longer subject to a support scheme. In the first half of 2016, our biggest onshore wind farm in the Netherlands started to gradually lose its regulated price guarantee for produced electricity. This was partially compensated by the commissioning of our offshore wind farms Nordsee Ost and Gwynt y Môr, which were inaugurated in the second quarter of 2015. Another compensating positive effect on the operating result was caused by the sale of certain run-off-river plants in Germany. In the six-month period ended June 30, 2015, the operating result was positively affected by several one-off effects, which did not affect our operating result for the six-month period ended June 30, 2016. In the six-month period ended June 30, 2015, we recognized income from claims relating to the late commissioning of our Nordsee Ost wind farm and a gain from the sale of our grid connection (OFTO assets) relating to our offshore wind farm Gwynt y Môr, which contributed EUR 30 million to our operating result (see "12.6.3.2.3 Operating Result and EBITDA (Renewables Segment)").

Operating depreciation and amortization increased by EUR 20 million from EUR 137 million for the six-month period ended June 30, 2015 to EUR 157 million for the six-month period ended June 30, 2016, mainly due to the commissioning of our new offshore wind farms Nordsee Ost and Gwynt y Môr. The higher depreciation resulting from the commissioning of our British offshore wind farm Gwynt y Môr was compensated by exchange rate fluctuations and the sale of a 10% stake in the wind farm in 2015.

EBITDA for our Renewables Segment slightly increased by EUR 5 million from EUR 371 million for the six-month period ended June 30, 2015 to EUR 376 million for the six-month period ended June 30, 2016. In line with the operating result, the Renewables Segment's EBITDA for the six-month period ended June 30, 2016 was positively affected by higher capacity in our Renewables Segment due to the commissioning of the large-scale offshore wind farms Nordsee Ost and Gwynt y Môr in the course of 2015. This was to a large extent offset by lower wholesale prices for electricity, which affects those assets that are not or no longer subject to a support scheme. Furthermore, gains from asset disposals in the six-month period ended June 30, 2016 were below the gains for the six-month period ended June 30, 2015. Excluding these gains on disposals as well as the effects from the disposal of Triton Knoll and the income from Nordsee Ost claims, EBITDA would have increased by EUR 35 million, mainly due to the higher capacity associated with the commissioning of our offshore wind farms Nordsee Ost and Gwynt y Môr.

#### 12.6.3.1.4 Capital Expenditure (Renewables Segment)

The CAPEX for our Renewables Segment decreased by EUR 89 million from EUR 178 million for the six-month period ended June 30, 2015 to EUR 89 million for the six-month period ended June 30, 2016. The reduction of capital expenditure was mainly driven by the completion of our offshore wind farms Nordsee Ost and Gwynt y Môr in the first half of 2015, which made-up a significant portion of our CAPEX in the six-month period ended June 30, 2015.

#### 12.6.3.2 *Comparison of the Financial Years 2015, 2014 and 2013 (Renewables Segment)*

##### 12.6.3.2.1 External Revenue (Renewables Segment)

In our Renewables Segment, external revenue for 2015 was EUR 710 million, an increase of EUR 190 million from 2014. This increase was predominantly a result of the commissioning of our two large-scale offshore wind farms Nordsee Ost and Gwynt y Môr in 2015. In addition, higher wind levels led to an increase in utilization levels of our existing capacities.

For 2014, external revenue was EUR 520 million, a decrease of EUR 140 million from 2013. This decrease was a result of several factors. As of January 1, 2014, we transferred most of our German decentralized biomass- and gas-fueled electricity production and district heating activities from the Renewables Segment to the Retail Segment. Furthermore, the Renewables Segment's external revenue was negatively affected by drastic cuts made by the Spanish government in renewable energy support granted to producers of green energy (see "12.4.3.2 *Technology Mix, Regulatory Framework and Wholesale Prices*"). In addition, decreasing power prices in our core markets and the reduction of production volumes of our existing assets due to lower wind levels resulted in lower revenue of our existing capacities. These negative effects were partly compensated by the commissioning of new wind power production facilities, specifically the first power production during the commissioning phase of our offshore wind farm Gwynt y Môr.

##### 12.6.3.2.2 Intra-group Revenue (Renewables Segment)

In the Renewables Segment, intra-group revenue for 2015 was EUR 448 million, an increase of EUR 143 million from 2014. For 2014, the intra-group revenue was EUR 305 million, an increase of EUR 49 million from 2013. The increase in internal revenue is mainly caused by electricity and ROC deliveries towards the Retail UK organization due to an increased UK asset fleet in the respective years.

### 12.6.3.2.3 Operating Result and EBITDA (Renewables Segment)

	For the financial year ended December 31,		
	2015	2014	2013
	(audited, unless otherwise indicated) (in EUR million)		
<b>Operating result Renewables Segment</b> .....	<b>488</b>	<b>253</b>	<b>200</b>
Operating depreciation and amortization Renewables Segment .....	330	271	248
<b>EBITDA Renewables Segment</b> .....	<b>818</b>	<b>524</b>	<b>448</b>
thereof: <sup>1)</sup>			
Gain on Galloper disposal .....	93	—	—
Gain on Gwynt y Môr OFTO assets disposal .....	30	—	—
Triton Knoll disposal (deconsolidation profit / premium) .....	9	—	—
Income from Nordsee Ost claims .....	12	103	—
Losses from development projects UK .....	-27	-4	-20

1) Unaudited.

In our Renewables Segment, the operating result for 2015 amounted to EUR 488 million, an increase of EUR 235 million compared to 2014. This was largely due to the commissioning of the large-scale offshore wind farms, Nordsee Ost and Gwynt y Môr in 2015. Furthermore, higher wind levels led to an increase in the utilization of our existing capacity.

In addition, the operating result for 2015 included gains from disposals. Generally, we consider the sale of self-developed projects as part of our core business and the proceeds are recognized in our operating result. In October 2015, we sold an aggregate 75% share in the Galloper offshore wind project to Siemens Financial Services, Macquarie Capital and UK Green Investment Bank (each with a 25% share after the transaction). The transaction generated income of EUR 93 million. This gain included EUR 23 million from a revaluation of the remaining 25% share in the project. Furthermore, for regulatory reasons, our offshore wind farm Gwynt y Môr was required to sell its self-constructed grid connection and a transformer station (OFTO assets) to the financial investors Balfour Beatty Investment Ltd. and Equitix Ltd. in February 2015 and we recognized a gain from that sale, which contributed EUR 30 million to our operating result. In addition, the disposal of shares in the Triton Knoll development project, a wind farm project off the east coast of England, contributed EUR 9 million to our operating result. The operating result for 2015 also included losses in the amount of EUR 27 million recognized for onshore wind development projects in the UK after the government announced its plan to stop the support for new onshore wind projects.

Operating depreciation and amortization increased from EUR 271 million in 2014 to EUR 330 million in 2015 mainly due to the commissioning of our new offshore wind farms Nordsee Ost and Gwynt y Môr. Additionally, we had to recognize impairments for Dutch onshore wind farms in the view of the end of the regulatory support period. This was necessary because we have to sell the electricity generated on the wholesale market, where the realizable prices dropped, after the end of the regulatory support period.

With EUR 818 million in 2015, EBITDA for the Renewables Segment increased by EUR 294 million compared to EUR 524 million in 2014. In line with the operating result, the Renewables Segment's EBITDA for 2015 and 2014 was positively affected by gains from asset disposals, income from claims relating to the late commissioning of our Nordsee Ost offshore wind farm that were only partially offset by losses comparable to impairments for UK development projects. Excluding these effects for 2015 and 2014, EBITDA would have increased by EUR 276 million, mainly due to the increase of capacity and utilization of our renewable energy producing units.

The operating result for 2014 amounted to EUR 253 million, an increase of EUR 53 million from 2013. In 2014, we received compensation payments for delays to the completion of the Nordsee Ost wind farm caused by third parties (see "12.4.3.4 Reductions in Operating Costs"). This compensation was partially offset by the negative impact of the drastic reduction of subsidies paid to existing renewable energy producers by the Spanish government which had a negative effect on our Spanish onshore business (see "12.4.3.2 Technology Mix, Regulatory Framework and Wholesale Prices"). Furthermore, the transfer of the German decentralized biomass- and gas-fueled electricity production and district heating activities from the Renewables Segment to the Retail Segment had a negative impact on the operating result.

In 2014, operating depreciation and amortization increased from EUR 248 million in 2013 to EUR 271 million. This increase was predominantly due to the commissioning of new assets as well as an impairment relating to an offshore construction vessel that we sold at the beginning of 2015. Moreover, higher depreciation reflects the additional capacity from significant investments mainly in the area of offshore wind, as the first already commissioned turbines of Gwynt y Môr started operation. In contrast, burdens stemming from UK development projects in 2013 to 2015 were reported as other operating expenses.

In 2014, EBITDA increased by EUR 76 million from EUR 448 million in 2013 to EUR 524 million. In line with the development of our Renewables Segment's operating result, the development of our EBITDA was primarily influenced by income from compensation payments for delays of the completion of the Nordsee Ost wind farm in 2013 and 2014. Excluding this effect as well as the losses from UK development projects, EBITDA would have decreased by EUR 43 million, reflecting the drastic retroactive cuts for renewables support made by the Spanish government.

#### 12.6.3.2.4 Capital Expenditure (Renewables Segment)

Our CAPEX materially decreased over the periods under review. For 2015, our CAPEX amounted to EUR 404 million, a decrease of EUR 273 million compared to 2014. In 2014, our CAPEX decreased by EUR 298 million from EUR 975 million for 2013 to EUR 677 million. The reduction of capital expenditures was mainly driven by the completion of our offshore wind farms Nordsee Ost and Gwynt y Môr, which reflected a significant part of our CAPEX in earlier years. Both wind farms were fully commissioned in 2015. Capital constraints of RWE AG made it necessary to reduce investments and scale back development activities within our Renewables Segment. In the recent past, we increased our share of partnerships with third parties and project financing in order to share the risks resulting from projects that are often significant and to balance the effort of capital acquisition according to the relative investment share. Furthermore, it helped us to achieve a more diversified portfolio of projects for any given amount of committed capital and to achieve a more attractive overall risk-return profile.

#### 12.6.4 Other, Consolidation

Consolidation effects and business activities not specifically allocated to one of our reportable segments are presented in "Other, consolidation". Such business activities include the internal group services provided by RWE IT GmbH and innogy Consulting GmbH. Moreover, management and administration costs that were allocated to the Group are presented here.

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited) (in EUR million)		
External revenue (incl. natural gas tax/ electricity tax) "Other, consolidation" . . . . .	84	88	191	197	212
Intra-group revenue "Other, consolidation" . . . . .	-2,127	-1,880	-4,074	-4,204	-4,567
Operating result "Other, consolidation" . . . . .	-109	-115	-198	-205	-225
Operating depreciation and amortization "Other, consolidation" . . . . .	15	18	35	48	68
EBITDA "Other, consolidation" . . . . .	-94	-97	-163	-157	-157
Capital expenditure on intangible assets, property, plant and equipment "Other, consolidation" <sup>1)</sup> . . . . .	20	10	28	40	52

1) Excluding financial investments.

##### 12.6.4.1 Comparison of the Six-Month Period Ended June 30, 2016 and the Six-Month Period Ended June 30, 2015 (Other, consolidation)

External revenue not allocated to a specific reportable segment was mainly related to revenue of RWE IT group providing IT services to the RWE Group. External revenue reported as "other, consolidation" remained largely stable at EUR 84 million for the six-month period ended June 30, 2016 and at EUR 88 million for the six-month period ended June 30, 2015. The figures for intra-group revenue reported in "other, consolidation" represent consolidation effects from intra-group revenue between the segments and depend on the relevant segment figures. The operating result presented in "other, consolidation" remained largely stable at negative EUR 109 million for the six-month period ended June 30, 2016 and negative EUR 115 million for the six-month period ended June 30, 2015. The slight increase was mainly driven by the development within RWE IT Group which was partly offset by the development of governance and support costs. Operating depreciation and amortization was also largely stable at EUR 15 million for the six-month period ended June 30, 2016 and EUR 18 million for the six-month period ended June 30, 2015. In line with the operating result and operating depreciation and amortization, EBITDA reported as "other, consolidation" remained largely stable at negative EUR 94 million for the six-month period ended June 30, 2016 and negative EUR 97 million for the six-month period ended June 30, 2015. CAPEX allocated to "other, consolidation" increased by EUR 10 million from EUR 10 million for the six-month period ended June 30, 2015 to EUR 20 million for the six-month period ended June 30, 2016. This development was mainly due to increased CAPEX of the RWE IT group.

##### 12.6.4.2 Comparison of the Financial Years 2015, 2014 and 2013 (Other, consolidation)

External revenue not allocated to a specific reportable segment was mainly related to revenue of RWE IT group providing IT services to the RWE Group. External revenue reported as "other, consolidation" decreased in 2015 by EUR 6 million from EUR 197 million in 2014 to EUR 191 million. It decreased from EUR 212 million in 2013 by EUR 15 million to EUR 197 million in 2014. The figures for intra-group revenue reported in "other, consolidation" represent

consolidation effects from intra-group revenue between the segments and depend on the relevant segment figures. The operating result presented in "other, consolidation" increased from negative EUR 205 million in 2014 by EUR 7 million to negative EUR 198 million in 2015. It increased by EUR 20 million from negative EUR 225 million in 2013 to negative EUR 205 million in 2014. This increase was mainly driven by the development of depreciation and amortization for IT equipment. The reduction is mainly linked to amortization of licenses with a peak in investments in 2011 and an amortization period of three years. EBITDA decreased by EUR 6 million from negative EUR 157 million to negative EUR 163 million in 2015 and remained stable at negative EUR 157 million between 2013 and 2014. CAPEX decreased from EUR 40 million in 2014 by EUR 12 million to EUR 28 million in 2015. It decreased by EUR 12 million from EUR 52 million in 2013 to EUR 40 million in 2014. This development was due to decreased capital expenditures of the RWE IT group.

## 12.7 Results of Operation (Group)

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited, unless otherwise indicated) (in EUR million)		
<b>Revenue (including natural gas tax/ electricity tax) . . . . .</b>	<b>22,780</b>	<b>23,458</b>	<b>45,568</b>	<b>45,681</b>	<b>48,589</b>
Natural gas tax/electricity tax . . . . .	1,127	1,154	2,112	2,175	2,560
<b>Revenue . . . . .</b>	<b>21,653</b>	<b>22,304</b>	<b>43,456</b>	<b>43,506</b>	<b>46,029</b>
Other operating result <sup>1)</sup> . . . . .	-681	-1,020	-1,719 <sup>2)</sup>	-1,777 <sup>2)</sup>	-1,823 <sup>2)</sup>
Other operating income . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	1,104	986	1,205
Other operating expenses . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	2,823	2,763	3,028
Cost of materials . . . . .	16,701	17,658	34,760	35,160	37,429
Staff costs . . . . .	1,432	1,332	2,736	2,754	2,900
Depreciation, amortization and impairment losses . . . . .	923	641	1,634	1,439	2,150
Income from investments accounted for using the equity method . . . . .	98	121	228	234	215
Other income from investments . . .	51	112	265	166	70
Financial income . . . . .	528	412	578	445	406
Finance costs . . . . .	980	431	880	1,000	973
<b>Income before tax . . . . .</b>	<b>1,613</b>	<b>1,867</b>	<b>2,798</b>	<b>2,221</b>	<b>1,445</b>
Taxes on income . . . . .	356	443	860	523	551
<b>Income . . . . .</b>	<b>1,257</b>	<b>1,424</b>	<b>1,938</b>	<b>1,698</b>	<b>894</b>

1) Other operating income and other operating expenses are aggregated and reported as other operating result in the Unaudited Interim Consolidated Financial Statements (Condensed).

2) Unaudited.

### 12.7.1 Comparison of the Six-Month Period Ended June 30, 2016 and the Six-Month Period Ended June 30, 2015

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) (in EUR million)	
<b>Revenue (including natural gas tax/electricity tax)</b> . . . . .	<b>22,780</b>	<b>23,458</b>
Natural gas tax/electricity tax . . . . .	1,127	1,154
<b>Revenue</b> . . . . .	<b>21,653</b>	<b>22,304</b>
Cost of materials . . . . .	16,701	17,658
Staff costs . . . . .	1,432	1,332
Depreciation, amortization and impairment losses . . . . .	923	641
Other operating result . . . . .	-681	-1,020
Income from investments accounted for using the equity method . . . . .	98	121
Other income from investments . . . . .	51	112
Financial income . . . . .	528	412
Finance costs . . . . .	980	431
<b>Income before tax</b> . . . . .	<b>1,613</b>	<b>1,867</b>
Taxes on income . . . . .	356	443
<b>Income</b> . . . . .	<b>1,257</b>	<b>1,424</b>

#### 12.7.1.1 Revenue

The item natural gas tax/electricity tax comprises the taxes paid directly by Group companies. Revenue decreased by EUR 678 million from EUR 23,458 million for the six-month period ended June 30, 2015 to EUR 22,780 million for the six-month period ended June 30, 2016. The revenue presented on group level is the sum of the external revenue presented in the segment reporting for the Grid & Infrastructure Segment, the Retail Segment, the Renewables Segment and the revenue reported in "other, consolidation" (see "12.6 Results of Operation by Segment"). As such, it was driven by the development of the respective segment's external revenue. In addition, movements in the mark-to-market valuation of commodity contracts have an impact on our revenue.

#### 12.7.1.2 Cost of Materials

Cost of materials decreased by EUR 957 million from EUR 17,658 million for the six-month period ended June 30, 2015 to EUR 16,701 million for the six-month period ended June 30, 2016. In our Grid & Infrastructure Segment, cost of materials cover expenses for operations and maintenance of our grid as well as expenses charged by the relevant TSO for the use of the high voltage grid. In the Retail Segment, cost of materials is mainly driven by supply cost of electricity and gas. Their development is reflected in the corresponding revenue development. Furthermore, lower or higher supply of electricity or gas to our retail customers is reflected in lower or higher cost of materials. In the Renewables Segment, cost of materials mostly consisted of maintenance expenses for our asset portfolio, e.g., hydro power plants and wind turbines (including substations). In addition, movements in the mark-to-market valuation of commodity contracts have an impact on our cost of materials.

#### 12.7.1.3 Staff Costs

Staff costs increased by EUR 100 million from EUR 1,332 million for the six-month period ended June 30, 2015 to EUR 1,432 million for the six-month period ended June 30, 2016. This increase reflected changes in the cost structure after the operational launch of the Company on April 1, 2016 (see "5.7 Employees and Pension Liabilities").

#### 12.7.1.4 *Depreciation, Amortization and Impairment Losses*

Depreciation, amortization and impairment losses increased by EUR 282 million from EUR 641 million for the six-month period ended June 30, 2015 to EUR 923 million for the six-month period ended June 30, 2016.

Depreciation, amortization and impairment losses that primarily affected our business are presented in more detail in "12.5.3 Operating Result and Non-Operating Result" and "12.6 Results of Operation by Segment". The overall increase the six-month period ended June 30, 2016 compared to the six-month period ended June 30, 2015 was mainly driven by the impairments recognized for the gas storage facilities of the Grid & Infrastructure Segment in the amount of EUR 204 million caused by changes in price expectations (reflected in the non-operating result).

#### 12.7.1.5 *Other Operating Result*

In the Unaudited Interim Consolidated Financial Statements (Condensed), other operating income and other operating expenses were aggregated and reported as other operating result. Other operating result increased by EUR 339 million from negative EUR 1,020 million for the six-month period ended June 30, 2015 to negative EUR 681 million for the six-month period ended June 30, 2016. This included a gain in the amount of EUR 250 million from a compensation payment in connection with the termination of gas storage contracts with RWEST (reflected in the non-operating result). It also reflected changes in the cost structure after the operational launch of the Company on April 1, 2016 (see "5.7 Employees and Pension Liabilities").

#### 12.7.1.6 *Income from Investments*

Income from investments includes all income and expenses, which have arisen in relation to operating investments. It is comprised of income from investments accounted for using the equity method and other income from investments. This specifically includes the results from our non-consolidated participations in G&I Germany (see "12.4.1.3 Success at Concession Renewals and Partnering") and the Renewables Segment (see "12.4.3.3 Performance of Development Projects"). Depending on the size of our shareholding, the net income of these investments is reflected in the line item investments accounted for using the equity method. Otherwise the dividends from these non-consolidated participations are reflected in our other income from investments.

Income from investments accounted for using the equity method decreased by EUR 23 million from EUR 121 million for the six-month period ended June 30, 2015 to EUR 98 million for the six-month period ended June 30, 2016. Other income from investments decreased by EUR 61 million from EUR 112 million for the six-month period ended June 30, 2015 to EUR 51 million for the six-month period ended June 30, 2016. This was mainly a result of lower income from the disposal of investments. While income from asset sales relating to our Grid & Infrastructure Segment in the six-month period ended June 30, 2016 were slightly above such income in the six-month period ended June 30, 2015, our Renewables Segment contributed lower income from asset sales. In particular, we recognized gains from a subsequent purchase price payment from the sale of a majority share in our Nordsee One offshore wind development project in the first half of 2015. There was no comparable effect within the Renewables Segment in the first half of 2016.

### 12.7.1.7 Financial Income and Finance Costs (Financial Result)

Our financial result can be derived from the reported financial income and finance costs. The following table provides a breakdown of our financial result by interest result and other items for the six-month period ended June 30, 2016 with comparative figures for the six-month period ended June 30, 2015.

	For the six-month period ended June 30,	
	2016	2015
	(unaudited) (in EUR million)	
Interest income	149	144
Interest expenses	-487	-313
<b>Net interest</b>	<b>-338</b>	<b>-169</b>
Interest accretion to non-current provisions	-51	-67
Other financial result	-63	217
<b>Financial result</b>	<b>-452<sup>1)</sup></b>	<b>-19<sup>2)</sup></b>
Thereof:		
Effect related to 'step-up' (amortization and FX) <sup>3)</sup>	149	—
Effects resulting from Carve-Out transactions <sup>4)</sup>	-158	—

1) Including financial income of EUR 528 million and finance costs of EUR 980 million.

2) Including financial income of EUR 412 million and finance costs of EUR 431 million.

3) Includes EUR 95 million of amortization related to 'step-up' from initial recognition of certain financial liabilities at fair values (see "12.4.4.3 Fair Value 'Step-Up' and Amortization Resulting from the Carve-Out Debt Transfer") and EUR 54 million related to foreign exchange effects.

4) Includes negative EUR 120 million resulting from losses due to the early redemption of intercompany loans and negative EUR 38 million from the amortization of the balance-sheet 'step-up' of a financial receivable (loan granted to a RWE Group company), both reported as interest expenses. The 'step-up' of the financial receivable was a result of the transfer of innogy Finance B.V. on December 18, 2015 (see "12.4.4.3 Fair Value 'Step-Up' and Amortization Resulting from the Carve-Out Debt Transfer") which required us to recognize the loan granted by innogy Finance B.V. to a RWE Group company at fair values at the time of the transfer. This 'step-up' was amortized as a result of the early redemption of the loan in the six-month period ended June 30, 2016.

The financial result for the six-month period ended June 30, 2015 reflected the financing structure that was in place prior to the Carve-Out, which was based on an intra-group financing by RWE AG (see "5.5 Financing"). In the six month-period ended June 30, 2016, our financial result was significantly impacted by the series of refinancing transactions that we started at the end of 2015 in the context of the Carve-Out. The Carve-Out transactions caused net financial debt to increase (see "12.8.2.1 Comparison as of June 30, 2016 and December 31, 2015"), resulting in a decrease in the financial result.

As a result of the acquisition of innogy Finance B.V. from RWE AG and the assumption of obligations under a EUR 600 million bond originally issued by RWE AG through our subsidiary innogy Finance II B.V., the Finance Bonds were recognized at their fair value at the time of the transfer (see "12.4.4.3 Fair Value 'Step-Up' and Amortization Resulting from the Carve-Out Debt Transfer"). This resulted in a 'step-up' in the recognized value of the Finance Bonds in the amount of EUR 1,245 million, which will be amortized over the remaining maturity of the Finance Bonds. In the six-month period ended June 30, 2016, we realized the first significant positive (non-cash) effect from the amortization of the 'step-up' (EUR 95 million) in our financial result. The depreciation of the British Pound Sterling added EUR 54 million to the amortization in the six-month period ended June 30, 2016, which is included in other financial result. Accordingly, the total positive contribution of the effect related to 'step-up' in the six-month period ended June 30, 2016 was EUR 149 million.

Net interest decreased by EUR 169 million from negative EUR 169 million to negative EUR 338 million. This decrease was mainly due to additional finance costs in the six-month

period ended June 30, 2016 as a result of the Carve-Out transactions. In this context, we realized losses in the amount of EUR 120 million due to the early redemption of intercompany loans. In the context of the Carve-Out, we paid an amount of EUR 2,062 million, which represented the fair value at the date of the transaction, to redeem early non-current loans with a nominal amount of EUR 1,942 million. Furthermore, we realized losses in the amount of EUR 38 million from the amortization of a balance-sheet 'step-up' of a loan granted to RWE AG (financial receivable). Aside from these one-off effects, interest expenses included interest for the Finance Bonds and, to a small extent, for loans granted by RWE AG to the Group in June 2016 (including under Intra-Group Loan Agreements described and defined in "15.17.1.5 Intra-Group Loan Agreements"). In the six-month period ended June 30, 2016, we incurred an average cost of debt of approximately 5% per annum under the Finance Bonds and an average cost of debt of less than 2% per annum under the Intra-Group Loan Agreements. The remaining intercompany debt mainly comprises cash pool liabilities with relatively low cost of debt.

Interest income remained relatively stable at EUR 149 million in the six-month period ended June 30, 2016 compared to EUR 144 million in the six-month period ended June 30, 2015. In the six-month period ended June 30, 2016, interest income also included income on marketable securities with a nominal value of EUR 1.9 billion. Net interest includes the above mentioned positive effect of EUR 95 million from the amortization of the 'step-up'.

Interest accretion to non-current provisions related mainly to pension provisions and other non-current provisions in both the six-month period ended June 30, 2016 and the six-month period ended June 30, 2015.

Other financial result decreased by EUR 280 million from EUR 217 million to negative EUR 63 million. This change was primarily caused by a lower result from net gains on the disposal of marketable securities, which decreased by EUR 298 million from EUR 251 million in the six-month period ended June 30, 2015 to negative EUR 47 million in the six-month period ended June 30, 2016. It was partly offset by the above mentioned foreign exchange gains of EUR 54 million caused by the 'step-up'. Interest related to put options increased by EUR 4 million from negative EUR 31 million in the six-month period ended June 30, 2015 to negative EUR 27 million in the six-month period ended June 30, 2016.

Corresponding to the development of the financial result, financial income increased by EUR 116 million from EUR 412 million for the six-month period ended June 30, 2015 to EUR 528 million in the six-month period ended June 30, 2016, while finance costs increased by EUR 549 million from EUR 431 million for the six-month period ended June 30, 2015 to EUR 980 million for the six-month period ended June 30, 2016.

#### 12.7.1.8 *Income before Tax*

As a result of the foregoing, income before tax decreased by EUR 254 million from EUR 1,867 million for the six-month period ended June 30, 2015 to EUR 1,613 million for the six-month period ended June 30, 2016.

#### 12.7.1.9 *Taxes on Income*

Taxes on income decreased by EUR 87 million from EUR 443 million for the six-month period ended June 30, 2015 to EUR 356 million for the six-month period ended June 30, 2016. In absolute terms, this reflects the decreased income before tax in the six-month period ended June 30, 2016 compared to for the six-month period ended June 30, 2015. Compared to the six-month period ended June 30, 2015, the effective tax rate applicable in the six-month period ended June 30, 2016 was also lower. This was primarily a result of a tax efficient structuring of the transactions implemented in connection with the Carve-Out. Consequently our effective tax rate was 22%, below our effective tax rate of 25% that we expect to have on a going forward basis in the absence of one-off effects. We refer to the effective tax rate in the absence of one-off effects as 'normalized tax rate'.

#### 12.7.1.10 Income

As a result of the foregoing, our income decreased by EUR 167 million from EUR 1,424 million for the six-month period ended June 30, 2015 to EUR 1,257 million for the six-month period ended June 30, 2016. Income attributable to non-controlling interests decreased by EUR 23 million from EUR 200 million for the six-month period ended June 30, 2015 to EUR 177 million for the six-month period ended June 30, 2016. Income attributable to non-controlling interests was mainly driven by effects related to the sale of marketable securities by our German regional utilities, which did not occur in the six-month period ended June 30, 2016. This was partly offset by the favorable operating development of the Group's activities in the first half of 2016, as well as by the increase of Macquarie's stake in our Czech subsidiary innogy Grid Holding, a.s. during the first half of 2015, which fully contributed to the income of non-controlling interests in the six-month period ended June 30, 2016 (see "15.5.6.1 Operation of Gas Grid in the Czech Republic"). Furthermore, non-controlling interests increased due to the first-time full consolidation of VSE Holding group in Slovakia in the second half of 2015.

#### 12.7.2 Comparison of the Financial Years 2015, 2014 and 2013

	For the financial year ended December 31,		
	2015	2014	2013
	(audited) (in EUR million)		
<b>Revenue (including natural gas tax/electricity tax)</b> . . . . .	<b>45,568</b>	<b>45,681</b>	<b>48,589</b>
Natural gas tax/electricity tax . . . . .	2,112	2,175	2,560
<b>Revenue</b> . . . . .	<b>43,456</b>	<b>43,506</b>	<b>46,029</b>
Other operating income . . . . .	1,104	986	1,205
Cost of materials . . . . .	34,760	35,160	37,429
Staff costs . . . . .	2,736	2,754	2,900
Depreciation, amortization and impairment losses . . . . .	1,634	1,439	2,150
Other operating expenses . . . . .	2,823	2,763	3,028
Income from investments accounted for using the equity method . . .	228	234	215
Other income from investments . . . . .	265	166	70
Financial income . . . . .	578	445	406
Finance costs . . . . .	880	1,000	973
<b>Income before tax</b> . . . . .	<b>2,798</b>	<b>2,221</b>	<b>1,445</b>
Taxes on income . . . . .	860	523	551
<b>Income</b> . . . . .	<b>1,938</b>	<b>1,698</b>	<b>894</b>

##### 12.7.2.1 Revenue

The item natural gas tax/electricity tax comprises the taxes paid directly by Group companies. At EUR 45,568 million in 2015, revenue remained largely stable compared to 2014. Revenue (including natural gas and electricity tax paid directly by our Group companies) decreased from EUR 48,589 million in 2013 by EUR 2,908 million to EUR 45,681 million in 2014. The revenue presented on group level is the sum of the external revenue presented in the segment reporting for the Grid & Infrastructure Segment, the Retail Segment, the Renewables Segment and as Consolidation, other (see "12.6 Results of Operation by Segment"). As such, it was driven by the development of the respective segment's external revenue. In addition, movements in the mark-to-market valuation of commodity contracts had an impact on our revenue.

##### 12.7.2.2 Other Operating Income

Other operating income increased by EUR 118 million to EUR 1,104 million in 2015.

The increase in 2015 in the amount of EUR 118 million compared to EUR 986 million in 2014 was primarily due to the income from own work capitalized.

In 2014, other operating income decreased from EUR 1,205 million in 2013 by EUR 219 million to EUR 986 million. The decrease in other operating income in 2014 in the amount of EUR 219 million was mainly a result of valuation effects from derivative financial instruments.

#### 12.7.2.3 *Cost of Materials*

In our Grid & Infrastructure Segment, cost of materials cover expenses for operations and maintenance of our grid as well as expenses charged by the relevant TSO for the use of the high voltage grid. In the Retail Segment, cost of materials is mainly driven by supply cost of electricity and gas. Their development is reflected in the corresponding revenue development. Furthermore, lower or higher supply of electricity or gas to our retail customers is reflected in lower or higher cost of materials. In the Renewables Segment, cost of materials mostly consisted of maintenance expenses for our asset portfolio, e.g., hydro power plants and wind turbines (including substations). In addition, movements in the mark-to-market valuation of commodity contracts had an impact on our cost of materials.

The following table provides an overview of our cost of materials for 2015 compared to 2014 and 2013.

	For the financial year ended December 31,		
	2015	2014	2013
	(audited)		
<b>Cost of materials</b>	(in EUR million)		
Cost of raw materials and of goods for resale . . . . .	25,226	26,478	28,296
Cost of purchased services . . . . .	9,534	8,682	9,133
<b>Total cost of materials</b> . . . . .	<b>34,760</b>	<b>35,160</b>	<b>37,429</b>

Total costs of materials decreased over the periods under review. They were EUR 37,429 million in 2013, decreased by EUR 2,269 million to EUR 35,160 million in 2014 and further decreased by EUR 400 million to EUR 34,760 million in 2015. Generally, the development of cost of materials follows the development of revenue.

#### 12.7.2.4 *Staff Costs*

The following table provides an overview of our staff costs for 2015 compared to 2014 and 2013.

	For the financial year ended December 31,		
	2015	2014	2013
	(audited)		
<b>Staff costs</b>	(in EUR million)		
Wages and salaries . . . . .	2,127	2,179	2,287
Cost of social security, pensions and other benefits . . . . .	609	575	613
<b>Total staff costs</b> . . . . .	<b>2,736</b>	<b>2,754</b>	<b>2,900</b>

Staff costs decreased from EUR 2,900 million in 2013 by EUR 146 million to EUR 2,754 million in 2014, and remained relatively stable with a decrease of EUR 18 million to EUR 2,736 million in 2015. This decrease reflects the development of our FTE numbers. FTE numbers decreased from 42,505 as of December 31, 2013 to 39,633 as of December 31, 2014 and 38,602 as of December 31, 2015. Trainees are not included in the personnel headcount. On average, 1,357 trainees were employed during the year ended December 31, 2015 (2014: 1,425, 2013: 1,503).

#### 12.7.2.5 Depreciation, Amortization and Impairment Losses

In 2015, depreciation, amortization and impairment losses increased by EUR 195 million to EUR 1,634 million. In 2014, depreciation, amortization and impairment losses decreased from EUR 2,150 million in 2013 by EUR 711 million to EUR 1,439 million in 2014. The development in depreciation, amortization and impairment losses was both in 2015 and 2014 mainly due to impairments.

Depreciation, amortization and impairment losses that primarily affected our business are presented in more detail in "12.5.3 Operating Result and Non-Operating Result" and "12.6 Results of Operation by Segment". The most significant effects are derived from impairments of EUR 266 million recognized on our Spanish onshore wind farms (2013), impairments of EUR 260 million recognized for our German offshore wind operations (2013) and impairments of EUR 92 million and EUR 28 million recognized on our onshore wind farms in the Netherlands (2013 and 2015). Furthermore, in 2015, 2014 and 2013, impairment losses of EUR 62 million (2015), EUR 101 million (2014) and EUR 181 million (2013, reflected in the non-operating result), respectively, were recognized for gas storage facilities in the Grid & Infrastructure Segment. Another significant impairment loss of EUR 173 million was recorded in 2015 in respect of our IT systems in the UK (2015).

The following table provides an overview of our impairments for the periods indicated.

	For the financial year ended December 31,		
	2015	2014	2013
	(audited) (in EUR million)		
<b>Impairments</b>			
Intangible assets .....	221	14	433
Property, plant and equipment .....	48	128	374
<b>Total impairments .....</b>	<b>269</b>	<b>142</b>	<b>807</b>

#### 12.7.2.6 Other Operating Expenses

In 2015, other operating expenses increased by EUR 60 million to EUR 2,823 million in 2015. In 2014, other operating expenses decreased from EUR 3,028 million in 2013 by EUR 265 million to EUR 2,763 million in 2014.

The increase from 2014 to 2015 was largely due to increased legal and other consulting costs as well as current asset disposals. The decrease from 2013 to 2014 was due to decreased costs of restructuring measures and insurance, commissions, freight and similar distribution costs.

#### 12.7.2.7 Income from Investments

Income from investments includes all income and expenses which have arisen in relation to operating investments. It is comprised of income from investments accounted for using the equity method and other income from investments. This includes the results from our non-consolidated participations in G&I Germany (see "12.4.1.3 Success at Concession Renewals and Partnering") and the Renewables Segment (see "12.4.3.3 Performance of Development Projects"). Depending on the size of our shareholding, the net income of these investments is reflected in the line item investments accounted for using the equity method. Otherwise the dividends from these non-consolidated participations are reflected in our other income from investments.

The following table provides a breakdown of our income from investments for 2015 compared to 2014 and 2013.

	For the financial year ended December 31,		
	2015	2014	2013
	(audited) (in EUR million)		
<b>Income from investments accounted for using the equity method . . . . .</b>	<b>228</b>	<b>234</b>	<b>215</b>
of which: amortization/impairment losses/reversals on investments accounted for using the equity method . . . . .	-5	-11	-4
Income from non-consolidated subsidiaries . . . . .	3	5	11
of which: amortization/impairment losses on non-consolidated subsidiaries . . . . .	-1	-2	-1
Income from other investments . . . . .	32	26	29
of which: impairment of shares in other investments . . . . .	-1	-8	-2
Income from the disposal of investments . . . . .	221	169	35
Expenses from the disposal of investments . . . . .	7	8	4
Income from loans to investments . . . . .	34	26	23
Expenses from loans to investments . . . . .	18	52	24
<b>Other income from investments . . . . .</b>	<b>265</b>	<b>166</b>	<b>70</b>
<b>Total income from investments . . . . .</b>	<b>493</b>	<b>400</b>	<b>285</b>

Income from investments accounted for using the equity method decreased by EUR 6 million from EUR 234 million in 2014 to EUR 228 million in 2015. In 2014, income from investments accounted for using the equity method increased by EUR 19 million from EUR 215 million in 2013 to EUR 234 million.

Other income from investments increased by EUR 96 million to EUR 166 million in 2014 from EUR 70 million in 2013 and to EUR 265 million in 2015. The increase was largely due to income from the disposal of investments. Total income from the disposal of investments increased by EUR 134 million from EUR 35 million in 2013 to EUR 169 million in 2014 and to EUR 221 million in 2015. This was due from the disposal of a shareholding in the regional gas utility FÖGÁZ that was sold to the state-owned Hungarian energy utility MVM Group against the backdrop of a significant rise in regulatory pressure in the already regulated Hungarian household gas business. Furthermore, in December 2014, we sold a 7.1% stake in Dortmunder Energie- und Wasserversorgung GmbH (DEW21), a company accounted for using the equity method, to Dortmunder Stadtwerke AG which led to sales proceeds and deconsolidation effects. In 2015, the disposal of a majority share in our offshore wind project Galloper as well as the subsequent purchase price payment from the sale of a majority share in our Nordsee One offshore wind development project contributed mainly to the income from investments.

#### 12.7.2.8 Financial Income

Financial income increased by EUR 133 million from EUR 445 million in 2014 to EUR 578 million in 2015. This increase was primarily a result of gains realized in 2015 from the disposal of marketable securities held by certain subsidiaries of the Group (*Regionalgesellschaften*) in the aggregate amount of EUR 279 million (an increase of EUR 211 million compared to 2014). This effect was partly offset by lower interest income as a result of lower financial receivables. Financial income increased by EUR 39 million from EUR 406 million in 2013 to EUR 445 million in 2014 mainly due to higher gains from the sale of securities compared to 2013.

#### 12.7.2.9 Finance Costs

Finance costs decreased by EUR 120 million from EUR 1,000 million in 2014 to EUR 880 million in 2015. This was mainly a result of refinancing a loan for financing the Dutch retail business at

lower interest rates. In 2014, finance costs increased by EUR 27 million from EUR 973 million in 2013 to EUR 1,000 million. For the purpose of preparing the Audited Combined Financial Statements, finance costs were computed on the basis of the historic financing structure. Due to major amendments made to the financing structure in the context of the Carve-Out (see "5.5 Financing") and certain financing measures in the first half year of 2016 (see "15.17.1 Financing Agreements"), the finance costs reported in the periods under review are not representative of our future finance costs.

#### 12.7.2.10 Income before Tax

As a result of the foregoing, income before tax increased by EUR 577 million to EUR 2,798 million in 2015. In 2014, income before tax increased by EUR 776 million from EUR 1,445 million in 2013 to EUR 2,221 million.

#### 12.7.2.11 Taxes on Income

Taxes on income increased by EUR 337 million from EUR 523 million in 2014 to EUR 860 million in 2015. From EUR 551 million in 2013, taxes on income decreased by EUR 28 million to EUR 523 million in 2014.

	For the financial year ended December 31,		
	2015	2014	2013
	(unaudited, unless otherwise indicated)		
<b>Taxes on income (in EUR million)<sup>1)</sup></b> .....	<b>860</b>	<b>523</b>	<b>551</b>
<b>Effective tax rate<sup>1)</sup></b> .....	<b>30.7%</b>	<b>23.5%</b>	<b>38.1%</b>
<b>Statutory tax rate</b> .....	<b>31.4%</b>	<b>31.4%</b>	<b>31.4%</b>
Germany .....	30.0%	30.0%	30.0%
United Kingdom .....	20.3%	21.5%	23.3%
The Netherlands .....	25.0%	25.0%	25.0%
Eastern Europe .....	24.0% <sup>2)</sup>	24.0% <sup>2)</sup>	23.0% <sup>2)</sup>

1) Audited.

2) Weighted average (based on the respective operating results) of tax rates applicable in the Czech Republic, Poland, Slovakia and Hungary. Figures are rounded.

In 2015, our effective tax rate was 30.7%, while in 2014, our effective tax rate was 23.5% and in 2013, our effective tax rate was 38.1%. The volatility in the effective tax rate, given the stable statutory tax rate, is a result of the separate tax return approach for purposes of preparing the Audited Combined Financial Statements and certain non-recurring events in the respective years. Current and deferred income taxes are recognized in accordance with IAS 12. For purposes of the Audited Combined Financial Statements, income taxes are determined under the assumption that the relevant Group entities constitute separate taxable entities. This assumption implies that the current and deferred taxes of all companies and of the fiscal units within the Group are calculated separately and that the recoverability of deferred tax assets is assessed on this basis. As a consequence, the Audited Combined Financial Statements as of and for 2015, 2014 and 2013 do not consider tax groups for the periods under review, e.g., for offsetting purposes, which we have established in the context of the restructuring of the Group. Income tax in 2015 included one-off items, such as tax on intragroup loan transfers without effect on income before tax. The decrease of the effective tax rate from 2013 to 2014 was mainly a result of changes in deferred taxes. In 2013, we were unable to utilize losses from our international business (mainly in Spain, the USA, Hungary and the Netherlands) for tax purposes. This resulted in a write-down of deferred tax assets and non-capitalization of deferred tax assets. Therefore, we do not believe that effective tax rates reflected in taxes on income are representative for the Group on a going-forward basis.

### 12.7.2.12 Income

As a result of the foregoing, our income for 2015 increased by EUR 240 million from EUR 1,698 million in 2014 to EUR 1,938 million in 2015. In 2014, income increased by EUR 804 million from EUR 894 million in 2013 to EUR 1,698 million. The increase of non-controlling interests by EUR 94 million in 2015 was mainly driven by improved earnings and the increase of Macquarie's stake in our Czech subsidiary innogy Grid Holding, a.s. in 2015 (see "15.5.6.1 Operation of Gas Grid in the Czech Republic") and effects related to the sale of securities by our German regional utilities. Furthermore, but to a lesser extent, the first-time full consolidation of VSE Holding group in Slovakia in the second half of 2015 contributed to the increase of non-controlling interests.

## 12.8 Financial Position

In the following section, we describe our financial position and the changes in our financial position. The table below presents assets, equity and liabilities as of June 30, 2016 and as of December 31, 2015, 2014 and 2013.

Consolidated/combined balance sheet (in EUR million)	As of June 30,	As of December 31,		
	2016	2015	2014	2013
	(unaudited) (in EUR million)	(audited, unless otherwise indicated) (in EUR million)		
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets . . . . .	11,736	12,178	11,695	11,598
Property, plant and equipment . . . . .	17,552	18,308	17,309	16,980
Investments accounted for using the equity method . . . . .	2,140	2,137	2,379	2,404
Other non-current financial assets . . . . .	581	555	510	478
Receivables and other assets <sup>1)</sup> . . . . .	1,100	3,085 <sup>2)</sup>	1,951 <sup>2)</sup>	1,550 <sup>2)</sup>
Financial receivables . . . . .	— <sup>1)</sup>	2,211	1,458	1,139
Other receivables and other assets . . . . .	— <sup>1)</sup>	866	477	383
Income tax assets . . . . .	— <sup>1)</sup>	8	16	28
Deferred taxes . . . . .	2,771	1,972	1,805	1,417
<b>Total non-current assets . . . . .</b>	<b>35,880</b>	<b>38,235</b>	<b>35,649</b>	<b>34,427</b>
<b>Current assets</b>				
Inventories . . . . .	473	380	491	444
Trade accounts receivable . . . . .	4,431	4,551	5,708	7,086
Receivables and other assets <sup>3)</sup> . . . . .	3,436	12,362 <sup>2)</sup>	11,958 <sup>2)</sup>	10,330 <sup>2)</sup>
Financial receivables . . . . .	— <sup>2)</sup>	10,425	10,316	8,973
Other receivables and other assets . . . . .	— <sup>3)</sup>	1,816	1,478	1,184
Income tax assets . . . . .	— <sup>3)</sup>	121	164	173
Marketable securities . . . . .	1,905	1,894	1,913	1,702
Cash and cash equivalents . . . . .	567	550	475	824
Assets held for sale . . . . .	11	—	310	—
<b>Total current assets . . . . .</b>	<b>10,823</b>	<b>19,737</b>	<b>20,855</b>	<b>20,386</b>
<b>Total assets . . . . .</b>	<b>46,703</b>	<b>57,972</b>	<b>56,504</b>	<b>54,813</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Total invested equity attributable to the owners of the Group . . . . .	4,280	16,649	16,937	15,654
Non-controlling interests . . . . .	1,724	1,811	1,461	1,335
<b>Total equity . . . . .</b>	<b>6,004</b>	<b>18,460</b>	<b>18,398</b>	<b>16,989</b>

	As of June 30,	As of December 31,		
	2016	2015	2014	2013
Consolidated/combined balance sheet (in EUR million)	(unaudited) (in EUR million)	(audited, unless otherwise indicated) (in EUR million)		
<b>Non-current liabilities</b>				
Provisions for pensions and similar obligations . . . . .	4,485	3,461	4,595	3,582
Other provisions . . . . .	1,627	1,616	1,887	2,038
Financial liabilities . . . . .	17,373	15,291	11,786	13,633
Other liabilities . . . . .	2,182	2,428	2,274	2,186
Deferred taxes . . . . .	687	904	772	820
<b>Total non-current liabilities . . . . .</b>	<b>26,354</b>	<b>23,700</b>	<b>21,314</b>	<b>22,259</b>
<b>Current liabilities</b>				
Other provisions . . . . .	2,786	2,545	2,613	2,816
Financial liabilities . . . . .	4,142	3,684	4,687	2,872
Trade accounts payable . . . . .	3,385	4,553	4,906	5,357
Other liabilities <sup>4)</sup> . . . . .	4,032	5,030 <sup>2)</sup>	4,586 <sup>2)</sup>	4,520 <sup>2)</sup>
thereof: Income tax liabilities . . . . .	— <sup>4)</sup>	199	194	181
<b>Total current liabilities . . . . .</b>	<b>14,345</b>	<b>15,812</b>	<b>16,792</b>	<b>15,565</b>
<b>Total equity and liabilities . . . . .</b>	<b>46,703</b>	<b>57,972</b>	<b>56,504</b>	<b>54,813</b>

1) Non-current financial receivables, other receivables and other assets and income tax assets are aggregated and reported as non-current receivables and other assets in the Unaudited Interim Consolidated Financial Statements (Condensed).

2) Unaudited.

3) Current financial receivables, other receivables and other assets and income tax assets are aggregated and reported as current receivables and other assets in the Unaudited Interim Consolidated Financial Statements (Condensed).

4) Income tax liabilities and other liabilities are aggregated and reported as other liabilities in the Unaudited Interim Consolidated Financial Statements (Condensed). Other liabilities as of December 31, 2013, 2014 and 2015 include other liabilities and income tax liabilities as reported in the Audited Combined Financial Statements.

## 12.8.1 Assets

### 12.8.1.1 Comparison as of June 30, 2016 and December 31, 2015

As of June 30, 2016, the Group had EUR 46,703 million in total assets, a decrease of EUR 11,269 million from EUR 57,972 million as of December 31, 2015. This decrease was mainly driven by a decrease of EUR 8,914 million of current assets, while non-current assets decreased by EUR 2,355 million from EUR 38,235 million as of December 31, 2015 to EUR 35,880 million as of June 30, 2016. To the decrease of non-current assets, intangible assets contributed EUR 442 million (EUR 11,736 million as of June 30, 2016 from EUR 12,178 million as of December 31, 2015), which resulted mainly from a decrease in goodwill due to the depreciation of the British pound against the Euro. The principal component of our non-current assets was property, plant and equipment, as they represent 48.9% and 47.9%, respectively, of our non-current assets and 37.6% and 31.6%, respectively, of our total assets, in each case as of June 30, 2016 and December 31, 2015, respectively. The decrease in property, plant and equipment of EUR 756 million was primarily due to exchange rate fluctuation relating to our properties allocated to Retail UK and impairments, including impairments to our German gas storage assets. Investments accounted for using the equity method remained largely stable at EUR 2,140 million as of June 30, 2016 and EUR 2,137 million as of December 31, 2015. Other financial assets slightly increased from EUR 555 million as of December 31, 2015 to EUR 581 million as of June 30, 2016. Non-current financial receivables, other receivables and other assets and income tax assets are aggregated and reported as non-current receivables and other assets in the Unaudited Interim Consolidated Financial Statements (Condensed). They decreased by EUR 1,985 million from EUR 3,085 million as of December 31, 2015 to EUR 1,100 million as of June 30, 2016. The decrease reflects primarily the settlement of intercompany loans, partly due to purchase prices owed by innogy Group companies in connection with the Carve-Out (see "5.5 Financing").

Deferred tax increased by EUR 799 million from EUR 1,972 million as of December 31, 2015 to EUR 2,771 million as of June 30, 2016. This increase was partly due to additional potential for future tax deductible expenses created by intragroup transactions in which the tax basis of certain balance sheet items was revalued, with effect on both current tax expense and deferred tax gain within the tax line in the income statement. The main driver for the increase of the net deferred tax position (including the decrease of deferred tax liabilities) in addition to the aforementioned effect was the tax impact of interest rate adjustments related to pension provisions.

The decrease in current assets from EUR 19,737 million as of December 31, 2015 to EUR 10,823 million as of June 30, 2016 was primarily driven by a decrease of current receivables and other assets from EUR 12,362 million as of December 31, 2015 to EUR 3,436 million as of June 30, 2016 (EUR 8,926 million). Current financial receivables, other receivables and other assets and income tax assets are aggregated and reported as current receivables and other assets in the Unaudited Interim Consolidated Financial Statements (Condensed). The significant decrease in the first half of 2016 was mainly a result of a decrease of current financial receivables due from RWE group in the amount of EUR 8,877 million, partly due to waivers of loans, partly due to purchase prices owed by innogy Group companies in connection with the Carve-Out (see "5 Carve-Out and Organizational Measures"). The trade accounts receivable decreased by EUR 120 million from EUR 4,551 million as of December 31, 2015 to EUR 4,431 million as of June 30, 2016. This was partly offset by slight increases in inventories (EUR 93 million from EUR 380 million as of December 31, 2015 to EUR 473 million as of June 30, 2016), marketable securities (EUR 11 million from EUR 1,894 million as of December 31, 2015 to EUR 1,905 million as of June 30, 2016), cash and cash equivalents (EUR 17 million from EUR 550 million as of December 31, 2015 to EUR 567 million as of June 30, 2016) and assets held for sale (EUR 11 million from nil as of December 31, 2015 to EUR 11 million as of June 30, 2016).

#### 12.8.1.2 *Comparison for the Financial Years 2015 and 2014*

As of December 31, 2015, the Group had EUR 57,972 million in total assets, an increase of EUR 1,468 million compared to EUR 56,504 million as of December 31, 2014. The increase was a result of an increase in non-current assets of EUR 2,586 million from EUR 35,649 million as of December 31, 2014 to EUR 38,235 million as of December 31, 2015, which offset the decrease in current assets. To this increase, intangible assets contributed EUR 483 million (EUR 12,178 million as of December 31, 2015 from EUR 11,695 million as of December 31, 2014), which resulted mainly from an increase in goodwill due to an increase of current redemption liabilities from put options and currency effects. The principal component of our non-current assets was property, plant and equipment, as they represent 47.9% and 48.6%, respectively, of our non-current assets and 31.6% and 30.6%, respectively, of our total assets, in each case as of December 31, 2015 and December 31, 2014, respectively. The increase in property, plant and equipment of EUR 999 million was primarily due to the first-time full consolidation of VSE Holding group in Slovakia and WestEnergie GmbH, which both own substantial properties relating to the distribution grids (in the case of VSE Holding through its subsidiary Východoslovenská distribučná, a.s. ("VSD")). Investments accounted for using the equity method decreased from EUR 2,379 million as of December 31, 2014 by EUR 242 million to EUR 2,137 million as of December 31, 2015. This was primarily a result of the first-time full consolidation of the two aforementioned grid operators. Our other non-current financial assets increased from EUR 510 million as of December 31, 2014 to EUR 555 million as of December 31, 2015. Financial receivables and other receivables and other assets increased from EUR 1,458 million as of December 31, 2014 to EUR 2,211 million as of December 2015 (increase of EUR 753 million) and EUR 477 million as of December 31, 2014 to EUR 866 million as of December 2015 (increase of EUR 389 million), respectively. The financial receivables as of December 31, 2015 included receivables that were held by the newly acquired innogy Finance B.V. The increase in other receivables and other assets primarily reflected an increase in fair values of commodity derivatives. Deferred taxes increased in the same period from

EUR 1,805 million to EUR 1,972 million. This development corresponded to an increase of deferred tax liabilities in similar magnitude. The impact of pension plans on the net deferred tax position was essentially set off by the deferred tax recognized in respect of the innogy Finance B.V. bonds that were recognized at fair values which differed significantly from their respective tax basis.

The decrease in current assets from EUR 20,855 million as of December 31, 2014 to EUR 19,737 million as of December 31, 2015 (EUR 1,118 million) was primarily the result of a decrease in trade accounts receivable. The decrease of trade accounts receivable of EUR 1,157 million related mainly to B2C customer balances and was primarily driven by tariff reductions and unfavorable weather. In the same period, other receivables and other assets increased from EUR 1,478 million to EUR 1,816 million (EUR 338 million), reflecting an increase in the fair values of commodity derivatives and in renewables obligations certificates. Cash and cash equivalents increased by EUR 75 million from EUR 475 million to EUR 550 million. Assets held for sale as of December 31, 2014 (EUR 310 million) included the grid connection for the Gwynt y Môr offshore wind farm and the offshore construction vessel Victoria Mathias.

#### 12.8.1.3 *Comparison for the Financial Years 2014 and 2013*

As of December 31, 2014, the Group had EUR 56,504 million in total assets, an increase of EUR 1,691 million compared to EUR 54,813 million as of December 31, 2013. Non-current assets contributed EUR 1,222 million (an increase from EUR 34,427 million as of December 31, 2013 to EUR 35,649 million as of December 31, 2014) and current assets contributed EUR 469 million (an increase from EUR 20,386 million as of December 31, 2013 to EUR 20,855 million as of December 31, 2014) to this increase.

To the increase of the non-current assets, intangible assets contributed EUR 97 million (EUR 11,695 million as of December 31, 2014 from EUR 11,598 million as of December 31, 2013). Property, plant and equipment, as principal component of our non-current assets increased from EUR 16,980 million as of December 31, 2013 to EUR 17,309 million as of December 31, 2014. This increase of EUR 329 million related primarily to CAPEX invested in additional production capacity in the Renewables Segment. Financial receivables increased from EUR 1,139 million as of December 31, 2013 to EUR 1,458 million as of December 2014 (increase of EUR 319 million), primarily as a result of undistributed cash earnings (particularly from our Central Eastern Europe operations) being borrowed by the RWE Group. Other receivables and other assets increased from EUR 383 million as of December 31, 2013 to EUR 477 million as of December 2014 (increase of EUR 94 million), respectively. This primarily reflects an increase in fair values of commodity derivatives. Deferred taxes increased in the same period from EUR 1,417 million to EUR 1,805 million, mainly due to the tax impact of pension plans. Changes in market interest rates had a strong impact on the valuation of pension provisions under IAS 19 whereas the tax basis of pension provisions is, under German law, calculated by using a fixed discount rate. Therefore, the deferred tax related to this item changed accordingly.

The increase in current assets represents a net effect of changes in various items. Financial receivables increased from EUR 8,973 million as of December 31, 2013 to EUR 10,316 million as of December 31, 2014 (increase of EUR 1,343 million), which was the effect of accumulated cash (particularly from our Central Eastern Europe operations) being borrowed by the RWE Group. The decrease of trade accounts receivable of EUR 1,378 million was mainly due to a respective decrease of B2C customer balances driven by tariff reductions and weather conditions. Other receivables and other assets increased from EUR 1,184 million to EUR 1,478 million (increase of EUR 294 million), reflecting an increase both in fair values of commodity derivatives and in renewables obligations certificates. From December 31, 2013 to December 31, 2014, marketable securities increased by EUR 211 million from EUR 1,702 million to EUR 1,913 million, while cash and cash equivalents significantly decreased by EUR 349 million from EUR 824 million to EUR 475 million.

## 12.8.2 Equity and Liabilities

### 12.8.2.1 Comparison as of June 30, 2016 and December 31, 2015

Total equity of the Group decreased by EUR 12,456 million from EUR 18,460 million as of December 31, 2015 to EUR 6,004 million as of June 30, 2016. This net decrease included the income for the six-month period ended June 30, 2016 (EUR 1,257 million), distribution of earnings (negative EUR 881 million), other comprehensive income (negative EUR 758 million) and net withdrawals by non-controlling interests (negative EUR 79 million) and by the owners of the Group (negative EUR 11,995 million).

The main driver for this significant decrease in equity were primarily cash withdrawals and contributions of RWE AG in connection with the Carve-Out carried out in the six-month period ended June 30, 2016 (see *"5 Carve-Out and Organizational Measures"*) of negative EUR 12,751 million, adjustments from overhead cost allocations until March 31, 2016 of EUR 24 million, adjustments as a result from the application of the separate tax return approach of EUR 712 million and other stand-alone adjustments of EUR 18 million.

The various transactions with RWE AG in connection with the Carve-Out included payments for acquired businesses of EUR 10,998 million to the RWE Group, withdrawals of receivables and other assets against entities of RWE Group of EUR 4,370 million and contributions of EUR 2,617 million. In July 2016, we carried out certain measures to calibrate our capital structure, such as a EUR 900 million cash capital contribution by RWE AG and a EUR 1,009 million debt-to-equity swap, in which certain loans (including accrued interest) were contributed to the capital reserve of the Company and, as a result, ceased to exist with effect as of July 31, 2016. Therefore, the capital structure presented as of June 30, 2016 is not yet representative of our future capital structure.

Non-current liabilities of the Group as of June 30, 2016 amounted to EUR 26,354 million, which represented an increase of EUR 2,654 million from EUR 23,700 million as of December 31, 2015. To this increase, provisions for pensions and similar obligations contributed EUR 1,024 million (EUR 4,485 million as of June 30, 2016 and EUR 3,461 million as of December 31, 2015). This increase was mainly a result of lower discount rates affecting our pension provisions. Other provisions remained largely stable at EUR 1,627 million as of June 30, 2016 and EUR 1,616 million as of December 31, 2015. Non-current financial liabilities increased by EUR 2,082 million from EUR 15,291 million as of December 31, 2015 to EUR 17,373 million as of June 30, 2016. This increase together with the increase of current financial liabilities reflects the effects of the Carve-Out carried out in the first half of 2016 (see the preceding paragraphs above and *"5 Carve-Out and Organizational Measures"*) on the Group's financing structure. Other liabilities decreased by EUR 246 million from EUR 2,428 million as of December 31, 2015 to EUR 2,182 million as of June 30, 2016, partly due to a decrease of commodity derivatives. Deferred tax liabilities decreased, mainly due the effects that also led to a significant increase of deferred tax assets, by EUR 217 million (EUR 687 million as of June 30, 2016 and EUR 904 million as of December 31, 2015).

Total current liabilities decreased by EUR 1,467 million from EUR 15,812 million as of December 31, 2015 to EUR 14,345 million as of June 30, 2016. To this decrease of current liabilities, other provisions (EUR 2,786 million as of June 30, 2016 and EUR 2,545 million as of December 31, 2015) and financial liabilities (EUR 4,142 million as of June 30, 2016 and EUR 3,684 million as of December 31, 2015) contributed EUR 241 million and EUR 458 million, respectively. The increase of other provisions was mainly the result of increased redemption liabilities from renewable obligation certificates. Together with the increase of non-current financial liabilities, the increase of current financial liabilities – despite the repayment of a EUR 850 million bond issued by innogy Finance B.V. in April 2016 – reflects the effects of the Carve-Out carried out in the first half of 2016 (see the preceding paragraphs above, *"5 Carve-Out and Organizational Measures"* and *"12.4.4.3 Fair Value 'Step-Up' and Amortization Resulting from the Carve-Out Debt Transfer"*) on the Group's financing structure. This increase was partly offset by a decrease of trade accounts payable (EUR 1,168 million from

EUR 4,553 million as of December 31, 2015 to EUR 3,385 million as of June 30, 2016) and other current liabilities (EUR 998 million from EUR 5,030 million as of December 31, 2015 to EUR 4,032 million as of June 30, 2016), mainly due to the decrease of commodity derivatives and customer prepayments received.

#### 12.8.2.2 *Comparison for the Financial Years 2015 and 2014*

Total equity of the Group increased by EUR 62 million to EUR 18,460 million as of December 31, 2015 from EUR 18,398 million as of December 31, 2014. This net increase included the income for 2015 (EUR 1,938 million), distribution of earnings (negative EUR 1,187 million), other comprehensive income (EUR 285 million), net contributions by non-controlling interests (EUR 311 million) and net withdrawals by the owners of the Group (negative EUR 1,285 million).

Non-current liabilities of the Group as of December 31, 2015 amounted to EUR 23,700 million, which represented an increase of EUR 2,386 million from EUR 21,314 million as of December 31, 2014. This increase was a result of a rise of financial liabilities from EUR 11,786 million as of December 31, 2014 to EUR 15,291 million as of December 31, 2015 (increase of EUR 3,505 million). This increase, together with the decrease of current financial liabilities, was mainly due to a series of refinancing transactions at the end of 2015, which resulted in a 'step-up' of finance liabilities of EUR 1,245 million (see "12.4.4.3 Fair Value 'Step-Up' and Amortization Resulting from the Carve-Out Debt Transfer"). Changes in currency exchange rates also contributed to the increase in financial liabilities. The increase of financial liabilities offset the decrease of provisions for pensions and similar obligations (EUR 1,134 million) and other provisions (EUR 271 million) mainly resulting from EUR 596 million cash contribution to pension plans and increased discount rates with effect on both provision for pension and similar liabilities and other provisions. In addition, the increase of other liabilities (EUR 2,428 million as of December 31, 2015 and EUR 2,274 million as of December 31, 2014) and deferred taxes (EUR 904 million as of December 31, 2015 and EUR 772 million as of December 31, 2014) contributed EUR 154 million and EUR 132 million to the increase of the non-current liabilities.

Total current liabilities decreased by EUR 980 million from EUR 16,792 million as of December 31, 2014 to EUR 15,812 million as of December 31, 2015. This development from December 31, 2014 to December 31, 2015 was driven by a decrease of other provisions from EUR 2,613 million to EUR 2,545 million (EUR 68 million), financial liabilities from EUR 4,687 million to EUR 3,684 million (EUR 1,003 million) and trade accounts payable from EUR 4,906 million to EUR 4,553 million (EUR 353 million). The decrease of current financial liabilities mainly reflects the overall changed financing structure as a result of the acquisition of innogy Finance B.V. and the transfer of a bond originally issued by RWE AG. The decrease of trade accounts payable was mainly due to the timing of purchases and payments. As we purchase commodities in bulk orders, the timing of purchases and payments have a significant influence on the amount of liabilities as of a certain date, without being indicative for the total volumes purchased over a period. The decrease of current liabilities was partly compensated by an increase of other liabilities by EUR 444 million from EUR 4,586 million as of December 31, 2014 to EUR 5,030 million as of December 31, 2015. This increase was mainly influenced by the movement in the commodity derivatives.

#### 12.8.2.3 *Comparison for the Financial Years 2014 and 2013*

Between December 31, 2013 and December 31, 2014, total equity of the Group increased by EUR 1,409 million from EUR 16,989 million to EUR 18,398 million. This net increase included the income for 2014 (EUR 1,698 million), distribution of earnings (negative EUR 1,016 million), other comprehensive income (negative EUR 709 million) and net contributions by non-controlling interests (EUR 116 million) and by the owners of the Group (EUR 1,320 million).

Non-current liabilities of the Group as of December 31, 2014 amounted to EUR 21,314 million, a decrease of EUR 945 million from EUR 22,259 million as of December 31, 2013. Despite cash contributions to pension plans amounting to EUR 510 million, provisions for pensions and similar obligations increased in this period by EUR 1,013 million from EUR 3,582 million as of

December 31, 2013 to EUR 4,595 million as of December 31, 2014. This increase was mainly a result of decreased discount rates. In addition, other liabilities increased by EUR 88 million (EUR 2,186 million as of December 31, 2013 and EUR 2,274 million as of December 31, 2014). This was compensated by the decrease of other provisions (EUR 151 million), mainly driven by the off-setting of provisions for part-time retiree and early retirement contracts against plan assets newly assigned in that year, financial liabilities (EUR 1,847 million) and deferred taxes (EUR 48 million). The decrease of non-current financial liabilities resulted mainly from the transfers of balances to current liabilities as they approached maturity.

Total current liabilities increased by EUR 1,227 million from EUR 15,565 million as of December 31, 2013 to EUR 16,792 million as of December 31, 2014. This development was mainly driven by an increase of financial liabilities by EUR 1,815 million from EUR 2,872 million to EUR 4,687 million primarily due to the reclassification from non-current to current liabilities as the respective liabilities approached maturity. The increase of current liabilities was partly offset by a decrease of other provisions by EUR 203 million from EUR 2,816 million as of December 31, 2013 to EUR 2,613 million as of December 31, 2014, mainly driven by the settlement of obligations from part-time retiree and early retirement contracts. Furthermore, trade accounts payable decreased by EUR 451 million (EUR 5,357 million as of December 31, 2013 and EUR 4,906 million as of December 31, 2014), which was mainly due to timing of purchases and payments. As we purchase commodities in bulk orders, the timing of purchases and payments have a significant influence on the amount of liabilities as of a certain date, without being indicative for the total volumes purchased over a period.

## **12.9 Liquidity and Capitalization**

### **12.9.1 Overview**

As of June 30, 2016, we still participated in the RWE AG's cash pool. Consequently, our liquidity situation was determined by current receivables and liabilities. In addition, we entered into a loan agreement with RWE AG with an available credit line in the amount of EUR 1.0 billion and we participate in a revolving credit facility of RWE AG in the amount of up to EUR 1,500 million via our subsidiary innogy Finance B.V. as an additional borrower. Furthermore, we have access to certain letters of credit, guarantees and other non-cash credit support instruments provided to RWE AG by certain core banks.

As of June 30, 2016, we had equity (excluding a share of equity attributable to non-controlling interests of EUR 1,724 million) of EUR 4,280 million. Proceeds from the offering will increase our equity (see "*9.1 Capitalization*"). The debt financing structure has two main components.

Firstly, our debt financing structure includes bonds issued by our subsidiaries innogy Finance B.V. and innogy Finance II B.V. with a nominal amount of EUR 9,870 million (as per June 30, 2016) at an average cost of debt of approximately 5%. On our balance sheet, the bonds are recorded at an amount of EUR 10,922 million as of June 30, 2016, which includes the carrying amount as well as the effects of the revaluation due to the initial recognition at fair values of the bonds ('step-up'), see "*12.4.4.3 Fair Value 'Step-Up' and Amortization Resulting from the Carve-Out Debt Transfer*". As per June 30, 2016, the 'step-up' amounted to EUR 1,089 million.

Secondly, our debt financing structure includes intercompany debt granted by RWE AG in the amount of EUR 9,162 million. Thereof EUR 6,004 million were granted under intra-group loan agreements on June 13, 2016 (see "*15.17.1.5 Intra-Group Loan Agreements*") at an average cost of debt of less than 2% per annum. The remaining intercompany debt mainly comprises cash pool liabilities with relatively low cost of debt. The intercompany loans granted by RWE AG in June 2016 represent debt that was economically transferred to the Group in the context of the reorganization which is planned to be partly transferred legally to the Group subsequent to the Offering. For further details on the financing structure, see "*15.17.1 Financing Agreements*".

In July 2016, we carried out certain measures to calibrate our capital structure, which are not yet reflected in our Unaudited Interim Consolidated Financial Statements (Condensed) as of June 30, 2016. Such measures included a EUR 900 million cash capital contribution by RWE AG (see also "5.5 Financing") and a EUR 1,009 million debt-to-equity swap, in which certain loans (including accrued interest) were contributed to the capital reserve of the Company and ceased to exist with effect as of July 31, 2016.

## 12.9.2 Cash Flows

The table below presents our cash flows for the six-month period ended June 30, 2016 compared to the six-month period ended June 30, 2015 and to 2015, 2014 and 2013.

Cash Flow Statement (in EUR million)	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited)		(audited, unless otherwise indicated)		
Income . . . . .	1,257	1,424	1,938	1,698	894
Depreciation, amortization, impairment losses/reversals . . . . .	924	642	1,640	1,451	2,150
Changes in provisions . . . . .	407	505	-234	-133	405
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities <sup>1)</sup> . . . . .	-259	-429	-799 <sup>2)</sup>	-113 <sup>2)</sup>	-133 <sup>2)</sup>
Changes in deferred taxes . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	-77	-73	-65
Income from disposal of non- current assets and marketable securities . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	-623	-351	-293
Other non-cash income/expenses . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	-99	311	225
Changes in working capital . . . . .	-1,922	-1,509	210	74	342
<b>Cash flows from operating activities . . . . .</b>	<b>407</b>	<b>633</b>	<b>2,755</b>	<b>2,977</b>	<b>3,658</b>
Capital expenditures on non- current assets/acquisitions <sup>3)</sup> . . . . .	-593	-680	-2,124 <sup>2)</sup>	-2,141 <sup>2)</sup>	-2,474 <sup>2)</sup>
Capital expenditures intangible assets/property, plant and equipment . . . . .	— <sup>3)</sup>	— <sup>3)</sup>	-2,025	-2,059	-2,297
Capital expenditures acquisitions, investments . . . . .	— <sup>3)</sup>	— <sup>3)</sup>	-99	-82	-177
Proceeds from disposal of assets/ divestitures <sup>4)</sup> . . . . .	194	633	963 <sup>2)</sup>	513 <sup>2)</sup>	628 <sup>2)</sup>
Proceeds from disposal of assets/ divestitures intangible assets/ property, plant and equipment . . . . .	— <sup>4)</sup>	— <sup>4)</sup>	663	237	337
Proceeds from disposal of assets acquisitions, investments . . . . .	— <sup>4)</sup>	— <sup>4)</sup>	300	276	291
Changes in marketable securities and cash investments . . . . .	5,328 <sup>5)</sup>	1,973 <sup>5)</sup>	655	-1,547	-641
<b>Cash flows from investing activities (before initial/ subsequent transfer to pension plans) . . . . .</b>	<b>4,929</b>	<b>1,926</b>	<b>-506</b>	<b>-3,175</b>	<b>-2,487</b>
Initial/subsequent transfer to pension plans . . . . .	-125	-466	-596	-510	-67

Cash Flow Statement (in EUR million)	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited)		(audited, unless otherwise indicated)		
<b>Cash flows from investing activities (after initial/subsequent transfer to pension plans) . . . . .</b>	<b>4,804</b>	<b>1,460</b>	<b>-1,102</b>	<b>-3,685</b>	<b>-2,554</b>
Net changes in equity (incl. non-controlling interests) . . . . .	— <sup>6)</sup>	— <sup>6)</sup>	-178	1,474	1,305
Dividends paid . . . . .	— <sup>6)</sup>	— <sup>6)</sup>	-1,017	-486	-1,357
Issuance of financial debt . . . . .	— <sup>6)</sup>	— <sup>6)</sup>	8,982	7,305	10,891
Repayment of financial debt . . . . .	— <sup>6)</sup>	— <sup>6)</sup>	-9,380	-7,944	-11,843
<b>Cash flows from financing activities . . . . .</b>	<b>-5,176</b>	<b>-2,009</b>	<b>-1,593</b>	<b>349</b>	<b>-1,004</b>
Net cash changes in cash and cash equivalents . . . . .	35	84	60	-359	100
Effects of changes in foreign exchange rates of the reporting period as per the combined balance sheet . . . . .	-18	12	15	10	-3
<b>Net change in cash and cash equivalents . . . . .</b>	<b>17</b>	<b>96</b>	<b>75</b>	<b>-349</b>	<b>97</b>
Cash and cash equivalents at beginning of the reporting period as per the combined/consolidated balance sheet . . . . .	550	475	475	824	727
Cash and cash equivalents at the end of the reporting period . . . . .	567	571	550	475	824
Of which: reported as "assets held for sale" . . . . .	—	-54	—	—	—
<b>Cash and cash equivalents at the end of the reporting period as per the combined/consolidated balance sheet . . . . .</b>	<b>567</b>	<b>517</b>	<b>550</b>	<b>475</b>	<b>824</b>

1) Changes in deferred taxes, income from disposal of non-current assets and marketable securities and other non-cash income/expenses are aggregated and reported as deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities in the Unaudited Interim Consolidated Financial Statements (Condensed).

2) Unaudited.

3) Capital expenditures intangible assets/property, plant and equipment and capital expenditures acquisitions, investments are aggregated and reported as capital expenditures on non-current assets/acquisitions in the Unaudited Interim Consolidated Financial Statements (Condensed).

4) Proceeds from disposal of assets/divestitures intangible assets/property, plant and equipment and proceeds from disposal of assets acquisitions, investments are aggregated and reported as proceeds from disposal of assets/divestitures in the Unaudited Interim Consolidated Financial Statements (Condensed).

5) Before initial/subsequent transfer to pension plans. As per our Unaudited Interim Consolidated Financial Statements (Condensed), changes in marketable securities and cash investments after initial/subsequent transfer to pension plans amounted to EUR 5,203 million for the six-month period ended June 30, 2016 and EUR 1,507 million for the six-month period ended June 30, 2015.

6) Not separately reported in the Unaudited Interim Consolidated Financial Statements (Condensed).

The cash flow statement classifies cash flows according to operating, investing and financing activities. Cash and cash equivalents in the cash flow statement correspond to the amount stated in the balance sheet. Cash and cash equivalents consist of cash on hand, demand deposits and fixed-interest marketable securities with a maturity of three months or less from the date of acquisition. Restrictions on the disposal of cash and cash equivalents amounted to EUR 19 million as of December 31, 2015 (as of December 31, 2014: EUR 14 million; as of December 31, 2013: EUR 14 million).

#### 12.9.2.1 *Cash flows from operating activities*

In the six-month period ended June 30, 2016, our net cash flow from operating activities amounted to EUR 407 million, a decrease of EUR 226 million from EUR 633 million for the six-month period ended June 30, 2015. This decrease was mainly driven by higher cash outflows from the change in working capital. This is mainly attributable to the change in trade accounts receivable/payable, which resulted primarily from higher customer demand, mainly due to weather effects. In addition, inventory levels slightly increased. In contrast, our cash flow from operating activities was positively impacted by a cash settlement in the amount of EUR 250 million in connection with the termination of gas storage contracts with RWEST. Additionally, margins slightly improved, especially in the UK B2C retail business.

Funds from operations (defined as cash flow from operating activities without consideration of changes in working capital) increased by EUR 188 million from EUR 2,142 million for the six-month period ended June 30, 2015 to EUR 2,330 million for the six-month period ended June 30, 2016. Free cash flow (defined as cash flow from operating activities minus capital expenditures in intangible assets/property, plant and equipment) decreased by EUR 120 million from negative EUR 19 million for the six-month period ended June 30, 2015 to negative EUR 139 million for the six-month period ended June 30, 2016.

While net income increased in the periods under review, mainly due to non-cash items the net cash flow from operating activities decreased. In 2015 and 2014, we recorded a higher use of provisions than build-up of provisions (especially for pension and personnel provisions), along with cash taxes exceeding taxes recorded in the income statement in 2014. Book gains contained in the operating result relating to sale of assets further added to this development as they are not recorded in the cash flow from operating activities.

In 2015, our net cash flow from operating activities amounted to EUR 2,755 million, a decrease of EUR 222 million from EUR 2,977 million in 2014. This decline was driven by a number of factors. First, lower margins in the UK retail business negatively affected our cash flow from operating activities. Second, we faced higher cash-outs in 2015 related to provisions booked in earlier periods, in particular related to pension and personnel provisions as well as provisions for renewable obligation certificates.

In 2014, our net cash flow from operating activities amounted to EUR 2,977 million and therefore decreased by EUR 681 million from EUR 3,658 million in 2013. This development was mainly due to significantly higher tax payments relating to items from earlier periods, which is also reflected in a decline of the cash flow from the change in working capital. Additionally, the weak UK retail business and higher use of provisions for pensions, personnel and renewables obligation certificates (ROCs) contributed to the decline of the cash flow from operating activities.

#### 12.9.2.2 *Cash flows from investing activities*

Cash flows from investing activities comprise flows of funds from the acquisition and sale of combined companies. Effects of foreign exchange rate changes and other changes in value are stated separately.

In the six-month period ended June 30, 2016, our net cash flow from investing activities amounted to EUR 4,804 million, an increase of EUR 3,344 million from EUR 1,460 million in the six-month period ended June 30, 2015. This increase was mainly due to an increase in cash flows from changes in marketable securities and cash investments (EUR 3,355 million from EUR 1,973 million for the six-month period ended June 30, 2015 to EUR 5,328 million for the six-month period ended June 30, 2016, both before initial/subsequent transfer to pension plans), which mainly resulted from a reduction of financial receivables due from RWE Group in connection with the Carve-Out (see "5 Carve-Out and Organizational Measures"). The increase of the cash flow from investing activities was also driven by lower transfers to pension plans in the amount of EUR 125 million in the six-month period ended June 30, 2016, compared to EUR 466 million in the six-month period ended June 30, 2015. This was contrasted by the fact

that proceeds from the disposal of assets/divestitures decreased by EUR 439 million to EUR 194 million in the six-month period ended June 30, 2016 compared to EUR 633 million in the six-month period ended June 30, 2015.

In 2015, our net cash flow from investing activities (before initial/subsequent transfer to pension plans) amounted to negative EUR 506 million, an increase of EUR 2,669 million from negative EUR 3,175 million in 2014. This increase was mainly due to an increase in cash flows from changes in marketable securities and cash investments which mainly resulted from a reduction of financial receivables due from RWE Group in 2015 compared to a significant increase which had occurred in 2014. To a lesser extent, the increase resulted from higher proceeds from the disposal of assets mainly driven by the disposal of the grid connection of the Gwynt y Môr offshore wind farm. Initial/subsequent transfer to pension plans decreased from negative EUR 510 million in 2014 to negative EUR 596 million in 2015.

In 2014, our net cash flow from investing activities (before initial/subsequent transfer to pension plans) amounted to negative EUR 3,175 million, a decrease of EUR 688 million from negative EUR 2,487 million in 2013. This decrease was mainly due to a decrease in cash flows from changes in marketable securities and cash investments from negative EUR 641 million in 2013 to negative EUR 1,547 million in 2014. This was mainly due to higher cash outflows from the increase of loans and other financial receivables due from RWE AG in 2014 compared to 2013. This higher cash outflow was partly offset by lower CAPEX on intangible assets/property, plant and equipment, which contributed negative EUR 2,059 million to our cash flows from investing activities in 2014 (compared to negative EUR 2,297 million in 2013). Additionally, CAPEX in respect of acquisitions and investments declined. These CAPEX contributed negative EUR 82 million to our cash flows from investing activities in 2014 (compared to negative EUR 177 million in 2013). Capital constraints of RWE AG made it necessary to reduce investments and scale back development activities within our Renewables Segment. The aggregate increase from lower CAPEX amounted to EUR 333 million. Initial/subsequent transfer to pension plans decreased from negative EUR 67 million in 2013 to negative EUR 510 million in 2014.

#### 12.9.2.3 *Cash flows from financing activities*

In 2015, cash flows from financing activities include purchases of EUR 0 million (2014: EUR 58 million, 2013: EUR 0 million) and sales of EUR 170 million (2014: EUR 29 million, 2013: EUR 279 million) of shares in subsidiaries and other business units which did not lead to a change of control.

In the six-month period ended June 30, 2016, our net cash flow from financing activities amounted to negative EUR 5,176 million, as compared to negative EUR 2,009 million in the six-month period ended June 30, 2015. This decrease was mainly attributable to the Carve-Out carried out in the first half of 2016. In particular, the consideration for the acquisition of companies from RWE Group and measures to set up the target capital structure, such as the increase of financial liabilities due to RWE Group, were the main drivers of the development of the cash flow from financing activities (see "*5 Carve-Out and Organizational Measures*" and "*15.17.1 Financing Agreements*"). The consideration given or received is recognized directly in equity in the line "Withdrawals/contributions" of the statement of changes in equity in the Unaudited Interim Consolidated Financial Statements (Condensed) included in "*26 Financial Information*". Furthermore, the repayment of a bond, which was due in the second quarter of 2016, led to additional cash outflows in the amount of EUR 850 million. Cash inflows in the six-month period ended June 30, 2016 resulted from the economic assumption of certain debt instruments from RWE AG, including six bonds issued by RWE AG in private placement transactions and two separate finance contracts with the European Investment Bank. While these eight instruments were not legally transferred to the Group, all rights and obligations of RWE AG under or in connection with the finance transactions were economically passed on to the Company under intra-group loan agreements. Some of these intra-group loan agreements include an agio on the outstanding nominal amount of the underlying debt instrument

reflecting the difference between the fair market value of such instrument as at June 13, 2016 and the carrying amount of the underlying debt instrument as reflected in the consolidated accounts of RWE AG (including accrued interest). For further information see "15.17.1.5 Intra-Group Loan Agreements").

In 2015, our net cash from financing activities amounted to negative EUR 1,593 million, a change of EUR 1,942 million from a net cash flow of positive EUR 349 million in 2014. This decrease is mainly attributable to lower net changes in equity (including non-controlling interests), which decreased by EUR 1,652 million to negative EUR 178 million in 2015. The cash contribution of EUR 1,474 million in 2014 included a dividend payment in the amount of EUR 898 million from RWE Supply & Trading CZ, a RWE Group company that used to be a subsidiary of the Company prior to the legal reorganization. As the company is not included in the scope of our combined financial statements, the dividend payment is not reflected as income from investments in the operating cash flow, but as transaction with RWE Group and non-controlling interests. In addition, dividends paid to RWE AG and minority shareholders increased by EUR 531 million to EUR 1,017 million in 2015 compared to EUR 486 million in 2014, which is due to the increase in income in 2014 (EUR 1,698 million) compared to 2013 (EUR 894 million).

In 2014, our net cash flow from financing activities amounted to EUR 349 million, an increase of EUR 1,353 million from negative EUR 1,004 million in 2013. The overall cash outflow was EUR 4,770 million lower than in 2013. The decrease was a result of the dividends paid and the repayment of financial debt (negative EUR 486 million and negative EUR 7,944 million, respectively, in 2014, and negative EUR 1,357 million and negative EUR 11,843 million, respectively, for 2013). This was largely offset by lower cash inflows from the issuance of debt (EUR 7,305 million in 2014, and EUR 10,891 million in 2013).

Due to major amendments made to the financing structure in the context of the Carve-Out (see "5.5 Financing") and certain financing measures in the first half year of 2016 (see "15.17.1 Financing Agreements"), the cash flows from financing activities reported in the periods under review are not representative of our future cash flows from financing activities.

### **12.9.3 Principal Investments**

#### **12.9.3.1 Past Investments**

Maintaining a well-invested asset base yielding largely regulated and predictable returns is one of our top priorities. Investments made into our business are mainly reflected in our CAPEX presented for our reportable segments and further discussed in "12.6 Results of Operation by Segment". In the financial years 2013 to 2015, our aggregate CAPEX was EUR 6.4 billion, with our Grid & Infrastructure Segment accounting for more than half of the total capital expenditures. In addition, certain investments made into our business are reported as capital expenditures on acquisitions and financial investments.

The following table presents our principal investments for the six-month period ended June 30, 2016 (compared with the six-month period ended June 30, 2015) and for 2015, 2014 and 2013.

	For the six-month period ended June 30,		For the financial year ended December 31,		
	2016	2015	2015	2014	2013
	(unaudited) (in EUR million)		(audited, unless otherwise indicated) (in EUR million)		
<b>Grid and Infrastructure Segment<sup>1)</sup></b>	<b>371</b>	<b>370</b>	<b>1,305</b>	<b>1,131</b>	<b>1,117</b>
G&I Germany <sup>2)</sup>	258	284	968	856	841
G&I East <sup>2)</sup>	113	86	337	275	276
<b>Retail Segment<sup>1)</sup></b>	<b>100</b>	<b>94</b>	<b>287</b>	<b>212</b>	<b>158</b>
Retail Germany <sup>2)</sup>	23	14	53	46	29
Retail NL/BE <sup>2)</sup>	16	11	25	9	14
Retail East <sup>2)</sup>	16	4	20	9	9
Retail UK <sup>2)</sup>	45	65	189	148	106
<b>Renewables Segment<sup>1)</sup></b>	<b>89</b>	<b>178</b>	<b>404</b>	<b>677</b>	<b>975</b>
<b>Other, consolidation<sup>1)</sup></b>	<b>20</b>	<b>10</b>	<b>28</b>	<b>40</b>	<b>52</b>
<b>Total capital expenditure on intangible assets, property, plant and equipment<sup>1)</sup></b>	<b>580</b>	<b>652</b>	<b>2,024</b>	<b>2,060</b>	<b>2,302</b>

1) Excluding financial investments.

2) Figures on operating segment level (G&I Germany, G&I East, Retail Germany, Retail NL/BE, Retail East and Retail UK) are unaudited. Figures on reportable segment level are audited.

In our Grid & Infrastructure Segment, we constantly invest in our grid infrastructure in the markets in which we operate. We focused on improving and expanding our asset base and components to upgrade our network into a smart, digital distribution grid and to ensure safe and stable grid operations, positioning us to play a central role in the ongoing energy transition. In order to strengthen our overall asset base, investments are well diversified across different regions and periods.

Our Retail Segment, in contrast, is generally characterized by low capital intensity which also concerns capital investments into the business. Investments primarily concern our Energy+ business and IT infrastructure.

Principal individual investments occur in our Renewables Segment, where we invested, and plan to continue to invest, into the development and construction of new renewable energy generation assets across our key technologies with a focus on wind farm projects.

In the periods under review, principal investments in our Renewables Segment included the following projects:

- Our most recently commissioned wind farm Gwynt y Môr in the UK. It has been in operation since 2014 with full commissioning in 2015, and with a total installed capacity of 576 MW distributed over 160 Siemens wind turbines with 3.6 MW each, Gwynt y Môr has been our biggest offshore project to date. Through the Gwynt y Môr joint venture, we hold a 50% stake in Gwynt y Môr.
- Our Nordsee Ost wind farm in Germany, which is fully owned by us. The offshore wind farm was fully commissioned in 2015. With an installed capacity of 295.2 MW (distributed over 48 Senvion wind turbines with 6.15 MW each), Nordsee Ost is one of the largest wind farms off the German coast.
- Our Bedburg onshore wind farm in Germany with a total installed capacity of 67 MW (distributed over 21 Senvion wind turbines) which is realized through our Bedburg joint venture.

- Our Zuidwester wind farm in the Netherlands with a projected capacity of 90 MW, which is fully owned by us. The Zuidwester project, located close to the IJsselmeer in the Netherlands, will be equipped with twelve 7.5 MW Enercon turbines which are currently the largest wind turbines dedicated for onshore use.
- Our Galloper wind farm in the UK, with a total projected capacity of 336 MW (distributed over 56 Siemens wind turbines with 6 MW each) realized through our 25% owned Galloper joint venture in 2015. Galloper is planned to become operational in 2018.
- Our Goole 2 wind farm in the UK, which is fully owned by us. The onshore wind farm with a projected capacity of 35 MW is planned to become operational by the end of the first quarter of 2017.
- Our Nordsee One offshore wind farm realized through the 15% owned Nordsee One joint venture. The wind farm's projected capacity amounts to 332 MW distributed over 54 Senvion wind turbines with 6.15 MW each. The wind turbine foundation works were completed in the second quarter of 2016, and we plan to have Nordsee One operational by the end of 2017.
- Our Triton Knoll offshore wind project in the UK (development phase) with up to 900 MW of projected capacity realized through the Triton Knoll joint venture.
- Our Nowy Staw onshore wind farm in Poland with 45 MW of capacity taken over in 2014 and 28 MW of capacity in 2015.
- Our Middlemoor onshore wind farm in the UK with a capacity of 54 MW commissioned in 2013.

#### 12.9.3.2 *Ongoing Investments*

With the exception of our projects Gwynt y Môr, Nordsee Ost, Bedburg, Nowy Staw and Middlemoor, which are fully completed as of today, all of the aforementioned principal investments are progressing to be commissioned or further developed as of the date of the Prospectus. Ongoing investments into these projects are financed out of our operating cash flows as well as through external financing.

In addition, in August 2016, we entered into an agreement for the acquisition of BELECTRIC Solar & Battery ("**BELECTRIC**"), a German-based company comprising the photovoltaic and battery business of BELECTRIC group. BELECTRIC is active in the design, installation, operation and maintenance of ground-mounted utility-scale and rooftop photovoltaic plants as well as battery storage solutions. For further information on the strategic rationale of this acquisition see "*15.7.4.2.4 Solar*". The transaction is in line with our investment framework and our financial investment criteria. The consideration comprises a purchase price amounting to a high double-digit million Euro amount and a participation in future profits, if any. In the past years, BELECTRIC was performing below expected returns as a result of a challenging international expansion strategy. Against this backdrop, BELECTRIC implemented a restructuring program and, as of December 31, 2015, based on BELECTRIC's adjusted accounts as specifically prepared in connection with the acquisition process, was profitable with adjusted revenue in excess of EUR 300 million and adjusted EBITDA in the low double-digit million Euro range. We expect that our acquisition of BELECTRIC will provide us access to sophisticated technology and know-how in utility-scale photovoltaic technology as well as project execution skills that will complement our existing project development and asset management capabilities. Furthermore, the acquisition will further complement and expand our existing development pipeline by leveraging BELECTRIC's pipeline of new projects, and provide us access to the emerging industrial-scale battery business. The closing of the transaction is subject to customary conditions as well as reorganizational measures and is currently expected to take place early in 2017.

We plan to focus our CAPEX on regulated or quasi-regulated businesses. Overall, we plan to invest an amount of EUR 6 to 7 billion in CAPEX (including financial investments) during 2016 to 2018. With around EUR 4.1 billion, almost two-thirds of our total CAPEX are targeted to be invested in our Grid & Infrastructure Segment in accordance with our mid-term planning for 2016 until 2018. Of these EUR 4.1 billion, we plan to invest around EUR 3.1 billion (including financial investments) from 2016 to 2018 to continue to drive growth in Germany. According to our planning for CAPEX (including financial investments), the remaining CAPEX of around EUR 2.4 billion for 2016 until 2018 is allocated to our Retail Segment in the amount of approximately EUR 0.8 billion, our Renewables Segment in the amount of approximately EUR 1.3 billion and to other, centrally accounted CAPEX, mainly for innovation projects, in the amount of approximately EUR 0.2 billion. We intend to continue our flexible capital allocation approach whereby capital is allocated to competing projects across our segments with a view to improving our overall business mix. We plan to finance these investments out of our operating cash flows as well as through external financing, including the proceeds from the Offering.

### 12.10.1 Financial Liabilities

	June 30, 2016		December 31, 2015		December 31, 2014		December 31, 2013	
	(unaudited) (in EUR million)				(audited) (in EUR million)			
	non-current <sup>1)</sup>	current	non-current <sup>1)</sup>	current	non-current <sup>1)</sup>	current	non-current <sup>1)</sup>	current
Bonds . . . . .	10,922	—	11,649	864	26	—	25	—
Bank debt . . . . .	330	167	226	155	189	113	207	171
Other financial								
liabilities . . . . .	6,121	3,975	3,416	2,665	11,571	4,574	13,401	2,701
<b>Total . . . . .</b>	<b>17,373</b>	<b>4,142</b>	<b>15,291</b>	<b>3,684</b>	<b>11,786</b>	<b>4,687</b>	<b>13,633</b>	<b>2,872</b>

Financial liabilities are expected to result in the following (undiscounted) payments in the coming years:

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## 12.10.2 Other Material Financial Obligations

### 12.10.2.1 Contingent Liabilities and Financial Commitments

As of December 31, 2015, the amount of capital commitments totalled EUR 325 million (2014: EUR 488 million, 2013: EUR 577 million). In addition, unrecognized commitments to provide loans or other financial support to joint ventures amounted to EUR 125 million in 2015 (2014: EUR 0 million, 2013: EUR 0 million).

Commitments from operating leases refer largely to rent and lease contracts for storage and administration buildings. As of December 31, 2015, the minimum lease payments had the following maturity structure:

	December 31, 2015
	(in EUR million)
	(audited)
Due within 1 year . . . . .	219
Due after 1 to 5 years . . . . .	620
Due after 5 years . . . . .	967
<b>Total . . . . .</b>	<b>1,806</b>

As of December 31, 2015, we did not have any material financial lease liabilities.

We have long-term contractual purchase commitments for supplies of gas which are mostly based on long-term take-or-pay-contracts. Furthermore, we have long-term financial commitments for purchases of electricity. As of December 31, 2015, the minimum payment obligations stemming from major electricity purchase contracts totalled EUR 3,563 million (2014: EUR 3,486 million, 2013: EUR 2,639 million), of which EUR 454 million is due within one year (2014: EUR 266 million, 2013: EUR 311 million). Payment obligations stemming from the major long-term gas purchase contracts amounted to EUR 1,530 million as of December 31, 2015 (2014: EUR 1,969 million, 2013: EUR 2,190 million), of which EUR 284 million is due within one year (2014: EUR 294 million, 2013: EUR 270 million).

### 12.10.2.2 Pension and similar Employee Benefit Obligations

We operate funded and unfunded defined benefit pension schemes and defined contribution plans for beneficiaries under arrangements that have been established in the various countries in which we offer employee pension benefits. To partly cover defined benefit pension commitments in Germany (vis-à-vis pension beneficiaries), we use two pension vehicles, RWE Pensionstreuhand e.V. and RWE Pensionsfonds AG. RWE Pensionstreuhand e.V. manages plan assets within the framework of a contractual trust arrangement (CTA). RWE Pensionsfonds AG is a regulated pension fund (*Pensionsfonds*). As a regulated pension fund, RWE Pensionsfonds AG is subject to insurance supervision in Germany. In the case of insufficient funding, the participating companies have an obligation to contribute additional funds to the German Pension Fund (*Deutsche Rentenversicherung*). The main Company Pension Scheme in the UK is part of the Electricity Supply Pension Scheme (ESPS), which is an industry-wide pension scheme. All of our UK businesses participated in one RWE ESPS group which has now been agreed to be split into two new separate sections, one for the respective RWE Group companies and the other section for our respective Group companies in the UK (see "3.1.41 We have financial obligations to our employees, in particular retirement obligations, the calculations of which are based on a number of assumptions, which may differ from actual rates." and "5.7 Employees and Pension Liabilities"). In the UK, corporate defined benefit plans are legally mandated to provide adequate and suitable assets to cover pension provisions. The scheme is being regarded as a defined benefit plan that shares risks between various entities under common control within the Group.

As of December 31, 2015 the present value of our total defined benefit obligations (including obligations as to energy allowances (benefits in kind) (*Energiepreisvergünstigungen*)) was

EUR 13.2 billion (2014: EUR 13.6 billion; 2013: EUR 11.1 billion) and the fair value of plan assets was EUR 9.8 billion (2014: EUR 9.0 billion; 2013: EUR 7.5 billion) resulting in net defined benefit liability of EUR 3.5 billion (2014: EUR 4.6 billion; 2013: EUR 3.6 billion). The significant increase from 2013 to 2014 was primarily attributable to lower long-term capital market interest rates for high quality corporate bonds that led to an increase of the amount of future pension liabilities. Concurrently, plan assets benefitted and achieved an extraordinary performance. In 2015, plan assets increased mainly due to additional contributions.

For further details regarding our pension plans, see note 23 to the Audited Combined Financial Statements.

RWE AG declared as to certain of its domestic pension benefits to be jointly and severally liable together with the respective Group company and, based on an additional settlement arrangement, will have to reimburse the Group some of its domestic pension payments up to a limited amount. The arrangement includes the undertaking that pension service costs incurred by RWE AG as measured by German GAAP valuation and corresponding accounting methods will be invoiced to the Group.

According to IFRS, the expected proceeds under this settlement arrangement do not qualify as plan assets. Therefore it is not accounted for as reducing our net pension defined benefit liability. The Group recognizes a limited amount of this reimbursement right as a separate asset, included in the line item "financial receivables".

## **12.11 Disclosure about Market and Other Financial Risks**

We are exposed to a number of financial risks, including, in particular, market risks, such as risks from changes in exchange rates, interest rates and commodity prices, as well as credit risks and liquidity risks.

### **12.11.1 Market Risks**

Due to our international profile, exchange rate management is a key issue. Different currencies like GBP, USD or CZK are important currencies for the Group.

Interest rate risks stem primarily from financial debt and the interest bearing investments. On the one hand, increases in interest rates can result in declines in the prices of securities from our holdings. This pertains primarily to fixed-rate instruments. On the other hand, financing costs also increase along with the level of interest rates. The Group was largely financed by the Former RWE Group in the 2015, 2014 and 2013 reporting periods. Interest rate risks were managed solely on Former RWE Group level. Group companies were fully integrated in this interest rate management and did not manage interest rate risks itself. The sensitivity of interest expenses to increases in market interest rates on Company level measured as Cashflow at Risk (confidence interval of 95% and a holding period of one year) amounted as of December 31, 2015 to negative EUR 3 million (2014: negative EUR 16 million; 2013: EUR 1 million). The changes in our financing structure (see "12.9.1 Overview") also affect the interest related market risks for financing costs. With regard to the interest rate risk from interest bearing investments, we mandated RWE AG to manage the interest rate risk from interest bearing investments. Opportunities and risks from changes in the values of securities were controlled by a professional fund management system of RWE AG. As of December 31, 2015, the Value at Risk (VaR) for the interest rate risk from interest bearing investments in the Group amounted to EUR 5 million (2014: EUR 3 million, 2013: EUR 4 million).

We also mandated RWE AG to manage opportunities and risks from changes in the values of securities investments in our portfolio. RWE AG controlled these funds by a professional fund management system. As of December 31, 2015, the VaR for risks related to our share portfolio amounted to EUR 2 million (2014: EUR 6 million; 2013: EUR 6 million).

For commodity operations, risk management directives have been established by the department Group Controlling of RWE AG. In connection with the Carve-Out, we have established equivalent directives for the Group. These regulations stipulate that derivatives may be used, amongst others, to hedge price risks and increase margins. We do not use derivatives for trading purposes.

One of the most important instruments to limit market risk is the conclusion of hedging transactions. The instruments most commonly used are forwards and options with foreign currency, interest rate swaps, interest rate currency swaps and forwards, options, futures and swaps with commodities. Maturities of derivatives related to interest rates, currencies, equities, indices and commodities for the purpose of hedging are based on the maturities of the underlying transactions and are thus primarily short-term and medium-term in nature. Hedges of foreign currency risks of foreign investments have maturities of up to 23 years. All derivative financial instruments are recognized as assets or liabilities and are measured at fair value. When interpreting their positive and negative fair values, it should be taken into account that these financial instruments are generally economically matched with underlying transactions that carry offsetting risks. Hedges of net investment in a foreign operation pursuant to IAS 39 are used to hedge the foreign currency risks of net investments in foreign entities whose functional currency is not the euro. We use bonds (respectively from the 2014 and 2013 loans) with various terms in the appropriate currencies and currency swaps and forwards as hedging instruments. If there are changes in the exchange rates of currencies in which the bonds or loans used for hedging are denominated or changes in the fair value of interest rate currency swaps and forwards, this is recorded under foreign currency translation adjustments in other comprehensive income. As of December 31, 2015, the fair value of the bonds amounted to EUR 1,984 million (the fair value of the loans amounted to EUR 2,143 million in 2014 and EUR 2,028 million in 2013) and the fair value of the swaps and forwards amounted to EUR 18 million (2014: EUR 16 million, 2013: negative EUR 4 million).

In 2015, income of EUR 0 million (2014: EUR 3 million, 2013: EUR 0 million) was recognized on the income statement in relation to the ineffective portions of hedges of net investment in foreign operations.

In the reporting periods of the combined financial statements, the Value at Risk (VaR) method was used to determine and monitor the maximum expected loss arising from changes in market prices with a specific level of probability during specific periods. Historical price volatility is taken as a basis in the calculations. All VaR figures are based on a confidence interval of 95% and a holding period of one day, except where otherwise specified.

#### **12.11.2 Credit Risks**

In the fields of finance and commodities, we primarily have credit relationships with banks and other trading partners with good creditworthiness. The resulting counterparty risks are reviewed upon conclusion of the contract and constantly monitored. Such risks are controlled by defining limits for trading with contractual partners and, if necessary, by requiring additional collateral, such as cash collateral. Credit risks in commodities and financial operations are monitored on a daily basis.

In the retail business, we are exposed to credit risk, because it is possible that customers will fail to meet their financial obligations. Such risks are identified in regular analyses of the creditworthiness of the major customers, and appropriate countermeasures are taken, if necessary.

The Group also employs credit insurance, financial guarantees, bank guarantees and other forms of security to protect against credit risks in our financial activities and retail business.

The maximum balance sheet default risk is derived from the carrying values of the receivables stated in the balance sheet. If default risks materialize, they are recognized through impairments. The default risks for derivatives correspond to their positive fair values. Risks can

also stem from financial guarantees and loan commitments for external creditors. As of December 31, 2015, these obligations amounted to EUR 126 million (2014: EUR 160 million, 2013: EUR 59 million). As of December 31, 2015, default risks were balanced against credit collateral, financial guarantees, bank guarantees and other collaterals amounting to EUR 90 million (2014: EUR 74 million, 2013: EUR 114 million). There were no material defaults in fiscal years 2015, 2014 and 2013.

### **12.11.3 Liquidity Risks**

Liquidity risk is the risk that liquidity reserves will prove to be insufficient to meet financial obligations in a timely manner. As a rule, Former RWE Group companies have been centrally re-financed with RWE AG. In the reporting periods for the combined financial statements, the Group was therefore largely financed by the Former RWE Group and invested excess liquidity with RWE AG or its subsidiaries using the Former RWE Group's cash pooling and cash management system.

In the periods under review, the Former RWE Group held sufficient liquidity to ensure the fulfillment of all planned payment obligations of the Group at maturity. As of December 31, 2015, holdings of cash and cash equivalents and current marketable securities of the Former RWE Group amounted to EUR 9,959 million (2014: EUR 7,581 million, 2013: EUR 6,696 million). Additionally, as of December 31, 2015, RWE AG had a fully committed, unused syndicated credit line of EUR 4 billion (2014: EUR 4 billion, 2013: EUR 4 billion) at its disposal. As of December 31, 2015, USD 0.1 billion (2014: USD 0 billion, 2013: USD 0 billion) of the USD 5 billion commercial paper program (2014: USD 5 billion, 2013: USD 5 billion) was used. Above and beyond this, the Former RWE Group was able to finance itself by using its EUR 30 billion debt issuance program; the bonds issued by innogy Finance B.V. have been transferred to the Group as of December 18, 2015. Therefore, as of December 31, 2015, outstanding bonds from this program issued by innogy Finance B.V. and innogy Finance II B.V. amounted to EUR 11.3 billion, whereas in 2014 and 2013 those bonds were part of the bond issuance program of the Former RWE Group. In connection with the Carve-Out we have agreed with RWE AG that we will have access to a EUR 1.0 billion revolving facility granted by RWE AG until December 2018 (see "*15.17.1.1 Revolving Facility Agreement*"). In addition, our subsidiary innogy Finance B.V. participates in a revolving facility of RWE AG in the amount of up to EUR 1.5 billion. For this purpose, innogy Finance B.V. and RWE AG entered into a Debt Financing Coordination Agreement (see "*15.17.1.3 Debt Financing Coordination Agreement*") in order to coordinate certain aspects of their co-operation in relation to specific financing aspects, in particular as regards availability of (i) facilities under the Revolving Facility Agreement and (ii) letters of credit, guarantees or other non-cash credit support instruments under existing letter of credit facilities of RWE AG. In the medium term we intend to establish our own financing. Additional financing needs therefore are planned to be financed via external debt.

In 2016, capital market debt (less portions of the bonds bought back) with a nominal volume of approximately EUR 0.9 billion (2015: EUR 0.0 billion, 2014: EUR 0.0 billion) and bank debt of EUR 0.2 billion (2015: EUR 0.1 billion, 2014: EUR 0.2 billion) is due for the Group. Additionally, short-term debt must also be repaid.

## **12.12 Significant Accounting Estimates and Assumptions**

The preparation of our combined financial statements required management to apply accounting methods and policies that are based on judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affected the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the reporting date and the reported amounts of revenue and expenses during the periods under review. However, the combined financial statements included herein may not necessarily reflect what our results of operations, financial position and cash flows would have been, had we been operating in our current structure on a stand-alone basis during the periods presented.

Our accounting policies that require the judgment of our management in making assumptions or estimates regarding the effects of matters that are inherently uncertain, and for which changes in conditions may significantly affect our results of operations and financial condition are described in more detail in the notes to our combined financial statements included in the financial statements section in the Prospectus.

To the extent management judgments are required in the application of these accounting policies, this pertains to the following aspects:

- With regard to certain contracts, a decision must be made as to whether they are treated as derivatives or as so-called own use contracts, and be accounted for as executor contracts.
- Financial assets must be allocated to the categories “held to maturity investments”, “loans and receivables”, “financial assets available for sale” and “financial assets at fair value through profit or loss”.
- With regard to “financial assets available for sale”, a decision must be made as to if and when reductions in value are to be recognized as impairments with an impact on income.
- With regard to assets held for sale, it must be determined if they can be sold in their current condition and if the sale of such is highly probable. If both conditions apply, the assets and any related liabilities must be reported and measured as “assets held for sale” or “liabilities held for sale”, respectively.

Preparation of combined financial statements pursuant to IFRS, such as the Audited Combined Financial Statements, requires assumptions and estimates to be made, which have an impact on the recognized value of the assets and liabilities carried on the balance sheet, on income and expenses and on the disclosure of contingent liabilities. In preparing the combined financial statements, additional assumptions and estimates were made, amongst others in connection with allocable expenses for services provided by RWE Group companies.

Furthermore, the income and expenses assigned to the Group reflect the income and expenses that would have resulted for the Group as part of the Former RWE Group based on the explanations provided in the combined financial statements.

Thus, the Audited Combined Financial Statements do not necessarily reflect the financial position and results of operations that would have occurred if the Group had existed as a separate group in the periods under review. The fact that the Group did not historically exist therefore limits the validity of the combined financial information. It also means that the combined financial information cannot be used to forecast the future development of the operations that have been combined to form the Group.

Amongst other things, assumptions and estimates relate to the accounting and measurement of provisions. With regard to non-current provisions, the discount factor to be applied is an important estimate in addition to the amount and timing of future cash flows. The discount factor for pension obligations is determined on the basis of yields of high quality, fixed-rate corporate bonds on the financial markets as of the balance sheet date.

The impairment test for goodwill and non-current assets is based on certain assumptions pertaining to the future, which are regularly adjusted. Property, plant and equipment are tested for indications of impairment on each balance sheet date.

Upon first time consolidation of a company, the identifiable assets, liabilities and contingent liabilities are recognized at fair value. Determination of fair value is based on valuation methods which require a projection of anticipated future cash flows.

Deferred tax assets are recognized if realization of future tax benefits is probable. Actual future development of income for tax purposes and hence realizability of deferred tax assets, however, may deviate from the estimation made when the deferred taxes are capitalized.

Further information on the assumptions and estimates upon which the Audited Combined Financial Statements are based can be found in the explanations of the individual items in the notes to the Audited Combined Financial Statements included in "26 Financial Information".

All assumptions and estimates for the Audited Combined Financial Statements are based on the circumstances and forecasts prevailing on the balance sheet dates December 31, 2015, December 31, 2014 and December 31, 2013. Furthermore, as of these balance sheet dates, realistic assessments of overall economic conditions in the sectors and regions in which we conduct operations are taken into consideration with regard to the prospective development of business. Actual amounts may deviate from the estimated amounts if the overall conditions develop differently than expected. In such cases, the assumptions, and, if necessary, the carrying amounts of the affected assets and liabilities are adjusted.

### **12.13 Information from the Audited Unconsolidated Financial Statements of the Company Prepared in Accordance with the German Commercial Code for the Short Financial Year from December 11, 2015 to December 31, 2015**

The Company was originally founded by means of a notarial deed dated December 11, 2015 in the form of a stock corporation (*Aktiengesellschaft*) under German law and with the name "RWE Downstream Aktiengesellschaft". In 2015, *i.e.*, prior to the Carve-Out and reorganization (see "5 Carve-Out and Organizational Measures"), the Company did not conduct any business. As of December 31, 2015, the total equity and liabilities amounted to EUR 120,000, consisting of equity in the amount of EUR 108,000 and liabilities (other provisions) in the amount of EUR 12,000. The total assets amounted to EUR 120,000, consisting of EUR 120,000 of cash and cash equivalents. For further information on the Audited Unconsolidated Financial Statements of the Company (prepared in accordance with HGB (German GAAP)), see "26.3 Audited Unconsolidated Financial Statements of (as at December 31, 2015 under the Corporate Name RWE Downstream Aktiengesellschaft i.G., Later Renamed as innogy SE) Prepared in Accordance with the German Commercial Code (*Handelsgesetzbuch*) as of and for the Financial Year Ended December 31, 2015".

## 13 PROFIT FORECAST

### 13.1 Forecast for EBITDA for 2016 and 2017

*Our forecast for EBITDA of (i) the group of companies comprising innogy SE, Essen, Germany (hereinafter also the “**Company**”) and its consolidated subsidiaries (together with the Company, “**we**”, “**us**”, “**our**” or the “**Group**”) for 2016 and (ii) each of the Group’s three reportable segments Grid & Infrastructure (the “**Grid & Infrastructure Segment**”), Retail (the “**Retail Segment**”) and Renewables (the “**Renewables Segment**”) for 2016 (the EBITDA forecasts under (i) and (ii) hereinafter collectively referred to as the “**EBITDA Forecast 2016**”) and (iii) the Group for 2017 (the “**EBITDA Forecast 2017**”, and together with the EBITDA Forecast 2016, the “**EBITDA Forecast**”) is not a representation of facts and should therefore not be interpreted as such by prospective investors. Rather, it reflects the forward-looking expectations of the Company with respect to EBITDA of (i) the Group and (ii) each of the Group’s three reportable segments. Any forward-looking statements, including the EBITDA Forecast, are necessarily based on a number of assumptions and estimates about future events and actions, including management’s assessment of opportunities and risks. Such assumptions and estimates are inherently subject to significant business, operational, economic and competitive uncertainties and contingencies, many of which are beyond our control, and upon assumptions with respect to future business decisions that are subject to change.*

*The EBITDA Forecast is based on the factors and assumptions made by the Company’s management board (Vorstand) (the “**Management Board**”) with respect to the development of EBITDA influencing factors as set out below under “13.3 Explanatory Notes to the EBITDA Forecast 2016” and “13.4 Explanatory Notes to the EBITDA Forecast 2017”. These factors and assumptions also relate to factors that we cannot influence. Although we believe that these factors and assumptions are reasonable on the date on which the EBITDA Forecast is published, they may subsequently prove to be incorrect. If one or more of these assumptions prove to be incorrect, the Group’s actual EBITDA and/or the actual EBITDA of any of the three reportable segments may deviate materially from the respective EBITDA Forecast. Accordingly, prospective investors should treat this information with caution and should not place undue reliance on the EBITDA Forecast.*

We use EBITDA as an additional key performance indicator to manage our business and we believe EBITDA to be indicative of our operating performance. For the purpose of the EBITDA Forecast, EBITDA is defined as income before tax before operating depreciation and amortization and excluding the financial result and the non-operating result.

The non-operating result includes income and expenses that are unusual from an economic perspective or stem from exceptional events. Typically the non-operating result can include book gains or losses from the disposal of investments or non-current assets not required for operations, impairment of the goodwill of fully consolidated companies, as well as effects of the fair valuation of certain derivatives. Such income and expenses from non-operating activities are reclassified to the non-operating result, and are thus not included in EBITDA.

Operating depreciation and amortization does not include non-operating depreciation and amortization, which is presented as part of the non-operating result.

The following table provides a reconciliation of the Group's EBITDA to the Group's income before tax and the Group's income:

**EBITDA**

- Operating depreciation and amortization
- + Non-operating result
- + Financial result

**= Income before tax**

- Taxes on income

**= Income**

*The measure EBITDA is not recognized as a GAAP measure under IFRS and should not be considered as a substitute for earnings or losses before income taxes, cash flows from operating activities or any other performance indicator as determined or defined by IFRS.*

*The manner in which we measure EBITDA may not be consistent with the manner in which these measures, similar measures or measures with similar names are determined by other companies. Accordingly, EBITDA as presented herein may not be comparable to these measures, similar measures or measures with similar names as presented by other companies.*

## 13.2 EBITDA Forecast

### 13.2.1 Overview of EBITDA Forecast

The following table summarizes our EBITDA Forecast 2016 and our EBITDA Forecast 2017:

	For the financial year ending December 31,	
	2016	2017
EBITDA Forecast	(in EUR billion)	(in EUR billion)
<b>Group</b> . . . . .	<b>4.1 – 4.4</b>	<b>4.3 – 4.7</b>
Grid & Infrastructure Segment . . . . .	2.5 – 2.7	—
Retail Segment . . . . .	1.0 – 1.2	—
Renewables Segment . . . . .	0.6 – 0.8	—

### 13.2.2 Principles

The EBITDA Forecast was prepared in accordance with the guidelines of the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland e.V. – "IDW"*) on the Preparation of Profit Forecasts and Estimates in Accordance With the Specific Requirements of the Regulation on Prospectuses (*IDW AcPS AAB 2.003*).

Although EBITDA is not an IFRS measurement of operating income, operating performance or liquidity, the EBITDA Forecast was derived using accounting principles of the International Financial Reporting Standards as adopted by the European Union ("**IFRS**"). With respect to the accounting policies applied, reference is made to the notes to the unaudited interim consolidated financial statements (condensed) of the Company as of and for the six-month period ended June 30, 2016.

The EBITDA Forecast has been prepared solely for the inclusion in a prospectus for the offering of shares in the Company and represents our best estimates as of September 20, 2016. In preparing the EBITDA Forecast we have adjusted a number of factors to take into account the operational and financial performance of 2016, up to the date of the EBITDA Forecast. The development of these factors is based on specific assumptions made by our Management Board, which are set forth below.

### 13.2.3 Factors Beyond Our Control and Related Assumptions

The EBITDA Forecast is subject to factors beyond our control. These factors, and our assumptions taken about their impact, are described below:

*Factor: Unforeseen events such as force majeure*

We assume that no material unforeseen events will occur that could result in material or lasting constraints on the ongoing operations of the entities of the Group, such as force majeure (e.g. fire, floods, hurricanes, storms, earthquakes or terrorist attacks), major industrial action, material macroeconomic events or war.

*Factor: Political, legislative and other regulatory measures*

We assume that there will be a stable political environment and assume no material changes in the legal and regulatory framework or regulatory actions to which we are or may become subject to, such as in support schemes for renewables, tariff or related regulation for grid, retail and renewables or applicable tax laws. Specifically, we assume that there will be no significant adverse changes occurring as a result of a review of grid regulations in the markets in which we operate. In addition, we assume no significant adverse effects resulting from the ongoing energy transition.

*Factor: Economic development*

We assume that the macroeconomic development in the Eurozone will show a slight improvement in 2016 compared to 2015. We assume that the German economy will be on a similar level compared to 2015. In the United Kingdom, we assume a slowdown of growth. For our markets in Central Eastern Europe, we assume a slightly less favorable development than in 2015, especially in Hungary and the Czech Republic.

Based on our internal estimates, we assume that the consumer price index in Germany will be 0.75% in 2016 and 1.75% in 2017. We assume that inflation in Central Eastern Europe will be slightly higher in 2016 compared to 2015.

*Factor: Country risks and risks arising from a Brexit*

For purposes of the EBITDA forecast, we assume that the referendum on June 23, 2016 on whether the United Kingdom should remain in or leave the European Union ("EU"), which ended with a simple majority vote in favor of the United Kingdom leaving the EU (commonly referred to as "Brexit") will not lead to further adverse developments, such as a more pronounced economic slowdown, further depreciation of the Pound Sterling to Euro currency exchange rate or electricity prices or adverse regulatory measures in the United Kingdom.

*Factor: Energy consumption and weather*

For 2016 and 2017, we assume overall stable electricity and gas consumption compared to 2015, as expected additional demand from the expected economic expansion will be offset by expected increases in electricity efficiency. Overall, for the three segments, we assume average weather conditions for the remainder of 2016 and 2017 in the markets in which we operate.

*Factor: Competitive environment*

We assume that the competitive environment will remain broadly unchanged in the markets in which we operate. We assume that regulatory measures in the United Kingdom will not result in a significant deterioration of the competitive environment in the United Kingdom.

*Factor: Commodity prices, especially electricity wholesale prices*

The EBITDA Forecast is based on forward prices and our results are affected by developments in a number of commodity prices, in particular electricity prices. We assume that commodity prices will remain low and we use internal long-term commodity price assumptions for the assessment of our long-term supply commitments. We generally use our internal price estimates, based on market forward prices, as planning assumptions.

*Factor: Foreign currency rates*

Our EBITDA forecast is based on exchange rate assumptions and our results are affected by developments in a number of currencies, in particular Pound Sterling and Czech Crown. Based on our internal estimates and excluding hedging effects, we assume the following exchange rates for 2016 and 2017:

	For the financial year ending December 31,	
	2016	2017
GBP/EUR .....	0.82	0.84
CZK/EUR .....	27.06	26.97
PLN/EUR .....	4.37	4.44
HUF/EUR .....	312.26	316.73

### **13.3 Explanatory Notes to the EBITDA Forecast 2016**

#### **13.3.1 Overview of EBITDA Forecast for the Group's three Segments Grid & Infrastructure, Retail and Renewables and the Group**

For the financial year ending December 31, 2016, we currently expect EBITDA of the Group's three reportable segments and EBITDA of the Group to be in the ranges as set out below:

- Grid & Infrastructure Segment: We currently expect EBITDA of the Grid & Infrastructure Segment to be in the range of EUR 2.5 billion to EUR 2.7 billion.
- Retail Segment: We currently expect EBITDA of the Retail Segment to be in the range of EUR 1.0 billion to EUR 1.2 billion.
- Renewables Segment: We currently expect EBITDA of the Renewables Segment to be in the range of EUR 0.6 billion to EUR 0.8 billion.
- Group: We currently expect EBITDA of the Group to be in the range of EUR 4.1 billion to EUR 4.4 billion.

#### **13.3.2 Factors That Can Be Influenced By Us and Related Assumptions**

In addition to the factors and assumptions that are beyond our control (see "13.2.3 Factors Beyond Our Control and Related Assumptions", the following factors that can be influenced by us may also affect the EBITDA Forecast 2016.

##### **Grid & Infrastructure Segment**

Key factors attributable to the Grid & Infrastructure Segment that may affect the EBITDA Forecast 2016 in respect of the Grid & Infrastructure Segment and the Group as well as the related assumptions are listed below:

*Factor: Allowed returns in regulated grid business*

We assume that the allowed returns in our regulated grid business will remain stable in 2016 as the regulatory regimes in our largest jurisdictions are expected to remain unchanged.

For our German business, we assume a stable allowed rate of return on equity in 2016 due to no expected changes in the main regulatory parameters, which have been fixed until the end of 2017 for gas and until the end of 2018 for electricity.

For our Eastern European business, we assume that our allowed regulatory returns will slightly increase in 2016, given that a new regulatory period with a higher weighted average cost of capital ("WACC") has commenced in the Czech Republic in 2016.

*Factor: Regulated asset base in regulated grid business*

Similar to our allowed returns, we assume that our Aggregate RAB will show a stable development in 2016.

For our German business, we assume a stable development of our Aggregate RAB in Germany in 2016 due to the fact that the regulatory asset base will remain stable within the current regulatory period, which lasts until the end of 2017 for gas and until the end of 2018 for electricity. Therefore, we do not expect a change in the Aggregate RAB in 2016.

For our Eastern European business, we assume a stable development of our Aggregate RAB in 2016.

We calculate our **“Aggregate RAB”** on the basis of the latest notification by the respective regulators or, as the case may be, based on calculations included in the latest filings with the respective regulators, and generally on year-end values (where reference is made to a certain year) and exclude pro-rata shares from participations that are not fully consolidated.

*Factor: Total revenue*

For 2016, we assume a slight increase in revenue, mainly driven by our German business, which is assumed to contribute the majority of total revenue.

For our German business, we assume the slight increase in revenue to be mainly driven by regulatory levies that are EBITDA neutral.

For our Eastern European business, we assume that total revenue will increase due to the full consolidation of Východoslovenská energetika Holding a.s. (**“VSE Holding”**) in Slovakia since August 2015 and due to a positive impact from the new regulatory framework in the Czech Republic.

*Factor: Costs of regulated grid business*

Overall, we assume that the costs of our regulated grid business in 2016 will increase.

For our German business, we assume that the cost of operating and maintaining our distribution network business in Germany will increase in 2016.

For our Eastern European business, we assume that the full consolidation of VSE Holding since August 2015 will result in a slight increase of our cost base in 2016.

*Factor: Income from grid sales in Germany*

Our income from grid sales in 2015 was particularly high. We assume that our income from grid sales will be lower in 2016.

*Factor: Income from investments and VSE Holding revaluation gain*

For our German business, we assume that income from investments in 2016 will be on a level similar to 2015. We assume similar fundamental dynamics for the majority of our income from investments as most of our participations also operate in a German regulated environment.

For our Eastern European business, we assume a significant decrease in income from investments and other operating income due a valuation gain related to the first-time full consolidation of VSE Holding in August 2015 and the absence of a similar valuation gain in 2016.

*Factor: Other business*

We assume that the EBITDA contribution of our other business, which mainly comprises our quasi-regulated water and our gas storage business, will slightly decrease compared to 2015.

**Retail Segment**

Key factors attributable to the Retail Segment that may affect the EBITDA Forecast 2016 in respect of the Retail Segment and the Group as well as the related assumptions are listed below:

*Factor: Total revenue*

We assume that our total revenue levels will decrease in 2016 compared to 2015, mainly due to price cuts due to lower wholesale prices and competitive price pressures in Germany, the Netherlands and the United Kingdom.

*Factor: Customer numbers*

We assume that our overall customer base will slightly decrease in 2016. We assume that customer losses stemming from the competitive situation in the United Kingdom and the Netherlands will be to a certain extent offset by customer growth initiatives in our other markets.

*Factor: Gross profit*

We assume that the gross profit from our commodity business overall will remain stable in 2016 compared to 2015. Furthermore, we assume overall stable electricity and gas volumes in 2016.

*Factor: Operational expenditures*

Our EBITDA in 2015 was positively impacted by the valuation gain related to the first-time full consolidation of VSE Holding. Adjusted for this special effect, we assume that operational expenditures related to our commodity business will decrease in 2016, also due to continued efficiency efforts.

*Factor: Operations in the United Kingdom*

We assume that our operations in the United Kingdom will improve in 2016, resulting in an overall positive EBITDA contribution for 2016. We expect that our organizational measures, particularly in the area of IT infrastructure, and our cost reduction steps will contribute to this positive development. Furthermore, we assume that our customer retention measures will partially compensate for the decline in customer numbers resulting from competitive pressure.

**Renewables Segment**

Key factors attributable to the Renewables Segment that may affect the EBITDA Forecast 2016 in respect of the Renewables Segment and the Group as well as the related assumptions are listed below:

*Factor: Installed capacity*

We assume that our installed capacity will slightly increase in 2016 compared to 2015. We expect that additions to our installed onshore wind base in the Netherlands will contribute to most of the increase.

*Factor: Generation volume*

We assume a slight increase in our electricity generation volumes in 2016 due to higher offshore volumes, as our offshore wind farms Nordsee Ost and Gwynt y Môr, which were fully commissioned in the first half year of 2015, will be contributing for the full year 2016. Furthermore, we assume that generation volumes for the full year 2016 will be impacted by on average lower wind and better hydrological conditions compared to 2015.

*Factor: Total revenue*

We assume that the contribution from our wind and hydro assets will make up the majority of total revenue and assume that the slight increase in generation volumes will be largely offset by lower average revenue per MWh across our markets in 2016. We expect this effect to be mainly driven by lower prices for wholesale electricity, the expected end of subsidies in the Netherlands, lower values of levy exemption certificates in the United Kingdom and lower prices for green certificates in Poland.

For 2016, we expect negative effects from the Pound Sterling to Euro currency exchange rates, resulting from the exchange rate development since the Brexit.

*Factor: Hedging*

For the remaining part of 2016, we assume that our exposure towards changes in wholesale electricity prices is to a large extent reduced through hedging.

*Factor: Gross profit*

We assume that the contribution from our wind and hydro assets will make up the majority of gross profit and assume that gross profit will develop overall in line with total revenue in 2016.

*Factor: Operational expenditures*

We assume an overall slight increase in our operational expenditures, as our installed capacity will slightly increase in 2016.

*Factor: Income from investments*

We assume that income from investments will decrease significantly in 2016. Our income from investments in 2015 was mainly driven by the partial sale of our offshore wind farm Galloper in 2015 and we do not expect similar sales in 2016 with significant EBITDA contribution.

**Group Level**

*Factor: Holding functions*

We assume that the costs for our management holding functions in 2016 will remain stable compared to 2015.

*Factor: Costs for carve-out and listing of the Company*

We expect significant costs associated with the carve-out of the Group from the former RWE group and the offering of shares in the Company in 2016. However, these external costs will be shown in our non-operating result and will therefore not affect the Group's EBITDA in 2016.

*Factor: Portfolio changes, including divestments and acquisitions*

We assume that no major divestments or acquisitions with significant EBITDA contribution will be made in 2016.

## **13.4 Explanatory Notes to the EBITDA Forecast 2017**

### **13.4.1 Overview of EBITDA Forecast for the Group**

For 2017, we currently expect EBITDA of the Group to be in the range of EUR 4.3 billion to EUR 4.7 billion.

### **13.4.2 Factors That Can Be Influenced By Us and Related Assumptions**

In addition to the factors that are beyond our control (see "13.2.3 Factors Beyond Our Control and Related Assumptions"), the following factors that can be influenced by the Company may also affect the EBITDA Forecast 2017.

Key factors attributable to the Group including the Group's three reportable segments that may affect the EBITDA Forecast 2017 in respect of the Group as well as the related assumptions are listed below:

*Factor: Group Revenue*

We assume that the revenue of the Group will slightly increase in 2017 compared to 2016, mainly driven by the expected development in our Retail Segment.

*Factor: Allowed returns in regulated grid business (Grid & Infrastructure Segment)*

We assume that the allowed returns in our regulated grid business will overall remain stable in 2017 compared to 2016.

*Factor: Regulated asset base in regulated grid business (Grid & Infrastructure Segment)*

For our German grid and infrastructure business, we assume no change in the Aggregate RAB due to the fact that the regulatory asset base will remain stable within the current regulatory period, which lasts until the end of 2017 for gas and until the end of 2018 for electricity.

*Factor: Costs of regulated grid business (Grid & Infrastructure Segment)*

For our German grid and infrastructure business, we assume that our cost base will be below that of 2016.

*Factor: Income from grid sales in Germany (Grid & Infrastructure Segment)*

We assume that our income from grid sales in Germany in 2017 will be slightly below that of 2016.

*Factor: Customer numbers (Retail Segment)*

For 2017, we assume that our customer numbers will slightly increase compared to 2016.

*Factor: Operations in the United Kingdom (Retail Segment)*

We assume that EBITDA of our UK retail business will significantly increase from 2016 to 2017, mainly due to gross cost savings, which are assumed to be in line with the targets of our recovery program as well as other measures to improve our gross profit.

*Factor: Installed capacity (Renewables Segment)*

For 2017, we assume that installed capacity will slightly increase as our onshore wind project Goole 2 is assumed to be completed and constitute the majority of our additional capacity.

*Factor: Total revenue (Renewables Segment)*

We assume that the higher utilization of our currently installed capacity and the addition of installed capacity will be partly offset by lower average revenue per MWh across our markets in 2017.

*Factor: Holding functions (Group)*

We assume that the costs for our management holding functions 2017 will remain stable compared to 2016.

*Factor: Future efficiency program (Group)*

We assume that the efficiency measures to be taken under a new efficiency enhancement program will result in a slight improvement of EBITDA in 2017.

*Factor: Portfolio changes, including divestments and acquisitions (Group)*

We assume that no major divestments or acquisitions with significant EBITDA contribution will be made in 2017.

## **13.5 Independent Auditor's Report on the EBITDA Forecast 2016 and the EBITDA Forecast 2017 Prepared by innogy SE**

### **Auditor's Report**

To innogy SE, Essen

We have audited whether the profit forecast prepared by innogy SE for the period from January 1, 2016 to December 31, 2016 and for the period from January 1, 2017 to December 31, 2017 of innogy SE and its subsidiaries (together the innogy SE Group) has been properly compiled on the basis stated in the explanatory notes to the profit forecast and whether this basis is consistent with the accounting policies of the innogy SE. The profit forecast comprises,

the forecast EBITDA for the innogy SE Group and the forecast EBITDA for each of the three segments of innogy SE Group Grid & Infrastructure, Retail and Renewables for the period from January 1, 2016 to December 31, 2016 as well as the forecast EBITDA for the innogy SE Group for the period from January 1, 2017 to December 31, 2017 and explanatory notes to the profit forecast.

The preparation of the profit forecast including the factors and assumptions presented in the explanatory notes to the profit forecast is the responsibility of innogy SE's management.

Our responsibility is to express an opinion based on our audit on whether the profit forecast has been properly compiled on the basis stated in the explanatory notes to the profit forecast and whether this basis is consistent with the accounting policies of the innogy SE. Our engagement does not include an audit of the assumptions identified by innogy SE and underlying the profit forecast or an audit of the historical financial information contained in the explanatory notes.

We conducted our audit in accordance with *IDW Prüfungshinweis: Prüfung von Gewinnprognosen und -schätzungen i.S.v. IDW RH HFA 2.003 (IDW PH 9.960.3) (IDW Auditing Practice Statement: The Audit of Profit Forecasts and Estimates in accordance with IDW AcPS AAB 2.003 (IDW AuPS 9.960.3))* issued by the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that material errors in the compilation of the profit forecast on the basis stated in the explanatory notes to the profit forecast and in the compilation of this basis in accordance with the accounting policies of the innogy SE are detected with reasonable assurance.

As the profit forecast relates to a period not yet completed and is prepared on the basis of assumptions about future uncertain events and actions, it naturally entails substantial uncertainties. Because of these uncertainties it is possible that the actual EBITDA of the innogy SE Group and the three segments of innogy SE Group Grid & Infrastructure, Retail and Renewables for the period from January 1, 2016 to December 31, 2016 and of innogy SE Group for the period from January 1, 2017 to December 31, 2017 may differ materially from the forecast profit.

We believe that our audit provides a reasonable basis for our opinion. In our opinion, based on the findings of our audit, the profit forecast has been properly compiled on the basis stated in the explanatory notes to the profit forecast. This basis is consistent with the accounting policies of innogy SE.

September 20, 2016

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

/s/ Michael Reuther

Michael Reuther  
Wirtschaftsprüfer  
(German Public Auditor)

/s/ Nadja Picard

Nadja Picard  
Wirtschaftsprüferin  
(German Public Auditor)

## 14 MARKETS AND COMPETITIVE ENVIRONMENT

### 14.1 The Electricity and Gas Utilities Industry

#### 14.1.1 Overview

Within the utilities industry, the standard value chain generally covers the following steps: (i) generation, (ii) transmission, (iii) distribution, and (iv) supply of energy to wholesalers or consumers.

Each one of these steps has its own specific characteristics, business model, value-creation profile and industry trends, which can differ from country to country. Some companies in the industry are present at only a single stage of the value chain while a large number are vertically integrated to varying degrees, subject to the limitations of applicable unbundling laws.

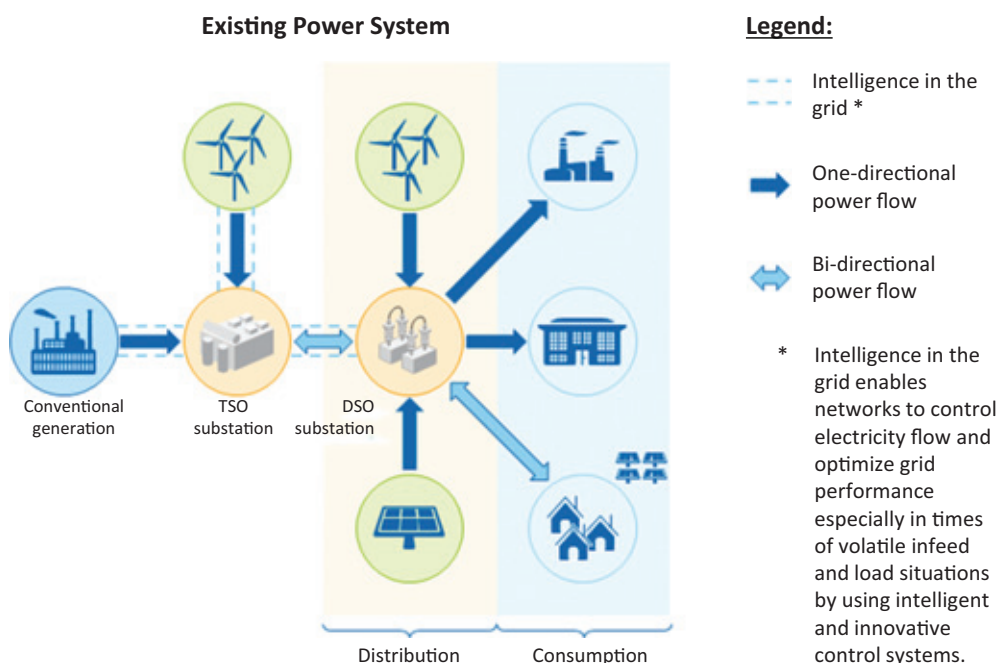
The liberalization of the European electricity and gas markets over the last few decades has broken many barriers to entry into power generation, energy storage, trading and retail. In Europe, competition in the electricity and gas utilities industry first emerged in the early 1990s, starting in the UK, with a gradual separation of the networks from the activity of generation and supply, and the ability of consumers to freely choose their supplier. Today, competition is mostly prevalent in generation and supply, and incumbents share the market with a larger range of competitors than before. While the degree of liberalization varies across Europe, in EU member states – within the boundaries of the EU legal framework – the supply end is regarded as the most competitive part of the value chain, with consumers usually being able to choose from a large number of suppliers in the respective markets. The networks' activities, on the other hand, continue to be seen as natural monopolies and remain highly regulated, with maximum caps on operators' revenues or tariffs and legal restrictions such as the separation of grid operations from generation and supply activities (unbundling).

The business of our Group is organized along the value chain and focuses primarily on three of its segments: (i) generation of electricity from renewable energy sources, mainly wind and hydro (the **"Renewables Segment"**); (ii) electricity and gas distribution as well as gas storage (the **"Grid & Infrastructure Segment"** or **"G&I Segment"**); and (iii) supply of electricity and gas and other non-commodity energy products and services to customers (the **"Retail Segment"**). This section will focus on these markets. For more information on the Group's business, see *"15 Business"*.

The information in this section relies on data provided by third parties or our own assessment. Sources have been referenced where required. If not explicitly stated otherwise, grid related figures for the grid operated by innogy refer to the grid operated by innogy as Distribution System Operator (**"DSO"**). Figures taking into account grid ownership and grid service activities where innogy does not act as DSO may differ from these values.

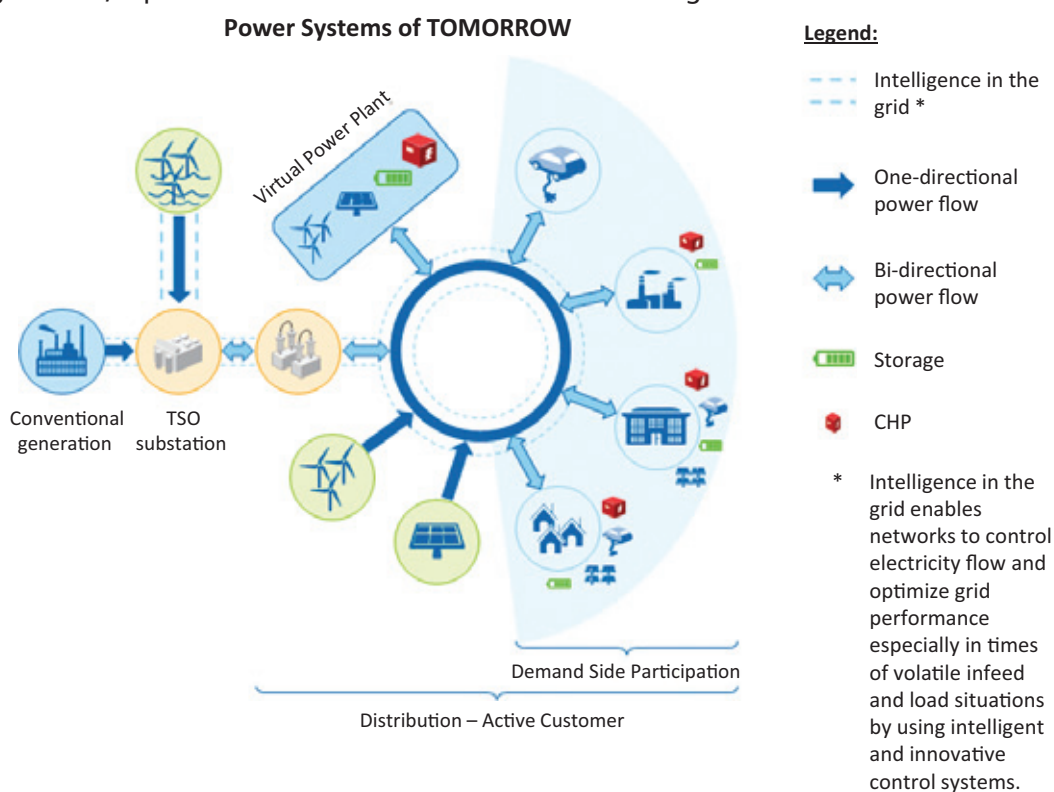
#### 14.1.2 The Electricity Industry

Following the physical transformation of energy from power production to end customer usage, the electricity value chain has traditionally been split into four main parts as shown in the figure below: (i) central power generation (conversion of fossil, hydro and nuclear energy resources into energy); (ii) transmission networks (extra high to high voltage); (iii) distribution networks (high to medium and low voltage); and (iv) supply to and servicing of end customers. Transmission and distribution networks are also referred to as the *"electricity grid"* or simply *"the grid"*.



Source: Eurelectric, 10 Steps to Smart Grids, 2011.

This traditional set-up is significantly changing mainly due to the integration of renewable energy sources (“RES”) into the grid networks (see “14.1.4 Transition of Energy Markets”). Today, an increasing amount of renewable and decentralized generation is integrated into the distribution grid, while the feed-in of electricity from conventional large-scale power plants, which are connected to the transmission grid, is decreasing. Nonetheless, large, centralized power plants remain essential in securing stable supply at all times, in particular at times of low feed-in from RES. As a result, power generation is becoming more and more integrated at all levels of the system, with the roles of producer and consumer merging into one of “prosumer” acting as both, a producer and consumer at the distribution grid level.



Source: Eurelectric, 10 Steps to Smart Grids.

#### 14.1.2.1 Generation

Electricity may be generated using conventional sources, such as fossil fuels like natural gas, fuel oil or coal, nuclear fuel, or using renewable resources, such as wind (onshore and offshore), hydro, biomass and solar energy (photovoltaic (“PV”) and solar thermal being the most common technologies).

Generation includes power plants that produce electricity on a large scale (typically large conventional power plants or offshore wind parks), as well as installations that produce electricity on a medium or small scale, such as onshore wind turbines and rooftop solar PV systems. Small-scale generators installed at or near the end user’s location are referred to as “distributed” or “decentralized” generation sources and are typically connected to the distribution network, which distinguishes them from centralized generation sources, which tend to be large scale and are connected to the transmission network.

#### 14.1.2.2 Grid

In the electricity industry, grid operators mainly provide and operate the infrastructure to connect generating units – centralized power plants as well as decentralized renewables – with consumers. The electricity grid in Europe typically consists of four different voltage levels with different functionalities that are connected via transformer stations.

	Voltage level	Function	Operator	Size / complexity
<b>Extra high voltage layer</b>	200 - 400 kV	<ul style="list-style-type: none"> <li>• Transport large amount of energy over long distances</li> <li>• Connection of large generating units, e.g., large-scale power plants and offshore wind farms</li> </ul>	Transmission System Operator (TSO)	<ul style="list-style-type: none"> <li>• Nationwide grids with interconnectors connecting neighboring countries across Europe</li> <li>• Low number of assets</li> <li>• High technological complexity</li> </ul>
<b>High voltage layer</b>	50 - 150 kV	<ul style="list-style-type: none"> <li>• Distribution of electricity in wider areas</li> <li>• Connection of generating units, e.g., medium-sized power plants, onshore wind farms and industrial customers</li> </ul>	Distribution System Operator (DSO) or Transmission System Operator (TSO) depending on country	<ul style="list-style-type: none"> <li>• Several grid groups in each country</li> <li>• Increasing number of assets</li> <li>• High technological complexity</li> </ul>
<b>Medium voltage layer</b>	5 - 35 kV	<ul style="list-style-type: none"> <li>• Distribution of electricity close to consumers, e.g., in cities and rural areas</li> <li>• Connection of onshore wind farms and PV parks as well as commercial customers</li> </ul>	Distribution System Operator (DSO)	<ul style="list-style-type: none"> <li>• Numerous grids for each high voltage group</li> <li>• Large number of assets</li> <li>• Increasing technological complexity</li> </ul>
<b>Low voltage layer</b>	400 V	<ul style="list-style-type: none"> <li>• Connecting households and PV to grid</li> <li>• “Last mile” to customer</li> </ul>	Distribution System Operator (DSO)	<ul style="list-style-type: none"> <li>• Numerous grids for each medium voltage grid</li> <li>• Very large number of assets</li> <li>• Increasing automation</li> </ul>

Source: Company. Various countries have slightly different definitions of voltage levels.

#### 14.1.2.2.1 Transmission

Transmission refers to the transportation of electricity over extra high voltage lines (in some countries also high voltage lines), typically over long distances, from central power generation units to local distribution networks, as well as industrial companies who are directly connected to the transmission network. Transmission also involves the transportation of electricity between different jurisdictions, such as states or countries.

One or more Transmission System Operators ("**TSO**") in a respective country own and/or operate transmission assets such as transmission lines, transformer and interconnector stations as well as communication and control facilities. The main task of the TSOs is to ensure the long distance transport of electricity and to secure the system's stability, both across Europe and in their respective countries.

#### 14.1.2.2.2 Distribution

Low, medium and high voltage layers of the grid are operated by the respective DSO. DSOs usually distribute electricity to customers in a particular municipality or geographic area and may also distribute electricity to other DSOs. DSOs own and operate distribution assets such as distribution stations, transformers, distribution cables as well as overhead lines, masts, poles and switches, and also use telecommunication lines to control the distribution grid and to support system operation, smart metering and smart grid systems. In some countries, DSOs are further responsible for metering operations.

The main task of the DSOs is the operation of the distribution grid which allows distribution from TSO/DSO or small and medium-sized generators to customers, including the integration of distributed (renewable) energy sources into the system and the management of electricity demand.

Originally, the system was built to transport and distribute electricity produced mostly in centralized generating units at the highest voltage layer through the different layers to the customer in the low voltage layer (unidirectional). As a consequence of the steady growth of distributed energy sources in recent years, in particular renewable sources in the German market, generators are now not only connected to the highest voltage layer, but also to the low, medium and high voltage layers. As a result, the operation and management of the grid has become bidirectional and, therefore, more complex (see "*14.1.4.2 Decentralization*"), requiring significant upgrades of the infrastructure.

#### 14.1.2.3 *Supply to Customers / Retail*

Retail activities involve the sale of electricity to end customers. Retailers can be generators who sell their generated electricity or suppliers without generation activities who either procure electricity from wholesale markets or source it from generators via short-term (spot) or medium-to-long-term contracts. Suppliers sell electricity to homes and businesses while relying on TSOs/DSOs to transport/distribute the electricity to the final point of consumption. The volumes consumed are measured and collected by meter operators (in some countries the DSOs) and provided to the relevant market participants. Suppliers generally offer a range of different products, such as fixed rate electricity contracts or electricity produced exclusively from RES.

### 14.1.3 The Gas Industry

The natural gas value chain can be described by its traditional activities, ranging from the upstream businesses (production of gas) through the gas transmission and distribution system (including gas storage) to the downstream supply activities. The following figure shows the basic activities of the gas value chain, which is similar in structure to the electricity value chain with the exception of the ease and availability of storage:

#### Traditional value chain in the gas industry



Source: Company.

#### 14.1.3.1 Upstream

The upstream activities of exploration, development and production ("E&P") of gas from resources and reserves are dominated by the major oil and gas companies (private or state-owned) as well as a large number of specialized E&P companies. Import contracts for gas delivery to the European national markets constitute the link between upstream assets and local markets, and are executed via international pipelines or in liquefied form via ships. Despite a growing liquefied natural gas ("LNG") market, most gas is transported to Europe in gaseous form via pipelines.

#### 14.1.3.2 Transmission

The role of gas TSOs is to operate the supra-regional gas grid infrastructure to ensure effective and reliable natural gas delivery to gas DSOs and large industrial customers that are connected to the high pressure level, including gas fired power plants. TSOs guarantee natural gas traders non-discriminatory and transparent access to their transmission systems which can be used for (i) international gas transit or (ii) gas transportation for domestic consumption or storage.

Transmission of gas is normally conducted at high pressure and in large pipes and can take place over land or under the sea. The international parts of the assets are often contract priced, while the intra-national pipelines are either contract priced or regulated.

#### 14.1.3.3 Distribution

DSOs operate national or regional distribution networks and transport gas from transmission networks to customers at a lower gas pressure level. The delivery from TSO to DSO is managed by gas regulation stations. DSO assets that form part of the regulated asset base are remunerated via regulated returns.

The following table provides an overview of gas transmission and distribution:

	Pressure level	Function	Operator	Size / complexity
<b>Highest pressure</b>	40 bar - 100 bar	<ul style="list-style-type: none"> <li>Gas transmission for international transit or gas transport for long distances</li> </ul>	Transmission System Operator (TSO)	<ul style="list-style-type: none"> <li>European transmission infrastructure</li> <li>Small number of assets</li> <li>High technological complexity</li> </ul>
<b>High pressure</b>	1 bar - 40 bar	<ul style="list-style-type: none"> <li>Gas distribution over longer distances outside of residential/ built-up areas</li> <li>Connection of large industrial customers</li> </ul>	Distribution System Operator (DSO)	<ul style="list-style-type: none"> <li>Many gas grids in a country</li> <li>High technological complexity</li> </ul>
<b>Medium pressure</b>	0.1 bar - 1 bar	<ul style="list-style-type: none"> <li>Gas distribution in local networks, in towns/ cities and built-up areas</li> <li>Connection of medium customers</li> </ul>	Distribution System Operator (DSO)	<ul style="list-style-type: none"> <li>Large number of local gas grids</li> <li>Large number of assets</li> <li>Medium/low technological complexity</li> </ul>
<b>Low pressure</b>	up to 0.10 bar	<ul style="list-style-type: none"> <li>Gas distribution in local networks, in towns/ cities and built-up areas</li> <li>Connection of smaller commercial customers and households</li> </ul>	Distribution System Operator (DSO)	<ul style="list-style-type: none"> <li>Large number of local gas grids</li> <li>Large number of assets</li> <li>Medium/low</li> </ul>

Source: Company. Various countries have slightly different definitions of pressure levels.

#### 14.1.3.4 Gas Storage

Gas storage plays an important role in providing flexibility and security of gas supplies. Depending on their design and characteristics, gas storage facilities can secure supplies in times of high demand (for instance by providing seasonal flexibility or day/intra-day flexibility). Gas storage facilities can be connected to the TSO, DSO or both gas grid networks, depending on the gas storage facility and the design of the grid infrastructure. Furthermore, storage can be connected directly to large consumers with highly volatile gas demand such as gas-fired power plants.

European and national unbundling laws require that gas storages are organizationally separated from market participants such as gas traders and suppliers and that storage products are provided free of discrimination. In contrast to the grid business, revenues of the gas storage business are not regulated in most countries. In some countries, gas traders and gas suppliers are required to store a specified volume of gas in gas storage facilities to ensure security of supply. While there is no such requirement for Germany, the Czech government, for example, recently increased the required minimum volume to be stored.

#### 14.1.3.5 Supply to Customers / Retail

Retail refers to the sale of gas to consumers. Similar to the electricity value chain, suppliers purchase gas in the wholesale markets or from upstream or midstream players based on individual contracts and sell it to households and businesses while relying on transmission and distribution companies to deliver the gas quantities sold to end customers.

#### 14.1.4 Transition of Energy Markets

The energy industry in Europe is experiencing significant transformation. The traditional utility model of a centralized, grid-connected power generation structure is now being challenged by the rapid deployment of distributed generation from RES, smart grid technologies, and smart customer services. This is driven by changes in market economics and regulatory frameworks as well as more engaged customers and competitors.

A PwC survey identifies climate change and technology breakthroughs as the two most important global megatrends for energy utility companies, followed by accelerating urbanization and demographic changes (source: PwC, 14<sup>th</sup> PwC Global Power & Utilities Survey, May 2015).

We view decarbonization, decentralization and digitalization as the aspects of these megatrends that have the largest impact on the utility value chain.

##### 14.1.4.1 Decarbonization

We note significant global efforts to reduce carbon dioxide emissions. In this respect, the environmental regulatory framework for many countries is set by the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the “**Kyoto Protocol**”), in which they committed to significantly reduce their emissions of greenhouse gases, in particular carbon dioxide, by 2012. The Kyoto Protocol has been extended to 2020 by the Doha amendment with the aim of an even further reduction of greenhouse gases compared to the 1990 level.

The Group of Seven (known as the G7), a governmental political forum formed by seven leading industrial nations, announced at their summit in 2015 the need for decarbonization of the global economy over the course of this century. As an intermediate target, they agreed to reduce greenhouse gas emissions by 40% to 70% by 2050 compared to 2010 levels (source: The White House, Press Release, G-7 Leaders’ Declaration, June 8, 2015).

In December 2015, 196 parties (195 states plus the European Union) agreed to the terms of the Paris Agreement under the United Nations Framework Convention on Climate Change (the “**Paris Agreement**”), a document aimed at limiting global warming to “well below 2°C”. The Paris Agreement is expected to come into force from 2020, replacing the existing Kyoto Protocol under which participating developed countries have binding emission reduction targets.

In Europe there has been strong support from the European Union to foster renewable energy, as evidenced by the Renewable Energy Directive (Directive 2009/28/EC) (the “**Renewables Directive**”), which mandates renewable energy use within the European Union. The Renewables Directive requires that by 2020, 20% of the energy consumed within the European Union be sourced from renewable energy. This measure was adopted by the European Parliament in December 2008 within the context of the European Union’s plan on climate change (the “**EU Plan on Climate Change**”), which among other things provides that by 2020, the above-mentioned goal that 20% of total energy consumption should come from RES should be reached, emissions of greenhouse gases should be reduced by 20% from 1990 levels and energy efficiency should be increased by 20% (the “**20-20-20 Target**”). In addition to binding national targets set by the EU for each member state by 2020, certain member states have set themselves even more ambitious national targets in their national action plans. According to the Energy Efficiency Communication of July 2014, the EU is expected to achieve energy savings of 18-19% by 2020 – missing the 20% target by 1-2% (source: European Commission, Energy Efficiency and its contribution to energy security and the 2030 Framework for climate and energy policy, July 23, 2014). However, if EU countries implement all of the existing legislation on energy efficiency, we believe that the 20% target can be reached without additional measures.

In October 2014, the European Council published its conclusions regarding the 2030 Climate and Energy Policy Framework, which sets out the European Union’s climate and energy goals to be achieved by 2030. Among other things, the framework proposes that by 2030, emissions of

greenhouse gases should be reduced by 40% from 1990 levels, at least 27% energy savings compared with the business-as-usual-scenario should be achieved and at least 27% of total energy consumption should come from RES. The renewables target of at least 27% is binding at the EU level but will not be binding at a national level, enabling more transnational flexibility. To put in place an EU framework conducive to attaining the binding EU-level target of at least 27% renewables by 2030, the Commission is in the process of preparing a proposal for the reform of the Renewables Directive, a revised bioenergy sustainability policy for the post-2020 period and a proposal on the governance of the EU's 2030 framework. The current target is to publish these proposals by the end of 2016, followed by the legislative procedures in the EU parliament and council.

Germany has become a frontrunner in the transition of the energy markets, by introducing a package of measures to accelerate progress with regard to renewable energy growth, grid expansion and energy efficiency, which formed the initial legislative framework for the German energy transition (commonly referred to as the *Energiewende*). The main targets for the energy transition in Germany were confirmed by the federal government coalition agreement in late 2013. The legal framework for the support of renewable electricity production in Germany is provided by the Renewable Energy Act (*Gesetz für den Ausbau erneuerbarer Energien*, "**EEG**"), a revision of which has recently been passed by the legislator and will enter into force on January 1, 2017 (see "**16.2.1 Legal Framework – Overview**"). Germany has pledged to reduce its greenhouse gas emissions by 40% by 2020 (compared to 1990 base levels, source: German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety ("**BMUB**"), Informationspapier: Aktionsprogramm Klimaschutz 2020, December 4, 2014), and is targeting a 35% share of electricity demand being covered by renewable sources by 2020, with a long-term target of 80% by 2050 (source: Öko-Institut e.V. / Fraunhofer ISI for the BMUB, Climate Protection Scenario 2050, Summary of second final report, July 26, 2016). Further targets include a 25% share of thermal electricity generation from combined heat power by 2020 (source: German Federal Ministry of Economic Affairs and Energy ("**BMWi**"), Eckpunkte für ein integriertes Energie- und Klimaprogramm, 2012) and a decrease in total energy consumption by 1.5% per year until 2020 (source: German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety, General information – Energy efficiency, November 2013). The total renewables installed capacity in Germany increased substantially from 11 GW in 2000 to 50 GW in 2010, and it is expected to grow to 180 GW by 2050 (source: European Commission, EU Reference Scenario 2016, July 2016).

We believe that the influence of the climate targets set by the European Union and its member states will extend beyond the energy industry and also impact sectors such as heating, transportation and mobility. As the share of renewable power production increases, electricity is becoming a less CO<sub>2</sub>-intensive alternative to the fossil energy sources currently prevalent in these sectors. This is exemplified by political ambitions for electric mobility. The German government for example is targeting six million electric vehicles on German streets by 2030 (source: German Federal Government, Regierungsprogramm Elektromobilität, May 2011), a battery density by volume level of 280 to 300 Wh/l by 2025 (source: Germany Trade & Invest, Electromobility in Germany: Vision 2020 and beyond, February 2015) and has announced a large program to advance electric mobility, including a direct subsidy of EUR 4,000 for the purchase of an all-electric car and EUR 3,000 for the purchase of a hybrid electric vehicle with a purchase price of less than EUR 60,000 on a first come, first served basis (source: German Federal Ministry for Economic Affairs and Energy, press release May 18, 2016). This is aimed at increasing the number of electric vehicles on German streets from around 50,000 in 2015 (2014: around 24,000; 2013: around 23,000; sources: IA-HEV, Hybrid and Electric Vehicles, 2014; IEA, Global EV Outlook 2015, 2015; Bain, Bain analysis on electromobility, December 2015) to 500,000 by 2020 (source: German Federal Government, Förderung für Elektroautos beschlossen, press release April 27, 2016). The use of electric vehicles in Germany is being further promoted by an extension of the exemption from motor vehicles tax to ten years and special traffic and bus lanes and parking areas for electric vehicles (source: Germany Trade & Invest, Electromobility in Germany: Vision

2020 and beyond, February 2015). Underpinned by these trends, the European Commission expects a significant increase in the share of electricity in total energy demand in Europe (EU28) from around 14% in 2005 to around 36% in 2025 (source: European Commission, Trends to 2050, December 2013).

#### 14.1.4.2 *Decentralization*

The power system is increasingly influenced by distributed energy generation, stemming primarily from the strong growth in wind turbines and solar PV installations. Distributed energy systems comprise not just decentralized generation, but also local energy storage as well as demand response. Many consumers, both households and businesses, have also become producers of electricity which they either consume at the source or feed into the power grid. These so-called “prosumers” differ from classical consumers in their role within the energy system, which has implications for their expectations towards energy suppliers, their grid usage patterns, and their potential future role in balancing supply and demand of electricity.

While we expect centralized generation units to continue to play an important role in the foreseeable future, we anticipate the trend towards decentralization to persist. This poses new challenges to the power grid and the distribution network where the vast majority of decentralized systems are connected. In Germany, for example, around 98% of renewables installations are located at the DSO level (source: E-Bridge, IAEW and Offis for the BMWi, *Moderne Verteilernetze für Deutschland (Verteilernetzstudie)*, September 12, 2014 (the “**Distribution Grid Study**”)). Due to more intensive grid usage and increased feed-in from RES installations at DSO level, we are seeing grid balancing becoming more challenging and complex, the increasing role and importance of distribution system operators and the need for significant investments and smarter grid infrastructure in the future.

#### 14.1.4.3 *Digitalization*

Digital technology and the resulting changes in consumer behavior and expectations, coupled with corresponding regulatory initiatives, are expected to change the energy market fundamentally. In fact, some analysts predict that the impact of digitalization on traditional utilities will parallel the impact of the internet on high street retailers in the early 2000s (source: Ernst & Young, *A different way of doing business – Digital in utilities*, 2011). We believe digitalization will affect all stages of the energy value chain as interconnectivity, data availability and the degree of automation continue to increase.

##### 14.1.4.3.1 Digital optimization of energy generation

We expect digital technologies to transform power generation from the very earliest stages of the investment lifecycle, starting with the design and siting of generation facilities. Once the plant or farm is in operation, digital tools can enhance its performance and profitability. Software can provide power producers with both “inside the fence” and system-wide views, enabling them to maximize the plant’s operational efficiency while responding optimally to changing conditions on the grid and in the overall power market. Predictive or condition-based maintenance is a defining benefit of the industrial internet. Digital tools will track and maintain historical performance baselines for individual assets as well as the whole plant, comparing it to real time performance monitored on a continuous basis. Any variance from “expected behavior” derived from these baselines or expected operation will trigger an event to allow mitigating actions to follow if required. Software that uses a machine’s full physical capabilities can adjust operating parameters in real time to maximize efficiency and minimize cost. In turn, as the plant operates more efficiently, its overall emissions can decline, improving the plant’s environmental footprint.

##### 14.1.4.3.2 Digital optimization of grid

We also anticipate that digital tools will play a significant role in enhancing grid reliability, managing voltage and power flow, as well as integrating distributed resources. The growing amount of distributed generators and storages in the electricity system presents operational

challenges. They may cause rapid voltage fluctuation, create bi-directional flows on distribution lines, or adversely affect transformer and other grid asset lifetimes. Software can help to automatically monitor and manage these distributed assets. Data hubs allow the analysis of sensor data from substations, feeders and connected devices in order to identify grid areas that may be at their capacity limit, or experiencing volatile demand or power quality issues. Data from smart inverters or other devices can be analyzed and merged with operational grid data to provide utilities with a single view to monitor and control distributed resources. We believe that digital tools will make the increasing complexity of modern distribution grids manageable and facilitate their efficient operation.

#### 14.1.4.3.3 Digital optimization of consumption and customer journey

With solar PV panels on the roof, a traditional retail consumer can start to play a much more active and multi-dimensional role in the energy system. When self-produced energy generation falls short of consumption needs, the consumer can supplement it with energy supply from the grid and, conversely, when generation exceeds consumption, they can feed energy into the grid. This interaction is facilitated by digital energy management devices that connect the consumer's equipment with the grid. Through use of smart meters and other digitally connected devices, consumers can gain better visibility of when and how they consume electricity. Consequently, they can better understand their energy consumption and choose to adapt their behavior and habits accordingly. The growing availability of devices with communication capabilities (Internet of Things) supports this trend and enables the increasingly automated adjustment of consumption patterns, often avoiding the need for consumers to change their habits. Innovations caused by digitalization also lead to new non-commodity energy product and service offerings which we refer to as "**Energy+**".

In their core business, utilities meet the demands of their customers by offering digital interaction possibilities, products and services. Digital channels such as utilities' own websites and online portals have risen in importance in the B2C segment. Online portals allowing price-based comparisons of tariffs offer a comprehensive and transparent overview of market products and an easy way to switch suppliers. This is especially attractive for price-sensitive internet users. In the B2B segment, digital transaction platforms for procuring energy have become a market standard.

The growing availability of large volumes of data related to energy consumption and behavioral patterns is expected to enable the creation of new business models. Monetization of consumption data with the explicit consent of the consumer and the creation of tailored offerings based on data analytics are examples of opportunities beyond the mere sale of power and gas. These opportunities offer great potential to utilities, but are also drawing new players to the sector with whom incumbents will have to compete in the future.

## 14.2 Grid Market

Through our Grid & Infrastructure Segment, we are active in five European electricity and/or gas grid distribution markets (Germany, Poland, Hungary, Czech Republic and Slovakia). Our primary activities in this segment include electricity and gas distribution in our core market of Germany, gas distribution in the Czech Republic as well as electricity distribution in Poland, Hungary and Slovakia. In addition to gas and electricity distribution, we are also active in a number of other fields, including gas storage in Germany and the Czech Republic.

See "*15.5 Grid & Infrastructure Segment*" for detailed information on the business of our Grid & Infrastructure Segment.

### 14.2.1 General Industry Characteristics and Trends Across Countries

Grids for transmission and distribution of electric power and gas are generally defined as "natural monopolies", as the construction and operation of parallel competitive grids is not seen as economically justified and, therefore, beneficial for customers. Distribution network

operations are subject to a highly regulated environment that differs from country to country, in EU member states within the boundaries of EU legislation. One of the key characteristics in all countries where we operate with our distribution business is that the regulatory framework requires the separation of grid operations from generation and supply activities (unbundling). In addition, grid tariffs, price caps or revenue caps are subject to approval by the competent national regulatory authority (see “16.2.2.1.2 Grid Tariffs”).

Electricity demand is expected to slowly increase in all markets where we are active with our Grid & Infrastructure Segment, despite political targets to increase energy efficiency. For Germany, an average increase of 0.1% per year is expected until 2030 and an average electricity demand increase of 0.7%-0.9% per year is expected for our Eastern European markets until 2030 (source: ENTSO-E TYNDP 2016, average of four visions, CAGR 2015-2030, Company computation). With regard to gas demand, an average demand decrease of 1.8% per year is predicted for Germany until 2030, while our Central and Eastern European markets are believed to have an average demand increase of 0.3%-0.8% per year until 2030 (source: ENTSO-G TYNDP 2015, average of consumption without electricity generation scenarios, CAGR 2015-2030, Company computation).

The transition of the energy markets from power generation based on conventional sources to predominantly RES is reflected in an equivalent transition of the role of grid operators and the development of new services and capabilities in this context (see “14.1.4 Transition of Energy Markets” for overall trends in the energy market). We expect the amount of energy produced from RES to increase across Europe. Germany with its *Energiewende* is at the forefront of this development, but the Renewables Directive as well as European Union climate targets encourage broader movement in the same direction across Europe.

With regard to electricity from RES, we expect centralized generation units such as offshore wind farms to play an important role and residential and industrial customers to produce an increasing share of their own power consumption. This effect can already be observed in Germany today. Due to the increased feed-in from RES and “prosumers” and the required intense management of the electricity system resulting from this, we think that the grid business will be more challenging and complex in the future than it is today, requiring significant investments in the grid infrastructure. With regard to the gas business, we believe that decentralized feed-in will be of only minor importance.

For the grid business, we expect digitalization to increase efficiency and knowledge about the grid power flow status. The smart meter rollout, which the European Union asked all member states to consider as part of measures to upgrade their energy supply and to tackle climate change, indicates that digitalization will indeed be an important part of future energy business.

## **14.2.2 German Grid and Gas Storage Market**

The German electricity and gas distribution grid market is characterized by a large number of DSOs, which often belong to municipalities and manage a rather limited grid.

A further key feature of the German electricity and gas distribution markets are concession agreements, which must be concluded to the extent that grid operations serve the direct supply of energy to end customers within municipalities and cities (specifically for medium and low voltage electrical grids and gas distribution grids). By contrast, concessions are not required for electric lines or gas pipelines not directly supplying final customers, which are subject to general public and civil law (specifically high voltage and some mid voltage electricity grids as well as certain categories within the high pressure gas grid). See “16.2.2.2 Concession Agreements” for detailed information.

### **14.2.2.1 Electricity**

The electricity transmission and distribution network in our main grid market of Germany has a length of around 1.8 million kilometers (source: German Federal Network Agency and Federal

Competition Office, Monitoring report 2015, March 21, 2016, "**Monitoring Report 2015**"), 98% of which belong to the distribution networks (1.75 million kilometers according to the Distribution Grid Study and 1.77 million kilometers according to the Monitoring Report 2015).

As of January 2016, the electricity distribution networks in Germany were managed by around 900 DSOs according to the German Federal Network Agency (source: German Federal Network Agency (*Bundesnetzagentur*), *Übersicht Stromnetzbetreiber* (overview of electricity DSOs), January 14, 2016). Only around 2% of these around 900 DSOs manage distribution networks with a total length of more than 10,000 kilometers, around 12% with total length between 1,000 and 10,000 kilometers, around 66% with total length between 100 and 1,000 kilometers and around 20% with total length of less than 100 kilometers (source: Distribution Grid Study). Based on our assessment, we operated 27% of the high-voltage, 19% of the medium-voltage and 20% of the low-voltage distribution networks in Germany as of December 31, 2015 (measured by grid length). Based on our calculation of the figures published by the national regulator, we are the number one grid operator in Germany by distributed electricity volume, network load and grid length with E.ON and EnBW ranking second and third (as of December 31, 2015).

The German *Energiewende* is having its main impact at the DSO level. As of September 2014, German DSOs were responsible for integrating around 90% of total installed renewables capacity and around 98% of all renewable generation units into the electricity grid (source: Distribution Grid Study). With continued growth in RES capacities, we expect DSOs to play an even more pronounced role in integrating and coordinating the energy transition towards renewables. Depending on the scenario, the increased feed-in from RES could lead to investments in German distribution grids between EUR 23 billion and EUR 49 billion by 2032, with medium and high voltage networks making up 80% of the investment required (source: Distribution Grid Study). Against the background of the political focus on keeping power prices at an affordable level, with grid fees forming a substantial part of electricity prices for average household customers (25% in 2016 according to the German Energy and Water Association, BDEW-Strompreisanalyse Mai 2016, *Haushalte und Industrie (cost breakdown of electricity for household customers)*, May 2016), we believe that these investments require efficient and innovative grid solutions. The Distribution Grid Study prepared for the BMWi expects the development of innovative grid solutions to reduce overall investment needs by at least 15% and up to 20%, which in our view leaves sufficient room for further RAB growth.

As a result of the varied regional distribution of installed capacity, consumers of electricity often tend to be locally concentrated in one area while producers are concentrated in another region, leading to relatively large distances between generators and loads. More rural areas with limited established industry tend to feature decentralized production, whereas more urban areas with well-developed industry have a tendency to remain load centers. This trend will become more marked with the increasing expansion of decentralized renewable energy. We expect the distribution grid to continue to be key in the context of further renewables expansion, in order to ensure a balance of energy between decentralized production and load centers. The 110 kV network level, with its regional transport functions, is therefore of growing importance in this regard.

The role of the DSOs is expected to expand from the traditional responsibilities as a distributor of electricity to include the necessary aggregation and balancing activities with the relevant system concepts and ancillary services.

We expect the number of connections in the distribution grid to grow further over the course of the German *Energiewende* and the expansion of decentralized generation units. While in the past, connections were limited to a great extent by consumers, decentralized generation units have brought numerous new connection subscribers, which results in a continuous growth in the number of grid customers.

With the growth in decentralized energy production, there has also been an increasing need for governance of the generation units, and also of the network components, to guarantee a secure and stable network. This requires smart, digital distribution grids which can manage data for the energy networks on different levels.

Ancillary services are today generally rendered via the central conventional power stations and coordinated through TSOs. Due to the ongoing and future reduction in operating hours for conventional power stations, the decentralized renewables generation units will have to contribute to the delivery of ancillary services in order to guarantee a secure and reliable network. Consequently, providers of ancillary services are no longer limited to TSOs and are increasingly active at DSO level. Due to this development, DSOs are expected to have a larger responsibility for the coordination of ancillary services preparation, particularly in the areas of data processing, simulation and governance.

The German DSOs are also active as meter operators. This involves the metering of energy and the provision of data to the DSO, the various suppliers and the TSO for the purpose of settlement. In the period from 2017-2032, as a result of the legally mandated smart meter roll-out, the entire meter portfolio in Germany (around 40 million conventional meters based on our own estimates) is due to be replaced with modern measuring devices ("**mME**"; without long distance communication) and intelligent meter systems ("**iMSys**"; with long distance communication over so-called smart meter gateways). With around six million mMe and around 1.4 million iMSys devices which we estimate to be rolled-out by Group companies, we view ourselves to be well placed with regard to potential competition from E.ON-Metering, Thüga Metering Service, EnBW and GWAdriga (Rheinenergie / EWE / Westfalen Weser Netz), as well as possible competition from the telecoms market. See "*16.2.2.3 Smart Meter Rollout*" for regulatory details.

#### 14.2.2.2 Gas

The gas transmission and distribution network in Germany, the largest EU Market by gas grid length, is around 519,000 km long, around 93% of which belong to the distribution network (source: Monitoring Report 2015). As of July 2015, these networks were managed by 17 TSOs and over 700 DSOs (source: Monitoring Report 2015).

Based on our assessment, we operate 7% of the high pressure, 12% of the medium pressure and 8% of the low pressure gas distribution networks in Germany and are the number one grid operator in Germany by maximum network load (followed by E.ON and EWE Aktiengesellschaft, Oldenburg, Germany ("**EWE**")), number two operator by distributed volume (second to E.ON, with EWE third) and number three operator by length of the managed grid (E.ON first, EWE second) (in each case, as of December 31, 2015).

#### 14.2.2.3 Gas Storage

Due to improved interconnectivity between the national/regional gas grids and the availability of LNG imports, the North-West Europe ("**NWE**") region – consisting of Germany, France, Benelux and the UK – has developed into a liquid gas market in recent years. Therefore, through our subsidiary innogy Gas Storage NWE GmbH ("**iGSNWE**"), we compete with other gas storage operators and other flexibility sources (such as flexible gas imports or production) not only in the German market, but also within other parts of the NWE market.

The storage of gas is an important element of the liberalized European gas market. In addition to their traditional function of compensating for seasonal fluctuations, gas storage facilities depending on their technical characteristics also enable traders/suppliers to optimize their gas volumes, pursue arbitrage activities and ensure security of supply in the event of disruptions to delivery or transmission. Gas storage facilities are also important for gas grids, as they serve as a source of external balancing energy. External balancing energy is used whenever there is a physical imbalance in a market or grid area.

iGSNWE's market share in Germany as core market as of March 2016 is around 5.8% (source: iGSNWE calculation of March 10, 2016 based on capacity data published on the AGSI+ website of GSE at <http://transparency.gie.eu>). We believe our largest competitors are Uniper Energy Storage, Astora, VNG Gasspeicher, EWE Gasspeicher and Storengy.

In the NWE market iGSNWE's market share as of March 2016 is around 3.7% (source: iGSNWE calculation of March 10, 2016 based on capacity data published on the AGSI+ website of GSE at <http://transparency.gie.eu>). We believe our biggest competitors are Storengy, Uniper Energy Storage, Astora, Taqa and Centrica Storage.

### **14.2.3 Eastern European Grid and Gas Storage Market**

Our Grid & Infrastructure Segment has a strong position in Eastern European markets with a gas grid portfolio in the Czech Republic and an electricity grid portfolio in Hungary, Poland and Slovakia, including in the areas in and around the growing capitals of Warsaw and Budapest. We support growing economies of these Eastern European markets through our investments in the modernization and automation of the grids (see "15.5.2 Key Strategic Objectives").

#### **14.2.3.1 Electricity Grid in Poland**

Based on yearly reports and other publicly available information published by industry companies, as of 2015, the Polish electricity distribution network comprised over 870,000 km. There are five large incumbent DSOs in the Polish electricity distribution market, namely PGE Dystrybucja S.A., Tauron Dystrybucja S.A., ENEA Operator Sp. z o.o., ENERGA-OPERATOR S.A. and our Polish DSO innogy Stoen Operator Sp. z o.o. Our electricity distribution operations cover the area of Poland's capital Warsaw and neighboring municipalities. We estimate that our share of the electricity distribution market in 2015 in Poland was approximately 6% in terms of distributed electricity volume (based on ERO, Activities Report of the President of ERO in 2015, April 2016), which makes us the fifth largest incumbent DSO in Poland.

The market in Poland is undergoing a moderate transformation from a traditional centralized system based on conventional power plants, which are still the source of energy supply in Poland, towards a system with slightly increasing importance of RES and decentralized sources. This affects operations and investments of the network operators as they are required to adequately integrate the new sources of energy in order to guarantee the stability of national and local energy markets. Although the current scope and development of RES and decentralized sources in Poland is less advanced compared to Western European countries, this trend toward decentralization is expected to continue in Poland, mainly driven by customer initiatives as well as existing and future support schemes. At the same time, electricity demand is expected to grow moderately with growth rates of around 0.7% per year until 2030 (source: ENTSO-E TYNPD 2016, average of four visions, CAGR 2015-2030, Company computation).

#### **14.2.3.2 Gas Distribution and Gas Storage in the Czech Republic**

The Czech gas distribution network has a total length of around 74,000 km, 65,000 km of which is operated by RWE GasNet, s.r.o. (to be renamed GasNet, s.r.o.) (source: Report on GRID operation 2015, RWE GasNet, s.r.o., March 2016). There are three large DSOs in the Czech gas distribution market. Based on the figures published by the Czech Energy Regulatory Office, we estimate that we were the leading gas distributor based on distribution volumes with a market share of 83% in 2015 followed by Pražská plynárenská, a.s. (11%) and E.ON Distribuce, a.s. (4%) (source: Energy Regulatory Office, Yearly Report on the Operation of the Czech Gas System in 2015, 2016).

The gas market in the Czech Republic saw a decline of demand in recent years. However, growth is expected in the long-term (source: ENTSO-G TYPDN 2015, average of consumption without electricity generation scenarios, CAGR 2015-2030, Company computation).

With regard to gas storage, there are four operators in the Czech Republic. iGS is the biggest gas storage operator, with a market share of 74% in the Czech Republic as of June 30, 2016

(based on information published by the four Czech gas storage operators). Other gas storage operators are MND Gas Storage, a.s., SPP Storage, s.r.o. and Moravia Gas Storage, a.s.

Given the interconnectivity of gas markets, Czech gas storage operators also compete at least against Slovak, Austrian and some German storage operators and other sources of flexibility such as traded markets and flexible gas imports. Currently, we are seeing planned investments in interconnections between European countries and an increase in the size of trading zones, which is likely to further increase competition among storage operators and other flexibility sources.

#### 14.2.3.3 *Electricity Grid in Hungary*

In 2014, the electricity distribution network in Hungary had an overall length of 162,000 km (excluding customer connection lines; source: MAVIR, Statistical Data of the Hungarian Electricity System 2014, 2014). There are six large DSOs in the Hungarian electricity distribution market, three of which belong to the E.ON group, two of which belong to our Group and one of which belongs to the EDF group. Based on our calculations, our two Hungarian DSO companies had a market share of approximately 43% in terms of distributed volume in 2015, making us the second largest electricity DSO.

Distributed electricity volume in Hungary is only slightly growing, due to overall demand increase and a missing support-scheme for renewable energies as the Hungarian Government has a priority of keeping energy prices at an acceptable level for households.

Smart home and digital solutions are at an early stage in Hungary. Smart city initiatives are backed by the government and the European Union, and also the development of the electric vehicles market is on the government's agenda with reasonable funding.

#### 14.2.3.4 *Electricity Grid in Slovakia*

In 2014, the electricity distribution network in Slovakia had an overall length of over 90,000 km (source: 2014 annual reports of Slovak DSOs ZSD, VSD and SSE-D). There are three large DSOs in the electricity distribution market in Slovakia, all of which are majority state-owned. These three DSOs are Západoslovenská distribučná, a.s. ("**ZSD**"), operating in the western part of Slovakia, Stredoslovenská energetika - Distribúcia, a.s. ("**SSE-D**"), operating in the middle part of Slovakia, and VSD, operating in the eastern part of Slovakia. We operate in the Slovak electricity grid market through a minority shareholding (49%) in VSE Holding, of which the DSO VSD is a wholly-owned subsidiary. VSD had a market share of 20% in terms of distributed electricity volume in 2015 (source: energy analytics, ENERGETICKÝ TRH SR 2015, April 2016), making it the number three player in the market.

Industrial production as well as the housing sector are becoming increasingly energy efficient. According to the Slovak government report published in 2016 (Rokovanie Vlády Slovenskej Republiky, Ročná správa o pokroku pri dosahovaní národných cieľov energetickej efektívnosti za rok 2015 (*SK Energy Efficiency Annual Report for 2015*)), energy consumption has decreased by 11% in the last ten years, mostly in the household sector (decrease of 27%). As in other EU countries, despite falling commodity prices, end-user prices have increased, mainly due to the RES support. Despite the fact that the Slovak government has a strong interest in keeping energy prices at an acceptable level the end-user prices (especially if using purchasing power parity) in Slovakia are among the highest in Europe (source: Eurostat, Statistics Explained, May 2016). Because of this, we expect that the RES support system will be modified and that the Government will not substantially support RES beyond Slovakia's current commitment level. The support system is currently unbalanced, meaning that support related costs of a DSO in a given year are not fully covered by the dedicated RES support tariff to be paid by end consumers.

In line with the overall EU trends, the grid in Slovakia is undergoing automatization, and possibilities for better demand side management are improving. With falling margins in the commodity business, we are seeing an increasing focus on energy efficiency measures and other

non-commodity business (Energy+ businesses). We expect that the government will continue to financially support households and small business to further improve energy efficiency, possibly also to install small RES, resulting in an increasing volume of distributed generation to be integrated into the grid.

### **14.3 Retail Market**

Our Retail Segment operates in the electricity and gas supply sector in four key regions: our core market of Germany, as well as the Netherlands and Belgium, the United Kingdom and Eastern Europe (including Poland, the Czech Republic, Hungary, Romania, Slovakia, Croatia and Slovenia).

Across Europe, we are, based on our assessment (of annual reports of our major competitors), a top three electricity retailer and a top five gas retailer by volumes sold. Based on our assessment, we were the largest electricity retailer in Germany based on volumes sold in 2015 and hold leading positions in three other markets, namely for gas and electricity in the Netherlands and gas in the Czech Republic (in each case based on number of customers).

#### **14.3.1 General Industry Characteristics and Trends Across Countries**

Electricity demand is expected, generally, to grow slowly across the markets where we have an active retail presence. Growth is more pronounced in our Eastern European markets, where the expected average growth rate up to 2030 is generally estimated at around 1%, reaching 1.6% in Croatia (source: ENTSO-E, Demand growth electricity, 2030 extreme scenario average, Company computation). The majority of gas markets are also experiencing growth (including gas used for electricity generation), at a rate of around 1%, with high growth of around 2% in Belgium, Poland and Romania. Only German and UK gas demand is estimated to be decreasing (source: ENTSO-G, Demand growth gas, 2030 scenario average, Company computation). The electricity and gas retail business is characterized by high competition and a large number of players in most of the markets where we operate. This is fueled by price comparison websites which try to increase the transparency of pricing. For details on the degree of liberalization and regulatory intervention see "*16 Regulatory Environment*".

The retail business is impacted by the development of wholesale and retail prices for electricity and gas, which undergo fluctuations driven by fundamentals (e.g., demand, global commodity prices, etc.) and market dynamics. Since the end of 2015, both wholesale prices and retail prices have been slightly declining in most of the markets in which we are present. Between the end of 2015 and September 6, 2016, wholesale prices for annual base load future/forward products on EUR/MWh basis for 2017-2018 changed in the range of +1% to -5% for electricity and in the range of +1% to -5% for gas, depending on the market and product, with some higher volatility and a temporarily more pronounced drop in March/April 2016. Between December 2015 and July 2016 and according to an index of VaasaETT (as further explained in the paragraph below), household electricity prices in the markets in which we are currently servicing households declined mostly between 0% and 5% and only in the UK, the Netherlands and Belgium by more than 5% and up to 15%, while they increased by 3% in Germany. In addition, the corresponding household gas prices declined during the same period by 0% to 5% in most of such markets and only in the UK and Belgium by more than 5% and up to 15%, while they increased by 3% to 5% in the Czech Republic and the Netherlands. Nevertheless, the profitability of energy retailers can typically only be derived to a limited extent from wholesale and retail price indices since real retail prices for customers differ from index values and since other retail price components such as taxes, levies and grid charges as well as wholesale prices for peak supplies and balancing need to be considered as well. In addition, the specific profitability of a retailer is dependent on its individual customer and contract portfolio and the sourcing and hedging strategies.

The above price developments are based (i) for wholesale prices in EUR/MWh for annual base load future/forward products, on data for Germany, the Netherlands and the UK from EEX Phelix Power, ICE Indices for Dutch Base Power, Power Baseload and Dutch TTF Natural Gas,

German NCG Natural Gas, German Gaspool Natural Gas, UK Base Electricity Futures (Gregorian) and UK NBP Natural Gas Futures; German market prices are in this respect an important benchmark for Continental Europe; (ii) for household electricity and gas prices, on an index for prices from the main suppliers in the European capital cities; source: "Household Energy Price Index for Europe", provided in monthly reports prepared by VaasaETT.

Across all regions, the energy industry is experiencing shifting customer requirements. For example, while affordability is still a key customer requirement in all our markets, sustainability is of growing importance. As a result, we are observing an increasing share of customers who are willing to pay a premium for sustainable energy, or smart devices and appliances that help conserve energy.

In addition, we are seeing a growing level of interest in decentralized energy production, such as rooftop PV and CHP solutions, driven by financial incentives and the interest of certain "prosumers" in contributing to a more sustainable economy. We have also seen increased interest in demand management, following the change of policy approach from feed-in tariffs supporting decentralized generation to reducing electricity consumption and therefore bills. Further, the decreasing cost of batteries may enhance the future potential of local generation.

The development of smarter electricity and gas appliances has also offered more possibilities for customers to manage their electricity usage, as they are given more information on their overall consumption. Customers are therefore increasingly interested in easy energy management tools and solutions. As the switch requires investment in new appliances, customers are also interested in financing solutions, for example a leasing or loan option offered by a partnership bank for their rooftop solar or LED-lighting system.

Customers are also being offered new solutions from non-traditional players, such as non-utility companies and start-ups, which are taking advantage of broadening customer interest. These players use their IT, telecom and product design skills to drive their product development. In 2014, for example, Google acquired Nest, a start-up which had developed a device for local heating energy management, and Tesla signed an agreement with Panasonic for the construction of a large-scale battery manufacturing plant in the United States, known as the Gigafactory. On the other hand, we are seeing some recent entrants leaving the markets (e.g., start-ups such as Flexstrom in Germany) or scaling down their growth plans (as telecom companies in Hungary).

A further trend towards innovative Energy+ services is being driven by EU targets. The EU has set itself a 20% energy savings target by 2020. This has boosted various Energy+ services, which are linked to energy savings, particularly due to the fact that the EU is currently trailing its targets. In addition, we expect that the ongoing roll out of smart meters in some of our markets is likely to enable further energy savings potential.

### **14.3.2 Retail Market in Germany**

Germany is the largest of the markets in which we are active with our Retail Segment. Germany is a highly competitive market, with around 1,200 electricity and 850 gas suppliers in 2014 (source: Eurostat). Based on sold volumes, we assess that we were the number one player in the electricity retail market and the number three player in the gas retail market in Germany in 2015.

#### **14.3.2.1 Market Fundamentals and Structure**

Since 1990, German primary energy demand and economic activity have been largely decoupled. Overall, net energy consumption in Germany in 2015 was 521 TWh for electricity (source: ENTSO-E) and 863 TWh for natural gas (source: Eurogas). Over the five year period between 2015-2020, electricity consumption in Germany is forecast to grow at a CAGR of 0.6%, while gas consumption is forecast to decrease at a CAGR of 1.3% (source: ENTSO-E, Demand growth electricity 2015-2020, Company computation; ENTSO-G, Demand growth gas 2015-2020, scenario

average, Company computation). The German *Energiewende* is having significant impact on our retail business. Decentralized production is being supported, which in turn creates significant demand not only for the installations (PV, micro CHP, etc.) themselves, but also for the additional energy-related services and products (e.g., home energy management systems).

The electricity market in Germany can be divided into the residential and services sector, which represents 53% of total consumption, and the industry and transport sector, which represents 47% of total consumption (source: Eurostat, Company computation). In the gas market in Germany, the residential and services sector represents 44% of total consumption, with the industry, energy transformation (i.e., power and heat) and transport sector representing 56% of total consumption (source: Eurostat, Company computation).

We believe that our main current competitors in Germany in the electricity retail B2C and B2B market are EnBW, E.ON, Vattenfall and certain municipal utilities (such as Stadtwerke München) as well as some discounters in the B2C business. In the gas retail market in Germany, we believe our main competitors are EnBW, ENI, E.ON and Gazprom. We are seeing a growing trend in non-utility players showing interest in participating in energy markets in the wider sense, and anticipate a more diverse competitive landscape in the future. Recently EnBW exited the B2B segment, and we no longer view EnBW as a strong competitor in that market. Germany is expected to roll-out smart meters later than many other European countries (based on a cost-benefit analysis by Ernst & Young on behalf of the German Federal Ministry of Economics and Technology). See also "*16 Regulatory Environment*".

#### 14.3.2.2 *Liberalization and Regulation*

German electricity and gas retail markets are fully liberalized. In particular, there is no need to pre-approve supply tariffs, nor is there any limit in the number of tariffs. However, Germany follows the model of a base supplier, meaning that the provider with the greatest market share in the household customer segment of a certain area is the base supplier unless a customer chooses otherwise. For more detailed information on the regulatory environment in Germany, see "*16 Regulatory Environment*".

### 14.3.3 **Retail Market in the Netherlands and Belgium**

The Netherlands and Belgium are further key markets of our Retail Segment. The region is a highly competitive market, with around 46 electricity and 46 gas suppliers in 2014 in the Netherlands and 37 electricity and 32 gas suppliers in 2014 in Belgium (source: Eurostat). Based on customer numbers, we assess that we are the number one market participant in the electricity retail market and gas retail market in the Netherlands. Based on customer numbers, we estimate that we are the number four player in both the Belgian electricity and gas retail market per May 2016 (source: VREG, Marktaandalen Elektriciteitsleveranciers, Marktaandalen Aardgasleveranciers, 2016).

#### 14.3.3.1 *Market Fundamentals and Structure*

Overall, net energy consumption in the Netherlands in 2015 was 113 TWh for electricity (source: ENTSO-E) and 369 TWh for natural gas (source: Eurogas). Over the five year period between 2015-2020, electricity consumption in the Netherlands is forecast to grow at a CAGR of 0.6%, while gas consumption is forecast to decrease at a CAGR of 1.7% (source: ENTSO-E, Demand growth electricity 2015-2020, Company computation; ENTSO-G, Demand growth gas 2015-2020, scenario average, Company computation).

Overall, net energy consumption in Belgium in 2014 was 85 TWh for electricity and 178 TWh for natural gas. Over the five year period between 2015 and 2020, electricity consumption in Belgium is forecast to grow at a CAGR of 1.6%, while gas consumption is forecast to be stable.

The electricity market in the Netherlands and Belgium can be divided into the residential and services sector, which represents 57% of total consumption in the Netherlands and 50% in Belgium, and the industry, transport sector and other, which represents 43% of total

consumption in the Netherlands and 50% in Belgium (source: Eurostat, Company computation). In the gas market in the Netherlands and Belgium, the residential and services sector represents 32% of total consumption in the Netherlands and 35% in Belgium, with the industry, energy transformation (i.e., power and heat), transport sector and other representing 68% of total consumption in the Netherlands and 65% in Belgium (source: Eurostat, Company computation).

In both the Dutch and the Belgian electricity and gas retail markets there are around ten significant players, ranging from price-challengers to service incumbents. We believe that our main competitors in the Netherlands are the Vattenfall's subsidiary NUON and Eneco. The key competitors in Belgium are market leader ENGIE Electrabel, EDF Luminus and eni gas & power. In Belgium we have observed a trend towards new small players entering the market with aggressive pricing strategies. All large suppliers have been under increasing pressure from these challengers as they attempt to gain market share.

A roll-out of smart metering in the Netherlands has been ongoing since 2012, which is the responsibility of the grid operator. The Dutch government aims to replace all electricity and gas meters with smart meters by 2020 in line with European targets. The number of smart electricity meters installed as of end 2015 was 1.6 million (source: Netbeheer Nederland, 2016). We believe that smart meters will allow us to further tailor our propositions but may also lead to increased competition by specialized entrants.

#### **14.3.3.2    *Liberalization and Regulation***

The supply of both electricity and gas is fully liberalized in the Netherlands and Belgium resulting in significant customer churn.

Price regulation in the Netherlands is characterized by a focus on ex post control on unreasonably high tariffs, while the regulator is generally focused on increasing protection and transparency. From December 1, 2011 onwards, there has been a ban on silent extension of contracts. Further, all licensed suppliers are required to offer a model contract for the supply of electricity and gas to small-scale users, i.e., small business and household segments. See "*16 Regulatory Environment*" for detailed information on the regulatory environment.

#### **14.3.4       *Retail Market in the UK***

Another key market within our Retail Segment is the United Kingdom, where there were around 34 electricity and 37 gas suppliers in 2014 (source: Eurostat). Based on sold volumes we believe we were the number two player in the UK retail electricity market and the number five player in the UK retail gas market in 2015.

##### **14.3.4.1    *Market Fundamentals and Structure***

Overall, net energy consumption in the UK in 2015 was 333 TWh for electricity (source: ENTSO-E) and 775 TWh for natural gas (source: Eurogas) / 490 TWh for natural gas excluding use for electricity generation (source: DECC, provisional figures for 2015). Over the five year period between 2015-2020, electricity consumption in the UK is forecast to grow at a CAGR of 0.1%, while gas consumption is forecast to decrease at a CAGR of 0.8% (source: ENTSO-E, Demand growth electricity 2015-2020, Company computation; ENTSO-G, Demand growth gas 2015-2020, scenario average, Company computation).

The electricity market in the UK can be divided into the residential and services sector, which represents 67% of total consumption, and the industry and transport sector and other, which represents 33% of total consumption (source: Eurostat, Company computation). In the gas market in the UK, the residential and services sector represents 47% of total consumption, with the industry, energy transformation (i.e., power and heat), transport sector and other representing 53% of total consumption (Source: Eurostat, Company computation).

The UK energy market is fragmented, featuring six large players and over 30 medium and smaller players. Around 90% of domestic gas and electricity customers in Great Britain were

supplied by one of the six large suppliers as of June 2015. As of the second quarter 2016 the market share of the six largest suppliers has dropped to 85.2%. The largest domestic market share in electricity and gas is held by British Gas (Centrica) (37% in gas and 24% in electricity). SSE holds the second largest market share, i.e., 13% in gas, 16% in electricity (source: OFGEM, Retail Energy Markets in 2015, September 2015). The expansion of independent suppliers in the domestic market is a relatively recent development. The three largest independent suppliers as of June 2015 were First Utility, Utility Warehouse and Ovo Energy, with a combined market share of over 6%. The independent suppliers are a heterogeneous group with a large variety of entry pathways and business models (source: OFGEM, Retail Energy Markets in 2015, September 2015).

We believe that our main competitors in the UK in the electricity market are British Gas (Centrica), EDF, E.ON, ScottishPower (Iberdrola) and SSE. In the gas market in the UK, we believe our main competitors are British Gas (Centrica), E.ON, ScottishPower (Iberdrola), SSE and upstream oil and gas players such as Gazprom, Statoil and Total.

Although still at an early stage, smart meter roll-out is underway and full nationwide coverage for household customers by the end of 2020 has been mandated by the regulator. Contrary to other innogy retail markets, in the UK the suppliers, not grid operators, were mandated with the smart meter roll-out. The information provided by smart meters is expected to assist customers in managing their energy usage and two-thirds of domestic customers have indicated that they would reduce their peak time energy consumption if there was a financial incentive.

In the first quarter of 2016 the number of rooftop solar installations in the UK reached 800,000, demonstrating clear appetite for solar PV. We expect that in the near-term there will be a slowdown in solar installations due to a sharp reduction in UK government subsidy from the first quarter of 2016. However, as the cost of solar panels continues to decrease we expect demand to return in the longer term resulting in a growth in prosumers, supporting Energy+ initiatives linked to PV (source: DECC, Energy Trends, June 2016).

#### 14.3.4.2 *Liberalization and Regulation*

Liberalization of the UK energy markets began in the 1980s and 1990s. Following a period of consolidation among energy suppliers with several gas and electricity suppliers merging, Ofgem, the UK Government's electricity and gas regulator, was formed in the early 2000s to regulate both gas and electricity supply (source: CMA, Energy Market Investigation – Final Report, Appendix 2.1: Legal and regulatory framework, June 2016).

In July 2016 the newly formed Department of Business, Energy and Industrial Strategy took over from the Department of Energy and Climate Change (DECC) as the government department with responsibility for energy supply. This department is led by an elected member of parliament appointed by Her Majesty the Queen upon advice of the Prime Minister. Therefore, government energy policy is subject to change as the government changes or new ministers are appointed to government departments.

The UK energy industry comes under a great deal of political and public scrutiny and is given regular attention in politician's speeches and the popular media. The retail energy market is under intense regulatory supervision. This is highlighted by the recent CMA (Competition and Markets Authority) investigation into the energy sector involving all market players, the final report of which was published on June 24, 2016. The goal of the investigation was to determine adverse effects on competition and to define legally binding remedies. The most important remedies of that investigation are the ordering of a price cap on domestic consumers who use prepayment meters and greater data transparency towards customers (in order to promote switching of supplier), rival suppliers (in order to prompt customers to engage) and the regulator (in order to decide on the appropriate regulation). See "3.2.8 *We face repayment risks related to state aid received by us.*" for more details.

For more detailed information on the regulatory environment in the UK, see "16 *Regulatory Environment*".

### 14.3.5 Retail Market in the East Region

Our East region is a further key market of our Retail Segment, where we are currently active in Poland, the Czech Republic, Hungary, Romania, Slovakia, Croatia and Slovenia, and believe we have leading positions in some of these countries (see “15.1 Overview” for more information on market positions).

The table below illustrates the total number of competitors and annual consumption in each of the relevant East regions:

Country	Retailers Count Electricity	Consumption Electricity (TWh)	Retailers Count Gas	Consumption Gas (TWh)
Poland . . . . .	140	151	78	178
Czech Republic . . . . .	380	63	80	81
Hungary . . . . .	50	41	26	99
Romania . . . . .	86	55	70	122
Slovakia . . . . .	66	27	25	50
Croatia . . . . .	7	17	40	28
Slovenia . . . . .	13	14	21	9

Source: Eurostat; ENTSO-E; Eurogas. As of 2014 for competitors and 2015 for demand.

In 2015, based on our assessment we were ranked first in the Czech gas retail market (based on number of customers), second in the Slovak gas retail market (based on volumes sold), second in the Hungarian and Croatian electricity markets (in each case, based on volumes sold), third in the electricity market in Slovakia (based on number of customers) and have held top five positions in the Polish and Czech electricity retail markets (based on number of customers) as well as the Hungarian gas retail market (based on volumes sold).

#### 14.3.5.1 Market Fundamentals and Structure

Overall, net energy consumption in the East region in 2015 was around 368 TWh for electricity (source: ENTSO-E) and estimated to 526 TWh for natural gas (consumption without electricity generation, source: ENTSO-G, average of scenarios). Over the five year period between 2015-2020, electricity consumption in the East region is forecast to grow at a CAGR of 1.3%, while gas consumption is forecast to grow at a CAGR of 0.9% (source: ENTSO-E, Demand growth electricity 2015-2020, Company computation; ENTSO-G, Demand growth gas 2015-2020, scenario average, Company computation). Energy consumption in the East region is predicted to increase to 393 TWh in 2020 and 426 TWh in 2030 for electricity (source: ENTSO-E, own computation, average of extreme scenarios) and 549 TWh in 2020 and 583 TWh in 2030 for gas (source: ENTSO-G, own computation, average of scenarios). The table below illustrates the consumption forecasts for electricity and gas across each of our Eastern markets:

Country	Electricity Consumption CAGR 2015-2020	Electricity Consumption CAGR 2015-2030	Gas Consumption CAGR 2015-2020	Gas Consumption CAGR 2015-2030
Croatia . . . . .	4.5%	1.6%	1.5%	1.2%
Czech Republic . .	1.3%	0.8%	0.0%	0.3%
Hungary . . . . .	1.4%	0.9%	1.5%	0.5%
Poland . . . . .	1.5%	0.7%	1.2%	0.8%
Romania . . . . .	0.0%	0.4%	0.7%	1.1%
Slovakia . . . . .	1.0%	0.9%	0.3%	0.3%
Slovenia . . . . .	0.6%	0.9%	2.0%	0.9%

Sources: ENTSO-E, Demand growth electricity 2015-2020, Company computation; ENTSO-G, Demand growth gas 2015-2020, scenario average, Company computation; ENTSO-E, Demand growth electricity 2015-2030, extreme scenario average, ENTSO-G, Company computation; Demand growth gas 2015-2030, scenario average, Company computation.

The higher growth in Eastern European countries compared to Western Europe is in part supported by more significant anticipated GDP growth in upcoming years. The GDP in the

relevant countries in the East region is expected to grow in total by 3.2% in the years 2016 and 2017, whereas the GDP in countries in our Western European markets are forecast to grow between 1.6% and 1.9% per year (source: European Commission, European Economic Forecast Spring 2016, May 2016, Company computation).

The electricity market in the East region can be divided into the residential and services sector, which represents 54% of total consumption, and the industry, transport sector and other, which represents 46% of total consumption (source: Eurostat, Company computation). In the gas market in the East region, the residential and services sector represents 38% of total consumption, with the industry, energy transformation (*i.e.*, power and heat), transport sector and other representing 62% of total consumption (source: Eurostat, Company computation).

We believe that there are three to five major competitors active in most of our Eastern European markets along with several other small players. In some countries, competitors are still publicly-owned companies (as in Poland, where all major incumbent competitors are owned by the state) and may become (depending on national policy targets) subject to privatization (*e.g.*, in Slovenia and Croatia). Some countries are considering reorganization of their often publicly-controlled utilities (*e.g.*, Poland by merging of the companies).

#### 14.3.5.2 *Liberalization and Regulation*

The level of liberalization and regulation in our Eastern European markets is heterogeneous and differs between the countries in which we operate. Liberalization ranges from fully liberalized to markets which have only transposed minimum EU requirements and to some extent may still have to adapt their regulatory framework to fully comply with these requirements. National provisions also differ regarding price regulation. Such differences mainly relate to the type of customer and the type of energy (electricity or natural gas). We expect further market liberalization, in particular an opening of gas markets in Poland and Croatia and, in the mid-term a price deregulation in Slovakia. See also "*16 Regulatory Environment*".

Most energy markets in Eastern European countries in which we operate are largely liberalized. Croatia, Slovakia and Hungary only regulate prices for specific groups of customers, in particular households and small enterprises. While customers may opt for agreements at negotiated prices in Romania, it is also envisaged that there will be a gradual phase-out of regulated prices altogether up to the end of 2017 for electricity and 2021 for gas while still including social measures for low-income households. In Poland, the electricity market for business and industrial customers is liberalized, whereas the market for household customers (excluding our company and part of the area of the TAURON Group and the non incumbent suppliers) and the entire gas retail market are currently still subject to price regulation in form of a price cap – which implies that we are currently the only major player which is fully open. However, this situation is gradually going to change due to further implementation of EU requirements. In Slovakia, retail prices for household customers and small businesses are generally subject to a price cap regulation, set by the regulator on an annual basis. In addition to price regulations, general terms and conditions for the electricity and gas supply are also defined by the regulator. In the Czech Republic, the national regulator is considering to introduce commodity price regulation specifically for household customers. In Poland we also face additional obligations regarding the purchase of certificates in particular for electricity generated from RES, CHP and resulting from energy efficiency programs or, alternatively, the payment of replacement fees.

### 14.4 **Renewables Market**

Our Renewables Segment is active across ten countries with around 3.1 GW installed capacity as of December 31, 2015 (pro rata to our share of ownership and excluding the British wind farm portfolio Zephyr) and operates a large and diversified portfolio, mainly across Europe.

Our core markets for renewable electricity production are Germany, the UK, Poland, the Netherlands, Spain and Italy. We are also present in France, Belgium and Portugal. In the United States we are active in upstream biomass and are currently planning a market entry for

renewable electricity production. In addition, we are currently planning to enter the markets of the Republic of Ireland, the MENA region (the Middle East and Northern Africa) and Turkey to grow our portfolio of electricity producing assets from renewable energy sources.

The focus of our portfolio is onshore and offshore wind as well as hydroelectric power. We are also engaged in other renewable technologies markets, including the solar energy sector, however, to a much smaller degree. See "*15.7 Renewables Segment*" for further information on our Renewables Segment.

We regard European and domestic utilities such as Iberdrola, Vattenfall, E.ON, EnBW and DONG to be our main competitors. Especially in Germany, municipal companies (*Stadtwerke*) and development companies such as WPD are also significant competitors. In addition, financial and infrastructure investors such as Allianz and Terra Firma Capital Partners as well as OEMs such as Siemens are gaining increasing shares in the European renewables markets.

#### **14.4.1 General Industry Characteristics and Trends Across Countries**

Certain characteristics of the energy industry as a whole have a significant impact on the renewables market.

In the past ten to twenty years, an increasing number of countries have introduced and modified relatively strong and substantial incentive and support schemes for renewable energy production, thereby laying the key foundations for the development of this industry. Without these schemes, it would likely not have been possible, at least not in such a short time period, for the sector to develop and establish itself as a meaningful source of energy production.

In addition, due to a broad political consensus and policy commitment as demonstrated by the recent climate change agreements such as, for example, the Paris Agreement, as well as EU and national targets, the global focus on achieving clean energy will continue to drive growth in the renewables sector. See "*14.1.4.1 Decarbonization*".

Investment in renewable energy has increased rapidly and is expected to continue. Bloomberg New Energy Finance forecasts that of the USD 12.1 trillion to be globally invested in new energy generation capacity from 2015 to 2040, two thirds will be in renewables (source: Bloomberg New Energy Finance, New Energy Outlook 2015, Executive Summary).

This investment effort has translated into an increasing contribution from renewables to electricity generation in Europe (EU28), reaching 14% in 2005, 26% in 2015, and is expected to reach 36% in 2025 (source: European Commission, Trends to 2050, December 2013).

One of the utility industry's primary metrics for the cost of electricity produced by a generator is levelized cost of electricity ("**LCOE**"). It is calculated by accounting for all of a system's expected lifetime costs (including construction, financing, fuel, maintenance, taxes, insurance and incentives), which are then divided by the system's expected power output over its lifetime (MWh). If the cost for a (renewable) technology for the end customer is as low as current retail market prices, it is said to have reached "grid parity". From an end customer perspective, "grid parity" is reached when the cost of decentralized power production is as low as the retail price including all levies. In this case it is attractive for an end customer to become a prosumer.

Today, in most countries renewables are still not economically competitive with traditional technologies on electricity wholesale markets and need some source of financial support. However, while technological innovations are driving costs down, we are also seeing most countries moving towards determining support levels competitively through auction-based regimes. As a result, some analysts estimate that onshore wind and solar PV will soon almost be competitive against new build conventional generation, especially under favorable conditions (source: IRENA, The Power to Change: Solar and Wind Cost Reduction Potential to 2025, June 2016). Further, according to the same study, other technologies such as offshore wind will see material improvements in terms of the cost per MWh produced. In contrast, decentralized generation (especially solar PV) is usually driven by grid parity on a retail price level which has

already been reached in many markets. Finally, we also expect that decreasing LCOEs will increasingly mitigate costs and affordability concerns, which have been an issue in recent years.

There are several global trends which we foresee as having an impact on the renewables sector in the coming years. Fundamentally, we are of the view that the broad political consensus and policy commitment in favor of renewables will drive long-term growth in the industry in the future. For example, in our core market of Germany, the government has committed to a full exit from nuclear energy by the end of 2022, and has targeted an 18% renewable energy share in total energy consumption by 2020 (from 14% in 2014 according to Eurostat) and a 40-45% renewable energy share in total electricity consumption by 2025, rising to 55-60% by 2035. In the UK, there is a commitment to source 15% of energy (from 7% in 2014 according to Eurostat) and 30% of electricity from renewable sources by 2020 and proposals to end hard coal fired generation by 2025. It is unclear whether these targets will still apply following the implementation of Brexit. In the week following the referendum on the UK's membership of the EU, the UK government announced further carbon reduction targets to alleviate concerns that it may abandon climate policies as it exits the EU. The announcement commits the UK to cutting greenhouse gases by 57% by 2032 from 1990 levels. Poland has also targeted 15% renewable energy share by 2020 (from 11% in 2014 according to Eurostat) including transport, heating and cooling and electricity production), which translates to 19% in electricity production by 2020, while the Netherlands is considering exiting coal fired generation and has targeted a 14% renewable share by 2020 (16% by 2023, from 6% in 2014 according to Eurostat) in energy consumption and a 37% share of renewables in electricity production by 2020.

Across all markets, offshore wind costs are also decreasing significantly. Nevertheless, LCOEs are expected to remain on average comparatively higher than those of wind onshore and solar PV. Maintaining cost reduction momentum and preserving political support are therefore significant objectives. At the same time, however, we believe that financial investors are willing to invest in shares of offshore assets already in the development and construction phases and thus take more risks, as they seek higher equity returns which are not available if already operational assets are purchased in the market. We expect this to extend the potential of partnering with financial investors in offshore wind development and to increase the fungibility of project shares.

The onshore market, meanwhile, is affected by increasing concerns regarding grid constraints and environmental impact (including visual impact on landscape). For example, the increase in onshore wind facilities in Germany will be capped in designated grid congestion areas from 2017 onwards according to the new EEG (see "*16.2 German Energy Regulation*").

#### **14.4.2 Onshore Wind Market**

The total global installed capacity of onshore wind was around 423 GW at the end of 2015 (2014: 364 GW, 2013: 312 GW) (source: World Wind Energy Association Press Release, dated February 11, 2016, offshore figures excluded by own calculation based on Bloomberg New Energy Finance, H1 2016 Offshore Wind Market Outlook, 2016). China is the largest market globally, followed by Europe and the USA.

Our installed capacity of onshore wind was 1,648 MW in 2015 (2014: 1,601 MW; 2013: 1,537 MW; pro rata to our share of ownership and excluding Zephyr). According to Bloomberg New Energy Finance, we are ranked as the seventh largest owner of onshore wind assets in Europe, including non EU countries, such as Norway (source: Bloomberg New Energy Finance, League Tables, Renewable Asset Owners Wind Onshore, June 2016).

We believe that this results in us having a strong position in Europe, and a medium position globally. We are of the view that we are a top-five owner in Germany, where our competitors are EnBW, MVV and larger developers such as WPD and Enertrag. In the UK, we believe we are a top-ten owner and operator, where our main competitors are domestic and international utilities like SSE, Iberdrola as well as infrastructure investment companies like Renewable Infrastructure Group and Greencoat UK Wind. In the Netherlands, we believe we are one of the

top four asset owners and developers, and our key competitors are Eneco, Nuon and Readthuys. In Poland, we believe we are currently among the top-five investors/operators; our main competitors are utility companies such as Energa and PGE as well as foreign financial investors.

In 2014, onshore wind was viewed as one of the lowest-cost renewable sources of electricity available, with weighted average LCOE by region of between USD 0.06 to USD 0.09 / kWh (source: IRENA, Renewable Power Generation Cost in 2014, January 2015).

#### **14.4.3 Offshore Wind Market**

According to Bloomberg New Energy Finance, the total global installed capacity of offshore wind was 11.7 GW at the end of 2015 (2014: 7.6 GW, 2013: 6.7 GW) (source: Bloomberg New Energy Finance, H1 2016 Offshore Wind Market Outlook, 2016). The offshore wind market is characterized by high barriers to entry due to development and engineering challenges. We believe that offshore wind growth has been mainly concentrated in Europe, especially in the UK and Germany. However, we are also seeing Denmark and the Netherlands contributing to growth. 2015 was a key year for the industry, with the highest capacity additions in history (4.1 GW globally, 3.8 GW in Europe) (source: Bloomberg New Energy Finance, H1 2016 Offshore Wind Market Outlook, 2016). We expect that in the near future, higher growth will also be seen outside Europe, especially in Asia and, in the longer term, in the USA.

We have a total of 967 MW of installed offshore capacity (2014: 553 MW, 2013: 384 MW) (in each case pro rata to our ownership and excluding Zephyr). We have a leading position in the offshore industry, ranking third worldwide based on installed capacity (source: Bloomberg New Energy Finance, League Tables, Renewable Asset Owners Wind Offshore, June 2016). We consider our key competitors to be big utilities such as Dong Energy, E.ON, Vattenfall, Iberdrola, and SSE.

In 2015, contract-for-difference (“CfD”) auctions set new record low prices for offshore delivery in the UK, and we are also seeing that larger turbines are giving a competitive advantage, with the successful roll-out of 6 MW wind turbine generators having further impact. A study by Fichtner/Prognos (2013) predicts further significant declines in offshore generation costs going forward, indicating that the more capacity is built, the more costs will fall. Compared to a range of 12.8-14.2 EURct per kWh in 2012 (real terms) LCOEs are expected to decline over a decade up to 32% (up to 39% under optimal market conditions) due to cost reductions along the whole value chain including financing (source: Fichtner/Prognos, *Kostensenkungspotenziale der Offshore-Windenergie in Deutschland (Cost reduction potentials of Offshore Wind Power in Germany)*, August 2013). On July 5, 2016, the Dutch Government announced that the tender for Borssele Sites I and II had resulted in a winning bid of (on average) 72.7 EUR/MWh. Though not fully comparable with other projects (e.g., excluding costs of grid connection) the tender is another strong indication of ongoing cost reductions in the wind offshore sector.

#### **14.4.4 Hydro Market**

The total global installed capacity in the hydro market (including large-scale hydro and pumped storage) was about 1,212 GW at the end of 2015 (2014: 1,178 GW, 2013: 1,141 GW, source: International Hydropower Association, Hydropower Status Reports 2015, 2016). In our view, the market in Europe is currently saturated and presents only limited opportunities for growth, with the exception of South Eastern Europe.

As of December 31, 2015, our total installed hydro capacity was 500 MW (pro rata to our ownership). This includes 353 MW in Germany, 77 MW in the UK, 44 MW in France, 16 MW in Portugal and 10 MW in Spain.

Our position as a niche player in the hydro market in Europe is partly a result of the geographical location of our core markets and the lack of historical development of hydropower in these regions. We believe that our competitors have been in more favorable locations, such as Scandinavia or alpine countries. We consider that E.ON, EnBW, Vattenfall, SSE, EdF, EdP and municipally owned utilities (*Stadtwerke*) are our main competitors in the market.

LCOE varies strongly across projects, depending on technology type and project size, although LCOEs are generally stable due to the advanced maturity of the technology.

#### **14.4.5 Solar Market**

The market for solar energy has become increasingly prominent in recent years. The two technologies that rely on solar power as a primary source of electricity generation are (i) solar thermal, also known as Concentrated Solar Power (“CSP”), which transforms solar heat into steam and electricity; and (ii) solar Photovoltaics, or solar PV, which transforms the photon energy in solar radiation directly into electricity.

The total global installed capacity in the solar PV market was about 242 GW at the end of 2015 (2014: 178 GW; 2013: 138 GW; sources: Solar Power Europe, Global Market Outlook For Solar Power 2015 – 2019, June 2015; Fraunhofer ISE, Photovoltaics Report, June 6, 2016). Solar Power Europe expects further growth towards 540 GW by 2019. Currently, depending on capital cost and irradiation, solar PV’s LCOE are below the LCOE of (new build) conventional generation in sunny parts of the world as well as many parts of Europe. There is a rapid cost decline of LCOE due to further standardization and efficiency gains and grid parity is already achieved in certain countries where retail tariffs are high and net metering is allowed. According to IRENA, the global weighted average LCOE of photovoltaic could decline to USD 55 per MWh by 2025 (source: IRENA, The Power to Change: Solar and Wind Cost Reduction Potential to 2025, June 2016). In some regions, already today, bids of around USD 30 per MWh for large-scale tendered projects have been presented. According to REN21, Global Renewables Status Report 2016, with 50 GW additions, solar PV accounted globally for 34% of the newly installed renewable capacity in 2015, amounting to around 147 GW including large scale hydropower in total.

As of December 31, 2015 our total installed PV capacity was 1 MW in Germany and Spain (pro rata to our ownership). In addition, we hold a stake of 12.8% in Marquesado Solar, the owner of the Andasol 3 solar thermal power plant with an installed capacity of 50 MW, located in the Spanish province of Granada. While we are currently invested in both main solar technologies to a much lesser degree compared with wind and hydro, we regard solar, and specifically solar PV, as a key future technology and area for potential investments and growth of our Renewables segment.

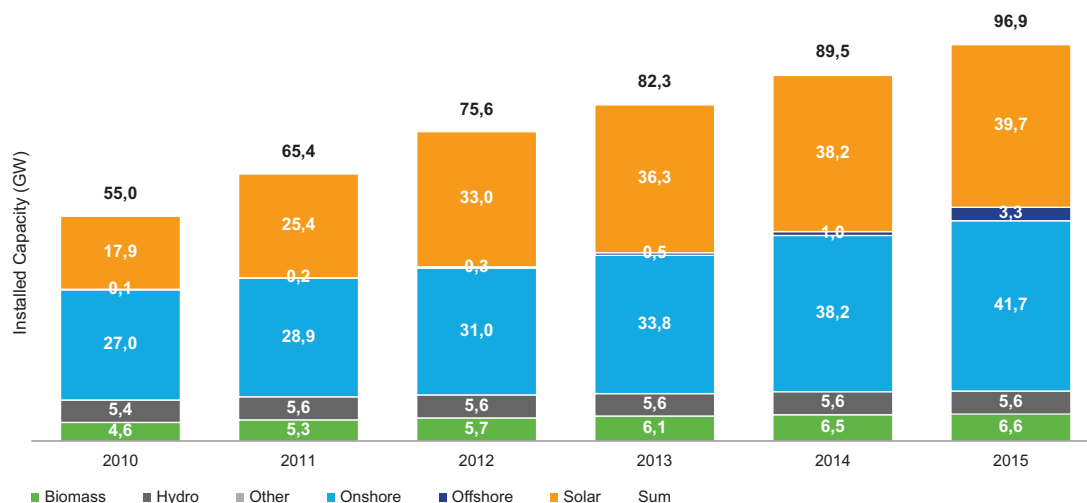
The solar PV market is characterized by strong competition and economies of scale. The solar PV market in Europe is fragmented and compared to the overall size of the renewables market, the major investors are relatively small. Mainly financial investors (e.g., Allianz) and medium sized development companies like BayWa or JUWI are active in this area. EDF is the largest active utility. Other major players include Lightsource Renewable Energy, Foresight Group and Bluefield Partners.

## 14.4.6 Core Renewables Markets

### 14.4.6.1 Germany

Over the last two decades German energy policy has taken several fundamental steps towards facilitating a long-term transformation towards a sustainable energy system.

Consequently, Germany has seen a sharp increase of RES installed capacity, from around 55 GW RES in 2010 to around 97 GW in 2015. On a capacity basis the main sources of renewable energy are onshore wind and solar. The RES installed capacity in Germany is illustrated in the following diagram:



Source: BMWi/Arbeitsgruppe Erneuerbare Energien-Statistik (AGEE-Stat), 2016.

The main targets for the energy transition in Germany were confirmed by the coalition agreement in late 2013. Targets include a share of renewable energy in total electricity consumption of 40-45% by 2025 rising to 55-60% by 2035 and to 80% by 2050. The share of renewable energy in total final energy consumption is targeted to be 18% in 2020 and to rise to 30% by 2030, 45% by 2040 and 60% by 2050 (source: IEA Energy Policies of IEA Countries, 2013 Review, 2013).

We believe our main competitors in the renewables sector in Germany are large utilities such as E.ON, Vattenfall and EnBW as well as municipal companies (*Stadtwerke*) and development companies such as WPD. In addition, financial and infrastructure investors such as Allianz are gaining increasing importance as owners and operators of RES installations.

The legal framework for the support of renewable electricity production in Germany is provided by the EEG. The EEG was introduced in 2000 as a pure fixed feed-in tariff system. Since then the EEG has been amended several times (2004, 2009, 2012, 2014), with remuneration levels of already existing plants being grandfathered. A revision of the EEG has recently been passed by the legislator and will enter into force on January 1, 2017. It is expected that the necessary consent of the EU Commission under the EU state aid regime will be obtained in fall 2016. See "16.2.1 Legal Framework – Overview" for further information on the regulation of renewable energy in Germany.

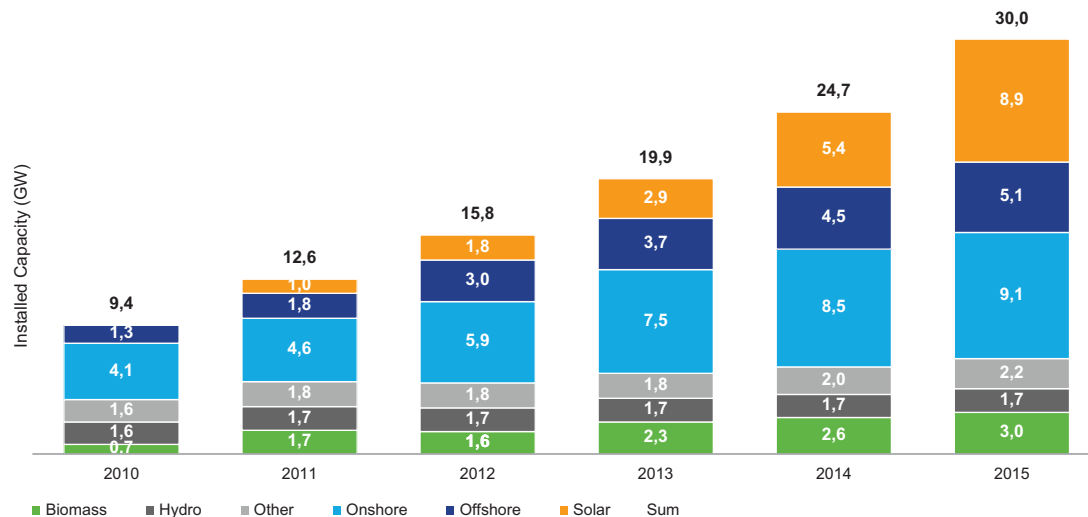
### 14.4.6.2 UK

Generally, the energy policy in the UK aims at promoting low carbon generation technologies and security of supply, both at affordable prices for consumers.

Under the EU Renewable Energy Directive, the UK has the obligation to source 15% of its final energy consumption from renewable sources by 2020. The UK Government estimates that approximately 30% of the UK electricity will have to be sourced from renewable sources by 2020 to meet this commitment because there is only limited potential to increase the usage of

renewable heat or fuel (source: DECC, Third Progress Report on the Promotion and Use of Energy from Renewable Sources for the United Kingdom, January 2016). It is unclear which European targets, if any, will apply to the UK following the implementation of Brexit, although the UK also has domestic carbon reduction targets via the Climate Change Act (2008).

In recent years, the UK energy market has seen a strong increase of energy from renewable sources, from about 9 GW installed capacity in 2011 to about 30 GW in 2015, with onshore wind and solar being the two main sources of renewable energy on a capacity basis. Moreover, the UK has developed into the strongest market for offshore wind. The RES installed capacity in the UK is illustrated in the following diagram:



Source: DECC, Renewable electricity capacity and generation, March 2016; DECC, Regional Statistics 2003-2014: Installed Capacity. 2015 figures preliminary, other includes waste, landfill and sewage gas.

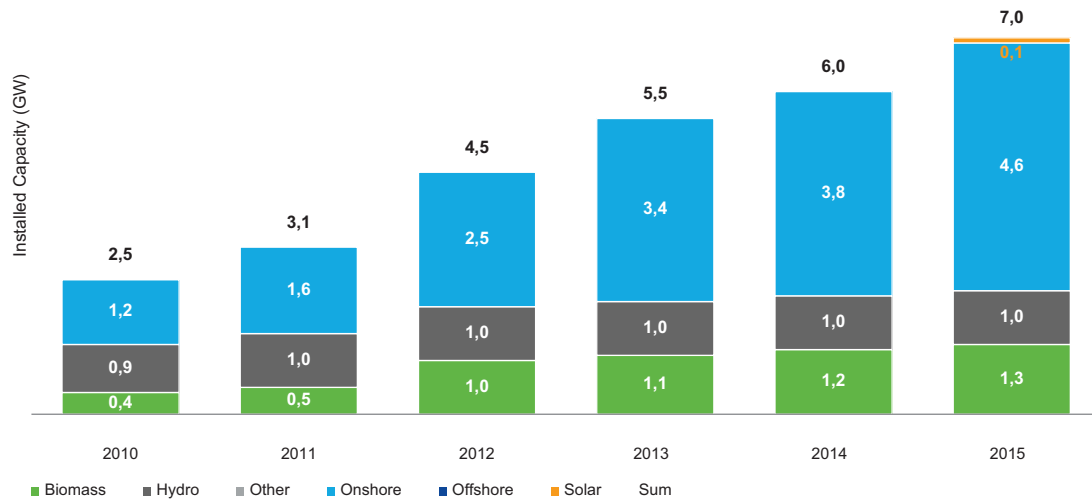
We consider our key competitors in the UK renewables sector to be the main UK utilities, particularly Scottish Power and SSE, as well as some well-established independent generators of RES. Competition in the offshore market is broader, and includes a range of utilities including Dong, SSE and Statkraft.

Support for renewable energy in the UK is based on three mechanisms. There is a green certificate system ("RO"), which has also been complemented with a feed-in tariff system for small scale installations and a Contract-for-Difference (CfD) system. The CfD system is designed to supersede the RO system, however, all three mechanisms currently work in parallel. The UK government controls the total spend on renewable initiatives via the Levy Control Framework, currently set at GBP 7.6 billion per annum by 2020 (the figure refers to the value of money in 2012 and will be adjusted according to inflation). See "16 Regulatory Environment" for further information on the regulation of renewable energy in the UK.

#### 14.4.6.3 Poland

Poland is obliged to secure 15% RES share in gross final energy consumption by 2020 based on the national energy target set by the EU. According to its national RES Action Plan, the contribution of the electricity sector is targeted for a 19.13% RES share in 2020 (17.05% in heating and cooling sector, and 10.14% in transport). However, according to a recent analysis, the RES targets will most likely not be achieved (source: PwC, Raport: Potencjalna luka w realizacji celu OZE 2020, March 2016).

In recent years, the Polish Energy Market has seen a strong increase in renewable capacity from about 2.6 GW in 2010 to nearly 7 GW in 2015. The predominant source of renewable energy has been onshore wind. In contrast to other markets the contribution from solar PV is negligible so far.



Source: Urząd Regulacji Energetyki (URE), 2016.

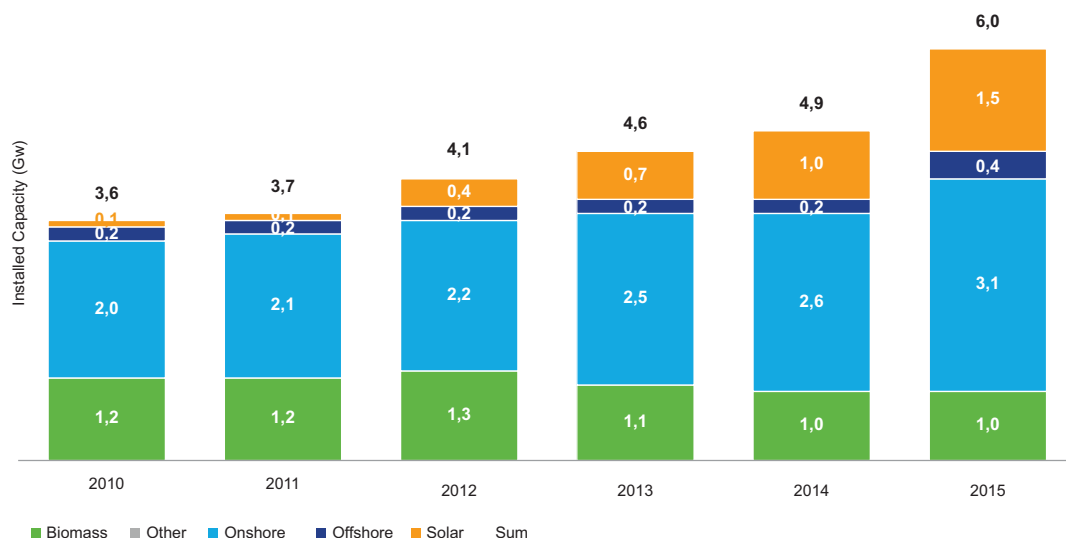
We expect the RES policy in the short term (next two to three years) to concentrate on moderate development with the main focus on biomass and biogas (including co-firing), and limited development of remaining technologies. However, we expect this policy to be revised in the longer term.

We regard state-owned utilities (PGE, Energa, Enea, Tauron) and foreign financial investors as our key competitors in the renewables sector in Poland.

#### 14.4.6.4 The Netherlands

The signing of the "Energy Agreement for Sustainable Growth" by over forty organizations in September 2013 set the framework for the energy transition in the Netherlands up to 2023. The core feature of the agreement is a set of broadly supported provisions regarding energy saving, clean technology, and climate policy. The most important goals of the agreement are to reach 14% renewable energy by 2020 and 16% by 2023, and to reach 100 petajoules energy savings per year by 2020.

RES are gaining increasing market shares in the Netherlands, from around 3.7 GW installed capacity in 2010 to about 6 GW in 2015. While onshore wind remains to be the main source of renewable energy by far, the market share of solar is constantly growing. Another important source of renewable energy is biomass (including co-firing in coal stations). The RES installed capacity in the Netherlands is illustrated in the following diagram:



Source: Centraal Bureau voor de Statistiek (CBS) 2015, 2016; Global Wind Energy Council, Annual Market Update 2015. Energy from waste capacity included according to the statistical renewable input factors. 2010-13: own calculation of RES capacity for boilers, biogas and co-firing in coal stations based on CBS statistical production data and full load hour (FLH) assumptions (6,000 FLH for co-firing, 5,000 FLH for boilers and biogas). 2014-15: no separate co-firing production data available, therefore biomass capacity calculated based on total electricity production from biomass and 5,500 FLH assumption.

We regard European and domestic utilities such as Engie, Vattenfall and Eneco Holding as our key competitors in the renewables sector in the Netherlands.

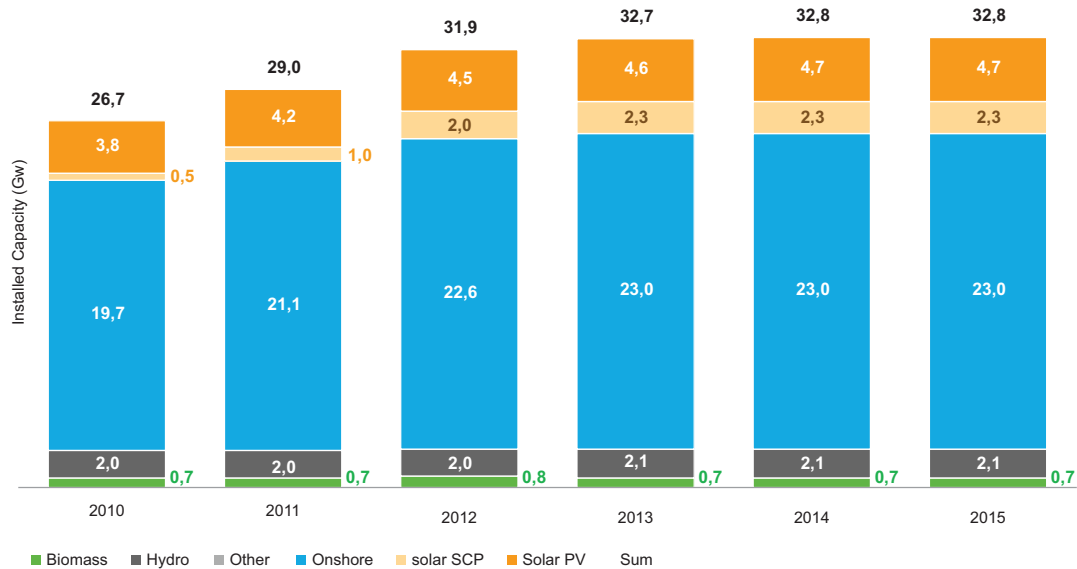
#### 14.4.6.5 Spain

Spanish energy policy has not been stable over the last decades due to the lack of a national agreement between the main political parties as in other countries. However, some key elements and principles have driven the legislation irrespective of the governing party: minimization of the dependence on foreign fossil fuels (Spain has hardly any hydrocarbon reservoirs), security of supply, competitiveness and protection of the environment. While security of supply and the minimization of the foreign dependence could only be enhanced by promoting the use of domestic coal, the only significant local fuel, and the implantation of renewable energy plants, for the environmental goals renewables have been the only solution. Meanwhile, competitiveness has been artificially controlled by creating the so-called "deficit de tarifa" (tariff deficit), a mechanism by which recognized costs have not fully been transferred to the energy bill, originating a debt to be absorbed in future years, assuming a more positive scenario.

Key decisions taken in the last legislature have sought to mitigate this tariff deficit. This has been the main reason argued for the enactment of the last set of regulations which, among other adjustments, drastically curtailed the compensation for the renewable plants.

However, the urgent actions needed to tackle the climate change problem and, specifically the carbon emission targets (binding at EU level but locally implemented) should strongly condition the next steps and decisions on Spanish energy policy.

RES have seen strong growth in Spain with a clear stagnation since 2012. From 2010 to 2015, installed capacity increased from around 27 GW in 2010 to about 33 GW in 2015. Onshore wind remains the main source of renewable energy by far. It is a specific characteristic of the Spanish renewable market that alongside solar PV there is also a substantial share of concentrated solar power (CSP). The development of installed RES capacity in Spain is illustrated in the following diagram:



Source: Asociación de Productos de Energías Renovables (APPA), 2016. Data does not include large hydropower with plant capacity >50 MW.

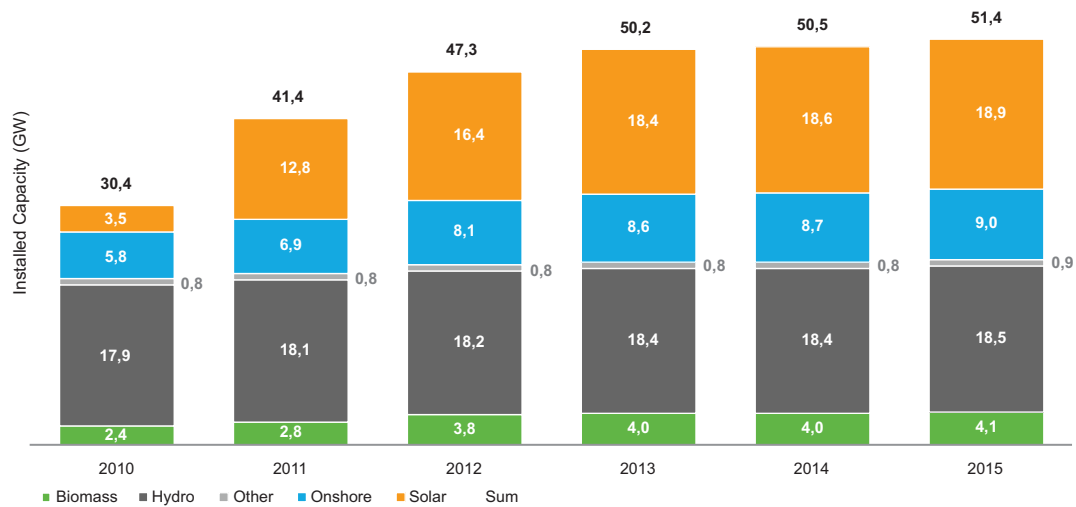
We believe that our main competitors in the Spanish renewables market are large utilities or developers such as Iberdrola, Acciona, Enel or EDP, as well as medium-size developers and investment companies.

#### 14.4.6.6 Italy

In 2013, the Italian government approved the most recent National Energy Strategy, which covers medium- and long-term development scenarios up to 2020 and 2050. The document sets out four main objectives, including the goal to be one of the main drivers of the European decarbonization process "Roadmap 2050".

As reported in the Annual Report 2015 of GSE, the state-owned company responsible for the promotion and support of RES in Italy, Italy has already reached the European "20-20-20" target of 17% of RES production to final consumption (source: GSE, Rapporto Attività 2015, March 2016). In fact, in 2014, 17.1% of final energy consumption was already covered with RES production.

RES have increased significantly in Italy, from a total of about 30 GW in 2010 to about 51 GW in 2015. Hydro remains one of the primary sources of renewable energy, with solar PV increasing significantly. The RES installed capacity in Italy is illustrated in the following diagram:



Source: Terna (TSO); GSE 2016.

We believe that our main competitors in the Italian renewables market are large utilities and renewable developers such as ENEL, EdP, ERG and Falck Renewables, as well as investment companies as F2i.

## 15 BUSINESS

### 15.1 Overview

The innogy Group is a well-established European distributor and supplier of electricity and gas and an experienced producer of electricity from renewable energy sources with a diversified and well-invested asset base. Anchored in the attractive German market with leading positions in many European countries, as of December 31, 2015 we operated around 570,000 km of electricity and gas grids serving approximately 16.5 million grid customers in Germany and four Eastern European countries and had contracts for the sale of electricity and gas with 23 million customers in eleven European countries. We generated electricity with total generation capacity of 4.4 GW (accounting view). 3.6 GW of this capacity stems from renewable sources in nine European countries. We had a total energy production in 2015 of 10.3 TWh (accounting view). In 2015, the innogy Group generated EBITDA of EUR 4.5 billion.

The Group was formed in a series of transactions that separated the distribution networks, supply and renewables businesses of RWE AG and its direct and indirect subsidiaries and participations from their conventional and nuclear power generation and trading activities. As such, we believe that we are well-positioned to exploit the opportunities of the ongoing energy transition.

According to our estimates, we are the largest electricity distribution system operators (“DSO”) in Germany (e.g., based on distributed volumes), a leading gas DSO in Germany and the largest gas DSO in the Czech Republic. Given the nature of electricity and gas distribution grids, which function as natural monopolies in their respective regions, our grid business is highly regulated. The regulatory bodies in each country regulate the return we are allowed to earn, which results in stable and predictable earnings. Our Aggregate RAB across all countries in which our grid business is active amounts to approximately EUR 13.3 billion with an implied pre-tax WACC (such as in Germany where no specific regulated WACC exists, see “12.4.1.1 Regulation of Allowed Returns”) or a regulated pre-tax WACC that varies, from country to country, from currently 5.675% to 7.94%. Germany accounts with EUR 9.7 billion for the vast majority of our Aggregate RAB. In Germany, we operate about two-thirds of our regulated electricity and gas grid assets based on concession agreements with municipalities, which have a term of up to 20 years.

In Germany, new regulatory periods will start in 2018 for our gas grid and in 2019 for our electricity grid. Although uncertainty exists with respect to the changes to the regulatory framework for the next regulatory period and how they will affect us, we expect our Aggregate RAB in Germany to increase by approximately 9% on the basis of our actual and planned net investments between 2011 and the end of 2016, assuming full recognition of these investments by the regulator. This expected increase may be offset in whole or in part by a lower return we are allowed to earn in the new regulatory periods. Other major changes concern the recognition of investments. Under the current incentive regulatory regime, DSOs are compensated for investments in the distribution grid only with a time lag. Under the new regime, capital expenditures for replacement, restructuring and expansion investments shall be reflected in the revenue caps as and when made.

We report our grid activities as part of our Grid & Infrastructure Segment, which also includes a large number of participations, many of them being municipal utilities with an important portion of regulatory business, as well as other activities including gas storage facilities. In 2015, Grid & Infrastructure generated EBITDA of EUR 2.9 billion, of which more than 80% was generated from regulated activities.

We are a leading retailer of electricity, gas and associated products and services. Of the 23 million customers in our Retail Segment, 8.1 million are located in Germany, 5.0 million in the United Kingdom, 4.7 million in the Netherlands and Belgium and 5.4 million in our East region comprising seven Eastern European countries. We have leading positions in many of our

markets, for example, for the supply of electricity in Germany and the Netherlands and for the supply of gas in the Czech Republic and the Netherlands, in the case of Germany based on volumes sold and in the case of the Netherlands and the Czech Republic based on customer contracts in 2015. In addition to our commodity electricity and gas retail business, we offer non-commodity Energy+ products and services, for example Connected Home solutions, to customers with more developed and diverse energy needs as well as electric vehicle charging solutions in more than 20 countries. We are undergoing a comprehensive restructuring and efficiency improvement program in the UK with targeted gross cost savings of GBP 200 million to improve our operational and financial performance in that country. We also believe our retail business has growth potential due to increasing demand from customers in our East region as well as from the cross-selling of commodity products, the up-selling of Energy+ products and the potential entry into new markets. We report our retail activities in our Retail Segment, which in 2015 generated EBITDA of EUR 1.0 billion.

We are also active along the entire value chain of developing, constructing, owning and operating production facilities generating electricity from renewable energy sources. Our installed capacity is diversified and mainly comprises onshore and offshore wind farms and, to a lesser extent, hydroelectric power plants with a focus on Germany and the United Kingdom. Based on installed capacity in 2015, we were the number three operator in the offshore wind energy industry (see *"14.4.3 Offshore Wind Market"*). We continue to benefit, to varying degrees, from support schemes (in particular fixed feed-in tariffs) that provide significant price certainty and insulate us to a high degree from wholesale price fluctuations. The average remaining tenor of quasi-regulated earnings from our renewable assets is around twelve years. As of December 31, 2015, our development and construction pipeline comprised projects having a total pro-rata capacity of 0.3 GW under construction as well as an additional 4.1 GW under development (pro rata view). Our Renewables Segment, which also includes biomass and biogas energy production facilities and limited solar operations, which we plan to expand, generated EBITDA in 2015 of EUR 0.8 billion. Excluding one-off effects, approximately 60% of the Renewables Segment's EBITDA was generated from quasi-regulated earnings.

We engage in numerous research and development and innovation projects and continuously identify, assess and develop new technologies and technical solutions. Further, we are constantly working on improving existing technologies and processes, for example in our grid business, where we focus on automating grid management and turning our grids into "smart" grids to maintain and establish our technology leadership in this segment. Key drivers for our research and development activities include demand of the business segments for increased effectiveness, better planning, increased functionality, lower costs and sustainability.

Maintaining a well-invested asset base yielding largely regulated and predictable returns is one of our top priorities. In the financial years 2013 to 2015, we made capital expenditures of EUR 6.4 billion in aggregate, with our Grid & Infrastructure Segment accounting for more than half of the total capital expenditures. In this segment, we focused on components to upgrade our network into a smart, digital distribution grid and to ensure safe and stable grid operations, positioning us to play a central role in the ongoing energy transition. In our Retail Segment, which is based on a capital expenditure-light business model, we invested primarily in our Energy+ business and IT infrastructure. In our Renewables Segment, we invested in our project pipeline focused on wind farm projects.

## **15.2 Competitive Strengths**

We believe that our business is characterized by the following competitive strengths:

### **15.2.1 Unique European Asset Base – Anchored in Germany, Holding Leading Positions Across Many European Countries**

innogy is characterized by a unique asset mix in the European utilities landscape. Our main market in Germany is considered to be at the forefront of the energy transition in Europe. We

also operate in other attractive European markets. Our regional portfolio benefits from a combination of sound macroeconomic fundamentals in Western European markets and attractive structural catch-up potential in Eastern Europe. In addition to our balanced regional mix, our business is essentially free from any legacy of the conventional power generation sector, and we hold no nuclear assets. Our CO<sub>2</sub> emissions are close to zero and mainly result from heat generation or small-scale on-site generation facilities for customers, exemplifying the environmentally sustainable footprint of innogy. We are neither affected by the nuclear phase-out in Germany nor, based on our understanding of the current regulatory and legal framework, subject to other risks or liabilities related to nuclear power generation.

Our business segments hold leading market positions in their core fields. Our Grid & Infrastructure Segment has an Aggregate RAB of EUR 13.3 billion. We hold the vast majority of our Aggregate RAB (EUR 9.7 billion) in Germany, where we expect our Aggregate RAB to increase by approximately 9% for the next regulatory period on the basis of our net investments in regulated assets since 2011 (electricity grid) and 2010 (gas grid), respectively. We are the largest electricity DSO in Germany (based on distributed volumes) and also hold leading positions in several Eastern European grid markets. In our Retail Segment, we sell electricity and gas in eleven countries where we hold many leading positions. For example, we are the largest electricity retailer in Germany. Our Renewables Segment benefits from a strong and diversified renewables asset portfolio and is one of the leading offshore wind operators in Europe. We view these strong market positions as a solid basis for ongoing strong operational performance, as they allow for economies of scale and group-wide exchange of expertise.

#### **15.2.2 Stable Business – Largely Regulated and Predictable Returns from a Well Invested Asset Base**

The largely regulated and diversified nature of our business has led to stable and predictable earnings. Our Grid & Infrastructure Segment, the business segment with the largest EBITDA contribution, generated more than 80% of its EBITDA from regulated activities in the financial year 2015. We regard the segment's infrastructure activities as stable and predictable and view them as the basis for innogy's future cash flows. In our Retail Segment, we benefit from a stable and diversified business in continental Europe. Our customer retention and acquisition strategy has allowed us to keep our customer number relatively stable at roughly 23 million despite adverse developments in some of our markets such as the United Kingdom. Moreover, we believe that customer access positions us to benefit from the ongoing industry trend to be not merely a supplier of commodity products to our customers but rather become a partner offering them solutions for their overall energy needs. Around 60% of EBITDA generated by our Renewables Segment in the financial year 2015 related to quasi-regulated activities. We expect this share to increase to 65% in 2016 due to the full contribution of newly commissioned offshore wind assets. Our Renewables Segment benefits from a significant share of quasi-regulated revenues and ongoing political support for renewable energy sources, resulting in a solid backbone for our future operational development.

In our Grid & Infrastructure Segment, our total investments consistently exceeded the regulatory depreciation during the five year-period that ended in 2015 by on average a factor of 1.4. We believe that these investments underpin the stability and state-of-the-art nature of our asset base and also support the development of our regulated asset base in the future. Our Retail Segment operates a generally asset-light business model requiring limited capital expenditure only. Nevertheless, we increasingly invest in Energy+ products across our pan-European platform. In the UK we invest in the IT infrastructure required for the roll-out of smart meters. In our Renewables Segment, we have focused on increasing our installed capacity, leading to a young asset base with an average remaining tenor of quasi-regulated earnings from our renewable assets of around twelve years.

### **15.2.3 Strong Track Record of Continuous Improvements and Potential to Extract Additional Efficiencies**

We continuously focus on improving our operational performance in order to enhance our financial performance. For example, in our Grid & Infrastructure Segment, we have improved the continuity and quality of supply through measures such as the expansion of modern grid structures, cabling and new cable technologies, communication and control systems as well as grid automation in our gas and electricity grids.

Furthermore, we have a strong track record of implementing cost efficiency programs. As part of the Former RWE Group, we ran an efficiency enhancement program, which we delivered ahead of time and where we achieved results that were above the initially envisaged improvement targets. We are in the process of launching a group-wide efficiency enhancement program. Our corporate culture and operational processes are fully set up for a successful new efficiency program. We believe this will lead to an improvement in earnings before the planned increase in capital expenditures will translate into stronger topline growth. Management has decided on a new efficiency enhancement program and is currently in the process of identifying specific measures aimed at contributing to our earnings from 2017 onwards.

The measures taken for the targeted turnaround of the UK business of our Retail Segment and our new efficiency program in the UK are important elements of our plan to actively shape our future earnings profile. We view the targeted recovery of our UK operations as being well on track. The operational issues have been identified and the turnaround measures are being implemented step-by-step. Several blueprints for our new IT infrastructure are available and we are diligently implementing the solutions. As part of the turnaround, we target gross cost savings in our UK retail business of GBP 200 million by 2018.

### **15.2.4 Deep Knowledge and Sector Understanding – Innovation Culture as Excellent Basis for Continuous Adaptations**

While innogy is a new company, our history and asset base are deeply rooted in the energy sector. This provides us with all the assets and skills that are required to be successful in the energy world of today and the future. In the recent past, our sector has undergone significant changes and we have an impressive track record of adapting our existing skill set, such as customer management, regulatory understanding and risk management to changes in the business environment. Technological changes and ongoing digitalization allowed us to collect large amounts of data, which positioned us well to transform existing business processes. For example, we have adapted our organizational and steering model to successfully operate in the changing environment.

We believe that the creation and set-up of innogy allows our management to focus on our stable and future-oriented activities. Fast time-to-market and proactive change management are important factors of success for us. We will continue to drive cultural change in innogy with the objective of building a company with a strong inherent customer centricity and an environment which fosters innovation. Our management team has significant experience in leading innogy and its predecessor companies through times of change. We believe that this level of experience is a significant competitive advantage in today's markets.

### **15.2.5 Resilient Financial Profile – Strong Cash Generation and Solid Capital Structure**

innogy has stable and largely predictable earnings and cash flows, which, in our view, result in a resilient financial profile. Our financial results are driven by an attractive mix of assets, which produce both earnings growth and attractive cash conversion. Positive sector fundamentals, such as the expected ongoing support for the energy transition, provide an attractive backdrop to further improve our cash flows. For example, if renewable energy sources continue to grow as expected, electricity grids will be essential to enable the required energy transition. Fluctuations in commodity prices only have a minor influence on our earnings. Our capital

investments are well managed, resulting in relatively high free cash flow in view of our EBITDA profile. Over the last three financial years, our EBITDA has exceeded our capital expenditures by a factor of about two. During that period, our cash generation, as measured by cash flow from our operating activities over EBITDA, was on average approximately 70% post tax.

Upon completion of our Offering of New Shares, our strong cash flow profile will be coupled with a solid capital structure and a strengthened balance sheet. We target a leverage ratio of about 4.0x Net Debt over EBITDA with a strong credit profile. We believe that our sound capital structure provides us with the financial flexibility to further expand our business and represents a solid basis to pay attractive dividends.

### **15.3 Strategy**

innogy is a well-established player in the European energy sector – a sector that is undergoing significant changes. We believe that decarbonization, digitalization and decentralization are the defining trends that will shape the energy world of the future. The proliferation of renewable energy, increasing electrification, the trend to self-generation (“prosumer”) and the drive to enhance energy efficiency through technological progress will increasingly define the way our society produces and consumes energy. Driven by these dynamics, the European energy sector has already undergone considerable change, and we expect this transformation to continue. Our mission is to play an active role in shaping the new energy world and to continue to evolve with it, building on the strong foundation of our business.

The Group’s strategy for achieving profitable growth in the future is based on the following key elements:

#### **15.3.1 Capitalize on the Leading Market Positions of our Segments**

We believe that we are well positioned to leverage our competitive strengths and benefit from sustainable growth. With the aim to maximize this potential, we have designed a clear strategy for each of our segments:

##### *Our G&I Segment: Green and Smart Investments*

Smart, digital electricity distribution grids will be a key factor for the successful integration of distributed renewable energy sources (decentralization). Our investments in smart grids will facilitate the integration of additional decentralized generation from renewable energy sources and allow us to seize the opportunities presented by digitalization, for example, in the field of predictive maintenance. We are confident that the regulatory environment will support such an investment approach. Additional growth investments in selected Eastern European markets could potentially further strengthen our Grid & Infrastructure Segment.

##### *Our Retail Segment: Customer Focus*

In our Retail Segment, we are determined to keep and develop our substantial customer base and to consistently maximize the value of our commodity business by optimizing our operations in all of our markets. In the UK, we will continue to execute our turnaround program, and are already beginning to see meaningful impact in some key metrics. In Eastern Europe we are actively exploring potential from cross-selling of additional products to existing customers and from scaling up our business in recently entered markets.

##### *Our Renewables Segment: Market Opportunities*

We expect renewable energy sources to become the global energy generation technology of choice, driven by ongoing cost reductions and continued support to reduce the carbon footprint. We aim to benefit from the ongoing market opportunities which this development will bring, and plan to continue our growth strategy in this area. Following a period of reduced growth expenditure due to capital constraints of RWE AG, we now plan to increase annual capital expenditure spending and target a prudent expansion strategy with strict hurdle rates.

To maximize the value we can create from our experience in this field, we will continue to either realize projects on our own or, in particular in regard to large projects, pursue a partnership approach, including the use of capital-efficient structured finance models.

### **15.3.2 Develop New Business – Expansion into New Regions and Business Areas**

We will broaden the scope of our activities by selectively entering new markets, new technologies and new business fields. We want to capitalize on the opportunity to apply the in-depth know-how gained in our existing business to expand our operations and geographic reach and enhance our present value chain.

In our G&I Segment, we will analyze and potentially participate in upcoming tender processes for new grid concessions in Germany. In addition, we will also look at growth opportunities in other selected markets.

Our Retail Segment intends to exploit promising opportunities to expand geographically, in particular in Eastern Europe, through organic growth on the back of small acquisitions. Our retail business in Croatia has recently demonstrated the attractiveness of such an approach.

In our Renewables Segment, we plan to selectively enter new geographical markets with our established business models. As ongoing adjustments in regulation impact the attractiveness of individual renewables markets, we will continuously monitor our current core markets and potential new markets in order to maintain and realize an adequate pipeline of profitable growth projects. As an example, we are currently evaluating the onshore wind markets in the United States, Ireland and Turkey.

In addition to regional expansion, we are also entering business fields that are adjacent to our core business. In our Retail Segment, we aim to benefit from changing customer needs by up-selling non-commodity products to achieve retention effects and to build substantial new business. We are investing in Energy+, our non-commodity products and solutions business, which provides offerings for customers interested in producing their own electricity, optimizing energy use, self-generation and feed-in as well as steering and automating various functionalities in their homes. In our Renewables Segment, we plan to enter new regional markets and expand into new technologies, for example, utility-scale photovoltaic generation portfolios where we seek to apply our skills in developing, constructing, owning and operating large-scale power plants.

### **15.3.3 Create Options for the Future – Innovation Ecosystem**

With the pace of change in our industry and society accelerating, we believe that active idea generation and implementation have become more important than ever. At innogy, we have adopted this mindset and made innovation a cornerstone of our strategy. We are pursuing a partnership approach in this area in order to reduce capital requirements while maintaining the maximum degree of flexibility.

We have created an innovation ecosystem that is designed to foster a culture of innovation, to facilitate the development of new business models and to fast-track their implementation. As an integral part of this ecosystem, we are forging strong partnerships with start-ups, other companies and organizations to exchange know-how, jointly test concepts, develop new businesses and roll-out new products. Our existing network of partners includes such diverse companies as the smart product developer Google Nest, insurer Axa, technology solution provider Schneider Electric and the start-ups Bidgely and PlanetOS.

To participate in promising external innovations, we have recently launched a new Corporate Venture Capital Fund with a planned investment volume of EUR 130 million over the next ten years. This fund will advance innogy's innovation and growth strategy through investments in complementary start-ups in Europe and the United States, particularly in the areas of Cleantech, Digitalization and Electrification. Additionally, it will provide the platform to manage and grow innogy's own start-up companies.

In order to identify trends early on, to be able to offer new solutions first and collaborate with the right partners, we have dedicated innovation teams in innovation centers across the world, in Silicon Valley, Tel Aviv and Berlin. Our presence in these innovation centers also helps us deploy our business ideas in markets where we do not have major operations.

#### **15.3.4 Focus on Value Creation – Well Defined and Disciplined Investment Strategy for Profitable Growth**

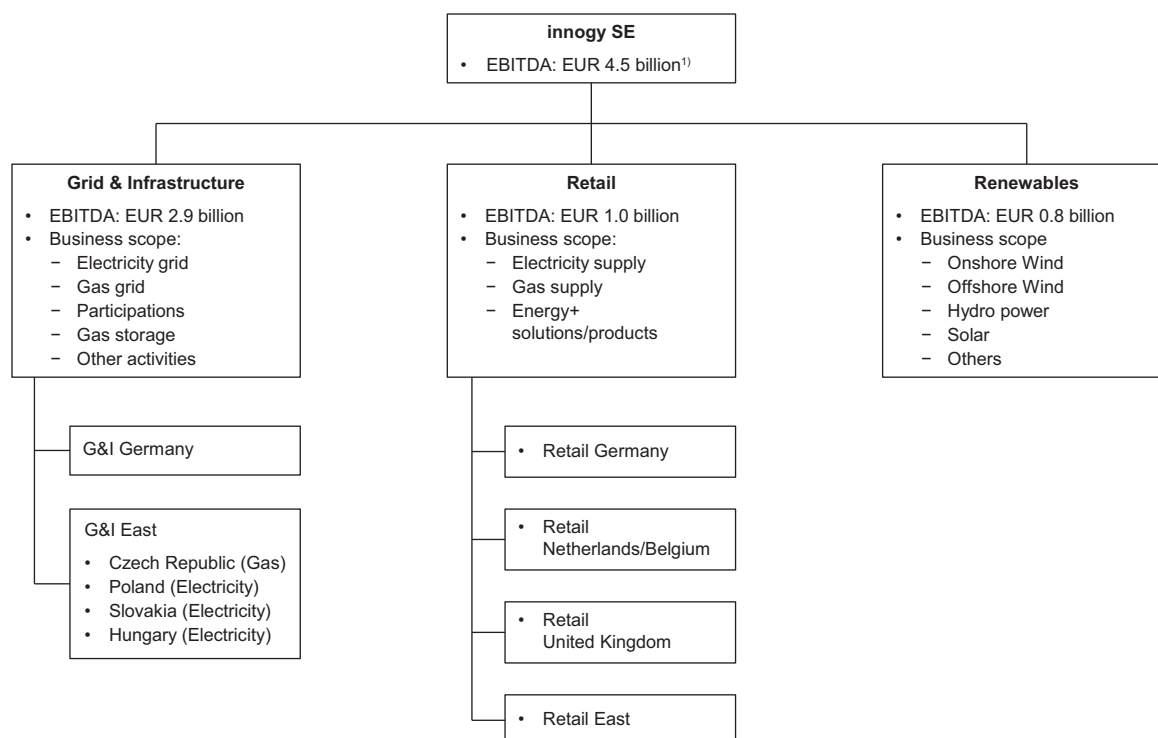
While we aim to pursue attractive growth opportunities, we believe that stable cash returns should take priority over pure volume increase. Accordingly, we will focus on the growth opportunities present in our core markets and only selectively expand into new regions, technologies and business fields. Our growth and investment strategy will be executed according to a strict investment framework with conservative hurdle rates.

We plan to focus our capital expenditures on regulated or quasi-regulated businesses. Overall, we plan to invest an amount of EUR 6 to 7 billion in capital expenditures (including financial investments) during 2016 to 2018. With around EUR 4.1 billion, almost two-thirds of our total capital expenditures are targeted to be invested in our Grid & Infrastructure Segment in accordance with our mid-term planning for 2016 until 2018. Out of these EUR 4.1 billion, we plan to invest around EUR 3.1 billion (including financial investments) from 2016 to 2018 also to continue to support growth in Germany. The regulated nature of a larger part of our business combined with a stable market outlook form an attractive backbone for appropriate return on invested capital. According to our planning for capital expenditures (including financial investments), the remaining capital expenditures of around EUR 2.4 billion for 2016 until 2018 is allocated to our Retail Segment comprising approximately EUR 0.8 billion, our Renewables Segment comprising approximately EUR 1.3 billion and to other, centrally accounted capital expenditures, mainly for innovation projects, comprising approximately EUR 0.2 billion. We intend to continue our flexible capital allocation approach whereby capital is allocated to competing projects across our segments with a view to improving our overall business mix.

Attractive shareholder remuneration is a key driver of our strategy. We currently aim to distribute 70-80% of our adjusted net income as dividends to our shareholders. We believe that our strong and stable operating cash flows support this targeted payout ratio. We believe our dividend payout ratio to be compatible with innogy's target of an investment grade rating.

## 15.4 Business Segments

The following chart provides an overview of our main functions and our three business segments Grid & Infrastructure, Retail and Renewables (figures as of December 31, 2015):



1) Includes negative EUR 0.2 billion presented as 'Other, consolidation' in the combined financial statements.

## 15.5 Grid & Infrastructure Segment

### 15.5.1 Segment Overview

Our Grid & Infrastructure Segment focuses on the operation of electricity and gas grids in Germany and Eastern Europe with a total length of approximately 570,000 km. We estimate that our electricity and gas grids serve approximately 16.5 million grid customers. Given the grids' character as a natural monopoly, our grid business is highly regulated. Our Grid & Infrastructure Segment also holds participations that are mostly related to the grid business and operates gas storage facilities as well as a few smaller additional businesses.

Our Grid & Infrastructure Segment has a strong presence in five countries – Germany, the Czech Republic, Poland, Hungary and Slovakia (the four latter, Eastern European countries being grouped in the Grid & Infrastructure Segment's "East" region). According to our own estimates, we are the largest electricity DSOs in Germany. We are also, according to our own estimates, a leading gas DSO in Germany, the largest gas DSO in the Czech Republic and one of the two largest electricity DSOs in Hungary (for further explanations and sources, see "14.2.2 German Grid and Gas Storage Market", "14.2.3.2 Gas Distribution and Gas Storage in the Czech Republic" and "14.2.3.3 Electricity Grid in Hungary").

In 2015, with EBITDA of EUR 2.9 billion our Grid & Infrastructure Segment contributed in total 61% to our Group's EBITDA (excluding negative EUR 0.2 billion EBITDA presented as 'Other, consolidation' in the Audited Combined Financial Statements). Roughly 70% of the segment's EBITDA was generated by our German operations.

As of the date of the Prospectus, our Aggregate RAB across all countries where we are active within the Grid & Infrastructure Segment amounts to approximately EUR 13.3 billion according to our own assessment, based on the latest notifications by regulators and calculations in the last filings with regulators. The vast majority of our Aggregate RAB pertains to Germany (EUR 9.7 billion) where we expect an increase of up to 9% for the next regulatory periods

commencing in 2018 (gas grid) and 2019 (electricity grid), respectively, on the basis of our net investments in regulated assets since 2010 (gas grid) and 2011 (electricity grid), respectively (for more details on this determination, see “15.5.4 Overview of our Grid Operations”). In Germany, according to our own estimates, we operate about two-thirds of our regulated electricity and gas grid assets based on concession agreements with municipalities, which have a term of up to 20 years. As of June 30, 2016, we held a total of approximately 3,800 concessions in Germany (including our participations in grid companies and some minor water concessions).

In Germany, we are subject to revenue regulation with a so-called “revenue cap”. While this limits the return we are allowed to earn on our regulated asset base, it results in largely stable and predictable revenues. The German regulatory framework also incentivizes us to improve our costs from year to year. A number of changes compared to the current regulatory periods are expected to apply for the new regulatory periods starting in 2019 (electricity) and 2018 (gas). These expected changes relate to factors that are relevant for the determination of the revenue cap, including, amongst others, an elimination of a time lag for investments, an adjustment of the productivity development and the setting of a lower imputed return on equity. Our grid business in the other countries in which we operate is also, in some instances, subject to a regulation with a “revenue cap”, and, in others, to a regulation that applies a “price cap”.

Over 80% of the Grid & Infrastructure Segment’s EBITDA for the financial year 2015 was generated from regulated activities (mostly from our fully consolidated grids and, to a lesser extent, from minority participations, as well as from a few other activities, such as the (quasi-regulated) water business in German municipal utilities).

Our grid business faces operational challenges due to the increase in power generation from renewable sources with variable, bi-directional load flow, integration of actively participating consumers and new loads in the future, which increase the complexity of the grid. For more information, see “14.2.1 General Industry Characteristics and Trends Across Countries”. To meet these challenges, which we also view as an opportunity, we are investing in components to upgrade our network into a smart, digital distribution grid and to ensure safe and stable grid operations, positioning us to play a central role in the ongoing energy transition.

Our Grid & Infrastructure Segment holds approximately 370 participations (including some majority owned participations). These participations are mostly related to our grid business, such as, in Germany, our participations in local municipal utilities (*Stadtwerke*). In addition, we hold a number of participations that are not related to our grid business. Our participations are included within EBITDA for the Grid & Infrastructure Segment (contributing approximately 9% to the Grid & Infrastructure Segment’s EBITDA in the financial year 2015).

Besides our grid business and participations, our Grid & Infrastructure Segment also comprises a number of other activities. These mainly include the businesses relating to gas storage, water, telecommunications and services, hydro and other generation, which together contributed approximately 12% to the Grid & Infrastructure Segment’s EBITDA in the financial year 2015.

### **15.5.2 Key Strategic Objectives**

Our Grid & Infrastructure Segment operates in a highly regulated environment. In order to optimize our returns in such an environment, our key strategic focus areas are management along the factors and incentives set by the regulatory framework, efficient operation of our business and organic as well as inorganic development of our asset base.

#### *Management based on the factors and incentives set by the regulatory framework*

The regulatory framework determines the factors affecting the majority of our earnings and sets incentives for new investments. Accordingly, we steer our grid business predominantly based on these factors and incentives. Against this backdrop, we aim at contributing to the consultation processes regarding the development of grid regulation with the objective to achieve a satisfactory framework for both grid operators and energy consumers.

### *Efficient operation of our business*

Operational excellence is key to financial performance. We plan to continue to meet the efficiency targets set by the regulator by realizing further efficiency gains and by using the opportunities presented by digitalization in order to establish “smart” digitalized operational processes as well as efficient investments for renewal and system upgrades. Currently, our efficiency values for our German grid business are on average equal to approximately 97% (see also “16.2.2.1.1 Incentive Regulation”). Further, we believe that operational costs can be reduced significantly by changing the grid technology and layout in a way which reduces among other things the overall grid length and amount of equipment. Operational synergies across our networks can be implemented by the transfer of skills and capabilities. For example, there is an intense exchange of DSO related know-how between G&I East and G&I Germany. This holds true especially for know-how gathered from the German energy transition, which we seek to apply to the networks we operate in Eastern Europe.

### *Organic and inorganic development of our asset base*

We believe that electricity distribution grids will play a pivotal role in a successful integration of renewable energy sources. The continuous growth in renewables and decentralized generation of energy triggers significant investment needs in order to manage the technical challenges for distribution networks. As a result, there is an ongoing need to connect new units generating electricity from renewables, but also an increasing necessity for automated and more flexible grid management. We are developing innovative solutions to integrate and manage the various market participants connected to the grid.

We manage one of the largest grids in Europe, and plan to expand our network through small-scale acquisitions. On the basis of our optimized investment strategy for our Grid & Infrastructure Segment for the next few years, we aim for growth of sustained earnings from an increasing regulated asset base across our markets. This investment strategy is tailored to meet the required long-term investments in grid assets to benefit from the opportunities stemming from the ongoing energy transition in Germany and the changing role of DSOs in our markets.

We plan to invest around EUR 3.1 billion (including financial investments) from 2016 to 2018 to continue to drive growth in Germany, thereof approximately 34% for grid replacement investments (e.g., optimization of the existing grid, through “smart” replacements, increasing operational efficiency and reducing operations and maintenance (“O&M”) costs), 19% for customer connections, 16% for energy transition-related investments (e.g., integration of renewables capacity and innovative solutions for grid expansion and digitalization), 13% for other grid-related investments (including investments for non-regulated grid assets such as telecommunication activities) and the remaining 18% for non-grid investments (such as capital expenditures related to gas storage facilities and participations as well as capital expenditures for other activities, such as our water business). Moreover, we strive to develop our grid business by regional mergers of our DSOs with other third party DSOs or the formation of regional joint ventures to lift synergies.

In our Eastern European countries, we plan to invest approximately EUR 1.0 billion from 2016 to 2018 (including financial investments), thereof approximately 70% for grid replacement (e.g., optimization of the existing grid and modernization of high and medium voltage stations and pipelines as well as construction of cables and overhead lines on all voltage levels) and 17% for customer connections (to address the growing number of connections driven by underlying macroeconomic factors such as population growth and increasing energy demand), mostly for low voltage customers of the existing grid, as well as new lines where load demand exceeds the current capacity and, in the future, potentially further connections of renewables to the grid. The remaining planned investment amounts relate to other grid-related capital expenditures (e.g., IT investments) (approximately 5%), energy transition-related investments (approximately 1%) and non-grid capital expenditures (such as investments in storage and the renewal of buildings as well as IT investments) (approximately 6%).

Grid-related capital expenditures generally increase the regulated asset base. For example, in Germany we expect an increase of approximately 9% on the basis of our regulated asset base, calculated with reference to the base years 2010 (gas) and 2011 (electricity), respectively, and taking into account the net investments (*i.e.*, after gains or losses of concessions) in regulated assets since then until the end of 2015 (gas) and, according to our plans, until the end of 2016 (electricity), respectively, assuming in each case full recognition by the regulator. In G&I East, we estimate that our regulatory asset base in the Czech Republic, Hungary and Poland increased in aggregate by approximately 9% from 2011 to 2015 (assuming constant foreign currency exchange rates as of year-end 2011). The future development of our regulated asset base depends on technical, regulatory and market requirements. Our regulated asset base is expected to increase further due to the growing economies of the Eastern European countries and an organic development of grids. Our investment strategy incentivized by the regulator leads to grid modernization and automation and so to an improving quality of supply parameters (see, for example, in Hungary and the Slovak Republic, “15.5.6.2 Operation of Electricity Grid in Hungary” and “15.5.6.4 Operation of Electricity Grid in Slovakia”, respectively).

In accordance with our strict investment framework with conservative hurdle rates for the utilization of our budget for capital expenditures, we are currently expecting hurdle rates for the return on investments to be in the range of 5% to 7%, determined on the basis of an after-tax (actual or implied) WACC, a project risk adjustment and a country risk adjustment.

### **15.5.3 Innovative Solutions in our G&I Segment**

#### **15.5.3.1 Innovative Solutions and Energy Transition in Germany**

In Germany, the shift towards renewable energy sources (so-called “*Energiewende*”) is creating new opportunities as well as challenges for DSOs. Ambitious political targets for renewable energy capacities have been set. These have been combined with the additional objective of ensuring a reliable, environmentally compatible and cost-efficient energy system. For an overview of the relevant targets in Germany, see “14.1.4.1 Decarbonization”.

We try to anticipate and thus benefit from these changes and plan to continue to invest in new business models such as urban solutions, broadband and the so-called “DSO 2.0” concept. This concept includes topics such as automated interaction regarding grid use and automated and flexible grid management and undertaking additional functions and services as a DSO, which bring about further revenue potential. In order to foster this development, we are actively engaged in branch associations, projects, studies and platforms dealing with such topics, including the Europe-wide “EvolvDSO” platform, which aims to define future roles of DSOs and develop tools required for these new roles. In our view DSOs will play a pivotal role in integrating renewable energy sources into the energy system. With our strategic investments into smart distribution grids and other innovative solutions, we aim not only to adapt to, but also to benefit from the changing role of DSOs.

We actively deploy our know-how and innovation capabilities to benefit from the increasing importance of DSOs. For example, we already integrate the second largest share of decentralized renewables capacity in Germany into our grids (based on data published at [www.energymap.info](http://www.energymap.info), status August 2015). Furthermore, we have successfully carried out and are in the process of implementing several projects to cope with the new requirements for energy grids in a cost efficient manner.

For example, we have started “smart operator” projects in Bavaria and Rhineland-Palatinate. This project provides an “intelligent” solution for the distribution grids. It allows to link forecast data of grid load with the control of end-devices. Our “AmpaCity” project in Essen, Germany, aims at optimizing the electricity supply in large metropolitan areas with a high energy density through the use of superconductivity. The project is funded by the German Federal Ministry for Economic Affairs and Energy (“**BMWi**”) and has the potential to eliminate 110/10 kV substations by using the advantages of superconductivity. We were awarded the German Innovation Prize for Climate and the Environment by the Federal Ministry for the Environment, Nature

Conservation, Building and Nuclear Safety ("BMU") in January 2016. Moreover, we offer an innovative "smart" grid solution for rural areas, also funded by the BMWi, which received the GreenTec Award 2015 in the category "energy". This "Smart Country" project includes a voltage stability mechanism that reduces the need for grid expansion in rural areas. Furthermore, we have been appointed by the BMWi to lead one of the largest demonstration projects ("Designetz") for the integration of renewable energy, dealing in particular with decentralized energy producers and consumers.

#### 15.5.3.2 Innovative Solutions in the Eastern European Countries

Many of the innovative solutions in our G&I East markets relate to optimization, efficiency increase and automation, and apply new approaches in grid planning, operation and control. We strongly benefit from our German know-how that we gained from the energy transition with a growing, and very often decentralized, generation of electricity from renewables. For example in the *Czech Republic*, we are running a "Smart Regulation Station" pilot, which involves a power supply that uses renewable sources and alternative physical principles of gas pre-heating to reduce our own electricity consumption, and to enable safe operation independently from the external energy supply. Across *Poland*, *Slovakia* and *Hungary*, we operate intelligent medium voltage/low voltage stations, which led to reduced times of remedy failures and less supply interruption time. Our R&D initiatives in *Hungary* include pilot projects in cooperation with local authorities and other utility companies, such as urban solutions (e.g., "smart" street lighting and a multi-utility "smart" metering pilot project encompassing electricity, gas, water and heat meters) initiated to support the measures aiming at the implementation of regulatory requirements. Our *Polish* business has been one of two first incumbent companies starting a large-scale "smart" metering pilot project for about 100,000 meters in Warsaw (to which a higher WACC applies for regulatory price-setting purposes). Furthermore, in Poland, a feasibility study will be undertaken in 2016 to elaborate on options for installing a superconducting cable in Warsaw, using our "AmpaCity" know-how from Germany. In Poland, we also developed a unique prototype of a demand response tool which allows DSO to manage frequency and load fluctuations resulting from the impact of the renewable energy sources and consumption of energy by end-users. We plan to implement this tool by the end of 2016. Our *Slovakian* business is committed to digitalization, such as with the ongoing roll-out of "smart" metering for end-users with an annual consumption of more than 4 MWh until 2020 and furthermore focuses on grid automation. In all our countries we implemented solutions supporting efficiency of our operations, such as mobile workforce management systems, modern supervisory control and data acquisition ("SCADA Systems") systems, a condition-based maintenance strategy and advanced geographical information systems ("GIS").

#### 15.5.4 Overview of our Grid Operations

Our grid operations include the operation of an electricity and gas distribution grid in Germany as well as of a gas distribution grid in the Czech Republic, and electricity distribution grids in Hungary, Poland and Slovakia. The following chart provides an overview of our grid business, the largest business within our Grid & Infrastructure Segment:

		Grid			Distributed
	Aggregate RAB	customers <sup>3)</sup>	Area served	Grid length	volume
	(local GAAP) <sup>1)</sup>	(in million)	(in thousand km <sup>2</sup> )	(in thousand km)	(in GWh)
<b>Grid &amp; Infrastructure Germany</b>					
Electricity . . . . .	EUR 9.7 bn <sup>2)</sup>	9.3	92	356	142,000
Gas . . . . .		1.0	35	47	73,000
<b>Grid &amp; Infrastructure East<sup>4)</sup></b>					
Czech Republic Gas . . . . .	EUR 1.6 bn	2.3	46	65	66,500
Hungary Electricity . . . . .	EUR 0.9 bn	2.3	20	67	16,800
Poland Electricity . . . . .	EUR 0.7 bn	1.0	0.5	17	7,200
Slovakia Electricity . . . . .	EUR 0.5 bn	0.6	16	22	3,700

Note: All figures are provided as of December 31, 2015 and are rounded.

- 1) Based on the latest notification by the respective regulators or, as the case may be, based on calculations included in the latest filings with the respective regulators and year-end values. In general terms, Aggregate RABs pertaining to different regulatory regimes are not directly comparable due to significant methodological differences (e.g., accounting rules and depreciation periods) and differing lengths of regulatory periods. Aggregate RABs stated exclude pro-rata shares of RAB from participations that are not fully consolidated.
- 2) In Germany, we expect an increase of approximately 9% on the basis of our German regulated asset base (calculated with reference to the base years 2010 (gas) and 2011 (electricity), respectively, plus net investments (post concession gains/losses) in regulated assets since then until the end of 2015 (gas) and, according to our plans, as expected, until the end of 2016 (electricity), respectively, assuming in each case full recognition by the regulator).
- 3) Based on supplied delivery points.
- 4) In G&I East, we estimate that our Aggregate RAB increased by approximately 9% from 2011 to 2015 (in EUR, at constant 2011 year-end exchange rates) for the Czech Republic, Hungary and Poland. Including foreign exchange rate effects, the Aggregate RAB in these three countries would have overall declined by approximately 7% during the same period. Slovakia is excluded from this calculation, as the concept of regulated asset base was introduced in 2012 only and the regulated asset base will only be adjusted in the next regulatory period beginning in 2017.

### **15.5.5 Grid & Infrastructure Germany**

The activities of our Grid & Infrastructure Segment in Germany include the operation of electricity and gas distribution grids, the holding and management of participations in a large number of entities, in particular in municipal utilities (*Stadtwerke*) and other municipal energy providers, gas storage activities and other activities.

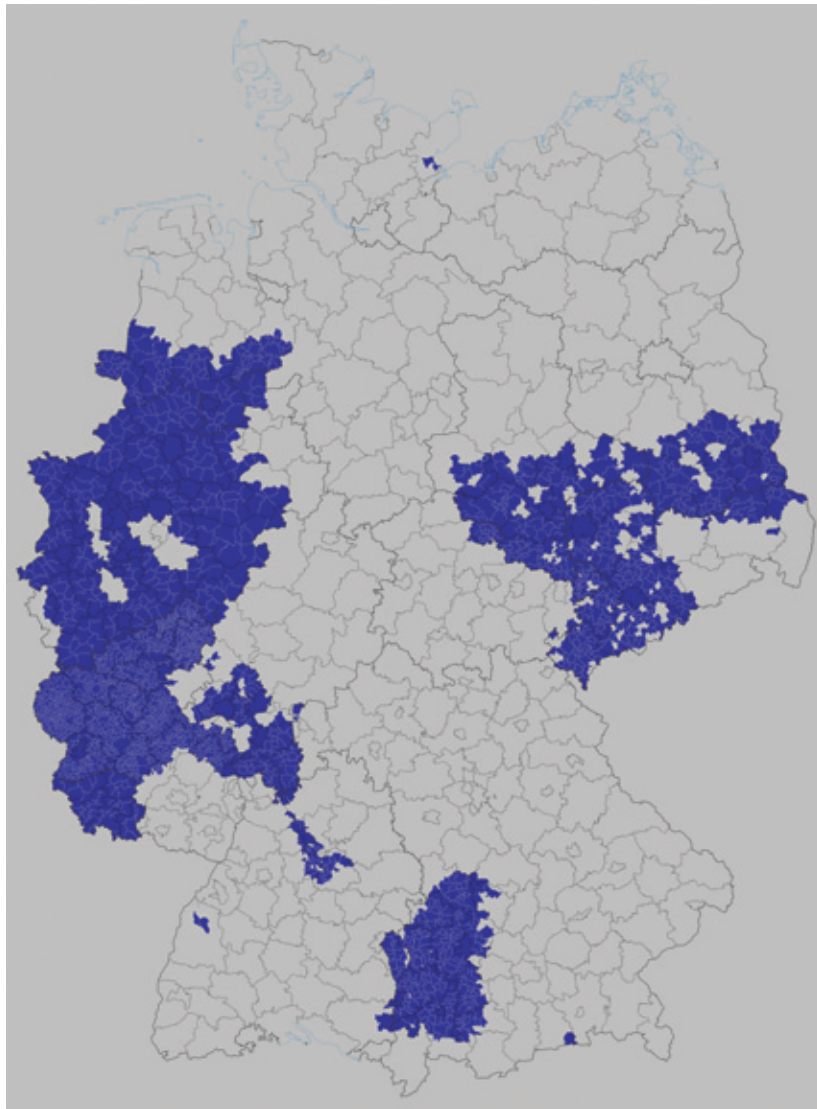
Our grid business in Germany is carried out through distribution grid companies (DSOs). Our distribution grid companies operate completely separately from any sales activities carried out by our Retail Segment or from any other activity which needs to be separated from our grid business according to applicable unbundling requirements. Besides operating our own electricity and gas grids, we provide a wide range of services to third-party distribution grids (e.g., through our regional grid distribution companies), including the complete management of the grid and a broad range of technical services. In addition, we are engaged in water supply activities in Western Germany, mainly through a majority participation in a water supply company, but also through our minority participations in several municipal utilities that are active in the water business.

#### **15.5.5.1 Operation of Electricity Grid in Germany**

In Germany, we have been active for more than 115 years in supplying grid customers with electricity. As a DSO, we operate an electricity distribution grid with a length of approximately 356,000 km, with approximately 9.3 million grid customers (based on our assessment of supplied delivery points for December 31, 2015). We operate our electricity distribution grid mainly on the basis of concessions. As of June 30, 2016, we held approximately 3,000 electricity grid concessions, mostly situated in the north-western region of Germany, with additional concessions in the South and the East of Germany. For more information on concessions, see "*15.5.5.4 Concession Agreements*" and "*16.2.2.2 Concession Agreements*".

The following chart shows the distribution of our electricity grid business across Germany:

**Overview of the Group's electricity distribution network regions in Germany**



For information on the German electricity distribution market, see "*14.2.2.1 Electricity*".

Our state-of-the-art electricity distribution grids in Germany account for approximately 27% of the high-voltage (in which electricity is transmitted at a voltage ranging between 60 kilovolts ("kV") and 150 kV), approximately 19% of the medium-voltage (6 kV to 60 kV) and approximately 20% of the low-voltage (230 V/400 V) distribution grids in Germany, measured by grid length, according to management's assessment (as of December 31, 2015).

The low voltage distribution grid accounts for the vast majority of the German electricity grid, in terms of length. The high voltage grid is used for the primary distribution of the electricity. Power is transmitted via the high voltage grid to transformer substations in urban agglomerations or large industrial companies. The medium voltage grid distributes the electricity to regional transformer substations, or directly to large facilities such as hospitals or factories. The low voltage grid serves private households, small industrial companies, commercial enterprises and office premises. In this area there are a large number of regional and municipal grid operators. (Source: website of the BMWi, topics/energy/grids and expansion, section "Electricity Grids of the Future" ("**BMWi – Electricity Grids Materials**"). By contrast, in the German electricity transmission grids, electricity is transmitted with maximum voltage of 220 kV or 380 kV.

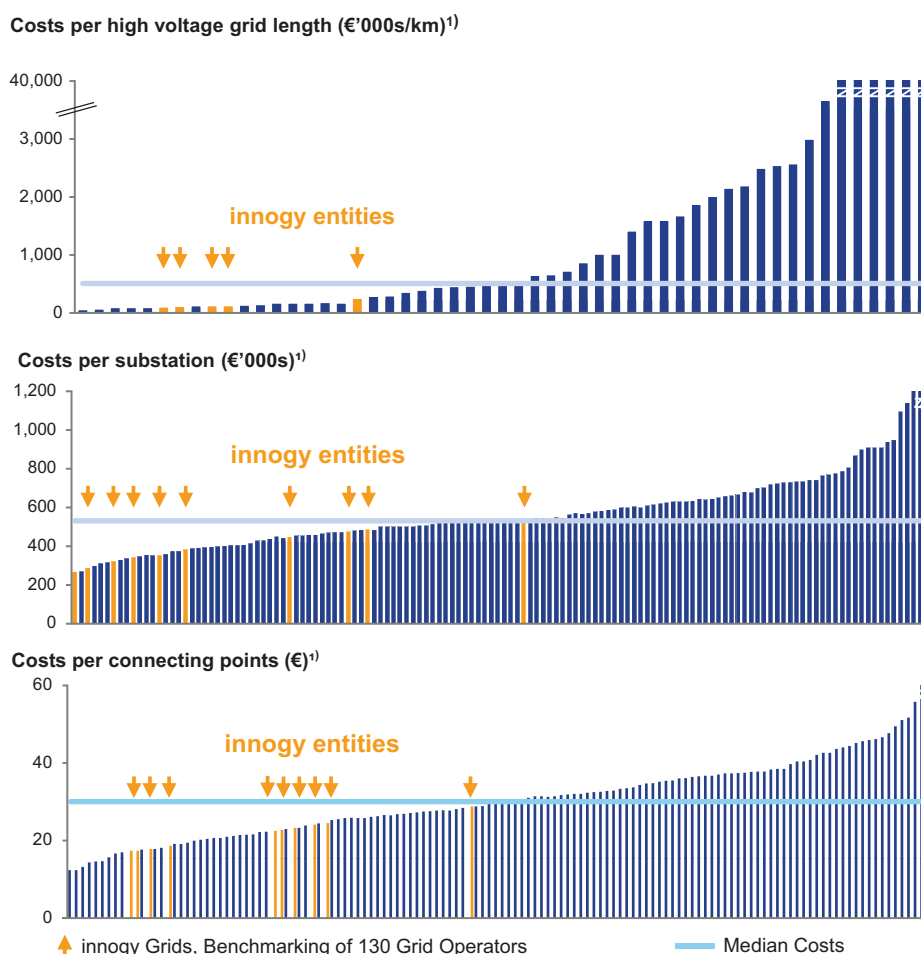
Regarding both the maximum network load in the German grid and the annual distributed electricity volumes, we are by far the leading DSO in Germany (management's assessment based on our own analysis of the above-mentioned publications of the individual DSOs). Based on our own assessment, we have a strong market position in some of Germany's industrial and commercial centers such as Essen, Mülheim an der Ruhr and in the surroundings of Leipzig. On the basis of the length of the distribution grid, in 2015 we operated the longest grid in Germany with 356,000 km, followed by E.ON SE, Düsseldorf, Germany ("**E.ON**"), with an estimated 347,000 km, and considerably ahead of EnBW Energie Baden-Württemberg AG, Karlsruhe, Germany ("**EnBW**") with approximately 137,000 km, in each case according to our own analysis of the Internet publications of the individual DSOs in Germany for the year 2015 made in accordance with the Ordinance on Electricity Grid Tariffs (*Stromnetzentgeltverordnung*) (except for some EnBW DSOs, which are based on 2014 publications). For more information on the German electricity grid market and our market position therein as well as market trends, see "*14.2.2.1 Electricity*".

Our electricity grid business in Germany is carried out through distribution companies, in particular Westnetz GmbH, Dortmund ("**Westnetz**") (which also acts as a gas distribution company) and Mitteldeutsche Netzgesellschaft Strom mbH, Halle ("**MITNETZ STROM**"). Westnetz is an independent DSO that operates many grids from different owners, also outside the Group, in Western Germany (approximately 188,000 km of electricity grids), while MITNETZ STROM has its regional focus in Eastern Germany (federal states of Brandenburg, Saxony, Saxony-Anhalt and Thuringia), with an electricity grid of almost 75,000 km. Based on the EEG facility registry (*EEG-Anlagenregister*) published by the BNetzA (as of August 2015), we integrate the second largest portion of installed capacity of decentralized generation facilities for renewable energy in Germany through our DSOs, such as Westnetz, MITNETZ STROM, LEW Verteilnetz GmbH, Syna GmbH, energis-Netzgesellschaft mbH, VSE Verteilnetz GmbH, ELE Verteilnetz GmbH, regionetz GmbH, NEW Netz GmbH and Leistungspartner GmbH, which together represent the major activities of our DSO business. All these entities also act as metering operators. The relevant entities are certified under the applicable standards for technical safety management in electricity (as well as other relevant areas in which they operate), e.g., the standards of the *Bundesverband der Energie- und Wasserwirtschaft e.V.* ("**BDEW**", the German Association of the Energy and Water Business) as well as the standards for technical safety management (TSM S/G/W1000) of the *Verband der Elektrotechnik Elektronik Informationswirtschaft e.V.* ("**VDE**", Association for Electrical, Electronic & Information Technologies) and of the *Deutscher Verein des Gas- und Wasserfaches e.V.* ("**DVGW**", the German Technical and Scientific Association for Gas and Water), respectively, and engage our own experts, who are able to certify third-party grid DSOs according to the latter industry standard. In addition, with Eurotest, we have an independent test laboratory certified according to the DIN EN ISO 9001 standard and accredited by the German Accreditation Office (*Deutsche Akkreditierungsstelle, "DAKKS"*) according to the DIN EN ISO 17025 standard.

Our asset management processes within our distribution entities are organized in a manner that ensures the organizational separation of asset management from operation (as set forth in ISO 55000). The operation of our grid and the planning are carried out by decentralized structures, while the grid management is centrally provided by grid control centers for electricity and gas, in which grids and facilities are monitored and remotely controlled. Furthermore, the dispatching centers act as central location for receiving information regarding operating disruptions and coordinating fault clearance activities. We continuously strive to optimize central technical areas, group-wide standards and guidelines, in particular, the harmonization of asset management processes and grid target plans, the optimization of construction techniques and practices for electricity and gas and the use of modern tools for grid calculation purposes.

In management's view, our high-quality assets and our enhanced operational performance investments (see "*15.5.2 Key Strategic Objectives*") support highly efficient operations. The efficiency values as evaluated by the German regulator (BNetzA) for our DSOs underline this assessment. Moreover, in an independent benchmarking study of German grid operators, our German electricity grids were among the most cost-efficient in the industry with respect to costs

per high-voltage grid length and performed better (overall), in some cases substantially better, than the average for grid operators with regard to cost per substation and per connection points (source: independent benchmarking analysis conducted by Polynomics AG, 2013; costs used in the regulatory benchmarking process were considered; outliers were excluded), as shown in the following charts:



Source: Polynomics AG, 2013, benchmarking study of German grid operators. Representative subset of 130 major grid operators (out of 182). Grid operators not participating in the benchmarking are mostly small grid operators.

1) Based on costs used in regulatory benchmarking process. Outliers graphically cropped. Average numbers excluding outliers. High voltage benchmarking related to 110 kV grids only.

We apply a risk-demand-based predictive maintenance and inspection and a transparent renewal strategy of our assets based on technically feasible lifetimes and relevant risk aspects, efficient and effective processes, such as automated workforce management, asset simulation tools (based on lifecycle assessments for cables, stations, pipelines and overhead lines) and an investment strategy that addresses technical and regulatory perspectives. We also continue to invest in the cabling of middle voltage and low voltage overhead line networks, since an increase in the cabling level has positive effects on the operating and maintenance costs as well as weather-related disruptions.

The majority of the grid infrastructure assets operated by the Group DSOs are owned either by innogy Netze Deutschland GmbH or by other, regional subsidiaries of the Company such as, for example, Enviam AG, Süwag Energie AG, Lechwerke AG and VSE Aktiengesellschaft and their respective subsidiaries. Furthermore, we operate grid assets as DSO also under lease agreements with third parties (partially) owning these assets. Typically, this includes carrying out all commercial activities associated with the grid assets' responsibility for the compliance with the energy regulatory framework as well as asset management, planning, operating grid management, maintenance and fault clearance for grids and equipment and all other related technical areas.

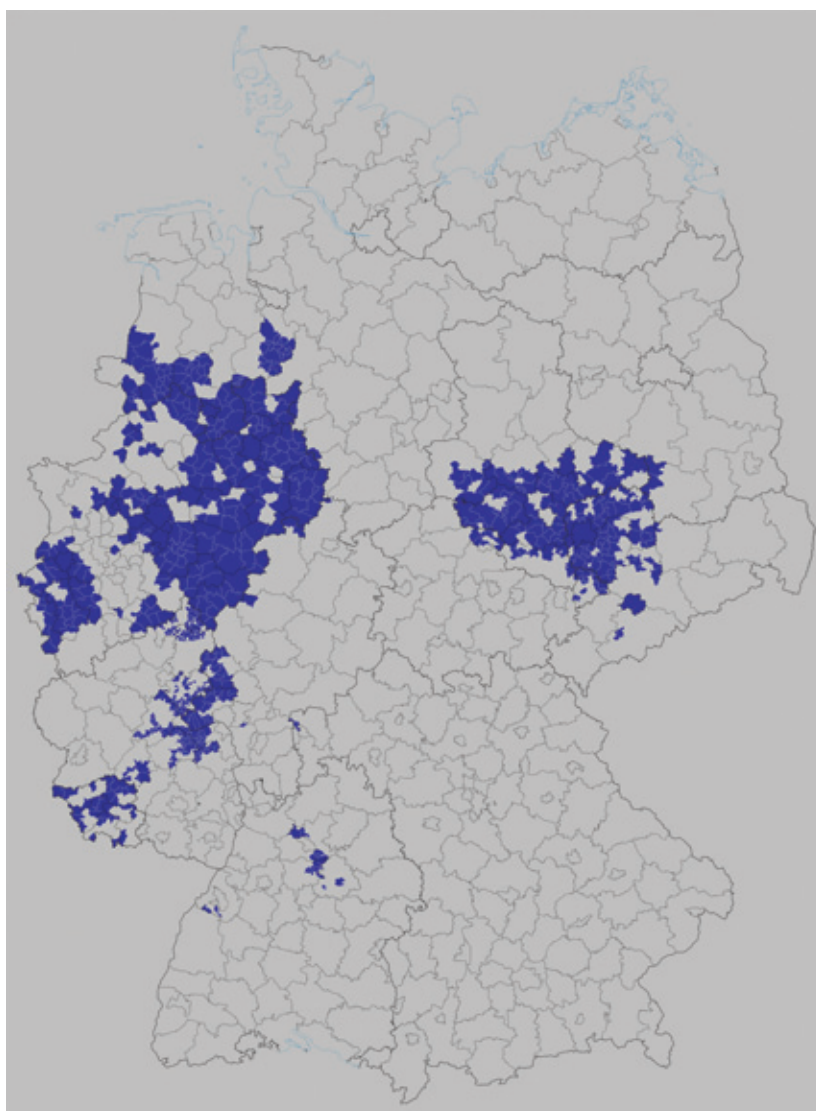
#### 15.5.5.2 Operation of Gas Grid in Germany

In Germany, we have been active for more than 100 years in supplying gas to grid customers. We operate a distribution gas grid with a total length of approximately 47,000 km (as of December 31, 2015). According to our own estimate based on supplied delivery points, our gas distribution grid business served approximately 1.0 million grid customers as of December 31, 2015. Our gas distribution activities are mainly based on concession agreements. As of June 30, 2016, we held around 800 gas concessions across Germany. For more information on concessions, see "15.5.5.4 Concession Agreements" and "16.2.2.2 Concession Agreements".

While within the main transmission pipelines of the TSOs, natural gas is transported under high pressure, gas DSOs draw gas from the upstream TSO gas grid and transform the gas into the different pressure levels using a pressure regulating system. End-users then receive gas through the medium and low pressure gas pipelines of the regional and local DSOs.

The following chart shows the distribution of our gas grid business across Germany:

#### Overview of the Group's gas distribution network regions in Germany



For information on the German gas distribution market, see "14.2.2.2 Gas".

According to the Monitoring Report 2015, the total length of pipelines in the German gas network as of December 31, 2014 and across all gas pressure ranges was approximately 519,000 km. Thereof, approximately 93% (or around 480,000 km) related to gas distribution grids, operated by over 700 gas DSOs (as of January 14, 2016, according to the statistical

publication of the German Federal Network Agency). We estimate that our gas distribution grids account for approximately 7%, 12% and 8% of the total gas DSO pipeline length for high pressure (> 1 bar), medium pressure (> 0.1 until 1 bar) and low pressure ( $\leq$  0.1 bar) in Germany, respectively (based on the total grid lengths for the three categories in Germany, as published in the Monitoring Report, and the length of our pipelines as of December 31, 2015).

Based on the maximum network load in the German gas grid, we are the leading DSO in Germany (according to our estimates based on our own analysis of the Internet publications of the individual DSOs in Germany for the year 2015 made pursuant to the Ordinance on Gas Grid Tariffs (*Gasnetzentgeltverordnung*), ahead of E.ON and EWE). Based on the same source, we estimate that we are the second largest gas DSO in Germany in terms of annual distributed gas volume (with 73 TWh (rounded), just slightly behind E.ON, which also distributed about 73 TWh), and the third largest DSO in terms of grid length (rounded figures). For more information on the German gas grid market and our market position therein as well as market trends, see "14.2.2.2 Gas".

Our gas grid business in Germany is carried out through gas DSOs, such as Westnetz, Mitteldeutsche Netzgesellschaft Gas mbH ("**MITNETZ GAS**"), Syna GmbH, energis GmbH, NEW Netz GmbH, Leitungspartner GmbH, regionetz GmbH, ELE Verteilnetz GmbH and energis-Netzgesellschaft mbH. Our gas DSOs are certified under the standards for technical safety management in gas (TSM G1000 of the DVGW).

#### 15.5.5.3 Key Features of the German Regulatory Regime for our Grid Business

In Germany, we are subject to an incentive regulation, mainly implemented through a revenue cap. The regulation sets principles to calculate the revenue we are allowed to earn with the distribution of energy through our grid. In general, this revenue is determined on the basis of our costs in a base year as recognized by the regulator for a regulatory period of five years. Such incentive-based grid regulation provides, in our view, an attractive and stable remuneration framework that ensures a regular, predictable income flow.

The applicable revenue caps are based on a framework pursuant to which the remuneration is in general determined for the entire regulatory period. Hence, economically we are not exposed to volume risk, except for forecast deviations, for which a multi-annual compensation mechanism has been introduced (regulatory account). In addition, while the relevant costs to determine the revenue caps are recognized on the basis of a base year for the relevant five-year regulatory periods, permanently non-controllable cost factors are treated as pass-through items for the calculation of the regulated income. Also, any borrowing costs in the base year are treated as pass-through up to an amount equivalent to customary market interest rates.

For the current regulatory period (January 1, 2014 until December 31, 2018 for electricity; January 1, 2013 until December 31, 2017 for gas), the regulator fixed the rate of return on the equity portion (based on a maximum equity portion of 40%) for "old assets" (capitalization until the end of 2005) at 7.14% (real, *i.e.*, before inflation) and for "new assets" (capitalization after the end of 2005) at 9.05% (nominal, *i.e.*, including inflation). Both rates are calculated before corporate tax (approximately 15%), but after trade tax (approximately 15%). For old assets, inflation is recognized in the value of the asset base (valued at current cost accounting), while for new assets (valued at historic cost accounting), the rate of return on equity was set so as to also include expected inflation.

The revenue cap is annually adjusted for certain factors that are subject to frequent change, including certain permanently non-controllable costs, a determined increase in productivity and the consumer price index. Moreover, the regulatory framework adjusts the remuneration for investments relating to changing basic parameters including the growth of RES (so-called "expansion factor" for grid expansion in general, including integration of renewable energy sources) and investments in the high-voltage grid (investment measures). Other investments into the regulatory asset base are typically only reflected in the asset base for the next regulatory period, *i.e.*, they are recognized with a time lag. In Germany, this time lag is

currently up to seven years due to the length of the regulatory period and the time lag between the base year and the beginning of the regulatory period. The revenue cap is also influenced through a bonus/malus system (quality element) taking into account the optimal reliability of electricity supply has been a primary objective of the regulatory framework since 2012.

For more information on the applicable regime, see “16.2.2.1 Regulation of Grid Operations”. There are (potential) changes that will be introduced for the upcoming, third regulatory period, including the following material changes:

- *Rate of return on equity*: BNetzA will likely determine a lower rate of return on equity as a key driver for the determination of the revenue caps. In July 2016, BNetzA proposed a new rate of return on equity for “new assets” of 6.91% (activation on or after January 1, 2006) and for “old assets” of 5.12% (activation prior to January 1, 2006). A final determination of the BNetzA is expected within the next weeks. We expect that the BNetzA will determine imputed interest rates at levels around those previously proposed. However, it is possible that the final determination of the imputed interest rates will result in rates that are lower than those previously proposed by the BNetzA.
- *Sectoral productivity factor (Xgen)*: BNetzA will for the first time determine the sectoral productivity factor (Xgen), which is for the current regulatory period still fixed in the applicable regulation. This is a factor that reduces the revenue cap on the basis of an assumed increase in productivity in excess of the productivity increase of the overall economy. Accordingly, the current statutory productivity factor of 1.5% *per annum* will no longer apply.
- *Efficiency bonus*: DSOs may now benefit from super-efficiencies in benchmarking results which have been capped previously at 100%. This shall incentivize DSOs to become more efficient.
- *Timely amortization of infrastructure investments*: Under the current incentive regulatory regime, DSOs are compensated for investments in the distribution grid only with a time lag. Under the new regime, capital expenditures for replacement, restructuring and expansion investments shall be reflected in the revenue caps as and when made. Hence, both the expansion factor and the investment measures would cease to be granted as from the third regulatory period. An elimination of the time lag and the expansion factor could be favorable for DSOs with significant investment requirements.
- *Elimination of base effect*: DSOs benefit from a base effect (*Sockeleffekt*) for investments resulting from the base year evaluation under the current regulatory regime. The base effect keeps capital costs constant over the entire regulatory period ignoring imputed depreciation. This base effect will be eliminated. Accordingly, capital costs will be determined annually. For a transitional period until the end of the third regulatory period investments made between 2007 and 2016 may still benefit from the base effect.
- *Recognition of non-wage labor costs*: Voluntarily granted non-wage labor costs (*Personalzusatzkosten*) shall be recognized as permanently non-controllable costs for all agreements concluded prior to December 31, 2016 (instead of December 31, 2008 under the current regime).
- *Regulatory account*: As from 2017, the regulatory account will be balanced not once every regulatory period, but continuously over three years.
- *Parameters for efficiency benchmarking*: BNetzA will for the first time determine all structural parameters for the efficiency benchmarking process. Mandatory parameters will no longer apply. The parameters determined by BNetzA are important for determining a DSO’s efficiency value, which directly affects the revenue cap for the next regulatory period.

These changes will impact the financial performance of our Grid & Infrastructure Segment in Germany as from the start of the next regulatory period (2018 for gas and 2019 for electricity) onwards.

In addition, the optimal reliability of electricity supply has been a primary objective of the regulatory framework since 2012 and is incentivized through a bonus/malus system (quality element). We have achieved continuous improvement regarding the continuity and quality of supply through measures such as the expansion of modern grid structures, cabling and new cable technologies, communication and control systems as well as grid automation in our gas and electricity grids. In Germany, the BNetzA calculates reference values regarding the Average System Interruption Duration Index (“ASIDI”) and the System Average Interruption Duration Index (“SAIDI”), based on the reported interruptions by each electricity DSO. Typically, areas with a higher consumption density (e.g., in cities) show a lower ASIDI/SAIDI value than areas with a lower consumption density. Our ASIDI/SAIDI values are on average close to the reference values applicable to our DSOs.

#### 15.5.5.4 Concession Agreements

Our electricity and gas distribution network operations in Germany are to a significant extent based on regulated concession agreements, *i.e.*, about two-thirds of our Aggregate RAB in Germany is based on concession agreements. Concessions are contractual rights granted by cities and municipalities to use public transport routes to install and operate grids for a period of up to 20 years. Based on inhabitants supplied, our concession agreements have a weighted average term of nine years (taking into account early termination rights under the concession agreements), and twelve years assuming that no early termination rights are exercised.

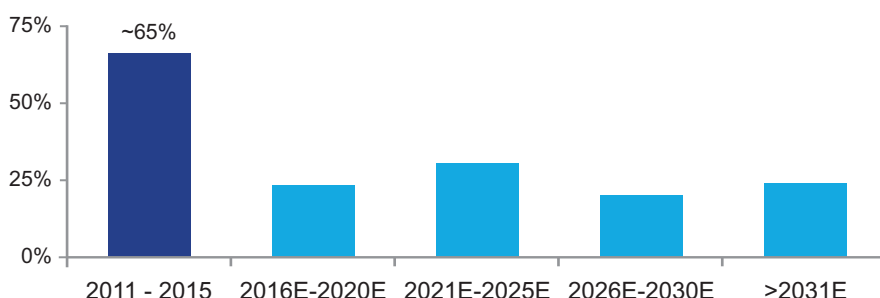
We compete with other DSOs for new concessions or upon expiry of existing concessions in public tendering processes, which are based on quality factors. As of June 30, 2016, we had approximately 3,800 concessions in Germany (including our participations in grid companies), thereof approximately 79% relating to electricity, 20% relating to gas and less than 1% to water. Renewing and expanding our electricity and gas concession portfolio is critical for the success of our grid business. In the last five years, we have experienced a “wave” of concession renewal processes, with approximately 65% of our concessions being up for renewal (on the basis of inhabitants supplied, excluding water concessions) between 2011 and 2015. Based on the number of concessions that are up for renewal, approximately 90% of these expiring concessions were renewed or were transferred to joint municipal grid participations. We believe that we have advantages, among others, from our relationship management in connection with existing concession contracts and our ability to offer fast technical solutions.

If we are not able to renew our concessions, we regularly aim to enter into partnering agreements with the succeeding holder of the concession. For this purpose we aim to retain a minority participation in the succeeding holder of the concession and to provide a wide range of services to third-party distribution grids (e.g., through our regional grid distribution companies), including the complete management of the grid and a broad range of technical services. In such a case, we continue to participate in the returns from the grid assets: (i) we generate revenue based on the service contract (e.g., service fees or lease payments for the management of the grid company) and (ii) we participate in the net income or, as the case may be, the dividends from these non-consolidated participations which are reflected in our income from investments. Even if we are not able to retain a minority shareholding, we aim to offer our services to the succeeding holder of the concession.

To the extent we are not able to renew our concessions, we are required to sell the relevant parts of our grid assets to the succeeding holder of the concession. While this negatively affects the development of our regulated asset base and thus impacts also our regulated returns, the sales of grid assets following a lost concession tender often led to a one-off gain due to a favorable compensation as compared to our lower book values.

There are fewer upcoming concession renewals in the mid-term than in the past five years, which increases our earnings visibility. Most of our concessions (approximately 94% as of June 30, 2016) are held by a Group company, with the remaining concessions being held by those of our minority grid participations where we act as grid operator.

The following chart provides an overview of our concessions that expired in the past five years or are subject to a renewal within the next years, with the portion of concession renewals being based on the respective inhabitants supplied and assuming that all early termination rights are exercised:



Note: The chart indicates the concessions up for renewal within the respective period based on inhabitants supplied, excluding water concessions.

See also "16.2.2.2 Concession Agreements".

Moreover, according to our own estimates, one-third of our Aggregate RAB in Germany as of 2010/2011 (in particular our high voltage electricity grid, certain regional-based medium voltage electricity grids as well as our high pressure gas grid) is not subject to regulated concession agreements and therefore not exposed to the risk of non-renewal, which increases the earnings stability of the Grid & Infrastructure Segment.

#### 15.5.5.5 Participations of G&I Germany

Our participations contribute a substantial share to our earnings. As of December 31, 2015, we held more than 100 participations in municipal utilities (public or public-private companies in which one or more municipalities hold a majority interest, and which provide certain utility services, e.g., regarding the basic supply of electricity, gas and water, "**Stadtwerke**") and around 200 participations in different companies, such as other municipal energy and service providers in Germany.

In addition, we participate in around 70 joint grid operating companies with a growing number of municipal partners. Our partnerships, mainly with municipal utilities, extend our regional coverage across Germany and provide regional identification and customer proximity.

Our minority participations in Germany are located mainly in North Rhine-Westphalia, whereby some are located in Rhineland-Palatinate, and include, among others, Rheinenergie AG, Dortmunder Energie- und Wasserversorgung GmbH DEW 21, Aktiengesellschaft für Versorgungs-Unternehmen (AVU), e-regio GmH & Co. KG (Euskirchen), Pfalzwerke Aktiengesellschaft. Our various joint ventures and partnership models (e.g., grid participations and participations in municipal utilities) are in a few cases limited in duration (e.g., subject to termination rights), with durations generally ranging from 5 to 20 years. Where we are not able to extend expiring partnerships, we face similar issues as in our concession-based business. For example we are currently negotiating an extension of our partnership in respect of medl GmbH, a company operating the grid in Mühlheim, Germany, in which we hold a participation of 49%. As the negotiations have not yet come to an end, it cannot be excluded that we will be unable to extend this partnership beyond its scheduled expiry by the end of 2016. While an expiry of such partnership would negatively impact our returns, we are typically compensated in the amount of the capitalized earnings value (*Ertragswert*) where a partnership is not extended.

These companies represent an integral part of our Grid & Infrastructure Segment and provide us with a strategic advantage, including minority participations, where we are seen as a strategic partner. For example, we develop, with the involvement of our partners, new business fields and business models for our partners. We also assist our partners with our technical know-how in connection with the implementation of such new concepts, for example in the expansion of

broadband networks or the joint use of technologies developed within the Group, such as our “SmartHome” technology. See also “15.6.5.4 Prosumer and Home Energy Solutions”. The participation model offers synergies in different areas, including testing, development and roll-out of new business models. We also benefit from the sharing of best practices and economies of scale in areas such as procurement and risk management, among others.

We see further potential for a cooperation with the companies in which we hold a participation as well as potential third-party partners, for example regarding grid digitalization (including “smart” metering) or energy-related services, where our competence and know-how, for example regarding grid services, procurement optimization and risk management, are valued. The increasing demand for decentralized energy generation concepts can be developed and implemented – even Europe-wide – through such cooperation models efficiently for both parties. These minority participations contribute to the success of such concepts with their regional identity and customer proximity.

Besides our German participations, we hold a minority interest of 37.87% in the Austrian utility KELAG-Kärntner Elektrizitäts-Aktiengesellschaft (“**KELAG**”) through a direct shareholding of 12.85% and a minority participation of 49% in Kärntner Energieholding Beteiligungs GmbH, which holds 51.06% of the shares in KELAG. The Austrian state Carinthia is the majority shareholder of Kärntner Energieholding Beteiligungs GmbH (51%). KELAG is active in the fields of electricity, gas and heat in Austria with a focus on the Carinthian region. KELAG is a large energy producer in Austria, mainly producing energy from water. Its subsidiary KNG-Kärnten Netz GmbH is responsible for distributing gas and electricity to the Carinthian region of Austria. KELAG also delivers heat generated biologically to its customers and recycles industrial waste heat. KELAG is further active in the energy retail business (electricity, gas and complementary services) with a focus on the Carinthian region of Austria.

The following table shows selected figures of the five largest participations of our G&I Segment in Germany by contribution to the segment’s income from investments (based on at-equity income contribution in 2015, adjusted for income/losses from loans to other group entities, gains/losses from sale of investments and other components):

Participation	innogy Share (rounded)	Income from Investments <sup>1)</sup> (in EUR million)
RheinEnergie AG .....	20%	27
Dortmunder Energie- und Wasserversorgung GmbH DEW 21 .....	40%	15
AVU - Aktiengesellschaft für Versorgungs-Unternehmen .....	50%	12
e-regio GmbH & Co. KG .....	43%	7
Pfalzwerke Aktiengesellschaft .....	27%	7

Note: Determinations are based on Audited Combined Financial Statements. The table above does not include KELAG (Austria), with income from investments in the amount of EUR 32 million and a regulated share of 18% in 2014.

1) For the financial year 2015.

Through some of our participations, such as in Dortmunder Energie- und Wasserversorgung GmbH (DEW 21), Stadtwerke Essen AG, Energieversorgung Oberhausen AG (EVO) and Stadtwerke Duisburg, we also have a certain exposure to conventional energy generation sources.

#### 15.5.5.6 Other Activities of G&I Germany

Our other activities that are allocated to G&I Germany comprise mainly our German gas storage business as well as water supply (mainly RWW Rheinisch-Westfälische Wasserwerksgesellschaft mbH, “**RWW**”), certain service activities and also generation activities. Our other activities allocated to G&I Germany provided for an overall stable EBITDA contribution of approximately EUR 0.3 billion in each of the financial years 2013, 2014 and 2015.

### *Our Gas Storage Business in Germany*

Through our subsidiary iGSNWE we act as a Storage System Operator (SSO) operating, marketing and developing a total of five underground gas storage facilities in Germany for the North-West European gas market. iGSNWE carries out its underground gas storage operations in line with relevant technical requirements of mining laws and mining authorities, and markets its facilities in line with the applicable European and national energy laws. As an SSO, iGSNWE provides storage customers with storage capacities consisting of working gas volume (*i.e.*, the commercially usable storage volume), injection and withdrawal capacity (*i.e.*, the maximum possible gas flow for injection and withdrawal, respectively). Potential storage customers mainly include gas suppliers, traders, sales companies, grid operators and power plants. iGSNWE injects, stores and withdraws the customers' gas. In addition, iGSNWE develops new storage facilities according to market demand.

iGSNWE's gas storage facilities, with grid connections to the German market areas of NetConnect Germany and Gaspool and to the Dutch transmission grid, have a total working gas volume of around 1,633 million m<sup>3</sup> and together with our gas storage facilities in the Czech Republic (see "15.5.6.7 Other Activities of G&I East – Gas Storage in the Czech Republic") around 4.3 billion m<sup>3</sup> as of June 30, 2016. iGSNWE solely operates cavern storages, *i.e.*, storages in salt caverns (artificially created hollow spaces in deep underground salt formations), as opposed to porous rock storages. For iGSNWE's only porous rock storage, an aquifer storage (a less frequent type of porous storage, in which the storage space is created by artificially forcing the water away into lower levels of the water-bearing horizon), the decommissioning has started this year.

The following table provides an overview of our gas storage facilities in Germany as of June 30, 2016:

	Working gas volume (in million m <sup>3</sup> )	Maximum withdrawal rate (in m <sup>3</sup> /h)
<b>Germany</b>		
Epe NL (G-gas) .....	303.3	500,000
Epe H-gas .....	417.8	870,000
Epe L-gas .....	183.8	400,000
Xanten .....	178.4	320,000
Staßfurt .....	550.0	550,000
<b>Total</b> .....	<b>1,633.3</b>	<b>2,640,000</b>

Our cavern storage facilities have relatively fast feed-in and withdrawal times, so that we see ourselves well-positioned to benefit from the on-going shift towards renewable energy sources in Germany and thus increased feed-in and withdrawal requirements influenced by gas fired power plants. We believe that our storage capacity enables us to meet the future demands of the gas market with the required flexibility and to achieve comparably high cash margins. Despite poor summer-winter spreads, our gas storage in Germany and the Czech Republic (see "15.5.6.7 Other Activities of G&I East – Gas Storage in the Czech Republic") show a robust cash margin position.

iGSNWE offers storage contracts based on negotiated market prices with a standard duration from a minimum of one day to a maximum of seven years. Storage capacities are sold on a non-discriminatory basis in auctions (*e.g.*, on platforms such as store-x or ICE Endex) and in bilateral negotiations to several external storage customers and to the RWE Group. To a large extent, iGSNWE's capacities are sold in advance for several years. iGSNWE has sold nearly 100% of its capacities for the current year 2016 and approximately 80% of its capacities for the upcoming three years.

In addition to physical storage products currently offered, iGSNWE regularly analyzes and develops new products to meet market demands (for example, the pooling of storages) and new ways for offering products to the market (*e.g.*, via other IT platforms with a complementary customer portfolio).

### *Further Activities in Germany*

We are also active in the water business, mainly through our subsidiary RWW, which is one of the largest privately owned water utilities in Germany. RWW's EBITDA amounted to approximately EUR 33 million in 2015. According to our own estimates, RWW supplies water to private household and commercial customers through a water grid that is around 3,000 km long (2015) and holds 13 water reservoirs with a total capacity of around 63,000 m<sup>3</sup>. In 2015, RWW supplied approximately 75 million m<sup>3</sup> of water to around 900,000 citizens and around 135,000 connections. The company operates four waterworks in the German Ruhr region, which together serve an area of approximately 850 km<sup>2</sup>. RWW's mostly industrial customer base and a hydroelectric power plant contribute to diversify our business profile. The water business constitutes a stable, concession-based business model with long-term earnings visibility and a quasi-regulated industry structure. Our most important current water concessions run until 2027.

In addition, some of our subsidiaries provide a wide range of telecommunications products and services to B2B and B2C customers, as well as other services, such as energy data management and services facility management, and street lighting.

Moreover, the G&I Segment comprises certain renewable activities with a capacity of 0.3 GW (e.g., approximately 800 GWh electricity was produced from renewable energy sources by Lechwerke AG in 2015) and other conventional generation activities from companies pertaining to the G&I Segment, such as Lechwerke AG, enviaM Energie AG, VSE Aktiengesellschaft and Süwag Energie AG. For example, as part of our generation activities, we operate our own unit (approximately 110 MW) of the hard coal-fired power plant in Ens Dorf, Germany, where we manage also a further unit (approximately 280 MW) on a contractual basis for a third party operator. We are constantly reviewing the operation of this hard coal-fired power plant in Ens Dorf in light of the prevailing economics.

Overall, we had around 800 MW installed capacity in 2015 for energy generation from fossil fuel.

### **15.5.6 Grid & Infrastructure East**

Our Grid & Infrastructure Segment has a strong position in Eastern European markets with a gas grid portfolio in the Czech Republic and an electricity portfolio in Hungary, Poland and Slovakia. Our Grid & Infrastructure East business supplies around six million grid customers (based on our own estimate) across the four regional markets, including in the growing capital areas of Warsaw and Budapest, with a combined total grid network of around 171,000 km (all figures as of December 31, 2015). Although the regulatory environment varies across countries and regulatory periods, the regulation systems in the Czech Republic, Poland and Slovakia have several similarities. In our grid operations in Eastern Europe, we increased our efficiency by continuously optimizing processes and securing operational excellence. In addition to continuous optimization, we are positioned to create further value through market entries in Eastern European markets. We address the growing demand for electricity and the increasing importance of renewable energy sources, in particular through innovative solutions around grid automation and for the enhancement of our operational efficiency.

The following chart provides an overview of our grid operations within our Grid & Infrastructure Segment in Eastern Europe:

	Electricity Distribution Activities	Gas Distribution Activities
<b>Czech Republic</b>	n/a	<b>RWE Česká republika a.s.</b> leading our gas grid operations (to be renamed innogy Česká republika a.s.) <b>innogy Grid Holding, a.s.</b> steering our gas distribution activities <b>RWE GasNet, s.r.o.</b> carrying out the distribution of natural gas separate from any sales business (to be renamed GasNet, s.r.o.) <b>RWE Distribuční služby, s.r.o.</b> being in charge of the operation and maintenance of the gas distribution system (to be renamed GridServices, s.r.o.)
<b>Hungary</b>	<b>ELMÜ Net Limited Liability Company</b> (ELMÜ Hálózati Elosztó Korlátolt Felelősségű Társaság) and <b>ÉMÁSZ Net Limited Liability Company</b> , (ÉMÁSZ Hálózati Korlátolt Felelősségű Társaság), our two closely-integrated companies operating the electricity grid	n/a
<b>Poland</b>	<b>innogy Stoen Operator Sp. z o.o.</b> , acting as DSO in the Warsaw area and neighboring municipalities	n/a
<b>Slovak Republic</b>	<b>Východoslovenská distribučná, a.s.</b> (VSD) acting as DSO in which all core grid activities are bundled <b>Východoslovenská energetika Holding a.s.</b> (VSE Holding), regional holding company providing shared services	n/a

#### 15.5.6.1 Operation of Gas Grid in the Czech Republic

We are the leading gas DSO in the Czech Republic, with a market share of 83% in 2015 in terms of distributed volume and with 2.3 million delivery points (source: Czech Energy Regulatory Office, "Yearly Report on the Operation of the Czech Gas System in 2015", 2016). For more information on our market positions in the Czech gas grid market as well as market trends, see "14.2.3.2 Gas Distribution and Gas Storage in the Czech Republic".

We have significantly simplified governance structures and realized operative synergies to integrate six regional companies into a single nation-wide DSO (operating under the name RWE GasNet, s.r.o., to be renamed GasNet, s.r.o.). This successful integration was carried out in several steps, from the acquisition in 2002 of six regional integrated gas companies (including gas distribution), which were merged later into RWE GasNet, s.r.o., to be renamed GasNet, s.r.o. In addition, we have established a successful partnership with the financial services group Macquarie. Optimization of processes and investments has led to a significant reduction in operating expenses (based on local GAAP accounts of innogy Grid Holding, a.s., in which we

hold a 50.04% interest) and headcount reductions of approximately 10% from 2007 until 2015. The remaining 49.96% in innogy Grid Holding, a.s. are held by a consortium of funds managed by Macquarie Infrastructure and Real Assets, which increased its interest from 34.96% in 2015. Our Aggregate RAB in the Czech Republic has also continuously grown in the past years, reaching EUR 1.6 billion in 2015 (representing a CAGR of around 2% for the 2010-2015 period). The current regulatory gas period runs from 2016 to 2018. Since entering the Czech gas grid market in 2002, we have successfully managed three regulatory periods. We are now in the first year of the fourth regulatory period.

#### 15.5.6.2 *Operation of Electricity Grid in Hungary*

We are one of the two leading electricity distributors in the country (in particular in Budapest and the North-East region), with an overall market share of 43% in 2015 in terms of distributed electricity volume, according to our own assessment. For more information on our market positions in the Hungarian electricity grid market as well as market trends, see *"14.2.3.3 Electricity Grid in Hungary"*.

In Hungary, we are present with two closely-integrated operating companies, which operate under the names ELMŰ Net Limited Liability Company (ELMŰ Hálózati Elosztó Korlátolt Felelősségű Társaság, in which we hold an interest of approximately 55%) and ÉMÁSZ Net Limited Liability Company (ÉMÁSZ Hálózati Korlátolt Felelősségű Társaság, in which we hold an interest of approximately 54%) under a common management. In order to maintain the level of operating profits, we have also increased our investments. Going forward, the strategic focus of the business will be on the use of digital grid solutions in order to increase the quality of the network and operational efficiency. Both Hungarian DSOs have been improving their SAIDI and SAIFI rates during the past few years (SAIDI: from 73 minutes average outage duration p.a. in 2010 to 63 minutes in 2015; SAIFI: from 1.19 average interruptions p.a. in 2010 to 1.02 in 2015) due to grid reconstruction and development activities as well as grid automation. These include intelligent medium/low voltage stations and the upgrade of IT solutions, e.g., mobile workforce management, modern SCADA Systems, a condition-based maintenance strategy and GISs.

The Aggregate RAB amounted to EUR 0.9 billion in 2015 and has decreased in terms of EUR value compared to the previous regulatory period mainly due to the negative fluctuations in the exchange rate between the Euro and the Hungarian Forint. We have, however, now re-increased our investment volume to compensate for a decrease in remuneration caused by politically driven price cuts and sector specific taxes. See also *"16.5.5.2 Grid Operations"* and *"3.2.1 We are subject to significant regulatory and political risks, and our revenue, profits and financial position have been and will be affected by the regulatory frameworks in different ways."*

The current regulatory electricity period in Hungary runs from 2013 to 2016. Our electricity grid business in Hungary has managed four regulatory periods since our market entry in 1995; currently we are in the fifth regulatory period.

#### 15.5.6.3 *Operation of Electricity Grid in Poland*

We operate in Poland through innogy Stoen Operator Sp. z o.o. and cover the dynamically growing area of the capital Warsaw and neighboring municipalities. We estimate that our share of the Polish electricity distribution market was approximately 6% in 2015 in terms of distributed electricity volume (assuming a total electricity distribution market of 130 TWh for that year, based on the Activities Report of the President of the Energy Regulatory Office (Urząd Regulacji Energetyki, "URE") for 2015, published in April 2016). For more information on our market positions in the Polish electricity grid market as well as market trends, see *"14.2.3.1 Electricity Grid in Poland"*. innogy Stoen Operator Sp. z o.o. has achieved very good SAIDI and SAIFI rates compared to other local DSOs (based on our assessment of information available for the largest Polish DSOs as of the end of 2014).

Our Aggregate RAB amounted to EUR 0.7 billion in 2015 (determined on the basis of the calculation of network tariffs submitted to the regulator, see also *"16.5.8.2 Grid Operations"*).

Our asset base in Poland is continuously increasing due to the stable development of Warsaw (in Poland, the RAB is adjusted each year). Since entering the market at the end of 2002, our electricity grid business in Poland has gone through three regulatory periods, including the major organizational change in 2007 related to unbundling. The current fourth regulatory electricity period runs from 2016 to 2020.

#### 15.5.6.4 *Operation of Electricity Grid in Slovakia*

Our Slovak electricity DSO has a market share of 20% in terms of distributed electricity volume in 2015, according to data contained in the "Energy Market Report 2015" published by Energy Analytics, s.r.o., Nitra, Slovakia. For more information on our market positions in the Slovak electricity grid market as well as market trends, see "14.2.3.4 Electricity Grid in Slovakia".

We operate in the electricity grid market in Slovakia through a minority shareholding (49%) in VSE Holding as a strong partner to the Slovak government. We fully consolidate VSE Holding under IFRS on the basis of our 49% stake coupled with the control we may exercise under our extensive management rights. In line with applicable unbundling regulatory provisions, all core grid activities are centralized in VSD as DSO, a wholly-owned subsidiary of VSE Holding.

Our Aggregate RAB amounted to approximately EUR 0.5 billion in 2015 (determined on the basis of the calculation of network tariffs submitted to the regulators, see also "16.5.10.2 Grid Operations"). In the last three financial years, the business benefited from a regular investment level of at least EUR 40 million per year. Such investments are used for continuous asset renewal, as well as to improve the quality of supply and the safety of operations.

The Slovak regulator is monitoring various quality standards and customers are to be compensated by the respective DSO to the extent the applicable quality standards are not met. However, our quality parameters (SAIDI and SAIFI) are generally improving due to grid automation and better asset conditions in light of investments and grid renewals as well as the replacement of some assets. For example, our SAIDI performance in Slovakia improved from 157 minutes average outage duration p.a. in 2012 to 126 minutes in 2015, while our SAIFI indicator improved from 2.15 average interruptions p.a. in 2012 to 1.72 in 2015. Also, we introduced a modern workforce management system which results in shorter response times in case of outages.

The current regulatory electricity period in the Slovak Republic runs from 2012 to 2016. Since entering the Slovak market in 2003, we have successfully managed four regulatory periods.

#### 15.5.6.5 *Key Features of the Regulatory Regime in our Eastern Markets for our Grid Business*

Within our Grid & Infrastructure East business, the regulatory environment bears several conceptual similarities, with regulatory details varying from country to country and from regulatory period to regulatory period. The gas regulatory model in the Czech Republic is incentive-based with a revenue cap, while the electricity grid regulatory regime in Hungary, Poland and Slovakia is based on a price cap. In all four countries, the regimes are transparent and envisage certain incentives for expansion investments and efficiency outperformance is possible. In Poland, some regulatory issues (e.g., quality parameters for the years 2018-2020, further approach towards smart meters and/or balancing meters, including additional remuneration) may be updated by the Polish regulator URE within the ongoing regulatory period. In all four regimes there is a broadly similar determination of the regulated revenues/price, based on the following key variables: regulated asset base, WACC, depreciation, operating expenses and grid losses. The regulatory periods in the four countries overlap only partially, thus providing additional stability to our Grid & Infrastructure East business. In the Czech Republic and Poland, which represent roughly two-thirds of the Aggregate RAB of our G&I East business, we expect sustainable returns in the current regulatory period running from 2016 until 2018 and 2020, respectively. In Slovakia and Hungary, representing roughly one third of the Aggregate RAB of our G&I East business, we are actively involved in trustful consultations by the regulator of the DSOs regarding the new regulatory periods set to begin in 2017.

The following table provides an overview of the key regulatory features of the countries where our Grid & Infrastructure Segment is active in Eastern Europe:

		Czech Republic	Hungary	Poland	Slovakia
	Current regulatory period	2016-2018	2013-2016	2016-2020	2012-2016
General	Type of regulation	Revenue Cap	Price Cap	Price Cap	Price Cap
	Incentive elements in regulatory framework	✓	✓	✓	✓
RAB and WACC	Regulated asset base (RAB)	EUR 1.6 billion	EUR 0.9 billion	EUR 0.7 billion	EUR 0.5 billion
	Regulatory WACC (pre-tax)	7.94% (nominal)	6.23% (real)	5.675% <sup>1)</sup> (nominal)	6.12% (real)
Regulatory Opex Treatment	Efficiency factor	✓	✓	✓	✓
	Pass-through of financing costs	✗	✗	✗	✗
	Regulation of quality of supply <sup>2)</sup>	✗	✓	✓	✓
Other	Volume risk	✓	✗	✓	✓
	Inflation <sup>3)</sup>	✓	✓	✓	✓
	Compensation for investments	✓	✓	✓	✓

1) Confirmed for 2016; following years to be adjusted according to risk free rate development.

2) Bonus/malus system for stability.

3) Inflation effects considered in regulatory revenues.

Our interaction with the respective regulators is based on many years of intensive negotiations. Furthermore, the improvement of grid performance and the quality of supply across our East European markets brings additional benefits through regulatory incentives for such improvements. For more information on the applicable regimes, see "16.5.3.2 Grid Operations" (Czech Republic), "16.5.5.2 Grid Operations" (Hungary) "16.5.8.2 Grid Operations" (Poland) and "16.5.10.2 Grid Operations" (Slovakia).

#### 15.5.6.6 Participations of G&I East

Besides smaller participations, our G&I East business holds a participation in a wastewater treatment plant, which we operate in the Croatian capital Zagreb. This green field project started in 2000 as a result of increasing ecological awareness and the legal requirement to reduce water impurities, especially in the river Sava. Under a contract entered into with the City of Zagreb for a contractual term until 2028, Zagrebačke otpadne vode d.o.o. ("ZOV") has undertaken to act as building contractor and project manager and to carry out all essential commercial and administrative tasks. We hold a minority stake of 48.5% in ZOV. The project includes the construction, financing and operation of the central wastewater treatment plant and associated infrastructure projects in accordance with a build-operate-transfer (BOT) model. The construction has been completed in 2007. The construction and operation have been transferred into two separate companies, the construction company SRV d.o.o. (in which we hold a 50% stake) and the operation company ZOV uip d.o.o. (in which we hold 31%).

### 15.5.6.7 Other Activities of G&I East – Gas Storage in the Czech Republic

Besides smaller, other activities within our Grid & Infrastructure East business, we own and operate six gas storage facilities in the Czech Republic through our subsidiary iGS, of which the following chart provides an overview as of June 30, 2016:

Czech Republic	Working gas volume (in million m <sup>3</sup> )	Maximum withdrawal rate (in m <sup>3</sup> /day)
Háje .....	75	6,000,000
Lobodice .....	177	3,600,000
Štramberk .....	500	7,000,000
Třanovice .....	530	8,000,000
Tvrdonice .....	525	7,770,000
Dolní Dunajovice .....	900	16,000,000
<b>Total .....</b>	<b>2,707</b>	<b>48,370,000</b>

Note: The sum of technical maximum withdrawal capacities of iGS is higher than the overall commercial withdrawal capacities shown above due to certain technical limitations, especially regarding the transmission pipeline.

Four of iGS's storage facilities are porous rock depleted gas field storages. Gas is stored in small pores and cracks in solid but porous and permeable rocks. One facility is a rock cavern storage (Háje) which was artificially created within a granite strata close to Prague, and one is an aquifer (Lobodice).

All six storage facilities are located within the Czech Republic and connected to the transmission grid of the Czech transmission system operator (NET4GAS, s.r.o.); four storages are also connected to the Czech distribution network. The terms of our interconnection with the Czech TSO establish, among others, an operational balancing account which enables us to provide simple operational procedures to our customers.

The six storage facilities are pooled and marketed as one storage point with one virtual gas storage delivery point. This allows us to achieve high availability of our storage services with limited maintenance periods and to offer a wide range of storage products, including various combinations of working gas volume and withdrawal and injection rates. In addition, we offer additional storage services such as within-day interruptible products, REMIT reporting services, etc. We expand our product portfolio every year based on the feedback from our customers.

Among the storage customers are both Czech and European gas shippers, suppliers of gas to end-users, gas traders as well as certain other entities (such as banks), who make use of our storage services.

Storage capacities are sold in transparent online auctions and the results of the auctions are, together with other operational data, published on our web page. Until now, we have always sold all our available storage capacity, mostly for a period of one or more years. Typically, more than half of the available capacity is sold on a long-term basis, i.e., for three or more years. The portfolio of our gas storage assets and the terms of our interconnection with the Czech TSO does not require a minimum size for our storage services (e.g., no minimum amount of contracted capacity and no strict limitation on minimum flow volumes or filling levels) and allows for a flexible change of regime from gas injection to withdrawal and vice-versa.

In the Czech Republic, we understand from our customers that they use gas storage to balance gas supply and demand in order to supply gas to end-users, arbitrage gas prices, balance gas systems, and as security against unpredictable situations in gas markets or technical failures. In recent years, security of supply has been a topic of discussion at the national and European levels. In the Czech Republic, our portfolio of gas storage facilities plays an important role in security of supply, in particular as there is a legal obligation to secure a proportion of gas for protected customers specifically stored in gas storages. For further details, see "14.1.3.4 Gas Storage". We continuously adjust our operations to decreasing price levels creating innovative offerings for our customers (e.g., options for gas storage capacity and a REMIT reporting service)

and increase operational excellence (e.g., utilize economies of scale of our six sites, cost advantage over many of our competitors mainly through cost of energy for own consumption and labor cost). With respect to other gas storage operators in the Czech Republic and certain neighboring countries, we believe that our storage facilities in the Czech Republic tend to achieve comparatively robust cash margins, even if the profitability of the gas storage business in G&I East declined throughout the 2013-2015 period.

## **15.6 Retail Segment**

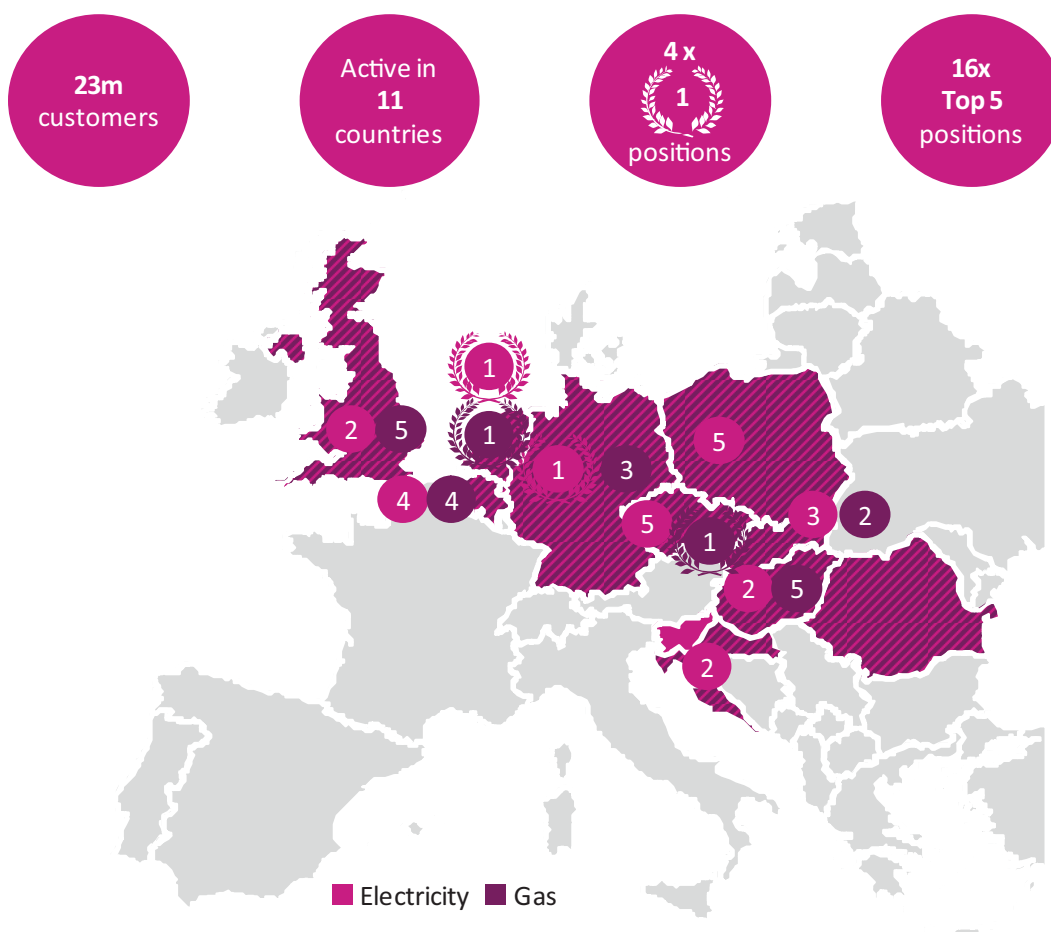
### **15.6.1 Segment Overview**

Our Retail Segment is a leading supplier of electricity, gas and associated Energy+ products and services. Based on the number of customer contracts for electricity and gas\*, we serve 23 million industrial customers and resellers (B2B) as well as residential and commercial customers (B2C) in eleven European countries with diverse competitive and regulatory environments (for more details see "*14.3 Retail Market*"). Our Energy+ business, including electric vehicle charging solutions, is active in more than 20 countries. Of our segment's customer base, 16.2 million customers (70% of our customer base) are electricity customers, and 7.0 million customers (30% of our customer base) are gas customers.

Geographically, our customer base is well diversified with, in each case as of December 31, 2015, 8.1 million customers (35% of our customer base) in Germany, 4.7 million customers (20% of our customer base) in the Netherlands and Belgium, 5.0 million customers (22% of our customer base) in the United Kingdom as well as 5.4 million customers (23% of our customer base) in our East region comprising Poland, the Czech Republic, Hungary, Slovakia, Croatia, Slovenia and Romania. Based on the electricity and gas volume (for Germany, the United Kingdom, Slovakia, Hungary and Croatia) or customer contracts (for the Netherlands, Belgium, the Czech Republic and Poland), our Retail business has leading positions in many of our markets, and as a result we believe we are perceived as an established and trusted supplier with a loyal customer base. For example, on the basis of competitors' disclosure, regulatory reports and research reports, we estimate that we are the market leader for the supply of electricity in Germany and the Netherlands as well as for the supply of gas in the Czech Republic and the Netherlands. In addition, we estimate that we have twelve further top five positions for the supply of electricity or gas in our European markets (see "*15.1 Overview*"). Our strong market position in many stable and mature European markets offers structural growth potential, especially in our East region (due to growing energy demand per capita). The potential stems from cross-selling second commodity products, up-selling non-commodity Energy+ products, and from new market entries.

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\* In "*15.6 Retail Segment*", the term customer refers to customer contracts for electricity and gas which are counted separately (including dual-fuel contracts for electricity and gas).



While the majority of our Retail Segment's EBITDA contribution is generated by the sale of electricity and gas to our customers, our segment increasingly benefits from its growing Energy+ business comprising the sale of non-commodity products and services to electricity and gas customers with more diverse energy needs. Our Energy+ offerings, for example, comprise energy efficiency products and services, as well as systems which enable our customers to produce and store their own energy, such as CHP (Combined Heat and Power) systems, solar systems and batteries. In particular our heating businesses and services currently constitute key earnings contributors in our Energy+ business. In 2015, our Energy+ business contributed around EUR 70 million to our segment's operating result (EBITDA: around EUR 110 million).

In our Retail Segment, we expect to focus our investments on our Energy+ business and our segment's IT infrastructure. Of the around EUR 800 million in our capital expenditures budget for the financial years 2016 to 2018, we expect to allocate between 40% and 50% to our Energy+ business, between 25% and 35% to IT investments driven by digitalization and the smart meter roll-out in the UK, between 10% and 20% to bolt-on acquisitions, and between 10% and 15% to other projects, such as day-to-day capital expenditures in our B2C business and capital expenditures related to the consolidation of facilities and locations in the UK. In accordance with our strict investment framework with conservative hurdle rates for the utilization of our budget for capital expenditures, we are currently expecting hurdle rates for the return on investments to be in the range of 7% to 8%, determined on the basis of an after-tax WACC, a project risk adjustment and a country risk adjustment.

With Energy+ investments we plan to focus on expanding our Energy+ asset base, mainly our heating business and CHP projects in Germany, as well as the development of new products. Investments into our IT reflect the increasing digitalization of our business and, in particular, the roll-out of smart meters in the United Kingdom. Finally, by investing into small-scale acquisitions, we aim to facilitate or strengthen entries into new markets, and to add further Energy+ skills.

In 2015, our Retail Segment generated EBITDA of EUR 1.0 billion and contributed 22% to our EBITDA of EUR 4.5 billion. Our Retail business benefits from a relatively low need of capital expenditures and is highly cash generative. Capital expenditures in our Retail Segment represented 14% of the Group's overall capital expenditures in 2015, with the corresponding shares being even lower in 2014 and 2013.

### 15.6.2 Key Strategic Objectives

Within our Retail Segment, we aim to manage our business along three value drivers, namely by maximizing the value of the commodity business, growing the Energy+ business and creating options for new business.

- *Maximizing the value of the commodity business.* The maximization of value of our commodity business shall be achieved by optimizations across value levers (for a description of the main value levers, see "15.6.4 Commodity Business"), achieving a turnaround in our business in the United Kingdom, cross-selling of the respective second commodity (gas or electricity) in existing markets and an expansion into new markets.
- *Growing the Energy+ business.* We intend to grow our Energy+ business by expanding our heating business as well as basic Energy+, and by growing in prosumer and home energy solutions.
- *Creating options for new business.* We plan to create new options through the development of leading first mover positions, by identifying and commercializing newly emerging opportunities early on, building front runner positions in new solutions (e.g., electric vehicle charging solutions) and becoming an active innovator in the new energy world.

### 15.6.3 Customer Base

#### 15.6.3.1 Overview

Our Retail Segment has a well-diversified portfolio in electricity and gas across large parts of Europe providing access to a large customer base. In Germany, the Netherlands, Belgium, the United Kingdom, Poland, the Czech Republic, Hungary, Romania, Slovakia and Croatia we offer both, electricity and gas, and in Slovenia we offer electricity. In most markets we also offer associated Energy+ products and services. The following table sets forth our customer base as at December 31, 2015, by country and product:

Country	Electricity Customers <sup>1)</sup> (in million)	Gas Customers <sup>1)</sup> (in million)
Germany . . . . .	6.8	1.3
Netherlands . . . . .	2.2	2.0
Belgium . . . . .	0.4	0.2
United Kingdom . . . . .	3.0	2.0
Poland . . . . .	0.9	<0.001
Czech Republic . . . . .	0.3	1.3
Hungary . . . . .	2.1	<0.001
Romania . . . . .	<0.001	<0.001
Slovakia . . . . .	0.5	0.1
Croatia . . . . .	0.1	<0.001
Slovenia . . . . .	<0.005	—

1) Based on number of contracts as of December 31, 2015. Customers with a "dual-fuel" contract (i.e., for electricity and gas supply) are counted twice, once as an electricity customer and once as a gas customer.

As a result of our footprint across large parts of Europe, our Retail Segment has significant expertise in managing diverse, and in certain markets fast-changing, regulatory and competitive environments which can be leveraged to create competitive advantages. In particular, our extensive experience enables us to react quickly and effectively when specific markets are

further liberalized or when regulation changes. We can also leverage our experience when building and scaling-up second commodity business and when entering adjacent markets in Southeastern Europe. Furthermore, our international experience allows us to share best practices with regard to customer needs and new products between markets.

In recent years, our customer base has remained largely stable in terms of numbers, as new customer acquisitions tended to offset customer churn, although there was a decline in customer numbers in the United Kingdom (see "15.6.3.4 United Kingdom"). The following table sets forth the development of our customer base in our key regions in the financial years 2013 to 2015:

Country	Electricity and Gas Customers (in million) as of December 31,		
	2015	2014	2013
Germany .....	8.1	8.0	8.0
Netherlands and Belgium .....	4.7	4.7	4.7
United Kingdom .....	5.0	5.4	5.7
East .....	5.4 <sup>2)</sup>	4.9	4.8
<b>Total<sup>1)</sup></b> .....	<b>23.2</b>	<b>22.9</b>	<b>23.3</b>

1) Figures may not add up due to rounding differences.

2) Figure for 2015 includes customers after first-time full consolidation of Východoslovenská energetika Holding a.s. (VSE Holding) in Slovakia with approximately 0.5 million customers.

High customer satisfaction is an important aspect in maintaining a stable and loyal customer portfolio. In 2015, according to a company survey, our customers (thereof B2B and B2C customers being equally weighted) were overall satisfied with the products and services provided by our segment. In addition, we received numerous awards (e.g., TÜV Süd Service Quality Certificate 2016 (eprimo, Germany), TOP SERVICE Deutschland 2016 award by Handelsblatt, University of St. Gallen and ServiceRating (eprimo, Germany), Pricewise Energy Award Gold 2014-2015 for best price and quality (energiedirect.nl, Netherlands), Association of Hungarian Energy Consumers' Award for the most consumer friendly behavior 2014 (Hungary), and the Customer Friendly Company Certificate 2016 by the Polish Management Observatory Foundation (Poland)) which demonstrates the high quality of our customer service.

Within our customer base, we divide our retail end customer groups into B2C customers (mostly residential customers, i.e., private households, and commercial customers) and B2B customers (mostly industrial customers as well as resellers such as other retailers, distributors and grid operators). However, depending on national regulations and market specifics, the individual attribution of customers to our B2C or B2B business may vary to a certain extent across our markets. Of our total customer base of 23 million, as of December 31, 2015, 99% were B2C customers and only below 1% were B2B customers. A detailed overview of the numbers of our B2C and B2B customers is set forth in the following table:

Country	Customers (in thousands <sup>1)</sup> ) as of December 31, 2015	
	B2C	B2B
Germany .....	8,060	60
Netherlands and Belgium .....	4,700	10
United Kingdom .....	4,980	20
East .....	5,400	10
<b>Total</b> .....	<b>23,130</b>	<b>110</b>

1) Customer numbers are rounded to the nearest 10,000 customers. Numbers may not add up due to rounding differences.

In terms of electricity and gas volumes sold, the B2C share of our portfolio accounted for 25% of our total of 212 TWh of electricity sold and 42% of our total of 243 TWh of gas sold. This reflects the fact that the average energy demand per B2B customer is significantly higher than the demand of a B2C customer. However, our margins in our B2C business are generally higher than in our B2B business, and as a result, our B2C business contributed the major part of our Retail Segment's overall EBITDA of EUR 988 million in the financial year 2015.

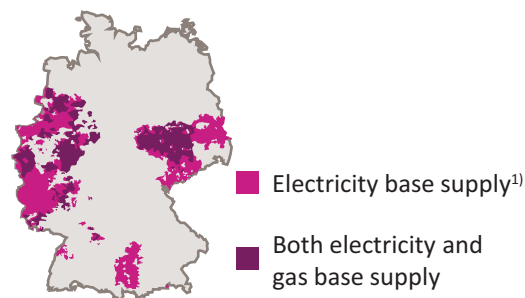
B2C customers require mass processes and sufficiently standardized offers in consideration of various regulations. With regard to the provision of the commodities, electricity and gas B2C customers may be either more interested in security of supply preferring well-proven brands or price sensitive using price portals and procuring flexibly via the internet. B2C customers also vary in the level and focus of their interest beyond commodity (e.g., need for solutions related to more convenience, to becoming active prosumers or to consistently managing their energy needs).

B2B customers are typically price sensitive and use wholesale prices as a benchmark. Furthermore, they are often interested in individualized offers and approaches, which we see as important instruments in a highly competitive market. Depending on specific customer needs, products differ, for example, in the coverage of sites, the supply period and volume/price formulas (e.g., full or partial requirements, fixed price to portfolio management). Some of our B2B customers are active or at least knowledgeable in energy management and, driven by cost pressure and regulations on efficiency, show an increasing interest therein. Our B2B business accounted for 75% of our total electricity sales and 58% of our total gas sales in 2015. Our B2B business has a broad and diversified customer base of around 107,000 individual customers, whereby our top ten customers represent 10% of electricity and 6% of gas sales volumes (with a large part of our biggest B2B customers being German local utility customers or retailers). The customer base of our B2B business includes mid-size as well as some large-size industrial customers, such as British Telecom, Sainsbury's, Unipetrol, Rossmann, Société Générale and Borealis; however, our Retail Segment generally does not serve very large industrial clients. Contracts with our B2B customers typically have a term of up to five years (with one or two year terms being most common), although especially our framework contracts with resellers or municipalities can have terms of more than ten years.

### 15.6.3.2 Germany

#### Overview

Germany, where we have been active for more than 100 years, is our most important market. In Germany, supported by strong brands, we benefit from a stable and liberalized market with a low degree of direct energy regulation, and have strong market positions with a loyal customer base. We are the base supplier for electricity and/or gas (for more details see "14.3.2.2 Liberalization and Regulation") in significant parts of Germany, as is illustrated by the following map:



1) Includes marginal areas where only gas is provided as base supply.

Our Retail Segment had approximately 8.1 million customers in Germany as of December 31, 2015, and based on competitors' data from annual reports, we are the largest supplier of

electricity and the third largest supplier of gas by volumes sold. In addition, our segment has a sizeable B2B and heating business in Germany. In 2015, our Retail Segment generated EBITDA of EUR 583 million in Germany (including EUR 81 million related to the non-materialization of legal risks).

Our loyal customer base, which is supported by strong brands, significantly contributes to our segment's success. Our German customers' loyalty is demonstrated by the fact that, based on electricity customers at the RWE brand level, approximately 38% have been with us for more than ten years, approximately 27% for between three and ten years, and approximately 35% for up to three years. We believe this to be a result of our strong network of national and regional brands. Our national brands RWE and eprimo are well-established among customers throughout Germany, and the rebranding from RWE to innogy will be designed with the aim of preserving the strong brand value. In addition, with our regional brands such as enviaM, Mitgas, rhenag, Süwag, VSE, energis, ELE, EWV and LEW, we have direct access to more regionally focused customers.

Over the past several years, we have focused on the growth of our eprimo brand, which has grown to around 1.3 million customers, as well as various cost and profit improvement initiatives, in particular at our former RWE Vertrieb Aktiengesellschaft (now part of innogy SE) and enviaM. In addition, we have introduced a wide range of Energy+ products, ranging from our heating businesses to our Connected Home business (with nearly 800,000 SmartHome central units and connected devices sold until the end of 2015, including sales to our regional companies which onsell to end customers) and electric vehicle charging solutions (with more than 3,000 charging points in operation) (see "15.6.5 Energy+ Business and Options for New Business" and "15.6.5.5 New Business Opportunities").

### Key Performance Indicators

The following tables set forth the development of our key performance indicators for Germany:

	2015	2014	2013
<b>Financial Key Performance Indicators</b>	<b>(unaudited)</b>		
Total revenue (EUR million) . . . . .	17,653	18,472	19,390
External revenue (EUR million) . . . . .	17,301	18,079	18,873
EBITDA (EUR million) . . . . .	583	394	279
<i>thereof: hedge book adjustment</i> . . . . .	—	—	(142)
<i>thereof: non-materialization of legal risks</i> . . . . .	81	—	—
EBITDA margin . . . . .	3.3%	2.1%	1.4%
Operating result (EUR million) . . . . .	545	358	255
Operating result margin (%) . . . . .	3.1%	1.9%	1.3%
Capital expenditures (EUR million) . . . . .	53	46	29
<b>Operational Key Performance Indicators</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Customers (million) . . . . .	8.1	8.0	8.0
Volume electricity (TWh) . . . . .	128	130	133
Volume gas (TWh) . . . . .	94	88	90
B2C share of volume <sup>1)</sup> . . . . .	20%	20%	24%
Churn rate B2C <sup>2)</sup> . . . . .	12%	13%	12%
Customer satisfaction <sup>3)</sup> . . . . .	78	77	n/a

1) B2C share based on total gas and electricity volume.

2) Total customer losses in one year divided by the average customer number across the year calculated on the basis of the numbers at the end of each quarter.

3) Customer satisfaction index, measuring % of customers being "very satisfied" or "satisfied" with the service provided; based on a company survey with data collected by multiple external service providers. In Germany, the customer satisfaction score is defined as an index value where 0 is the lowest score and 100 is the highest. Customers individually rate the service and then the overall average index is calculated.

### 15.6.3.3 *The Netherlands and Belgium*

#### **Overview**

We have been active in the Netherlands since 2002, and expanded our activities substantially with the acquisition of Essent in 2009. Essent itself has been active in the Dutch energy market since the early beginning of the electricity and gas markets. In Belgium, Essent has been active since the acquisition of the startup WattPlus in 2002, which was rebranded to Essent in 2004. We are a leading player in the gas and electricity markets in the Netherlands and Belgium (see market description under “14.3.3 Retail Market in the Netherlands and Belgium”) with approximately 4.7 million customers, generating EBITDA of EUR 236 million as of December 31, 2015. In the Netherlands, based on research reports (e.g., GfK, Energiemeter 2015), we believe we are the market leader in the supply of electricity and gas by customer numbers. In Belgium, according to data from the Belgian regulator (source: VREG, Marktaandalen Elektriciteitsleveranciers, Marktaandalen Aardgasleveranciers, 2016), we estimate we are the fourth largest electricity and gas supplier based on customer numbers as of May 2016.

Key challenges of our business in the Netherlands and Belgium include strong competition, a relatively high churn rate among customers, and aggressive pricing strategies of competitors. In 2015, the churn rates in our B2C business were around 20% in both the Netherlands and Belgium and, based on the most recent information, these percentages seem to increase in 2016. Especially in the B2B market, there is a constant pressure on prices and margins, partly caused by very active intermediaries. We are addressing these difficult circumstances in the B2B market by continually monitoring the B2B market and, where necessary, restructuring our activities and adjusting our organization and business model.

In the Netherlands we are one of three incumbents and are challenged by new market entrants, usually with a focus on aggressive pricing and/or a green image. We aim to address these challenges by making significant reductions in operating costs, by focusing on retention, cross-selling a second commodity, by pursuing our growth strategy with new sales channels and partnerships, and by offering new services in the Energy+ domain. In terms of reductions of operating costs, Essent implemented a multi-brand strategy and streamlined its processes by integrating back-offices and IT platforms, optimized its procurement in order to reduce external spend, and implemented several restructuring initiatives to reduce staff costs (e.g., through near-shoring services to Poland). With these measures, we managed to reduce our operating costs by around EUR 40 million from 2013 to 2015.

As part of our growth strategy, we acquired a number of service partners (Energiewacht, Geas Energiewacht and Volta Limbourg) with an established customer base to gain access to Energy+ customers. These service partners focus on non-commodity energy products and services, such as boilers. They intend to deliver additional products in the future like Connected Home products, insulation and photovoltaic installations.

In addition, we successfully established our cost efficient, internet-based energiedirect.nl brand and rolled out a partnership with Media Markt in order to diversify our sales channels. Furthermore, in the B2B market, we successfully introduced our Powerhouse brand, offering our B2B customers market access and energy optimization through our online Powerhouse energy platform.

## Key Performance Indicators

The following tables set forth the development of our key performance indicators for the Netherlands and Belgium:

	2015	2014	2013
Financial Key Performance Indicators	(unaudited)		
Total revenue (EUR million) . . . . .	4,241	4,498	6,342
External revenue (EUR million) . . . . .	4,241	4,498	6,341
EBITDA (EUR million) . . . . .	236	191	257
EBITDA margin . . . . .	5.6%	4.3%	4.0%
Operating result (EUR million) . . . . .	194	138	198
Operating result margin . . . . .	4.6%	3.1%	3.1%
Capital expenditures (EUR million) . . . . .	25	9	14
Operational Key Performance Indicators	2015	2014	2013
Customers (million) . . . . .	4.7	4.7	4.7
Volume electricity (TWh) . . . . .	19	20	23
Volume gas (TWh) . . . . .	62	61	84
B2C share of volume <sup>1)</sup> . . . . .	54%	53%	50%
Churn rate B2C <sup>2)</sup> . . . . .	21%	21%	20%
Customer satisfaction <sup>3)</sup> . . . . .	78%	74%	n/a

1) B2C share based on total gas and electricity volume.

2) Total customer losses in one year divided by the average customer number across the year calculated on the basis of the numbers at the end of each quarter.

3) Customer satisfaction index, measuring % of customers being "very satisfied" or "satisfied" with the service provided; based on a company survey with data collected by multiple external service providers. Underlying methods may differ by country and results are mapped into percentage scale to facilitate comparability.

### 15.6.3.4 United Kingdom

#### Overview

In the United Kingdom, where we have been active since 2002, our Retail business has a substantial position with approximately 5.0 million customers. Although the market is quite fragmented with six large players and numerous mid-sized and smaller market participants, we assess we were in 2015, based on information provided by Cornwall Energy, the second largest provider of electricity and the fifth largest provider of gas, in each case based on product volumes.

In recent years, in particular in 2014 and 2015, our UK business experienced significant disruptions in connection with the recently implemented B2C IT system for billing and customer services. Issues arose because the system failed in many instances to correctly process customer data and match industry data flows, including meter readings. As a result, we were unable to deliver accurate and timely billing to many of our customers in the United Kingdom. This led to a high level of customer complaints, a considerable loss of customers and higher operational costs due to the increased manual handling of customer queries and complaints. Furthermore, we experienced a significant billing backlog and had to write down revenues in cases in which electricity and gas bills could not be sent within the mandatory twelve-month period. In addition, we had to revise revenue estimations and faced higher levels of bad debt due to late billing and delayed collections.

These operational difficulties together with a highly competitive market environment resulted in negative EBITDA of EUR 65 million in 2015. We were further subject to increased scrutiny by the regulator Ofgem (see also "3.1.18 We may not be able to successfully implement our restructuring program for our npower business in the United Kingdom, and we may incur expenses to comply with regulatory decisions." and "15.14.2.4 Settlement with Ofgem regarding npower Group Licenses").

In addition, the Competition and Markets Authority (CMA) conducted a market-wide investigation of the energy sector which focused on the effective functioning of the UK energy markets. The final report by the CMA was published on June 24, 2016. The CMA proposed over 30 measures intended to increase competition and change the retail and wholesale markets from a technical and regulatory perspective. The list of measures include a price cap for charges on prepayment customers (who represent 16% of npower's customer base), which should then run until 2020. To promote engagement, suppliers will have access to a database of customers who have been on the standard variable tariff for more than three years, facilitating greater competition for this group of customers. These measures, combined with multiple interventions detailed in the CMA's final report, are expected to increase levels of churn across the industry and reduce retail margins with potentially negative implications for us and additional costs associated with customer engagement and communications. These interventions concern the wholesale as well as the retail business. As npower is active on both levels, all those remedies will apply to npower's business and therefore will have an impact on it.

For information on the recovery program for our UK business, see "15.6.4.3 Steering Model, Operations and Turnaround in the United Kingdom".

### Key Performance Indicators

The following tables set forth the development of our key performance indicators for the United Kingdom:

	2015	2014	2013
Financial Key Performance Indicators	(unaudited)		
Total revenue (EUR million) . . . . .	9,561	9,454	9,396
External revenue (EUR million) . . . . .	9,552	9,375	9,332
EBITDA (EUR million) . . . . .	(65)	294	366
<i>thereof: UK impacts from billing and regulatory issues</i> <sup>1)</sup> . . . . .	(119)	15	8
EBITDA margin . . . . .	(0.7)%	3.1%	3.9%
Operating result (EUR million) . . . . .	(137)	227	290
Operating result margin . . . . .	(1.4)%	2.4%	3.1%
Capital expenditures (EUR million) . . . . .	189	148	106

1) Includes (i) net effects of EUR 60 million related to charges concerning erroneous and late invoicing, the build-up of provisions for regulatory charges and reviews and the release of provisions for customer paybacks and (ii) net effects of EUR 59 million related to billing issues due to changes in revenue estimation. See "12.6.2.2.3 Operating Result and EBITDA (Retail Segment) – United Kingdom" for further details.

Operational Key Performance Indicators	2015	2014	2013
Customers (million) . . . . .	5.0	5.4	5.7
Volume electricity (TWh) . . . . .	45	46	48
Volume gas (TWh) . . . . .	40	39	46
B2C share of volume <sup>1)</sup> . . . . .	50%	53%	64%
Churn rate B2C <sup>2)</sup> . . . . .	14%	14%	13%
Customer satisfaction <sup>3)</sup> . . . . .	69%	65%	n/a

1) B2C share based on total gas and electricity volume.

2) Total customer losses in one year divided by the average customer number across the year calculated on the basis of the numbers at the end of each quarter.

3) Customer satisfaction index, measuring % of customers being "very satisfied" or "satisfied" with the service provided; based on a company survey with data collected by multiple external service providers. Underlying methods may differ by country and results are mapped into percentage scale to facilitate comparability.

### 15.6.3.5 East

#### Overview

Our East region, comprising Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia (see market description under “14.3.5 Retail Market in the East Region”), accounted for approximately 5.4 million customers and generated EBITDA of EUR 234 million for the financial year 2015. As such, we see our East business as a reliable contributor to our earnings. In some countries of our East region we have been active for many years, such as in Hungary, the Czech Republic, Poland and Slovakia, where we entered the market in 1996 (Hungary), 2002 (Czech Republic and Poland) and 2003 (Slovakia). In other countries we entered the electricity market with dedicated entities more recently, *i.e.*, Croatia in 2013, Romania in 2014 and Slovenia in 2015. We have strong positions in many of our markets in our East region. For example, in 2015, we believe we were the largest gas supplier in the Czech Republic (based on customer contracts and information published by the Czech Energy Regulatory Office and the Czech electricity and gas market operator OTE), and the second largest gas supplier and the third largest electricity supplier in Slovakia (based on volumes sold and information published by the Slovakian Regulatory Office for Network Industries (ÚRSO) and other public sources).

The markets in our East region offer many opportunities ranging from electricity and gas demand growth rates above Western European levels (for more details on expected demand, see “14.3.5 Retail Market in the East Region”) to further market liberalization which may open new customer segments or further commodities for competition. We have identified attractive cross-selling opportunities, particularly in Poland and Croatia, by leveraging our existing electricity customer base in order to cross-sell gas products. In doing so, we aim to build on our strong track record of successfully cross-selling gas in Slovakia and electricity in the Czech Republic (see “15.6.4.6 Cross-selling Second Commodity”). We also successfully entered markets in Croatia (where we believe we are the second largest B2C provider of electricity), Slovenia and Romania. In addition, we recently acquired a significant customer portfolio in Hungary in order to expand our Hungarian gas business and facilitate the cross-selling of gas to electricity customers (see also “15.16.2 M&A Activities in our Retail Segment”).

In the Czech Republic, we are currently developing a chain of compressed natural gas stations. Compressed natural gas is supported by the Czech government as an alternative fuel through subsidies and tax benefits (meaning lower excise taxes). This is based on the Czech National Action Plan for Clean Mobility according to which alternative fuels (mainly compressed natural gas, but also electricity) shall reach a share of 10% in the transport sector. We are currently operating more than 15 compressed natural gas stations and plan to expand to around 50 stations by 2020.

#### Key Performance Indicators

The following tables set forth the development of our key performance indicators for our East region:

	2015	2014	2013
Financial Key Performance Indicators	(unaudited)		
Total revenue (EUR million) . . . . .	3,612	3,394	4,007
External revenue (EUR million) . . . . .	3,397	3,193	3,795
EBITDA (EUR million) . . . . .	234 <sup>1)</sup>	190	211
<i>thereof: gain on consolidation of VSE Holding</i> . . . . .	42	—	—
EBITDA margin . . . . .	6.5%	5.6%	5.3%
Operating result (EUR million) . . . . .	228	184	188
Operating result margin . . . . .	6.3%	5.4%	4.7%
Capital expenditures (EUR million) . . . . .	20	9	9

1) Increase due to first-time full consolidation of Východoslovenská energetika Holding a.s. (VSE Holding) in Slovakia with approximately 0.5 million customers.

Operational Key Performance Indicators	2015	2014	2013
Customers (million) . . . . .	5.4 <sup>1)</sup>	4.9	4.8
Volume electricity (TWh) . . . . .	20	19	18
Volume gas (TWh) . . . . .	47	46	53
B2C share of volume <sup>2)</sup> . . . . .	36%	35%	38%
Churn rate B2C <sup>3)</sup> . . . . .	4%	4%	7%
Customer satisfaction <sup>4)</sup> . . . . .	83%	77%	n/a

1) Increase due to first-time full consolidation of Východoslovenská energetika Holding a.s. (VSE Holding) in Slovakia with approximately 0.5 million customers.

2) B2C share based on total gas and electricity volume.

3) Total customer losses in one year divided by the average customer number across the year calculated on the basis of the numbers at the end of each quarter.

4) Customer satisfaction index, measuring % of customers being “very satisfied” or “satisfied” with the service provided; based on a company survey with data collected by multiple external service providers. Underlying methods may differ by country and results are mapped into percentage scale to facilitate comparability. Customer satisfaction index relates to the Czech Republic, Hungary, Poland and Slovakia only.

## 15.6.4 Commodity Business

### 15.6.4.1 Overview

Our commodity business focuses on the sale of electricity and gas to our customers. It is by far the largest earnings contributor in our Retail Segment at the moment, generating over 90% of our segment’s overall EBITDA. Our success in the commodity business depends on the consistent optimization along value levers (as described below), the turnaround in our UK business and the expansion into second commodity offerings and new markets.

In procurement and hedging, the key value lever is to source energy to cover customer demand at low procurement costs and minimize deviations between supply and demand curves in order to maximize gross margins and limit risk. Given the uncertainty in the development of our customer portfolio and individual customer demand, it is important to have effective systems, processes and rules to continually track and hedge supply and demand portfolios for all relevant commodities. For a detailed description of our procurement and hedging, see “15.6.4.2 Procurement (Across Markets and Segments)”.

Regarding customer service, the key value lever is the ability to implement and operate highly-professional customer service processes and maintain the required quality at a low cost. Key customer-related service processes are: inbound customer contact management, invoicing & billing, payment and collection, complaint handling, bad debt management and customer commercial information. Low cost provision of these services (e.g., online customer care) on the one hand, and high customer centricity on the other hand, requires particularly strict process standardization, effective IT support systems, strict performance monitoring and management by KPIs. For more information, see “15.6.4.3 Steering Model, Operations and Turnaround in the United Kingdom”.

In customer portfolio management, the key value lever is to retain valuable customers and focus acquisitions on customers who create additional value (reflecting expected margin and expected acquisition cost) through products which appeal to customers and satisfy their needs. Effective data management, good customer insights, proactive customer care and marketing are all required to approach customer groups with targeted retention products and new offerings. Increasing customer centricity has been one of the goals of the group-wide optimization project “New Way of Working”. Loyalty-awarding measures to keep high-value customers are of particular importance. For more information, see “15.6.4.4 Customer Portfolio Management”.

Brands are critical in supporting business targets by creating awareness, which facilitates establishing and supporting relationships with customers. Another key value lever is to efficiently increase the customer base at relatively low acquisition costs. Minimizing acquisition

costs requires the development and ongoing management and optimization of a flexible portfolio of our own, and external channels, through which we can approach targeted customer groups and achieve a sufficient hit rate at a low cost. For more information, see *"15.6.4.5 Multi-brand and Sales Channels"*.

In cross-selling and up-selling, the key value lever is to optimize the value per customer by selling additional products and services to existing customers. Successful cross-selling and up-selling requires effective data management and customer insight as well as attractive offers and targeted marketing. For more information, see *"15.6.4.6 Cross-selling Second Commodity"*.

New markets offer an opportunity to leverage our capabilities and represent potential for growth. The ability to transfer successful business models from one market to other markets with similar characteristics, together with the know-how of developing businesses in new countries, are critical for growth in new markets. For more information, see *"15.6.4.7 New Markets"*.

#### *15.6.4.2 Procurement (Across Markets and Segments)*

Procurement and hedging is done by Retail Energy Management ("**REM**") units in the relevant markets and coordinated by a dedicated unit with group-wide scope. REM manages all commodity-related risks and provides the link between the sales units and the wholesale market, in which it buys the electricity and gas required to meet customers' needs.

Due to the different characteristics between our Retail Segment's products (*i.e.*, variable customer demand and contract duration) and wholesale products (*i.e.*, fixed term and fixed volume contracts), it is a challenge for REM to perfectly hedge all of the commodity-related uncertainties stemming from retail sales in the wholesale market. Therefore, REM's core activities involve exploiting available wholesale market products to mitigate those uncertainties and managing any remaining risks. The latter activity involves analyzing the markets and maintaining risk models, methods and hedging strategies, as well as ensuring that the sales units include a sufficient risk premium within their prices to reflect the risks that the business is taking on. For example, one of the largest risks faced by our Retail Segment is the level of domestic customer demand for gas during winter months which depends on the weather. REM purchases the expected sales volume in advance based upon average historic temperatures. Nevertheless, we remain exposed to the risk that actual temperatures deviate significantly from average historic temperatures, resulting in the need to purchase additional gas or sell back gas at short notice, which impacts our sales margins. REM manages this risk by executing "weather hedges", which provide an offsetting pay-out of the difference between the expected and the actual customer sales revenues. Weather hedges are assessed by comparing their cost with the modeled risk reduction with a threshold being applied to ensure consistent risk-reward decisions.

REM develops and executes hedging strategies for the procurement of domestic customer volume based upon the characteristics of each market, with procurement of up to three years ahead of supply, while business customer demand is hedged once the contract with a customer is signed (also known as "back-to-back" hedging). REM also offers risk management services to large customers and industrial generators, providing them with market information and access to the wholesale market. In the future we want to become a "Holistic System Manager" within the decentralized energy world – with collecting, bundling and selling of decentralized volumes as one of our core activities.

#### *15.6.4.3 Steering Model, Operations and Turnaround in the United Kingdom*

##### **Steering Model**

The steering of our Retail business has evolved over the recent years with the objective of exploring improvement potential across the markets. Prior to 2011, our retail business was managed at the level of the individual countries, which acted relatively independently with only

informal exchanges between them. Between 2011 and 2015, we increased the coordination of our retail activities across our regions, especially within the East region, on a functional level through institutionalized coordination and, since 2014, through central coordination by the RWE Retail board. This was done on a case-by-case basis with respect to market entries, product launches and projects, by increasing knowledge sharing between the countries. Although, at the time, any coordination was still mainly advisory, and decisions were continued to be made independently by the countries and regions, the improved coordination contributed significantly to operational improvements and an increased performance in our retail business.

Since April 2016, our retail business has been consistently steered based on a new group-wide framework with clear functional leadership across the regions. The new steering model is characterized by the following key components: The COO Retail is a member of the Company's Management Board and has overall responsibility for the retail business. In addition, there is an executive committee comprising the COO Retail and five other members, of whom four have individual responsibilities for group-wide functions (Retail Energy Management, IT, Finance, Strategic Marketing, Energy+, Digital) or business segments (B2C and B2B) and one has a clear focus on the UK recovery. Each function or segment is tracked on the basis of comprehensive key performance indicators. The responsible member of the executive committee develops concepts addressing priority improvement areas and drives initiatives for group-wide implementation. End-to-end process execution and profit responsibility at market level remains with seven chief commercial officers. The new functional steering model is designed to bring cooperation across markets to new levels. It aims to further push best practice sharing across the organization, foster and drive the retail programs, and allows for a consistent implementation of our retail strategy, in particular by agile product launches, e.g., in relation to Energy+ offerings. In addition, it enhances operational control, but at the same time preserves customer proximity and local responsibilities which we believe are key to our success.

## **Operations**

Our operations primarily include our customer-related activities, invoicing, billing, payment and collection, as well as customer contact management (including acquisition and retention measures and complaints). It is essential to safeguard the high quality of these activities at an acceptable cost.

We are consistently striving for operational excellence. We steer our customer service based on key performance indicators and aim to reveal operational and structural shortages quickly. Key characteristics of our customer service are a clear end-to-end responsibility, strong KPI-driven steering through service level agreements, optimization measures (e.g., outsourcing), segmentation of calls and subsequent customer handling. To enable top service quality without harming profit margins, we aim for tight cost management and lean cost structures. The generally high quality of our customer services is underlined by the high degree of customer satisfaction and the various awards we have received (see "15.6.3.1 Overview").

## **Turnaround in the United Kingdom**

In recent years our UK retail business experienced significant operational difficulties culminating in an EBITDA loss of EUR 65 million in 2015 (see "15.6.3.4 United Kingdom"). A subsequent root cause investigation highlighted problems within the business including the inadequate implementation of a new IT system, inadequate operational process effectiveness, and weak managerial oversight. A comprehensive recovery program has been developed and is being implemented in order to address these root causes for our underperformance:

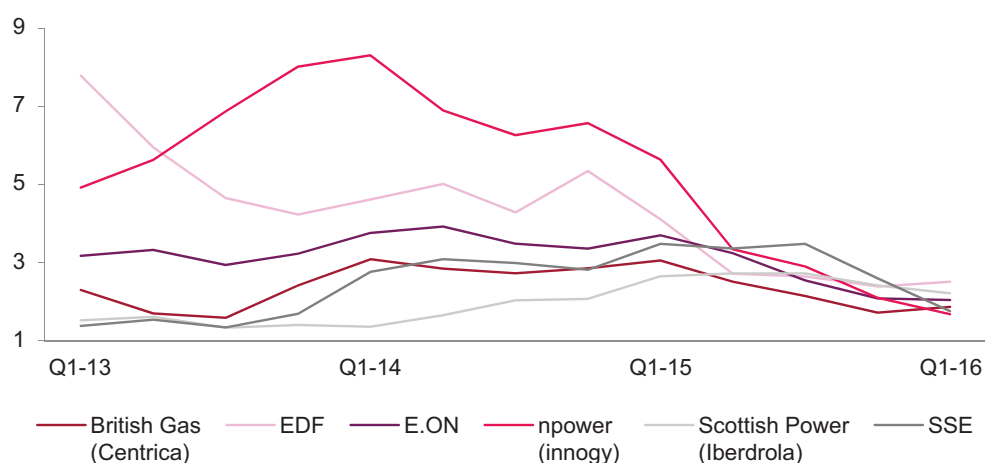
- With respect to insufficient management and operational oversight, we appointed a new management team, strengthened key departments, significantly enhanced our operational controls and sharpened our commercial focus and financial transparency.
- A key challenge has been to overcome the inadequate implementation of the new IT system and the resulting excessive spending which we faced in the aftermath (see also "3.1.36 We

*depend on the uninterrupted and efficient functioning of our information technology, data collection and processing and process monitoring systems to manage our operations.”). To this effect, we are resolving defects in our enterprise resource planning (“ERP”) IT systems and have enhanced our IT capabilities and set-up. In addition, we have introduced a new system integrator to increase competition and reduce spending.*

- Another key component of our recovery program is the reduction of operational costs. As such, we aim to achieve substantial cost savings and operational improvements, in particular through the reduction of 2,400 direct and indirect employees and the closure and consolidation of premises within our UK property portfolio. Furthermore, we aim to substantially reduce our bad debt.
- Since our operational problems led to a high churn rate among customers as a result of poor customer satisfaction, we are implementing measures to increase customer satisfaction, in particular to reduce causes of complaints such as the issuance of late bills, and to improve our handling of complaints. In addition, we are developing new and improved commercial offerings, a new agile and competitive pricing strategy, and new routes to market.
- A further challenge was inadequate management of outsource partners and suppliers. As a result, we have significantly reduced our outsource partners by insourcing critical IT functions. In addition, we are taking steps to manage our outsource partners more actively. We have reinforced a spending control policy and are reviewing and optimizing the relationships with our supply chain partners.

We expect the implementation of our recovery program, which started late in 2015, to last more than two years. There are early indicators which, taken together, show that the individual measures of the recovery program have started to show meaningful impact, although further consistent actions are still required:

- We managed to reduce the number of late bills from approximately 97,000 in June 2015 by 32% to approximately 66,000 in June 2016.
- Our operational performance improved significantly as is shown by the reduction of incoming customer complaints from approximately 453,000 in the first six months of 2015 by 61% to approximately 175,000 in the first six months of 2016. Measured by incoming complaints (in thousands per 100,000 accounts), our customer satisfaction has improved to be among the best-in-class:



Source: Ofgem, Supplier performance on consumer complaints (May 2016).

- We reduced the number of major IT incidents from 68 in the first six months of 2015 by 54% to 31 in the first six months of 2016.
- We reduced our spending on services provided by outsource partners from the first six months of 2015 to the first six months of 2016 by 15%.

- We have also recently managed to meet the targets set by Ofgem in the last year. In the first six months of 2016, we managed to reduce the numbers of late invoices relating to periods of six months earlier or more by 72% to approximately 13,000 as of June 30, 2016. In the same period, we also reduced the number of unresolved complaints older than 56 days by 47% to approximately 3,800, completely eliminated unresolved complaints older than 365 days, and reduced inflow to the ombudsman by 61% to approximately 340 complaints per month.

We believe that these measures are a key factor for limiting churn among our customers, and we were able to significantly reduce net customer losses in the first quarter of 2016. The second quarter of 2016 was negatively impacted by expiry of an extraordinarily high number of fixed term contracts; however, July 2016 again showed a positive trend.

With our recovery program, we are targeting gross cost savings of around GBP 200 million by 2018. We plan to achieve these savings through more than 220 separate initiatives. Certain key savings measures include efficiency improvements in relation to customer services, a reduction in bad debt expense, a rationalization of our project portfolio and our support functions, the renegotiation or reduction of vendor contracts and consultancy services as well as the implementation of budget cuts and a stricter travel policy. Initiatives accounting for more than one third of the targeted OPEX savings have already been realized or implemented, and the remaining initiatives have been approved for implementation. In addition, we continue to identify and evaluate further OPEX savings initiatives as well as other measures to improve our gross margins and customer satisfaction. With these measures, we aim to reduce our cost-base to the level of our competitors and to return to profitability.

#### 15.6.4.4 *Customer Portfolio Management*

We actively manage our customer portfolio by taking consistent action to limit churn, especially in the areas of customer care and product offering. Measures that we take as part of our customer care include so-called "bill shock calls" in case of increased annual bills, proactive up-and cross-selling based on price sensitivity and switching risk scoring (which is based on customer data and behavior, e.g., interaction with the call center), keeping contracts and supporting customers when they move, automatically adjusting advance payments, and maintaining a "save desk" with specifically trained employees. We have tailored product offerings to support us in directly re-acquiring switching customers with fixed-term contracts, and we offer products targeted at specific customer needs (for example green energy). In addition, as part of our retention measures, we bundle commodity deliveries of electricity and gas with longer term services, for example under our loyalty card (see "15.6.5 Energy+ Business and Options for New Business"), and make retention offers for loyal customers.

#### 15.6.4.5 *Multi-brand and Sales Channels*

A significant element of our B2C portfolio management is to complement the use of our very strong national and regional brands by establishing low-cost secondary brands focused on offering highly competitive pricing through digital channels where and when appropriate. At the same time, our multi-brand approach limits cannibalization of our existing B2C business and enables us to operate through different brands as well as to tailor the pricing models to the respective customer base. In Germany and the Netherlands, our brands eprimo and energiedirect.nl have shown strong customer growth and contributed significantly to maintaining our market positions. The number of electricity customers under our eprimo brand has rapidly grown from around 151,000 as of December 31, 2007, to around 979,000 (thereof around 755,000 electricity and around 224,000 gas customers) as of December 31, 2011, and to around 1,275,000 (thereof around 1,006,000 electricity and around 269,000 gas customers) as of December 31, 2015. Similarly, our energiedirect.nl customer base grew from around 261,000 (thereof around 139,000 electricity and around 122,000 gas customers) as of December 31, 2007, to around 510,000 (thereof around 268,000 electricity and around 242,000 gas customers) as of December 31, 2011, and to around 661,000 (thereof around 340,000 electricity and around

321,000 gas customers) as of December 31, 2015. These examples demonstrate the significant growth potential of rolling out e-distribution channels in other countries.

In addition to our multi-brand strategy, we use a variety of sales channels to gain access to new customers, including our own sales channels, third party channels and retail partnerships. Our own sales channels range from our sales offices and call centers to our website, and constitute the backbone of our channel management focusing on providing high quality in an efficient way. Third party channels are mainly used to target either specific customer segments or customers in specific regions or countries, and range from price comparison websites to specialized distribution intermediaries. In addition, we seek partnerships with direct marketing companies which provide us with closer access to new customers and new acquisition opportunities. We already benefit from successful partnerships with Media Markt, Energie-für-dich, Greenergetic and a joint venture with impeach. For example, our Media Markt partnership in the Netherlands helped us to win approximately 235,000 new customer contracts in the financial year 2015, which already is 4.7 times the number of contracts won in 2013 (approximately 50,000). Our Greenergetic partnership enables us to leverage Greenergetic's skills in designing and selling energy generated by photovoltaic systems.

#### 15.6.4.6 *Cross-selling Second Commodity*

Our growth strategy comprises the cross-selling of second commodities to existing commodity customers, and as such, we have built a strong track record. For example, in the Czech Republic, we had a gas customer base of 1.3 million as of December 31, 2015. We leveraged our access to our gas customers for the selling of electricity, and since our cross-selling efforts started in 2010, we successfully increased our electricity customer base from approximately 10,000 as of December 31, 2010 to approximately 300,000 as of December 31, 2015. Similarly, in Slovakia, we leveraged our electricity customer base of approximately 470,000 as of December 31, 2015, for our gas business, and increased the number of gas customers from approximately 1,000 as of December 31, 2010 to approximately 130,000 as of December 31, 2015, with which we believe we are the second largest gas supplier in Slovakia by volumes sold (see "15.6.3.5 East").

It is also our intention to tap the second commodity potential in other markets, such as by cross-selling gas to our electricity customers in Poland and Croatia (see "15.6.3.5 East"), and broadening our business focus in these countries.

#### 15.6.4.7 *New Markets*

Besides cross-selling our commodity products in our existing markets, it is our strategy to expand our business into new markets. As such, it is our intention to enter new markets in a capital-light manner by leveraging our existing resources in adjacent core countries. Our track record in entering new markets is demonstrated for example in Belgium and Croatia. In Belgium, our Essent subsidiary, which we acquired in 2009, entered the Belgian market in 2002 by acquiring Wattplus, and grew its customer base to approximately 210,000 customers as of December 31, 2010, and further to approximately 590,000 customers as of December 31, 2015. In Croatia, where we were not active at all in 2012, we acquired Energija 2, a boutique retail player, via an earn-out scheme in 2013 in order to establish and further grow our position in the Croatian market. After rebranding the company, and together with support from other East regions, we managed to grow our customer base significantly to approximately 30,000 as of December 31, 2013, and further to approximately 110,000 as of December 31, 2015.

Our main target is now to further capitalize on our know-how in scaling up our business in the recently entered markets in Slovenia and Romania. In addition, we may consider entering into other new markets at a later point in time.

## 15.6.5 Energy+ Business and Options for New Business

### 15.6.5.1 Overview

Our Energy+ business was established to satisfy shifting customer needs towards higher levels of automation and decentralized electricity production. Whereas, for the classic consumer, electricity and gas are pure commodities which can be purchased under fixed or flexible tariffs, the product needs of customers with more diverse energy needs are significantly more complex. Our products and services enable these consumers to self-generate power and to actively manage their consumption, generation and electricity feed-in. We distinguish between so-called advanced consumers, so-called prosumers, who are consumers and producers of energy, and energy managers. Advanced consumers require custom-made tariffs tailored to individual customer conditions and needs (e.g., special tariffs supplying only green energy, tariffs based on purchasing tranches of energy at different points in time instead of one purchase for the whole period) as well as energy related tools and services, in particular smart products, energy efficient products and services as well as assistance and insurance services. Prosumers require means for their own decentralized production and storage of energy, for example CHPs, solar systems, batteries or O&M services, and typically require customized offers. Energy managers are customers trading energy by optimizing their energy usage in response to energy demand, and use platforms such as Powerhouse and Shine.

In the B2C business, our Energy+ offer focuses on heating services (see "15.6.5.2 Heating Businesses and Services"), basic Energy+ solutions, such as LED bulb rental (see "15.6.5.3 Basic Energy+"), and prosumer and home energy solutions, such as SmartHome and photovoltaic installations (see "15.6.5.4 Prosumer and Home Energy Solutions"). In the B2B business, we put a strong emphasis on district heating solutions, including CHP solutions based on high-efficiency cogeneration, i.e., the joint generation of electricity and useful heat, intelligent energy management through the continuous monitoring and analysis of energy consumption and demand as well as the usage of photovoltaic, CHP and thermal energy systems. In addition, with our online Powerhouse energy platform, we provide market access and energy optimization to B2B customers.

Our Energy+ business, which we believe has significant growth potential in the future, already constitutes an important part of our Retail Segment's profitability. In the financial year 2015, our Energy+ business generated an operating result of around EUR 70 million (EBITDA: around EUR 110 million), and we envisage this contribution to our segment's operating result to increase to more than EUR 100 million (EBITDA: more than EUR 150 million) in the financial year 2018.

We believe that our Retail Segment is well positioned to create options for new business beyond our existing business by capitalizing on our extensive customer knowledge in combination with our energy, technology and process know-how as well as our innovation hub for our customers and our partners.

### 15.6.5.2 Heating Businesses and Services

Our heating businesses and services are currently the main driver for the profitability of our Energy+ business, and it is envisaged that they will contribute significantly to the expected growth. It is a stable business with long-term customer relationships. We offer diverse heating products and services, CHPs as well as operations and maintenance services especially in Germany and the Netherlands, but also in other European countries (such as the Czech Republic). The German part of our heating businesses is asset-intensive with overall attractive returns supported by regulated or quasi-regulated earnings. It comprises in particular district heating and the installation and operation of CHPs. As of December 31, 2015, the district heating business had more than 110,000 customers and operated small to medium-scale systems with an installed capacity of 2,800 MW<sub>th</sub> which supplies the public with heat subject to regulated prices. The CHP business is directed towards our B2B customers and entails the installation of small to medium-scale CHPs, of which, as of December 31, 2015, around 150

installations with an installed capacity of 150 MW<sub>el</sub> were active. Further projects are in our project pipeline. Our Dutch business is a service partner business in our B2C segment generating recurring service revenues mainly from renting or leasing heating installations and conducting maintenance and repair services of heating installations. As of December 31, 2015, we operated under around 246,000 lease contracts and around 975,000 service contracts with a term ranging from a minimum of six years for warm water appliances to a minimum of twelve to 15 years for boiler rentals or leasings. As part of our cross-selling strategy, we use the frequent visits to our customers within our service partner business to promote our commodity electricity and gas products as well as other Energy+ products and services. In the Czech Republic, our heating business operates several large boilers, CHPs, as well as other parts of district heating systems infrastructure.

#### 15.6.5.3 *Basic Energy+*

Our basic Energy+ offerings address changing customer needs in different countries in a flexible and opportunistic way. By leveraging on our billing processes, strong brand recognition and partnerships we are able to address customer needs in a convenient way, thereby increasing retention and earning new margins. Our offerings currently comprise, in particular, energy audits and energy efficiency products (e.g., insulation), lighting (LED) as well as insurance services. Overall, these offerings are already profitable. We also offer further bundled products and services, such as security solutions as part of our automated home solutions, which are expected to become profitable in the mid-term. Examples of our basic Energy+ offerings are our LED bulb rental and our loyalty card:

- Our LED bulb rental business comprises the rental of LED bulbs to customers who are interested in efficient lighting but do not want to purchase the relatively costly bulbs. A monthly fee for the LED bulbs in the amount of around EUR 0.30 to EUR 0.60 is charged to the customer's energy bill which, as a side-effect, also increases retention. The offering started in Slovakia in 2014 as a B2C offer, and since then, around 270,000 LED bulbs have been rented out in Slovakia. We are currently rolling out this business in other countries of our East region, and approximately 90,000 LED bulbs were rented out in the Czech Republic by the end of June 2016. In the first four months since the product launch in Poland, approximately 11,000 LED bulbs have been rented out. In Croatia, where we sell LED bulbs, approximately 35,000 were sold between June 1 and December 31, 2015. In addition, we are in the process of transferring the basic concept to our B2B business.
- Our loyalty card offering in Slovakia enables us to provide additional services to our customers such as insurance and assistance services. As with our LED bulb rental, a monthly fee is charged via the customer's energy bill, again creating a retention effect. We currently charge around EUR 1.00 per month for the loyalty card itself and, depending on the types of services, between EUR 1.50 and EUR 6.00 for additional services, which comprise appliance breakage assistance and insurance, an extended guarantee for electric and gas appliances, as well as arrangement of medical assistance. The business started in 2013, and since then more than 160,000 loyalty cards and more than 55,000 additional services have been sold. We are currently in the process of extending our service offerings under our loyalty card together with additional partners.

#### 15.6.5.4 *Prosumer and Home Energy Solutions*

Our prosumer and home energy solutions address upcoming energy-related needs of our consumers. Key offerings comprise our Powerhouse energy management platform for B2B customers with decentral electricity generation, photovoltaic solutions and batteries mainly for B2C customers, as well as our Connected Home offering:

- With the Powerhouse solution, we are allowing our B2B customers to directly access the market and streamline own production and consumption with energy market opportunities. Powerhouse is already a market leader in the Dutch horticulture segment and is now

expanding towards large B2B customers, as well as to Spain and the USA. In 2015, Powerhouse already contributed EBITDA of EUR 14 million (operating result: EUR 11 million). Powerhouse gives us a strong footprint in energy management and provides us access to attractive market areas such as horticulture.

- With our photovoltaic solutions we offer a one-stop shop mainly for B2C customers comprising in particular the design and installation of photovoltaic systems as well as, where relevant, subsidy applications and other services. After the launch of our photovoltaic business in Germany, the Netherlands and Hungary, we had already sold 1,950 installations by end 2015 and are currently rolling out the business to other countries (e.g., the Czech Republic and Poland). Our photovoltaic business offering improves our position as a green energy player and, in some cases, gives us a platform for additional revenue streams (e.g., from market access or financing solutions).
- Our Connected Home offering, which currently focuses on Germany with its SmartHome product line, comprises the sale of central units and devices (e.g., heating thermostats, a device for monitoring energy consumption, fire detectors, door and window sensors and remotely controllable electric plugs) to B2C customers with which they can optimize and manage their own energy production and consumption. By December 31, 2015, including sales to our regional companies which onsell to end customers, we had sold nearly 800,000 SmartHome central units and connected devices which underpins our substantial footprint in the market for connected homes. Our SmartHome solution ranks among the top solutions in independent tests of various magazines (e.g., PCgo / PC Magazin 6/2016 (where we received the Victor 2016 award), Connected Home 9/2014). Furthermore, in partnership with Nest, we offer another energy solution for connected homes with a focus on heat management in the United Kingdom and the Netherlands. We recently signed a deal with Nest and have, as of June 30, 2016, already sold over 30,000 Nest units in the UK and the Netherlands. With our Connected Home offering we are building a strong footprint in a new market area and improve our innovative image to the benefit of the brand which increases customer retention.

Other prosumer and home energy solutions include Lemonbeat (a communication protocol for the internet of things), Shine (a tool for electricity generation and consumption optimization which can be used in combination with micro CHP systems by SenerTec, 2G and Viessmann) and micro CHPs. We expect these further product offerings to become profitable in the mid-term.

#### 15.6.5.5 *New Business Opportunities*

Beyond growing our Energy+ Business we also strive to create options for new businesses. We have the ambition to become an active innovator in the new energy world, and to identify and commercialize emerging opportunities early on. In specific areas we want to build front-runner positions to capture future growth.

One example of an emerging business, where we believe to have a front-runner position, is electric vehicle solutions. Our current business model comprises the provision of state-of-the-art hardware, the operation of own and partner-owned infrastructure and the provision of a full back-end solution with services including, among others, access, billing and utilization monitoring. In 2015, we sold 1,760 charging systems, and as of December 31, 2015, we operated more than 4,900 charging points in more than 20 countries, thereof 3,115 in Germany and more than 150 in each of the Netherlands, Switzerland and Austria. We are a trusted service provider to more than 100 (municipal) utility partners and 50 B2B partners such as Aldi Süd, BASF, Daimler, Siemens, Vodafone and Volkswagen. Our charging points facilitated approximately 430,000 charging processes with in total around 4.1 GWh of electricity in 2015. Although we have not yet reached profitability, we see positive prospects for our business, especially with respect to policy targets in Germany.

In Germany, but also in other European countries, there are ambitious national policy targets which are expected to propel the development of electric vehicles (see "14.1.4.1 Decarbonization"). Research and development support focuses on energy systems and

storage as well as the charging infrastructure and mobility concepts. Purchase incentives range from a tax exemption for electric vehicles from the motor vehicle tax to a subsidy for electric vehicles and further to the permission to use special traffic or bus lanes and parking spaces with electric vehicles. In order to expand the network of charging points, the German government intends to subsidize industry investments of EUR 300 million into 15,000 new charging points until 2020 (source: German Federal Ministry for Economic Affairs and Energy, Framework and incentives for electric vehicles and charging infrastructure), although the specific conditions of this subsidy scheme are yet to be defined.

Given our already substantial market position, we expect our business to have the chance to significantly benefit from future growth. In terms of charging infrastructure, we expect a better utilization of our existing infrastructure and aim to benefit from the need for new infrastructure. In addition, we plan to extend our service offerings through innovations and further partnerships.

## 15.7 Renewables Segment

### 15.7.1 Segment Overview

Our Renewables Segment is active in the entire value chain of developing, constructing, owning and operating production facilities generating electricity and, to a small extent, heat, wood pellets as well as biomethane from renewable energy sources. As of December 31, 2015, with a total installed capacity of 3.1 GW\*, mainly focusing on wind (onshore and offshore) as well as hydroelectric power, and a large asset base especially in Germany (37% of our renewable capacity) and the United Kingdom (29% of our renewable capacity), we believe that our Renewables Segment comprises a large and well-diversified portfolio of renewable energy generating assets with a focus on competitive technologies.

The focus of our electricity generation base has been wind, with onshore wind representing approximately 53% of our capacity and offshore wind representing approximately 31% of our capacity as of December 31, 2015. According to Bloomberg New Energy Finance, this made us the worldwide number three operator in the offshore wind energy industry in 2015 based on installed capacity. The third key technology in our renewable energy portfolio is hydropower (run-of-river and storage), but we also operate biomass and biogas energy production facilities, some small photovoltaic installations and hold a minority share in a concentrated solar power (CSP) plant. We also plan to significantly expand our solar business by entering into utility-scale solar as a further key technology of our business.

Beyond our installed capacity, we consider the development and construction of new renewable energy generation assets across our key technologies to be an integral part of our skill set and our business segment's value chain (see "15.7.3 Our Renewables Value Chain"). Since 2010, over 1.3 GW of new capacity was commissioned, and our Renewables Segment's asset base is expected to grow further on the basis of the near-term project pipeline. As of December 31, 2015, the development and construction pipeline within our Renewables Segment comprised projects having a total projected capacity of 0.3 GW under construction (and expected to be fully commissioned by March 31, 2018), as well as further 4.1 GW under development, thereof projects with in total around 0.9 GW close to their final investment decision ("FID") according to current plans. Of the projects under construction as of December 31, 2015, projects with a projected capacity of 159 MW are attributable to onshore wind, projects with a projected

\* In this section, unless indicated as "accounting view", all capacity and MW, GW and TW figures are "pro-rata view" figures and reflect our pro-rata share of ownership in the underlying asset (excluding – unless otherwise indicated – our 33% share in Zephyr which was sold in July 2016). "Accounting view" refers to figures taken from our accounts, where all companies in which we hold a share of more than 50% are fully consolidated and thus 100% of the capacity is included. Greater Gabbard in which we hold a share of 50% is consolidated with 50% as it is the only joint operation within the Renewables business. In case of Gwynt y Môr we own 100% of the shares of three fully consolidated companies which hold overall 50% of the capacity of the wind farm Gwynt y Môr. Thus, 50% of the capacity of Gwynt y Môr is shown in the accounting view. The capacity of other investments in which we hold a share of less than 50% is not included. Generally, power purchase agreements ("PPA") by which we purchase energy from third parties, especially not consolidated subsidiaries, are not included. Furthermore, all MW, GW or TW figures in this section, unless otherwise indicated, refer to MW<sub>el</sub>, GW<sub>el</sub> or TW<sub>el</sub>.

capacity of 134 MW to offshore wind, and projects with a projected capacity of 5 MW to hydropower. Key construction projects include the Nordsee One offshore wind farm in Germany with a total projected capacity of 332 MW (our pro rata share: 50 MW), the Galloper wind farm in the United Kingdom with a total projected capacity of 336 MW (our pro rata share: 84 MW) and our fully owned Zuidwester onshore wind farm in the Netherlands with a total projected capacity of 90 MW. The Nordsee One and Zuidwester wind farms are expected to be fully commissioned in 2017, and the Galloper wind farm is expected to be fully commissioned by the end of the first quarter in 2018. Of the projects under development as of December 31, 2015, and close to FID, approximately 500 MW are attributable to onshore wind assets and approximately 450 MW to offshore wind assets.

Our capital expenditures in the financial year 2015 amounted to EUR 404 million. For the years 2016 to 2018, we have allocated around EUR 1.3 billion for (gross) investments into specific new renewable energy projects which are close to their final investment decision or already under construction. Of our investments into these projects, we expect between 45% and 55% to be attributable to onshore wind, between 20% and 30% to offshore wind, between 10% and 15% to solar, up to 10% to hydropower and up to 10% to other projects, such as financial investments and day-to-day capital expenditures. In addition, depending on our success in auctions for new projects, there is potential for further investments into renewable energy assets. In accordance with our strict investment framework with conservative hurdle rates for the utilization of our budget for capital expenditures, we are currently expecting hurdle rates for the return on investments to be in the range of 5% to 8% for our core business and 5% to 15% for new markets and new technologies, in each case determined on the basis of an after-tax WACC, a project risk adjustment and a country risk adjustment.

Of the EBITDA generated by our Renewables Segment in the financial year 2015, excluding one-off effects, around 60% (based on gross margins and our entire asset portfolio) was generated from quasi-regulated earnings, *i.e.*, subsidies, fixed feed-in tariffs, green certificates or long term contracts. These earnings were generated by fixed revenue components that are not exposed to wholesale price fluctuations. We expect this share to increase to around 65% (based on gross margins and our entire asset portfolio) in 2016 due to the full contribution of newly commissioned offshore wind assets. Furthermore, our earnings will benefit from increased stability due to a trend towards fixed feed-in tariffs and contracts for difference. The average remaining support tenor of quasi-regulated earnings from our renewable assets is around twelve years (based on capacity-weighted onshore and offshore wind farms with around 2.5 GW capacity and hydropower plants with around 0.1 GW capacity, in each case subject to an unexpired support tariff at the end of 2015). With only a limited percentage of our installed wind capacity having support expiring before the end of 2020, we benefit from a relatively young wind asset base with an average weighted age of around six years.

In 2015, our Renewables Segment generated EBITDA of EUR 818 million contributing 18% to the Group's total EBITDA of EUR 4.5 billion. This includes extraordinary effects for example achieved by selling shares or offshore transmission assets in two of our offshore wind farms (Galloper and Gwynt y Môr).

### 15.7.2 Key Strategic Objectives

Our Renewables Segment plans to focus on three key strategic areas: (i) optimizing our existing business, (ii) leveraging growth opportunities in existing markets and (iii) entering new regions and renewable technologies.

- *Optimizing our existing business.* In order to optimize our existing business, we aim to maximize our energy yield and availability, continue to reduce our operational costs, and ensure that existing construction projects are completed on time, on budget and with the necessary quality.
- *Leveraging growth opportunities in existing markets.* Within our existing regional markets, our Renewables Segment focuses on expanding its asset base in its core technologies by

leveraging its development expertise and its flexible capital approach in order to create and benefit from an attractive project pipeline. This approach gives us the option to take equity partners on board, and to realize capital-efficient off-balance and non-recourse debt structures for especially large-scale offshore wind projects. Thus we strive to optimize our risk return allocation. Growth activities in existing markets focus mainly on onshore and offshore wind. As growth opportunities in hydro are limited we follow an opportunistic approach to selectively grow and optimize our hydro asset base.

- *Entering new regions and renewable technologies.* We further seek to selectively enter new markets such as the USA, Ireland and Turkey for onshore wind as well as the new technology utility-scale solar, in regions such as the USA, the Middle East, North Africa, India and South America. We intend to enter these new business fields by identifying new project opportunities, leveraging our core competencies, and using partnership models. Thereby, we intend to increase the scope for new investment opportunities and long-term growth. Provided that our strict return-on-investment requirements are fulfilled, we may also selectively consider bolt-on acquisitions of assets under construction or in operation. However, our growth ambitions in new markets are not restricted to onshore wind and solar. In case we identify valuable growth opportunities for our other technologies, we also intend to examine relevant projects.

### 15.7.3 Our Renewables Value Chain

Across the value chain for the generation of renewable energy, our segment's activities comprise the development, construction and operation of renewable energy generating assets. We aim to leverage our core competencies in order to generate value at all stages of the value chain. The specific activities in the three stages of the value chain are similar across our key technologies with differences mainly caused by regulatory requirements within individual countries.

#### 15.7.3.1 Development

During the development phase of a renewable energy project we seek to identify, based on our market intelligence, a site with quality renewable energy sources and appropriate transmission facilities, and to develop such a site to full consent (*i.e.*, all required external permits granted) so that we can either start with the construction phase or sell the consented project with a profit to third parties. As part of the development phase, we leverage our capabilities in market intelligence, consent and permit management, engineering, the procurement of individual construction works and the financial structuring of a project. In addition to development activities based on our in-house resources, we follow different models of development cooperations with third parties.

We assess new projects within their development phase on the basis of a strict investment framework that allows us to focus on value creating projects. Key elements of our investment framework are, in addition to the technical and operational features such as capacity and load factor, project specific hurdle rates which have to be exceeded in order to obtain a positive FID. Unless we use project financing, such project specific hurdle rates are the sum of a base renewable WACC of currently 4.5%, and as additional elements a minimum expected value contribution of 0.75%, a premium for technology, construction and regulatory risks of between 0.5% and 3.5% and a country risk premium of 0% to 7%. If we use project financing, we calculate our project specific hurdle rates on the basis of levered return on equity rather than project WACC.

Against this background, we have recently developed projects with attractive return prospects according to the internal rates of return calculated at FID. Offshore wind projects in Germany (including Nordsee Ost) and the United Kingdom (including Greater Gabbard and Gwynt y Môr, but not Galloper) were calculated with internal rates of return at FID of around 9%, and onshore wind projects varied with calculated internal rates of return at FID of around 7% to 8%

for Germany (eight projects) and the Netherlands (four projects) and around 11% for the United Kingdom (four projects) and Poland (five projects). The base renewable WACC is regularly benchmarked against the cost of capital, and adjusted if the cost of capital changes. In addition, the single risk premium parameters are regularly reviewed to reflect market based risk assumptions.

#### 15.7.3.2 *Construction*

The construction phase of a renewable energy project comprises the management and delivery of complex projects, in particular the coordination of and cooperation with our partners, suppliers and construction companies that were selected during the development phase of the project.

During the construction phase of a project we measure the results of our activities by monitoring whether projects are completed on time and on budget and to our quality standards (e.g., in Health and Safety). We have an attractive track record of delivering our construction activities on target. Our experience gained in previous projects allowed us to significantly improve our construction performance.

#### 15.7.3.3 *Operation*

The final stage of our Renewables Segment's value chain is the operation of the newly installed asset over its full life span. During the operational phase we seek to ensure a high technical and commercial availability at low operations and maintenance costs. In addition, as part of our operation of renewable assets, we define and continuously optimize the route-to-market for our produced energy as well as our associated hedging strategy.

##### *Operation of Renewable Assets*

The envisaged duration of the operation phase of a renewable energy production asset depends on its technology. A wind asset typically has a life span of 20 to 25 years, whereas the typical life span of a hydro asset can be up to 100 years or even more, in each case provided the asset is properly maintained. The operation phase comprises the maintenance and a continuous performance analysis of the asset in order to identify opportunities for improvement. We have gained experience in some of our technologies over decades. As such, we see our core capabilities in developing and implementing innovative operations and maintenance concepts tailored for the purposes of the specific asset. Especially during the first two to five years of the operation phase, we often cooperate with the original equipment manufacturer ("**OEM**") based on management service agreements which also incorporate standard supplier's warranties for the equipment ("**WOM period**"). For the agreed WOM period, the OEM is responsible for the required maintenance work and guarantees a certain minimum availability of the asset.

At the end of an asset's life span, we decide whether to decommission and dismantle the asset and close the site or to repower the asset. In view of the decommissioning, we generally set up provisions for the expected future costs. We may decide to repower the asset if repowering is a viable option from a legal (new permit necessary and granted), commercial and technical perspective. A repowering would basically constitute a new project on an existing site beginning with the development phase.

##### *Route-to-market and Hedging*

Our Renewables Segment sells the energy produced from our renewable energy generating assets and green certificates, which are allocated to us as a result of our production of renewable energy. The sale of our renewable energy is conducted via country specific route-to-market contracts whereby counterparties provide the market access services necessary to monetize the energy, and forward the revenues to us. This is usually done through wholesale traders and aggregators, or in the case of feed-in tariffs through the respective grid operator. To achieve the best commercial value for us, our sales team regularly tenders renewable energy

and green certificates in the markets in which we are active. In some countries the route-to-market contract is currently placed with RWEST at arm's length commercial terms. Any future tenders for such countries would treat RWEST on the same basis as any other bidder in order to secure best commercial value for the innogy Group.

Our hedging strategy aims to limit risks from the operation of our renewable assets and the sale of the energy produced. In particular, we seek to limit the volatility of our future earnings through appropriate forward hedges. For commodities that are exposed to market price risk, we implement a rolling hedge strategy where market liquidity exists to ensure that open commodity positions are systematically decreased over time.

#### **15.7.3.4 Our Partnership Approach**

In the past, we predominantly realized our renewable energy investment projects either on our own, holding 100% of the asset, or at least had the strategy to maintain the majority shareholder role in the asset. The rationale for this approach was mainly to consolidate all financial results of the asset for accounting purposes and to secure full control over the asset. However, a downside of this approach was that all risks resulting from the development, construction and operation of the asset were to be borne by us as well, and a capital light approach with non-recourse project finance was not achievable as all debt would have been allocated to our balance sheet due to IFRS rules.

Since around 2012, we have adapted our approach and selectively cooperated with financial and industrial equity partners. For this purpose, we maintain a broad network of strong partners, such as Greencoat UK Wind, UK Green Investment Bank, Macquarie, Northland Power, Scottish and Southern Energy, Siemens, Stadtwerke München, GreenGecco, Statkraft and Statoil. Depending on the specific asset, the participation of the partner can either be a minority or a majority participation in a joint venture. The rationale for our partnership approach is to share the risk resulting from the often large projects and to balance the effort of capital acquisition according to the relative investment share, and in some cases, especially in offshore wind, to make use of non-recourse, project related debt financing structures. Currently, our preferred structure is to have a share of around 25% to 30% in new offshore wind projects and around 51% to 100% in new onshore wind projects. Depending on the expertise that the different partners contribute to the joint venture, we aim to take a leading part during the three stages of the value chain. In addition, we aim to leverage our internal expertise in realizing and operating renewable energy assets, in particular by taking on operational responsibility as lead operator and selling services to the joint venture.

With respect to our operational assets, other than explicitly described herein, we currently do not intend a further sell-down of our current shareholdings, although we will reassess this opportunistically.

### **15.7.4 Our Renewable Technologies**

#### **15.7.4.1 Overview**

Our segment's renewables portfolio encompasses renewable energy generating assets from our key technologies onshore and offshore wind and hydropower. To a lesser extent, we generate electricity from solar power, biomass and biogas. We actively manage and constantly optimize the composition of our renewables asset portfolio by selling assets or shares of assets that do not fit to our portfolio anymore from a strategic point of view or under opportunistic value considerations.

## Installed Renewables Asset Base

The following chart provides an overview of our renewable energy portfolio by installed capacity (MW) and country as of December 31, 2015, pro rata to our ownership in the assets:

Pro-rata view as of December 31, 2015 <sup>1)</sup>								
Country	Onshore wind (MW)	Offshore wind (MW)	Hydro-power (MW)	Solar (MW)	Biomass (MW)	Biogas (MW)	Total (MW)	Total share <sup>3)</sup>
Germany . . . . .	506	295	353	1	5	1	1,160	37.1%
United Kingdom . . . . .	239	585	77	—	—	—	901	28.8%
Spain . . . . .	443	—	10	7	—	—	459	14.7%
Poland . . . . .	226	—	—	—	—	—	226	7.2%
Netherlands . . . . .	197	—	—	—	—	—	197	6.3%
Italy . . . . .	34	—	—	—	—	—	34	1.1%
France . . . . .	—	—	44	—	—	—	44	1.4%
Portugal . . . . .	3	—	16	—	—	—	19	0.6%
Belgium . . . . .	—	87	—	—	—	—	87	2.8%
<b>Sub-Total . . . . .</b>	<b>1,648</b>	<b>967</b>	<b>500</b>	<b>8</b>	<b>5</b>	<b>1</b>	<b>3,129</b>	<b>100%</b>
<i>Zephyr</i>								
<i>(United Kingdom)<sup>2)</sup> . . . . .</i>	<i>110</i>	<i>20</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>130</i>	<i>—</i>
<b>Total . . . . .</b>	<b>1,758</b>	<b>987</b>	<b>500</b>	<b>8</b>	<b>5</b>	<b>1</b>	<b>3,259</b>	<b>—</b>

1) Figures may not add up due to rounding differences.

2) The Group held 33.3% in the Zephyr portfolio which was disposed in July 2016. Figures for Zephyr are excluding 171 MW from power purchase agreements for capacity under management, but not owned.

3) Excluding Zephyr.

The following chart provides an overview of our renewable energy portfolio by installed capacity (MW) and country as of December 31, 2015, in accordance with our accounting view:

Accounting view as of December 31, 2015 <sup>1)</sup>								
Country	Onshore wind (MW)	Offshore wind (MW)	Hydro-power (MW)	Solar (MW)	Biomass (MW)	Biogas (MW)	Total (MW)	Total share <sup>3)</sup>
Germany . . . . .	567	295	375	1	5	1	1,244	37.9%
United Kingdom . . . . .	304	630	77	—	—	—	1,011	30.8%
Spain . . . . .	447	—	12	—	—	—	459	14.0%
Poland . . . . .	242	—	—	—	—	—	242	7.4%
Netherlands . . . . .	197	—	—	—	—	—	197	6.0%
Italy . . . . .	67	—	—	—	—	—	67	2.0%
France . . . . .	—	—	44	—	—	—	44	1.4%
Portugal . . . . .	—	—	16	—	—	—	16	0.5%
Belgium . . . . .	—	—	—	—	—	—	0	0%
<b>Sub-Total . . . . .</b>	<b>1,823</b>	<b>925</b>	<b>525</b>	<b>1</b>	<b>5</b>	<b>1</b>	<b>3,280</b>	<b>100%</b>
<i>Zephyr</i>								
<i>(United Kingdom)<sup>2)</sup> . . . . .</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>
<b>Total . . . . .</b>	<b>1,823</b>	<b>925</b>	<b>525</b>	<b>1</b>	<b>5</b>	<b>1</b>	<b>3,280</b>	<b>—</b>

1) Figures may not add up due to rounding differences.

2) The Group held 33.3% in the Zephyr portfolio which was disposed in July 2016. Figures for Zephyr are excluding 256 MW from power purchase agreements for capacity owned or under management.

3) Excluding Zephyr.

## Generation from Renewable Energy Sources

Overall, in the financial year 2015, our renewable assets generated 8.3 TWh of electricity. The following chart provides an overview of our renewable production volumes by technology (in GWh) and country in the financial year 2015 pro rata to our ownership in the assets:

Pro-rata view as of December 31, 2015 <sup>1)</sup>								
Country	Onshore wind (GWh)	Offshore wind (GWh)	Hydro-power (GWh)	Solar (GWh)	Biomass (GWh)	Biogas (GWh)	Total (GWh)	Total share <sup>4)</sup>
Germany . . . . .	874	625	1,439	1	39	6	2,984	35.8%
United Kingdom . . . . .	630	1,973	209	—	—	—	2,812	33.7%
Spain . . . . .	986	—	17	17	—	—	1,019	12.2%
Poland . . . . .	466	—	—	—	—	—	466	5.6%
Netherlands . . . . .	478	—	—	—	—	—	478	5.7%
Italy . . . . .	57	—	—	—	—	—	57	0.7%
France . . . . .	—	—	125	—	—	—	125	1.5%
Portugal . . . . .	3	—	23	—	—	—	26	0.3%
Belgium . . . . .	—	305	—	—	—	—	305	3.7%
Switzerland <sup>2)</sup> . . . . .	—	—	74	—	—	—	74	0.9%
<b>Sub-Total</b> . . . . .	<b>3,493</b>	<b>2,903</b>	<b>1,886</b>	<b>18</b>	<b>39</b>	<b>6</b>	<b>8,344</b>	<b>100%</b>
<i>Zephyr</i> <i>(United Kingdom)<sup>3)</sup></i> . . . . .	272	66	—	—	—	—	337	—
<b>Total</b> . . . . .	<b>3,764</b>	<b>2,969</b>	<b>1,886</b>	<b>18</b>	<b>39</b>	<b>6</b>	<b>8,681</b>	<b>—</b>

1) Figures may not add up due to rounding differences.

2) In Switzerland, we hold a participation in AAREWERKE AG which operated the Klingnau hydropower plant until July 7, 2015 when its concession for the operation of the plant ended. The plant was transferred to the canton of Aargau against payment of compensation. AAREWERKE AG is currently being liquidated.

3) The Group held 33.3% in the Zephyr portfolio which was disposed in July 2016. Figures for Zephyr are excluding production volumes from power purchase agreements for capacity under management, but not owned.

4) Excluding Zephyr.

The following chart provides an overview of our renewable production volumes by technology (in GWh) and country in the financial year 2015 in accordance with our accounting view:

Accounting view as of December 31, 2015 <sup>1)</sup>								
Country	Onshore wind (GWh)	Offshore wind (GWh)	Hydro-power (GWh)	Solar (GWh)	Biomass (GWh)	Biogas (GWh)	Total (GWh)	Total share <sup>4)</sup>
Germany . . . . .	997	625	1,564	1	39	6	3,231	37.5%
United Kingdom . . . . .	806	2,124	209	—	—	—	3,139	36.4%
Spain . . . . .	997	—	22	—	—	—	1,019	11.8%
Poland . . . . .	499	—	—	—	—	—	499	5.8%
Netherlands . . . . .	478	—	—	—	—	—	478	5.5%
Italy . . . . .	111	—	—	—	—	—	111	1.3%
France . . . . .	—	—	125	—	—	—	125	1.4%
Portugal . . . . .	—	—	24	—	—	—	24	0.3%
Belgium . . . . .	—	—	—	—	—	—	—	0.0%
Switzerland <sup>2)</sup> . . . . .	—	—	—	—	—	—	—	0.0%
<b>Sub-Total</b> . . . . .	<b>3,887</b>	<b>2,749</b>	<b>1,944</b>	<b>1</b>	<b>39</b>	<b>6</b>	<b>8,626</b>	<b>100%</b>
<i>Zephyr</i> <i>(United Kingdom)<sup>3)</sup></i> . . . . .	—	—	—	—	—	—	—	—
<b>Total</b> . . . . .	<b>3,887</b>	<b>2,749</b>	<b>1,944</b>	<b>1</b>	<b>39</b>	<b>6</b>	<b>8,626</b>	<b>—</b>

1) Figures may not add up due to rounding differences.

- 2) In Switzerland, we hold a participation in AAREWERKE AG which operated the Klingnau hydropower plant until July 7, 2015 when its concession for the operation of the plant ended. The plant was transferred to the canton of Aargau against payment of compensation. AAREWERKE AG is currently being liquidated.
- 3) The Group held 33.3% in the Zephyr portfolio which was disposed in July 2016. Figures for Zephyr are excluding production volumes from power purchase agreements for capacity owned or under management.
- 4) Excluding Zephyr.

The geographical spread of our portfolio over several mainly European countries helps us together with our technology portfolio to reduce the impact of volatile weather conditions on our earnings (for risks relating to weather conditions, see *"3.1.20 Energy production of our Renewables Segment could be negatively affected by weather conditions."*) and diversifies our exposure to different regulatory support frameworks in Europe (see *"16 Regulatory Environment"* and *"3.2.1 We are subject to significant regulatory and political risks, and our revenue, profits and financial position have been and will be affected by the regulatory frameworks in different ways."*).

Since the beginning of 2016, the production volumes from our operational asset base increased compared to the year 2015, mainly due to the commissioning of new wind farms. The support regimes for our existing assets remained overall stable compared to the end of 2015.

#### Construction and Development Pipeline

Our Renewables Segment has a strong construction pipeline comprising assets with a total projected capacity of around 0.3 GW, a promising development pipeline of projects close to their final investment decision with a total projected capacity of around 0.9 GW, and further projects in earlier development phases with a total projected capacity of around 3.1 GW (in each case as of December 31, 2015). Of the projects in our construction and development pipeline, around 57% account for the United Kingdom, around 16% for Germany, around 11% for the Netherlands and around 16% for other countries.

The following table sets forth all electricity generating projects in our segment's construction pipeline since December 31, 2015, all of which are expected to benefit from the respective current national regulatory regime:

Project <sup>1)</sup>	Country	Technology	Total capacity (MW)	Company stake	Pro-rata capacity (MW)	(Expected) completion	Support scheme <sup>2)</sup>
Batsworthy Cross . . .	United Kingdom	Onshore Wind	18	100% <sup>3)</sup>	18 <sup>3)</sup>	Q2 2016	n/a <sup>3)</sup>
Kattenberg . . . . .	Netherlands	Onshore Wind	10	100%	10	Q2 2016	FiT / FiP / CfD (SDE+ <sup>4)</sup> )
Cia Aig . . . . .	United Kingdom	Hydropower	3	100%	3	Q2 2016	FiT / Wholesale <sup>5)</sup>
Goole 2 . . . . .	United Kingdom	Onshore wind	35	100%	35	Q1 2017	WS + Certificate (0.9 ROC)
Sommerland 2 . . . .	Germany	Onshore wind	6	100%	6	Q1 2017	FiT / FiP / CfD (EEG 2014 <sup>6)</sup> )
Grudie . . . . .	United Kingdom	Hydropower	2	100%	2	Q1 2017	FiT / Wholesale <sup>7)</sup>
Zuidwester . . . . .	Netherlands	Onshore wind	90	100%	90	Q2 2017	FiT / FiP / CfD (SDE+ <sup>4)</sup> )
Nordsee One . . . . .	Germany	Offshore wind	332	15%	50	Q4 2017	FiT / FiP / CfD (EEG 2014 <sup>8)</sup> )
Galloper . . . . .	United Kingdom	Offshore wind	336	25%	84	Q1 2018	WS + Certificate (1.8 ROC)
<b>Total . . . . .</b>	—	—	<b>832</b>	—	<b>298</b>	—	—

1) A biogas plant in Bergheim-Paffendorf producing 7.4 MW<sub>th</sub> (corresponding to 3 MW<sub>el</sub>) is also under construction with expected completion in the third quarter of 2016 and a 100% innogy stake. As a thermal power plant it has not been included in the overall figure for the construction pipeline.

- 2) In this column, "WS" means Wholesale, "FiT" means Feed-in tariff, "FiP" means Feed-in premium and "CfD" means Contract for Difference. "ROC" means UK Renewable Obligation Certificates (see "16.5.13.1.2 Promotion of RES installations").
- 3) The Batsworthy Cross project was sold prior to the start of construction, and the Company's shares in the project were transferred at commissioning.
- 4) Dutch RES support scheme (*Stimulerende Duurzame Energieproductie*) (see "16.5.7.1.1 Promotion of RES Installations"). EUR 80 per MWh.
- 5) GenSet I (2 MW): GBP 125 per MWh until 2036, which increases annually with the retail price index; plus wholesale power sold in the market. GenSet II (1 MW): wholesale.
- 6) German RES support scheme (see "16.2.4.1 Promotion of RES Installations"). EUR 84.50 per MWh.
- 7) GBP 100 per MWh until 2037, which increases annually with the retail price index; plus wholesale power sold in the market.
- 8) German RES support scheme (see "16.2.4.1 Promotion of RES Installations"). EEG compression model: EUR 194 per MWh up to August 2022, thereafter EUR 154 per MWh up to November 2023, and thereafter EUR 39 per MWh.

Of the projects in our development pipeline and close to FID with a total projected capacity of around 950 MW, onshore wind accounts for around 500 MW and offshore wind, through our stake in the Triton Knoll project, accounts for around 450 MW. Of such new capacity, we expect around 70% to be installed in the United Kingdom, 18% in Germany, 6% in the Netherlands and 5% in Poland. However, adverse development of national renewable support schemes may lead to the decision to shift capital expenditures between the countries. In addition to these projects, we have further projects in earlier development phases with expected commissioning generally within the 2020s. Such projects, which are not weighted for their probability of realization, add up to a projected capacity of around 1,100 MW in onshore wind, around 1,750 MW in offshore wind, around 250 MW in solar, and a minor project in hydropower. Of such new capacity, we expect around 54% to be installed in the United Kingdom, 14% in Germany, 12% in Poland, 11% in the Netherlands and 9% in other countries.

We have gained significant experience in auctions. For instance, with our successful bids for the UK onshore wind projects Clocaenog (with a projected capacity of 96 MW and planned FID and start of construction in the first quarter of 2017), Bad a Cheo (with a projected capacity of 26.7 MW) and Mynydd y Gwair (with a projected capacity of 33.6 MW) in the first quarter of 2015, we are, as of the date of the Prospectus, the only utility company to have won contracts for difference in auctions for onshore wind assets in the United Kingdom (source: DECC, Contracts for Difference (CFD) Allocation Round One Outcome, February 2015).

We actively position ourselves for upcoming auctions, and intend to participate in auctions for new projects as well as for pre-developed projects. Key success factors for upcoming auctions are the strict observance of our investment criteria, a partnering approach which helps to prevent or avoid biased assumptions, to achieve economies of scale and to ensure a regional and technological diversification of the various projects. Upcoming auctions for wind projects in which we intend to participate include Grimmen-Papenhagen in Germany, Triton Knoll in the United Kingdom, Kaskasi in Germany and Borssele 3 & 4 in the Netherlands:

- For Grimmen-Papenhagen, an onshore wind project with a projected capacity of 26 MW, we intend to participate in an auction for a feed-in tariff in accordance with EEG 2017. We expect the auctioning process to be completed in the third quarter of 2017.
- For Triton Knoll, an offshore wind project in the United Kingdom with up to 900 MW of projected capacity, we are working jointly with Statkraft as a 50% partner during the development phase. The Triton Knoll project is applying for onshore planning consent and preparing for a contract for difference auction. We expect the auctioning process to be completed in 2017. Following its announcement to no longer invest in new offshore wind projects, we expect Statkraft to sell its stake prior to construction of the project.
- We are further preparing the auction for the offshore wind project Kaskasi in Germany with 210 to 280 MW of projected capacity on our own, but ultimately aim to realize the project together with a partner. The auctioning is planned for the year 2017 in accordance with the Wind Offshore Act (*Windenergie-auf-See-Gesetz*) and EEG 2017.

- In addition, we are considering participating together with partners in the auction for the offshore wind projects Borssele 3 & 4 in the Netherlands with 680 MW of projected capacity. The Borssele 3 & 4 projects are pre-developed by the Dutch government with regard to the required consents and grid connection, and are auctioned according to the Dutch SDE+ regime.

In addition, we plan to participate in further auctions for onshore wind projects which are envisaged in most of our established core markets (e.g., Germany and Poland) according to the development of national regulatory regimes. Furthermore, in line with our growth strategy, we also participate, and intend to participate, in auctions for utility-scale solar projects in the Middle East and North Africa, for example in Abu Dhabi.

We also regularly participate, and are presently submitting bids, either on our own or together with partners, in processes for the acquisition of new projects from third parties, in particular offshore wind projects that are in early stages of the development phase. In case we successfully acquire these projects or a stake in them, their realization ultimately depends on whether, at FID, they fulfill our strict return-on-investment requirements, and, in many cases where the projects are subject to an auctioning process, whether we are awarded with the project as a result of our ability to submit a competitive offer. In some instances, we are requested to offer to act as lead operator and manager of operations and maintenance services. We are interested in assuming these additional roles as we believe that this would be to our benefit, not only in the acquisition processes but also during the respective operation phase.

Sell-downs of shares by us or our partners in any of our larger development projects are likely, as this enables a de-consolidation of the structured non-recourse debt-portion of the projects.

#### 15.7.4.2 *Our Key Renewable Technologies*

##### 15.7.4.2.1 Onshore Wind

As of December 31, 2015, with an installed capacity of 1,648 MW, onshore wind is our most important technology, accounting for 53% of our renewable capacity. Our onshore wind portfolio comprises assets in Germany, Spain, the United Kingdom, Poland, the Netherlands, Italy and Portugal.

#### *Overview of Onshore Wind Asset Portfolio*

When RWE Innogy GmbH (now part of the Company) was founded in 2008, our onshore wind asset base was relatively small with an installed total capacity of approximately 200 MW in the United Kingdom, Spain and Germany. Since then, our focus was on growing our asset base out of our development pipeline as well as following acquisition opportunities for both, assets in operation and projects under development. Major milestones in growing our asset base were the acquisition of an asset portfolio in Spain (with an installed capacity of 147 MW) in 2008, the implementation of a development cooperation in Poland, a joint venture in Italy, and the acquisition of Essent in 2009 by which we acquired onshore wind assets with an installed capacity of 637 MW in Germany and the Netherlands. As of March 31, 2009, we had an installed capacity of 1,204 MW.

Since then, our onshore wind business grew constantly until 2012, when it was impacted by capital constraints on the level of RWE AG, as a result of which new investments in projects had to be reduced. However, by initiating partnering models for co-investors like Green Gecco or the City of Bedburg and by selling selected projects we have been able to continue to grow our onshore wind asset base, and as of December 31, 2015, our onshore wind capacity amounted to 1,648 MW.

The following table sets forth in detail the development of our onshore wind asset base by country (in MW installed capacity) as well as our onshore wind production volumes by country (in GWh) from 2013 to 2015 pro rata to our share of ownership:

Country	Pro-rata view as of December 31,					
	Installed Capacity			Production Volumes		
	2015 (MW)	2014 (MW)	2013 (MW)	2015 (GWh)	2014 (GWh)	2013 (GWh)
Germany .....	506	491	461	874	707	694
United Kingdom .....	239	239	200	630	516	498
Spain .....	443	443	443	986	1,011	1,113
Netherlands .....	197	210	214	478	456	462
Poland .....	226	181	181	466	400	366
Italy .....	34	34	34	57	62	66
Portugal .....	3	3	3	3	6	8
<b>Total .....</b>	<b>1,648</b>	<b>1,601</b>	<b>1,537</b>	<b>3,493</b>	<b>3,158</b>	<b>3,207</b>

Based on our accounting view, our onshore wind asset base by country (in MW installed capacity) as well as our onshore wind production volumes by country (in GWh) developed from 2013 to 2015 as follows:

Country	Accounting view as of December 31,					
	Installed Capacity			Production Volumes		
	2015 (MW)	2014 (MW)	2013 (MW)	2015 (GWh)	2014 (GWh)	2013 (GWh)
Germany .....	567	539	477	997	764	726
United Kingdom .....	304	304	265	806	669	536
Spain .....	447	447	447	997	1,023	1,125
Netherlands .....	197	210	214	478	456	462
Poland .....	242	197	197	499	429	396
Italy .....	67	67	67	111	122	129
Portugal .....	—	—	—	—	—	—
<b>Total .....</b>	<b>1,823</b>	<b>1,763</b>	<b>1,667</b>	<b>3,887</b>	<b>3,463</b>	<b>3,375</b>

Of the electricity generated from our onshore wind assets in 2015, by gross margin (*i.e.*, revenues minus sales cost), approximately 55% benefited from support schemes, while approximately 45% was sold at wholesale prices. The average remaining support tenor of our onshore wind assets generating quasi-regulated earnings was around ten years as of December 31, 2015 (based on capacity-weighted onshore wind farms with around 1.5 GW capacity which were subject to an unexpired support tariff at the end of 2015). The average age of our onshore wind assets was nine years, as of December 31, 2015.

### Our Onshore Wind Operations

We consider onshore wind to be a mature and well-proven technology within increasingly competitive markets. Our operational focus is to combine our significant development and construction skills with comprehensive market intelligence, technological expertise and our in-house operations and maintenance (O&M) strategies to excel in our onshore wind operations. For example, we continuously implement improvement measures to ensure value adding growth and to be best positioned for further growth in our existing markets as well as in new markets.

An important element of our onshore wind operations is to deliver projects on time and on budget, and to reduce our technology specific operations and maintenance costs while at the same time increasing the availability of the relevant assets:

- Over the recent years, we have established a significant track record of delivering construction projects on or below budget, and on or ahead of schedule. Whereas, prior to 2014, we exceeded the budget for a number of onshore wind projects, we were able to deliver all our onshore wind projects on or below budget in the financial years 2014 to 2015. Similarly, while a number of our onshore wind projects were completed behind schedule especially prior to 2013, we managed to reduce this number significantly and, in more recent years, have delivered the majority of onshore wind projects on or ahead of schedule.
- Furthermore, we managed to reduce our onshore wind O&M costs while preserving a high availability. The following table shows the development of the O&M costs per onshore wind MWh and the time-based availability of the underlying onshore wind assets:

	2015	2014	2013
O&M costs			
(EUR per onshore wind MWh) <sup>1)</sup> . . . . .	22.3	23.8	25.2
Time-based availability (in %) <sup>2)</sup> . . . . .	96.9	96.0	95.2

1) Numbers do not include operational costs like lease, tax etc.

2) Numbers do not include unavailability caused by external impacts like grid curtailment, weather, etc.

Key success factors for the reduction of our operations and maintenance costs have been the increase of in-house know-how to operate different O&M models (with either the OEM, an independent service provider or in-house maintenance), fleet-wide data capturing and analysis combined with a technology focused organizational set-up. This allows for increased competition and the insourcing of expensive O&M service contracts as well as the optimization of maintenance works, for example by basing the timing of maintenance works on weather predictions.

#### *Selected Construction Projects*

As of December 31, 2015, our Renewables Segment had onshore wind projects with a total capacity of 159 MW under construction, and further projects with a total capacity of around 0.5 GW under development and close to FID.

Of the projects under construction, the two largest projects are our Goole 2 wind farm in the United Kingdom with a projected capacity of 35 MW and our Zuidwester wind farm in the Netherlands with a projected capacity of 90 MW. The Zuidwester project, located close to the IJsselmeer, will be equipped with twelve 7.5 MW Enercon turbines which are currently the largest wind turbines dedicated for onshore use. Our Goole 2 wind farm is planned to become operational by the end of the first quarter of 2017, whereas the Zuidwester wind farm is planned to enter into service by the end of the second quarter of 2017.

#### *Entry into New Onshore Wind Markets*

We aim to enter new onshore wind markets by leveraging our existing onshore wind capabilities and cooperating with local partners. Our market entry strategy includes the acquisition of partially developed projects (brownfield approach) as well as the development of new projects completely on our own.

The US onshore wind market is seen as an attractive market driven by significantly increasing market demand due to an attractive support framework with standards for renewable portfolios in several states, a production tax credit which has been extended until 2020, availability of long-term power purchase agreements for wholesale price components and a strong legal protection. In addition, the US onshore wind market benefits from, by international comparison, very low LCOE, especially also in comparison to conventional power generation.

Furthermore, the geographical and weather conditions in the USA offer across large areas an elevated level of wind speed which, in combination with abundant space for wind farms, results in considerable wind energy potential. This growth potential is expected to last also in the mid-term, as can be seen from the US Energy Information Administration's Annual Energy Outlook 2016, which estimates the US wind capacity to grow from 74 GW in 2015 with a compound annual growth rate of 4% to 142 GW in 2030. In entering the US market, our strategy is to focus on the more demanding Northeastern US onshore wind market, since this sub-market is very similar to Europe in terms of environmental conditions, risk profile and process set-up and enables us to leverage our core competencies and our strong track record in onshore wind, with our sophisticated engineering being capable of maximizing output of small parks with high environmental requirements. Initially, we aim to enter the market through cooperations with local partners (for which our existing experience in cooperations with local partners is valuable), but intend to build up our own development capabilities in the medium term.

We see further growth opportunities for onshore wind in particular in Ireland and Turkey. Market conditions in Ireland are attractive with excellent wind conditions and feed-in tariffs for 15 years backed by a broad political consensus for renewables and onshore wind in particular. Entering the Irish onshore wind market would be a natural expansion of our existing operations in the United Kingdom. We are currently assessing potential acquisitions in Ireland in order to enable us to enter the Irish onshore wind market. Turkey also offers significant growth potential with attractive weather conditions for onshore wind (especially in the Northwest, South and Central Turkey) and regulation supporting the demand for new onshore wind capacity.

#### Details of Onshore Wind Operational Capacity

The following table sets forth a detailed overview of all onshore wind farms in operation as of December 31, 2015:

Asset <sup>1)</sup>	Country <sup>1)</sup>	Installed capacity (MW)	innogy stake	Accounting view capacity (MW)	Pro rata capacity (MW)	Year commissioned	End of support mechanism	Support type <sup>2)</sup>
Westereems . . . . .	NL	156	100%	156	156	2009	2016	FiT / FiP / CfD
Putlitz . . . . .	DE	62	100%	62	62	2004	2024	FiT / FiP / CfD
Luna + Tetis . . . . .	ES	50	99%	50	49	2004	2024	WS + fixed Premium <sup>3)</sup>
Juno + Hiperion . . .	ES	50	99%	50	49	2004	2024	WS + fixed Premium <sup>3)</sup>
Nowy Staw 1 . . . . .	PL	45	100%	45	45	2014	2028	Wholesale + Certificate
Aldehuelas . . . . .	ES	47	95%	47	45	2005	2025	WS + fixed Premium <sup>3)</sup>
Suwalki . . . . .	PL	41	100%	41	41	2009	2024	PPA
Rio Gallego . . . . .	ES	39	100%	39	39	2003	2023	WS + fixed Premium <sup>3)</sup>
Novar 2 . . . . .	UK	37	100%	37	37	2013	2032	Wholesale + Certificate
Little Cheyne Court . . . . .	UK	60	59%	60	35	2010	2027	Wholesale + Certificate
Tychowo . . . . .	PL	35	100%	35	35	2011	2025	Wholesale + Certificate

Asset <sup>1)</sup>	Country <sup>1)</sup>	Installed capacity (MW)	innogy stake	Accounting		Year commissioned	End of support mechanism	Support type <sup>2)</sup>
				view capacity (MW)	Pro rata capacity (MW)			
Goole Fields 1 . . . . .	UK	33	100%	33	33	2014	2034	Wholesale + Certificate
Bartelsdorf . . . . .	DE	32	100%	32	32	2009	2029	FiT / FiP/ CfD
Taciewo . . . . .	PL	30	100%	30	30	2012	2026	Wholesale + Certificate
Urano . . . . .	ES	30	99%	30	30	2004	2024	WS + fixed Premium <sup>3)</sup>
Nowy Staw 1 . . . . .	PL	28	100%	28	28	2015	2030	Wholesale + Certificate
Middlemoor . . . . .	UK	54	51%	54	28	2013	2033	Wholesale + Certificate
Los Labrados . . . . .	ES	24	100%	24	24	2002	no limitation	Wholesale
Plana de la Balsa . . .	ES	24	100%	24	24	2002	no limitation	Wholesale
Plana de Zaragoza . . . . .	ES	24	100%	24	24	2002	no limitation	Wholesale
Plana Maria . . . . .	ES	24	100%	24	24	2002	no limitation	Wholesale
Lanternoso . . . . .	ES	24	100%	24	24	2005	2025	WS + fixed Premium <sup>3)</sup>
Bosque Alto . . . . .	ES	22	100%	22	22	2002	no limitation	Wholesale
Malterhausen . . . . .	DE	22	100%	22	22	2002	2022	FiT / FiP/ CfD
Bancal . . . . .	ES	21	100%	21	21	2007	2027	WS + fixed Premium <sup>3)</sup>
Bradwell . . . . .	UK	21	100%	21	21	2014	2033	Wholesale + Certificate
Bedburg-Königshovener Höhe A1 . . . . .	DE	38	51%	38	19	2015	2034	FiT / FiP/ CfD
Siglos . . . . .	ES	18	100%	18	18	2007	2027	WS + fixed Premium <sup>3)</sup>
Acampo Armijo . . .	ES	18	100%	18	18	2002	no limitation	Wholesale
Opalenica . . . . .	PL	17	100%	17	17	2015	2030	Wholesale + Certificate
Piecki . . . . .	PL	32	51%	32	16	2011	2025	Wholesale + Certificate
EE de Muel . . . . .	ES	16	100%	16	16	1998	no limitation	Wholesale

Asset <sup>1)</sup>	Country <sup>1)</sup>	Installed capacity (MW)	innogy stake	Accounting		Year commissioned	End of support mechanism	Support type <sup>2)</sup>
				view capacity (MW)	Pro rata capacity (MW)			
Schmarloh . . . . .	DE	16	100%	16	16	2008	2028	FiT / FiP/ CfD
Knabs Ridge . . . . .	UK	16	100%	16	16	2008	2027	Wholesale + Certificate
Bedburg-Königs-hovener Höhe A2 . . . . .	DE	29	51%	29	15	2015	2035	FiT / FiP/ CfD
Lesse A . . . . .	DE	14	100%	14	14	2003	2023	FiT / FiP/ CfD
Krzęcin . . . . .	PL	14	100%	14	14	2013	2027	Wholesale + Certificate
Kiln Pit Hill . . . . .	UK	14	100%	14	14	2013	2032	Wholesale + Certificate
Grisel . . . . .	ES	14	100%	14	14	2001	2021	WS + fixed Premium <sup>3)</sup>
Düshorner Heide . .	DE	26	51%	26	13	2014	2034	FiT / FiP/ CfD
Ururi . . . . .	IT	26	51%	26	13	2011	2026	FiT / FiP/ CfD <sup>4)</sup>
San Basilio . . . . .	IT	25	51%	25	13	2010	2025	FiT / FiP/ CfD <sup>4)</sup>
Westereems . . . . .	NL	12	100%	12	12	2012	2027	FiT / FiP/ CfD
Barbecke . . . . .	DE	11	100%	11	11	2002	2022	FiT / FiP/ CfD
Lasbek . . . . .	DE	11	100%	11	11	2004	2024	FiT / FiP/ CfD
Titz-Nord . . . . .	DE	21	51%	21	11	2015	2022	FiT / FiP/ CfD
Lesse B . . . . .	DE	10	100%	10	10	2010	2030	FiT / FiP/ CfD
Aggregated sites DE <10MW <sup>5)</sup> . . . . .	DE	281	Site specific	275	271	Site specific	Site specific	Site specific <sup>6)</sup>
Aggregated sites UK <10MW <sup>5)</sup> . . . . .	UK	71	Site specific	71	57	Site specific	Site specific	Site specific <sup>6)</sup>
Aggregated sites NL <10MW <sup>5)</sup> . . . . .	NL	29	Site specific	29	29	Site specific	Site specific	Site specific <sup>6)</sup>
Aggregated sites IT <10MW <sup>5)</sup> . . . . .	IT	16	Site specific	16	8	Site specific	Site specific	Site specific <sup>6)</sup>
Aggregated sites ES <10MW <sup>5)</sup> . . . . .	ES	3	Site specific	3	3	Site specific	Site specific	Site specific <sup>6)</sup>
Aggregated sites PT <10MW <sup>5)</sup> . . . . .	PT	8	Site specific	0	3	Site specific	Site specific	Site specific <sup>6)</sup>
<b>Total onshore wind<sup>7)</sup> . . . . .</b>		<b>1,838</b>		<b>1,823</b>	<b>1,648</b>			

- 1) In this column, "DE" means Germany, "UK" means the United Kingdom, "ES" means Spain, "NL" means the Netherlands, "PL" means Poland, "IT" means Italy, and "PT" means Portugal.
- 2) In this column, "WS" means Wholesale, "FiT" means Feed-in tariff, "FiP" means Feed-in premium, "CfD" means Contract for Difference, and "PPA" means Power Purchase Agreement.
- 3) Fixed investment compensation.
- 4) Formerly wholesale + certificate.
- 5) Based on pro rata capacity.
- 6) Support type Wholesale + Certificate or FiT / FiP/ CfD or Wholesale + fixed Premium depending on asset.
- 7) Figures may not add up due to rounding differences.

#### 15.7.4.2.2 Offshore Wind

Although the major part of today's energy from renewables is generated by onshore wind farms, an increasing number of large-scale offshore wind farms are connecting to the grid. Winds in coastal areas and at sea are stronger and more persistent.

##### *Overview of Offshore Wind Asset Portfolio*

We started operating offshore wind farms in 2004 with our North Hoyle wind farm. Since then, we have constantly expanded our offshore wind asset base, and with an installed capacity of 967 MW (accounting for 31% of our renewable capacity) as of December 31, 2015, according to Bloomberg New Energy Finance, we have become the third largest operator of offshore wind turbines based on installed capacity. Our offshore wind business started in the United Kingdom, and from there we expanded our business into Germany and Belgium. The following table sets forth the development of our offshore wind asset base by country (in MW installed capacity) as well as our offshore wind production volumes by country (in GWh) from 2013 to 2015 pro rata to our share of ownership:

Country	Pro-rata view as of December 31,					
	Installed Capacity			Production Volumes		
	2015 (MW)	2014 (MW)	2013 (MW)	2015 (GWh)	2014 (GWh)	2013 (GWh)
Germany .....	295	—	—	625	—	—
United Kingdom .....	585	466	297	1,973	1,345	1,124
Belgium .....	87	87	87	305	275	244
<b>Total .....</b>	<b>967</b>	<b>553</b>	<b>384</b>	<b>2,903</b>	<b>1,620</b>	<b>1,368</b>

Based on our accounting view, our offshore wind asset base by country (in MW installed capacity) as well as our offshore wind production volumes by country (in GWh) developed from 2013 to 2015 as follows:

Country	Accounting view as of December 31,					
	Installed Capacity			Production Volumes		
	2015 (MW)	2014 (MW)	2013 (MW)	2015 (GWh)	2014 (GWh)	2013 (GWh)
Germany .....	295	—	—	625	—	—
United Kingdom .....	630	511	342	2,124	1,469	1,170
Belgium .....	—	—	—	—	—	—
<b>Total .....</b>	<b>925</b>	<b>511</b>	<b>342</b>	<b>2,749</b>	<b>1,469</b>	<b>1,170</b>

In the United Kingdom, as of December 31, 2015, we were operating together with partners four offshore wind farms with a total installed capacity of 1,170 MW (1,230 MW including North Hoyle), of which our pro-rata capacity was, as of December 31, 2015, 585 MW (605 MW including North Hoyle):

- Commissioned in 2004, our first offshore wind farm, North Hoyle off the coast of North Wales, was at the time the first commercial scale offshore wind farm in the United Kingdom (source: offshoreWIND.biz, Business Guide, 2014). With an installed capacity of 60 MW distributed over 30 Vestas wind turbines with 2 MW each, North Hoyle is now considered a relatively small offshore site, and is located relatively close to shore. Before the sale of our share in the wind farm in July 2016, our stake in North Hoyle, which was part of the Zephyr portfolio, amounted to 33.3%; our pro-rata share in the installed capacity amounted to 20 MW. Following the sale of North Hoyle, we continue to provide operation services for the North Hoyle wind farm.
- In 2010, we commissioned the Rhyl Flats wind farm, which is also a near-shore project off the coast of North Wales in the Liverpool Bay with a total installed capacity of 90 MW distributed over 25 Siemens wind turbines with 3.6 MW each. We currently hold 50.1% of the Rhyl Flats wind farm and have a pro-rata share in the installed capacity of 45.1 MW. Our partners in Rhyl Flats are UK Green Investment Bank and Greencoat UK Wind, holding a share of 24.95% each. We have a long term agreement in place to provide operation services for the wind farm.
- The valuable experience we gained during the development, construction and operation of our wind farms North Hoyle and Rhyl Flats helped us to realize a number of more ambitious projects at other sites in the United Kingdom, but also in continental Europe. In 2012, our Greater Gabbard wind farm located 23 km off the coast of Suffolk went into commercial operation. With an installed capacity of 504 MW distributed over 140 Siemens wind turbines with 3.6 MW each and an area of 147 km<sup>2</sup>, Greater Gabbard was a significant milestone for our offshore wind business. We currently hold a stake of 50% in Greater Gabbard, which results in a pro-rata share in the installed capacity of 252 MW. Our partner for Greater Gabbard, Scottish and Southern Energy, provides the operation services for the wind farm.
- Our most recently commissioned wind farm in the United Kingdom is Gwynt y Môr, located off the coast of North Wales in the Liverpool Bay. It has been in operation since 2015, and with a total installed capacity of 576 MW distributed over 160 Siemens wind turbines with 3.6 MW each, Gwynt y Môr has been our biggest offshore project to date, and, as of July 2016, Gwynt y Môr was the second largest fully operational offshore wind farm. We hold a 50% stake in Gwynt y Môr and our pro-rata capacity amounts to 288 MW. Our partners in Gwynt y Môr are Stadtwerke München (holding 30%), Siemens (holding 10%) and UK Green Investment Bank (holding 10%). We have a long term agreement in place to provide operation services for the wind farm.

In Germany, our offshore wind farm Nordsee Ost, located off the island of Heligoland, which is fully owned and operated by us, entered into service in 2015. With an installed capacity of 295.2 MW (distributed over 48 Senvion wind turbines with 6.15 MW each), Nordsee Ost is one of the largest wind farms off the German coast.

In Belgium, we own a 26.7% stake in a consortium holding the Thornton Bank wind farm, which was completely commissioned in 2013. The Thornton Bank wind farm has an overall capacity of 325.2 MW, which are generated by six Senvion wind turbines with 5 MW each (Thornton Bank 1), 30 Senvion wind turbines with 6.15 MW each (Thornton Bank 2) and another 18 Senvion wind turbines with 6.15 MW each (Thornton Bank 3). Our pro-rata share in this wind farm amounts to 87 MW.

Of the electricity generated from our offshore wind assets in 2015, by gross margin (i.e., revenues minus sales cost), approximately 72% benefited from support schemes, while approximately 28% was sold at wholesale prices. The average remaining support tenor of our offshore wind assets generating quasi-regulated earnings was around 14 years as of December 31, 2015 (based on capacity-weighted offshore wind farms with around 1.0 GW

capacity which were subject to an unexpired support tariff at the end of 2015, and, for Germany, an initial support period of eight years only). The average age of our offshore wind assets was two years, as of December 31, 2015.

### *Our Offshore Wind Operations*

The offshore wind industry is characterized by high barriers to entry due to development and engineering challenges. Our offshore wind operations and maintenance (O&M) business is focused on ensuring the highest possible output from our offshore wind farms while cost effectively maintaining our assets in a technically healthy and robust condition. Our highest priority is the safety as well as the health and well-being of our employees and external contractors working in our offices and at our operational sites. Our offshore O&M strategy already starts in the development and construction phase of an asset by taking into account lessons learnt from already operational assets and setting the basis that the plant design is consistent with our guidelines for safe and efficient operations, e.g., to plan operations facilities or to provide offshore access to vessels and helicopter logistics for operational activities. The commissioning and takeover phase of an asset is already closely managed by the project team and the O&M team to ensure smooth handover, i.e., to provide full documentation and lead the asset into a steady operations phase. We have experience in offshore wind farm operations since 2004, and have the necessary capabilities in-house to manage our asset portfolio in a professional way. For example, having personnel to do endoscopic bearing inspections only makes sense when having a large enough portfolio. We provide operations services not only to assets in which we own 100% of the wind farm but also for those assets for which we have the operatorship agreed via contracts with our joint venture partners, e.g., at our offshore wind farm Gwynt y Môr.

### *Construction Projects*

We currently have two offshore wind farms under construction, Nordsee One in Germany and Galloper in the United Kingdom.

The offshore project Nordsee One is located 40 km north of Juist Island, in an area with shallow water and high wind speeds and therefore ideal conditions for an offshore wind farm. Nordsee One's projected capacity amounts to 332 MW distributed over 54 Senvion wind turbines with 6.15 MW each. The wind turbine foundation works were completed in the second quarter of 2016, and we plan to have Nordsee One operational by the end of 2017. We are developing Nordsee One together with Northland Power. Our stake in the project is 15% and our pro-rata capacity will amount to 50 MW.

The offshore project Galloper is located off the coast of Suffolk. With a total projected capacity of 336 MW (distributed over 56 Siemens wind turbines with 6 MW each) and capital expenditures of around EUR 1.5 billion (approximately 70% financed with non-recourse project debt), it is a successful example for value creation through our offshore wind development activities. In the initial development phase, our original partner decided to refrain from investment into the Galloper project. As a result, the project development was put on hold, and we conducted an internal re-evaluation of the project, and then decided to reconfigure certain central characteristics, for example the use of larger wind turbines. Upon that reconfiguration, we managed to attract Siemens, Macquarie and UK Green Investment Bank as new joint equity partners and sold 25% in the project to each of them, thereby reducing our stake in the project also to 25%. At FID and prior to the financial closing with our partners, the internal rate of return on our equity from the project was calculated at 13%. The sale of 75% of shares in the project led to a positive impact on our operating result in the amount of EUR 93 million. Our Galloper project has received a number of awards, including the European Power Deal of the Year 2015 award by Thomson Reuters Project Finance International. We expect the project to be fully commissioned by March 31, 2018 and have a long term agreement in place to provide operation services for the wind farm.

The following table provides an overview of our offshore wind farms currently under construction by capacity and applicable support schemes:

Project	Expected Year of Commissioning	Installed Capacity	Ownership	Capacity pro-rata view	Capacity accounting view	End of support scheme	Support regime
Nordsee One . . . . .	2017	332 MW	15%	50 MW	0 MW	2027 <sup>1)</sup>	FiT / FiP / CfD (EEG 2014 <sup>3)</sup> )
Galloper . . .	2018	336 MW	25%	83.75 MW	0 MW	2037 <sup>2)</sup>	Wholesale + Certificate (1.8 ROC <sup>4)</sup> )

1) Dependent on commercial operation date.

2) Fixed; end of support regime in general.

3) German RES support scheme (see "16.2.4.1 Promotion of RES Installations"). EEG 2014 compression model: EUR 194 per MWh, thereafter EUR 154 per MWh, and thereafter EUR 39 per MWh.

4) UK Renewable Obligation Certificate (see "16.5.13.1.2 Promotion of RES installations"). The level of support is granted for 20 years, subject to a backstop date on March 31, 2037.

### *Our Development and Construction Capabilities for a Maturing Industry*

Over recent years, the offshore wind technology has significantly matured from a highly specialized and cost-intensive technology into a more mature industry. In particular, the construction of wind farms has become more and more efficient: One indicator showing the improvement in the construction process of offshore wind farms is the average installation time per foundation. For example, while we required around 400 days to complete the 48 foundations for our Nordsee Ost wind farm which was commissioned in 2015, we completed all 54 foundations for the project Nordsee One in just over 100 days. This corresponds to a reduction of the average installation time per foundation from around 8.2 days to around 2.3 days. This became possible through improved offshore construction vessels as well as the experience gained on past projects (we are currently constructing our tenth project, and have led over half of these) with respect to supply chain management and various foundation types such as gravity bases, jackets and monopiles. For example, whereas we used jacket foundations for Nordsee Ost, we used monopiles for Nordsee One, which contributed to the reduction in installation time.

The following overview demonstrates our track record of successfully increasing our construction capabilities in line with investments into more sizeable projects by installing increasingly bigger wind turbines, farther from shore and in deeper waters:

Project	Commissioning	Installed capacity	Turbines	Water depth	Distance to shore <sup>1)</sup>	Foundation <sup>2)</sup>
North Hoyle <sup>3)</sup> . . . .	2004	60 MW	30 x 2.0 MW	7-11m	7km	Monopile
Rhyl Flats . . . . .	2010	90 MW	25 x 3.6 MW	10-15m	8km	Monopile
Gwynt y Môr . . . . .	2015	576 MW	160 x 3.6 MW	12-28m	13km	Monopile
Greater Gabbard . . . . .	2012	504 MW	140 x 3.6 MW	24-34m	23km	Monopile
Thornton Bank 1, 2 and 3 . . . . .	2009, 2012, 2013	325 MW	6 x 5 MW, 30 x 6.15 MW, 18 x 6.15 MW	12-30m	28km	Gravity, Jacket, Jacket
Galloper <sup>4)</sup> . . . . .	2018	336 MW	56 x 6 MW	27-36m	30km	Monopile
Nordee One <sup>4)</sup> . . . .	2017	332 MW	54 x 6.15 MW	26-29m	45km	Monopile
Nordsee Ost . . . . .	2015	295 MW	48 x 6.15 MW	22-26m	60km	Jacket

1) Distance to shore is measured by the distance to the mainland shore.

2) Turbine Foundations are the structures on which the turbines stand that are sunk into the sea-bed and rise up above the sea's surface. In the vast majority of cases three types of foundations are used: monopiles, jackets or concrete gravity bases. Monopiles are steel tubes, typically 50 to 80 m in length and 4 to 8 m in diameter, which are driven into the sea-bed by

hydraulic hammers. A “transition piece” is then placed and fixed onto the monopile to provide the connection to the turbine and to allow it to stand above the water. Monopile substructures remain by far the most popular substructure type in today’s market. Jackets are steel lattice structures anchored into the seabed with smaller diameter steel piles. The design has been adapted from the oil & gas industry. Gravity-base foundations are designed to provide stable platforms under their own weight.

- 3) Part of the Zephyr portfolio which was disposed in July 2016.
- 4) Under construction. The year of commissioning is as currently expected.

In contrast to the past, we now benefit from a significantly improved risk-reward proposition in three key areas, namely contracting, financing and partnering. Initially, the first offshore wind farm we constructed, North Hoyle, was built on an engineer, procure, construct and install (“EPCI”) basis with only a few main contracts. The market then moved to a multi-contracting approach with contractors unwilling to take on significant risk for major contracts, so that, as a result, we had many separate contracts for equipment, installation and vessels. As a consequence of a tight market for available offshore construction vessels, we even took the decision to buy two offshore construction vessels. However, since offshore construction vessels no longer represent a comparable bottleneck, we sold one of the vessels in 2015 and have chartered the other vessel out to a third party on a five year charter commencing in 2015. The market has now matured and our current approach is to contract on the basis of a few EPCI contracts, typically around five to seven key contracts. Furthermore, offshore construction vessels are now typically the responsibility of the respective supplier. This has significantly reduced interface risk between contracts and work packages and complexity on the contracting side. In terms of financing, in the past we predominantly used corporate level financing. With our current approach to use non-recourse project level financing and to realize projects together with partners (see “15.7.3.4 Our Partnership Approach”), we have now managed to effectively limit our cash outflow per project and benefit from reduced capital requirements per project.

The developments in the offshore wind industry over the last decade have shown rapid and substantial changes with regard to technical developments as well as with regard to the structuring, financing and management of offshore wind projects as illustrated above. For this reason we consider the ability to continuously review and adapt our approach to how we manage our offshore wind business and how we best position ourselves in a constantly changing competitive environment as a crucial success factor to sustainably grow our offshore wind business in the long term.

### Details of Offshore Wind Operational Capacity

The following table sets forth a detailed overview of all offshore wind farms in operation as of December 31, 2015 (excluding North Hoyle which is part of the Zephyr portfolio):

Asset	Country <sup>1)</sup>	Installed capacity		Accounting view		Year commissioned	End of support mechanism	Support type <sup>2)</sup>
		capacity (MW)	innogy stake	capacity (MW)	Pro rata capacity (MW)			
Rhyl Flats . . . . .	UK	90	50%	90	45	2010	2029	WS + Certificate (1.5 ROC)
Gwynt y Môr . . . . .	UK	576	50% <sup>3)</sup>	288	288	2015	2033	WS + Certificate (2.0 ROC)
Greater Gabbard . . . . .	UK	504	50% <sup>3)</sup>	252	252	2012	2032	WS + Certificate (2.0 ROC)
Thornton Bank 1-3 . . . . .	BE	325	27%	0	87	2009-2013	2029-2036	Wholesale + Certificate <sup>4)</sup>
Nordsee Ost . . . . .	DE	295	100%	295	295	2015	2023	FiT / FiP / CfD (EEG 2014 <sup>5)</sup> )
<b>Total offshore wind<sup>6)</sup> . . . . .</b>		<b>1,791</b>		<b>925</b>	<b>967</b>			

1) In this column, "DE" means Germany, "UK" means the United Kingdom, and "BE" means Belgium.

2) In this column, "WS" means Wholesale, "FiT" means Feed-in tariff, "FiP" means Feed-in premium and "CfD" means Contract for Difference. "ROC" means the UK Renewable Obligation Certificate (see "16.5.13.1.2 Promotion of RES installations").

3) Consolidated with 50%.

4) Minimum price for offshore wind certificates are EUR 107 per MWh for the first 216 MW of generating capacity, and EUR 90 per MWh for capacity exceeding 216 MW.

5) German RES support scheme (see "16.2.4.1 Promotion of RES Installations"). EEG compression model: EUR 194 per MWh up to August 2022, thereafter EUR 154 per MWh up to November 2023, and thereafter EUR 39 per MWh.

6) Figures may not add up due to rounding differences.

### 15.7.4.2.3 Hydro

#### Overview of Hydropower Asset Portfolio

Our segment's hydropower business is characterized by a well-established asset base with a diversified hydrology exposure. While we actively explore possibilities to purchase hydropower assets on an ongoing basis, opportunities for the development and construction of new projects are limited. Our existing hydropower assets benefit from a long remaining lifetime with very limited capital expenditure required, and, even though, in 2015, approximately 75% of the electricity was sold at wholesale prices and only approximately 25% benefited from support schemes, our hydropower assets are highly cash generative (contributing around 10% to our segments EBITDA in 2015) and offer an upside potential if wholesale prices materially rebound.

As of December 31, 2015, we had a total installed hydropower capacity of 500 MW (accounting for 16% of our renewable capacity). The following table sets forth in detail the development of our hydropower asset base by country (in MW installed capacity) as well as our hydropower production volumes by country (in GWh) from 2013 to 2015 pro rata to our share of ownership:

Country	Pro-rata view as of December 31, <sup>1)</sup>					
	Installed Capacity			Production Volumes		
	2015 (MW)	2014 (MW)	2013 (MW)	2015 (GWh)	2014 (GWh)	2013 (GWh)
Germany .....	353	353	355	1,439	1,576	1,813
United Kingdom .....	77	77	72	209	176	131
France .....	44	44	44	125	133	119
Portugal .....	16	16	16	23	57	51
Spain .....	10	10	10	17	29	24
Belgium .....	—	—	—	—	—	—
Switzerland .....	—	23	23	74	134	143
<b>Total .....</b>	<b>500</b>	<b>523</b>	<b>521</b>	<b>1,886</b>	<b>2,104</b>	<b>2,280</b>

1) Figures may not add up due to rounding differences.

Based on our accounting view, our hydropower asset base by country (in MW installed capacity) as well as our hydropower production volumes by country (in GWh) developed from 2013 to 2015 as follows:

Country	Accounting view as of December 31, <sup>1)</sup>					
	Installed Capacity			Production Volumes		
	2015 (MW)	2014 (MW)	2013 (MW)	2015 (GWh)	2014 (GWh)	2013 (GWh)
Germany .....	375	375	377	1,564	1,711	1,958
United Kingdom .....	77	77	72	209	176	131
France .....	44	44	44	125	133	119
Portugal .....	16	16	16	24	57	51
Spain .....	12	12	12	22	39	30
Belgium .....	—	—	—	—	—	—
Switzerland .....	—	—	—	—	—	—
<b>Total .....</b>	<b>525</b>	<b>525</b>	<b>522</b>	<b>1,944</b>	<b>2,117</b>	<b>2,289</b>

1) Figures may not add up due to rounding differences.

In our hydropower business, we focus on maintaining and improving operational excellence.

## Details of Hydropower Operational Capacity

The following table sets forth a detailed overview of all hydropower assets in operation as of December 31, 2015:

Asset <sup>1)</sup>	Country <sup>1)</sup>	Accounting				Year commissioned	End of support mechanism	Support type <sup>2)</sup>
		Installed capacity (MW)	innogy stake	view capacity (MW)	Pro rata capacity (MW)			
RADAG . . . . .	DE	77	78%	77	60	1933	no limitation	Wholesale + GoO
Detzem . . . . .	DE	24	100%	24	24	1962	no limitation	Wholesale + GoO
Lehmen . . . . .	DE	20	100%	20	20	1962	no limitation	Wholesale + GoO
Wintrich . . . . .	DE	20	100%	20	20	1965	no limitation	Wholesale + GoO
Trier . . . . .	DE	19	100%	19	19	1961	no limitation	Wholesale + GoO
RADAG WKW . . . . .	DE	24	78%	24	18	2009	2030	Wholesale; Feed-in <sup>3)</sup>
Enkirch . . . . .	DE	18	100%	18	18	1966	no limitation	Wholesale + GoO
Dolgarrog HH . . . . .	UK	17	100%	17	17	1907	2027	Wholesale + Certificate
Fankel . . . . .	DE	16	100%	16	16	1963	no limitation	Wholesale + GoO
Müden . . . . .	DE	16	100%	16	16	1965	no limitation	Wholesale + GoO
Neef . . . . .	DE	16	100%	16	16	1966	no limitation	Wholesale + GoO
Heimbach . . . . .	DE	16	100%	16	16	1905	no limitation	Wholesale + GoO
Koblenz . . . . .	DE	16	100%	16	16	1951	no limitation	Wholesale + GoO
Dolgarrog LH . . . . .	UK	15	100%	15	15	1907	2027	Wholesale + Certificate
Schwam-menauel . . .	DE	14	100%	14	14	1938	no limitation	Wholesale + GoO
Zeltingen . . . . .	DE	14	100%	14	14	1964	no limitation	Wholesale + GoO
Serrig . . . . .	DE	12	100%	12	12	1985	no limitation	Wholesale + GoO
Aggregated sites DE <10MW <sup>4)</sup> . . . . .	DE	53	100%	53	53	Site specific	Site specific	Site specific <sup>5)</sup>
Aggregated sites UK <10MW <sup>4)</sup> . . . . .	UK	45	100%	45	45	Site specific	Site specific	Site specific <sup>5)</sup>
Aggregated sites ES <10MW <sup>4)</sup> . . . . .	ES	12	Site specific	12	10	Site specific	Site specific	Site specific <sup>5)</sup>
Aggregated sites FR <10MW <sup>4)</sup> . . . . .	FR	44	Site specific	44	44	Site specific	Site specific	Site specific <sup>5)</sup>
Aggregated sites PT <10MW <sup>4)</sup> . . . . .	PT	24	Site specific	16	16	Site specific	Site specific	Site specific <sup>5)</sup>
<b>Total Hydro<sup>6)</sup> . . . . .</b>		<b>533</b>		<b>525</b>	<b>500</b>			

1) In this column, "DE" means Germany, "UK" means the United Kingdom, "FR" means France, "PT" means Portugal, and "ES" means Spain.

2) In this column, "GoO" means Guarantee of Origin.

3) 78% of the output is marketed by innogy; 46% fall under the German EEG (Feed-in tariff).

- 4) Based on pro-rata capacities.
- 5) Depending on the asset, the support type is either Wholesale + Certificate, or Feed-in tariff / Feed-in Premium / Contract for Difference, or Wholesale + fixed premium.
- 6) Figures may not add up due to rounding differences.

#### 15.7.4.2.4 Solar

Our solar business currently comprises a limited portfolio of photovoltaic and CSP assets. However, we intend to grow our solar business by entering into the utility-scale solar technology.

##### *Overview of Solar Asset Portfolio*

Beside several small rooftop or ground-mounted photovoltaic plants in Germany with a total capacity of about 1 MW and a minority share in a small photovoltaic installation in Spain with a total installed capacity of 0.9 MW, we hold a stake of 12.8% in Marquesado Solar, the owner of the Andasol 3 solar thermal power plant with an installed capacity of 50 MW<sub>el</sub> located in the Spanish province of Granada which started operations in 2011. It produces approximately 140 to 150 GWh of electricity per year depending on the weather. We provided technical know-how for the successful commissioning of the plant, and we appoint the technical managing director.

##### *Entry into Utility-scale Solar Technology*

As part of our growth strategy, we plan to significantly expand our solar business by entering into utility-scale solar technology. The solar technology has developed from a niche technology to a highly cost competitive utility technology with significant growth potential, since significant reductions in LCOE of utility-scale photovoltaic energy generation have made this technology competitive across most regions (see "14.4.5 Solar Market"). Therefore, we aim to further diversify our existing renewable portfolio with this technology and believe that our Renewables Segment is well positioned to capture its growth potential by capitalizing on our onshore wind skills and transferring them to the, in terms of required capabilities, very similar solar business: In terms of project development, our segment has significant expertise in setting up large projects, conducting site selection, gaining required consents and managing stakeholders. For the construction of solar projects we plan to adopt an EPCI approach to deliver projects and can leverage our project management capabilities as well as our expertise in procurement and claims management. We further expect to benefit from the short construction periods of photovoltaic assets (which means that our investments generate earnings within a short time frame) and their limited technological complexity in comparison to other renewable technologies. We plan to actively manage and supervise our assets through our central control room and through centralized engineering and performance management. We further expect to benefit from our experiences we gained at our small plants with respect to less complex maintenance requirements.

In addition to photovoltaic plants, concentrated solar power also seems to be a viable option in the future. For example, Morocco started to tender new CSP projects. Due to our sound knowledge of power plant technology and experiences gained from Andasol 3, we are well positioned for the CSP business.

In order to facilitate the market entry into utility-scale solar technology in line with our growth strategy, the Group, in August 2016, entered into an agreement for the acquisition of BELECTRIC (see "12.9.3.2 Ongoing Investments"). BELECTRIC's business mainly comprises solar plant development as well as engineering, procurement and construction ("EPC") services, O&M services in relation to solar plants, including management and remote monitoring services, and the development and operation of battery systems. Although BELECTRIC currently does not have renewable assets on its balance sheet, we intend to leverage BELECTRIC as our platform for EPC and O&M services in relation to solar assets, both for our own business and for third parties, and plan to keep and manage interests in such assets in our portfolio. Based on BELECTRIC's adjusted

accounts for the financial year 2015 as specifically prepared in connection with the acquisition process, the EPC and batteries business accounted for approximately 95% of BELECTRIC's total output (i.e., total sales/revenue less change in finished goods and work in progress) and approximately 80% of its EBITDA. The remaining share of BELECTRIC's revenue and EBITDA accounted for its O&M business. See also "12.9.3.3 Planned Investments".

BELECTRIC has manufacturing facilities in Germany and India and core markets in particular in Europe, South America, the Middle East, North Africa and India and additional footprints in many other regions, including the USA. BELECTRIC has industry experience of more than 15 years, and shows a strong track record in its EPC business with more than 280 realized utility-scale photovoltaic plants with a total installed capacity of more than 1.5 GW as of December 31, 2015. In addition, as of December 31, 2015, BELECTRIC had more than 1 GW of capacity under management as part of its O&M business. Its customer base in 2015 included institutional investors (around 40% of its revenue in 2015), industrial clients and municipal utilities (around 40%) and independent power producers (around 20%) worldwide.

We expect that our acquisition of BELECTRIC will provide us access to sophisticated technology and know-how in utility-scale photovoltaic technology as well as project execution skills which will complement our existing project development and asset management capabilities. Furthermore, the acquisition will further complement and expand our existing development pipeline by leveraging BELECTRIC's pipeline of new projects, and provide us access to the emerging industrial-scale battery business.

#### Details of Solar Operational Capacity

The following table sets forth a detailed overview of all solar assets in operation as of December 31, 2015:

Asset	Country <sup>1)</sup>	Installed capacity		Accounting view		Year commissioned	End of support mechanism	Support type <sup>2)</sup>
		capacity (MW)	innogy stake	capacity (MW)	Pro rata capacity (MW)			
Andasol 3 . . . . .	ES	50	12.8%	0	6	2012	2036	WS+Fixed and Ops Premium
Aggregated sites <1MW . . . . .	DE / ES	2	Site specific	1	1	Site Specific	Site Specific	FiT / FiP / CfD
<b>Total Solar<sup>3)</sup> . . . . .</b>		<b>52</b>		<b>1</b>	<b>8</b>			

1) In this column, "DE" means Germany, and "ES" means Spain.

2) In this column, "WS" means Wholesale, "FiT" means Feed-in tariff, "FiP" means Feed-in premium and "CfD" means Contract for Difference.

3) Figures may not add up due to rounding differences.

#### 15.7.4.3 Our Further Renewable Technologies

In addition to our key technologies, our Renewables Segment owns selected assets generating electricity from biomass and biogas.

##### 15.7.4.3.1 Biomass

We currently operate two biomass plants, one of them an integrated CHP and wood pellet production plant in Siegen Wittgenstein, Germany, as well as a pure wood pellet production plant in Waycross, Georgia, USA. Our plant in Siegen Wittgenstein has been in operation since 2010. The CHP produces electricity and steam from locally sourced biomass (e.g., roundwood, woodchips and residues from sawmills), and the adjacent wood pellet plant produces wood pellets by using the clean energy, mainly steam, of the biomass fired CHP. In the financial year

2015, our Siegen Wittgenstein pellet plant produced approximately 78,000 tons of wood pellets. Our plant in Georgia was, at the time of construction, according to IEA Bioenergy, one of the world's largest wood pellet plants and has been in operation since 2011. It makes use of the substantial unused wood resources in the USA and, in the financial year 2015, produced approximately 700,000 tons of wood pellets.

After a strategic realignment in 2012, we decided not to further expand our biomass activities. With the exception of Siegen Wittgenstein, our segment's German biomass assets were either sold to third parties, or transferred into the Retail Segment's decentralized CHP business.

#### 15.7.4.3.2 Biogas

We currently operate three biogas plants in Germany, of which one plant produces electricity and two plants produce biomethane. One of the biomethane plants was recently commissioned in July 2016. Biomethane can be produced from various natural resources, and in particular renewable raw materials and farm manure offer exceptional opportunities. The two plants already existing in 2015 with a capacity of 0.8 MW<sub>el</sub> (Neuss biogas plant) and 6.7 MW<sub>th</sub> (Güterglück biomethane plant) produced in that year in total 6,029 MWh<sub>el</sub> of electricity and 52,796 MWh<sub>th</sub> of biomethane. Our new biomethane producing plant in Bergheim-Paffendorf with a capacity of 7.4 MW<sub>th</sub> was fully commissioned in July 2016.

#### 15.7.4.3.3 Details of Biomass and Biogas Operational Capacity

The following table sets forth a detailed overview of all electricity generating biomass and biogas assets in operation as of December 31, 2015:

Asset	Country <sup>1)</sup>	Accounting				Year commissioned	End of support mechanism	Support type <sup>2)</sup>
		Installed capacity (MW)	innogy stake	view capacity (MW)	Pro rata capacity (MW)			
Biomass site . . .	DE	5	100%	5	5	2009	2029	FiT / FiP / CfD
Biogas site . . . .	DE	1	100%	1	1	2007	2029	FiT / FiP / CfD
<b>Total . . . . .</b>		<b>6</b>		<b>6</b>	<b>6</b>			

1) In this column, "DE" means Germany.

2) In this column, "FiT" means Feed-in tariff, "FiP" means Feed-in premium and "CfD" means Contract for Difference.

## 15.8 Research and Development

The strategic focus of the Research and Development activities of the Group is to maintain or respectively strengthen the Group's position within the energy sector, since technological innovation is key to the transformation of the European energy system. With working on around 100 Research and Development (R&D) projects, our R&D team is making an important contribution in this context by identifying, assessing and developing new technologies and technical solutions. In addition, we are constantly working on improving existing technologies and processes. New technologies are essential, for example, to improve the planning and operation of grids, to offer additional services and solutions in our Retail Segment and to improve efficiency and sustainability of renewables generation assets. Key drivers for the Research and Development activities are the demand of our customers and of our business segments, e.g., for increased effectiveness, better planning, increased functionality, lower costs and sustainability. In addition to these demands, we aim to detect further R&D needs and to derive strategic implications by applying two complementary methodologies: We conduct long-term, system oriented studies about the future of the energy system and perform our structured Technology Foresight process. In both activities we involve external views/partners in order to further reduce the risk of missing relevant trends for our business.

### 15.8.1 Organizational Structure

Functional research and development teams are allocated to the individual business segments. This structure aims to ensure that research and development activities are focused on the business segments requirements, including our customers and markets. In addition, a centrally organized team coordinates Group R&D topics and processes (like portfolio planning and budget allocation) and patent activities (see “15.11 Intellectual Property”) but also conducts overarching R&D projects.

Aimed to ensure that our R&D projects have the best possible probability of success, we team up with external partners that complement our know-how. In addition, we participate in numerous publicly funded projects in various scientific fields.

### 15.8.2 Research and Development in our Grid & Infrastructure Segment

Our R&D strategy in the Grid & Infrastructure Segment is focused on improvements and new approaches in grid planning, grid operation and control (increasing effectiveness and managing complexity related e.g., to the integration of the increasing share of renewables) as well as on innovative assets and processes. Additionally, we want to increase the efficiency and optimize the operation of our gas storage facilities.

For example, our “smart operator” project allows for a more “intelligent” solution for the German low voltage grid. The “smart operator” is located in the secondary substation and the target is to operate the subsequent low voltage network in an optimized way. Thus, it constitutes a cost-efficient solution to better integrate more renewable energy sources into the network. Forecast data complemented by a few sensors is being used to estimate the actual condition of the network. The “smart operator” then controls different end-devices in order to reach the optimal utilization of the grid. We started three pilots in Bavaria and Rhineland-Palatinate.

Our “AmpaCity” project in Essen, Germany, is funded by the BMWi (German Federal Ministry for Economic Affairs and Energy) and aims at optimizing inner city electricity supply in large metropolitan areas with a high energy density by potentially eliminating the 110/10 kV substations and instead using the advantages of superconductivity: At very low temperatures, of about minus 200 degrees Celsius, electricity can be transmitted almost loss-free at lower voltage levels. Especially in urban regions and potentially at large industrial sites where space is a valuable good, superconducting systems are promising, since significantly less space is needed compared to conventional cable systems. The new technology was tested in 2014 with positive results. Our project partner Nexans is trying to market it in collaboration with us. This project was awarded the German Innovation Price for Climate and Environment of the German Federal Environment Ministry in January 2016. In addition, we intend to export this energy transition know-how to other countries, e.g., with the implementation of a similar project in Warsaw, Poland.

Moreover, we offer an innovative “smart” grid solution for rural areas, also funded by the BMWi, which received the prestigious GreenTec Award 2015 in the category “energy”. This “smart country” project includes a different voltage stability mechanism that substantially reduces the need for grid expansion in rural areas. In this project, the so-called “wide area control” was developed, which as of today has been installed in our high voltage grids more than 20 times.

A project specifically related to our gas grids is the “Smart Gas Pressure Regulation Station” pilot project in the Czech Republic, where we base the power supply of these stations on renewable sources on site complemented by an innovative gas pre-heating technology. The target is to combine an independent, environmentally friendly energy supply with the reduction of gas pre-heating costs.

In addition, we act as a trusted partner in many governmental and municipal projects, thus also acting as an enabler of the energy transition in Germany. For example, the demonstration

project "Designetz", currently under application to be subsidized by the BMWi within the context of the program "SINTEG" ("*Schaufenster intelligente Energie – Digitale Agenda für die Energiewende*"), addresses central preconditions for the success of the German energy transition. This includes the smooth integration of many decentralized energy producers and customers. It is relevant for both rural as well as dense industrial areas since it targets cost-efficient ways to integrate renewable energy sources while at the same time ensuring the security of supply. The application and exploitation of innovative information and communication technology ("ICT") is another subject to be addressed by Designetz. Thus, it aims at delivering a blueprint for the energy system of the future. The EUR 90 million project, led by the Group, is implemented through a consortium of 47 partners representing the relevant stakeholders of the energy system (including energy, industry, ICT as well as science and research partners). The project covers the German federal states of North Rhine-Westphalia, Rhineland-Palatinate and Saarland with over 22 million inhabitants.

For more innovative solutions in our grid business, see also "15.5.3 Innovative Solutions in our G&I Segment" above.

### **15.8.3 Research and Development in our Retail Segment**

Our R&D strategy in the Retail Segment is focused on additional services and solutions for B2C and B2B customers in this segment, so-called Energy+ products. Many of our currently available products on the market have started with their development within Research and Development. Examples of these developments are our SmartHome system, our electric vehicles charging stations and our versatile energy management control box, which can optimize different applications, e.g., the increase of self-consumption of PV installations by using electricity for water heating. One of our currently on-going electric mobility projects is DELTA. We carry out this project as the consortium manager together with the partners German Commission for Electrical, Electronic & Information Technologies (DKE), Research Institute of Automotive Engineering and Vehicle Engines Stuttgart (FKFS), Fraunhofer Institute for Secure Information Technology (FhG SIT), National Metrology Institute of Germany (PTB), Technical University Dortmund, Webolution and further experts. The project is subsidized by the German Federal Ministry for Economic Affairs and Energy. The main objectives of DELTA are unifying of players, roles and use cases in the area of electric-mobility, defining a reference architecture and developing an electric-mobility protection profile. Furthermore, requirements for using meters according to the German Standard Weights and Measures Law will be documented, and a "smart" meter for measuring DC power is planned to be developed. In addition, the project team supports the development of the standard ISO 15118 in the area of conformance testing, energy feedback and wireless communication as well as supporting working groups on electric-mobility data integrity and security, grid integration, and the handling of ISO 15118 certificates for Plug and Charge (PnC). Prototypical implementations shall show the feasibility of these concepts.

### **15.8.4 Research and Development in our Renewables Segment**

Our R&D activities in the Renewables Segment aim predominantly at a reduction of the cost of renewable energy, in particular for offshore and onshore wind energy. Projects either contribute to our operating result by enhancing operational excellence (e.g., by reducing O&M cost or increasing plant availability and/or yield) or increase the competitiveness in project realization (e.g., by enabling the reduction of capital cost by innovation). Furthermore, research and development activities address environmental protection aspects, ensuring that the operating business is in line with both economic and ecological constraints. For an efficient delivery of projects and implementation, the R&D team liaises closely with the operational units.

As an example, we have led the EUR 6 million VIBRO project, supported by the Carbon Trust's Offshore Wind Accelerator and several other offshore wind developers. The project aims to anchor wind turbines to the seabed with reduced effort and noise by applying a process using vibrations rather than heavy pile driving equipment. The project has been central for securing

up to EUR 70 million funding through the NER-300 low-carbon program of the European Commission between 2018 and 2022 for the Nordsee One project and is expected to deliver further cost benefits in future offshore installations.

Further examples are R&D activities supporting the long-term operation of our hydropower stations. In order to maintain the public's acceptance of hydro technologies and comply with the developing environmental legislation framework, we strive to minimize the ecological impact through fish protection measures. In 2014, together with the state of North Rhine-Westphalia, we inaugurated a pilot plant for fish protection which is aiming to improve the inhabitability of the river Sieg, where our German Unkelmühle hydroelectric power plant is located, especially for salmon, sea trout and eel. The project includes a comprehensive monitoring program and has led to further activities for a better understanding of fish behavior during their downstream passage. Here we also cooperate with partners including the Institute of Hydraulic Engineering and Water Resources Management of RWTH Aachen University with financial support of the state of North Rhine-Westphalia.

## **15.9 Sustainability and Social Responsibility**

We recognize that the environmental and social impact of our business activities strongly influences our long-term commercial success. Therefore, corporate responsibility is an integral part of our corporate strategy. We emphasize responsible business practices with all of our stakeholders, including customers, partners and employees. Corporate responsibility helps us to minimize risks and supports our global competitiveness.

### **15.9.1 Environment**

We want to avoid direct and indirect intervention in ecosystems through our activities. If this is not feasible, our aim is to keep the impact to a minimum. As far as economically reasonably possible, we try to mitigate unavoidable or irreversible negative consequences with adequate nature conservation measures. This means that, as far as economically reasonably possible, we try to create ecosystems with at least the same functional capability as before the intervention. In doing so, we frequently go beyond the statutory requirements. All innogy companies have an obligation to act in compliance with our Group Directive on Environmental Management and set up a dedicated environmental management system.

### **15.9.2 Occupational Safety and Healthcare Management**

Our aim is to achieve a uniformly high level of occupational health and safety by developing standards. This ambition is fostered by carrying out needs-based prevention campaigns focusing on accident prevention. Our objective is to promote the health of our workforce, as well as preventing all accidents and work-related health hazards relating to our employees and colleagues working with partner companies. We also measure the progress in healthcare management on the basis of annual indicators such as the health ratio or the Work Ability Index (WAI).

### **15.9.3 Compliance**

Our compliance management system is designed to base all innogy activities and business decisions on established rules for compliance and not to tolerate any corruption or other breaches of compliance regulations. Compliance requirements shall be factored in when taking decisions on entering into business relations with suppliers or business partners. The main focus of our internal compliance management is to raise the level of awareness among our employees and our governance bodies in order to prevent the possibility of any breaches. The Code of Conduct is a group-wide reference standard which sets out a guidance framework for all our employees. Compliance with the guidelines is supported by organizational regulations, notably the double-checking principle, separation of functions, authorization concept and rules for approval. While our compliance management system is designed to avoid any breaches of

compliance regulations, those breaches cannot be fully excluded. However, we do not believe that any of these matters are material to our business.

#### **15.9.4 Supply Chain**

In cooperation with our suppliers, we intend to go beyond the statutory requirements relating to compliance and promotion of international environmental and social standards for procurement. All suppliers of innogy should understand and take account of the relevant international environmental and social standards, and other detailed requirements as necessary. We therefore aim to include information about how our suppliers comply with sustainability requirements in our purchasing decision. The ten principles of the UN Global Compact and our Code of Conduct form the basis for these requirements. An initial appraisal of potential suppliers based on a self-assessment helps us to gather additional information on the issues of environmental protection, occupational safety and compliance. Regular reviews are carried out for all suppliers to verify conformity with potential compliance risks and we also carry out reconciliations with the Black List maintained by the World Bank and with the sanctions lists drawn up by the EU. When any problems occur in the course of a business relationship, we work to address the matter and to achieve improvements jointly with our own suppliers.

#### **15.9.5 Sustainable Electricity Generation**

Our production of electricity is based on a nuclear free and low-carbon profile. We intend to stick to a sustainable way of producing and distributing energy. For that reason the power plant portfolio of innogy does not include nuclear power generation capacity. As of December 31, 2015, the vast majority of its generation capacity was made of renewable sources (approximately 82%). The residual part existed of approximately 15% fossil fuels (gas, lignite and hard coal) as well as approximately 3% of other sources, such as pumped storage or oil. With regard to the total electricity output, the share of renewables amounts to approximately 93% and fossil fuels to approximately 7% in 2015. Considering the total amount of CO<sub>2</sub> emissions from the power plant portfolio, innogy achieved specific CO<sub>2</sub> emissions of 0.06 metric tons of CO<sub>2</sub> per MWh of produced electricity in 2015.

### **15.10 Information Technology**

Information technology ("IT") is an important part of the Group's operations, in particular in regard to group-wide reporting, operational IT established for the monitoring of our grids, renewable energy production and IT used in connection with commercial retail activities (see "3.1.36 We depend on the uninterrupted and efficient functioning of our information technology, data collection and processing and process monitoring systems to manage our operations.").

#### **15.10.1 The Group's Corporate Applications and IT infrastructure**

The Group's corporate IT solutions for finance/accounting, controlling, reporting, procurement, human resources, etc., are designed to enable efficient management support processes. The Group's corporate IT solutions support processes ensure compliance and allow unified and timely reporting. The Group's IT landscape is based on two central enterprise resource planning systems (SAP ERP). The support for human resources, procurement, planning and reporting is additionally based on further IT solutions developed by SAP. Moreover, the Group's finance and treasury activities are supported by Wall Street Systems solutions. In the future, the Group intends to migrate the Group's enterprise resource planning systems and main business intelligence systems to a data management system developed and marketed by SAP called HANA. The SAP ERP systems are planned to be migrated in October 2016. These IT solutions are used across the Group with the exception of some regional companies in Germany, which are not wholly-owned by the Company. Except for such regional companies, development, maintenance and operation of corporate solutions are managed by RWE IT GmbH, a wholly-owned subsidiary of the Company.

The Group's IT infrastructure services comprise relevant, application-based technologies as well as technologies for general office communication and collaboration purposes.

The Group's IT infrastructure services provide fundamental workplace and network communications and collaborations as well as data center services. The Group's staff members use office communication and collaboration services such as access to the network, email, office applications and telephone services. Data center and computing services are provided as a platform to operate business applications. Workplace services are outsourced to third-party providers. The Group also plans to outsource services from its data centers in Germany. The majority of the remaining data center services are already outsourced. IT operations for almost all businesses and countries within the Group are supported by a single IT Service Management implementation of a cloud based solution named ServiceNow. With respect to fully owned subsidiaries, the majority of Group staff members uses the application Office 365 which is developed and managed as a cloud based solution by Microsoft.

Our operational IT system is designed to enable us to monitor and control our operational capabilities especially in the Grid & Infrastructure and the Renewables Segment.

#### **15.10.2 IT within our Grid & Infrastructure Segment**

In our Grid & Infrastructure Segment, our operational IT systems support two major aspects of the business. One is technical management and operation of the grid, while the other is commercial management of the grid.

In the technical area of the grid, IT is used to support the planning, building and maintenance of the grid. Therefore, workforce management, planning tools, maintenance systems and advanced geographical information systems form a large part of the IT system landscape. To achieve synergies between the different subsidiaries, decisions about new developments concerning the entire Group are made by a group of IT and business managers (KOOP IT).

In the commercial part of the grid, it is necessary to fulfill the national regulatory requirements, for example regarding processes such as switch of supplier. The regulatory framework varies from country to country, in EU member states within the boundaries of EU legal framework. This results in different IT solutions designed to fulfill specific national regulatory requirements. The key driver is the support of the commercial grid processes in a highly automated way to reduce costs. At the same time, IT is planned to be agile to support changing legal and non-legal requirements. To achieve synergies, common technologies/products such as SAP IS-U are used where reasonable.

#### **15.10.3 IT within our Retail Segment**

The IT systems supporting our commercial activities, customer services and billing are designed not only to support differentiation in local markets but also to support synergies and economies of scale. In areas where country-specific regulatory requirements or our local market position makes differentiation necessary, IT applications are managed locally and individually for each subsidiary in order to foster local flexibility. This applies to the key applications for customer relationship management ("**CRM**"), billing and customer channels. However, in these areas technology standards are set across the Group to support the exchange of know-how and to realize synergies. The roadmap planning will make use of the necessary major changes in applications to align with the defined target architecture over time.

For applications which are not customer facing and which are specific to the business of our Retail Segment, centrally managed applications are used. This applies to supporting systems such as document management. Within the different subsidiaries, the IT landscape is consolidated for the gas and electric power business. The IT landscape for B2C and B2B business is mostly consolidated for billing but not for the CRM and customer channel applications where segment-specific processes are needed. Key standard technologies that are used across the Group are: SAP IS-U for billing, SiteCore for online channels and Cisco for Contact Center. For CRM, different solutions can be found across the Group which best fit the local market dynamics

and position. For the future, the Group has started to build IT solutions for the Retail Segment which are based on open source software components.

#### **15.10.4 IT within our Renewables Segment**

In our Renewables Segment we currently operate different IT and SCADA Systems which are designed to provide continuous remote control. Remote control is key for the smooth operation of our renewables power plants as well as a productivity increase and process optimization across wind, hydro and biomass power generation. SCADA Systems are computer information systems, which allow collection and analysis of (real-time) data from industrial assets in order to monitor, control and optimize operational processes and thus assist in the fulfillment of contractual and legal requirements. These systems are integrated into a portfolio wide management system to allow centralized operations and consolidated data feed to be integrated into commercial processes. These systems are integrated across multiple dimensions and allow, among others, analysis on country, technology or segment level, as well as on specific assets. More specifically, the different operational IT platforms are designed to allow us to monitor each power plant continuously in real time, with details on, for example, turbines and substations. Where certain triggers and alarms relating to the monitored parameters are detected, slow-down or shut-down control functions may be activated and centrally monitored from the control center, which has a number of options available, including resetting and reactivating or triggering a call to the responsible maintenance team. We have recently initiated a project aimed at further adapting our different platforms in different countries to enhance our overall operations.

#### **15.11 Intellectual Property**

The Group's international intellectual property strategy aims to protect and enhance the Group's competitive position in the various geographic regions in which it operates. This is achieved by effective management of the Group's intellectual property rights, including patents, utility models, trademarks and know-how. A high priority is placed on protecting innovation and the current and future business value that the Group can derive from it. Intellectual property rights are mainly managed and coordinated by the intellectual property team based in Germany, which has access to all relevant information within Group companies in Germany and abroad.

##### **15.11.1 Patents and Know-how**

It is important in particular with respect to new business fields that the results of the Group's research and development as well as innovation activities are protected against unauthorized use. In order to meet this requirement, the Group has implemented suitable internal arrangements and operates patent workshops with all major research and development and innovation teams to improve awareness on inventions. Thus, the Group can acquire and protect its intellectual property rights.

The term "**patents**" means granted patents as well as patent applications and utility models. The term "**patent family**" means all national and international patents with respect to the same invention. Usually it covers at least a national patent (*i.e.*, German patent) and on a case by case basis European and/or additional national patents in other foreign countries.

Due to the Carve-Out the Group's patent portfolio includes a large number of patents which are necessary for the Group's business activities. In recent years, over 500 patents belonging to approximately 180 patent families across all business fields of the Group have been registered. The Group acquires most of its patent rights by exercising its rights to employee inventions and submitting them for registration. Furthermore, the Group receives rights of use by licensing third-party patents or otherwise acquires third-party intellectual property rights. In addition to patents, the Group possesses confidential know-how.

The patent portfolio is wide-ranging. Certain patents are of particular importance to individual Segments as further described below.

#### 15.11.1.1 *Grid & Infrastructure Segment*

In the Grid & Infrastructure Segment, certain patents are of particular importance for our electric vehicle charging systems and the special features of the smart meter technology.

The patent portfolio of the electric vehicle charging system consists of approximately 40 patent families and includes, among others, patents for a charging station base and for the charging process.

The smart meter technology is of particular relevance to consumers and smart grids. Smart grids require metering systems with communication capabilities that can provide customers and/or grid operators with information about the customer's current energy consumption in near real-time.

The patent portfolio of the smart meter technology business unit consists of approximately five patent families and includes, *inter alia*, patents for a secured bidirectional data transfer between smart meters and the data management system.

#### 15.11.1.2 *Retail Segment*

In the Retail Segment, certain patents are of particular importance for our smart home solution project.

The smart home solution is a home automation system with remote access, for example via smart phone. The patent portfolio pertaining to smart home solutions consists of approximately 20 patent families, five of them in co-ownership with a major supplier. The patents refer, for example, to secure communication between certain devices.

#### 15.11.1.3 *Renewables Segment*

In the Renewables Segment, patents cover several aspects of power generation, with a focus on the construction and operation of offshore wind farms.

The patent portfolio pertaining to the offshore wind farm business consists of approximately 45 patent families and includes, *inter alia*, patents for monopile structures, rotor blade connection and optimization of wind farm operation.

#### 15.11.1.4 *Others*

Two patent families play a significant role in protecting the Group's technology in machine communication via wireless communication. The Group has developed a language suitable for internet supported devices ("**Lemonbeat**"). The Lemonbeat smart device language describes technical functions in such a way that these functions can be understood by other devices.

Recently, we filed several patents regarding blockchain technology. Blockchain technology provides a platform for data exchange processes. The Group's patent portfolio with respect to the blockchain technology consists of approximately 15 patent families and includes, *inter alia*, patents which allow the integration of blockchain technology into customer to customer energy trading processes.

### 15.11.2 **Trademarks**

Due to the Carve-Out, the Group's trademark portfolio covers approximately 250 active trademark families and a total of approximately 1,500 trademark registrations and applications. The Group's trademark portfolio is currently being reviewed to determine which trademarks are essential for the Group's business activities. All trademarks are monitored and, if necessary, defended.

The company names used by the members of the Group, in particular premium brands such as "innogy" and "essent" as well as regional brands such as "LEW", are protected by trademarks. For the Renewables Segment the Company name "innogy" itself is already known in the B2B segment because it used to be the name of the renewables subsidiary of the Former RWE Group.

#### 15.11.2.1 *Grid & Infrastructure Segment*

For the Grid & Infrastructure Segment the Group's trademark portfolio includes, among others, the trademark "Westnetz" and regionally used trademarks (e.g., LVN, Syna or MITNetz).

#### 15.11.2.2 *Retail Segment*

For the Retail Segment the figurative trademarks showing a rolling "e" are particularly noteworthy. In our budget division the substantial trademark families are "eprimo" and "Energiedirect".

#### 15.11.2.3 *Renewables Segment*

Within the Renewables Segment the most important trademark family is "innogy".

#### 15.11.2.4 *Others*

With regard to the Lemonbeat smart device language, the Group owns corresponding trademarks and trademark applications.

### 15.11.3 **Licenses**

The Group has approximately ten active license agreements with third parties under which it obtains or grants licenses. License agreements may be concluded to secure freedom of operations, enhance acceptance of a new technology in the industry, make sustainability solutions available, or enable cooperative ventures or to provide for net sales.

In individual cases, the Group has entered into cross-license agreements or non-assertion agreements with some competitors which cover selected patents. Pursuant to these agreements, the contractual parties are allowed to use certain patents of the counterparty in the fields covered by the respective cross-license agreement. Usually, these agreements do not provide for payment of royalties as they are reciprocal by nature. However, where there are imbalances with respect to quantity or quality of the patent portfolios concerned, or when warranted by other factors, cross-license agreements may also provide for a compensation payment by a party.

In addition to cross-license agreements, the Group has granted to and has been granted from competitors or other third parties one-way licenses in certain fields for which the Group receives or pays license fees.

Moreover, RWE AG grants the Company a non-exclusive, royalty free license with respect to certain trademarks including "RWE" ("**RWE-Trademarks**"), with the right to grant sublicenses to certain affiliates to use such trademarks for a transitional period of two years. The Company has entered into trademark sublicense agreements with the nominated affiliates. Pursuant to the license agreement between RWE AG and the Company and the sublicense agreements, the nominated affiliates are permitted to use RWE-Trademarks as their company name or part of their company name as well as RWE-Trademarks in connection with products and services for the next two years.

### 15.11.4 **Domains**

Additionally, the Group holds a large number of internet domains that mainly refer to the Group's company names, trademarks or marketing campaigns, with the following being the most important:

www.innogy.com  
www.innogy.de  
www.innogy.eu  
www.innogy.info  
www.innogy.net  
www.essent.de  
www.essent.nl  
www.npower.com

Apart from the intellectual property rights above and not taking into consideration the Group's information technology systems, the Group does not hold any significant intellectual property rights and does not depend on patents or licensed materials in order to conduct its business.

## 15.12 Employees

The following table shows the number of our employees (full time equivalents, "FTE") by segment (excluding apprentices (*Auszubildende*) and externals, in particular agency workers (*Leiharbeitnehmer*)), as of June 30, 2016 and as of the end of the financial years ended December 31, 2015, broken down for each business segment. FTE are calculated by conversion to full-time positions, i.e., part-time and fixed-term employment relationships are included in accordance with the ratio of the part-time work or the duration of the employment to the annual employment time:

Headcount by business segment	As of June 30,	As of the end of the financial year ended December 31,
	2016	2015
	(unaudited)	(unaudited)
Grid & Infrastructure . . . . .	20,860	20,833
Retail . . . . .	16,001	15,711
Renewables . . . . .	938	921
Other/Enabling . . . . .	2,543	2,678
<b>Total . . . . .</b>	<b>40,342</b>	<b>40,755*</b>

The following table shows the number of our employees (FTE) as of the end of the financial years ended December 31, 2015, 2014 and 2013 broken down for each business unit (excluding apprentices and externals); the shift as to our reporting basis from "business units" to "business segments" has been undertaken with effect as of beginning of 2016:

Headcount by business unit	As of the end of the financial year ended December 31,		
	2015	2014	2013
	(unaudited)		
Supply/ Distribution Networks Germany . . . . .	18,339	18,412	19,062
Supply Netherlands/ Belgium . . . . .	2,840	2,688	3,106
Supply United Kingdom . . . . .	6,668	6,985	8,730
Central Eastern and South Eastern Europe . . . . .	9,332	7,772	7,784
Renewables . . . . .	898	989	1,379
Other . . . . .	2,678	2,359	2,316
<b>Total . . . . .</b>	<b>40,755</b>	<b>39,205</b>	<b>42,377</b>

\* Note: Contains 612 FTE in Benelux which have, as of December 31, 2015, rendered services to the Business Segment Conventional Generation and will, as from January 1, 2016, cease to be shown as employees of the Group.

The following table shows the number of our employees (FTE), (excluding apprentices and externals) as of June 30, 2016 and as of the end of the financial years ended December 31, 2015, 2014 and 2013 broken down by geographical areas:

Headcount by geographical area	As of June 30	As of the end of the financial year ended December 31,		
	2016	2015	2014	2013
	(unaudited)	(unaudited)		
Germany .....	19,919	19,934	20,071	21,207
Benelux .....	2,656	3,098	2,751	3,168
United Kingdom .....	7,580	7,619	7,919	9,542
East .....	10,023	9,942	8,292	8,283
Other .....	164	162	172	177
<b>Total .....</b>	<b>40,342</b>	<b>40,755</b>	<b>39,205</b>	<b>42,377</b>

As of May 13, 2016, RWE AG agreed on a reconciliation of interests covering the Former RWE Group (*Konzerninteressenausgleich*) with its group works council. Such agreement governs, *inter alia*, the respective allocation of employees to the innogy Group or RWE Group and the transfer of such employees to or from Group companies in Germany in connection with the separation of the innogy Group from the Former RWE Group being expected to be implemented between July 1, 2016 and January 1, 2017 (including the application of collective and individual agreements regarding employee entitlements following the transfer), further transfers of employees following the expiry of the various transitional services agreements which have agreed upon between the innogy Group and RWE Group as of December 31, 2017, 2018 and 2019, respectively. The transfer is contemplated to comprise three stages (350 employees on or before July 1, 2016; 300 employees on or before October 1, 2016 and 800 employees on or before January 1, 2017, in each case approximate figures).

Since June 30, 2016 and as of the date of the Prospectus, there have not been any material changes in the number of our employees other than from the employee transfers in connection with the separation of the innogy Group from the Former RWE Group.

#### 15.12.1 Relationships with Trade Unions and Employee Representative Bodies

A significant number of our employees in Germany are represented by trade unions, along with many of the employees in other countries. The German Group companies are members of several regional employers' associations (*Arbeitgeberverbände*) pertaining to the energy and utilities industry and thus bound by the respective collective bargaining agreements. Certain collective bargaining agreements stipulate terms and conditions exclusively for employees of the German Group companies. Furthermore, several Group companies (e.g., in the UK, the Czech Republic and Poland) have agreed upon company collective bargaining agreements (*Firmentarifverträge*) with the competent trade unions regarding the terms and conditions for their employees or are otherwise subject to collective bargaining agreements.

Within the Group, there are several forms of employee representation at group, intra-group (*unternehmensübergreifend*), company and local shop level (*Betriebsebene*). Employee representative bodies (*Arbeitnehmervertretungen*) exist in particular in Germany by means of various bodies such as company works councils (*Gesamtbetriebsräte*), local works councils (*Betriebsräte*) and further representative bodies (such as, *inter alia*, representative bodies for executive staff (*Sprecherausschüsse*), the severely disabled (*Schwerbehindertenvertretungen*) or young employees and apprentices (*Jugend- und Auszubildendenvertretungen*)). A group works council (*Konzernbetriebsrat*) has been established at the level of the Company as well at the level of RWE AG. In addition, employee participation proceedings (*Arbeitnehmerbeteiligungsverfahren*) have been initiated at the Company in accordance with the German Act on the Participation of Employees in a European Company (*Gesetz über die*

*Beteiligung der Arbeitnehmer in einer Europäischen Gesellschaft, SEBG*). The employee representative bodies of the Company send or will send delegates to the respective employee representative bodies at the level of RWE Group.

In addition to the transfer of employees to or from Group companies in Germany in connection with the separation of the innogy Group from the Former RWE Group (which is expected to be implemented between July 1, 2016 and January 1, 2017), the group reconciliation of interests dated May 13, 2016 provides for a ban on notices of termination for operational reasons (*betriebsbedingte Gründe*) in connection with such employee allocation and transfer measures as well as on further operational changes which may result in a staff reduction prior to the completion of the respective transfer measure. In the course of recent intra-group restructurings within the Former RWE Group, several innogy Group companies agreed on reconciliations of interests (*Interessenausgleiche*) and social plans (*Sozialpläne*) providing, *inter alia*, for severance payments and other compensation arrangements mitigating potential impacts from the restructurings as to the employees affected. In addition, the social plans would also apply to certain further measures which the respective Group companies might implement during the term of such social plans.

Within our Grid & Infrastructure Segment, certain collective agreements apply providing for a ban on terminations for operational reasons until the end of 2017 for employees of Westnetz, enviaM, Emscher Lippe Energie GmbH, Süwag Energie AG (each including their respective subsidiaries) and for LEW Verteilnetz GmbH. Further arrangements as regards a ban on terminations for operational reasons apply to certain employees of VSE AG, Verteilnetz GmbH, energis GmbH and energis Netzgesellschaft mbH (until January 1, 2019), rhenag Rheinische Energie Aktiengesellschaft (until April 30, 2018) and EWW Energie- und Wasser-Versorgung GmbH (until December 31, 2020). At Group companies belonging to the Lechwerke AG group, terminations for operational reasons require the prior consent of an internal conciliation body (comprising an equal number of employer and employee representatives).

In the past three years, no strikes occurred at Group companies. Good relationships with our employees, employee representatives and trade unions are particularly important for us and we believe having such good relationships.

#### **15.12.2 Compensation for Management Staff**

The Group's compensation structure for its management staff (executive levels 1 to 4) (excluding the Management Board) comprises fixed and variable remuneration components as well as certain additional benefits. The variable remuneration components focus on short-term (company and individual bonus schemes) and long-term (mid-term incentive plan and long-term incentive plan) incentives. The bonus scheme (short-term component) consists of a Group and company target-related and an individual performance-related bonus portion (each with potential annual pay-out). Furthermore, the management staff is entitled to participate in a mid-term incentive plan providing for incentive payments depending on the Former RWE AG Group's net debt ratio (Leverage Factor) for the calendar years 2014 until 2016. In addition, a Group-wide long-term incentive plan (BEAT 2010) exists providing for performance shares depending on relative total shareholder return figures (performance of the total shareholder return of common stock of RWE AG compared to the total shareholder return of the STOXX® 600 Utility Europe index companies over four years following granting of performance shares under the BEAT 2010). The granting of such performance shares is subject to the respective Group company's discretion. For 2016, no performance shares have been granted. The participation in the BEAT 2010 plan is subject to a personal investment by the participating employee into a certain number of common stock of RWE AG. The performance shares are settled in cash payments in accordance with vesting periods up to four years. In addition, management staff may also participate in employee participation plans offered by the respective German Group companies on a year-to-year basis and under which employees can purchase a certain limited number of common shares in RWE AG at a reduced share price (subject to certain holding and selling covenants). A similar plan is offered to employees of

Group companies in UK. For 2016, no such employee participation plan will be offered. Remuneration components (in particular, the ratio between fixed and variable components and target figures) vary between managerial and executive levels as well as countries.

We are contemplating adopting a new performance-based long-term incentive plan for our management staff soon after the completion of the Offering.

In addition, some individuals belonging to the Group's management staff and further key employees are subject to an incentive scheme set up by the Company providing for payments in connection with the preparation and successful completion of the Offering and further implementation of the separation of the innogy Group from the Former RWE Group of up to twelve times the individual's gross monthly base salary. Any payment under the IPO incentive scheme is subject to the individual employee's continued employment until December 31, 2017). In addition, the IPO incentive scheme also covers certain individuals involved in the preparation and successful completion of the Offering which remain with the Former RWE Group through the separation of the innogy Group from the Former RWE Group.

For further details as to the compensation for the Management Board see *"20.2.3 Compensation and Other Benefits; Share Ownership"*.

### **15.12.3 Pensions and Long-Term Employee Benefits**

As part of the employment compensation package, we provide various retirement benefit arrangements or similar benefits.

We operate funded and unfunded defined benefit pension schemes and defined contribution plans for beneficiaries under arrangements that have been established in the various countries in which we offer employee pension benefits. As of December 31, 2015, we had total pension obligations, including obligations as to energy allowances (*Energiepreisvergünstigungen*) (benefits in kind), amounting to EUR 13.2 billion, of which EUR 3.5 billion (or 26%) were unfunded. For further details see *"3.1.41 We have financial obligations to our employees, in particular retirement obligations, the calculations of which are based on a number of assumptions, which may differ from actual rates."*

The plan assets administered by RWE Pensionstreuhand e.V. and ESPS, respectively, in particular consist of investments in (i) shares/exchange-traded funds, (ii) interest-bearing instruments, (iii) real estate, (iv) mixed funds (including dividend securities and interest-bearing instruments), (v) alternative investments and (vi) other investments (including claims from corporate tax credits transferred to RWE Pensionstreuhand e.V., cover insurance claims (*Rückdeckungsansprüche*) against insurance companies and other fund assets of support funds (*Unterstützungskassen*)). The investments are undertaken in accordance with corresponding investment policies considering the plan assets, the pension commitments and their relation in order to determine the best possible investment strategy (asset liability management study approach). The focus of the strategic investment policy is on domestic and foreign government bonds. In order to increase the average yield, corporate bonds with a higher yield are also included in the portfolio (with the ratio of shares in the portfolio being lower than that of bonds). The investment of plan assets occurs in various regions. The investment position in shares is intended to earn a risk premium over bond investments over the long term. In order to achieve additional returns which are consistently as high as possible, there is also investment in products which offer relatively regular positive returns over time. This involves products which fluctuate similar to bond investments, but which achieve an additional return over the medium term, such as so-called absolute return products (including funds of hedge funds). As a part of its investment strategy, the ESPS uses asset liability management and invests in liability matching investments, interest rate swaps and inflation swaps.

Besides pension benefits, the Group provides other long-term benefits, such as jubilee payments or senior part-time arrangements. As of December 31, 2015, we had corresponding total

unfunded obligations amounting to EUR 90 million (as regards jubilee payments) and EUR 350 million (as regards senior part-time payments), respectively.

## **15.13 Properties, Plants and Equipment**

The Group uses land as either owner or lessee or based on easements for its operations. The majority of land is used in our Grid & Infrastructure Segment for our grid and grid stations. In our Renewable Segment we use land for our sites for the energy producing assets. In our Retail Segment most of the land we use is for office buildings.

As of December 31, 2015, property, plant and equipment in the amount of EUR 13 million were subject to restrictions from land charges or chattel mortgages. Of the total carrying amount of property, plant and equipment, as of December 31, 2015, EUR 9 million was attributable to assets procured under finance leases, mainly consisting of technical plant and equipment.

### **15.13.1 Properties in our Grid & Infrastructure Segment**

Most of the property we use in our Grid & Infrastructure Segment is used for grid stations for electricity and gas and for gas storages. In total we use an area of about 24 million sqm for more than 100,000 plots.

In Germany, the majority of the grid infrastructure assets operated by the Group DSOs are owned either by innogy Netze Deutschland GmbH or by other, regional subsidiaries of the Company such as, for example, Enviam AG, Süwag Energie AG, Lechwerke AG and VSE Aktiengesellschaft and their respective subsidiaries. Furthermore, we operate grid assets as DSO also under lease agreements with third parties (partially) owning these assets. Our electricity and gas distribution network operations in Germany are to a significant extent based on regulated concession agreements, under which cities and municipalities grant contractual rights that allow us to use public transport routes to install and operate cables, overhead-lines, stations, pipelines and other infrastructure of a electricity or gas grid under public traffic areas for a period of up to 20 years. To the extent we are unable to renew our concessions, we are required to sell the relevant grid assets to the succeeding holder of the concession.

With respect to the grid operations of G&I East, most of the gas grid assets and some gas storage assets operated by Group companies in the Czech Republic have been historically laid onto property owned by third parties. The nature of rights, *i.e.*, easements, to use third-party properties varies in time and depends on the legislation effective at the time the right was acquired. In Hungary and Slovakia, we own most of the properties on which we constructed our network infrastructure. In Poland, we do not possess full legal title to those properties for energy distribution purposes. This, however, applies also to other grid companies operating in Poland. Since the grid is treated as infrastructure for public usage, it is subject to special legal regulations allowing us to access the grid in case of emergency.

The following table provides an overview of the length of our grid in the different countries in which we operate as a DSO:

	Grid length (000' km)
<b>Germany</b>	
Electricity .....	356
Gas .....	47
<b>Czech Republic</b>	
Gas .....	65
<b>Hungary</b>	
Electricity .....	67
<b>Poland</b>	
Electricity .....	17
<b>Slovakia</b>	
Electricity .....	22

Note: All figures (based on operated grid) are provided as of December 31, 2015 and are rounded.

### 15.13.2 Properties in our Renewables Segment

Our hydro, biogas and biomass assets are generally built on property which we own or based on building leases. Our onshore and solar energy producing assets are generally built on third-party property. For the common life span of the facilities we use the land via lease agreements which are often supported by further easements. The land we use for our offshore energy producing assets is generally granted to us for the period for which we are permitted to run these assets in the permission itself (in the UK supported by a sea bed lease from Crown Estate).

The table below lists the installed capacity of our renewable energy producing assets (pro rata) in the respective country and the owned land in square meters for fully consolidated companies for the respective country rounded to the nearest 1,000 sqm.

#### Installed Capacity (MW<sub>el</sub>) and Ownership of land (sqm)

	Wind Onshore		Hydro		Wind Offshore		Biomass		Biogas		Solar & Photovoltaic		Total	Total
	MW <sub>el</sub> (pro rata)	sqm <sup>1)</sup> (fully consoli- dated)	MW <sub>el</sub> (pro rata)	sqm <sup>1)</sup> (fully consoli- dated)	MW <sub>el</sub> (pro rata)	sqm <sup>1)</sup> (fully consoli- dated)	MW <sub>el</sub> (pro rata)	sqm <sup>1)</sup> (fully consoli- dated)	MW <sub>el</sub> (pro rata)	sqm <sup>1)</sup> (fully consoli- dated)	MW <sub>el</sub> (pro rata)	sqm <sup>1)</sup> (fully consoli- dated)	MW <sub>el</sub> (pro rata)	sqm <sup>1)</sup> (fully consoli- dated)
Germany .....	506	376	353	1,482 <sup>3)</sup>	295	0	5	47	1	82	1	28	1,160	2,016
UK .....	239 <sup>4)</sup>	0	77	25,288	585 <sup>4)</sup>	0	0	0	0	0	0	0	901	25,288
Spain .....	443	0	10	9	0	0	0	0	0	0	7	0	459	9
Netherlands .....	197	19	0	0	0	0	0	0	0	0	0	0	197	19
Poland .....	226	154	0	0	0	0	0	0	0	0	0	0	226	154
Italy .....	34	62	0	0	0	0	0	0	0	0	0	0	34	62
France .....	0	0	44	264	0	0	0	0	0	0	0	0	44	264
Portugal .....	3	0	16	1,134	0	0	0	0	0	0	0	0	19	1,134
Belgium .....	0	0	0	0	87	0	0	0	0	0	0	0	87	0
<b>Total .....</b>	<b>1,648</b>	<b>611</b>	<b>500</b>	<b>28,177</b>	<b>967</b>	<b>0</b>	<b>5</b>	<b>47</b>	<b>1</b>	<b>82</b>	<b>8</b>	<b>28</b>	<b>3,129</b>	<b>28,946<sup>2)</sup></b>

1) In thousand sqm and rounded to the nearest thousand sqm.

2) Due to rounding, figures may not add up in both columns.

3) Sale of several power plants in the first quarter 2016 adjusted.

4) Excluding Zephyr portfolio (110 MW<sub>el</sub> wind onshore and 20 MW<sub>el</sub> wind offshore, pro rata view).

### 15.13.3 Office Premises and Buildings

For our office premises and buildings we own or lease properties in more than ten countries. The table below lists the premises greater than 20,000 sqm, which are owned or leased by members of the Group.

User	Address	Size (sqm)	Use of Property	Ownership	Country (Headquarter)
Former RWE Group <sup>1)</sup>	Essen, Opernplatz 1	23,987	Office building	Lease	Germany (Headquarter)
Lechwerke AG	Augsburg, Schaezlerstraße 3	36,000	Office building	Property	Germany
Süwag Energie AG	Frankfurt a.M., Schützenbleiche 9-11	31,179	Office building	Property	Germany
RWE Česká republika a.s. (to be renamed innogy Česká republika a.s.)	Brno, Plynárenská 499/1	28,379	Office building	Property	Czech Republic
enviaM Energie AG	Chemnitz, Chemnitztalstr. 13	26,992	Office building	Property	Germany
Essent Nederland BV	s-Hertogenbosch (Willemsplein 2-4)	25,188	Office building	Lease	Netherlands
enviaM Energie AG	Halle, Magdeburger Straße 51	22,997	Office building	Lease	Germany
innogy SE	Dortmund, Freistuhl 7	21,845	Office building	Lease	Germany
Npower Ltd.	Sunderland, Gadwall Road	20,191	Office building	Lease	UK
innogy Netze Deutschland GmbH	Dortmund, Florianstr. 15-21	20,010	Office building	Lease	Germany

1) To a large extent used by innogy SE.

The office space used by the Group in Germany is, to a large extent, located on real estate currently either owned by RWE Service GmbH, a company of the RWE Group, or leased by RWE Service GmbH from third parties and leased respectively sub-leased to companies of the Group. Each of such leases respectively sub-leases provides for a rent which is customary in the respective area.

In respect of the aforementioned real estate which is currently owned by RWE Service GmbH, innogy SE and RWE Service GmbH entered into a sale agreement by which innogy SE purchases such real estate (about 0.6 million sqm land for more than 100 plots) for a price amounting to approximately EUR 141 million. The sale agreement provides that the purchase price has to be paid and the ownership in the real estate has to be transferred in early 2017.

In respect of the aforementioned real estate which is currently leased from third parties (about 100 lease agreements), innogy SE and RWE Service GmbH envisage an arrangement by which innogy SE will lease such real estate directly from the third party lessors and partly sub-lease such real estate to other companies of the Group, as needed. Such arrangement requires in each case the consent of the third party lessor which the parties seek to obtain by the end of 2016. To the extent that and as long as such consents are not obtained, the current lease agreements between RWE Service GmbH and the third party lessors as well as the sub-lease agreements between companies of the Group and RWE Service GmbH will continue to exist.

### 15.14 Legal and Administrative Proceedings

Companies of the Group are involved in legal and administrative proceedings as part of their ordinary business activities, in particular (i) in case of the Grid & Infrastructure Segment relating

to allegedly abusive grid tariffs and allegedly excessive purchase prices received in connection with the sale of grid assets in the context of a loss of a concession, and (ii) in case of the Retail Segment including related litigation with customers and competitors; for each segment, similar disputes and proceedings will likely also arise in the future.

It is impossible to determine or predict the outcome of proceedings pending or threatened. Other than the proceedings described below, during a period covering the previous twelve months, no legal or administrative proceedings (including any proceedings which are pending or threatened of which the Company is aware) may have or have had in the recent past significant effects on the Company's and the Group's financial position or profitability.

#### **15.14.1 Grid & Infrastructure Segment**

##### **15.14.1.1 *Litigation Relating to Allegedly Unreasonable Grid Tariffs***

Currently, pending litigation exists, among others, with regard to allegedly unreasonable grid tariffs. Some suppliers are claiming for re-payment of the allegedly excessive amount from the Company and the Group's grid operators. The suppliers base their claims on section 315 of the German Civil Code (*Bürgerliches Gesetzbuch*) requiring tariffs set at the discretion of one contractual party to be reasonable. The suppliers claim that the grid tariffs are unreasonably high and requested the court to determine a lower amount of the grid tariffs and re-payment of the excessive amount. The amount in dispute is approximately EUR 30 million (principal claims only, without interest).

##### **15.14.1.2 *Litigation Regarding Allegedly Excessive Purchase Prices Received in Connection with the Sale of Grid Assets***

Furthermore, the Company faces pending litigation of plaintiffs claiming that the Company or its legal predecessors received allegedly excessive purchase prices when selling grid assets in the context of a loss of a concession by the Company or its legal predecessors. Some of the proceedings date back to as early as 2003. The proceedings are mainly focused on section 46 of the German Energy Industry Act (*Energiewirtschaftsgesetz*). This section states that a former holder of an energy concession is obliged to transfer the grid assets to a new concessionaire and the latter has to pay a reasonable purchase price for such transfer. The law does not clearly state how the purchase price has to be calculated in detail. However, the Federal Court of Justice (*Bundesgerichtshof*) ruled in 2014 – reiterating its legal precedents dating back to 1999 – that the purchase price has to be calculated on the basis of the present asset value (*Sachzeitwert*), while such present asset value must not be substantially above the capitalized earnings value (*Ertragswert*). The outcome of such litigation heavily depends on the assumptions on which the calculation of the capitalized earnings value is based upon. The Federal Court of Justice has not yet decided which calculation assumptions are legally justified. The amounts in dispute under pending proceedings are in total approximately EUR 60 million (only principal claims without interest).

Given the on-going discussions of the German Federal legislation bodies *Bundestag* and *Bundesrat* defining the calculation method of the purchase price in more detail and on the basis of the capitalized earnings value there might be fewer proceedings in the future. However, if such legislation were adopted, the purchase prices received by the Company in case of a loss of the concession would considerably decrease (see "3.1.8 If we are unable to renew an existing concession or if it is terminated, we may have to sell the relevant grid infrastructure, which will negatively affect our revenue and may lead to a loss in connection with the sale, or we may enter into cooperation agreements that are limited in time.").

##### **15.14.1.3 *Litigation regarding Repayment of Grid Utilization Fees in connection with Insolvency Proceedings***

Some of the Company's subsidiaries, among others Westnetz GmbH, are currently subject to legal actions brought by the insolvency administrator of TelDaFax ENERGY GmbH. In addition,

they might face similar legal actions by the insolvency administrator of certain FlexStrom group entities, namely FlexStrom AG, FlexGas GmbH, Löwenzahn Energie GmbH and OptimalGrün GmbH ("**FlexStrom Group**"). TelDaFax ENERGY GmbH and FlexStrom Group used the electricity and gas grids of grid operators of the Group, which charged the applicable contractual grid utilization fees.

Insolvency proceedings commenced in the case of TelDaFax ENERGY GmbH on September 1, 2011, and in the case of the FlexStrom Group on July 1, 2013. In the pending (in the case of TelDaFax ENERGY GmbH) or threatened (in the case of the FlexStrom Group) legal actions, each of the insolvency administrators seeks repayment of grid utilization fees by claiming that certain payments to some of the Company's subsidiaries, among others, Westnetz GmbH (or its legal predecessors) prior to the request to open insolvency proceedings against TelDaFax ENERGY GmbH or the FlexStrom Group are voidable pursuant to the German Insolvency Code (*Insolvenzordnung*).

The amount in dispute is a mid double-digit million Euro figure (only principal claims without interest) in the cases brought by the insolvency administrator of TelDaFax ENERGY GmbH. However, some of these cases are currently in the process of potentially being settled, and in the largest of these cases in terms of value, Westnetz GmbH and TelDaFax ENERGY GmbH have preliminarily agreed on a settlement, as part of which Westnetz GmbH would have to pay a low double-digit million Euro amount to TelDaFax ENERGY GmbH, unless the settlement is revoked by either party, which may be done until the end of September 2016. The claim brought by the insolvency administrator of FlexStrom Group so far also amounts to a mid double-digit million Euro figure (only principal claims without interest). Some of the Company's subsidiaries, among others, Westnetz GmbH and FlexStrom Group's insolvency administrator are currently trying to reach out-of-court settlements with respect to potential claims of FlexStrom AG, which might also apply to potential claims of the other FlexStrom Group companies.

#### 15.14.1.4 *Litigation Relating to Unpaid Renewable Support in Slovakia*

VSD, our electricity grid DSO in Eastern Slovakia, is the entity within the Slovak renewables system responsible for paying out subsidies to qualified producers under the renewable support scheme. According to the Slovak Act on Support of RES, producers who have not provided the DSO and the regulator with their plan of produced energy from their sources for 2015 by August 15, 2014 are not entitled to the support for 2015. In total around 400 producers within the VSD distribution area have failed to provide the regulator and/or VSD with the above mentioned information on time and therefore were excluded from the support scheme for the year 2015. A lot of them had filed interlocutory injunctions against VSD. Even though the District court in Kosice approved them in 52 cases, all of them were rejected by the court of appeals, the Regional Court in Kosice.

Nevertheless 50 of the producers have started ordinary court procedures against VSD. In 4 cases the court had already dismissed the claim. The other 46 court cases with a volume of EUR 17.8 million in total were still ongoing as of June 30, 2016. If the court were to decide in favor of a producer, VSD would include the amount to be paid to the producer in the calculation for the correction mechanism to be provided to the regulator.

#### 15.14.1.5 *Litigation Relating to Annulment of Concession for ZOV in Croatia*

In December 2014, an action for annulment of the concession agreement between ZOV and the City of Zagreb was filed by the Zagreb Association of Consumers of Infrastructure Products and Services (Infrastruktura). In a worst case scenario, the potential impact on the Group over the full term of the concession agreement would amount to a nominal value of up to approximately EUR 285 million.

The case is currently in a preliminary procedure with a preparatory hearing scheduled for September 27, 2016. We believe the claim to be inadmissible and unfounded.

## 15.14.2 Retail Segment

### 15.14.2.1 *Litigation Stadtwerke Andernach GmbH versus Westnetz GmbH, Koblenz Regional Court*

In 2016, Stadtwerke Andernach GmbH brought an action for payment against Westnetz GmbH before the Koblenz Regional Court. The overall claim for compensation made by the plaintiff is estimated at approximately EUR 50 million plus interest.

The plaintiff derives its claims from a contract concluded in 1993, based on which the lease of the electricity and gas distribution network in Andernach owned by the plaintiff, as well as the existing energy supply contracts for customers supplied from the leased network, were transferred to a legal predecessor of the Company.

After the expiry of the contract with the plaintiff (contractual term from January 1, 1994, to December 31, 2013), the network was transferred back to the plaintiff. The plaintiff considers that there are also grounds for claiming a retransfer of the energy supply contracts assigned at the time, or, in the event such transfer were not to proceed, relevant compensation.

### 15.14.2.2 *Litigation Stadtwerke Heiligenhaus GmbH versus innogy SE, Dortmund Regional Court*

In 2016, Stadtwerke Heiligenhaus GmbH brought an action against RWE Vertrieb Aktiengesellschaft (now innogy SE) before the Dortmund Regional Court for transfer of customer contracts, provision of information, as well as compensation payment in connection with the transfer of electricity distribution customers. The claim concerns an action for disclosure of the customer contracts concluded in the network area of the town of Heiligenhaus, as well as a claim for financial compensation, the amount of which has yet to be determined.

The plaintiff derives its claims from a contract concluded in 1996, based on which the lease of the electricity distribution network in Heiligenhaus, owned by the plaintiff, as well as the existing electricity supply contracts for customers supplied from the leased network, were transferred to a legal predecessor of the Company.

After the expiry of the contract with the plaintiff on January 1, 2016, the network was transferred back to the plaintiff. The plaintiff considers that there are also grounds for claiming a retransfer of the electricity supply contracts assigned at the time, or, in the event such transfer were not to proceed, relevant compensation.

### 15.14.2.3 *Litigation Federal Cartel Office versus innogy SE*

Since March 2013, the German Federal Cartel Office ("BKartA") has conducted abuse proceedings due to allegedly excessive district heating prices against various suppliers, including RWE Energiedienstleistungen GmbH ("RWE ED", now part of innogy SE).

In May 2014, the BKartA issued RWE ED with a current preliminary status report including a revenue comparison with 18 district heating supply systems of RWE ED.

After intensive discussions between RWE ED and the BKartA, in March 2015 the BKartA announced a revised district heating revenue comparison. Currently, there are discussions with the BKartA which are aimed at achieving a common understanding of an assessment model to be applied to the comparison of revenues.

### 15.14.2.4 *Settlement with Ofgem regarding npower Group Licenses*

As a result of an investigation conducted by Ofgem from June 2014 until January 2016, npower group entities (including Npower Limited and Npower Northern Limited) admitted to breaches of certain standards of conduct and consumer complaints handling standards in relation to its domestic customers, and agreed to a settlement with Ofgem (including the imposition of a nominal financial penalty), according to which npower group entities had to compensate customers in the amount of GBP 26 million by June 30, 2016. Furthermore, any unpaid sums and in any case at least GBP 5 million were to be paid to Ofgem approved charities by July 31, 2016. In addition, if any compensation checks or postal orders issued to customers remain uncashed

after twelve months (and other steps taken to provide a refund have not been successful), an equivalent amount has to be paid into npower's Charitable Causes Fund to support its vulnerable customers by June 30, 2017. npower must still honor checks presented after twelve months without being able to recover the amount from the Charitable Causes Fund.

#### 15.14.2.5 *Ofgem Investigation regarding Advanced Meters*

In September 2014, Ofgem opened an investigation into whether npower complied with the requirements of Standard Licence Condition (SLC) 12 of its electricity supply licenses. Under SLC 12.21 suppliers must not, from April 6, 2014, supply electricity to any relevant premises other than through an advanced meter. Ofgem's investigation considers whether npower took all reasonable steps to install, and supply electricity through, advanced meters at the premises of its larger non-domestic customers. Ofgem have reached a preliminary decision that npower was in breach of that licence condition and have proposed a financial settlement along with an undertaking to increase its rate of installation of advanced meters over the next 12 months. npower is now considering whether to settle the investigation early and qualify for a discounted financial settlement in the range of a low to mid single-digit million GBP amount together with an undertaking to meet certain installation targets.

### 15.14.3 **Renewables Segment**

#### 15.14.3.1 *Arbitration regarding Nordsee Ost Wind Farm, Hamburg*

In 2012, a supplier initiated an arbitration proceeding against Essent Wind Nordsee Ost Planungs- und Betriebsgesellschaft mbH based on German arbitration rules (DIS) in Hamburg with regard to the delivery of main components for the offshore wind farm Nordsee Ost in the amount of around EUR 100 million. The procedure is still on-going.

#### 15.14.3.2 *Litigation innogy SE and innogy Spain S.A.U. versus Kingdom of Spain*

Certain entities of the Group have initiated two arbitration proceedings based on the rules of the International Centre for Settlement of Investment Disputes (ICSID) against the Kingdom of Spain with regard to frustrated yield expectations. In December 2014, RWE Innogy GmbH (now innogy SE) and RWE Innogy AERSA S.A.U. (now innogy Spain, S.A.U.) filed an arbitration claim against the Kingdom of Spain in relation to their investments in wind and hydro power plants in Spain, and RWE Innogy GmbH (now innogy SE) jointly with other claimants filed an arbitration claim against the Kingdom of Spain in relation to their investment in a concentrated solar power plant in Spain. The first procedural hearings in these arbitrations took place by phone in December 2015 and March 2016. The final hearings will take place in Paris, France. The European Commission filed an application to participate as a non-disputing party in one of the arbitration proceedings regarding the arbitral tribunal's jurisdiction to resolve intra-EU investment disputes. The tribunal allowed the European Commission to present a short submission.

The purpose of these claims is to seek compensation for frustrated yield expectations in connection with our investments into renewable energy production plants in Spain on the basis of the Energy Charter Treaty ("ECT"). Among other harmful measures in July 2013, the Royal Decree Law 9/2013 was published by the Spanish Government which stipulates a complete change of the regulatory framework and implements a substantial reduction in feed-in tariffs for energy produced from renewable energy sources. We believe this law to be in conflict with the ECT. Following a notification by Spain of its revised tariff regulations introduced in 2013 and 2014, the European Commission is reviewing Spain's renewable support schemes for compliance with European state aid rules. The amount in dispute is approximately EUR 278 million in the case of the claim concerning the wind and hydropower plants, and approximately EUR 36 million in the case of the solar power plant.

#### 15.14.3.3 *Arbitration Relating to Outstanding Milestone Payments, Germany*

In September 2016, a German developer initiated an arbitration proceeding against innogy SE as legal successor of RWE Innogy GmbH based on German arbitration rules (DIS) with regard to outstanding milestone payments for offshore wind farm project rights acquired in 2008. The amount in dispute is approximately EUR 16 million plus interest. The procedure has just been initiated. We are currently examining our defenses against the alleged claims.

### 15.15 Insurance

We believe that we have risk-adequate and economically reasonable insurance coverage in place, to the extent customary in our industry. We deem our insurance to be sufficient to meet our needs in light of potential future claims.

As of the completion of the Offering as far as insurance contracts are solely in the interest of the Company or its subsidiaries these insurance contracts will be taken out by the Company itself as the insured.

However, a number of major important insurance lines such as property damage / business interruption insurance ("PD/BI"), general third party liability insurance ("GL", Betriebshaftpflicht), directors and officers insurance ("D&O") and legal expense insurance ("LE", Strafrechtsschutzversicherung) will continue to be provided by insurance lines which cover the RWE Group and which include the Company as named insured and will continue to cover the Company and its subsidiaries. This applies for 2016 and as well for 2017, where prolongation for 2017 has already been secured, subject to certain typical prerequisites, e.g. no significant losses or business changes until the end of 2016. To avoid negative effects of this RWE Group insurance instead of the Company being insured itself RWE Group and the Company have agreed to grant the Company the irrevocable right to claim its contractual interests from the insurer directly and independently and to require the Company's consent in case of an amendment of insurance lines which cover the Company or its subsidiaries.

Nuclear insurances including PD/BI- and GL-insurance for the nuclear power plants of the RWE Group have been separately insured from Group programs in the past and are therefore not part of the insurances mentioned above. Therefore our insurance coverage is not affected by the insurances for nuclear power plants.

Where we are participants in RWE Group insurance lines, if any of these shared insurance covers is exhausted by payments or reserves for a claim during the insurance period, RWE AG and the Company must decide whether to reinstate the exhausted cover fully or partially for the rest of the year. In case of dispute on such reinstatement decision both parties may decide for no or different separate reinstatement covers for each of them. The risk of increased premium triggered by the loss-run (Schadenverlauf) or market changes or even the risk of no capacity being available can't be excluded, but is almost the same risk within a group as within a separate program.

During 2017 we plan to analyze and discuss whether separate insurance programs will be favorable for us and we are confident that we will be able to purchase insurance for the Company and its subsidiaries in the market. However, we may be able to obtain our own insurance coverage, separate from RWE Group's coverage, only on less favorable terms and it cannot be guaranteed that we will be able to maintain adequate insurance coverage at appropriate premiums in the future.

For certain risk where we believe the exposure is not critical and thus bearable (e.g., crime cover) or insurance coverage cannot be obtained on economic terms such as for our grid (property damage and business interruption insurance) we have decided not to obtain insurance coverage. Furthermore, our insurance policies are subject to customary exclusions and limits.

We regularly review our insurance programs. We cannot guarantee, however, that we will not incur losses beyond the limits or outside the coverage of our insurance policies. In addition, longer interruptions of business can, even if insured, result in loss of sales, profit, customers,

reputation and market share. For further information on risks related to the Group's insurance coverage in general and on the continued insurances after the separation from the Former RWE Group and the risks related thereto, see "3.1.43 We may not be adequately insured against many operational and other risks." and "3.3.6 The separation from the Former RWE Group may lead to decreased purchasing power and may result in a loss of synergies and business opportunities."

## 15.16 Material Acquisitions and Divestitures

As most large enterprises, we explore in our ordinary course of business opportunities to acquire other companies or businesses or divest parts of our business ("M&A Activities").

### 15.16.1 M&A Activities in our Grid & Infrastructure Segment

Between 2013 and the date of the Prospectus, M&A Activities in the Grid & Infrastructure Segment included both, acquisitions and disposals of participations in utilities. In Germany, these activities were mainly driven by disposals of shares in local and regional utilities, e.g., in cases where participations did not fit to our strategic or geographic focus. M&A Activities relating to G&I East included mainly transactions concluded to optimize our portfolio.

Between 2013 and the date of the Prospectus, we consider the following to be the most significant transactions in the Grid & Infrastructure Segment in terms of size or strategic importance:

- In 2015, we sold a 15% stake in our Czech subsidiary innogy Grid Holding, a.s. The buyer was a group of funds managed by Macquarie. Our Czech gas distribution network operations are pooled in innogy Grid Holding, a.s. We retained a majority stake of 50.04%.
- In 2015, we sold 100% of RWE Gas Slovensko s.r.o. (to be renamed innogy Slovensko s.r.o.), a company engaged in the gas retail business, to VSE Holding. In this context, we also acquired additional management rights in VSE Holding which resulted in the full consolidation of VSE Holding under IFRS (see "12.6.1.2.1 External Revenue (Grid & Infrastructure Segment)").
- In 2015, we sold our 4.35% stake in European Energie Exchange AG (EEX) to a co-shareholder.
- In 2015, our regional supplier Süwag Energie AG sold its 30% stake in Stadtwerke Bühl GmbH to its co-shareholder, the city of Bühl.
- In 2014, we sold a 7.1% stake in Dortmunder Energie- und Wasserversorgung GmbH (DEW21) to Dortmunder Stadtwerke AG. We retained a minority stake of 39.9%.
- In 2014, we sold our 49.8% stake in the gas utility FŐGÁZ to the state-owned Hungarian energy utility MVM Group against the backdrop of the significant rise in regulatory pressure in the Hungarian gas business. The transaction also included certain retail activities.
- In 2014, we sold a 19.06% stake in ENERVIE Südwestfalen Energie und Wasser AG to Remondis Wasser und Energie GmbH.
- In 2014, we sold a 41% stake held by our regional supplier enviaM AG as well as a 10% stake held by its subsidiary MITGAS GmbH in IT service provider GISA GmbH, Halle to Itelligence AG. We retained a 23.9% stake in GISA GmbH.
- In 2014, we sold a 25.05% stake in Stadtwerke Düren GmbH to our co-shareholder, the city of Düren. We retained a 49.9% stake in the company.
- In addition, regulatory reasons required us to sell in 2014 the extra-high voltage grid from our regional supplier Lechwerke AG, which was acquired by Amprion GmbH.
- Furthermore, we sell and acquire participations in local and regional utilities in the context of concession negotiations with municipalities, in particular in the German market. To the

extent that we are not able to renew a concession we are required to sell the relevant parts of the respective grid assets to the succeeding holder of the concession (see “3.1.8 If we are unable to renew an existing concession or if it is terminated, we may have to sell the relevant grid infrastructure, which will negatively affect our revenue and may lead to a loss in connection with the sale, or we may enter into cooperation agreements that are limited in time.”). The compensation we receive for the sold assets is generally based on replacement values as a starting point. In some cases, the capitalized earnings values (*Ertragswert*) are also important reference points in determining the compensation. Historically, sales of grid assets following a lost concession tender often led to a one-off gain due to lower book values. For a discussion of these one-off effects on our operating result, see “12.6.1 Grid & Infrastructure Segment”.

- Moreover, we are currently engaged in negotiations concerning the formation of regional mid-size DSOs with other third party DSOs, such as in western Rhineland.

#### **15.16.2 M&A Activities in our Retail Segment**

Between 2013 and the date of the Prospectus, M&A Activities in the Retail Segment focused on smaller acquisitions to support the growth of our business (including the strengthening of our Energy+ business) as well as disposals to optimize our portfolio. Acquisitions included various energy service providers and smaller technological companies with specific know-how or capability for our retail business. We also used M&A Activities in the Retail Segment to improve our market position in developing markets, in particular in the Eastern European countries.

Between 2013 and the date of the Prospectus, we consider the following to be the most significant transactions in the Retail Segment in terms of size and strategic importance:

- In 2016, we acquired a portfolio of business and industrial customers of TIGÁZ, a subsidiary of Italian energy utility Eni in Hungary. As a result, our gas business in Hungary operated by ELMU-ÉMÁSZ Group increased its share of the Hungarian competitive market.
- In 2015, we acquired the Welsh RUMM Ltd., a company offering real time energy management to business customers. The company was acquired to get access to its market leading software, existing customer relationships and new customer propositions, specifically the award winning optimization desk.
- In 2014 and 2015, we increased our shareholdings to 100% in three energy service providers in the Netherlands through which we sell Energy+ products such as boilers, solar panels, insulation, installation and maintenance services.
- In 2013, we sold two supply companies with a large customer portfolio to the UK-based energy and telecommunications provider Telecom Plus. New UK regulations limited UK energy companies to offering only four electricity and four gas tariffs. Continuing to own customers serviced by Telecom Plus would have limited our flexibility in terms of pricing of our own products and it was concluded that a sale to Telecom Plus of the customers they serviced would avoid this restriction. We continue to supply Telecom Plus with the volume requirements of its electricity and gas customers under a long-term supply agreement.
- In 2013, we acquired a local retail company in Croatia (Energija 2) to accelerate our market entry into the Croatian retail market.

#### **15.16.3 M&A Activities in our Renewables Segment**

In the Renewables Segment, M&A Activities between 2013 and the date of the Prospectus focused on the sale of shares in project companies. M&A Activities regarding our onshore wind capacities mainly included the sale of minority shares but also the disposal of complete project companies. For example, we sold project companies if the project was approved by the public authorities but did not comply with our internal investment criteria. In addition, we entered in 2010 into a framework agreement for the sale and purchase of up to ten onshore wind farm projects under which we sold, and plan continue to sell, individual onshore wind farm projects

in varying stages of development. With respect to our offshore wind operations, M&A Activities within the last three years primarily included transactions to involve one or more co-investors to projects developed by the Group. In our hydro and biomass production operations, M&A Activities in the recent past were generally limited to a consolidation of our portfolio with smaller transaction volumes.

Between 2013 and the date of the Prospectus, we consider the following being the most significant transactions in the Renewables Segment in terms of size and strategic importance:

- In July 2016, we sold our 33.33% stake in Zephyr Investments Ltd. (“Zephyr”) and related debt. Zephyr owns and operates a portfolio consisting of 16 onshore and 1 offshore (North Hoyle) wind farms in the UK with a total capacity of 391.2 MW.
- For regulatory reasons we were required in 2015 to sell the self-constructed network connection and a transformer station of our offshore wind farm Gwynt y Môr (OFTO assets) to the financial investors Balfour Beatty Investment Ltd. and Equitix Ltd.
- In 2015, we sold a 10% stake in our offshore wind farm Gwynt y Môr to UK Green Investment Bank. This reduced our shareholding in the offshore wind farm to 50%. The other interests are held by the Munich municipal utility (30%) and Siemens (10%).
- In 2015, we sold an aggregate 75% share in the Galloper offshore wind project to Siemens Financial Services, Macquarie Capital and UK Green Investment Bank (each with a 25% share after the transaction).
- In 2014, we sold a 85% share in the offshore wind projects Nordsee One, Nordsee 2 and Nordsee 3 located in an area 40 kilometers north of the Isle of Juist to the Canadian utility Northland Power. The remaining 15% of the projects are still owned by us. Through these types of transactions we spread the substantial costs of growth projects in the field of renewables more widely via partnerships. This enables us to develop large-scale projects even when funds are scarce. The development of the Nordsee One wind farm, which is expected to be fully commissioned with a net installed capacity of 332 MW in 2017, is at an advanced stage, whereas the Nordsee 2 and Nordsee 3 projects, with a combined capacity of 670 MW, are in their early planning phases.
- In 2013, we divested minority interests in four UK wind farms. The biggest of these transactions was the sale of a 49.9% stake in the Welsh offshore wind farm Rhyl Flats, which has a total net installed capacity of 90 MW. The stake was purchased in equal parts by Greencoat UK Wind and UK Green Investment Bank. Other divestments were the sale of 41% of Little Cheyne Court (60 MW) and 49% of both Middlemoor (54 MW) and Lindhurst (9 MW).
- In addition, we sold the offshore construction vessel Victoria Mathias, which was used to install offshore wind turbines, to the Dutch company MPI Offshore in 2015. Our second offshore construction vessel, Friedrich Ernestine, will remain in our ownership for the time being. We leased it to China-based ZPMC Profundo Wind Energy for a period of five years in March 2015.

#### **15.16.4 Venture Capital M&A Activities**

In 2016, we established a venture capital unit named innogy Corporate Ventures GmbH (formerly RWE Ventures GmbH) that focuses on investments in smaller, early to growth stage, emerging firms especially in sectors that are connected to our innovation strategy, such as distributed energy and smart grids, connected home products (internet of things) as well as data driven business models in the energy sector. We plan to invest an aggregate volume of EUR 130 million within the next ten years. The initial focus will be on investments in Europe and (via our newly established entity innogy New Ventures LLC) in the USA. We are reviewing the unit’s investment strategy on a regular basis in order to identify and integrate new possible growth sectors. In 2016, transaction volumes for M&A Activities in the venture capital unit were in a low to medium single-digit million Euro range.

In addition, our Innogy Renewables Technology Fund (IRTF I) (innogy share 78.22%), managed by Innogy Venture Capital GmbH, invests in innovative renewable technologies in the expansion phase along defined investment criteria with an investment focus in Europe. Its current portfolio comprises European companies from the sectors biomass, hydro, solar, storage, wind and renewables-enabling technologies. Typical transaction size is a single-digit million Euro amount in order to acquire a minority share in the target company. For example, the fund invested into Heliatek, a producer of an organic photovoltaic film.

Similar investments may also be made and financed directly by our business segments. Furthermore, for strategic reasons, some of our regional suppliers are exploring opportunistic venture capital investments with transaction volumes that are mainly in a single-digit million Euro range.

#### **15.16.5 Transactions in connection with the Carve-Out and Reorganization**

In the first half of the financial year 2016, we completed a series of corporate transactions in connection with the Carve-Out from the RWE Group. For further details on these transactions see *"5 Carve-Out and Organizational Measures"* and the notes to our combined financial statements included in *"26 Financial Information"*.

#### **15.16.6 Future M&A Activities**

As a part of our overall strategy, we plan to focus future M&A Activities on value creation for all three segments, while opportunistic bolt-on acquisitions with stable cash returns shall be prioritized over large scale growth investments in the future. In addition to strategic disposals, we plan our M&A Activities along our strategy in order to strengthen our current portfolio in all three segments. In the Grid & Infrastructure Segment, where most M&A Activities occur in the context of concession negotiations, we plan to focus our strategic M&A Activities to strengthen our asset base in Germany, while at the same time regulatory risks shall be further diversified across different countries and regulatory periods. In the Retail Segment, we plan to keep focus of our M&A Activities on strengthening our customer base, expanding our Energy+ offerings and capabilities and selectively entering into new markets. In the Renewables Segment, we plan to improve our market position and to expand into new regions and technologies, in particular in the sectors of onshore wind and photovoltaic.

In August 2016, we entered into an agreement for the acquisition of BELECTRIC (see *"12.9.3.3 Planned Investments"*), which is active in the design, installation, operation and maintenance of ground-mounted utility-scale and rooftop photovoltaic plants as well as battery storage solutions. BELECTRIC has manufacturing facilities in Germany and India and had built more than 280 utility-scale photovoltaic plants with a total installed capacity of more than 1.5 GW as of December 31, 2015. Within its O&M business, as of December 31, 2015, BELECTRIC had more than 1 GW of capacity under management and a proven track record in Europe as well as in the growth markets in the Middle East and North Africa. The closing of the transaction is subject to customary conditions as well as reorganizational measures and is currently expected to take place early in 2017. For further information on the strategic rationale of this acquisition see *"15.7.4.2.4 Solar"*.

#### **15.17 Material Contracts**

The following section provides a summary of material agreements to which any member of the Group is a party. Furthermore, agreements which are of specific importance in the context of the Offering are described under *"21 Transactions and Relationships with Related Parties"*.

##### **15.17.1 Financing Agreements**

###### **15.17.1.1 Revolving Facility Agreement**

innogy Finance B.V., a wholly-owned subsidiary of the Company, is a borrower under a EUR 4 billion facility agreement (the **"Revolving Facility Agreement"**), originally dated

March 31, 2014, among RWE AG as borrower and guarantor, certain financial institutions as lenders and arrangers, the Bank of Tokyo-Mitsubishi UFJ, Ltd., Commerzbank AG, the Royal Bank of Scotland plc and Unicredit Bank AG as coordinators, and Commerzbank Finance & Covered Bond S.A., Luxembourg, as facility agent and EUR swingline agent and Commerzbank AG, New York Branch as USD swingline agent. Affiliates of nearly all of the Underwriters made lending commitments under the Revolving Facility Agreement. Effective June 29, 2016, innogy Finance B.V. has acceded to the Facility Agreement as additional borrower and therefore may utilize loans and forward the amounts received to the Company and its subsidiaries. Neither RWE AG nor innogy Finance B.V. have made any draw-down under the facilities. RWE AG is the sole guarantor under the Revolving Facility Agreement and guarantees for any and all obligations of any and all other borrowers (including innogy Finance B.V.). The Facility Agreement provides for a multicurrency revolving loan facility in an aggregate amount of EUR 4 billion and, operating as sub-limits within the revolving facility, a EUR 2 billion equivalent USD swingline facility, as well as a EUR 2 billion EUR swingline facility.

The base currency under the Revolving Facility Agreement in respect of the revolving loans is EUR. Revolving loans may be drawn for interest periods of one, two, three or six months or any other period agreed between the relevant borrower and the facility agent (acting on the instructions of the lenders), and may be utilized in EUR (as base currency) or, under certain conditions, in other currencies. The Revolving Facility Agreement includes representations, general covenants (including a negative pledge, restrictions on disposals and mergers, and certain compliance covenants, each subject to specific baskets and/or exceptions) and events of default (including cross-default-payment and cross-acceleration provisions) which are customary for an investment grade financing. The Revolving Facility Agreement does not provide for any financial covenants.

The final maturity of the revolving facility is March 31, 2021. The revolving credit facility may be used for general working capital purposes of the RWE Group or the refinancing of any note or other instrument maturing under a commercial paper program of a member of the RWE Group.

The swingline facilities (which operate as sub-limits under the revolving facility) may be used either (i) for the purpose of refinancing of any note or other instrument maturing under any EUR or USD commercial paper program of a member of the RWE Group or (ii) for the purpose of providing other liquidity back-up in the event the relevant liquidity cannot be obtained at the relevant time at reasonable commercial terms by way of issuance of notes or other instruments under a EUR or USD commercial paper program of a member of the RWE Group, for reasons beyond the control of any member of the RWE Group. Utilizations under the swingline facilities can only be made in the currency of the relevant swingline facility and only for interest periods of up to seven days.

The rate of interest on each revolving loan for each interest period is the percentage rate per annum which is the aggregate of (i) the margin of 0.30% and (ii) EURIBOR, or, in relation to any loan in a currency other than EUR, LIBOR (in each case subject to a zero floor). The rate of interest on each EUR swingline loan for any day during its interest period is the percentage rate per annum which is the aggregate of (i) EONIA and (ii) the margin of 0.30%. The rate of interest on each USD swingline loan for any day during its interest period is the higher of (i) the prime commercial lending rate in USD and (ii) 0.5% per annum over the rate per annum determined by the USD swingline agent to be the Federal Funds Rate (as published by the Federal Reserve Bank of New York) for that day. In general, each borrower must pay accrued interest on a loan on the last day of each interest period and, in case of a revolving loan, if the interest period is longer than six months, on the dates falling at six monthly intervals after the first day of the interest period. Voluntary prepayments of revolving loans by a borrower are permitted subject to certain customary requirements. The borrower to which a swingline loan has been made may prepay at any time the whole of such swingline loan. A lender may cancel its commitments and demand prepayment of all its participations in any loans in case of illegality. In the case of a change of control event (defined in the Revolving Facility Agreement as the acquisition by any

person (or concert parties) of control over RWE AG either (i) by way of control (directly or indirectly) over RWE AG in the meaning of section 17 of the German Stock Corporation Act (*abhängige Unternehmen*) or (ii) by owning (directly or indirectly) more than half of the voting capital of RWE AG), both the facility agent and RWE AG may request that negotiations be entered into with a view to continuing the facility on an alternative basis; if the majority lenders have agreed on such continuation within 30 days following the change of control, the commitments of the non-consenting lenders will be cancelled by notice from the facility agent, and any loans made by the non-consenting lenders have to be prepaid. If the majority lenders have not agreed to a continuation on an alternative basis within the 30 days' period, all commitments will be cancelled by notice from the facility agent, and all outstandings under the Revolving Facility Agreement will immediately fall due.

In order to coordinate certain aspects of their cooperation particularly in relation to the Revolving Facility Agreement, the Company, RWE AG and innogy Finance B.V. entered into a debt financing coordination agreement dated June 13, 2016 (*Koordinierungsvereinbarung zur Fremdkapitalfinanzierung*) (the "**Debt Financing Coordination Agreement**", see "**15.17.1.3 Debt Financing Coordination Agreement**").

#### 15.17.1.2 Non-Cash Bank Facilities Agreements

RWE AG is the borrower under certain non-committed guarantee, letter of credit or other non-cash bank facilities provided by certain banks and financial institutions in an aggregate amount of approximately EUR 3 billion as of June 30, 2016 (the "**L/C Facilities**", and the related agreements the "**L/C Facilities Agreements**"). Under the L/C Facilities, RWE AG has the right to request the issuance of letters of credit, guarantees or other non-cash credit support instruments to secure obligations of RWE AG and/or its subsidiaries. The Company, RWE AG and innogy Finance B.V. have entered into the Debt Financing Coordination Agreement also for the purpose of ensuring the continued availability for the Company and its subsidiaries of letters of credit, guarantees or other non-cash credit support instruments under the L/C Facilities (see "**15.17.1.3 Debt Financing Coordination Agreement**").

#### 15.17.1.3 Debt Financing Coordination Agreement

The Company, RWE AG and innogy Finance B.V. entered into the Debt Financing Coordination Agreement (*Koordinierungsvereinbarung zur Fremdkapitalfinanzierung*) dated June 13, 2016 in order to coordinate certain aspects of their cooperation in relation to specific financing agreements.

Following the accession of innogy Finance B.V. to the Revolving Facility Agreement the available facilities under the Revolving Facility Agreement are split and allocated between RWE AG and the Company (which may borrow under the Revolving Facility Agreement through its subsidiary innogy Finance B.V.). In particular, the Company and innogy Finance B.V. undertake to utilize loans under the Revolving Syndicated Facility only up to a maximum aggregate nominal amount of EUR 1.5 billion, to utilize the USD swingline facility only up to a maximum of EUR 0.5 billion equivalent, and to utilize the EUR swingline facility only up to a maximum of EUR 1.0 billion, provided that the overall limit of EUR 1.5 billion for utilizations of the Revolving Syndicated Facility shall be reduced by the aggregate amount of all Substitute Loans (as described and defined in the following paragraph) outstanding from time to time. Conversely, RWE AG undertakes not to make any utilizations under any of the facilities under the Revolving Facility Agreement if and to the extent the undrawn commitments under the Revolving Facility Agreement would fall below the maximum amounts attributed to innogy Finance B.V.

If innogy Finance B.V. intends to make a utilization under the Revolving Facility Agreement, the Debt Financing Coordination Agreement provides that RWE AG may request that, in lieu of a proposed utilization made by innogy Finance B.V. under the Revolving Syndicated Facility, RWE AG grants to innogy Finance B.V. or to the Company, an intercompany loan with a principal amount equal to the proposed utilization as a substitute loan ("**Substitute Loan**"). Substitute Loans may be used for working capital purposes of the Company and its subsidiaries. The rate of

interest on each Substitute Loan for each interest period is the percentage rate per annum which is the aggregate of (i) the margin of 0.30% and (ii) EURIBOR (subject to a zero floor). Interest accrues on a daily basis and is payable in respect of each Substitute Loan on the date of repayment.

In addition, innogy Finance B.V. pays to RWE AG a daily guarantee fee for the continuing guarantee granted by RWE AG under the Revolving Facility Agreement for any payment obligation of innogy Finance B.V. under or resulting from the Revolving Facility Agreement or any other finance document referred to therein. The guarantee fee is computed daily at a rate of 0.25% per annum on the aggregate base currency amount of all loans outstanding to innogy Finance B.V. on such day. RWE AG and innogy Finance B.V. bear accruing commitment fees pro rata of the available commitments under the Revolving Facility Agreement which have not been drawn by RWE AG or innogy Finance B.V., and the Company reimburses innogy Finance B.V. for such payable commitment fees. innogy Finance B.V. reimburses RWE AG for any agency fees or upfront fees pro rata of the respective commitments available under the Revolving Facility Agreement and, in case of upfront fees, *pro rata temporis*.

In addition, the Debt Financing Coordination Agreement stipulates the cooperation of the Company, RWE AG and innogy Finance B.V. in order to ensure the continued availability for the Company and its subsidiaries of letters of credit, guarantees or other non-cash credit support instruments under the L/C Facilities. The Company may request RWE AG to make utilizations in respect of the L/C Facilities (to the extent available) for the purpose of securing obligations of the Company and its subsidiaries. The Company and RWE AG have agreed on the specific allocation of the L/C Facilities between the Group and the RWE Group, the overall ratio being approximately 70% of the available L/C Facilities for the RWE Group and 30% for the Group. The Debt Financing Coordination Agreement further provides that, if any of the existing L/C Facilities are increased, decreased, cancelled or replaced by other non-cash facilities for RWE AG, the Company and RWE AG will re-negotiate the share of such facilities allocated to the Company, with view to agreeing an overall share of the Company equal to approximately 30% of all non-cash facilities available from time to time to RWE AG. The Company is obliged to pay to RWE AG a guarantee fee for any utilizations made at the Company's request, to be computed daily at a rate of 0.1% per annum on the aggregate amount of such utilizations outstanding on such day. In addition, the Company reimburses RWE AG for any costs or fees incurred under or in connection with any utilization made on the Company's request. The Company further undertakes that it will as soon as practically possible and commercially reasonable obtain separate letter of credit, guarantee or other required non-cash bank facilities for its operational purposes.

The Debt Financing Coordination Agreement includes further mutual representations, covenants and information obligations. In particular, innogy Finance B.V. and the Company undertake to comply (i) in the case of innogy Finance B.V., with its own undertakings and representations made under the Revolving Facility Agreement, (ii) with the undertakings and representations made by RWE AG in the Revolving Facility Agreement and in certain loan agreements between RWE AG and the European Investment Bank whose proceeds have been on-lent to the Company (see the description of the EIB Intra-Group Loan Agreements, in "15.17.1.5 Intra-Group Loan Agreements") to the extent such undertakings and representations provide for an obligation of RWE AG to procure compliance by the Company or any subsidiary of the Company. RWE AG undertakes vis-à-vis the Company and innogy Finance B.V. to comply with its own representations and undertakings (and assure compliance of RWE AG's subsidiaries other than the Company and its subsidiaries) under the Revolving Facility Agreement and the loan agreements with the European Investment Bank. In addition, the Company and innogy Finance B.V. undertake to cooperate with RWE AG to enable RWE AG to timely comply with each of its information undertakings under the financing agreements.

#### 15.17.1.4 Bonds issued by innogy Finance B.V. and innogy Finance II B.V.

innogy Finance B.V., a wholly-owned subsidiary of the Company, as well as innogy Finance II B.V., a wholly-owned subsidiary of the Company, are issuers of certain bonds (collectively, the **"Finance Bonds"**) guaranteed by RWE AG. The bond of innogy Finance II B.V. was originally issued by RWE AG which was later replaced by innogy Finance II B.V. as issuer in December 2015. Details of the Finance Bonds are set out in the table below.

Issuer	Outstanding amount (in million)	Carrying amount <sup>1)</sup> (in EUR million)	Market value <sup>1)</sup> (in EUR million)	Coupon (in %)	Yield to maturity <sup>1)</sup> (in %)	Maturity	'Step-up' <sup>2)</sup> (in EUR million)
innogy Finance B.V. . .	EUR 850	850	867	6.250	0.14	April 2016	16
innogy Finance B.V. . .	EUR 980	980	1,098	5.125	0.43	July 2018	119
innogy Finance B.V. . .	EUR 1,000	996	1,174	6.625	0.92	January 2019	178
innogy Finance B.V. . .	EUR 750	746	772	1.875	1.14	January 2020	26
innogy Finance B.V. . .	GBP 570	778	888	6.500	3.53	April 2021	110
innogy Finance B.V. . .	EUR 1,000	998	1,262	6.500	1.60	August 2021	264
innogy Finance B.V. . .	GBP 500	677	752	5.500	3.71	July 2022	75
innogy Finance B.V. . .	GBP 488	663	732	5.625	4.11	December 2023	69
innogy Finance B.V. . .	EUR 800	800	853	3.000	2.10	January 2024	52
innogy Finance B.V. . .	GBP 760	1,038	1,152	6.250	5.14	June 2030	114
innogy Finance II B.V. . . . . .	EUR 600	595	741	5.750	3.79	February 2033	145
innogy Finance B.V. . .	GBP 600	813	761	4.750	5.35	January 2034	-52
innogy Finance B.V. . .	GBP 1,000	1,342	1,471	6.125	5.51	July 2039	129
<b>Total/Average . . . . .</b>		<b>11,276</b>	<b>12,522<sup>3)</sup></b>	<b>ca. 5<sup>4)</sup></b>	<b>ca. 3<sup>5)</sup></b>		<b>1,245<sup>6)</sup></b>

Note: All figures are rounded.

- 1) Carrying amount describes the carrying amount of the bonds immediately prior to the transfer of innogy Finance B.V. on December 18, 2015 or immediately prior to the assumption of the EUR 600 million bond originally issued by RWE AG by innogy Finance II B.V. on December 28, 2015. Market value describes the market value at the time of the transfers and the carrying amount immediately after the transfers.
- 2) In the context of the Carve-Out, RWE AG sold 100% of its shares in innogy Finance B.V. to the Company (for further information see *"5 Carve-Out and Organizational Measures"*). As innogy Finance B.V. does not constitute a business in accordance with IFRS 3, the transaction was accounted for as an asset deal. The bonds issued by innogy Finance B.V. were therefore initially recognized at their fair values as of December 18, 2015. Furthermore, innogy Finance II B.V. assumed a bond originally issued by RWE AG. This was, in accordance with IAS 39, recognized at its fair value as of December 28, 2015.
- 3) Aggregate amount of the carrying amounts as of December 18, 2015 and December 28, 2015, respectively. EUR 12,513 million as of December 31, 2015.
- 4) Notional-weighted coupon average.
- 5) Market-value weighted yield to maturity average.
- 6) As of December 31, 2015, the remaining 'step-up' of the transactions executed in December 2015 was in aggregate reduced to EUR 1,237 million.

The terms of the bond include customary covenants such as a negative pledge undertaking.

#### 15.17.1.5 Intra-Group Loan Agreements

The Company and RWE AG entered into fifteen separate intra-group loan agreements each dated June 13, 2016 (collectively, the **"Intra-Group Loan Agreements"**).

Six loans granted by RWE AG to the Company under the Intra-Group Loan Agreements are based on six bonds (four of which are denominated in EUR (100 million, maturity date November 15, 2017; 100 million, maturity date December 3, 2042; 150 million, maturity date February 13, 2043 and 500 million, maturity date October 26, 2037), one in USD (50 million, maturity date April 5, 2033) and one in JPY (20 billion, maturity date February 17, 2040)) which have been issued by RWE AG by means of private placement transactions (the **"PP Intra-Group Loan Agreements"**). Under the PP Intra-Group Loan Agreements, the Company and RWE AG

undertake to use reasonable efforts to procure that as soon as practicably possible the Company (or one of its subsidiaries) will replace RWE AG as issuer under each bond and that all rights and obligations under the bonds be transferred to the Company (or a subsidiary). Due to certain restrictions on the availability of financials, ratings, etc. in respect of the Company, in a first step all rights and obligations of RWE AG under or in connection with the bonds are economically passed on to the Company under the PP Intra-Group Loan Agreements.

Five loans granted under the PP Intra-Group Loan Agreements bear interest at a fixed rate, being 3.50% per annum in respect of one EUR 100 million loan and the EUR 500 million loan, 3.55% per annum in respect of the EUR 150 million loan, 3.31% in respect of the JPY loan (interest payable in USD and calculated on the basis of the notional USD equivalent to the nominal amount of the underlying bonds, equal to USD 219.901 million) and 3.8% in respect of the USD loan. One EUR 100 million loan bears interest at a variable rate which is equal to the aggregate of (i) the six-months-EURIBOR determined for the relevant interest period and (ii) a margin of 0.67% per annum. Interest accrues in each case from the date of disbursement of the relevant loan. In addition to the interest, the Company has to pay to RWE AG as additional consideration on the first interest payment date an amount corresponding to the unpaid interest accrued in respect of the underlying bond up to and including the disbursement date of the intercompany loan funded by the proceeds of the relevant underlying bond.

The loan principal amounts disbursed to the Company on June 13, 2016 correspond to the outstanding nominal amount of the relevant underlying bond, plus an *agio*, reflecting (i) the fair market value of the bonds, taking into consideration the difference between the interest rate applicable to the relevant bonds and the prevailing market interest rates, and (ii) the undertaking by the Company to bear unpaid interest on the bonds until and including the disbursement date. In addition, all rights and obligations, and all benefits and charges under and in connection with hedging arrangements with respect to the JPY and USD bonds are economically passed on from RWE AG to the Company. The terms of the loans correspond with the maturity date of the underlying bonds as set out above.

Two Intercompany Loan Agreements are based on funding raised by RWE AG as borrower under two separate finance contracts dated September 8, 2010 and September 17 / 20, 2013 with the European Investment Bank as lender (the “**EIB Intra-Group Loan Agreements**”). The EIB Intra-Group Loan Agreements provide for a mutual undertaking that the Company will replace RWE AG as borrower of the underlying loans from the European Investment Bank as soon as practicably possible.

Under the EIB Intra-Group Loan Agreements RWE AG grants to the Company a EUR 645 million loan with interest at a fixed rate of 3.227% per annum and a separate GBP 350 million loan with interest at a fixed rate of 2.136% per annum. Interest accrues from the date of disbursement. In addition to interest, the Company has to pay to RWE AG as additional consideration on the first interest payment date an amount corresponding to the unpaid interest accrued in respect of the loans under the loan agreements between RWE AG and the European Investment Bank up to and including the date of disbursement of the loan. The loan principal amounts disbursed to the Company on June 13, 2016 correspond to the outstanding nominal amount of the relevant underlying EIB loan, plus an *agio* (or, in case of the EIB loan denominated in GBP, minus a *disagio*), reflecting (i) the fair market value of the underlying loans taking into consideration the difference between the interest rate applicable to the relevant loans and the prevailing market interest rates, and (ii) the undertaking by the Company to bear the unpaid interest under the underlying EIB loans up to the date of disbursement of the onward loan to the Company under the EIB Intra-Group Loan Agreements. As regards the EUR 645 million loan a partial amount of the Company’s disbursement claim is settled by an assignment by RWE AG to the Company of all of its rights and claims under an intra-group loan agreement between RWE AG and innogy Netze Deutschland GmbH in the nominal amount of EUR 175 million (including any associated and ancillary rights (*Nebenrechte*) and any accrued but unpaid interest) and a

fair market value of EUR 193.898 million. Repayment date for the EUR 645 million loan is October 26, 2020, and for the GBP 350 million loan February 10, 2023.

Under additional Intra-Group Loan Agreements and intercompany loan agreements between RWE AG and the Company, loans with an aggregate principal amount of EUR 3,773 million were granted by RWE AG to the Company (or, in the case of two intercompany loans of EUR 4 million and EUR 7 million, to a subsidiary of the Company that was merged with the Company in 2016), namely loans with nominal amounts of EUR 203.583 million, EUR 124.948 million, EUR 771.424 million, EUR 955.657 million, EUR 700 million, EUR 550 million, EUR 456.204, EUR 4 million and EUR 7 million (the “**Additional Intra-Group Loan Agreements**”). The loans with nominal amounts of EUR 550 million and EUR 456.204 million were contributed to the capital reserve of the Company with effect as of July 31, 2016 and thus, ceased to exist. The applicable fixed interest rates for all seven loans have been calculated at arm’s length, on the basis of prevailing market interest rates at the time of the disbursement of the loans under the Additional Intra-Group Loan Agreements. In respect of the still outstanding seven loans, the interest rates range from 0.06% per annum to 4.75% per annum.

The following table provides an overview of the Intra-Group Loan Agreements as of July 31, 2016:

Agreement	Currency / Principal Amount (in million)	Principal Amount (in million) <sup>1)</sup>	Agio/Disagio (in million)	Disbursement Amount (in million)	Interest Rate (% per year)	Repayment Date
<b>PP Intra-Group</b>						
					EURIBOR +	
	EUR 100	100	EUR 0.5	EUR 100	0.67	November 15, 2017
	EUR 100	100	EUR 3.6	EUR 104	3.50	December 3, 2042
	EUR 150	150	EUR 5.6	EUR 156	3.55	February 13, 2043
	EUR 500	500	EUR 34.1	EUR 534	3.50	October 26, 2037
	USD 50	45	USD 0.2	USD 50	3.80	April 5, 2033
	JPY 20,000	174	JPY 2,596.9	JPY 22,597	3.31	February 17, 2040
<b>EIB Intra-Group</b>						
				EUR 530 (after settlement with assigned loan)		
	EUR 645	645	EUR 79.0 GBP 34.5 (disagio)		3.23	October 26, 2020
	GBP 350	415		GBP 315	2.14	February 10, 2023
<b>Additional Intra-Group</b>						
	EUR 204	204	n/a	EUR 204	0.06	April 4, 2017
	EUR 125	125	n/a	EUR 125	0.19	July 26, 2017
	EUR 771	771	n/a	EUR 771	0.22	October 12, 2017
	EUR 956	956	n/a	EUR 956	0.56	March 20, 2019
	EUR 700	700	n/a	EUR 700	0.86	October 21, 2020
	EUR 4	4	n/a	EUR 4	4,36	June 30, 2020
	EUR 7	7	n/a	EUR 7	4,75	June 30, 2018
<b>Total/ Average</b>		<b>4,895</b>			<b>&lt; 2% p.a.<sup>2)</sup></b>	

Note: Figures for agio/disagio are rounded to one decimal place of one million; all other figures are rounded to full million, whereby disbursement amount and total amounts are calculated based on the underlying unrounded amounts.

1) Principal amounts converted to EUR using spot foreign exchange rates as per July 31, 2016 (EUR/USD 1.1113; EUR/JPY 114.83; EUR/GBP 0.8440) without taking into account existing hedges for the liabilities in USD and JPY.

2) Notional-weighted average interest rate.

#### 15.17.1.6 *Intra-Group Revolving Facility Agreement*

The Company as borrower and RWE AG as lender entered into an intra-group revolving facility agreement dated June 13, 2016 (the **"Intra-Group Revolving Facility Agreement"**). The Intra-Group Revolving Facility Agreement provides for a revolving facility in an aggregate amount of EUR 1.0 billion with a term ending on December 31, 2018. The facility may be used for working capital purposes of the Company and its subsidiaries.

The facility may be utilized by the Company by way of one loan or up to ten loans which may be drawn for interest periods of one, two, three or six months or any other period agreed between the Company and RWE AG. The rate of interest on each loan for each interest period is the percentage rate per annum which is the aggregate of (i) the margin of 0.60% and (ii) EURIBOR (subject to a zero floor). Interest accrues on a daily basis and is payable in respect of each loan on the last day of the respective interest period. In addition, the Company pays to RWE AG a commitment fee computed daily at the rate of 0.105% per annum. Accrued commitment fees are payable on the last day of each successive period of three months, for the first time on September 13, 2016, on the date of any cancellation of available commitments and on December 31, 2018. In the case of a change of control event the total commitments of RWE AG will immediately be canceled in full and any loans then outstanding will become repayable at the end of the current interest period of such loans. A change of control as defined in the Intra-Group Revolving Facility Agreement has occurred if RWE AG has ceased to control the Company (directly or indirectly) within the meaning of section 17 of the German Stock Corporation Act (*abhängige Unternehmen*) or has ceased to own (directly or indirectly) more than half of the voting share capital of the Company.

#### 15.17.2 **Agreement on Basic Principles**

##### 15.17.2.1 *General*

On July 25, 2016, the Company and RWE AG entered into an agreement on basic principles in order to lay down basic principles for their future cooperation, their future conduct towards one another, their future relationship and ways for resolution of potential conflicts (**"Agreement on Basic Principles"**). With a view to the envisaged IPO, it is intended that the Company will be, generally, economically and legally independent. Both parties shall be entitled to define and to pursue their respective strategic, operative and financial targets independently. The Company shall be able to position itself in the market as an energy company with a new and independent identity.

RWE AG will generally treat the Company as a financial investment and will limit its influence and control to certain statutory bodies, *i.e.*, Supervisory Board and shareholders' meeting. The Company and RWE AG agree that only a high level of independence and autonomy lead to optimal evaluation by the capital market.

Any business relationships between the Company and its subsidiaries on the one hand and RWE AG and the remaining affiliates on the other hand will be entered into at arm's length conditions, only.

##### 15.17.2.2 *Non-Competition Restriction in Favor of the Company*

With effect from the termination of the domination agreement between the Company and RWE DB GmbH, *i.e.*, at the end of September 30, 2016, through December 31, 2019, RWE AG (including all its subsidiaries except for the Company and all subsidiaries that are either solely controlled by, or a majority stake of which is held by, the Company (the **"RWE AG Subsidiaries"**)) shall not operate, either directly or indirectly, in any of the Company's core business fields (as existing at signing of the Agreement on Basic Principles). In addition, RWE AG will neither found nor, by means of equity capital or equity-like instruments, invest in any entity operating in the Company's core business fields. The non-compete clause applies to continental Europe (including South-East-Europe), Great Britain and the MENAT region (the Middle East, Northern Africa and Turkey) (these countries are together the **"Restricted Countries"**) and for

the key business area power generation from renewable energy sources, wind and solar, also to the USA and Canada.

The Former RWE Group operated in five core business fields: (1) conventional power generation; (2) power generation from renewable energy sources; (3) energy and commodities trading; (4) distribution grid business for electricity and gas; and (5) retail business for electricity and gas. Out of these five core business fields of the Former RWE Group, the Company's core business fields are power generation from the renewable energy sources wind and solar, distribution grid business for electricity and gas, and retail business for electricity and gas.

The parties refrained from a detailed definition and differentiation of their respective business fields. The common understanding of both parties is that the details of the differentiation of business fields of the Company and its subsidiaries on the one hand and RWE AG and the RWE AG Subsidiaries on the other hand, will follow common practice as established between the companies at the signing of the Agreement on Basic Principles. This applies to differentiation regarding both the subject of business activity and their scale.

Exempted from the restraint on competition for RWE AG and its subsidiaries are the following three areas:

- a) business activity as a financial holding entity, *i.e.*, the acquisition, holding and sale of (i) shareholdings in companies operating in the Company's core business fields representing up to 25% of voting capital and voting rights as well as (ii) shareholdings in special asset and investment companies within the meaning of the German Investment Act or in any comparable foreign funds;
- b) portfolio investments in other business fields for which an activity in the Company's core business fields is an immaterial supplemental activity. This is the case if EBITDA relating to the Company's core business fields for the respective portfolio investment is less than 25% of the overall EBITDA of the portfolio investment ("**Annex Participation**"). For the term of the non-compete, the overall EBITDA of Annex Participations may not exceed EUR 370 million (which is equal to 15% of RWE AG's EBITDA excluding the Group as of December 31, 2015). For the calculation of the overall EBITDA, Annex Participations below 100% will be weighted according to the respective shareholding rate; shareholdings in accordance with a) above shall not count;
- c) with regard to the overlap between retail business for electricity and gas on the one hand and energy and commodities trading on the other hand, for all Restricted Countries:
  - (i) the existing business of RWEST with large clients, *i.e.*, industry clients as well certain identified major municipal utilities (*Stadtwerke*) as well as
  - (ii) business with new major clients, *i.e.*, clients with an electricity and/or gas consumption of 100 GWh/a or more per year.

The Company and its subsidiaries themselves are not subject to any competition restraint.

In the event of any disagreement between the parties as to whether a certain business activity of RWE AG or any of the RWE AG Subsidiaries is prohibited under the non-compete clause, the general escalation and dispute resolution procedure for the Agreement on Basic Principles as described below will be applicable.

#### 15.17.2.3 *Competition Restrictions and Other Contractual Obligations towards Third Parties*

The Company and RWE AG are parties to certain agreements providing for competition restrictions, confidentiality obligations or other obligations that also cover the respective other party. To ensure that these contractual obligations will be met in the future, the parties agreed on the following:

The Company is obliged to comply with, and to ensure that the Group subsidiaries will comply with, the confidentiality obligations and the competition restrictions regarding the exploration,

development, exploitation and marketing of petroleum resources and reserves in the Kurdistan region of Iraq (including the conduct of services) under an agreement entered into between RWEST and RWEST Middle East Holdings B.V. on the one hand and other companies on the other hand. The Company will indemnify RWE AG or the relevant RWE Group subsidiary for any damages towards the other companies due to a violation of these obligations by the Company or a Group subsidiary.

RWE AG is obliged to comply with, and to ensure that the RWE Group subsidiaries, to the extent applicable, will comply with,

- (i) competition restrictions under a consortium agreement regarding the Company's shareholding in envia Mitteldeutsche Energie AG ("**enviaM**"), until June 30, 2018.
- (ii) the obligations, in particular with the competition restrictions under a consortium agreement between innogy Consulting GmbH and The Dubai Electricity & Water Authority regarding the shareholding in RWE Power International Middle East LLC (as long as the Company is liable for any violations by RWE AG or any RWE Group company).
- (iii) competition restrictions under a shareholders' agreement between innogy International Participations N. V. and the Ministry of Economy of the Slovak Republic, acting on behalf of the Slovak Republic, for the territory of the Slovak Republic regarding the shareholding in Východoslovenská energetika Holding a.s.
- (iv) the restricting sales-related clause in relation to Austria as well as a separate provision for Slovenia, Croatia, Bosnia-Herzegovina and Macedonia, both under a cooperation agreement between the former RWE Plus Aktiengesellschaft and Kärntner Energieholding Beteiligungs GmbH ("**KEH**") as well as under a cooperation agreement between the former RWE Plus Aktiengesellschaft and KELAG Kärntner Elektrizitäts-Aktiengesellschaft ("**KELAG**").

RWE AG will indemnify the Company for any damages towards the respective contractual counterparty due to a violation of these obligations by RWE AG or a RWE Group subsidiary.

The Company is obliged to comply with, and to ensure that the Group subsidiaries will comply with, three antitrust conditions which apply to the RWE Group for their respective term, the first one in connection with the sale of Thyssengas, the second one in connection with the sale of Stadtwerke Bremen and the third one in connection with a prohibition on remarketing limitations in gas and electricity supply contracts. The Company will indemnify RWE AG from any damages or fines in connection with the violation of any of the antitrust conditions by itself or a Group subsidiary.

The parties will not enter into any contractual obligations (in particular competition restrictions or exclusivity obligations) towards third parties without prior written consent of the other relevant party that also cover that other party or any of that other party's subsidiaries.

#### 15.17.2.4 Gas Czech Republic

In April 2016, RWEST, RWEST CZ and RWE Energie, s.r.o. (to be renamed in innogy Energie, s.r.o.), an indirect subsidiary of the company, entered into a Gas Interface Agreement under which RWE Energie, s.r.o. (to be renamed innogy Energie, s.r.o.) will obtain gas from RWEST CZ exclusively and which can be terminated on March 31, 2018 with effect as of end of March 31, 2020 at the earliest ("**GITA**"). With a view to the overall group interest, the Company will coordinate with RWEST before approaching any competitors for the period after termination of the GITA.

#### 15.17.2.5 Implementation of remaining Carve-Out Actions

The parties aim to merge GfP Gesellschaft für Pensionsverwaltung mbH with economic effect and with effect *in rem*, as of January 1, 2017, into Westnetz GmbH. Westnetz GmbH acceded to this obligation on the basis of a separate agreement on August 1, 2016.

As local management competence was transferred to the Company in the Carve-Out, the Company is obliged to assist RWE AG in the sale or liquidation of the Turkish retail business, in particular in the sale of shares in, or liquidation of, RWE Enerji Töptan Satis A.S. Retail Turkey, without any consideration.

In the Carve-Out, the shares in Essent Personeel Service B.V. ("**Essent Personeel**") have been transferred together with the retail business in the Netherlands to the Company. Certain employees of Essent Personeel are currently working for RWE AG subsidiaries in the Netherlands on the basis of separate contractual agreements. Currently, the parties are analyzing options for transferring these employees to current or future subsidiaries of RWE AG in the Netherlands or a new personnel entity. Subject to the completion of a request for advice procedure with employee representatives in the Netherlands, such transfer is intended to be implemented on or before April 1, 2017.

As part of the separation of the Group from the remaining RWE AG Group, capital market debt is to be allocated to the parties. The parties agreed that the Company shall take a larger debt portion. The parties intend to partly transfer current loan and bond obligations via various instruments (debtor exchange, exchange and buy-back offers) to the Company. However, the short timeframe prior to the IPO does not allow for a full implementation of these transfers. For bonds issued by innogy Finance B.V., and one further issuance under which RWE AG was replaced as issuer by innogy Finance II B.V. in 2015, cross-guarantees by RWE AG are in place. Such cross guarantees shall not remain for a medium/long term. Further capital market debt was passed on by RWE AG to the Company via intercompany loan agreements (for further details on these intercompany loan agreements, see "*17.1 Incorporation, Entry in the Trade and Companies Register, Name*").

For the implementation of the aforementioned allocation of capital market debt, the parties will closely cooperate in order to (1) exchange RWE AG as guarantor under the cross guarantees by the Company, (2) transfer bonds issued by RWE AG to the Company or a designated finance vehicle offsetting the aforementioned intercompany loans and (3) transfer loans granted by European Investment Bank to the Company, again offsetting the relevant intercompany loans.

It is envisaged, that the Group will be separated from the RWE Group cash pool and an independent cash pool will be established for the Group as of October 1, 2016.

#### 15.17.2.6 *No Continuity of RWE Group Guidelines*

RWE AG has agreed that, as of the commencement of the Agreement on Basic Principles, it will ensure that the guidelines of the RWE Group will no longer apply to the Company and its Group. The Company has adopted all major guidelines of the RWE Group across the Group. As such, the Group now has its own set of guidelines which mirror, but exist independently from, those of the RWE Group.

#### 15.17.2.7 *Accounting Principles and Consolidation System*

For RWE AG Group accounting it is essential that identical rules for recognition, disclosure and valuation for the IFRS-consolidated financial statement will be applied group-wide. The parties agree that the Company will apply RWE AG's IFRS Accounting Guideline. The Company implemented an identical guideline for the Group. The same applies to the internal group regulations (*Konzernfachregelungen*) "Internal Controls System" (ICS) and "Non-Operating Result".

If RWE AG considers amending the IFRS Accounting Guideline or the aforementioned internal group regulations, RWE AG will inform the Company in good time in advance and give the Company the opportunity to comment on the intended amendment. If there are changes by RWE AG to its IFRS Accounting Guideline or the internal group regulations, the Company will amend its own IFRS Accounting Guideline or internal group regulations accordingly.

#### 15.17.2.8 *Reporting Process*

The parties will closely cooperate to coordinate the timing of reporting processes in the fields of accounting, controlling and investor relations.

#### 15.17.2.9 *Corporate Social Responsibility*

In anticipation of the implementation of the Corporate Social Responsibility Directive ("Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups – **"CSR Directive"**") RWE AG and the Company determined KPIs that are intended to be used for the preparation of the non-financial group declaration. These KPIs will be adapted after implementation of the CSR Directive. The Company will provide RWE AG with all relevant KPIs (or a draft of its own non-financial group declaration) in good time to ensure that RWE AG will be able to prepare its own non-financial group declaration.

#### 15.17.2.10 *Planning and Forecast*

The Company will assist RWE AG in the preparation of its planning (for the budget year) and forecast (for the current year) by providing certain "lean planning KPIs" as agreed separately by the parties.

#### 15.17.2.11 *Performance Management*

RWE AG will not set any performance targets for the Company. There will be no direct influence on the incentivizing of the Company's Management Board and no performance management by RWE AG. In particular, no quarterly review meetings and no planning review meetings will be held.

#### 15.17.2.12 *Investment Decisions*

Investment decisions and the decisions on capital allocation will be within the Company's sole responsibility. In accordance with the general principle of treating the Company as a financial investment, none of these decisions remain subject to the consent of the RWE AG board.

The parties agree that the RWE AG supervisory board will refrain from implementing any consent requirements for any transactions and other actions by the Company's board, *i.e.*, the group-wide consent requirements according to section 8.3 of the rules of procedure of RWE AG supervisory board will not apply to any transactions and other actions of the Company or its subsidiaries. The RWE AG supervisory board consented to this provision of the Agreement on Basic Principles by resolution on June 27, 2016. The Company's supervisory board adopted a catalogue of consent requirements with similar thresholds as set for RWE AG.

RWE AG will not set any standards/method guidelines for investment activities of the Company. The Company has adopted the current provisions of RWE AG's investment guidelines and valuation manual. The Company is free to amend these provisions at any time.

#### 15.17.2.13 *Risk Management*

There will be no risk management by RWE AG for the Company beyond what is required by law. The Company will keep its Supervisory Board fully informed about the risk management framework and risk strategy. The same applies to commodity risks and risks related to the German Act on Corporate Control and Transparency ("**KontraG**"). As regards KontraG, the Company will report any substantial group risk with a risk of damages amounting to EUR 150 million or more (for both, regular reporting and incident-related reporting) to RWE AG.

The Company implemented risk management guidelines with principles and thresholds in line with those applied by RWE AG. The Company will regularly review and amend these guidelines at its own discretion.

#### 15.17.2.14 *Tax Governance, Cooperation Obligations, Tax Equalization*

The parties will closely cooperate in tax-related matters, in particular for tax periods with an existing tax pooling between RWE AG and the Company for corporation, municipal trade and value added tax purposes. This comprises in particular information and documentation obligations. The Agreement on Basic Principles also provides for provisions on compensation for tax (dis)advantages and damages.

#### 15.17.2.15 *EMIR and EMIR Reporting*

The Company will ensure that all financial derivatives (credit derivatives, equity derivatives, interest rate derivatives and currency derivatives) within the scope of the European Market Infrastructure Regulation (Regulation (EU) No. 648/2012 of the European Parliament and of the Council of July 4, 2012 on OTC derivatives, central counterparties and trade repositories, hereinafter “**EMIR**”) held by any Group Company will be traded solely with the Company and that any commodity derivatives within the scope of EMIR will be traded solely with RWEST. This does not apply where the Group Company in question obtained the approval of the Company’s CFO in advance. The Company will ensure that Group subsidiaries acting in deviation from the above will comply with the EMIR requirements as a matter of their own responsibility.

The Company will ensure that the Group subsidiaries holding non-hedge derivatives will report any non-hedge items resulting from commodities to RWEST for the central threshold calculation. The reporting interval will be determined by RWEST. The parties agree that non-hedge items of the Company and of all Group subsidiaries shall altogether not exceed an amount of EUR 100 million. The Company will promptly report any non-hedge items resulting from finance derivatives held by the Company or any Group Company to RWEST.

The Company will adopt guidelines for the Group in order to ensure the implementation of the foregoing by all Group subsidiaries.

#### 15.17.2.16 *Rating*

The parties will closely cooperate in all rating-related matters. This applies in particular to the selection of rating agencies, coordination of rating goals and consistent communication (“speaking with one voice”).

The Company took the larger portion of the capital market debt and will, as an issuer on the capital market, cover its financial needs on its own. Therefore, for the entire Former RWE Group including the innogy Group, it is of great importance that the Company will receive and keep a solid investment grade rating in order to master the major refinancing challenges within the next years. The parties will coordinate and implement together all necessary steps, in particular to achieve a standalone rating for the Company, if useful.

#### 15.17.2.17 *Banks and Finance*

The Company will make best efforts to receive separate credit facilities as soon as possible. As long as RWE AG and the Company are regarded as one debtor by banks, the parties will coordinate their bank policies. This does not apply to typical project financing for investment projects.

#### 15.17.2.18 *Permeability for Employees*

The parties agree that employees of the Company and of RWE AG shall generally have the opportunity to change their respective employer from the Company to RWE AG and *vice versa*. Therefore, the parties will publish all vacancies on the respective vacancy homepage.

#### 15.17.2.19 *Collective bargaining agreement on the socially acceptable accompaniment of staff adjustment measures*

The parties will ensure that the obligations under the collective bargaining agreement on the socially acceptable accompaniment of staff adjustment measures (*Tarifvertrag zur Begleitung von Personalanpassungsmaßnahmen*) as of December 16, 2014 will be complied with and that

both parties will apply the agreed regulations and processes in an optimal way. In addition, both parties aim at an optimal common and cross-company utilization of the additional services provided by Switch GmbH ("**SWITCH**").

The central SWITCH Job Platform was launched in April 2015. It is a business unit with a group-wide focus that manages the far-reaching restructuring of the workforce that has been caused by the energy transition. SWITCH offers an overview of vacant jobs within the Group, supports recruitment to posts from the vacancy notice to the appointment, helps employees to recalibrate their career, achieve further qualifications and mediates new jobs for them as necessary. SWITCH is also building up its own employee base which can be booked for projects in other areas over a limited period of time.

#### 15.17.2.20 *Group Shop Agreement "Group Change Guidelines" (Konzernwechselrichtlinie)*

RWE AG and the Company will amend the group shop agreement "Group Change Guidelines" (*Konzernbetriebsvereinbarung*) only after consultation with the respective other party. Both parties will bring any amendments to these guidelines into force equally for any Group subsidiaries and for any RWE AG Subsidiaries, respectively.

#### 15.17.2.21 *Governance Pensions*

In order to ensure a consistent approach as regards pensions in the RWE Group and the Group, the parties will install two separate committees, the first one consisting of at least the two labor directors, the heads of Center of Expertise (CoE) Labor Law, the heads of CoE pensions and the heads tariff/group workers ("**Pension Committee**"), the second one consisting, in addition, of employee representatives ("**Extended Pension Committee**"). The Pension Committee deals with information about amendments to pension schemes and current litigation and any need for amendments to existing rules or for new rules. For these topics, a common understanding of the parties shall be reached and the provisions will be drafted identically for both groups. In the Extended Pension Committee, future amendments to shop agreements and new shop agreements will be pre-agreed. The relevant amendments will, again, be implemented for both groups identically. The Pension Committee will meet at least once a year; the Extended Pension Committee will meet if there is need for amendments of the relevant rules.

#### 15.17.2.22 *General Information and Cooperation Obligations*

For the sake of the overall RWE group interest, to the extent legally permitted, the parties will support each other and, in particular, inform the other party of any facts and circumstances that are identifiably of substantial interest for such other party unless there is an overriding contradicting interest. This applies in particular to the provision of all documents and information required or useful in order to fulfill any legal, contractual, tax-related or other administrative obligations. In addition, the parties will support each other in the context of M&A transactions and, in particular, provide each other with all relevant documents and information required or useful in order to preserve their respective interests towards courts, authorities, contractual counterparties or third parties. The parties will keep any information about the respective other party and its subsidiaries confidential.

#### 15.17.2.23 *Term and Termination*

The term of the Agreement on Basic Principles begins as of the termination of the domination agreement and ends on December 31 of the year in which RWE AG's shareholding in the Company falls below 50% of the voting rights. When terminated, any reporting and cooperation obligations will remain in place for the then current business year. In deviation from the above, where a clause of the Agreement on Basic Principles refers to specific obligations under, in particular, agreements with third parties or antitrust conditions, the term for this clause equals the term of the underlying obligation. For the tax-related obligations, a term of six months from the legally binding termination of the respective judicial or administrative proceedings applies. Certain other provisions under the Agreement on Basic

Principles (Accounting Principles and Consolidation System, Reporting Process, Corporate Social Responsibility, Rating and group shop agreement “Group Change Guidelines”) will be effective as long as the Company remains a fully consolidated subsidiary of RWE AG.

#### 15.17.2.24 *Assertion/Enforcement of claims*

The Agreement on Basic Principles does not create any rights for any third parties other than the parties.

#### 15.17.2.25 *Escalation and Dispute Settlement Mechanism*

The parties will aim to resolve any conflicts in connection with the Agreement on Basic Principles amicably. Any conflicts are to be resolved at the level of the relevant organizational unit and department as well as at the level of any committees as provided for in the Agreement on Basic Principles, in the first instance.

If a conflict cannot be solved at the level of the relevant organizational unit within one month, every party is entitled to invoke the steering committee by sending an application to the respective other party setting out the current status of the conflict in reasonable detail. Such application results in a suspension of limitation of claims. The Steering Committee consists of the CEOs of RWE AG and the Company and one additional board member per party. The members have to be designated within one week of receipt of the application. Decisions of the Steering Committee will be made unanimously, with the Company and RWE AG having one vote each.

If a solution cannot be reached, any party is entitled to commence mediation proceedings under the lead of the RWE AG’s and the Company’s chairman or chairmen of the Supervisory Board.

Decisions of the Steering Committee and amicable agreements in the course of the mediation proceedings are binding for the parties and will be implemented by the parties without undue delay.

### 15.17.3 **Electricity and Gas Supply Agreements**

#### 15.17.3.1 *Wholesale Interface Agreement*

The Company, RWEST and others entered into a wholesale interface agreement (“WIA”) in order to specify the future roles and responsibilities for both parties in respect of access to the international wholesale markets for commodities.

Prior to the separation of the innogy Group from the Former RWE Group, in general RWEST was the sole interface between the Former RWE Group’s operating companies and the global wholesale markets for energy and energy-related raw materials and commodities. The WIA stipulates that RWEST remains for the time being, at arm’s length conditions, the sole and single interface between the innogy Group on the one hand, and all national or global wholesale markets for energy and energy-related raw materials and commodities on the other hand, and as such, RWEST is part of the innogy Group’s route-to-market. Further, RWEST remains for the time being the sole and single hub between the innogy Group and RWE Group for all tradable commodities, in both their physical and/or derivative forms. For the term of the WIA, the companies of the innogy Group shall therefore exclusively buy and/or sell solely via RWEST any and all volumes of any commodity as defined in individual route-to-market agreements for their demand and/or production or the demand of any third party. Hereby, the innogy Group shall benefit from the wholesale market experience of RWEST, thereby also granting the innogy Group sufficient time to potentially develop and set-up its own organization for an independent direct wholesale market access, in case the innogy Group chooses to terminate the trading relationship with RWEST and establish its own route-to-market.

Limited exceptions to the exclusivity under the WIA will apply under certain route-to-market agreements to the extent agreed prior to the Offering, for example, for the Group’s renewables business or in cases where the Group had already established direct wholesale market access.

Prior to the Offering, all existing or newly concluded route-to-market agreements in connection with the WIA between companies of the RWE Group and the innogy Group were revised to the extent required to fully reflect arm's length conditions.

For a transitional period ending on December 31, 2018, the innogy Group's obligation to provide collateral to RWEST for its obligations and vice versa under the WIA is, subject to defined exceptions, generally suspended.

The WIA remains in force indefinitely, unless and until terminated by either party on giving not less than two years prior written notice to the other party, such notice to have effect on December 31 in any calendar year, with the earliest termination date being December 31, 2018.

#### 15.17.3.2 *Gas Interface Transfer Agreements*

Several companies of the innogy Group entered into gas interface transfer agreements ("**GITAs**") with the Group's main route-to-market counterparty RWE Supply and Trading, either directly through RWEST or via its Czech subsidiary RWEST CZ.

The GITAs govern the principles for the procurement of natural gas based on a wholesale pricing benchmark. They do not constitute a gas sales agreement, but are framework agreements for transactions concerning the processes and principles of the sale and purchase of natural gas. Any transaction entered into between the parties to a GITA will form an individual contract, and, in addition to the provisions of the respective GITA, will also be subject to the respective provisions of the underlying EFET General Agreement (see "*15.17.3.3 EFET General Agreements for Electricity*" below) or ISDA Master Agreement (e.g., in case of derivatives), unless there is a provision in the GITA that explicitly prevails.

#### 15.17.3.3 *EFET General Agreements for Electricity and Gas*

The EFET General Agreement is accepted and established in the energy sector as a framework standard for energy transactions across Continental Europe. Developed by the European Federation of Energy Traders (EFET), in particular for the delivery of either electricity or natural gas, these agreements provide a General Agreement and an Election Sheet for agreed revisions to the General Agreement. Trading contracts under the EFET define electricity and/or gas trading rules and the parties' general, essential rights and obligations for the delivery of electricity and/or gas. The price and quantity of the specific transactions are specified for each individual trade and documented by means of confirmations. In the Election Sheet, a termination date for an EFET contract can be specified. However, the more common case is that there is no defined termination date and the contract can be terminated by either party with 30 days' notice.

For electricity, the innogy Group has concluded several EFET contracts with its main route-to-market counterparty RWEST for their retail and renewables business in various countries. Within innogy's retail business, this includes Germany, the Netherlands and Belgium, the United Kingdom and the East region, and within innogy's renewables business, Germany, the United Kingdom and the Netherlands.

The innogy Group and RWEST have also entered into several EFET contracts for gas (as well as other tradable products such as CO<sub>2</sub> emission rights) for several different European markets.

#### 15.17.3.4 *Parent Company Guarantees for Certain Group Companies*

The Company has issued parent company guarantees for obligations of members of the innogy Group having their registered seat outside Germany in connection with commodity transactions of such Group companies with RWEST. This includes, for example, transactions entered into under the WIA.

## 16 REGULATORY ENVIRONMENT

Our business and operations in Germany and elsewhere in the world are subject to extensive regulation under various laws and other rules and regulations, which are subject to frequent, sometimes unpredictable, changes, and supervised by the relevant authorities in each of the jurisdictions where we conduct our business. This is especially relevant for our grid operations as part of our Grid & Infrastructure Segment and generation activities from renewable energy sources (“RES”), which are bundled in our Renewables Segment. Both are subject to specific licensing requirements as well as operative regulation. Our business operated through our Retail Segment is also regulated. In addition, general areas of public law form parts of our regulatory environment, such as data protection law and environmental regulation. Furthermore, the relationships with our customers are mainly governed by private law in each jurisdiction in which we operate. The sources of law applicable to our business operations comprise national as well as European legislation. A high degree of energy regulation is common in all EU Member States. The following provides a brief overview of selected regulations that are applicable to our business operations.

### 16.1 Energy Regulation on EU Level

Since the late 1990s, the energy sector has been subject to constantly increasing regulation. This development was initiated at EU level with a regulatory focus on the grid monopolies. The aim was to liberalize the (upstream) energy production market and (downstream) energy supply market and facilitate cross-border market integration. Prior to this EU-wide liberalization, vertically integrated energy utilities dominated the entire value chain from production to distribution and sales of energy in many energy markets in EU Member States. The latest major package of legislation on the internal energy markets (“**EU Third Package**”) included, *inter alia*, the revised Directive 2009/72/EC of the European Parliament and of the Council of July 13, 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC as well as the Directive 2009/73/EC of the European Parliament and of the Council of July 13, 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC. This package mainly focused on stricter unbundling regulations, in particular at the TSO level, strengthening the independence of regulators and establishing the Agency for the Cooperation of Energy Regulators (“**ACER**”). The provisions of the package cover cross-border cooperation between TSOs, the creation of European Networks for TSOs and increasing transparency in retail markets to benefit consumers. They also require Member States, subject to an economic assessment, to ensure the implementation of intelligent metering systems assisting consumers in their active participation in the electricity supply market. The rollout of smart meters was again addressed by Directive 2012/27/EU of the European Parliament and of the Council of October 25, 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (“**Energy Efficiency Directive**”). Under the Energy Efficiency Directive, in so far as it is technically possible, financially reasonable and proportionate in relation to the potential energy savings, Member States shall ensure that end customers are provided with competitively priced individual meters that accurately reflect the end customer’s actual energy consumption and that provide information on actual time of use. The Energy Efficiency Directive also establishes a set of binding measures to help the EU to reach its 20% energy efficiency target until 2020 by using energy more efficiently at all stages of the energy chain from production to final consumption. A further package of legislative initiatives is expected to be presented by the European Commission at the end of 2016. This package will probably focus on retail markets and distribution system operation. However, no reliable details of any such proposal have become known thus far.

As demonstrated by the German phase out of nuclear energy and the shift towards renewable energy sources (the so-called energy transition, *Energiewende*), the legal framework applicable to our businesses is strongly influenced by (sometimes unpredictable) changes in energy policy both at national and European level. Comprehensive reforms of the energy sector are currently

on the agendas of many European countries and the EU. The long-term aim of EU energy policy is to create an energy union focusing on security of energy supply by diversification of energy sources, a fully integrated internal energy market, energy efficiency, emission reduction and low-carbon technologies.

The promotion of electricity production from RES goes hand in hand with this global trend to reduce the effects of greenhouse gas emissions on climate change. To this end, the EU has set European as well as national renewable energy targets regarding the overall national energy consumption in the Directive 2009/28/EC of the European Parliament and of the Council of April 23, 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC (Renewables Directive), which is currently undergoing revision. It requires the EU to source at least 20% of its total energy need from RES by 2020. This aim shall be achieved through individual national targets ranging between 10 and 49% of the overall national energy consumption depending on the national RES starting point and RES potential. For 2030 an EU-wide RES target of at least 27% has been agreed on by the European Council in October 2014.

More recently, the European Commission has started to assess national support mechanisms of energy generation from RES in light of EU state aid regulations and its new Guidelines on State Aid for Environmental Protection and Energy 2014-2020 ("**EU State Aid Guidelines**"). These EU State Aid Guidelines shall support Member States in reaching their 2020 climate targets, while addressing the market distortions that may result from the promotion of RES. To this end, the guidelines promote a gradual move from feed-in tariffs to market-based support for new RES installations, e.g., premiums to market prices or tender procedures. Furthermore, the EU State Aid Guidelines include new provisions on state aid to energy infrastructure and generation capacity to strengthen the internal energy market and ensure security of supply. State aid schemes will be authorized in the future for a maximum of ten years and will have to be re-notified if prolonged. In a recent decision, the European General Court affirmed a decision of the European Commission holding that German RES feed-in tariffs and market premiums applicable from 2012 to 2014 – although eventually compatible with the internal market – in principle constituted state aid. Accordingly, any future promotion scheme for RES must be notified to the European Commission and is subject to an assessment regarding compatibility of the support scheme with the internal market principles. Furthermore, Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of October 25, 2011 on wholesale energy market integrity and transparency (REMIT), mainly prohibits insider trading and market manipulation, obligates market participants to register with their competent national regulatory authority and to report wholesale energy market transactions as well as to publish insider information. ACER is authorized to implement REMIT, in particular to monitor the market and collect transaction reports.

## **16.2 German Energy Regulation**

### **16.2.1 Legal Framework – Overview**

In Germany, the structure and business of our grid operations in our Grid & Infrastructure Segment and generation activities from RES in our Renewables Segment are subject to stringent regulation. This includes permit requirements for our installations as well as regulations regarding our operative business. Essential legal requirements forming the framework for our business activities, such as requirements regarding the separation of our grid operations from other activities, the principle of non-discriminatory grid access and basic principles for the grid tariff calculation, are set out in the Energy Industry Act (*Energiewirtschaftsgesetz*, "**EnWG**"). Details regarding access to our grids, such as contracting and cooperation obligations, are regulated in the Ordinance on Access to the Electricity Supply Grid (*Stromnetzzugangsverordnung*) as well as the Ordinance on Access to the Gas Supply Grid (*Gasnetzzugangsverordnung*). Specifics regarding the determination of our revenue caps, e.g., cost calculation principles and the regulation formula, are set out in the Ordinance on

Electricity Grid Tariffs (*Stromnetzentgeltverordnung*, "**StromNEV**"), the Ordinance on Gas Grid Tariffs (*Gasnetzentgeltverordnung*, "**GasNEV**") and the Ordinance on Incentive Regulation (*Anreizregulierungsverordnung*, "**ARegV**"). In addition, the Federal Network Agency (*Bundesnetzagentur*, "**BNetzA**") has specified details of statutory obligations by issuing binding determinations. The promotion of electricity generation from renewable energy sources is primarily subject to the Renewable Energy Act (*Erneuerbare-Energien-Gesetz*, "**EEG**"). In addition, the Federal Emissions Protection Act (*Bundes-Immissionsschutzgesetz*, "**BImSchG**"), the Federal Building Code (*Baugesetzbuch*), the Building Regulations of the Federal States as well as the Federal Nature Conservation Act (*Bundesnaturschutzgesetz*) and the Federal Water Act (*Wasserhaushaltsgesetz*) *inter alia* contain legal requirements for construction and operation of renewable energy installations as well as grid assets.

This regulatory framework, in particular regarding our operative business, is subject to frequent change and continuous development. One of the issues currently being debated is how to ensure a secure, cost-effective and environmentally friendly electricity supply in view of the increasing volume of fluctuating electricity feed-ins, the retraction from conventional power plants, the integration of actively participating consumers and new loads in the future. To this end, the German government decided to further develop the existing energy-only market to the so-called electricity market 2.0 (*Strommarkt 2.0*). This concept aims at a more efficient integration of electricity production from RES and generally free pricing for electricity while providing for a capacity reserve (*Kapazitätsreserve*) from conventional power plants only to ensure security of electricity supply in case of unpredicted extreme market situations. To this effect, the German legislator has recently passed the Electricity Market Act (*Strommarktgesetz*, "**StrommarktG**") and the Ordinance on Capacity Reserve (*Kapazitätsreserveverordnung*). Moreover, the incentive-based regulation system provided for in the ARegV, which is essential for the determination of the revenue caps for us as distribution system operators has been amended by the German government. The Federal Council (*Bundesrat*) in principle consented to the amendment but proposed certain changes which were accepted by the government on August 3, 2016. Although the new regime came directly into force after its publication in the Federal Law Gazette (*Bundesgesetzblatt*) on September 16, 2016, most material changes will only take effect for the third regulatory periods starting in 2018 for gas and in 2019 for electricity grids. The changes to the regulatory framework will affect DSOs in particular (see "**16.2.2.1.1 Incentive Regulation**"). Additional reform efforts are focused on the further integration of electricity production from RES into the overall electricity market. To this end, the German legislator recently passed an adaption of the current EEG which will come into force on January 1, 2017 (see "**16.2.4.1 Promotion of RES Installations**").

## **16.2.2 Grid Operations**

### **16.2.2.1 Regulation of Grid Operations**

Regarding the operations of our electricity and gas grids, German energy regulation primarily focuses on these grids constituting "natural" monopolies. Since both the energy production market as well as the energy retail market depend on energy infrastructure and since it would not be economically reasonable to duplicate this infrastructure, regulating the electricity and gas grids is the only option available to compensate the lack of competition in the grid segment and enable competition in the upstream and downstream markets. To this end, German law provides for three main regulatory instruments: the grid revenue regulation, the separation of grid operations from production and supply activities (unbundling) and the general obligation to grant non-discriminatory access to all grid customers. In addition, construction and operating permits as well as concession agreements are required for the supply of energy to end customers.

#### **16.2.2.1.1 Incentive Regulation**

From an economic point of view, the (indirect) regulation of our grid tariffs, which we charge to our grid customers for access to our distribution grids, through the determination of revenue

caps is the most important element of grid related regulation. Until December 31, 2008, grid tariffs were as such subject to *ex ante* cost-oriented regulation. The determination of tariffs was based on a cost-plus approach. According to this principle, grid tariffs were approved only if they did not exceed the admissible costs of an efficient grid operation, plus an imputed return on equity capital. As of January 1, 2009, this regulation of the grid tariffs was replaced by incentive regulation. The general aim of this incentive regulation regime is to eliminate inefficient grid costs on the one hand and to provide grid operators with sufficient revenues in order to enable necessary investments for replacements and expansions of grid systems on the other. The latter aspect has become increasingly important for DSOs in recent years and will gain further importance because of the constantly growing feed-in of electricity from RES installations at the DSO level, the integration of actively participating consumers and new loads in the future. In 2016 around 98% of all RES generation installations were connected to distribution grids. This percentage will continue to be very high with the envisaged extension of RES installations in the course of the German energy transition. One aim of the current revision of the incentive regulation regime is to allow for instant refinancing of investments (capital cost true-up mechanism). Although this new regime came directly into force after its publication in the Federal Law Gazette (*Bundesgesetzblatt*) on September 16, 2016, most material changes for DSOs will only take effect for the third regulatory periods starting in 2018 for gas grids and in 2019 for electricity grids.

#### *Incentive Regulation for the Current Second Regulatory Period*

Under the incentive regulation regime the BNetzA or – where less than 100,000 customers are connected to a grid limited to one Federal State – the regulatory authority of that Federal State generally determines a revenue cap (*Erlösbergrenze*) for each year of a regulatory period. Subsequently, the grid operators transpose these revenue caps into grid tariffs charged to the grid customers in such manner that the allowed revenues under the revenue caps are not exceeded. Accordingly, incentive regulation constitutes the economic basis for grid operations. The (current) second five-year regulatory period for electricity DSOs began on January 1, 2014, and will run until the end of 2018. The second regulatory period for gas DSOs began on January 1, 2013, and will run until the end of 2017. For the next (third) regulatory periods, the yearly revenue caps will be based on cost base levels for the years 2016 (electricity) and 2015 (gas), so that the level of approved grid costs in the last and the current year are and will be important for the determination of the revenue caps.

The yearly revenue caps for the second regulatory period for electricity and gas are based on a DSO's base level of costs and its efficiency value as well as annual corrections for inflation, based on changes in the consumer price index ("*CPI*"), grid expansion and the development of non-controllable costs. The base level of costs is calculated pursuant to principles of a cost category accounting scheme (*Kostenartenrechnung*). Therefore, cost calculation principles of the StromNEV and GasNEV are still most significant under the incentive regulation despite the abolishment of cost-oriented network tariff approvals. The relevant grid costs include expense equivalent costs (*aufwandsgleiche Kosten*) comprising costs of debt (*Fremdkapitalkosten*) as well as imputed costs (*kalkulatorische Kosten*), i.e., imputed depreciation (*kalkulatorische Abschreibungen*), imputed return on equity (*kalkulatorische Eigenkapitalverzinsung*) and imputed trade taxes (*kalkulatorische Steuern*). The cost assessment may include a partial benchmarking.

Base level costs are divided into permanently non-controllable costs (*dauerhaft nicht beeinflussbare Kosten*) and generally controllable costs which consist of efficient controllable costs (*vorübergehend nicht beeinflussbare Kosten*) and inefficient controllable costs (*beeinflussbare Kosten*). The DSO's efficiency value (ranging between 60% and 100% of the most efficient comparable grid operator) is applied to its generally controllable costs to distinguish between efficient controllable costs and inefficient controllable costs. The efficiency value is based on a benchmark of all grid operators in regular procedure performed during the last year of the preceding regulatory period. During the first and second regulatory period,

mandatory parameters (*Pflichtparameter*) had to be used for such benchmarking, including, for example, the line length of electricity grids or the number of entry and exit points of gas grids. Subsequently, the parameter values are assessed on the basis of two parametric and two non-parametric analytic schemes, resulting in different efficiency rates, the most favorable of which must be applied to the respective grid operator (best-of-four approach). A grid operator with an efficiency value below 100% cannot fully recover controllable costs and must reduce the revenue cap on a *pro rata* basis until the end of the applicable regulatory period. In addition, generally controllable costs are adjusted for inflation by the CPI and reduced by an adjusted sectoral productivity factor of 1.5% per year for the second regulatory period. Since efficient controllable costs are determined on the basis of the costs incurred in a particular base year, there is no exact reimbursement for all actual costs in any given year of the relevant regulatory period. Grid operators that become more efficient during the regulatory period, e.g., by reducing their costs below the approved grid costs may also increase their profits. However, during the next regulatory period, the benefit resulting from any such improvement in efficiency must be passed on to the customers through a decrease in grid tariffs.

Permanently non-controllable costs, such as grid tariffs charged by the transmission system operators, are fully recognized under the revenue cap and are neither subject to individual efficiency targets (*individuelle Effizienzvorgabe*), nor the sectoral productivity factor or inflation. The revenue cap can be adjusted during a regulatory period for any change in permanently non-controllable costs, either instantly (e.g., for investment measures), or with a delay of two years (e.g., for non-wage labor costs). Generally controllable costs are also adjusted by an expansion factor (*Erweiterungsfaktor*), which covers the sustainable expansion of the grid within a regulatory period to consider increasing grid tasks. The ARegV also incentivizes an optimal quality of supply (*Versorgungsqualität*). Changes in the quality of supply influence, via a quality element, the revenue cap. The objective is to achieve an optimal quality of supply that balances the cost of ensuring quality and the benefits to grid users.

Further key drivers for the determination of the revenue caps are BNetzA's determinations of the interest rates providing for the imputed return on equity within the cost base level. For the current regulatory period, the BNetzA fixed the rate of return on the equity portion (based on an "imputed equity ratio" capped at a maximum of 40%) of so-called "old assets" (activation prior to January 1, 2006) to 7.14% (without inflation) before corporate tax, after trade tax, whereas the rate of return on equity for "new assets" (activation on or after January 1, 2006) is 9.05% (including inflation) before corporate tax, after trade tax. Different interest rates are necessary because of two different calculation schemes. "Old assets" are subject to current cost accounting while new assets are subject to historical cost accounting. As far as the equity capital base exceeds 40% of the total asset base (so-called imputed excess equity), the exceeding part is subject to a return based on an average value derived from three types of current yields (*Umlaufrenditen*) published by the German Bundesbank.

As an alternative to the standard procedure for the determination of the revenue cap described above, electricity grid operators with less than 30,000 customers and gas grid operators with less than 15,000 customers may opt for a simplified procedure. The main differences in this simplified procedure are that no expansion factor is applied, no investment measures are accounted for and an individual efficiency benchmarking is not performed. Rather, regulatory efficiency is fixed to a weighted average of efficiencies of grid operators analyzed in the last regulatory period. For the second regulatory period efficiency was fixed at around 96% for electricity grids and around 90% for gas grids. Our electricity DSO VSE Verteilnetz is subject to the simplified procedure.

Yearly adjustments of the revenue cap are an important part of the system. Developments regarding the general economy are accounted for through CPI and sectoral productivity factor (Xgen), regarding grid tasks through investment measures, expansion factor and volatile costs and regarding quality and efficiency of a DSO's grids through the reduction of inefficient controllable costs and the quality element. Quantitative changes resulting in lower or higher

revenues than the revenue cap are reflected in the so-called regulatory account (*Regulierungskonto*). The same applies, for example, to differences between expected and actual upstream grid costs, subsidies to decentralized generation or costs of investment measures. Any balance of the regulatory account will be added to or subtracted from the revenue cap for the following regulatory period *pro rata temporis*. If the actual revenues exceed the expected revenues by more than 5%, the grid system operator has to reduce its grid tariffs with a two-year delay. Other unexpected expenses, including investments not qualifying as investment measures, for example repair costs, may only be considered for the following regulatory period and, thus, with a time lag of up to seven years. Accordingly, such unexpected expenses negatively affect a grid operator's profit during the regulatory period in which they occur.

#### *Material Changes to Incentive Regulation for the Third Regulatory Periods*

For the next (third) regulatory periods, the yearly revenue caps will be based on cost base levels for the years 2016 (electricity) and 2015 (gas), so the level of approved grid costs in the past and the current year are and will be important for the determination of the revenue caps. It is envisaged that the revenue caps for grid tariffs will be fixed in 2017 and 2018, respectively. Some determinations by the BNetzA, which are relevant for the revenue caps for the third regulatory period, have not yet been adopted. However, it is already foreseeable that the BNetzA will in part deviate from currently applicable determinations. Regarding the imputed return on equity, the BNetzA proposed lower interest rates for the third regulatory period in a draft determination. As a reason, the BNetzA referred to the current methodology as approved by the Federal Supreme Court and the base interest rate derived from a ten-year average on mostly risk-free interest rates, which have generally declined in recent years. According to the draft determination, which is now subject to public consultation, the proposed interest rate for "new assets" shall amount to 6.91% and for "old assets" to 5.12%. A final determination of the BNetzA is expected within the next weeks. We expect that the BNetzA will determine imputed interest rates at levels around those previously proposed. However, it is possible that the final determination of the imputed interest rates will result in rates that are lower than those previously proposed by the BNetzA. In addition, mandatory parameters (*Pflichtparameter*) will no longer be considered in the efficiency benchmarking process for the revenue caps in the third regulatory period. Rather, BNetzA will be responsible to determine all relevant parameters itself. The same applies to the sectoral productivity factor (Xgen), which has previously been stipulated in the ARegV and, as of the third regulatory period, will be determined by BNetzA. As a consequence, the current statutory productivity factor of 1.5% per year will no longer apply.

In addition, the German government has proposed certain amendments of the incentive-based regulation system. An amendment of the ARegV was adopted on June 1, 2016 and approved by the Federal Council (*Bundesrat*) on July 8, 2016 (the "**Amended ARegV**"). The final changes that were made by the Federal Council were accepted by the government on August 3, 2016.

The new regime came directly into force after its publication in the Federal Law Gazette (*Bundesgesetzblatt*) on September 16, 2016. However, most material changes for DSOs will only take effect for the third regulatory periods starting in 2018 for gas grids and in 2019 for electricity grids. Some of these changes will have a general effect for all grid operators and some of which will particularly apply to DSOs. The main purpose of the amendment is to improve investment conditions for DSOs for new investments and encourage a cost-effective optimization of distribution grids for the implementation of the German energy transition. Whereas the regulatory period will continue to last five years, the main changes of the Amended ARegV include the following: Further incentives for efficiency efforts will be generated by the opportunity to benefit from super-efficiencies in the benchmarking results that may now exceed 100% (efficiency bonus). For DSOs, as of the third regulatory period, the Amended ARegV also introduces immediate recognition of capital costs for infrastructure investments. In this respect, increases in capital expenditure for replacement, restructuring or expansion investments will be reflected in the revenue caps without time delay and in their

actual amount (so called capital expenditure mark up (*Kapitalkostenaufschlag*)). In return, for DSOs the expansion factor and the regime of investment measures will no longer apply. At the same time, capital costs of installations which are already part of the cost base level will be reduced annually (so called capital cost deduction (*Kapitalkostenabzug*)). The current cost base effect (*Sockeleffekt*) for investments which are already part of the cost base level (*Kostenbasis*) will be eliminated. However, with respect to investments made between 2007 and 2016 this will only apply as of the fourth regulatory period. The DSOs belonging to our Group will be affected by this immediate recognition of increases and reductions in capital costs in different ways depending on their investment behavior in the past and in the future. Furthermore, the Amended ARegV introduces recognition of non-wage labor costs (*Personalzusatzkosten*) as non-controllable costs applicable to all agreements concluded prior to December 31, 2016 (instead of December 31, 2008). In addition, the catalogue of permanently non-controllable costs has been extended by a cost position reflecting costs for DSO congestion management under the EEG. Regarding the regulatory account, the responsibility to balance the account will be transferred from the regulatory authorities to the DSOs and will be balanced continuously over the next three calendar years. With regard to the simplified procedure for small-sized DSOs, the threshold to apply for such procedure remains unchanged but the current 45% lump sum for permanently non-controllable costs will be reduced to 5% not including the cost of higher voltage levels and the subsidies for decentralized generation; therefore, an individual assessment of these additional permanently non-controllable costs will be necessary.

#### *Further Possible Revision Resulting from EU Infringement Proceeding*

Regarding the implementation of the EU Third Package in Germany, the European Commission has initiated infringement proceedings, which have entered the second of three stages with a reasoned opinion sent to the German government on April 28, 2016 requesting a correct implementation of the EU Third Package. Although these proceedings mainly concern the implementation of unbundling requirements at the TSO level, the European Commission also criticized the lack of independence of the German regulator. In the European Commission's view, the German transposition of the EU Third Package does not *inter alia* ensure full respect of some rules concerning the powers of the national regulatory authority, because, for example, the German regulator does not enjoy full discretion in determining grid tariffs and other terms and conditions for access to networks and balancing services. The Vice President of BNetzA recently raised concerns that the infringement proceedings may result in a movement away from the German legislative approach to a more executive based grid regulation.

##### 16.2.2.1.2 Grid Tariffs

On the basis of the revenue caps determined by the regulatory authorities, our DSOs must determine grid tariffs in accordance with statutory requirements. The permitted revenues must be allocated to certain cost centers (*Kostenstellen*) and are subsequently calculated in accordance with the cost unit accounting (*Kostenträgerrechnung*). To the extent practically possible, the costs-by-cause principle (*Verursachungsgerechtigkeit*) must be applied in this process. Whereas only one tariff applies for the electricity and gas distribution grids, *i.e.*, for the take-off of electricity or gas, gas transmission grid operators have to calculate separate entry and exit tariffs. The transposition into grid tariffs has to take into account a prognosis for the behavior of the grid customers and downstream grid operators, which shall allow our DSOs to effectively achieve their revenue caps. Quantitative changes resulting in lower or higher revenues than determined in the yearly revenue cap are reflected in the regulatory account.

##### 16.2.2.1.3 Unbundling Requirements

The unbundling provisions of the EnWG require all electricity and gas grid operators to be separate from other business operations of a vertically integrated energy utility. At DSO level, the electricity and gas grids need to be operated through legally separate entities (legal unbundling). In addition, organizational measures must guarantee the independence of the decision-makers responsible for the operation of the network. To that effect, the network

operator must be operationally independent with a minimum number of own staff (operational unbundling). Exceptions from the requirements of legal and operational unbundling apply to grids with less than 100,000 connected customers. However, all grid operators must keep economically sensitive information that is obtained in the exercise of the business as grid operator strictly confidential and, at the same time, guarantee the non-discriminatory disclosure of grid related information that could provide economic benefits (information unbundling). Finally, internal accounting as well as financial reporting must be separated from other business operations of a vertically integrated energy utility (unbundling of accounts), which means that grid operators, *inter alia*, have to publish separate audited financial statements. To assure the non-discriminatory execution of the grid operations, vertically integrated energy utilities are also obliged to establish a so-called compliance program (*Gleichbehandlungsprogramm*), which is monitored by a so-called compliance officer (*Gleichbehandlungsbeauftragter*), who reports to the regulatory authority on an annual basis.

#### 16.2.2.1.4 Grid Access and Grid Expansion

In general, grid operators must grant access to their grid to any third party on an economically reasonable, non-discriminatory and transparent basis. They are required to publish on the internet the relevant conditions, a standard form agreement, and the tariffs for access to their grid. Grid operators may only refuse access to their grid if they can prove that granting access is impossible or unreasonable (*unzumutbar*) for operational or other reasons.

In addition, grid operators are under a statutory obligation to operate a safe, reliable and efficient energy supply network. They must maintain and develop the grid, meeting the demand (*bedarfsgerechter Ausbau*) to the extent that this is economically reasonable. This obligation has become more important at the DSO level in light of the increasing RES share in the electricity production, because RES installations mainly feed-in electricity into the distribution grid as opposed to conventional power plants, which are traditionally connected to the transmission grids. This development has made grid installation and operation more complex and costly. In order to adapt to the increasing load flow (*Lastfluss*) from RES and to flexibly handle fluctuations between peak and low loads from such feed-in, we have developed and will continue to further develop our electricity distribution grids.

#### 16.2.2.1.5 Permit Requirements for Grid Systems

Our distribution grids require construction permits. For large-scale energy infrastructure a spatial planning procedure (*Raumordnungsverfahren*), in certain cases involving an environmental impact assessment ("*EIA*") is required in order to assess and coordinate effects of the project on an inter-regional level. As a result, the spatial planning procedure determines a route corridor for the subsequent approval procedure (*Zulassungsverfahren*) or planning approval procedure (*Planfeststellungsverfahren*) determining the precise location for the energy infrastructure. These comprehensive procedures are long-lasting and include the involvement of numerous authorities, organizations and the general public. Since 2001, high voltage overhead lines with a nominal voltage of 110kV or more as well as gas pipelines with a diameter of more than 300 mm require a planning approval procedure designed to assess all material aspects of a construction project in a comprehensive approval procedure, including compliance with noise emissions, in particular regarding so-called corona discharge, under BImSchG in connection with the Technical Guidelines for Noise Reduction (*TA Lärm*) as well as threshold values for electromagnetic fields emanating from distribution lines under the Ordinance on Electromagnetic Fields Emissions (*Verordnung über elektromagnetische Felder*). All other energy infrastructure projects have to obtain separately all required permits as the case may be, notably under Federal Planning Law and State Building Law, Emissions as well as Water Protection Law, Nature Conservation Law, Forest Law, Monument Protection Law, Roads and Air Traffic Law.

In addition, the operation of a grid system generally requires an operating permit of the competent authority of the relevant Federal State. However, this requirement was only introduced in 2005. Prior to this, the operation of distribution grids was generally not subject to approval. Only the supply of electricity and/or gas to customers required such approval and as

an integrated part also covered the operation of the grid. Under the revised EnWG, these former permits are considered fictional permits (*fingierte Genehmigung*), which allow grid operators to continue their existing operations.

#### 16.2.2.2 Concession Agreements

Insofar as grid operations serve the direct supply of energy to end customers within municipalities and cities, concession agreements must be concluded with these entities. In contrast, the use of roads outside municipalities and cities for electric lines or gas pipelines, which are not directly supplying final costumers, is subject to general public and civil law. The conclusion of concession agreements requires municipalities and cities to take procedural steps similar to public procurement. In particular, they have to publish the upcoming end of the term of concession agreements at least two years in advance in the German Federal Gazette or in the Official Journal of the EU. Recently, there has been increased litigation brought to the relevant courts by unsuccessful competitors in connection with the conclusion of new concession agreements. A draft bill is currently being deliberated in the German Parliament (*Bundestag*) which shall oblige municipalities and cities to respect the principles of transparency and non-discrimination in the process of selecting the concessionaire. At the same time, litigation by unsuccessful competitors shall be limited by contestation requirements.

In general, concession agreements require municipalities to allow the construction and operation of grids under public traffic areas (*öffentliche Verkehrsflächen*). In turn, the grid operator is obliged to pay a concession fee to the municipality, which is calculated according to the Ordinance on Concession Fees (*Konzessionsabgabenverordnung*). The agreements generally contain provisions regarding the network operator's liability for any damage that may occur on the public property as a result of the construction and operation of the supply installations.

In accordance with the statutory requirements of the EnWG, concession agreements also place an obligation on the respective grid operator to transfer its supply installations/grid to the municipality or city or even to a third party after the agreement expires, which is at least every 20 years due to statutory restrictions regarding the contractual term. Such transfer shall take place only upon payment of a commercially reasonable compensation. Regularly concession agreements refer to the grid's present asset value (*Sachzeitwert*) as the decisive parameter to determine adequate compensation. Such value is calculated based on the current replacement value (*Wiederbeschaffungswert* or *Tagesneuwert*) less deterioration (*Wertminderungen*) as regards age and condition of the respective assets. However, regardless of these contractual provisions, the German Federal Supreme Court has held that prices established in accordance with the grid's present asset value may still be unreasonable. The above-mentioned draft bill proposes to replace the calculation on the basis of the present asset value by the (in most cases) lower capitalized earnings value (*Ertragswert*). According to the draft bill, the parties to the concession agreements may nonetheless agree on a different compensation.

In addition, any transfer of grid infrastructure will require a partial transfer of our revenue cap pertaining to the transferred grid section including the allocation of cost components and revenues of the different parts of the grid. In the course of the revision of the current incentive regulation regime (see "*16.2.2.1.1 Incentive Regulation*"), an *ex officio* procedure was introduced providing for a statutory division ratio in case the parties involved have not jointly filed for an adjustment of the revenue caps within six months (unless the concerned DSO applied for a preliminary determination of the revenue cap).

#### 16.2.2.3 Smart Meter Rollout

As part of our grid operations, we are currently responsible for operating metering points (*Messstellenbetreiber*), which are required to measure the energy consumption in particular of the customers of our Retail Segment, for a metering fee (*Messentgelt*). Grid connection users (e.g., tenants) may also designate a third party to operate the metering point. The Metering

Access Ordinance (*Messzugangsverordnung*) regulates the conditions for meter operation and metering including minimum requirements for the contractual relationship between grid operators and third party meter operators where applicable.

Since controllability and transparency of energy consumption have become more important, both on a European and on a national level, the current meter stock will gradually have to be replaced by modern and smart meters in the period from 2017 to 2032, as part of the so-called "smart meter rollout". Within this timeframe, we expect to roll out approximately 6 million modern meters without remote communication ("mME") and approximately 1.4 million smart meters with remote communication ("iMSys"). The German legislator recently enacted a new Metering Points Operation Act (*Messstellenbetriebsgesetz*) as part of the Act on the Digitalization of the Energy Transition (*Gesetz zur Digitalisierung der Energiewende*). The act regulates, in particular, the gradual installation of smart meters, technical requirements regarding data protection and data access rights.

### 16.2.3 Gas Storage Operations

Constructing and operating our cavern gas storages is subject to various permits and authorizations under the Federal Mining Act (*Bundesberggesetz*), including long term framework operating plans (*Rahmenbetriebspläne*), main operating plans (*Hauptbetriebspläne*) and special operating plans (*Sonderbetriebspläne*) implementing the framework operating plan, as well as water law authorizations, in particular for the leaching process (*Solprozess*), and other environmental permits. In addition, ancillary facilities regularly require an additional permit such as a permit under BImSchG for compressor stations.

Similar to our grid operations, our gas storage operations are by law required to be separate from other business operations of the vertically integrated energy utility in legal, operational and informational terms as well as terms of accounting (unbundling).

Third party access (TPA) to the gas storage has to be based on objective, transparent and non-discriminatory criteria. The Guidelines for Good TPA Practice for Storage System Operators (GGPSSO) provide for further details regarding storage access and main parts of them have been given legally binding status by Regulation (EC) No. 715/2009 of the European Parliament and of the Council of July 13, 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No. 1175/2005. In particular, gas storage operators are required to offer firm as well as interruptible capacities, long term as well as short term capacities and bundled as well as unbundled capacities. Unlike grid operations, storage fees are not regulated. Rather the principle of negotiated storage access applies. Storage fees are nonetheless subject to *ex post* abuse control by the regulatory authorities.

As gas storage operator, we also have to comply with certain statutory information obligations. We have to publish, *inter alia*, information on the stock level (*Speicherfüllstand*) of our gas storages, amounts injected into and withdrawn from the gas storage, available capacities, our procedural approach to storage access inquiries, gas characteristics required to enable storage and technical reasons for minimal entry and exit capacities. In addition, Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of October 25, 2011 on wholesale energy market integrity and transparency (REMIT) in connection with a Commission Implementing Regulation requires, *inter alia*, that information related to the capacity and use of facilities for gas storages, including planned or unplanned unavailability of these facilities (fundamental data), is reported to ACER.

Regulation (EU) No. 994/2010 of the European Parliament and of the Council of October 20, 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC, which is currently in the process of being replaced by a new Regulation, requires the Member States to set up and meet certain supply standards. In this regard, gas storages can play an important role in safeguarding the security of gas supply. However, in Germany there are currently no mandatory or strategic storage requirements. Security of supply is rather a responsibility of the suppliers who need to book storage capacities in order to ensure the

contracted supply. Only should the supply be endangered, are the transmission system operators entitled and obliged to take grid related and market related measures to prevent the grid users from interferences. Market based measures may, *inter alia*, include utilization of gas storages based on contractual agreements.

#### **16.2.4 Renewables Segment**

##### **16.2.4.1 Promotion of RES Installations**

###### **16.2.4.1.1 Diversity of RES Promotion Schemes**

The regulatory focus in the renewables sector is on the promotion of installations producing electricity from RES since the cost of investment and operation for these technologies cannot be recovered from revenue in the general electricity market alone.

In recent years, the amount of electricity generated from RES within the overall production of electricity in Germany has increased constantly to approximately 33% in 2015. It is currently envisaged to further increase the RES share to 40 to 45% in 2025, 55 to 60% in 2035 and at least 80% in 2050.

In Germany, different statutory RES support mechanisms have been in place since 1991. Since April 1, 2000 the applicable regulations are set out in the EEG, which underwent several major amendments in 2004, 2009, 2012 and 2014.

In the EEG amendments of 2012 and 2014, the legislator assigned expansion corridors (*Ausbaukorridore*) to major RES technologies, including wind power, which set temporal expansion targets and at the same time control their expansion. To further ensure an expansion within the expansion corridor, the legislator introduced a “flexible cap” (*atmender Deckel*) for, *inter alia*, onshore wind power, which allows for an adaption of funding in case the actual expansion exceeds or falls short of the expansion corridor.

The type of support generally depends on the time the RES installation first commenced operation (*Inbetriebnahme*) as well as the type of RES. This particularly affects the mode as well as the amount of compensation for electricity produced from RES but may also apply to technical specifications of an installation (i.e., the term “commissioning” of operation, or obligations of the grid operators). Although support mechanisms for RES installations in Germany are changing constantly, it is a general principle of the EEG that the applicable legal framework for a renewable energy installation is being grandfathered to the point in time the facility commenced operations. Therefore, the applicable framework for each existing installation has to be assessed on a case-by-case basis. As a result, different remuneration modes apply also to the same types of RES installations, depending on the date of their approval and/or their commissioning. However, four main types of promotion within the different promotion schemes can be identified: fixed feed-in tariffs, voluntary direct marketing with market premium, mandatory direct marketing with market premium, and tender procedures with a “pay-as-bid” remuneration.

Until the EEG 2012, fixed feed-in tariffs for a period of 20 calendar years plus the year in which the installation was commissioned were the only applicable statutory support scheme for RES installations paid to the operators of RES installations by the connecting grid operators and ultimately charged to the end customers in form of the EEG levy (*EEG-Umlage*). Generally, fixed tariffs have been reduced over time and thus depend on the time the installation first commenced operation. In addition, different tariffs apply mostly depending on the type of RES and their installed capacity. In part, the applicable tariffs are subject to options, which provide additional incentives. For example, operators of offshore wind farms can choose between the base model and the so-called compressed tariff model (*Stauchungsmodell*). In the base model, the operators receive increased tariffs for a minimum period of twelve years, which is prolonged depending on water depth and distance between offshore wind farm (“**OWF**”) and the shore. After the initial funding period, the feed-in tariffs are reduced to the base value. In the alternative, compressed tariff model, operators receive an even higher initial tariff compared to the base model but for a shorter (minimum) period of eight years, which allows for a faster

return on the investment. Regarding onshore wind installations, the so-called reference yield model (*Referenzertragsmodell*) provides for a prolongation of the increased initial funding for installations at locations with relatively low wind speeds in order to also make such locations more attractive for investments.

Since the EEG 2012, operators of RES installations can also opt to sell the electricity generated from RES directly to third parties in form of so-called direct marketing (*Direktvermarktung*) as an alternative to receiving the fixed feed-in tariffs. Direct marketing means that the operator sells the generated electricity at the European Power Exchange or to (mostly industrial) customers, either directly or via energy trading companies. Any shortfall of the technology specific market values compared to the statutory feed-in tariffs is compensated through a so-called market premium (*Marktprämie*), which the installation operator may claim from the respective grid operator. Except for the market premium, no statutory remuneration can be claimed for energy that is directly marketed. The market premium is generally defined as the difference between the applicable statutory feed-in tariff and the technology specific market value, which is calculated monthly using the average production profile of the technology (e.g., onshore wind) and the monthly average spot market price for electricity at the power exchange EPEX spot. The statutory remuneration for direct marketing (*anlegbarer Preis*) is higher than the fixed feed-in tariff (e.g., 0.4 ct/kWh for wind onshore in EEG 2014). In turn, the operator has to bear the cost of direct marketing and has balancing responsibility for the energy he produces and feeds into the grid. Therefore, direct marketing is more attractive than taking the fixed feed-in tariff when the extra revenue exceeds the cost of direct marketing. The revenue level can be even increased further if the monthly technology specific market value can be outperformed (e.g., by having a favorable production profile or selling energy to third parties above the average EPEX spot price). However, if the operator of the RES installation achieves a lower market price or has to pay a high amount for balancing energy (e.g., due to poor wind forecasts resulting in inaccurate electricity output forecasts), the achieved remuneration could be lower than the fixed feed-in tariff. The installation operator may opt for direct marketing at any time on a monthly basis. This requires a prior notice to the grid operator and a precise monitoring of delivered electricity amounts. The statutory remuneration period of 20 years will not be extended for any period of direct selling.

While direct marketing was optional under the EEG 2012 and remains optional for existing installations, it became mandatory for all new installations under the EEG 2014, such as for our 48 wind turbines of the OWF Nordsee Ost. Mandatory direct marketing is supposed to facilitate further integration of renewable energies into the electricity market. Exceptions apply for smaller installations and where the operator accepts significantly reduced feed-in tariffs.

The EEG 2014 already anticipates the transition to an auctioning system as foreseen in the EU State Aid Guidelines. In general, funding shall no longer be based on fixed statutory tariffs. Rather, the base values (*anzulegender Wert*) and thus market premiums shall be determined in a tender procedure resulting in a “pay-as-bid” remuneration. Therefore, from 2017 onwards, the support levels for new renewable energy installations will be determined via a competitive procedure in which the plant operators submit bids for support. The transition towards an auction-based system already started in 2015 with pilot auctions for ground-mounted photovoltaic installations between 100 kW and 10 MW to test the auction mechanism and procedure.

#### 16.2.4.1.2 Development Trends in RES Promotion Schemes

The legislator recently amended the EEG which amendment will enter into force on January 1, 2017 (“**EEG 2017**”). It is expected that the necessary consent of the EU Commission under the EU state aid regime will be obtained in fall 2016. The promotion of offshore wind installations will be separately regulated under the Wind Offshore Act (*Windenergie-auf-See-Gesetz*, “**WindSeeG**”). The general aim of the EEG 2017 is to implement a comprehensive legal framework for the transition of EEG promotion schemes to an auctioning system. The development of the auction design has taken into account experiences from the pilot

photovoltaic auctions but required further technology specific adjustments. From 2017 onwards, renewable technologies, especially onshore and offshore wind as well as photovoltaic projects larger than 750 kW, will only qualify for the financial support if they successfully bid into an auction. BNetzA will be responsible to conduct specific tender procedures for each of the affected technologies. This will cover more than 80% of the electricity production from new RES installations. Exemptions from the tender procedures will apply to onshore wind installations that have been approved under BImSchG by the end of 2016 and commence operation by the end of 2018 as well as for offshore wind installations that received an unconditional grid connection commitment (*unbedingte Netzanbindungszusage*) or connection capacities (*Anschlusskapazitäten*) by the end of 2016 and commence operation until the end of 2020. However, in order to compensate for an over-expansion in onshore wind during the years 2014 to 2016, the EEG 2017 stipulates stronger degression of support levels for onshore wind projects, which are not subject to an auctioning procedure. *Inter alia*, for the six months from March to August 2017 a monthly degression of 1.05% of the base value (*anzulegender Wert*) for the determination of the market premium will replace the generally applicable quarterly degression under the “flexible cap” in April and July 2017.

Within the auctioning procedures, the permissible value of bids will be capped at a technology specific maximum which will be modeled after the currently applicable support levels and subsequently from the results of previous auctions. In addition, all projects will have to be realized within a certain timeframe so as not to forfeit the award of funding and will be subject to penalties in case the respective project is delayed or not realized.

For wind onshore an amount of 2,800 MW (gross, *i.e.*, including re-powering on existing sites) will generally be auctioned for the years 2017, 2018 and 2019. From the year 2020 onwards, an annual overall capacity of 2,900 MW (gross) will generally be auctioned. However, in areas where the transmission grid faces extraordinary extension demands the amount of capacity to be allocated via auctioning may be limited to 58% of the average annual onshore wind expansion in that area in the years 2013-2015. For the auction design the current two stage reference yield model will be adjusted to a one stage model. Investors will bid on a constant support level for the entire 20-year support period. In order to equalize different energy yields at different locations and to make bids comparable, the bids will be scaled to a reference yield site by using defined correction factors. RES operators have to provide evidence that they are entitled to a specific correction factor by submission of an expert report complying with certain technical requirements. The maximum bid for the 100% reference site will initially be capped at 7 ct/kWh for 2017 and be subject to degression depending on an average of certain approved bids, *i.e.*, starting with a minimum of 5.53 ct/kWh for 150% reference sites (correction factor 0.79) and a maximum of 9.03 ct/kWh for sites lower or equal to 70% of the reference yield (correction factor 1.29). The projected energy yield is revisited every five years with respect to the actual energy yield. This may lead to future adjustments of the support level. To support the diversity of players, projects of energy cooperatives that fulfill certain conditions can obtain a privileged auctioning framework (*e.g.*, receiving the highest winning bid for remuneration).

In the case of offshore wind installations, two auction procedures for an overall amount of approximately 3.1 GW will be conducted in 2017/2018 for an interim period for installations commencing operation between 2021 and 2025. These procedures will be open to already advanced and approved wind farm projects with an overall capacity of 6 to 7 GW. No compensation will be provided for pre-developed projects, which are unsuccessful in the tender procedure – except for a last call option if their respective site is auctioned at a later stage. For this purpose, project owners are obliged to hand over all project relevant information to the competent authority. From 2021 onwards, annual auctions will be held for projects commencing operations from 2026 onwards on the basis of a central (“Danish”) model. In this model BNetzA and the Federal Maritime and Hydrographic Agency (*Bundesamt für Seeschifffahrt und Hydrographie*, “BSH”) will determine and pre-evaluate specific areas for offshore wind farms with an overall installed capacity of 700 to 900 MW per year, however not exceeding an average volume of 840 MW per year. The bidders may subsequently compete in the auction for the right

to construct an offshore wind farm in the designated areas. Regarding the period following the 20-year support scheme, the WindSeeG explicitly reserves the right to impose – by means of additional statutory provisions – an obligation on OWF operators to transfer the assets to a possible successor without compensation.

For ground-mounted and roof-top photovoltaic installations with an installed capacity exceeding 750 kW, an amount of 600 MW per year will be auctioned. This auction will be opened up for bidders from other EU Member States for ground-mounted projects based on mutuality through the newly introduced Cross Border Renewable Energy Ordinance (*Grenzüberschreitende-Erneuerbare-Energien-Verordnung*). This development is based on demands raised by the European Commission during approval of the EEG 2014 under its EU State Aid Guidelines. The change will affect a total 5% of the overall RES target. The European Commission expects the legislator to introduce cross border tenders also partly for other RES technologies in the long term. In addition, for the years 2018-2020 the EEG 2017 includes joint auctions for a defined volume of wind onshore and photovoltaic projects which still have to be further elaborated in a separate ordinance. The allocated volumes from this auction will be subtracted from the technology specific auctions in the following year. Finally, the EEG 2017 introduces a technology neutral auction for innovative projects with special system benefits. Scope and framework of this auction will also be elaborated in a separate ordinance. No auction is currently proposed for hydropower. For all installations which are not subject to the new auctioning proceeding, the existing framework of the EEG 2014 will remain in force.

#### 16.2.4.2 Permit Requirements for RES Installations

In general, RES installations are subject to licensing requirements depending on the size of the project, the respective RES and in part the applicable laws of the Federal States.

The construction and operation of wind turbines exceeding 50 meters in height requires a permit under BImSchG. For those which are over 100 meters above ground level, an air traffic rights permit may be required. Wind turbines below 50 meters in height regularly require a permit under the building laws of the Federal States and are also subject to the BImSchG provisions on installations not requiring a permit under BImSchG (*nicht genehmigungsbedürftige Anlagen*), including, in particular, the emission thresholds of the technical regulation noise (*TA Lärm*). Where Federal States determine specific primary locations (*Vorrangstandorte*), the construction of wind farms may be limited to those areas. Any wind farm project (onshore or offshore) comprising at least 20 wind turbines also mandates an EIA.

Licensing requirements for OWF depend on whether the OWF is located within the 12 mile area of the territorial sea or within the German exclusive economic zone (*Ausschließliche Wirtschaftszone, "AWZ"*). Offshore wind farms within the 12 mile area of the territorial sea are generally subject to the requirements applicable to onshore wind turbines. For OWFs within the AWZ, the BSH conducts a planning approval procedure on the basis of the United Nations Convention on the Law of the Sea and the Federal Maritime Responsibilities Act (*Seeaufgabengesetz*), implemented by the Offshore Installations Ordinance (*Seeanlagenverordnung*). Such planning approval procedure does also take into account maritime environmental issues (e.g., protection of sea animals). Offshore wind farm projects comprising 20 or more wind turbines also require an EIA.

Hydroelectric power plants require a permission (*Erlaubnis*) or license (*Bewilligung*) for the use of bodies of water (e.g., for impoundment and water abstraction) under water law. Within the scope of the respective permission or license an additional permit is generally not required under water law, but may be required under the building laws of some of the Federal States. By contrast, a water planning procedure (*wasserrechtliche Planfeststellung*) is required where the construction of the hydroelectric power plant involves a creation or significant modification of a body of water, in particular in case of damming or retention of water, which is applicable for most – especially larger – hydropower facilities. An EIA is a compulsory part of the water

planning procedure. Separate permits under water law may be required for engineering and construction activities impacting a body of water (*Gewässereinwirkung*) in a way that goes beyond the construction measures, e.g., regarding lowering of bodies of surface water.

All technologies are subject to further environmental legislation, in particular the Federal Nature Protection Act, which can require designated mitigation or compensation measures.

#### 16.2.4.3 REMIT Registration and Reporting Obligations

We participate in the wholesale energy market by selling parts of the electricity generated in our RES installations at energy exchanges or directly to third parties. Therefore, we are subject to registration and reporting obligations under REMIT.

#### 16.2.5 Conventional Electricity Generation

For historic reasons in very few cases conventional power plants will have to remain within our generation portfolio. These installations are subject to a different regulatory framework. In particular, their construction, operation and significant alteration require a permit under BImSchG, which typically contains numerous collateral clauses (*Nebenbestimmungen*) designed to prevent harmful effects of the power plant on the environment, in particular regarding emission thresholds as well as soil and water pollution prevention. In addition, our power plants are under an obligation to adapt to constantly evolving technical standards (*fortschreitender Stand der Technik*), e.g., by technical retrofitting in order to comply with stricter emissions standards.

Our conventional power plants are also subject to the emission trading system (“ETS”), which requires a corresponding amount of emission allowances for emissions of greenhouse gases. The amount of greenhouse gases that all regulated installations may emit within a certain period of time has been gradually reduced and is subject to further reduction in the future. In addition, while emission allowances generally used to be allocated free of charge, they have been auctioned in the electricity sector ever since 2013. Where required we have to obtain additional allowances.

Most of our conventional power plants are constructed and operated as combined cycle plants and as such governed by the Combined Heat and Power Act (*Kraft-Wärmekopplungsgesetz, “KWKG”*). None of our plants will participate in the tender procedure for capacity reserve under the Electricity Market Act (*StrommarktG*).

#### 16.2.6 Retail Segment

For our German retail operations, a notification to the competent authority is required for the commencement as well as the termination of energy supply to household customers. In addition, German regulation requires the energy supply company that provides basic supply (*Grundversorgung*) to household customers connected to a specific grid area to supply these customers on the basis of general terms and conditions as well as prices. Base supplier (*Grundversorger*) is the company supplying the most household customers within the specific grid area. The general terms and conditions applicable to these supply contracts have been further regulated in the Ordinance regarding General Terms and Conditions for the Basic Supply of Households with Electricity (*Stromgrundversorgungsverordnung*) and the Ordinance regarding General Terms and Conditions for the Basic Supply of Households with Gas (*Gasgrundversorgungsverordnung*). Furthermore, when supplying end consumers, we are legally required to include certain information, in particular, the earliest termination date and applicable notice periods.

In addition, our retail business is indirectly affected by different regulatory policies, directly aiming at a reduction of energy consumption or indirectly resulting in such reduction by increasing the overall gross electricity prices for end consumers. This includes, in particular, compliance with energy efficiency targets as set out in the Energy Efficiency Directive. The same applies to increases in surcharges added to the net electricity price for end consumers, in particular in connection with the EEG-levy under the EEG.

Similarly, our Energy+ business is indirectly affected by regulatory policies such as the framework for the promotion of CHP projects, which we realize for our B2B customers. In this regard, the German Federal Government has recently agreed with the EU Commission that German companies already generating power for their own consumption may remain exempted from the EEG-levy. However, from 2017 onwards newly built CHP plants will have to pay 40% of the EEG-levy. The understanding with the EU Commission further includes the introduction of an auctioning system for the support of future CHP projects with a capacity of 1 to 50 MW, currently envisaged to apply as from 2017 or 2018 onwards.

Our retail business, as well as resellers and redistributors that source electricity, gas, and heat from innogy, such as municipal utilities, and resell to final customers are subject to REMIT. Which establishes certain reporting obligations as well as prohibitions of insider trading and market manipulation (see "16.2.4.3 REMIT" above).

### **16.3 German Water and District Heat Supply Regulation**

In addition to our retail activities regarding electricity and gas we also supply water and district heat to our customers. The regulation in these two segments is not comparable to German energy market regulation. There are, for example, no unbundling provisions regarding the separation of the supply grids from the supply activities and no requirements regarding the approval of grid tariffs or revenue caps.

However, the German Ordinance on the General Conditions for Water Supply (*Verordnung über Allgemeine Bedingungen für die Versorgung mit Wasser*) sets out the general terms and conditions regarding water supply. Requirements for the quality of drinking water, chemical substances in drinking water, water treatment as well as obligations of water supply utilities are set out in the German Drinking Water Ordinance (*Trinkwasserverordnung*). In addition, our water prices (of private water companies) are subject to antitrust review by the cartel authorities of the Federal States, which, *inter alia*, assess whether price abuse has occurred, because one water utility demanded higher prices or more unfavorable business conditions than comparable utilities or because a water utility demanded prices that were inappropriate in light of the costs. In order to operate our local water grids we also have to acquire rights of way from the respective municipalities or other third parties (concessions).

Similar provisions apply to the supply of district heating. Minimum standards for our general terms and conditions for customers (excluding industrial customers) are prescribed by the German Ordinance on the General Conditions for Heat Supply (*Verordnung über Allgemeine Bedingungen für die Versorgung mit Fernwärme*) including, for example, liability for disruption of supply, price revision clauses and maximum contractual terms. Alike other power plants, some of our larger heating plants have to comply with the provisions of the BImSchG. Alike the regulatory oversight on prices for water our prices for the supply of district heat are subject to review by the cartel authorities. We also have to acquire rights of way from the municipalities or other third parties in which we operate our local district heating grids.

### **16.4 Further Relevant German Public Law Regulations**

#### **16.4.1 Environmental Law**

Our business operations and properties are subject to various domestic and EU laws and regulations concerning the protection of the environment, including regulation of air and water quality, controls of hazardous or toxic substances, guidelines regarding health and safety and, in particular, protection of the soil.

Under the Federal Soil Protection Act (*Bundes-Bodenschutzgesetz*, "**BBodSchG**") we can be held responsible for current or future soil contamination and related groundwater contamination even in the absence of any fault or negligence on our part. Currently we have no specific indication of any contamination on our properties which could have a material adverse effect to the Group. The BBodSchG places responsibility for remediation measures on the owner, the

person controlling the property, the polluter, the universal successor (*Gesamtrechtsnachfolger*) of the polluter, the previous owner if such owner transferred title to the real property after March 1, 1999 and knew, or should have known, of the contamination or past pollution and the party which under corporate or commercial law is responsible for a legal person governed by private law that owns real estate affected by harmful alteration or contamination of the soil. The relevant authorities may also require each of the responsible parties to take remediation measures, or undertake such measures themselves and require the responsible party to bear the costs of any remediation action. If several parties are responsible, they are jointly and severally liable. Each responsible party has a statutory claim for reimbursement against the other parties. The value of such claim will depend on the degree to which each person has contributed to the contamination or past pollution. This statutory reimbursement claim may be contractually modified or waived among the parties.

#### **16.4.2 Data Protection**

We process customer data in particular in our grid operations and retail segment. The collection, processing and other use of personal data is extensively regulated by both European and national legislation. At the EU level, data privacy law is currently primarily governed by Directive 95/46/EC of the European Parliament and of the Council of October 24, 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data (the “**Data Protection Directive**”). In Germany, the Data Protection Directive is transposed into national law by the German Federal Data Protection Act (*Bundesdatenschutzgesetz*). In general, data privacy laws regulate when and how personal data may be collected, for which purposes they may be processed, for how long they may be stored and to whom and how they may be transferred. The transfer of personal data to entities outside the EEA is subject to specific requirements. Furthermore, data privacy laws require organizational measures such as the appointment of a data protection officer (*Datenschutzbeauftragter*), set forth the rights of data subjects (e.g., information rights of those persons to whom the personal data relates) and determine the sanctions for infringements. Compared to other European jurisdictions, the German data privacy law is known to be rather strict. For example, the Data Protection Act provides for a detailed regulatory system regarding contracts relating to commissioned data processing (*Auftragsdatenverarbeitung*), which must be implemented in particular in the context of IT outsourcings.

The new Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) entered into force on May 24, 2016 and will take effect as of May 25, 2018. Unlike the Data Protection Directive, it will be directly applicable in all EU Member States and will introduce substantial changes to the EU data protection regime regarding, for example, advanced information and transparency obligations towards customers, the new principles “data protection by design” and “data protection by default” or the privacy impact assessment. The new law will replace current national data protection laws to a large extent. In addition, it will increase the maximum level of fines for undertakings to the higher of up to 4% of a company’s total worldwide annual turnover or EUR 20 million.

#### **16.4.3 State Aid**

From time to time, we receive grants from public entities for specific funding purposes, such as research and development (R&D) projects. Such grants are typically subject to several general as well as specific collateral clauses including but not limited to obligations to use the funds only for the specific funding purpose and to provide evidence on the proper use of funds), to keep and utilize assets for a certain period of time and to distribute resulting know-how or IT rights, in particular in the case of R&D grants. In the event of violations of any of the applicable collateral clauses we may be required to repay the respective amount.

In addition, grants must be notified by the grantor and approved by the European Commission in light of common market rules. Failure to comply with the notification obligation may equally result in us being required to repay such grant. This may affect our business operations receiving such grants as well as our grid operators and sales departments being involved in the repayment mechanism. As has recently been confirmed by the European General Court, European State Aid law also applies to the German RES promotion scheme. The European Commission has set out eligibility criteria for such support schemes in its EU State Aid Guidelines (see "*16.1 Energy Regulation on EU Level*"). State aid law further applies to support schemes for combined heat and power generation (*Kraft-Wärme-Kopplung*) and to exemptions from levies such as the levy to pay grid tariffs as well as levies for RES support.

#### **16.4.4 Public Procurement Law**

We are also subject to public procurement law regarding concessions for our water supply grids and our participations in municipal utilities (*Stadtwerke*) in Germany as well as our infrastructure operations in our East region. Public procurement law generally requires public entities, sectorial contracting entities and concession grantors to award contracts and concessions in a transparent and non-discriminatory tender procedure, depending on certain thresholds, either on the national or on the European level. Tender obligations also apply to material amendments to existing agreements. Stringent procedural requirements for tender procedures are set out, in particular, in three new EU Directives of 2014, which have recently been transposed into national laws, e.g., in Germany by an amendment of the Act Against Restrictions of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*, "**GWB**") and revision of several ordinances. Violations of public procurement law requirements may in particular result in review procedures, which may determine that the agreement is void, or in claims of competitors for damages against the public contracting entity.

#### **16.4.5 Antitrust Law**

In addition to the energy regulatory regime and supervision by BNetzA, we are also subject to general EU and national antitrust regulations. This concerns the prohibition of distortion of competition through agreements or concerted practices, the abuse of a market dominant position as well as merger control. Specifically for dominant electricity and gas suppliers, the GWB prohibits abusive practices by demanding fees or other business terms which are less favorable than those of other undertakings in comparable markets or that demanded prices unreasonably exceed the costs. In the event of a violation of any of these provisions, the authorities are entitled to prohibit such practices and to impose various measures, including fines or disgorgement of profits generated by such behavior. In addition, third parties may initiate civil proceedings against companies that willfully or negligently violated antitrust provisions to obtain compensation for damages suffered. Whereas antitrust supervision only plays a limited role in regulation of electricity and gas networks due to principal supervision by BNetzA, our Renewables Segment and, to a significant degree, our Retail Segment are subject to antitrust supervision.

Depending on certain turnover thresholds, the European Commission or the Federal Cartel Office are competent to assess and – if necessary – prohibit mergers or business combinations where it is to be expected that these transactions would significantly impede competition, for example create or strengthen a dominant position, unless the relevant undertakings can demonstrate improvements in the conditions of competition triggered by the merger or business combination that outweigh the disadvantages of market dominance.

### **16.5 International Markets**

#### **16.5.1 Belgium – Retail Segment**

In Belgium, the three regions (Brussels, the Walloon Region and Flanders) and the Federal State are competent for matters relating to energy. The regulator at the federal level is the *Commissie*

voor de Regulering van de Elektriciteit en het Gas ("**CREG**"), for Brussels this is the *Brusselse regulator voor energie*, for the Walloon Region the regulator is called *Commission wallonne pour l'Energie* and for Flanders the regulator is the *Vlaamse Regulator van de Elektriciteits- en Gasmarkt ("**VREG**")*. The federal level is responsible for security of supply, the production of electricity (with the exception of electricity produced from RES and cogeneration), nuclear power, electricity grid with a voltage exceeding 70 kV, the import, transport and storage of natural gas, the transport tariffs on electricity and natural gas, end user prices and offshore wind energy as well as consumer protection. The regions, on the other hand, are competent for the distribution of electricity through grids with a voltage lower or equal to 70 kV, the distribution of natural gas, the production of electricity from renewable energy sources and cogeneration, rational use of energy and public service obligations.

The energy market in Belgium has been liberalized in different steps. In Flanders, enterprises have been able to choose their supplier since 2002, household customers have been able to select a supplier since 2003. Before the liberalization the municipalities organized the distribution and supply of energy. In Brussels and the Walloon region the market was fully opened in 2007. Currently, the energy market in Belgium is subject to controversial discussions between the competent legislative bodies and regulatory authorities *inter alia* regarding the nuclear phase-out, the promotion of RES and security of supply. Our retail business is affected by the issues being discussed and the potential outcome of these discussions, e.g., regarding negative electricity prices following an over-production of electricity from RES on the one hand and scarcity prices in times of low electricity production on the other hand. Another issue that affects our retail business concerns the fact that different (regional) governments are reconsidering the unbundling of the DSOs by allowing them, e.g., to have shares in generation and require the DSOs to provide new energy services, e.g., the role of an aggregator of production and consumption, demand response and storage as a public service obligation.

At the federal level, the legal framework consists of the Act of April 29, 1999 on the organization of the electricity market (*Elektriciteitswet*) and the Act of April 12, 1965 on the transmission of gaseous and other products by pipelines (*Gaswet*). Specifically for the retail market, electricity and gas suppliers concluded a sector agreement on "the consumer in the liberalized energy market" in 2004 at the instigation of the Minister for Consumer Affairs at that time. This agreement focuses in particular on price transparency, sales via phone or sales concluded outside the sales agent's premises, rules on supplier switching and moving, mandatory information on the invoices and regulation on the general terms and conditions. The Federal Public Service Economy, small- and medium-sized enterprises ("**SME**"), Self-Employed and Energy monitors the compliance with this sector agreement and can impose fines or initiate a "criminal" investigation.

The legal framework in Brussels consists of the Ordinance of July 19, 2001 on the organization of the electricity market in the Brussels-Capital region and the Ordinance of April 1, 2004 on the organization of the gas market in the Brussels-Capital region. In Flanders, the main energy legislation is contained in the Energy Decree of May 8, 2009. For the Walloon region, the legal framework consists of the Decree of April 12, 2001 on the organization for the electricity market and the Decree of December 19, 2002 on the organization of the gas market. The legislation in Belgium regarding retail mainly focuses on consumer protection, (social) public service obligations and obligations concerning RES (e.g., quota obligation). This includes, in part, relatively detailed provisions on invoicing, the procedure in case of nonpayment of the household customer, obligations on complaint handling and requirements or restrictions regarding the general terms and conditions. For infringements of consumer law the Belgian legislation also provides the possibility of class action procedures.

#### 16.5.1.1 *Retail Segment and Regulation*

Our Belgian subsidiary, Essent Belgium, supplies energy to end consumers connected to the distribution grid in each region. Essent Belgium also supplies a few consumers connected to the

electricity transmission grid. Mainly due to very strict legislation on public service obligations regarding households, Essent Belgium decided not to supply households in Brussels.

#### 16.5.1.1.1 Invoicing, Consumer Protection, Product and Price Regulation

In Belgium, a single bill principle applies. The supplier invoices his clients not only for the commodity but also for the grid tariffs and taxes. The energy policy in Belgium is mostly financed through the invoice to the end consumer via public service obligations on suppliers and grid operators and taxes. Consequently, the plain commodity part of the bill is currently around 25% for electricity and around 50% for gas.

Because the regions in Belgium have the regulatory competence for most retail matters, several laws on the supply of energy and public service obligations apply. For example, there are regional differences regarding exceptions to the supplier's obligation to conclude contracts with households that have debt with that supplier. In addition, the household customers or small and medium-sized enterprises who want to switch to another supplier are not required to pay a termination fee in the event of wrongful termination of the contract, not even when disregarding the contractual term.

In 2012, there was also a price freeze for household customers and SMEs to make sure that the retail prices in Belgium were not higher than in the neighboring countries. The effect of this price freeze was a significant churn and decrease in prices. This led to cost cutting, margin erosion, and the stabilization of the retail market share of our main competitor. In 2013, this price freeze was replaced by price regulation. Prior approval by the CREG is required for each product a supplier offers to household customers or SMEs. Products with variable prices can only be indexed once per quarter and only based on a number of statutory parameters. The CREG also issued a charter on price comparisons on websites, which requires every party (including suppliers) that simulates end user prices to use the same technique (forwards).

There is also specific legislation on the approval of general terms and conditions by the regulator in the Walloon region and specific information that should be included or is prohibited from being included in the general terms and conditions via the sector agreement on "the consumer in the liberalized energy market".

#### 16.5.1.1.2 Licensing

In Belgium, every supplier must obtain a supply license for each region in which the supplier wants to supply electricity and/or natural gas to end customers via the distribution grid. An exception applies in Flanders if the supplier holds a license or is already active in another EU Member State, region in Belgium or at the federal level in Belgium. In that case, the supplier does not need an additional Flemish supply license.

If a supplier wants to deliver electricity and/or natural gas via the transmission grids, that supplier must apply for a federal license.

The licenses awarded by the Brussels and Flemish regulator have an indefinite term. The license issued by the Walloon regulator has a term of ten years, and the federal supply license has a term of five years. Every supply license holder is under an obligation once a year to provide information on the financial figures of the company, technical information and information on the shareholders and board of directors among other things.

Essent Belgium holds a supply license for electricity and gas in each region and at the federal level.

#### 16.5.1.1.3 Current Retail Market Trends

The main regulatory trend concerning retail regulation focusses on the reinforcement of consumer protection in Belgium. In addition to these reinforcements, there are also plans to expand consumer protection to SMEs.

In 2018, a new market model and market processes will be introduced. This market model will establish a federal central clearing house (Atrias), which will make it easier to exchange the messages required to execute market processes and therefore will improve access to the energy market in Belgium. The new market processes (MIG 6) will allow the use of more data, new activities (e.g., flexibility, new energy services and demand response) and will be ready for the rollout of smart meters. However, no political decision on the latter has yet been taken.

Due to the single bill model, the supplier bears the costs and the risks in case of non-payment for the grid operators and the government. The suppliers lobby for a compensation for these risks and costs. For a number of taxes a compensation for bad debt applies and there have been some positive political reactions on this topic.

Another consequence of the single bill-model and low percentage of commodity in the energy invoice is that the margins are low and that mergers and acquisitions within the Belgian energy sector are to be expected.

Finally, regarding data protection, the European data protection regulation will be in place in 2018 (see "16.4.2 Data Protection" above).

### **16.5.2 Croatia – Retail Segment**

Croatia only became a Member State of the EU in July 2013. Prior to and following the accession Croatia has started to implement EU energy directive requirements. The energy market in Croatia is mainly regulated by the Energy Act (*Zakon o energiji*). A notification to the competent authority (market operator) is required for the commencement as well as the termination of energy supply to household and commercial customers.

A specific element of the Croatian household electricity market is that 85% of the households are still under the universal service (supply provided by the DSO) owned by the incumbent and are supplied at a regulated price (universal service price, "USP") defined by the regulator. The deadline to complete the legal separation of the DSO from the universal service provider in order to comply with the EU Third Package is set to January 1, 2017.

Terms and conditions applicable to supply contracts have been regulated in General Terms and Conditions for Supply and the Grid Use (electricity) and the General Terms and Conditions for the Gas Supply.

### **16.5.3 Czech Republic**

#### **16.5.3.1 Legal Framework and Overview**

Our business and operations in the Czech Republic (i.e., gas distribution, gas storage operation, gas and electricity wholesale and retail segment, gas cogeneration and district heating and operation of Compressed Natural Gas (CNG) stations) are subject to stringent regulatory requirements. The national legal framework for energy businesses is laid down in the Energy Act (*Energetický zákon*) and related secondary legislation, specifying obligations imposed on energy undertakings, in particular license requirements, requirements related to the principle of a non-discriminatory third party access, framework principles of grid tariff regulation, unbundling regimes for distribution system operators and storage system operators ("SSO"), a framework for emergency situations and the security of supply standard.

Details specifying market rules, in particular the allocation process for distribution and storage capacity, the customer switching process and balancing, are set out in specific decrees, namely the Decree on Gas Market Rules (*vyhláška o Pravidlech trhu s plynem*) and for the electricity sector the Decree on Electricity Market Rules (*vyhláška o Pravidlech trhu s elektřinou*).

Apart from the Energy Act, further specifics regarding the determination of distribution tariffs are partially covered in the Decree on Price Regulation in the Gas Sector (*vyhláška o způsobu regulace cen a postupech pro regulaci cen v plynárenství*), however, the relevant methodology (revenue-cap for gas distribution grids) is set out in the Principles of Price Regulation (*zásady cenové regulace*) for the fourth regulatory period (2016-2018), issued by the Czech national regulatory authority, Energy Regulatory Office ("ERO").

The Act on Promoted Energy Resources (*zákon o podporovaných zdrojích energie*) and secondary legislation related to this act is relevant for our activities, in particular cogeneration, specifying the support scheme for cogeneration. Operating support is granted in a form of a feed-in premium on top of the market price of electricity.

Relevant tariffs for gas transmission, distribution, operating support for cogeneration as well as renewable energy sources are set out annually in ERO's price decisions. The price decisions also cover a partial price regulation in the case of heat supply, setting the price in accordance with conditions laid down by ERO (*věcné usměrnění*).

#### 16.5.3.2 Grid Operations

##### 16.5.3.2.1 Regulation of Revenue Cap/Grid Tariffs

The Energy Act, the Price Act (*zákon o cenách*), the Decree on Price Regulation in the Gas Sector and the so-called Principles of Price Regulation, followed by ERO's price decision, constitute the framework for grid tariff determination. ERO uses a revenue cap as the main regulatory method for grid tariff calculation. The drivers of the permitted revenues are the regulated asset base as the relevant value of regulated network assets for each year, the weighted average cost of capital, planned depreciation, operating expenditures including costs for the coverage of network losses, and correction factors recovering differences between allowed and actual revenues in a particular year, which are mainly due to weather driven deviations in actual consumption against planned consumption.

ERO implements a regulatory method for specific regulatory periods. The current fourth regulatory period started on January 1, 2016 and is expected to last until the end of 2018. Czech legislation stipulates that subsequent regulatory periods will last for a minimum of five years. The general principles of regulatory methodology have remained almost unchanged since the first regulatory period (2002-2004), ensuring a stable environment for gas market participants.

However, ERO indicated that it was considering applying several adjustments in the upcoming fifth regulatory period, including regulated asset base revaluation. ERO also monitors the level of permitted depreciation and realized investments by DSOs over a period of 15 years between 2010 and 2024 in order to determine whether asset renewal ensured appropriate technical levels and quality of supply of the networks.

Each year ERO calculates a regulated distribution tariff based on the permitted revenues for gas distribution for each regional DSO. ERO sets gas distribution tariffs for different customer categories (high/medium/low demand commercial customers and households) as a structured tariff with a fixed component per gas connection/off-take point for households or per reserved capacity for other customers and a variable consumption based component (per MWh used). The share of the fixed and the variable components differs between customer categories.

##### 16.5.3.2.2 Unbundling requirements

Where DSOs are part of a vertically integrated undertaking ("**VIU**") they are subject to unbundling requirements laid down by the Energy Act, *i.e.*, DSOs shall be independent regarding their legal form (legal unbundling), organization and decision making (operational unbundling) from other activities not related to distribution, in particular supply and production. The Energy Act does not impose any obligation to separate the ownership of assets of DSOs from VIU. The Energy Act further requires informational unbundling, including the obligation to strictly preserve the confidentiality of commercially sensitive information obtained in the course of carrying out business activities and the obligation to avoid confusion in respect of a separate identity of the supply entity and the VIU, unbundling of accounts and transparency requirements as well as the necessity to establish an internal compliance program (*program rovného zacházení*), complemented by the compliance officer's (*auditor programu*) obligation to annually report to ERO relevant measures taken in this regard. Requirements related to operational and legal unbundling do not apply to DSOs supplying less than 90,000 connected customers.

#### 16.5.3.2.3 Grid Access and Grid Expansion

DSOs are subject to the obligation to guarantee non-discriminatory grid access for third parties. These obligations are followed by further transparency requirements. DSOs are also responsible for providing other market players, especially traders and balancing responsible parties, with information related to the balancing process or the customer switching process. All information, including terms and conditions as well as rules and distribution tariffs applicable to the DSOs' services shall be provided in an objective, transparent and non-discriminatory way. Aside from the legal framework laid down in the Energy Act, further specifications are set out in the DSOs' Network Code (*Řád provozovatele distribuční soustavy*) approved by ERO. Conditions related to the access to the distribution system are laid down in the Decree on Conditions for the Connection to the Gas System (*vyhláška o připojení k plynárenské soustavě*). The access to the grid may be refused in cases of incompatibility with technical specifications that cannot be overcome. Grid access may be refused on the basis of lack of capacity.

Furthermore, DSOs are responsible for secure, reliable and efficient operation, maintenance and development of the distribution system in their area. DSOs are also obliged to prepare and to publish the overview of planned distribution network development at least for the next five years.

The Energy Act and secondary legislation impose further obligations on DSOs in conjunction with disconnection of gas customers, metering, the customer switching process and cooperation duties in cases of emergency and other exceptional situations.

#### 16.5.3.2.4 Public Law Permits and Contracts Required

The Energy Act imposes on DSOs an obligation to obtain a license for an indefinite period of time before commencing their business activities.

Before the commencement of construction works, the relevant permits must be obtained. The legal framework is determined by the Building Act (*stavební zákon*) and related secondary legislation. Depending on the type of gas installations, including gas pipelines, and the nature of a construction, a spatial planning procedure sometimes involves an EIA (obligatory for gas transport pipelines longer than 20 km with a diameter exceeding 800 mm, under certain conditions also necessary for gas pipelines longer than 5 km with a diameter of 300 – 800 mm). The subsequent approval procedure determines in particular the gas pipeline corridor. The approval procedure may be simplified where existing gas infrastructure is replaced, or the spatial planning procedure and subsequent approval procedure may be integrated. The Act on Acceleration of Infrastructure Construction (*zákon o urychlení výstavby dopravní, vodní a energetické infrastruktury*) also determines specific conditions for the admissibility of the expropriation procedure, along with conditions set out in the Expropriation Act (*zákon o vyvlastnění*), and conditions for the determination of a purchase price/payment.

The Energy Act lays down additional conditions and obligations imposed on DSOs when obtaining private land for the construction and/or operation of their grids or installations, in particular related to easements, alongside the legal framework set out in private civil law. All these aspects must be settled by a contract with a landowner.

#### 16.5.3.2.5 Smart Meter Rollout

In terms of smart gas metering, the result of a cost benefit analysis of smart meter deployment undertaken by the Czech government was negative and resulted in a formal decision not to proceed with the rollout of smart metering in the Czech Republic. A review of the cost benefit analysis is planned for 2017.

#### 16.5.3.2.6 REMIT

Our DSO is considered to be a market participant under REMIT, due to its gas consumption for grid losses, since it is above 600 GWh per year. Therefore the obligation to register and to report transactions related to this supply contract are also applicable to our DSO (see "16.2.4.3 REMIT" above).

### 16.5.3.3 Gas Storage Operations

In the Czech Republic, gas storage prices are not subject to price regulation. Rather the Energy Act provides for negotiated third party access for gas storages. The storage capacity booking process and specification of products is described in particular by the Decree on Gas Market Rules, which is usually revised annually. Further details are determined in the SSO's code (*Řád provozovatele zásobníku plynu*), subject to ERO's approval. In addition, the Decree describes a set up for the Czech gas market. In this regard, physical storage facilities of the same SSO are pooled into one virtual gas storage. Transmission fees to and from gas storages are regulated and published on an annual basis in a price decision issued by ERO. SSOs are neither entitled to book transmission capacity nor to trade gas for business purposes.

The Decree on Gas Market Rules stipulates that all storage capacity offered by SSOs must be sold in ascending auctions. The Decree also sets a list of gas storage products that can be offered by SSOs. It also limits the maximum duration of a contract for a given type of product. However, SSOs remain free to determine product parameters such as product speed, duration of the contract, units and other auction parameters such as reserve auction prices. The Decree prohibits an undertaking belonging to the same group of companies as the SSO and booking 80% or more of its storage capacity to participate in auctions unless a reserve price is below or equal to market price of an equivalent storage product and no other party is interested in this storage capacity.

Furthermore, SSOs are also subject to transparency requirements, obligatory publication of a final auction price, information with regard to storage capacities, products and services. The Energy Act also imposes on SSOs an obligation to prepare and publish the overview of planned storage facilities development for at least five years in advance.

SSOs are subject to unbundling requirements in terms of legal, operational, informational and accounting unbundling, as set out by the Energy Act, as well as the obligation to establish an internal compliance program (*program rovného zacházení*), followed by the obligation, imposed on a compliance officer (*auditor programu*), to annually report to ERO relevant measures taken in this regard.

A storage obligation is imposed on suppliers providing gas to protected customers in the Czech Republic. They are obliged to store at least 20% (30% from the fourth quarter of 2016 onwards) of a supply standard set by the Security of Gas Supply Regulation (EU) No. 994/2010 in a gas storage located in the EU. Details are defined in a State of Gas Emergency Decree (*vyhláška o stavu nouze v plynárenství*). SSOs are also subject to REMIT reporting obligations related to SSO's fundamental data (technical data on filling levels). As a final customer with a technical capacity to consume 600 GWh per year our SSO is also subject to reporting data obligations related to own gas consumption.

Storage operators must acquire a license issued by the Energy Regulatory Office allowing them to offer the storage capacity to the market. In addition to permit requirements pursuant to the Building Act, SSOs also have to comply with mining requirements as set out in particular in the Mining Act (*horní zákon*) as well as requirements imposed by the Act on Geological Works (*zákon o geologických pracích*). These include a permit for physical underground storage facilities issued by the Czech Mining Authority and an annual mining levy derived from the size of each storage facility (effective as of January 2017). Also environmental legislation (see below) has to be observed in relation to the construction of storage facilities, in particular an EIA may be required under certain conditions (depending on the storage capacity). Legislation in conjunction with the prevention of major accidents involving dangerous substances is also relevant for SSOs, in particular the Act on the Prevention of Major Accidents (*zákon o prevenci závažných havárií*), determining the safety documentation in addition to safety requirements set out by mining or energy law.

#### 16.5.3.4 Renewables and Cogeneration

##### 16.5.3.4.1 Main Principles of RES Support Scheme

The Czech Republic is on its course to meet the target for its share of energy from RES in gross consumption of energy as set by the Renewables Directive (*i.e.*, 13% by 2020). The share of RES on the national gross consumption reached 13.2% in 2014. According to the RES National Action Plan, the share should increase to 13.5% in 2020. This plan also determined the annual share of electricity to be produced per particular RES by 2020. These shares are decisive for the decision of ERO to grant or not to grant operating aid in each particular year.

We are only partially active in the RES segment. Our business activities involve a service comprising installation of small PV systems for households and small customers as well as production of electricity from solar energy on our own administrative buildings for self-consumption and partially feed-in into the grid (*i.e.*, the surplus amount not consumed within administrative buildings concerned). However, as the share of electricity produced from solar energy is above the level set out by the RES National Action Plan, new installations (put into operation from 2013 onwards) do not receive any operating aid.

The legal framework for operating aid for electricity produced from solar energy includes the Act on Promoted Energy Resources and relevant secondary legislation. The whole aid scheme is managed and administered by the state-owned Market Operator (OTE, a.s.), whereas the amount of aid to be paid is annually evaluated and determined by ERO in its price decision. Operating aid for electricity produced from solar energy in installations with an installed capacity of up to 100 kW is granted in the form of a fixed feed-in tariff, otherwise the operating aid is granted in the form of a green bonus/feed-in premium. If electricity is not consumed in total within the place it is produced, producers operating under the feed-in tariff regime feed in an excessive amount of electricity into the grid and receive a fixed payment for such amount (feed-in tariff). The basic parameter for the calculation of annual operating aid is a fifteen-year reimbursement period of investment. For installations put into operation in 2010, the Act on Promoted Energy Resources sets out a special levy imposed on electricity produced (from solar energy) in these installations from 2014 onwards.

Even though the Czech support scheme already meets a vast majority of requirements laid down by EU State Aid Guidelines, the whole system shall be reassessed vis-à-vis the EU State Aid Guidelines conditions, in particular the transition to a competitive bidding process as of January 1, 2017.

For small plants, the Energy Act foresees an exemption from an obligation to obtain a license for electricity production; the threshold in this case is an installed capacity of 10 kW provided that electricity is used only for self-consumption. The connection procedure for such plants to electricity distribution grids as laid down in the Decree on Conditions for the Connection to the Electricity System (*vyhláška o připojení k elektrizační soustavě*) is simplified. Furthermore, the approval procedure under the Building Act (*stavební zákon*) is simplified under certain conditions; in particular, plants with an installed capacity up to 20 kW neither require a building permit, nor a notification to a relevant building authority.

##### 16.5.3.4.2 Main Principles for Cogeneration Aid Scheme

In addition to the RES segment, our business activities also comprise gas cogeneration. The Act on Promoted Energy Resources is also applicable to these activities. Operating aid is granted in the form of annually calculated feed-in premium/green bonuses on top of electricity market prices, corresponding to the difference between the feed-in tariff and the electricity market price and is directly paid by OTE to producers. This aid scheme requires direct marketing of produced electricity, *i.e.*, producers enter into a contractual relationship with suppliers, also covering the responsibility for imbalances. ERO annually determines the amount of operating aid to be granted in order to reflect the price development of electricity, heat and primary fuel as well as operating hours per year. Operating aid is laid down by ERO in its price decision.

The Czech support scheme for cogeneration is still being evaluated by the European Commission. Furthermore, installations put into operation in 2016 currently do not receive any operating aid, and therefore are potentially at risk of stranded costs. Additional obligations will likely have to be introduced in order to meet requirements of the EU State Aid Guidelines, in particular the transition to a competitive bidding process is currently under consideration. The Czech Republic will potentially benefit from the exemption provided in the EU State Aid Guidelines, but only a few CHP installations will be eligible to receive the operating aid without a competitive bidding process (projects with a construction permit received by December 31, 2016, and put into operation by December 31, 2017). So far, operating costs are still higher than the market price. Operating aid for CHP plants after their depreciation is also a matter of discussion with the Commission.

Like other (conventional) plants, CHP plants are obliged to obtain a license pursuant to the Energy Act for the production of electricity and to obtain a spatial planning permit as well as a building permit pursuant to the Building Act (*stavební zákon*). Also, environmental legislation (see below) must be observed in this regard, in particular the requirement to obtain opinions (*stanoviska*) of relevant sector authorities.

Our business activities in the CHP segment are subject to REMIT requirements, especially the obligation to register with ERO and to report relevant transactions concerning the physical delivery of electricity produced by CHP plants with an installed capacity above 10 MW.

#### 16.5.3.5 *Retail Segment*

The Czech gas and electricity energy market is highly liberalized. Legal requirements are prescribed by the Energy Act. All traders and suppliers active at the Czech wholesale and retail market are obliged to obtain a license before commencing their business activities. This license is valid for five years. Specific obligations to supply household customers without a standard supplier are imposed on some suppliers selected by legislation as so-called suppliers of last resort. The commodity price is currently not subject to direct price regulation; only the price for supply by the supplier of last resort is subject to partial price regulation in accordance with general conditions laid down by ERO. Suppliers are free to determine their general terms and conditions of electricity and gas supply, however, such terms and conditions must not intervene with general consumer protection law or sector specific provisions laid down in the Energy Act and related secondary legislation. Those suppliers who have acceded to the Ethical code of supplier in energy sector (*Etický kodex obchodníka v energetických odvětvích*), including RWE Energie, s.r.o. (to be renamed innogy Energie s.r.o.), must also observe principles laid down in this Code. However, recently ERO launched a discussion regarding a possible introduction of gas commodity price regulation for household customers.

In addition to the Energy Act, the Consumer Protection Act (*zákon o ochraně spotřebitele*) is relevant for gas or electricity suppliers of household customers.

The retail business is indirectly affected by other relevant legislation, *such as the* requirements laid down in the Energy Efficiency Directive. However, a compulsory energy efficiency obligation scheme has not been introduced in the Czech Republic.

#### 16.5.3.6 *Further Relevant Czech Public Law Regulations*

##### 16.5.3.6.1 *Environmental Law*

Our business activities are subject to other relevant regulations, at EU as well as at the national level, concerning the protection of the environment, e.g., regulation related to air and water quality, the EIA, the control of hazardous substances (natural gas as an extremely flammable hazardous substance under Regulation (EC) No. 1907/2006) however with the exemption from registration obligation) or health and safety standards.

Duties imposed on polluters in cases of combustion installations, including gas fired combustion plants or gas cogeneration, are prescribed in the Air Protection Act (*zákon o ochraně ovzduší*), also laying down details concerning authorization procedures or emission control requirements.

For combustion installations above 20 MW details regarding emission allowances are laid down, alongside relevant EU legislation, in the Act on Conditions for GHG Emission Allowance Trading (*zákon o podmínkách obchodování s povolenkami na emise skleníkových plynů*). More recently, the new Medium Combustion Plant Directive (EU) 2015/2193, to be implemented by December 19, 2017, will be of particular interest for medium combustion installations with a rated thermal input equal to or greater than 1 MWth and less than 50 MWth, therefore also relevant for our business activities such as gas cogeneration and operation of gas fired combustion installations by grid and gas storage operators.

For activities related to grid construction (gas pipelines, gas storages, electricity production), depending on the installed capacity, the Act on the EIA (*zákon o posuzování vlivů na životní prostředí*) may have to be observed, together with the Nature Conservation Act (*zákon o ochraně přírody a krajiny*) if the relevant activity, especially if in conjunction with grid construction, interferes with nature conservation objectives.

#### 16.5.3.6.2 Data Protection

The Act on Data Protection (*zákon o ochraně osobních údajů*) regulates rights and obligations in the processing of personal data. Czech data protection law is considered to be quite stringent. All unauthorized interferences with privacy shall be avoided. The collection of personal data is limited to the specific purpose of their processing and to the extent necessary to accomplish this specific purpose. Data shall be stored only for the period necessary for the purpose of their processing. The Act enumerates an exhaustive list of situations allowing for personal data to be processed without the consent of the data subject, conditions for data collection, processing or their transfer, obligations concerning personal data security (affecting also our internal data system management and employees processing personal data of our customers) in order to prevent unauthorized or accidental access to personal data or liquidation of personal data. The new Regulation (EU) 2016/679, effective as of May 25, 2018, will significantly change data protection regimes in EU Member States (see "16.4.2 Data Protection" above).

#### 16.5.3.6.3 Other Relevant Regulations

Gas distribution and gas storage businesses fall within the scope of the currently effective Act on Public Procurement (*zákon o veřejných zakázkách*) and are considered to be a contracting entity within the meaning of the Directive 2014/25/EU. As of October 1, 2016, the new Act on Procedures for Procurement (*zákon o zadávání veřejných zakázek*) will take effect and gas storage operators will fall out of its scope.

Excise duties in conjunction with electricity and gas consumption are regulated by the State Budget Stabilization Act (*zákon o stabilizaci veřejných rozpočtů*).

So far our business activities also encompass the cooperation with the compressed natural gas ("CNG") sector. The legislation applicable to the transport sector is relevant in this regard, in particular the Fuel Act (*zákon o pohonných hmotách*) specifying, *inter alia*, the content and the quality of fuels and setting framework requirements in conjunction with the deployment of alternative fuels infrastructure (in accordance with requirements laid down in Directive 2014/94/EU). This Act also imposes duties related to the operation of refueling installations and stations, including charging stations for electric vehicles. Further details concerning fuel quality standards are set out by relevant technical standards (ČSN). Requirements related to garages for CNG vehicles, including servicing or reparation of CNG vehicles, are determined by the Decree on Technical Conditions for Fire Safety of Building (*vyhláška o technických podmínkách požární ochrany staveb*) followed by relevant technical recommendations for the gas sector.

## 16.5.4 France – Renewables Segment

### 16.5.4.1 Recent Act on Energy Transition

France enacted its energy transition on August 17, 2015. The renewable energy sector in France is now regulated by the so-called law on energy transition (*loi relative à la transition énergétique pour la croissance verte*, “**Act on Energy Transition**”), which entered into force on January 1, 2016.

The purpose of the Act on Energy Transition is to create a new French energy model, which is more competitive with regard to the challenges in connection with energy supply, price changes, depletion of conventional energy resources, the need to protect the environment and access to energy for everyone. The new law aims to cut France’s greenhouse gas emissions by 40% between 1990 and 2030 and divide them by four by 2050, halve the country’s energy usage by 2050, reduce the share of fossil fuels in energy production, cap the total output from nuclear power at 63.2 GW and bring the share of renewables up to 32% of the energy mix compared to 17% in 2015. The decrease in nuclear energy shall foster the expansion of wind, solar and hydro power, thereby helping to raise the percentage of renewables used in electricity generation to 40% by 2030.

The main objective of this new law is to put an end to the currently applicable feed-in tariff system, and to promote a new support mechanism that will not affect the competition of RES installations in the overall electricity market.

### 16.5.4.2 Promotion of RES Installations

Until 2016, the regulatory framework on renewable energy was mainly based on feed-in tariffs (comprising a fix base tariff and a capacity premium and a winter bonus according to the regularity of production in winter months) by mandatory power purchase agreements for 20 years to the benefit of renewable energy producers. The French government intended to guarantee to any producer of renewable energy that the purchase of his electricity production by (largely state-owned) Électricité de France (“**EDF**”) would be at a level above the market price. EDF was obliged to purchase the produced energy according to the specifications of a feed-in tariffs system, consisting of fixed prices determined by the French government for a specified period of time. The system was financed through the public contribution to the electricity service (*contribution au service public de l’électricité*), which is an amount added to the electricity bill of each French electricity consumer. Existing contracts will continue under their respective regulations until their expiry date.

The feed-in-system of the French hydro assets owned and operated by innogy expired in 2012 after the contractual 20 year period. Since then, production is traded on the wholesale electricity market by regular power purchase agreements.

From 2016 onwards, an “Additional Remuneration” mechanism (or feed-in premium) will be the main promotion mechanism, where the producers receive a premium as a supplement to their remuneration on the market, while feed-in tariffs will only be applicable to a limited number of power plants (e.g., installations using the hydraulic energy of lakes, rivers and collected water, with a capacity below 500 kW; installations using mechanical energy derived from wind or floating/offshore installations located in the maritime public area using wind energy).

A draft decree, published by the French government on September 15, 2015 and currently under discussion, sets out the conditions for access to support mechanisms for renewable energy provided for by the Act on Energy Transition (either additional remuneration or feed-in tariffs). In both cases an agreement is entered into directly between the producer and EDF. Until the amended draft decree is published, the old support mechanisms will continue to apply.

### 16.5.4.3 Permit Requirements for RES Installations

Hydro power stations in France are mainly subject to two regulations for water utilization, the Act on the Use of Hydroelectric Energy of October 16, 1919 (*loi sur l’utilisation de l’énergie hydraulique*) and the Act on Bodies of Water of December 30, 2006 (*loi sur l’Eau et les Milieux*

*Aquatiques*). Any utilization of the energy of the tides, rivers and streams requires prior authorization. Concerning hydroelectricity, the Act on the Use of Hydroelectric Energy distinguishes between facilities with an installed capacity of up to 4,500 kW (small water abstractions) and facilities with an installed capacity exceeding 4,500 kW (large water abstractions). In small-scale facilities the abstraction of water requires an authorization; in large-scale facilities it requires a concession.

Installations below 4,500 kW are subject to general environmental law and a separate authorization process. Different from the concession, the authorization can be repealed, without indemnity, on the basis of national defense, public safety, health or navigation requirements or protection of aquatic biota. In the authorization procedure, compulsory purchase benefits are only granted to local communities.

Installed capacities over 4,500 kW are placed under the regime of concession. This regime comprises the energy code (*code de l'énergie*), which regulates the general organization of the energy sector, the decree 94-894 of October 13, 1994 on the concession and the declaration of public utility works using hydraulic power (as amended) and decree 99 - 872 of October 11, 1999, which approves the standard specifications for hydraulic companies. Finally, the Orders of December 23, 2008 relate to the letter of intent and the concession request document. In the concession procedure the contemplated operation enjoys the benefit of public utility status, *inter alia* allowing for expropriations. Installations under the concession regime are owned by the State who delegates the construction and operation to a concessionaire.

The prefect of the department where the works are located has jurisdiction for applications for concessions and authorizations. Only requests for very large water abstractions exceeding 100 MW have to be addressed to the Ministry of Energy (*Direction générale de l'énergie et du climat*). An approval procedure usually takes three to five years.

The authorization is granted for a period of up to 45 years (75 years for concessions) with the possibility to be extended for another 30 years.

## **16.5.5 Hungary**

### **16.5.5.1 Legal Framework and Overview**

The Hungarian electricity sector is largely privatized in the generation, distribution and retail sectors. Since 2007 end customers may freely choose their suppliers. However, universal service is still provided to household and SME customers as well as for governmental and municipal institutions at regulated prices and on guaranteed basis. Act No. LXXXVI of 2007 (Electricity Act, "VET") and the implementation decree of the VET contain the mandatory requirements for unbundling of the transmission and distribution system operation from the competitive electricity operations (generation, trade and universal services) in Hungary.

The Hungarian Energy and Public Utility Regulatory Authority ("HEA") as an independent regulatory authority entrusted with the power to issue statutory ordinances was established under Act XXII of 2013 as the successor of the Hungarian Energy Office that was set up under Act XLI of 1994 on Gas Supply. HEA is the regulatory body for the energy and public utility market, supervising the national economy's sectors of strategic importance. Its responsibilities cover licensing, supervision, price regulation, tariff and fee preparatory tasks in the fields of electricity, natural gas, district heating as well as water utility supply, along with pricing of public waste management services. As the official statistical body, HEA also performs standard national energy statistics-related tasks and complies with the data reporting obligations of various national and international bodies and organizations. Licenses are issued by HEA for the establishment and operation of power plants with a capacity of at least 0.5 MW, transmission system operations, distribution of electricity, trading in electricity, cross-border power trade and operating the electricity exchange. On the basis of licenses issued by HEA traders can purchase and sell electricity from generators, other traders or public wholesalers to eligible consumers, other traders or to public wholesalers.

In addition to the electricity TSO, MAVIR Zrt. (“**MAVIR**”), there are six electricity distribution network licensees, which operate, maintain and develop the distribution grids as part of a vertically integrated electricity undertaking in accordance with the rules of legal, organizational and operational unbundling.

In the course of the Government’s utility cost reduction policy, a new state energy supplier, ENKSZ (the First National Utility Company), was established in order to provide a nationwide electricity and gas universal service. ENKSZ is a holding company owned by the MFB Hungarian Development Bank. MFB-ENKSZ has bought 100% of FŐGÁZ from Budapest City and RWE. On this basis, nationwide natural gas universal supply has already started based on a new extended license. After a recent amendment to the gas law (Act XL of 2008), several private universal gas service providers, none of which was owned by RWE, gave back their licenses. Based on the regulatory authority’s decisions, ENKSZ-FŐGÁZ has gradually taken over and will continue to take over the former customers of these companies. Following all these takeovers, ENKSZ-FŐGÁZ will essentially be the only universal gas service provider in the country. ENKSZ may also become electricity and district heating supplier, but the relevant decisions have not been taken yet.

#### 16.5.5.2 *Grid Operations*

VET provides the main rules for the whole electricity market, including distribution activities. The responsibilities of DSOs include operating the network covered by the operating license in a seamless and safe manner, serving all market operators in a competitively neutral manner, transmitting electricity to users and operating, maintaining and, if necessary, developing the distribution network of the given area. In addition to these duties, the DSOs shall ensure the long term ability of the distribution network to meet reasonable demands for the distribution of electricity. The DSOs must own the distribution network, system and operation control equipment, and tariff metering and information technology equipment necessary for their activities.

The distribution sector is regulated under a license regime. An incentive based price cap/revenue cap model is applied. The regulatory period generally covers four years and currently extends from 2013 to 2016. The new regulatory period will start in 2017 with the cost review process to be carried out in 2016.

Distribution tariffs are designed to cover the costs of operation, maintenance and development of the distribution grids and the costs related to customer service as well as the eligible costs of grid losses.

The results of DSOs are based on the difference between regulated revenue and actual expenditures. Regulated revenue is the sum of the justified values of profit (RAB multiplied by WACC) plus OPEX plus depreciation plus grid losses and by applying certain adjustments. The determination of the components of the regulated revenue for the first year of each of the four-year long regulatory periods is based on an asset and cost review process executed in the year prior to the start of that period.

Acknowledged values for the second to fourth year of the period will be determined by indexing the values of the previous year. The index is defined as CPI-X (customer price index decreased by the required efficiency improvement factor). In the current regulatory period this adjustment method was not applied regularly due to low level of inflation. Nevertheless, the regulation is primarily based on the assessment of assets and costs side. An incentive system for investments is also applied to ensure quality standards.

Depreciation aims at securing source for yearly investments (CAPEX). An investment malus (theoretically also bonus) system has been introduced to penalize yearly CAPEX lower than acknowledged depreciation by reducing RAB within a given regulatory period.

To determine the actual distribution tariffs, at first the acknowledged costs are allocated for voltage levels and also for tariff items applied on voltage levels. Then, the voltage level tariffs are determined by the ratio of acknowledged costs and the projection base, which is distributed electricity volume, installed capacity and number of connection points. The two dimensions of

the Hungarian grid tariff structure are the five voltage levels, such as high voltage (HV), high-medium voltage (HV/MV), medium voltage (MV), medium-low voltage (MV/LV) and low voltage (LV) and the six tariff items, such as basic charge, capacity charge (fix or capacity based items), and energy charge, distribution reactive power charge, distribution loss charge and distribution time schedule balancing fee (volume based tariff items).

Customers are ranked into one of the above five voltage levels and are obliged to pay the tariff items according to the actual tariff setting. Since a countrywide uniform tariff system (no regional tariff) applies for all DSOs in Hungary, differences from regional and structural specialties will be balanced out by a special compensation mechanism.

The incentive system works through the annual evaluation of quality-of-service indicators. Accordingly, while reviewing distribution costs, the regulatory authority considers (before the start of the price regulatory cycle) how distributors met the expected level of quality-of-service indicators in the year under review and the quality of service that distributors achieved in comparison to one another. According to this, when determining the value of recognized justified expenses (in the course of the comparative analysis of the operational expenses of technical non-core activities), the regulatory authority lowers the level of cost reduction that would otherwise be deemed necessary for distributors that perform better.

The other element "on the price side" of the incentive system of service quality is the regulation set out in HEA Decree 4/2013 (X. 16.) and on the guarantee of origin of electricity on the electricity system charges and the rules of their application, which sanctions the deterioration of distribution service quality indicators. Under this regulation distribution service providers which are not performing up to standard must give a specified discount on distribution tariffs charged to consumers in the second half of the following year in the event of a substantial deterioration of any service quality indicator, to the extent determined in the above decree of the regulatory authority (depending on the degree of deterioration and the number of indicators concerned).

After the data was made available and processed, HEA carried out the evaluation of the service quality indicators for 2013 by May 2014. As the evaluation of the service quality indicators did not justify the application of any sanction, no obligatory price discounts were offered in the second half of 2014.

In Hungary, there is currently no formal obligation for DSOs to implement smart metering. HEA has formed a smart metering work committee involving all affected parties. The DSOs implemented pilot projects in connection with smart metering in 2013-2014, which were terminated by the end of 2014. The evaluation of findings and the related report have not yet been published. A state owned company, KOM Zrt. (*Központi Okos Mérés Zrt.* - Central Smart Metering Ltd), which is responsible for central smart metering projects, has recently been established.

#### 16.5.5.3 *Retail Segment*

To start retail activities in Hungary a license or notification is required. In addition, general terms and conditions of electricity and/or gas supply require approval of HEA. Some of these terms and conditions are determined by law, with a deeper level of regulation in the field of universal service and a lower level of regulation in the free market. As a result of the liberalization of electricity and natural gas markets, each customer is entitled to choose its electricity and gas supplier. In the free market, the prices of energy products are determined by the market, whereas customers eligible for universal service are entitled to purchase power and natural gas at a regulated price. Such regulated prices for households are kept at an artificially low level by the government. As a result, eligible household customers do not buy energy in the free market.

The full end user price of electricity for users eligible for universal service (USP) consists of the universal service fee of electricity, the system charges, the energy tax paid by non-household users and the VAT thereof as well as the separately treated cash-at-hand and bank deposits

(subsidy for the structural reform of coal industry, subsidy for the reduced-price electricity supply for electricity industry pensioners, subsidy for connected production structure reorganization) paid only by non-household users as of November 1, 2013.

#### 16.5.5.4 *Sector Specific Taxes*

In Hungary, sector-specific special taxes are levied on companies in the energy sector. The package of new taxes and fiscal measures introduced in the energy sector started in 2008, with the introduction of the so-called Robin Hood tax (income tax on energy suppliers). Act LXVII of 2008 introduced this new tax from January 1, 2009. At the start of and until the end of 2012, the applicable tax rate was 8% above the normal 19% corporate tax rate. In 2010 and in parallel to the introduction of the crisis tax on energy, the Government extended the application period of the Robin Hood tax. Originally it was designed as a temporary measure until the end of 2010, but it was decided to extend its application period beyond 2010 (Act CXXIII of 2010). In the second half of 2012, contrary to the Government's prior announcement to fully abolish the tax, Act LXIX of 2012 increased the rate of the Robin Hood tax from 8% to 31% above the normal 19% corporate tax rate for an unlimited period of time. In addition, the Act expanded the tax from open market business to regulated business. The new rules leading to an overall tax rate of 50% for energy companies have been in force since January 1, 2013.

In 2012, it was decided to introduce a new tax called the cable or utility tax. Since the beginning of 2013, companies with the corresponding infrastructure (energy, telecommunications etc.) have had to pay EUR 0.43 (HUF 125) per meter on the lengths of cables or pipes. This special tax places a major burden on our operations, because it reduces profits after tax, while there is no connection to revenues and profitability and there are no tax deduction opportunities.

The Government amended the Electricity and Gas Acts and prohibited gas and electricity companies from invoicing separately or directly or indirectly passing on the costs arising from the introduction of these new taxes to consumers.

In parallel to the above measures, during 2013-2014 the Government carried out an ambitious regulated price reduction policy covering a number of utility sectors such as electricity and gas supply, district heating, waste management and water supply. In the case of electricity, there have been three price cutting measures for universal service. End-user prices for households were cut by 10% from January 1, 2013, by another 11.1% from November 1, 2013 and another 5.7% from September 1, 2014.

The burden resulting from the first cut was primarily placed on electricity suppliers in the universal service and also on DSO companies, while the second and third cuts were mostly placed on the state-owned MVM.

#### 16.5.5.5 *Ongoing EU procedure concerning internal energy market rules*

The Hungarian legislative framework transposing the requirements of the EU's Third Package is currently subject to a formal infringement procedure of the European Commission. To our knowledge, the European Commission criticized the tariff structure enabling a type of "cross-financing" that favors certain consumer groups. In addition, the sectorial ministry's right to determine the applicable rules for setting the tariffs may undermine independence of the regulator in the eyes of the European Commission. The European Commission is also concerned about a regulatory arrangement whereby decisions made by the energy regulator have the status of national law. The right of energy companies to claim the revision (amendment) of the regulatory authority's decisions in a court is also not guaranteed. The European Commission further criticized the decision by the Hungarian government to reserve transport capacity on the HAG gas pipeline – connecting Hungary to the Baumgarten gas hub in Austria – *inter alia* for the state-owned electricity company MVM. On June 7, 2016, the Hungarian Parliament adopted the law proposal T/10523 on the amendment of certain energy-related acts due to legal harmonization. The adopted law was published in the Hungarian Official Journal on June 14, 2016 as Act LIX of 2016. It addresses two of the main concerns of the European Commission in the infringement procedure. In particular, it strengthens the energy regulator's independence

by shifting the price regulation powers in the case of network-related tariffs from the ministry to the energy regulator and it recreates the right of the energy companies, including network operators to claim a revision (amendment) of the regulatory authority's individual decisions in a court of law.

## **16.5.6 Italy – Renewables Segment**

### **16.5.6.1 Promotion of RES Installations**

In 1992, Italy established a fixed feed-in tariff system for the promotion of electricity generated from RES, covering the first eight years of energy production. This system has been subject to several amendments and changes since. Notably in 1999, Decreto Legislativo (DLgs) 79/99 introduced priority access to the grid for RES installations and a mandatory renewable energy quota system for conventional producers. The new support mechanism was designed as a market-based mechanism with tradable green certificates requiring power producers and importers to source a certain percentage of electricity from RES, starting at 2% in 2002 and gradually increasing to 7.55% in 2012. In 2007, the period for promotion of RES via green certificates was further extended to 15 years for new and refurbished installations, from the previous 12 years.

The certificate scheme was handled by the Electricity Market Operator (*Gestore Sistema Elettrico*, “GSE”) and the Regulatory Authority for Electricity and Gas (*Autorità per l'energia elettrica il gas e il sistema idrico*, “AEEG”). While GSE's role was to verify that the participants were fulfilling their quotas, AEEG imposed fines for non-compliance. The market regulated the value of the certificates, although in the event of an excess number of certificates on the market (long market), GSE had to purchase the certificates at a fixed price calculated at 78% of the price of the certificates sold by GSE (Legislative Decree 28/2011). The implementation decree of Budget Law 2008 also created a mechanism to withdraw unsold green certificates from the market in order to maintain the green certificate price.

From April 1, 2013 the quota system for green certificates was replaced by a feed-in system for new plants below a certain threshold and a tendering scheme for new plants with a capacity above the threshold. Different thresholds apply depending on the RES type (DM (Ministerial Decree) of July 6, 2012). The projects already rewarded with Green Certificates will receive a feed in tariff equal to the corresponding value of the former certificates for the residual period of the incentive. For new plants, however, the duration of the support is equal to the average lifetime of the technology, e.g., 20 years for onshore wind. Smaller installations below the technology minimum threshold will receive a fixed feed-in tariff, while plants above the technology minimum threshold (e.g., 5 MW for wind onshore) have to submit bids for feed-in tariffs during the auction period, planned to be conducted at least once per year, and have to stay within a defined cap-floor range. Feed-in tariffs are then assigned on a pay-as-bid basis equal to the difference between the highest value between the bid and the floor minus the power price paid by the market. Hence, the support mechanism can be characterized as a Contract for Difference. The difference is paid out under private contracts with GSE.

Although for wind onshore only about 50% of the 1,200 MW installed capacity as awarded in the tender procedures has been built as of December 2015, the costs for the support scheme increased quickly due to the drop in wholesale market power prices. In order to control the financial impact of RES support on power consumers, a maximum annual support value was set for photovoltaic installations (EUR 6.7 billion per year) as well as for all other technologies (EUR 5.8 billion per year). The cap for photovoltaic installations had already been reached in June 2013, while the cap for all other technologies has not yet been reached.

### **16.5.6.2 Regulatory Outlook**

With a RES share of 17.1% in the overall electricity consumption in 2014, Italy has already reached its targets under the National Renewable Energy Action Plan (NREAP) for 2020 as prescribed in the Renewable Energy Directive. Initially, a total RES capacity of 43.2 GW (mainly consisting of hydro, solar and onshore wind) was planned to be installed by 2020. However,

47.5 GW of RES capacity was already installed in 2013. Only the technology specific target for onshore wind of 12 GW in 2020 has not yet been reached. In December 2015, the installed capacity totaled approximately 9 GW.

The latest national energy strategy (Ministerial Decree of March 8, 2013) provides for further medium and long-term development scenarios for RES up to 2020 and 2050. A main objective of this strategy focusses on exceeding the environmental “20-20-20” European objectives and taking the lead in the European decarbonization process (“Roadmap 2050”). Specific actions in this regard include energy efficiency targets, a sustainable development and integration of RES into the national electricity market as well as the development of electricity infrastructure and the electricity market.

A new incentive scheme for the period 2018-2020, in accordance with the EU Guidelines on State aid for environmental protection and energy 2014-2020, is under preparation by the Government. Considering that the support scheme for about 5 GW of onshore wind capacity will phase out in the period between 2023 and 2027, the Italian RES development is expected to combine newly built projects with repowering.

For the promotion of RES (excluding for photovoltaic installations) for 2016 a Ministerial Decree was published in June 2016 (DM of June 23, 2016). The Decree defines a transitional period from the regime under the DM (Ministerial Decree) of July 6, 2012 and the new regime for the period between 2018 and 2020.

Other major regulatory consultations concern the harmonization of the Italian regulation with the CACM, the introduction of negative market prices, the review of the balancing market and of the ancillary services with a focus on RES and demand side management, the alignment of the energy market design with European Market Coupling requirements as well as the adoption of a “capacity market”.

#### 16.5.6.3 *Permit Requirements for RES Installations*

In 1991, Law 9/91 allowed for producing energy from RES through simplified authorization procedures. The Guidelines for the authorization of RES plants and Legislative Decree 28/2011 further harmonized regional procedural processes for the authorization of RES installations and simplified administrative procedures for the realization of RES installations.

Currently, there are two relevant procedural processes for the construction of RES installations. A Single Authorization (*Autorizzazione Unica*, “AU”) is required for the approval of RES installations above predetermined power thresholds. The AU is issued at the conclusion of a “Single Procedure” performed as part of the “Services Conference” (*Conferenza dei Servizi*) in which all the authorities concerned are participating. An AU gives the right to construct and operate the plant.

In contrast, a simplified procedure (“PAS”) is used for the realization of RES installations below predetermined power thresholds. PAS must be submitted to the competent authority at least 30 days prior to the start of the construction works, accompanied by a detailed report, signed by a qualified designer and by the appropriate design documents, attesting the compatibility of the project with the planning instruments and the current building regulations and compliance with safety and sanitation regulations.

### 16.5.7 **The Netherlands**

#### 16.5.7.1 *Renewables Segment*

##### 16.5.7.1.1 Promotion of RES Installations

In the Netherlands, the “Energy Agreement for Sustainable Growth” of September 2013 has set the framework for the energy transition in the Netherlands until 2023. The most important goals of the agreement are to reach 14% of renewable energy in overall energy consumption by 2020 and 16% by 2023, and to reach 100PJ energy savings per year by 2020. In 2015 a number of important next steps were taken to promote the goals of the Energy Agreement. *Inter alia* a

resolution was reached between all parties about the sustainability criteria regarding the co-firing of biomass and a framework for tendering new wind offshore projects was established.

In 2011, the Ministry of Economic Affairs launched a legislative agenda called “STROOM” (Streamlining, Optimization and Modernization), which is essential for, *inter alia*, the construction of new offshore wind farms because it contains legal prerequisites concerning the installation of an offshore electricity grid by Dutch TSOs. Following the rejection of the STROOM Act by the Dutch Senate on December 22, 2015, the Dutch House of Representatives adopted an Emergency Bill for Offshore Wind on February 18, 2016. Nevertheless, the first offshore wind tender had to be postponed until the second quarter of 2016.

In 2011/2012, the existing premium scheme SDE (*Subsidieregeling duurzame energieproductie*) from 2008 was replaced by the SDE+ scheme (*Stimulerend Duurzame Energieproductie*), which covers both renewable electricity and heat. The scheme addresses companies and non-profit organizations while private producers (prosumers) are excluded. To be eligible for the SDE+, the project has to be realized in the Netherlands. In addition to their SDE+ contribution, producers of renewable energy also receive guarantees of origin per MWh of generation.

The SDE+ is an operating grant which compensates producers of renewable energy for the “unprofitable component” in the form of a contract-for-difference. Depending on the technology, producers are granted an SDE+ contribution for a fixed period (usually 15 years) which is capped for a maximum number of full load hours. The SDE+ contribution is the difference between a fixed component (base amount) and a variable component (correction amount). The correction amount is a reference market price for conventional electricity, *i.e.*, the actual level of the SDE+ contribution depends on the variable market price level. Thus, the SDE+ contribution serves as a sliding market premium which compensates for market price movements as long as the market price does not drop below a pre-defined technology specific floor price (so called base price). In those cases the maximum SDE+ contribution is reached and the total revenue (correction price plus SDE+ contribution) will be lower than the base amount. Hence, the investor is not fully immunized against market risk.

Under the contract-for-difference the revenue level for the producer is determined by the base amount. This base amount is determined competitively via a technology-neutral auction scheme according to a pay-as-bid mode. There are sequential bidding rounds (stages) with maximum bid prices increasing from stage to stage. A total support budget is set annually which refers to the expected “lifetime” support given to all projects which qualify for support in the respective year.

The maximum bid prices per round differ per technology. They are defined annually based on cost estimates for each technology (so-called cost prices).

In addition, each stage includes a free category which should offer opportunities for innovative producers to enter the SDE+ earlier as well as for certain technologies for which the costs are expected to be generally higher (e.g., wave energy).

The staged auction system is intended to achieve cost-efficient promotion of RES technologies including heat and gas. The competition between RES technologies and projects works between and within the different bidding stages. For RES projects with lower costs, investors are able to submit their bids in an earlier bidding stage in accordance with the “first come, first served principle”. Within the same bidding stage projects compete with their actual bid prices.

For the year 2016 there will be two main auction periods with several stages each, the first period was in March, the second one will be in the fall. Each main auction round is announced to have a EUR 4 billion budget. The total budget for 2016 is more than doubled compared to 2015 to ensure compliance with the NREAP 2020 targets, to be subtracted again from the expansion corridor in later years.

RES projects have a maximum of four years for realization and non-realization will be penalized financially (large projects) or by temporary exclusion from future bidding rounds.

Offshore wind is also supported through SDE+, but has an additional, ring-fenced budget which does not interact with other technologies. According to the Wind Energy Roadmap, which is part of the Energy Agreement of 2013, offshore wind capacity is to be increased to 4.5 GW by 2023. Therefore, five zones have been pre-investigated and designated for the development of new offshore wind farms: Borssele Wind Farm Zone 700 MW, Sites I and II (delayed to 2016), Borssele Wind Farm Zone 700 MW, Sites III, IV and V (2016), Hollandse Kust Zuid Wind Farm Zone 700 MW (2017), Hollandse Kust Zuid Wind Farm Zone 700 MW (2018) and Hollandse Kust Noord Wind Farm Zone 700 MW (2019). A new competitive tender scheme has been developed for these designated offshore wind projects (Borssele V, an innovation parcel of 20 MW, will be tendered separately under different conditions, probably in 2017). Investors compete for the right to build and operate a designated offshore wind farm. The contract will be awarded to the lowest bid that meets all defined criteria. The maximum bid price for the Borselle Sites I and II is 124 EUR/MWh (on July 5, 2016, the Government announced that Dong Energy has won the tender for Borselle Sites I and II with an average of 72.7 EUR/MWh), and for the Borselle Sites III-V it is 119,75 EUR/MWh. The details of the second offshore auction round (Borselle Sites III and IV) have been published on July 8, 2016. They are similar to those of Borselle Sites I and II and contain only minor changes, e.g., the Wind Farm Zone amounts to 680 MW instead of 700 MW (combined) and an innovation parcel of 20 MW will be provided separately in 2017. The successful bidder in the offshore wind tenders will automatically be granted the wind permit, allowing for construction and operation of the wind farm.

#### 16.5.7.1.2 Permit Requirements for RES Installations

For the construction and operation of wind turbines the most important permit is the environmental permit. For wind farms larger than 15 MW an environmental impact assessment (*milieu-effectbeoordeling van bepaalde openbare en particuliere projecten*) is required. The procedure starts with a developer sending a detailed project initiative (*Notitie Reikwijdte en Detailniveau*, “NRD”) to the competent authority. When the authority agrees to start the procedure they will make the NRD public. When applying for the environmental permit, plans for construction and exploitation must be submitted together with the EIA.

An environmental permit can only be granted when the wind farm is in accordance with the spatial plan. The national, regional and local governments have their own spatial visions on which locations wind turbines are allowed. The national vision is set down in the Spatial Vision on Infrastructure & Spatial Planning (SVIR 2012) and the Spatial Vision Wind Onshore (SWOL 2014). In the latter, a goal of 6,000 MW of installed onshore wind capacity in 2020 is envisaged. If the project is not in accordance with the spatial plan, a spatial planning procedure involving public consultation is necessary.

For areas where there may be an impact on nature, an additional nature permit and an exemption for impact on flora and fauna is required. Depending on the location and the project, additional permits may be required, such as water permits, permits for cables and roads etc.

National and regional governments (provinces) may opt for a coordination procedure, i.e., a national procedure for wind farms exceeding 100 MW and a provincial procedure for wind farms with a capacity between 5 and 100 MW). These procedures aim to publish all necessary permits and plans for public consultation at the same time in order to speed up the authorization process. Appeals can only be filed with the Council of State (*Raad van State*) as the body of last instance.

#### 16.5.7.2 Retail Segment

##### 16.5.7.2.1 Legal Framework and Retail Regulation

The legislative framework for the energy sector in the Netherlands is mostly set out in the Electricity Act 1998 and the Gas Act. The Netherlands Authority for Consumers and Markets (*Autoriteit Consument en markt*, “ACM”) is the designated regulator under the Electricity Act 1998 and the Gas Act. The ACM supervises compliance with these acts and EU Regulations. The

ACM has considerable powers to sanction infringements of statutory requirements, including administrative orders subject to penalties or administrative fines. The ACM also monitors the obligations of suppliers to so-called small-scale users (consumers and small business). ACM monitors the tariff setting by grid operators and is competent to establish secondary legislation for national and regional gas and electricity transport. Furthermore, ACM monitors the functioning of the retail and wholesale markets and cooperates in a pan-European context with other national regulatory authorities and ACER.

The supply of electricity and gas to small-scale users requires a supply license from the ACM. ACM issues a supply license only if the applicant has demonstrated the necessary organizational, technical and financial skills. A licensed supplier is obliged to supply small-scale users under reasonable conditions.

ACM monitors the small-scale user supply tariffs and may set a maximum supply tariff when it deems the tariffs too high (so-called safety net regulation). Suppliers must submit new products and/or tariff changes to ACM four weeks in advance. If the ACM considers the tariffs excessive, it may impose a maximum tariff. However, this has not occurred to date. Rather, changes to proposed tariffs have been adapted on a voluntary basis by suppliers to prevent a formal tariff decision.

Consumers requiring special protection – defined by law as consumers who would suffer serious health consequences in case of disconnection from electricity or gas – may never be disconnected. A “no-disconnection period” running from October 1 to April 1 of every year also applies to households in the event of financial disputes. Low income households may benefit from social support schemes.

Licensed suppliers are obliged to supply electricity and gas in a reliable manner and with reasonable terms and conditions. In practice, all licensed suppliers in the Netherlands use the same general terms and conditions, which were drafted in cooperation with the Dutch Consumer Union and the ACM. Contracts may be terminated at all times with 30 days prior notice but with the option for the supplier to impose a fine on the customer due to early termination of the contract.

In addition to any other type of contract, all licensed suppliers are required to offer a model contract for the supply of electricity and gas to small-scale users. The model contract consists of several fixed, standardized predetermined components, which must be sent to consumers in a single package. All model contracts contain the same information in the same order. From December 1, 2011 onwards, a ban has existed on silent prolongation of contracts in the Netherlands.

Under the “supplier model”, licensed suppliers are the primary contact for small-scale users and obliged to invoice for both distribution and supply. The network operator will invoice grid tariffs to the supplier.

ACM also sets additional rules for the energy market, such as rules to ensure that consumers are being well-informed by suppliers. This has repeatedly been a topic of investigation by ACM, which has also led to situations where ACM has imposed fines for not being sufficiently transparent towards consumers. Recently, by amendment of statutory law, suppliers are required to properly inform businesses as well.

ACM is also charged with enforcement of consumer protection laws, such as Directive 2011/83/EU on consumer rights. This Directive has been implemented in the Netherlands in the Consumer Right Act as part of the Civil Code. Contracts for the supply of electricity and gas are covered by this Directive and therefore suppliers must fulfill strict information and formal requirements (such as the right of withdrawal) for different types of contracts (distance and off-premises contracts). If the supplier has failed to provide the required information or to meet the formal requirements the consumer may terminate the contract and shall not bear the costs for the supply of electricity and gas. The supplier then has to restate all payments received from the consumer.

For example, in the Netherlands, where a distance contract has been concluded by telephone, the supplier has to confirm the offer to the consumer who is bound only once he has signed the offer or has sent his written consent. If a supplier does not comply with this requirement, the contract is invalid. The supplier then has to restate all payments received from the consumer.

Currently, there is a controversial debate on whether to impose an obligation on energy suppliers to realize 15 petajoule energy savings with end customers by 2020 in order to realize the national energy savings target under the Energy Efficiency Directive.

#### 16.5.7.2.2 Ownership Unbundling Act

Dutch law requires energy utilities to be unbundled in terms of a strict ownership unbundling. In addition, the Dutch Electricity Act prohibits the sale of shares in Dutch DSOs to private investors (*privatiseringsverbod*), the combination of distribution activities on the one hand and production and/or retail activities on the other hand within group companies even at the DSO level (*groepsverbod*) and prohibits that the DSO and affiliated companies perform activities, which could impair the operation of the involved grid (*verbod op nevenactiviteiten*). ACM is currently enforcing this legislation in order to restore the Dutch level playing by setting a deadline for Dutch vertically integrated companies who have not yet complied with this legislation. However, Essent has already implemented the required measures.

#### 16.5.7.2.3 Dutch Financial Supervisory Act (Wet op het Financieel Toezicht)

In addition to energy regulation, the Dutch Retail segment must also comply with the Dutch Financial Supervisory Act (*Wet financieel toezicht*), if financial products and/or financial services are offered and/or advice on them is given to their customers, especially consumers and households. Financial enterprises, financial advisors and/or financial intermediaries are supervised by the Dutch Authority for the Financial Markets (AFM). This supervision focuses on orderly and transparent financial market processes, integrity of relations between market players and due care in the provision of services to clients.

#### 16.5.7.2.4 REMIT

REMIT introduced a sector-specific legal framework for the monitoring of wholesale energy markets (see "16.2.4.3 REMIT" above). The Dutch Retail segment participates in the wholesale energy market by selling electricity to third parties. Essent is therefore subject to REMIT, which requires Essent to register with the competent national regulatory authority, ACM, and to report wholesale energy market transactions as well as publish insider information. ACER is authorized to implement REMIT, in particular to monitor the market and collect transaction reports.

#### 16.5.7.3 Data Protection

Customer data are processed in particular in the retail segment. The collection, processing and other use of personal data is extensively regulated by both European and national legislation. In the Netherlands, general data privacy law is governed by the Dutch Data Protection Act (*Wet Bescherming Persoonsgegevens*). Compared to other European jurisdictions, the Dutch data privacy law is generally less strict. Fines were increased from a maximum of EUR 400,500 to EUR 820,000, a data breach notification obligation (*Meldplicht datalekken*) was introduced and the requirements regarding data processing and data processor agreements (*Bewerkersovereenkomsten*) became stricter.

The General Data Protection Regulation taking effect as of May 25, 2018 will introduce substantial changes to the EU data protection regime (see "16.4.2 Data Protection" above).

### 16.5.8 Poland

#### 16.5.8.1 Legal Framework – Overview

In Poland, the structure and business of our grid operations in our G&I Segment and generation activities from RES in our Renewables Segment are subject to stringent regulation. This includes

permit requirements for our installations as well as regulations regarding our operative business. Essential legal requirements forming the framework for our business activities, such as requirements regarding the separation of our grid operations from other activities, the principle of non-discriminatory grid access and basic principles for the grid tariff calculation, are set out in the Energy Act (*Ustawa z dnia 10 kwietnia 1997 r. – Prawo energetyczne*). Details regarding access to our grids, such as required contracts and cooperation obligations are regulated by the Ordinance on Energy System (*Rozporządzenie Ministra Gospodarki z dnia 4 maja 2007 r. w sprawie szczegółowych warunków funkcjonowania system elektroenergetycznego*). Specifics regarding the determination of our price caps / regulatory revenues, e.g., cost calculation principles and the regulation formula, are set out in the Ordinance on Electricity Grid and Sales Tariffs (*Rozporządzenie Ministra Gospodarki z dnia 18 sierpnia 2011 r. w sprawie szczegółowych zasad kształtowania i kalkulacji taryf oraz rozliczeń w obrocie energią elektryczną*), the Ordinance on Gas sales and Network Tariffs (*Rozporządzenie Ministra Gospodarki z dnia 28 czerwca 2013 r. w sprawie szczegółowych zasad kształtowania i kalkulacji taryf oraz rozliczeń w obrocie paliwami gazowymi*) and the Ordinance on Energy System (*Rozporządzenie Ministra Gospodarki z dnia 4 maja 2007 r. w sprawie szczegółowych warunków funkcjonowania system elektroenergetycznego*).

In addition, the Energy Regulatory Office (*Urząd Regulacji Energetyki, "URE"*) has specified details of statutory obligations by issuing binding determinations / statements. The promotion of electricity generation from RES is primarily subject to the Renewable Energy Act (*Ustawa z dnia 20 lutego 2015 r. o odnawialnych źródłach energii*). The promotion of electricity generation from CHP is primarily subject to the Energy Act as well as the Ordinance on CHP Energy Generation. The promotion of electricity efficiency is primarily subject to the Energy Efficiency Act.

The basic principle of the Polish regulatory framework is the principle of price regulation for both electricity and gas as prescribed in the Energy Act. This means that any licensed activity in the energy business is subject to price regulation and must be derogated from the price regulation by the regulator on an individual basis. However, in similar cases in the past the regulator has issued a general decree on electricity deregulation that has been confirmed as legally binding by the Polish Highest Court of Justice. On the basis of such action, our Polish retail company has been exempted from electricity price regulation for sales to household customers in the incumbent area.

#### 16.5.8.2 *Grid Operations*

##### 16.5.8.2.1 Regulation of Grid Operations

Our electricity and gas operations are regulated in three main ways: the separation of grid operations from production and supply activities (unbundling), the general obligation to grant non-discriminatory access to all grid customers and grid tariff regulation.

The regulator uses a price cap. The regulator noted that a price cap requires setting some of the regulatory parameters at the beginning of the regulatory period and modifying them every year (parameters such as OPEX or grid losses resulting from implemented models) and some of the regulatory parameters at the beginning of each year for which the tariff is calculated and approved (e.g., depreciation, real-estate taxes, distribution volumes, number of customers / delivery points). Some new or updated mechanisms can be implemented within existing regulatory periods (e.g., new RAB and return on RAB methodology implemented within the second regulatory period (2008-2011) and modified within the third regulatory period (2012-2015)) or implemented for new regulatory periods (e.g., quality regulation valid from the beginning of the fourth regulatory period (2016-2020)).

Each year the regulator sets electricity distribution charges for four customer categories (high/medium/low voltage business customers and households) as a two-part tariff with a fixed component (per MW ordered or per electricity connection) and a variable component (per MWh consumed). The share of the fixed and the variable components differs between customer categories.

Regulatory revenues for the current fourth regulatory period consist of the following elements: return on RAB, permitted depreciation, permitted grid losses, permitted OPEX and other. Return on RAB is calculated separately for standard grid investments and advanced metering infrastructure (AMI) investments (smart metering / balancing meters). Permitted depreciation is based on asset base historical values (old assets) and planned net investments (new assets). Permitted grid losses and allowed OPEX are based on the models set by the regulator. Other elements such as taxes, concession fees, costs excluded from OPEX model etc., are planned mostly based on historical values and transferred one-to-one into tariffs. Pass-through items are TSO costs, transitional costs related to long term contracts (LTCs) dissolution and costs related to the RES support scheme.

DSOs only have direct influence on the OPEX level, depreciation level, return on RAB (via level of investments) and limited influence on losses (volume and price). The influence on investment values is also limited. DSOs shall invest only within the limits approved by the regulator in an investment plan (so-called development plan).

Quality regulation, which was introduced for the regulatory period from 2016 until 2020 and takes effect from 2018, is based on the assumption that quality parameters shall be significantly improved by 2020 compared to 2014. The percentage of required improvement differs, however, depending on the area of activity. Applicable parameters are the System Average Interruption Duration Index (SAIDI) excluding LV (Low Voltage) incidents and including catastrophic breaks, the System Average Interruption Frequency Index (SAIFI) excluding LV incidents and including catastrophic breaks, and the time to connect customers (*Czas Realizacji Przyłączenia*), which is defined separately for different low voltage connection groups. An additional quality parameter is the time of sharing metering data (*Czas Przekazywania Danych Pomiarowych*), for which methodology is, however, not yet defined and which is intended to be introduced to quality regulation from 2018.

The quality regulation model is scheduled for review in 2017 so targets set up for the period from 2018 until 2020 might change. Still under discussion with the regulator are KPIs for monitoring purposes, which will be introduced from 2018 onwards.

#### 16.5.8.2.2 Unbundling Requirements

Our DSOs are subject to unbundling provisions. In particular, the Energy Act requires our DSOs to be separated from other activities in legal and operational terms (see "16.2.2.1.3 Unbundling Requirements" above).

#### 16.5.8.2.3 Grid Access and Grid Expansion

As a further consequence of their natural monopolies, grid operators must grant access to their grid to any third party on an economically reasonable, non-discriminatory and transparent basis. They are required to publish the relevant conditions, a standard form agreement, and the tariffs for the access to their grid on the internet. Grid operators may only refuse access to their grid if they can prove that granting access is impossible for technical and economic reasons.

In addition, grid operators are required to operate a safe, reliable and efficient energy supply network. They must maintain and develop the grid, meeting the demand to the extent that this is economically reasonable.

#### 16.5.8.2.4 Permit Requirements for Grid Systems

Electricity grids are constructed pursuant to the Construction Act (*Ustawa z dnia 7 lipca 1994 r. Prawo budowlane*) and secondary legislation. Depending on the scale of the project, either a construction permit is required (mainly for 110kV lines and 110kV/15kV substations), reporting obligations apply (medium-sized investments) or no permit is required (connections for customers).

Moreover, we must also prepare an outline and detailed technical design and obtain the permits and approvals required by other laws, including *inter alia* the provisions of the Local Area

Management Plan and the Monument Protection Acts, Water Law and Forest Law, as well as obtain industry agreements, e.g., of the Transmission Grid Operator and media administrators with whose networks the designed investment may interfere. Furthermore, it is necessary to obtain rights to real estate for construction purposes from the owners of the land plots where the new or modernized infrastructure is planned. A usage permit is only required for large-scale projects if stipulated in the construction permit.

#### 16.5.8.2.5 License Regulations

In order to execute its obligations under the Energy Act and related Ordinances, all grid owners must obtain distribution licenses from the regulator. The maximum period for which licenses are issued by the regulator is 50 years, but in practice the term is limited to the period covering the Polish Energy Policy as prepared by the government or Ministry of Energy, which currently lasts until 2030. The distribution license of innogy Stoen Operator Sp. z o.o is valid until 2025.

In addition, on the area of each grid, a DSO must be nominated by the regulator mainly in order to give all customers connected to that grid the right to change supplier. This operator can be the grid owner or the role of the operator can be transferred to another entity, which is nominated as the operator.

#### 16.5.8.2.6 Smart Meter Roll Out

Further to a URE statement published in January 2013, the DSOs have been incentivized to make smart metering investments within the scope agreed with URE by receiving an additional return on smart metering investments of 7% plus.

Currently, the additional remuneration is limited only to smart metering projects approved by URE up to the end of March 2015. The intention of the (former) government was to introduce regulations into the Energy Act on a mass roll-out of smart meters. This has not been effected yet but is still being considered by the government and the Ministry of Energy.

### 16.5.8.3 *Renewables Segment*

#### 16.5.8.3.1 Promotion of RES Installations

Traditionally the Polish energy industry together with the mining industry are important employers in the country. Therefore, strong trade unions within the industries are a considerable political force. The new government is also determined to secure the coal mining sector. Although Poland is obliged to secure a 15% RES share in gross final energy consumption by 2020, this target will most likely not be achieved according to a recent analysis. The RES policy is expected to provide for moderate RES development with the main focus on biomass (including co-firing) and biogas, although with the requirement of using biomass from local sources. Photovoltaic installations receive limited support. For onshore wind, the government has introduced a new law which will significantly reduce further growth rate. Wind offshore, however, faces no barriers for development and may be under serious consideration as a potential new RES source at least in the long term post 2020.

The support mechanism based on a green certificate scheme applied for the period between October 2005 and July 2016. However producers of electricity from RES participating in this scheme are granted one certificate per MWh for a period of 15 years. There is no differentiation between the types of renewable technologies concerning the number of certificates issued per MWh.

Distributors report the production data of the renewable plants to the URE. URE issues green certificates for each MWh of eligible electricity generated. The certificates can be sold either directly to another company at an agreed price or via the green certificates market place at the Polish Power-Exchange (*Towarowa Giełda Energii*). Demand for certificates is generated through a purchase obligation for sales companies set out until 2021. Sales companies can also pay a replacement fee instead of purchasing green certificates.

Starting from July 1, 2016 changes to the recent RES Act went into force. According to the RES Act, support for renewable energy installations for the period from July 2016 onwards will be based on an auction scheme with a “pay-as-bid” system. The bids are limited to a technology specific reference price, determined by a regulation of the Minister of Energy. In 2016, auctions are expected to be held for small volumes and for selected technologies only. These auctions shall function as a test run in order to gain experience with this type of promotion mechanism. For 2017, larger auctions with larger volumes and technologies are expected to be held.

The Ministry of Energy will announce volumes and budgets for the auction for the following year for existing and new assets latest October 31 of the previous year for each basket and separately for installations below and above 1 MW.

The baskets are defined for the following RES categories: 1) sources with annual production of more than 3,504 MWh/MW/a (*i.e.*, dedicated co-firing, biomass), 2) sources using biological waste incineration, 3) sources guaranteeing CO<sub>2</sub> emission below 100 kg/MWh and production above 3,504 MWh/MW/a (*i.e.*, hydro and offshore wind), 4) RES sources consolidated in energy clusters (below 110 kV), 5) RES sources consolidated in Energy cooperatives (below 10 MW and 110 kV); 6) sources using biogas and 7) other RES sources (*i.e.*, PV and onshore wind).

Moreover, the bill contains a delegation to issue a regulation in which the Council of Ministers will specify the maximum amount and value of electricity produced separately by the installations belonging to the aforementioned categories. The reference price is to be determined by a regulation of the Minister of Energy, not later than 60 days before the date of the first auction. Furthermore, the bill provides that following the request of the Minister of Energy, the Council of Ministers will issue a regulation specifying the sequence of auctions. Therefore, not all baskets might be offered for auctions at the same time.

Some changes are also proposed for offshore wind projects. The deadline for production of the first electric energy by an offshore wind farm has been extended to 120 months as from the date of conclusion of a connection agreement.

Existing RES installations will continue to be promoted under the former green certificate system, but may opt to switch to the auction system with separate auctions to be held for existing installations.

#### 16.5.8.3.2 Permit Requirements for RES Installations

innogy's installations in Poland are subject to a relatively standardized authorization procedure. The overall development process for an onshore wind farm takes four to six years. One of the key permits is the zoning plan, a document issued by the local municipal council, which determines areas for development of RES. In addition, an environmental decision must be obtained. This requires preparation of an environmental impact assessment, and execution of relevant environmental monitoring. The environmental decisions are issued by the mayor of the relevant municipality or by the regional directorate of environment depending on the size of the investment and on the location (*e.g.*, nature conservation areas). In order to connect the wind farm to the grid a grid connection agreement must be signed. The grid connection agreements are drafted by local DSOs. Furthermore, a civil and military aviation authority permit must be obtained. Finally, a building permit by the district office (*starostwo powiatowe*) has to be obtained.

#### 16.5.8.3.3 REMIT

innogy's RES installations participate in the wholesale energy market by selling the electricity generated to innogy Polska. We are, therefore, subject to REMIT reporting, which mainly prohibits insider trading and market manipulation, obligates market participants to register with their competent national regulatory authority and to report wholesale and SPOT energy market transactions as well as to publish insider information. ACER is authorized to implement REMIT, in particular to monitor the market and collect transaction reports.

#### 16.5.8.4 *Retail Segment*

The general terms and conditions of electricity and gas supply are determined by energy law and civil law. The general principle of Polish Energy Law in respect of price regulation is also applied to the retail business of innogy in Poland. Therefore, any derogation from the price regulation must be approved by the regulator upon individual application of an energy sales company. It is important to note the differentiation between electricity and gas retail markets as these markets are in different stages of liberalization.

The Polish gas retail market is fully regulated while the electricity retail market is regulated only in the area of household customers supplied by incumbents. These electricity supply companies are so-called suppliers of last resort and are subject to restrictive price regulation for the incumbent area.

##### 16.5.8.4.1 *Retail Segment Electricity*

The electricity retail market is subject to regulatory supervision as all retail companies need to obtain a license from URE and need to comply with a certain number of purchase obligations resulting from the Energy and Renewables Laws. These obligations include the procurement of a certain quota of green (for renewables), blue (for biogas), red (CHP from coal), yellow (CHP from gas and CHP from other fuels with installed capacity below 1 MW), purple (CHP from methane gas) and white (energy efficiency) certificates or in the alternative pay a so-called replacement fee for each of these certificates. If a retail company has neither fulfilled its procurement obligation nor paid the replacement fee, it is subject to an administrative fine imposed by the regulator as prescribed in the Energy Act.

As already mentioned above, this segment is significantly more liberalized than the gas retail market is. The price regulation applies only to household customers of former incumbent companies and not to unbundled companies. However, we have been effectively exempt from this price regulation scheme since January 1, 2008, based on a decision of the Highest Court in Poland. This means that our electricity retail activity in Poland is not subject to price regulation.

##### 16.5.8.4.2 *Retail Segment Gas*

The Polish gas retail market is still subject to price regulation for all groups of customers, including industrial and business customers. However, since the regulated price functions as an individual price cap for the retail companies, companies are able to supply customers at prices lower than its regulated prices.

The retail price regulation has been subject to a verdict of the European Court of Justice stating that the Polish price regulations on the gas market violated European regulations. On April 27, 2016 the Polish government presented a plan to implement the court's verdict and liberalize the gas retail market starting from April 1, 2017. The government plan includes a gradual transition (i.e., deregulation) from the current system, starting with the tariffs for industrial customers, followed by other business customers. Household customers shall not be subject to deregulation prior to the end of 2023. Such change of the Polish energy law would result in a significant change of the legal framework as the general principle of price regulation for gas would no longer exist. Such amendment would limit the framework for regulatory interventions in the future.

##### 16.5.8.4.3 *Heating segment*

Energy enterprises possessing licenses for heat generation have to formulate tariffs, which are subject to approval by the President of URE. A simplified tariff procedure applies for companies operating combined heat-and-power generation where the allowed heat prices shall not exceed heat-only benchmarks published by URE. As regards CHP, a support scheme is currently in place and valid until 2018, which is based on tradable certificates and a quota system.

#### 16.5.9 Romania – Retail Segment

Electricity-related activities are strictly regulated under the Electricity and Natural Gas Law No. 123/2012 (*Legea nr.123/2012 energiei electrice si a gazelor naturale*) as well as detailed secondary legislation and are usually subject to a specific authorization or licensing by the Romanian Energy Regulatory Authority, including a license for activities in the electricity or gas sector. The Electricity and Gas Act establishes the general framework for electricity regulated activities, electricity licenses and authorizations. It defines the main concepts applicable to the electricity sector, the country's strategy and energy policy as well as the main competencies of the authorities in this field.

In the liberalized markets, suppliers sell electricity or natural gas to customers by concluding bilateral agreements at negotiated prices, provided that the consumers exercise their eligibility rights. By contrast, in market segments which, either as a matter of law or as a matter of fact, have not been fully liberalized yet suppliers sell electricity at regulated prices.

Open market retail contracts can be legally terminated by consumers with a notice period of 21 days. In practice, however, rather electricity customers would use this option when the contract significantly deviates from market conditions. Open market retail price levels are strongly influenced by day-ahead prices and price expectations.

##### 16.5.9.1 Electricity

The gradual phase-out of regulated prices was completed in December 2013 for non-household consumers, while for households completion envisaged December 2017. The number of consumers supplied on a competitive basis, *i.e.*, those who have chosen to change suppliers, has constantly increased.

To ensure universal service, five appointed suppliers of last resort are required to procure a progressively increasing share from the wholesale competitive market with the costs transferred to end-consumers.

##### 16.5.9.2 Gas

The phase out of regulated prices for non-households is complete. Since January 1, 2015 all non-household consumers are eligible for the free market, even if they did not express their eligibility by signing contracts with negotiated prices and remained under the regulated price regime valid since December 2014. The liberalization of household consumers should be completed by June 30, 2021 with an analysis of the financial impact in March 2018.

##### 16.5.9.3 Low Income Customers

Since we are not active in the household segment in Romania (neither in electricity nor in gas supply), the current regulation in effect that aims to provide financial aid as social protection for low income customers during the cold season does not cause regulatory risk or financial burden for our business.

##### 16.5.9.4 Tax Issues

Companies active in the electricity sector are subject to the general 16% profit tax. Since the beginning of 2014, a new tax has been levied by the Romanian government on special constructions (constructions tax), calculated by applying 1% to the gross accounting value of all buildings owned by companies, which are not otherwise subject to building tax in Romania, including transformer stations or wind turbines.

Electricity is an excisable product. According to the New Fiscal Code – Law no. 227/2015 regarding the Fiscal Code updated by Law no. 57/2016, replaced Law no. 571/2003 (*Codul Fiscal*) – the value of excise for the years 2016/2017 is RON 2.37/MWh (approx. EUR 0.53/MWh) for commercially used electricity and RON 4.74/MWh (approx. EUR 1.1/MWh) for electricity used for non-commercial purposes.

## 16.5.10 Slovakia

### 16.5.10.1 Legal Framework and Overview

The regulatory environment in Slovakia is established through a system of primary and secondary legislation. The Energy Act (Act 251/2012, *Zákon o energetike*) primarily determines the electricity and gas market industry framework including general market participants' roles and obligations. In addition, the Act on Regulation of Network Industries (Act 250/2012, *Zákon o regulácii v sieťových odvetviach*) focusses on setting the regulatory framework and establishing powers of the regulator and market participants' obligations towards the regulator. Energy policy goals in Slovakia to a large extent follow EU energy policy goals: energy security, energy efficiency, competitiveness and sustainable energy. Slovakia is implementing the 20-20-20 goals and the 2030 goals through a set of measures leading to CO<sub>2</sub> emissions reduction, RES increase and reduction of primary energy use.

### 16.5.10.2 Grid Operations

#### 16.5.10.2.1 Unbundling

In July 2012, the EU Third Package was transposed into Slovak law. The primary legislation is supplemented by a variety of secondary legislation, quality standards and technical requirements. Since 2007 regulated and non-regulated assets within each DSO must be separated. After 2012 Slovak legislation and the regulator applied an extensive interpretation of the EU Third Package requirements and requested functional unbundling also on DSO level.

#### 16.5.10.2.2 Impact of the energy politics on distribution grid business

Although there is a statutory framework for the support of RES, a moratorium applies for all three DSOs regarding the connection of RES installations above 10 kW, since TSO experience difficulties in securing grid stability due to lack of interconnections to neighboring countries.

Policy support (RES/CHP support, power generation from domestic lignite) costs are financed via electricity prices which puts pressure on other price components, including distribution, in order to keep the end price acceptable for business as well as household customers. As result the RES support system is currently unbalanced, meaning that support related costs in a given year are not fully covered by the dedicated RES support tariff.

There is a mandatory selective and gradual smart meter rollout. At the end of 2015 80% of all customers with annual consumption over 15 MWh (around 10.000 off-take points in the Východoslovenská distribučná, a.s. (VSD) area) have been supplied with smart meters. By 2020, 80% exceeding a consumption of 4 MWh (around 90.000 off-take points in the VSD area) will need to have a smart meter installed. In total, around 600.000 off-take points will need to be covered nation-wide. Costs for the smart metering are acknowledged in the regulatory costs.

#### 16.5.10.2.3 Distribution Regulatory Framework

For both TSOs and DSOs regulations apply regarding the connection to the grid, access to the grid and transmission/distribution of electricity and losses in transmission/distribution of the electricity.

Connection fees for low voltage are based on power demand and the price can be increased annually by the core inflation index, while at medium to high voltage level a mark-up cost mechanism (so-called stamp) applies, which can be regarded as an average price per capacity unit, i.e., prior costs related to capacity expansion are shared among new subjects connecting to the grid later.

DSOs are also responsible for remunerating RES generators and are only reimbursed for costs in excess of coverage by dedicated tariff with a delay of two years with the imminent risk that the deficit will not be (fully) recognized. On the other hand, DSOs have to refund any surplus also

with a delay of two years. It is currently envisaged that the administration of the support mechanism for renewables and related financial flows will transfer from the DSOs to a central buyer, likely the short term market operator OKTE.

The main regulatory parameters related to distribution tariffs are negotiated and fixed for the duration of the regulatory period. The current fourth regulatory period (2012-2016) as well as the next regulatory period (2017-2021) will last for five years.

Distribution tariffs are a combination of fixed and variable elements with an increasing proportion of the fixed component each year. There is a set of grid tariffs in the region of a DSO, which is the same for all customers at the same voltage level. No social grid distribution tariffs apply.

Quality regulation is in place with automatic compensation for customers for whom the quality standard was not met.

The regulatory method used for the calculation of distribution tariffs is a price cap based on a bottom-up calculation of permitted DSO cost (no revenue correction). Allowed DSO costs are determined based on a certain formula considering RAB, WACC, regulated depreciations, OPEX and applicable corrections. The permitted (regulated) profit is determined by multiplication of RAB and WACC. While the RAB is fixed for the whole regulatory period (as of December 31, 2010) based on expert appraisal of assets as at December 31, 2005 as well as additions and disposals of assets between 2006 and 2010, the WACC is set in the range between 6.03 and 6.12% and subject to a yearly update reflecting the latest development of all WACC formula elements. This calculation is supplemented by regulatory depreciations based on a defined RAB as of December 31, 2010 and a yearly CAPEX, depending on the structure and technical lifetime of assets based on expert appraisal and URSO price decree. The OPEX element is fixed for the regulatory period and (currently) based on the base year 2010 and annually escalated by core inflation minus the efficiency factor, with the current efficiency factor being 3.5%). Other relevant drivers are the distribution volume of a five years average, based on actuals of two previous years, estimated forecast of the current year and planned values for the future two years and a co-efficiency factor comparing the actual amount of investment with available resources. In case of underinvestment the allowed profits are lowered.

#### 16.5.10.2.4 Outlook

For the next regulatory period starting 2017 we expect key parameters (OPEX, RAB, WACC, regulatory depreciation) to be fixed for the duration of the regulatory period. During 2016, URSO is performing a re-evaluation of all regulated assets, which will form the basis for the RAB in the upcoming regulatory period. We also expect that the fix component of tariffs (payment for capacity) will be increased and in turn the variable components will be decreased, assuring greater stability of DSOs' revenues due to lower dependency on volumes.

#### 16.5.10.3 Retail Segment

In addition to the statutory framework mentioned above, our retail segment is mainly subject to secondary legislation comprising several decrees, the most relevant of which are the Decree on Price Regulation, the Decree on Market Rules and the Decree on Quality Standards.

Furthermore, retail business terms and conditions for regulated segments are based on unified samples prepared by the regulatory office and any deviation from this sample in the actual business terms and conditions requires approval by the regulator.

Indirect regulatory effects come from the Energy Efficiency Act ("**EnEf**") and related regulations setting national EnEf targets, measures to achieve and metrics and methodology to quantify such achievements. This legislation establishes new services focused on energy savings and reporting obligations for market participants. Slovakia utilizes political measures to achieve EnEf targets and there are currently obligatory schemes for suppliers or any other market participants.

Supply in general is subject to a licensing procedure regardless of the segment. Security of supply and continuous supply is secured via the so-called supplier of last resort, usually a company with substantial market coverage selected by the regulator. Special supply rules exist and apply to vitally indicated household customers.

Our retail business is also regulated according to price, subject and quality standards. The regulated segments include households and small businesses (consumption threshold 30 MWh per year in electricity and 100 MWh per year in gas). The regulation method used for both commodities is a price cap, *i.e.*, a maximum price, which is determined by a defined formula. Once the price proposal of a supplier is approved, the price decision is valid until the end of the regulatory period, unless relevant parameters significantly change.

In the gas business two alternatives exist for suppliers since 2012. The so-called base supplier, *i.e.*, the supplier with more than 500,000 household consumers, must submit a price proposal including the full calculation of the price cap as defined by the Price decree. For smaller suppliers submitting a price proposal with full price cap calculation is optional. They may also choose to apply the price decision of the base supplier. The main drivers for the price cap calculation are the commodity costs, which reflect the individual contracts and account for 70% and the average market price, which accounts for 30%. For the next regulatory period starting January 2017 we expect that regulated price of commodity in the gas formula will no longer reflect long-term contracts and will be purely based on average market price over a certain period.

In the electricity segment, the supply price cap is also determined by a defined formula. Key drivers include a six month average of the market price (PXE 12-month forward), the cost of a residual curve, cost of deviation, cost of sales and regulated profit.

In addition to the supply component, the final electricity price also includes components related to transmission and distribution systems (including system services and losses) and policy support costs (such as support for renewables and combined heat and electricity production, nuclear decommissioning and support of production from domestic lignite).

#### **16.5.11 Slovenia – Retail Segment**

The energy market in Slovenia is mainly regulated by the Energy Act (*Energetski zakon*), including general terms and conditions for electricity and gas supply. Retail operations in Slovenia are subject to a low degree of energy regulation. A notification to the competent authority (market operator/distributor) is required for the commencement as well as the termination of energy supply to household and commercial customers. The USP tariff is not regulated. Market operators and distributors are responsible for last resort supply.

#### **16.5.12 Spain – Renewables Segment**

##### **16.5.12.1 Promotion of RES installations**

Spain has promoted the production of electricity from RES for a long time. By the year 2015, the renewables' share of total electricity generation in Spain increased up to 30.3%. However, investments in new RES installations have been stifled since the last drastic regulatory changes, which included a moratorium on all renewable plants at first and, two years later, an entirely new support system which follows different principles compared to the prior one and regulates the expansion of RES installations through capacity auctions. The target of generating 20% of final energy consumption (including heat and transport) from RES by 2020 is still officially pursued to comply with EU Directive 2009/28/EC. However, the chances of meeting the target are low taking into account the current gap (only 15.4% was achieved by 2015) and the general lack of larger RES projects that can be commissioned prior to 2020.

In Spain, the current legal framework for the support of RES is regulated by several pieces of legislation, including the Royal Decree-Law (RD-L) 9/2013 of July 12, 2013, adopting urgent measures to guarantee the financial stability of the electricity system and repealing the previous

regime for RES support, law 24/2013 of December 26, 2013 that regulates the electricity sector in Spain, and, finally, Royal Decree (RD) 413/2004 of June 6, 2014 and Ministerial Order IET/1045/2014 of June 16, 2014, which specified the support scheme for renewables by defining its parameters and setting other new and revised regulations for the sector.

The new system provides incentives on both installed capacity per MW (provided that a minimum of operating hours is met) and operations (based on production), but only if the plant meets certain standard conditions. The prior regulatory framework (based on feed-in tariffs and premiums) was replaced by the resolutions mentioned and the so-called Special Regime (*Régimen Especial*), which included all renewable plants except the big hydro installations, was also withdrawn. Consequently, under the new regulation, qualifying renewables installations (new and already operative) no longer receive feed-in tariffs or premiums at all, but rather a special payment, which is limited to the amount considered by the government as needed to ensure a "reasonable return" on "standard installations" (the "**Special Payment**").

The Special Payment is composed of two distinct elements: remuneration per MW of installed capacity and remuneration per MWh of electricity produced, which is intended to cover the operating costs that cannot be met by market prices. Wind onshore and hydro assets are not eligible for the second component of the Special Payment. Under the new regime, the Special Payment is calculated by reference to a standard installation and capped by the concept of "reasonable return", defined as a rate of return of 300 basis points above the average yield on Spanish ten-year government bonds, set for the time being at 7.398%. This is set in relation to the whole regulatory lifetime of a plant, so any return obtained before the entry into force of the new regime is also taken into account to determine if the cap has been exceeded.

Additionally, the average pool price (market price) is indirectly and partially protected by a cap and floor system. However, this mechanism will only be applicable for the calculation of future incentives every three years, *i.e.*, if the annual average pool price in a regulatory period has been above or below the cap and floor values, the new incentives will consider the latter values as references for the re-calculation of future incentives. Therefore, revenues are not directly protected.

If the plant operator refuses the specific remuneration regime for a plant and switches to pool price, the plant will not be eligible to go back to the specific remuneration regime.

The mechanism applies until the end of the asset's regulatory lifetime, which is pre-defined for each standard technology. However, if according to the principles of the system, the equivalent standard plant has already achieved the reasonable return, the incentives will not be applicable. According to this approach, wind onshore plants commissioned before 2004 currently do not receive any additional compensation. Major revisions of the incentives by the government are scheduled every six years (regulatory period), while minor revisions every three years.

Management, control and supervision of the energy markets in Spain, including renewables, is mainly handled by the Ministry of Industry, Energy and Tourism (*Ministerio de Industria, Energía y Turismo*, "**Minetur**") and the National Commission for Competition and Markets (*Comisión Nacional de los Mercados y la Competencia*, "**CNMC**"). While the Ministry is in charge of the main policies and legislation, the CNMC sets specific regulations and supervises its implementation, including all kinds of administrative controls and treasury activities. As mentioned, the new RES support system in place prescribes that new developments will be processed via auctions (or capacity tenders) organized by the Ministry of Industry. The projects would then be permitted at the autonomous community level, following the existing processes already in place. The first of these new auctions was carried out in January 2016, for a total capacity of 700 MW that included both wind onshore (500 MW) and biomass (200 MW). A company which has been successful in the tender procedure but fails to install the respective capacity within a maximum period of four years, has to pay a penalty in an amount equal to the guarantee provided in order to participate in the tender (EUR 10,000 per MW). The new system allows that the awarded companies transfer their rights on the awarded capacity to another company.

#### 16.5.12.2 Permit Requirements for RES Installations

Several permission and administrative procedures must be followed before construction and operation of an RES plant. In particular, an application for an administrative authorization (*Autorización Administrativa*) must be filed with the competent autonomous or regional administration (Department of Industry) as a general permission to develop the project. A guarantee of EUR 10,000 per MW installed must be provided to cover the general proceeding costs.

In addition, an environmental validation (*Declaración de Impacto Ambiental, "DIA"*) is also issued by the autonomous or regional administration and includes public participation. The validation may require certain actions or mitigation measures that must be in place before the start of the construction. The grid connection of the RES installation is managed by a node manager (*Interlocutor de Nudo*) and granted by the TSO (*Red Eléctrica de España*). An RES installation also must be registered in the Administrative Register of Electricity Production (*Registro Administrativo de Instalaciones de Producción de Energía Eléctrica*). Furthermore, some autonomous administrations request the dismantling of guarantees or bonds. Finally, should the plant participate in the auction based investment compensation system, an additional guarantee may be required.

#### 16.5.12.3 REMIT

Our business in Spain participates in the wholesale energy market by selling the electricity generated in RES installations at energy exchanges through a market representative. Therefore, we are subject to REMIT, which mainly prohibits insider trading and market manipulation. The market representative must register with the Spanish Register of Market Participants (*Registro Español de Participantes en el Mercado*) in the CNMC and specific register of the Iberian Electricity Market Operator (*Operador del Mercado Ibérico de Electricidad*) to report wholesale energy market transactions as well as to publish insider information.

### 16.5.13 UK

#### 16.5.13.1 Renewables Segment

##### 16.5.13.1.1 Overview of key laws and developments

The UK's renewables targets are currently governed by the Renewables Energy Directive 2009/28/EC and domestic climate change legislation. Whilst it is unclear how EU targets will apply to the UK following the implementation of Brexit, in June 2016 the UK government announced new commitments under the Climate Change Act 2008, to cutting GHGs by 57% by 2032, from 1990 levels. The announcement was intended to alleviate concerns that it may abandon EU climate policies. The EU targets of 30% of electrical generation from renewables by 2020 are likely to be exceeded and the government has set out its targets for certain technologies by 2030, including 20 GW of offshore wind. Deployment of renewables has increased significantly in the last 15 years following the introduction of support schemes, primarily the Renewables Obligation and feed-in tariffs. The renewables obligation is to be replaced by the Contract for Difference as the primary support scheme.

In the UK generation projects are required to secure grid connection offers with associated liabilities. Operational projects incur ongoing grid charges. The grid and planning consenting regimes result in long development phases. Renewables generation is monitored by the Department for Business, Energy and Industrial Strategy ("**BEIS**") and is reported in the Digest of UK Energy Statistics. This has shown an annual increase in renewable capacity, across all technologies over the last few years. The latest full year report is for 2014. This shows that electricity generation in the UK from renewable sources increased by 21% in 2014, to reach 64.7 TWh. Capacity grew by 24% (to 24.6 GW) over the same period. The contribution of all renewables to UK electricity generation was 19.1% in 2014.

#### 16.5.13.1.2 Promotion of RES installations

In 2002, the UK adopted a green certificates system, the Renewables Obligation (“RO”), under which generators receive Renewable Obligations Certificates (“ROCs”) in addition to the wholesale price for electricity. The ROCs are generally granted for 20 years (subject to a backstop date in March 31, 2037) from the accreditation date. The number of ROCs/MWh received depends on the technology used for the generation, the location and the installed capacity of the station, the accreditation date, and the fuel mix used at the station.

Under the RO, licensed suppliers have an obligation to source a proportion of electricity that they supply to consumers from RES. This proportion (the obligation) is the number of ROCs that suppliers are required to produce for every MWh of electricity supplied to their customers in the UK. The size of the annual obligation is set by reference to the amount of renewable energy that BEIS expects to be generated by the accredited capacity in that compliance year and, based upon this, the number of ROCs that BEIS expects will be issued, uplifted by 10%. As proof of their compliance, suppliers can either present ROCs (purchased from generators) to the Office of Gas and Electricity Markets (“Ofgem”), make a buy-out payment into a fund, or a combination of both. The fixed buy-out price is adjusted annually by inflation. The ROC buy-out price is set at GBP 44.77 for 2016/17. The buy-out payments are redistributed to suppliers pro rata to their compliance with the obligation, *i.e.*, redemption of ROCs. The value of a ROC is derived from the buy-out payment avoided and the prorated value of the buy-out payment redistributed.

For the period from April 1, 2027 to March 31, 2037, the government intends to introduce a fixed price certificate scheme. A government agency will purchase ROCs at a fixed price, expected to be the 2027 buy-out price plus 10% (inflation indexed), and levy suppliers for the cost. This is intended to mitigate reduced liquidity in the final years of the RO scheme. The government intends to consult on the detailed design of the scheme in due course.

The Contract for Difference (“CfD”) is to replace the RO as the primary source of funding for new renewable generators above 5 MW, for delivery beyond 2017. The CfD covers low carbon generation, therefore also including nuclear electricity generation and potentially carbon capture and storage (CCS). A CfD is a private law contract between a low carbon electricity generator and the Low Carbon Contracts Company (“LCCC”), a government-owned company. A generator party to a CfD is paid the difference between the strike price – a price for electricity reflecting the cost of investing in that particular project, based on an auction bid price – and the reference price – a measure of the average market price for electricity in the Great Britain market. It gives greater certainty and stability of revenues to electricity generators by reducing their exposure to volatile wholesale prices, whilst protecting consumers from paying for higher support costs when electricity prices are high. The LCCC recovers the cost of the top up payment via a levy on suppliers.

Contracts are awarded via auctions. Projects compete on a technology neutral basis within auction pots. There are two main pots, one for established technologies and another for less established technologies, with the third biomass pot yet to be used. Projects bid into the auction, based upon their intended year of first generation (the “delivery year”). Administered strike prices are set for each technology, for each delivery year. Bids must be below the relevant administered strike price. Contracts are awarded to successful projects based on the clearing price from the relevant pot for their chosen delivery year. There are contractual penalties for late delivery, although there is opportunity to defer the delivery date or reduce the specified capacity within certain parameters.

The first auction took place in February 2015, awarding CfDs to over 800 MW of established technology capacity and 1.3 GW of less established technologies. In the next four years, the government will auction up to GBP 730 million support for offshore wind and other less established renewable technologies, for projects which commence generation in 2021 to 2026. The first auction, expected for the end of 2016, will offer GBP 290 million of support. No announcements have been made regarding the next auction for the established technologies

pot. In its report on Energy market investigation of June 24, 2016, the CMA proposes to the Department of Energy and Climate Change to undertake and disclose the outcome of an impact assessment before awarding CfDs outside the auction mechanism and to undertake and consult on a clear and thorough assessment of the appropriate allocation of technologies and CfDS between the different technologies and budgets to these technologies.

In contrast to the RO and CfD support schemes described above, small-scale RES installations with a capacity below 5 MW may benefit from a Feed-in Tariffs (“FiT”) scheme. Introduced in April 2010, the scheme requires electricity suppliers to make tariff payments on both generation and export of eligible electricity. Generation and export tariff rates are set by technology and date of accreditation. The tariffs are index-linked. The contract term is generally 20 years, 25 years for solar photovoltaic projects. On January 15, 2016 changes to the FiT scheme came into force including the introduction of deployment caps, changes to tariffs, tariff degradation and the re-introduction of preliminary accreditation.

In addition to the support schemes, the Climate Change Levy (“CCL”) is a tax on UK business energy use, charged at the time of supply. Energy use refers to electricity, gas, liquid petroleum gas and solid fuel. Historically the final recipient of supplies of electricity generated from certain renewable sources and combined heat and power enjoyed tax exemptions. This was demonstrated via the issue of Levy Exemption Certificates (“LECs”) to generators. Although LECs continue to be issued to renewables projects, in the UK Budget Statement on July 8, 2015, the Chancellor of the Exchequer announced that with effect as of August 1, 2015, electricity generated from renewable sources will no longer be eligible for the CCL exemption when supplied under a renewable source contract.

#### 16.5.13.1.3 Permit Requirements for RES Installations

In the UK there is a prohibition on, *inter alia*, the generation of electricity for the purpose of supply without a proper license or exemption. Ofgem decides on gas and electricity license applications. The Secretary of State may grant an exemption from this requirement either to an individual person or to persons of a class. Projects below 50 MW are subject to such class exemption. Above this level generators may apply for exemption, however, the government’s policy has broadly been to only consider applications for generating stations of less than 100 MW capacity. Furthermore, generators connected to the transmission grid must sign a Bilateral Connection Agreement with National Grid and be party to the Connection and Use of System Code, which includes, *inter alia*, the methodology on connections and transmission charging. Distribution connected generators must sign a connection agreement with their DNO and are subject to the Distribution Code. DNO connected generators which are deemed to have an impact on the transmission network, must sign either a Bilateral Embedded Licence Exemptible Large Power Station Agreement (BELLA) or Bilateral Embedded Generation Agreement (BEGA) with National Grid. This requirement applies to large power stations (BEGA or BELLA), licensable power stations (BEGA) and also power stations wishing to participate in the Balancing mechanism (BEGA). Sites over 10 MW in SHETL (Scottish Hydro Electric Transmission Limited) region, 30 MW in SPT (Scottish Power Transmission) region, or 50 MW in NGT (National Grid Transmission) are defined as large power stations and must comply with the respective Grid Code requirements. A person holding a generation license must also become a party to the Balancing and Settlement Code.

Regarding planning, the Planning Act 2008 and associated regulations set out the formal processes for seeking and obtaining project consent for UK offshore wind farms over 100 MW. Consenting is the process of obtaining the necessary permissions from the government and other statutory bodies to allow a project to be built. Consenting work is always accompanied by design work to deliver a project consent envelope, and the commercial negotiation process to deliver the required commercial agreements that are also needed to enable a project to be built legally and without challenge. Consent management requires the effective integration of technical (design, wind resource, grid) and environmental (Environmental Impact Assessment

surveys, ground model, impact assessment) information to define a project scope which meets the requirements of internal stakeholders (commercial/engineering/projects) whilst satisfying the demands of external stakeholders (commercial operators, consultees, public, landowners) and ultimately the scrutiny of the decision maker (the Regulator – local planning authority, Secretary of State, Scottish Minister or Welsh Minister) to grant consent. Consent is granted if the project meets legal requirements and can demonstrate no significant environmental impact or acceptable mitigation.

Regarding planning requirements, onshore generating stations with a capacity of 50 MW or less (and all onshore wind generating stations in England), and a capacity of 10 MW or less in Wales require consent under the provisions of the Town and Country Planning Act 1990 (as amended) (the “TCPA 1990”). Applications for consent under the TCPA 1990 are determined by the relevant local planning authority. In Wales, the Planning (Wales) Act 2015 introduced a new category of developments, termed Developments of National Significance (“DNS”), which includes onshore generating stations with an installed capacity of between 10 MW and 50 MW. DNS applications are submitted to the Planning Inspectorate Wales which examines the application and makes a recommendation to the relevant Welsh Minister who makes the final decision. In Scotland, onshore generating stations with a capacity of 50 MW or less require consent under the provisions of the Town and Country Planning (Scotland) Act 1997 (as amended).

In England and Wales, an application for a development consent order (“DCO”) to authorize Nationally Significant Infrastructure Projects (“NSIPs”) requires consent under the provisions of the Planning Act 2008 (as amended) (“PA 2008”). NSIPs include (amongst others) the construction or extension of an offshore generating station with a capacity of more than 100 MW and the construction or extension of an onshore generating station with a capacity of more than 50 MW (except onshore wind generating stations). A DCO application under the PA 2008 for an NSIP is made to the Planning Inspectorate which will examine the application and make a recommendation to the Secretary of State at the BEIS for decisions on energy applications. In Scotland, applications for consent under the Electricity Act 1989 (as amended) have to be made directly to the Scottish Ministers *inter alia* for the construction or extension of an offshore generating station with a capacity of more than 100 MW and the construction or extension of an onshore generating station with a capacity of more than 50 MW. In England and Wales, the Marine Management Organisation (MMO) is responsible for considering and determining applications for consent under the EA1989 for offshore generating stations with a generating capacity of more than 1 MW but less than or equal to 100 MW. In Scotland this responsibility falls to Marine Scotland.

The seabed around Britain is controlled by the Crown Estate as far as offshore wind development is concerned. So far three main offshore leasing rounds have been held plus a Scottish round and an extension round. Different approaches have been taken each time with respect to sizes of the areas or zones offered and also whether or not the developer proposes the area or it is pre-determined by the Crown Estate. With all of these leasing rounds it has been the developers risk to obtain consent for the specific wind farms planned after being awarded an option to lease by the Crown Estate. The same has applied to securing a viable grid connection from National Grid and consent for this.

In addition to the aforementioned permits, the Water Environment (Controlled Activities) (Scotland) Regulations 2011 apply regulatory controls over activities which may affect Scotland’s water environment. In England and Wales, licenses to abstract and impound water can be granted under the Water Resources Act 1991, as amended by The Water Environment (Water Framework Directive) (England and Wales) Regulations 2003 and the Water Resources (Abstraction and Impounding) Regulations 2006. The regulations cover rivers, lochs, transitional waters (estuaries), coastal waters groundwater, and groundwater dependent wetlands. The legislation gives the regulators powers to grant licenses to abstract and impound watercourses, as well as carry out engineering works in watercourses.

#### 16.5.13.2 Retail Segment

The energy regulator, Ofgem (the Office of Gas and Electricity Markets), has jurisdiction across Great Britain (England, Scotland and Wales – Northern Ireland has its own regulator). It is governed by the Gas and Electricity Markets Authority (GEMA) and the authority's powers are provided for under relevant primary legislation; the Gas Act 1986, Electricity Act 1989, Utilities Act 2000, Competition Act 1998, Enterprise Act 2002 and a number of Energy Acts. Further levels of regulation are set through secondary legislation (for example parliamentary orders), tertiary (for example license conditions) and quaternary (for example guidance provided by the regulator) rules.

The regulation of the retail energy market can be regarded as falling into the categories of domestic consumers, microbusiness consumers, other business consumers, "industry facing" codes and rules for example relating to payments to the system, market and network operators, wholesale market participation, reporting requirements (costs, profits, customer statistics etc.), environmental obligations based on market share, social obligations based on market share, other obligations such as the capacity mechanism, general legislation (e.g., consumer protection) and competition. Other regulators such as the Office of Communications and the Financial Conduct Authority may also be involved as competent authorities regarding, *inter alia*, heat, data privacy, home insurance and payment systems.

Consumer prices are generally not formally controlled by the regulator, although some relative prices are subject to regulatory restrictions, e.g., the difference in charges between payment types and the difference in charges between customers with signed contracts and those who have not signed contracts, and are therefore deemed to have contracts. The regulator does also set or limit some consumer charges, such as for failed appointments.

In 2014 GEMA referred the energy market in Great Britain to the CMA to investigate competition issues connected with the supply or acquisition of gas and electricity in Great Britain, including both retail and wholesale markets. Specifically for retail markets this covered only the retail supply of households and microbusinesses. The CMA published the outcome of its investigation on June 24, 2016. Over 30 measures will be introduced which are intended to reduce customers' costs by increasing competition between suppliers, helping customers to engage with suppliers in order to benefit from competition, and by protecting customers who are less able to engage with suppliers and thus to benefit from competition. They will also change the retail and wholesale markets from a technical and regulatory perspective. The list of measures included a cap on the level of bills charged to domestic consumers with pre-payment meters for a time period until the end of 2020, the establishment by Ofgem of a program to provide customers with information to prompt them to engage, a consumer database of inactive customers to be managed by the regulator and used (in ways yet to be determined) to stimulate engagement and allow rival suppliers to prompt these customers to engage, the requirement for suppliers to publish small business prices online, detailed reporting of generation and retail supply activities separately (balance sheet and profit and loss account) and changes to the allocation of electrical losses in transmission.

A current further source of regulatory change is the journey towards "smart" production and consumption by end consumers (commonly called "prosumers") in response to the low carbon transition, and the associated change in the production of power from central flexible controllable to more decentralized. There are smart and advanced meter rollouts in the domestic and business sectors. Associated with these rollouts and the associated enablement of demand side response is a substantial regulatory architecture. This includes, for example, rules on interoperability between devices and suppliers so that change of supplier is minimally restricted by the installation of smart capability at consumer sites, on the use of data, on prepayment for energy, and on industry facing activity such as development of electricity settlement (payment to the market operator) at half hourly resolution for electricity, and a major overhaul of the central gas systems (called Nexus). Ofgem is actively considering alternative business models in which the prevailing market structure which places the supplier at

the center of the payment structure, may change, in particular in relation to Distribution System Operators, aggregators, the procurement by national grid of reserve services from consumers, energy service companies and the general accommodation of new actors in the space of data and devices.

A change that covers the whole consumer regulatory landscape in many sectors led out largely by the financial services sector is Principles Based Regulation (PR). The idea here is to replace specific rules by the core principle of treating customers fairly. The regulator is very committed to PR and there is broad consensus behind it. PR is in its early stages and although the Standards of Conduct Supply License Condition (SLC25C) is now live, there are currently no rules that have been replaced by principles.

The energy environment is also subject to significant political, media and stakeholder attention. Partly as a result of this, there has been a series of political regulatory interventions. Some have been small, *such as* requirements to put quick read codes on bills, or the GBP 12 Government Electricity Rebate paid by government via consumer bills, some have been substantial, e.g., a drive to decrease the limit in supplier switching time from the 14 day cooling off period plus 21 days, to as short as Next Day Switch. Some come and go, e.g. the potential requirement for a supplier to put their consumers onto the cheapest tariff existing amongst all suppliers. These interventions cannot always be anticipated and commonly have short implementation timescales.

## 17 GENERAL INFORMATION ON THE COMPANY AND THE INNOGY GROUP

### 17.1 Incorporation, Entry in the Trade and Companies Register, Name

The Company was founded by RWE Downstream Beteiligungs GmbH i.Gr., Opernplatz 1, 45128 Essen, by means of a notarial deed dated December 11, 2015 in the form of a stock corporation (*Aktiengesellschaft*) under German law and with the legal name "RWE Downstream Aktiengesellschaft". It was incorporated by registration with the commercial register maintained by the local court (*Amtsgericht*) of Essen, Germany, on January 5, 2016 under the registration number HRB 26928. On January 26, 2016, the shareholders' meeting of the Company approved the merger plan (*Verschmelzungsplan*) dated January 26, 2016, relating to the change of the Company's legal form to a European company (*Societas Europaea*) under the legal name "RWE International SE" by way of a merger by absorption (*Verschmelzung zur Aufnahme*) of Essent SPV N.V., Willemsplein 4, 5211 s'-Hertogenbosch, the Netherlands, into the Company. The transformation and the change of legal name of the Company were registered in the commercial register of the Company maintained by the local court (*Amtsgericht*) of Essen, Germany, on March 11, 2016.

On August, 11, 2016, the shareholders' meeting of the Company approved the change of legal name of the Company to innogy SE. The change was registered in the commercial register of the Company maintained by the local court (*Amtsgericht*) of Essen, Germany, on September, 1, 2016. As of the date of the Prospectus, the Company, with its registered seat in Essen, Germany, is registered with the commercial register maintained by the local court (*Amtsgericht*) of Essen under the registration number HRB 27091.

The commercial name of the Company and the Group is "innogy". In addition, some of the Company's subsidiaries use other commercial names reflecting other important Group brands, in particular Süwag, LEW Lechwerke, enviaM, ELE, VSE, energis and eprimo in Germany, npower (UK), essent and energiedirect.nl (the Netherlands), ELMŰ, ÉMÁSZ and MÁSZ (Hungary). For further information on the Group's brands, see "15.11 Intellectual Property".

As a European company the Company is subject to European legislation on SEs, especially to the SE Regulation. If any matter is not covered or only partially covered by the SE Regulation, the provisions of the national law where the SE is registered and which apply to public limited liability companies are applicable to the SE. Having its registered seat in Germany, innogy SE is governed by German law subject to the provisions of the SE Regulation. Thus, the German Stock Corporation Act (*Aktiengesetz*) as well as other provisions of law applicable to stock corporations (particularly the German Transformation Act (*Umwandlungsgesetz*), the German Commercial Code (*Handelsgesetzbuch*), the German Securities Trading Act (*Wertpapierhandelsgesetz*) and the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) apply alternatively. Therefore, with respect to capital measures such as capital increases and reductions, shareholders' meetings and accounting, German law (in particular the German stock corporation laws) applies.

### 17.2 History

On December 1, 2015, RWE AG announced its plans to pool the business segments Grid & Infrastructure, Retail and Renewables of Former RWE Group in Germany and abroad in a newly established subsidiary. Most business activities and assets pertaining to these business segments were already contained within and held by separate legal entities. These legal entities have either been merged into or transferred by way of a share transfer to the Company, either directly or indirectly. For further details, see "5 Carve-Out and Organizational Measures". In connection with the separation from the Former RWE Group, the Company and RWE AG entered into several agreements governing the future relationship between and cooperation of the innogy Group and the RWE Group. For further details, see "21.1 Transactions and Relationships with RWE AG and the RWE Group".

### **17.3 Domicile, Legal Form, Legislation, Financial Year, Registered Office, Duration, Corporate Purpose**

The Company is a European company (*Societas Europaea* or SE) domiciled in Germany. It was incorporated in Germany and is governed by the laws of Germany and the EU legislation on SEs, in particular the SE Regulation. The financial year of the Company runs from January 1 until December 31 of each calendar year.

The registered office and business address of the Company is located at Opernplatz 1, 45128 Essen, Germany; Telephone (+49) (0)201 12 02, Internet address: [www.innogy.com](http://www.innogy.com).

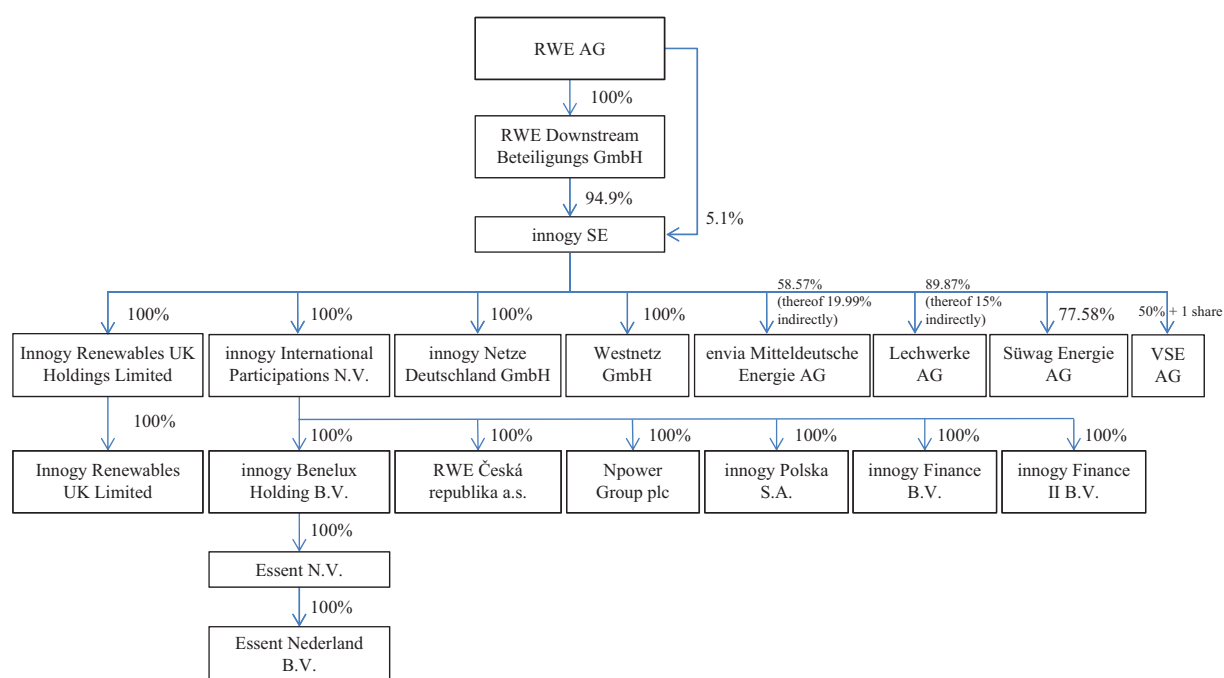
The Company is established for an indefinite period of time.

According to section 2 of the Company's Articles of Association, the purpose of the Company is to manage a group of enterprises in Germany and abroad operating in particular in the following business fields: electricity and heat generation primarily from renewable energies, including construction, operation and sale of energy systems in this field; procurement and distribution as well as supply and trading of energy; construction, operation and use of energy transmission and storage systems primarily for energy; supply of water and treatment of wastewater; provision of services in the aforementioned fields, including energy efficiency services. The Company shall have the power to conclude all transactions which are connected with the purpose of the Company or which are suited to serve its purpose directly or indirectly. The Company shall have the power to become active itself in the aforementioned business fields. The Company shall have the power to incorporate, acquire or take interests in other enterprises, in particular if the purpose of such enterprises covers in part or in total the aforementioned business segments. The Company shall be entitled to combine enterprises in which it holds stakes under its unified control or restrict itself to the management of its holdings. It shall have the power to transfer or hive off its business operations in part or in total to affiliated companies.

### **17.4 Group Structure**

The innogy Group is headed by the Company with its registered seat in Essen, Germany. The structure of the Group as at the date of the Prospectus is the result of structural measures implemented, in particular, in the period from December 2015 to September 2016, as further described under "*5 Carve-Out and Organizational Measures*".

The following chart provides an overview of certain direct and indirect shareholdings of the Company as at the date of the Prospectus in simplified form:



Note: Simplified structure which includes only certain significant entities of the innogy Group.

## 17.5 Auditors

The Company has appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, with registered seat in Frankfurt am Main, Germany (a member of PricewaterhouseCoopers International, a company limited by guarantee registered in England and Wales, United Kingdom), through its Essen office, Friedrich-List-Straße 20, 45128 Essen, Germany ("PwC"), as its auditor of the Audited Unconsolidated Financial Statements in accordance with the German Commercial Code (*Handelsgesetzbuch*) for the short financial year from December 11, 2015 to December 31, 2015 and of the Audited Combined Financial Statements prepared in accordance with IFRS as of and for the financial years ended December 31, 2015, 2014 and 2013. The Audited Unconsolidated Financial Statements of the Company for the short financial year from December 11, 2015 to December 31, 2015 were prepared in accordance with German law. In each case, PwC conducted its audits in accordance with section 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*). The Unaudited Interim Consolidated Financial Statements (Condensed) prepared in accordance with IAS 34 (*Interim Financial Reporting*) as of and for the six months ended June 30, 2016 have not been audited. PwC is a member of the German Chamber of Auditors (*deutsche Wirtschaftsprüferkammer*) and a member of the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*). See also "4.7 Note Regarding the Presentation of Certain Financial Information".

## 17.6 Publications, Paying Agent

In accordance with its Articles of Association, announcements of the Company are published in the German Federal Gazette (*Bundesanzeiger*) unless otherwise required by law. Information to the shareholders of the Company may, as far as legally permissible, also be provided to them via remote data transmission (*Datenfernübertragung*).

Announcements in connection with the approval of the Prospectus or any supplements thereto are to be made in accordance with the regulations of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and in the form of publication stipulated for the Prospectus, in

particular through publication on the Company's website ([www.innogy.com/ir](http://www.innogy.com/ir)). Printed copies of the prospectus are available at the offices of the Company during regular business hours (Opernplatz 1, 45128 Essen, Germany).

The paying agent is Deutsche Bank Aktiengesellschaft. The mailing address of the paying agent is: Deutsche Bank Aktiengesellschaft, Global Securities Services, Taunusanlage 12, 60325 Frankfurt am Main.

## 18 SHAREHOLDER STRUCTURE

Prior to completion of the Offering, RWE AG, Essen, Germany, holds in the aggregate 100% of the share capital of the Company: approximately 5.1% directly, and approximately 94.9% through RWE DB GmbH, Essen, Germany. RWE AG is a listed company. In Germany, the common shares of RWE AG are traded on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), including its electronic platform Xetra and the Düsseldorf Stock Exchange (*Börse Düsseldorf*). The preference shares are traded on the Frankfurt Stock Exchange and Düsseldorf Stock Exchange. In the United States, rather than its shares being traded, RWE AG is represented via American Depositary Receipts (“**ADR**”) in what is known as a Level 1 ADR Program. ADRs are share certificates issued by US depositary banks, representing a certain number of a foreign company’s deposited shares. Under RWE AG’s program, one ADR represents one common share.

At the end of 2015, about 86% of the shares of RWE AG were owned by institutional investors, while 14% were held by private investors (including employee shareholders). At the end of the year 2015, institutional investors in Germany held 28% of the capital stock, with those in North America, the United Kingdom and Ireland accounting for a combined share of 32% and those in Continental Europe, excluding Germany, owning 24% (with the remaining 2% being held by investors in the rest of the world). RWEB GmbH, in which the majority of the shares owned by municipalities are pooled, is RWE’s largest shareholder, owning over 15% as of the end of 2015. Based on available information, at the end of 2015 the asset management companies BlackRock (USA) and Mondrian Investment Partners Ltd. (UK) hold the largest RWE position outside Germany, amounting to over 3% each.

Some 93.7% of RWE AG’s capital stock consists of common shares whereas approximately 6.3% are non-voting preferred shares. The free float of RWE AG’s common shares considered by Deutsche Börse in terms of index weighting was 84% at the end of 2015.

Upon completion of the Offering, the shareholder structure will be as shown below (assuming full implementation of the capital increase regarding the New Shares):

Beneficial (Indirect) Ownership of the Company	Prior to the Offering		Upon completion of the Offering with placement of the Base Secondary Shares (no exercise of the Greenshoe Option)		Upon completion of the Offering with placement of the Base and Additional Secondary Shares <sup>1)</sup> (no exercise of the Greenshoe Option)		Upon completion of the Offering with placement of the Base Secondary Shares (full exercise of the Greenshoe Option)		Upon completion of the Offering with placement of the Base and Additional Secondary Shares <sup>1)</sup> (full exercise of the Greenshoe Option)	
	No. of shares	As a %	No. of shares	As a %	No. of shares	As a %	No. of shares	As a %	No. of shares	As a %
RWE AG . . . . .	500,000,000	100.00	454,545,000	81.82	429,293,000	77.27	444,444,000	80.00	416,666,800	75.00
<i>thereof</i>										
<i>directly</i> . . . . .	25,500,306	5.10	25,500,306	4.59	25,500,306	4.59	25,500,306	4.59	25,500,306	4.59
<i>thereof through</i>										
<i>RWE DB GmbH</i> . . . . .	474,499,694	94.90	429,044,694	77.23	403,792,694	72.68	418,943,694	75.41	391,166,494	70.41
Free Float . . . . .	0	0	101,010,000	18.18	126,262,000	22.73	111,111,000	20.00	138,888,200	25.00
<b>Total</b> . . . . .	<b>500,000,000</b>	<b>100.00</b>	<b>555,555,000</b>	<b>100.00</b>	<b>555,555,000</b>	<b>100.00</b>	<b>555,555,000</b>	<b>100.00</b>	<b>555,555,000</b>	<b>100.00</b>

<sup>1)</sup> i.e., assuming full exercise of the Upsize Option.

## **19 INFORMATION ON THE SHARE CAPITAL OF THE COMPANY AND APPLICABLE REGULATIONS**

### **19.1 Share Capital and Shares**

As of the date of the Prospectus, the Company's share capital amounts to EUR 1,000,000,000 and is divided into 500,000,000 ordinary bearer shares with no par value (*Stückaktien*) and a notional value of EUR 2.00 each in the share capital. The share capital is fully paid up.

On August 30, 2016, the extraordinary shareholders' meeting of the Company resolved to increase the Company's share capital by up to EUR 111,110,000.00 to up to EUR 1,111,110,000.00 against contribution in cash through the issuance of up to 55,555,000 ordinary bearer shares with no par value (*Stückaktien*) and each with a notional value of EUR 2.00 in the share capital and full dividend entitlement for the full financial year 2016 and for all subsequent years. Registration of the capital increase regarding the New Shares in the commercial register is expected to occur on or about October 6, 2016.

Each share entitles the shareholder to one vote at the shareholders' meeting of the Company. There are no restrictions on voting rights. Voting rights are the same for all of the Company's shares. The shares carry full dividend rights as from January 1, 2016, *i.e.*, for the full financial year 2016 and for all subsequent financial years. In the event of the Company's liquidation, the Company's assets remaining after satisfaction of all liabilities of the Company will be distributed to the shareholders in proportion to their interest in the Company's share capital.

As of the date of the Prospectus, the Company and its subsidiaries hold no shares in the Company.

### **19.2 Certification and Transferability of the Shares**

The shares of the Company are represented by one or more global share certificate(s) which are deposited with Clearstream Banking AG. The form of the share certificate is determined by the Company's Management Board with the consent of the Supervisory Board. The Company is entitled to issue share certificates embodying individual shares or multiples of shares. Section 5 para. 2 of the Company's current Articles of Association stipulates that the shareholders' right to the issuance of share certificates representing their respective shares shall be excluded.

Except for the restrictions described under "*6.10 Lock-Up Agreements*" and "*23.5 Selling Restrictions*", there are no prohibitions on disposals or restrictions with respect to the transferability of the Company's shares.

### **19.3 Development of the Share Capital since the Company's Incorporation**

The Company was incorporated as a German stock corporation with the name "RWE Downstream Aktiengesellschaft" and registered with the commercial register maintained by the local court (*Amtsgericht*) of Essen, Germany, on January 5, 2016, with a share capital of EUR 120,000.00, divided into 120,000 registered shares with no par value (*Stückaktien*) and a notional value of EUR 1.00 each in the share capital.

After the change of the Company's legal form to a European company on March 11, 2016, by resolution of the extraordinary shareholders' meeting of the Company held on April 4, 2016, the Company's share capital was increased by EUR 999,870,000.00 from EUR 120,000.00 to EUR 999,990,000.00 for the purpose of a merger by issuing 999,870,000 new registered shares with no par value (*Stückaktien*) and a notional value of EUR 1.00 each. The capital increase was registered with the commercial register on April 18, 2016.

By resolution of the extraordinary shareholders' meeting of the Company held on April 25, 2016, the Company's share capital was increased by EUR 1,000.00 from EUR 999,990,000.00 to EUR 999,991,000.00 against contribution in kind by issuing 1,000 new registered shares with no

par value (*Stückaktien*) and a notional value of EUR 1.00 each. The capital increase was registered with the commercial register on May 23, 2016.

By resolution of the extraordinary shareholders' meeting of the Company held on May 25, 2016, the Company's share capital was increased by EUR 1,000.00 from EUR 999,991,000.00 to EUR 999,992,000.00 against contribution in kind by issuing 1,000 new registered shares with no par value (*Stückaktien*) and a notional value of EUR 1.00 each. The capital increase was registered with the commercial register on June 16, 2016.

By resolution of the extraordinary shareholders' meeting of the Company held on May 25, 2016, the Company's share capital was increased by EUR 1,000.00 from EUR 999,992,000.00 to EUR 999,993,000.00 against contribution in kind by issuing 1,000 new registered shares with no par value (*Stückaktien*) and a notional value of EUR 1.00 each. The capital increase was registered with the commercial register on June 17, 2016.

By resolution of the extraordinary shareholders' meeting of the Company held on May 25, 2016, the Company's share capital was increased by EUR 1,000.00 from EUR 999,993,000.00 to EUR 999,994,000.00 against contribution in kind by issuing 1,000 new registered shares with no par value (*Stückaktien*) and a notional value of EUR 1.00 each. The capital increase was registered with the commercial register on June 17, 2016.

By resolution of the extraordinary shareholders' meeting of the Company held on May 25, 2016, the Company's share capital was increased by EUR 1,000.00 from EUR 999,994,000.00 to EUR 999,995,000.00 against contribution in kind by issuing 1,000 new registered shares with no par value (*Stückaktien*) and a notional value of EUR 1.00 each. The capital increase was registered with the commercial register on June 17, 2016.

By resolution of the extraordinary shareholders' meeting of the Company held on June 15, 2016, the Company's share capital was increased by EUR 5,000.00 from EUR 999,995,000.00 to EUR 1,000,000,000.00 against contribution in kind by issuing 5,000 new registered shares with no par value (*Stückaktien*) and a notional value of EUR 1.00 each. The capital increase was registered with the commercial register on July 11, 2016.

On July 18, 2016, the extraordinary shareholders' meeting of the Company resolved on the conversion of the registered shares of the Company into ordinary bearer shares with no par value (*Stückaktien*) and on the reclassification of the Company's share capital from a notional value of EUR 1.00 per share to a notional value of EUR 2.00 per share. The conversion and the reclassification were registered with the commercial register on July 27, 2016.

In addition, on August 30, 2016, the extraordinary shareholders' meeting of the Company resolved to increase the Company's share capital by up to EUR 111,110,000.00 to up to EUR 1,111,110,000.00 against contribution in cash through the issuance of up to 55,555,000 ordinary bearer shares with no par value (*Stückaktien*) and each with a notional value of EUR 2.00 in the share capital and full dividend entitlement for the full financial year 2016 and for all subsequent years (herein also referred to as New Shares). Registration of the capital increase regarding the New Shares in the commercial register is expected to occur on or about October 6, 2016.

## 19.4 Authorized Share Capital

By resolution of the extraordinary shareholders' meeting of the Company held on August 30, 2016, the Company's shareholders authorized the Management Board pursuant to Article 5 of the SE Regulation in conjunction with sections 202 et seq. of the German Stock Corporation Act (*Aktiengesetz*), subject to the consent of the Supervisory Board, to increase the Company's share capital by up to EUR 333,333,000.00 until August 29, 2021, through the issuance of up to 166,666,500 ordinary bearer shares in return for contributions in cash and/or in kind (the "**Authorized Capital**"). The authorization may be exercised in full or in part, once or several times. The registration of the Authorized Capital in the commercial register is expected to occur on or about October 6, 2016.

When utilizing the Authorized Capital, the shareholders are generally entitled to subscription rights. In the event of a capital increase in exchange for cash contributions, shares may also be accepted by financial institutions or companies within the meaning of section 186 para. 5 sentence 1 of the German Stock Corporation Act (*Aktiengesetz*) chosen by the Management Board under the obligation to offer them to the shareholders for subscription. With the consent of the Supervisory Board, however, the Management Board is authorized to exclude the shareholders' subscription rights in the following cases: (i) to even out fractions of shares; (ii) in the event of capital increases in exchange for a contribution in kind for the purpose of mergers or the acquisition of companies, parts of companies, operations or stakes in companies if the prorated share accounted for by shares for which subscription rights are excluded does not exceed 20% of the share capital of the Company either as of the entry into force of the authorization or on exercise of the authorization; (iii) to the extent necessary to grant subscription rights to those who are entitled to option or conversion privileges or are obliged to fulfill option or conversion obligations commensurate to what they would be entitled to as shareholder after exercising the option or conversion privilege or fulfilling the option or conversion obligation; (iv) in the event of capital increases in exchange for cash contributions if the prorated share accounted for by shares for which subscription rights are excluded does not exceed 10% of the Company's share capital either as of the entry into force of the authorization or on exercise of the authorization and the issue price of the new shares with the same entitlements is not significantly below the stock exchange price at the time the issue price is finalized. The limit of 10% of the share capital of the Company shall be reduced by the prorated amount of the share capital allocable to shares of the Company (i) sold during the term of the Authorized Capital as treasury stock under the exclusion of shareholder subscription rights in accordance with section 186 para. 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) or (ii) issued from conditional capital during the term of the Authorized Capital prior to the exercise of the Authorized Capital under the exclusion of subscription rights in accordance with section 186 para. 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) in order to redeem option or bonds convertible into shares of the Company under the exclusion of subscription rights in accordance with section 186 para. 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*).

## 19.5 Conditional Capital

On August 30, 2016, the extraordinary shareholders' meeting of the Company resolved pursuant to Article 5 of the SE Regulation in conjunction with sections 192 et seq. of the German Stock Corporation Act (*Aktiengesetz*) to conditionally increase the Company's share capital by up to EUR 111,111,000.00, divided into up to 55,555,500 ordinary bearer shares with no par value (*Stückaktien*) (the "**Conditional Capital**"). The registration of the Conditional Capital in the commercial register is expected to occur on or about October 6, 2016.

The conditional capital increase will only be implemented to the extent that the holders or creditors of option or conversion rights or those with an obligation to convert warrants or convertible bonds issued against cash contribution that may be issued or guaranteed by the Company or a Group company on or before August 29, 2021, based on the authorization of the Management Board by resolution of the extraordinary shareholders' meeting passed on August 30, 2016 (see "*19.6 Authorization to Issue Warrant and Convertible Bonds and to Exclude Subscription Rights to these Warrant or Convertible Bonds*"), actually use their option or conversion rights or, to the extent that they are obliged to convert, fulfill their obligation to convert or to the extent that the Company exercises an option to grant shares of the Company in whole or in part instead of payment of the cash amount due provided that no cash compensation is granted or no treasury stock or shares of another listed company are used for servicing in each case. New shares are issued at the option or conversion price to be determined in each case according to the above mentioned authorization resolution. The new shares participate in profits from the start of the fiscal year in which they are created. To the extent legally permissible, the Management Board, subject to the approval of the Supervisory Board,

may determine the profit participation of new shares contrary to section 60 para. 2 of the German Stock Corporation Act (*Aktiengesetz*), i.e., also for a past financial year. The Management Board is authorized, subject to the approval of the Supervisory Board, to determine the further details of the conditional capital increase.

## **19.6 Authorization to Issue Warrant and Convertible Bonds and to Exclude Subscription Rights to these Warrant or Convertible Bonds**

In addition to the aforementioned Conditional Capital the extraordinary shareholders' meeting of the Company dated August 30, 2016, adopted the following resolution:

- a) *General.* The Management Board is authorized, with the approval of the Supervisory Board, to issue once or several times on or before August 29, 2021, bearer or registered warrant and/or convertible bonds (hereinafter collectively referred to as bonds) in the total par value of up to EUR 3,000,000,000.00 with or without limited terms, and to grant to, or impose on, the holders or creditors of convertible bonds conversion rights or on the holders or creditors of warrants convertible rights or obligations for ordinary bearer shares with no par value (*Stückaktien*) of the Company with a total share of the capital stock of up to EUR 111,111,000.00 in accordance with the conditions of these bonds. The bonds can also be issued by a subsidiary of the Company; in this event the Management Board is authorized, with the approval of the Supervisory Board, to guarantee the bonds for the Company and to grant to, or impose on, the holders or creditors of these bonds option or conversion rights or obligations for ordinary bearer shares with no par value of the Company.
- b) *Warrant and convertible bonds.* The bonds are divided into partial bonds. In the event of a warrant bond issue, one or several options are attached to each partial bond which entitle the holder or creditor to purchase ordinary bearer shares with no par value of the Company in accordance with the option conditions determined by the Management Board. The option conditions may specify that the option price can also be settled by transfer of partial bonds and if appropriate a cash surcharge. Where fractional shares occur, the option or bond conditions may specify that these fractional shares can be added together for the purchase of whole shares, if appropriate subject to payment of a surcharge. In the event of a convertible bond issue, the holders of bearer bonds or creditors of partial bonds obtain the right to convert their partial bonds into ordinary bearer shares with no par value of the Company in accordance with the convertible bond conditions determined by the Management Board. The conversion ratio is calculated by dividing the par value or, if lower, the issuing amount of a partial bond by the fixed conversion price for an ordinary bearer share with no par value of the Company. The ratio may be rounded up or down. In addition, it may be specified that the holders of convertible bonds must pay a cash surcharge and that non-convertible fractional amounts must be grouped together and/or compensated in cash. The bond conditions can specify a variable conversion ratio and determine the conversion price (subject to the minimum price specified below) within a pre-defined range depending on the development of the price of the no-par shares of the Company during the term of the bond.
- c) *Right to offer alternative performance.* The bond conditions may also provide the Company with the right in the event of a conversion or exercise of an option not to issue new no-par shares, but to pay a cash amount corresponding to the weighted average closing price of the shares in the electronic trading system of Frankfurt Stock Exchange over a period specified in the bond conditions in lieu of the shares which would otherwise be issued. The bond conditions may also specify that, at the Company's discretion, the bond with option rights or conversion rights or obligations attached is to be converted not into new shares from Conditional Capital but into existing shares of the Company or another listed company, or that the option right can be fulfilled by delivering such shares. The bond conditions may also include a combination of these performance options. The bond conditions may also provide the Company with the right to grant the holders or creditors of

a bond with option rights or conversion rights or obligations which has reached maturity (this also includes maturity due to termination) no-par shares of the Company or another listed company in lieu of part or all of the payable cash payment.

- d) *Conversion obligation.* The convertible bond conditions may also include an obligation to convert at the end of the term (or earlier or at the time of a specified event). The convertible bond conditions may entitle the Company to fully or partly offset in cash any difference between the par value or lower issuing amount of the convertible bond and the product of conversion price and conversion ratio.
- e) *Option and conversion price.* With the exception of cases where a right to offer alternative performance or a conversion obligation applies, the fixed option or conversion price for a no-par share of the Company must be no lower than 80% of the weighted average closing price of the no-par shares of the Company in the electronic trading system of Frankfurt Stock Exchange over the last 10 trading days before the Management Board passes the resolution to issue the bond with option or conversion rights or conversion obligations attached, or – in the event that a subscription right is granted – no lower than 80% of the weighted average trading price of the no-par shares of the Company in the electronic trading system of Frankfurt Stock Exchange during the subscription period with the exception of the days of the subscription period necessary to ensure the option or conversion price can be announced in due time in accordance with section 186 para. 2 sentence 2 of the German Stock Corporation Act (*Aktiengesetz*). Section 9 para. 1 of the German Stock Corporation Act and section 199 of the German Stock Corporation Act remain unaffected. In the cases where a right to offer alternative performance or a conversion obligation applies, the option or conversion price in accordance with the bond conditions must correspond at least to the above minimum price or the weighted average closing price of the no-par shares of the Company in the electronic trading system of Frankfurt Stock Exchange over the 10 trading days before the final maturity date or another specified date, even if this average price is lower than the aforesaid minimum price (80%). Section 9 para. 1 of the German Stock Corporation Act and section 199 of the German Stock Corporation Act remain unaffected.
- f) *Dilution protection.* Notwithstanding section 9 para. 1 of the German Stock Corporation Act, the option or conversion price may be reduced under a dilution protection clause as defined in the conditions if during the option or conversion period the Company (i) increases the share capital through a capital increase from Company funds or (ii) increases the share capital or sells treasury stock granting an exclusive subscription right to its shareholders or (iii) issues, grants or guarantees further bonds with option or conversion rights or obligations granting an exclusive subscription right to its shareholders, and in cases (ii) and (iii) the owners of existing option or conversion rights or obligations are not granted subscription rights such as they would have held after exercising the option or conversion right or after fulfilling the conversion obligation. The reduction of the option or conversion price may also be effected by a cash payment upon exercise of the option or conversion right or upon fulfillment of a conversion obligation. In addition, the conditions may require modification of the option or conversion rights or conversion obligations in the case of a capital reduction or other measures or events which are associated with an economic dilution of the value of the option rights or conversion rights or conversion obligations (e.g. dividends, third parties gaining control).
- g) *Subscription right and authorization to exclude subscription rights.* To the extent that shareholders are not permitted to subscribe to the bonds directly, the statutory subscription rights will be granted to shareholders in such a way that the bonds are acquired by a bank or banking syndicate which undertakes to offer them to the shareholders for subscription. If the bonds are issued by a subordinate Group company, the Company must ensure that statutory subscription rights are granted to the shareholders of the Company within the meaning of the sentence above. However the Management Board is authorized, subject to

the approval of the Supervisory Board, to exclude shareholders' subscription rights in the following cases: (i) to eliminate fractional amounts; (ii) to the extent necessary to grant holders, or creditors in the case of registered securities, of option or conversion rights or obligations previously issued by innogy SE or its Group companies subscription rights to new shares as would be due to them as shareholders after exercise of the option or conversion rights or after fulfillment of a conversion obligation; (iii) in the case of bonds issued against cash payment, to the extent that the Management Board, after due review, reaches the conclusion that the issuing price of the bonds is not significantly lower than their theoretical fair value, calculated using recognized, in particular financial mathematics methods. However, this authorization to exclude subscription rights only applies to bonds issued with an option right or conversion right or obligation, with an option or conversion right or a conversion obligation for shares with a share of the share capital that may not exceed 10% of the share capital in total either on the date this authorization becomes effective or – if this value is lower – on the date the authorization is exercised. There shall be counted towards this limit of 10% of the share capital the share of the share capital attributable to shares which during the period between granting of this authorization and the issue excluding subscription rights in accordance with section 186 para. 3 sentence 4 of the German Stock Corporation Act utilizing this authorization of bonds with conversion and/or option rights or conversion obligations excluding subscription rights are either issued under an authorization of the Management Board to exclude subscription rights in direct or analogous application of section 186 para. 3 sentence 4 of the German Stock Corporation Act or sold as acquired treasury stock in corresponding application of section 186 para. 3 sentence 4 of the German Stock Corporation Act.

- h) *Authorization to implement.* The Management Board is authorized, subject to Supervisory Board approval, to determine the further details of the issuing of the bonds, in particular interest rate, issuing price, term and denomination, dilution protection provisions, option or conversion period as well as the conversion and option price within the above framework, or to fix them in agreement with the boards of the Group company issuing the option or convertible bond.

## 19.7 Authorization to Acquire and Use Own Shares

The Company does not currently hold any of its own shares, nor does a third party on behalf of the Company.

On August 30, 2016, the extraordinary shareholders' meeting of the Company adopted a resolution on the authorization to implement share buybacks and use treasury stock, also under exclusion of subscription rights with the following content:

- a) The Company is authorized to buy back up to 10% of its share capital as of the entry into force of this authorization or – if this figure is lower – at the exercise of this authorization until August 29, 2021. The shares bought back based on this authorization together with any other shares bought back, all of which are in the Company's possession or are attributable to the Company pursuant to section 71a et seqq. of the German Stock Corporation Act (*Aktiengesetz*), may not exceed 10% of the Company's share capital at any time. At the Management Board's discretion, the acquisition shall be made (1) on the stock exchange or (2) via a purchase offer made to all shareholders.
- (1) If the acquisition is made on the stock exchange, the price per share paid by the Company (excluding ancillary purchase costs) may not deviate by more than 10% from the arithmetic mean of the closing bidding price of the shares of the Company on the Xetra trading system (or on a system replacing the Xetra system with comparable functionality) on the Frankfurt Stock Exchange on the last three stock market trading days prior to the purchase obligation.
- (2) If the acquisition is arranged as a purchase offer to all shareholders, the price per share offered and paid by the Company (excluding ancillary purchase costs) may not deviate by

more than 10% from the arithmetic mean of the closing bidding price of the shares of the Company on the Xetra trading system (or on a system replacing the Xetra system with comparable functionality) on the Frankfurt Stock Exchange on the last three stock market trading days prior to the publication of the offer. In the event of a substantial change in price following the publication of the offer, the offer may be adjusted. The reference period in this event shall be the three stock market trading days prior to the day on which the adjustment is published. If the purchase offer is oversubscribed, the purchase may be made based on the ratio of the tendered shares. Furthermore, commercial rounding can be carried out to avoid allocation of fractions of shares. A privileged acceptance of small numbers of shares (up to 50 tendered shares per shareholder) may be envisaged.

- b) The Management Board is authorized to call treasury stock purchased on the basis of this authorization without further approval from the annual shareholders' meeting. The call can be made without reducing capital by increasing the prorated amount of the remaining shares in the Company's share capital. In such a case, the Management Board is authorized to adjust the number of shares in the Articles of Association.
- c) Furthermore, the Management Board is authorized to transfer treasury stock purchased on the basis of this authorization to third parties in exchange for compensation in kind in connection with mergers or acquisitions of companies, parts of companies, operations, or of stakes in companies. Shareholder subscription rights are excluded.
- d) The Management Board is authorized to sell treasury stock purchased on the basis of this authorization on the stock exchange or by making an offer to all shareholders. Furthermore, the Management Board is authorized to sell the common shares purchased on the basis of this authorization, without selling them on the stock market or offering them to all shareholders, as long as they are sold for cash and at a price that is not significantly lower than the price at which common shares with the same entitlements are listed on the stock market at the time of sale. Shareholder subscription rights are excluded. This authorization is limited to the sale of shares which together account for no more than 10% of the Company's share capital as of the entry into force of this authorization or – if this figure is lower – at the exercise of this authorization. The upper limit of 10% of the Company's share capital shall be reduced by the prorated amount of the share capital allocable to shares (i) issued during the term of this authorization excluding subscription rights in accordance with section 186, para. 3, sentence 4 of the German Stock Corporation Act or (ii) issued or to be issued to redeem option or convertible bonds issued during the term of this authorization excluding subscription rights in accordance with section 186, para. 3, sentence 4 of the German Stock Corporation Act.
- e) Furthermore, the Management Board is authorized to provide treasury stock to holders of option or convertible bonds of the Company or of a group company within the meaning of section 18 of the German Stock Corporation Act in line with the option and bond conditions. Shareholder subscription rights are excluded. The share of the share capital attributable to the shares transferred on the basis of this authorization may be no more than 10% as of the entry into force of this authorization or – if this figure is lower – at the exercise of this authorization, as long as the shares are used to exercise option or conversion privileges or fulfill option or conversion obligations granted or imposed in accordance with section 186, para. 3, sentence 4 of the German Stock Corporation Act. Shares issued or sold on the date of use in direct or corresponding application of section 186, para. 3, sentence 4 of the German Stock Corporation Act during the term of this authorization shall be included in this 10% cap.
- f) Furthermore, in the event of a sale of treasury stock bought back on the basis of this authorization through an offer to all shareholders, or in the event of a capital increase recognizing shareholder subscription rights, the Management Board is authorized to issue to the holders of option or convertible bonds of the Company or of a group company within the meaning of section 18 of the German Stock Corporation Act treasury stock in the

Company commensurate to the shares in the Company which the holders of the option or convertible bonds would be entitled to subscribe after exercising the option or conversion privilege or fulfilling the option or conversion obligation. Shareholder subscription rights are excluded. This authorization is limited to the transfer of shares which together account for no more than 10% of the Company's share capital as of the entry into force of this authorization or – if this figure is lower – at the exercise of this authorization. Shares issued or sold in direct or corresponding application of section 186, para. 3, sentence 4 of the German Stock Corporation Act during the term of this authorization shall be included in this 10% cap.

- g) The Management Board is further authorized to use treasury stock purchased on the basis of this authorization to fulfill the Company's obligations resulting from future employee share schemes by offering for sale or transferring the treasury stock to employees qualified to subscribe shares within the scope of the employee share scheme. Shareholder subscription rights are excluded.
- h) Furthermore, the Management Board is authorized to use treasury stock purchased on the basis of this authorization to pay a scrip dividend. The Management Board is authorized to exclude the subscription rights of the shareholders.
- i) All of the aforementioned authorizations for the purchase and use of treasury stock purchased on the basis of this authorization may be exercised in full or in part, once or several times, acting severally or jointly by the Company or its group companies in the sense of section 18 of the German Stock Corporation Act or by third parties on its or their account.

## **19.8 General Provisions Governing a Liquidation of the Company**

Besides liquidation as a result of insolvency proceedings, the Company may be liquidated only by a resolution of the shareholders' meeting adopted with a vote of 75% or more of the share capital represented at the shareholders' meeting at which such vote is taken followed by a liquidation procedure. Pursuant to Article 63 of the SE Regulation in conjunction with the German Stock Corporation Act (*Aktiengesetz*), in the event of the Company's liquidation, any assets remaining after all of the Company's liabilities have been settled will be distributed among the shareholders in proportion to their shareholdings. The German Stock Corporation Act affords creditors certain protections that must be observed in the event of liquidation.

## **19.9 General Provisions Governing Share Capital Increases and Decreases**

Under Articles 5 and 59 of the SE Regulation in conjunction with the German Stock Corporation Act (*Aktiengesetz*), a European company governed by European and German law requires a shareholders' meeting resolution passed by a majority of at least 75% of the share capital represented at the passing of the resolution to increase its share capital. However, pursuant to the Company's Articles of Association, certain capital measures that do not necessarily have a dilutive effect (*Verwässerungseffekt*) on the shareholders' participations (such as capital increases with shareholders' pre-emptive rights against contributions, capital increases from company funds and the issuance of convertible bonds, profit participation bonds and other instruments for which the shareholders have a pre-emptive right) may be adopted by a simple majority. When new shares are issued, the dividend rights attaching thereto may differ from the stipulations of section 60 of the German Stock Corporation Act.

Shareholders can also create authorized capital. This requires a resolution passed by a majority of at least 75% of the share capital represented at the voting, authorizing the Management Board to issue a specific quantity of shares within a period not exceeding five years. The nominal amount of the authorized capital may not exceed half of the share capital existing at the time the authorization is granted. For details on the Company's Authorized Capital see "*19.4 Authorized Share Capital*".

In addition, shareholders can create conditional capital by a resolution passed with a majority of at least 75% of the share capital represented at the voting. Conditional capital should only be created in order to grant exchange or subscription rights to holders of convertible bonds, to prepare for a business combination with one or more other companies or to grant subscription rights to employees and members of our management. In case conditional capital is created for the purpose of granting subscription rights to employees and members of the management, its nominal amount may not exceed 10% of the share capital in existence at the time the resolution is adopted. In all other cases, the nominal amount must not exceed 50%, provided, however, in both cases that it does not exceed 50% in the aggregate. For details on the Company's Conditional Capital see "19.5 Conditional Capital".

The shareholders' meeting may also resolve to decrease the share capital of the Company. Resolutions to reduce the share capital require a 75% majority of the share capital represented at the voting.

## 19.10 General Provisions on Subscription Rights

In principle, Article 5 of the SE Regulation in conjunction with section 186 of the German Stock Corporation Act (*Aktiengesetz*) grants to all shareholders the right to subscribe for new shares issued in a capital increase. The same applies to convertible bonds, bonds with warrants, profit participation rights and participating bonds. Subscription rights are freely transferable and, if admitted to trading on a stock exchange, may be traded at such stock exchange for a prescribed period before the deadline for subscription expires. However, shareholders do not have a right to request admission to trading for subscription rights. The shareholders' meeting may, subject to a majority of at least 75% of the share capital represented at the passing of the resolution, resolve to exclude subscription rights in connection with the issuance of shares. The exclusion of shareholders' subscription rights also requires a report from the Management Board that justifies and demonstrates that the company's interest in excluding subscription rights outweighs the interest of the shareholders in being granted subscription rights. Excluding shareholders' subscription rights when new shares are issued is specifically permissible where the company is increasing its share capital against cash contributions, if the amount of the capital increase does not exceed 10% of the existing share capital, and the issue price of the new shares is not significantly lower than the stock exchange price.

## 19.11 Exclusion of Minority Shareholders

Under Article 9 (1) lit c (ii) of the SE Regulation in conjunction with sections 327a et seq. of the German Stock Corporation Act, which govern the so-called "squeeze-out under stock corporation law", the shareholders' meeting of a European company registered in Germany may, at the request of a shareholder holding at least 95% of the share capital ("**principal shareholder**"), resolve to transfer the shares of the minority shareholders to the principal shareholder against payment of an adequate cash settlement. The amount of cash compensation to be granted to the minority shareholders has to take into account the situation of the company on the date of the resolution of the shareholders' meeting. The true value of the company determines the amount of cash compensation, which is generally calculated using the capitalized earnings method (*Ertragswertmethode*) or similar generally recognized valuation methods, provided however that, in the absence of certain circumstances, the compensation must not fall short of the weighted average stock price over the last three months prior to the publication of the intention to have a "squeeze-out" resolution be passed. The minority shareholders are entitled to initiate valuation proceedings (*Spruchverfahren*), in the course of which the adequateness of the cash payment is reviewed.

If the majority shareholder of the stock corporation is a stock corporation, a partnership limited by shares (*Kommanditgesellschaft auf Aktien*), or a European Company (*Societas Europaea*), in each case having its seat in Germany, a squeeze-out in accordance with section 62 German Reorganization and Transformation Act (*Umwandlungsgesetz*) can be effected, under certain

circumstances, in order to facilitate an upstream merger of the stock corporation into the majority shareholder. Pursuant to section 62 German Reorganization and Transformation Act (*Umwandlungsgesetz*), providing for this so-called “squeeze-out under transformation law”, the majority shareholder holding at least 90% of the share capital is able to request the shareholders’ meeting to approve the squeeze-out within three months of the conclusion of the merger agreement.

In addition, according to sections 39a and 39b German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), providing for a so-called “squeeze-out under takeover law”, an offeror holding at least 95% of the voting share capital of the target company (as defined in the German Securities Acquisition and Takeover Act) after a voluntary or mandatory public takeover offer, may within three months of the expiry of the deadline for acceptance of the offer, request the transfer of the remaining voting shares to it by court order against payment of an adequate compensation. To this end, the compensation guaranteed as part of the takeover or mandatory public offer is deemed adequate if, on the basis of the offering, the bidder has acquired shares amounting to at least 90% of the share capital affected by the offering.

Furthermore, according to section 39c German Securities Acquisition and Takeover Act, the shareholders of a target company who have not accepted the offering can accept it within further three months after the acceptance period of the voluntary or mandatory public takeover offer has expired (“sell-out”), if the offeror has the right to file an application for the transfer of the outstanding voting shares in accordance with section 39a German Securities Acquisition and Takeover Act.

The provisions for a squeeze-out under stock corporation law cease to apply once an offeror has petitioned for a squeeze-out under takeover law, and only apply again when these proceedings have been completed.

Under Article 9 (1) lit. c (ii) of the SE Regulation in conjunction with sections 319 et seq. of the German Stock Corporation Act, the shareholders’ meeting of a European company registered in Germany may also resolve on the integration (*Eingliederung*) into a stock corporation that has its registered seat in Germany, provided that the prospective parent company (the “**Integrating Entity**”) holds at least 95% of the shares of the company to be integrated. The departing shareholders of the integrated company are entitled to an adequate compensation that generally must be granted in the form of shares of the Integrating Entity while, if the Integrating Entity is a controlled company, the departing shareholders may also demand an adequate compensation in cash instead of a compensation in the form of shares. The compensation is determined based on the ratio between the enterprise value of the Integrating Entity and that of the integrated company. Any fractional amounts may be paid out in cash.

## 19.12 Mandatory Takeover Bids

Pursuant to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), every person whose share of voting rights reaches or exceeds 30% of the voting shares of the Company (after admission of the Company’s shares to trading on the regulated market of the Frankfurt Stock Exchange) must publish this fact, including the percentage of its voting rights, within seven calendar days by publication on the Internet and through electronic media for disseminating financial information. Subsequently, and unless an exemption from this obligation has been granted by the BaFin, such person must submit a mandatory public tender offer to all shareholders of the Company. The German Securities Acquisition and Takeover Act contains several rules that provide for an attribution and aggregation of voting rights in order to ensure that the shares are attributed to the person actually controlling the voting rights attached thereto. If a person fails to give notice of reaching or exceeding the 30% threshold or fails to submit a mandatory public tender offer, shareholder rights (including voting rights and, in certain cases, the right to collect dividends

and liquidation proceeds) are suspended for the duration of non-compliance under certain circumstances. In addition, a fine may be imposed.

### **19.13 Disclosure Requirements for Holdings of Shares and Other Instruments**

Upon admission of the Company's shares to trading on the regulated market segment of the Frankfurt Stock Exchange (or any other regulated market in Germany), the provisions of the German Securities Trading Act (*Wertpapierhandelsgesetz*), as amended by, among others, the German Act for the Implementation of the Transparency Directive Amendment Directive (*Gesetz zur Umsetzung der Transparenzrichtlinie-Änderungsrichtlinie*) with effect as of November 26, 2015, and the First German Act for the Amendment of Financial Markets Provisions Following European Legislation (*Erstes Gesetz zur Novellierung von Finanzmarktvorschriften auf Grund europäischer Rechtsakte*) with effect as of July 2, 2016, which govern disclosure requirements for shareholdings, shall apply.

Section 21 of the German Securities Trading Act requires that anyone who acquires, sells or whose shareholding in any other way reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights in an issuer whose home country is Germany and whose shares are admitted to trading on an organized market must immediately, and no later than within four trading days of such occurrence, notify the issuer and at the same time the BaFin. The notice period commences as soon as the person obliged to notify (*Meldepflichtiger*) knows, or, under the circumstances of the case should know, that his or her voting rights reach, exceed or fall below the abovementioned thresholds, and no later than two trading days after reaching, exceeding or falling below the threshold. Only in case that the voting rights reach, exceed or fall below the thresholds as a result of an event affecting all voting rights, the notice period might commence at a later stage. The notification requirement is set off by the establishment of an obligation to transfer such ownership.

Notice must be given using a standard form introduced by the German Act for the Implementation of the Transparency Directive Amendment Directive (*Gesetz zu Umsetzung der Transparenzrichtlinie-Änderungsrichtlinie*). It must include the address of the individual or entity, the share of voting rights held and the date of reaching, exceeding, or falling below the respective threshold, and must be issued via a mandatory standard form. The Company must publish such notices immediately, but no later than within three trading days after their receipt, via media outlets or outlets where it can be assumed that the notice will be disseminated in the EU and the non-European Union parties to the agreement on the EEA (so-called "*Medienbündel*"). The Company must also transmit the notice to the BaFin and to the German Company Register (*Unternehmensregister*) for storage.

For purposes of the notification requirements, the German Securities Trading Act contains various rules that require the attribution (*Zurechnung*) of voting rights of certain persons associated with the shareholder or acting together with the shareholder. For example, shares held by a subsidiary (as defined in the German Securities Acquisition and Takeover Act) are attributed to the parent company; similarly, shares held by a third company for the account of another company are attributed to the latter. Shares or financial instruments held for trading by a securities services company are not taken into account for determining the notification obligation if it is ensured that the voting rights held by them are not exercised, and that they amount to no more than 5% of the voting shares, or do not grant the right to purchase more than 5% of the voting shares.

Furthermore, any kind of cooperation among shareholders that is intended to effect a permanent and material change in the business strategy of the Company can result in an attribution of voting rights. This means that the cooperation does not necessarily have to concern the exercise of voting rights specifically; coordination in individual cases, however, will not trigger the attribution of voting rights.

Pursuant to section 25 of the German Securities Trading Act, similar obligations to notify the Company and the BaFin for reaching, exceeding or falling below the abovementioned

thresholds (other than the 3% threshold) apply to direct and indirect holders of certain instruments other than shares. This applies to instruments which grant upon maturity an unconditional right to acquire already issued voting shares of the Company, a discretionary right to acquire such shares, or instruments that refer to such shares and have a comparable economic effect than the aforementioned instruments. These include, *inter alia*, transferable securities, options, futures contracts, swaps, forward rate agreements and contracts for difference. The number of voting rights relevant for the notification requirement will generally be calculated by reference to the full nominal amount of shares underlying the instrument except where the instrument provides exclusively for a cash settlement. Details for such calculations are laid down in regulatory technical standards drafted by the European Securities and Markets Authority (“ESMA”).

Furthermore, a person obliged to notify (*Meldepflichtiger*) who reaches or exceeds the threshold of 10% of the voting rights, or a higher threshold, is obligated to notify the issuer within 20 trading days regarding the objective being pursued through the acquisition of voting rights, as well as regarding the source of the funds used for the purchase. Changes in those objectives must also be reported within 20 trading days. An issuer may stipulate in its Articles of Association that the aforementioned disclosure requirement does not apply.

In case that the disclosure requirements are not met, shareholder rights (including voting rights and, in certain cases, the right to collect dividends and liquidation proceeds) are – subject to certain exceptions – suspended for the duration of non-compliance. If the failure to comply with the disclosure requirements specifically relates to the share of voting rights and is the result of a willful or grossly negligent conduct, the suspension period is extended by six months after the person obliged to notify (*Meldepflichtiger*) files the required notification. In addition, a fine may be imposed if a required notification is not at all, incorrectly or incompletely made, or not made in the right manner or in a timely fashion.

#### **19.14 Disclosure of Transactions of Persons Discharging Management Responsibilities**

Pursuant to Article 19 of the EU Market Abuse Regulation ((EU) No. 596/2014 of April 16, 2014) (the “**Market Abuse Regulation**”), persons discharging managerial responsibilities (“**Executives**”) shall notify the Company and the BaFin of every transaction conducted on their own account relating to the shares or debt instruments of the Company or to derivatives or other financial instruments linked thereto (so-called managers’ transactions). The same applies to persons closely associated with Executives. Transactions that must be notified shall also include, among others, the pledging or lending of financial instruments, transactions undertaken by any person professionally arranging or executing transactions on behalf of an Executive or a closely associated person, including where discretion is exercised, as well as transactions made under a life insurance policy. The notification requirement shall apply to any subsequent transaction once a total amount of EUR 5,000 has been reached within a calendar year. The BaFin may decide to increase the threshold to EUR 20,000. Notification shall be made promptly and no later than three business days after the date of the transaction.

For the purposes of the Market Abuse Regulation, Executive means a person within the Company who is a member of the administrative, management or supervisory body of the Company or a senior executive who is not such member but who has regular access to inside information relating directly or indirectly to the Company and who has power to take managerial decisions affecting the future developments and business prospects of the Company. A person closely associated with an Executive means a spouse, a registered civil partner (*eingetragener Lebenspartner*), a dependent child as well as a relative who has shared the same household for at least one year on the date of the transaction concerned. A person closely associated also includes a legal person, trust or partnership, the managerial responsibilities of which are discharged by an Executive of the Company or by another person closely associated with him. Finally, the term includes a legal person, trust or partnership, which is directly or

indirectly controlled by an Executive of the Company or by another person, which is set up for the benefit of such a person, or the economic interests of which are substantially equivalent to those of such a person.

The Company shall ensure that the information of which it is notified is promptly made public. In any case, it shall be made public no later than three business days after the transaction in a manner which enables fast access to this information on a non-discriminatory basis in accordance with ESMA's implementing technical standards. Furthermore, according to the German Securities Trading Act (*Wertpapierhandelsgesetz*), the Company shall without undue delay transmit the information to the German Company Register (*Unternehmensregister*) and notify the BaFin. Non-compliance with the notification requirements may result in a fine.

### **19.15 Post-Admission Disclosure Requirements**

As a result of the intended admission of innogy SE's shares to trading on the regulated market of the Frankfurt Stock Exchange, innogy SE will for the first time be subject to the legal disclosure requirements for stock corporations listed in Germany. These disclosure requirements include, among others, periodic financial reporting (disclosure of annual and half-year financial reports), regular calls with securities and industry analysts, and other required disclosures according to the German Securities Trading Act (*Wertpapierhandelsgesetz*) as well as disclosure requirements under the Market Abuse Regulation. The Company will also be obliged under the Listing Rules of the Frankfurt Stock Exchange (*Börsenordnung für die Frankfurter Wertpapierbörse*), as amended from time to time, to publish quarterly statements (unless the Company prepares quarterly financial reports), as the Company's shares are to be listed on the Prime Standard sub-segment of the regulated market of the Frankfurt Stock Exchange.

Pursuant to Article 17 of the Market Abuse Regulation, the Company shall inform the public as soon as possible of inside information (as defined below) which directly concerns the Company. In such case the Company shall also, prior to informing the public, inform the BaFin and the management of the trading venues and facilities (*Geschäftsführungen der Handelsplätze*) where financial instruments of the Company have been admitted to trading or been included in such trading, and, after publication, without undue delay transmit the information to the German Company Register (*Unternehmensregister*).

Inside information comprises, among others, any information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.

The Company may, on its own responsibility, delay disclosure if (i) immediate disclosure is likely to prejudice the legitimate interests of the Company, (ii) delay of disclosure is not likely to mislead the public and (iii) the Company is able to ensure that the inside information will remain confidential. In such case, the Company shall also inform the BaFin that disclosure of the information was delayed and shall provide a written explanation of how the conditions set out in the preceding sentence were met, immediately after the information is disclosed to the public. Where disclosure of inside information has been delayed and the confidentiality of that inside information is no longer ensured, the Company shall disclose such inside information to the public as soon as possible.

## 20 GOVERNING BODIES

### 20.1 Overview

The governing bodies of the Company are the Management Board, the Supervisory Board and the shareholders' meeting. The Company is a European company (*Societas Europaea* or SE) with a two-tier management and control system consisting of the Management Board and the Supervisory Board. The responsibilities and powers of these corporate bodies are regulated by the SE Regulation, the German Act on the SE Implementation (*SE-Ausführungsgesetz*), the German Stock Corporation Act (*Aktiengesetz*), the Articles of Association and the internal rules of procedure for the Management Board and the Supervisory Board.

The Management Board conducts the business of the Company in accordance with relevant applicable laws, the Articles of Association of the Company and its rules of procedure. The Management Board represents the Company when dealing with third parties. The members of the Management Board are appointed by the Supervisory Board and the Supervisory Board is also entitled to remove any members of the Management Board under certain circumstances.

Simultaneous management and supervisory board membership in a European company is generally not permitted under the SE Regulation; however, simultaneous membership of a member of the supervisory board taking a vacant seat on the management board of the same European company is permissible. During this period, such individual may not perform any duties for the supervisory board. Such a stand-in arrangement is limited to a maximum time period of one year if the European company is domiciled in Germany (as is the case of the Company).

The Management Board must ensure that appropriate risk management and risk control mechanisms are established and maintained within innogy SE, its subsidiaries and affiliates. This is to ensure that developments endangering the existence of the Company can be identified at an early stage. The Management Board is also required to report any material issues in relation to business transactions and any material developments regarding the business to the Supervisory Board. It has to make such reports at least quarterly and must include issues pertaining to the turnover and developments within the Company, its subsidiaries and joint ventures. The Management Board is further required to report any planned business policies and other fundamental issues concerning corporate planning (including financial, investment and staff planning) to the Supervisory Board once a year; differences between the actual developments and previously reported goals, including the reasons for any deviations, must also be addressed. In the meeting of the Supervisory Board in which the annual financial statements are discussed, the Management Board must also report on the profitability of the Company, especially in relation to return on equity. As a general rule, the Management Board is required to report events which could have a material effect on the Company and transactions which could be of material importance, especially in relation to the Company's profitability or liquidity, and to do so in a timely manner. This is to ensure that the Supervisory Board is able to assess such transactions prior to any action being taken. The Management Board is required to report any other important events to the chairman of the Supervisory Board without undue delay; this includes events at an affiliated company of which the Management Board has become aware and which could potentially have a material impact on the Company. Moreover, any member of the Supervisory Board may at any time demand a report about the affairs of the Company. In addition, the Management Board and the Supervisory Board report annually in the annual report about the corporate governance of the Company and explain any deviations from the recommendations of the German Corporate Governance Code (*Deutscher Corporate Governance Kodex*), which was adopted by a governmental commission on the German Corporate Governance Code on February 26, 2002 and currently applies in the version dated May 5, 2015.

Pursuant to Article 40 of the SE Regulation in conjunction with the German Stock Corporation Act, the Supervisory Board advises and oversees the Management Board's management of the

Company but is itself not entitled to manage the Company. The Articles of Association of the Company may, however, designate the types of transactions that may only be made with the approval of the Supervisory Board. In addition, the Supervisory Board may itself make certain types of transactions subject to its consent. Matters subject to the prior consent of the Supervisory Board or a committee of the Supervisory Board pursuant to the Articles of Association and the internal rules of procedure of the Supervisory Board currently include, in particular:

- (i) the acquisition, sale and encumbrance of real estate and hereditary building rights (*Erbbaurechte*);
- (ii) the acquisition and sale of companies or parts of companies or shares therein;
- (iii) the assumption of warranties, guarantees or similar liabilities outside the ordinary course of business;

provided that in transactions according to Items (i) through (iii) the value exceeds EUR 125,000,000.00 in each individual case;

- (iv) the issuance of bonds;
- (v) the passing of the Company planning (section 15 para. 1 sentence 5 of the internal rules of procedure of the Supervisory Board);
- (vi) changes in the Group's organization/the Group's structure; provided that these transactions stated herein are either linked to a transfer of assets disclosed at more than EUR 500 million in the Company's balance sheet or, provided that the transactions result in a reduction of the Company's direct influence ("Gelatine" effect) on a subordinate company level, the book value of which amounts to at least EUR 500 million.

Approval in accordance with the aforementioned measures (i) to (iii) shall not be required for transactions with affiliated companies. Furthermore, the Management Board requires the approval of the Supervisory Board if the Management Board becomes involved in transactions of affiliated companies in accordance with the aforementioned measures (i) to (vi) (with the exception of the aforementioned measures (i) to (iii) for transactions with affiliated companies) through instructions, approvals, votes or in any other manner. Irrespective of the provisions of section 112 of the German Stock Corporation Act (*Aktiengesetz*), transactions between the Company or a company affiliated with it on the one hand, and a Management Board member or individuals or undertakings with which a Management Board member is associated on the other hand, which have an underlying value exceeding EUR 50,000.00, shall require Supervisory Board approval. Other activities undertaken by a Management Board member as defined in section 88 of the German Stock Corporation Act (*Aktiengesetz*) require Supervisory Board prior approval; a (prior or subsequent) approval is required for other sideline employment (*Nebentätigkeit*) of Management Board members with due regard to the exercise of supervisory board mandates and mandates in comparable supervisory bodies of commercial enterprises that do not belong to the Group.

The members of the Management Board and the Supervisory Board owe fiduciary duties to the Company, *i.e.*, a duty of loyalty, a duty of legality and a duty of care. The members of these corporate bodies must perform their duties taking into account a broad range of interests, especially those pertaining to the Company, its shareholders, employees and creditors. The shareholders' right to equal treatment and equal access to information must also be taken into account. If members of the Management Board or the Supervisory Board breach their duties, they may be individually or jointly and severally liable with the other members of the Management Board or the Supervisory Board to the Company for compensatory damages, as the case may be.

Under German law, a shareholder generally cannot take direct action against a member of the management board or the supervisory board of a European company with its registered office

in Germany if the shareholder suspects that such member or members have violated their duties towards the company. Thus, under German law, generally only the Company has the right to pursue claims for damages against a member of the Management Board or the Supervisory Board. The Management Board represents the Company in relation to claims brought against members of the Supervisory Board and, in turn, the Supervisory Board represents the Company in relation to claims brought against members of the Management Board. Pursuant to a decision by the German Federal Court of Justice (*Bundesgerichtshof*), the Supervisory Board is required to pursue damages claims that are likely to be successful against members of the Management Board, unless significant interests of the Company either take precedent over or are of equal importance to any such claim.

If the governing body authorized to represent the Company decides against pursuing a claim, claims for damages can be pursued by the shareholders following a resolution (by way of simple majority) by the shareholders' meeting. The shareholders' meeting can also appoint a special representative (*besonderer Vertreter*) to pursue such claims. Based on the resolution of the shareholders' meeting to claim damages, shareholders with a combined shareholding of 10% of the entire share capital or holders of shares with an aggregate nominal value of EUR 1 million may also apply to the competent court for the appointment of a special representative, such decision being subject to the court's discretion.

Furthermore, the shareholders' meeting can, by resolution with simple majority, appoint a special auditor (*Sonderprüfer*) to review any measures, in particular in relation to management. If the shareholders' meeting rejects a motion to appoint a special auditor, the court must appoint a special auditor at the request of shareholders, who hold shares representing at least 1% of the share capital or shares with an aggregate nominal value of at least EUR 100,000 where the facts justify the suspicion of irregularities or that gross violations of the law or Articles of Association have been committed. If the shareholders' meeting appoints a special auditor, the court must appoint a different special auditor at the request of shareholders, who hold shares representing at least 1% of the share capital or shares with an aggregate nominal value of at least EUR 100,000 if this seems to be necessary with respect to the person who has been appointed as special auditor. Shareholders and shareholder associations can use the shareholder forum of the German Federal Gazette (*Bundesanzeiger*), which is available through the Company Register's (*Unternehmensregister*) website, to call upon other shareholders to jointly, or through third party representation, request a special audit, appoint a special auditor, demand that a shareholders' meeting is convened or exercise their voting rights in a shareholders' meeting. If there is evidence leading to the strong suspicion that the Company has incurred damages through irregularities or gross violations of the law or the Articles of Association, shareholders whose shareholding constitutes at least 1% of the share capital or who hold shares with an aggregate nominal value of at least EUR 100,000 may request that a court bring a claim for damages of the Company in their own name but on behalf of the Company against members of governing bodies, subject to certain procedural requirements. Such claims, however, become inadmissible if the Company itself files a claim for damages.

The Company may only waive or settle claims for compensation against members of the Management Board and the Supervisory Board three years after the claim has arisen and only if (a) the shareholders resolve to do so in a shareholders' meeting by resolution with simple majority and (b) a quorum of the shareholders, together holding shares which represent at least 10% of the share capital, do not object to this in the minutes of the meeting.

Under German law, individual shareholders and any other persons are prohibited from intentionally using their influence within the Company to cause a member of the Management Board or the Supervisory Board to engage in conduct that could be damaging to the Company. A shareholder controlling the Company may not use its influence to persuade the Company to act against its own interests unless there is a domination agreement (*Beherrschungsvertrag*) between such shareholder and the Company and the influence exerted is within the limits of certain statutory mandatory provisions or any damages are compensated. Anyone intentionally

exercising influence to cause a member of the Management Board or the Supervisory Board, an authorized signatory (*Prokurist*) or a general representative (*Handlungsbevollmächtigter*) to act to the detriment of the Company or its shareholders is required to compensate the Company and its shareholders for any damages resulting from such behavior. In addition, in this context, the members of the Management Board and the Supervisory Board are jointly and severally liable if their actions or omissions amount to a violation of their duty of care.

## **20.2 Management Board**

### **20.2.1 General**

The Articles of Association of the Company specify that the Management Board shall consist of at least two members. Subject to this requirement, the number of members of the Management Board is determined by the Supervisory Board. The Supervisory Board appoints the members of the Management Board for a maximum period of five years and may reappoint members for a maximum period of five years. The Supervisory Board may revoke any appointment prior to the expiration of the term of office if there is just cause (*wichtiger Grund*), for example, a gross breach of a fiduciary duty or if the shareholders' meeting passes a vote of lack of confidence in the member of the Management Board, unless the vote of lack of confidence was clearly unreasonable. The Supervisory Board is also responsible for entering into, amending and terminating service agreements with the members of the Management Board and, in general, for representing the Company in and out of court vis-à-vis the Management Board.

Pursuant to Article 9 para. 1 lit. c (ii) of the SE Regulation in conjunction with section 84 para. 2 of the German Stock Corporation Act (*Aktiengesetz*), the Supervisory Board can appoint a member of the Management Board as chairman of the Management Board and another member as deputy chairman of the Management Board. Currently, the Management Board consists of six members, including a chairman.

Pursuant to the rules of procedure of the Management Board resolved by the Management Board on April 7, 2016, the Management Board is quorate if all members of the Management Board have been invited, at least half of its members are present and more than half of its members participate in the vote. The Management Board passes resolutions by simple majority of the votes cast unless otherwise provided for by mandatory law or by the Articles of Association of the Company or by the Rules of Procedure. In the event of a tied vote, the vote cast by the Chairman of the Management Board shall decide the issue. The rules of procedure for the Management Board also contain rules on duties, overall responsibilities and responsibility for departments as well as the internal arrangements of the Management Board.

Pursuant to the Articles of Association, the Company is represented vis-à-vis third parties by two members of the Management Board or by a member of the Management Board acting jointly with an authorized signatory (*Prokurist*). The Supervisory Board may generally or in individual cases exempt all or certain members of the Management Board as well as authorized signatories who are authorized to act jointly with a member of the Management Board from the restrictions of entering into a legal transaction in the name of the principal with himself in his own name or as an agent of a third party according to section 181 (2<sup>nd</sup> alternative) German Civil Code (*Bürgerliches Gesetzbuch*) unless the law mandates otherwise.

## 20.2.2 Current Members of the Management Board

The names and main responsibilities of the current members of the Management Board of innogy SE are:

Name	Age	Member since	Appointed until	Responsibilities
Peter Terium . . . . .	52	April 1, 2016	March 31, 2021	Chairman of the Management Board and Chief Executive Officer of the Company
Dr. Bernhard Günther . . .	49	April 1, 2016	March 31, 2021	Chief Financial Officer
Uwe Tigges . . . . .	56	April 1, 2016	March 31, 2021	Chief Human Resources Officer
Martin Herrmann . . . . .	49	April 1, 2016	March 31, 2019	Chief Operating Officer Retail
Dr. Hans Bunting . . . . .	51	April 1, 2016	March 31, 2019	Chief Operating Officer Renewables
Hildegard Müller . . . . .	49	May 1, 2016	April 30, 2019	Chief Operating Officer Grid and Infrastructure

The expiration dates of the service agreements for Management Board members correspond with their respective terms in office. The members of the Board of Directors can be contacted under the Company's address.

### 20.2.2.1 Peter Terium – Brief Biography

Born in 1963 in Nederweert, the Netherlands, Mr. Peter Terium became a chartered accountant in 1989, following his training at the Nederlands Instituut voor Registeraccountants in Amsterdam (1981-1989) and the Rijksoverheids Academie in Utrecht (1981-1983), the Netherlands, including a position as trainee tax auditor in the tax department of the Dutch Ministry of Finance. Mr. Terium worked from 1985 to 1990 at KPMG as Audit Supervisor, and thereafter in several positions at Schmalbach-Lubeca AG from 1990 to 2002, including head of controlling at White Cap Germany (today, Silgan White Cap Deutschland GmbH, Hanover, Germany) and Vice President Finance and Accounting for both White Cap Europe and Asia and PET Containers Europe and Asia within that group. He joined RWE AG as Head of Group Controlling in 2003, and later acted as a member of the Executive Board of RWE Umwelt AG (2004-2005), Chief Executive Officer of RWE Trading GmbH from 2005 to 2008 and of RWE Supply & Trading GmbH (2008-2009), before he became program manager and later Chief Executive Officer of Essent N.V. (2009-2011). From September 2011 until June 2012, Mr. Terium was a Member and Deputy Chairman of the Executive Board of RWE AG and became Chairman of the Executive Board and Chief Executive Officer of RWE AG in July 2012, with group-level responsibilities for corporate affairs, legal & compliance, mergers & acquisitions and strategy & innovation. With effect as of April 1, 2016, he was appointed Chairman of the Management Board and Chief Executive Officer of innogy SE. Following the successful completion of the Offering, Mr. Terium will resign from his position in the Executive Board of RWE AG.

The following table shows the positions that Mr. Peter Terium has held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships outside the innogy Group in the last five years, as well as positions he currently holds in material companies within the innogy Group:

Positions held in companies and partnerships outside the innogy Group in the last five years	Positions currently held in material companies within the innogy Group
<ul style="list-style-type: none"> <li>• Chief Executive Officer of RWE AG</li> <li>• Chairman of the supervisory board of RWE Supply &amp; Trading GmbH (until 2016)</li> <li>• Member of the advisory board of Allianz SE</li> <li>• Member of the advisory board of NRW.BANK</li> <li>• Member of the presidential board of Bundesverband der Deutschen Industrie e.V.</li> <li>• Member of the board of trustees of ESMT European School of Management and Technology GmbH</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of the advisory board of innogy Stiftung für Energie und Gesellschaft gGmbH</li> <li>• Chairman of Stichting Far and Large Offshore Wind (FLOW) innovatie programma</li> <li>• Chairman of Stichting TKI-Wind op Zee</li> </ul>

#### 20.2.2.2 Dr. Bernhard Günther – Brief Biography

Born in 1967 in Leverkusen, Germany, Dr. Bernhard Günther studied economics at the Universities of St. Gallen, Switzerland, and Oxford, United Kingdom, and obtained a doctorate in economics in 1998 from the University of St. Gallen. Dr. Günther worked at McKinsey & Company from 1993 to 1998, among other positions as Project Manager, and joined RWE AG in 1999 as department head in the Corporate Controlling Division. From 2001 to 2005, he was Vice President for Corporate Planning and Controlling of RWE Power AG, and later Vice President for Group Controlling at RWE AG from 2005 to 2006. From January 2007 to March 2008, Dr. Günther was Managing Director and Chief Financial Officer of RWE Gas Midstream GmbH and from November 2007 to March 2008 also Managing Director and Chief Financial Officer of RWE Trading GmbH. From April 2008 to October 2012, he acted as Managing Director and Chief Financial Officer of RWE Supply & Trading GmbH. Dr. Günther has been a Member of the Executive Board of RWE AG since July 2012 and Chief Financial Officer of RWE AG since January 2013. Within the Executive Board of RWE AG, he has group-level responsibility for accounting & tax, controlling, finance, investor relations, information technology and audit. With effect as of April 1, 2016, Dr. Bernhard Günther was appointed a member of the Management Board and Chief Financial Officer of innogy SE. Following the successful completion of the Offering, Dr. Günther will resign from his position in the Executive Board of RWE AG.

The following table shows the positions that Dr. Bernhard Günther has held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships outside the innogy Group in the last five years, as well as positions he currently holds in material companies within the innogy Group:

Positions held in companies and partnerships outside the innogy Group in the last five years	Positions currently held in material companies within the innogy Group
<ul style="list-style-type: none"> <li>• Chief Financial Officer of RWE AG</li> <li>• Chief Financial Officer of RWE Supply &amp; Trading GmbH (until 2012)</li> <li>• Member of the supervisory board of RWE Generation SE (expected to resign in 2016)</li> <li>• Member of the administrative board of Deutsches Rechnungslegungs Standards Committee e.V.</li> <li>• Member of the board of Deutsches Aktieninstitut e.V.</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of the supervisory board of RWE IT GmbH</li> </ul>

#### 20.2.2.3 Uwe Tigges – Brief Biography

Born in 1960 in Bochum, Germany, Mr. Tigges trained as a telecommunications technician and master electrical engineer and studied business administration. From 1977 until 1984, he worked at Standard Elektrik Lorenz AG. Thereafter, Mr. Tigges held various positions in the IT departments of VEW AG and VEW Energie AG from 1984 to 1994. From 1994 to 2012, he was a full-time works council representative at VEW Energie AG, RWE Plus AG, RWE Westfalen Weser Ems AG and RWE Vertrieb Aktiengesellschaft. In addition, from 2004 to 2012, Mr. Tigges was Chairman of the European Works Council of RWE AG and from 2010 to 2012, also Chairman of the central Group Works Council of RWE AG. Mr. Uwe Tigges has been Chief Human Resources Officer of the Executive Board of RWE AG since January 2013 and Labor Director of RWE AG since April 2013, with group-level responsibilities for safety, procurement, human resources & executive management as well as trade union/works council relations. With effect as of April 1, 2016, Mr. Uwe Tigges was appointed a member of the Management Board and Chief Human Resources Officer of innogy SE. Mr. Tigges will retain his position in the Executive Board of RWE AG until April 30, 2017.

The following table shows the positions that Mr. Uwe Tigges has held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships outside the innogy Group in the last five years, as well as positions he currently holds in material companies within the innogy Group:

Positions held in companies and partnerships outside the innogy Group in the last five years	Positions currently held in material companies within the innogy Group
<ul style="list-style-type: none"> <li>• Member of the management board of RWE AG (since 2013)</li> <li>• Member of the supervisory board of RWE AG (until 2012)</li> <li>• Member of the supervisory board of RWE Generation SE (until 2014)</li> <li>• Chairman of the supervisory board of RWE Group Business Services GmbH</li> <li>• Chairman of the supervisory board of RWE Pensionsfonds AG</li> <li>• Chairman of the supervisory board of RWE Service GmbH (intended to dissolve supervisory board in 2016)</li> <li>• Member of the supervisory board and the consortium committee of Amprion GmbH</li> <li>• Member of the management board of Vereinigung der Arbeitgeberverbände energie- und versorgungswirtschaftlicher Unternehmungen Hannover</li> <li>• Member of the management board of Arbeitgeberverband von Gas-, Wasser- und Elektrizitätsunternehmen e.V. Essen</li> </ul>	

#### 20.2.2.4 Hildegard Müller – Brief Biography

Born in 1967 in Rheine, Germany, Hildegard Müller trained as a banker at Dresdner Bank AG in Düsseldorf, Germany, from 1987 until 1989. From 1989 until 1994, she studied business administration at the Heinrich-Heine-Universität in Düsseldorf. Ms. Müller began her professional career at Dresdner Bank AG in 1995, where she worked in several positions, including department head, until 2008. Ms. Hildegard Müller was a member of the German Parliament from 2002 until 2008 and from 2005 until 2008 she was also Minister of State for the German Chancellor, with responsibility amongst others for federal/state coordination of the German Federal Government and for the reduction of bureaucracy. From October 2008 until January 2016, Ms. Müller was Chairwoman of the General Executive Management of the German Association of Energy and Water Industries (*Bundesverband der Energie- und Wasserwirtschaft*). With effect as of May 1, 2016, Ms. Müller was appointed a member of the Management Board and Chief Operating Officer Grid and Infrastructure of innogy SE.

The following table shows the positions that Ms. Hildegard Müller has held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships outside the innogy Group in the last five years, as well as positions she currently holds in material companies within the innogy Group:

Positions held in companies and partnerships outside the innogy Group in the last five years	Positions currently held in material companies within the innogy Group
<ul style="list-style-type: none"> <li>• Member of the supervisory board of Vonovia SE</li> <li>• Member of the advisory board of IKB Deutsche Industriebank AG</li> <li>• Member of the administrative board of HSBC Trinkaus und Burkhardt AG</li> <li>• Member of the advisory board of HPP Hentrich-Petschnigg &amp; Partner GmbH und Co. KG</li> <li>• Member of the advisory board of Dachverband der Unterstützungskassen für deutsche Krankenhäuser e.V.</li> <li>• Member of the advisory board of VNG-Verbundnetz Gas Aktiengesellschaft</li> <li>• Member of the supervisory board of Dortmunder Energie- und Wasserversorgung GmbH</li> <li>• Member of the supervisory board of Stadtwerke Essen AG</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the supervisory board of NEW AG</li> <li>• Member of the supervisory board of envia Mitteldeutsche Energie AG</li> <li>• Member of the supervisory board of Süwag Energie AG</li> </ul>

#### 20.2.2.5 *Martin Herrmann – Brief Biography*

Born in 1967 in Düsseldorf, Germany, Mr. Martin Herrmann trained as a banker at Dresdner Bank AG in Duisburg, Germany, from 1986 to 1988, and studied economics at the Westfälische Wilhelms-Universität Münster, Germany, from 1988 to 1993. Thereafter, he began his professional career with Commerzbank AG, Germany, where he was first trainee and later project manager for relationship management in Central & Eastern Europe (1993-1994) in Frankfurt am Main and Prague and from 1995 to 1999 he was head of the investment banking department in Prague. From 2000 to 2002, Mr. Herrmann was project manager for Mergers & Acquisitions at Commerzbank AG in Frankfurt am Main, and from 2001 to 2002 additionally head of the bank's Utilities industry group. In 2002, he was nominated by RWE Gas AG (later: RWE AG) to become Chief Financial Officer at Transgas, a.s. (within the Former RWE Group) in Prague, and was Managing Director for Finance at RWE Energy Czech Republic s.r.o. from 2004 to 2005. From 2005 to 2007, Mr. Herrmann acted as Vice-Chairman of the Board of Directors and Chief Financial Officer of RWE Transgas, a.s. in the Czech Republic and was Chairman of the Board of Directors and Chief Executive Officer of that company. In January 2013 the company was renamed to RWEST CZ (some of whose activities, as of 2013, were transferred to RWE Česká republika a.s. (to be renamed innogy Česká republika a.s.), at which Mr. Herrmann has held the office of the Chairman of the Board of Directors and Chief Executive Officer since October 2012) from April 2007 to September 2013. In addition, he has been Chief Executive Officer of RWE East, s.r.o., also in the Czech Republic, since December 2010 (until the end of October 2016) and Chief Executive Officer of the Former RWE Group's Retail Segment since October 2015. With effect as of April 1, 2016, Mr. Herrmann was appointed member of the Management Board and Chief Operating Officer Retail of innogy SE.

The following table shows the positions that Mr. Martin Herrmann has held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships outside the innogy Group in the last five years, as well as positions he currently holds in material companies within the innogy Group:

Positions held in companies and partnerships outside the innogy Group in the last five years	Positions currently held in material companies within the innogy Group
<ul style="list-style-type: none"> <li>• Member of the supervisory board of RWE Supply &amp; Trading GmbH (until 2016)</li> <li>• Vice-Chairman of Czech Gas Association</li> <li>• Vice President, member of the governing board and member of the executive committee of Eurogas aisbl</li> <li>• Member of the management board of Pražské jaro, o.p.s.</li> <li>• Chairman of the supervisory board of NET4GAS, s.r.o. (until 2013)</li> <li>• Chairman of the management board of RWE Supply &amp; Trading CZ, a.s. (until 2013)</li> <li>• Vice President of Czech Gas Union (until 2012)</li> <li>• Member of the board of Deutsch-Tschechische Industrie- und Handelskammer (until 2016)</li> <li>• Member of the council of Klub finančních ředitelů Praha</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of the management board of RWE Česká republika a.s. (to be renamed innogy Česká republika a.s.)</li> <li>• Chairman of the management board of innogy Grid Holding, a.s.</li> <li>• Chairman of the management board of RWE East, s.r.o. (expected to resign by the end of October 2016)</li> <li>• Member of the supervisory board of Essent N.V.</li> </ul>

#### 20.2.2.6 Dr. Hans Bunting – Brief Biography

Hans Bunting, born in 1964 in Marburg/Lahn, studied economics at the Ruhr-Universität in Bochum, Germany, from 1983 to 1990 and obtained a doctorate from the same university in 1995, after having been research associate and doctoral candidate at the chair for General Management, Planning and Organisation from 1990 to 1995. He began his professional career in 1995 as controller at RWE Energie AG, Germany. From 1998 to 2000, Dr. Bunting held several senior management positions in the areas of financial and risk controlling at RWE Energie AG. He was Global Head of Finance & Risk Control at RWE Trading GmbH from 2000 to 2004, and later Vice President Group Risk Management at RWE AG from 2004 to 2008. From February 2008 until June 2012, Dr. Bunting was Chief Financial Officer, and since July 2012 until March 2016, Chief Executive Officer, of RWE Innogy GmbH, Essen, Germany. With effect as of April 1, 2016, Dr. Bunting was appointed a member of the Management Board and Chief Operating Officer Renewables of innogy SE.

The following table shows the positions that Dr. Hans Bunting has held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships outside the innogy Group in the last five years, as well as positions he currently holds in material companies within the innogy Group:

Positions held in companies and partnerships outside the innogy Group in the last five years	Positions currently held in material companies within the innogy Group
<ul style="list-style-type: none"> <li>• Member of the supervisory board of RWE Supply &amp; Trading GmbH (until 2016)</li> <li>• Managing director of Beaufort Wind Ltd. (until 2012)</li> <li>• Managing director of Headwind Development Services Ltd. (until 2012)</li> <li>• Zephyr Investments Limited, Director (until 2012)</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of the supervisory board of Rheinkraftwerk Albbruck-Dogern Aktiengesellschaft</li> <li>• Vice President of the administrative board of Finelectra Finanzgesellschaft für Elektrizitäts-Beteiligungen AG</li> <li>• Vice President of the administrative board of Aarewerke AG</li> <li>• Chairman of the committee of Innogy Renewables Technology Fund I GmbH &amp; Co. KG</li> <li>• Managing director of Gwynt Y Môr Offshore Wind Farm Ltd.</li> </ul>

### 20.2.3 Compensation and Other Benefits; Share Ownership

The compensation system of the Management Board members is aimed at ensuring the achievement of strategic goals as well as good corporate governance. The Management Board compensation fully complies with the requirements of the German Stock Corporation Act (*Aktiengesetz*) and the German Corporate Governance Code.

Between the date of the incorporation of the Company and March 31, 2016, three executives of RWE AG served as members of the Management Board of the Company and did not receive any compensation for these duties from the Company.

As of April 1, 2016, five new board members and as of May 1, 2016 one new board member have been appointed, three of these board members serving also as management board members of RWE AG. In light of specific plans to develop a new Management Board compensation system to more adequately reflect the Company's changing business model and business environment, the Supervisory Board decided to put in place the following compensation model and agreed such model with all members of the Management Board: Until September 30, 2016 the three members of the Management Board serving also as members of the management board of RWE AG do not receive any compensation from the Company but continue to receive compensation under the RWE AG system (based on different components: fixed salary, pension installments, bonus, Long Term Incentive Plan, Mid Term Incentive Plan) with the Company covering 50% of the compensation costs. For the other three members of the Management Board of the Company who are not members of the management board of RWE AG it has been agreed, that retroactively as of April 1, 2016 and May 1, 2016, respectively, the compensation system as described below and planned to be introduced as of October 1, 2016 shall apply. Until September 30, 2016 these three members of the Management Board of Innogy initially only receive payments from the non-performance-based compensation elements as described below. Payouts from performance-based elements will be based on the retroactively applied new compensation system and will occur at the end of the respective element's performance period. The corresponding budgets for these performance-based compensation elements were approved and granted on appointment. The new compensation system shall apply as well as of October 1, 2016 for the three members of the Management Board serving

also as members of the management board of RWE AG. One of these three members of the Management Board will continue to serve as member of the Management Board of RWE AG until at the latest April 30, 2017. This member of the Management Board will receive compensation solely from the Company, with RWE AG covering 50 % of the compensation costs. The new innogy compensation system will be made up of non-performance and performance-based components, which are described in more detail below.

#### *20.2.3.1 Non-performance-based compensation: Fixed annual compensation, non-cash and other remuneration, and pension installments*

All Management Board members receive a fixed salary, which is paid out in twelve monthly installments, as well as non-cash and other remuneration components, consisting primarily of the use of company cars and accident insurance premiums.

The Management Board members further receive a pension installment for every year of service as a second fixed remuneration component. They can choose whether the sum is paid in cash or retained in part or in full in exchange for a pension commitment of equal value through a gross compensation conversion. A reinsurance policy is concluded to finance the pension commitment. The accumulated capital becomes available on retirement in the form of a one-off payment or in a maximum of nine installments, but not before the Management Board member turns 60. The Management Board members and their surviving dependents do not receive any further benefits. Vested retirement benefits from earlier activities remain unaffected by this.

#### *20.2.3.2 Performance-based compensation*

##### *20.2.3.2.1 Bonus*

Management Board members receive a bonus, which is based on the economic development of the Company, as well as individual and collective performance and performance with regards to corporate responsibility and employee motivation. The starting point for the calculation is what is referred to as the company bonus. Its level is determined based on the degree to which the target for the operating result set by the Supervisory Board at the beginning of the corresponding financial year is achieved. If the actual and target figure are a perfect match after a year, the degree of achievement is 100%. In this case, the bonus equals the budgeted sum (baseline bonus amount). Depending on the level of the operating result, the company bonus can equal between 0% and a maximum of 150% of the baseline bonus amount.

The company bonus is further multiplied by an individual performance factor which considers individual goals (weight: 1/3), the collective performance of the Management Board as a whole (weight: 1/3) as well as corporate responsibility and employee motivation (weight together: 1/3) criteria. The performance factor can be between 0.8 and 1.2 depending on the performance in terms of these criteria. The performance assessment and determination of the performance factor is carried out by the Supervisory Board at the end of each fiscal year.

##### *20.2.3.2.2 Share-based compensation*

The share-based compensation ("Strategic Performance Plan" or "**SPP**") aims to reward the achievement of long-term strategic objectives while facilitating the capital market orientation in the form of performance shares.

The financial performance targets for the tranches starting in 2016 to 2019 are derived from the strategic planning ("3-year IPO business plan") and are set by the Supervisory Board before the first tranche starts, i.e., in 2016. A payout only takes place if the financial performance, measured using the adjusted net income, reaches a predefined level. The final number of allocated performance shares is determined by the target achievement of this performance, e.g., for the tranche starting in 2019 the 2019 adjusted net income level as defined in 2016 needs to be reached.

Payout of the SPP is based on the number of allocated performance shares, the average share price during the 30 trading days prior to the expiry of the SPP tranche after four years and the

accumulated dividends paid to shareholders ("total shareholder return") during the period after the financial performance has been measured, *i.e.*, after year one. The maximum number of allocated performance shares is limited to 150% of the granted performance shares. Payment for Management Board members is limited to 200% of the budget for the SPP as agreed in the respective Management Board members' employment contract.

From the SSP payout the Management Board members will have to make a personal investment in innogy shares and to hold these for a waiting period of 3 years.

#### 20.2.3.3 *Contractual agreements in regards to termination of service*

##### 20.2.3.3.1 Severance Cap

If a Management Board members' employment contract is otherwise terminated early without due cause a severance payment of no more than two total annual compensations and no more than the remuneration due until the end of the employment contract is to be paid.

##### 20.2.3.3.2 Change of control

In the event of a change of control, Management Board members have the right to retire from the Management Board and to terminate their employment contract with due cause. A change of control occurs when a shareholder gains control by acquiring at least 30 % of the voting rights in the company, a control agreement with the Company as controlled company is concluded (except with companies from the RWE Group), or the Company is merged with an external entity resulting in substantial disadvantages for the Management Board member. On termination of their employment contracts due to a change of control, Management Board members receive a one-off payment equaling the compensation due until their contract expires. This amount shall not be more than three times their total contractual annual compensation.

Furthermore, in the event of a change of control, the number of performance shares granted under the SPP, which have been finally determined will be paid out prematurely while all other performance shares lapse.

##### 20.2.3.3.3 Contractual and Post-contractual non-compete agreements

There are no contractual and post-contractual non-compete agreements in place.

##### 20.2.3.4 *Other agreements*

The members of the Management Board are also covered by directors and officers ("**D&O**") insurance policies with reasonable coverage and a deductible for all of the Company's members of the Management Board in line with the respective provisions of the German Stock Corporation Act (*Aktiengesetz*) including legally required personal retentions for members of the Management Board. The D&O insurance policies cover financial losses arising from a breach of duty on the part of the members of the Management Board in the course of their duties.

Beyond the service agreements, there are no service or employment agreements between the members of the Management Board and their related parties and the Company or its subsidiaries, except for one member of the Management Board of innogy also serving as member of the board of RWE Česká republika a.s. (to be renamed innogy Česká republika a.s.) and innogy Grid Holding, a.s.

As of the date of the Prospectus the members of the Management Board neither directly nor indirectly hold any shares in the Company nor do they hold any rights to acquire shares in the Company.

## Expected Remuneration

The following table provides an overview of the expected compensation components (with respect to 2016 only to be paid *pro rata temporis*) which have been agreed for all six members of the Management Board of the Company.

	Non-performance based compensation			Performance-based compensation		
	Fixed Compensation (annual amount)	Fringe Benefits (annual amount)	Pension Instalments (annual amount)	Bonus (annual target amount)	Share-based Compensation (annual amount)	Total Compensation
	(in EUR)					
<b>Members of Management Board</b>						
Peter Terium . . . . .	1,400,000	approx. 40,000	480,000	1,350,000	1,700,000	4,970,000
Dr. Hans Bünting . . . . .	700,000	approx. 20,000	255,000	500,000	800,000	2,275,000
Dr. Bernhard Günther . . . . .	750,000	approx. 20,000	255,000	712,500	987,500	2,725,000
Martin Herrmann . . . . .	700,000	approx. 20,000	255,000	500,000	800,000	2,275,000
Hildegard Müller . . . . .	700,000	approx. 20,000	255,000	500,000	800,000	2,275,000
Uwe Tigges . . . . .	750,000	approx. 20,000	255,000	712,500	987,500	2,725,000
<b>Sum . . . . .</b>	<b>5,000,000</b>	<b>approx. 140,000</b>	<b>1,755,000</b>	<b>4,275,000</b>	<b>6,075,000</b>	<b>17,245,000</b>

### 20.2.4 Conflicts of Interest

There are no conflicts of interests or potential conflicts of interests between the duties of members of the Management Board and duties of members of the Supervisory Board *vis-à-vis* the Company and their private interests or other duties. There is some overlap in board membership of RWE AG and the Company (so-called "dual mandates"). The Chairman of the Management Board and Chief Executive Officer of the Company, Mr. Peter Terium, is the Chairman of the Executive Board of RWE AG. In addition, two other members of the Management Board of the Company – Dr. Bernhard Günther and Mr. Uwe Tigges – are currently also members of the Executive Board of RWE AG. It is envisaged that, following the completion of the Offering, Mr. Terium and Dr. Günther will resign from their respective positions in the Executive Board of RWE AG, while Mr. Tigges will remain Chief Human Resource Officer and Labor Director of RWE AG until the end of April 2017. In addition, the Chairman of the Supervisory Board, Dr. Werner Brandt, as well as the Deputy Chairman of the Supervisory Board, Frank Bsirske, each of them has the same function in the supervisory board of RWE AG as well. Since 2016, Ms. van der Hoeven and Ms. Koederitz have served as members of the supervisory board of RWE AG where both of them will presumably resign as of the end of October 2016. Furthermore, Dr. Markus Krebber, who shall be a member of the Executive Board of RWE AG as of October 1, 2016, is a member of the Supervisory Board. The interests of RWE AG and innogy SE are not necessarily the same.

No member of the Management Board or Supervisory Board has entered into any service contract with any Group company providing for benefits upon termination of employment.

## 20.3 Supervisory Board

### 20.3.1 General

Pursuant to the Articles of Association and Articles 40 para. 3 and 9 para. 1 lit. c (i) of the SE Regulation in conjunction with section 17 of the SE Implementation Act (*SE-Ausführungsgesetz*) and sections 95 and 96 of the German Stock Corporation Act (*Aktiengesetz*), the Supervisory

Board consists of 20 members. All members are appointed by the Company's shareholders' meeting. However, ten members of the Supervisory Board are elected by the shareholders' meeting on a voluntary basis upon proposal of the employees. For members of the Supervisory Board, the shareholders' meeting may, at the time of their election, appoint substitute members who shall replace shareholder members of the Supervisory Board leaving office before the end of their term or whose election has been successfully contested. The term of office of such substitute member shall terminate at the end of the Company's shareholders' meeting in which a successor is elected and at the latest at the end of the term of office of the leaving member. The re-election of members of the Supervisory Board is allowed.

The members of the Supervisory Board are elected for the period ending at the end of the shareholders' meeting that decides upon the approval of the acts of the Supervisory Board members for the fourth financial year after the beginning of the term of office; the financial year during which the term of office begins shall not be taken into account. The shareholders' meeting can specify a shorter tenure when electing Supervisory Board members representing the shareholders. For members of the Supervisory Board who leave office before the end of their term, a successor shall be elected for the remaining term of the member who has left office unless the Company's shareholders' meeting specifies a shorter term for such successor.

The employee participation procedure (*Arbeitnehmerbeteiligungsverfahren*) has been initiated at the Company in accordance with the German Act on the Participation of Employees in a European Company (*SE-Beteiligungsgesetz*, "**SEBG**"). The objective of the employee participation procedure is to conclude a co-determination agreement (*Beteiligungsvereinbarung*) in accordance with the provisions of the SEBG which should contain and govern the number of employee representatives on the Supervisory Board, the procedure for the appointment of such representatives and the rights of such representatives. The co-determination agreement will be negotiated between the special negotiating body (*Besonderes Verhandlungsgremium*) representing the employees and the Management Board. The negotiations may generally last up to six months; however, the parties can extend the negotiation period by mutual agreement to up to one year. If a co-determination agreement has not been entered into within the negotiation period, the statutory standard rules set out in section 34 et seq. of the SEBG will apply. This would result in the Supervisory Board being composed of an equal number of shareholder and employee representatives. The special negotiating body may also resolve not to enter into negotiations or to abandon negotiations already initiated. In this case, the statutory standard rules set out in section 34 et seq. of the SEBG would not apply and the Supervisory Board would not be subject to co-determination.

If, after completion of the employee participation procedure, the Supervisory Board is subject to co-determination pursuant to a co-determination agreement concluded in accordance with the provisions of the SEBG or the statutory standard rules set out in section 34 et seq. of the SEBG, the Management Board shall initiate the status procedure (*Statusverfahren*) in accordance with section 97 et seq. of the German Stock Corporation Act (*Aktiengesetz*). The objective of the status procedure is to determine the applicable provisions for the composition of the Supervisory Board. In the first shareholders' meeting called after the applicable provisions have been bindingly determined, but in any event no later than six months after such determination, all members of the Supervisory Board have to be newly elected to form the Supervisory Board in accordance with the determined provisions.

Supervisory Board members elected by the shareholders' meeting may be removed by a resolution of the shareholders' meeting if such a resolution is approved by at least a simple majority of the votes cast.

In addition, each member of the Supervisory Board may resign from office even without good cause with two weeks written notice issued to the chairman of the Supervisory Board or, in the case of a resignation by the chairman, to his/her deputy or to the Management Board. The chairman of the Supervisory Board or, in the case of a resignation by the chairman, his/her deputy can consent to a shortening or to a waiver of this period. Following the shareholders'

meeting, in the course of which the members of the Supervisory Board are elected by the shareholders' meeting for a new term, the Supervisory Board will elect a chairman and a deputy chairman from among its members. Should the chairman or the deputy chairman depart before the end of his or her term of office, a new chairman or deputy chairman must be elected upon the request of any Supervisory Board member at a meeting of the Supervisory Board to be held without undue delay before any other resolutions of the Supervisory Board are adopted.

Pursuant to the Articles of Association, the Supervisory Board may adopt internal rules of procedure. It is further authorized to establish committees in accordance with applicable law and the Articles of Association. To the extent permitted by law or by the Articles of Association, the Supervisory Board may delegate certain of its duties or transfer decision-making powers and rights to these committees established from among its members.

The current version of the Supervisory Board's internal rules of procedure was adopted by resolution of the Supervisory Board on September 1, 2016. The Supervisory Board is entitled to resolve amendments to the Articles of Association if such amendments only relate to the wording. The Supervisory Board must hold at least two meetings within a calendar half-year. Meetings of the Supervisory Board shall be convened in writing 14 days in advance by the chairman of the Supervisory Board, not including the day on which the invitation is sent and the day of the meeting itself. In urgent cases, the chairman may shorten this period. Notice of meetings may also be given orally, by telephone, by telefax, by e-mail or any other customary means of communication.

The Articles of Association and the internal rules of procedure for the Supervisory Board provide that resolutions of the Supervisory Board shall generally be passed in meetings. Absent members of the Supervisory Board may participate in the passing of resolutions at a meeting by submitting their votes in writing through another Supervisory Board member. A vote cast by telefax or electronic media shall also be considered a vote cast in writing. An absent member may cast a vote retrospectively only with the consent of all present members. A Supervisory Board resolution may also be passed outside of meetings through votes cast orally, via the telephone, in writing, by telefax, or via electronic media upon the Chairman's request.

The Articles of Association and the rules of procedure for the Supervisory Board provide that the Supervisory Board has a quorum if at least half of the members of which it has to consist in total take part in the voting. A member shall be deemed to participate in the passage of resolutions also if he or she abstains from casting a vote. Absent members of the Supervisory Board or members who cast their vote in the aforementioned ways as well as members who abstain from voting are considered to take part in the voting for the purpose of the required quorum. Resolutions of the Supervisory Board are passed by a simple majority of the votes cast unless mandatory statutory provisions require a different majority. If a vote in the Supervisory Board results in a tie, the chairman has a casting vote. In the absence of the chairman of the Supervisory Board, the deputy chairman's vote shall not be decisive.

### **20.3.2 Committees**

Pursuant to the Articles of Association, the Supervisory Board may establish committees and may further delegate to such committees the authority to make decisions on behalf of the Supervisory Board to the extent legally permissible. The Supervisory Board has, in accordance with its rules of procedure, formed an Audit, a Presidential, a Personnel Affairs, a Nomination and a Strategy Committee. In addition, in accordance with a resolution of the Supervisory Board, an IPO Committee was formed.

Pursuant to the rules of procedure of the Supervisory Board, the Presidential Committee shall consist of eight members. The chairman of the Supervisory Board shall be the chairman of the Presidential Committee. As of the date of the Prospectus, the Presidential Committee consists of Dr. Werner Brandt (chairman), Frank Bsirske, Ulrich Grillo, Dr. Markus Krebber, Peter Lafos, Robert Leyland, Dr. Rolf Pohlig and Pascal van Rijsewijk. At the initiative of the chairman, the Presidential Committee advises the Supervisory Board on material matters and prepares the

resolution of the Supervisory Board. In matters of urgency the Presidential Committee rather than the Supervisory Board may resolve on the consent to certain types of transactions which are subject to the consent of the Supervisory Board pursuant to the internal rules of procedure of the Supervisory Board.

Pursuant to the rules of procedure of the Supervisory Board, the Audit Committee shall consist of six members or such higher number of members as determined by the Supervisory Board. At least one of the members shall have expertise in the fields of accounting or auditing. As of the date of the Prospectus, the Audit Committee consists of Dr. Rolf Pohlig (chairman), Arno Hahn, Dr. Markus Krebber, René Pöhls, Gabriele Sassenberg and Deborah B. Wilkens. The Audit Committee is, in particular, responsible for oversight of the Company's accounting process and the effectiveness of its internal control system, internal auditing system, as well as the audit of the annual financial statements. The Audit Committee prepares the negotiations and resolutions of the Supervisory Board regarding the audit and, if applicable, the adoption of the unconsolidated financial statements and the approval of the consolidated financial statements, the proposed resolution of the Management Board regarding the appropriation of the distributable profit as well as the Supervisory Board's proposal to the Company's shareholders' meeting regarding the appointment of the auditor and the group auditor as well as the auditor of the semi-annual report, provided that it shall be audited or reviewed by the auditor. The Audit Committee, rather than the Supervisory Board, deals with questions regarding financial accounting, in particular the treatment of fundamental topics such as the application of new financial accounting standards as well as reviewing accounting processes, reviewing and discussing the semi-annual and quarterly financial reports (if any) and any comparable financial reports as well as the auditor's review of the semi-annual financial report (if applicable) together with the Management Board prior to publication, supervising the efficiency of the internal risk management system, the internal control system, the internal audit system as well as questions regarding compliance, supervising the audit, in particular the required independence of the auditor and additional services provided by the auditors, passing resolutions on the audit mandate given to the auditor, in particular the possible audit assignment for the audit review or audit of the semi-annual financial report, determining the audit focal points and the auditor's compensation, as well as other issues being in direct connection with the above-mentioned matters. The Audit Committee prepares resolutions of the Supervisory Board on the annual financial statements and the arrangements with the auditor of the financial statements (with due regard to the audit assignment, the determination of the audit's focal points and the agreement on fees). Based on reports of the Management Board, the Audit Committee shall discuss major events at companies controlled by innogy SE and the addition of new or relinquishment of existing business fields that are directly assigned to innogy SE.

Pursuant to the rules of procedure of the Supervisory Board, the Personnel Affairs Committee shall consist of six members or such higher number of members as determined by the Supervisory Board. As of the date of the Prospectus, the Personnel Affairs Committee consists of Dr. Werner Brandt (chairman), Reiner Böhle, Frank Bsirske, Michael Kleinemeier, René Pöhls and Marc Tüngler. The chairman of the Supervisory Board shall be the chairman of the Personnel Affairs Committee. The Personnel Affairs Committee, rather than the Supervisory Board, shall prepare the personnel-related decisions of the Supervisory Board. The Personnel Affairs Committee shall pass resolutions concerning the following issues: (i) the conclusion, amendments to, and termination of employment contracts with members of the Management Board, with the exception of the decisions which are at the discretion of the Supervisory Board in accordance with section 87 para. 1 and 2 of the German Stock Corporation Act (*Aktiengesetz*), which are prepared by the Personnel Affairs Committee; (ii) other legal transactions involving Management Board members in accordance with section 112 of the German Stock Corporation Act (*Aktiengesetz*), as well as the approval of transactions between the Company and a company affiliated with it or between the Company and a Management Board member or individuals or undertakings with which a Management Board member is associated, which have

an underlying value exceeding EUR 50,000.00; (iii) the prior approval of other activities undertaken by a Management Board member as defined in section 88 of the German Stock Corporation Act (*Aktiengesetz*) as well as a (prior or subsequent) approval of other sideline employment of Management Board members with due regard to the exercise of supervisory board mandates and mandates at comparable supervisory bodies of commercial enterprises that do not belong to the Group; (iv) the award of loans to individuals stated in sections 89 and 115 of the German Stock Corporation Act (*Aktiengesetz*); and (v) the approval of contracts with Supervisory Board members in accordance with section 114 of the German Stock Corporation Act (*Aktiengesetz*). The Personnel Affairs Committee shall regularly discuss the long-term succession planning for the Management Board. In so doing, it shall take the Company's executive resource planning and diversity into account. Members of the Management Board or Supervisory Board shall disclose conflicts of interests to the Personnel Affairs Committee rather than to the Supervisory Board. Such declarations shall be addressed to the Chairman of the Personnel Affairs Committee.

Pursuant to the rules of procedure of the Supervisory Board, the Strategy Committee shall consist of six members. The chairman of the Supervisory Board shall be the chairman of the Strategy Committee. As of the date of the Prospectus, the Strategy Committee consists of Dr. Werner Brandt (chairman), Frank Bsirske, Arno Hahn, Martina Koederitz, Dr. Dieter Steinkamp and Šárka Vojíková. The Strategy Committee advises the Supervisory Board on strategic perspective, direction and development of the Company as well as matters of strategic importance for the Company. Furthermore, the Strategy Committee is, in particular, responsible for fundamental matters of the Group strategy including business political and entrepreneurial direction of the Group. The Strategy Committee prepares the resolutions of the Supervisory Board in the strategic related matters described above.

Pursuant to the rules of procedure of the Supervisory Board, the Nomination Committee shall consist of the chairman of the Supervisory Board and two further Supervisory Board members elected by the shareholders. The chairman of the Supervisory Board shall be the chairman of the Nomination Committee. As of the date of the Prospectus, the Nomination Committee consists of Dr. Werner Brandt (chairman), Ulrich Grillo and Dr. Rolf Pohlig. The Nomination Committee shall convene whenever necessary and shall propose to the Supervisory Board candidates suited to be proposed as election nominees by the Supervisory Board to the annual shareholders' meeting. Such proposals shall take the Company's international activity, potential conflicts of interest and diversity into account.

Pursuant to the resolution of the Supervisory Board on the formation of the IPO Committee the committee shall consist of the members of the Presidential Committee, *i.e.*, as of the date of the Prospectus Dr. Werner Brandt (chairman), Frank Bsirske, Ulrich Grillo, Dr. Markus Krebber, Peter Lafos, Robert Leyland, Dr. Rolf Pohlig, Pascal van Rijsewijk and Deborah B. Wilkens. The IPO Committee shall decide on behalf of the Supervisory Board on the consent to all aspects of the capital increase where a decision of the Supervisory Board is required.

### 20.3.3 Current Members of the Supervisory Board

The following table shows the names of the current members of the Supervisory Board of innogy SE, as well as – where applicable – their further positions as members of a management, administrative or supervisory board in companies or as partners in partnerships. Positions held in companies or partnerships outside the innogy Group in the last five years but no longer current, are also reflected in the following table:

Name	Age	Member since	Appointed until <sup>1)</sup>	Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships
Dr. Werner Brandt (chairman) . . . . .	62	July 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the supervisory board of Deutsche Lufthansa AG*</li> <li>• Member of the supervisory board of OSRAM Licht AG*</li> <li>• Chairman of the supervisory board of ProSiebenSat.1 Media SE*</li> <li>• Chairman of the supervisory board of RWE AG*</li> <li>• Member of the supervisory board of QIAGEN N.V. (until 2016)</li> <li>• Member of the management board of SAP SE (until 2014)</li> </ul>
Frank Bsirske (deputy chairman)** . . . . .	64	July 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the supervisory board of Deutsche Bank AG*</li> <li>• Vice chairman of the supervisory board of Deutsche Postbank AG*</li> <li>• Member of the supervisory board of IBM Central Holding GmbH*</li> <li>• Member of the administrative board of KfW Bankengruppe*</li> <li>• Vice chairman of the supervisory board of RWE AG*</li> <li>• Chairman of ver.di - Vereinte Dienstleistungsgewerkschaft*</li> <li>• Vice chairman of the supervisory board of Deutsche Lufthansa AG (until 2013)</li> </ul>
Reiner Böhle** . . . . .	56	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the supervisory board of RWE AG*</li> </ul>

Name	Age	Member since	Appointed until <sup>1)</sup>	Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships
Ulrich Grillo . . . . .	57	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the supervisory board of RWE Deutschland AG (until 2016)</li> <li>• Member of the supervisory board of Rheinmetall AG*</li> <li>• Member of the supervisory board Deutsche Messe AG*</li> <li>• Vice chairman of the supervisory board of Klöckner &amp; Co. SE*</li> <li>• Representative of the member group of HDI Versicherung auf Gegenseitigkeit, Hütten- und Walzwerke*</li> <li>• Chairman of the management board of Grillo-Werke AG*</li> <li>• Member of the administrative board of Grillo Zinkoxid GmbH*</li> <li>• Member of the administrative board of RHEINZINK GmbH &amp; Co. KG*</li> <li>• Chairman of the advisory board of Hamborner Dach- und Fassadentechnik GmbH &amp; Co. KG*</li> <li>• Member of the board of managers of Zinacor S.A.*</li> <li>• Member of the supervisory board of Praktiker AG (until 2012)</li> <li>• Member of the supervisory board of Baumarkt Praktiker Deutschland GmbH (until 2012)</li> <li>• Member of the supervisory board of mateco AG (until 2012)</li> <li>• Member of the supervisory board of IKB Deutsche Industriebank AG (until 2013)</li> <li>• Member of the regional advisory board west of Commerzbank AG (until 2012)</li> </ul>

Name	Age	Member since	Appointed until <sup>1)</sup>	Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships
Arno Hahn** . . . . .	54	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the advisory board of the region west of HDI-Industrierversicherung AG (until 2011)</li> <li>• Member of the advisory board of the region west of HDI Privat Versicherung AG (until 2011)</li> <li>• Member of the supervisory board of RWE AG*</li> </ul>
Maria van der Hoeven . . . . .	67	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the administrative board of TOTAL S.A.*</li> <li>• Member of the supervisory board of RWE AG (intended to be terminated presumably as of the end of October, 2016)*</li> </ul>
Michael Kleinemeier . . .	59	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the management board of SAP SE*</li> </ul>
Martina Koederitz . . . .	52	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the supervisory board of RWE AG (intended to be terminated presumably as of the end of October, 2016)*</li> <li>• Chairman of the management board of IBM Central Holding GmbH*</li> <li>• Chairman of the management board of IBM MBS GmbH*</li> <li>• Chairman of the supervisory board of IBM Deutschland Research &amp; Development GmbH*</li> <li>• Chairman of the supervisory board of BWI Systeme GmbH (intended to be terminated at the end of 2016)*</li> <li>• Member of the regional advisory board of Deutsche Bank AG*</li> <li>• Member of the regional advisory board of Deutsche Bundesbank*</li> </ul>
Dr. Markus Krebber . . .	43	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Managing director of RWE Supply &amp; Trading GmbH*</li> </ul>

Name	Age	Member since	Appointed until <sup>1)</sup>	Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships
Peter Lafos** . . . . .	62	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the supervisory board of RWE Generation SE*</li> <li>• Member of the supervisory board of RWE Power AG*</li> <li>• Member of the board of directors of RWEST Middle East Holdings B.V.*</li> <li>• Non-executive member of the board of directors of Pearl Petroleum Co. Ltd.*</li> <li>• Member of the supervisory board of Eurohypo AG (until 2012)</li> <li>• Member of the supervisory board of Commerz Real AG (until 2012)</li> <li>• Member of the supervisory board of GEW Köln AG*</li> <li>• Member of the supervisory board of RWE Power AG*</li> <li>• Member of the supervisory board of RWE Generation SE*</li> <li>• Member of the supervisory board of RheinEnergie AG*</li> <li>• Member of the supervisory board of RWE Deutschland AG (until 2014)</li> <li>• Member of the supervisory board of RWE AG (until 2015)</li> </ul>
Robert Leyland** . . . . .	53	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the supervisory board of Netzgesellschaft Südwestfalen mbH &amp; Co. KG*</li> </ul>
Meike Neuhaus** . . . . .	50	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Chairman of the board of Haus der Technik e.V.*</li> <li>• Member of the advisory board of World Airport Partners Management GmbH*</li> <li>• Member of the management board of RWE AG (until 2012)</li> </ul>
Dr. Rolf Pohlig . . . . .	63	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Chairman of the board of Haus der Technik e.V.*</li> <li>• Member of the advisory board of World Airport Partners Management GmbH*</li> <li>• Member of the management board of RWE AG (until 2012)</li> </ul>

Name	Age	Member since	Appointed until <sup>1)</sup>	Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships
				<ul style="list-style-type: none"> <li>• Member of the supervisory board of RWE Dea AG (until 2012)</li> <li>• Member of the supervisory board of Essent N.V. (until 2012)</li> <li>• Member of the supervisory board of RWE Deutschland Aktiengesellschaft (now innogy Netze Deutschland GmbH) (until 2012)</li> <li>• Member of the supervisory board of RWE Innogy GmbH (until 2012)</li> <li>• Chairman of the supervisory board of RWE Pensionsfonds AG (until 2012)</li> <li>• Member of the supervisory board of RWE Power AG (until 2012)</li> <li>• Chairman of the advisory board of RWE Stiftung gGmbH (now innogy Stiftung für Energie und Gesellschaft gGmbH) (until 2012)</li> <li>• Member of the supervisory board of RWE Transgas a.s. (until 2012)</li> <li>• Chairman of the advisory board of Versatel Telekommunikations GmbH (until 2014)</li> <li>• Chairman of the supervisory board of Versatel Deutschland GmbH (until 2014)</li> </ul>
René Pöhls** . . . . .	45	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Vice chairman of the supervisory board of the envia Mitteldeutsche Energie AG*</li> <li>• Member of the supervisory board of RWE Deutschland Aktiengesellschaft (now innogy Netze Deutschland GmbH) (until 2016)</li> </ul>
Pascal van Rijsewijk** . . . . .	39	September 1, 2016	2017	
Gabriele Sassenberg** . . . . .	55	September 1, 2016	2017	
Dr. Dieter Steinkamp . .	56	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Chairman of the management board of RheinEnergie AG*</li> </ul>

Name	Age	Member since	Appointed until <sup>1)</sup>	Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships
				<ul style="list-style-type: none"> <li>Chairman of the management board of GEW Köln AG*</li> <li>Speaker of the management of Stadtwerke Köln GmbH*</li> <li>Member of the supervisory board of MVV Energie AG* (until 2016)</li> <li>Member of the supervisory board of NetCologne Gesellschaft für Telekommunikation mbH*</li> <li>Member of the supervisory board of rhenag Rheinische Energie AG*</li> <li>Member of the supervisory board of AWB Abfallwirtschaftsbetriebe Köln GmbH*</li> <li>Vice chairman of the supervisory board of AggerEnergie GmbH*</li> <li>Member of the supervisory board of AVG Abfallentsorgungs- und Verwertungsgesellschaft Köln mbH*</li> <li>Member of the supervisory board of BELKAW GmbH*</li> <li>Member of the supervisory board of Energieversorgung Leverkusen GmbH &amp; Co. KG*</li> <li>Member of the supervisory board of Gasversorgungsgesellschaft mbH Rhein-Erft*</li> <li>Member of the supervisory board of modernes köln Gesellschaft für Stadtentwicklung mbH*</li> <li>Chairman of the supervisory board of moderne stadt Gesellschaft zur Förderung des Städtebaues und der Gemeindeentwicklung mbH*</li> <li>Vice chairman of the supervisory board of Stadtwerke Lohmar GmbH &amp; Co. KG*</li> </ul>

Name	Age	Member since	Appointed until <sup>1)</sup>	Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships
				<ul style="list-style-type: none"> <li>• Member of the supervisory board of Stadtwerke Troisdorf GmbH*</li> <li>• Vice chairman of the supervisory board of Stromnetz Bornheim GmbH &amp; Co. KG*</li> <li>• Member of the advisory board of BRUNATA Wärmemesser-Gesellschaft Schultheiss GmbH + Co. (until 2016)</li> <li>• Member of the advisory board of METRONA Wärmemesser-Gesellschaft Schultheiss GmbH + Co. (until 2016)</li> <li>• Member of the advisory board of Unternehmensverwaltungsgesellschaft METRONA mbH (until 2016)</li> <li>• Member of the advisory board of Verwaltungsgesellschaft Schultheiss mbH (until 2016)</li> <li>• Member of the supervisory board of Stadtwerke Leichlingen GmbH (until 2013)</li> </ul>
Marc Tüngler . . . . .	47	July 1, 2016	2017	<ul style="list-style-type: none"> <li>• Chief Managing Director of Deutsche Schutzvereinigung für Wertpapierbesitz e.V.*</li> <li>• Managing director of DSW Service GmbH*</li> <li>• Member of the supervisory board of freenet AG*</li> <li>• Member of the supervisory board of InnoTec TSS AG*</li> </ul>
Šárka Vojíková** . . . . .	49	September 1, 2016	2017	<ul style="list-style-type: none"> <li>• Member of the supervisory board of RWE Gas Storage, s.r.o. (until 2014)</li> <li>• Member of the supervisory board of NET4GAS, s.r.o. (until 2011)</li> <li>• Member of the supervisory board of RWE Supply &amp; Trading CZ, a.s (until 2012)</li> </ul>

Name	Age	Member since	Appointed until <sup>1)</sup>	Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships
Deborah B. Wilkens . . .	45	September 1, 2016	2017	<ul style="list-style-type: none"> <li>Managing director of Goldman Sachs International (until 2016)</li> </ul>

1) The members of the Supervisory Board are elected until the end of the shareholders' meeting 2017 that decides upon the approval of the acts of the Supervisory Board members for the financial year 2016.

\* Position is currently held.

\*\* Elected by the shareholders' meeting on a voluntary basis upon proposal of the employees.

#### 20.3.3.1 Reiner Böhle – Brief Biography

Born in 1960, Reiner Böhle trained as a plumber and gas fitter (*Gas-Wasser-Installateur*). In 1986, Mr. Böhle joined VEW AG and held several positions in the grid area from 1986 until 2000. From 2000 to 2001, he acted as vice chairman and from 2002 to 2004 as chairman of the works council of the RWE Gas AG. From 2005 to 2009, he served as vice chairman of the general works council of RWE Westfalen-Weser-Ems AG and from 2010 to 2011 of RWE Rheinland-Westfalen Netz AG. Mr. Böhle acted as chairman of the general works council of RWE Deutschland Aktiengesellschaft (now innogy Netze Deutschland GmbH) and Westnetz GmbH from 2011 to 2016. From 2012 to 2016, he was chairman of the group works council of RWE Deutschland Aktiengesellschaft (now innogy Netze Deutschland GmbH). Since 2016, Mr. Böhle acts as chairman of the group works council of innogy SE and chairman of the general works council of Westnetz GmbH. In addition, he was a member of the supervisory board of RWE Deutschland AG (until 2016). Since 2013, Mr. Böhle is a member of the supervisory board of RWE AG.

#### 20.3.3.2 Dr. Werner Brandt – Brief Biography

Born in 1954, Dr. Werner Brandt studied business administration at the University of Erlangen-Nuremberg and obtained a doctorate at the Technical University of Darmstadt. From 1981 until 1992, Dr. Brandt worked for Price Waterhouse Aktiengesellschaft (today PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft). Subsequently, he was a member of the management and Vice President European Operations of Baxter Deutschland GmbH from 1992 until 1999. Dr. Brandt was Chief Financial Officer and Labor Director of Fresenius Medical Care AG from 1999 to 2001 and Chief Financial Officer of SAP SE from 2001 to 2014. Since 2014, Dr. Brandt has acted as a management consultant. Furthermore, Dr. Brandt served as a member of the supervisory board of QIAGEN N.V. from 2007 until 2016 and as chairman of the board of the Financial Reporting Enforcement Panel (*Deutsche Prüfstelle für Rechnungslegung DPR e.V.*) until 2016. He is currently chairman of the supervisory boards of ProSiebenSat.1 Media SE (since 2014) and RWE AG (since 2016) as well as a member of the supervisory boards of Deutsche Lufthansa AG (since 2008) and OSRAM Licht AG (since 2014).

#### 20.3.3.3 Frank Bsirske – Brief Biography

Born in 1952, Frank Bsirske studied political science at the Free University of Berlin. From 1978 to 1987, Mr. Bsirske was secretary for education for the district of Hanover of the youth organization Sozialistische Jugend Deutschlands – Die Falken. Thereafter, Mr. Bsirske worked for the parliamentary group Grüne Alternative Bürgerliste of the Municipal Council of Hanover from 1987 to 1989. Between 1987 and 1997, he held several positions in the district administration of Hanover and Lower Saxony of the Public Services, Transport and Traffic Union (*Gewerkschaft Öffentliche Dienste, Transport und Verkehr, ÖTV*). From 1997 to 2000, Mr. Bsirske was head of the City of Hannover's personnel and organization department. In 2000, he was elected as chairman of the Public Services, Transport and Traffic Union. Since 2001, Mr. Bsirske is chairman of the United Service Union (*ver.di - Vereinte Dienstleistungsgewerkschaft*). In the same year, Mr. Bsirske was appointed as vice chairman of the supervisory board of Deutsche

Lufthansa AG in which he served until 2013. He currently acts as vice chairman of the supervisory boards of RWE AG (since 2001) and Deutsche Postbank AG (since 2012). In addition, Mr. Bsirske is a member of the supervisory boards of Deutsche Bank AG (since 2013) and IBM Central Holding GmbH (since 2002) as well as of the administrative board of KfW Bankengruppe (since 2006).

#### 20.3.3.4 *Ulrich Grillo – Brief Biography*

Born in 1959, Ulrich Grillo studied business administration at the Westfälische Wilhelms-University of Münster and obtained a degree in business administration (*Diplomkaufmann*). Thereafter, Mr. Grillo worked at Arthur Andersen & Co. GmbH from 1987 to 1989 and at A. T. Kearney GmbH from 1989 to 1993. In 1993, he joined the Rheinmetall group. Since 2001, he has been a member and since 2004 chairman of the management board of Grillo-Werke AG. Further, Mr. Grillo has been a member of the board of managers of Zinacor S.A. since 2004. From 2004 to 2011, he served as a member of the advisory boards of the region west of HDI-Industrierversicherung AG and the HDI Privat Versicherung AG. Mr. Grillo was a member of the supervisory boards of Praktiker AG and Baumarkt Praktiker Deutschland GmbH and as well as a member of the regional advisory board west of Commerzbank AG from 2006 to 2012. In addition, Mr. Grillo served as a member of the supervisory board of mateco AG from 2007 to 2012 and a member of the supervisory board of IKB Deutsche Industriebank AG from 2008 to 2013. Mr. Grillo is currently vice chairman of the supervisory board of Klöckner & Co. SE (since 2012) as well as a member of the supervisory boards of Deutsche Messe AG (since 2013) and Rheinmetall AG (since 2016). In addition, he serves as a member of the administrative boards of Grillo Zinkoxid GmbH (since 2001) and RHEINZINK GmbH & Co. KG (since 2009). Mr. Grillo also acts as chairman of the advisory board of Hamborner Dach- und Fassadentechnik GmbH & Co. KG (since 2009) and of the central advisory board of Commerzbank AG (since 2013). Furthermore, Mr. Grillo is a representative of the member group of "Hütten- und Walzwerke", HDI insurance (HDI Versicherung auf Gegenseitigkeit) since 2011.

#### 20.3.3.5 *Arno Hahn – Brief Biography*

Born in 1962, Arno Hahn trained as a power plant electronic technician (*Energieanlagenelektroniker*) and later completed his education by becoming an electrical engineer. From 1983 to 2001, Mr. Hahn held several positions in the grid area of RWE Energie AG and the sales sector of RWE Plus AG. In 2002, he was appointed as chairman of the works council at the location Bad Kreuznach of RWE Plus AG. In 2003, Mr. Hahn became vice chairman of the general works council of RWE Rhein-Ruhr AG and in 2009 of RWE Vertrieb AG. In 2012, he was appointed as chairman of the general works council of RWE Vertrieb AG and vice chairman of the group works council of RWE AG. Since 2014, Mr. Hahn has acted as chairman of the group works council of RWE AG. In 2016, he became chairman of the general works council of innogy SE. In addition, Mr. Hahn is a member of the supervisory board of RWE AG.

#### 20.3.3.6 *Maria van der Hoeven – Brief Biography*

Born in 1949, Maria van der Hoeven started her professional career as a teacher in 1969 and held various teaching and management positions in the field of education and technology until 1991. In 1974, Ms. van der Hoeven entered into a political career. From 1974 to 1991, she was a member of the City Council of Maastricht and from 1991 to 2002 a member of the House of Parliament of the Netherlands. She served as Minister of Education, Culture and Science of the Netherlands from 2002 to 2007 and as Minister of Economic Affairs and Energy from 2007 to 2010. In 2011, Ms. van der Hoeven took over as Executive Director of the International Energy Agency. Since 2015, she has been a member of the board of trustees of the Rocky Mountain Institute and senior associate fellow at Clingendael International Energy Program. Since 2016, Ms. van der Hoeven has served as a member of the administrative board of TOTAL S.A. and of the supervisory board of RWE AG where she will presumably resign as of the end of October, 2016.

#### 20.3.3.7 *Michael Kleinemeier – Brief Biography*

Born in 1957, Michael Kleinemeier is a member of the SAP executive board of SAP SE. He leads the Digital Business Services organization. He was appointed to the executive board on November 1, 2015. In this role he is responsible for driving software adoption, ensuring customers implement and run what they buy whilst safeguarding maintenance and subscription. Mr. Kleinemeier has held various leadership positions at SAP. In 2013, he was appointed President of the region Middle and Eastern Europe (MEE), where he was responsible for all market activities and the entire SAP product portfolio in this region. In 2012, he was Head of Global End-to-End Services. In this capacity, Mr. Kleinemeier was responsible for driving sales and market adoption of SAP's latest solutions. In parallel, he served as President of the DACH Region (Germany, Austria and Switzerland) from 2010 to 2012. In 2007, Mr. Kleinemeier was appointed Head of Industry Solutions and Corporate Officer of SAP. From 2001 to 2007, he was managing director of SAP Deutschland. During that time, he was also President of the former EMEA Central (DACH and the Benelux countries) sales region. From 1989 to 1999, he held key positions in sales, consulting, and training at SAP. Mr. Kleinemeier holds a degree in commercial management from the University of Paderborn.

#### 20.3.3.8 *Martina Koederitz – Brief Biography*

Born in 1964, Martina Koederitz holds a degree in business administration and started her career as a system consultant for IBM in 1987. Until 1999, Ms. Koederitz held various system consultancy and sales management positions within IBM. From 1999 to 2003, she was IBM Business Unit Executive for the cooperative financial services network. Ms. Koederitz acted as Vice President of IBM zSeries Sales (IBM EMEA) from 2003 to 2006 and as Vice President of System z Sales (IBM Germany) from 2006 to 2007. From 2007 to 2008, she was Client Advocacy Executive in the office of the chief executive officer of IBM in Armonk, New York. Subsequently, Ms. Koederitz acted as Vice President IBM Systems and Technology Group, IBM Germany, from 2008 to 2009. In 2009, she became a member of the management board of IBM Deutschland GmbH and was IBM Vice President Sales for medium-sized companies and business partners from 2009 to 2010 and head of sales from 2010 to 2011. Since 2011, Ms. Koederitz has been chairman of the management board of IBM Deutschland GmbH and since 2013 also General Manager for IBM Germany, Austria and Switzerland. She also serves as a chairman of the management boards of IBM Central Holdings GmbH and IBM MBS GmbH. Furthermore, Ms. Koederitz is chairman of the supervisory boards IBM Deutschland Research & Development GmbH and BWI Systeme GmbH. In addition, she is a member of the regional advisory boards of Deutsche Bank AG and Deutsche Bundesbank. Since 2016, Ms. Koederitz has served as a member of the supervisory board of RWE AG where she will presumably resign as of the end of October, 2016.

#### 20.3.3.9 *Dr. Markus Krebber – Brief Biography*

Born in 1973, Dr. Markus Krebber trained as a banker at Deutsche Bank AG from 1992 to 1995. Thereafter, Dr. Krebber studied business administration and economics at Gerhard Mercator-University Duisburg and Indiana University of Pennsylvania from 1995 to 2000 and obtained a Master in Economics and Business Administration. In 2007, he earned a doctoral degree from Humboldt University Berlin. He worked at McKinsey & Company, Inc. as a business consultant from 2000 to 2005. From 2005 to 2012, Dr. Krebber held several positions at Commerzbank AG, including Chief Operating Officer Retail Banking, Divisional Director (*Bereichsvorstand*) Group Integration and Divisional Director Group Finance. From 2012 to 2015, Dr. Krebber was a member of the management board and Chief Financial Officer of RWE Supply & Trading GmbH. Since 2015, he has been chairman of the management board of RWE Supply & Trading GmbH. In 2015, Dr. Krebber became a non-executive member of the board of directors of Pearl Petroleum Co. Ltd and a member of the board of directors of RWEST Middle East Holdings B.V. In addition, Dr. Krebber was a member of the supervisory boards of Eurohypo AG and Commerz Real AG in 2012. He is currently a member of the supervisory boards of RWE Generation SE (since 2015) and RWE Power AG (since 2016). Dr. Krebber was appointed to serve as member of the executive board of RWE AG as of October 1, 2016.

#### 20.3.3.10 Peter Lafos – Brief Biography

Born in 1954, Peter Lafos trained as an engineering draftsman (*technischer Zeichner*) at Hoechst AG and obtained his advanced technical college certificate (*Fachhochschulreife*) at the secondary school for technology (*Fachoberschule für Technik*) in Cologne. From 1975 to 1992, Mr. Lafos worked at the main control center (*Hauptschaltleitung*) of Rheinisch-Westfälisches Elektrizitätswerk AG and, thereafter, RWE Energie AG in Brauweiler. In 1992, he was union secretary of the district NRW I of the Transport and Traffic Union (*Gewerkschaft Öffentliche Dienste, Transport und Verkehr, ÖTV*) as well as managing director of the district department (*Bezirksabteilungsgeschäftsführer*) for public and private energy supply, waste water, water and waste management. From 2001 to 2009, Mr. Lafos served as head of the statewide specialist group (*Landesfachgruppe*) energy and mining North Rhine-Westphalia in the supply and disposal department for the district NRW of the United Service Union (*ver.di - Vereinte Dienstleistungsgewerkschaft*). Since 2009, he has been statewide department manager (*Landesfachbereichsleiter*) for supply and disposal for the district NRW of the United Service Union. In addition, Mr. Lafos was a member of the supervisory boards of RWE AG from 2009 to 2015 and RWE Deutschland AG from 2009 to 2014. He is currently a member of the supervisory boards of GEW Köln AG, RWE Power AG, RWE Generation SE and RheinEnergie AG.

#### 20.3.3.11 Robert Leyland – Brief Biography

Born in 1962, Robert Leyland worked as a contact and shift electrician at North Eastern Electricity Board which subsequently became RWE Npower plc from 1987 to 2008. Since 2008, Mr. Leyland is Field Team Manager at Npower Yorkshire Ltd. In addition, he served as local shop steward at the Unite the Union from 1992 to 1994. Since 1994, Mr. Leyland is senior shop steward of the Unite the Union. In his role as a senior shop steward he has been heavily involved in leading negotiations on behalf of the union members with Npower Yorkshires Ltd. on pay, working hours and all other aspects of terms and conditions; he also covers all aspects of health and safety within Npower Yorkshires Ltd. Since 2014, Mr. Leyland is a member of the European Works Council of RWE AG.

#### 20.3.3.12 Meike Neuhaus – Brief Biography

Born in 1966, Ms. Neuhaus trained as a banker at Deutsche Bank AG from 1985 to 1987 before she worked as Retail Banking Consultant at Deutsche Bank AG from 1987 to 1988. From 1988 to 1995, Ms. Neuhaus studied communication science at the University of Essen and earned a Magister Artium degree. From 1995 to 2000, she worked as a team leader in the field of consulting and project management at CP/COMPARTNER Agentur für Kommunikation GmbH. In 2001, Ms. Neuhaus was Senior Consultant Brand Communication at BSMG Worldwide Germany GmbH. In 2002, she joined the Former RWE Group. From 2002 to 2003, Ms. Neuhaus worked in the field of corporate communications at RWE Gas AG. She was a speaker in the field of corporate communications at RWE Westfalen-Weser-Ems AG from 2004 to 2009. From 2009 to 2016, Ms. Neuhaus was head of the PR, sponsoring and event management of RWE Vertrieb AG. Since 2016, she acts as head of PR, sponsoring and event management Retail of innogy SE. In addition, Ms. Neuhaus serves as a member of the supervisory board of Netzgesellschaft Südwestfalen mbH & Co. KG.

#### 20.3.3.13 Dr. Rolf Pohlig – Brief Biography

Born in 1952, Dr. Rolf Pohlig successfully completed his studies in economics with a Ph.D. in Business Administration at Bochum University in 1983. He started his professional career in the finance department of Franz Haniel & Cie. GmbH, a broadly diversified group held by the Haniel family. After several career steps in that group he was appointed Executive Finance Director of Gehe AG (later on renamed into Celesio AG), a listed Haniel subsidiary. 1993 he became Executive Vice President Finance at VEBA AG and after its merger with VIAG AG into EON AG in 2000 Dr. Pohlig was appointed Executive Vice President M&A. From 2007 to 2012, he was Chief Financial Officer of RWE AG and a member of the supervisory board of RWE Power AG as well as

chairman of the supervisory board of RWE Pensionsfonds AG. Dr. Pohlig served as a member of the supervisory boards of RWE Deutschland Aktiengesellschaft (now innogy Netze Deutschland GmbH) and Essent N.V. from 2009 to 2012, of RWE Transgas a.s. from 2010 to 2012, of RWE Dea AG from 2011 to 2012 and of RWE Innogy GmbH in 2012. He was chairman of the advisory boards of RWE Stiftung gGmbH (now innogy Stiftung für Energie und Gesellschaft gGmbH) until 2012 and of Versatel Telekommunikations GmbH from 2012 to 2014. Dr. Pohlig is currently a member of the advisory board of World Airport Partners Management GmbH and chairman of the board of Haus der Technik e.V. Since 2016, Dr. Pohlig has been chairman of the board of the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung DPR e.V.).

#### 20.3.3.14 René Pöhls – Brief Biography

Born in 1970, René Pöhls trained as an electrician with A-levels until 1990 before he obtained a degree as industry master in electrical engineering from the Chamber of Industry and Commerce (*Industrie- und Handelskammer*) in 1998. In 2009, Mr. Pöhls earned a degree as graduate engineer (*Diplomingenieur*). He joined the Former RWE Group in 1987 and has held several positions in the field of protection technology (*Schutztechnik*) since then. In 1998, Mr. Pöhls was appointed as works council member of envia Mitteldeutsche Energie AG. Since 2010, he has been the chairman of the group works council of the enviaM group. Since 2007, Mr. Pöhls has been a member and since 2010 vice chairman of the supervisory board of the envia Mitteldeutsche Energie AG. From 2012 to 2016, he served as a member of the supervisory board of RWE Deutschland Aktiengesellschaft (now innogy Netze Deutschland GmbH).

#### 20.3.3.15 Pascal van Rijsewijk – Brief Biography

Born in 1977, Pascal van Rijsewijk studied Economy and Society at pre-university education from 1989 to 1997. Before joining the Former RWE Group as officer customer service for RWE Energy Nederland NV in 2004, Mr. Rijsewijk was the owner of Metatron Recording Studio. From 2006 to 2010 he was senior officer customer services for RWE Energy Nederland NV and became chairman central works council RWE Energy Nederland NV in 2009 (until 2013). In addition, from 2010 to 2014 he worked as coach customer services for Essent NV. From 2010 to 2014 he was member works council consumer retail Essent NV and since 2013 until 2014 vice secretary works council Essent NV as well as vice secretary works council consumer retail Essent NV. Since 2014 Mr. Rijsewijk has been chairman central works council Essent NV, chairman works council consumer retail Essent NV and member European works council RWE AG.

#### 20.3.3.16 Gabriele Sassenberg – Brief Biography

Born in 1961, Gabriele Sassenberg trained as an administrative assistant (*Bürofachgehilfin*) from 1977 to 1979 at a tax consultant. In addition, Ms. Sassenberg obtained a degree as audited secretary (1986) and audited head secretary (1988) from the Chamber of Industry and Commerce (*Industrie- und Handelskammer*) as well as a degree as business economist for computer science (*Informatik-Betriebswirtin*) (1993) from the Administrative and Economic Academy (*Verwaltungs- und Wirtschaftsakademie*). From 1979 to 1987, she worked as secretary and assistant at MAN GHH GmbH. Ms. Sassenberg acted as head of the network, server and infrastructure department at Rheinisch-Westfälische Wasserwerksgesellschaft mbH from 1987 to 2005. In 2005, she joined the Former RWE Group and worked for RWE Computing GmbH, RWE Systems AG and RWE IT GmbH as project manager for infrastructure until 2008. From 2008 to 2016, Ms. Sassenberg was consultant (*Referentin*) for infrastructure at RWE Innogy GmbH. Since 2016, she holds the same position at innogy SE. As a full-time works council member (currently as chairman), Ms. Sassenberg has been released from her employment duties since 2011.

#### 20.3.3.17 Dr. Dieter Steinkamp – Brief Biography

Born in 1960, Dr. Dieter Steinkamp studied business administration at the University of Cologne from 1980 to 1985 and obtained a doctorate from the same university in 1992. Dr. Steinkamp acted as management assistant at Duisburger Verkehrsgesellschaft AG from 1984 to 1993. From

1992 to 1993, he was head of the common management board office (*gemeinsames Vorstandssekretariat*) of Duisburger Versorgungs- und Verkehrsgesellschaft mbH, Stadtwerke Duisburg AG and Duisburger Verkehrsgesellschaft AG. Thereafter, Dr. Steinkamp served as department director (*Beigeordneter*) of the City of Duisburg from 1993 to 1997. From 1997 to 1999, he was a member of the management board of Zoo Duisburg AG. Furthermore, Dr. Steinkamp served as head of the staff department for corporate planning, energy trading and the transport sector of Duisburger Versorgungs- und Verkehrsgesellschaft mbH, Stadtwerke Duisburg AG and Duisburger Verkehrsgesellschaft AG from 1999 to 2005. From 2004 to 2007, he was a member of the management board of SWK Stadtwerke Krefeld AG. Since 2007, Dr. Steinkamp has been a member and since 2009 chairman of the management boards of RheinEnergie AG and GEW Köln AG. He is speaker of the management of Stadtwerke Köln GmbH since 2009. In addition, he served as a member of the supervisory board of Stadtwerke Leichlingen GmbH from 2008 to 2013. Further Dr. Steinkamp served as a member of the advisory boards of BRUNATA Wärmemesser-Gesellschaft Schultheiss GmbH + Co., METRONA Wärmemesser-Gesellschaft Schultheiss GmbH + Co., Unternehmensverwaltungsgesellschaft METRONA mbH and Verwaltungsgesellschaft Schultheiss mbH from 2009 to 2016. Currently, Dr. Steinkamp acts as a member of the supervisory boards of MVV Energie AG (scheduled to resign as per September 30, 2016), NetCologne Gesellschaft für Telekommunikation mbH, rhenag Rheinische Energie AG, AWB Abfallwirtschaftsbetriebe Köln GmbH, AVG Abfallentsorgungs- und Verwertungsgesellschaft Köln mbH, BELKAW GmbH, Energieversorgung Leverkusen GmbH & Co. KG, Gasversorgungsgesellschaft mbH Rhein-Erft, modernes köln Gesellschaft für Stadtentwicklung mbH and Stadtwerke Troisdorf GmbH. Furthermore, he is chairman of the supervisory board of moderne stadt Gesellschaft zur Förderung des Städtebaues und der Gemeindeentwicklung mbH as well as vice chairman of the supervisory boards of AggerEnergie GmbH, Stadtwerke Lohmar GmbH & Co. KG and Stromnetz Bornheim GmbH & Co. KG.

#### 20.3.3.18 Marc Tüngler – Brief Biography

Born in 1968, Marc Tüngler is a lawyer and started to work for German Association for Protection of Security Holdings (*Deutsche Schutzvereinigung für Wertpapierbesitz e.V., DSW*) in 1999. For the German Association for the Protection of Security Holdings, Mr. Tüngler was managing director North Rhine-Westphalia until 2007, managing director Germany from 2007 until 2011 and has been Chief Managing Director since 2011. He was chairman of the nomination committee of the Financial Reporting Enforcement Panel (*Deutsche Prüfstelle für Rechnungslegung DPR e.V.*) until 2015. Since 2004, Mr. Tüngler has been managing director of DSW Service GmbH. Furthermore, Mr. Tüngler is a member of the Government Commission on the German Corporate Governance Code (*Regierungskommission Deutscher Corporate Governance Kodex*), the advisory council at the BaFin, member of the board of Working Group German Supervisory Board (*Arbeitskreis deutscher Aufsichtsrat e.V., AdAR*) and the council of Düsseldorf Stock Exchange. Furthermore, he is a member of the supervisory boards of freenet AG (since 2012) and InnoTec TSS AG (since 2007).

#### 20.3.3.19 Šárka Vojíková – Brief Biography

Born in 1967, Šárka Vojíková studied at VOŠ Sociálně právní (social law college) in Prague. From 1987 to 1988, Ms. Vojíková acted as officer of personnel work at Transporta, s.e. She served as officer of training at Transgas, a.s. from 1993 to 1998. From 1998 to 2016, Ms. Vojíková was president of the Confederation of Trade Association of Energy. Ms. Vojíková served as a member of the supervisory board of RWE Supply & Trading CZ, a.s. from 2002 to 2012, of the supervisory board of NET4GAS, s.r.o. from 2006 to 2011 and of the supervisory board of RWE Gas Storage, s.r.o. from 2007 to 2014.

#### 20.3.3.20 *Deborah B. Wilkens – Brief Biography*

Born in 1971, Deborah B. Wilkens finished her university education by obtaining a Bachelor of Arts from the University of Vermont. Ms. Wilkens started her professional career at Price Waterhouse Privatisation Services GmbH in Berlin in 1993 where she worked until 1997 and was promoted to a manager in 1995. From 1997 to 1999, she worked as a manager in equity research for Deutsche Bank AG in London and was Vice President in equity research at Credit Suisse First Boston in London from 1999 to 2000. In 2000, Ms. Wilkens joined Goldman Sachs International in London until 2016 and was promoted to managing director in 2003 and Head of the Energy and Commodities Business Unit in 2014 with responsibility for the sector research teams including utilities, oil, oil services, metals, mining, steel and paper as well as pulp sectors. Ms. Wilkens was also Head of European Utilities Equity Research Team of Goldman Sachs International.

The members of the Supervisory Board can be contacted under the Company's business address.

#### 20.3.4 **Compensation and Other Benefits; Share Ownership**

The compensation of the members of the Supervisory Board is set out in section 15 of the Articles of Association of the Company. It states that the members of the Supervisory Board receive an annual fixed remuneration. The Supervisory Board members shall be reimbursed for the expenses incurred in connection with their office including, if appropriate, payment of sales tax on their remuneration and on the reimbursement of their expenses. The annual fixed remuneration amounts to EUR 100,000.00 for each member of the Supervisory Board, to EUR 200,000.00 for the deputy chairman of the Supervisory Board and to EUR 300,000.00 for the chairman of the Supervisory Board. Additional annual remuneration is paid for the membership in the Committees of the Supervisory Board. The additional remuneration amounts to EUR 80,000.00 for the chairman of the Audit Committee and to EUR 40,000.00 for every other member of the Audit Committee. For another committee, the additional remuneration amounts to EUR 40,000.00 for the chairman and to EUR 20,000.00 for every other member if the respective committee becomes active at least once in a financial year. Membership of the Nomination Committee shall be disregarded. If a member of the Supervisory Board holds several offices at the same time, he or she shall only receive the remuneration for the office with the highest remuneration. The members of the Supervisory Board receive insurance coverage through D&O insurance taken out by the Company.

The members of the Supervisory Board have declared to the Supervisory Board that they will each use 25% of the fixed remuneration they receive in accordance with the Articles of Incorporation (before taxes) to buy shares in the Company and that they will hold them for the duration of their membership in the Supervisory Board. This shall not apply if the members of the Supervisory Board relinquish at least 85% of their fixed remuneration to the Hans Böckler Foundation in accordance with the guidelines of the German Trade Union Federation or relinquish this proportion to the employer to meet an obligation arising from their service or employment contracts. If a proportion less than 85% of the fixed compensation is relinquished, the commitment shall apply to the portion that has not been relinquished. By making this commitment to investing and holding shares in the Company, the members of the Supervisory Board wish to further align their interests with the Company's long-term, sustainable success.

The Company was incorporated (at the time, in the form of a German stock corporation) on December 11, 2015, and had, as of such date and until the end of the financial year ended December 31, 2015, three members on the Supervisory Board. In the financial year 2015, the Company did not pay a compensation to those three members.

The members of the Company's Supervisory Board receive no pension payments or retirement benefits in their capacity as members of the Supervisory Board.

As of the date of the Prospectus, the members of the Supervisory Board neither directly nor indirectly hold any shares in the Company nor do they hold any rights to acquire shares in the Company.

## **20.4 Certain Information on the Members of the Management Board and the Supervisory Board**

In the last five years, none of the members of the Management Board or the Supervisory Board has been convicted in relation to any fraudulent offences. None of the members of the Management Board or the Supervisory Board has been associated with any bankruptcies, receiverships or liquidations during the last five years. No official public incriminations by statutory authorities or regulatory authorities (including designated professional bodies) have been made and/or sanctions imposed against any member of the Management Board or the Supervisory Board during this period. None of the members of the Management Board or the Supervisory Board have been considered by a court to be unfit to qualify as a member of an administrative, management or supervisory body of any issuer or from acting in the management or conduct of the affairs of any issuer during the last five years.

To the extent that, in the future, the members of the Management Board or the Supervisory Board will directly or indirectly hold shares in the Company, they may, separately from their positions in the governing body, have special interests as a result of their shareholdings. Prior to completion of the Offering, the members of the Management Board and the Supervisory Board hold no interest in the Company. As of the date of the Prospectus, no conflicts or potential conflicts exist with regard to obligations owed to the Company that could result from their private interests or other obligations.

No member of the Management Board or the Supervisory Board has executed a contract for services with a company of the Group that provides for benefits on termination.

There are no family relationships between members of the Management Board and members of the Supervisory Board or among the members of each board.

## **20.5 Shareholders' Meeting**

Pursuant to Article 54 para. 1 of the SE Regulation and sections 17 and 19 of the Articles of Association, the annual shareholders' meeting takes place within six months of the end of the financial year and must be held, at the option of the body convening the Company's shareholders' meeting, either at the registered seat of the Company or in a German city with more than 100,000 inhabitants. Except where other persons are authorized to do so by law or by the Articles of Association, the shareholders' meeting shall be convened by the Management Board. Notice must be issued in the German Federal Gazette (*Bundesanzeiger*) at least 36 days before the day of the shareholders' meeting.

Each share entitles the holder to one vote in the shareholders' meeting. There are no restrictions on the voting rights. The voting right arises only upon fully paid up shares.

A shareholders' meeting may be convened by the Management Board, the Supervisory Board, or shareholders whose combined shareholding amounts to 5% of the share capital. Shareholders or shareholders associations can use the shareholder forum of the German Federal Gazette, which is available through the Company Register's (*Unternehmensregister*) website, to either put forward a joint request or to put forward a request on behalf of the shareholders for a shareholders' meeting. If, following a request made by shareholders whose combined shareholding amounts to 5% of the share capital, a shareholders' meeting of the Company is not held in the required time, the competent local court (*Amtsgericht*) may authorize the shareholders who have requested it or their representatives to convene a shareholders' meeting of the Company. The Supervisory Board must call a shareholders' meeting if it is in the interest of the Company.

Pursuant to the Articles of Association, all shareholders who have duly submitted notification of attendance and evidence of shareholding are entitled to participate in the shareholders' meeting and to exercise their voting rights. The registration for participation must be received by the Company by the end of the sixth day prior to the date of the shareholders' meeting, unless a shorter period of time was set forth in the convocation of the shareholders' meeting. When calculating this period, the day of the meeting itself and the day of the receipt of the notice shall not be included. The shareholder's registration must be in text form in German or English. Evidence of the shareholding is to be submitted in the form of proof prepared by a depository institution in German or English in text form. It must refer to the start of the 21<sup>st</sup> day prior to the shareholders' meeting and be received by the Company at least six days prior to the shareholders' meeting. Voting rights may be exercised by proxy. The granting of a proxy, its revocation and the evidence of authority to be provided to the Company must be in text form unless the convening notice provides for a less strict form. The Management Board is authorized to allow an audio-visual transmission of the shareholders' meeting and to provide that shareholders may cast their votes in writing or by electronic communication without attending the shareholders' meeting (absentee vote). The Management Board is further authorized to provide that shareholders may participate in the shareholders' meeting without being present in person at the place of the shareholders' meeting or being represented and may exercise all or specific shareholders' rights in total or in part by electronic communication (online participation).

The chairman of the shareholders' meeting is authorized to impose a reasonable time limit on the right to ask questions and to speak. In particular, he may establish at the beginning of or at any time during the shareholders' meeting, a limit on the time allowed to speak or ask questions or on the combined time to speak and ask questions, determine an appropriate time frame for the course of the entire shareholders' meeting, for individual items on the agenda or individual speakers; he may also, if necessary, close the list of requests to speak and order the end of the debate.

Unless the Articles of Association or mandatory statutory provisions require otherwise, resolutions are adopted by a simple majority of the votes cast and, if a majority of the capital is required, with a majority of the share capital represented when the resolution is adopted. Pursuant to Articles 5, 57 and 59 of the SE Regulation, and section 51 of the German SE Implementation Act (*SE-Ausführungsgesetz*) in conjunction with the German Stock Corporation Act (*Aktiengesetz*), resolutions of fundamental importance (*grundlegende Bedeutung*) require both a majority of votes cast and a majority of at least 75% of the registered share capital represented at the vote on the resolution. Resolutions of fundamental importance include, among others:

- capital increases;
- capital reductions;
- creating authorized or conditional capital;
- mergers, spin-offs or amalgamations, as well as transfers of the share capital or the entire assets of the Company;
- execution of corporate group agreements (especially control and profit/loss transfer agreements);
- changes to the legal status of the Company; and
- dissolution of the Company.

For resolutions on the amendment of the Articles of Association, a majority of two thirds of the votes cast is sufficient. For resolutions on the amendment of the object of the Company, a majority of three quarters of the votes cast is sufficient.

Neither German law nor the Articles of Association of the Company limit the rights of shareholders who do not reside in Germany or who are foreign shareholders to hold shares and exercise the voting rights pertaining to the shares.

The rights of the shareholders can generally only be amended with the consent of the affected shareholders but there are circumstances, set out by law, in which a 75% majority is sufficient. Currently, there are no provisions in the Articles of Association that deviate from the statutory provisions regarding the scope of amending shareholders rights.

## **20.6 Corporate Governance**

The Company takes good corporate governance to mean responsible enterprise management and supervision geared towards sustainable value creation. In particular, the Company strives to further foster the trust placed in the innogy Group by investors, business partners and employees, and the public at large. The Company also attaches great importance to the efficient conduct of their work by the Management Board and Supervisory Board, good cooperation between these bodies and with the Company's staff, and to open and transparent corporate communications.

The corporate structure of the Company is based on the responsible, transparent and efficient leadership and control of the Company. The Company therefore relates itself to the objectives of the German Corporate Governance Code in its most recent version dated May 5, 2015 (the "**Code**"). The Management Board and the Supervisory Board as well as all management staff and employees of innogy SE are required to comply with these objectives. The Management Board of the Company is responsible for compliance with the principles of good corporate governance.

The Code provides recommendations and ideas for the management and supervision of German listed companies. It is based on internationally and nationally recognized standards of good, responsible corporate management. The Code contains recommendations ("should provisions") and suggestions ("can provisions") for corporate governance in relation to shareholders and the shareholders' meeting, the Management Board and the Supervisory Board, transparency and accounting and auditing of financial statements. Compliance with the recommendations or suggestions of the Code is not obligatory. German stock corporation law only requires the Management Board and the Supervisory Board of a listed company to state annually that the recommendations in the Code have been complied with or to explain which recommendations have not been complied with and are not being applied and the reasons behind non-compliance. It is possible to deviate from the suggestions contained in the Code without disclosure. The declaration of compliance must be publicly available on the Company's website at all times.

Prior to the listing of the shares of the Company, the Company is under no obligation to issue a declaration relating to the Code. In pursuing its goal of sustainably enhancing the value of the company, innogy SE is guided extensively by the principles of the Code.

The Company currently complies, and intends to comply after the listing of the shares, with all recommendations in the Code.

## 21 TRANSACTIONS AND RELATIONSHIPS WITH RELATED PARTIES

The following legal relationships existed between the companies of the innogy Group and related parties in the financial years ended December 31, 2015, 2014 and 2013, respectively, and in the six-month period ended June 30, 2016, as well as until the date of the Prospectus. Business relationships between the Company and other companies of the Group (the effects have been eliminated as part of the preparation of the Audited Combined Financial Statements) are not included. Related parties pursuant to IAS 24 include those entities with whom the Company forms an affiliated group or in which it holds an interest that enables it to either exercise a significant influence over the business policy of the associated company or joint control over the business policy of the joint venture, as well as the principal shareholders in the Company, including their affiliates. Further information, including quantitative information, of related party transactions is contained in the notes to our Audited Combined Financial Statements which are included in *"26 Financial Information"* of the Prospectus.

In addition, related parties also include the members of the Management Board and Supervisory Board and close members of their families, as well as those entities over which the members of the Management Board or their close family members are able to exercise a significant influence or in which they hold a significant share of voting rights.

Certain relationships with such related parties, including the service agreements concluded with the members of the Management Board and compensation arrangements for the members of the Supervisory Board are described under *"20.2.3 Compensation and Other Benefits; Share Ownership"*, *"20.3.4 Compensation and Other Benefits; Share Ownership"* and *"20.4 Certain Information on the Members of the Management Board and the Supervisory Board"*.

### 21.1 Transactions and Relationships with RWE AG and the RWE Group

#### 21.1.1 Corporate Restructuring Measures

For corporate restructuring measures in relation to the RWE Group and the innogy Group, see *"5 Carve-Out and Organizational Measures"*.

#### 21.1.2 Domination Agreement

For a description of the domination agreement between RWE DB GmbH and the Company in respect of which notice to terminate has been given, see *"5.2 Domination Agreement"*.

#### 21.1.3 Agreements on intellectual property rights

For a description of the agreements on the transfer and licensing of intellectual property, see *"5.4 Trademarks and Real Estate"*.

#### 21.1.4 Agreement on Basic Principles

For a description of the Agreement on Basic Principles between the Company and RWE AG regarding their future cooperation, their future conduct towards one another, their future relationship and ways for resolution of potential conflicts, see *"15.17.2 Agreement on Basic Principles"*.

#### 21.1.5 Indemnification Agreements

Members of the RWE Group have issued parent company guarantees for certain obligations of the Group. Similarly, prior to the separation from the RWE Group, members of the Group issued guarantees for obligations of companies which are now part of the RWE Group (cross guarantees). The latter include both guarantees for determined payment obligations as well as guarantees for obligations with undetermined amounts, under so called *"403 statements"* of

Essent N.V. under Dutch law in respect of Essent Power B.V., Energy Resources Holding B.V., Energy Resources B.V. and Energy Resources Ventures B.V. These 403 statements have been terminated prior to the closing of the Offering. Regardless of a termination, Essent N.V. will remain liable for obligations under the respective 403 statement (even if not yet due) of such companies of the RWE Group originating from the time prior to the termination of the respective 403 statement.

In the course of the intended separation of the Group's debt financing from the debt financing of the RWE Group, it is proposed that all guarantees issued by companies of the RWE Group for obligations of members of the Group will be substituted by guarantees given by Group members, and likewise all guarantees issued by companies of the Group for obligations of members of the RWE Group will be substituted by guarantees given by RWE Group members. As of June 30, 2016, there were still outstanding cross guarantees issued by the RWE Group for obligations of the Group in an amount of approximately EUR 15.2 billion, and cross guarantees issued by the Group for obligations of RWE Group members in an amount of approximately EUR 725 million (not including the contingent liability under the 403 statements which covers all obligations of the relevant companies of the RWE Group originating from the time prior to the termination of the respective 403 statement and thus, is unlimited). As any substitution of the guarantor requires the consent of the relevant beneficiaries, the timeline and the extent of the intended substitutions are dependent on such granted consents.

The Company and RWE AG entered into indemnification agreements on July 15, 2016 and on September 9, 2016. In addition, Essent N.V. and RWE AG entered into a separate indemnification agreement on July 20, 2016 (collectively, the "**Indemnification Agreements**"). These Indemnification Agreements shall serve the purpose of separating and allocating the liability risks associated with remaining cross guarantees and 403 statements as well as future cross guarantees which will be issued by RWE AG at the request of the Company or a member of the Group for the benefit of their respective counterparties. Under the Indemnification Agreements the Company has agreed to indemnify guarantors of the RWE Group for any losses, claims, damages or liabilities, joint or several, under guarantees issued by members of the RWE Group for obligations of members of the Group. Likewise, RWE AG will indemnify guarantors of the Group for any losses, claims, damages or liabilities, joint or several, under guarantees issued by Group members for obligations of members of the RWE Group including contingent liability under the 403 statements of Essent N.V.

#### **21.1.6 Transitional Service Agreement**

In connection with the separation from the RWE Group, the Company and RWE AG entered into a transitional service agreement on May 11, 2016 ("**TSA**"). The TSA is designed as an overarching agreement under which service-specific individual agreements can be concluded between group companies of the innogy Group and group companies of the RWE Group. The purpose of the TSA is to enable the innogy Group and the RWE Group to conduct their businesses without interruption as it was previously conducted by the RWE Group.

Subject to certain exceptions, the provisions of the TSA apply to intergroup services between the innogy Group and the RWE Group rendered as from April 1, 2016. Services are not only provided from the RWE Group to the innogy Group, but also from the innogy Group to the RWE Group. It is envisaged that transitional services and functions which the RWE Group provides to innogy Group and which include, among others, human resources, labor law, credit risk, safety, real estate, procurement, regulatory reporting and market analysis services shall be provided for a period ending between around three months following the Offering and the end of 2017, or for certain other services, in particular occupational health, until the end of 2019 at the latest. Not within the scope of the TSA are, *inter alia*, intergroup services, where the service provider has its statutory seat in Belgium or the Netherlands. It shall be reviewed within six months of the first day of trading of our shares on the Frankfurt Stock Exchange, whether the TSA shall be extended to capture also those services.

Generally, the individual agreements concluded under the TSA cannot be terminated without cause. It is envisaged that a number of intergroup services will be terminated by mutual agreement prior to April 1, 2017. For the remaining intergroup services, the TSA defines a term of either 12, 24 or 36 months for each individual service (including a joint term for all IT services), calculated as from December 31 of the calendar year in which the first day of trading of our shares on the Frankfurt Stock Exchange occurs. With the expiry of a specific service, all individual agreements for the respective service end automatically. Furthermore, the personnel required to provide the respective service is transferred from the service provider to RWE AG (if the service provider belongs to the innogy Group) or to the Company (if the service provider belongs to the RWE Group) or to another company of the RWE Group or the innogy Group, respectively, as mutually agreed by RWE AG and the Company with the respective group company's consent. To the extent the respective employees cannot be successfully transferred (for example due to their objection to the transfer), RWE AG (if the service provider belongs to the innogy Group) or the Company (if the service provider belongs to the RWE Group) shall pay to the service provider a financial compensation for the remanent costs. The financial compensation will typically be lower than the actual remanent costs.

The TSA automatically terminates 48 months as from December 31 of the calendar year in which the first day of trading of our shares on the Frankfurt Stock Exchange occurs. The TSA may not be terminated prematurely by RWE AG or by the Company.

#### **21.1.7 Loans and other Financing Arrangements**

Prior to the separation from the RWE Group, the Group was primarily financed by intercompany financing from RWE AG. It is intended that intra-group financing from RWE AG will be substituted in due course by external debt financings of the Group. For an interim period, certain of the intra-group debt financing relationships will remain in place.

The Group participates in the cash pool and other cash management systems of the RWE Group with customary interest rates. This includes, among other things, the investment of excess short-term liquidity and financing via granted overdraft facilities as well as the processing and invoicing of intra-group receivables and payables. These participations will be terminated prior to the determination of the Offer Price and replaced by the Group's cash pooling and cash management systems.

In addition, companies of the RWE Group and the Group are party to a number of intercompany loan agreements. The Group reported loan and cash pool receivables in an amount of EUR 11,613 million, EUR 10,859 million and EUR 9,118 million as of December 31, 2015, 2014 and 2013, respectively, and EUR 1,347 million as of June 30, 2016. Furthermore, the Group reported loan and cash pool payables to the RWE AG Group in an amount of EUR 5,140 million, EUR 15,698 million and EUR 15,599 million as of December 31, 2015, 2014 and 2013, respectively, and EUR 9,162 million as of June 30, 2016. For further information, see the Audited Combined Financial Statements which are included in "26 Financial Information" of the Prospectus. Such intercompany loan agreements will be settled prior to the determination of the Offer Price, with the sole exception of an intercompany loan agreement between E&Z Industrie-Lösungen GmbH, a member of the RWE Group, as lender and innogy International Participations N.V., a member of the Group, as borrower dated July 20, 2016 with a nominal amount of EUR 18 million, bearing interest at a rate of 0.81% per year, and with a term ending on July 19, 2019.

On June 13, 2016, the Company and RWE AG entered into fifteen separate Intra-Group Loan Agreements under which RWE AG granted loans to the Company in the total principal amount of EUR 5.257 billion, USD 50 million, GBP 350 million and JPY 20 billion. The loans granted under the Intra-Group Loan Agreements bear interest at fixed rates ranging from 0.06% to 3.8% per annum and, in one case, a variable rate equal to the aggregate of (i) the six-months-EURIBOR determined for the relevant interest period and (ii) a margin of 0.67% per annum. However, two intra-group loans in the nominal amounts of EUR 550 million and EUR 456 million were contributed to the capital reserve of the Company with effect as of July 31, 2016 and thus,

ceased to exist. In addition there are intercompany loan agreements under which RWE AG, on April 3, 2009 and on January 12, 2010, granted loans to a subsidiary which was subsequently merged with the Company in 2016. The outstanding principal amounts of these two loans are EUR 4 million and EUR 6.61 million. For further information on the Intra-Group Loan Agreements see *"15.17.1.5 Intra-Group Loan Agreements"*.

In addition, also on June 13, 2016 the Company as borrower and RWE AG as lender entered into an Intra-Group Revolving Facility Agreement which provides for a revolving facility in an aggregate amount of EUR 1.0 billion with a term ending on December 31, 2018. Loans under the facility may be drawn for interest periods of one, two, three or six months or any other period agreed between the Company and RWE AG. The rate of interest on each loan for each interest period is the percentage rate per annum which is the aggregate of (i) the margin of 0.60% and (ii) the respective EURIBOR (subject to a zero floor). In addition, the Company has to pay to RWE AG a commitment fee computed daily at the rate of 0.105% per annum. This is regarded by the Company as having been negotiated at arm's length. For further information on the Intra-Group Revolving Facility Agreement see *"15.17.1.6 Intra-Group Revolving Facility Agreement"*.

In order to coordinate certain aspects of their cooperation particularly in relation to the Facility Agreement entered into by RWE AG with a number of financial institutions and to which innogy Finance B.V. became an additional borrower with effect as from June 29, 2016, and the L/C Facilities Agreements under which RWE AG is the borrower in respect of certain non-committed guarantee, letter of credit or other non-cash bank facilities, the Company, RWE AG and innogy Finance B.V. entered into the Debt Financing Coordination Agreement dated June 13, 2016. For further information on the Debt Financing Coordination Agreement see *"15.17.1.3 Debt Financing Coordination Agreement"*.

The Group entered into several derivative hedging contracts with RWE AG acting as counterparty relating to currency exchange rate risks. It is intended to terminate all internal foreign exchange hedging contracts of the Group with RWE AG until the end of 2016. In addition, the Group entered into a number of derivate contracts with RWE Supply & Trading GmbH as counterparty in order to hedge market price risk in respect of certain commodities (e.g., electric power and gas).

#### **21.1.8 Cost Coverage Agreement and Indemnity Agreement**

The Company, RWE AG and RWE DB GmbH entered into two separate agreements, one on the distribution of the costs in connection with the preparation and the consummation of the Offering and the listing of the shares (the **"Cost Coverage Agreement"**) and the other on the indemnification from liabilities in connection with the Offering and listing (the **"Indemnity Agreement"**).

In the Cost Coverage Agreement each party, severally and not jointly, undertakes to reimburse the other parties for all costs and expenses incurred by them in connection with the preparation and the execution of the Offering and the listing of the shares in accordance with its Relevant Percentage. Relevant Percentage for the purpose of the Cost Coverage Agreement and the Indemnity Agreement means (i) in case of RWE AG or RWE DB GmbH, respectively, the number of Secondary Shares of RWE AG or RWE DB GmbH, respectively, sold, allocated and settled in the Offering divided by the total number of shares sold, allocated and settled in the Offering including any shares sold in the case of an exercise of the Greenshoe Option (excluding any shares transferred in the course of the stock borrowing facility for purposes of an overallotment in order to facilitate the placement of the shares) and (ii) in case of the Company the number of New Shares sold, allocated and settled in the IPO divided by the total number of shares sold, allocated and settled in the Offering. The costs to be reimbursed on such basis include, in particular, legal, auditor and other advisory fees and Underwriters' expenses. As regards the Underwriters' commissions, the commissions relating to the placement of the New Shares will be borne by the Company and the commissions relating to the placement of the Base Secondary

and Additional Secondary Shares (including any shares sold in the case of an exercise of the Greenshoe Option) will be borne by RWE AG or RWE DB GmbH, respectively. The costs to be reimbursed by RWE AG or RWE DB GmbH, do not include any costs in connection with setting up the Company and implementing the Carve-Out.

In the Indemnity Agreement RWE AG and RWE DB GmbH, severally and not jointly, agreed – subject to their respective Relevant Percentage – to indemnify and hold harmless the Company from any liabilities, losses, and damages incurred in connection with the preparation and execution of the Offering and listing, including its pro rata share of all reasonable legal costs. In addition, the Company has agreed, upon indemnification by RWE AG or RWE DB GmbH, respectively, and to the extent legally permissible, to assign to RWE AG or RWE DB GmbH, respectively, certain claims that the Company may have against members of the Management Board or the Supervisory Board or third parties.

#### **21.1.9 Real Estate Transfer and Lease Agreements**

For a description of a property transfer agreement and a lease transfer agreement between the Company and RWE Service GmbH, see “15.13.3 Office Premises and Buildings”.

#### **21.1.10 Agreement regarding the Connection of the Wind Farm Eschweiler**

The innogy Windpark Eschweiler GmbH & Co. KG (“Windpark Eschweiler KG”) intends to build and operate a wind farm with seven to nine turbines on premises of the city of Eschweiler, adjacent to the open cast mining Inden of RWE Power AG. In order to reduce connection cost, RWE Power AG and Windpark Eschweiler KG, on August 24, 2016, entered, subject to certain conditions, into an agreement on the joint use of electrical installations in RWE Power AG’s ownership according to which the wind farm shall be connected to RWE Power AG’s electrical infrastructure and such infrastructure may be used by the Windpark Eschweiler KG for the purpose of feeding-in the power into the high-voltage grid of Westnetz. Windpark Eschweiler KG bears the costs of the connection to the electrical infrastructure, the use of which is free of charge.

The agreement has a fixed duration of 25 years, beginning with the start of operation of the wind farm. It is automatically extended by one further year unless terminated by either party. The agreement is based on the assumption that the electrical applications and the electrical infrastructure fall under the definition of a customer installation (*Kundenanlage*) in the meaning of sections 24a and 24b EnWG. Should this not be the case or cease to be the case, RWE Power AG, on the one hand, has a right to terminate the agreement with a notice period of 18 months to the end of a quarter, and Windpark Eschweiler KG, on the other hand, has an option to lease the wind farm to RWE Power AG for a period beginning with the date when the termination becomes effective and ending 20 years after the wind farm’s start of operation.

#### **21.1.11 Business and Finance Transactions with RWE AG and the RWE Group**

The Group has business relationships with the RWE Group. This includes RWE AG and its subsidiaries, associates and joint ventures (except for Group companies) which are classified as related parties.

In the financial years 2015, 2014 and 2013, the Group supplied goods and provided services to the RWE Group in the amount of EUR 4,872 million, EUR 5,311 million and EUR 5,257 million, respectively. In turn, in the financial years 2015, 2014 and 2013, the Group received goods and services from the RWE Group in the amount of EUR 19,082 million, EUR 21,334 million and EUR 23,627 million, respectively.

Business transactions and finance transactions with RWE AG and its subsidiaries, associates and joint ventures in the financial years 2015, 2014 and 2013 resulted in income and expenses as set forth in the following table:

	RWE AG			Subsidiaries, associates and joint ventures of RWE Group		
	2015	2014	2013	2015	2014	2013
<b>(EUR million)</b>	<b>(audited)</b>					
Income . . . . .	71	19	323	5,058	5,674	5,476
Expenses . . . . .	1,136	2,643	1,932	19,833	22,028	24,405

The Group's receivables from and liabilities to RWE AG and its subsidiaries, associates and joint ventures as at December 31, 2015, 2014 and 2013 are set forth in the following table:

	RWE AG			Subsidiaries, associates and joint ventures of RWE Group		
	2015	2014	2013	2015	2014	2013
<b>(EUR million)</b>	<b>(audited)</b>					
Receivables . . . . .	5,063	5,178	3,835	7,147	6,684	6,768
Liabilities . . . . .	5,405	11,202	11,260	1,505	6,660	6,653

The table below sets forth the Group's income and expenses relating to business and finance transactions with RWE AG and its subsidiaries, associates and joint ventures in the first six months ended June 30, 2016, and June 30, 2015:

	RWE AG		Subsidiaries, associates and joint ventures of RWE Group	
	Six months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<b>(EUR million)</b>	<b>(unaudited)</b>			
Income . . . . .	208	38	3,204	2,728
Expenses . . . . .	575	877	8,604	10,102

The Group's receivables from and liabilities to RWE AG and its subsidiaries, associates and joint ventures as at June 30, 2016, and June 30, 2015, were as follows:

	RWE AG		Subsidiaries, associates and joint ventures of RWE Group	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
<b>(EUR million)</b>	<b>(unaudited)</b>	<b>(audited)</b>	<b>(unaudited)</b>	<b>(audited)</b>
Receivables . . . . .	1,365	5,063	503	7,147
Liabilities . . . . .	9,219	5,405	827	1,505

## 21.2 Transactions and Relationships with Associates and Joint Ventures of the innogy Group

The Group has business relationships with numerous companies outside the RWE Group. This includes associates and joint ventures of the Group which are classified as related parties. Business transactions and finance transactions with these companies in the financial years 2015, 2014 and 2013 resulted in income and expenses as set forth in the following table:

(EUR million)	Associates of innogy Group			Joint Ventures of innogy Group		
	2015	2014	2013	2015	2014	2013
	(audited)					
Income .....	216	216	239	15	32	0
Expenses .....	43	36	59	—	1	8

The Group's receivables from and liabilities to associates and joint ventures of the Group as at December 31, 2015, 2014 and 2013 are set forth in the following table:

(EUR million)	Associates of innogy Group			Joint Ventures of innogy Group		
	2015	2014	2013	2015	2014	2013
	(audited)					
Receivables .....	56	31	11	86	102	0
Liabilities .....	4	2	7	11	32	1

The table below sets forth the income and expenses relating to business and finance transactions with the Group's associates and joint ventures in the first six months ended June 30, 2016, and June 30, 2015:

(EUR million)	Associates of innogy Group		Joint Ventures of innogy Group	
	Six months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	(unaudited)			
Income .....	48	112	2	9
Expenses .....	16	24	—	—

The Group's receivables from and liabilities to its associates and joint ventures as at June 30, 2016, and June 30, 2015, were as follows:

(EUR million)	Associates of innogy Group		Joint Ventures of innogy Group	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
	(unaudited)	(audited)	(unaudited)	(audited)
Receivables .....	32	56	95	86
Liabilities .....	3	4	—	11

## **21.3 Relationships with Members of the Management Board and the Supervisory Board**

For an overview regarding the compensation, shareholding and share-based compensation of the members of the Management Board and the Supervisory Board, see *"20.2.3 Compensation and Other Benefits; Share Ownership"* and *"20.3.4 Compensation and Other Benefits; Share Ownership"* as well as note 33 to the Group's combined financial statements for the years ended December 31, 2015, 2014 and 2013, which are included in *"26 Financial Information"*. In addition, the wife of René Pöhls, a member of the Supervisory Board, is employed at GISA GmbH, an IT service provider in which our regional supplier enviaM AG held until 2014 together with its subsidiary MITGAS GmbH 74.9% and still holds a stake of 23.9% (see also *"15.16.1 M&A Activities in our Grid & Infrastructure Segment"*).

## **21.4 Employment-Related Relationships between the innogy Group and the RWE Group**

### **21.4.1 Assumption of Joint and Several Liabilities by RWE AG as to Pension Obligations**

For arrangements entered into by RWE AG *vis-à-vis* active employees, former employees with vested expectancies and pension beneficiaries of certain innogy Group companies as regards its obligation to be jointly and severally liable (*als Gesamtschuldner*) together with the respective employing entity for the relevant pension obligations (*Schuldbeitritt im Außenverhältnis*), see *"15.12.3 Pensions and Long-Term Employee Benefits"*.

### **21.4.2 Staff Providing between the RWE Group and the innogy Group**

On an individual temporary (case-by case) basis, RWE Group companies provided employees to innogy Group companies to the extent that the latter required such arrangement filling staff needs. Further, the innogy Group provides to a small extent employees to RWE Group through an internal staff agency company (which has been established under the collective bargaining agreement on the socially acceptable accompaniment of staff adjustment measures, see *"3.1.39 We are exposed to the risk of rising labor costs which might negatively affect our profitability."*).

## 22 INFORMATION ON MAJOR HOLDINGS OF INNOGY SE

The following table provides an overview of the material subsidiaries of the Group. The following figures have been taken from the accounting systems as of December 31, 2015 (unless indicated otherwise), when the Company had not yet been the holding company of the Group. The names of the material subsidiaries and the participating interest held by the Company (or by the respective parent companies) have not changed at the date of the Prospectus (unless indicated otherwise due to a rebranding or a merger of the respective subsidiary with the Company).

Company name, registered seat	Participating interest held by the Company (or by the respective parent companies) as of December 31, 2015 (in %)	Field of activity	Subscribed capital as of December 31, 2015 (in EUR million)	Reserves as of December 31, 2015 (in EUR million) <sup>1), 6)</sup>	Receivables of the Company towards major holdings as of December 31, 2015 (in EUR million) <sup>5)</sup>	Payables of the Company towards major holdings as of December 31, 2015 (in EUR million) <sup>5)</sup>	Result for the financial year ended December 31, 2015 (in EUR million) <sup>6)</sup>
envia Mitteldeutsche Energie AG, Chemnitz, Germany . . . .	59	Holding (Retail / Grid & Infrastructure), Retail, Grid	635	1,739	n.a.	n.a.	307
Essent Nederland B.V., Arnhem, Netherlands . . . . .	100	Holding (Retail)	0	2,898	n.a.	n.a.	12
Essent N.V., 's-Hertogenbosch, Netherlands . . . . .	100	Holding (Retail)	150	10,858	n.a.	n.a.	134
Essent Retail Bedrijven B.V., Arnhem, Netherlands <sup>23)</sup> . . . . .	100	Holding (Retail)	0	333	n.a.	n.a.	59
Essent Retail Energie B.V., 's-Hertogenbosch, Netherlands . . . . .	100	Retail	0	457	n.a.	n.a.	137
Essent Wind Nordsee Ost Planungs- und Betriebsgesellschaft mbH, Heligoland, Germany . . . . .	100	Wind Offshore	0	0	n.a.	n.a.	0 <sup>2)</sup>
Lechwerke AG, Augsburg, Germany . . . . .	90	Holding (Retail / Grid & Infrastructure), Retail, Grid	91	472	n.a.	n.a.	158
Npower Limited, Swindon, United Kingdom . . . . .	100	Retail	1	234	n.a.	n.a.	8
Npower Northern Limited, Swindon, United Kingdom . .	100	Retail	0	-986	n.a.	n.a.	-90
Rhyl Flats Wind Farm Limited, Swindon, United Kingdom . .	50	Wind Offshore	0	237	n.a.	n.a.	6 <sup>4)</sup>
RWE Česká republika a.s., Prague, Czech Republic <sup>9)</sup> . . . .	100	Holding (Retail / Grid & Infrastructure)	1,808	2,379	n.a.	n.a.	199
RWE Deutschland Aktiengesellschaft, Essen, Germany <sup>10)</sup> . . . . .	100	Holding (Retail / Grid & Infrastructure), Retail, Grid	195	499	n.a.	n.a.	0 <sup>2)</sup>
RWE Energie, s.r.o., Prague, Czech Republic <sup>24)</sup> . . . . .	100	Retail	38	161	n.a.	n.a.	95
RWE Gas International N.V., 's-Hertogenbosch, Netherlands <sup>11)</sup> . . . . .	100	Holding (Retail / Grid & Infrastructure)	20	6,050	n.a.	n.a.	206
RWE GasNet, s.r.o., Ústí nad Labem, Czech Republic <sup>25)</sup> . . .	100	Grid & Infrastructure	165	838	n.a.	n.a.	96
RWE Innogy GmbH, Essen, Germany <sup>7)</sup> . . . . .	100	Holding (Renewables), Hydro, Wind Onshore, Wind Offshore and PV	50	623	n.a.	n.a.	0 <sup>2)</sup>
RWE Innogy Brise Windparkbetriebsgesellschaft mbH, Hanover, Germany <sup>12)</sup> . .	100	Wind Onshore	0	0	n.a.	n.a.	0 <sup>2)</sup>

Company name, registered seat	Participating interest held by the Company (or by the respective parent companies) as of December 31, 2015 (in %)	Field of activity	Receivables of the Company towards major holdings as of December 31, 2015 (in EUR million) <sup>5)</sup>					Payables of the Company towards major holdings as of December 31, 2015 (in EUR million) <sup>5)</sup>	Result for the financial year ended December 31, 2015 (in EUR million) <sup>6)</sup>
			Subscribed capital as of December 31, 2015 (in EUR million)	Reserves as of December 31, 2015 (in EUR million) <sup>16)</sup>					
RWE Innogy GYM 2 Limited, Swindon, United Kingdom <sup>13)</sup> .....	100	Wind Offshore	0	-3	n.a.	n.a.	-2		
RWE Innogy GYM 3 Limited, Swindon, United Kingdom <sup>14)</sup> .....	100	Wind Offshore	0	-3	n.a.	n.a.	-3		
RWE Innogy GYM 4 Limited, Swindon, United Kingdom <sup>15)</sup> .....	100	Wind Offshore	0	-9	n.a.	n.a.	-7		
RWE Innogy UK Holdings Limited, Swindon, United Kingdom <sup>16)</sup> .....	100	Holding (Renewables)	1	1,959	n.a.	n.a.	-4		
RWE Innogy UK Limited, Swindon, United Kingdom <sup>17)</sup> .....	100	Holding (Renewables), Hydro, Wind Onshore and Wind Offshore	103	2,170	n.a.	n.a.	163		
RWE Polska S.A., Warsaw, Poland <sup>18)</sup> .....	100	Retail	38	431	n.a.	n.a.	94		
RWE Vertrieb Aktiengesellschaft, Dortmund, Germany <sup>7)</sup> .....	100	Retail	1	13	n.a.	n.a.	0 <sup>2)</sup>		
Süwag Energie AG, Frankfurt am Main, Germany .....	78	Holding (Retail / Grid & Infrastructure), Retail, Grid	184	542	n.a.	n.a.	105		
Westnetz GmbH, Dortmund, Germany .....	100	Grid & Infrastructure	0	60	n.a.	n.a.	0 <sup>2)</sup>		
Greater Gabbard Offshore Winds Limited, Reading, United Kingdom .....	50	Wind Offshore	0	1,624	n.a.	n.a.	66		
RWE Finance B.V., 's-Hertogenbosch, Netherlands <sup>19)</sup> .....	100	Finance company	2	11	n.a.	n.a.	2		
RWE Finance II B.V., 's-Hertogenbosch, Netherlands <sup>20)</sup> .....	100	Finance company	0	3	n.a.	n.a.	0 <sup>3)</sup>		
RWE Benelux Holding B.V., 's-Hertogenbosch, Netherlands <sup>21)</sup> .....	100	Holding	0	721	n.a.	n.a.	43		
RWE Npower Group plc, Swindon, United Kingdom <sup>22)</sup> .....	100	Holding (Retail)	45	104	n.a.	n.a.	32		
VSE Aktiengesellschaft, Saarbrücken, Germany .....	50	Holding (Retail /Grid & Infrastruture), Retail, Grid	41	200	n.a.	n.a.	52 <sup>8)</sup>		

1) Capital reserve and surplus reserve as well as other components of equity (incl. subscribed capital).

2) Profit/loss transfer agreement.

3) Newly founded, financial statements not yet available.

4) Control by majority of 50.1%.

5) As of December 31, 2015, the Company was not yet the holding company for the major holdings. "n.a." means "not applicable".

6) Data taken from latest available financial statements (data for UK companies except for RWE Npower Group plc taken from the financial statements as of and for the financial year ended December 31, 2014, respectively March 31, 2015 for Greater Gabbard Offshore Winds Ltd.).

7) Companies merged with innogy SE as of January 1, 2016.

8) Control by virtue of company contract.

9) To be renamed innogy Česká republika a.s.

10) Now innogy Netze Deutschland GmbH.

11) Now innogy International Participations N.V.

12) Now innogy Brise Windparkbetriebsgesellschaft mbH.

- 13) Now Innogy GYM 2 Limited.
- 14) Now Innogy GYM 3 Limited.
- 15) Now Innogy GYM 4 Limited.
- 16) Now Innogy Renewables UK Holdings Limited.
- 17) Now Innogy Renewables UK Limited.
- 18) Now innogy Polska S.A.
- 19) Now innogy Finance B.V.
- 20) Now innogy Finance II B.V.
- 21) Now innogy Benelux Holding B.V.
- 22) Now Npower Group plc.
- 23) Company merged with Essent Nederland B.V. as of January 1, 2016.
- 24) To be renamed innogy Energie, s.r.o.
- 25) To be renamed to GasNet, s.r.o.; control by majority of 50.04%. The participating interest of 100% is directly held by innogy Grid Holding a.s. in which the Company indirectly holds 50.04%.

## 23 UNDERWRITING

### 23.1 Subject of and Arrangements on Underwriting

The Company, RWE AG, RWE DB GmbH and each of the Underwriters have entered into an underwriting agreement with respect to the offer and sale of the shares offered hereby (the “Underwriting Agreement”) on September 22, 2016.

The Offering consists of 55,555,000 New Shares; 45,455,000 Base Secondary Shares; up to 25,252,000 Additional Secondary Shares and up to 12,626,200 Over-Allotment Shares each such share with a notional value of EUR 2.00 in the share capital and full dividend rights as from January 1, 2016.

The Offering comprises a public offering in Germany and in Luxembourg and private placements in certain jurisdictions outside Germany and Luxembourg. In the United States, the shares are being offered for sale to qualified institutional buyers as defined in and in reliance on Rule 144A under the Securities Act. Outside the United States, the shares are being offered in compliance with Regulation S under the Securities Act. The Offering will commence on September 26, 2016 and is expected to end on October 6, 2016. The Offer Price will be determined using the order book prepared during the bookbuilding process. Pricing is expected to take place on or about October 6, 2016.

Under the terms of the Underwriting Agreement and subject to certain conditions, each Underwriter will be obliged to underwrite the maximum number of Offer Shares set forth below opposite such Underwriters’ name:

Underwriter	Maximum number of Offer Shares to be underwritten <sup>1)</sup>	Percentage of shares (in %)
<b>Deutsche Bank Aktiengesellschaft</b> Taunusanlage 12 60325 Frankfurt am Main Germany .....	41,666,461	30.00
<b>Goldman Sachs International</b> Peterborough Court 133 Fleet Street London EC4A 2BB United Kingdom .....	41,666,461	30.00
<b>BNP Paribas</b> 16 Boulevard des Italiens 75009 Paris France .....	10,763,835	7.75
<b>Merrill Lynch International</b> 2 King Edward Street London, EC1A 1HQ United Kingdom .....	10,763,835	7.75
<b>Credit Suisse Securities (Europe) Limited</b> One Cabot Square London, E14 4QJ United Kingdom .....	10,763,835	7.75
<b>UBS Limited</b> 5 Broadgate London, EC2M 2QS United Kingdom .....	10,763,835	7.75
<b>Banco Santander, S.A.</b> Paseo de Pereda, 9–12 39004 Santander Spain .....	4,166,646	3.00

Underwriter	Maximum number of Offer Shares to be underwritten <sup>1)</sup>	Percentage of shares (in %)
<b>Joh. Berenberg, Gossler &amp; Co. KG</b> Neuer Jungfernstieg 20 20354 Hamburg Germany . . . . .	4,166,646	3.00
<b>RBC Europe Limited (trading as RBC Capital Markets)</b> Riverbank House 2 Swan Lane London, EC4R 3BF United Kingdom . . . . .	4,166,646	3.00
<b>Total . . . . .</b>	<b>138,888,200</b>	<b>100%</b>

1) Assuming the issuance of all the New Shares and the Secondary Shares (including the Additional Secondary Shares; i.e., assuming a full exercise of the Upsize Option) and full exercise of the Greenshoe Option.

In the Underwriting Agreement, Deutsche Bank has agreed to subscribe in its own name 50% and as a representative of Goldman Sachs 50% of the New Shares on October 5, 2016. All of the New Shares will be subscribed for the account of the Underwriters at the lowest issue price of EUR 2.00 per New Share with a view to offering them to investors in this Offering subject to certain conditions. The Underwriters have agreed to remit to the Company the difference between the Offer Price of the New Shares and the lowest issue price net of any deductible fees and expenses at the time the New Shares are delivered, which is expected to be two bank working days after the first day of trading of the Company's shares on the Frankfurt Stock Exchange. The Underwriters have further agreed to acquire the Secondary Shares (including the Additional Secondary Shares to the extent the Upsize Option is exercised) from the holdings of RWE DB GmbH and to sell such shares as part of the Offering. To cover potential Over-Allotments, RWE DB GmbH will make available to the settlement agent up to 12,626,200 Over-Allotment Shares by way of a securities loan. The Underwriters have agreed to remit to RWE DB GmbH the purchase price of the Secondary Shares and of any Over-Allotment Shares being sold if and to the extent the Greenshoe Option is exercised, net of any deductible fees and expenses at the time the shares from the holdings of RWE DB GmbH are delivered.

The obligations of the Underwriters are subject to various conditions, including, among other things, (i) the conclusion of a pricing agreement, the Cost Coverage Agreement, the Indemnity Agreement and an IPO insurance agreement between the Company and an insurance company, (ii) the absence of a material adverse change (e.g., a loss or interference after December 31, 2015 with respect to the Company or the innogy Group's business from fire, explosion, flood or other calamity, or from any labor dispute or court or governmental action, order or decree, or any material change or development reasonably likely to result in a material change to the Company's share capital or a material change in the long-term debt of the Company or the innogy Group or a material adverse change or any development involving a reasonably likely prospective material adverse change, in or affecting the condition, business, prospects, management, consolidated financial position, shareholders' equity or results of operation of the Company or the innogy Group or preventing the Company from performing any of its material obligations under the Underwriting Agreement, any liability or obligation incurred, or any material transaction not in the ordinary course of business entered into, by the Company or the Group or a suspension in trading (other than for technical reasons) in securities of the Company or in securities generally on the Frankfurt Stock Exchange, the London Stock Exchange or the New York Stock Exchange), which, in any such case described in this clause (ii), in the judgment of the Joint Global Coordinators, acting in good faith, would make it impractical or inadvisable to proceed with the offering or the delivery of the Offer Shares on the terms and in the manner contemplated in the Prospectus, (iii) receipt of customary certificates, legal opinions and letters, and (iv) the making of necessary filings and the receipt of necessary approvals in connection with the Offering.

Some of the Underwriters have provided and may, from time to time, provide services to companies of the innogy Group and RWE AG and RWE DB GmbH in the ordinary course of business and may extend credit to and have regular business dealings with companies of the innogy Group and RWE AG and RWE DB GmbH in their capacity as financial institutions (for a more detailed description of the interests of the Underwriters in the offering, see “6.15 Interests of Parties Participating in the Offering”).

## **23.2 Commissions**

The Underwriters will offer the shares at the Offer Price. The Company (for the New Shares) and RWE DB GmbH (for the Secondary Shares and the Greenshoe Shares) will – severally and not jointly, pro rata to their respective shares in the gross proceeds of the Offering – pay the Underwriters the following commissions:

- a) a commission of 1.00% of the gross proceeds from the Offering including any proceeds from exercising the Greenshoe Option;
- b) in case the generated gross proceeds from the Offering fall short of EUR 1.75 billion, an additional commission of 0.25% of the gross proceeds from the Offering including any proceeds from exercising the Greenshoe Option; and
- c) at the Company’s and RWE DB GmbH’s absolute discretion, respectively, an incentive commission of up to 0.75% of the gross proceeds from the Offering (including any gross proceeds from exercising the Greenshoe Option).

The discretionary fee will be determined and allocated at the sole discretion of the Company and RWE DB GmbH. The Company and RWE DB GmbH will also agree to reimburse the Underwriters for certain costs and expenses (according to an internal split). Commissions and the reimbursement of costs and expenses by the Company represent a major part of the cost of the Company expected in connection with the Offering. See also “7 Reasons for the Offering and Listing, Use of Proceeds and Costs of the Offering and Listing”.

The Underwriters may involve selling agents in connection with the offering and, in this context, may share part of the commission with such selling agents.

## **23.3 Greenshoe Option and Securities Loan**

To cover potential Over-Allotments, RWE DB GmbH will make available up to 12,626,200 bearer shares with no par value free of charge in the form of a securities loan to Goldman Sachs for the account of the Underwriters. In addition, RWE DB GmbH will further grant the Underwriters the option to acquire up to an equal number of shares against payment of the Offer Price (Greenshoe Option) in order to satisfy the retransfer obligation under the securities loan. The Greenshoe Option may be exercised at maximum to the extent that shares of RWE DB GmbH have been placed by way of Over-Allotments. The Greenshoe Option shall be exercisable by Goldman Sachs as stabilization manager in agreement with the other Underwriters within 30 calendar days after commencement of the stock exchange trading of the shares.

## **23.4 Termination/Indemnification**

The Underwriting Agreement provides that the Underwriters may under certain circumstances terminate the Underwriting Agreement, including after the shares have been allotted and listed, up to delivery and settlement. Grounds for termination include in particular:

- a material adverse change in the economic position or the business of the Company or the innogy Group; and
- certain events that have or could have a material adverse impact on the financial markets in the Federal Republic of Germany, the United Kingdom or the United States.

If the Underwriting Agreement is terminated, the Offering will not take place, in which case any allotments already made to investors will be invalidated, and investors will have no claim for

delivery. Claims with respect to security commissions already paid and costs incurred by an investor in connection with the subscription will be governed solely by the legal relationship between the investor and the financial institution to which the investor submitted its purchase order. Investors who engage in short selling bear the risk of being unable to satisfy their delivery obligations.

The Company, RWE DB GmbH and RWE AG have further agreed in the Underwriting Agreement to indemnify the Underwriters against certain liabilities, including liabilities under applicable securities laws, that may arise in connection with the Offering.

## 23.5 Selling Restrictions

Pursuant to the Underwriting Agreement, no public offer is being made and no party to the Underwriting Agreement has taken or will take any action that would, or is intended to, permit a public offering of the Offer Shares to be made in any country or jurisdiction, other than Germany and Luxembourg, where any such action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither the Prospectus nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction. It is the responsibility of any person who receives a copy of this document to satisfy himself or herself as to full observance of the laws of any relevant territory in respect of any actions he or she may take, including obtaining of any requisite governmental or other consent or the observance of any requisite formalities and the payment of any issue, transfer or other taxes due in such territory.

The Offer Shares are being offered to the public solely in Germany and Luxembourg. The Offer Shares have not been and will not be registered under the Securities Act or with the securities regulatory authority of any state of the United States of America. They may not be offered or sold, directly or indirectly, in the United States of America except pursuant to an exemption from, or in a transaction not subject to, the registration requirement of the US securities laws and in compliance with all other applicable provisions of US law. Pursuant to the Underwriting Agreement, the Underwriters have represented, warranted and agreed that they have not offered or sold and will refrain from offering and selling the Offer Shares (i) in or into the United States of America except to persons they reasonably believe to be qualified institutional buyers within the meaning of Rule 144A under the Securities Act and (ii) outside the United States of America except in accordance with Regulation S under the Securities Act, and in compliance with all other applicable provisions of US law. The Company does not intend to register the Offering or any portion thereof in the United States of America or to conduct a public offering of the Offer Shares in the United States of America.

In relation to each Member State of the European Economic Area (each, an **“EEA Member State”**), an offer to the public of any Offer Shares may not be made other than the offers (**“Permitted Public Offers”**) contemplated in the Prospectus in Germany and Luxembourg once the Prospectus has been approved by the BaFin and published in accordance with Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC (the **“Prospectus Directive”**), as implemented in Germany and Luxembourg, and notified by the BaFin to the CSSF, except that an offer of shares may be made under the following exemptions under the Prospectus Directive:

- to any qualified investor as defined in the Prospectus Directive;
- by the Underwriters to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- in any other circumstances falling under Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall result in a requirement for the Company, the Existing Shareholders or any Underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this section an “**offer to the public**” with respect to the Offer Shares in an EEA Member State shall mean a communication in any form and by any means of sufficient information on the terms of the offer and any Offer Shares as to enable an investor to decide to purchase or subscribe for the shares, as such expression may be varied in the EEA Member State by any measure implementing the Prospectus Directive in that EEA Member State and “approved” in the case of a Permitted Public Offer in an EEA Member State other than the EEA Member State in which the Prospectus is required to be approved and the approval having been notified to the competent authority in the EEA Member State in which the Permitted Public Offer is to be made in accordance with Article 18 of the Prospectus Directive.

In the case of any shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer and resale to, persons in an EEA Member State in circumstances which give rise to an offer to the public of any shares other than their offer or resale to qualified investors as so defined or in circumstances in which the prior consent of the Joint Global Coordinators has been obtained to each such proposed offer or resale.

In the UK, the shares are only being offered to persons who (i) have professional experience in matters relating to investments (being investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “**Financial Promotion Order**”), (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc.”) of the Financial Promotion Order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“**FSMA**”)) in connection with the issue or sale of any shares may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “**Relevant Persons**”). Persons who are not Relevant Persons should not take any action on the basis of any such offering. Any investment or investment activity in connection with the offering of the shares will be available only to Relevant Persons and will be engaged in only with Relevant Persons. The shares will not be offered or sold to any person in the United Kingdom, except in circumstances which will not result in an offer of securities to the public in the United Kingdom within the meaning of Part VI of the FSMA.

In Canada, the shares are only being offered or sold to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the shares by Canadian purchasers must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws. Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if the Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor. Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (“**NI 33-105**”), the Underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering in Canada.

The Underwriters will also undertake to comply with the relevant laws of any and all countries in which they conduct selling and other activities in connection with the Offering. Accordingly, neither the Prospectus nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession the Prospectus comes are required to inform themselves about and observe any such restrictions, including those set out in the preceding paragraphs. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

## 24 TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

*The following section presents a number of key German taxation principles which generally are or can be relevant to the acquisition, holding or transfer of shares both by a shareholder (an individual, a partnership or corporation) that has a tax domicile in Germany (that is, whose place of residence, habitual abode, registered office or place of management is in Germany) and by a shareholder without a tax domicile in Germany. The information is not exhaustive and does not constitute a definitive explanation of all possible aspects of taxation that could be relevant for shareholders. The information is based on the tax laws in force in Germany as of the date of the Prospectus (and their interpretation by administrative directives and courts) as well as typical provisions of double taxation treaties that Germany has concluded with other countries. Tax law can change – sometimes retrospectively. Moreover, it cannot be ruled out that the German tax authorities or courts may consider an alternative interpretation or application to be correct that differs from the one described in this section.*

*This section cannot serve as a substitute for tailored tax advice to individual shareholders. Shareholders are therefore advised to consult their tax advisers regarding the individual tax implications of the acquisition, holding or transfer of shares and regarding the procedures to be followed to achieve a possible reimbursement of German withholding tax (Kapitalertragsteuer). Only such advisors are in a position to take the specific tax-relevant circumstances of individual shareholders into due account.*

### 24.1 Taxation of the Company

As a rule, the taxable profits generated by corporations with their seat or place of management in Germany are subject to corporate income tax (*Körperschaftsteuer*). The rate of the corporate income tax is a standard 15% for both distributed and retained earnings, plus a solidarity surcharge (*Solidaritätszuschlag*) amounting to 5.5% on the corporate income tax liability (i.e., 15.825% in total).

In general, dividends (*Dividenden*) or other profit shares that the Company derives from domestic or foreign corporations are effectively 95% exempt from corporate income tax (including solidarity surcharge), as 5% of such dividend receipts are treated as a non-deductible business expenses, and are therefore subject to corporate income tax (and solidarity surcharge thereon). However, dividends that the Company receives or received from domestic or foreign corporations after February 28, 2013, are no longer exempt from corporate income tax (including solidarity surcharge thereon), if the Company only held (or holds) a direct participation of less than 10% in the share capital of such corporation at the beginning of the calendar year (hereinafter in all cases, a **“Portfolio Participation”** – *Streubesitzbeteiligung*). Participations of at least 10% acquired during a calendar year are deemed to have been acquired at the beginning of the calendar year. Participations in the share capital of other corporations which the Company holds through a partnership (including those that are co-entrepreneurships (*Mitunternehmerschaften*)) are attributable to the Company only on a pro rata basis at the ratio of the interest share of the Company in the assets of the relevant partnership.

The Company's gains from the disposal of shares in a domestic or foreign corporation are in general effectively 95% exempt from corporate income tax (including the solidarity surcharge thereon), regardless of the size of the participation and the holding period. 5% of the gains are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge thereon) at a rate of 15.825%. Conversely, losses incurred from the disposal of such shares are generally not deductible for corporate income tax purposes. Currently, there are no specific rules for the taxation of gains arising from the disposal of Portfolio Participations.

Additionally, German corporations are also usually subject to trade tax (*Gewerbesteuer*) with respect to their taxable trade profit (*Gewerbeertrag*) generated at their permanent

establishments maintained in Germany (*inländische Betriebsstätten*). Trade tax generally ranges from approximately 7% to 18.55% of the taxable trade profit depending on the municipal trade tax multiplier applied by the relevant municipal authority (*Hebesatz*). When determining the income of the corporation that is subject to corporate income tax, trade tax may not be deducted as a business expense. In principle, profits derived from the sale of shares in another domestic and foreign corporation are treated in the same way for trade tax purposes as for corporate income tax (as described above). Contrary to this, profit shares derived from domestic and foreign corporations are only effectively 95% exempt from trade tax, if the Company either held an interest of at least 15% in the share capital of the company making the distribution at the beginning of the relevant assessment period or – in the case of participations in foreign corporations – if the Company has held a stake of this size continuously since the beginning of such period (trade tax participation exemption privilege – *gewerbesteuerliches Schachtelprivileg*). If the participation is held in a foreign corporation as per Article 2 of Council Directive 2011/96/EU of November 30, 2011 (the “**Parent-Subsidiary Directive**”) with its registered office in another member state of the European Union, the trade tax participation exemption privilege becomes available, if the Company held at least 10% in the share capital of the foreign corporation at the beginning of the relevant assessment period. Otherwise, the profit shares will be subject to trade tax (at the above mentioned rates) in full. Additional restrictions apply for profit shares originating from foreign corporations which do not fall under Article 2 of the Parent-Subsidiary Directive.

The provisions of the so-called interest barrier (*Zinsschranke*) limit the degree to which interest expenses are deductible from the tax base. Accordingly, as a rule, interest expenses exceeding interest income are deductible in an amount of up to 30% of the EBITDA as determined for tax purposes in a given financial year, although there are exceptions to this rule. Non-deductible interest expenses must be carried forward to subsequent financial years. EBITDA that has not been fully utilized can, under certain circumstances, be carried forward to subsequent years (for up to five years) and may be deducted subject to the limitations set out above. For trade tax purposes, 25% of the interest expenses deductible after applying the interest barrier are added when calculating the taxable trade profit. Therefore, for trade tax purposes, the amount of deductible interest expenses is only 75% of the interest expenses deductible for purposes of corporate income tax.

Under certain conditions, negative income of the Company that has not been offset by current year positive income can be carried forward or back into other assessment periods. Loss carry-backs to the immediately preceding assessment period are only permissible up to EUR 1 million for corporate income tax but not for trade tax purposes. Negative income that has not been offset and not carried back can only be carried forward to subsequent assessment periods in an amount of up to EUR 1 million to offset positive income for corporate income and trade tax purposes (tax loss carry-forward). If the taxable income or the taxable trade profit exceeds this amount, only 60% of the excess amount can be offset by tax loss carry-forwards. The remaining 40% of the taxable income is subject to tax in any case (minimum taxation – *Mindestbesteuerung*). Unused tax loss carry-forwards can, as a rule, be carried forward indefinitely and deducted pursuant to the rules set out regarding future taxable income or trade income. However, if more than 25% or more than 50% of the Company’s share capital or voting rights respectively is/are transferred to a purchaser or group of purchasers within five years, directly or indirectly, or if a similar situation arises (harmful share acquisition – *schädlicher Beteiligungserwerb*), the Company’s unutilized losses and interest carry-forwards (possibly also EBITDA carry-forwards) will generally be forfeited in part (in case of a participation of more than 25% but no more than 50%) or in full (in case of a participation of more than 50%) and, subject to certain exceptions, may not be offset against future profits.

## 24.2 Taxation of Shareholders

### 24.2.1 Income Tax Implications of the Holding, Sale and Transfer of Shares

In terms of the taxation of shareholders of the Company, a distinction must be made between taxation in connection with the holding of shares ("*24.2.2 Taxation of Dividends*"), taxation in connection with the sale of shares ("*24.2.3 Taxation of Capital Gains*") and taxation in connection with the gratuitous transfer of shares ("*24.2.5 Inheritance and Gift Tax*").

### 24.2.2 Taxation of Dividends

#### 24.2.2.1 Withholding Tax

As a general rule, the dividends distributed to the shareholder are subject to a withholding tax (*Kapitalertragsteuer*) of 25% and a solidarity surcharge of 5.5% thereon (i.e. 26.375% in total plus church tax, if applicable). This, however, will not apply if and to the extent that dividend payments are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 *Körperschaftsteuergesetz* ("**KStG**")); in this case no withholding tax will be withheld. However, these payments will reduce the acquisition costs of the shares and may, consequently, increase a taxable gain upon the disposal of the shares (see below "*24.2.3 Taxation of Capital Gains*"). The assessment basis for the withholding tax is the dividend approved by the shareholders' meeting.

If shares – as it is the case with the shares in the Company – are admitted for collective custody by a central securities depository (*Wertpapiersammelbank*) pursuant to section 5 German Act on Securities Accounts (*Depotgesetz*) and are entrusted to such bank for collective custody (*Sammelverwahrung*) in Germany, the withholding tax is withheld and passed on for the account of the shareholders (i) by the domestic credit or financial services institution (*inländisches Kredit- oder Finanzdienstleistungsinstitut*) (including domestic branches of such foreign enterprises), by the domestic securities trading company (*inländisches Wertpapierhandelsunternehmen*) or the domestic securities trading bank (*inländische Wertpapierhandelsbank*) which keeps or administers the shares and disburses or credits the dividends or disburses the dividends to a foreign agent, (ii) by the central securities depository (*Wertpapiersammelbank*) to which the shares were entrusted for collective custody if the dividends are disbursed to a foreign agent by such central securities depository (*Wertpapiersammelbank*) or (iii) by the Company itself if and to the extent shares held in collective custody (*girosammelverwahrt*) by the central securities depository (*Wertpapiersammelbank*) are, however, treated as so-called "*abgesetzte Bestände*" (stock being held separately) (hereinafter in all cases, the "**Dividend Paying Agent**"). The Company assumes responsibility for the withholding of taxes on distributions at source, in accordance with statutory provisions. This means that the Company is released from liability for the violation of its legal obligation to withhold and transfer the taxes at source, if it provides evidence that it has not breached its duties intentionally or gross negligently.

In general, the withholding tax must be withheld without regard as to whether and to which extent the dividend is exempt from tax at the level of the shareholder and whether the shareholder is domiciled in Germany or abroad.

However, withholding tax on dividends distributed to a company domiciled in another EU Member State within the meaning of Article 2 of the Parent-Subsidiary Directive, may be refunded upon application and subject to further conditions. This also applies to dividends distributed to a permanent establishment of such a parent company in another Member State of the European Union or to a parent company that is subject to unlimited tax liability in Germany, provided that the participation in the Company is actually part of such permanent establishment's business assets. Further requirements for the refund of withholding tax under the Parent-Subsidiary Directive are that the shareholder has directly held at least 10% of the Company's registered share capital for one year and that a respective application is filed with the German Federal Central Tax Office (*Bundeszentralamt für Steuern, Hauptdienstszitz Bonn-Beuel*, An der Kuppe 1, D-53225 Bonn, Germany).

If, in the case of a holding of at least 10% of the Company's registered share capital, shares held in collective custody (*girosammelverwahrt*) by the central securities depository (*Wertpapiersammelbank*) are treated as so-called "abgesetzte Bestände" (stock being held separately), the German tax authorities will not object when the main paying agent (*Hauptzahlstelle*) of the Company - upon presentation of an exemption certificate (*Freistellungsbescheinigung*) and of a proof that this stock has been held separately - disburses the dividend without deducting withholding tax. An exemption certificate can be granted upon application (using official application forms) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern* (at the address specified above)).

With respect to distributions made to other shareholders without a tax domicile in Germany, the withholding tax rate can be reduced in accordance with the double taxation treaty if Germany has entered into a double taxation treaty with the respective shareholder's country of residence and if the shares neither form part of the assets of a permanent establishment or a fixed place of business in Germany, nor form part of business assets for which a permanent representative in Germany has been appointed. The withholding tax reduction is generally granted by the German Federal Central Tax Office (*Bundeszentralamt für Steuern* (at the address specified above)) upon application in such a manner that the difference between the total amount withheld, including the solidarity surcharge, and the reduced withholding tax actually owed under the relevant double taxation treaty (generally 15% and, in the case of the Germany-U.S. double taxation treaty, typically 15%) is refunded by the German Federal Central Tax Office (*Bundeszentralamt für Steuern*).

Forms for the reimbursement and exemption from the withholding at source procedure are available at the German Federal Central Tax Office (*Bundeszentralamt für Steuern* (at the address specified above) or online at <http://www.bzst.bund.de>) as well as at German embassies and consulates.

If dividends are distributed to corporations subject to non-resident taxation in Germany, *i.e.* corporations with no registered office or place of management in Germany and if the shares neither belong to the assets of a permanent establishment or fixed place of business in Germany nor are part of business assets for which a permanent representative in Germany has been appointed, two-fifths of the tax withheld at the source can generally be refunded even if not all of the prerequisites for a refund under the Parent-Subsidiary Directive or the relevant double taxation treaty are fulfilled. The relevant application forms are available at the German Federal Central Tax Office (*Bundeszentralamt für Steuern* (at the address specified above)).

The aforementioned possibilities for an exemption from or a refund of withholding tax depend on certain other conditions being met (particularly the fulfillment of so-called substance requirements – *Substanzerfordernisse*).

In a ruling dated October 20, 2011, the European Court of Justice ("ECJ") held that the German taxation of dividends distributed by German corporations to companies located in another EU Member State violated EU law because these dividends would, if the shareholding does not reach the minimum participation of 10% provided for in the Parent-Subsidiary Directive, economically be subject to higher taxation than dividends which are distributed to companies with their registered offices in Germany. According to the judgment of the ECJ, the German taxation of dividends also violated the Treaty on the European Economic Area ("EEA") because dividends which are distributed to companies with their registered offices in Iceland or Norway would economically be subject to a higher taxation than dividends distributed to companies with their registered office in Germany.

The legislator reacted to the ECJ's ruling dated October 20, 2011 by enacting the Act for the implementation of the ECJ's ruling dated October 20, 2011 (*Gesetz zur Umsetzung des EuGH-Urteils vom 20. Oktober 2011 in der Rechtssache C-284/09*, (BR-Drucks. 146/13/B)) which provides for (i) new rules for the taxation of dividends from Portfolio Participations received after February 28, 2013 (see "24.1 Taxation of the Company") and (ii) for a mechanism under which

corporations domiciled in the EU or EEA, which do not fall under the Parent-Subsidiary Directive, can apply for a refund of withholding tax on the dividends received on or before February 28, 2013 if certain prerequisites are met. Please note that such a refund might in certain situations also be available with regard to withholding tax imposed on dividends received after February 28, 2013, if corporate shareholders, which are domiciled in the EU or EEA, directly hold at least 10% in the equity capital of the Company at the beginning of the relevant calendar year or acquire a stake of at least 10% in the equity capital of the Company in the course of the relevant calendar year, but do not fulfill the requirements provided for by the Parent-Subsidiary Directive at the time they apply for such refund. Shareholders affected by these rules are recommended to consult their tax advisors.

#### 24.2.2.2 *Taxation of Dividends of Shareholders with a Tax Domicile in Germany*

##### 24.2.2.2.1 Shares Held as Non-Business Assets

Dividends distributed to shareholders with a tax domicile in Germany whose shares are held as non-business assets form part of their taxable capital investment income, which is subject to a special uniform income tax rate of 25% plus solidarity surcharge of 5.5% thereon (i.e., 26.375% in total plus church tax, if applicable). The income tax owed for this dividend income is in general satisfied by the withholding tax withheld by the Dividend Paying Agent (flat-rate withholding tax – *Abgeltungsteuer*). Income-related expenses cannot be deducted from the shareholder's capital investment income (including dividends), except for an annual lump-sum deduction (*Sparer-Pauschbetrag*) of EUR 801 (EUR 1,602 for married couples and registered partners filing jointly). However, the shareholder may request that his capital investment income (including dividends) along with his other taxable income be subject to progressive income tax rate (instead of the uniform tax rate for capital investment income) if this results in a lower tax burden. In this case, income-related expenses cannot be deducted from the capital investment income, except for the aforementioned annual lump-sum deduction.

The withholding tax will generally be credited against the progressive income tax and any excess amount will be refunded. However, pursuant to the Act to Reform German Investment Taxation (*Investmentsteuerreformgesetz*, BGBl. I 2016, 1730), the full amount of the withholding tax levied on the dividends is only creditable if the shareholder (i) has been the economic owner of the shares for a continuous period of at least 45 days during the period starting 45 days prior to the date when the dividend becomes due and ending 45 days after such date (the "**Minimum Holding Period**"; *Mindesthaltedauer*), (ii) has been exposed (if taking into account counter claims and claims against related parties) to at least 70% of the risk resulting from a decrease-in-value of the shares during the Minimum Holding Period (the minimum change-in-value risk; *Mindestwertänderungsrisiko*) and (iii) is not obliged to forward (*vergüten*) these dividends, directly or indirectly, in total or to more than 50% to another person (the tests under (i) to (iii) above are together described as the "**Minimum Risk Test**"). In case that the shareholder does not meet the Minimum Risk Test, three fifth of the withholding tax levied on the dividends is not creditable, but may, upon application, be deducted when determining the shareholder's taxable income. Shareholders who do not meet the Minimum Risk Test but who have, nevertheless, not suffered a withholding tax deduction on the dividends (e.g., due to the presentation of a non-assessment certificate) or have already obtained a refund of the taxes withheld, are obliged to notify their competent tax office thereof and to make the payment of an amount corresponding to the amount which would otherwise be withheld. As an exception to this rule, the Minimum Risk Test (and, if applicable, a corresponding notification and (re-)payment obligation) does not apply to an investor if either (i) his or her amount of dividend income on shares (including shares from the Company) and certain profit participation rights (*Genussrechte*) does not exceed an amount of EUR 20,000 in a given tax assessment period or if (ii) he or she has been, upon actual receipt of the dividend, the economic owner of the shares for a continuous period of at least one year. These rules apply retroactively as from January 1, 2016. Prospective holders of the shares are advised to seek their own professional advice in relation to the possibility to obtain a tax credit or refund of withholding tax on dividends.

Exceptions from the flat rate withholding tax apply upon application for shareholders who have a shareholding of at least 25% in the Company and for shareholders who have a shareholding of at least 1% in the Company and work for the Company in a professional capacity. In this situation, the tax treatment described below under “(2) *Sole Proprietors*” applies.

An automatic procedure for deducting church tax applies unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern* (at the above address)). The church tax for dividends is satisfied by the Dividend Paying Agent withholding such tax. Church tax withheld at source may not be deducted as a special expense (*Sonderausgabe*) in the course of the tax assessment, but the Dividend Paying Agent may reduce the withholding tax (including the solidarity surcharge) by 26.375% of the church tax to be withheld on the dividends. If no church tax is withheld by a Dividend Paying Agent, a shareholder subject to church tax is obliged to declare the dividends in his income tax return. The church tax on the dividends is then levied by way of a tax assessment.

As an exemption, dividend payments that are funded from the Company’s contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) and are paid to shareholders with a tax domicile in Germany whose shares are held as non-business assets, do – contrary to the above – not form part of the shareholder’s taxable income. If the dividend payment funded from the Company’s contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) exceeds the shareholder’s acquisition costs, negative acquisition costs will arise which can result in a higher capital gain in case of the shares’ disposal (cf. below). This will not apply if (i) the shareholder or, in the event of a gratuitous transfer, its legal predecessor, or, if the shares have been gratuitously transferred several times in succession, one of his legal predecessors at any point during the five years preceding the (deemed, as the case may be,) disposal directly or indirectly held at least 1% of the share capital of the Company (a “**Qualified Holding**”) and (ii) the dividend payment funded from the Company’s contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) exceeds the acquisition costs of the shares. In such a case of a Qualified Holding, a dividend payment funded from the Company’s contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) is deemed a sale of the shares and is taxable as a capital gain if and to the extent the dividend payment funded from the Company’s contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) exceeds the acquisition costs of the shares. In this case the taxation corresponds with the description in “24.2.3 *Taxation of Capital Gains*” made with regard to shareholders maintaining a Qualified Holding.

#### 24.2.2.2.2 Shares Held as Business Assets

Dividends from shares held as business assets of a shareholder with a tax domicile in Germany are not subject to the flat-rate withholding tax. The taxation depends on whether the shareholder is a corporation, a sole proprietor or a partnership (co-entrepreneurship). The withholding tax (including the solidarity surcharge and church tax, if applicable) withheld and paid by the Dividend Paying Agent will generally be credited against the shareholder’s income or corporate income tax liability (including the solidarity surcharge and church tax, if applicable) or refunded in the amount of any excess. Pursuant to the Act to Reform German Investment Taxation (*Investmentsteuerreformgesetz*, BGBl. I 2016, 1730) it is no longer possible for a taxpayer to fully credit the withholding tax levied on the dividends if the shareholder does not meet the Minimum Risk Test (see “24.2.2.2.1 *Shares Held as Non-Business Assets*” above). Rather, for a shareholder who does not meet the Minimum Risk Test, three fifth of the withholding tax levied on the dividends is not creditable, but may, upon application, be deducted when determining the shareholder’s taxable income. Shareholders who do not meet the Minimum Risk Test but who have, nevertheless, not suffered a withholding tax deduction on the dividends or have already obtained a refund of the taxes withheld, are obliged to notify their competent tax office thereof and to make the payment of an amount corresponding to the amount which would otherwise be withheld. As an exception to this rule, the Minimum Risk Test (and, if applicable, a corresponding notification and (re-)payment obligation) does not apply to an

investor if either (i) his or her amount of dividend income on shares (including shares from the Company) and certain profit participation rights (*Genussrechte*) does not exceed an amount of EUR 20,000 in a given tax assessment period or if (ii) he or she has been, upon actual receipt of the dividend, the economic owner of the shares for a continuous period of at least one year. These rules apply retroactively as from January 1, 2016. Prospective holders of the shares are advised to seek their own professional advice in relation to the possibility to obtain a tax credit or refund of withholding tax on dividends.

Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) and are paid to shareholders with a tax domicile in Germany whose shares are held as business assets are generally fully tax-exempt in the hands of such shareholder. To the extent the dividend payments funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) exceed the acquisition costs of the shares, a taxable capital gain should occur. The taxation of such gain corresponds with the description in "24.2.3 Taxation of Capital Gains" made with regard to shareholders whose shares are held as business assets (however, as regards the application of the 95% exemption in case of a corporation this is not undisputed).

#### (1) Corporations

If the shareholder is a corporation with a tax domicile in Germany, the dividends are in general effectively 95% exempt from corporate income tax and the solidarity surcharge. 5% of the dividends are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge) at a total tax rate of 15.825%. In other respects, business expenses actually incurred in direct relation to the dividends may be deducted. However, dividends that the shareholder received and receives after February 28, 2013, are no longer exempt from corporate income tax (including solidarity surcharge thereon), if the shareholder only held (or holds) a Portfolio Participation at the beginning of the calendar year. Participations of at least 10% acquired during a calendar year are deemed to have been acquired at the beginning of the calendar year. Participations which a shareholder holds through a partnership (including those that are co-entrepreneurships (*Mitunternehmerschaften*)) are attributable to the shareholder only on a pro rata basis at the ratio of the interest share of the shareholder in the assets of the relevant partnership.

Dividends (after deducting business expenses economically related to the dividends) are subject to trade tax in the full amount, unless the requirements of the trade tax participation exemption privilege are fulfilled (see "24.1 Taxation of the Company"). In this latter case, the dividends are not subject to trade tax; however, trade tax is levied on the amount considered to be a non-deductible business expense (amounting to 5% of the dividend). Trade tax ranges from approximately 7% to 18.55% of the taxable trade profit depending on the municipal trade tax multiplier applied by the relevant municipal authority.

#### (2) Sole Proprietors

If the shares are held as business assets by a sole proprietor with a tax domicile in Germany, only 60% of the dividends are subject to progressive income tax (plus the solidarity surcharge) at a total tax rate of up to approximately 47.5% (plus church tax, if applicable), so-called partial income method (*Teileinkünfteverfahren*). Only 60% of the business expenses economically related to the dividends are tax-deductible. If the shares belong to a domestic permanent establishment in Germany of a business operation of the shareholder, the dividend income (after deducting business expenses economically related thereto) is not only subject to income tax but is also fully subject to trade tax, unless the prerequisites of the trade tax participation exemption privilege are fulfilled. In this latter case, the net amount of dividends, *i.e.*, after deducting directly related expenses, is exempt from trade tax. As a rule, trade tax can be credited against the shareholder's personal income tax, either in full or in part, by means of a lump-sum tax credit method, depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

### (3) Partnerships

If the shareholder is a trading or deemed trading partnership (co-entrepreneurship) with a tax domicile in Germany, the income or corporate income tax is not levied at the level of the partnership but at the level of the respective partner. The taxation for every partner depends on whether the partner is a corporation or an individual. If the partner is a corporation, the dividends contained in the profit share of the shareholder will be taxed in accordance with the principles applicable for corporations (see "(1) Corporations" above). If the partner is an individual, the taxation is in line with the principles described for sole proprietors (see "(2) Sole Proprietors" above). Upon application and subject to further conditions, an individual as a partner can have his personal income tax rate lowered for earnings not withdrawn from the partnership.

In addition, the dividends are generally subject to trade tax in the full amount at the partnership level if the shares are attributed to a German permanent establishment of the partnership. If a partner of the partnership is an individual, the portion of the trade tax paid by the partnership pertaining to his profit share will generally be credited, either in full or in part, against his personal income tax by means of a lump-sum method – depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer. Due to a lack of case law and administrative guidance, it is currently unclear how the new rules for the taxation of dividends from Portfolio Participations (see "(1) Corporations" above) might impact the trade tax treatment at the level of the partnership. Shareholders are strongly advised to consult their tax advisors in this regard. According to a literal reading of the law, if the partnership fulfills the prerequisites for the trade tax exemption privilege at the beginning of the relevant assessment period, the dividends (after the deduction of business expenses economically related thereto) should generally not be subject to trade tax. However, in this case, trade tax should be levied on 5% of the dividends to the extent they are attributable to the profit share of such corporate partners to whom at least 10% of the shares in the Company are attributable on a look-through basis, since such portion of the dividends should be deemed to be non-deductible business expenses. The remaining portion of the dividend income attributable to other than such specific corporate partners (which includes individual partners and should, according to a literal reading of the law, also include corporate partners to whom, on a look-through basis, only Portfolio Participations are attributable) should not be subject to trade tax.

#### 24.2.2.3 *Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds*

Special rules apply to companies operating in the financial and insurance sectors and to pension funds (see "24.2.4 *Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds*").

#### 24.2.2.4 *Taxation of Dividends of Shareholders without a Tax Domicile in Germany*

Shareholders without a tax domicile in Germany, whose shares are attributable to a German permanent establishment or fixed place of business or are part of business assets for which a permanent representative in Germany has been appointed, are liable for tax in Germany on their dividend income. In this respect the provisions outlined above for shareholders with a tax domicile in Germany whose shares are held as business assets apply accordingly (see "24.2.2.2.2 *Shares Held as Business Assets*"). The withholding tax (including the solidarity surcharge) withheld and passed on will generally be credited against the income or corporate income tax liability or refunded in the amount of any excess. Pursuant to the Act to Reform German Investment Taxation (*Investmentsteuerreformgesetz*, BGBl. I 2016, 1730), it is no longer possible for a taxpayer to fully credit the withholding tax levied on the dividends if the shareholder does not meet the Minimum Risk Test (see "24.2.2.2.1 *Shares Held as Non-Business Assets*" above). Rather, for a shareholder who does not meet the Minimum Risk Test, three fifth of the withholding tax levied on the dividends is not creditable, but may, upon application, be

deducted when determining the shareholder's taxable income. Shareholders who do not meet the Minimum Risk Test but who have, nevertheless, not suffered a withholding tax deduction on the dividends or have already obtained a refund of the taxes withheld, are obliged to notify their competent tax office thereof and to make the payment of an amount corresponding to the amount which would otherwise be withheld. As an exception to this rule, the Minimum Risk Test (and, if applicable, a corresponding notification and (re-)payment obligation) does not apply to an investor if either (i) his or her amount of dividend income on shares (including shares from the Company) and certain risk participation rights (*Genussrechte*) does not exceed an amount of EUR 20,000 in a given tax assessment period or if (ii) he or she has been, upon actual receipt of the dividend, the economic owner of the shares for a continuous period of at least one year. These rules apply retroactively as from January 1, 2016. Prospective holders of the shares are advised to seek their own professional advice in relation to the possibility to obtain a tax credit or refund of withholding tax on dividends.

In all other cases, any German tax liability for dividends is satisfied by the withholding of the withholding tax by the Dividend Paying Agent. Withholding tax is only reimbursed in the cases and to the extent described above under "*24.2.2.1 Withholding Tax*". The reduced withholding tax actually owed under the U.S.-German double taxation treaty is 15% in the case of U.S. shareholders eligible under the treaty. Special rules apply for companies who own at least 10% of the Company's voting stock.

Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) are generally not taxable in Germany.

### **24.2.3 Taxation of Capital Gains**

#### *24.2.3.1 Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany*

##### *24.2.3.1.1 Shares Held as Non-Business Assets*

Gains on the disposal of shares acquired after December 31, 2008 by a shareholder with a tax domicile in Germany and held as non-business assets are generally – regardless of the holding period – subject to a uniform tax rate on capital investment income in Germany (25% plus the solidarity surcharge of 5.5% thereon, *i.e.*, 26.375% in total plus any church tax if applicable).

The taxable capital gain is computed from the difference between (a) the proceeds of the disposal and (b) the acquisition costs of the shares and the expenses related directly and materially to the disposal. Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) reduce the original acquisition costs; if dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) exceed the acquisition costs, negative acquisition costs – which can increase a capital gain – can arise in case of shareholders, whose shares are held as non-business assets and do not qualify as a Qualified Holding.

Only an annual lump-sum deduction of EUR 801 (EUR 1,602 for married couples and registered partners filing jointly) may be deducted from the entire capital investments income. It is generally not possible to deduct income-related expenses in connection with capital gains, except for the expenses directly related in substance to the disposal which can be deducted when calculating the capital gains. Losses on disposals of shares may only be offset against gains on the disposal of shares.

If the shares are held in custody or administered by a domestic credit institution, domestic financial services institution, domestic securities trading company or a domestic securities trading bank, including domestic branches of foreign credit institutions or financial service institutions, or if such an office executes the disposal of the shares and pays out or credits the capital gains (each a "**Domestic Paying Agent**"), the tax on the capital gains will in general be satisfied by the Domestic Paying Agent withholding the withholding tax on investment income in the amount of 26.375% (including the solidarity surcharge) on the capital gain and transferring it to the tax authority for the account of the seller.

However, the shareholder can apply for his total capital investment income, together with his other taxable income, to be subject to progressive income tax rate as opposed to the uniform tax rate on investment income, if this results in a lower tax liability. In this case, the withholding tax is credited against the progressive income tax and any resulting excess amount will be refunded. Limitations on offsetting losses are applicable. Further, income-related expenses are non-deductible, except for the annual lump-sum deduction. Furthermore, the limitations on offsetting losses are also applicable under the income tax assessment.

If the withholding tax or, if applicable, the church tax on capital gains is not withheld by a Domestic Paying Agent, the shareholder is required to declare the capital gains in his income tax return. The income tax and any applicable church tax on the capital gains will then be collected by way of assessment.

An automatic procedure for deducting church tax applies unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern* (at the above address)). The church tax for capital gains is satisfied by the Domestic Paying Agent withholding such tax. A deduction of the withheld church tax as a special expense is not permissible, but the withholding tax to be withheld (including the solidarity surcharge) is reduced by 26.375% of the church tax to be withheld on the capital gains.

Regardless of the holding period and the time of acquisition, gains from the disposal of shares are not subject to a uniform withholding tax but to progressive income tax in case of a **"Qualified Holding"**. In this case the partial income method applies to gains on the disposal of shares, which means that only 60% of the capital gains are subject to tax and only 60% of the losses on the disposal and expenses economically related thereto are tax deductible. Even though withholding tax is withheld by a Domestic Paying Agent in the case of a Qualified Holding, this does not satisfy the tax liability of the shareholder. Consequently, a shareholder must declare his capital gains in his income tax returns. The withholding tax (including the solidarity surcharge and church tax, if applicable) withheld and paid will be credited against the shareholder's income tax on his tax assessment (including the solidarity surcharge and any church tax if applicable) or refunded in the amount of any excess.

#### 24.2.3.1.2 Shares Held as Business Assets

Gains on the sale of shares held as business assets of a shareholder with a tax domicile in Germany are not subject to uniform withholding tax. The taxation of the capital gains depends on whether the shareholder is a corporation, a sole proprietor or a partnership (co-entrepreneurship). Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto*; § 27 KStG) reduce the original acquisition costs. In case of disposal a higher taxable capital gain can arise herefrom. If the dividend payments exceed the shares' book value for tax purposes, a taxable capital gain can arise.

##### (1) Corporations

If the shareholder is a corporation with a tax domicile in Germany, the gains on the disposal of shares are, in general, effectively 95% exempt from corporate income tax (including the solidarity surcharge) and trade tax, currently, regardless of the size of the participation and the holding period. 5% of the gains are treated as a non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge) at a tax rate amounting to 15.825% and trade tax (depending on the municipal trade tax multiplier applied by the municipal authority, generally between approximately 7% and 18.55%). As a rule, losses on disposals and other profit reductions in connection with shares (e.g., from a write down) cannot be deducted as business expenses. Currently, there are no specific rules for the taxation of gains arising from the disposal of Portfolio Participations.

##### (2) Sole Proprietors

If the shares are held as business assets by a sole proprietor with a tax domicile in Germany, only 60% of the gains on the disposal of the shares are subject to progressive income tax (plus the

solidarity surcharge) at a total tax rate of up to approximately 47.5%, and, if applicable, church tax (partial-income method). Only 60% of the losses on the disposal and expenses economically related thereto are tax deductible. If the shares belong to a German permanent establishment of a business operation of the sole proprietor, 60% of the gains of the disposal of the shares are, in addition, subject to trade tax.

Trade tax can be credited towards the shareholder's personal income tax, either in full or in part, by means of a lump-sum tax credit method – depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

### (3) Partnerships

If the shareholder is a trading or deemed trading partnership (co-entrepreneurship) with a tax domicile in Germany, the income or corporate income tax is not levied at the level of the partnership but at the level of the respective partner. The taxation depends on whether the partner is a corporation or an individual. If the partner is a corporation, the gains on the disposal of the shares as contained in the profit share of the partner will be taxed in accordance with the principles applicable for corporations (see "*(1) Corporations*" above). For capital gains in the profit share of a partner that is an individual, the principles outlined above for sole proprietors apply accordingly (partial-income method, see above under "*(2) Sole Proprietors*"). Upon application and subject to further conditions, an individual as a partner can obtain a reduction of his personal income tax rate for earnings not withdrawn from the partnership.

In addition, gains on the disposal of shares are subject to trade tax at the level of the partnership, if the shares are attributed to a domestic permanent establishment of a business operation of the partnership: Generally, at 60% as far as they are attributable to the profit share of an individual as the partner of the partnership, and, currently, at 5% as far as they are attributable to the profit share of a corporation as the partner of the partnership. Losses on disposals and other profit reductions in connection with the shares are currently not considered for the purposes of trade tax if they are attributable to the profit share of a corporation, and are taken into account at 60% in the context of general limitations if they are attributable to the profit share of an individual.

If the partner of the partnership is an individual, the portion of the trade tax paid by the partnership attributable to his profit share will generally be credited, either in full or in part, against his personal income tax by means of a lump-sum method – depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

### (4) Withholding Tax

In the case of a Domestic Paying Agent, the gains from the sale of shares held as business assets are in general subject to withholding tax in the same way as gains from the sale of shares held as non-business assets by a shareholder (see "*24.2.2.2.1 Shares Held as Non-Business Assets*"). However, the dividend paying agent will not withhold the withholding tax, if (i) the shareholder is a corporation, association of persons or estate with a tax domicile in Germany, or (ii) the shares belong to the domestic business assets of a shareholder, and the shareholder declares so to the Domestic Paying Agent using the designated official form and certain other requirements are met. If withholding tax is nonetheless withheld by a Domestic Paying Agent, the withholding tax (including the solidarity surcharge and church tax, if applicable) withheld and paid will be credited against the income or corporate income tax liability (including the solidarity surcharge and church tax, if applicable) or will be refunded in the amount of any excess.

#### 24.2.3.2 Taxation of Capital Gains of Shareholders without a Tax Domicile in Germany

Capital gains derived by shareholders with no tax domicile in Germany are only subject to German tax if the selling shareholder has a Qualified Holding in the Company or the shares

belong to a domestic permanent establishment or fixed place of business or are part of business assets for which a permanent representative in Germany has been appointed.

In the case of a Qualified Holding, 5% of the gains on the disposal of the shares are currently in general subject to corporate income tax plus the solidarity surcharge, if the shareholder is a corporation. If the shareholder is a private individual, only 60% of the gains on the disposal of the shares are subject to progressive income tax plus the solidarity surcharge (partial-income method). However, most double taxation treaties (including the U.S.-German double taxation treaty) provide for exemption from German taxation and assign the right of taxation to the shareholder's country of residence. According to the tax authorities there is no obligation to withhold withholding tax at source in the case of a Qualified Holding if the shareholder submits to the Domestic Paying Agent a certificate of domicile issued by a foreign tax authority.

With regard to gains or losses on the disposal of shares belonging to a domestic permanent establishment or fixed place of business, or which are part of business assets for which a permanent representative in Germany has been appointed, the above-mentioned provisions pertaining to shareholders with a tax domicile in Germany whose shares are business assets apply *mutatis mutandis* (see "24.2.2.2.2 Shares Held as Business Assets"). The Domestic Paying Agent can refrain from deducting the withholding tax if the shareholder declares to the Domestic Paying Agent on an official form that the shares form part of domestic business assets and certain other requirements are met.

#### **24.2.4 Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds**

If credit institutions (*Kreditinstitute*) or financial services institutions (*Finanzdienstleistungsinstitute*) hold or sell shares that are allocable to their trading book pursuant to section 1a of the German Banking Act (*Gesetz über das Kreditwesen*), they will neither be able to use the partial income method nor be entitled to the effective 95% exemption from corporate income tax plus the solidarity surcharge and any applicable trade tax. Thus, dividend income and capital gains are fully taxable. The same applies to shares acquired by finance companies (*Finanzunternehmen*) in the meaning of the German Banking Act for the purpose of generating profits from short-term proprietary trading. The preceding sentence applies accordingly for shares held in a permanent establishment in Germany by credit institutions, financial services institutions and finance companies tax resident in another member state of the European Union or in other signatory states of the EEA Agreement. Pursuant to the government's draft (*Regierungsentwurf*) of an Act to Adopt the Amendments to the EU Mutual Assistance Directive and to Implement Measures against the Reduction and Shifting of Profits (*Gesetz zur Umsetzung der Änderungen der EU-Amtshilferichtlinie und von weiteren Maßnahmen gegen Gewinnkürzungen und -verlagerungen*) dated July 13, 2016, the aforementioned exclusions of (partial) tax exemptions for corporate income tax and trade tax purposes shall only apply to shares which, in the case of credit institutions and financial services institutions, are allocable to the trading portfolio (*Handelsbestand*) within the meaning of the German Commercial Code (*Handelsgesetzbuch*). In case of finance companies, the aforementioned exclusions of (partial) tax exemptions shall only apply to shares held by finance companies where (i) credit institutions or financial services institutions hold, directly or indirectly, a participation of more than 50% in the respective finance company and (ii) where the finance company must disclose the shares as current assets (*Umlaufvermögen*) as of the time they are initially recognized as business assets. If finally enacted, these changes would generally apply as from January 1, 2017.

Likewise, the effective 95% tax exemption described earlier afforded to corporations for dividend income and capital gains from the sale of shares does not apply to shares that qualify as capital investments (*Kapitalanlagen*) in the case of life insurance and health insurance companies, or those which are held by pension funds.

However, an exemption to the foregoing, and thus a 95% effective tax exemption, applies to dividends received by the aforementioned institutions or companies if the requirements of the Parent-Subsidiary Directive are met.

#### 24.2.5 Inheritance and Gift Tax

The transfer of shares to another person *mortis causa* or by way of gift is generally subject to German inheritance or gift tax if:

- (i) the place of residence, habitual abode, place of management or registered office of the decedent, the donor, the heir, the donee or another acquirer is, at the time of the asset transfer, in Germany, or such person, as a German national, has not spent more than five continuous years outside of Germany without maintaining a place of residence in Germany, or
- (ii) the decedent's or donor's shares belonged to business assets for which there had been a permanent establishment in Germany or a permanent representative had been appointed, or
- (iii) the decedent or the donor, at the time of the succession or gift, held a direct or indirect interest of at least 10% of the Company's share capital either alone or jointly with other related parties.

The small number of double taxation treaties in respect of inheritance and gift tax which Germany has concluded to date usually provide for German inheritance or gift tax only to be levied in the cases under (i) and, subject to certain restrictions, in the cases under (ii). Special provisions apply to certain German nationals living outside of Germany and to former German nationals.

#### 24.3 Other Taxes

No German capital transfer taxes, value-added-tax, stamp duties or similar taxes are currently levied on the purchase or disposal or other forms of transfer of the shares. However, an entrepreneur may opt to subject disposals of shares, which are in principle exempt from value-added-tax, to value-added-tax if the sale is made to another entrepreneur for the entrepreneur's business. Wealth tax is currently not levied in Germany.

The European Commission and certain EU Member States (including Germany) are currently intending to introduce a financial transactions tax ("**FTT**") (presumably on secondary market transactions involving at least one financial intermediary). It is currently uncertain whether and when the proposed FTT will be enacted by the participating EU Member States and when the FTT will enter into force.

## 25 TAXATION IN LUXEMBOURG

*The following is a general description of certain Luxembourg tax considerations relating to the purchasing, holding and disposing of the Company's shares. This description does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase shares of the Company. Prospective purchasers should consult their own tax advisers as to the applicable tax consequences of the purchase and the ownership of shares, based on their particular circumstances. No conclusions should be drawn with respect to issues not specifically addressed by this description. This description is based on the laws, regulations and applicable tax treaties as in effect in Luxembourg on the date hereof, all of which are subject to change, possibly with retroactive effect. It is not intended to be, nor should it be construed to be, legal or tax advice. Prospective purchasers should therefore consult their own advisers as to the effects of any local laws, including Luxembourg tax law, to which they may be subject.*

*The residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, a reference Luxembourg income tax encompasses corporate income tax (impôt sur le revenu des collectivités), municipal business tax (impôt commercial communal), solidarity surcharge (contribution au fonds pour l'emploi), personal income tax (impôt sur le revenu) as well as the temporary budget balancing tax (impôt d'équilibre budgétaire temporaire) generally. Investors may further be subject to net wealth tax (impôt sur la fortune) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge as well as the temporary budget balancing tax (impôt d'équilibre budgétaire temporaire). Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.*

### **25.1 Taxation of Income derived from, and Capital Gains realized on, the Company's Shares by Luxembourg resident Taxpayers**

#### **25.1.1 Individual Holders of Shares**

Dividends derived from shares of the Company by resident individuals, who act in the course of the management of either their private wealth or their professional or business activity, are subject to income tax at the progressive ordinary rate (with a current maximum marginal rate of 40% applicable for the part of the income exceeding EUR 100,000 (EUR 200,000 for couples assessed jointly)). Such income tax rate is increased by 7% for income not exceeding EUR 150,000 for single taxpayers and EUR 300,000 for couples taxed jointly, and by 9% for income above these amounts. As from January 1, 2015, an additional 0.5% temporary budget balancing tax applies to dividends received by resident individuals. Under current Luxembourg tax laws, 50% of the gross amount of dividends derived from the Company's shares will be exempt from Luxembourg income tax. In addition, a total lump-sum of EUR 1,500 (which is doubled for taxpayers who are jointly taxable) is deductible from the total of dividends received during the tax year.

Capital gains realized on the disposal of the Company's shares by resident individuals, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. A disposal may include a sale, an exchange, a contribution or any other kind of alienation of shares. Capital gains are deemed to be speculative if the shares are disposed within six months after their acquisition or if their disposal precedes their acquisition. Speculative gains realized during the year that are equal to, or are greater than, EUR 500 are subject to income tax at ordinary rates. A participation is deemed to be substantial where a resident individual holder of

shares holds, either alone or together with his spouse, his partner and/or minor children, directly or indirectly, at any time within the five years preceding the disposal, more than 10% of share capital of the Company. A holder of shares is also deemed to alienate a substantial participation if he acquired free of charge, within the five years preceding the transfer, a participation that was constituting a substantial participation in the hands of the alienator (or the alienators in case of successive transfers free of charge within the same five-year period). Capital gains realized on a substantial participation more than six months after the acquisition thereof may benefit from an allowance of up to EUR 50,000 (which is doubled for taxpayers who are jointly taxable). Such allowance is reduced by the amount of allowances granted during the ten-year period preceding the realization of the capital gain. They are subject to income tax according to the half-global rate method, (i.e., the average rate applicable to total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation).

Capital gains realized on the disposal of the Company's shares by resident individual holders of shares, who act in the course of their professional or business activity, are subject to income tax at ordinary rates and to municipal business tax.

#### **25.1.2 Luxembourg Resident Corporate Holders of Shares**

Dividends derived from the Company's shares by a Luxembourg fully-taxable resident company are subject to corporation taxes at a current combined rate of 29.22% (in Luxembourg City), unless the conditions of the Luxembourg participation exemption regime, as described below, are satisfied. Under current Luxembourg tax laws, 50% of the gross amount of dividends derived from the Company's shares will be exempt from Luxembourg income tax in the case where the conditions of the Luxembourg participation exemption regime are not met.

Under the Luxembourg participation exemption regime, dividends derived from the Company's shares by a fully-taxable Luxembourg collective entity (*organisme à caractère collectif*) may be exempt from corporation taxes if, cumulatively, (i) it has held or commits itself to hold the shares for an uninterrupted period of at least twelve months, (ii) during this uninterrupted period of twelve months the shares represent a participation of at least 10% in the share capital of the Company or the shares were acquired for an acquisition price of at least EUR 1.2 million, (iii) the dividend is put at the disposal at the time conditions (i) and (ii) above are met. Liquidation proceeds are, under Luxembourg domestic law, assimilated to a received dividend and may be exempt under the same conditions. Shares held through a fiscally transparent entity are considered as being a direct participation proportional to the percentage held in the net assets of the transparent entity.

Capital gains realized by a Luxembourg fully-taxable collective entity (*organisme à caractère collectif*) on the shares are subject to corporation taxes at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied.

Under the Luxembourg participation exemption regime, capital gains realized on the Company's shares by a Luxembourg fully-taxable collective entity (*organisme à caractère collectif*) may be exempt from corporation taxes if, cumulatively, (i) it has held or commits itself to hold the shares for an uninterrupted period of at least twelve months, (ii) during this uninterrupted period of twelve months the shares represent a participation of at least 10% in the share capital of the Company or the shares were acquired for an acquisition price of at least EUR 6 million. Shares held through a fiscally transparent entity are considered as being a direct participation proportional to the percentage held in the net assets of the transparent entity.

#### **25.1.3 Luxembourg Resident Companies Benefiting from a Special Tax Regime**

Holders of the Company's shares who are (i) undertakings for collective investment subject to the law of December 17, 2010 relating to undertakings for collective investment, as amended, or (ii) specialized investment funds subject to the law of February 13, 2007 relating to specialized

investment funds, as amended, or (iii) private asset holding companies governed by the law of May 11, 2007 introducing a private family assets holding company, as amended, are exempt from income tax in Luxembourg. Dividends derived from and capital gains realized on the shares are thus not subject to income tax in their hands.

## **25.2 Taxation of Income Derived from, and Capital Gains realized on, the Company's Shares by Luxembourg non-resident Taxpayers**

### **25.2.1 Individual Holders of Shares**

Capital gains realized on the disposal of the Company's shares by non-resident individuals are not subject to income tax in Luxembourg, unless the Luxembourg non-resident holder of shares has been holding a substantial participation of more than 10% the share capital of the Company and has been transferring the shares less than 6 months from their date of subscription or acquisition.

However, if a double tax treaty between Luxembourg and the country of residence of the holder of shares applies, the Luxembourg non-resident holder of shares may perhaps benefit from an exemption from Luxembourg tax upon disposal of its shares pursuant to the relevant provisions of such double tax treaty.

### **25.2.2 Corporate Holders of Shares**

Dividends derived from the Company's shares by non-resident corporate holders having a permanent establishment, a permanent representative or a fixed place of business in Luxembourg to which the shares are attributable are subject to income tax, unless the conditions of the Luxembourg participation exemption regime, as described below, are satisfied. Under current Luxembourg tax laws, 50% of the gross amount of dividends derived from the shares will be exempt from Luxembourg income tax.

Under the Luxembourg participation exemption regime, dividends derived from the Company's shares by a Luxembourg permanent establishment of (i) a collective entity (*organisme à caractère collectif*) meeting the conditions set out in Article 2 of the EU Parent-Subsidiary Directive, (ii) a capital company (*société de capitaux*) which is a resident in a state that has concluded a double tax treaty with Luxembourg or (iii) of a capital company (*société de capitaux*) or a cooperative company which is resident in a state other than a Member State of the European Union but which is part of the European Economic Area Agreement, may be exempt from income tax if, cumulatively, (i) it has held or commits itself to hold the shares for an uninterrupted period of at least twelve months, (ii) during this uninterrupted period of twelve months the shares represent a participation of at least 10% in the share capital of the Company or the shares were acquired for an acquisition price of at least EUR 1.2 million, (iii) the dividend is put at the disposal at the time conditions (i) and (ii) above are met. Liquidation proceeds are, under Luxembourg domestic law, assimilated to a received dividend and may be exempt under the same conditions. Shares held through a fiscally transparent entity are considered as being a direct participation proportional to the percentage held in the net assets of the transparent entity.

Capital gains realized on disposal of the Company's shares by non-resident corporate holders holding the shares through a permanent establishment, a permanent representative or a fixed place of business in Luxembourg, are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied.

Under the Luxembourg participation exemption regime, capital gains realized on the Company's shares by a Luxembourg permanent establishment of (i) a collective entity (*organisme à caractère collectif*) meeting the conditions set out in Article 2 of the EU Parent-Subsidiary Directive or (ii) a capital company (*société de capitaux*) which is a resident in a state that has concluded a double tax treaty with Luxembourg or (iii) of a capital company (*société de capitaux*) or a cooperative company but which is resident in a state other than a Member State

of the European Union which is part of the European Economic Area Agreement may be exempt from income tax if, cumulatively, (i) it has held or commits itself to hold the shares for an uninterrupted period of at least twelve months, (ii) during this uninterrupted period of twelve months the shares represent a participation of at least 10% in the share capital of the Company or the shares were acquired for an acquisition price of at least EUR 6 million. Shares held through a fiscally transparent entity are considered as being a direct participation proportional to the percentage held in the net assets of the transparent entity.

However, if a double tax treaty between Luxembourg and the country of residence of the holder of shares applies, the Luxembourg non-resident holder of shares may perhaps benefit from an exemption from Luxembourg tax upon disposal of its shares pursuant to the relevant provisions of such double tax treaty.

## **25.3 Other Taxes**

### **25.3.1 Net Wealth Tax**

Luxembourg net wealth tax will not be levied on a holder of the Company's shares unless (i) the conditions of the participation exemption applicable to dividends (as described above) are not fulfilled (except that no holding period is required) and the holder is a corporate entity resident in Luxembourg other than an undertaking for collective investment governed by the law of December 17, 2010 relating to undertakings for collective investment, as amended, a securitization vehicle governed by the law of March 22, 2004 on securitization, as amended, an entity subject to the SICAR Law, a specialized investment fund governed by the law of February 13, 2007 relating to specialized investment funds, as amended, or a private asset holding company governed by the law of May 11, 2007 introducing a private family assets holding company, as amended, or (ii) the shares are attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed place of business in Luxembourg of a capital company (*société de capitaux*) to which the shares are attributable, where the conditions of the participation exemption applicable to dividends (as described above) are not fulfilled (except that no holding period is required).

### **25.3.2 Registration Taxes and Stamp Duties**

Neither the issuance of the shares, nor the disposal of the shares is subject to Luxembourg registration tax or stamp duty. In the case of voluntary registration in Luxembourg, only a fixed registration duty of EUR 12 would apply.

### **25.3.3 Inheritance and Gift Tax**

Under Luxembourg tax law, where an individual shareholder is a resident of Luxembourg for inheritance tax purposes at the time of his/her death, the shares are included in his or her taxable basis for inheritance tax purposes. Gift tax may be due on a gift or donation of shares, if embodied in a Luxembourg deed or otherwise registered in Luxembourg.

### **25.3.4 Withholding Tax**

Dividends distributed by the Company to the shareholders are not subject to any Luxembourg withholding tax even if paid through a Luxembourg-based paying agent.

## 26 FINANCIAL INFORMATION

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**26.1 Unaudited Interim Consolidated Financial Statements  
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IAS 34 (Interim Financial Reporting) as of and for the  
Six-Month Period Ended June 30, 2016**

**Interim consolidated financial statements (condensed) of  
the innogy group**

For the first half of 2016

*Unaudited*

## Income statement

€ million	Jan-Jun 2016	Jan-Jun 2015
<b>Revenue (including natural gas tax/electricity tax)</b>	<b>22,780</b>	<b>23,458</b>
Natural gas tax/electricity tax	1,127	1,154
<b>Revenue</b>	<b>21,653</b>	<b>22,304</b>
Cost of materials	16,701	17,658
Staff costs	1,432	1,332
Depreciation, amortization and impairment losses	923	641
Other operating result	-681	-1,020
Income from investments accounted for using the equity method	98	121
Other income from investments	51	112
Financial income	528	412
Finance costs	980	431
<b>Income before tax</b>	<b>1,613</b>	<b>1,867</b>
Taxes on income	356	443
<b>Income</b>	<b>1,257</b>	<b>1,424</b>
Of which: non-controlling interests	177	200
Of which: net income/income attributable to innogy SE shareholders	1,080	1,224
<b>Basic and diluted earnings per share in €</b>	<b>5.33</b>	<b>–</b>

## Statement of comprehensive income<sup>1</sup>

€ million	Jan-Jun 2016	Jan-Jun 2015
<b>Income</b> .....	<b>1,257</b>	<b>1,424</b>
Actuarial gains and losses of defined benefit pension plans and similar obligations .....	-726	229
<b>Income and expenses recognized in equity, not to be reclassified through profit or loss</b> .....	<b>-726</b>	<b>229</b>
Currency translation adjustment .....	-49	260
Fair valuation of financial instruments available for sale .....	19	-193
Income and expenses of investments accounted for using the equity method (pro-rata) .....	-2	0
<b>Income and expenses recognized in equity, to be reclassified through profit or loss in the future</b> .....	<b>-32</b>	<b>67</b>
<b>Other comprehensive income</b> .....	<b>-758</b>	<b>296</b>
<b>Total comprehensive income</b> .....	<b>499</b>	<b>1,720</b>
Of which: attributable to the innogy SE shareholders .....	320	1,576
Of which: attributable to non-controlling interests .....	179	144

<sup>1</sup> Figures stated after taxes

## Balance sheet

Assets € million	30 June 2016	31 Dec 2015	1 Jan 2015
<b>Non-current assets</b>			
Intangible assets . . . . .	11,736	12,178	11,695
Property, plant and equipment . . . . .	17,552	18,308	17,309
Investments accounted for using the equity method . .	2,140	2,137	2,379
Other financial assets . . . . .	581	555	510
Receivables and other assets . . . . .	1,100	3,085	1,951
Deferred taxes . . . . .	2,771	1,972	1,805
	<b>35,880</b>	<b>38,235</b>	<b>35,649</b>
<b>Current assets</b>			
Inventories . . . . .	473	380	491
Trade accounts receivable . . . . .	4,431	4,551	5,708
Receivables and other assets . . . . .	3,436	12,362	11,958
Marketable securities . . . . .	1,905	1,894	1,913
Cash and cash equivalents . . . . .	567	550	475
Assets held for sale . . . . .	11	–	310
	<b>10,823</b>	<b>19,737</b>	<b>20,855</b>
	<b>46,703</b>	<b>57,972</b>	<b>56,504</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
innogy SE shareholders' interests . . . . .	4,280	16,649	16,937
Non-controlling interests . . . . .	1,724	1,811	1,461
	<b>6,004</b>	<b>18,460</b>	<b>18,398</b>
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations . . . . .	4,485	3,461	4,595
Other provisions . . . . .	1,627	1,616	1,887
Financial liabilities . . . . .	17,373	15,291	11,786
Other liabilities . . . . .	2,182	2,428	2,274
Deferred taxes . . . . .	687	904	772
	<b>26,354</b>	<b>23,700</b>	<b>21,314</b>
<b>Current liabilities</b>			
Other provisions . . . . .	2,786	2,545	2,613
Financial liabilities . . . . .	4,142	3,684	4,687
Trade accounts payable . . . . .	3,385	4,553	4,906
Other liabilities . . . . .	4,032	5,030	4,586
	<b>14,345</b>	<b>15,812</b>	<b>16,792</b>
	<b>46,703</b>	<b>57,972</b>	<b>56,504</b>

## Cash flow statement

€ million	Jan-Jun 2016	Jan-Jun 2015
Income	1,257	1,424
Depreciation, amortization, impairment losses/reversals	924	642
Changes in provisions	407	505
Deferred taxes/non-cash income and expenses/income from disposal of non-current assets and marketable securities	-259	-429
Changes in working capital	-1,922	-1,509
<b>Cash flows from operating activities</b>	<b>407</b>	<b>633</b>
Capital expenditures on non-current assets/acquisitions	-593	-680
Proceeds from disposal of assets/divestitures	194	633
Changes in marketable securities and cash investments	5,203	1,507
<b>Cash flows from investing activities<sup>1</sup></b>	<b>4,804</b>	<b>1,460</b>
<b>Cash flows from financing activities</b>	<b>-5,176</b>	<b>-2,009</b>
Net cash change in cash and cash equivalents	35	84
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	-18	12
<b>Net change in cash and cash equivalents</b>	<b>17</b>	<b>96</b>
Cash and cash equivalents at the beginning of the reporting period	550	475
Cash and cash equivalents at the end of the reporting period	567	571
Of which: reported as „assets held for sale“	–	-54
<b>Cash and cash equivalents at the end of the reporting period as per the consolidated balance sheet</b>	<b>567</b>	<b>517</b>

1 After initial/subsequent transfer to pension plans (Jan – Jun 2016: €125 million; Jan – Jun 2015: €466 million)

## Statement of changes in equity

€ million	Subscribed capital and additional paid-in capital of innogy SE	Retained earnings and distributable profit	Accumulated other comprehensive income	innogy SE shareholders' interest	Non-controlling interests	Total
<b>Balance at 1 Jan 2015 . . .</b>	<b>–</b>	<b>17,631</b>	<b>-694</b>	<b>16,937</b>	<b>1,461</b>	<b>18,398</b>
Dividends paid / profit/ loss transfer to owners . .	–	-967	–	-967	-199	-1,166
Income . . . . .	–	1,224	–	1,224	200	1,424
Other comprehensive income . . . . .	–	300	52	352	-56	296
Total comprehensive income . . . . .	–	1,524	52	1,576	144	1,720
Withdrawals/ contributions . . . . .	–	117	–	117	80	197
<b>Balance at 30 Jun 2015 . .</b>	<b>–</b>	<b>18,305</b>	<b>-642</b>	<b>17,663</b>	<b>1,486</b>	<b>19,149</b>
<b>Balance at 1 Jan 2016 . . .</b>	<b>0</b>	<b>17,354</b>	<b>-705</b>	<b>16,649</b>	<b>1,811</b>	<b>18,460</b>
Dividends paid / profit/ loss transfer to owners . .	–	-694	–	-694	-187	-881
Income . . . . .	–	1,080	–	1,080	177	1,257
Other comprehensive income . . . . .	–	-750	-10	-760	2	-758
Total comprehensive income . . . . .	–	330	-10	320	179	499
Withdrawals/ contributions . . . . .	3,412	-15,407	–	-11,995	-79	-12,074
<b>Balance at 30 Jun 2016 . .</b>	<b>3,412</b>	<b>1,583</b>	<b>-715</b>	<b>4,280</b>	<b>1,724</b>	<b>6,004</b>

# Notes

## General information

On 1 December 2015, RWE AG, Essen, Germany, („RWE AG“, the parent company of the RWE Group) announced its plan to bundle the retail, grid and renewables business of the RWE Group into a European stock corporation („Societas Europaea“, SE) and list shares of this stock corporation on a stock exchange. This plan was approved by RWE AG’s Supervisory Board on 11 December 2015.

On 11 December 2015, the RWE AG founded “RWE Downstream Beteiligungs GmbH” as a 100% subsidiary, located in Essen. On the same day, RWE Downstream Beteiligungs GmbH founded RWE Downstream AG, Essen, as its 100% subsidiary. On 11 March 2016, RWE International SE was established by a cross-border merger of the German-based RWE Downstream AG with Essent SPV N.V., ‘s-Hertogenbosch, Netherlands, a Dutch corporation founded especially for the intended foundation of RWE International SE. On 1 September 2016 RWE International SE was renamed to “innogy SE”. For the purpose of these interim consolidated financial statements, the business of innogy SE (formerly RWE International SE) hereinafter is referred to as “innogy” or the “innogy Group”.

The innogy Group composes of certain legal entities from the consolidation scope of the RWE Group. innogy bundles the businesses of the segments “Supply/Distribution Networks Germany”, “Central Eastern and South Eastern Europe”, “Supply Netherlands/Belgium”, “Supply United Kingdom” as well as “Renewables” as presented in the consolidated financial statements of the RWE Group as of and for the year ended 31 December 2015. The legal entities forming the innogy Group were transferred between other RWE Group companies and the innogy Group. The legal reorganization was completed by 30 June 2016. All control agreements as well as profit and loss transfer agreements (“Beherrschungs- und Gewinnabführungsverträge”) between innogy Group companies and RWE AG as well as other RWE Group companies were terminated by mutual agreement by 30 June 2016. On 26 February 2016, RWE entered into a control agreement with innogy SE, which is intended to be terminated immediately prior to the planned initial public offering of the shares of innogy SE.

RWE AG will remain the parent company of the innogy Group. Shares in innogy SE are to be admitted to trading on the regulated market of the Frankfurt Stock Exchange, Germany, while at the same time being admitted to the Prime Standard segment (segment of the official market with additional follow-up requirements for admission).

The interim consolidated financial statements were prepared on 20 September 2016 by the Executive Board of innogy SE, Opernplatz 1, 45128 Essen, Germany.

The operational business of the innogy Group started on 1 April 2016.

## Accounting policies

Pursuant to E.U. Prospectus Regulation No. 809/2004 and E.U. Prospectus Regulation No. 211/2007, innogy SE was required to include in the listing prospectus historical financial information covering the fiscal years 1 January 2013 to 31 December 2013, 1 January 2014 to 31 December 2014 and 1 January 2015 to 31 December 2015. These financial statements were prepared on a combined basis, because the legal reorganization and the transfer of businesses to the innogy Group had not been completed as of 31 December 2015.

The legal reorganization and the transfer of businesses to the innogy Group was completed during the first six months of 2016 up to 30 June 2016. As of this date, innogy SE controls the businesses bundled in the innogy Group within the meaning of IFRS 10. The condensed interim financial statements for the period ended 30 June 2016 are therefore prepared on a consolidated basis. The innogy Group is required to prepare its first annual consolidated financial statements as of 31 December 2016 and for the year then ending in accordance with

IFRS 1. Therefore, the innogy Group presents the first interim consolidated financial statements also in accordance with IFRS 1. The innogy Group does not provide any reconciliation to previous financial statements as the reporting entity did not prepare any previous consolidated financial statements.

innogy applies the predecessor accounting approach with retrospective presentation as accounting policy for business combinations under common control. This means that the assets and liabilities of the businesses included in the consolidated financial statements correspond to the historically reported amounts in the IFRS consolidated financial statements of the RWE Group (predecessor values). Businesses in accordance with IFRS 3 that were transferred from RWE Group to innogy during the legal reorganization that was completed by 30 June 2016 are included in the consolidated financial statements since 1 January 2015 or the later date since when the entities were controlled by RWE Group. The comparative information presented in the interim consolidated financial statements as of 30 June 2016 is labelled as “consolidated” and correspond to the presentation in the combined financial statements.

The interim consolidated financial statements as of 30 June 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the EU. In accordance with IFRS 1.21, innogy presents an opening balance sheet as of 1 January 2015.

In line with IAS 34, the scope of reporting for the presentation of interim consolidated financial statements for the period ended 30 June 2016 was condensed compared to the scope applied to the combined financial statements for the fiscal years 2013, 2014 and 2015. With the exception of the changes and new rules described below, these interim consolidated financial statements were prepared using the accounting policies applied in the combined financial statements. The combined financial statements of innogy SE were published on 30 June 2016 and can be downloaded under [www.innogy.com](http://www.innogy.com).

Provisions for pensions and similar obligations are discounted at an interest rate of 1.5% in Germany and 2.7% abroad (31 December 2015: 2.4% and 3.6%, respectively).

Prior to 1 April 2016, the innogy Group received various services from the RWE Group and was not charged for the services provided. In addition as, for the period prior to 1 April 2016, innogy SE did not have an operating Executive Board nor a Supervisory Board, the Executive Board and Supervisory Board of RWE AG was considered key management personnel of innogy Group. For the service received including key management personnel, the innogy Group recognized allocated expenses that were recorded as a shareholder contribution as a credit to equity. Commencing 1 April 2016, innogy SE entered into various service level agreements and has been charged for the services received. In addition, commencing 1 April 2016, the Executive Board of innogy SE was appointed and either paid by the company or charged based on service level agreements with RWE Group.

## **Changes in accounting policies**

The International Accounting Standards Board (IASB) has approved several amendments to existing International Financial Reporting Standards (IFRSs), which became effective for the innogy Group as of fiscal year 2016:

- Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations” (2014)
- Amendments to IAS 1 “Disclosure Initiative” (2014)
- Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization” (2014)
- Amendments to IAS 16 and IAS 41 “Bearer Plants” (2014)
- Amendments to IAS 27 “Equity Method in Separate Financial Statements” (2014)
- Annual Improvements to IFRSs 2012-2014 Cycle (2014)

- Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions” (2013)
- Annual Improvements to IFRSs 2010-2012 Cycle (2013)

These new policies do not have any material effects on the innogy Group’s consolidated financial statements.

## Scope of consolidation

In addition to innogy SE, the consolidated financial statements contain all material German and foreign companies which innogy SE controls directly or indirectly. Principal associates are accounted for using the equity method, and material joint arrangements are accounted for using the equity method or as joint operations.

The following summaries show the changes in the number of fully consolidated companies, investments accounted for using the equity method and joint ventures. Businesses in accordance with IFRS 3 that were transferred from the RWE Group to innogy during the legal reorganization until 30 June 2016 were included in the scope of the consolidated financial statements since 1 January 2015, the opening balance sheet date of the earliest period presented and are therefore not shown in the first-time consolidations for the first half of 2016:

Number of fully consolidated companies	Germany	Abroad	Total
<b>1 Jan 2016</b> .....	<b>117</b>	<b>140</b>	<b>257</b>
First-time consolidation .....	4	1	5
Deconsolidation .....	-1	–	-1
Mergers .....	-11	-5	-16
<b>30 Jun 2016</b> .....	<b>109</b>	<b>136</b>	<b>245</b>

Number of investments and joint ventures accounted for using the equity method	Germany	Abroad	Total
<b>1 Jan 2016</b> .....	<b>64</b>	<b>16</b>	<b>80</b>
Acquisitions .....	–	–	–
Disposals .....	–	–	–
Other changes .....	–	-1	-1
<b>30 Jun 2016</b> .....	<b>64</b>	<b>15</b>	<b>79</b>

Furthermore, four companies are presented as joint operations.

## Acquisitions, mergers and contributions

During the first six months of 2016, the innogy Group was formed by transferring legal entities between other RWE Group companies and the innogy Group in a legal reorganization process. For these business combinations under common control, the predecessor accounting approach has been applied. This means that the assets and liabilities of the businesses included in the consolidated financial statements correspond to the historically reported amounts in the IFRS consolidated financial statements of the RWE Group (predecessor values). Therefore, no new goodwill was recognized. Any consideration given or received is recognized directly in equity in the line “Withdrawals/contributions” and is recorded in the cash flows from financing activities.

The following transactions took place:

- March 2016: Merger (“Verschmelzung”) of Essent SPV N.V., ‘s-Hertogenbosch, Netherlands and RWE Downstream AG, Essen, Germany. As a result of this merger, innogy SE was established.
- March 2016: Contribution in kind (“Sacheinlage”) of the participation in innogy International Participations N.V. (formerly RWE Gas International N.V.), ‘s-Hertogenbosch, Netherlands, to

RWE Innogy GmbH, Essen, Germany. The participation was transferred to RWE Innogy GmbH against the granting of shares ("Anteilsgewährung") at the amount of €1,000 and the payment of €3,500 million.

- March 2016: Acquisition of RWE Gasspeicher GmbH, Dortmund, Germany, by RWE Innogy GmbH, Essen, Germany, for a purchase price of €470 million.
- March 2016: Contribution ("Einbringung") of RWE IT GmbH, Essen, Germany to innogy SE.
- March 2016: Contribution of GBV Einundzwanzigste Gesellschaft für Beteiligungsverwaltung mbH, which was renamed to GfP Gesellschaft für Pensionsverwaltung mbH, Essen, Germany, to innogy SE.
- April 2016: Merger of RWE Innogy GmbH, Essen, Germany, and innogy SE. As a consideration, 5.1% of the shares of innogy SE were granted to RWE AG and 94.9 % to RWE Downstream Beteiligungs GmbH.
- April 2016: Merger of RWE Effizienz GmbH, Dortmund, Germany, and innogy SE.
- April 2016: Merger of RWE Vertrieb AG, Dortmund, Germany, and innogy SE.
- April 2016: Contribution of the participation in RWE Deutschland AG, Essen, Germany, to innogy SE. As a consideration, innogy SE granted to the former shareholders RWE AG and RWE Downstream Beteiligungs GmbH 121 and 879 new shares respectively at the nominal amount of €1.
- April 2016: Acquisition of RWE Npower Group plc, Swindon, United Kingdom, by innogy International Participations N.V. for a purchase price of £1,438 million.
- May 2016: Merger of GBV Zweiundzwanzigste Gesellschaft für Beteiligungsverwaltung mbH, Essen, Germany, and innogy SE.
- May 2016: Acquisition of RWE Group Business Services Polska Sp. z.o.o., Krakow, Poland, by innogy SE for a purchase price of €6 million.
- May 2016: Merger of RWE Energiedienstleistungen GmbH, Dortmund, Germany, and innogy SE.
- May 2016: Contribution in kind of the following entities to innogy SE:
  - RWE East s.r.o., Prague, Czech Republic
  - RWE Hrvatska d.o.o., Zagreb, Croatia
  - RWE Polska S.A., Warsaw, Poland
  - RWE Polska Generation Sp.z.o.o., Warsaw, Poland
  - RWE Slovensko s.r.o., Bratislava, Slovakia
  - RWE New Energy Ltd., Dubai, United Arab Emirates
  - RWE New Ventures LLC, Wilmington, USA
  - MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale), Germany
  - SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus, Germany
  - Pfalzwerke AG, Ludwigshafen, Germany
  - easyOptimize GmbH, Essen, Germany
  - RWE-EnBW Magyarorszag Energiaszolgaltato Kft., Budapest, Hungary

The portfolio of these entities was transferred to innogy SE against the granting of shares ("Anteilsgewährung") at the amount of €1,000.
- May 2016: Contribution of the following entities to innogy SE:
  - Budapesti Elektromos Művek Nyrt., Budapest, Hungary
  - enviaM Beteiligungsgesellschaft mbH, Chemnitz, Germany

- envia Mitteldeutsche Energie AG, Chemnitz, Germany
- Eszak-magyarorszag Aramszolgálató Nyrt., Miskolc, Hungary
- Kärntner Energieholding Beteiligungs GmbH, Klagenfurt, Austria
- KELAG-Kärntner Elektrizitäts-AG, Klagenfurt, Austria
- Lechwerke AG, Augsburg, Germany
- VSE AG, Saarbrücken, Germany
- Vychodoslovenska energetika Holding a.s., Košice, Slovakia

The portfolio of these entities was transferred to innogy SE against the granting of shares at the amount of €1,000 and the payment of €3,923 million.

- May 2016: Contribution of 77.58% of the shares of Süwag Energie AG, Frankfurt am Main, Germany, to innogy SE against the granting of shares at the amount of €1,000. innogy SE has recognized the shares in Süwag Energie AG at the amount of €350 million.
- May 2016: Contribution of 51.0% of the shares of RL Beteiligungsverwaltung mit beschränkter Haftung oHG, Gundremmingen, Germany, to innogy SE.
- May 2016: Contribution of RWE Consulting GmbH, Essen, Germany, to innogy SE.
- May 2016: Acquisition of 1% of the shares of RWE Slovensko s.r.o., Bratislava, Slovakia, by innogy International Participations N.V.
- June 2016: Acquisition of 49% of the shares of RWE Power International Middle East, Dubai, United Arab Emirates, by RWE Consulting GmbH for a purchase price of €31,220.
- June 2016: Gain of control of RWE Rheinhessen Beteiligungsgesellschaft mbH, Essen, Germany by contractual agreement.
- June 2016: Acquisition of RWE Benelux Holding B.V., 's-Hertogenbosch, Netherlands, by innogy International Participations N.V. for a purchase price of €1,256 million.
- June 2016: Contribution of RWE Aqua GmbH, Mülheim an der Ruhr, Germany, to innogy SE against the granting of shares at the amount of €5,000.
- June 2016: Acquisition of RWE SWITCH GmbH, Essen, Germany, by innogy SE for a purchase price of €25,000.
- June 2016: Acquisition of RWE Gastronomie GmbH, Essen, Germany, by innogy SE for a purchase price of €275,000.

Moreover, 19.99% of the shares of Dii GmbH, München, Germany, were contributed to innogy SE in May 2016.

In July 2015, innogy gained control of WestEnergie GmbH, an investment that had previously been accounted for using the equity method, due to the expiry of a renouncement of a voting right. The company primarily operates electricity and gas distribution networks. During the measurement period an update of the amounts recognized at first-time consolidation and as of 31 March 2016 resulted in the following assumed assets and liabilities:

Balance-sheet items € million	IFRS carrying amounts (fair values) at first-time consolidation
Non-current assets . . . . .	152
Current assets . . . . .	24
Non-current liabilities . . . . .	31
Current liabilities . . . . .	57
<b>Net assets . . . . .</b>	<b>88</b>
Non-controlling interests . . . . .	-1
<b>Cost (not affecting cash) . . . . .</b>	<b>87</b>

The fair value of the old shares amounted to €87 million. The measurement of non-controlling interests was based on the pro-rated net assets of the company at first-time consolidation. The fair value of the receivables included in non-current and current assets amounted to €24 million.

### **Assets and disposal groups held for sale**

#### **Zephyr**

In June 2016 the Executive Boards of RWE AG and innogy SE approved the sale of a 33.3% share in the associate Zephyr Investments Limited (Zephyr) and the related shareholder loans. The associate is assigned to the Renewables Segment. The transaction was closed end of July 2016.

### **Impairments**

In the first half of 2016, impairments of €204 million were recognized for the gas storage facilities of the Grid and Infrastructure Segment (recoverable amount: €0.1 billion), primarily due to changes in price expectations. The fair value less costs to sell was determined using a company valuation model based on cash flow budgets and an after-tax discount rate of 5.25%.

### **Provisions for pensions and similar obligations**

In Germany, as a result of contractual agreements between RWE AG and innogy Group, RWE AG had released innogy companies in the past for parts of the underlying pension obligations, whereby innogy companies' right of recourse was limited to the local GAAP obligation. In the combined financial statements of innogy Group as of 31 December 2015 and 1 January 2015, these contractual agreements resulted in the allocation of plan assets and the recognition of reimbursement rights against RWE AG. This contractual agreement has been cancelled as planned during the six-month period ended 30 June 2016 and plan assets have been transferred to innogy companies. In addition, the right of recourse of innogy Group against RWE AG has been redeemed against a cash payment. As the allocated amounts correspond to the transferred amounts, there has been no additional effect on the consolidated financial statements.

### **Financial liabilities**

A fifteen-year bond with a carrying amount of €850 million and a coupon of 6.25% p. a. fell due in April 2016.

On 13 June 2016, innogy SE and RWE AG entered into fifteen separate Loan Agreements under which RWE AG granted loans to innogy SE in the total principal amount of €5,257 million, US\$50 million, £350 million and JPY20 billion. Furthermore, innogy SE entered into derivative hedging contracts with RWE AG to convert the before mentioned US\$ and JPY-denominated loans economically into €. Moreover, innogy SE as borrower and RWE AG as lender entered on 13 June 2016 into an Revolving Facility Agreement which provides for a revolving facility in an aggregate amount of €1 billion with a term ending on 31 December 2018. Loans under the facility may be drawn for interest periods of one, two, three or six months or any other period agreed between innogy SE and RWE AG. In addition on 29 June 2016 Finance B.V. has acceded as additional borrower to the Revolving Facility Agreement between RWE AG and certain financial institutions.

In the context of the legal reorganization, innogy Group redeemed early non-current loans of €1,942 million for a payment of €2,062 million, which represented the fair value at the date of the transaction. This transaction was settled using the cash pooling accounts with RWE Group. The difference of €120 million was recorded as interest expense.

### **Earnings per share**

Basic and diluted earnings per share are calculated by dividing the portion of net income attributable to innogy shareholders by the average number of shares outstanding; treasury shares are not taken into account in this calculation. For the six-month period ended 30 June

2016, the calculation was adjusted for the reduction of the number of shares of innogy SE from 1,000,000,000 to 500,000,000 common shares that occurred on 27 July 2016. As innogy did not exist as a separate Group before December 2015 and the capital structure was not finalized in fiscal year 2015, no earnings per share are shown for the comparative period.

		Jan-Jun 2016	Jan-Jun 2015
Net income/Income attributable to innogy SE shareholders . . . .	€ million	1,080	–
Number of shares outstanding (weighted average) . . . . .	Thousands	202,812	–
Basic and diluted earnings per share . . . . .	€	5.33	–

## Equity

As of 30 June 2016, the subscribed capital of innogy SE composes of 999,995,000 common shares (31 December 2015: 120,000 shares, 1 January 2015: 0 shares) with a carrying amount of €1,000 million (31 December 2015: €0.1 million, 1 January 2015: €– million). The common shares are registered shares with no par value.

During the first half of 2016, withdrawals and contributions contained primarily cash withdrawals and contributions from RWE AG as a result of various transactions in connection with the legal reorganization of –€12,751 million (first half of 2015: €13 million), adjustments from overhead cost allocations until 31 March 2016 of €24 million (first half of 2015: €52 million), adjustments as a result from the application of the separate tax return approach of €712 million (first half of 2015: €18 million) and other stand-alone adjustments of €18 million (first half of 2015: €31 million).

The various transactions with RWE AG in connection with the legal reorganization include payments for acquired businesses of €10,998 million to RWE Group (see “Acquisitions, mergers and contributions”), withdrawals of receivables and other assets against entities of RWE Group of €4,370 million and contributions of €2,617 million. These transactions were settled using the cash pooling accounts with RWE Group and therefore resulted in a decrease of receivables and other assets and an increase in financial liabilities.

During the reporting periods presented, withdrawals and contributions of non-controlling interests related to other transactions.

## Segment reporting

For the six-month period ended 30 June 2016, the segment reporting is based on the internal reporting to the chief operating decision maker of the innogy Group from the beginning of the operational business of the Group on 1 April 2016. The internal reporting and management is based on regional and functional principles. The Group is divided into seven operating segments.

In the operating segments “Grid and Infrastructure Germany” and “Grid and Infrastructure Eastern Europe”, the German electricity and gas distribution networks as well as the distribution networks in Central Eastern and South Eastern Europe are reported. The operating segments show similar economic characteristics. They are responsible for the planning, operation and maintenance as well as for the development and reconstruction of the distribution networks. Due to EU directives and regulations, the regulatory environment which is the key value driver for the financial performance of the segments is comparable. The operating segments are therefore combined to the reportable segment “Grid and Infrastructure”. This segment also includes non-controlling interests like the Austria-based KELAG as well as other infrastructure, in particular gas storages and water supply.

The operating segments “Retail Germany”, “Retail United Kingdom”, “Retail Netherlands/Belgium” and “Retail Eastern Europe” are in charge of the supply of electricity, gas, heat and energy services to B2B and B2C customers in Germany, the Netherlands and Belgium, the United

Kingdom as well as Central Eastern and South Eastern Europe. They have comparable processes and organizations e.g. for sourcing, portfolio management, customer acquisition and customer care. Business fundamentals show high similarity due to EU legislation and EU market integration. Value drivers are the same, financial performance is influenced by the same factors such as competitive intensity. As the operating segments therefore show similar economic characteristics, they are combined to the reportable segment "Retail".

The segment "Renewables" covers the generation of electricity from wind (onshore and offshore), water and – to a limited extent – biomass with the major activities in Germany, the United Kingdom, the Netherlands, Spain and Poland.

"Other, consolidation" covers consolidation effects, innogy SE and the activities of other business areas which are not presented separately. These activities include the internal group services provided by RWE IT and RWE Consulting.

Segment reporting Jan-Jun 2016 € million	Grid and Infrastructure	Retail	Renewables	Other, consolidation	innogy Group
<b>External revenue (incl. natural gas tax/electricity tax) . . . . .</b>	<b>5,632</b>	<b>16,668</b>	<b>396</b>	<b>84</b>	<b>22,780</b>
Intra-group revenue . . . . .	1,605	343	179	-2,127	–
Total revenue . . . . .	7,237	17,011	575	-2,043	22,780
EBITDA . . . . .	1,357	746	376	-94	2,385
<b>Operating result . . . . .</b>	<b>916</b>	<b>640</b>	<b>219</b>	<b>-109</b>	<b>1,666</b>

Segment reporting Jan-Jun 2015 € million	Grid and Infrastructure	Retail	Renewables	Other, consolidation	innogy Group
<b>External revenue (incl. natural gas tax/electricity tax) . . . . .</b>	<b>5,054</b>	<b>17,982</b>	<b>334</b>	<b>88</b>	<b>23,458</b>
Intra-group revenue . . . . .	1,262	395	223	-1,880	–
Total revenue . . . . .	6,316	18,377	557	-1,792	23,458
EBITDA . . . . .	1,373	685	371	-97	2,332
<b>Operating result . . . . .</b>	<b>956</b>	<b>616</b>	<b>234</b>	<b>-115</b>	<b>1,691</b>

Revenue between the segments is reported as innogy intra-group revenue. Internal supply of goods and services is settled at arm's lengths conditions. The operating result is used for internal management. The following table presents the reconciliation of the EBITDA and operating result to income before tax:

Reconciliation of income items € million	Jan-Jun 2016	Jan-Jun 2015
<b>EBITDA . . . . .</b>	<b>2,385</b>	<b>2,332</b>
– Operating depreciation and amortization . . . . .	-719	-641
<b>Operating result . . . . .</b>	<b>1,666</b>	<b>1,691</b>
+ Non-operating result . . . . .	399	195
+ Financial result . . . . .	-452	-19
<b>Income before tax . . . . .</b>	<b>1,613</b>	<b>1,867</b>

Income and expenses that are unusual from an economic perspective, or stem from exceptional events, prejudice the assessment of operating activities. They are reclassified to the non-operating result. Typically, the non-operating result can include book gains or losses from the disposal of investments or non-current assets not required for operations, impairment of the goodwill of fully consolidated companies, as well as effects of the fair valuation of certain derivatives.

The non-operating result increased from €195 million during the six-month period ended 30 June 2015 by €204 million to €399 million during the six-month period ended 30 June 2016. This increase was largely due to increased gains resulting from the fair valuation of derivatives amounting to €213 million. Furthermore, a gain from the settlement of the gas storage contract with RWE Supply & Trading amounting to €250 million was mostly offset by impairments for the gas storage facilities of the Grid and Infrastructure Segment amounting to -€204 million.

**Seasonality.** Whereas the economic trend primarily impacts on demand for energy among industrial enterprises, residential energy consumption is influenced more by weather conditions. The lower the outside temperatures, the more energy is needed for heating purposes. This leads to seasonal fluctuations in sales volume and earnings. Weather-related effects can also be of significance when comparing various fiscal years to one another. In the first six months of 2016 mild weather conditions prevailed throughout nearly the whole of Europe.

In the key markets of innogy the temperatures were above the ten-year seasonal average.

In addition to energy consumption, electricity generation is also subject to weather-related influences, with wind levels playing a major role. In the first half of 2016, the utilisation of our wind turbines in Germany, the United Kingdom, the Netherlands and Poland was generally lower than in 2015, whereas it was higher in Spain and Italy. Electricity production by our run-of-river power plants is affected by precipitation levels, which in Germany were up on the first half of last year. Sunshine also has a significant impact on the supply of electricity, not least due to the considerable rise in German photovoltaic capacity in accordance with the Renewable Energy Act. Based on figures published by Germany's National Meteorological Service, the country had an average of 752 hours of sunshine in the first six months of 2016, compared to 863 a year earlier.

## Reporting on financial instruments

Financial instruments are divided into non-derivative and derivative. Non-derivative financial assets essentially include other financial assets, accounts receivable, marketable securities as well as cash and cash equivalents. Financial instruments in the category "Available for sale" are recognized at fair value, and other non-derivative financial assets at amortized cost. On the liabilities side, non-derivative financial instruments principally include liabilities recorded at amortized cost.

The fair value of financial instruments "Available for sale" which are reported under other financial assets and securities is the published exchange price, insofar as the financial instruments are traded on an active market. The fair value of non-quoted debt and equity instruments is determined on the basis of discounted expected payment flows. Current market interest rates corresponding to the remaining maturity or maturity are used for discounting.

Derivative financial instruments are recognized at fair values as of the balance-sheet date, insofar as they fall under the scope of IAS 39. Exchange-traded products are measured using the published closing prices of the relevant exchange. Non-exchange traded products are measured on the basis of publicly available broker quotations or, if such quotations are not available, of generally accepted valuation methods. In doing so, the innogy Group draws on prices on active markets as much as possible. If such are not available, company-specific planning estimates are used in the measurement process. These estimates encompass market factors which other market participants would take into account in the course of price determination. Assumptions pertaining to the energy sector and economy are made within the scope of a comprehensive process conducted by an independent team with the involvement of both in-house and external experts.

Measurement of the fair value of a group of financial assets and financial liabilities is conducted on the basis of the net risk exposure per business partner, in accordance with IFRS 13.48.

As a rule, the carrying amounts of financial assets and liabilities subject to IFRS 7 are identical with their fair values. For financial liabilities, the only deviations are for bonds, bank debt and

other financial liabilities. Their carrying amounts totaled €21,515 million (31 December 2015: €18,975 million, 1 January 2015: €16,473 million) and their fair values totaled €23,382 million (31 December 2015: €20,234 million, 1 January 2015: €18,556 million). For financial assets, deviations between carrying amounts and market values predominantly stem from financial receivables due from RWE companies. As of 30 June 2016, the carrying amount of these was €1,868 million (31 December 2015: €12,636 million, 1 January 2015: €11,774 million), while the fair value amounted to €1,862 million (31 December 2015: €12,728 million, 1 January 2015: €11,849 million).

The following overview presents the main classifications of financial instruments measured at fair value in the fair value hierarchy prescribed by IFRS 13. In accordance with IFRS 13, the individual levels of the fair value hierarchy are defined as follows:

- Level 1: Measurement using (unadjusted) prices of identical financial instruments formed in active markets
- Level 2: Measurement on the basis of input parameters which are not the prices from level 1, but which can be observed for the financial instrument either directly (i.e. as price) or indirectly (i.e. derived from prices)
- Level 3: Measurement using factors which cannot be observed on the basis of market data.

Fair value hierarchy € million	Total 30 Jun 2016				Total 31 Dec 2015				Total 1 Jan 2015			
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Other financial assets .....	581	42	24	515	555	43	27	485	510	39	33	438
Derivatives (assets) .....	1,110	1	1,109	–	1,518	0	1,491	27	939	0	908	31
of which: used for hedging purposes ..	160	–	160	–	18	–	18	–	17	–	17	–
Securities .....	1,905	1,905	0	–	1,894	1,894	0	–	1,913	1,913	0	–
Derivatives (liabilities) .....	1,308	0	1,308	–	2,090	0	2,060	30	1,620	0	1,620	0
of which: used for hedging purposes ..	114	–	114	–	1	–	1	–	0	–	0	–

The development of the fair values of level 3 financial instruments is presented in the following table:

Level 3 financial instruments:		Changes in the scope of consolidation, currency adjustments and other	Changes		Balance at 30 Jun 2016
Development in 2016 € million	Balance at 1 Jan 2016		Recognized in profit or loss	With a cash effect	
Other financial assets . . . . .	485	31	3	-4	515
Derivatives (assets) . . . . .	27	–	–	-27	–
Derivatives (liabilities) . . . . .	30	–	–	-30	–

Level 3 financial instruments: Development in 2015 € million	Balance at 1 Jan 2015	Changes in the scope of consolidation, currency adjustments and other	Changes		Balance at 30 Jun 2015
			Recognized in profit or loss	With a cash effect	
Other financial assets . . . . .	438	9	4	-8	443
Derivatives (assets) . . . . .	31	–	4	-31	4
Derivatives (liabilities) . . . . .	0	–	15	0	15

Amounts recognized in profit or loss generated through level 3 financial instruments were recognized in the following line items in the income statement:

Level 3 financial instruments: Amounts recognized in profit or loss € million	Total Jan-Jun 2016	Of which: attributable to financial instruments held at the balance-sheet date	Total Jan-Jun 2015	Of which: attributable to financial instruments held at the balance-sheet date
Revenue . . . . .	–	–	4	4
Cost of materials . . . . .	–	–	-15	-15
Other operating income/ expenses . . . . .	4	4	5	5
Income from investments . . . . .	-1	-1	-1	-1
Financial income/ financial costs . . . . .	0	–	–	–
	<b>3</b>	<b>3</b>	<b>-7</b>	<b>-7</b>

Level 3 derivative financial instruments essentially consist of weather derivatives for the hedging of fluctuations in customer demand due to changing temperature patterns. The valuation of such depends on the development of the temperature in particular. All other things being equal, rising temperatures cause the fair values to increase and vice-versa. Assumptions that the future for the remaining contractual period of the derivatives will deviate from the historically observed long-term average temperatures can only be made for very short periods. Therefore the fair values are primarily determined on the basis of temperatures actually measured over the contractual period of the derivatives already elapsed.

## Related party disclosures

The innogy Group classifies the parent company RWE AG and its subsidiaries, associates and joint ventures as well as associates and joint ventures of the innogy Group as its related parties.

Business and finance transactions were concluded with RWE AG, its subsidiaries, associates and joint ventures as well as with major associates and joint ventures of the innogy Group, resulting in the following items in innogy's interim consolidated financial statements:

Key items from transactions with related parties  € million	RWE AG		Subsidiaries, associates and joint ventures of RWE Group		Associates of innogy Group		Joint ventures of innogy Group	
	Jan-Jun 2016	Jan-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
Income . . . . .	208	38	3,204	2,728	48	112	2	9
Expenses . . . . .	575	877	8,604	10,102	16	24	–	–

Key items from transactions with related parties	Subsidiaries, associates and joint ventures of RWE Group											
	RWE AG			Subsidiaries, associates and joint ventures of RWE Group			Associates of innogy Group			Joint ventures of innogy Group		
	30 Jun 2016	31 Dec 2015	1 Jan 2015	30 Jun 2016	31 Dec 2015	1 Jan 2015	30 Jun 2016	31 Dec 2015	1 Jan 2015	30 Jun 2016	31 Dec 2015	1 Jan 2015
€ million												
Receivables . . . .	1,365	5,063	5,178	503	7,147	6,684	32	56	31	95	86	102
Liabilities . . . . .	9,219	5,405	11,202	827	1,505	6,660	3	4	2	–	11	32

In addition to the amounts presented in the table above, during the period ended 30 June 2016, the innogy Group recorded contributions and withdrawals from RWE Group companies of - €11,995 million (first half of 2015: €117 million) directly in equity.

The key items with related parties mainly stem from supply and service as well as financial transactions with RWE Group companies. During the first half of 2016, the innogy Group was largely financed by the RWE Group and invested excess liquidity with RWE AG or RWE Group companies using the RWE Group's cash pooling and cash management system. As of 30 June 2016, receivables include loans and financial receivables to the RWE Group at the amount of €1,347 million (31 December 2015: €11,613 million, 1 January 2015: €10,859 million). As of 30 June 2016, loans and financial liabilities to the RWE Group amounted to €9,162 million (31 December 2015: €5,140 million, 1 January 2015: €15,698 million).

innogy Group companies entered into contracts with RWE Group companies, in particular RWE Supply & Trading, to purchase or supply commodities, mainly electricity and gas. In addition, services were provided from RWE Group companies to the innogy Group as well as from the innogy Group to RWE Group companies based on service level agreements. During the period ended 30 June 2016, supply transactions/services and other transactions led to income in the amount of €2,884 million and €423 million, respectively (first half of 2015: €2,638 million and €21 million, respectively) and expenses of €8,520 million and €485 million, respectively (first half of 2015: €9,974 million and €925 million, respectively). During the period ended 30 June 2016, finance transactions led to income in the amount of €105 million (first half of 2015: €106 million) and expenses of €174 million (first half of 2015: €80 million).

All transactions were completed at arm's length conditions, i.e. on principle the conditions of these transactions did not differ from those with other enterprises. As of 30 June 2016, €1,935 million of the receivables (31 December 2015: €10,903 million, 1 January 2015: €11,200 million) and €4,343 million of the liabilities (31 December 2015: €3,918 million, 1 January 2015: €6,603 million) fall due within one year. As of 30 June 2016, other obligations from executory contracts amounted to €25,605 million (31 December 2015: €23,578 million, 1 January 2015: €29,044 million).

Above and beyond this, the innogy Group did not execute any material transactions with related companies or persons.

## Events after the balance sheet date

In the period between 30 June 2016 and the date when the interim consolidated financial statements were authorized for issue by the Executive Board of innogy SE (20 September 2016), the following material events occurred:

In connection with the separation of the innogy Group from the former RWE Group, in order to establish a separate pension scheme, RWE AG, innogy SE and certain of the innogy Group UK companies arranged for a ring-fencing of the former RWE Group's pension obligations and plan assets under the group of certain UK subsidiaries of the former RWE Group into legally separate sub-sections in a ratio of 70% (innogy Group) to 30% (RWE Group). The sectionalizing was decided in July 2016 and is effective as of 31 July 2016. The resulting adjustment in favour of innogy amounted to a single-digit million £ amount.

In July 2016, RWE AG contributed receivables at the amount of €1,009 million, which result from loans granted by RWE AG to innogy SE in June 2016, to innogy SE. This contribution in kind as well as a cash contribution of RWE AG to innogy SE at the amount of €900 million were included in additional paid-in capital of innogy SE.

On 11 July 2016, the number of shares of innogy SE was increased by 5,000 new registered shares from 999,995,000 to 1,000,000,000 common shares.

On 27 July 2016, the number of shares of innogy SE was reduced from 1,000,000,000 to 500,000,000 common shares. The carrying amount of the subscribed capital remains unchanged at €1,000 million. Simultaneously, the shares were converted from registered shares to ordinary bearer shares.

At the end of July 2016 the sale of a 33.3% share in the associate Zephyr Investments Limited (Zephyr) and the related shareholder loans was closed.

At the end of August 2016 innogy signed a contract to acquire the German solar and battery specialist BELECTRIC Solar & Battery Holding GmbH. innogy and BELECTRIC Holding GmbH have agreed a purchase price in a high double-digit million euro range. The transaction is subject to approval by the anti-trust authorities and reorganizational measures. Closing of the transaction is intended to take place in early 2017.

On 7 September 2016, notice was provided to terminate the control agreement between innogy SE and RWE with effect as from the end of 30 September 2016.

On 9 September 2016 innogy International Participations N.V. paid an amount of £36 million as an adjustment to the purchase price of Npower Group plc. The initial purchase price amounted to £1,438 million in April 2016 (see "Acquisitions, mergers and contributions"). The purchase price was adjusted to reflect the difference between Npower Group plc's pension liability according to IAS 19 (i) already reflected in the initial purchase price and (ii) actually allocated to Npower Group plc after the sale (both calculated as of 31 December 2015).

**26.2 Audited Combined Financial Statements of the RWE  
International Group Prepared by RWE International SE in  
Accordance with IFRS as of and for the Financial Years  
Ended December 31, 2015, 2014 and 2013**

**Combined financial statements of the RWE International  
Group for the years ended 31 December 2015, 2014 and  
2013**

## Income Statement

€ million	Note	2015	2014	2013
<b>Revenue (including natural gas tax/electricity tax) . . . .</b>	(1)	<b>45,568</b>	<b>45,681</b>	<b>48,589</b>
Natural gas tax/electricity tax . . . . .	(1)	2,112	2,175	2,560
<b>Revenue . . . . .</b>	(1)	<b>43,456</b>	<b>43,506</b>	<b>46,029</b>
Other operating income . . . . .	(2)	1,104	986	1,205
Cost of materials . . . . .	(3)	34,760	35,160	37,429
Staff costs . . . . .	(4)	2,736	2,754	2,900
Depreciation, amortization and impairment losses . . . .	(5), (10), (11)	1,634	1,439	2,150
Other operating expenses . . . . .	(6)	2,823	2,763	3,028
Income from investments accounted for using the equity method . . . . .	(7), (12)	228	234	215
Other income from investments . . . . .	(7)	265	166	70
Financial income . . . . .	(8)	578	445	406
Finance costs . . . . .	(8)	880	1,000	973
<b>Income before tax . . . . .</b>		<b>2,798</b>	<b>2,221</b>	<b>1,445</b>
Taxes on income . . . . .	(9)	860	523	551
<b>Income . . . . .</b>		<b>1,938</b>	<b>1,698</b>	<b>894</b>
of which: non-controlling interests . . . . .		325	231	230
<b>of which: net income/income attributable to the owners of the RWE International Group . . . . .</b>		<b>1,613</b>	<b>1,467</b>	<b>664</b>

## Statement of comprehensive income<sup>1</sup>

€ million	Note	2015	2014	2013
<b>Income</b> .....		<b>1,938</b>	<b>1,698</b>	<b>894</b>
Actuarial gains and losses of defined benefit pension plans and similar obligations .....		359	-837	194
Income and expenses of investments accounted for using the equity method (pro-rata) .....	(12)	-71	7	-69
<b>Income and expenses recognized in equity, not to be reclassified through profit or loss</b> .....		<b>288</b>	<b>-830</b>	<b>125</b>
Currency translation adjustment .....	(21)	177	52	-360
Fair valuation of financial instruments available for sale .....	(28)	-184	58	47
Income and expenses of investments accounted for using the equity method (pro-rata) .....	(12), (21)	4	11	26
<b>Income and expenses recognized in equity, to be reclassified through profit or loss in the future</b> .....		<b>-3</b>	<b>121</b>	<b>-287</b>
<b>Other comprehensive income</b> .....		<b>285</b>	<b>-709</b>	<b>-162</b>
<b>Total comprehensive income</b> .....		<b>2,223</b>	<b>989</b>	<b>732</b>
of which: attributable to the owners of the RWE International Group .....		1,957	744	625
of which: attributable to non-controlling interests .....		266	245	107

1 Figures stated after taxes

## Balance sheet

<b>Assets</b>				
€ million	Note	31 Dec 2015	31 Dec 2014	31 Dec 2013
<b>Non-current assets</b>				
Intangible assets	(10)	12,178	11,695	11,598
Property, plant and equipment	(11)	18,308	17,309	16,980
Investments accounted for using the equity method	(12)	2,137	2,379	2,404
Other non-current financial assets	(13)	555	510	478
Financial receivables	(14)	2,211	1,458	1,139
Other receivables and other assets	(15)	866	477	383
Income tax assets		8	16	28
Deferred taxes	(16)	1,972	1,805	1,417
		<b>38,235</b>	<b>35,649</b>	<b>34,427</b>
<b>Current assets</b>				
Inventories	(17)	380	491	444
Financial receivables	(14)	10,425	10,316	8,973
Trade accounts receivable	(18)	4,551	5,708	7,086
Other receivables and other assets	(15)	1,816	1,478	1,184
Income tax assets		121	164	173
Marketable securities	(19)	1,894	1,913	1,702
Cash and cash equivalents	(20)	550	475	824
Assets held for sale		–	310	–
		<b>19,737</b>	<b>20,855</b>	<b>20,386</b>
		<b>57,972</b>	<b>56,504</b>	<b>54,813</b>
<b>Equity and liabilities</b>				
€ million	Note	31 Dec 2015	31 Dec 2014	31 Dec 2013
<b>Equity</b>				
Total invested equity attributable to the owners of the RWE International Group	(21)	16,649	16,937	15,654
Non-controlling interests		1,811	1,461	1,335
		<b>18,460</b>	<b>18,398</b>	<b>16,989</b>
<b>Non-current liabilities</b>				
Provisions for pensions and similar obligations	(23)	3,461	4,595	3,582
Other provisions	(24)	1,616	1,887	2,038
Financial liabilities	(25)	15,291	11,786	13,633
Other liabilities	(27)	2,428	2,274	2,186
Deferred taxes	(16)	904	772	820
		<b>23,700</b>	<b>21,314</b>	<b>22,259</b>
<b>Current liabilities</b>				
Other provisions	(24)	2,545	2,613	2,816
Financial liabilities	(25)	3,684	4,687	2,872
Trade accounts payable	(26)	4,553	4,906	5,357
Income tax liabilities		199	194	181
Other liabilities	(27)	4,831	4,392	4,339
		<b>15,812</b>	<b>16,792</b>	<b>15,565</b>
		<b>57,972</b>	<b>56,504</b>	<b>54,813</b>

## Cash flow statement

€ million	Note (31)	2015	2014	2013
Income		1,938	1,698	894
Depreciation, amortization, impairment losses/reversals		1,640	1,451	2,150
Changes in provisions		-234	-133	405
Changes in deferred taxes		-77	-73	-65
Income from disposal of non-current assets and marketable securities		-623	-351	-293
Other non-cash income/expenses		-99	311	225
Changes in working capital		210	74	342
<b>Cash flows from operating activities</b>		<b>2,755</b>	<b>2,977</b>	<b>3,658</b>
Intangible assets/property, plant and equipment				
Capital expenditures		-2,025	-2,059	-2,297
Proceeds from disposal of assets		663	237	337
Acquisitions, investments				
Capital expenditures		-99	-82	-177
Proceeds from disposal of assets/divestitures		300	276	291
Changes in marketable securities and cash investments		655	-1,547	-641
<b>Cash flows from investing activities (before initial/subsequent transfer to pension plans)</b>		<b>-506</b>	<b>-3,175</b>	<b>-2,487</b>
Initial/subsequent transfer to pension plans		-596	-510	-67
<b>Cash flows from investing activities (after initial/subsequent transfer to pension plans)</b>		<b>-1,102</b>	<b>-3,685</b>	<b>-2,554</b>
Net changes in equity (incl. non-controlling interests)		-178	1,474	1,305
Dividends paid		-1,017	-486	-1,357
Issuance of financial debt		8,982	7,305	10,891
Repayment of financial debt		-9,380	-7,944	-11,843
<b>Cash flows from financing activities</b>		<b>-1,593</b>	<b>349</b>	<b>-1,004</b>
Net cash changes in cash and cash equivalents		60	-359	100
Effects of changes in foreign exchange rates of the reporting period as per the combined balance sheet		15	10	-3
<b>Net change in cash and cash equivalents</b>		<b>75</b>	<b>-349</b>	<b>97</b>
Cash and cash equivalents at beginning of the reporting period as per the combined balance sheet		475	824	727
<b>Cash and cash equivalents at the end of the reporting period as per the combined balance sheet</b>		<b>550</b>	<b>475</b>	<b>824</b>

## Statement of changes in invested equity

Statement of changes in equity € million Note (21)	Invested equity attributable to the owners of the RWE International Group	Accumulated other comprehensive income		Total invested equity attributable to the owners of the RWE Inter- national Group	Non- controlling interests	Total
		Currency translation adjustment	Fair value measure- ment of financial instruments available for sale			
<b>Balance at 1 Jan 2013</b> . . . . .	<b>15,151</b>	<b>-670</b>	<b>99</b>	<b>14,580</b>	<b>1,327</b>	<b>15,907</b>
Dividends paid/ profit/loss transfer to owners . . . . .	-668	–	–	-668	-170	-838
Income . . . . .	664	–	–	664	230	894
Other comprehensive income . . . . .	202	-306	65	-39	-123	-162
Total comprehensive income . . . . .	866	-306	65	625	107	732
Withdrawals/contributions . .	1,117	–	–	1,117	71	1,188
<b>Balance at 31 Dec 2013</b> . . . . .	<b>16,466</b>	<b>-976</b>	<b>164</b>	<b>15,654</b>	<b>1,335</b>	<b>16,989</b>
Dividends paid/ profit/loss transfer to owners . . . . .	-781	–	–	-781	-235	-1,016
Income . . . . .	1,467	–	–	1,467	231	1,698
Other comprehensive income . . . . .	-841	62	56	-723	14	-709
Total comprehensive income . . . . .	626	62	56	744	245	989
Withdrawals/contributions . .	1,320	–	–	1,320	116	1,436
<b>Balance at 31 Dec 2014</b> . . . . .	<b>17,631</b>	<b>-914</b>	<b>220</b>	<b>16,937</b>	<b>1,461</b>	<b>18,398</b>
Dividends paid/ profit/loss transfer to owners . . . . .	-960	–	–	-960	-227	-1,187
Income . . . . .	1,613	–	–	1,613	325	1,938
Other comprehensive income . . . . .	355	134	-145	344	-59	285
Total comprehensive income . . . . .	1,968	134	-145	1,957	266	2,223
Withdrawals/contributions . .	-1,285	–	–	-1,285	311	-974
<b>Balance at 31 Dec 2015</b> . . . . .	<b>17,354</b>	<b>-780</b>	<b>75</b>	<b>16,649</b>	<b>1,811</b>	<b>18,460</b>

# Notes

## General information

On 1 December 2015 RWE AG, Essen, Germany, ("RWE AG", the parent company of the RWE Group) announced its plan to bundle the retail, grid and renewables business of the RWE Group into a European stock corporation ("Societas Europaea", SE) and list shares of this stock corporation on a stock exchange. This plan was approved by RWE AG's Supervisory Board on 11 December 2015.

On 11 December 2015, RWE AG founded "RWE Downstream Beteiligungs GmbH" as a 100% subsidiary, located in Essen. On the same day, RWE Downstream Beteiligungs GmbH founded RWE Downstream AG, Essen, as its 100% subsidiary. On 11 March 2016 RWE International SE was established by a cross-border merger of the German-based RWE Downstream AG with Essent SPV N.V., 's-Hertogenbosch, Netherlands, a Dutch corporation founded especially for the intended foundation of RWE International SE. For the purpose of these combined financial statements, the business of RWE International SE hereinafter is referred to as "RWE International" or the "RWE International Group". RWE International SE is planned to be renamed to "innogy SE" effective September 2016 and the business of RWE International SE is to be named "innogy".

The RWE International Group composes of certain legal entities from the consolidation scope of the RWE Group. RWE International bundles the businesses of the segments "Supply/Distribution Networks Germany", "Central Eastern and South Eastern Europe", "Supply Netherlands/Belgium", "Supply United Kingdom", as well as "Renewables" as presented in the consolidated financial statements of the RWE Group as of and for the year ended 31 December 2015. The legal entities forming the RWE International Group were transferred between other RWE Group companies and the RWE International Group. The legal reorganization was completed by 30 June 2016. All control agreements as well as profit and loss transfer agreements ("Beherrschungs- und Gewinnabführungsverträge") between RWE International Group companies and RWE AG as well as other RWE Group companies were terminated by mutual agreement by 30 June 2016. On 26 February 2016, RWE AG entered into a control agreement with RWE International SE, which is intended to be terminated immediately prior to the planned initial public offering of the shares of RWE International SE.

RWE AG will remain the parent company of the RWE International Group. Shares in RWE International SE are to be admitted to trading on the regulated market of the Frankfurt Stock Exchange, Germany, while at the same time being admitted to the Prime Standard segment (segment of the official market with additional follow-up requirements for admission).

Pursuant to E.U. Prospectus Regulation No. 809/2004, an issuer's listing prospectus must include historical financial information covering the previous three fiscal years. RWE International SE has a "complex financial history" as defined in E.U. Prospectus Regulation No. 211/2007, because the RWE International Group did not exist as a separate group from 1 January 2013 to 31 December 2015. The legal reorganization and the transfer of businesses to the RWE International Group was completed during the first six months of 2016 up to 30 June 2016, the date when these combined financial statements were authorized for issue by the Executive Board of RWE International SE.

The Executive Board of RWE International SE therefore prepared combined financial statements for the fiscal years 1 January 2013 to 31 December 2013; 1 January 2014 to 31 December 2014 and 1 January 2015 to 31 December 2015 for the RWE International Group. The combined financial statements comprise combined income statements, combined statements of comprehensive income, combined balance sheets, combined cash flow statements, combined statements of changes in invested equity and the Notes to the combined financial statements for the fiscal years 2015, 2014 and 2013.

The combined financial statements were prepared on 30 June 2016 by the Executive Board of RWE International SE, Opernplatz 1, 45128 Essen, Germany.

### **Description of the RWE International Group**

The RWE International Group's business is the operation of electricity and gas distribution networks, the supply of electricity, gas, heat and energy services, as well as the generation of electricity from renewable resources like wind, water and – to a limited extent – biomass. The grid business is located in Germany and some Central Eastern European countries, namely the Czech Republic, Hungary, Poland and Slovakia. In the retail business, the company operates in Germany, the Netherlands and Belgium, the United Kingdom, as well as in Central Eastern and South Eastern European states, namely the Czech Republic, Hungary, Poland, Slovakia, Croatia, Romania and Slovenia. The major production sites of the renewables business are located in Germany, the United Kingdom, the Netherlands, Spain and Poland. These activities are presented in the three reportable segments "Grid and Infrastructure", "Retail" and "Renewables".

### **Basis of preparation**

#### **Compliance with IFRS**

The financial statements of the RWE International Group were prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the European Union (EU) on a combined basis ("Combined financial statements").

The IFRSs provide no guidelines for the preparation of combined financial statements, which are therefore subject to the rules given in IAS 8.12. This article requires consideration of the most recent pronouncements of other standard-setting bodies, other financial reporting requirements and recognized industry practices.

In the combined financial statements of the RWE International Group, the predecessor accounting approach has been applied in accordance with the rules on the accounting for business combinations under common control in combined financial statements. This means that the assets and liabilities of the businesses included in the combined financial statements correspond to the historically reported amounts in the IFRS consolidated financial statements of the RWE Group (predecessor values). Businesses in accordance with IFRS 3 that were transferred from RWE Group to RWE International during the legal reorganization that was completed by 30 June 2016 are included in the combined financial statements for all periods presented (see also "Scope of combination"). Accordingly, any consideration given or received in relation to those common control transactions is recognized directly in equity as withdrawals or contributions at the time of the transfer.

Transfers of assets and liabilities between the RWE and the RWE International Group that do not fulfill the criteria of a business in accordance with IFRS 3 are accounted for applying the respective relevant IFRSs for the purchase or sale of assets or the transfer of liabilities at the date of the transaction and are included prospectively in the combined financial statements.

In general, the RWE International Group applies the same accounting policies and measurement principles in preparing the combined financial statements as were used by the included RWE International companies and operations in preparing their financial information for inclusion in the IFRS consolidated financial statements of the RWE Group. Transactions between the RWE International Group and the remainder of the RWE Group are recognized in accordance with IFRS and classified as related party transactions. The combined financial statements reflect all material transactions between the RWE International Group and the RWE Group. In the combined financial statements, all IFRSs whose application was mandatory for EU companies for the fiscal year 2015 have been consistently applied for each of the reporting periods 2013 through 2015.

Several balance sheet and income statement items have been combined in the interests of clarity. These items are stated and explained separately in the Notes to the combined financial statements. The income statement is structured according to the nature of expense method.

The combined financial statements are presented in euros. All amounts are rounded off to the nearest million euros (€ million) unless otherwise stated. As such, insignificant rounding differences may occur. A dash ("—") indicates that no data was reported for a specific line item in the relevant financial year or period, while a zero ("0") is used when the pertinent figure, after rounding, amounts to nil.

The period for recognizing adjusting events in the combined financial statements is identical to that of the RWE Group's consolidated financial statements as of 31 December 2015 and ended on 22 February 2016. Material issues arising between 22 February 2016 up to the date of the authorization for issue of the combined financial statements (30 June 2016) are disclosed in Note 34.

## **Scope of combination**

The scope of combination for the combined financial statements of the RWE International Group for the fiscal years ended 31 December 2013, 31 December 2014 and 31 December 2015 was determined on the principles of the legal reorganization approach. This approach is based on the fact that the economic activities that form the new entity were not managed as one division in the past, but the entities are legally bound together within a reorganization process. During the reporting periods of the combined financial statements, the assets and liabilities forming the reporting entity were under common control of RWE AG. The combined financial statements have been prepared on a "carve out" basis from the historical consolidated financial statements of the RWE Group taking into account the target structure of the reorganization.

The scope of combination includes companies and businesses directly or indirectly controlled by RWE International SE after the legal reorganization of the RWE International Group has been completed. This includes companies that were controlled by RWE AG or its subsidiaries during the reporting periods of the combined financial statements and legally transferred to RWE International SE by 30 June 2016. Businesses in accordance with IFRS 3 under common control that were transferred to RWE International during the legal reorganization are included with their respective assets and liabilities as well as income and expenses in the combined financial statements for all periods during which RWE AG controlled these entities. Businesses that were acquired from a third party during the reporting periods of the combined financial statements are included from the date at which the RWE Group gained control (see Note 35 for a full list of companies transferred to the RWE International Group during the legal reorganization that are included in the combined financial statements).

Companies that constitute a business and that are not controlled by RWE International Group companies after the legal reorganization has been finalized are excluded from the scope of combination for all periods. An exception applies to companies that are part of the business of RWE International, e.g. to wind farms that were sold by RWE Innogy during the reporting periods of the combined financial statements. As the development and disposal of wind farms forms part of the business activities of RWE Innogy, those companies are included in the combination scope until the date of their disposal, including any gains or losses from their disposal. In addition the British companies Electricity Plus Supply Ltd. and Gas Plus Supply Ltd. that were sold by RWE npower in December 2013 are included in the scope of combination until their date of sale, because the customers of the divested companies continue to buy electricity and gas from RWE npower, now indirectly via the acquirer Telecom Plus. A 20-year supply agreement to this effect was concluded to be part of the sale.

Investments accounted for using the equity method and joint operations that were acquired or disposed of by entities that are part of the RWE International Group during the reporting periods of the combined financial statements are included in or excluded from these financial

statements as of the date of the transaction. The same applies to assets and liabilities transferred between RWE and RWE International that do not constitute a business in accordance with IFRS 3.

In determining whether there is control, in addition to voting rights, other rights in the company contracts or articles of incorporation and potential voting rights are also taken into consideration. In particular, an assessment is made to check whether these rights give the ability to direct the relevant activities, e.g. establishing operating and capital decisions including budget or appointing and determining remuneration of the key management personnel.

A company is deemed to be an associate if there is significant influence on the basis of voting rights between 20% and 50% or on the basis of contractual agreements. In classifying joint arrangements which are structured as independent vehicles as joint operations or joint ventures, other facts and circumstances – in particular delivery relationships between the joint arrangement and the parties participating in those – are taken into consideration, in addition to the legal form and the contractual agreements.

The following summaries show the changes in the number of combined companies, investments and joint ventures accounted for using the equity method:

Number of combined companies	Germany	Abroad	Total
<b>1 Jan 2013</b> . . . . .	<b>123</b>	<b>135</b>	<b>258</b>
First-time combination . . . . .	3	7	10
Deconsolidation . . . . .	–	-4	-4
Mergers . . . . .	-6	-4	-10
<b>31 Dec 2013</b> . . . . .	<b>120</b>	<b>134</b>	<b>254</b>
First-time combination . . . . .	4	3	7
Deconsolidation . . . . .	-3	–	-3
Mergers . . . . .	-4	-6	-10
<b>31 Dec 2014</b> . . . . .	<b>117</b>	<b>131</b>	<b>248</b>
First-time combination . . . . .	5	20	25
Deconsolidation . . . . .	-1	-4	-5
Mergers . . . . .	-4	-7	-11
<b>31 Dec 2015</b> . . . . .	<b>117</b>	<b>140</b>	<b>257</b>

Number of investments and joint ventures accounted for using the equity method	Germany	Abroad	Total
<b>1 Jan 2013</b> . . . . .	<b>61</b>	<b>25</b>	<b>86</b>
Acquisitions . . . . .	2	–	2
Disposals . . . . .	-3	-3	-6
Other changes . . . . .	7	-3	4
<b>31 Dec 2013</b> . . . . .	<b>67</b>	<b>19</b>	<b>86</b>
Acquisitions . . . . .	–	–	–
Disposals . . . . .	-3	-2	-5
Other changes . . . . .	–	–	–
<b>31 Dec 2014</b> . . . . .	<b>64</b>	<b>17</b>	<b>81</b>
Acquisitions . . . . .	1	2	3
Disposals . . . . .	-2	-1	-3
Other changes . . . . .	1	-2	-1
<b>31 Dec 2015</b> . . . . .	<b>64</b>	<b>16</b>	<b>80</b>

Furthermore, as of 31 December 2015, four companies (2014: four, 2013: one) are presented as joint operations. Of these, Greater Gabbard Offshore Winds Ltd., United Kingdom, is a material joint operation of the RWE International Group. Greater Gabbard holds a 500 MW offshore wind farm, which is operated by RWE International together with Scottish and Southern Energy

(SSE) Renewables Holdings. RWE Innogy UK owns 50% of the shares and receives 50% of the power generated (incl. certificates for renewable energies). The wind farm is a key element in the offshore portfolio of the Renewables Segment.

### Business combinations

#### WestEnergie GmbH

In July 2015, RWE International gained control of WestEnergie GmbH, an investment that had previously been accounted for using the equity method, due to the expiry of a renouncement of a voting right. The company primarily operates electricity and gas distribution networks. The assumed assets and liabilities are presented in the following table:

Balance-sheet items	IFRS carrying amounts (fair values) at first-time inclusion
€ million (preliminary)	
Non-current assets . . . . .	152
Current assets . . . . .	24
Non-current liabilities . . . . .	31
Current liabilities . . . . .	57
<b>Net assets</b> . . . . .	<b>88</b>
Non-controlling interests . . . . .	-1
Cost (not affecting cash) . . . . .	87

The fair value of the old shares amounted to €87 million. The measurement of the non-controlling interests was based on the pro-rated net assets of the company at first-time inclusion. The fair value of the receivables included in non-current and current assets amounted to €24 million.

Since its first-time inclusion, WestEnergie GmbH has contributed €1 million to RWE International Group's revenue and €0 million to RWE International Group's income.

As of 31 December 2015, the initial accounting of the business combination had not been finalized due to the complex structure of the transaction.

#### Východoslovenská energetika Holding a.s.

In August 2015, RWE International gained control of Východoslovenská energetika Holding a.s. ("VSE"), a company that had previously been accounted for using the equity method, due to a contractual arrangement. The company is the holding company of a group of companies that has an electricity and gas retail business and that in addition operates an electricity distribution network system in Slovakia.

The assumed assets and liabilities are presented in the following table:

Balance-sheet items	IFRS carrying amounts (fair values) at first-time inclusion
€ million (preliminary)	
Non-current assets . . . . .	772
Current assets . . . . .	71
Non-current liabilities . . . . .	157
Current liabilities . . . . .	234
<b>Net assets</b> . . . . .	<b>452</b>
Non-controlling interests . . . . .	-231
Cost (not affecting cash) . . . . .	297
<b>Goodwill</b> . . . . .	<b>76</b>

The contractual arrangement on which the acquisition of control is based includes an investment transaction that caused Czech-based RWE Česká republika a.s.'s net assets to increase by €44 million.

The fair value of the old shares amounted to €341 million. The first-time inclusion resulted in €185 million in income, which is recognized as €159 million in "Other operating income" and €26 million in "Income from investments accounted for using the equity method" in the income statement.

The fair value of the receivables included in non-current and current assets amounted to €67 million.

The measurement of the non-controlling interests was based on the pro-rated net assets of the group of companies at first-time inclusion. The goodwill is largely associated with expected future benefits and synergistic effects.

Since its first-time inclusion, VSE has contributed €179 million to RWE International Group's revenue and €13 million to RWE International Group's income.

As of 31 December 2015, the initial accounting of the business combination had not been finalized due to the complex structure of the transaction.

If all of the business combinations of fiscal year 2015 had occurred as of 1 January 2015, the Group's income would total €1,979 million and the Group's revenue would total €43,892 million.

#### **RWE Supply & Trading Netherlands B.V.**

In July 2015, Essent N.V. acquired 100% of the shares of RWE Supply & Trading Netherlands B.V., 's-Hertogenbosch, Netherlands, from a subsidiary of RWE AG for a purchase price of €547 million. For this business combination under common control the predecessor accounting approach has been applied.

#### **Disposals**

##### **RWE Innogy GyM 1 Ltd.**

At the end of October 2015, RWE Innogy UK Ltd. sold the company RWE Innogy GyM 1 Ltd. to UK Green Investment Bank. The company held a residual share of 10% in the offshore wind farm Gwynt y Môr, which is part of the Renewables Segment. The transaction had been agreed with UK Green Investment Bank in the spring of 2014. Following completion and successful commissioning of the wind farm, the transaction was concluded. The loss on deconsolidation of €7 million was recognized in "Other operating expenses".

##### **Galloper wind power project**

At the end of October 2015, RWE Innogy UK Ltd. sold a 75% share in the Galloper offshore wind project, which is part of the Renewables Segment, in equal ratios to Siemens Financial Services, Macquarie Capital and UK Green Investment Bank. The transaction yielded income of €93 million; of this, €87 million was reported as "Other income from investments" and a gain on deconsolidation of €6 million was reported under "Other operating income". This income includes €23 million from remeasurement of the remaining 25% share in the project.

##### **RWE Grid Holding**

In March 2015, a group of funds managed by Macquarie increased its stake in Czech-based RWE Grid Holding by 15%. As of 31 December 2015, RWE International owns an interest of 50.04% in the company, which is assigned to the Grid and Infrastructure Segment and pools RWE International's Czech gas distribution network activities. With this sale, the share of equity attributable to RWE International SE's shareholders increased by €97 million and the share of non-controlling interests increased by €73 million.

#### Network connection for the Gwynt y Môr offshore wind farm

In February 2015, for regulatory reasons, Gwynt y Môr offshore wind farm, which belongs to the Renewables Segment, sold its self-constructed network connection and a transformer station to the financial investors Balfour Beatty Investment Ltd. and Equitix Ltd. As of 31 December 2014, the book value of the network connection and transformer station, which does not constitute a business in accordance with IFRS 3, was reported on the balance sheet as "Assets held for sale" in the amount of €241 million. During the year ended 31 December 2015, RWE International Group recognized an income of €30 million from that sale.

#### Offshore installation vessel "Victoria Mathias"

At the beginning of January 2015, RWE Innogy sold the special purpose vessel "Victoria Mathias" used to install offshore wind farms to the Dutch company MPI Offshore. The installation ship, which was part of the Renewables Segment and does not constitute a business in accordance with IFRS 3, was reported as of 31 December 2014 at a book value of €69 million on the balance sheet as "Assets held for sale".

#### DEW21

In December 2014, RWE Deutschland AG sold a 7.1% stake in Dortmunder Energie- und Wasserversorgung GmbH (DEW21), a company accounted for using the equity method, to Dortmunder Stadtwerke AG for a sales price of €70 million. RWE International retains a 39.9% stake in the company, which is part of the Grid and Infrastructure Segment.

#### ENERVIE

In September 2014, RWE Deutschland AG sold its 19.06% stake in ENERVIE Südwestfalen Energie und Wasser AG, a company accounted for using the equity method, to Remondis Wasser und Energie GmbH for a sales price of €60 million. The company was assigned to the Grid and Infrastructure Segment.

#### Nordsee One, 2 and 3

In September 2014, Canada-based Northland Power Inc. acquired an 85% stake in the offshore wind projects Nordsee One, 2 and 3. RWE International retains a 15% stake in these wind projects, which are part of the Renewables Segment. The loss on the deconsolidation amounted to €101 million and is reported in the income statement 2014 in the amount of €63 million as "Other operating expenses" and in the amount of €38 million as negative "Income from investments". However, this will be contrasted by about €86 million in expected future income as the sales price will be paid by the buyer the coming years when certain prerequisites are met, of which €62 million was already realized in 2015 because of reaching financial close for Nordsee One. This income is shown in "Income from investments".

#### GISA

In May 2014, enviaM AG sold a stake of 41% and MITGAS GmbH sold a stake of 10% in the IT service provider GISA, Halle, and its subsidiary ICS to itelligence AG. RWE International retains a 23.9% stake in the company, which is part of the Grid and Infrastructure Segment. A gain of €19 million upon deconsolidation was recognized in "Other operating income". This sum includes income from the revaluation of the remaining shares in the amount of €9 million.

#### Electricity Plus Supply Ltd. and Gas Plus Supply Ltd.

Effective as of 20 December 2013, RWE International sold its 100% stake in Electricity Plus Supply Ltd. and Gas Plus Supply Ltd. for £218 million. The gain on deconsolidation amounted to €199 million and has been recognized in the "Other operating income" line item in the income statement. The companies were assigned to the Retail Segment.

#### ML Wind LLP

On 8 November 2013, RWE Npower Renewable Ltd. indirectly sold a 49% stake in the company ML Wind LLP to fund management company Greencoat LK Wind. Prior to this, the onshore wind farms Lindhurst and Middlemoor had been transferred to ML Wind LLP by way of internal corporate restructuring. The sales price for the 49% stake in ML Wind LLP amounted to £71 million. RWE International still controls the company. With this sale, the share of equity attributable to RWE International SE's shareholders increased by €36 million and the share of non-controlling interests increased by €48 million.

#### Rhyl Flats Wind Farm Ltd.

On 22 March 2013, RWE International sold a 49.9% stake in Rhyl Flats Wind Farm Ltd., Swindon, United Kingdom, for £115 million. RWE International still controls the company, which operates an offshore wind farm off the coast of Wales. With this sale, the share of equity attributable to RWE International SE's shareholders increased by €17 million and the share of non-controlling interests increased by €118 million.

#### Little Cheyne Court Wind Farm Ltd.

On 22 March 2013, RWE International sold a 41% stake in Little Cheyne Court Wind Farm Ltd., Swindon, United Kingdom, for £51 million. RWE International still controls the company, which operates an onshore wind farm in the County of Kent in the southeast of England. With this sale, the share of equity attributable to RWE International SE's shareholders increased by €32 million and the share of non-controlling interests increased by €27 million.

During the year ended 31 December 2015, RWE International Group recorded a total of gains and losses from the sales of shares that resulted in a change of control of €77 million (2014: -€55 million, 2013: €187 million) that were recognized as "Other operating income", "Other operating expenses" and "Other income from investments". This amount includes €23 million (2014: €45 million, 2013: €0 million) from the revaluation of the remaining shares held by RWE International Group.

During the year ended 31 December 2015, RWE International Group received proceeds of €116 million (2014: €43 million, 2013: €154 million) and paid €45 million (2014: €0 million, 2013: €0 million) as a result of sales and purchases of subsidiaries and other businesses that resulted in a change of control. All payments were made in cash. In connection with these transactions, during the year ended 31 December 2015, cash and cash equivalents (excluding "Assets held for sale") of €2 million (2014: €0 million, 2013: €0 million) were acquired and cash and cash equivalents of €9 million (2014: €2 million, 2013: €0 million) were disposed of.

## **Presentation of the combined financial statements and combination principles**

### **Combination principles**

All income, expenses, assets and liabilities that are attributable to the economic operations of the RWE International Group are reflected in the combined financial statements of the RWE International Group. This includes costs for corporate services that were provided by central functions to the whole RWE Group. Services provided to RWE International companies are included in the reporting periods of the combined financial statements either based on historical service level agreements that existed and were executed in the past or based on allocations by using appropriate allocation keys, if costs for services provided were not charged to the respective entities. Assumptions and estimates made with regard to the allocation of expenses were appropriately and consistently applied in each reporting period. The actual amounts, however, may vary from the estimates and therefore do not necessarily indicate what the results of operations of the RWE International Group would have been if it had existed as a separate group in the reporting periods.

The financial statements of German and foreign companies included in the scope of the combined financial statements are prepared using uniform accounting policies. On principle, subsidiaries whose fiscal years do not end on the RWE International Group's balance-sheet date (31 December) prepare interim financial statements as of that date. During the year ended 31 December 2015 three (2014: three, 2013: four) subsidiaries have divergent fiscal year-end and balance-sheet dates of 30 September, 31 October and 31 March. Divergent fiscal years compared to the calendar year stem from business or tax-related reasons or country-specific regulations.

Business combinations that were not under common control of the RWE Group are accounted for according to the acquisition method. This means that capital consolidation takes place by offsetting the purchase price, including the amount of the non-controlling interests, against the acquired subsidiary's net assets measured at fair value at the time of acquisition. In doing so, the non-controlling interests are measured at the pro-rated value of the subsidiary's identifiable net assets. The subsidiary's identifiable assets, liabilities and contingent liabilities are measured at full fair value, regardless of the amount of the non-controlling interests. Intangible assets are reported separately from goodwill if they are separable from the company or if they stem from a contractual or other right. In accordance with IFRS 3, no new restructuring provisions are recognized within the scope of the purchase price allocation. If the purchase price exceeds the revalued net assets of the acquired subsidiary, the difference is capitalized as goodwill. If the purchase price is lower than the revalued net assets, the difference is included in income.

In the event of deconsolidation, the related goodwill is derecognized with an effect on income. Changes in the ownership share, which do not result in a loss of the ability to control the subsidiary are recognized without an effect on income. If there is a change in control, the remaining shares are revalued with an effect on income.

Expenses and income as well as receivables and payables between combined companies are eliminated. Intra-group profits and losses are eliminated.

The combined financial statements also include joint ventures and associates accounted for using the equity method. For these, goodwill is not reported separately, but rather included in the value recognized for the investment. In other respects, the consolidation principles described above apply analogously. If impairment losses on the equity value become necessary, they are reported under "Income from investments accounted for using the equity method". The financial statements of investments accounted for using the equity method are prepared using uniform accounting policies.

Joint operations result in pro-rata inclusion of the assets and liabilities as well as the revenues and expenses in accordance with the rights and obligations due to RWE International. In cases where the shareholding of the RWE International Group differs from the percentage of output RWE International receives from the joint operation, the share of assets and liabilities as well as revenues and expenses is determined based on the percentage of output.

## Segment reporting

In April 2016, the Executive Board of RWE International SE, which is the chief operating decision maker of the RWE International Group, has implemented an internal reporting on a regional and functional basis. For its segment reporting in accordance with IFRS 8, the RWE International Group presents the three reportable segments "Grid and Infrastructure", "Retail" and "Renewables". This segment reporting structure is presented in the combined financial statements for each of the reporting periods 2015, 2014 and 2013 (see Note 30).

## Goodwill allocation

The goodwill included in the combined financial statements is based on the goodwill attributable to the companies or businesses that were transferred to the RWE International Group during the legal reorganization. The amounts correspond to the historically reported amounts in the IFRS consolidated financial statements of the RWE Group (predecessor values). During the reporting periods presented, goodwill was tested based on the cash-generating unit structure used at that time by RWE Group to monitor goodwill as RWE International and the new reporting structure did not exist in the past.

## Pensions and similar obligations

The combined financial statements include the pension obligations and associated plan assets or reimbursement rights attributable to the RWE International Group. The obligations were measured on the basis of actuarial valuations prepared by an external expert. Both active employees as well as those no longer active were included in the obligations of the RWE International companies. The obligations were determined on an individual basis. Plan assets that were not readily allocable were split based on the obligations of the plan sponsors. The actual amounts of the plan assets to be transferred may differ from the plan assets presented in the combined financial statements. The actuarial valuation parameters were determined and applied specifically for the RWE International Group (see Note 23).

In Germany, as a result of contractual agreements between RWE AG and RWE International, RWE AG released RWE International companies in the past for parts of the underlying pension obligations, whereby RWE International companies' right of recourse was limited to the local GAAP obligation. This contractual agreement will be canceled and corresponding assets will be transferred to RWE International companies. As of 31 December 2015, 31 December 2014 and 31 December 2013 these assets have been split into plan assets respectively reimbursement rights against RWE AG. The plan assets, if not clearly attributable, were generally allocated on a pro-rata basis dependent on the IFRS funding level within RWE Group. The residual part of RWE International companies' right of recourse against RWE AG was presented as reimbursement rights within the meaning of IAS 19 (further information is provided in Note 23).

## Capital structure

The equity of the RWE International Group consists of the invested equity attributable to the RWE International Group, accumulated other comprehensive income and non-controlling interests. The combined financial statements do not show subscribed capital.

During the reporting periods of the combined financial statements, the RWE International Group was mainly financed by the RWE Group. In December 2015, a portion of the existing intercompany loans was replaced by external bonds as a result of the sale of RWE Finance B.V., 's-Hertogenbosch, Netherlands, to RWE Innogy GmbH, Essen, Germany, a company that was transferred to the RWE International Group in April 2016. RWE Finance B.V. does not constitute a business in accordance with IFRS 3. As a result, the acquired financial assets and liabilities were recorded in accordance with IAS 39 and are included prospectively in the combined financial statements. The capital structure of the RWE International Group at the time of the initial public offering will differ from the capital structure presented in the combined financial statements. It is intended to continue to replace the net debt to the RWE Group by external financing.

## Combined Statement of Cash Flows

Operating transactions of the RWE International Group with the RWE Group are reported in the cash flows from operating activities. Financing transactions with the RWE Group - including cash pooling – are presented in the cash flows from financing activities. The transactions with the RWE Group also include cash inflows and outflows in connection with profit and loss transfer agreements between RWE International and RWE Group companies, capital contributions and transfers from reserves in connection with the legal reorganization as well as tax receivables, tax liabilities and deferred taxes presented as contributions or withdrawals under the separate tax return approach.

## Income taxes and deferred taxes

Current and deferred income taxes are recognized in accordance with IAS 12. For purposes of the combined financial statements, income taxes are determined under the assumption that the RWE International entities constitute separate taxable entities (separate tax return approach). This assumption implies that the current and deferred taxes of all companies and of the fiscal units within the RWE International Group are calculated separately and that the recoverability of deferred tax assets is assessed on this basis. Deferred tax assets resulting from tax loss carryforwards were recognized in the combined financial statements to the extent that it is probable that they can be offset with future taxable income from the respective RWE International company. If an RWE International company did not constitute a separate tax payer in previous years, the respective tax receivables and liabilities as well as deferred tax assets on loss carryforwards were treated in the relevant years as contributions or transfers from reserves by shareholders that are not included in the RWE International Group.

The management of the RWE International Group deems this approach as appropriate but not necessarily indicative of the tax expense or income that would result for RWE International as a separate group.

## Foreign currency translation

In their individual financial statements, the companies measure non-monetary foreign currency items at the balance-sheet date using the exchange rate in effect on the date they were initially recognized. Monetary items are converted using the exchange rate valid on the balance-sheet date. Exchange rate gains and losses from the measurement of monetary balance-sheet items in foreign currency occurring up to the balance-sheet date are recognized in the income statement as other operating income or expense.

Functional currency translation is applied when converting the financial statements of companies with functional currencies other than euros. As the principal foreign enterprises included in the combined financial statements conduct their business activities independently in their functional currencies, their balance-sheet items are translated into euros in the combined financial statements using the daily average exchange rate prevailing on the balance-sheet date. This also applies for goodwill, which is viewed as an asset of the economically autonomous foreign entity. Changes in currency translation year over year are recorded in other comprehensive income without an effect on income. Expense and income items are translated using annual average exchange rates. When translating the adjusted equity of foreign companies accounted for using the equity method, the same procedures are followed.

The following exchange rates (amongst others) were used as a basis for foreign currency translations:

Exchange rates  in €	Average			Year-end		
	2015	2014	2013	31 Dec 2015	31 Dec 2014	31 Dec 2013
1 US-dollar .....	0.91	0.76	0.75	0.92	0.82	0.73
1 Pound sterling .....	1.38	1.25	1.18	1.36	1.28	1.20
100 Czech korunas .....	3.67	3.63	3.84	3.70	3.61	3.65
100 Hungarian forints .....	0.32	0.32	0.34	0.32	0.32	0.34
1 Polish zloty .....	0.24	0.24	0.24	0.23	0.23	0.24

#### Accounting policies

**Intangible assets** are carried at amortized cost. With the exception of goodwill, intangible assets have finite useful lives and are amortized using the straight-line method. The useful lives and methods of amortization are reviewed on an annual basis.

Software for commercial and technical applications is amortized over a period of three to five years. "Operating rights" refer to the entirety of the permits and approvals required for the operation of a power plant. Such rights are generally amortized over the economic life of the plant, using the straight-line method. Easement agreements in the electricity and gas business, and other easement rights, usually have useful lives of 20 years. Concessions in the water business generally have terms of up to 25 years. Capitalized customer relations are amortized over a period of up to ten years.

Goodwill is not amortized; instead it is subjected to an impairment test annually, or more frequently if there are indications of impairment.

Development costs are capitalized if a newly developed product or process can be clearly identified, if it is technically feasible and if the company intends to either use the product or process itself or market it. Furthermore, capitalization of development costs requires that there be a sufficient level of certainty that the development costs lead to future cash inflows. Capitalized development costs are amortized over the time period during which the products are expected to be sold. Research expenditures are recognized as expenses in the period in which they are incurred.

An impairment loss is recognized for an intangible asset if the recoverable amount of the asset is less than its carrying amount. A special regulation applies for cases when the asset is part of a cash-generating unit. Such units are defined as the smallest identifiable group of assets which generates cash inflows from other assets or group of assets. If the intangible asset is part of a cash-generating unit, the impairment loss is calculated based on the recoverable amount of this unit. If goodwill was allocated to a cash-generating unit and the carrying amount of the unit exceeds the recoverable amount, the allocated goodwill is initially written down by the difference. Impairment losses which must be recognized in addition to this are taken into account by reducing the carrying amount of the other assets of the cash-generating unit on a pro-rated basis. If the reason for an impairment loss recognized in prior periods has ceased to exist, a reversal to intangible assets is performed. The increased carrying amount resulting from the reversal may not, however, exceed the amortized cost. Impairment losses on goodwill are not reversed.

**Property, plant and equipment** is stated at historical cost, less depreciation. Borrowing costs are capitalized as part of the asset's cost, if they are directly attributable with the acquisition or production of a "qualified asset" for which a considerable period of time is required to prepare the asset for use or sale. If necessary, the cost of property, plant and equipment may contain the estimated expenses for the decommissioning of plants or site restoration. Maintenance and repair costs are recognized as expenses.

With the exception of land and leasehold rights, as a rule, property, plant and equipment is depreciated using the straight-line method, unless in exceptional cases another depreciation method is better suited to the usage pattern. The depreciation of RWE International's typical property, plant and equipment is calculated according to the following useful lives, which apply throughout the Group:

Useful life in years	
Buildings	10 – 54
Technical plants	
Thermal power plants	10 – 43
Wind turbines	up to 23
Electricity grids	20 – 45
Water main networks	12 – 80
Gas and water storage facilities	12 – 60
Gas distribution facilities	10 – 40
Other renewable generation facilities	4 – 40

Property, plant and equipment classified as finance lease is capitalized at the fair value of the leased asset or the present value of the minimum lease payments, depending on which is lower. They are depreciated using the straight-line method over the expected useful life or the lease term, whichever is shorter.

For operating leases, in which RWE International is the lessee, the minimum lease payments are recognized as an expense over the term of the lease. If RWE International is the lessor, the minimum lease payments are recognized in income over the term of the lease.

Impairment losses and reversals on property, plant and equipment are recognized according to the principles described for intangible assets.

**Investments accounted for using the equity method** are initially recognized at cost and adjusted thereafter to recognize the Group's share of post acquisition changes of profits or losses, dividends and all other changes in equity. Goodwill is not reported separately, but rather included in the recognized value of the investment. Goodwill is not amortized. An impairment loss is recognized for investments accounted for using the equity method, if the carrying amount exceeds the recoverable amount.

**Other financial assets** are comprised of shares in non-consolidated subsidiaries and in associates and joint ventures not accounted for using the equity method, as well as other investments and non-current marketable securities; these assets are shown in the category "Available for sale". This category includes financial instruments which are neither loans and receivables, nor financial instruments held to maturity, and are not measured at fair value through profit or loss. Upon initial recognition and in the following periods, they are recorded at fair value as long as such can be determined reliably. Initial measurement occurs at the settlement date; unrealized gains and losses are stated as other comprehensive income, with due consideration of any deferred taxes. Gains or losses are recognized in the income statement upon the sale of the financial instruments. If there is objective evidence of a reduction in the value of an asset, an impairment loss is recognized with an effect on income. Such indications can be that there is no longer an active market for a financial asset or that a debtor is experiencing significant financial difficulties, or is possibly delinquent on payments of interest or principal.

Receivables are comprised of **financial receivables**, **trade accounts receivable** and **other receivables**. Aside from financial derivatives, **receivables and other assets** are stated at amortized cost. Impairment of receivables are recorded to the allowances for doubtful accounts and are based on the actual default risk. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering cash for these receivables. Prepayments received from customers for consumption which is yet to be metered and billed are netted out against trade accounts receivable of the utilities.

Loans reported under financial receivables are stated at amortized cost. Loans with interest rates common in the market are shown on the balance sheet at nominal value. As a rule, however, non-interest or low-interest loans are disclosed at their present values discounted using an interest rate commensurate with the risks involved.

CO<sub>2</sub> emission allowances and certificates for renewable energies are accounted for as intangible assets and reported under other assets. Allowances which are purchased and allowances allocated free of charge are both stated at cost and are not amortized.

**Deferred taxes** result from temporary differences in the carrying amount in the separate IFRS financial statements and tax bases, and from consolidation procedures. Deferred tax assets also include tax reduction claims resulting from the expected utilization of existing loss carryforwards in subsequent years. Deferred taxes are capitalized if it is sufficiently certain that the related economic advantages can be used. Their amount is assessed with regard to the tax rates applicable or expected to be applicable in the specific country at the time of realization. The tax regulations valid or adopted as of the balance-sheet date are key considerations in this regard. The tax rate used to calculate deferred taxes in Germany is 31.4% (2014: 31.4%, 2013: 31.4%). This is derived from the prevailing 15% corporate tax rate, the solidarity surcharge of 5.5%, and the Group's average local trade tax rate. Deferred tax assets and deferred tax liabilities are netted out for each company and/or tax group.

**Inventories** are assets which are held for sale in the ordinary course of business (finished goods and goods for resale), which are in the process of production (work in progress – goods and services) or which are consumed in the production process or in the rendering of services (raw materials).

Inventories are carried at the lower of cost or net realizable value. Production costs reflect the full costs directly related to production; they are determined based on normal capacity utilization and, in addition to directly allocable costs, they also include adequate portions of required materials and production overheads. They also include production-related depreciation. Borrowing costs, however, are not capitalized as part of the cost. The determination of cost is generally based on average cost formula.

If the net realizable value of inventories written down in earlier periods has increased, the reversal of the write-down is recognized as a reduction of the cost of materials.

Securities classified as current **marketable securities** essentially consist of marketable securities held in special funds as well as fixed-interest securities which have a maturity of more than three months and less than one year from the date of acquisition. All of these securities are classified as "Available for sale" and are stated at fair value. The transaction costs directly associated with the acquisition of these securities are included in the initial measurement, which occurs on their settlement date. Unrealized gains and losses are included in other comprehensive income without an effect on income, with due consideration of any deferred taxes. If there are objective, material indications of a reduction in value, an impairment loss is recognized with an effect on income. The results of sales of securities are also recognized in the income statement.

**Cash and cash equivalents** consist of cash on hand, demand deposits and current fixed-interest securities with original maturities of three months or less from the date of acquisition.

Assets are stated under **assets held for sale** if they can be sold in their present condition and their sale is highly probable. Such assets may be certain non-current assets, asset groups ("Disposal groups") or operations ("Discontinued operations"). Liabilities intended to be sold in a transaction together with assets are a part of a disposal group or discontinued operations, and are reported separately under **liabilities held for sale**.

Non-current assets held for sale are no longer depreciated or amortized. They are recognized at fair value less costs to sell, as long as this amount is lower than the carrying amount.

Gains or losses on the valuation of specific assets held for sale and of disposal groups are stated under income from continuing operations until final completion of the sale.

The groupwide stock option plans are accounted for as cash-settled **share-based payments**. At the balance-sheet date, a provision is recognized in the amount of the pro-rated fair value of the payment obligation. Changes in the fair value are recognized with an effect on income. The fair value of options is determined using generally accepted valuation methodologies.

**Provisions** are recognized for all legal and constructive obligations to third parties which exist on the balance-sheet date and stem from past events which will probably lead to an outflow of resources, and the amount of which can be reliably estimated. Provisions are carried at their prospective settlement amount and are not offset against reimbursement claims. If a provision involves a larger number of outcomes, the obligation is estimated by weighting all possible outcomes by their probability of occurrence (expected value method).

All non-current provisions are recognized at their prospective settlement amount, which is discounted at the balance-sheet date. In the determination of the settlement amount, any cost increases likely to occur up until the time of settlement are taken into account.

If necessary, the cost of property, plant and equipment may contain the estimated expenses for the decommissioning of plants or site restoration. Decommissioning, restoration and similar provisions are recognized for these expenses. If changes in the discount rate or changes in the estimated timing or amount of the payments result in changes in the provisions, the carrying amount of the respective asset is increased or decreased by the corresponding amount. If the decrease in the provision exceeds the carrying amount, the excess is recognized immediately through profit or loss.

As a rule, releases of provisions are credited to the expense account on which the provision was originally recognized.

Provisions for pensions and similar obligations are recognized for defined benefit plans. These are obligations of the company to pay future and ongoing post-employment benefits to entitled current and former employees and their surviving dependents. In particular, the obligations refer to retirement pensions. Individual commitments are generally linked to the employees' length of service and compensation.

Provisions for defined benefit plans are based on the actuarial present value of the respective obligation. This is measured using the projected unit credit method. The projected unit credit method not only takes into account the pension benefits and benefit entitlements known as of the balance-sheet date, but also anticipated future increases in salaries and pension benefits. The calculation is based on actuarial reports, taking into account appropriate biometric parameters (for Germany, in particular the "Richttafeln 2005 G" by Klaus Heubeck, and Standard S1PA for the United Kingdom). The provision derives from the balance of the actuarial present value of the obligations and the fair value of the plan assets. The service cost is disclosed in staff costs. Net interest is included in the financial result.

Gains and losses on the revaluation of net debt or net assets are fully recognized in the fiscal year in which they occur. They are reported outside of profit or loss, as a component of other comprehensive income in the statement of comprehensive income, and are immediately assigned to the invested equity attributable to the owners of the RWE International Group. They remain outside profit or loss in subsequent periods as well.

In the case of defined contribution plans, the enterprise's obligation is limited to the amount it contributes to the plan. Contributions to the plan are reported under staff costs.

A provision is recognized to cover the obligation to submit certificates for renewable energies to the respective authorities; this provision is measured at the carrying amount of the certificates for renewable energies capitalized for this purpose. If a portion of the obligation is not covered with the available certificates, the provision for this portion is measured using the market price of the certificates for renewable energies on the reporting date.

Liabilities consist of **income tax liabilities**, **financial liabilities**, **trade accounts payable** and **other liabilities**. Upon initial recognition, these are stated at fair value including transaction costs and are carried at amortized cost in the periods thereafter (except for derivative financial instruments).

Other liabilities include advances and contributions in aid of construction and building connection that are carried as liabilities by the utilities and are generally amortized and included in income over the useful life of the corresponding asset.

Furthermore, certain non-controlling interests are also included in other liabilities. Specifically, this pertains to purchase price obligations from rights to tender non-controlling interests (put options).

**Derivative financial instruments** are recognized as assets or liabilities and measured at fair value, regardless of their purpose. Changes in the fair value are recognized with an effect on income, unless the instruments are used for hedge accounting purposes.

The purpose of hedges of a net investment in foreign operations is to hedge the currency risk from investments with foreign functional currencies. Unrealized gains and losses from such hedges are recognized in other comprehensive income until disposal of the foreign operation.

IAS 39 stipulates the conditions for the recognition of hedging relationships. Amongst other things, the hedging relationship must be documented in detail and be effective. According to IAS 39, a hedging relationship is effective when the changes in the fair value of the hedging instrument are within 80% and 125%, both prospectively and retrospectively, of the opposite change in the fair value of the hedged item. Only the effective portion of a hedge is recognized in accordance with the preceding rules. The ineffective portion is recognized immediately in the income statement.

Contracts on the receipt or delivery of non-financial items in accordance with the company's expected purchase, sale or usage requirements (own use contracts as defined in IAS 39) are not accounted for as derivative instruments, but rather as executory contracts. If the contracts contain embedded derivatives, the derivatives are accounted for separately from the host contract, insofar as the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract. Written options to buy or sell a non-financial item which can be settled in cash are not own use contracts.

**Contingent liabilities** are possible obligations to third parties or existing obligations which are not probable to lead to an outflow of economic benefits or the amount of which cannot be measured reliably. Contingent liabilities are only recognized on the balance sheet if they were assumed within the framework of a business combination. The amounts disclosed in the Notes correspond to the exposure at the balance-sheet date.

**Management judgements in the application of accounting policies.** Management judgements are required in the application of accounting policies. In particular, this pertains to the following:

- With regard to certain contracts, a decision must be made as to whether they are treated as derivatives or as so-called own use contracts, and be accounted for as executory contracts.
- Financial assets must be allocated to the categories "Held to maturity investments", "Loans and receivables", "Financial assets available for sale" and "Financial assets at fair value through profit or loss".
- With regard to "Financial assets available for sale", a decision must be made as to if and when reductions in value are to be recognized as impairments with an impact on income.
- With regard to assets held for sale, it must be determined if they can be sold in their current condition and if the sale of such is highly probable. If both conditions apply, the assets and any related liabilities must be reported and measured as "Assets held for sale" or "Liabilities held for sale", respectively.

**Management estimates and judgements.** Preparation of combined financial statements pursuant to IFRS requires assumptions and estimates to be made, which have an impact on the recognized value of the assets and liabilities carried on the balance sheet, on income and expenses and on the disclosure of contingent liabilities. In preparing the combined financial statements, additional assumptions and estimates were made, amongst others in connection with allocated expenses for services provided by RWE Group companies.

Furthermore, the income and expenses assigned to the RWE International Group reflect the income and expenses that would have resulted for the RWE International Group as part of the RWE Group based on the explanations provided here.

Thus, the combined financial statements presented do not necessarily reflect the financial position and results of operations that would have occurred if RWE International had existed as a separate group in the reporting periods. The fact that the RWE International Group did not historically exist therefore limits the validity of the combined financial information. It also means that the combined financial information cannot be used to forecast the future development of the operations that have been combined to form the RWE International Group.

Amongst other things, assumptions and estimates are made in the accounting and measurement of provisions. With regard to non-current provisions, the discount rate to be applied is an important estimate in addition to the amount and timing of future cash flows. The discount rate for pension obligations is determined on the basis of yields of high quality, fixed-rate corporate bonds on the financial markets as of the balance-sheet date.

The impairment test for goodwill and non-current assets is based on certain assumptions pertaining to the future, which are regularly adjusted. Property, plant and equipment is tested for indications of impairment on each balance-sheet date.

Upon first time consolidation of a company, the identifiable assets, liabilities and contingent liabilities are recognized at fair value. Determination of fair value is based on valuation methods which require estimation in the projection of future cash flows.

Deferred tax assets are recognized if realization of future tax benefits is probable. Actual future development of income for tax purposes and hence potential for realization of deferred tax assets, however, may deviate from the estimation made when the deferred taxes are capitalized.

Further information on the assumptions and estimates upon which these combined financial statements are based can be found in the explanations of the individual items.

All assumptions and estimates are based on the circumstances and forecasts prevailing on the balance-sheet dates as of 31 December 2015, 31 December 2014 and 31 December 2013. Furthermore, as of these balance-sheet dates, realistic assessments of overall economic conditions in the sectors and regions in which RWE International conducts operations are taken into consideration with regard to the prospective development of business. Actual amounts may deviate from the estimated amounts if the overall conditions develop differently than expected. In such cases the assumptions and, if necessary, the carrying amounts of the affected assets and liabilities are adjusted.

As of the date of preparation of the combined financial statements, it is not presumed that there will be any material changes compared to the assumptions and estimates.

**Capital management.** In the reporting periods for the combined financial statements, the RWE International Group was included in the capital management of the RWE Group.

RWE's capital management is focused on ensuring access to the capital market at all times, to enable the efficient refinancing of maturing debts. This goal is pursued by maintaining a investment grade rating, targeting an ongoing positive cash balance and partially pre-financing the non-current provisions with invested financial assets.

Among other things, RWE manages its capital structure on the basis of financial indicators. One key indicator is the "leverage factor", which is calculated using net debt. Net debt is calculated

by adding material non-current provisions to net financial debt, and subtracting the surplus of plan assets over benefit obligations; furthermore, hybrid capital is corrected, with the result that one half of it is included in net debt. The leverage factor is the ratio of net debt to EBITDA. As of 31 December 2015, it was 3.6 (2014: 3.8, 2013: 3.5).

The RWE Group's credit rating is influenced by a number of qualitative and quantitative factors. These include aspects such as the amount of cash flows and debt as well as market conditions, competition, and the political framework. The hybrid bonds totalling €1.25 billion, US\$1.5 billion, £0.75 billion and CHF0.4 billion support this rating. The two leading rating agencies, Moody's and Standard & Poor's, classify one half of hybrid capital as equity. As a result, the debt indicators relevant to the rating are better than they would be if the RWE Group had only issued traditional bonds.

At 31 December 2015, the non-subordinated bonds issued by RWE were rated Baa2 by Moody's and BBB by Standard & Poor's, both with negative outlooks (2014: Baa1 by Moody's and BBB+ by Standard & Poor's, both with stable outlooks, 2013: Baa1 by Moody's and BBB+ by Standard & Poor's, both with stable outlook). The rating thus remains in the investment-grade range. The credit ratings are P-2 and A-2, respectively, for short-term RWE bonds (2014: P-2 and A-2, 2013: P-2 and A-2).

#### New accounting policies

The International Accounting Standards Board (IASB) has adopted International Financial Reporting Standards (IFRSs) and amendments to IFRS, which were not yet mandatory in the EU in the reporting periods of the combined financial statements. EU endorsement is still pending in some cases.

**IFRS 9 Financial Instruments (2014)** replaces the previous regulations of IAS 39 on financial instruments. It contains amended regulations on measurement categories for financial assets and includes some smaller changes in relation to the measurement of financial liabilities. Fair value measurement without an effect on income is applicable for debt instruments reported under assets that meet specific conditions. It also contains regulations on the impairment of assets and the recognition of hedge accounting. The rules on impairment will now apply to expected losses. The new regulations on hedge accounting are intended to enable better reporting of the risk management activities in the consolidated financial statements. To this end, IFRS 9 (2014) expands the range of underlying transactions qualifying for hedge accounting and simplifies effectiveness testing, amongst other things. The new standard becomes effective for fiscal years starting on or after 1 January 2018. The effects of IFRS 9 (2014) on the RWE International Group's consolidated financial statements are being reviewed.

**IFRS 15 Revenue from Contracts with Customers (2014) including amendments to IFRS 15 "Effective date of IFRS 15" (2015) and Clarifications to IFRS 15 "Revenue from Contracts with Customers" (2016)** will replace IAS 18 Revenue and IAS 11 Construction Contracts. The new standard does not distinguish between different types of orders and performance; instead it establishes uniform criteria as to when revenue is realized for a performance obligation at a point in time or over time. Revenue is realized when the customer obtains control over the agreed goods and services and can obtain the benefits from such. The new standard becomes effective for fiscal years starting on or after 1 January 2018. The effects of IFRS 15 (2014) on the RWE International Group's consolidated financial statements are being reviewed.

**IFRS 16 Leases (2016)** will replace the IAS 17 Leases and IFRIC 4, SIC-15 and SIC-27. According to the new leasing standard, with the exception of short-term leases (less than twelve months) and the leasing of assets with low value, all leases are to be recognized on the balance sheet of the lessee. Accordingly, regardless of economic ownership of the leased asset, the lessee must capitalize a right of use for the asset and recognise a corresponding liability in the amount of the present value of the binding lease payments. For lessors, there are no material changes to the current accounting as per IAS 17. The new standard becomes effective for fiscal years

starting on or after 1 January 2019. The effects of IFRS 16 (2016) on the RWE International Group's consolidated financial statements are being reviewed.

The following standards, amendments to standards, and interpretations are not expected to have any material effects on the RWE International Group's consolidated financial statements:

- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (2016)
- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" (2016)
- Amendments to IAS 7 "Disclosure Initiative" (2016)
- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (2014)
- Amendments to IAS 1 "Disclosure Initiative" (2014)
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" (2014)
- Amendments to IAS 16 and IAS 41 "Bearer Plants" (2014)
- Amendments to IAS 27 "Equity Method in Separate Financial Statements" (2014)
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (2014), including amendments to IFRS 10 and IAS 28, "Effective Date of Amendments to IFRS 10 and IAS 28" (2015)
- Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" (2014)
- Annual Improvements to IFRSs 2012-2014 Cycle (2014)
- Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" (2013)
- Annual Improvements to IFRSs Cycle 2010-2012 (2013)

# Notes to the Income Statement

## (1) Revenue

Generally revenue is recorded when the goods have been delivered or the services have been rendered, and the risks related to the goods or services have been transferred to the customer.

A breakdown of revenue by division and geographical region is contained in the segment reporting (see Note 30).

RWE International did not generate more than 10% of revenues with any single customer during the years ended 31 December 2015, 2014 and 2013.

The item natural gas tax/electricity tax comprises the taxes paid directly by Group companies.

## (2) Other operating income

Other operating income € million	2015	2014	2013
Income from own work capitalized . . . . .	235	132	109
Income from changes in finished goods and work in progress . . . . .	51	46	53
Cost allocations/refunds . . . . .	55	54	95
Disposal and reversal of current assets (excluding marketable securities) . . . . .	55	43	36
Disposal and reversal of non-current assets including income from deconsolidation . . . . .	193	221	291
Income from derivative financial instruments . . . . .	8	19	166
Compensation and insurance benefits . . . . .	47	140	57
Rent and lease . . . . .	14	17	17
Exchange rate gains . . . . .	14	8	–
Remeasurement gain in step acquisitions . . . . .	159	–	–
Miscellaneous . . . . .	273	306	381
	<b>1,104</b>	<b>986</b>	<b>1,205</b>

Income from the disposal of non-current financial assets and loans is disclosed under income from investments if it relates to investments; otherwise it is recorded as part of the financial result as is the income from the disposal of current marketable securities.

## (3) Cost of materials

Cost of materials € million	2015	2014	2013
Cost of raw materials and of goods for resale . . . . .	25,226	26,478	28,296
Cost of purchased services . . . . .	9,534	8,682	9,133
	<b>34,760</b>	<b>35,160</b>	<b>37,429</b>

## (4) Staff costs

Staff costs € million	2015	2014	2013
Wages and salaries . . . . .	2,127	2,179	2,287
Cost of social security, pensions and other benefits . . . . .	609	575	613
	<b>2,736</b>	<b>2,754</b>	<b>2,900</b>

Number of employees	2015	2014	2013
Employees covered by collective agreements and other employees . .	30,619	31,940	33,367
Employees not covered by collective agreements . . . . .	7,983	7,693	9,138
	<b>38,602</b>	<b>39,633</b>	<b>42,505</b>

The number of employees is calculated by converting to full-time equivalents, meaning that part-time and fixed-term employment relationships are included in accordance with the ratio of the part-time work or the duration of the employment to the annual employment time. On average, 1,357 trainees were employed during the year ended 31 December 2015 (2014: 1,425, 2013: 1,503). Trainees are not included in the personnel headcount.

## (5) Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses € million	2015	2014	2013
Intangible assets . . . . .	394	213	681
Property, plant and equipment . . . . .	1,240	1,226	1,469
	<b>1,634</b>	<b>1,439</b>	<b>2,150</b>

During the year ended 31 December 2015, amortization of customer relationships from acquired companies was €24 million (2014: €30 million, 2013: €31 million), included in amortization of intangible assets.

Impairments € million	2015	2014	2013
Intangible assets . . . . .	221	14	433
Property, plant and equipment . . . . .	48	128	374
	<b>269</b>	<b>142</b>	<b>807</b>

During the year ended 31 December 2015, in relation to intangible assets, an impairment loss of €173 million was recognized for IT systems in the segment Retail United Kingdom, due to impairment of these assets (recoverable amount: €166 million).

During the years ended 31 December 2015, 2014 and 2013, impairment losses of €62 million, €101 million and €181 million respectively (of which €43 million (2014: €87 million, 2013: €137 million) pertained to property, plant and equipment and €19 million (2014: €14 million, 2013: €44 million) to intangible assets) were recognized for gas storage facilities in the Grid and Infrastructure Segment, largely due to changes in price expectations (recoverable amounts: 2015: €19 million, 2014: €92 million, 2013: €285 million).

During the year ended 31 December 2013, of the impairment losses on intangible assets, €92 million pertained to operating rights in the Renewables Segment. These impairments mainly resulted from the future loss of feed-in compensation for onshore wind farms in the Netherlands (recoverable amount: €239 million).

During the year ended 31 December 2013, an impairment of €260 million was recognized on a German offshore wind farm in the Renewables Segment (of which €185 million pertained to property, plant and equipment and €75 million to operating rights reported under intangible assets), mainly due to delays in network connection and increased investment costs (recoverable amount: €521 million).

During the year ended 31 December 2013, an impairment of €270 million was recognized on Spanish onshore wind farms in the Renewables Segment (of which €48 million pertained to property, plant and equipment and €222 million to operating rights reported under intangible assets), mainly due to the deterioration of the regulatory environment in Spain (recoverable amount: €205 million).

Recoverable amounts are determined on the basis of fair values less costs of disposal using valuation models based on planned cash flows. The discount rates amounted to 5.25% in 2015, to 5.75% in 2014 and ranged from 4.5% to 7.5% in 2013. The key planning assumptions for the business segments active in Europe's electricity and gas markets relate to the development of wholesale prices for electricity and natural gas, retail prices of electricity and gas, market shares and regulatory framework conditions. Based on the use of internal planning assumptions, the determined fair values are assigned to Level 3 of the fair value hierarchy.

## (6) Other operating expenses

Other operating expenses € million	2015	2014	2013
Maintenance and renewal obligations . . . . .	711	747	542
Concessions, licenses and other contractual obligations . . . . .	435	447	489
Structural and adaption measures . . . . .	4	22	202
Legal and other consulting and data processing services . . . . .	234	173	232
Disposal of current assets and decreases in values (excluding decreases in the value of inventories and marketable securities) . . . . .	320	296	297
Disposal of non-current assets including expenses from deconsolidation . . . . .	26	88	47
Insurance, commissions, freight and similar distribution costs . . . . .	117	115	183
General administration . . . . .	115	117	130
Advertising . . . . .	194	214	161
Expenses from derivative financial instruments . . . . .	30	6	25
Lease payments for plant and grids as well as rents . . . . .	126	120	153
Postage and monetary transactions . . . . .	75	57	70
Fees and membership dues . . . . .	60	50	40
Exchange rate losses . . . . .	–	–	29
Other taxes (primarily on property) . . . . .	57	59	70
Miscellaneous . . . . .	319	252	358
	<b>2,823</b>	<b>2,763</b>	<b>3,028</b>

During the year ended 31 December 2015, miscellaneous other operating expenses contain overhead costs allocated to the RWE International Group at the amount of €151 million (2014: €159 million, 2013: €165 million).

## (7) Income from investments

Income from investments includes all income and expenses which have arisen in relation to operating investments. It is comprised of income from investments accounted for using the equity method and other income from investments.

Income from investments € million	2015	2014	2013
<b>Income from investments accounted for using the equity method</b> . . . . .	<b>228</b>	<b>234</b>	<b>215</b>
of which: amortization/impairment losses/reversals on investments accounted for using the equity method . . . . .	-5	-11	-4
Income from non-consolidated subsidiaries . . . . .	3	5	11
of which: amortization/impairment losses on non-consolidated subsidiaries . . . . .	-1	-2	-1
Income from other investments . . . . .	32	26	29
of which: impairment of shares in other investments . . . . .	-1	-8	-2
Income from the disposal of investments . . . . .	221	169	35
Expenses from the disposal of investments . . . . .	7	8	4
Income from loans to investments . . . . .	34	26	23
Expenses from loans to investments . . . . .	18	52	24
<b>Other income from investments</b> . . . . .	<b>265</b>	<b>166</b>	<b>70</b>
	<b>493</b>	<b>400</b>	<b>285</b>

Expenses from loans to investments relate exclusively to impairment losses.

## (8) Financial result

Financial result € million	2015	2014	2013
Interest and similar income . . . . .	279	356	352
Other financial income . . . . .	299	89	54
<b>Financial income</b> . . . . .	<b>578</b>	<b>445</b>	<b>406</b>
Interest and similar expenses . . . . .	606	685	683
Interest accretion to Provisions for pensions and similar obligations (including capitalized surplus of plan assets) . . . . .	95	127	137
Other provisions . . . . .	37	104	41
Other finance cost . . . . .	142	84	112
<b>Finance cost</b> . . . . .	<b>880</b>	<b>1,000</b>	<b>973</b>
	<b>-302</b>	<b>-555</b>	<b>-567</b>

The financial result is composed of net interest, interest accretion to provisions, other financial income and other finance costs.

Interest accretion to provisions contains the annual amounts of accrued interest. It is reduced by interest income on plan assets for the coverage of pension obligations.

Net interest essentially includes interest income from interest-bearing securities and loans, income and expenses relating to marketable securities, and interest expenses.

During the year ended 31 December 2015, €4 million in borrowing costs were capitalized in connection with the acquisition, construction and production of qualifying assets (2014: €2 million, 2013: €2 million). The underlying capitalization rate ranged from 5.0% to 5.1% (2014: from 4.9% to 5.25%, 2013: from 5.0% to 5.25%).

<b>Net interest</b>			
<b>€ million</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Interest and similar income .....	279	356	352
Interest and similar expenses .....	606	685	683
	<b>-327</b>	<b>-329</b>	<b>-331</b>

Net interest stems from financial assets and liabilities, which are allocated to the following categories:

<b>Interest result by category</b>			
<b>€ million</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Loans and receivables .....	236	306	298
Financial assets available for sale .....	43	50	54
Financial liabilities carried at (amortized) cost .....	-606	-685	-683
	<b>-327</b>	<b>-329</b>	<b>-331</b>

During the year ended 31 December 2015, other financial income includes €279 million in gains realized from the disposal of marketable securities (2014: €68 million, 2013: €37 million). Of the other finance costs, €37 million in 2015 (2014: €9 million, 2013: €5 million) resulted from realized losses on the disposal of marketable securities.

## **(9) Taxes on income**

<b>Taxes on income</b>			
<b>€ million</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Current taxes on income .....	937	596	616
Deferred taxes .....	-77	-73	-65
	<b>860</b>	<b>523</b>	<b>551</b>

During the year ended 31 December 2015, of the deferred taxes, €36 million is related to temporary differences (2014: €16 million, 2013: -€20 million). Changes in valuation allowances for deferred tax assets amounted to -€115 million (2014: -€113 million, 2013: €422 million).

During the year ended 31 December 2015, current taxes on income contain €49 million in net tax income (2014: income of €54 million, 2013: expenses of -€16 million) relating to prior periods.

Due to the utilization of tax loss carryforwards unrecognized in prior years, current taxes on income were reduced by €1 million during the year ended 31 December 2015 (2014: €1 million, 2013: €1 million). Expenses from deferred taxes declined by €100 million during the year ended 31 December 2015 (2014: €3 million, 2013: €0 million), due to reassessments of and previously unrecognized tax carryforwards.

<b>Income taxes recognized in other comprehensive income</b>			
<b>€ million</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Fair valuation of financial instruments available for sale .....	15	-17	2
Actuarial gains and losses of defined benefit pension plans and similar obligations .....	-213	391	-98
	<b>-198</b>	<b>374</b>	<b>-96</b>

<b>Tax reconciliation</b>			
<b>€ million</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Income before tax</b> . . . . .	<b>2,798</b>	<b>2,221</b>	<b>1,445</b>
<b>Theoretical tax expense</b> . . . . .	<b>879</b>	<b>697</b>	<b>454</b>
Differences to foreign tax rates . . . . .	-55	-48	-154
Tax effects on			
Tax-free domestic dividends . . . . .	-68	-50	-53
Tax-free foreign dividends . . . . .	-7	-13	-7
Other tax-free income . . . . .	-14	-2	-1
Expenses not deductible for tax purposes . . . . .	258	20	48
Accounting for associates using the equity method (including impairment losses on associates' goodwill) . . . . .	16	-4	12
Unutilisable loss carryforwards, utilisation of unrecognized loss carryforwards, write-downs on loss carryforwards, recognition of loss carryforwards . . . . .	-61	43	144
Income on the disposal of investments . . . . .	-95	-17	-13
Changes in foreign tax rates . . . . .	-19	-3	-38
Tax effects from prior periods, international income taxes and other effects . . . . .	26	-100	159
<b>Effective tax expense</b> . . . . .	<b>860</b>	<b>523</b>	<b>551</b>
<b>Effective tax rate in %</b> . . . . .	<b>30.7</b>	<b>23.5</b>	<b>38.1</b>

# Notes to the Balance Sheet

## (10) Intangible Assets

Intangible Assets € million	Development costs	Concessions, patent rights, licences and similar rights	Customer relationships and similar rights	Goodwill	Pre- payments	Total
<b>Cost</b>						
Balance at 1 Jan 2015 .....	987	1,902	3,073	10,501	1	16,464
Additions/disposals due to changes in the scope of combination .....	0	16	83	271	0	370
Additions .....	206	49	–	10	5	270
Transfers .....	-1	3	–	0	0	2
Currency translation adjustments .....	53	19	162	192	0	426
Disposals .....	139	30	–	–	0	169
Balance at 31 Dec 2015 .....	1,106	1,959	3,318	10,974	6	17,363
<b>Accumulated amortization/ impairment losses</b>						
Balance at 1 Jan 2015 .....	516	1,400	2,853	0	–	4,769
Additions/disposals due to changes in the scope of combination .....	0	-6	–	–	–	-6
Amortization/ impairment losses of the reporting period .....	234	135	24	–	1	394
Transfers .....	0	0	–	0	–	0
Currency translation adjustments .....	24	7	162	0	–	193
Disposals .....	137	28	–	–	–	165
Reversals .....	–	0	–	–	–	0
Balance at 31 Dec 2015 .....	637	1,508	3,039	0	1	5,185
<b>Carrying amounts</b>						
Balance at 31 Dec 2015 .....	469	451	279	10,974	5	12,178

<b>Intangible Assets € million</b>	<b>Development costs</b>	<b>Concessions, patent rights, licences and similar rights</b>	<b>Customer relationships and similar rights</b>	<b>Goodwill</b>	<b>Pre- payments</b>	<b>Total</b>
<b>Cost</b>						
Balance at 1 Jan 2014 .....	803	1,943	2,899	10,343	2	15,990
Additions/disposals due to changes in the scope of combination .....	0	-83	–	0	–	-83
Additions .....	143	42	–	0	1	186
Transfers .....	0	3	–	–	-2	1
Currency translation adjustments .....	52	8	174	158	0	392
Disposals .....	11	11	–	0	–	22
Balance at 31 Dec 2014 .....	987	1,902	3,073	10,501	1	16,464
<b>Accumulated amortization/ impairment losses</b>						
Balance at 1 Jan 2014 .....	431	1,312	2,649	0	–	4,392
Additions/disposals due to changes in the scope of combination .....	0	-14	–	0	–	-14
Amortization/ impairment losses of the reporting period .....	70	113	30	–	–	213
Transfers .....	–	0	–	–	–	0
Currency translation adjustments .....	26	-1	174	0	–	199
Disposals .....	11	10	–	0	–	21
Reversals .....	–	0	–	–	–	0
Balance at 31 Dec 2014 .....	516	1,400	2,853	0	–	4,769
<b>Carrying amounts</b>						
Balance at 31 Dec 2014 .....	471	502	220	10,501	1	11,695

<b>Intangible Assets € million</b>	<b>Development costs</b>	<b>Concessions, patent rights, licences and similar rights</b>	<b>Customer relationships and similar rights</b>	<b>Goodwill</b>	<b>Pre- payments</b>	<b>Total</b>
<b>Cost</b>						
Balance at 1 Jan 2013 .....	703	2,149	2,951	10,703	1	16,507
Additions/disposals due to changes in the scope of combination .....	–	-40	1	-185	–	-224
Additions .....	111	66	–	–	2	179
Transfers .....	1	3	–	–	-1	3
Currency translation adjustments .....	-12	-12	-53	-175	0	-252
Disposals .....	0	223	0	–	0	223
Balance at 31 Dec 2013 .....	803	1,943	2,899	10,343	2	15,990
<b>Accumulated amortization/ impairment losses</b>						
Balance at 1 Jan 2013 .....	350	1,002	2,672	0	–	4,024
Additions/disposals due to changes in the scope of combination .....	–	-34	0	0	–	-34
Amortization/ impairment losses of the reporting period .....	86	564	31	0	–	681
Transfers .....	–	1	–	–	–	1
Currency translation adjustments .....	-5	-4	-54	0	–	-63
Disposals .....	0	217	0	–	–	217
Reversals .....	–	–	–	–	–	–
Balance at 31 Dec 2013 .....	431	1,312	2,649	0	–	4,392
<b>Carrying amounts</b>						
Balance at 31 Dec 2013 .....	372	631	250	10,343	2	11,598

During the period ended 31 December 2015, the RWE International Group's total expenditures on research and development amounted to €250 million (2014: €88 million, 2013: €110 million). Development costs of €205 million were capitalized (2014: €143 million, 2013: €112 million).

Goodwill breaks down as follows:

<b>Goodwill € million</b>	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Supply/Distribution Networks Germany .....	3,594	3,387	3,356
Supply Netherlands/Belgium .....	2,695	2,682	2,682
Supply United Kingdom .....	2,415	2,269	2,120
Central Eastern and South Eastern Europe .....	1,516	1,408	1,422
Renewables .....	754	755	763
	<b>10,974</b>	<b>10,501</b>	<b>10,343</b>

Goodwill is allocated to cash-generating units that represent the lowest level at which the goodwill is monitored for internal management purposes. Until 31 December 2015 internal monitoring and reporting in the supply and distribution networks business in the RWE Group was based on regional criteria.

As of 1 January 2016, the segment structure on the level of RWE Group was changed to a functional structure. In connection with that change, the goodwill was re-allocated to new cash-generating units. The goodwill impairment test in connection with this reorganization did not result in any impairment losses.

For the RWE International Group, internal management starts with the beginning of the operational business activities of the group on 1 April 2016. From that date on the cash-generating units of the RWE International Group correspond to those introduced by RWE Group as of 1 January 2016.

Due to disposals, goodwill decreased by €22 million during the year ended 31 December 2015 (2014: €13 million, 2013: €58 million). In the cash-generating unit "Supply/Distribution Networks Germany", changes in current redemption liabilities from put options resulted in an increase in goodwill without an effect on income in the amount of €197 million (2014: increase of €12 million, 2013: decline of €132 million).

In the third quarter of every fiscal year, an impairment test is performed to determine if there is any need to write down goodwill. In this test, goodwill is allocated to the cash-generating units at the operating segment level. The recoverable amount of the cash-generating unit is determined, which is defined as the higher of fair value less costs to sell or value in use. Fair value is the best estimate of the price that an independent third party would pay to purchase the cash-generating unit as of the balance-sheet date. Value in use reflects the present value of the future cash flows which are expected to be generated with the cash-generating unit.

Fair value is assessed from an external perspective and value in use from a company-internal perspective. Values are determined using a business valuation model, based on planned future cash flows. These cash flows are based on the business plan, as approved by the Executive Board and valid at the time of the impairment test. They pertain to a detailed planning period of up to five years. In certain justifiable cases, a longer detailed planning period is taken as a basis, insofar as it is necessary due to economic or regulatory conditions. The cash flow plans are based on experience as well as on expected market trends in the future. If available, market transactions in the same sector or third-party valuations are taken as a basis for determining fair value. Based on the use of internal planning assumptions, the determined fair values are assigned to level 3 of the fair value hierarchy.

Mid-term business plans are based on country-specific assumptions regarding the development of key economic indicators such as gross domestic product, consumer prices, interest rate levels and nominal wages. These estimates are, amongst others, derived from macroeconomic and financial studies.

The key planning assumptions for the business segments active in Europe's electricity and gas markets relate to the development of wholesale prices for electricity and natural gas, retail prices of electricity and gas, market shares and regulatory framework conditions.

The discount rates used for business valuations are determined on the basis of market data. With regard to cash-generating units, in 2015 they ranged from 4.5% to 5.75% after tax (2014: 5.5% to 7.3%, 2013: 5.75% to 7.6%).

For the extrapolation of future cash flows going beyond the detailed planning horizon, in 2015 constant growth rates of 0.0% to 1.0% were used (2014: 0.0% to 1.0%, 2013: 0.0% to 1.0%). These figures are derived from experience and future expectations for the individual divisions and do not exceed the long-term average growth rates in the markets in which the Group companies are active. In calculating cash flow growth rates, the capital expenditures required to achieve the assumed cash flow growth are subtracted.

In 2015, 2014 and 2013, the recoverable amounts were higher than the carrying amounts of the cash-generating units. These surpluses react especially sensitively to changes in the discount rate, the growth rate and the operating result after taxes in the terminal value.

During the year ended 31 December 2015, the Segment Supply United Kingdom exhibited the smallest surpluses of recoverable amount over the carrying amount. The recoverable amount was €0.7 billion higher than the carrying amount. Impairment would have been necessary if the calculations had used an after-tax discount rate increased by more than 0.8 percentage points to above 6.5%, a growth rate decreased by more than 0.9 percentage points to below 0.1%, or an after-tax operating result reduced by more than €36 million in terminal value.

During the year ended 31 December 2014, the segments Renewables and Supply Netherlands/Belgium exhibited the smallest surplus of recoverable amount over carrying amount. At €1.6 billion, the recoverable amount of the Renewables Segment was higher than the carrying amount. Impairment would have been necessary if the calculations had used an after-tax discount rate increased by more than 1.3 percentage points to above 6.8%, a growth rate decreased by more than 2.4 percentage points to below -1.4%, or an after tax operating result reduced by more than €123 million in terminal value. At €1.4 billion, the recoverable amount of the Supply Netherlands/Belgium Segment was higher than the carrying amount. Impairment would have been necessary if the calculations had used an after-tax discount rate increased by more than 2.8 percentage points to above 8.5%, a growth rate decreased by more than 3.9 percentage points to below -2.9%, or an after-tax operating result reduced by more than €85 million in terminal value.

During the year ended 31 December 2013, the Renewables Segment exhibited the smallest surplus of recoverable amount over carrying amount. Impairment would have been necessary if the calculations had used an after-tax discount rate increased by more than 0.9 percentage points to above 6.9%, a growth rate decreased by more than 1.6 percentage points to below -0.6%, or an after-tax operating result reduced by more than €105 million in terminal value.

## (11) Property, plant and equipment

Property, plant and equipment € million	Land, land rights and buildings incl. buildings on third-party land	Technical plant and machinery	Other equipment, factory and office equipment	Prepayments and plants under construction	Total
<b>Cost</b>					
Balance at 1 Jan 2015	2,719	34,937	1,055	3,045	41,756
Additions/Disposals due to changes in the scope of combination	36	317	162	-221	294
Additions	37	1,079	86	555	1,757
Transfers	108	2,622	96	-2,828	-2
Currency translation adjustments	10	192	12	117	331
Disposals	73	831	101	26	1,031
Balance at 31 Dec 2015	2,837	38,316	1,310	642	43,105
<b>Accumulated depreciation/ impairment losses</b>					
Balance at 1 Jan 2015	1,416	22,052	784	195	24,447
Additions/Disposals due to changes in the scope of combination	2	-229	6	0	-221
Depreciation/impairment losses in the reporting period	61	1,083	91	5	1,240
Transfers	29	123	33	-185	-
Currency translation adjustments	4	53	10	0	67
Disposals	28	613	95	-	736
Reversals	0	0	0	-	0
Balance at 31 Dec 2015	1,484	22,469	829	15	24,797
<b>Carrying amounts</b>					
Balance at 31 Dec 2015	1,353	15,847	481	627	18,308

<b>Property, plant and equipment € million</b>	<b>Land, land rights and buildings incl. buildings on third-party land</b>	<b>Technical plant and machinery</b>	<b>Other equipment, factory and office equipment</b>	<b>Prepayments and plants under construction</b>	<b>Total</b>
<b>Cost</b>					
Balance at 1 Jan 2014 .....	2,690	34,842	1,032	2,972	41,536
Additions/Disposals due to changes in the scope of combination .....	-4	-749	5	-276	-1,024
Additions .....	37	992	67	996	2,092
Transfers .....	41	686	15	-743	-1
Currency translation adjustments .....	-20	12	6	101	99
Disposals .....	25	846	70	5	946
Balance at 31 Dec 2014 .....	2,719	34,937	1,055	3,045	41,756
<b>Accumulated depreciation/ impairment losses</b>					
Balance at 1 Jan 2014 .....	1,382	22,201	743	230	24,556
Additions/Disposals due to changes in the scope of combination .....	-2	-543	5	0	-540
Depreciation/impairment losses in the reporting period .....	59	1,071	96	0	1,226
Transfers .....	4	30	1	-35	-
Currency translation adjustments .....	-10	-30	5	0	-35
Disposals .....	17	675	66	0	758
Reversals .....	0	2	-	-	2
Balance at 31 Dec 2014 .....	1,416	22,052	784	195	24,447
<b>Carrying amounts</b>					
Balance at 31 Dec 2014 .....	1,303	12,885	271	2,850	17,309
<b>Cost</b>					
Balance at 1 Jan 2013 .....	2,708	34,657	1,058	2,079	40,502
Additions/Disposals due to changes in the scope of combination .....	-18	-151	-15	-3	-187
Additions .....	38	893	79	1,242	2,252
Transfers .....	18	284	12	-317	-3
Currency translation adjustments .....	-30	-311	-11	-15	-367
Disposals .....	26	530	91	14	661
Balance at 31 Dec 2013 .....	2,690	34,842	1,032	2,972	41,536
<b>Accumulated depreciation/ impairment losses</b>					
Balance at 1 Jan 2013 .....	1,352	21,637	739	6	23,734
Additions/Disposals due to changes in the scope of combination .....	-13	-125	-17	-	-155
Depreciation/impairment losses in the reporting period .....	80	1,060	105	224	1,469
Transfers .....	-6	4	2	-	-
Currency translation adjustments .....	-13	-116	-8	0	-137
Disposals .....	16	259	78	-	353
Reversals .....	2	0	-	-	2
Balance at 31 Dec 2013 .....	1,382	22,201	743	230	24,556
<b>Carrying amounts</b>					
Balance at 31 Dec 2013 .....	1,308	12,641	289	2,742	16,980

As of 31 December 2015, property, plant and equipment in the amount of €13 million (2014: €75 million, 2013: €93 million) were subject to restrictions from land charges or chattel mortgages. Of the total carrying amount of property, plant and equipment, as of 31 December 2015, €9 million (2014: €4 million, 2013: €3 million) was attributable to assets procured under finance leases. These assets essentially consist of technical plant and equipment. Disposals of property, plant and equipment resulted from sale or decommissioning.

## (12) Investments accounted for using the equity method

Information on material and non-material investments in associates and joint ventures accounted for using the equity method is presented in the following summaries:

Material investments accounted for using the equity method € million	KELAG-Kärntner Elektrizitäts-AG/ Kärntner Energieholding Beteiligungs GmbH (KEH), Klagenfurt/Austria		
	31 Dec 2015	31 Dec 2014	31 Dec 2013
Balance sheet <sup>1</sup>			
Non-current assets	1,595	1,478	1,442
Current assets	221	384	530
Non-current liabilities	809	605	882
Current liabilities	221	495	376
Proportional share of equity <sup>2</sup>	339	329	314
Consolidation adjustments	198	199	199
Carrying amount	537	528	513
Statement of comprehensive income <sup>1</sup>			
Revenue	1,441	1,494	2,007
Income	83	95	76
Other comprehensive income	-18	-7	-12
Total comprehensive income	65	88	64
Dividends	15	16	14
RWE International shareholding	49%	49%	49%

1 Amounts based on a shareholding of 100% in KEH.

2 Amounts based on the proportional share of equity in KEH and KELAG.

KELAG-Kärntner Elektrizitäts-AG, located in Klagenfurt, Austria, is a leading energy service provider in Austria active in the fields of electricity, district heating and natural gas. RWE International holds a share of 49% in Kärntner Energieholding Beteiligungs GmbH, which is the main shareholder of KELAG.

The consolidation adjustments presented are primarily attributable to the goodwill created in the context of the acquisitions.

Non-material investments accounted for using the equity method € million	Associates			Joint ventures		
	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2015	31 Dec 2014	31 Dec 2013
Income (pro-rata)	126	131	150	70	68	29
Other comprehensive income (pro-rata)	-47	8	-18	-14	14	-25
Total comprehensive income (pro-rata)	79	139	132	56	82	4
Carrying amounts	1,227	1,317	1,366	373	534	525

As of 31 December 2015, the RWE International Group holds shares with a book value of €92 million (2014: €104 million, 2013: €149 million) in associates and joint ventures, which are subject to temporary restrictions or conditions in relation to their distribution of profits, due to provisions of loan agreements.

### (13) Other non-current financial assets

Other non-current financial assets € million	31 Dec 2015	31 Dec 2014	31 Dec 2013
Non-consolidated subsidiaries .....	119	92	117
Other investments .....	410	385	322
Non-current securities .....	26	33	39
	<b>555</b>	<b>510</b>	<b>478</b>

Non-current securities primarily consist of fixed-interest marketable securities and shares of listed companies.

### (14) Financial receivables

Financial receivables € million	31 Dec 2015		31 Dec 2014		31 Dec 2013	
	Non-current	Current	Non-current	Current	Non-current	Current
Loans to non-consolidated subsidiaries and investments .....	208	3	157	4	95	68
Collateral for trading activities .....	–	6	–	6	–	3
Other financial receivables .....	2,003	10,416	1,301	10,306	1,044	8,902
	<b>2,211</b>	<b>10,425</b>	<b>1,458</b>	<b>10,316</b>	<b>1,139</b>	<b>8,973</b>

As of 31 December 2015, other financial receivables include receivables to the RWE Group in the amount of €11,613 million (2014: €10,859 million, 2013: €9,118 million), from which €1,390 million are presented as non-current (2014: €703 million, 2013: €358 million). As of 31 December 2015 financial receivables to RWE Group include financial receivables to RWE AG of €4,944 million (2014: €4,532 million, 2013: €3,127 million) and financial receivables to Essent Power B.V. of €5,308 million (2014: €5,532 million, 2013: €1,547 million). The RWE AG's creditworthiness was evaluated by rating agencies (see "Accounting policies – Capital management" and Note 34).

### (15) Other receivables and other assets

Other receivables and other assets € million	31 Dec 2015		31 Dec 2014		31 Dec 2013	
	Non-current	Current	Non-current	Current	Non-current	Current
Derivatives .....	843	675	456	483	371	267
Capitalized surplus of plan assets over benefit obligations .....	5	–	–	–	–	–
Prepayments for items other than inventories ...	–	58	–	72	–	81
Miscellaneous other assets .....	18	1,083	21	923	12	836
	<b>866</b>	<b>1,816</b>	<b>477</b>	<b>1,478</b>	<b>383</b>	<b>1,184</b>
of which: financial assets .....	850	878	459	656	372	428
of which: non-financial assets .....	16	938	18	822	11	756

## (16) Deferred taxes

Deferred tax assets and liabilities principally stem from the fact that measurements in the IFRS statements differ from those in the tax bases. As of 31 December 2015, €387 million and €236 million of the gross deferred tax assets and liabilities, respectively, will be realized within twelve months (2014: €420 million and €203 million, 2013: €293 million and €126 million).

The following is a breakdown of deferred tax assets and liabilities by item:

Deferred taxes € million	31 Dec 2015		31 Dec 2014		31 Dec 2013	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Non-current assets . . . . .	870	1,386	606	1,179	502	1,156
Current assets . . . . .	77	209	36	184	45	81
Exceptional tax items . . . . .	10	82	–	100	–	98
Non-current liabilities						
Provisions for pensions . . . . .	859	31	966	3	653	2
Other non-current provisions . . . .	517	24	476	18	513	16
Current liabilities . . . . .	310	27	384	19	248	45
	<b>2,643</b>	<b>1,759</b>	<b>2,468</b>	<b>1,503</b>	<b>1,961</b>	<b>1,398</b>
Tax loss carryforwards (corporate income tax or comparable foreign income tax) . . . . .	184	–	68	–	34	–
<b>Gross total . . . . .</b>	<b>2,827</b>	<b>1,759</b>	<b>2,536</b>	<b>1,503</b>	<b>1,995</b>	<b>1,398</b>
Netting . . . . .	-855	-855	-731	-731	-578	-578
<b>Net total . . . . .</b>	<b>1,972</b>	<b>904</b>	<b>1,805</b>	<b>772</b>	<b>1,417</b>	<b>820</b>

As of 31 December 2015, 31 December 2014 and 31 December 2013, RWE International reported deferred tax claims which exceeded the deferred tax liabilities by €219 million, €0 million and €0 million, respectively, in relation to companies that suffered a loss in the current or previous period. The basis for the formation of deferred tax assets is the judgement of the management that it is likely that the companies in question will generate taxable earnings, against which unutilized tax losses and deductible temporary differences can be applied.

The capitalized tax reduction claims from loss carryforwards result from the expected utilization of previously unused tax loss carryforwards in subsequent years.

It is sufficiently certain that these tax carryforwards will be realized. As of 31 December 2015, corporate income tax loss carry forwards and trade tax loss carryforwards for which no deferred tax claims have been recognized amounted to €826 million and €5 million, respectively (2014: €1,288 million and €21 million, respectively, 2013: €1,894 million and €18 million, respectively). Of these income tax loss carryforwards, as of 31 December 2015 €705 million (2014: €1,213 million, 2013: €1,824 million) will apply to the following 20 years. The other tax loss carryforwards can essentially be used for an unlimited period.

During the year ended 31 December 2015, deferred tax income of €3 million arising from the currency translation of foreign financial statements was offset against equity (2014: €6 million, 2013: €2 million).

During the year ended 31 December 2015, the aggregate current and deferred tax relating to items that are charged or credited directly to equity amounts to €1 million (2014: €116 million, 2013: -€323 million).

## (17) Inventories

Inventories € million	31 Dec 2015	31 Dec 2014	31 Dec 2013
Raw materials . . . . .	134	134	178
Work in progress - goods/services . . . . .	170	213	171
Finished goods and goods for resale . . . . .	75	144	92
Prepayments . . . . .	1	0	3
	<b>380</b>	<b>491</b>	<b>444</b>

## (18) Trade accounts receivable

Information on the impairment of trade accounts receivable as well as unimpaired past-due receivables may be found in Note 28.

## (19) Marketable securities

As of 31 December 2015, of the marketable securities, €1,258 million were fixed-interest marketable securities (2014: €1,316 million, 2013: €1,088 million) with a maturity of more than three months from the date of acquisition, and €636 million were stocks and profit-participation certificates (2014: €597 million, 2013: €614 million). Marketable securities are stated at fair value. As of 31 December 2015 the average return on fixed-interest securities was 1.3% (2014: 1.2%, 2013: 2.2%).

## (20) Cash and cash equivalents

Cash and cash equivalents € million	31 Dec 2015	31 Dec 2014	31 Dec 2013
Cash and demand positions . . . . .	549	426	742
Marketable securities and other cash investments (maturity less than three months from the date of acquisition) . . . . .	1	49	82
	<b>550</b>	<b>475</b>	<b>824</b>

During the years ended 31 December 2015, 2014 and 2013, interest rates on cash and cash equivalents were at market levels.

## (21) Equity

A breakdown of equity is shown on page 6.

**Accumulated other comprehensive income** reflects changes in the fair values of financial instruments available for sale and hedges of the net investment in foreign operations, as well as changes stemming from foreign currency translation adjustments from foreign financial statements.

As of 31 December 2015, the share of accumulated other comprehensive income attributable to investments accounted for using the equity method amounted to €43 million (2014: €39 million, 2013: €28 million).

In 2015, €22 million in differences from currency translation (2014: expenses of €9 million, 2013: income of €10 million) which had originally been recorded in accumulated other comprehensive income were realized as income. Income and expenses of investments accounted for using the equity method which had previously been recognized pro-rata in accumulated other comprehensive income were realized in the amount of €0 million (2014: income of €6 million, 2013: income/expenses of €0 million).

During the year ended 31 December 2015, **withdrawals and contributions** contained primarily adjustments related to payments received from the disposal of businesses from entities that were excluded from the scope of combination for all reporting periods of €3 million (2014: €8 million, 2013: €1,241 million), cash withdrawals and contributions from RWE AG as a result of various transactions during the reporting periods presented of -€518 million (2014: €1,017 million, 2013: €39 million), adjustments from overhead cost allocations of €107 million (2014: €113 million, 2013: €118 million), adjustments as a result from the application of the separate tax return approach of €50 million (2014: €241 million, 2013: -€269 million) and other stand-alone adjustments of -€34 million (2014: -€59 million, 2013: -€12 million). In addition, during the year ended 31 December 2015, a withdrawal of -€893 million related to the recognition of various assets and liabilities as a result of the acquisition of RWE Finance B.V. (see "General information").

During the reporting periods presented, withdrawals and contributions of non-controlling interests related to other transactions.

**Non-controlling interests.** The share ownership of third parties in Group entities is presented in this item.

The income and expense recognized directly in equity (other comprehensive income – OCI) include the following non-controlling interests:

<b>Non-controlling interests in OCI</b>			
€ million	2015	2014	2013
Actuarial gain and losses of defined benefit pension plans and similar obligations	-67	11	-77
<b>Income and expenses recognized directly in equity, not to be reclassified through profit or loss</b>	<b>-67</b>	<b>11</b>	<b>-77</b>
Currency translation adjustment	43	-10	-54
Fair valuation of financial instruments available for sale	-35	13	8
<b>Income and expenses recognized directly in equity, to be reclassified through profit or loss</b>	<b>8</b>	<b>3</b>	<b>-46</b>
	<b>-59</b>	<b>14</b>	<b>-123</b>

The following table summarizes the information of subsidiaries with non-controlling interests which are material for the RWE International Group:

<b>Material non-controlling interests</b>	<b>envia Mitteldeutsche Energie AG, Chemnitz</b>			<b>RWE GasNet, s.r.o., Ústí nad Labem/Czech Republic</b>		
	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
<b>€ million</b>						
Balance sheet						
Non-current assets	2,811	2,337	2,335	1,532	1,430	1,386
Current assets	304	853	933	154	37	74
Non-current liabilities	480	493	513	504	371	357
Current liabilities	638	787	979	580	619	669
Statement of comprehensive income						
Revenue	2,388	2,410	2,673	473	418	521
Other comprehensive income	-22	-4	-17	14	-5	-29
Total comprehensive income	261	311	134	138	86	137
Cash flows from operating activities	521	403	218	218	183	243
Non-controlling interests	828	792	736	301	167	152
Dividends paid to non-controlling interests	72	73	67	–	21	46
Income attributable to non-controlling interests	117	131	63	62	32	58
Shareholdings of non-controlling interests	41.43%	41.43%	41.43%	49.96%	34.96%	34.96%

## (22) Share-based payments

The executives of RWE International SE and subordinate affiliates have been included in an RWE Group share based payment system known as Beat 2010. The expenses associated with these are borne by the RWE International Group companies which employ the persons holding notional stocks.

	Beat 2010					
	2010 tranche Vesting period: 4 years	2011 tranche Vesting period: 4 years	2012 tranche Vesting period: 4 years	2013 tranche Vesting period: 4 years	2014 tranche Vesting period: 4 years	2015 tranche Vesting period: 4 years
Grant date	1 Jan 2010	1 Jan 2011	1 Jan 2012	1 Jan 2013	1 Jan 2014	1 Jan 2015
Number of conditionally granted performance shares	407,304	1,007,832	2,765,350	2,035,873	987,310	1,305,770
Term	Five years	Five years	Five years	Five years	Five years	Five years
Pay-out conditions	Possible pay-out on three exercise dates (valuation dates: 31 Dec of the fourth year, 30 June and 31 Dec of the fifth year) if – as of the valuation date – an outperformance compared to at least 25% of the peer group of the STOXX Europe 600 Utilities Index has been achieved, measured in terms of their index weighting as of the issue of the tranche. Measurement of outperformance is carried out using Total Shareholder Return, which takes into account both the development of the share price together with reinvested dividends. Automatic pay-out occurs on the third valuation date; the number of performance shares available for pay-out can be freely chosen on the first and second valuation date.					
Determination of payment	<ol style="list-style-type: none"> <li>1. Determination of the index weighting of the peer group companies which exhibit a lower Total Shareholder Return than RWE at the valuation date.</li> <li>2. The total number of performance shares which can be paid out is determined on the basis of a linear payment curve. If the index weighting of 25% is outperformed, 7.5% of the conditionally-granted performance shares can be paid out. Another 1.5% of the performance shares granted can be paid out for each further percentage point above and beyond the index weighting of 25%.</li> <li>3. Payment corresponds to the number of payable performance shares valued at the average RWE share price during the last 60 exchange trading days prior to the valuation date. The payment for each performance share is limited to twice the value of each performance share as of the grant date.</li> </ol>					
Change in corporate control/merger	<ul style="list-style-type: none"> <li>• If during the waiting period there is a change in corporate control, a compensatory payment is made. This is calculated by multiplying the price paid in the acquisition of the RWE shares by the final number of performance shares which have not been used. The latter shall be determined as per the plan conditions with regard to the time when the bid for corporate control is submitted.</li> <li>• In the event of merger of RWE AG with another company, the performance shares shall expire and a compensatory payment shall be made. First, the fair value of the performance shares as of the time of merger shall be calculated. This fair value is then multiplied by the number of performance shares granted, reduced pro-rata. The reduction factor is calculated as the ratio of the time from the beginning of the total waiting period until the merger takes place to the entire waiting period of the programme, multiplied by the ratio of the performance shares not yet used as of the time of the merger to the total number of performance shares granted at the beginning of the programme.</li> </ul>					
Personal investment	As a prerequisite for participation, plan participants must demonstrably invest one sixth of the gross grant value of the performance shares before taxes in RWE common shares and hold such investment until expiration of the waiting period of the tranche in question.					
Form of settlement	Cash settlement					

The fair values of the performance shares conditionally granted in the Beat programme as of the grant date are shown in the following table:

Performance shares from Beat 2010 €	2010 tranche	2011 tranche	2012 tranche	2013 tranche	2014 tranche	2015 tranche
Fair value per share . . . . .	25.96	17.01	6.66	8.09	7.44	5.05

These fair values were calculated externally using a stochastic multivariate Black-Scholes standard model via Monte Carlo simulations on the basis of one million scenarios each. In the calculations, due consideration was taken of the maximum payment stipulated in the programme's conditions for each conditionally granted performance share, the discount rates for the remaining term, the volatilities and the expected dividends of RWE AG and of peer companies.

The number of performance shares developed as follows:

Performance shares from Beat 2010	2010 tranche	2011 tranche	2012 tranche	2013 tranche	2014 tranche	2015 tranche
Outstanding at 1 Jan						
2015 . . . . .	–	855,047	2,247,411	1,717,614	894,403	–
Granted . . . . .	–	–	–	–	–	1,305,770
Change (granted/ expired) . . . . .	–	140,999	159,254	148,926	66,459	191,934
Paid out . . . . .	–	–	–	–	–	–
Outstanding at 31 Dec						
2015 . . . . .	–	714,048	2,088,157	1,568,688	827,944	1,113,836
Payable at the end of 2015 . . . . .	–	–	–	–	–	–
Outstanding at 1 Jan						
2014 . . . . .	349,841	925,430	2,453,511	1,863,774	–	–
Granted . . . . .	–	–	–	–	987,310	–
Change (granted/ expired) . . . . .	349,841	70,383	206,100	146,160	92,907	–
Paid out . . . . .	–	–	–	–	–	–
Outstanding at 31 Dec						
2014 . . . . .	–	855,047	2,247,411	1,717,614	894,403	–
Payable at the end of 2014 . . . . .	–	–	–	–	–	–
Outstanding at 1 Jan						
2013 . . . . .	375,345	1,005,698	2,711,006	–	–	–
Granted . . . . .	–	–	–	2,035,873	–	–
Change (granted/ expired) . . . . .	25,504	80,268	257,495	172,099	–	–
Paid out . . . . .	–	–	–	–	–	–
Outstanding at 31 Dec						
2013 . . . . .	349,841	925,430	2,453,511	1,863,774	–	–
Payable at the end of 2013 . . . . .	–	–	–	–	–	–

The remaining contractual term amounts to four years for the 2015 tranche, three years for the 2014 tranche, two years for the 2013 tranche and one year for the 2012 tranche. The contractual duration for the 2011 tranche expired at the end of 2015. As the pay-out conditions were not fulfilled, there was no pay-out.

During the year ended 31 December 2015, expenses for the share-based payment system totalled €9 million (2014: €3 million, 2013: €0 million). The claims were settled in cash only. As of 31 December 2015, provisions for cash-settled share-based payment programmes amounted to €0 million (2014: €9 million, 2013: €12 million).

### **(23) Provisions for pensions and similar obligations**

The company pension plan consists of defined contribution and defined benefit plans. The defined benefit commitments mainly relate to pension commitments based on final salary.

During the year ended 31 December 2015, €36 million (2014: €67 million, 2013: €64 million) was paid into defined contribution plans. This includes payments made by RWE International for a defined benefit plan in the Netherlands which covers the commitments of various employers. This fund does not provide the participating companies with information allowing for the pro-rata allocation of commitments, plan assets and service cost. In the combined financial statements, the contributions are thus recognized analogously to a defined contribution plan, although this is a defined benefit plan. The pension plan for employees in the Netherlands is administered by Stichting Pensioenfonds ABP (cf. <http://www.abp.nl/>). Contributions to the pension plan are calculated as a percentage rate of employees' salaries and are paid by the employees and employers. The rate of the contributions is determined by ABP. There are no minimum funding requirements. Approximately €11 million will be paid to the ABP pension fund in fiscal year 2016 (2015: €12 million, 2014: €15 million). The contributions are used for all of the beneficiaries. If ABP's funds are insufficient, it can either curtail pension benefits and future post-employment benefits, or increase the contributions of the employer and employees. In the event that RWE International terminates the ABP pension plan, ABP will charge a termination fee. Amongst other things, this depends on the number of participants in the plan, the amount of salary and the age structure of the participants. As of 31 December 2015, around 1,700 active participants of RWE International were included in the plan (2014: around 1,800, 2013: around 2,200).

RWE transferred assets to RWE Pensionstreuhand e.V. within the framework of contractual trust arrangements (CTA). There is no minimum funding requirement. From the assets held in trust, funds were transferred to RWE Pensionsfonds AG to cover pension commitments to most of the employees who have already retired. RWE Pensionsfonds AG falls under the scope of the Act on the Supervision of Insurance Undertakings and oversight by the Federal Financial Supervisory Agency (BaFin). Insofar as a regulatory deficit occurs in the pension fund, supplementary payment shall be requested from the employer. Independently of the aforementioned rules, the liability of the employer shall remain in place. The bodies of RWE Pensionstreuhand e.V. and RWE Pensionsfonds AG are responsible for ensuring that the funds under management are used in compliance with the contract and thus fulfill the requirements for recognition as plan assets.

During the year ended 31 December 2015, roughly €534 million was transferred to RWE Pensionstreuhand e.V. for the external financing of the company's pension plans, within the framework of CTAs (2014: €268 million, 2013: €96 million). As the transferred assets are qualified as plan assets in the sense of IAS 19, pensions for provisions and similar obligations were netted against the transferred funds as of 31 December 2015. Provisions declined by a corresponding amount.

RWE's main pension arrangements in the United Kingdom are part of the Electricity Supply Pension Scheme (ESPS), which is an industry-wide pension scheme in which RWE has its own ring-fenced section. In the United Kingdom, corporate defined benefit plans are legally mandated to provide adequate and suitable assets to cover pension provisions. Pension provisions are measured on the basis of conservative assumptions, taking into consideration specific demographic aspects for the members of the plan and assumptions for the market return on the plan assets.

The last valuation of RWE's section of the ESPS was carried out on 31 March 2013 and showed a deficit of £563 million. RWE and the trustees then prepared a plan for annual payments to

rectify this deficit. These payments were calculated for the period from 2014 to 2017. The amounts determined were as follows: £93 million for 2014, £186 million for 2015, £156 million for 2016 and £151 million for 2017 of which RWE International's share is £54 million for 2014, £117 million for 2015, £98 million in 2016 and £95 million in 2017. The next valuation had to occur by 31 March 2016. From this point in time, RWE International and the trustees have 15 months to approve the valuation. The RWE section of the ESPS is managed by nine trustees. These are responsible for management of the plan, including investments, pension payments and financing plans.

The deficit payments above are re-charged to the participating RWE companies on the basis of a contractual agreement. In addition, RWE companies make regular payments to cover the ongoing cost of additional ESPS pension earned by current employees each year.

The scheme is being regarded as a defined benefit plan that shares risks between various entities under common control. RWE International accounts for its proportionate share of the defined benefit obligation, plan assets and costs associated with the plan (2015: 56.5%, 2014: 56.5%, 2013: 54.3%), which reflect its proportion of total pensionable salaries in the RWE section of the ESPS.

The following tables disclose information about the UK pension plan as a whole:

Composition of plan assets (fair value)	31 Dec 2015		31 Dec 2014		31 Dec 2013	
	Foreign	of which active market	Foreign	of which active market	Foreign	of which active market
€ million						
Equity instruments, exchange traded funds .....	877	877	777	777	842	197
Interest-bearing instruments .....	4,597	2,544	4,500	2,439	3,207	1,617
Real estate .....	8	–	89	–	180	5
Alternative investments .....	1,047	124	765	349	641	13
Other .....	-15	6	69	9	137	12
	<b>6,514</b>	<b>3,551</b>	<b>6,200</b>	<b>3,574</b>	<b>5,007</b>	<b>1,844</b>

Changes in pension provisions € million	Present value of pension commitments	Fair value of plan assets	Total
<b>Balance at 1 Jan 2015</b> .....	6,975	6,200	775
Current service cost .....	51	–	51
Interest cost/income .....	249	229	20
Return on fund assets less interest components .....	–	-235	235
Gain/loss on change in financial assumptions .....	-132	–	-132
Experience-based gains/losses .....	-35	–	-35
Currency translation adjustments .....	430	381	49
Employee contributions to funded plans .....	11	11	–
Employer contributions to funded plans .....	–	309	-309
Benefits paid by funded plans .....	-374	-374	–
Past service cost .....	19	–	19
General administration expenses .....	–	-7	7
<b>Balance at 31 Dec 2015</b> .....	<b>7,194</b>	<b>6,514</b>	<b>680</b>
of which: foreign .....	7,194	6,514	680

Changes in pension provisions € million	Present value of pension commitments	Fair value of plan assets	Total
<b>Balance at 1 Jan 2014</b>	5,850	5,007	843
Current service cost	46	–	46
Interest cost/income	254	219	35
Return on fund assets less interest components	–	740	-740
Gain/loss on change in financial assumptions	675	–	675
Experience-based gains/losses	17	–	17
Currency translation adjustments	432	378	54
Employee contributions to funded plans	11	11	–
Employer contributions to funded plans	–	205	-205
Benefits paid by funded plans	-354	-354	–
Past service cost	44	–	44
General administration expenses	–	-6	6
<b>Balance at 31 Dec 2014</b>	6,975	6,200	775
of which: foreign	6,975	6,200	775

Changes in pension provisions € million	Present value of pension commitments	Fair value of plan assets	Total
<b>Balance at 1 Jan 2013</b>	6,320	5,147	1,173
Current service cost	63	–	63
Interest cost/income	245	205	40
Return on fund assets less interest components	–	-87	87
Gain/loss on change in demographic assumptions	-35	–	-35
Gain/loss on change in financial assumptions	-125	–	-125
Experience-based gains/losses	-194	–	-194
Currency translation adjustments	-138	-111	-27
Employee contributions to funded plans	13	13	–
Employer contributions to funded plans	–	171	-171
Benefits paid by funded plans	-326	-326	–
Past service cost	27	–	27
General administration expenses	–	-5	5
<b>Balance at 31 Dec 2013</b>	5,850	5,007	843
of which: foreign	5,850	5,007	843

Past service cost primarily contained an increase in benefit commitments, relating to commitments in the United Kingdom.

For the pension plan as a whole in the United Kingdom, an increase or decrease of one half of a percentage point in the discount rate would reduce or increase pension obligations as of 31 December 2015 by €461 million (2014: €458 million, 2013: €380 million) or €520 million (2014: €519 million, 2013: €429 million), respectively. The same variation in rates of compensation or pension increase would increase the present value of the commitments as of 31 December 2015 by €61 million or €365 million (2014: €64 million or €367 million, 2013: €53 million or €325 million) or reduce this value by €53 million or €327 million (2014: €55 million or €327 million, 2013: €50 million or €292 million). An increase in life expectancy of one year would increase the present value of commitments by €226 million (2014: €209 million, 2013: €169 million).

Provisions for defined benefit plans are determined using actuarial methods. RWE International Group applies the following assumptions:

Actuarial assumptions in %	31 Dec 2015		31 Dec 2014		31 Dec 2013	
	Germany	Foreign <sup>1</sup>	Germany	Foreign <sup>1</sup>	Germany	Foreign <sup>1</sup>
Discount rate . . . . .	2.40	3.60	2.10	3.40	3.50	4.30
Compensation increase . . . . .	2.35	2.10 and 3.50	2.35	2.10 and 3.50	2.75	2.40 and 3.80
Pension increase . . . . .	1.00, 1.60 and 1.75	2.80	1.00, 1.60 and 1.75	2.80	1.00 and 1.75	3.00

1 Pertains to benefit commitments to employees of the RWE International Group in the UK

The method of deriving the actuarial interest rate for domestic pension commitments pursuant to IFRS was adjusted at the end of the year 2015. The bond universe was expanded to include bonds with a nominal volume of more than €50 million for remaining maturities of less than 10 years as well. Previously, only bonds with a nominal volume of more than €500 million were taken into account for these maturities. Furthermore, the complex process of identifying and eliminating outliers was discontinued. Compared to the previous calculation method, this generated an actuarial interest rate of 2.40%, which was 20 basis points higher, and resulted in the recognized pension commitment being roughly €310 million lower. In the following year, this leads to a decline of €7 million in service cost as well as €2 million in interest expenses.

Composition of plan assets (fair value)	31 Dec 2015				31 Dec 2014				31 Dec 2013			
	Of which: active market		Of which: active market		Of which: active market		Of which: active market		Of which: active market		Of which: active market	
€ million	Germany <sup>1</sup>	Foreign <sup>2</sup>	Germany <sup>1</sup>	Foreign <sup>2</sup>	Germany <sup>1</sup>	Foreign <sup>2</sup>	Germany <sup>1</sup>	Foreign <sup>2</sup>	Germany <sup>1</sup>	Foreign <sup>2</sup>	Germany <sup>1</sup>	Foreign <sup>2</sup>
Equity instruments, exchange traded funds . . . . .	1,588	1,578	495	495	1,391	1,387	439	439	1,228	1,211	457	107
Interest-bearing instruments . . . . .	2,870	60	2,596	1,437	2,612	1,066	2,546	1,379	2,282	1,033	1,742	878
Real estate . . . . .	31	0	5	0	58	0	50	0	51	0	98	3
Mixed funds <sup>3</sup> . . . . .	667	352	0	0	589	544	0	0	499	467	0	0
Alternative investments . . . . .	695	336	592	70	515	3	433	197	474	119	348	7
Other <sup>4</sup> . . . . .	226	43	-8	3	302	90	39	5	284	52	74	7
	<b>6,077</b>	<b>2,369</b>	<b>3,680</b>	<b>2,005</b>	<b>5,467</b>	<b>3,090</b>	<b>3,507</b>	<b>2,020</b>	<b>4,819</b>	<b>2,882</b>	<b>2,719</b>	<b>1,002</b>

1 Plan assets in Germany primarily pertain to assets of RWE International SE and other Group companies which are managed by RWE Pensionstreuhand e.V. as a trust, as well as to assets of RWE Pensionsfonds AG.

2 Foreign plan assets pertain to the assets of a UK pension fund for covering benefit commitments to employees of the RWE International Group in the UK.

3 Includes dividend securities and interest-bearing instruments.

4 Included claims from corporate tax credits transferred to RWE Pensionstreuhand e.V., reinsurance claims against insurance companies and other fund assets of provident fund.

Composition of plan assets (target investment structure) in %	31 Dec 2015		31 Dec 2014		31 Dec 2013	
	Germany <sup>1</sup>	Foreign <sup>2</sup>	Germany <sup>1</sup>	Foreign <sup>2</sup>	Germany <sup>1</sup>	Foreign <sup>2</sup>
Equity instruments, exchange-traded funds . . . . .	22.7	13.5	22.2	12.5	23.4	16.8
Interest-bearing instruments . . . . .	57.2	70.6	57.8	72.6	54.5	64.1
Real estate . . . . .	2.2	0.1	2.3	1.4	2.3	3.6
Mixed funds <sup>3</sup> . . . . .	10.1	0	10.0	0	10.0	0
Alternative investments . . . . .	7.8	15.8	7.7	13.5	9.8	15.5
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

1 Plan assets in Germany primarily pertain to assets of RWE International SE and other Group companies which are managed by RWE Pensionstreuhand e.V. as a trust, as well as to assets of RWE Pensionsfonds AG.

2 Foreign plan assets pertain to the assets of a UK pension fund for covering benefit commitments to employees of the RWE International Group in the UK.

3 Includes dividend securities and interest-bearing instruments.

The investment policy is based on a detailed analysis of the plan assets and the pension commitments and the relation of these two items to each other, in order to determine the best possible investment strategy (Asset Liability Management Study). Using an optimization process, portfolios are identified which can earn the best targeted results at a defined level of risk. One of these efficient portfolios is selected and the strategic asset allocation is determined; furthermore, the related risks are analysed in detail.

The focus of the strategic investment policy is on domestic and foreign government bonds. In order to increase the average yield, corporate bonds with a higher yield are also included in the portfolio. The ratio of equities in the portfolio is lower than that of bonds. Investment occurs in various regions. The investment position in equities is intended to earn a risk premium over bond investments over the long term. In order to achieve additional returns which are consistently as high as possible, there is also investment in products which offer relatively regular positive returns over time. This involves products which fluctuate similar to bond investments, but which achieve an additional return over the medium term, such as so-called absolute return products (including funds of hedge funds).

As part of its investment strategy, the British ESPS uses asset liability management and invests in liability matching investments, interest rate swaps and inflation swaps. As of 30 September 2015, 63% of the interest rate risk (2014: 66%; 2013: 59%) and 63% of the inflation risk (2014: 79%; 2013: 68%) was hedged.

Pension provisions for pension commitments changed as follows:

Changes in pension provisions € million	Present value of pension commit- ments	Fair value of plan assets	Capitalized surplus of plan assets	Total
<b>Balance at 1 Jan 2015</b>	<b>13,570</b>	<b>8,974</b>	<b>–</b>	<b>4,596</b>
Current service cost	198	–	–	198
Interest cost/income	342	247	–	95
Return on fund assets less interest components	–	69	–	-69
Gain/loss on change in financial assumptions	-564	–	–	-564
Experience-based gains/losses	-76	–	–	-76
Currency translation adjustments	243	215	–	28
Employee contributions to funded plans	12	12	–	–
Employer contributions to funded plans	–	726	–	-726
Benefits paid by funded plans	-541	-482	–	-59
Changes in the scope of combination	18	–	–	18
Past service cost	11	–	–	11
General administration expenses	–	-4	–	4
Change in capitalized surplus of plan assets	–	–	5	5
<b>Balance at 31 Dec 2015</b>	<b>13,213</b>	<b>9,757</b>	<b>5</b>	<b>3,461</b>
of which: domestic	9,149	6,077	5	3,077
of which: foreign	4,064	3,680	–	384

Changes in pension provisions € million	Present value of pension commit- ments	Fair value of plan assets	Total
<b>Balance at 1 Jan 2014</b>	<b>11,120</b>	<b>7,538</b>	<b>3,582</b>
Current service cost	151	–	151
Interest cost/income	415	288	127
Return on fund assets less interest components	–	1,034	-1,034
Gain/loss on change in financial assumptions	2,285	–	2,285
Experience-based gains/losses	-95	–	-95
Currency translation adjustments	240	209	31
Employee contributions to funded plans	7	7	–
Employer contributions to funded plans	–	377	-377
Benefits paid by funded plans	-527	-457	-70
Changes in the scope of combination	-43	-19	-24
Past service cost	17	–	17
General administration expenses	–	-3	3
<b>Balance at 31 Dec 2014</b>	<b>13,570</b>	<b>8,974</b>	<b>4,596</b>
of which: domestic	9,625	5,467	4,158
of which: foreign	3,945	3,507	438

Changes in pension provisions € million	Present value of pension commit- ments	Fair value of plan assets	Capitalized surplus of plan assets	Total
<b>Balance at 1 Jan 2013</b> .....	<b>11,248</b>	<b>7,464</b>	<b>32</b>	<b>3,816</b>
Current service cost .....	175	–	–	175
Interest cost/income .....	411	274	–	137
Return on fund assets less interest components .....	–	94	–	-94
Gain/loss on change in demographic assumptions .....	-19	–	–	-19
Gain/loss on change in financial assumptions .....	-66	–	–	-66
Experience-based gains/losses .....	-94	–	–	-94
Currency translation adjustments .....	-76	-59	–	-17
Employee contributions to funded plans ...	9	9	–	–
Employer contributions to funded plans ...	–	185	–	-185
Benefits paid by funded plans .....	-499	-428	–	-71
Changes in the scope of combination .....	23	1	–	22
Past service cost .....	8	–	–	8
General administration expenses .....	–	-2	–	2
Change in capitalized surplus of plan assets .....	–	–	-32	-32
<b>Balance at 31 Dec 2013</b> .....	<b>11,120</b>	<b>7,538</b>	<b>–</b>	<b>3,582</b>
of which: domestic .....	7,942	4,819	–	3,123
of which: foreign .....	3,178	2,719	–	459

As of 31 December 2015 the recognized amount of pension provisions totalled €2,230 million for funded pension plans (2014: €2,727 million, 2013: €1,925 million) and €1,231 million for unfunded pension plans (2014: €1,869 million, 2013: €1,657 million).

As in 2014 and 2013, in fiscal year 2015, past service cost primarily contained an increase in benefit commitments, relating to commitments in the United Kingdom.

The present value of pension claims, less the fair value of the plan assets and the capitalized surplus of plan assets, equals the net amount of funded and unfunded pension plans.

On the basis of collateral promises and guarantees, RWE AG will have to reimburse RWE International some of its domestic pension expenditures up to a limited amount. The expected receipts of this arrangement cannot be classified as plan assets. Therefore it must not be presented as part of net pension liability. RWE International recognizes this reimbursement right as a separate asset, included in "Financial receivables".

Change in reimbursement rights € million	Fair value of reimbursement rights
<b>Balance at 1 Jan 2015</b> .....	<b>540</b>
Interest income .....	11
Return on reimbursement rights less interest components .....	-132
Employer contributions to reimbursement rights .....	73
Benefits paid .....	-12
<b>Balance at 31 Dec 2015</b> .....	<b>480</b>
Of which: domestic .....	480
Of which: foreign .....	–

Change in reimbursement rights € million	Fair value of reimbursement rights
<b>Balance at 1 Jan 2014</b>	<b>616</b>
Interest income	21
Return on reimbursement rights less interest components	-72
Employer contributions to reimbursement rights	-5
Benefits paid	-14
Changes in the scope of combination	-6
<b>Balance at 31 Dec 2014</b>	<b>540</b>
Of which: domestic	540
Of which: foreign	–

Change in reimbursement rights € million	Fair value of reimbursement rights
<b>Balance at 1 Jan 2013</b>	<b>566</b>
Interest income	20
Return on reimbursement rights less interest components	17
Employer contributions to reimbursement rights	27
Benefits paid	-13
Changes in the scope of combination	-1
<b>Balance at 31 Dec 2013</b>	<b>616</b>
Of which: domestic	616
Of which: foreign	–

Domestic company pensions are subject to an obligation to review for adjustment every three years pursuant to the Act of the Improvement of Company Pensions (Sec 16 of the German Company Pension Act (BetrAVG)). Additionally, some commitments grant annual adjustments of pensions, which may exceed the legally mandated adjustment obligation.

Some domestic pension plans guarantee a certain pension level, taking into account the statutory pension (total retirement earnings schemes). As a result, future reductions in the statutory pension can result in higher pension payments by RWE International.

As of 31 December 2015, the weighted average duration of the pension obligation is 17 years in Germany (2014: 18 years, 2013: 16 years) and 15 years in the United Kingdom (2014: 15 years, 2013: 14 years).

In Germany, as of 31 December 2015, an increase or decrease of one half of a percentage point in the discount rate would result in a reduction of €655 million (2014: €611 million, 2013: €534 million) or an increase of €841 million (2014: €789 million, 2013: €613 million), respectively, in the present value of the obligations of the corporate pension plans. The same variation in rates of compensation or pension increase by one half of a percentage point would increase the present value of the commitments as of 31 December 2015 by €132 million or €524 million (2014: €147 million or €552 million, 2013: €110 million or €457 million) or reduce this value by €124 million or €468 million (2014: €138 million or €493 million, 2013: €104 million or €408 million). For the Group companies in the United Kingdom, such changes in the discount rate would reduce or increase pension obligations as of 31 December 2015 by €260 million (2014: €259 million, 2013: €206 million) or €294 million (2014: €294 million, 2013: €233 million), respectively. The same variation in rates of compensation or pension increase would increase the present value of the commitments as of 31 December 2015 by €34 million or €206 million (2014: €36 million or €208 million, 2013: €29 million or €176 million) or reduce this value by €30 million or €185 million (2014: €31 million or €185 million, 2013: €28 million or €160 million). An increase

in life expectancy of one year would increase the present value of commitments as of 31 December 2015 by €368 million (2014: €402 million, 2013: €304 million) in Germany and €128 million (2014: €118 million, 2013: €92 million) in the United Kingdom.

The sensitivity analyses are based on a change in one assumption, with all other assumptions remaining unchanged. Actual developments will probably be different than this. The methods of calculating the aforementioned sensitivities and for calculating the pension provisions are aligned. The dependence of pension provisions on market interest rates is limited by an opposite effect. The background of this is that the commitments stemming from company pension plans are primarily covered by funds, and plan assets in general exhibit negative correlation with the market yields of fixed-interest securities. Consequently, declines in market interest rates are typically reflected in an increase in plan assets, and vice-versa.

Payments for defined benefit plans (contributions and unfunded pension payments) are expected to amount to €350 million in fiscal year 2016 (2015: €780 million, 2014: €435 million).

## (24) Other Provisions

Other Provisions € million	31 Dec 2015			31 Dec 2014			31 Dec 2013		
	Non-current	Current	Total	Non-current	Current	Total	Non-current	Current	Total
Staff-related obligations (excluding restructuring) . . .	390	348	738	478	362	840	739	441	1,180
Restructuring obligations . .	145	74	219	170	105	275	162	169	331
Provisions for taxes . . . . .	98	185	283	115	169	284	119	218	337
Purchase and sales obligations . . . . .	82	238	320	105	267	372	120	387	507
Provisions for wind farm decommissioning . . . . .	337	0	337	396	2	398	242	2	244
Uncertain obligations for other decommissioning . . . .	194	24	218	190	25	215	163	25	188
Obligations to deliver certificates for renewable energies . . . . .	–	580	580	–	454	454	–	359	359
Miscellaneous other provisions . . . . .	370	1,096	1,466	433	1,229	1,662	493	1,215	1,708
	<b>1,616</b>	<b>2,545</b>	<b>4,161</b>	<b>1,887</b>	<b>2,613</b>	<b>4,500</b>	<b>2,038</b>	<b>2,816</b>	<b>4,854</b>

Roll-forward of other provisions € million	Balance at 1 Jan 2015	Additions	Unused amounts released	Interest accretion	Changes in the scope of combination, currency adjustments, transfers	Amounts used	Balance at 31 Dec 2015
Staff-related obligations (excluding restructuring) . . . .	840	306	-48	7	4	-371	738
Restructuring obligations . . .	275	25	-19	6	3	-71	219
Provisions for taxes . . . . .	284	163	-21	–	-9	-134	283
Purchase and sales obligations . . . . .	372	92	-48	1	1	-98	320
Provisions for wind farm decommissioning . . . . .	398	3	-9	-57	2	0	337
Uncertain obligations for other decommissioning . . . .	215	0	-1	7	-4	1	218
Obligations to deliver certificates for renewable energies . . . . .	454	769	0	–	26	-669	580
Miscellaneous other provisions . . . . .	1,662	302	-316	9	56	-247	1,466
<b>Other Provisions . . . . .</b>	<b>4,500</b>	<b>1,660</b>	<b>-462</b>	<b>-27</b>	<b>79</b>	<b>-1,589</b>	<b>4,161</b>

Roll-forward of other provisions € million	Balance at 1 Jan 2014	Additions	Unused amounts released	Interest accretion	Changes in the scope of combination, currency adjustments, transfers	Amounts used	Balance at 31 Dec 2014
Staff-related obligations (excluding restructuring) . . . . .	1,180	338	-39	21	-299	-361	840
Restructuring obligations . . . . .	331	86	-40	10	5	-117	275
Provisions for taxes . . . . .	337	132	-23	–	11	-173	284
Purchase and sales obligations . . . . .	507	121	-49	8	-75	-140	372
Provisions for wind farm decommissioning . . . . .	244	111	0	30	13	0	398
Uncertain obligations for other decommissioning . . . . .	188	23	-8	13	0	-1	215
Obligations to deliver certificates for renewable energies . . . . .	359	569	0	–	27	-501	454
Miscellaneous other provisions . . . . .	1,708	322	-263	42	77	-224	1,662
<b>Other Provisions . . . . .</b>	<b>4,854</b>	<b>1,702</b>	<b>-422</b>	<b>124</b>	<b>-241</b>	<b>-1,517</b>	<b>4,500</b>

Roll-forward of other provisions € million	Balance at 1 Jan 2013	Additions	Unused amounts released	Interest accretion	Changes in the scope of combination, currency adjustments, transfers	Amounts used	Balance at 31 Dec 2013
Staff-related obligations (excluding restructuring) . . . . .	1,202	444	-106	16	-21	-355	1,180
Restructuring obligations . . . . .	163	213	-13	3	23	-58	331
Provisions for taxes . . . . .	353	184	-47	–	-9	-144	337
Purchase and sales obligations . . . . .	440	245	-62	1	-8	-109	507
Provisions for wind farm decommissioning . . . . .	135	108	-2	4	-1	0	244
Uncertain obligations for other decommissioning . . . . .	180	4	-2	5	2	-1	188
Obligations to deliver certificates for renewable energies . . . . .	288	455	0	–	-5	-379	359
Miscellaneous other provisions . . . . .	1,775	257	-136	12	-5	-195	1,708
<b>Other Provisions . . . . .</b>	<b>4,536</b>	<b>1,910</b>	<b>-368</b>	<b>41</b>	<b>-24</b>	<b>-1,241</b>	<b>4,854</b>

**Provisions for staff-related obligations** mainly consist of provisions for pre-retirement part-time work arrangements, outstanding vacation and service jubilees and performance-based pay components. Based on current expectations, the majority of utilisation is anticipated to occur in the years 2016 to 2025.

**Provisions for restructuring** pertain mainly to measures for socially acceptable payroll downsizing. From the current perspective, the majority of utilisation is anticipated to occur in the years 2016 to 2025.

**Provisions for taxes** primarily consist of income taxes.

**Provisions for purchase and sales obligations** primarily relate to contingent losses from pending transactions.

Based on current expectations **provisions for wind farm decommissioning** will mostly be utilized in the period from 2020 to 2037 and **uncertain obligations for other decommissioning** will mostly be utilized in the period from 2016 to 2060.

## (25) Financial liabilities

Financial liabilities € million	31 Dec 2015		31 Dec 2014		31 Dec 2013	
	Non-current	Current	Non-current	Current	Non-current	Current
Bonds	11,649	864	26	–	25	–
Bank debt	226	155	189	113	207	171
Other financial liabilities	3,416	2,665	11,571	4,574	13,401	2,701
	<b>15,291</b>	<b>3,684</b>	<b>11,786</b>	<b>4,687</b>	<b>13,633</b>	<b>2,872</b>

On 18 December 2015, RWE AG sold 100% of its shares of RWE Finance B.V., s'-Hertogenbosch, Netherlands, to RWE International Group. As RWE Finance B.V. does not constitute a business in accordance with IFRS 3, the transaction was accounted for as an asset deal. As a consequence, the bonds payable were recognized at their fair values as of the transaction date. The following overview shows the key data on the major bonds as of 31 December 2015:

Bonds payable Issuer	Outstanding amount	Carrying amount € million	Coupon in %	Maturity
RWE Finance B.V.	€ 850 million	864	6.25	April 2016
RWE Finance B.V.	€ 980 million	1,097	5.125	July 2018
RWE Finance B.V.	€1,000 million	1,172	6.625	January 2019
RWE Finance B.V.	€ 750 million	772	1.875	January 2020
RWE Finance B.V.	£ 570 million	887	6.5	April 2021
RWE Finance B.V.	€1,000 million	1,261	6.5	August 2021
RWE Finance B.V.	£ 500 million	751	5.5	July 2022
RWE Finance B.V.	£ 488 million	732	5.625	December 2023
RWE Finance B.V.	€ 800 million	853	3.0	January 2024
RWE Finance B.V.	£ 760 million	1,152	6.25	June 2030
RWE Finance II B.V.	€ 600 million	741	5.75	February 2033
RWE Finance B.V.	£ 600 million	761	4.75	January 2034
RWE Finance B.V.	£1,000 million	1,470	6.125	July 2039
<b>Bonds payable</b>		<b>12,513</b>		

As of 31 December 2015, other financial liabilities include loans and liabilities to the RWE Group of €5,097 million (2014: €15,698 million, 2013: €15,599 million), of which €3,006 million are presented as non-current (2014: €11,292 million, 2013: €13,068 million). In December 2015, a portion of the existing loans and liabilities to the RWE Group, included in the other financial liabilities, was replaced by bonds as a result of the sale of RWE Finance B.V., 's-Hertogenbosch, Netherlands, to the RWE International Group.

As of 31 December 2015, €9,967 million of the non-current financial liabilities were interest-bearing liabilities (2014: €46 million, 2013: €110 million). The increase of the interest-bearing liabilities in 2015 mainly results from the RWE Finance B.V. transaction mentioned above.

As of 31 December 2015, €56 million (2014: €41 million, 2013: €43 million) of the financial liabilities were secured by mortgages, and €8 million (2014: €45 million, 2013: €57 million) by similar rights.

## (26) Trade accounts payable

Trade accounts payable are presented as current because they are part of the working capital used in the normal operating cycle even if they are due to be settled more than twelve months after the reporting period.

## (27) Other liabilities

Other liabilities € million	31 Dec 2015		31. Dec 2014		31. Dec 2013	
	Non-current	Current	Non-current	Current	Non-current	Current
Tax liabilities . . . . .	–	658	–	649	–	690
Social security liabilities . . . . .	6	68	8	43	9	36
Derivatives . . . . .	984	1,106	707	913	543	739
Advances and contributions in aid of construction and building connection . . . . .	1,198	168	1,254	146	1,313	177
Miscellaneous other liabilities . . . . .	240	2,831	305	2,641	321	2,697
	<b>2,428</b>	<b>4,831</b>	<b>2,274</b>	<b>4,392</b>	<b>2,186</b>	<b>4,339</b>
of which: financial debt . . . . .	1,018	2,960	765	2,571	614	2,309
of which: non-financial debt . . . . .	1,410	1,871	1,509	1,821	1,572	2,030

The principal component of social security liabilities are the amounts payable to social security institutions.

As of 31 December 2015, €1,395 million (2014: €1,198 million, 2013: €1,186 million) of the miscellaneous other liabilities, related to financial debt in the form of current purchase price obligations from rights granted to tender non-controlling interests (put options).

## Other information

### (28) Reporting on financial instruments

Financial instruments are divided into non-derivative and derivative. Non-derivative financial assets essentially include other non-current financial assets, accounts receivable, marketable securities and cash and cash equivalents. Financial instruments in the category "Available for sale" are recognized at fair value, and other non-derivative financial assets at amortized cost. On the liabilities side, non-derivative financial instruments principally include liabilities recorded at amortized cost.

The fair value of financial instruments "Available for sale" which are reported under other financial assets and securities is the published exchange price, insofar as the financial instruments are traded on an active market. The fair value of non-quoted debt and equity instruments is determined on the basis of discounted expected cash flows. Current market interest rates corresponding to the remaining maturity or maturity are used for discounting.

Derivative financial instruments are recognized at their fair values as of the balance-sheet date, insofar as they fall under the scope of IAS 39. Exchange-traded products are measured using the published closing prices of the relevant exchange. Non-exchange traded products are measured on the basis of publicly available broker quotations or, if such quotations are not available, on generally accepted valuation methods. In doing so, RWE International Group draws on prices on active markets as much as possible. If such are not available, company-specific planning estimates are used in the management process. These estimates encompass all of the market factors which other market participants would take into account in the course of price determination. Assumptions pertaining to the energy sector for fiscal years 2015, 2014 and 2013 were made within the scope of a comprehensive process with the involvement of both in-house and external experts.

Measurement of the fair value of a group of financial assets and financial liabilities is conducted on the basis of the net risk exposure per business partner, in accordance with IFRS 13.48.

The following overview presents the classification of financial instruments measured at fair value in the fair value hierarchy prescribed by IFRS 13. In accordance with IFRS 13, the individual levels of the fair value hierarchy are defined as follows:

- Level 1: Measurement using (unadjusted) prices of identical financial instruments formed in active markets;
- Level 2: Measurement on the basis of input parameters which are not the prices from Level 1, but which can be observed for the financial instrument either directly (i.e. as price) or indirectly (i.e. derived from prices);
- Level 3: Measurement using factors which cannot be observed on the basis of market data.

Fair value hierarchy € million	Total 2015	Level 1	Level 2	Level 3	Total 2014	Level 1	Level 2	Level 3	Total 2013	Level 1	Level 2	Level 3
Other financial assets . . . .	555	43	27	485	510	39	33	438	478	44	71	363
Derivatives (assets) . . . . .	1,518	0	1,491	27	939	0	908	31	638	0	622	16
of which: used for hedging purposes . . . . .	18	–	18	–	17	–	17	–	17	–	17	–
Securities . . . . .	1,894	1,894	0	–	1,913	1,913	0	–	1,702	1,701	1	–
Derivatives (liabilities) . . . .	2,090	0	2,060	30	1,620	0	1,620	0	1,282	1	1,279	2
of which: used for hedging purposes . . . . .	1	–	1	–	0	–	0	–	18	–	18	–

The development of the fair values of Level 3 financial instruments is presented in the following table:

Level 3 financial instruments: Development in 2015		Changes in the scope of combination, currency adjustments, and other	Changes		Balance at 31 Dec 2015
€ million	Balance at 1 Jan 2015		Recognized in profit or loss	With a cash effect	
Other financial assets . . . . .	438	-13	7	53	485
Derivatives (assets) . . . . .	31	–	27	-31	27
Derivatives (liabilities) . . . . .	0	0	30	0	30

Level 3 financial instruments: Development in 2014		Changes in the scope of combination, currency adjustments, and other	Changes		Balance at 31 Dec 2014
€ million	Balance at 1 Jan 2014		Recognized in profit or loss	OCI	
Other financial assets . . . . .	363	93	18	2	438
Derivatives (assets) . . . . .	16	1	31	–	31
Derivatives (liabilities) . . . . .	2	–	0	–	0

Level 3 financial instruments: Development in 2013		Changes in the scope of combination, currency adjustments, and other	Changes		Balance at 31 Dec 2013
€ million	Balance at 1 Jan 2013		Recognized in profit or loss	With a cash effect	
Other financial assets . . . . .	370	-31	7	17	363
Derivatives (assets) . . . . .	32	55	15	-86	16
of which: used for hedging purposes . . . . .	–	54	–	-54	–
Derivatives (liabilities) . . . . .	23	32	0	-53	2
of which: used for hedging purposes . . . . .	–	32	–	-32	0

Amounts recognized in profit or loss generated through Level 3 financial instruments were recognized in the following line items in the income statement:

Level 3 financial instruments: Amounts recognized in profit or loss € million	Total 2015	Of which: attributable to financial instruments held at the balance-sheet date		Total 2014	Of which: attributable to financial instruments held at the balance-sheet date		Total 2013	Of which: attributable to financial instruments held at the balance-sheet date	
Revenue . . . . .	27	27	31	31	16	16			
Cost of materials . . . . .	-30	-30	-1	-1	-1	-1			
Other operating income/ expenses . . . . .	8	8	23	15	8	8			
Income from investments . . . . .	-1	-2	-4	1	-1	0			
	<b>4</b>	<b>3</b>	<b>49</b>	<b>46</b>	<b>22</b>	<b>23</b>			

Level 3 derivative financial instruments essentially consist of weather derivatives for the hedging of fluctuations in customer demand due to changing temperature patterns. The valuation of

such depends on the development of the temperature in particular. All other things being equal, rising temperatures cause the fair values to increase and vice-versa. Assumptions that the future temperatures for the remaining contractual period of the derivatives will deviate from the historically observed long-term average temperatures can only be made for very short periods. Therefore the fair values are primarily determined on the basis of temperatures actually measured over the contractual period of the derivatives already elapsed.

The following impairments were recognized on financial assets which fall under the scope of IFRS 7 and are reported under the balance-sheet items stated below:

Impairments on financial assets € million	Other non- current financial assets	Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
<b>Balance at 1 Jan 2015</b> .....	<b>29</b>	<b>205</b>	<b>477</b>	<b>10</b>	<b>721</b>
Additions .....	3	18	101	1	123
Transfers .....	0	-154	131	-1	-24
Currency translation adjustments .....	0	0	14	0	14
Disposals .....	3	33	148	0	184
<b>Balance at 31 Dec 2015</b> .....	<b>29</b>	<b>36</b>	<b>575</b>	<b>10</b>	<b>650</b>

Impairments on financial assets € million	Other non- current financial assets	Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
<b>Balance at 1 Jan 2014</b> .....	<b>29</b>	<b>166</b>	<b>494</b>	<b>10</b>	<b>699</b>
Additions .....	5	54	110	0	169
Transfers .....	11	3	-4	0	10
Currency translation adjustments .....	-1	0	2	0	1
Disposals .....	15	18	125	0	158
<b>Balance at 31 Dec 2014</b> .....	<b>29</b>	<b>205</b>	<b>477</b>	<b>10</b>	<b>721</b>

Impairments on financial assets € million	Other non- current financial assets	Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
<b>Balance at 1 Jan 2013</b> .....	<b>48</b>	<b>141</b>	<b>478</b>	<b>8</b>	<b>675</b>
Additions .....	-2	25	74	2	99
Transfers .....	-4	21	0	0	17
Currency translation adjustments .....	-1	0	-9	0	-10
Disposals .....	12	21	49	0	82
<b>Balance at 31 Dec 2013</b> .....	<b>29</b>	<b>166</b>	<b>494</b>	<b>10</b>	<b>699</b>

As of the cut-off date, there were unimpaired, past due receivables falling under the scope of IFRS 7 in the following amounts:

Receivables, past due and not impaired	Gross amount as of 31 Dec 2015	Receivables, past due, impaired	Receivables not impaired, past due by:				
			less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
€ million							
Financial receivables . . . . .	12,672	15	–	–	–	–	0
Trade accounts receivable . . . . .	5,126	625	304	59	34	24	170
Other receivables and other assets . .	1,734	8	0	0	0	0	0
	<b>19,532</b>	<b>648</b>	<b>304</b>	<b>59</b>	<b>34</b>	<b>24</b>	<b>170</b>

Receivables, past due and not impaired	Gross amount as of 31 Dec 2014	Receivables, past due, impaired	Receivables not impaired, past due by:				
			less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
€ million							
Financial receivables . . . . .	11,979	99	–	–	–	–	0
Trade accounts receivable . . . . .	6,185	879	258	51	27	29	130
Other receivables and other assets . .	1,124	7	0	0	0	0	1
	<b>19,288</b>	<b>985</b>	<b>258</b>	<b>51</b>	<b>27</b>	<b>29</b>	<b>131</b>

Receivables, past due and not impaired	Gross amount as of 31 Dec 2013	Receivables, past due, impaired	Receivables not impaired, past due by:				
			less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
€ million							
Financial receivables . . . . .	10,277	39	–	–	–	–	0
Trade accounts receivable . . . . .	7,580	1,205	280	69	44	28	84
Other receivables and other assets . .	810	8	0	0	0	0	1
	<b>18,667</b>	<b>1,252</b>	<b>280</b>	<b>69</b>	<b>44</b>	<b>28</b>	<b>85</b>

Financial assets and liabilities can be broken down into categories with the following carrying amounts:

Carrying amounts by category			
€ million	31 Dec 2015	31 Dec 2014	31 Dec 2013
Financial assets recognized at fair value through profit or loss . . . . .	1,500	923	620
of which: held for trading . . . . .	1,500	923	620
Financial assets available for sale . . . . .	2,449	2,423	2,180
Loans and receivables . . . . .	17,903	18,132	18,182
Financial liabilities recognized at fair value through profit or loss . . . . .	2,088	1,620	1,265
of which: held for trading . . . . .	2,088	1,620	1,265
Financial liabilities carried at (amortized) cost . . . . .	23,942	21,802	22,187

The carrying amounts of financial assets and liabilities within the scope of IFRS 7 basically correspond to their fair values. For financial liabilities, the only deviations are for bonds, bank debt and other financial liabilities. As of 31 December 2015, the carrying amount of these was €18,975 million (2014: €16,473 million, 2013: €16,505 million), while the fair value amounted to €20,234 million (2014: €18,556 million, 2013: €17,488 million). Of this, €12,794 million (2014:

€0 million, 2013: €0 million) was related to Level 1 and €7,440 million (2014: €18,556 million, 2013: €17,488 million) to Level 2 of the fair value hierarchy. For financial assets, deviations between carrying amounts and market values predominantly stem from financial receivables due from RWE companies. As of 31 December 2015, the carrying amount of these was €12,636 million (2014: €11,774 million, 2013: €10,112 million), while the fair value amounted to €12,728 million (2014: €11,849 million, 2013: €10,169 million). In all years they were related to Level 2 of the fair value hierarchy. The following net results from financial instruments as per IFRS 7 were recognized in the income statement, depending on the category:

Net gain/loss by category € million	2015	2014	2013
Financial assets and liabilities recognized at fair value through profit or loss			
loss	203	299	205
of which: held for trading	203	299	205
Financial assets available for sale	535	301	156
Loans and receivables	-60	-7	23
Financial liabilities carried at (amortized) cost	-545	-547	-760

The net result as per IFRS 7 essentially includes interest, dividends and results from the measurement of financial instruments at fair value.

During the year ended 31 December 2015, changes of €53 million (2014: €109 million, 2013: €74 million) after taxes in the value of financial assets available for sale were recognized in accumulated other comprehensive income. Above and beyond this, €237 million in changes in the value of financial instruments available for sale, which had originally been in other comprehensive income, were reclassified to income (2014: €51 million, 2013: €27 million).

The following is an overview of the financial assets and financial liabilities which are netted out in accordance with IAS 32 or are subject to enforceable master netting agreements or similar agreements:

Netting of financial assets and financial liabilities as of 31 Dec 2015 € million	Gross amounts recognized	Amounts set off	Net amounts recognized	Related amounts not set off		
				Financial instruments	Cash collateral received/pledged	Net total
Derivatives (assets) . . .	930	-143	787	–	–	787
Derivatives (liabilities) . . . . .	394	-143	251	–	–	251

Netting of financial assets and financial liabilities as of 31 Dec 2014 € million	Gross amounts recognized	Amounts set off	Net amounts recognized	Related amounts not set off		
				Financial instruments	Cash collateral received/pledged	Net total
Derivatives (assets) . . .	860	-139	721	–	–	721
Derivatives (liabilities) . . . . .	283	-138	145	–	–	145

Netting of financial assets and financial liabilities as of 31 Dec 2013 € million	Related amounts not set off					
	Gross amounts recognized	Amounts set off	Net amounts recognized	Financial instruments	Cash collateral received/ pledged	Net total
Derivatives (assets) . . .	419	-137	282	–	–	282
Derivatives (liabilities) . . . . .	172	-136	36	–	–	36

As a utility with international operations, the RWE International Group is exposed to market, credit and liquidity risks in its ordinary business activity. In the reporting periods for the combined financial statements, the risks of the RWE International Group were managed by RWE AG. RWE AG limits these risks via a systematic groupwide risk management. The range of action, responsibilities and controls are defined in binding internal directives. In connection with the planned initial public offering of the shares of RWE International SE, these risk management processes may differ from the structures described below.

**Market risks** stem from changes in exchange rates and share prices as well as interest rates and commodity prices, which can have an influence on business results.

In the reporting periods of the combined financial statements, the Value at Risk (VaR) method was used to determine and monitor the maximum expected loss arising from changes in market prices with a specific level of probability during specific periods. Historical price volatility is taken as a basis in the calculations. All VaR figures are based on a confidence interval of 95% and a holding period of one day.

Due to the RWE International Group's international profile, exchange rate management is a key issue. Different currencies like GBP, USD or CZK are important currencies for the RWE International Group. In the reporting periods of the combined financial statements, the companies of the RWE International Group were required to hedge their foreign currency risks via transactions with RWE AG. Only RWE AG itself may maintain open foreign currency positions, subject to predefined limits. Therefore, RWE International was not exposed to material currency risks.

Interest rate risks stem primarily from financial debt and the interest bearing investments. Increases in interest rates can result in declines in the prices of securities from RWE International's holdings; this pertains primarily to fixed-rate instruments. Financing costs also increase along with the level of interest rates. The RWE International Group was largely financed by the RWE Group in the 2015, 2014 and 2013 reporting periods. Interest rate risks were managed solely on RWE Group level. RWE International companies were fully integrated in this interest rate management and did not manage interest rate risks themselves. The sensitivity of interest expenses to increases in market interest rates on RWE International level measured as Cashflow at Risk (confidence interval of 95% and a holding period of one year) as of 31 December 2015 amounted to -€3.3 million (2014: -€16.0 million; 2013: €1.4 million). With regard to the interest rate risk from interest bearing investments, RWE International companies mandated RWE AG to manage the interest rate risk from interest bearing investments. Opportunities and risks from changes in the values of securities were controlled by a professional fund management system of RWE AG. As of 31 December 2015, the VaR for the interest rate risk from interest bearing investments in the RWE International Group amounted to €5.4 million (2014: €2.8 million, 2013: €4.1 million).

RWE International companies also mandated RWE AG to manage opportunities and risks from changes in the values of shares in the RWE International portfolio. RWE AG controlled these funds by a professional fund management system. As of 31 December 2015, the VaR for risks related to the RWE International share portfolio amounted to €2.4 million (2014: €6.4 million; 2013: €6.3 million).

For commodity operations, risk management directives have been established by the department Group Controlling of RWE AG. These regulations stipulate that derivatives may be used, amongst others, to hedge price risks and increase margins. RWE International Group companies do not use derivatives for trading purposes.

One of the most important instruments to limit market risk is the utilization of hedging transactions. The instruments most commonly used are forwards and options with foreign currency, interest rate swaps, interest rate currency swaps and forwards, options, futures and swaps with commodities.

Maturities of derivatives related to interest rates, currencies, equities, indices and commodities for the purpose of hedging are based on the maturities of the underlying transactions and are thus primarily short term and medium term in nature. Hedges of foreign currency risks of foreign investments have maturities of up to 23 years.

All derivative financial instruments are recognized as assets or liabilities and are measured at fair value. When interpreting their positive and negative fair values, it should be taken into account that these financial instruments are generally matched with underlying transactions that carry offsetting risks.

Hedges of net investment in a foreign operation pursuant to IAS 39 are used to hedge the foreign currency risks of net investments in foreign entities whose functional currency is not the euro. RWE International uses bonds (loans in 2014 and 2013) with various terms in the appropriate currencies and currency swaps and forwards as hedging instruments. If there are changes in the exchange rates of currencies in which the bonds or loans used for hedging are denominated or changes in the fair value of interest rate currency swaps and forwards, this is recorded under foreign currency translation adjustments in other comprehensive income. As of 31 December 2015, the fair value of the bonds amounted to €1,984 million (the fair value of the loans amounted to €2,143 million in 2014 and €2,028 million in 2013) and the fair value of the swaps and forwards amounted to €18 million (2014: €16 million, 2013: -€4 million).

During the year ended 31 December 2015, income of €0 million (2014: €3 million, 2013: €0 million) was recognized on the income statement in relation to the ineffective portions of hedges of net investment in foreign operations.

**Credit risks.** In the fields of finance and commodities, the RWE International Group primarily has credit relationships with banks and other trading partners with good creditworthiness. The resulting counterparty risks are reviewed upon conclusion of the contract and constantly monitored. Such risks are limited by defining limits for trading with contractual partners and, if necessary, by requiring additional collateral, such as cash collateral. Credit risks in commodities and financial operations are monitored on a daily basis.

In the retail business, the RWE International Group is exposed to credit risk, because it is possible that customers will fail to meet their financial obligations. Such risks are identified in regular analyses of the creditworthiness of the major customers, and appropriate countermeasures are taken, if necessary.

The Group also employs credit insurance, financial guarantees, bank guarantees and other forms of security to protect against credit risks in its financial activities and retail business.

The maximum balance-sheet default risk is derived from the carrying values of the receivables stated in the balance sheet. If default risks materialize, they are recognized through impairments. The default risks for derivatives correspond to their positive fair values. Risks can also stem from financial guarantees and loan commitments for external creditors. As of 31 December 2015, these obligations amounted to €126 million (2014: €160 million, 2013: €59 million). As of 31 December 2015, default risks were balanced against credit collateral, financial guarantees, bank guarantees and other collaterals amounting to €90 million (2014: €74 million, 2013: €114 million). There were no material defaults in fiscal years 2015, 2014 and 2013.

**Liquidity risk** is the risk that liquidity reserves will prove to be insufficient to meet financial obligations in a timely manner. As a rule, RWE Group companies centrally refinance with RWE AG. In the reporting periods for the combined financial statements, RWE International Group is therefore largely financed by the RWE Group and invests excess liquidity with RWE AG or its subsidiaries using the RWE Group's cash pooling and cash management system. Within the cashpooling liquidity need and surplus of RWE's entities is balanced. RWE's cash management system ensures that all payments of the RWE Group are conducted in time.

The RWE Group holds sufficient liquidity to ensure the fulfillment of all planned payment obligations of the RWE International Group at maturity. As of 31 December 2015, holdings of cash and cash equivalents and current marketable securities of the RWE Group amounted to €9,959 million (2014: €7,581 million, 2013: €6,696 million). Additionally, as of 31 December 2015, RWE AG had a fully committed, unused syndicated credit line of €4 billion (2014: €4 billion, 2013: €4 billion) at its disposal. As of 31 December 2015, US\$0.1 billion (2014: US\$0 billion, 2013: US\$0 billion) of the US\$5 billion commercial paper programme (2014: US\$5 billion, 2013: US\$5 billion) was used. In addition, the RWE Group can finance itself by using its €30 billion debt issuance programme; as of 31 December 2015, outstanding bonds from this programme amounted to €11.3 billion (2014: €0 billion, 2013: €0 billion). Accordingly, the medium-term liquidity risk for the RWE International Group can be classified as low.

In 2016, capital market debt (less portions of the bonds bought back) with a nominal volume of approximately €0.9 billion (2015: €0.0 billion, 2014: €0.0 billion) and bank debt of €0.2 billion (2015: €0.1 billion, 2014: €0.2 billion) is due for the RWE International Group. Additionally, short-term debt must also be repaid.

Financial liabilities falling under the scope of IFRS 7 are expected to result in the following (undiscounted) payments in the coming years:

Repayments and interest payments on financial liabilities	Carrying amount 31 Dec 2015	Repayments			Interest payments		
		2016	2017 to 2020	From 2021	2016	2017 to 2020	From 2021
€ million							
Bonds payable . . . . .	12,513	850	2,730	7,738	619	1,649	4,073
Bank debt . . . . .	381	155	150	76	5	11	6
Other financial liabilities . . . . .	6,081	2,665	1,793	1,623	115	365	417
Derivative financial liabilities . . . . .	2,090	910	1,180	–	–	–	–
Redemption liabilities from put options . . . . .	1,395	1,395	–	–	–	–	–
Miscellaneous other financial liabilities . . . . .	4,974	4,939	19	16	–	–	–

Repayments and interest payments on financial liabilities		Repayments			Interest payments		
	Carrying amount						
	31 Dec		2016 to			2016 to	
€ million	2014	2015	2019	From 2020	2015	2019	From 2020
Bonds payable	26	26	0	–	–	–	–
Bank debt	302	112	119	71	5	13	5
Other financial liabilities	16,145	4,574	2,040	9,531	609	1,858	1,955
Derivative financial liabilities	1,620	748	871	1	–	–	–
Redemption liabilities from put options	1,198	1,198	–	–	–	–	–
Miscellaneous other financial liabilities	5,331	5,275	15	41	–	–	–

Repayments and interest payments on financial liabilities		Repayments			Interest payments		
	Carrying amount						
	31 Dec		2015 to			2015 to	
€ million	2013	2014	2018	From 2019	2014	2018	From 2019
Bonds payable	25	25	0	–	0	0	–
Bank debt	378	171	132	75	6	14	9
Other financial liabilities	16,102	2,701	3,927	9,474	579	1,944	2,226
Derivative financial liabilities	1,282	739	543	–	–	–	–
Redemption liabilities from put options	1,186	1,186	–	–	–	–	–
Miscellaneous other financial liabilities	5,685	5,632	12	41	–	–	–

In addition, as of 31 December 2015, there were financial guarantees for external creditors in the amount of €1 million (2014: €0 million, 2013: €0 million), which are to be allocated to the first year of repayment. Additionally, RWE International Group companies have provided loan commitments amounting to €125 million (2014: €160 million, 2013: €59 million), which are callable in 2016.

## (29) Contingent liabilities and financial commitments

As of 31 December 2015, the amount of capital commitments totalled €325 million (2014: €488 million, 2013: €577 million). In addition, unrecognized commitments to provide loans or other financial support to joint ventures amounted to €125 million in 2015 (2014: €0 million, 2013: €0 million).

Commitments from operating leases refer largely to rent and lease contracts for storage and administration buildings. Minimum lease payments have the following maturity structure:

Operating leases		Nominal value		
		31 Dec	31 Dec	31 Dec
€ million		2015	2014	2013
Due within 1 year		219	213	201
Due after 1 to 5 years		620	534	431
Due after 5 years		967	901	418
		<b>1,806</b>	<b>1,648</b>	<b>1,050</b>

RWE International has long-term contractual purchase commitments for supplies of gas which are mostly based on long-term take-or-pay-contracts. Furthermore, RWE International has long-term financial commitments for purchases of electricity. As of 31 December 2015, the minimum payment obligations stemming from major electricity purchase contracts totalled €3,563 million (2014: €3,486 million, 2013: €2,639 million), of which €454 million is due within one year (2014: €266 million, 2013: €311 million). Payment obligations stemming from the major long-term gas purchase contracts amounted to €1,530 million as of 31 December 2015 (2014: €1,969 million, 2013: €2,190 million), of which €284 million is due within one year (2014: €294 million, 2013: €270 million).

RWE International and its subsidiaries are involved in official, regulatory and anti-trust proceedings, litigation and arbitration proceedings related to their operations and are affected by the results of such. In some cases, out-of-court claims are also filed. However, RWE International does not expect any material negative repercussions from these proceedings on the RWE International Group's economic or financial position.

### **(30) Segment reporting**

For the reporting periods of the combined financial statements, the segment reporting is based on the internal reporting to the chief operating decision maker of the RWE International Group from the beginning of the operational business activities of the RWE International Group on 1 April 2016. The internal reporting and management of the RWE International Group is based on regional and functional principles. The Group is divided into seven operating segments.

In the operating segments "Grid and Infrastructure Germany" and "Grid and Infrastructure Eastern Europe", the German electricity and gas distribution networks as well as the distribution networks in Central Eastern and South Eastern Europe are reported. The operating segments show similar economic characteristics. They are responsible for the planning, operation and maintenance as well as for the development and reconstruction of the distribution networks. Due to EU directives and regulations, the regulatory environment which is the key value driver for the financial performance of the segments is comparable. The operating segments are therefore combined to the reportable segment "Grid and Infrastructure". This segment also includes non-controlling interests like the Austria-based KELAG as well as other infrastructure, in particular gas storages and water supply.

The operating segments "Retail Germany", "Retail United Kingdom", "Retail Netherlands/Belgium" and "Retail Eastern Europe" are in charge of the supply of electricity, gas, heat and energy services to B2B and B2C customers in Germany, the Netherlands and Belgium, the United Kingdom as well as Central Eastern and South Eastern Europe. They have comparable processes and organizations e.g. for sourcing, portfolio management, customer acquisition and customer care. Business fundamentals show high similarity due to EU legislation and EU market integration. Value drivers are the same, financial performance is influenced by the same factors such as competitive intensity. As the operating segments therefore show similar economic characteristics, they are combined to the reportable segment "Retail".

The segment "Renewables" covers the generation of electricity from wind (onshore and offshore), water and – to a limited extent – biomass with the major activities in Germany, the United Kingdom, the Netherlands, Spain and Poland.

"Other, consolidation" covers consolidation effects, RWE International SE and the activities of other business areas which are not presented separately. These activities include the internal group services provided by RWE IT and RWE Consulting. Moreover, overhead costs that were allocated to the RWE International Group are presented here.

Segment reporting Divisions 2015 € million	Grid and Infrastructure	Retail	Renewables	Other, consolidation	RWE International Group
<b>External revenue (incl. natural gas tax/electricity tax) . . . . .</b>	<b>10,176</b>	<b>34,491</b>	<b>710</b>	<b>191</b>	<b>45,568</b>
Intra-group revenue . . . . .	3,049	577	448	-4,074	–
Total revenue . . . . .	13,225	35,068	1,158	-3,883	45,568
<b>Operating result . . . . .</b>	<b>1,930</b>	<b>830</b>	<b>488</b>	<b>-198</b>	<b>3,050</b>
Operating income from investments . . . . .	294	19	102	–	415
Operating income from investments accounted for using the equity method . . .	217	12	-2	1	228
Operating depreciation and amortization . . . . .	948	158	330	35	1,471
Total impairment losses . . . .	70	173	34	–	277
EBITDA . . . . .	2,878	988	818	-163	4,521
Carrying amount of investments accounted for using the equity method . . .	1,924	77	135	1	2,137
Capital expenditures on intangible assets, property, plant and equipment . . . . .	1,305	287	404	28	2,024

Segment reporting Divisions 2014 € million	Grid and Infrastructure	Retail	Renewables	Other, consolidation	RWE International Group
<b>External revenue (incl. natural gas tax/electricity tax) . . . . .</b>	<b>9,819</b>	<b>35,145</b>	<b>520</b>	<b>197</b>	<b>45,681</b>
Intra-group revenue . . . . .	3,225	674	305	-4,204	–
Total revenue . . . . .	13,044	35,819	825	-4,007	45,681
<b>Operating result . . . . .</b>	<b>1,904</b>	<b>907</b>	<b>253</b>	<b>-205</b>	<b>2,859</b>
Operating income from investments . . . . .	301	8	-3	–	306
Operating income from investments accounted for using the equity method . . .	229	8	-4	1	234
Operating depreciation and amortization . . . . .	957	162	271	48	1,438
Total impairment losses . . . .	134	1	29	3	167
EBITDA . . . . .	2,861	1,069	524	-157	4,297
Carrying amount of investments accounted for using the equity method . . .	2,196	83	99	1	2,379
Capital expenditures on intangible assets, property, plant and equipment . . . . .	1,131	212	677	40	2,060

Segment reporting Divisions 2013 € million	Grid and Infrastructure	Retail	Renewables	Other, consolidation	RWE International Group
External revenue (incl. natural gas tax/electricity tax) . . . . .	9,376	38,341	660	212	48,589
Intra-group revenue . . . . .	3,516	795	256	-4,567	–
Total revenue . . . . .	12,892	39,136	916	-4,355	48,589
<b>Operating result . . . . .</b>	<b>1,938</b>	<b>931</b>	<b>200</b>	<b>-225</b>	<b>2,844</b>
Operating income from investments . . . . .	299	8	-44	–	263
Operating income from investments accounted for using the equity method . . . . .	251	7	-42	-1	215
Operating depreciation and amortization . . . . .	852	182	248	68	1,350
Total impairment losses . . . . .	184	1	624	0	809
EBITDA . . . . .	2,790	1,113	448	-157	4,194
Carrying amount of investments accounted for using the equity method . . . . .	2,249	52	105	-2	2,404
Capital expenditures on intangible assets, property, plant and equipment . . . . .	1,117	158	975	52	2,302

Regions 2015 € million	Germany	EU UK	Other EU	Rest of Europe	Other	RWE International Group
External revenue (excl. natural gas tax/electricity tax) <sup>1</sup> . . . . .	26,323	9,624	7,480	23	6	43,456
Intangible assets, property, plant and equipment . . . . .	14,373	6,374	9,592	–	147	30,486

<sup>1</sup> Broken down by the region in which the service was provided.

Regions 2014 € million	Germany	EU UK	Other EU	Rest of Europe	Other	RWE International Group
External revenue (excl. natural gas tax/electricity tax) <sup>1</sup> . . . . .	26,742	9,290	7,403	69	2	43,506
Intangible assets, property, plant and equipment . . . . .	14,125	6,447	8,296	–	136	29,004

<sup>1</sup> Broken down by the region in which the service was provided.

Regions 2013 € million	Germany	EU UK	Other EU	Rest of Europe	Other	RWE International Group
External revenue (excl. natural gas tax/electricity tax) <sup>1</sup> . . . . .	27,133	9,281	9,583	29	3	46,029
Intangible assets, property, plant and equipment . . . . .	14,222	5,848	8,381	–	127	28,578

<sup>1</sup> Broken down by the region in which the service was provided.

<b>Products</b> € million	<b>RWE International Group</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
External revenue <sup>1</sup> .....	43,456	43,506	46,029
of which: electricity .....	31,354	31,137	32,000
of which: gas .....	10,394	10,165	11,805

<sup>1</sup> Excluding natural gas tax/electricity tax.

**Notes on segment data.** Revenue between the segments is reported as RWE International intra-group revenue. Internal supply of goods and services is settled at arm's lengths conditions. The operating result is used for internal management. The following table presents the reconciliation of EBITDA to the operating result and to income before tax:

<b>Reconciliation of income items</b>			
€ million	2015	2014	2013
<b>EBITDA</b> .....	<b>4,521</b>	<b>4,297</b>	<b>4,194</b>
- Operating depreciation and amortization .....	-1,471	-1,438	-1,350
<b>Operating result</b> .....	<b>3,050</b>	<b>2,859</b>	<b>2,844</b>
+ Non-operating result .....	50	-83	-832
+ Financial result .....	-302	-555	-567
<b>Income before tax</b> .....	<b>2,798</b>	<b>2,221</b>	<b>1,445</b>

Income and expenses that are unusual from an economic perspective, or stem from exceptional events, prejudice the assessment of operating activities. They are reclassified to the non-operating result. Typically the non-operating result can include book gains or losses from the disposal of investments or non-current assets not required for operations, impairment of the goodwill of fully consolidated companies, as well as effects of the fair valuation of certain derivatives.

The non-operating result increased from -€832 million during the year ended 31 December 2013 by €749 million to -€83 million during the year ended 31 December 2014 and by €133 million to €50 million during the year ended 31 December 2015. This increase was largely due to impairments, in particular, due to an impairment of about €270 million that was recognized on Spanish onshore wind farms in the Renewables Segment during the year ended 31 December 2013 and an impairment of €260 million that was recognized on a German offshore wind farm in the Renewables Segment during the year ended 31 December 2013.

### **(31) Notes to the cash flow statement**

The cash flow statement classifies cash flows according to operating, investing and financing activities. Cash and cash equivalents in the cash flow statement correspond to the amount stated in the balance sheet. Cash and cash equivalents consist of cash on hand, demand deposits and fixed-interest marketable securities with a maturity of three months or less from the date of acquisition.

Amongst other things, cash flows from operating activities during the year ended 31 December 2015 include:

- cash flows from interest income of €260 million (2014: €330 million, 2013: €320 million) and cash flows used for interest expenses of €606 million (2014: €686 million, 2013: €684 million)
- €862 million (2014: €861 million, 2013: €408 million) in taxes on income paid (less refunds)
- income from investments, corrected for items without an effect on cash flows, in particular from accounting using the equity method, amounted to €241 million (2014: €267 million, 2013: €286 million)

Flows of funds from the acquisition and sale of combined companies are included in cash flows from investing activities. Effects of foreign exchange rate changes and other changes in value are stated separately.

Cash flows from financing activities during the year ended 31 December 2015 include purchases of €0 million (2014: €58 million, 2013: €0 million) and sales of €170 million (2014: €29 million, 2013: €279 million) of shares in subsidiaries and other business units which did not lead to a change in control. During the year ended 31 December 2015, net changes in equity (incl. non-controlling interests) included a payment of €547 million for the acquisition of 100% of the shares of RWE Supply & Trading Netherlands B.V. from a subsidiary of RWE AG (see "Scope of combination – Business combinations").

As of 31 December 2015 restrictions on the disposal of cash and cash equivalents amounted to €19 million (2014: €14 million, 2013: €14 million).

### (32) Information on concessions

In the fields of electricity, gas and water supply, there are a number of easement agreements and concession contracts between RWE International Group companies and the governmental authorities in the areas RWE International Group supplies.

Easement agreements are used in the electricity and gas business to regulate the use of public rights of way for laying and operating lines for public energy supply. These agreements are generally limited to a term of 20 years. After expiry, there is a legal obligation to transfer ownership of the local distribution facilities to the new operator, for appropriate compensation.

Water concession agreements contain provisions for the right and obligation to provide water and wastewater services, to operate the associated infrastructure, such as water utility plants, as well as to implement capital expenditures. Concessions in the water business generally have terms of up to 25 years.

### (33) Related party disclosures

Within the framework of its ordinary business activities, the RWE International Group has business relationships with numerous companies. These include the parent company RWE AG and its subsidiaries, associates and joint ventures as well as associates and joint ventures of the RWE International Group which are classified as related parties.

Business and finance transactions were concluded with RWE AG, its subsidiaries, associates and joint ventures as well as with major associates and joint ventures of the RWE International Group, resulting in the following items in RWE International's combined financial statements:

Key items from transactions with related parties	RWE AG			Subsidiaries, associates and joint ventures of RWE Group			Associates of RWE International Group			Joint ventures of RWE International Group		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
€ million												
Income . . . . .	71	19	323	5,058	5,674	5,476	216	216	239	15	32	0
Expenses . . . . .	1,136	2,643	1,932	19,833	22,028	24,405	43	36	59	–	1	8
Receivables . . . . .	5,063	5,178	3,835	7,147	6,684	6,768	56	31	11	86	102	0
Liabilities . . . . .	5,405	11,202	11,260	1,505	6,660	6,653	4	2	7	11	32	1

In addition to the amounts presented in the table above, during the year ended 31 December 2015, RWE International Group recorded contributions and withdrawals from RWE Group companies of -€1,285 million (2014: €1,320 million, 2013: €1,117 million) directly in invested equity (see Note 21).

The key items from transactions with related parties mainly stem from supply and service as well as financial transactions with RWE Group companies. During the reporting periods of the

combined financial statements, the RWE International Group was largely financed by the RWE Group and invested excess liquidity with RWE AG or RWE Group companies using the RWE Group's cash pooling and cash management system. As of 31 December 2015, receivables include loans and financial receivables to the RWE Group at the amount of €11,613 million (2014: €10,859 million, 2013: €9,118 million). During the year ended 31 December 2015, the underlying interest rates of the loans and financial receivables to the RWE Group ranged from 0.15% to 6.65% (2014: 0.15% to 6.00%, 2013: 0.15% to 6.00%) and the underlying terms ranged from 1 to 35 years (2014: 1 to 36 years, 2013: 1 to 37 years). As of 31 December 2015, loans and financial liabilities to the RWE Group amounted to €5,140 million (2014: €15,698 million, 2013: €15,599 million). During the year ended 31 December 2015, the underlying interest rates of the loans and financial liabilities to the RWE Group ranged from 0.12% to 7.06% (2014: 0.81% to 7.06%, 2013: 0.93% to 7.06%) and the underlying terms ranged from 1 to 16 years (2014: 1 to 17 years, 2013: 1 to 18 years). Generally, based on RWE Group policies, loans between companies of the RWE Group (including RWE International companies) are not secured or guaranteed.

RWE International Group companies entered into contracts with RWE Group companies, in particular RWE Supply & Trading, to purchase or supply commodities, mainly electricity and gas. In addition, services were provided from RWE Group companies to the RWE International Group as well as from the RWE International Group to RWE Group companies based on service level agreements. During the year ended 31 December 2015, supply transactions/services and other transactions respectively led to income in the amount of €4,872 million and €54 million, respectively (2014: €5,311 million and €122 million, respectively, 2013: €5,257 million and €287 million, respectively) and expenses of €19,082 million and €1,737 million, respectively (2014: €21,334 million and €3,102 million, respectively, 2013: €23,627 million and €2,418 million, respectively).

During the year ended 31 December 2015, finance transactions led to income in the amount of €203 million (2014: €260 million, 2013: €255 million) and expenses of €150 million (2014: €236 million, 2013: €292 million).

There were also financial links with joint ventures which resulted in income of €4 million (2014: €4 million, 2013: €0 million). As of 31 December 2015, financial receivables accounted for €71 million of the receivables from joint ventures (2014: €91 million, 2013: €0 million).

All transactions were completed at arm's length conditions, i.e. on principle the conditions of these transactions did not differ from those with other enterprises. As of 31 December 2015, €10,903 million of the receivables (2014: €11,200 million, 2013: €10,256 million) and €3,918 million of the liabilities (2014: €6,603 million, 2013: €4,849 million) fall due within one year. As of 31 December 2015, other obligations from executory contracts amounted to €23,578 million (2014: €29,044 million, 2013: €34,877 million).

Above and beyond this, the RWE International Group did not execute any material transactions with related companies or persons.

During the reporting periods of the combined financial statements, RWE International did not exist as a separate group and thus there were no key management personnel for this group. The following disclosures show the compensation of the Executive Board and the Supervisory Board of RWE AG based on the allocation keys that were used for the allocation of overhead costs including management compensation to RWE International.

On this basis, the total compensation of the Executive Board of RWE AG during the year ended 31 December 2015 amounted to €6,510,000 (2014: €6,383,000, 2013: €7,635,000), plus pension service cost of €333,000 (2014: €272,000, 2013: €338,000). The short-term compensation components of the Executive Board during the year ended 31 December 2015 amounted to €5,076,000 (2014: €5,238,000, 2013: €4,923,000). In addition to this, long-term compensation components during the year ended 31 December 2015 amounted to €432,000 (2014: €143,000, 2013: €503,000) and share-based compensation components (see Note 22) amounted to €1,002,000 (2014: €1,002,000, 2013: €2,209,000).

During the year ended 31 December 2015, the compensation of the Supervisory Board based on the allocation keys amounted to €1,557,000 (2014: €1,562,000, 2013: €1,411,000). During the year ended 31 December 2015, Supervisory Board members also received a total of €151,000 (2014: €124,000, 2013: €95,000) in compensation from subsidiaries for the exercise of mandates. The employee representatives on the Supervisory Board have labour contracts with the respective Group companies. Remuneration occurs in accordance with the relevant contractual conditions.

### (34) Events after the end of 2015

In the period between 1 January 2016 and the date when the combined financial statements were authorized for issue by the Executive Board of RWE International SE (30 June 2016), the following material events occurred:

In July 2015, RWE International gained control of WestEnergie GmbH, an investment that had previously been accounted for using the equity method, due to the expiry of a renouncement of a voting right. The company primarily operates electricity and gas distribution networks. At 31 December 2015, the initial accounting of the business combination had not been finalized due to the complex structure of the transaction. The accounting treatment, including the result of first-time inclusion was finalized with effect from 31 March 2016. The assumed assets and liabilities are presented in the following table:

Balance-sheet items € million	IFRS carrying amounts (fair values) at first-time inclusion
Non-current assets	152
Current assets	24
Non-current liabilities	38
Current liabilities	36
<b>Net assets</b>	<b>102</b>
Non-controlling interests	-1
Cost (not affecting cash)	121
<b>Goodwill</b>	<b>20</b>

The fair value of the old shares amounted to €121 million. The first-time inclusion resulted in income of €34 million, which is recognized as part of the "Other operating income" on the income statement. The fair value of the receivables included in non-current and current assets amounted to €24 million.

The measurement of non-controlling interests was based on the pro-rated net assets of the company at first-time inclusion. The goodwill essentially represents the expected future usage and synergy effects.

At the end of February 2016, RWE International reached an agreement with the Hungarian gas utility TIGÁZ, which belongs to the Italian ENI Group, to acquire its industrial and corporate customers. These customers were transferred to RWE International's subsidiary MÁSZ with effect from 1 April 2016. RWE International's share of the unregulated Hungarian gas market thus climbed to about 10%.

In the first quarter of 2016, impairments of €204 million were recognized for the gas storage facilities of the Grid and Infrastructure Segment (recoverable amount: €0.1 billion), primarily due to changes in price expectations. The fair value less costs to sell was determined using a company valuation model based on cash flow budgets and a discount rate of 5.25%.

In May and June 2016, the two leading rating agencies Moody's and Standard & Poor's lowered the long-term credit rating for the senior bonds of RWE to Baa3 with a stable outlook and BBB- with a negative outlook respectively.

During the first six months of 2016, the RWE International Group was formed by transferring legal entities between other RWE Group companies and the RWE International Group in a legal reorganization process. For these business combinations under common control, the predecessor accounting approach has been applied. This means that the assets and liabilities of the businesses included in the combined financial statements correspond to the historically reported amounts in the IFRS consolidated financial statements of the RWE Group (predecessor values). Therefore, no new goodwill was recognized. Any consideration given or received is recognized directly in equity.

The following transactions took place:

- March 2016: Merger (*“Verschmelzung”*) of Essent SPV N.V., ‘s-Hertogenbosch, Netherlands and RWE Downstream AG, Essen, Germany. As a result of this merger, RWE International SE was established.
- March 2016: Contribution (*“Einbringung”*) of RWE IT GmbH, Essen, Germany to RWE International SE.
- March 2016: Contribution of GBV Einundzwanzigste Gesellschaft für Beteiligungsverwaltung mbH, which was renamed to GfP Gesellschaft für Pensionsverwaltung mbH, Essen, Germany, to RWE International SE.
- April 2016: Merger of RWE Innogy GmbH, Essen, Germany, and RWE International SE. As a consideration, 5.1% of the shares of RWE International SE were granted to RWE AG and 94.9 % to RWE Downstream Beteiligungs GmbH.
- April 2016: Merger of RWE Effizienz GmbH, Dortmund, Germany, and RWE International SE.
- April 2016: Merger of RWE Vertrieb AG, Dortmund, Germany, and RWE International SE.
- April 2016: Contribution of the participation in RWE Deutschland AG, Essen, Germany, to RWE International SE. As a consideration, RWE International SE granted to the former shareholders RWE AG and RWE Downstream Beteiligungs GmbH 121 and 879 new shares respectively at the nominal amount of €1.
- April 2016: Acquisition of RWE Npower Group plc, Swindon, United Kingdom, by RWE Gas International N.V. for a purchase price of £1,438 million.
- May 2016: Merger of GBV Zweiundzwanzigste Gesellschaft für Beteiligungsverwaltung mbH, Essen, Germany, and RWE International SE.
- May 2016: Acquisition of RWE Group Business Services Polska Sp. z.o.o., Krakow, Poland, by RWE International SE for a purchase price of €6 million.
- May 2016: Merger of RWE Energiedienstleistungen GmbH, Dortmund, Germany, and RWE International SE.
- May 2016: Contribution in kind (*“Sacheinlage”*) of the following entities to RWE International SE:
  - RWE East s.r.o., Prague, Czech Republic
  - RWE Hrvatska d.o.o., Zagreb, Croatia
  - RWE Polska S.A., Warsaw, Poland
  - RWE Polska Generation Sp.z.o.o., Warsaw, Poland
  - RWE Slovensko s.r.o., Bratislava, Slovakia
  - RWE New Energy Ltd., Dubai, United Arab Emirates
  - RWE New Ventures LLC, Wilmington, USA
  - MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale), Germany

- SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus, Germany
- Pfalzwerke AG, Ludwigshafen, Germany
- easyOptimize GmbH, Essen, Germany
- RWE-EnBW Magyarorszag Energiaszolgaltrato Kft., Budapest, Hungary

The portfolio of these entities was transferred to RWE International SE against the granting of shares (*"Anteilsgewährung"*) at the amount of €1,000.

- May 2016: Contribution of the following entities to RWE International SE:

- Budapesti Elektromos Művek Nyrt., Budapest, Hungary
- enviaM Beteiligungsgesellschaft mbH, Chemnitz, Germany
- envia Mitteldeutsche Energie AG, Chemnitz, Germany
- Eszak-magyarorszag Aramszolgaltrato Nyrt., Miskolc, Hungary
- Kärntner Energieholding Beteiligungs GmbH, Klagenfurt, Austria
- KELAG-Kärntner Elektrizitäts-AG, Klagenfurt, Austria
- Lechwerke AG, Augsburg, Germany
- VSE AG, Saarbrücken, Germany
- Vychodoslovenska energetika Holding a.s., Košice, Slovakia

The portfolio of these entities was transferred to RWE International SE against the granting of shares at the amount of €1,000 and the payment of €3,923 million.

- May 2016: Contribution of 77.58% of the shares of Süwag Energie AG, Frankfurt am Main, Germany, to RWE International SE against the granting of shares at the amount of €1,000. RWE International SE has recognized the shares in Süwag Energie AG at the amount of €350 million.
- May 2016: Contribution of 51.0% of the shares of RL Beteiligungsverwaltung mit beschränkter Haftung oHG, Gundremmingen, Germany, to RWE International SE.
- May 2016: Contribution of RWE Consulting GmbH, Essen, Germany, to RWE International SE.
- May 2016: Acquisition of 1% of the shares of RWE Slovensko s.r.o., Bratislava, Slovakia, by RWE Gas International N.V.
- June 2016: Acquisition of 49% of the shares of RWE Power International Middle East, Dubai, United Arab Emirates, by RWE Consulting GmbH for a purchase price of €31,220.
- June 2016: Gain of control of RWE Rheinhessen Beteiligungsgesellschaft mbH, Essen, Germany by contractual agreement.
- June 2016: Acquisition of RWE Benelux Holding B.V., 's-Hertogenbosch, Netherlands, by RWE Gas International N.V. for a purchase price of €1,256 million.
- June 2016: Contribution of RWE Aqua GmbH, Mülheim an der Ruhr, Germany, to RWE International SE against the granting of shares at the amount of €5,000.
- June 2016: Acquisition of RWE SWITCH GmbH, Essen, Germany, by RWE International SE for a purchase price of €25,000.
- June 2016: Acquisition of RWE Gastronomie GmbH, Essen, Germany, by RWE International SE for a purchase price of €275,000.

Moreover, 19.99% of the shares of Dii GmbH, München, Germany, were contributed to RWE International SE in May 2016.

### (35) Companies included in the combination scope

The companies included in the combination scope are listed in the following tables. The shown shareholding in percentage refers to the RWE Group:

Fully consolidated companies	Shareholding in %		
	2015	2014	2013
2. CR Immobilien-Vermietungsgesellschaft mbH & Co. Objekt MEAG Halle KG, Halle . . . . .	— <sup>1)</sup>	— <sup>1)</sup>	— <sup>1)</sup>
Aktivabedrijf Wind Nederland B.V., Zwolle/Netherlands . . . . .	100	100	100
An Suidhe Wind Farm Limited, Swindon/United Kingdom . . . . .	100	100	100
Andromeda Wind S.r.l., Bolzano/Italy . . . . .	51	51	51
Artelis S.A., Luxembourg/Luxembourg . . . . .	53	53	53
A/V/E GmbH, Halle (Saale) . . . . .	76	76	76
Batsworthy Cross Wind Farm Limited, Swindon/United Kingdom . . . . .	100	—	—
Bayerische Bergbahnen-Beteiligungs-Gesellschaft mbH, Gundremmingen . . . . .	100	100	100
Bayerische Elektrizitätswerke GmbH, Augsburg . . . . .	100	100	100
Bayerische-Schwäbische Wasserkraftwerke Beteiligungsgesellschaft mbH, Gundremmingen . . . . .	62	62	62
Bilbster Wind Farm Limited, Swindon/United Kingdom . . . . .	100	100	100
Bristol Channel Zone Limited, Swindon/United Kingdom . . . . .	100	100	100
BTB-Blockheizkraftwerks, Träger- und Betreibergesellschaft mbH Berlin, Berlin . . . . .	100	100	100
Budapesti Elektromos Muvek Nyrt., Budapest/Hungary . . . . .	55	55	55
Carnedd Wen Wind Farm Limited, Swindon/United Kingdom . . . . .	100	100	100
Cegecom S.A., Luxembourg/Luxembourg . . . . .	100	100	100
Channel Energy Limited, Swindon/United Kingdom . . . . .	100	100	100
CR-Immobilien-Vermietungsgesellschaft mbH & Co. KG Cottbus, Cottbus . .	— <sup>1)</sup>	— <sup>1)</sup>	— <sup>1)</sup>
ELE Verteilnetz GmbH, Gelsenkirchen . . . . .	100	100	100
Elektrizitätswerk Landsberg GmbH, Landsberg am Lech . . . . .	100	100	100
ELMU DSO Holding Korlátolt Felelősségű Társaság, Budapest/Hungary . . . .	100	—	—
ELMU Halozati Eloszto Kft., Budapest/Hungary . . . . .	100	100	100
ELMU-ÉMÁSZ Energiaszolgáltató Zrt., Budapest/Hungary . . . . .	100	—	—
ELMU-ÉMÁSZ Halozati Szolgáltató Kft., Budapest/Hungary . . . . .	100	100	100
ELMU-ÉMÁSZ Ügyfélszolgálati Kft., Budapest/Hungary . . . . .	100	100	100
ÉMÁSZ DSO Holding Korlátolt Felelősségű Társaság, Miskolc/Hungary . . . .	100	—	—
ÉMÁSZ Halozati Kft., Miskolc/Hungary . . . . .	100	100	100
Emscher Lippe Energie GmbH, Gelsenkirchen . . . . .	50 <sup>1)</sup>	50 <sup>1)</sup>	50
ENB Energienetze Berlin GmbH, Berlin . . . . .	100	100	100
Energiedirect B.V., Waalre/Netherlands . . . . .	100	100	100
Energies France S.A.S. - Group - (pre-consolidated) . . . . .	—	—	—
Centrale Hydroelectrique d'Oussiat S.A.S., Paris/France . . . . .	100	100	100
Energies Charentus S.A.S., Paris/France . . . . .	100	100	100
Energies France S.A.S., Paris/France . . . . .	100	100	100
Energies Maintenance S.A.S., Paris/France . . . . .	100	100	100
Energies Saint Remy S.A.S., Paris/France . . . . .	100	100	100
Energies VAR 1 S.A.S., Paris/France . . . . .	100	100	100
Energies VAR 2 S.A.S., Paris/France . . . . .	—	100	100
Energies VAR 3 S.A.S., Paris/France . . . . .	100	100	100
RWE Innogy Développement France S.A.S., Paris/France . . . . .	—	100	100
SAS Île de France S.A.S., Paris/France . . . . .	100	100	100
Energiewacht N.V., Veendam/Netherlands . . . . .	100	50	50
energis GmbH, Saarbrücken . . . . .	72	72	64
energis-Netzgesellschaft mbH, Saarbrücken . . . . .	100	100	100

Fully consolidated companies	Shareholding in %		
	2015	2014	2013
Enerservice Maastricht B.V., Maastricht/Netherlands	–	100	100
envia AQUA GmbH, Chemnitz	–	–	100
envia Mitteldeutsche Energie AG, Chemnitz	59	59	59
envia SERVICE GmbH, Cottbus	100	100	100
envia TEL GmbH, Markkleeberg	100	100	100
envia THERM GmbH, Bitterfeld-Wolfen	100	100	100
enviaM Beteiligungsgesellschaft Chemnitz GmbH, Chemnitz	100	100	100
enviaM Beteiligungsgesellschaft mbH, Essen	100	100	100
eprimo GmbH, Neu-Isenburg	100	100	100
Essent Belgium N.V., Antwerp/Belgium	100	100	100
Essent CNG Cleandrive B.V., 's-Hertogenbosch/Netherlands	100	–	–
Essent Energie Verkoop Nederland B.V., 's-Hertogenbosch/Netherlands	100	100	100
Essent Energy Group B.V., Arnhem/Netherlands	100	100	100
Essent IT B.V., Arnhem/Netherlands	100	100	100
Essent Meetdatabedrijf B.V., 's-Hertogenbosch/Netherlands	100	100	100
Essent Nederland B.V., Arnhem/Netherlands	100	100	100
Essent New Energy B.V., 's-Hertogenbosch/Netherlands	100	100	100
Essent N.V., 's-Hertogenbosch/Netherlands	100	100	100
Essent Personeel Service B.V., Arnhem/Netherlands	100	100	100
Essent Retail Bedrijven B.V., Arnhem/Netherlands	100	100	100
Essent Retail Energie B.V., 's-Hertogenbosch/Netherlands	100	100	100
Essent Retail Participations B.V., 's-Hertogenbosch/Netherlands	100	100	100
Essent Sales Portfolio Management B.V., 's-Hertogenbosch/Netherlands	100	100	100
Essent Service B.V., Arnhem/Netherlands	–	100	100
Essent Wind Nordsee Ost Planungs- und Betriebsgesellschaft mbH, Helgoland	100	100	100
Eszak-magyarországi Áramszolgáltató Nyrt., Miskolc/Hungary	54	54	54
EuroSkyPark GmbH, Saarbrücken	51	51	51
EVIP GmbH, Bitterfeld-Wolfen	100	100	100
EWV Energie- und Wasser-Versorgung GmbH, Stolberg	54	54	54
FAMIS Gesellschaft für Facility Management und Industrieservice mbH, Saarbrücken	63	63	63
Fri-El Anzi Holding S.r.l., Bolzano/Italy	51	51	51
Fri-El Anzi S.r.l., Bolzano/Italy	100	100	100
Fri-El Guardionara Holding S.r.l., Bolzano/Italy	51	51	51
Fri-El Guardionara S.r.l., Bolzano/Italy	100	100	100
Geas Energiewacht B.V., Enschede/Netherlands	100	50	50
Georgia Biomass Holding LLC, Savannah/USA	100	100	100
Georgia Biomass LLC, Savannah/USA	100	100	100
Green Gecco GmbH & Co. KG, Essen	51	51	51
GWG Grevenbroich GmbH, Grevenbroich	60	60	60
Immobilien-Vermietungsgesellschaft Schumacher GmbH & Co. Objekt Kundenzentren KG, Halle	– <sup>1)</sup>	– <sup>1)</sup>	– <sup>1)</sup>
Industriepark LH Verteilnetz GmbH, Chemnitz	–	100	100
Inhome Energy Care N.V., Houthalen-Helchteren/Belgium	100	100	–
INVESTERG - Investimentos em Energias, SGPS, Lda. - Group - (pre-consolidated)	–	–	–
INVESTERG - Investimentos em Energias, Sociedade Gestora de Participações Sociais, Lda., São João do Estoril/Portugal	100	100	100
LUSITERG - Gestão e Produção Energética, Lda., São João do Estoril/Portugal	74	74	74

Fully consolidated companies	Shareholding in %		
	2015	2014	2013
Jihomoravská plynárenská, a.s., Brno/Czech Republic	–	–	100
JMP DS, s.r.o, Brno/Czech Republic	–	–	100
KA Contracting SK s.r.o., Banská Bystrica/Slovakia	100	100	100
Knabs Ridge Wind Farm Limited, Swindon/United Kingdom	100	100	100
Krzecin Sp. z o.o., Warsaw/Poland	100	100	100
KW Eemsmond B.V., Zwolle/Netherlands	–	100	100
Lechwerke AG, Augsburg	90	90	90
Leitungspartner GmbH, Düren	100	100	100
LEW Anlagenverwaltung GmbH, Gundremmingen	100	100	100
LEW Beteiligungsgesellschaft mbH, Gundremmingen	100	100	100
LEW Netzservice GmbH, Augsburg	100	100	100
LEW Service & Consulting GmbH, Augsburg	100	100	100
LEW TelNet GmbH, Neusäß	100	100	100
LEW Verteilnetz GmbH, Augsburg	100	100	100
Little Cheyne Court Wind Farm Limited, Swindon/United Kingdom	59	59	59
Magyar Áramszolgáltató Kft., Budapest/Hungary	100	100	100
Metzler enviaM MI178, Chemnitz	100	100	100
Metzler F55 LEW (EWA), Augsburg	100	100	100
Metzler G55 Süwag (STEWA), Frankfurt am Main	100	100	100
Metzler J55 ELE (TKE), Gelsenkirchen	100	100	100
Metzler K55 VSE (SALUTE), Saarbrücken	100	100	100
Metzler MI-G50 RWE AG, Essen	100	–	–
MEWO Wohnungswirtschaft GmbH & Co. KG, Halle (Saale)	–	–	100
MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale)	75	75	75
Mitteldeutsche Netzgesellschaft Gas mbH, Kabelsketal	100	100	100
Mitteldeutsche Netzgesellschaft Strom mbH, Halle (Saale)	100	100	100
Mittlere Donau Kraftwerke AG, Munich	40 <sup>1)</sup>	40 <sup>1)</sup>	40 <sup>1)</sup>
ML Wind LLP, Swindon/United Kingdom	51	51	51
NEW AG, Mönchengladbach	40 <sup>1)</sup>	40 <sup>1)</sup>	44 <sup>1)</sup>
NEW Netz GmbH, Geilenkirchen	100	100	100
NEW Niederrhein Energie und Wasser GmbH, Mönchengladbach	100	100	100
NEW NiederrheinWasser GmbH, Viersen	100	100	100
NEW Service GmbH, Mönchengladbach	100	100	100
NEW Tönisvorst GmbH, Tönisvorst	98	95	95
NEW Viersen GmbH, Viersen	100	100	100
Nordsee Windpark Beteiligungs GmbH, Essen	100	–	–
Npower Business and Social Housing Limited, Swindon/United Kingdom	100	100	100
Npower Commercial Gas Limited, Swindon/United Kingdom	100	100	100
Npower Direct Limited, Swindon/United Kingdom	100	100	100
Npower Financial Services Limited, Swindon/United Kingdom	100	100	100
Npower Gas Limited, Swindon/United Kingdom	100	100	100
Npower Limited, Swindon/United Kingdom	100	100	100
Npower Northern Limited, Swindon/United Kingdom	100	100	100
Npower Yorkshire Limited, Swindon/United Kingdom	100	100	100
Npower Yorkshire Supply Limited, Swindon/United Kingdom	100	100	100
NRW Pellets GmbH, Erndtebrück	100	100	90
Octopus Electrical Limited, Swindon/United Kingdom	100	100	100
OIE Aktiengesellschaft, Idar-Oberstein	100	100	100
Park Wiatrowy Nowy Staw Sp. z o.o., Warsaw/Poland	100	100	100
Park Wiatrowy Opalenica Sp. z o.o., Warsaw/Poland	100	100	–
Park Wiatrowy Suwalki Sp. z o.o., Warsaw/Poland	100	100	100

Fully consolidated companies	Shareholding in %		
	2015	2014	2013
Park Wiatrowy Tychowo Sp. z o.o., Warsaw/Poland	100	100	100
Piecki Sp. z o.o., Warsaw/Poland	51	51	51
Plus Shipping Services Limited, Swindon/United Kingdom	100	100	100
Powerhouse B.V., Almere/Netherlands	100	100	100
PS Energy UK Limited, Swindon/United Kingdom	100	–	–
regionetz GmbH, Eschweiler	100	100	100
Rheinkraftwerk Albbruck-Dogern Aktiengesellschaft, Waldshut-Tiengen	77	77	77
Rhein-Sieg Netz GmbH, Siegburg	100	100	–
rhenag Beteiligungs GmbH, Cologne	100	100	100
rhenag Rheinische Energie Aktiengesellschaft, Cologne	67	67	67
Rhyl Flats Wind Farm Limited, Swindon/United Kingdom	50 <sup>1)</sup>	50 <sup>1)</sup>	50 <sup>1)</sup>
RL Besitzgesellschaft mbH, Gundremmingen	100	100	100
RL Beteiligungsverwaltung beschr. haft. OHG, Gundremmingen	100	100	100
RUMM Limited, Ystrad Mynach/United Kingdom	100	–	–
RWE Aqua GmbH, Mülheim an der Ruhr	100	100	100
RWE Benelux Holding B.V., 's-Hertogenbosch/Netherlands	100	100	100
RWE Česká republika a.s., Prague/Czech Republic	100	100	100
RWE Consulting GmbH, Essen	100	100	100
RWE Deutschland Aktiengesellschaft, Essen	100	100	100
RWE Distribuční služby, s.r.o., Brno/Czech Republic	100	100	100
RWE East, s.r.o., Prague/Czech Republic	100	100	100
RWE Effizienz GmbH, Dortmund	100	100	100
RWE Energetyka Trzemeszno Sp. z o.o., Wroclaw/Poland	100	100	100
RWE Energie S.R.L., Bucharest/Romania	100	100	100
RWE Energie, s.r.o., Prague/Czech Republic	100	100	100
RWE Energiedienstleistungen GmbH, Dortmund	100	100	100
RWE Energija d.o.o., Zagreb/Croatia	100	100	100
RWE Energo, s.r.o., Prague/Czech Republic	100	100	100
RWE FiberNet GmbH, Essen	100	100	100
RWE Finance B.V., 's-Hertogenbosch/Netherlands	100	–	–
RWE Finance II B.V., 's-Hertogenbosch/Netherlands	100	–	–
RWE Gas International N.V., 's-Hertogenbosch/Netherlands	100	100	100
RWE Gas Slovensko, s.r.o., Kosice/Slovakia	100	100	100
RWE Gas Storage, s.r.o., Prague/Czech Republic	100	100	100
RWE GasNet, s.r.o., Ústí nad Labem/Czech Republic	100	100	100
RWE Gasspeicher GmbH, Dortmund	100	100	100
RWE Gastronomie GmbH, Essen	100	100	100
RWE GBS UK Limited, Swindon/United Kingdom	100	100	100
RWE Grid Holding, a.s., Prague/Czech Republic	50 <sup>1)</sup>	65	65
RWE Group Business Services Benelux B.V., Arnhem/Netherlands	100	100	–
RWE Group Business Services CZ, s.r.o., Prague/Czech Republic	100	100	100
RWE Group Business Services Polska Sp. z o.o., Krakow/Poland	100	100	100
RWE Hrvatska d.o.o., Zagreb/Croatia	100	100	100
RWE Hungaria Tanacsado Kft., Budapest/Hungary	100	100	100
RWE Innogy AERSA S.A.U.- Group - (pre-consolidated)	–	–	–
Danta de Energías, S.A., Soria/Spain	99	99	99
Explotaciones Eólicas de Aldehuelas, S.L., Soria/Spain	95	95	95
General de Mantenimiento 21, S.L.U., Barcelona/Spain	100	100	100
Hidroeléctrica del Trasvase, S.A., Barcelona/Spain	60	60	60
RWE Innogy AERSA, S.A.U., Barcelona/Spain	100	100	100
RWE Innogy Benelux B.V., 's-Hertogenbosch/Netherlands	100	100	100

Fully consolidated companies	Shareholding in %		
	2015	2014	2013
RWE Innogy Beteiligungs GmbH, Essen	100	100	100
RWE Innogy Brise Windparkbetriebsgesellschaft mbH, Hanover	100	100	100
RWE Innogy GmbH, Essen	100	100	100
RWE Innogy Grebbin Windparkbetriebsgesellschaft mbH, Obere Warnow (OT Grebbin)	–	–	100
RWE Innogy GYM 1 Limited, Swindon/United Kingdom	–	100	100
RWE Innogy GYM 2 Limited, Swindon/United Kingdom	100	100	100
RWE Innogy GYM 3 Limited, Swindon/United Kingdom	100	100	100
RWE Innogy GYM 4 Limited, Swindon/United Kingdom	100	100	100
RWE Innogy Italia S.p.A., Mailand/Italy	100	100	100
RWE Innogy Kaskasi GmbH, Hamburg	100	100	100
RWE Innogy Lüneburger Heide Windparkbetriebsgesellschaft mbH, Walsrode	100	100	100
RWE Innogy Mistral Windparkbetriebsgesellschaft mbH, Hanover	100	100	100
RWE Innogy Sandbostel Windparkbetriebsgesellschaft mbH, Sandbostel	–	100	100
RWE Innogy Schmarloh Windparkbetriebsgesellschaft mbH, Barntrup	100	100	100
RWE Innogy Stallingborough Limited, Swindon/United Kingdom	100	100	100
RWE Innogy UK Holdings Limited, Swindon/United Kingdom	100	100	100
RWE Innogy UK Limited, Swindon/United Kingdom	100	100	100
RWE Innogy Windpark Bedburg GmbH & Co. KG, Bedburg	51	51	100
RWE Innogy Windpark GmbH, Essen	100	100	100
RWE Innogy Windpower Hanover GmbH, Hanover	100	100	100
RWE Innogy Windpower Netherlands B.V., 's-Hertogenbosch/Netherlands	100	100	100
RWE Interní služby, s.r.o., Prague/Czech Republic	–	–	100
RWE IT Czech s.r.o., Prague/Czech Republic	100	100	100
RWE IT GmbH, Essen	100	100	100
RWE IT Magyarország Kft., Budapest/Hungary	100	100	100
RWE IT Poland Sp. z o.o., Warsaw/Poland	–	100	100
RWE Key Account CZ, s.r.o., Prague/Czech Republic	–	–	100
RWE Kundenservice GmbH, Bochum	–	–	100
RWE Ljubljana d.o.o., Ljubljana/Slowenien	100	–	–
RWE Metering GmbH, Mülheim an der Ruhr	100	100	100
RWE Netzservice GmbH, Siegen	100	100	100
RWE Npower Group plc, Swindon/United Kingdom	100	100	100
RWE Offshore Logistics Company GmbH, Hamburg	100	100	100
RWE Offshore Wind Nederland B.V., 's- Hertogenbosch/Netherlands	100	100	100
RWE Plin d.o.o., Zagreb/Croatia	100	100	–
RWE Polska Contracting Sp. z o.o., Wroclaw/Poland	100	100	100
RWE Polska S.A., Warsaw/Poland	100	100	100
RWE Renewables Polska Sp. z o.o., Warsaw/Poland	100	100	100
RWE Rheinhessen Beteiligungs GmbH, Essen	– <sup>1)</sup>	– <sup>1)</sup>	– <sup>1)</sup>
RWE RWN Beteiligungsgesellschaft Mitte mbH, Essen	100	100	100
RWE Seabreeze I GmbH & Co. KG, Bremerhaven	–	100	100
RWE Seabreeze II GmbH & Co. KG, Essen	100	100	100
RWE Slovensko s.r.o., Bratislava/Slovakia	100	100	100
RWE Solutions Ireland Limited, Dublin/Ireland	100	100	100
RWE Stoen Operator Sp. z o.o., Warsaw/Poland	100	100	100
RWE Supply & Trading Netherlands B.V., 's- Hertogenbosch/Netherlands	–	100	100

Fully consolidated companies	Shareholding in %		
	2015	2014	2013
RWE SWITCH GmbH, Essen	100	100	100
RWE Vertrieb Aktiengesellschaft, Dortmund	100	100	100
RWE Zákaznické služby, s.r.o., Ostrava/Czech Republic	100	100	100
RWW Rheinisch-Westfälische Wasserwerksgesellschaft mbH, Mülheim an der Ruhr	80	80	80
Saarwasserkraftwerke GmbH, Essen	100	100	100
SARIO Grundstücks- Vermietungsgesellschaft mbH & Co Objekt Würzburg KG, Würzburg	– <sup>1)</sup>	– <sup>1)</sup>	– <sup>1)</sup>
Scarcroft Investments Limited, Swindon/United Kingdom	100	100	100
Schwäbische Entsorgungsgesellschaft mbH, Gundremmingen	–	100	100
Severomoravská plynárenská, a.s., Ostrava/Czech Republic	–	–	100
Stadtwärme Kamp-Lintfort GmbH, Kamp-Lintfort	100	100	100
STADTWERKE DÜREN GMBH, Düren	50 <sup>1)</sup>	50 <sup>1)</sup>	75
Stadtwerke Kamp-Lintfort GmbH, Kamp-Lintfort	51	51	51
Südwestsächsische Netz GmbH, Crimmitschau	100	100	100
Süwag Beteiligungs GmbH, Frankfurt am Main	–	100	100
Süwag Energie AG, Frankfurt am Main	78	78	78
Süwag Grüne Energien und Wasser GmbH, Frankfurt am Main	100	100	100
Süwag Vertrieb AG & Co. KG, Frankfurt am Main	100	100	100
Süwag Wasser GmbH, Frankfurt am Main	–	–	100
Syna GmbH, Frankfurt am Main	100	100	100
Taciewo Sp. z o.o., Warsaw/Poland	100	100	100
The Hollies Wind Farm Limited, Swindon/United Kingdom	100	100	100
Triton Knoll Offshore Wind Farm Ltd., Swindon/United Kingdom	–	100	100
Überlandwerk Krumbach GmbH, Krumbach	75	75	75
Verteilnetz Plauen GmbH, Plauen	100	100	100
VKB-GmbH, Neunkirchen	50 <sup>1)</sup>	50 <sup>1)</sup>	50 <sup>1)</sup>
Volta Limburg B.V., Schinnen/Netherlands	100	100	89
Volta Service B.V., Schinnen/Netherlands	100	–	–
VSE Aktiengesellschaft, Saarbrücken	50 <sup>1)</sup>	50 <sup>1)</sup>	50 <sup>1)</sup>
VSE Net GmbH, Saarbrücken	100	100	100
VSE Verteilnetz GmbH, Saarbrücken	100	100	100
VWS Verbundwerke Südwestsachsen GmbH, Lichtenstein	98	98	98
Východoceská plynárenská, a.s., Prague/Czech Republic	–	–	100
Východoslovenská distribučná, a.s., Kosice/Slovakia	100	–	–
Východoslovenská energetika a.s., Kosice/Slovakia	100	–	–
Východoslovenská energetika Holding a.s., Kosice/Slovakia	49 <sup>1)</sup>	49 <sup>1)</sup>	49 <sup>1)</sup>
Wendelsteinbahn GmbH, Brannenburg	100	100	100
Wendelsteinbahn Verteilnetz GmbH, Brannenburg	100	100	100
WestEnergie GmbH, Geilenkirchen	100	99	50
Westerwald-Netz GmbH, Betzdorf-Alsdorf	100	100	–
Westnetz GmbH, Dortmund	100	100	100
Windpark Kattenberg B.V., Zwolle/Netherlands	100	100	–
Windpark Westereems B.V., Zwolle/Netherlands	–	100	100
Windpark Zuidwester B.V., 's-Hertogenbosch/Netherlands	100	100	100
WINKRA Hörup Windparkbetriebsgesellschaft mbH, Hörup	100	100	100
WINKRA Lengerich Windparkbetriebsgesellschaft mbH, Gersten	100	100	100
WINKRA Sommerland Windparkbetriebsgesellschaft mbH, Sommerland	100	100	100
WINKRA Süderdeich Windparkbetriebsgesellschaft mbH, Süderdeich	100	100	100

Fully consolidated companies	Shareholding in %		
	2015	2014	2013
WKN Windkraft Nord GmbH & Co. Windpark Wönkhausen KG, Hanover	100	100	100
WTP B.V., Arnhem/Netherlands	100	100	100
YE Gas Limited, Swindon/United Kingdom	100	100	100

1) Control by virtue of company contract.

2) No control by virtue of company contract.

3) Significant influence via indirect investments.

Joint operations	Shareholding in %		
	2015	2014	2013
EnergieRegion Taunus - Goldener Grund - GmbH & Co. KG, Bad Camberg	49	49	–
Gas-Netzgesellschaft Kolpingstadt Kerpen GmbH & Co. KG, Kerpen	49	49	–
Greater Gabbard Offshore Winds Ltd, Reading/United Kingdom	50	50	50
Netzgesellschaft Kreisstadt Bergheim GmbH & Co. KG, Bergheim	49	49	–

1) Control by virtue of company contract.

2) No control by virtue of company contract.

3) Significant influence via indirect investments.

Associates and joint ventures accounted for using the equity method	Shareholding in %		
	2015	2014	2013
AS 3 Beteiligungs GmbH, Essen	51 <sup>2)</sup>	51 <sup>2)</sup>	51 <sup>2)</sup>
ATBERG - Eólicas do Alto Tâmega e Barroso, Lda., Ribeira de Pena/Portugal	40	40	40
AVA Abfallverwertung Augsburg Gesellschaft mit beschränkter Haftung, Augsburg	–	25	25
AVU Aktiengesellschaft für Versorgungs-Unternehmen, Gevelsberg	50	50	50
BEW Netze GmbH, Wipperfurth	61 <sup>2)</sup>	61 <sup>2)</sup>	61 <sup>2)</sup>
Budapesti Disz- és Közvilágítási Korlátolt Felelősségű Társaság, Budapest/Hungary	50	50	50
C-Power N.V., Oostende/Belgium	27	27	27
Dortmunder Energie- und Wasserversorgung GmbH (DEW 21), Dortmund	40	40	47
EGG Holding B.V., 's-Hertogenbosch/Netherlands	50	50	50
Energie Nordeifel GmbH & Co. KG, Kall	33	50	50
EnergieServicePlus GmbH, Düsseldorf	49	–	–
Energieversorgung Guben GmbH, Guben	45	45	45
Energieversorgung Hürth GmbH, Hürth	25	25	25
Energieversorgung Oberhausen AG, Oberhausen	10 <sup>3)</sup>	10 <sup>3)</sup>	10 <sup>3)</sup>
ENNI Energie & Umwelt Niederrhein GmbH, Moers	20	20	20
Esta V.O.F., Ridderkerk/Netherlands	50	–	–
EWR Aktiengesellschaft, Worms	2 <sup>3)</sup>	2 <sup>3)</sup>	2 <sup>3)</sup>
EWR Dienstleistungen GmbH & Co. KG, Worms	50	50	50
EWR GmbH - Energie und Wasser für Remscheid, Remscheid	20	20	20
Fovárosi Gazmuvek Zrt., Budapest/Hungary	–	–	50
Freiberger Stromversorgung GmbH (FSG), Freiberg	30	30	30
FSO GmbH & Co. KG, Oberhausen	50	50	50
Galloper Wind Farm Holdco Limited, Swindon/United Kingdom	25	–	–
Gas- und Wasserwerke Bous-Schwalbach GmbH, Bous	49	49	49
Gwynt Y Môr Offshore Wind Farm Limited, Swindon/United Kingdom	50	60	60

Associates and joint ventures accounted for using the equity method	Shareholding in %		
	2015	2014	2013
HIDROERG - Projectos Energéticos, Lda., Lisbon/Portugal	32	32	32
Innogy Renewables Technology Fund I GmbH & Co. KG, Essen	78 <sup>2)</sup>	78 <sup>2)</sup>	78 <sup>2)</sup>
Innogy Venture Capital GmbH, Essen	75 <sup>2)</sup>	75 <sup>2)</sup>	75 <sup>2)</sup>
Kärntner Energieholding Beteiligungs GmbH, Klagenfurt/Austria	49	49	49
KELAG-Kärntner Elektrizitäts-AG, Klagenfurt/Austria	13 <sup>3)</sup>	13 <sup>3)</sup>	13 <sup>3)</sup>
Kemkens B.V., Oss/Netherlands	49	49	49
KEW Kommunale Energie- und Wasserversorgung AG, Neunkirchen	29	29	29
Konsortium Energieversorgung Opel beschränkt haftende oHG, Karlstein	67 <sup>2)</sup>	67 <sup>2)</sup>	67 <sup>2)</sup>
MAINGAU Energie GmbH, Obertshausen	47	47	47
medl GmbH, Mülheim an der Ruhr	49	49	49
Nebelhornbahn-Aktiengesellschaft, Oberstdorf	27	27	27
Pfalzwerke Aktiengesellschaft, Ludwigshafen	27	27	27
PRENU Projektgesellschaft für Rationelle Energienutzung in Neuss mbH, Neuss	50	50	50
Projecta 14 GmbH, Saarbrücken	50	50	50
Propan Rheingas GmbH & Co KG, Brühl	30	30	30
Przedsiębiorstwo Wodociągów i Kanalizacji Sp. z o.o., Dabrowa Górnica/Poland	–	–	34
Rain Biomasse Wärmegesellschaft mbH, Rain	75 <sup>2)</sup>	75 <sup>2)</sup>	75 <sup>2)</sup>
Recklinghausen Netzgesellschaft mbH & Co. KG, Recklinghausen	50	50	50
Regionalgas Euskirchen GmbH & Co. KG, Euskirchen	43	43	43
RheinEnergie AG, Cologne	20	20	20
Rhein-Main-Donau AG, Munich	22	22	22
Sampi Anlagen-Vermietungs GmbH & Co. Objekt Meerbusch KG, Mainz	–	–	100 <sup>2)</sup>
SHW/RWE Umwelt Aqua Vodogradnja d.o.o., Zagreb/Croatia	50	50	50
Siegener Versorgungsbetriebe GmbH, Siegen	25	25	25
SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus	33	33	33
SSW Stadtwerke St. Wendel GmbH & Co. KG, St. Wendel	50	50	50
Stadtwerke Aschersleben GmbH, Aschersleben	35	35	35
Stadtwerke Bernburg GmbH, Bernburg (Saale)	45	45	45
Stadtwerke Bitterfeld-Wolfen GmbH, Bitterfeld-Wolfen	40	40	40
Stadtwerke Bühl GmbH, Bühl	–	30	30
Stadtwerke Duisburg Aktiengesellschaft, Duisburg	20	20	20
Stadtwerke Dülmen Dienstleistungs- und Beteiligungs-GmbH & Co. KG, Dülmen	50	50	50
Stadtwerke Emmerich GmbH, Emmerich am Rhein	25	25	25
Stadtwerke Essen Aktiengesellschaft, Essen	29	29	29
Stadtwerke Geldern GmbH, Geldern	49	49	49
Stadtwerke GmbH Bad Kreuznach, Bad Kreuznach	25	25	25
Stadtwerke Kirn GmbH, Kirn	49	49	49
Stadtwerke Lingen GmbH, Lingen (Ems)	40	40	40
Stadtwerke Meerane GmbH, Meerane	24	24	24
Stadtwerke Meinerzhagen GmbH, Meinerzhagen	–	–	27
Stadtwerke Merseburg GmbH, Merseburg	40	40	40
Stadtwerke Merzig GmbH, Merzig	50	50	50
Stadtwerke Neuss Energie und Wasser GmbH, Neuss	25	25	25
Stadtwerke Radevormwald GmbH, Radevormwald	50	50	50
Stadtwerke Ratingen GmbH, Ratingen	25	25	25

Associates and joint ventures accounted for using the equity method	Shareholding in %		
	2015	2014	2013
Stadtwerke Reichenbach/Vogtland GmbH, Reichenbach im Vogtland	24	24	24
Stadtwerke Saarlouis GmbH, Saarlouis	49	49	49
Stadtwerke Velbert GmbH, Velbert	50	50	50
Stadtwerke Weißenfels GmbH, Weißenfels	24	24	24
Stadtwerke Willich GmbH, Willich	25	25	25
Stadtwerke Zeitz GmbH, Zeitz	24	24	24
Stromnetz Günzburg GmbH & Co. KG, Günzburg	49	49	49
Südwestfalen Energie und Wasser AG, Hagen	–	–	19
SVS-Versorgungsbetriebe GmbH, Stadtlohn	30	30	38
SWTE Netz GmbH & Co. KG, Ibbenbüren	98 <sup>2)</sup>	33	–
TE Plomin d.o.o., Plomin/Croatia	–	50	50
Triton Knoll Offshore Wind Farm Limited, Swindon/United Kingdom	50	–	–
Wasser- und Energieversorgung Kreis St. Wendel GmbH, St. Wendel	28	28	28
wbm Wirtschaftsbetriebe Meerbusch GmbH, Meerbusch	40	40	40
Zagrebacke otpadne vode d.o.o., Zagreb/Croatia	48	48	48
Zagrebacke otpadne vode-upravljanje i pogon d.o.o., Zagreb/Croatia	31	31	33
Zephyr Investments Limited, Swindon/United Kingdom	33	33	33
Zwickauer Energieversorgung GmbH, Zwickau	27	27	27

1) Control by virtue of company contract.

2) No control by virtue of company contract.

3) Significant influence via indirect investments.

The following subsidiaries are not fully consolidated due to their immateriality. They are accounted for in accordance with IAS 39:

Immaterial subsidiaries	Shareholding in %		
	2015	2014	2013
2. CR Immobilien-Vermietungsgesellschaft mbH & Co. Objekt Naumburg KG, Naumburg	– <sup>1)</sup>	– <sup>1)</sup>	– <sup>1)</sup>
Allt Dearg Wind Farm Limited, Swindon/United Kingdom	100	100	100
AQUAVENT Gesellschaft für Umwelttechnik und regenerierbare Energien mbH, Lützen	100	–	–
Ardoch Over Enoch Windfarm Limited, Glasgow/United Kingdom	100	100	100
AVB GmbH, Lützen	100	–	–
Ballindalloch Muir Wind Farm Limited, Swindon/United Kingdom	100	100	100
Beteiligungsgesellschaft Werl mbH, Essen	100	100	–
bildungszentrum energie GmbH, Halle (Saale)	100	100	100
Bioenergie Bad Wimpfen GmbH & Co. KG, Bad Wimpfen	51	51	51
Bioenergie Bad Wimpfen Verwaltungs-GmbH, Bad Wimpfen	100	100	100
Bioenergie Kirchspiel Anhausen GmbH & Co. KG, Anhausen	51	51	51
Bioenergie Kirchspiel Anhausen Verwaltungs-GmbH, Anhausen	100	100	100
Biogas Schwalmtal GmbH & Co. KG, Schwalmtal	66	66	66
Biogasanlage Schwalmtal GmbH, Schwalmtal	99	99	99
Bioplyn Rozhanovce, s.r.o., Kosice/Slovakia	51	–	–
Brims Ness Tidal Power Limited, Swindon/United Kingdom	100	100	100
Burgar Hill Wind Farm Limited, Swindon/United Kingdom	100	100	100
Carr Mor Windfarm Limited, Glasgow/United Kingdom	100	100	100
Carsphairn Windfarm Limited, Glasgow/United Kingdom	100	100	100
Causeymire Two Wind Farm Limited, Swindon/United Kingdom	100	100	100
COMCO MCS S.A., Luxembourg/Luxembourg	95	95	95

Immaterial subsidiaries	Shareholding in %		
	2015	2014	2013
Craiglenlee Wind Farm Limited, Swindon/United Kingdom . . . . .	100	100	100
Culbin Farm Wind Farm Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 1A RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 1B RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 2A RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 2B RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 3A RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 3B RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 4A RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 4B RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 5A RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 5B RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 6A RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
Doggerbank Project 6B RWE Limited, Swindon/United Kingdom . . . . .	100	100	100
ECS - Elektrárna Cechy-Stred, a.s., v likvidaci, Prague/Czech Republic . .	–	51	51
easyOptimize GmbH, Essen . . . . .	100	–	–
EDON Group Costa Rica S.A., San Jose/Costa Rica . . . . .	100	100	100
Energetyka Wschod Sp. z o.o., Wroclaw/Poland . . . . .	100	100	100
Energetyka Zachod Sp. z o.o., Wroclaw/Poland . . . . .	100	100	100
Energiegesellschaft Leimen GmbH & Co. KG, Leimen . . . . .	75	75	75
Energiegesellschaft Leimen Verwaltungsgesellschaft mbH, Leimen . . . .	75	75	75
energienatur Gesellschaft für Erneuerbare Energien mbH, Siegburg . . .	71	100	100
Energieversorgung Timmendorfer Strand GmbH & Co. KG, Timmendorfer Strand . . . . .	51	51	–
Enervolution GmbH, Bochum . . . . .	100	–	–
enviaM Erneuerbare Energien Verwaltungsgesellschaft mbH, Markkleeberg . . . . .	100	100	100
enviaM Neue Energie Management GmbH, Halle (Saale) . . . . .	100	–	–
Eólica de Sarnago, S.A., Soria/Spain . . . . .	73	73	50
ESK GmbH, Dortmund . . . . .	100	100	100
favis GmbH, Essen . . . . .	100	100	–
Fernwärme Saarlouis-Steinrausch Investitionsgesellschaft mbH, Saarlouis . . . . .	95	95	95
‘Finelectra’ Finanzgesellschaft für Elektrizitäts-Beteiligungen AG, Hausen/Switzerland . . . . .	100	100	100
Fundacja RWE w Polsce, Warsaw/Poland . . . . .	100	100	100
GBV Einundzwanzigste Gesellschaft für Beteiligungsverwaltung mbH, Essen . . . . .	100	100	100
GBV Zweiundzwanzigste Gesellschaft für Beteiligungsverwaltung mbH, Essen . . . . .	100	100	100
GKB Gesellschaft für Kraftwerksbeteiligungen mbH, Cottbus . . . . .	100	100	100
GkD Gesellschaft für kommunale Dienstleistungen mbH, Siegburg . . . .	100	100	100
Green Gecco Verwaltungs GmbH, Essen . . . . .	51	51	51
GWG Kommunal GmbH, Grevenbroich . . . . .	100	100	100
GWS Netz GmbH, Schwalbach . . . . .	100	100	–
HaseNetz Verwaltungs GmbH, Gehrde . . . . .	100	–	–
HCL Netze GmbH & Co. KG, Herzebrock-Clarholz . . . . .	100	–	–
HCL Netze Verwaltung GmbH, Herzebrock-Clarholz . . . . .	100	–	–
Hospitec Facility Management im Krankenhaus GmbH, Saarbrücken . . .	100	100	100
Infraestructuras de Aldehuelas, S.A., Barcelona/Spain . . . . .	100	100	100
Infrastrukturgesellschaft Netz Lüz mbH, Hanover . . . . .	100	100	100

Immaterial subsidiaries	Shareholding in %		
	2015	2014	2013
Kiln Pit Hill Wind Farm Limited, Swindon/United Kingdom	100	100	100
KWS Kommunal-Wasserversorgung Saar GmbH, Saarbrücken	100	100	100
Lech Energie Gersthofen GmbH & Co. KG, Gersthofen	100	–	–
Lech Energie Verwaltung GmbH, Augsburg	100	–	–
Lemonbeat GmbH, Dortmund	100	–	–
Lochelbank Wind Farm Limited, Swindon/United Kingdom	100	100	100
Lößnitz Netz GmbH & Co. KG, Lößnitz	100	100	100
Lößnitz Netz Verwaltungs GmbH, Lößnitz	100	100	100
Meterplus Limited, Swindon/United Kingdom	100	100	100
MEWO Wohnungswirtschaft Verwaltungs-GmbH, Halle (Saale)	–	–	100
Middlemoor Wind Farm Limited, Swindon/United Kingdom	100	100	100
Mitteldeutsche Netzgesellschaft Gas HD mbH, Halle (Saale)	100	100	–
Mitteldeutsche Netzgesellschaft mbH, Chemnitz	100	100	100
MNG Stromnetze GmbH & Co. KG, Lüdinghausen	100	100	–
MNG Stromnetze Verwaltungs GmbH, Lüdinghausen	100	100	–
Netzmanagement Grimma GmbH, Grimma	–	–	100
Netzgesellschaft Südwestfalen mbH & Co. KG, Netphen	100	–	–
Netzwerke Saarwellingen GmbH, Saarwellingen	100	100	100
NEW b_gas Eicken GmbH, Schwalmthal	100	100	100
NEW Impuls GmbH, Grefrath	67	67	67
NEW Re GmbH, Mönchengladbach	75	75	75
NEW Schwalm-Nette GmbH, Viersen	100	100	100
NEW Schwalm-Nette Netz GmbH, Viersen	100	100	100
North Kintyre Wind Farm Limited, Swindon/United Kingdom	100	100	100
Novar Two Wind Farm Limited, Swindon/United Kingdom	100	100	100
Npower Northern Supply Limited, Swindon/United Kingdom	100	100	100
NRF Neue Regionale Fortbildung GmbH, Halle (Saale)	100	100	100
Oschatz Netz GmbH & Co. KG, Oschatz	100	100	100
Oschatz Netz Verwaltungs GmbH, Oschatz	100	100	100
Park Wiatrowy Dolice Sp. z o.o., Warsaw/Poland	100	100	100
Park Wiatrowy Elk Sp. z o.o., Warsaw/Poland	100	100	100
Park Wiatrowy Gaworzyce Sp. z o.o., Warsaw/Poland	100	100	100
Park Wiatrowy Msciwójów Sp. z o.o., Warsaw/Poland	100	100	100
Park Wiatrowy Prudziszki Sp. z o.o., Warsaw/Poland	100	100	100
Park Wiatrowy Smigiel I Sp. z o.o., Warsaw/Poland	100	100	100
Park Wiatrowy Znín Sp. z o.o., Warsaw/Poland	100	100	100
Projecta 15 GmbH, Saarbrücken	100	100	100
Projecta 5 - Entwicklungsgesellschaft für kommunale Dienstleistungen mbH, Saarbrücken	100	100	100
Rebyl Limited, Swindon/United Kingdom	–	100	100
Rheinland Westfalen Energiepartner GmbH, Essen	100	100	100
rhenagbau GmbH, Cologne	100	100	100
Rowantree Wind Farm Ltd., Swindon/United Kingdom	100	100	–
RWE Downstream AG, Essen	100	–	–
RWE Eurotest GmbH, Dortmund	100	100	100
RWE Gas Transit, s.r.o., Prague/Czech Republic	–	–	100
RWE Innogy d.o.o. za korištenje obnovljivih izvora energije, Sarajevo/Bosnia and Herzegovina	100	100	100
RWE Innogy Galloper 1 Limited, Swindon/United Kingdom	100	100	100
RWE Innogy Galloper 2 Limited, Swindon/United Kingdom	100	100	100
RWE Innogy Serbia d.o.o., Belgrade/Serbia	100	100	100

Immaterial subsidiaries	Shareholding in %		
	2015	2014	2013
RWE Innogy Windpark Bedburg Verwaltungs GmbH, Bedburg	51	51	100
RWE Innogy Windpark Eschweiler GmbH & Co. KG, Essen	100	–	–
RWE Innogy Windpark Eschweiler Verwaltungs GmbH, Essen	100	–	–
RWE Innogy Windpark Jüchen Verwaltungs GmbH, Essen	–	–	100
RWE New Energy Ltd., Dubai/UAE	100	100	–
RWE New Ventures LLC, Wilmington/USA	100	–	–
RWE POLSKA Generation Sp. z o.o., Warsaw/Poland	100	100	100
RWE Seabreeze I Verwaltungs GmbH, Bremerhaven	–	100	100
RWE Seabreeze II Verwaltungs GmbH, Bremerhaven	100	100	100
RWE Stiftung für Energie und Gesellschaft gGmbH, Essen	100	100	100
RWE Teplárna Náchod, s.r.o., Náchod/Czech Republic	100	–	–
RWE Wärme Berlin GmbH, Berlin	100	100	100
RWE-EnBW Magyarország Energiaszolgáltató Korlátolt Felelősségű Társaság, Budapest/Hungary	70	70	70
SASKIA Informations-Systeme GmbH, Chemnitz	–	–	90
Scharbeutzer Energie- und Netzgesellschaft mbH & Co. KG, Scharbeutz	51	51	–
SchlauTherm GmbH, Saarbrücken	75	75	75
Securum AG, Zug/Switzerland	–	100	100
SF Balanced 1, Mönchengladbach	–	–	100
Snowgoat Glen Wind Farm Limited, Swindon/United Kingdom	100	100	100
Spezialfond EBAG - Cofonds (Allianz Global Inverstors), Mönchengladbach	–	–	100
SSE RENEWABLES (GALLOPER) NO. 1 LIMITED, Swindon/United Kingdom	100	–	–
SSE RENEWABLES (GALLOPER) NO. 2 LIMITED, Swindon/United Kingdom	100	–	–
Stadtwerke Geseke Netze GmbH & Co. KG, Geseke	100	–	–
Stadtwerke Geseke Netze Verwaltung GmbH, Geseke	100	–	–
Stadtwerke Korschenbroich GmbH, Mönchengladbach	100	100	100
Stadtwerke Waltrop Netz Verwaltung GmbH, Waltrop	100	–	–
Stroupster Wind Farm Limited, Swindon/United Kingdom	100	100	100
Süwag Vertrieb Management GmbH, Frankfurt am Main	100	100	100
Taff-Ely Wind Farm Project Limited, Swindon/United Kingdom	–	–	100
Tarskavaig Wind Farm Limited, Swindon/United Kingdom	100	100	100
T.B.E. TECHNISCHE BERATUNG ENERGIE für wirtschaftliche Energieanwendung GmbH, Duisburg	100	100	100
TEPLO Rumburk s.r.o., Rumburk/Czech Republic	–	100	98
Thermolux S.a.r.l., Luxembourg/Luxembourg	100	100	100
Thyssengas-Unterstützungskasse GmbH, Dortmund	100	100	100
TWS Technische Werke der Gemeinde Saarwellingen GmbH, Saarwellingen	51	51	51
VEM Neue Energie Muldentale GmbH & Co. KG, Markkleeberg	100	–	–
Verwaltungsgesellschaft Energieversorgung Timmendorfer Strand mbH, Timmendorfer Strand	51	51	–
Verwaltungsgesellschaft Scharbeutzer Energie- und Netzgesellschaft mbH, Scharbeutz	51	51	–
VKN Saar Geschäftsführungsgesellschaft mbH, Ensdorf	51	51	51
VKN Saar Gesellschaft für Verwertung von Kraftwerksnebenprodukten und Ersatzbrennstoffen mbH & Co. KG, Ensdorf	51	51	51
VSE - Windpark Merchingen GmbH & Co. KG, Saarbrücken	100	100	100

Immaterial subsidiaries	Shareholding in %		
	2015	2014	2013
VSE - Windpark Merchingen Verwaltungs GmbH, Saarbrücken	100	100	100
VSE Call centrum, s.r.o., Kosice/Slovakia	100	–	–
VSE Ekoenergia, s.r.o., Kosice/Slovakia	100	–	–
VSE-Stiftung gGmbH, Saarbrücken	100	100	100
Wärmeversorgung Schwaben GmbH, Augsburg	100	100	100
Windenergie Briesensee GmbH, Neu Zauche	72	100	–
Windkraft Hochheim GmbH & Co. KG, Hochheim	100	–	–
Windpark Nohfelden-Eisen GmbH, Nohfelden	100	–	–
Windpark Verwaltungsgesellschaft mbH, Lützen	100	–	–

1) Control by virtue of company contract.

2) No control by virtue of company contract.

3) Significant influence via indirect investments.

The following associates and joint ventures are not accounted for using the equity method due to their immateriality. They are accounted for in accordance with IAS 39:

Immaterial associates and joint ventures	Shareholding in %		
	2015	2014	2013
Awotec Gebäude Servicegesellschaft mbH, Saarbrücken	48	48	48
Bäderbetriebsgesellschaft St. Ingbert GmbH, St. Ingbert	49	49	49
BC-Eromu Kft., Miskolc/Hungary	–	–	74
Breer Gebäudedienste Heidelberg GmbH, Heidelberg	45	45	45
Breitband-Infrastrukturgesellschaft Cochem-Zell mbH, Cochem	21	21	21
Brockloch Rig Windfarm Limited, Glasgow/United Kingdom	–	–	50
Biogas Mönchengladbach-Süd GmbH & Co. KG, Mönchengladbach	–	–	50
Brüggen.E-Netz Verwaltungs-GmbH, Brüggen	25	100	–
Brüggen.E-Netz GmbH & Co. KG, Brüggen	25	–	–
CUT! Energy GmbH, Essen	–	–	49
CZT Valašské Meziříčí s.r.o., Valašské Meziříčí/Czech Republic	20	20	20
DES Dezentrale Energien Schmalkalden GmbH, Schmalkalden	33	33	30
Doggerbank Project 1 Bizco Limited, Reading/United Kingdom	25	25	25
Doggerbank Project 2 Bizco Limited, Reading/United Kingdom	25	25	25
Doggerbank Project 3 Bizco Limited, Reading/United Kingdom	25	25	25
Doggerbank Project 4 Bizco Limited, Reading/United Kingdom	25	25	25
Doggerbank Project 5 Bizco Limited, Reading/United Kingdom	25	25	25
Doggerbank Project 6 Bizco Limited, Reading/United Kingdom	25	25	25
Dorsten Netz GmbH & Co. KG, Dorsten	49	49	–
EfD Energie-für-Dich GmbH, Potsdam	49	–	–
ELE-GEW Photovoltaikgesellschaft mbH, Gelsenkirchen	49	49	49
ELE-RAG Montan Immobilien Erneuerbare Energien GmbH, Bottrop	50	50	50
ELE-Scholven-Wind GmbH, Gelsenkirchen	30	30	30
Enercraft Energiemanagement OHG haftungsbeschränkt, Frankfurt am Main	50	50	50
Energie BOL GmbH, Ottersweier	50	50	50
Energie Mechernich GmbH & Co. KG, Mechernich	49	49	–
Energie Mechernich Verwaltungs-GmbH, Mechernich	49	49	100
Energie Nordeifel Beteiligungs-GmbH, Kall	33	50	50
Energie Rur-Erft GmbH & Co. KG, Essen	29	–	–
Energie Rur-Erft Verwaltungs-GmbH, Essen	29	50	–
Energie Schmallenberg GmbH, Schmallenberg	44	44	44
Energiepartner Dörth GmbH, Dörth	49	49	49

Immaterial associates and joint ventures	Shareholding in %		
	2015	2014	2013
Energiepartner Elsdorf GmbH, Elsdorf	40	40	40
Energiepartner Hermeskeil GmbH, Hermeskeil	20	20	20
Energiepartner Kerpen GmbH, Kerpen	49	49	49
Energiepartner Projekt GmbH, Essen	49	49	49
Energiepartner Solar Kreuztal GmbH, Kreuztal	40	40	40
Energiepartner Wesseling GmbH, Wesseling	30	30	30
Energie-Service-Saar GmbH, Völklingen	50	50	50
Energieversorgung Bad Bentheim GmbH & Co. KG, Bad Bentheim	25	25	–
Energieversorgung Bad Bentheim Verwaltungs-GmbH, Bad Bentheim	25	25	100
Energieversorgung Beckum GmbH & Co. KG, Beckum	34	34	34
Energieversorgung Beckum Verwaltungs-GmbH, Beckum	34	34	34
Energieversorgung Horstmar/Laer GmbH & Co. KG, Horstmar	49	–	–
Energieversorgung Kranenburg Netze GmbH & Co. KG, Kranenburg	25	–	–
Energieversorgung Kranenburg Netze Verwaltungs GmbH, Kranenburg	25	100	–
Energieversorgung Marienberg GmbH, Marienberg	49	49	49
Energieversorgung Niederkassel GmbH & Co. KG, Niederkassel	49	49	100
Energieversorgung Niederkassel Verwaltung GmbH, Niederkassel	–	–	100
Energieversorgung Oelde GmbH, Oelde	25	25	25
Energotel, a.s., Bratislava/Slovakia	20	–	–
ENERVENTIS GmbH & Co. KG, Saarbrücken	33	33	33
Eólica de la Mata, S.A., Soria/Spain	–	26	26
Eólica de Sarnago, S.A., Soria/Spain	73	73	50
Erdgasversorgung Industriepark Leipzig Nord GmbH, Leipzig	50	50	50
EWC Windpark Cuxhaven GmbH, Munich	50	50	50
EWV Baesweiler GmbH & Co. KG, Baesweiler	45	45	45
EWV Baesweiler Verwaltungs GmbH, Baesweiler	45	45	45
FAMOS - Facility Management Osnabrück GmbH, Osnabrück	49	49	49
Fernwärmeversorgung Zwönitz GmbH, Zwönitz	50	50	50
Forewind Limited, Swindon/United Kingdom	25	25	25
FSO Verwaltungs-GmbH, Oberhausen	50	50	50
Galloper Wind Farm Limited, Reading/United Kingdom	–	50	50
Gasgesellschaft Kerken Wachtendonk mbH, Kerken	49	49	49
Gas-Netzgesellschaft Kolpingstadt Kerpen Verwaltungs-GmbH, Kerpen	49	49	–
Gasnetzgesellschaft Wörrstadt mbH & Co. KG, Saulheim	49	49	49
Gasnetzgesellschaft Wörrstadt Verwaltung mbH, Wörrstadt	49	49	49
Gasversorgung Delitzsch GmbH, Delitzsch	–	–	49
Gemeindewerke Bad Sassendorf Netze GmbH & Co. KG, Bad Sassendorf	25	–	–
Gemeindewerke Bad Sassendorf Netze Verwaltung GmbH, Bad Sassendorf	25	100	–
Gemeindewerke Bissendorf Netz GmbH & Co. KG, Bissendorf	49	49	–
Gemeindewerke Bissendorf Netz Verwaltungs-GmbH, Bissendorf	49	49	–
Gemeindewerke Everswinkel GmbH, Everswinkel	45	45	45
Gemeindewerke Namborn GmbH, Namborn	49	49	49
Gemeindewerke Schwalbach GmbH, Schwalbach	–	100	49
GfB, Gesellschaft für Baudenkmalpflege mbH, Idar-Oberstein	20	20	20
Gichtgaskraftwerk Dillingen GmbH & Co. KG, Saarbrücken	25	25	25
Green Bioenergie Cereshof GmbH, Selfkant	–	–	49

Immaterial associates and joint ventures	Shareholding in %		
	2015	2014	2013
GISA GmbH, Halle (Saale) . . . . .	24	24	75
GNEE Gesellschaft zur Nutzung erneuerbarer Energien mbH Freisen, Freisen . . . . .	49	49	–
GREEN GECCO Beteiligungsgesellschaft mbH & Co. KG, Troisdorf . . . . .	21	21	21
GREEN GECCO Beteiligungsgesellschaft-Verwaltungs GmbH, Troisdorf . . . . .	21	21	21
GREEN Gesellschaft für regionale und erneuerbare Energie mbH, Stolberg . . . . .	49	49	49
Green Solar Herzogenrath GmbH, Herzogenrath . . . . .	45	45	45
Greenergetic GmbH, Bielefeld . . . . .	20	–	–
Greenplug GmbH, Hamburg . . . . .	49	49	49
GWE-energis Netzgesellschaft mbH & Co. KG, Eppelborn . . . . .	50	50	50
GWE-energis-Geschäftsführungs-GmbH, Eppelborn . . . . .	50	50	50
Hochsauerland Netze GmbH & Co. KG, Meschede . . . . .	25	25	–
Hochsauerland Netze Verwaltung GmbH, Meschede . . . . .	25	100	–
Homepower Retail Limited, Swindon/United Kingdom . . . . .	50	50	50
Hungáriavíz Vagyonkezelő Zrt., Budapest/Hungary . . . . .	–	–	49
Infrastrukturgemeinschaft Windpark Losheim GbR, Losheim . . . . .	–	–	40
IWW Rheinisch-Westfälisches Institut für Wasserforschung gemeinnützige GmbH, Mülheim an der Ruhr . . . . .	30	30	30
juwi Wind Germany 123 GmbH & Co. KG, Wörrstadt . . . . .	33	–	–
Kavernengesellschaft Staßfurt mbH, Staßfurt . . . . .	50	50	50
KAWAG AG & Co. KG, Pleidelsheim . . . . .	49	49	49
KAWAG Netze GmbH & Co. KG, Abstatt . . . . .	49	49	49
KAWAG Netze Verwaltungsgesellschaft mbH, Abstatt . . . . .	49	49	49
KDT Kommunale Dienste Tholey GmbH, Tholey . . . . .	49	49	49
KEN Geschäftsführungsgesellschaft mbH, Neunkirchen . . . . .	50	50	50
KEN GmbH & Co. KG, Neunkirchen . . . . .	46	46	46
KEVAG Telekom GmbH, Koblenz . . . . .	50	50	50
Klärschlamm Entsorgung Hesselberg Service GmbH, Unterschwaningen . . . . .	49	49	49
KlickEnergie GmbH & Co. KG, Neuss . . . . .	65	65	65
KlickEnergie Verwaltungs-GmbH, Neuss . . . . .	65	65	65
K-net GmbH, Kaiserslautern . . . . .	25	25	25
Kommunale Dienste Marpingen GmbH, Marpingen . . . . .	49	49	49
Kommunale Netzgesellschaft Steinheim a. d. Murr GmbH & Co. KG, Steinheim a. d. Murr . . . . .	49	49	–
Kommunalwerk Rudersberg GmbH & Co. KG, Rudersberg . . . . .	50	50	50
Kommunalwerk Rudersberg Verwaltungs-GmbH, Rudersberg . . . . .	50	50	50
Kraftwerk Wehrden GmbH, Völklingen . . . . .	33	33	33
KSP Kommunal Service Püttlingen GmbH, Püttlingen . . . . .	40	40	40
KVK Kompetenzzentrum Verteilnetze und Konzessionen GmbH, Cologne . . . . .	75	75	–
MBS Ligna Therm GmbH i. L., Hofheim am Taunus . . . . .	–	33	33
Moravske Hidroelektrane d.o.o., Belgrade/Serbia . . . . .	51	51	51
Murrhardt Netz AG & Co. KG, Murrhardt . . . . .	49	–	–
Naturstrom Betriebsgesellschaft Oberhonnefeld mbH, Koblenz . . . . .	25	25	25
Netzanbindung Tewel OHG, Cuxhaven . . . . .	25	25	25
Netzgesellschaft Bühlertal GmbH & Co. KG, Bühlertal . . . . .	50	50	50
Netzgesellschaft Elsdorf GmbH & Co. KG, Elsdorf . . . . .	49	49	–
Netzgesellschaft Elsdorf Verwaltungs-GmbH, Elsdorf . . . . .	49	49	–

Immaterial associates and joint ventures	Shareholding in %		
	2015	2014	2013
Netzgesellschaft Grimma GmbH & Co. KG, Grimma	49	49	100
Netzgesellschaft Korb GmbH & Co. KG, Korb	50	50	50
Netzgesellschaft Korb Verwaltungs-GmbH, Korb	50	50	50
Netzgesellschaft Kreisstadt Bergheim Verwaltungs-GmbH, Bergheim	49	49	–
Netzgesellschaft Lauf GmbH & Co. KG, Lauf	50	50	50
Netzgesellschaft Leutenbach GmbH & Co. KG, Leutenbach	50	50	50
Netzgesellschaft Leutenbach Verwaltungs-GmbH, Leutenbach	50	50	50
Netzgesellschaft Maifeld GmbH & Co. KG, Polch	49	–	–
Netzgesellschaft Maifeld Verwaltungs GmbH, Polch	49	100	–
Netzgesellschaft Ottersweier GmbH & Co. KG, Ottersweier	50	50	50
Netzgesellschaft Rheda-Wiedenbrück GmbH & Co. KG, Rheda- Wiedenbrück	49	49	49
Netzgesellschaft Rheda-Wiedenbrück Verwaltungs-GmbH, Rheda- Wiedenbrück	49	49	49
NiersEnergieNetze GmbH & Co. KG, Kevelaer	51	51	51
NiersEnergieNetze Verwaltungs-GmbH, Kevelaer	51	51	51
Objektverwaltungsgesellschaft Dampfkraftwerk Bernburg mbH, Hanover	–	58	58
Novenerg limited liability company for energy activities, Zagreb/ Croatia	50	–	–
Offshore Trassenplanungs-GmbH OTP i.L., Hanover	50	50	50
Peißenberger Wärmegeellschaft mbH, Peißenberg	50	50	50
prego services GmbH, Saarbrücken	50	50	37
Propan Rheingaz GmbH, Brühl	28	28	28
Recklinghausen Netz-Verwaltungsgesellschaft mbH, Recklinghausen	49	49	49
Renergie Stadt Wittlich GmbH, Wittlich	30	30	30
rhenag - Thüga Rechenzentrum GbR, Cologne	50	50	50
RIWA GmbH Gesellschaft für Geoinformationen, Kempten	33	33	33
RurEnergie GmbH, Düren	30	30	25
RWE Power International Middle East LLC, Dubai/UAE	49	49	49
Sandersdorf-Brehna Netz GmbH & Co. KG, Sandersdorf-Brehna	49	49	49
Selm Netz GmbH & Co. KG, Selm	25	–	–
SolarProjekt Mainaschaff GmbH, Mainaschaff	50	50	50
SolarProjekt Rheingau-Taunus GmbH, Bad Schwalbach	50	50	50
SPX, s.r.o., Zilina/Slovakia	33	–	–
SSW Stadtwerke St. Wendel Geschäftsführungsgesellschaft mbH, St. Wendel	50	50	50
Stadtentwässerung Schwerte GmbH, Schwerte	48	48	48
Städtische Werke Borna GmbH, Borna	37	37	37
Städtisches Wasserwerk Eschweiler GmbH, Eschweiler	25	25	25
Stadtwerke - Strom Plauen GmbH & Co. KG, Plauen	49	49	49
Stadtwerke Ahaus GmbH, Ahaus	36	36	36
Stadtwerke Aue GmbH, Aue	24	24	24
Stadtwerke Dillingen/Saar GmbH, Dillingen	49	49	49
Stadtwerke Dülmen Verwaltungs-GmbH, Dülmen	50	50	50
Stadtwerke Gescher GmbH, Gescher	42	42	42
Stadtwerke Goch Netze GmbH & Co. KG, Goch	25	–	–
Stadtwerke Goch Netze Verwaltungsgesellschaft mbH, Goch	25	100	–
Stadtwerke Haan GmbH, Haan	25	25	–
Stadtwerke Langenfeld GmbH, Langenfeld	20	20	20

Immaterial associates and joint ventures	Shareholding in %		
	2015	2014	2013
Stadtwerke Lübbecke GmbH, Lübbecke	–	–	25
Stadtwerke Oberkirch GmbH, Oberkirch	33	33	33
Stadtwerke Roßlau Fernwärme GmbH, Dessau-Roßlau	49	49	49
Stadtwerke Schwarzenberg GmbH, Schwarzenberg/Erzgeb.	28	28	28
Stadtwerke Steinfurt GmbH, Steinfurt	38	38	48
Stadtwerke Unna GmbH, Unna	24	24	24
Stadtwerke Vlotho GmbH, Vlotho	25	25	25
Stadtwerke Wadern GmbH, Wadern	49	49	49
Stadtwerke Waltrop Netz GmbH & Co. KG, Waltrop	25	–	–
Stadtwerke Weilburg GmbH, Weilburg	20	20	20
Stadtwerke Werl GmbH, Werl	25	25	25
STEAG Windpark Ullersdorf GmbH & CO. KG, Jamlitz	21	–	–
Stromnetz Diez GmbH & Co. KG, Diez	25	25	25
Stromnetz Diez Verwaltungsgesellschaft mbH, Diez	25	25	25
Stromnetz Euskirchen GmbH & Co. KG, Euskirchen	25	–	–
Stromnetz Günzburg Verwaltungs GmbH, Günzburg	49	49	49
Stromnetz Hofheim GmbH & Co. KG, Hofheim	49	49	–
Stromnetz Hofheim Verwaltungs GmbH, Hofheim	49	49	–
Stromnetz Verbandsgemeinde Katzenelnbogen GmbH & Co. KG, Katzenelnbogen	49	49	49
Stromnetz Verbandsgemeinde Katzenelnbogen Verwaltungsgesellschaft mbH, Katzenelnbogen	49	49	49
Stromnetz VG Diez GmbH & Co. KG, Altendiez	49	49	49
Stromnetz VG Diez Verwaltungsgesellschaft mbH, Altendiez	49	49	49
Stromnetzgesellschaft Gescher GmbH & Co. KG, Gescher	25	–	–
Strom-Netzgesellschaft Kolpingstadt Kerpen GmbH & Co. KG, Kerpen	49	49	–
Strom-Netzgesellschaft Kolpingstadt Kerpen Verwaltungs-GmbH, Kerpen	49	49	–
Stromnetzgesellschaft Neuenhaus mbH & Co. KG, Neuenhaus	49	–	–
Stromnetzgesellschaft Neuenhaus Verwaltungs-GmbH, Neuenhaus	49	49	–
Stromnetzgesellschaft Neunkirchen-Seelscheid mbH & Co. KG, Neunkirchen-Seelscheid	49	49	49
Stromnetzgesellschaft Schwalmtal mbH & Co. KG, Schwalmtal	51	51	–
Stromverwaltung Schwalmtal GmbH, Schwalmtal	51	51	100
SWL-energis Netzgesellschaft mbH & Co. KG, Lebach	50	50	50
SWL-energis-Geschäftsführungs-GmbH, Lebach	50	50	50
SWT trilan GmbH, Trier	26	26	26
SWTE Netz Verwaltungsgesellschaft mbH, Ibbenbüren	33	33	–
Technische Werke Naumburg GmbH, Naumburg	47	47	49
Teplarna Kyjov, a.s., Kyjov/Czech Republic	–	32	32
TEPLO Votice s.r.o., Votice/Czech Republic	20	20	20
Thermago Berliner Siedlung GmbH, Mainz	45	51	–
TNA Talsperren- und Grundwasser-Aufbereitungs- und Vertriebsgesellschaft mbH, Saarbrücken	23	23	23
Toledo PV A.E.I.E., Madrid/Spain	33	33	33
TRANSELEKTRO, s.r.o., Kosice/Slovakia	26	–	–
TVK Eromu Termelo es Szolgáltató Korlatolt Felelossegu Tarsasag, Tiszaujvaros/Hungary	–	74	74
TWE Technische Werke der Gemeinde Ens Dorf GmbH, Ens Dorf	49	49	49
TWL Technische Werke der Gemeinde Losheim GmbH, Losheim	50	50	50

Immaterial associates and joint ventures	Shareholding in %		
	2015	2014	2013
TWM Technische Werke der Gemeinde Merchweiler GmbH, Merchweiler . . . . .	49	49	49
TWN Trinkwasserverbund Niederrhein GmbH, Grevenbroich . . . . .	33	33	33
TWRS Technische Werke der Gemeinde Rehlingen-Siersburg GmbH, Rehlingen . . . . .	35	35	35
Umspannwerk Putlitz GmbH & Co. KG, Frankfurt am Main . . . . .	25	25	25
Untere Iller Aktiengesellschaft, Landshut . . . . .	40	40	40
Unterrhein EnergieProjekt AG & Co. KG, Kelsterbach . . . . .	49	49	49
Unterrhein Erneuerbare Energien Verwaltungs-GmbH, Raunheim . . . . .	25	25	25
Verteilnetze Energie Weißenhorn GmbH & Co. KG, Weißenhorn . . . . .	35	35	35
Verwaltungsgesellschaft Dorsten Netz mbH, Dorsten . . . . .	49	49	100
Verwaltungsgesellschaft Energie Weißenhorn GmbH, Weißenhorn . . . . .	35	35	35
Verwaltungsgesellschaft GKW Dillingen mbH, Saarbrücken . . . . .	25	25	25
Voltaris GmbH, Maxdorf . . . . .	50	50	50
Wärmeversorgung Müheln GmbH, Müheln . . . . .	49	49	49
Wärmeversorgung Wachau GmbH, Markkleeberg OT Wachau . . . . .	49	49	49
Wärmeversorgung Würselen GmbH, Würselen . . . . .	49	49	49
Wasserver- und Abwasserentsorgungsgesellschaft 'Thüringer Holzland' mbH, Hermsdorf . . . . .	–	49	49
Wasserverbund Niederrhein Gesellschaft mit beschränkter Haftung, Krefeld . . . . .	42	42	42
Wasserversorgung Main-Taunus GmbH, Frankfurt am Main . . . . .	49	49	49
Wasserzweckverband der Gemeinde Nalbach, Nalbach . . . . .	49	49	49
WEV Warendorfer Energieversorgung GmbH, Warendorf . . . . .	25	25	25
Windenergie Frehne GmbH & Co. KG, Marienfließ . . . . .	41	41	41
Windenergie Merzig GmbH, Merzig . . . . .	20	20	–
Windenergiepark Heidenrod GmbH, Heidenrod . . . . .	51	51	51
Windkraft Jerichow - Mangelsdorf I GmbH Co. KG, Jerichow . . . . .	50	–	–
Windpark Jüchen GmbH & Co. KG, Essen . . . . .	21	21	54
Windpark Losheim-Britten GmbH, Losheim am See . . . . .	50	50	100
Windpark Mengerskirchen GmbH, Mengerskirchen . . . . .	25	25	–
Windpark Oberthal GmbH, Oberthal . . . . .	35	35	100
Windpark Perl GmbH, Perl . . . . .	54	54	100
WINDTEST Grevenbroich GmbH, Grevenbroich . . . . .	38	38	38
WLN Wasserlabor Niederrhein GmbH, Mönchengladbach . . . . .	45	45	45
WVG-Warsteiner Verbundgesellschaft mbH, Warstein . . . . .	25	25	35
WVL Wasserversorgung Losheim GmbH, Losheim . . . . .	50	50	50
WWS Wasserwerk Saarwellingen GmbH, Saarwellingen . . . . .	49	49	49
WWW Wasserwerk Wadern GmbH, Wadern . . . . .	49	49	49

1) Control by virtue of company contract.

2) No control by virtue of company contract.

3) Significant influence via indirect investments.

Essen, 30 June 2016

The Executive Board

Terium

Günther

Tigges

Müller

Herrmann

Bünting

# Independent Auditor's Report

To RWE International SE, Essen:

We have audited the accompanying combined financial statements, which comprise the balance sheets as of December 31, 2015, 2014 and 2013, the statements of income, comprehensive income, changes in invested equity and cash flows for the years then ended and the notes to the combined financial statements, prepared by RWE International SE, Essen (the "Company"), for the business of RWE International SE as described in the sections "General information", "Description of the RWE International Group", "Basis of preparation", "Scope of combination" and "Presentation of the combined financial statements and combination principles" of the notes to the combined financial statements (the "RWE International Group").

## *Management's Responsibility for the Combined Financial Statements*

Company's management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, as well as for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditor's Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the RWE International Group as of December 31, 2015, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

## *Emphasis of Matter*

Without modifying our opinion, we draw attention to the fact that, as described in the sections "General information", "Description of the RWE International Group", "Basis of preparation", "Scope of combination" and "Presentation of the combined financial statements and combination principles" of the notes to the combined financial statements, the RWE International Group included in the combined financial statements has not operated as a separate group of entities. These combined financial statements are, therefore, not necessarily

indicative of results that would have occurred if the RWE International Group had been a separate group of entities during the years presented or of future results of the RWE International Group.

Essen, July 1, 2016

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

/s/ Michael Reuther

Michael Reuther  
Wirtschaftsprüfer  
(German Public Auditor)

/s/ Ralph Welter

Ralph Welter  
Wirtschaftsprüfer  
(German Public Auditor)

**26.3 Audited Unconsolidated Financial Statements of RWE  
International SE Prepared in Accordance with the German  
Commercial Code (*Handelsgesetzbuch*) for the Short  
Financial Year from December 11, 2015 to  
December 31, 2015**

**Unconsolidated financial statements of  
RWE International SE  
(31 December 2015 operates under RWE  
Downstream Aktiengesellschaft i.G.)  
for the short fiscal year from  
11 December to 31 December 2015**

## Balance Sheet at 31 December 2015

### RWE International SE

(Operated as RWE Downstream Aktiengesellschaft i.G. as of 31 December 2015)

Assets in €	31.12.15	11.12.15
<b>Current assets</b>		
Accounts receivable and other assets		
Outstanding contributions to subscribed capital . . . . .	–	120.000,00
Cash and cash equivalents . . . . .	120.000,00	–
<b>Assets . . . . .</b>	<b>120.000,00</b>	<b>120.000,00</b>
<b>Equity and liabilities in €</b>	<b>31.12.15</b>	<b>11.12.15</b>
<b>Equity</b>		
Subscribed capital . . . . .	120.000,00	120.000,00
Accumulated deficit . . . . .	-12.000,00	-3.200,00
	<b>108.000,00</b>	<b>116.800,00</b>
<b>Provisions</b>		
Other provisions . . . . .	12.000,00	3.200,00
<b>Equity and liabilities . . . . .</b>	<b>120.000,00</b>	<b>120.000,00</b>

## Income Statement 31 December 2015

### RWE International SE

(Operated as RWE Downstream Aktiengesellschaft i.G. as of 31 December 2015)

in €	11.12. - 31.12.2015
Other operating expenses .....	-12.000,00
<b>Operating result</b> .....	<b>-12.000,00</b>
<b>Net loss</b> .....	<b>-12.000,00</b>
<b>Accumulated deficit</b> .....	<b>-12.000,00</b>

Essen, 3 May 2016

RWE International SE  
(Operated as RWE Downstream Aktiengesellschaft i.G. as of 31 December 2015)  
The board

**Peter Terium**

**Dr. Hans-Friedrich Bunting**

**Dr. Bernhard Günther**

**Martin Herrmann**

**Hildegard Müller**

**Uwe Tigges**

# Auditor's Report

To RWE International SE, Essen:

We have audited the annual financial statements, comprising the balance sheet and the income statement, of the RWE International SE, Essen, for the short fiscal year from December 11, 2015 to December 31, 2015. The maintenance of the books and records and the preparation of the annual financial statements in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's board of managing directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records and the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's board of managing directors, as well as evaluating the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting.

Essen, May 3, 2016

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

/s/ Ralph Welter

Ralph Welter  
Wirtschaftsprüfer  
(German Public Auditor)

/s/ ppa. Dominik Walschus

ppa. Dominik Walschus  
Wirtschaftsprüfer  
(German Public Auditor)

## 27 RECENT DEVELOPMENTS AND OUTLOOK

### 27.1 Recent Developments

#### 27.1.1 Separation from RWE AG and Corporate Developments

On July 25, 2016, the Company and RWE AG entered into the Agreement on Basic Principles in order to lay down basic principles for their future cooperation, their future conduct towards one another, their future relationship and ways for the resolution of potential conflicts. It is intended that the Company will be, generally, economically and legally independent. Both parties shall be entitled to define and to pursue their respective strategic, operative and financial targets independently. The Company is to position itself in the market as an energy company with a new and independent identity. Other than by taking part in shareholders' meetings and by being represented on the Supervisory Board, RWE AG will generally treat the Company as a financial investment. For further details on the Agreement on Basic Principles, see *"15.17.2 Agreement on Basic Principles"*.

On September 1, 2016, the Company changed its legal name to innogy SE. On September 7, 2016, notice was provided to terminate the Domination Agreement between the Company and RWE DB GmbH with effect as from the end of September 30, 2016.

In connection with the separation of the innogy Group from the Former RWE Group, and in order to establish separate ring-fenced pension arrangements under the Electricity Supply Pension Scheme, RWE AG, the Company and certain of our and RWE AG's UK group companies arranged in July 2016 for the Former RWE Group's pension obligations and plan assets pertaining to certain UK subsidiaries of the Former RWE Group to be sectionalized into legally separate sub-sections in a ratio of 70% (innogy Group) to 30% (RWE Group). While the sectionalizing has been effected as of the end of July 2016, our Financial Statements reflect our share in the Former ESPS Group prior to the sectionalizing. For more information, see *"5.7 Employees and Pension Liabilities"*.

In July 2016, we carried out certain measures to calibrate our capital structure in connection with the separation of the innogy Group from the Former RWE Group. These measures included a EUR 0.9 billion cash capital contribution by RWE AG (see also *"5.5 Financing"*) and a EUR 1.0 billion debt-to-equity swap, in which claims from intragroup loans relating to the repayment of principal and the payment of accrued interest were contributed to the capital reserve of the Company and, as a result, ceased to exist with effect as of July 31, 2016. In combination, these two measures reduced our Net Debt by EUR 1.9 billion as of July 31, 2016. For more information, see *"11.3 Net Debt"*.

With effect as of July 11, 2016, the registered share capital of the Company was increased from 999,995,000 to 1,000,000,000 common shares by issuing 5,000 new registered shares. In July 2016, the registered shares of the Company were converted into ordinary bearer shares with no par value and the Company's share capital was reclassified from a notional value of EUR 1.00 per share to a notional value of EUR 2.00 per share. Accordingly, as of the date of this Prospectus, there are 500,000,000 outstanding common shares of the Company.

#### 27.1.2 Recent Business Developments

##### 27.1.2.1 Grid & Infrastructure Segment

In July 2016, the BNetzA issued a draft determination regarding the imputed return on equity that will apply for the next (third) regulatory periods for electricity and gas in Germany, which proposed lower returns on equity than those applicable in the current regulatory periods. A final determination of the BNetzA is expected within the next weeks. In addition, for the next regulatory periods, the BNetzA will be responsible for determining all relevant parameters used in the benchmarking process for the determination of the revenue cap. Moreover, an amendment to the ARegV (the German Incentive Regulation Ordinance) adopted on June 1,

2016 was approved by the German Federal Council (*Bundesrat*) on July 8, 2016, and the final changes that were made by the German Federal Council were accepted by the German government on August 3, 2016. The amended ARegV introduces several changes to the currently applicable incentive regulation regime, some of which will have a general effect for all grid operators and some of which will particularly apply to DSOs. The main purpose of the amendment is to improve investment conditions for DSOs for new investments and encourage cost-effective distribution grids for the implementation of the German energy transition. The changes include, among others, the immediate recognition of capital costs for infrastructure investments for DSOs as of the third regulatory periods. Thus, increases in capital costs for replacement, restructuring or expansion investments will be reflected in the applicable revenue caps without time delay and in their actual amount. For more information on these regulatory changes, see "16.2.2.1.1 Incentive Regulation".

Since June 30, 2016, the business activities in the G&I Segment have shown overall a stable development. In terms of investments and operations, the business has developed in accordance with our expectations based on typical patterns for the summer months.

#### 27.1.2.2 *Retail Segment*

Overall, since June 30, 2016, the business of our Retail Segment has seen a continuation of the developments observed during the first six months of 2016. Especially in our core markets we have been experiencing a continuously high level of competition. Our customer base has developed in line with the fluctuation ranges observed in the past. In these recent months, we have launched some new Energy+ products, such as an assistance product in partnership with an insurance company in Poland, providing customers with professional help in case of breakages at their homes or offices (including plumbers, electricians, heating appliances specialists or office equipment maintenance). The sales of Energy+ products are progressing according to our expectations. Our UK retail business has seen certain operational improvements since June 30, 2016, for example a further reduction of the number of total outstanding complaints by more than 10% until the end of August 2016, while single other parameters, such as late bills outstanding, increased somewhat, but remained within fluctuation ranges which we consider normal. In addition, since June 30, 2016 we are seeing a slight positive trend in customer numbers with a net gain of 35,000 residential customers by the end of August 2016. In September 2016, we began supplying gas to Croatian households (in addition to electricity).

#### 27.1.2.3 *Renewables Segment*

In July 2016, we obtained all outstanding consents for the construction of two onshore wind farms in Wales, UK. The final investment decision for these two CfD projects, Mynydd y Gwair and Clocaenog, is expected in the fourth quarter of 2016 and during the first quarter of 2017, respectively. Furthermore, the final investment decision for the German wind farm Eschweiler-Nord, of which we own 51%, was taken. The remaining 49% are owned by municipal partners. In addition, in August 2016 we took the final investment decision for our latest onshore wind ROC project in the UK, Brechfa West. The final decision is subject to the approval of the new overhead line for the grid connection, for which a decision is currently expected in October 2016.

At the end of July 2016, we sold our 33.33% stake in Zephyr and the related debt with a gain on sale of EUR 76 million under IFRS.

In August 2016, in line with our growth strategy, we entered into an agreement for the acquisition of BELECTRIC, a German-based company present in several countries and active in the design, installation, operation and maintenance of ground-mounted utility-scale and rooftop photovoltaic plants and battery storage solutions. We expect that this acquisition will provide us access to sophisticated technology as well as project execution skills which will complement our existing project development and asset management capabilities. The closing of the transaction is subject to customary conditions as well as reorganizational measures and is currently expected to take place early in 2017.

Moreover, on July 8, 2016 the German Federal Council approved an amendment to the EEG promotion schemes, which will come into force on January 1, 2017. In addition, the promotion of offshore wind installations will be separately regulated under the Wind Offshore Act (*Windenergie-auf-See-Gesetz*). The general aim of the EEG 2017 is to implement a comprehensive legal framework for the transition of EEG promotion schemes to an auctioning system (see “16.2.4.1.2 Development Trends in RES Promotion Schemes” for more details). The amendment was widely anticipated and we have actively positioned ourselves for the upcoming auctions. It is expected that the necessary consent of the EU Commission under the EU state aid regime will be obtained in fall 2016.

Furthermore, since the Renewables segment has a large asset base in the UK, the conversion of earnings of our UK business into Euro depends on the British Pound Sterling/Euro exchange rate development, so that a weakened British Pound Sterling exchange rate decreases our earnings when these are converted into Euro. The British Pound Sterling has significantly devalued following the Brexit vote on June 23, 2016, but stabilized as of mid-July. However, on a Group level, innogy has established a natural GBP/EUR hedge with a large part of the outstanding debt being in GBP, thus mitigating negative effects of a weakened British Pound Sterling.

## 27.2 Outlook

Through the regional distribution of our asset portfolio, we benefit from a combination of sound macroeconomic fundamentals in Western European markets and attractive structural catch-up potential in Eastern Europe. We expect that the positive sector and macroeconomic development in Western Europe and Central Eastern Europe observed according to our initial estimates during the first eight months of 2016 will continue in the coming months. For 2016, we expect that the macroeconomic development in the Eurozone will show a slight improvement compared to 2015. We expect that the German economy will be on a similar level in 2016 compared to 2015. In the United Kingdom, we expect a slowdown of growth for 2016. For our markets in Central Eastern Europe, we expect a slightly less favorable development in the current year than in 2015, especially in Hungary and the Czech Republic.

As regulated or quasi-regulated activities account for a large portion of our EBITDA (approximately 60% in 2015), fluctuations in commodity prices only impact a limited portion of our earnings. We expect that power prices, which have moderately recovered since the historical low at the beginning of this year, will not rise substantially in the near future. Our exposure towards changes in wholesale electricity prices since June 30, 2016 continued to be to a large extent reduced through hedging in the Renewables Segment, and we expect that this will continue to be the case for the remaining part of 2016.

In addition, since June 30, 2016, interest rate levels declined further resulting in a reduction of the discount rate applied to value our pension provisions. As the amount of our pension provisions generally depends on the applicable discount rate as of the relevant reporting date, we currently expect to increase our pension provisions for 2016. We expect this increase of provisions only to be partly offset by higher market prices of pension assets.

We expect EBITDA of the Group to be in the range of EUR 4.1 billion to EUR 4.4 billion for 2016 and in the range of EUR 4.3 billion to EUR 4.7 billion for 2017 (see “13 Profit Forecast”, including “13.2 EBITDA Forecast” and “13.3 Explanatory Notes to the EBITDA Forecast 2016” for more details and explanatory notes, including the underlying factors and assumptions, also for the expected 2016 EBITDA ranges for the three segments mentioned below).

For our *Grid & Infrastructure Segment*, we currently expect EBITDA in 2016 to be in the range of EUR 2.5 billion to EUR 2.7 billion. G&I Germany contributes the majority of this segment’s EBITDA and we expect that this will continue to be so in the medium term. The main regulatory parameters in Germany have been fixed until the end of 2017 for gas and until the end of 2018 for electricity. We are optimistic that the upcoming third regulatory periods will result in a balanced outcome for both grid operators and other stakeholders. In our view, the energy transition continues to create significant growth opportunities for distribution grids. Our total

investments consistently exceeded the regulatory depreciation during the five year-period that ended in 2015 by on average a factor of 1.4, and we believe that these investments support the development of our regulated asset base in the future.

For our *Retail Segment*, we currently expect EBITDA in 2016 to be in the range of EUR 1.0 billion to EUR 1.2 billion. In the Retail Segment, we expect our business to show a stable development overall in the coming months. The measures taken for the targeted turnaround of the UK business and our new efficiency program in the UK are important elements of our plan to actively shape our future earnings profile. We view the targeted recovery of our UK operations as being well on track. Overall, we target gross cost savings in our UK retail business of GBP 200 million by 2018 and a return to a profitability level consistent with the market potential.

For our *Renewables Segment*, we currently expect EBITDA in 2016 to be in the range of EUR 0.6 billion to EUR 0.8 billion. In our Renewables Segment, following a period of reduced growth expenditure due to capital constraints of RWE AG, we now plan to increase annual capital expenditure spending and target a prudent expansion strategy with strict hurdle rates. Considering the time required to develop and construct renewable energy projects, we expect our total generation capacity to increase only moderately over the medium-term.

For the *Group*, management is fully committed to realizing further cost and cash efficiencies. We have a strong track record of implementing cost efficiency programs as part of the Former RWE Group and are now in the process of launching a group-wide efficiency enhancement program. We believe this will lead to an improvement in earnings before the planned increase in capital expenditures will translate into stronger topline growth. Management is currently in the process of identifying specific measures aimed at contributing to our earnings from 2017 onwards.

## 28 GLOSSARY

Aggregate RAB .....	Aggregate RAB refers, with respect to one or more countries, to the total regulated asset bases in those countries on the basis of the latest notification by the respective regulators or, as the case may be, based on calculations included in the latest filings with the respective regulators. In general terms, Aggregate RABs pertaining to different regulatory regimes are not directly comparable due to significant methodological differences (e.g., accounting rules and depreciation periods) and differing lengths of regulatory periods. Aggregate RABs stated exclude pro-rata shares of RAB from participations that are not fully consolidated.
AmpaCity .....	AmpaCity is a project in Essen, Germany, funded by the German Federal Ministry of Economic Affairs and Energy and aiming at optimizing electricity supply in large metropolitan areas with a high energy density by eliminating the 110/10 kV substations and instead using the advantages of superconductivity.
ARegV .....	The German Incentive Regulation Ordinance ( <i>Anreizregulierungsverordnung</i> ).
Audited Combined Financial Statements .....	Audited Combined Financial Statements mean the Group's audited combined financial statements prepared by the Company as of and for the financial years ended December 31, 2015, 2014 and 2013 in accordance with IFRS, as adopted by the European Union.
Audited Unconsolidated Financial Statements .....	Audited Unconsolidated Financial Statements mean the audited unconsolidated financial statements of the Company for the short financial year from December 11, 2015 to December 31, 2015 prepared in accordance with the German Commercial Code ( <i>Handelsgesetzbuch</i> ).
ATZ .....	Senior part-time work in Germany ( <i>Altersteilzeit</i> ).
B2B .....	Business to business. Within the Retail Segment of the Group, the term refers to industrial customers and resellers.
B2C .....	Business to consumer. Within the Retail segment, the term refers to residential and commercial customers.
BaFin .....	German Federal Financial Supervisory Authority ( <i>Bundesanstalt für Finanzdienstleistungsaufsicht</i> ).
BDEW .....	Bundesverband der Energie- und Wasserwirtschaft e.V., the German Association of the Energy and Water Business.

BELECTRIC .....	BELECTRIC Solar & Battery, a German company comprising the photovoltaic and battery business of BELECTRIC group.
Benelux .....	Belgium, the Netherlands and Luxembourg.
BKartA .....	The German Federal Cartel Office ( <i>Bundeskartellamt</i> ).
BMU .....	The German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety ( <i>Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit</i> ).
BMWi .....	The German Federal Ministry for Economic Affairs and Energy ( <i>Bundesministerium für Wirtschaft und Energie</i> ).
BNetzA .....	The German Federal Network Agency ( <i>Bundesnetzagentur</i> ).
BOT .....	Abbreviation for build-operate-transfer, a form of project financing, wherein a private entity enters into an agreement with an entity of the private or public sector to finance, design, construct, and operate a facility stated in the contract. This enables the project proponent to recover its investment, operating and maintenance expenses in the project.
BSH .....	The Federal Maritime and Hydrographic Agency ( <i>Bundesamt für Seeschifffahrt und Hydrographie</i> ).
CAGR .....	Abbreviation for compound annual growth rate.
CAPEX .....	Abbreviation for capital expenditure on intangible assets, property, plant and equipment.
CHP .....	Combined heat and power.
CMA .....	The Competition and Markets Authority in the United Kingdom.
Cornerstone Investors .....	The Cornerstone Investors comprise several funds and accounts under management by direct and indirect investment management subsidiaries of BlackRock, Inc., Delaware, USA.
CRM .....	Customer relationship management.
CSP .....	Abbreviation for concentrated solar power.
D&O .....	The Company's directors and officers.
D&O insurance .....	Directors and Officers Liability Insurance, a liability insurance covering the directors and officers of a company providing indemnification for specific financial damages and related defense costs in the event any such insured suffers such a loss as a result of a legal action brought for alleged wrongful acts in their capacity as directors and officers or against the organization.
DAkks .....	<i>Deutsche Akkreditierungsstelle</i> , the German Accreditation Office, which is the national

	accreditation body for the Federal Republic of Germany. It acts in the public interest and is the sole provider of accreditations in Germany in relation to bodies carrying out specific conformity assessment tasks.
DEA .....	Data envelopment analysis, which allows a comparison of costs of DSOs with each other.
DEA-CRS .....	A data envelopment analysis methodology defining efficiency as a ratio of weighted sum of outputs to a weighted sum of inputs, where the weights structure is calculated by means of mathematical programming and constant returns to scale (CRS) are assumed.
DEA-NDRS .....	A data envelopment analysis methodology with the assumption of non-decreasing returns to scale (NDRS), which unlike DEA-CRS, does not put down-scaling at a disadvantage.
Draft ARegV .....	A current draft regulation of the BMWi amending the ARegV, which proposes several changes to the currently applicable incentive regulation and which may have an effect on the determination of Revenue Caps.
DVGW .....	<i>Deutscher Verein des Gas- und Wasserfaches e.V.</i> , the German Technical and Scientific Association for Gas and Water.
DSO .....	Abbreviation for distribution system operator, an entity responsible for operating, ensuring the maintenance of, and, if necessary, developing the distribution system in a given area and, where applicable, its interconnections with other systems and for ensuring the long-term ability of the system to meet reasonable demands for the distribution of electricity or gas. "Distribution" of electricity includes the transport of electricity on high-voltage, medium-voltage and low-voltage distribution systems and "distribution" of gas includes the transport of natural gas through regional pipeline networks, respectively, in both cases with a view to its delivery to customers, but does not include supply.
EBITDA .....	Abbreviation for earnings before interest, tax, depreciation and amortization.
EBITA .....	Abbreviation for earnings before interest, tax and amortization.
ECO .....	A state-launched program called Energy Companies Obligation in the United Kingdom. ECO obliges the major power providers in the United Kingdom to finance measures to improve energy efficiency in homes.
EEA .....	Abbreviation for European Economic Area.

EEG .....	The German Renewable Energy Act ( <i>Erneuerbare-Energien-Gesetz</i> ).
EIA .....	Environmental impact assessment.
EMIR .....	The European Market Infrastructure Regulation.
EnBW .....	EnBW Energie Baden-Württemberg AG, Karlsruhe, Germany.
<i>Energiewende</i> .....	The policy describing the energy transition in Germany, <i>i.e.</i> , the gradual phase-out of nuclear power and the shift from conventional energy sources towards renewable energy sources.
ENTSO-E .....	European Network of Transmission System Operators for Electricity.
ENTSO-G .....	European Network of Transmission System Operators for Gas.
EnWG .....	The German Energy Industry Act ( <i>Energiewirtschaftsgesetz</i> ).
E.ON .....	E.ON SE, Düsseldorf, Germany.
EPC .....	Abbreviation for a contracting approach on an engineer, procure and construct basis.
EPCI .....	Abbreviation for a contracting approach on an engineer, procure, construct and install basis.
ERP .....	Abbreviation for IT systems for enterprise resource planning purposes.
ESPS .....	The Electricity Supply Pension Scheme, an entity managing our legally mandated corporate defined benefit pension plan in the United Kingdom.
ETS .....	Emission trading system.
EU .....	European Union.
Europe .....	Western Europe and Central and Eastern Europe.
Eurozone .....	The term “Eurozone” refers to the economic and monetary union of the EU member states that have adopted the Euro as their respective official currency.
EWE .....	EWE Aktiengesellschaft, Oldenburg, Germany.
Existing Shareholders .....	RWE AG and RWE DB GmbH.
FID .....	Abbreviation for the final investment decision in relation to a project.
Financial year 2013 .....	Financial year 2013 means the financial year ended December 31, 2013.
Financial year 2014 .....	Financial year 2014 means the financial year ended December 31, 2014.
Financial year 2015 .....	Financial year 2015 means the financial year ended December 31, 2015.
FSMA .....	UK Financial Services and Markets Act 2000.
GDP .....	Abbreviation for gross domestic product.

GEMA .....	Gas and Electricity Markets Authority of the United Kingdom.
General Data Protection Regulation .....	Regulation on data privacy as agreed upon among the EU Parliament, the Council of the EU and the European Commission in December 2015.
German GAAP .....	Accounting principles of the German Commercial Code and other applicable provisions of German law related thereto.
G&I or Grid & Infrastructure .....	Our Grid & Infrastructure Segment and its business.
GW .....	Abbreviation for gigawatt, <i>i.e.</i> , a unit of electrical power equal to one billion watts.
GWh .....	Abbreviation for gigawatt per hour.
Hydro .....	Hydroelectric power.
iGS .....	innogy Gas Storage, s.r.o., one of the indirect subsidiaries of the Company located in the Czech Republic.
iGSNWE .....	innogy Gas Storage GmbH, one of the indirect subsidiaries of the Company located in Germany.
IFRS .....	Abbreviation for International Financial Reporting Standards, as adopted by the European Union.
IT .....	Abbreviation for information technology, which refers to the application of computers and telecommunications equipment in order to store, retrieve, transmit and manipulate data, often in the context of a business.
JPY .....	Japanese Yen.
KELAG .....	KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.
km .....	Abbreviation for kilometers.
km <sup>2</sup> .....	Abbreviation for square kilometers.
kV .....	Abbreviation for kilovolt, a unit for electric potential (a thousand volt).
LCOE .....	Abbreviation for the levelized cost of electricity produced by a generator which is calculated by accounting for all of a system's expected lifetime costs (including construction, financing, fuel, maintenance, taxes, insurance and incentives), which are then divided by the system's expected power output over its lifetime.
LEC .....	Levy exemption certificates, an exemption from the climate change levy for electricity generated from renewable energy sources in the United Kingdom. The exemption scheme was abolished in 2015.
LED .....	Abbreviation for light-emitting diode, a semiconductor diode which glows when a voltage is applied.

Management Board .....	The management board ( <i>Vorstand</i> ) of the Company.
Mitnetz Gas .....	Mitteldeutsche Netzgesellschaft Gas mbH, Halle (Saale), Germany, one of the indirect subsidiaries of the Company. It has its regional focus in Eastern Germany (federal states of Brandenburg, Sachsen, Sachsen-Anhalt and Thüringen).
Mitnetz Strom .....	Mitteldeutsche Netzgesellschaft Strom mbH, Halle (Saale), Germany, one of the indirect subsidiaries of the Company. Mitnetz has its regional focus in Eastern Germany (federal states of Brandenburg, Sachsen, Sachsen-Anhalt and Thüringen).
MW .....	Abbreviation for megawatt, <i>i.e.</i> , a unit of electrical power equal to one million watts.
MW <sub>el</sub> .....	Abbreviation for megawatt electric.
MW <sub>th</sub> .....	Abbreviation for megawatt thermal.
MWh .....	Abbreviation for megawatt hour.
MWh <sub>el</sub> .....	Abbreviation for megawatt hour electric.
MWh <sub>th</sub> .....	Abbreviation for megawatt hour thermal.
npower business .....	The business of our UK subsidiary Npower Limited which comprises the supply of electricity and gas to both B2C and B2B customers in the UK as part of our Retail Segment.
OEM .....	Abbreviation for the original equipment manufacturer.
Offshore construction vessel .....	Offshore construction vessels are used for the installation of structures and facilities in a marine environment, such as for the exploration, production and transmission of electricity, oil, gas and other resources. These vessels are commonly used in the offshore wind industry, for example for installing and servicing structures such as offshore wind turbines and foundations for offshore wind farms. There a various special purpose designed vessel available for various tasks, for example jack-up vessels (which are capable of elevating themselves above the water on their jack up legs at a construction or operation site, and have lifting capacities typically with cranes), cable installation vessels or crew transport vessels.
Ofgem .....	The Office of Gas and Electricity Markets in the United Kingdom.
OPEX .....	Abbreviation for operating expenditures.
OTC .....	Over-the-counter traded instruments.
OWF .....	Offshore wind farm.
O&M .....	Abbreviation for operations and maintenance.
PB/DI .....	Property damage and business interruption insurance.

Prosumer .....	Typically private households that not only consume energy but also produce it (for example, with photovoltaic technology on their own roof).
RAB .....	Regulated asset base.
Regulatory Account .....	Refers to the regulatory instrument under the applicable German regime <i>inter alia</i> accounting for revenue increases or decreases by deviations between planned and actual marketed capacities to be notified to BNetzA on an annual basis and which is balanced by way of annual pro-rata temporis allocations to the revenue caps for the following regulatory period.
Renewables .....	Our Renewables Segment and its business (unless the context requires otherwise).
Revenue Cap .....	A regulatory instrument which limits the return we are allowed to earn with energy distribution via our grid on our so-called regulated asset base.
REM .....	Abbreviation for Retail Energy Management which manages the Group's commodity-related risks.
REMIT .....	Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of October 25, 2011 on wholesale energy market integrity and transparency.
RES .....	Renewable energy sources.
Retail .....	Our Retail Segment and its business.
RO .....	Abbreviation for renewables obligation, a financial policy mechanism introduced in 2002 in the United Kingdom for incentivizing the renewable electricity generation. While at the outset of the scheme and until 2008/2009, all forms of renewables technology received the same banding of 1 Renewables Obligation Certificate ("ROC") per MWh of renewable electricity, in the period from 2009/2010 to 2012/2013, new bands were introduced for new stations in order to remove overcompensation for lower cost technology and provide incentives for more expensive technology that had significant potential.
ROC .....	Renewables Obligation Certificate (see also definition for "RO" above).
RON .....	Romanian Leu.
RWE AG .....	RWE AG, Essen, Germany.
RWE DB GmbH .....	RWE Downstream Beteiligungs GmbH, Essen, Germany, a wholly owned subsidiary of RWE AG, which holds approx. 94.9% of the shares in the Company as of the date of the Prospectus.
RWE ED .....	RWE Energiedienstleistungen GmbH, Dortmund, Germany.

RWEST .....	RWE Supply & Trading GmbH, Essen, Germany.
RWEST CZ .....	RWE Supply & Trading CZ, a.s., Prague, Czech Republic.
SAIFI .....	Abbreviation for system average interruption frequency index, a parameter of grid system quality (availability).
SAIDI .....	Abbreviation for system average interruption duration index, a parameter of grid system quality (availability).
SCADA Systems .....	Supervision control and data acquisition systems.
SE .....	<i>Societas Europaea</i> , or European company.
Selling Shareholder .....	RWE Downstream Beteiligungs GmbH, Essen, Germany.
SE Regulation .....	Council Regulation (EC) No. 2157/2001 of October 8, 2001 on the Statute for a European company.
SmartHome .....	A technology including related devices developed by us in order to enable the management of devices within the home, such as heating, lamps, electronic devices, etc., from a smartphone, tablet or computer.
Smart meters .....	"Smart" meters are electronic devices that record consumption of electric energy in intervals of an hour or less and communicate that information at least daily back to the utility for monitoring and billing. Thus, "smart" meters enable two-way communication between the meter and the central system.
SSO .....	Abbreviation for storage system operator, an entity that carries out the function of storage and is responsible for operating a storage facility. In the context of the Prospectus, the term is used with regard to gas storage.
StromNEV .....	The German Ordinance on Electricity Grid Tariffs ( <i>Stromnetzengeltverordnung</i> ).
Supervisory Board .....	The supervisory board ( <i>Aufsichtsrat</i> ) of the Company.
TPL .....	Third party liability insurance.
TSO .....	Abbreviation for transmission system operator, an important player in the electricity as well as in the gas market. A TSO is an entity responsible for operating, ensuring the maintenance of, and, if necessary, developing the transmission system in a given area and, where applicable, its interconnections with other systems, and for ensuring the long-term ability of the system to meet reasonable demands for the transmission of electricity or the transport of gas, as the case may be.
TYNDP .....	Abbreviation for each of the Ten-Year Network Development Plans developed by the ENTSO-E and the ENTSO-G.

Unaudited Interim Consolidated  
Financial Statements (Condensed) . . .

Unaudited Interim Consolidated Financial Statements (Condensed) mean the Group's unaudited interim consolidated financial statements (condensed) prepared by the Company as of and for the six-month period ended June 30, 2016 in accordance with IAS 34 (Interim Financial Reporting).

USP . . . . .

Abbreviation for universal service provider, used in the Prospectus in connection with the Hungarian energy market. A special form of energy supply basically for household customers at regulated prices and conditions.

VAT . . . . .

Abbreviation for value added tax. A type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale.

VSD . . . . .

Východoslovenská distribučná, a.s., an indirect subsidiary of the Company which is a DSO licence holder in Slovakia.

VSE Holding . . . . .

Východoslovenská energetika Holding a.s., an indirect subsidiary of the Company which is the holding company for most of our activities in Slovakia.

WACC . . . . .

Weighted average cost of capital, a measure used for the calculation of regulated tariffs and prices.

Western Europe . . . . .

Unless otherwise defined for specific purposes in the Prospectus, Western Europe includes the European countries Andorra, Belgium, Cyprus, Denmark, France, Finland, Germany, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, the Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, United Kingdom and the Vatican.

Westnetz . . . . .

Westnetz GmbH, one of the indirect subsidiaries of the Company. Westnetz is an independent DSO which manages many grids from different owners, also outside the Group, with many different regional centers in Western Germany.

Xgen . . . . .

The so-called adjusted sectoral productivity factor applicable in Germany as a relevant parameter for the determination of the revenue caps and thus for the determination of the extent to which certain costs of electricity DSOs may be recovered. It currently amounts 1.5% per year for the second regulatory period. For the upcoming third regulatory period, the sectoral productivity factor will be determined by the BNetzA for the first time.

## 29 SIGNATURE PAGE

Essen, Frankfurt am Main, Hamburg, London, Paris and Santander, in September 2016

**innogy SE**

signed by:  
Peter Terium

signed by:  
Dr. Bernhard Günther

**Deutsche Bank Aktiengesellschaft**

**Goldman Sachs International**

signed by:  
Heiko Leopold

signed by:  
Carsten Schwefer

signed by:  
Oliver Schiller

**BNP Paribas**

**Merrill Lynch  
International**

**Credit Suisse Securities  
(Europe) Limited**

**UBS Limited**

signed by:

Matthias  
Höhne

signed by:

Michael  
Kintz

signed by:

Christoph  
Haenschel

signed by:

Christoph  
Haenschel

signed by:

Matthias  
Höhne

signed by:

Michael  
Kintz

**Banco Santander, S.A.**

**Joh. Berenberg,  
Gossler &  
Co. KG**

**RBC Europe Limited**

signed by:

Christoph Haenschel

signed by:

Christoph Haenschel

signed by:

Matthias Höhne

signed by:

Michael Kintz