

Financial report 2016

innogy Finance II B.V.

's-Hertogenbosch, the Netherlands

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Directors' report

Directors' report

Main developments during the period under review

The year 2016 saw intensive restructuring of the RWE Group as a preparation for the initial public offering (IPO) of innogy SE. Within this project some RWE group companies have been merged and the borrower of the intercompany loan of innogy Finance II B.V. (formerly RWE Finance II B.V.) changed from RWE Innogy GmbH to innogy SE (formerly RWE International SE) – the parent company of the newly formed group bundling RWE's renewables, grids and retail business.

The balance sheet total decreased from EUR 773.6 million to EUR 767.7 million. The net result decreased to EUR -23k (2015: EUR -9k), representing the spread on the intercompany loan partly offset by the difference in amortization on loans and bonds as well as operational expenses.

The liquidity of the company expressed in the current ratio marginally increased from 1.005 in 2015 to 1.008 at year end 2016. This ratio shows the ability of innogy Finance II B.V. to fulfill its short term obligations. Due to the operations of the Company, short term receivables and short term liabilities are almost equal as the main component therein are the interest accruals which have a small margin only for the interest spread.

The solvency ratio (equity / total equity and liabilities) shows a result of 0.35% in 2016 (2015: also 0.35%). The equity is consistently at a level of EUR 2.7 million.

Profitability of the company, expressed as return on shareholder's equity (net income/ equity), went down from -0.33% in 2015 to -0.87% in 2016, due to the fact that 2015 was not a full financial year since the Company was only incorporated in December 2015.

Before the IPO-date the rebranding of several names of companies within the innogy SE Group took place. The most relevant ones are:

- RWE Finance II B.V. changed to innogy Finance II B.V.;
- RWE Gas International N.V. changed to innogy International Participations N.V.;
- RWE International SE changed to innogy SE.

On 7 October 2016 innogy SE was successfully listed on the Frankfurt Stock Exchange. A total of approximately EUR 129 million innogy SE shares was placed. This represents an issuance volume of about EUR 4.6 billion. innogy SE received approximately EUR 2.0 billion from the placement of about 55.6 million shares within the scope of a capital increase. The company intends to use a portion of the proceeds from the IPO to finance growth projects. The parent company RWE AG received approximately EUR 2.6 billion from the sale of some 73.4 million innogy SE shares from its treasury stock. Based on a total of 555,555,000 shares and the placement price of EUR 36, the market capitalization at the time of the innogy IPO was approximately EUR 20 billion. RWE AG owns a 76.8% stake and will hold innogy SE as a financial investment.

After the successful IPO of innogy SE, the innogy Group and RWE AG initiated a process of change of guarantor from RWE AG to innogy SE for all bonds of innogy Finance B.V. and innogy Finance II B.V. In February 2017 the change was concluded. Since then all bonds of innogy Finance B.V. and innogy Finance II B.V. are solely guaranteed by innogy SE and RWE AG has been released from its former guarantee obligations. Additionally, some senior, unsecured bonds previously issued by RWE AG were transferred (change of issuer) to innogy SE.

Risk management

The risk appetite of the Directors of the Company can be described as risk averse. This is also embedded in the structure of the Company, in which external financing is applied for internal financing purposes with very limited risks. Reference is made to the disclosures below on the separate risks. Both an external and internal legal counsel continuously monitor the compliance to relevant regulations and the internal legal counsel informs the Board of Directors in case of any changes or other relevant information.

innogy Finance II B.V. has designed and implemented control measures in order to mitigate risks. These control measures are both automated and manual. Amongst others the control measures are monitoring, reviewing, 4-eye principles and authorization matrices. To ascertain the existence and correct execution of control measures, different types of control monitoring are executed. Most important example for 2016 is the independent audit performed by the external auditor.

Currency risk

Since the bond and loan issued are in EUR, the Company has no currency risk.

Interest rate risk

The Company's exposure to interest rate risk on interest-bearing receivables and interest-bearing non-current and current liabilities is limited as the bonds and loans issued all have corresponding tenors and fixed interest rates.

Credit risk

The loan to group companies has been granted to innogy SE, being a 100% group company.

Since the autumn of 2016 innogy SE has obtained its own credit ratings:

- In October 2016 Fitch assigned innogy SE a stand-alone rating of BBB+ with a stable outlook. Due to assumed high recovery rates senior unsecured bonds are rated even higher at A-.
- In November 2016 S&P assigned BBB- (positive outlook) corporate and senior unsecured bond ratings to innogy SE. The positive outlook reflects the potential for a one-notch differential to RWE's rating which is currently rated at BBB- (stable outlook).

Financial Outlook

innogy Finance II B.V. continues its operations. A merger of innogy Finance B.V. and innogy Finance II B.V. is currently under investigation.

Responsibility Statement

"The Managing Directors of the Company hereby declare that to the best of their knowledge and in accordance with the applicable reporting principles for the financial reporting, the financial statements for the period ending 31 December 2016 give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and that the Directors' report referred to above gives a true and fair view concerning the position as per the balance sheet date, the development and performance of the business during the financial year of the Company together with a description of the principal risks that it faces."

's-Hertogenbosch, The Netherlands, 21 March 2017

Board of Directors,

O. Wessel

H. Dullens

Financial statements

Balance sheet
(before appropriation of result)

	Ref.	31 December 2016		31 December 2015	
		EUR'000	EUR'000	EUR'000	EUR'000
<i>Assets</i>					
Non-current assets					
Financial assets	5.1		737,178		743,191
Current assets					
Receivables	5.2	30,426		30,407	
Cash and cash equivalents	5.3	104		-	
			30,530		30,407
			767,708		773,598
<i>Equity and liabilities</i>					
Shareholder's equity					
Share capital	5.4	-		-	
Share premium reserve		2,708		2,708	
Accumulated losses		(9)		-	
Result for the year		(23)		(9)	
			2,676		2,699
Non-current liabilities					
	5.5		734,736		740,640
Current liabilities					
	5.6		30,296		30,259
			767,708		773,598

Income statement

	Ref.	2016		Period 4 December to 31 December 2015	
		EUR'000	EUR'000	EUR'000	EUR'000
Interest and similar income	6.1	40,585		-	
Interest and similar expenses	6.2	(40,513)		-	
Total financial result			72		-
General and administrative expenses	6.3		(102)		(12)
Operating Income/(expenses)			(30)		(12)
Income tax expense	6.4		7		3
Net result after taxation			(23)		(9)

Cash flow statement

	Ref.	2016 EUR'000	2015 EUR'000
Cash flows from operating activities			
Cash generated from operations:			
Interest received		34,680	-
Interest paid		(34,500)	-
Expenses paid		(76)	-
Income tax received		-	-
Net cash from operating activities		104	-
Cash flows from investment activities		-	-
Cash flows from financing activities			
Issuance of long-term bonds		-	-
Issuance of long-term loans		-	-
Repayment of long-term bonds		-	-
Repayment of long-term loans		-	-
Dividends paid		-	-
Net cash used in financing activities		-	-
Net cash flows		104	-
Exchange and translation differences on cash and cash equivalents		-	-
Net increase/(decrease) in cash and cash equivalents		104	-
Cash and cash equivalents			
Opening balance		-	-
Closing balance		104	-
Net increase/(decrease) in cash and cash equivalents		104	-

Notes to the financial statements

1 General

1.1 Activities

The activities of innogy Finance II B.V. are to facilitate the financing of companies within the innogy Group.

1.2 Group structure

innogy Finance II B.V., incorporated on 4 December 2015, is a private limited liability company. The direct parent company of innogy Finance II B.V. is innogy International Participations N.V. in 's-Hertogenbosch. RWE AG is the ultimate parent company. The financial statements of the Company are included in the consolidated financial statements of innogy SE, available via www.innogy.com.

innogy Finance II B.V. is seated at Willemsplein 4, 's-Hertogenbosch, the Netherlands and registered in the Trade register Brabant no. 64 69 84 91.

1.3 Accounting policies

The financial statements have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board.

1.4 Comparison previous year

The valuation principles and method of determining the result are the same as those used in the previous year.

1.5 Notes to the cash flow statement

The cash flow statement has been prepared applying the direct method. The cash and cash equivalents in the cash flow statement comprise the balance sheet item cash at banks and current liability group companies.

Cash flows in foreign currencies have been translated at estimated average exchange rates. Exchange differences affecting cash items are shown separately in the cash flow statement. Receipts and payments of interest and corporate income tax are included in the cash flow from operating activities. Dividends paid have been included in the cash flow from financing activities.

1.6 Estimates

The preparation of financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. If necessary for the purposes of providing the view required under Section 362(1), Book 2, of the Netherlands Civil Code, the nature of these estimates and judgments, including the related assumptions, is disclosed in the notes to the financial statement items in question.

2 Accounting policies for the balance sheet

2.1 General

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred. The balance sheet and income statement include references to the notes. The financial statements are expressed in EUR'000.

2.2 Foreign currencies

Transactions, receivables and payables

Transactions denominated in foreign currencies during the reporting period are recognized in the financial statements at the exchange rate ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date. Exchange differences resulting from settlement and translation are charged or credited to the income statement.

Functional currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates (the functional currency). The financial statements are presented in euro, which is the functional and presentation currency of innogy Finance II B.V.

2.3 Financial assets

Loans to group companies

Loans to group companies included in financial assets are initially recognized at fair value, and subsequently measured at amortized cost.

Deferred premiums and discounts on loans to group companies are amortized over the term of the loans using the effective interest method. The deferred part of the premiums and discounts is included in the loan amount.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the impairment loss is determined and recognized in the income statement.

The amount of an impairment loss incurred on financial assets stated at amortized cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in the income statement.

2.4 Receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost. If payment of the receivable is postponed under an extended payment deadline, fair value is measured on the basis of the discounted value of the expected revenues. When a trade receivable is not collectible, it is written off against the allowance account for trade receivables.

2.5 Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and deposits with a maturity of less than twelve months. Current account liabilities at banks are recognized under bank overdrafts forming part of current liabilities. Cash and cash equivalents are stated at face value.

2.6 Non-current liabilities

Bonds included in non-current liabilities are initially recognized at fair value, net of transaction costs incurred. Bonds are subsequently measured at amortized cost.

Deferred premiums and discounts on bonds are amortized over the term of the loans using the effective interest method. The deferred part of the premiums and discounts is included under the receivables and current liabilities.

2.7 Current Liabilities

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost, being the amount received taking account of any premium or discount, less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized as interest in the income statement over the period of the borrowings using the effective interest method.

3 Accounting policies for the income statement

3.1 General

Results on transactions are recognized in the year in which they are realized; losses are accrued as soon as they are foreseeable.

3.2 Foreign currencies

Exchange differences resulting from settlement and translation are charged or credited to the income statement.

3.3 General and administrative expenses

Income from financing activities is determined as interest income received from inter-company financing activities. Interest paid and received is recognized on a time-weighted basis, taking account of the effective interest rate of the assets and liabilities concerned. When recognizing interest paid, allowance is made for the transaction costs on loans received as part of the calculation of effective interest.

3.4 Interest income and expense

Income from financing activities is determined as interest income received from intercompany financing activities. Interest paid and received is recognized on a time-weighted basis, taking account of the effective interest rate of the assets and liabilities concerned. When recognizing interest paid, allowance is made for the transaction costs on loans received as part of the calculation of effective interest.

3.5 Taxation

Income tax is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date, and applying the appropriate tax rates to the result before tax disclosed in the financial statements, taking into account non-taxable income and non-deductible expenses.

4 Financial instruments and risk management

4.1 Market risk

Currency risk

Since the bond and loan issued are in EUR, the Company has no currency risk.

Price risk

The Company's price risk is limited as the bond issued by the Company has been one-on-one used to finance the loan to group companies. As a result, a natural hedge has been obtained.

4.2 Interest rate risk

The Company's exposure to interest rate risk on interest-bearing receivables and interest-bearing non-current and current liabilities is limited as the bonds and loans issued all have fixed interest rates.

4.3 Credit risk

The loan to group companies has been granted to innogy SE, being a 100% group company.

Since the autumn of 2016 innogy SE has obtained its own credit ratings:

- In October 2016 Fitch assigned innogy SE a stand-alone rating of BBB+ with a stable outlook. Due to assumed high recovery rates senior unsecured bonds are rated even higher at A-.
- In November 2016 S&P assigned BBB- (positive outlook) corporate and senior unsecured bond ratings to innogy SE. The positive outlook reflects the potential for a one-notch differential to RWE's rating which is currently rated at BBB- (stable outlook).

We furthermore refer to paragraph 5.1 of the notes to these financial statements.

4.4 Liquidity risk

The liquidity risk is limited, because the proceeds of the bond outstanding are one-on-one lent to innogy SE.

5 Notes to the balance sheet

5.1 Financial assets

Financial assets concern loans to group companies and are specified as follows:

	2016	2015
	EUR'000	EUR'000
1 January		
Book value	743,191	-
Movements financial year		
Loans issued	-	743,191
Amortization on deferred premium	(6,013)	-
	(6,013)	743,191
31 December		
Book value	737,178	743,191

The loan has to be repaid in 2033.

Currency

The nominal amount of the loan to innogy SE, a 100% group company, is contracted in EUR amounting to EUR 600 million.

Interest

The interest rate is fixed:

Loan	Amount	Interest rate
EUR	600,000,000	5.780%

5.2 Receivables

	31 December 2016		31 December 2015	
	Total	Term > 1 year	Total	Term > 1 year
	EUR'000	EUR'000	EUR'000	EUR'000
Interest receivable from group companies	30,416	-	30,404	-
Current income tax receivable	10	-	3	-
	30,426	-	30,407	-

The fair value of the receivables is in line with their carrying amount.

innogy Finance II B.V. is part of the fiscal unity Innogy International Participations NV as of 1 January 2016. The income tax receivable will be settled on an annual basis with innogy International Participations N.V.

5.3 Cash and cash equivalents

The cash and cash equivalents are at the free disposal of the Company.

	2016	2015
	EUR'000	EUR'000
Current account group companies	99	-
Cash	5	-
Total cash and cash equivalents	104	-

5.4 Shareholder's equity

Share capital

The authorized share capital as at 31 December 2016 amounts to EUR 100, consisting of one share which has not been paid up.

	2016		2015	
	Shares	Share capital	Shares	Share capital
		EUR'000		EUR'000
1 January				
Issued and fully paid-up	-	-	-	-
Movements financial year				
Additionally paid-in capital	-	-	-	-
31 December				
Issued and fully paid-up	-	-	-	-

Share premium reserve

	2016	2015
	EUR'000	EUR'000
Balance as at 1 January	2,708	-
Addition share premium reserve	-	2,708
Balance as at 31 December	2,708	2,708

Accumulated losses

	2016	2015
	EUR'000	EUR'000
Balance as at 1 January	-	-
Additions from result previous year	(9)	-
Balance as at 31 December	(9)	-

Result for the year

	2016	2015
	EUR'000	EUR'000
Balance as at 1 January	-	-
Result for the financial year	(23)	(9)
Balance as at 31 December	(23)	(9)

The result for the year is added to the accumulated losses.

5.5 Non-current liabilities

This item relates to the issued bonds and is specified as follows:

	2016	2015
	EUR'000	EUR'000
1 January		
Book value	740,640	-
Movements financial year		
Bonds issued	-	740,640
Amortization on deferred premium	(5,904)	-
	(5,904)	740,640
31 December 2016		
Book value	734,736	740,640

The bond has to be repaid in 2033.

The payment obligation towards bond holders is covered by the fact that all proceeds are used for a loan to related parties and covered by a guarantee by RWE AG. In February 2017 the guarantor changed to innogy SE.

Currency

The nominal amount of the bond contracted in EUR amounts to EUR 600 million. The bond is listed at the Luxembourg Stock Exchange.

Interest

The interest rate is fixed.

Bond	Amount	Interest rate
EUR	600,000,000	5.750%

5.6 Current liabilities

	31 December 2016		31 December 2015	
	Total	Term > 1 year	Total	Term > 1 year
	EUR'000	EUR'000	EUR'000	EUR'000
Interest payable	30,258	-	30,247	-
Accrued liabilities	38	-	12	-
	30,296	-	30,259	-

The fair value of the liabilities is in line with their carrying amount.

5.7 Financial instruments

Financial instruments valued at cost

The table below shows financial instruments whose market value differs from cost.

	31 December 2016		31 December 2015	
	Market value	Book value	Market value	Book value
	EUR'000	EUR'000	EUR'000	EUR'000
<i>Financial assets</i>				
Loans to group companies	850,549	737,178	743,191	743,191
<i>Financial liabilities</i>				
Bonds issued	848,133	734,736	740,640	740,640

The market value of bonds and loans is determined through different valuation methods. The market value of loans to group companies is higher than the market value of bonds issued as they carry a higher interest rate.

The market value of loans to group companies and bonds issued is higher than the book value because they carry interest at a rate that is higher than the market rate.

6 Notes to the income statement

6.1 Interest and similar income

	2016	2015
	EUR'000	EUR'000
Interest income on loan group companies	34,681	-
Release deferred premium on bond	5,904	-
	40,585	-

6.2 Interest and similar expenses

	2016	2015
	EUR'000	EUR'000
Interest expenses on bond issued	34,500	-
Release deferred premium on loan	6,013	-
	40,513	-

6.3 General and administrative expenses

	2016	2015
	EUR'000	EUR'000
Audit fees	26	12
Management and administrative expenses	72	-
Other	4	-
	102	12

In 2015 and 2016 the remuneration of the Board of Directors was nil.

PricewaterhouseCoopers Accountants N.V. is the auditor of the financial statements of the Company. The fees relate to the audit of the 2016 financial statements, regardless of whether the work was performed during the financial year.

6.4 Income tax expense

	2016	2015
	EUR'000	EUR'000
Current tax:		
Current income tax	7	3
Deferred tax:		
Net movement in deferred taxes	-	-
Income tax expense	7	3
Income before tax	(30)	(12)
Effective tax rate	25.0%	25.0%

The statutory tax rate is 25% for the year 2016 (2015: 25%).

7 Supplementary information

7.1 Employees

innogy Finance II B.V. had no employees in 2015 and 2016.

7.2 Related parties

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also, entities which can control the company are considered a related party. In addition, statutory directors, other key management of innogy Finance II B.V. or the ultimate parent company and close relatives are regarded as related parties.

The ultimate parent company RWE AG, the direct parent company innogy International Participations N.V., and innogy SE, qualify as related parties. We also refer to the notes 5.1, 5.2, 5.3 and 5.6. Transactions carried out by the Company with related parties are all based on arm's length terms and conditions.

The related party positions within the balance sheet can be specified as follows:

	2016	2015
	EUR'000	EUR'000
Loan including deferred premium		
Interest receivable on the above loan	737,178	743,191
Inhouse bank balance	30,416	30,404
	99	-
Total related parties in the balance sheet	767,693	773,595

The related party positions within the income statement can be specified as follows:

	2016	2015
	EUR'000	EUR'000
Interest income on loan		
Amortisation deferred premium on loan	34,681	-
	(6,013)	-
Total related parties in the Income statement	28,668	-

7.3 Commitments and contingencies

Fiscal Unity

innogy Finance II B.V. is part of the fiscal unity innogy International Participations N.V. with effective date 4 December 2015. The company and its fellow group members are jointly and severally liable for all tax liabilities within the fiscal unity.

7.4 Events after the balance sheet date

In February 2017 innogy concluded the process of the change of the guarantor from RWE AG to innogy SE for all bonds of innogy Finance B.V. and innogy Finance II B.V. Since then the bond of innogy Finance II B.V. is solely guaranteed by innogy SE and RWE AG has been released from its former guarantee obligations.

's-Hertogenbosch, The Netherlands, 21 March 2017

Board of directors,

O. Wessel

H. Dullens

Other information

Other information

Articles of association governing profit appropriation

According to article 27 of the Articles of Association the result for the year is at the free disposal of the General Meeting of Shareholders.



Independent auditor's report

To: the general meeting of innogy Finance II B.V.

Report on the financial statements 2016

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of innogy Finance II B.V. as at 31 December 2016, and of its result and its cash flows for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2016 of innogy Finance II B.V., 's-Hertogenbosch ('the company').

The financial statements comprise:

- the balance sheet as at 31 December 2016;
- the income statement for the year then ended;
- the cash flow statement for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We are independent of innogy Finance II B.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ref.: e0398255

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Our audit approach

Overview and context

The company's main activity is the financing of group companies, through bond offerings on the international capital markets. The repayment of the bonds to the investors is guaranteed by RWE AG as disclosed in note 5.5 to the financial statements. We paid specific attention to the areas of focus following from the operations of the company, as set out below.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a financing company. We therefore included specialists in the area of financial instruments in our team.

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at €7,677,000 (2015: €7,735,000). We determined materiality based on our analysis of the information needs of the common stakeholders, of which we believe the shareholders and bondholders to be the most important stakeholders. Based thereon we applied a benchmark of 1% of total assets. Inherent to the nature of the company's business, the amounts in the financial statements are large in proportion to the income statement line items general and administrative expenses and income taxation. Based on qualitative considerations we performed audit procedures on those income statement line items, applying a benchmark of 5% of profit before tax.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the directors that we would report to them misstatements identified during our audit above €383,850 (2015: €386,750) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the directors, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

Due to the nature of the company's business we recognise that key audit matters which we reported in our independent auditor's report on the financial statements 2015 may be long-standing and therefore may not change significantly year over year. As compared to last year there have been no changes in key audit matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

<i>Key audit matter</i>	<i>How our audit addressed the matter</i>
<i>Valuation and existence of the loans issued</i> <i>Note 5.1</i> We consider the valuation and existence of the loans issued, as disclosed in note 5.1 to the financial statements for a total amount of €737,178,000, to be a key audit matter. This is due to the size of the loan portfolio in combination with the fact that the directors' assessment of objective evidence of impairment is very important and judgmental. As a result, any impairment may have a material effect on the financial statements. The directors did not identify any objective evidence that a loan is impaired.	We performed the following procedures to test the existence of the loans issued to innogy SE group companies and to test the directors' assessment of possible loss events to address the valuation: <ul style="list-style-type: none">• We evaluated the financial situation of the group companies to which loans have been provided by analysing their respective current financial data (such as result and equity) and their ability to repay the notional and interest payments to the company.• We evaluated the financial position of innogy SE by verifying observable data from rating agencies, developments in credit spreads and other publicly available data.• We analysed if there were any loss events at an individual loan level by challenging the valuation assessments prepared by the directors, which we did by analysing the financial situation of the group companies to which loans have been provided.• We performed a margin analysis.• We recalculated the amortised cost value based on the effective interest method.• We audited data input to calculate the fair value of the loans, including cash flows, based on underlying contracts, credit spread and market interest.• We compared interest receipts with bank statements.



Key audit matter

How our audit addressed the matter

- We performed confirmation procedures with the counterparties of the loans.
- We tested the input of contracts in the company's treasury management system.

We found the directors' assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the directors' report;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The directors are responsible for the preparation of the other information, including the directors' report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of innogy Finance II B.V. following the passing of a resolution by the shareholders at the annual meeting held in 2015 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of two years.

Responsibilities for the financial statements and the audit

Responsibilities of the directors

The directors are responsible for:

- the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.



As part of the preparation of the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the directors should prepare the financial statements using the going-concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so. The directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 21 March 2017
PricewaterhouseCoopers Accountants N.V.

Original has been signed by F.J. van Groenestein RA



Appendix to our auditor's report on the financial statements 2016 of innogy Finance II B.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things, of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit 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.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Concluding on the appropriateness of the directors' use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

