

Unaudited financial report for the six-month period ending 30 June 2016

**RWE Finance II B.V.
's-Hertogenbosch, the Netherlands**

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Interim report of the directors

Interim report of the directors

Main developments during the period under review

At 31 December 2015 the Company took over from RWE AG a bond and the corresponding intercompany loan with RWE Innogy GmbH. The initial recognition at fair value resulted in a bond of EUR 740.6 million, a loan to group companies of EUR 743.2 million, and a share premium reserve of EUR 2.7 million.

The first half of the year 2016 saw intensive restructuring of the RWE Group as a preparation for the envisaged initial public offering (IPO) of RWE International SE. Within this project some RWE group companies have been merged and the borrower of the intercompany loan of RWE Finance II B.V. changed from RWE Innogy GmbH to RWE International SE - the mother 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 753.4 million mainly as a result of interest received on the loan and interest paid on the bond. The net result amounts to EUR 0.013 million, representing the spread on the intercompany loan partly offset by the difference in amortization on loans and bonds as well as operational expenses.

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.

RWE 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 issued is 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 RWE International SE, being a 100% group company. The actual long-term rating for RWE AG provided by S&P is BBB- with a negative outlook; Moody's rated RWE AG on Baa3 with a stable outlook.

Financial Outlook

No further financing is currently planned for the remainder of the year 2016. The Company intends to continue its operations as an intragroup finance company for the foreseeable future.

On 1 September 2016 the rebranding of the names of the following companies took place:

- 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.

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 30 June 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, 6 September 2016

Board of Directors,

O. Wessel

H. Dullens

Interim financial report for the six-month period ending 30 June 2016

Balance sheet
(before appropriation of result)

	<u>Ref.</u>	<u>30 June 2016</u>		<u>31 December 2015</u>	
		EUR'000	EUR'000	EUR'000	EUR'000
<i>Assets</i>					
Non-current assets					
Financial assets	5.1		740,214		743,191
Current assets					
Receivables	5.2	12,981		30,407	
Cash and cash equivalents	5.3	155		-	
			13,136		30,407
			753,350		773,598
<i>Equity and liabilities</i>					
Shareholder's equity					
Share capital	5.4	-		-	
Share premium reserve		2,708		2,708	
Retained earnings		(9)		-	
Profit for the year		13		(9)	
			2,712		2,699
Non-current liabilities					
	5.5		737,717		740,640
Current liabilities					
	5.6		12,921		30,259
			753,350		773,598

Income statement

	Ref.	Jan - June 2016		4 Dec - 31 Dec 2015	
		EUR'000	EUR'000	EUR'000	EUR'000
Interest and similar income	6.1	20,023		-	
Interest and similar expenses	6.2	(19,987)		-	
Total financial result			36		-
General and administrative expenses	6.3		(19)		(12)
Operating income			17		(12)
Income tax expense	6.4		(4)		3
Net result after taxation			13		(9)

Cash flow statement

Ref.	Jan - June 2016	4 Dec - 31 Dec 2015
	EUR'000	EUR'000
Cash flows from operating activities		
Cash generated from operations:		
Interest received	34,523	-
Interest paid	(34,343)	-
Expenses paid	(25)	-
Income tax received	-	-
Net cash from operating activities	155	-
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	155	-
Exchange and translation differences on cash and cash equivalents	-	-
Net increase/(decrease) in cash and cash equivalents	155	-
Cash and cash equivalents		
Opening balance	-	-
Closing balance	155	-
Net increase/(decrease) in cash and cash equivalents	155	-

Notes to the financial statements

1 General

1.1 Activities

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

1.2 Group structure

RWE Finance II B.V., incorporated on 4 December 2015, is a private limited liability company. The direct parent company of RWE Finance II B.V. is RWE Gas International 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 RWE AG, available via www.rwe.com.

RWE 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 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.

1.5 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 RWE 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

Corporate income tax is calculated on the profit/loss before taxation in the income statement, taking into account tax-exempt items and non-deductible expenses, and using current tax rates.

3.6 Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are recognized to provide for temporary differences between the tax bases of assets and liabilities, and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income taxes are recognized at face value.

4 Financial instruments and risk management

4.1 Market risk

Currency risk

Since the bond issued is 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 RWE International SE, being a 100% group company. The actual long-term rating for RWE AG provided by S&P is BBB- with a negative outlook; Moody's rated RWE AG on Baa3 with a stable outlook.

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

4.4 Liquidity risk

The liquidity risk is minimal, because the proceeds of the bond outstanding are one-on-one lent to RWE International 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
Book value	743,191	-
Movements financial year		
Loans issued	-	743,191
Short-term loans transferred to receivables	-	-
Amortization on deferred premium	(2,977)	-
	(2,977)	743,191
30 June 2016 / 31 December 2015		
Book value	740,214	743,191

The loan has to be repaid in 2033.

Currency

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

Interest

The interest rates is fixed:

<u>Loan</u>	<u>Amount</u>	<u>Interest rate</u>
EUR	600,000,000	5.780%

5.2 Receivables

	30 June 2016		31 December 2015	
	Total	Term > 1 year	Total	Term > 1 year
	EUR'000	EUR'000	EUR'000	EUR'000
Short-term part of group loans	-	-	-	-
Interest receivable from group companies	12,981	-	30,404	-
Current income tax receivable	-	-	3	-
	12,981	-	30,407	-

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

5.3 Cash and cash equivalents

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

5.4 Shareholder's equity

Share capital

The authorised share capital as at 30 June 2016 amounts to EUR 100 of which one ordinary share has been issued and fully paid up. The breakdown of the share capital can be specified as follows:

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

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 30 June 2016 / 31 December 2015	2,708	2,708

Profit for the year

	2016	2015
	EUR'000	EUR'000
Balance as at 1 January		
Profit for the financial year	13	(9)
Balance as at 30 June 2016 / 31 December 2015	13	(9)

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
Short-term part of bonds transferred to current liabilities	-	-
Amortization on deferred premium	(2,923)	-
	(2,923)	740,640
30 June 2016 / 31 December 2015		
Book value	737,717	740,640

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 rates are fixed, ranging from:

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

5.6 Current liabilities

	30 June 2016		31 December 2015	
	Total	Term > 1 year	Total	Term > 1 year
	EUR'000	EUR'000	EUR'000	EUR'000
Short-term part of bonds	-	-	-	-
Income tax payable	1	-	-	-
Interest payable	12,914	-	30,247	-
Accrued liabilities	6	-	12	-
	<hr/>	<hr/>	<hr/>	<hr/>
	12,921	-	30,259	-
	<hr/>	<hr/>	<hr/>	<hr/>

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.

	30 June 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	874,260	600,000	740,640	600,000
<i>Financial liabilities</i>				
Bonds issued	846,015	600,000	710,235	600,000

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

	30 June 2016	31 December 2015
	EUR'000	EUR'000
Interest income on loan group companies	17,100	-
Release deferred premium	2,923	-
	<u>20,023</u>	<u>-</u>

6.2 Interest and similar expenses

	30 June 2016	30 June 2015
	EUR'000	EUR'000
Interest expenses on bond issued	17,010	-
Release deferred premium	2,977	-
	<u>19,987</u>	<u>-</u>

6.3 General and administrative expenses

	30 June 2016	31 December 2015
	EUR'000	EUR'000
Audit fees	19	12
	<u>19</u>	<u>12</u>

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.

6.4 Income tax expense

	30 June 2016	30 June 2015
	EUR'000	EUR'000
Current tax:		
Current income tax	4	-
Deferred tax:		
Net movement in deferred taxes	-	-
Income tax expense	<u>4</u>	<u>-</u>
Income before tax	18	-
Effective tax rate	<u>25.0%</u>	<u>-</u>

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

7 Other information

7.1 Employees

RWE 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 RWE 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 RWE Gas International N.V., and RWE International 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:

	30 June 2016	31 December 2015
	EUR'000	EUR'000
Loan	740,214	743,191
Interest receivable on the above loan	12,981	30,404
Total related parties in the balance sheet	753,195	773,595

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

	30 June 2016	30 June 2015
	EUR'000	EUR'000
Interest on loan	17,100	-
Amortisation deferred premium on loan	2,923	-
Total related parties in the income statement	20,023	-

7.3 Commitments and contingencies

Fiscal Unity

RWE Finance II B.V. is part of the fiscal unity RWE Gas International N.V. with effective date 1 January 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

On 1 September 2016 the rebranding of the names of the following companies took place:

- 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.

No events after balance sheet date occurred, which should be included in these accounts.

's-Hertogenbosch, The Netherlands, 6 September 2016

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 profit for the year is at the free disposal of the General Meeting of Shareholders.