

Financial report 2015

RWE Finance B.V.

's-Hertogenbosch, the Netherlands

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Directors' report

Directors' report

Main developments during the year

In February 2015 a bond in the amount of EUR 2,000 million fell due and was repaid.

Furthermore the exchange rate for GBP-EUR increased from 1.283 in 2014 to 1.362 as per the end of December 2015. The net effect on the balance sheet total was a decrease from EUR 12,938.0 million to EUR 11,155.4 million. The net result decreased with 11.9% to EUR 1.8 million (2014: EUR 2.0 million). The lower net result is mainly caused by lower gross financing volumes due to the repayment in 2015.

During the financial year 2015 RWE Finance B.V. (the "Company") declared an interim dividend in the amount of EUR 1.9 million.

The next upcoming maturity will only be in April 2016 for one bond in the amount of EUR 850 million. All bonds have been issued under guarantee of RWE AG.

The liquidity of the company expressed in the current ratio marginally increased from 1.004 in 2014 to 1.008 at year end 2015. This ratio shows the ability of RWE Finance 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 solvability ratio (equity / total equity and liabilities) shows a result of 0.10% in 2015 (2014: 0.08%). The equity is consistently at a level of EUR 11 million, based on the tax ruling. Given the significant amount of bonds payable, solvability is low. The payment obligation towards bondholders is covered by the fact that all proceeds are used for loans to related parties and is additionally supported by a guarantee from RWE AG.

Profitability of the company, expressed as return on shareholder's equity (net income/equity), went down from 18.87% in 2014 to 16.78% in 2015. The result in 2015 decreased due to the fact that the overall amount of outstanding bonds and loans decreased in 2015 leading to lower interest spread for 2015. The interim dividend declared in 2015 is higher than the result for the year, causing the equity to slightly decrease.

In December 2015 RWE AG announced plans to restructure its business. RWE AG will transfer its renewables, grids and retail operations in Germany and abroad to a new subsidiary ("NewCo") and list it on the stock market. In doing so, the company will create a platform for growth with its own access to the capital market. The new subsidiary will be listed on the German stock market. In the first instance, NewCo intends to offer some 10 percent of new share capital to the public in connection with an initial public offering. The proceeds will be used to finance further growth in markets with good future prospects.

At the same or later point in time RWE AG might decide to dispose of additional stakes. RWE AG will remain the majority shareholder of Newco over the long term and full consolidation remains applicable. RWE AG will focus on conventional power generation and energy trading. In the context of the above restructuring, RWE AG sold all outstanding shares of RWE Finance B.V. to RWE Innogy GmbH as of 17 December 2015. As a consequence RWE Finance B.V. continues to be 100% owned by RWE AG but only indirectly. Neither the intra-muros principle nor the guarantees by RWE AG are compromised.

Additionally, the intercompany loans lent to RWE AG changed legal title to RWE Innogy GmbH at the end of December 2015.

Risk management

The risk appetite of the Company is very limited. This is also embedded in the structure of the Company, in which external financing is applied only for internal financing purposes with very limited risks. Reference is made to the disclosures below on the separate risks. As part of the applicable tax ruling a fixed spread is set on the interest expenses resulting in a higher interest income on the intercompany loans receivable, and furthermore a maximum amount of operational expenses is allowed. Next to that the Company is required to keep a minimal level of equity. These basic rules result in a continuously healthy financial company.

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. During the Board meetings, which take place three times a year, an update on compliancy is discussed by the internal legal counsel and documented in the minutes of the meetings.

The Company 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 examples of these are the assessments on the controls performed by RWE AG once a year, and independent audits performed by the external auditor.

Currency risk

The Company's currency exposure mainly relates to positions and future transactions in British Pounds. However, as the bonds issued in foreign currencies have been one on one used to finance the loans to group companies in the same currency, a natural hedge has been obtained and therefore currency risk is eliminated.

Interest rate risk

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

Credit risk

The loans to group companies have been granted to RWE Innogy GmbH, RWE Benelux Holding B.V. and RWE Generation UK plc, all being 100% group companies. The actual long-term rating for RWE AG provided by S&P is BBB; Moody's rate RWE AG with Baa2. In February 2016, both Moody's and S&P put the rating on watch negative meaning that the group might be downgraded within next 3 months. As neither the outstanding bonds nor the corresponding loans have any kind of rating trigger, we do not expect any significant change for RWE Finance B.V. The credit quality of the obligors and RWE AG as guarantor is still seen as unquestionable.

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.

Board

At the end of 2015 there was a change in the composition of the Board of Directors. As per 31 December 2015, Mr. Coenen resigned as director of the Company. As per 1 January 2016, Mr. Lowis was appointed as director of the Company. According to legislation, the company is required to include certain disclosures regarding the appointment of at least 30% female board members. Based on the changes in the board in 2015 this criterion has not been met. In the internal selection process priority was given to experience in management positions in the area of Financing and Investor Relations, as well as good knowledge of RWE structures and procedures.

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 2015 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, 15 March 2016

Board of Directors,

S. Lowis

V. Heischkamp

J. Stollenga

H. Dullens

Financial statements

Balance sheet (before appropriation of result)

| | Ref. | 31 December 2015 | | 31 December 2014 | |
|--------------------------------|------|------------------|------------|------------------|------------|
| | | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Assets | | | | | |
| Non-current assets | | | | | |
| Financial assets | 5.1 | | 9,867,557 | | 10,409,529 |
| Current assets | | | | | |
| Receivables | 5.2 | 1,277,715 | | 2,516,103 | |
| Cash and cash equivalents | 5.3 | 10,160 | | 12,342 | |
| | | | 1,287,875 | | 2,528,445 |
| | | | 11,155,432 | | 12,937,974 |
| Equity and liabilities | | | | | |
| Shareholder's equity | | | | | |
| Share capital | 5.4 | 2,000 | | 2,000 | |
| Retained earnings | | 6,955 | | 6,806 | |
| Profit for the year | | 1,806 | | 2,049 | |
| | | | 10,761 | | 10,855 |
| Non-current liabilities | 5.5 | | 9,867,557 | | 10,409,529 |
| Current liabilities | 5.6 | | 1,277,114 | | 2,517,590 |
| | | | 11,155,432 | | 12,937,974 |

Income statement

| | Ref. | 2015 | | 2014 | |
|-------------------------------------|-------------|-------------|---------------|-------------|---------------|
| | | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Interest and similar income | 6.1 | 623,894 | | 696,770 | |
| Interest and similar expenses | 6.2 | (611,258) | | (684,400) | |
| Total financial result | | | 12,636 | | 12,370 |
| General and administrative expenses | 6.3 | | (10,230) | | (9,651) |
| Operating income | | | 2,406 | | 2,719 |
| Income tax expense | 6.4 | | (600) | | (670) |
| Net result after taxation | | | 1,806 | | 2,049 |

Cash flow statement

Cash flow statement

| | Ref. | 2015 EUR'000 | 2014 EUR'000 |
|---|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Cash generated from operations: | | | |
| Interest received | | 706,862 | 671,156 |
| Interest paid | | (696,808) | (658,849) |
| Expenses paid | | (202) | (237) |
| Income tax paid | | 18 | (621) |
| Guarantee fee paid | | (10,113) | (6,456) |
| Net cash from operating activities | | (243) | 4,993 |
| Cash flows from investment activities | | | |
| | | - | - |
| Cash flows from financing activities | | | |
| Issuance of long-term bonds | 5.5 | - | 300,000 |
| Issuance of long-term loans | 5.1 | - | (300,000) |
| Repayment of long-term bonds | 5.6 | (2,000,000) | (530,000) |
| Repayment of long-term loans | 5.2 | 2,000,000 | 530,000 |
| Dividends paid | 5.4 | (1,900) | (3,600) |
| Net cash used in financing activities | | (1,900) | (3,600) |
| Net cash flows | | (2,143) | 1,393 |
| Exchange and translation differences on cash and cash equivalents | | (32) | (33) |
| Net increase/(decrease) in cash and cash equivalents | | (2,175) | 1,360 |
| Cash and cash equivalents | | | |
| Opening balance | | 12,259 | 10,899 |
| Closing balance | | 10,084 | 12,259 |
| Net increase/(decrease) in cash and cash equivalents | | (2,175) | 1,360 |

Notes to the financial statements

1 General

1.1 Activities

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

1.2 Group structure

RWE Finance B.V., incorporated on 14 February 2001, is a private limited liability company. Per 17 December 2015 the parent company of RWE Finance B.V. changed from RWE AG in Essen, Germany to RWE Innogy GmbH in Essen, Germany. RWE AG is the ultimate parent company. The financial statements of RWE Finance B.V. are included in the consolidated financial statements of RWE AG, available via www.rwe.com.

RWE Finance B.V. is seated at Willemsplein 4, 's-Hertogenbosch, the Netherlands.

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 RWE Finance 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 carried 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 under the receivables and current liabilities.

The interest rate charged on loans to group companies has been set in conformity with the tax ruling obtained from the local tax authorities.

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 through profit or loss.

2.4 *Receivables*

Trade receivables are recognized initially 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 carried 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 recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated 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*

The guarantee fee that is due by RWE Benelux Holding B.V. and RWE Generation UK plc. is received by the Company as part of their interest payments and accounted for and paid to RWE AG as an operating expense by the Company.

3.4 *Interest income and expense*

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.

3.5 *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

The Company's currency exposure mainly relates to positions and future transactions in British Pounds. However, as the bonds issued in foreign currencies have been one on one used to finance the loans to group companies in the same currency, a natural hedge has been obtained and therefore currency risk is eliminated.

Price risk

The Company's price risk is limited as the bonds issued by the Company have been one on one used to finance the loans 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 long-term and current liabilities is limited as the bonds and loans issued all have fixed interest rates. The spread on loans amounts to 0.0237% for loans issued before 2008 and 0.0225% for loans issued thereafter till 2012. For 2012 and 2013 the spread was again 0.0237% and for 2014 as well as 2015 0.03%.

4.3 *Credit risk*

The loans to group companies have been granted to RWE Innogy GmbH, RWE Benelux Holding B.V. and RWE Generation UK plc., being 100% group companies. The actual long-term rating for the group provided by S&P is BBB; Moody's rate the group with Baa2. In February 2016, both Moody's and S&P put the rating on watch negative meaning that the group might be downgraded within next 3 months. As neither the outstanding bonds nor the corresponding loans have any kind of rating trigger, we do not expect any significant change for RWE Finance B.V. The credit quality of the obligors and RWE AG as guarantor is still seen as unquestionable.

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 bonds outstanding are one-on-one lent to RWE Innogy GmbH, RWE Benelux Holding B.V. and RWE Generation UK plc.

The interest rate on the loans to RWE Innogy GmbH, RWE Benelux Holding B.V. and RWE Generation UK plc. are higher than the interest rate on the related bonds.

5 Notes to the balance sheet

5.1 Financial assets

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

| | 2015 | 2014 |
|---|------------|-------------|
| | EUR'000 | EUR'000 |
| 1 January | | |
| Book value | 10,409,529 | 11,778,932 |
| Movements financial year | | |
| Loans issued | - | 300,000 |
| Exchange differences | 308,028 | 330,597 |
| Short-term loans transferred to receivables | (850,000) | (2,000,000) |
| | (541,972) | (1,369,403) |
| 31 December | | |
| Book value | 9,867,557 | 10,409,529 |

At 31 December the intercompany loans and corresponding interest receivables due from RWE AG (EUR 7,350.1 million) changed legal title to RWE Innogy GmbH. The loans are to be repaid in the period between 2016 and 2039. During the year under review no new loan has been issued.

One loan for a total amount of EUR 850 million will be repaid in April 2016. This loan has been classified under the short term receivables.

The loans which are to be repaid between 1 January 2017 and 31 December 2020 amount to EUR 2,730 million.

Currency

The nominal amount of the loans to RWE Innogy GmbH, a 100% group company, consists of five loans contracted in EUR amounting to EUR 2,830 million and eight loans contracted in GBP to a total amount of GBP 3,317.5 million (EUR 4,520.1 million). Furthermore four loans for a total amount of EUR 2,550 million have been lent on to RWE Benelux Holding B.V., a 100% group company and a loan of GBP 600 million (EUR 817.5 million) has been lent on to RWE Generation UK plc., also a 100% group company.

Interest

The interest rates are fixed, ranging from:

| Loan | Amount | Interest rate |
|------|---------------|-------------------|
| EUR | 5,380,000,000 | 2.1987% - 6.6475% |
| GBP | 3,917,500,000 | 5.3737% - 6.5237% |

5.2 Receivables

| | 31 December 2015 | | 31 December 2014 | |
|--|------------------|----------|------------------|----------|
| | Total | Term | Total | Term |
| | | > 1 year | | > 1 year |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Short-term part of group loans | 850,000 | - | 2,000,000 | - |
| Interest receivable from group companies | 361,162 | - | 444,130 | - |
| Deferred premiums and discounts | 66,553 | 66,318 | 71,973 | 71,666 |
| | 1,277,715 | 66,318 | 2,516,103 | 71,666 |

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.

| | 2015 | 2014 |
|---------------------------------|---------|---------|
| | EUR'000 | EUR'000 |
| Current account group companies | 10,152 | 12,342 |
| Cash | 8 | - |
| Total cash and cash equivalents | 10,160 | 12,342 |

At year-end the deposit with the parent company amounted to EUR 10.2 million (2014: EUR 12.3 million). The deposit matures at 18 January 2016 and bears interest at 0.0% p.a. (2014: 0.0%). The fair value of the cash and cash equivalents is in line with their carrying amount.

Cash flow statement

The closing balance in the cash flow statement is the balance of the cash and cash equivalents of EUR 10.2 million (2014: 12.3 million) minus the current amount group companies EUR 0.1 million (2014: EUR 0.1 million) (ref 5.6).

5.4 Shareholder's equity

Share capital

The authorized share capital as at 31 December 2015 amounts to EUR 10 million of which 20,000 ordinary shares of EUR 100 each have been issued and fully paid up. The breakdown of the share capital can be specified as follows:

| | 31 December 2015 | | 31 December 2014 | |
|---------------------------------|------------------|--------------------------|------------------|--------------------------|
| | Shares | Share capital EUR'000 | Shares | Share capital EUR'000 |
| 1 January | | | | |
| Issued and fully paid-up | 20,000 | 2,000 | 20,000 | 2,000 |
| Movements financial year | | | | |
| Additionally paid-in capital | - | - | - | - |
| 31 December | | | | |
| Issued and fully paid-up | 20,000 | 2,000 | 20,000 | 2,000 |

Retained earnings

| | 2015 | 2014 |
|-------------------------------------|---------|---------|
| | EUR'000 | EUR'000 |
| Balance as at 1 January | 6,806 | 6,426 |
| Additions from profit previous year | 2,049 | 2,180 |
| Dividends declared/paid | (1,900) | (1,800) |
| Balance as at 31 December | 6,955 | 6,806 |

Profit for the year

| | 2015 | 2014 |
|----------------------------------|---------|---------|
| | EUR'000 | EUR'000 |
| Balance as at 1 January | | |
| Profit for the financial year | 1,806 | 2,049 |
| Balance as at 31 December | 1,806 | 2,049 |

5.5 Non-current liabilities

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

| | 2015 | 2014 |
|---|------------|-------------|
| | EUR'000 | EUR'000 |
| 1 January | | |
| Book value | 10,409,529 | 11,778,932 |
| Movements financial year | | |
| Bonds issued | - | 300,000 |
| Exchange differences | 308,028 | 330,597 |
| Short-term part of bonds transferred to current liabilities | (850,000) | (2,000,000) |
| | (541,972) | (1,369,403) |
| 31 December | | |
| Book value | 9,867,557 | 10,409,529 |

The bonds are to be repaid in the period between 2016 and 2039. During the year under review no bond has been issued. One bond for a total amount of EUR 850 million will be repaid in April 2016. This bond has been classified under the short term liabilities. The bonds which are to be repaid between 1 January 2017 and 31 December 2020 amount to EUR 2,730 million.

The payment obligation towards bond holders is covered by the fact that all proceeds are used for loans to related parties and covered by a guarantee from RWE AG.

Currency

The nominal amount of the bonds consists of seven bonds contracted in EUR amounting to EUR 5,380 million and nine bonds contracted in GBP to a total amount of GBP 3,917.5 million (EUR 5,337 million). The bonds are listed at the Luxembourg Stock Exchange and one of these bonds also at the Frankfurt Stock Exchange since October 2013.

Interest

The interest rates are fixed, ranging from:

| Bond | Amount | Interest rate |
|------|---------------|-----------------|
| EUR | 5,380,000,000 | 1.875% - 6.625% |
| GBP | 3,917,500,000 | 4.750% - 6.500% |

5.6 Current liabilities

| | 31 December 2015 | | 31 December 2014 | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | Total | Term > 1 year | Total | Term > 1 year |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| Short-term part of bonds | 850,000 | - | 2,000,000 | - |
| Interest payable | 350,359 | - | 435,909 | - |
| Guarantee Fee (RWE AG) | 9,242 | - | 9,333 | - |
| Current account group companies | 76 | - | 83 | - |
| Corporate income tax | 629 | - | 11 | - |
| Accrued liabilities | 27 | - | 21 | - |
| Deferred tax liability | 228 | 196 | 260 | 228 |
| Deferred premiums and discounts | 66,553 | 66,318 | 71,973 | 71,666 |
| | <u>1,277,114</u> | <u>66,514</u> | <u>2,517,590</u> | <u>71,894</u> |

The fair value of the liabilities is in line with their carrying amount. Current account group companies represent the inhouse bank balance with RWE Benelux Holding B.V. In prior year the inhouse bank balance was due to Essent N.V.

Deferred tax liability

| | EUR'000 |
|---------------------|------------|
| At 1 January 2015 | 260 |
| Movements | (32) |
| At 31 December 2015 | <u>228</u> |

During the coming year EUR 32,371 will be amortized to the Income Statement. The deferred tax liability is caused by a penalty payment in 2007 for early termination of a loan. For tax purposes the payment is spread over the original duration of the loan which originally ended in 2030.

5.7 Financial instruments

Financial instruments valued at cost

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

| | 31 December 2015 | | 31 December 2014 | |
|------------------------------|-------------------------|-------------------|-------------------------|-------------------|
| | Market value | Book value | Market value | Book value |
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| <i>Financial assets</i> | | | | |
| Loans to group companies | 11,955,260 | 10,717,557 | 14,913,792 | 12,409,529 |
| <i>Financial liabilities</i> | | | | |
| Bonds issued | 11,661,670 | 10,717,557 | 14,596,966 | 12,409,529 |

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 the 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

| | 2015 | 2014 |
|---|----------------|----------------|
| | EUR'000 | EUR'000 |
| Interest income group companies | 620,932 | 690,528 |
| Release deferred premiums and discounts | 2,953 | 6,214 |
| Interest on deposit/bank | 9 | 28 |
| | <u>623,894</u> | <u>696,770</u> |

6.2 Interest and similar expenses

| | 2015 | 2014 |
|---|----------------|----------------|
| | EUR'000 | EUR'000 |
| Interest expenses bonds issued | 608,305 | 678,186 |
| Release deferred premiums and discounts | 2,953 | 6,214 |
| | <u>611,258</u> | <u>684,400</u> |

6.3 General and administrative expenses

| | 2015 | 2014 |
|--|---------------|--------------|
| | EUR'000 | EUR'000 |
| Guarantee Fee | 10,022 | 9,404 |
| Advisory fees | 64 | 52 |
| Management and administrative expenses | 140 | 122 |
| Other | 4 | 73 |
| | <u>10,230</u> | <u>9,651</u> |

In 2014 and 2015 the remuneration of the Board of Directors was nil.

PricewaterhouseCoopers Accountants N.V. is the auditor of the financial statements of the Company.

The composition of the fees paid to the auditor is as follows:

| | 2015 | 2014 |
|-----------------------------------|-------------|-------------|
| | EUR'000 | EUR'000 |
| Audit of the Financial Statements | 27 | 22 |
| Other assurance services | 37 | 30 |
| Total audit fees | 64 | 52 |

6.4 *Income tax expense*

| | 2015 | 2014 |
|--|-------------|-------------|
| | EUR'000 | EUR'000 |
| Current tax: | | |
| Current income tax | 632 | 702 |
| Income tax adjustments for prior years | - | - |
| Deferred tax: | | |
| Net movement in deferred taxes | (32) | (32) |
| Income tax expense | 600 | 670 |
| Income before tax | 2,406 | 2,719 |
| Effective tax rate | 24.9% | 24.6% |

The statutory tax rate is 25% for the year 2015 (2014: 25%).

6.5 *Employees*

RWE Finance B.V. had no employees in 2014 and 2015.

6.6 *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 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 Innogy GmbH, RWE Benelux Holding B.V. and RWE Generation UK plc. qualify as related parties.

We also refer to the notes 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 as at 31 December can be specified as follows:

| | 2015 | 2014 |
|---|-------------|-------------|
| | EUR'000 | EUR'000 |
| Loans including deferred premium and discount | 10,680,048 | 12,370,839 |
| Interest receivable on the above loans | 361,162 | 444,130 |
| Deposit | 10,152 | 12,342 |
| Inhouse bank balance | (76) | (83) |
| Guarantee fee payable | (9,242) | (9,333) |
| Total related parties in the balance sheet | 11,042,044 | 12,817,895 |

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

| | 2015 | 2014 |
|-------------------------------------|-------------|-------------|
| | EUR'000 | EUR'000 |
| Interest on loans | 620,932 | 690,528 |
| Amortisation premium and discount | 2,953 | 6,214 |
| Interest on deposit | 9 | 28 |
| Guarantee fee | (10,022) | (9,404) |
| Total related parties in the income | 613,872 | 687,366 |

6.7 Commitments and contingencies

Fiscal Unity

Clearance was received from the Dutch Tax Inspector to create a fiscal unity for CIT between the RWE subsidiaries in the Netherlands based on European and Dutch jurisprudence. As a result of this RWE Finance B.V. will be 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.

's-Hertogenbosch, the Netherlands, 15 March 2016

Board of Directors,

S. Lowis

V. Heischkamp

J. Stollenga

H. Dullens

Other information

Proposed 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.

During the year the Company declared an interim dividend to a total amount of EUR 1,900,000. The Company will not advise the shareholder to pay a final dividend.

Events after the balance sheet date

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

In February 2016, both Moody's and S&P put the rating on watch negative meaning that the group might be downgraded within next 3 months. As neither the outstanding bonds nor the corresponding loans have any kind of rating trigger, we do not expect any significant change for RWE Finance B.V. The credit quality of the obligors and RWE AG as guarantor is still seen as unquestionable.



Independent auditor's report

To: the general meeting of RWE Finance B.V.

Report on the financial statements 2015

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of RWE Finance B.V. as at 31 December 2015, and of its result 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 2015 of RWE Finance B.V., 's-Hertogenbosch ('the company').

The financial statements comprise:

- the balance sheet as at 31 December 2015;
- 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.

We are independent of RWE Finance 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.: e0375368

PricewaterhouseCoopers Accountants N.V., Fascinatio Boulevard 350, 3065 WB Rotterdam, P.O. Box 8800, 3009 AV Rotterdam, The Netherlands
T: +31 (0) 88 792 00 10, F: +31 (0) 88 792 95 33, www.pwc.nl

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Our audit approach

Overview and context

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.

The main purpose of the company is the financing of companies belonging to the RWE AG group. The company is financing these loans through bond offerings on the international capital markets. The repayment of these bonds to the investors is guaranteed by RWE AG as disclosed in note 5.5 to the financial statements. The company facilitates the RWE AG group in its financing activities for which it receives a margin.

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 €111,554,000 (2014: €64,500,000) and €120,000 for the income statement line items general and administrative expenses and income taxation. The benchmark applied is 1% of total assets and 5% of profit before tax for the income statement line items specified above. Due to the large amounts in the financial statements relative to the income statement line items specified above, which is inherent to the nature of the company's business, we consider it appropriate to use two levels of quantitative materiality. We consider this approach to be more suitable and balanced for this type of companies than the overall benchmark we used in previous year which was 0.5% of total assets.

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 €5,557,000 (2014: €3,225,000) for the balance sheet and €12,000 for the income statement as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



The scope of our audit

The company is financing companies belonging to the RWE AG group. As part of our testing procedures we tested the existence of the loans by requesting the auditors of the counterparties belonging to the RWE AG group to confirm the outstanding intercompany loans.

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 may be long-standing and therefore may not change significantly from one year to the next. As compared to prior 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> <p>We consider the valuation and existence of the loans issued, as disclosed in notes 2.3, 4.3, 5.1 and 5.2 to the financial statements for a total amount of €10,717,557, as a key audit matter. This is due to the size of the loan portfolio and given that an impairment may have a material effect on the income statement.</p> <p>Loans are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method.</p> <p>The directors did not identify any impairment triggers regarding the loans issued.</p> | <p>We have performed audit work addressing the valuation and existence of the loans issued to RWE AG group companies, through:</p> <ul style="list-style-type: none">• testing input of contracts in RWE Finance B.V.'s treasury management system;• reconciliation of the treasury management system with the general ledger;• confirmation procedures with the counterparties of the loans;• margin analysis;• recalculating the amortised cost value based on the effective interest method;• analysis of the financial situation of the group companies to which loans have been provided;• assessing whether there were any impairment triggers;• audit of data input to calculate the fair value, including cash flows based on underlying contracts, credit spread and market interest; and• testing interest receipts. <p>We concur with the position taken by the directors as set out in the financial statements with respect to the valuation of the loans.</p> |

Responsibilities of the directors

The directors are responsible for:

- the preparation and fair presentation of the financial statements and for the preparation of the directors' report, both 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 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.

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

Report on other legal and regulatory requirements

Our report on the directors' report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the directors' report and the other information):

- We have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the directors' report, to the extent we can assess, is consistent with the financial statements.



Our appointment

We were appointed as auditors of RWE Finance B.V. following the passing of a resolution by the shareholders at the annual meeting held in 2002 and has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 14 years.

Rotterdam, 15 March 2016

PricewaterhouseCoopers Accountants N.V.

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

Appendix to our auditor's report on the financial statements 2015 of RWE Finance 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 others 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.