Annual report
2016

innogy

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At a glance

innogy Group		2016	2015[1]	+/– %
Power generation from renewable sources	billion kWh	10.0	10.3	−2.9
External electricity sales volume	billion kWh	242.5	233.5	3.9
External gas sales volume	billion kWh	241.3	245.8	−1.8
External revenue	€ million	43,611	45,568	−4.3
Adjusted EBITDA	€ million	4,203	4,521	−7.0
Adjusted EBIT	€ million	2,735	3,050	−10.3
Income before tax	€ million	2,201	2,798	−21.3
Net income/income attributable to innogy SE shareholders	€ million	1,513	1,613	−6.2
Adjusted net income	€ million	1,123	–	–
Cash flows from operating activities	€ million	2,674	2,755	−2.9
Capital expenditure	€ million	2,123	2,188	−3.0
Property, plant and equipment and intangible assets	€ million	1,833	2,024	−9.4
Financial assets	€ million	290	164	76.8
Free cash flow	€ million	841	730	15.2
Rebased earnings per share[2]	€	2.72	–	–
Adjusted net income per share[2]	€	2.02	–	–
Dividend per share[3]	€	1.60	–	–
		31 Dec 2016	31 Dec 2015	
Market capitalisation	€ billion	18.3	–	–
Number of shares outstanding	thousands	555,555	–	–
Net debt	€ million	15,748	6,673	136.0
Employees[4]		40,636	40,160	1.2

1 Prior-year figures are of limited informational value; see commentary on page 52.
2 In relation to the number of shares outstanding at 31 December 2016.
3 Dividend proposal for innogy SE's 2016 fiscal year, subject to the passing of a resolution by the 24 April 2017 Annual General Meeting.
4 Converted to full-time positions.

innogy in dialogue

Dear Shareholders, Customers and Friends of the Company,

innogy got off to a successful start as an independent company in 2016. Just ten months after the announcement of the IPO, the innogy share was listed on the Frankfurt Stock Exchange on 7 October. The issue volume was about €4.6 billion. This made our IPO one of the fastest and largest in Germany in recent history. We have proven that we are taking our new start very seriously.

And I would like to take this opportunity to dare myself to make a new start. The CEO has a tradition of writing you a letter at the beginning of the annual report, in order to present you with the highlights of the fiscal year. I would like to take a slightly different approach. What do we stand for? What are we all about? What are our goals? I would like to use these pages to answer these questions I get repeatedly whenever I speak with customers, employees and investors.

#What does innogy stand for?

This brings to mind a catchphrase, created by the German press in 2005: We are Energiewende! Our divisions – Renewables, Grid & Infrastructure and Retail – are the blueprint of an energy company of the future. Our 3.7 gigawatts of renewable capacity, 23 million customers and 574,000 kilometres of electricity and gas distribution lines make us one of Europe's leading energy companies. We are predestined to come up with the right answer to the three main trends in the energy sector: decarbonisation, decentralisation and digitisation. We want to expand electricity generation from renewables, develop network infrastructure intelligently and offer our customers products and services that really add value. We have a clear mission: energy goes innogy.

#What is innogy's strategy?

Our strategy rests on three pillars: (1) Wherever we already have a presence, we want to continue growing and improve or expand our business. Proof of this direction are the 300 megawatts in wind capacity we are currently building in existing markets. (2) We are thinking outside the box and tapping into new business. To be precise, we want to seize opportunities in the grid business to gain a foothold in new regions by making bolt-on acquisitions, especially in Eastern Europe. In the middle of February, we acquired a 75% stake in the gas utility of the Croatian town Koprivnica. This is the first privatisation on the Croatian gas market.

"We are Energiewende!"

Regarding our wind and solar activities, we also have our sights set on countries outside Europe such as the USA and MENA (the Middle East and North Africa).
(3) Innovations present us with options. One example is our stake in Kiwigrid, a German provider of energy management solutions. This gives us access to software capable of managing energy consumption efficiently. If you are interested in learning more, take a look at our strategy chapter on pages 24 et seqq.

#What changes do the employees face as a result of the IPO?

We want to take advantage of the motivational effect of the fresh wind blowing through the company. In other words, instead of waiting for trends to happen, we want to be pioneers. This is what we aspire to, but we must change in order to accomplish this. However, in no way are we starting from scratch. We are well prepared in a number of areas. If we want to be successful as a company, we must work more efficiently and take our performance to the next level. In the retail business, this translates into further optimising processes. In the grid business, this involves using our resources where we can achieve the highest returns. And in renewables, we must win public tender procedures.

#What can customers expect of innogy?

We are ambitious: we want to make our customers enthusiastic about innogy! This is our goal. This is what we want to be judged by. We are constantly getting better at this, but are not equally good across the board. In the United Kingdom, we must continue with our work, upgrading our billing systems and improving service significantly. We are working on this. We are already a service champion in Germany, as proven by the many awards we have received.

> "We want to make our customers enthusiastic about innogy!"

#What is innogy's biggest challenge?

In relation to our market, my answer is that the conversion of the European energy system has to progress further. To accomplish this, it is important to refrain from regionalism, for example when it comes to subsidy systems, and to have sector coupling. In concrete terms, this means that the use of renewables in heating and transportation must increase significantly. If this does not happen, the transformation will be limited to electricity production instead of covering the entire economic system. This would stop short of what is really required. Internally, we will continue to work on our ability to innovate. It is imperative that our ideas be received well by the market. This involves offering innovative products and services at competitive prices. This is the only way for us to grow profitably.

#What makes innogy an attractive investment?

We are a strong dividend stock with growth potential. innogy generates stable and largely predictable earnings and cash flows. A big share of our adjusted EBITDA comes from regulated businesses – around 60 %. This is the basis for an attractive dividend. Furthermore, our geographic focus is on Europe and our home market Germany. In addition, we have a solid capital structure. At the end of 2016, our leverage factor was a healthy 3.7 remaining below the envisaged level of about 4.0. This gives us enough financial flexibility to expand our business, be it in renewables, grids or retail.

#How was fiscal 2016?

Good! We achieved all our financial targets. Adjusted EBITDA totalled €4.2 billion, which was within the forecasted range. Our adjusted net income of around €1.1 billion was perfectly in line with the forecast. The Executive Board and the Supervisory Board will propose to the Annual General Meeting in April that a dividend of €1.60 be paid per share for 2016. This would be at the upper end of our envisaged payout ratio of 70 % to 80 % of adjusted net income.

#What can innogy investors expect?

For starters, stability – and for 2017, even growth. We want to increase our earnings. We expect adjusted EBITDA of about €4.4 billion, adjusted EBIT of about €2.9 billion and adjusted net income of over €1.2 billion. Our dividend policy will remain directed towards economic sustainability and continuity. The goal is a positive development of the dividend over the medium term in line with earnings.

"We are a strong dividend stock with growth potential."

In closing, I would like to say one more thing: innogy is more than an energy utility. Our name reminds us of this every day. We want to raise your enthusiasm. So open your mind, let yourself be convinced and talk to us to find out more.

Best wishes from Essen!

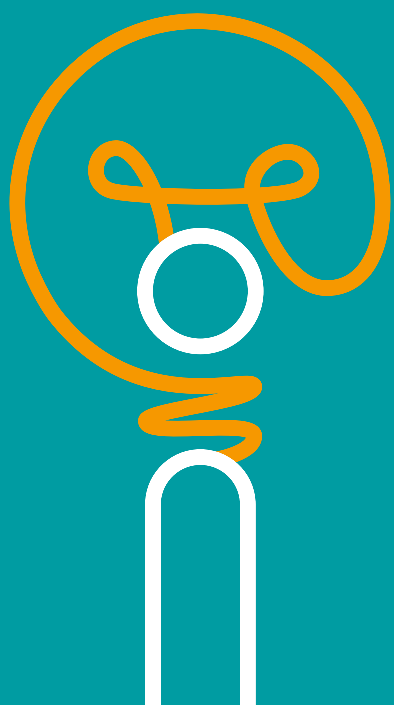
Peter Terium
CEO of innogy SE
March 2017

innogy
is energy.

We are a leading energy company that wants to offer excitement!

We put the customer first, no matter what we do. To accomplish this, we develop sustainable products and services.

We want to improve the quality of life of the people in our markets. That's our goal.



Executive Board

Dr. Hans Bünting, Hildegard Müller, Peter Terium,
Dr. Bernhard Günther, Martin Herrmann, Uwe Tigges
(from left to right)

"We're a trailblazer of change. This is our ambition. Instead of being idle, we set trends."

"We have an entrepreneurial mindset and want to grow profitably."

Peter Terium Chief Executive Officer

Offices:

- Corporate Affairs & Communications
- Innovation & Business Transformation
- Legal & Compliance
- Mergers & Acquisitions
- Strategy & Technology
- NWoW/Applied Excellence

Since 04/2016
Chief Executive Officer (CEO) of innogy SE
07/2012 – 10/2016
CEO of RWE AG
09/2011 – 06/2012
Member of the Executive Board and Deputy Chairman of the Executive Board of RWE AG
10/2009 – 12/2011
CEO of Essent N.V.
04/2009 – 10/2009
Programme Manager, Essent N.V.
04/2008 – 03/2009
Chairman of the Board of Directors of RWE Supply & Trading GmbH
2005 – 2008
Chairman of the Board of Directors of RWE Trading GmbH
Until 11/2007 also Chief Financial Officer and member of the Group Business Committee up to its termination
2004 – 2005
Member of the Executive Board of RWE Umwelt AG
2003 – 2005
Head of Group Controlling of RWE AG
1990 – 2002
Various positions at Schmalbach-Lubeca AG:
Plant Controller, PET Containers Germany,
Head of Controlling, White Cap Germany
and Product Group Controller, White Cap Europe,
Vice President Finance and Accounting, White Cap Europe and Asia,
Vice President Finance and Accounting, PET Containers Europe and Asia
1985 – 1990
Audit Supervisor, KPMG
1984 – 1985
Independent auditor of the Dutch Ministry of Finance
1981 – 1983
Rijksoverheids Academie (ROA), Utrecht
Trainee tax auditor in the Tax Department of the Dutch Ministry of Finance
1981 – 1989
Trainee to become auditor at Nederlands Institut voor Registeraccountants in Amsterdam
Born on 26 September 1963

Dr. Bernhard Günther Chief Financial Officer

Offices:

- Accounting & Tax
- Controlling & Risk
- Finance
- Investor Relations
- Information Technology
- Internal Audit
- Performance Management Corporate Services

Since 04/2016
Chief Financial Officer (CFO) of innogy SE
01/2013 – 10/2016
CFO of RWE AG
07/2012 – 10/2016
Member of the Executive Board of RWE AG
04/2008 – 10/2012
Managing Director and CFO of RWE Supply & Trading GmbH
11/2007 – 03/2008
Managing Director and CFO of RWE Trading GmbH
01/2007 – 03/2008
Managing Director and CFO of RWE Gas Midstream GmbH
2005 – 2006
Head of Group Controlling, RWE AG
2001 – 2005
Head of Corporate Planning and Controlling, RWE Power AG
1999 – 2001
Head of the Group Controlling Department, RWE AG
1995 – 1998
PhD in economics from the University of St. Gallen
1993 – 1998
Management Consultant, McKinsey & Company
Until 1992
Studied economics at the Universities of St. Gallen and Oxford
Born on 8 January 1967

"Everything revolves around our goals and people."

Uwe Tigges

Chief Human Resources Officer and Labour Director

Offices:
- Health, Safety and Environment
- Diversity Office
- Corporate Procurement
- HR & Executive Management
- Group Security
- Infrastructure
- Labour Law
- Tariff/Works Council Relationship

Since 02/2017
Chief Human Resources Officer and Labour Director of innogy SE

Since 04/2016
Chief Human Resources Officer of innogy SE

Since 04/2013
Labour Director of RWE AG (until 30 April 2017)

Since 01/2013
Chief Human Resources Officer of RWE AG (until 30 April 2017)

2010 – 2012
Chairman of the RWE Group Works Council

2004 – 2012
Chairman of the European Works Council of RWE AG

1994 – 2012
Exempt works council member:
VEW Energie AG
RWE Plus AG
RWE Westfalen Weser Ems AG
RWE Vertrieb AG

1984 – 1994
Various IT positions:
VEW AG
VEW Energie AG

1990 – 1992
Course of study culminating in a Master of Technical Business Administration

1984 – 1987
Master electrician apprenticeship programme, specialising in communications technology

1977 – 1984
Telecommunications technician/electrician (apprenticeship until 1981), Standard Elektrik Lorenz AG

Education
Technical college entrance qualification

Born on 29 April 1960

> "Creating a sustainable energy system will make the world a better place for us and future generations."

Dr. Hans Bünting

Chief Operating Officer Renewables

Since 04/2016
Chief Operating Officer Renewables of innogy SE

07/2012 – 03/2016
Chief Executive Officer, RWE Innogy GmbH

02/2008 – 07/2012
Chief Financial Officer, RWE Innogy GmbH

2004 – 2008
Head of Risk Management, RWE AG

2000 – 2004
Head of Finance & Risk Control, RWE Trading GmbH

1998 – 2000
Various senior management positions in Controlling and Risk Controlling, RWE Energie AG

1995 – 1998
Controller, RWE Energie AG

1990 – 1995
PhD and Research Associate at Ruhr-Universität Bochum

1983 – 1990
Studied economics at Ruhr-Universität Bochum

Born on 22 October 1964

“We think and act quickly. We want to achieve a leading position in our market through radical innovations.”

"We want to inspire people with solutions that make their lives easier. And that's exactly what we will do."

Hildegard Müller

Chief Operating Officer Grid & Infrastructure

Since 05/2016
Chief Operating Officer Grid & Infrastructure of innogy SE
10/2008 – 01/2016
Chairwoman of the General Executive Board, Bundesverband der Energie- und Wasserwirtschaft (BDEW – German Association of Energy and Water Industries)

2005 – 2008
Minister of State under the German Chancellor, responsible for federal/state co-ordination of the German federal government and for reducing bureaucracy
2002 – 2008
Member of the German Parliament
1995 – 2008
Various positions at Dresdner Bank AG, exiting as Director of Department (position dormant as of 11/2005)

1989 – 1994
Studied business management at Heinrich-Heine-Universität Düsseldorf
1987 – 1989
Bank clerk training programme, Dresdner Bank AG
Born on 29 June 1967

Martin Herrmann

Chief Operating Officer Retail

Since 04/2016
Chief Operating Officer Retail of innogy SE
10/2015 – 03/2016
Chief Executive Officer (CEO), RWE Retail
Since 10/2012
CEO, innogy Česká republika a.s. (operating as RWE Česká republika, a.s. until 30 September 2016)
01/2011 – 10/2016
Chairman of the Executive Board of Directors and CEO, RWE East, s.r.o.
2007 – 09/2013
Chairman of the Board and CEO, RWE Transgas, a.s. (operating as RWE Supply & Trading CZ, a.s. since 1 January 2013)

2005 – 2007
Deputy Chairman of the Executive Board and Chief Financial Officer (CFO), RWE Transgas, a.s.
2004 – 2005
Managing Director Finance, RWE Energy Czech Republic, s.r.o.
2002 – 2005
Member of the Executive Board and CFO, Transgas, a.s.
2001 – 2002
Head of the Industry Group Utilities, Commerzbank AG
2000 – 2002
Project Manager M&A, Commerzbank AG
1995 – 1999
Head of the Investment Banking Department Prague, Commerzbank AG

1994
Project Manager Relationship Management Central & Eastern Europe, Commerzbank AG
1993 – 1994
Trainee Relationship Management Central & Eastern Europe, Commerzbank AG
1988 – 1993
Studied economics at the Westfälische Wilhelms-Universität Münster
1986 – 1988
Bank clerk training programme, Dresdner Bank AG
Born on 3 July 1967

Supervisory Board report

"We look back on an eventful year and I look forward to being a wayfarer as the company continues to evolve."

Werner Brandt

Dear Shareholders,
Ladies and Gentlemen,

The past fiscal year was a period of construction for innogy: in just ten months, we created innogy, an operationally independent, listed company. The foundation was set back in December 2015. All steps since then – from its naming and renaming to the IPO – were taken in 2016. For us as the Supervisory Board, last year was both exciting and challenging, a time during which we assisted the Executive Board by providing advice and intensive support through the various phases. The Supervisory Board was directly involved in making all the decisions that were of fundamental importance to the company. The basis for this were the in-depth written and oral reports of the Executive Board.

At the beginning of 2016, the company was called RWE Downstream AG, a newly established enterprise which was transformed into RWE International SE on 11 March 2016. Therefore, the first half of the fiscal year was characterised by the construction of the company, which began business as of 1 April 2016. However, it did not assume its present shape until the middle of the year. During the restructuring phase, the Supervisory Board consisted of three members, who focussed on appointing the Executive Board and delivering a number of post-foundation reports on transactions involving the transfer of investments and other assets from RWE Group companies to the company which was later renamed innogy SE. The value of the assets contributed in all post-foundation transactions was explained and confirmed by an independent, court-appointed post-foundation auditor.

At the General Meeting on 23 June 2016, the Supervisory Board of the company, which was still named RWE International SE at the time, was newly elected. The Supervisory Board held a new constituent meeting on 1 July 2016.

Until 1 September 2016, the Supervisory Board of innogy SE consisted of three members. Per a resolution passed by the Annual General Meeting on 11 August 2016, the Articles of Incorporation were amended to stipulate that the Supervisory Board is composed of 20 members. At the same Annual General Meeting, elections to the Supervisory Board were held with effect from 1 September 2016, which had become necessary due to the enlargement of the Supervisory Board. This involved the voluntary election of ten employee representatives by the Annual General Meeting.

In the 2016 fiscal year, in all its compositions the Supervisory Board fulfilled all the tasks it is charged with by law and the Articles of Incorporation. In the first half of the year, the Supervisory Board of innogy SE provided assistance in particular in relation to transactions concerning the establishment of the company. Once the company had taken up its operating activities, it advised the Executive Board in managing the company and monitored its measures. Furthermore, it was involved in all of the fundamental decisions. The Executive Board regularly, comprehensively and punctually provided the Supervisory Board with written and oral reports on all material aspects of the development of business. The Supervisory Board was kept abreast of the earnings situation, risks and risk management in an equally thorough manner. Last year, the Supervisory Board convened at six ordinary and two constituent meetings. At five of the sessions, all three of the Supervisory Board members were in attendance, and three meetings were attended by 19 members. During the year under review, none of the Supervisory Board members were present at only half or fewer of the meetings of the Supervisory Board or of its committees during their tenure. The table below is a breakdown of attendance by member.

Attendance at meetings in fiscal 2016 by Supervisory Board member[1]	Supervisory Board	Executive Committee	Audit Committee	Personnel Affairs Committee	IPO Committee
Dr. Jens Hüffer, Chairman (until 30 Jun 2016)	3/3				
Dr. Michael Müller, Deputy Chairman (until 30 Jun 2016)	3/3				
Dr. Werner Brandt, Chairman (since 1 Jul 2016)	5/5	1/1		1/1	2/2
Frank Bsirske, Deputy Chairman (since 1 Jul 2016)	5/5	0/1		1/1	2/2
Reiner Böhle (since 1 Sep 2016)	3/3			1/1	
Ulrich Grillo (since 1 Sep 2016)	3/3	0/1			2/2
Arno Hahn (since 1 Sep 2016)	3/3		1/1		
Maria van der Hoeven (since 1 Sep 2016)	2/3				
Michael Kleinemeier (since 1 Sep 2016)	2/3			1/1	
Martina Koederitz (since 1 Sep 2016)	3/3				
Dr. Markus Krebber (since 1 Sep 2016)	3/3	1/1	1/1		2/2
Hans Peter Lafos (since 1 Sep 2016)	2/3				2/2
Robert Leyland (since 1 Sep 2016)	3/3	1/1			2/2
Meike Neuhaus (since 1 Sep 2016)	3/3				
Dr. Rolf Pohlig (since 1 Sep 2016)	3/3	1/1	1/1		2/2
René Pöhls (since 1 Sep 2016)	3/3		1/1	1/1	
Pascal van Rijsewijk (since 1 Sep 2016)	3/3	1/1			2/2
Gabriele Sassenberg (since 1 Sep 2016)	3/3		1/1		
Dr. Dieter Steinkamp (since 1 Sep 2016)	3/3				
Marc Tüngler (since 1 Jul 2016)	5/5			1/1	
Šárka Vojíková (since 1 Sep 2016)	3/3				
Otger Wewers (until 30 Jun 2016)	3/3				
Deborah Wilkens (since 1 Sep 2016)	3/3		1/1		2/2

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

As Supervisory Board members, we took our decisions on the basis of comprehensive reports and draft resolutions submitted by the Executive Board. The Supervisory Board had ample opportunity to concern itself with the Executive Board's reports and draft resolutions in its plenary sessions and in the Supervisory Board committees. We were also informed extensively by the Executive Board of projects and transactions of special importance or urgency between meetings. We passed the resolutions required of us by law or the Articles of Incorporation. Where necessary, we also did so by circular resolution. As Chairman of the Supervisory Board, I was constantly in touch with the Chairman of the Executive Board in order to discuss events of material significance to the Group's situation and development without delay.

Main points of debate. As set out above, the presentation of the post-foundation reports on transactions within the scope of the legal restructuring and the subsequent IPO of innogy SE were our main points of debate. The Supervisory Board set up an IPO committee at its meeting on 1 September 2016. In exercising its authority, this committee passed resolutions in place of the Supervisory Board on various issues that had to be decided upon in relation to the capital increase for the purpose of conducting the IPO of innogy SE and for which the Supervisory Board bore general responsibility. These primarily included the approval of the establishment and narrowing of the price range for the share issuance and the determination of the final placement price. In addition, resolutions were passed on the size of the capital increase in the run-up to the IPO and the ensuing amendment to the Articles of Incorporation as well as on the principles of the allocation of the shares in innogy. In the October session, we received an update on regulatory developments; furthermore, the Executive Board informed us in detail of the changes in energy policy. Moreover, we received a running commentary on the development of operating activities in the company's divisions.

At our session on 16 December 2016, we reviewed in depth with the Executive Board's planning for fiscal 2017 and the forecasts for the two following years and adopted them. We received detailed commentary from the Executive Board on deviations from plans and goals established previously.

Conflicts of interest. The members of the Supervisory Board are obliged to immediately disclose any conflicts of interest they have. No such notifications were made in the year under review.

Corporate Governance. The Supervisory Board concerned itself with adhering to the regulations of the German Corporate Governance Code in 2016. The Executive and Supervisory Boards prepared a corporate governance report, which was published on innogy's website at **www.innogy.com/corporate-governance.** On 1 September 2016, the Supervisory Board passed a resolution to follow all the recommendations of the version of the German Corporate Governance Code valid at the time after innogy was listed and agreed to the inclusion of the corresponding statements in the prospectus. In the session on 16 December 2016, it issued a statement to this effect, which can be found on the same Internet page. innogy complies with the recommendations of the version of the Code dated 5 May 2015.

Committees. The Supervisory Board formed six committees on 1 September 2016. Their members are listed on page 199. These committees are charged with preparing topics and resolutions for Supervisory Board meetings. In certain cases, they exercise decision-making powers conferred on them by the Supervisory Board. The committee chairs regularly informed the Supervisory Board of their work.

The **Executive Committee** met once in the 2016 fiscal year. Among other things, it did preparatory work for the Supervisory Board debates regarding the planning for the fiscal years from 2017 onwards and the forecast through to 2019.

The **Audit Committee** convened once in the year under review. It concerned itself with the interim report for the period from January to September 2016 and discussed it with the Executive Board before its publication. The independent auditors attended the meeting and reported on their audit-like review. Furthermore, the committee dealt with compliance issues and received information on the Group's legal risk exposure. The Audit Committee was also briefed on cyber security and the results of the goodwill impairment test in accordance with International Accounting Standard (IAS) 36. Moreover, the Audit Committee approved the innogy Independence Policy for working with the independent auditor and its recommendation to the Supervisory Board regarding the focal points of the audit of innogy's consolidated financial statements for the financial year ending on 31 December 2016. At the Audit

Committee's meetings, the heads of the Group functions were available for reports and questions on individual points.

The **Personnel Affairs Committee** held one meeting in 2016. In the company's year of establishment, the Supervisory Board's work focussed on determining the details of the new compensation system and implementing the new Long-Term Incentive Plan for the members of the company's Executive Board.

The **Nomination Committee** and the **Strategy Committee** did not convene in the year being reviewed.

The **IPO Committee** was in session twice, in particular to discuss the issues mentioned earlier.

Changes in personnel on the Executive and Supervisory Boards. At the Supervisory Board's constituent meeting on 25 February 2016, Dr. Jens Hüffer was elected Chairman of the Supervisory Board and Dr. Michael Müller was elected his Deputy in the three-headed corporate body. Dr. Jens Hüffer, Dr. Michael Müller and Otger Wewers vacated their seats on the Supervisory Board as of the end of the day on 30 June 2016. Frank Bsirske, Marc Tüngler and I were elected to the corporate body at the Annual General Meeting on 23 June 2016. At the Supervisory Board's constituent meeting on 1 July 2016, I was elected Chairman of the Supervisory Board and Frank Bsirske was elected my Deputy. When the Supervisory Board was enlarged from three to 20 members, at the Annual General Meeting on 11 August 2016, at the suggestion of the shareholder representatives and with effect from 1 September 2016, Ulrich Grillo, Maria van der Hoeven, Michael Kleinemeier, Martina Koederitz, Dr. Markus Krebber, Dr. Rolf Pohlig, Dr. Dieter Steinkamp and Deborah Wilkens were elected to the Supervisory Board of the company, which did not yet have co-determination at that time. At the suggestion of labour representation, Reiner Böhle, Arno Hahn, Hans Peter Lafos, Robert Leyland, Meike Neuhaus, René Pöhls, Pascal van Rijsewijk, Gabriele Sassenberg and Šárka Vojíková were elected to the corporate body by the Annual General Meeting. The Supervisory Board formed and staffed its committees in its session on 1 September 2016. In accordance with the SE Directive and the German Stock Corporation Act, Dr. Rolf Pohlig was appointed the Member of the Supervisory Board and the Audit Committee with significant expertise in accounting and financial statement audits.

Katja van Doren, Dr. Claudia Mayfeld and Dr. Stephan Lowis vacated their seats on the Supervisory Board as of the end of the day on 31 March 2016. Dr. Hans Bünting, Dr. Bernhard Günther, Martin Herrmann, Peter Terium and Uwe Tigges were appointed to the Executive Board with effect from 1 April 2016. Peter Terium was appointed Chairman and CEO as of the same point in time. Hildegard Müller was appointed to the Executive Board with effect from 1 May 2016.

The Supervisory Board extends its gratitude to the exiting members of the Executive and Supervisory Boards for their committed and constructive work for the benefit of the company.

Financial Statements for fiscal 2016. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) (since 1 March 2017: PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft) scrutinised and issued an unqualified auditor's opinion on the 2016 financial statements of innogy SE, which were prepared by the Executive Board in compliance with the German Commercial Code, the financial statements of the Group, which were prepared in compliance with International Financial Reporting Standards (IFRS) pursuant to Section 315a of the German Commercial Code, the combined review of operations for innogy SE and the Group, and the accounts. In addition, PwC found that the Executive Board had established an appropriate early risk detection system. PwC was elected independent auditor by the Annual General Meeting on 15 June 2016 and commissioned by the Supervisory Board to audit the financial statements of innogy SE and the Group.

Documents supporting the annual financial statements, the annual report and the audit reports were submitted to the members of the Supervisory Board in good time. Furthermore, the Executive Board commented on the documents at the Supervisory Board's balance sheet meeting of 7 March 2017. The independent auditors reported at this meeting on the material results of the audit and were available to provide supplementary information. The Audit Committee had previously concerned itself in depth with the financial statements of innogy SE and the Group, as well as audit reports, during its meeting on 7 March 2017, with the auditors present. It had recommended that the Supervisory Board approve the financial statements as well as the appropriation of profits proposed by the Executive Board.

At its meeting on 7 March 2017, the Supervisory Board reviewed the financial statements of innogy SE and the Group, the combined review of operations for innogy SE and the Group, the dependence report for innogy SE, and the Executive Board's proposal regarding the appropriation of distributable profit. No objections were raised as a result of this review. As recommended by the Audit Committee, the Supervisory Board approved the results of the audits of both financial statements and adopted the annual financial statements of innogy SE and the Group. The 2016 annual financial statements are thus adopted. The Supervisory Board concurs with the Executive Board's proposal regarding the appropriation of profits, which envisages paying a dividend of €1.60 per share.

Dependence report for fiscal 2016. RWE Downstream Beteiligungs GmbH, a subsidiary wholly owned by RWE AG, holds a stake of about 76.8% in innogy SE. As there is no control and/or profit- and loss-pooling agreement between the companies, the Executive Board of innogy SE prepared a report on the company's relations to affiliates ('dependence report') for the period from 1 October 2016 to 31 December 2016 in accordance with Section 312 of the German Stock Corporation Act. The dependence report was audited by the independent auditor appointed by the company. The independent auditor did not raise any objections and issued the following statement in accordance with Section 313 of the German Stock Corporation Act: "In line with the audit award, we audited the report of the Executive Board in accordance with Section 312 of the German Stock Corporation Act for the reporting period from 1 October to 31 December 2016. As there are no objections to the final outcome of our audit, we hereby issue the following audit certification in accordance with Section 313, Paragraph 3, Sentence 1 of the German Stock Corporation Act: Based on our dutiful audit and assessment, we confirm that 1) the statements actually made in the report are correct, 2) that the company's consideration for the legal transactions mentioned in the report was not unduly high, 3) that the measures mentioned in the report do not speak in favour of an assessment that differs materially from that of the Executive Board."

The dependence report and the audit report of the independent auditors were submitted to the Audit Committee and the Supervisory Board and were thoroughly reviewed by these bodies. The review did not lead to any objections. Likewise, the Supervisory Board did not raise any objections against the declarations of the Executive Board concerning the relations to affiliates.

Appreciation of commitment and loyalty. The past fiscal year was characterised by the establishment and IPO of innogy SE. I would like to express my sincere gratitude to all of the employees who were actively and loyally dedicated to the success and future of the company.

On behalf of the Supervisory Board

Dr. Werner Brandt
Chairman

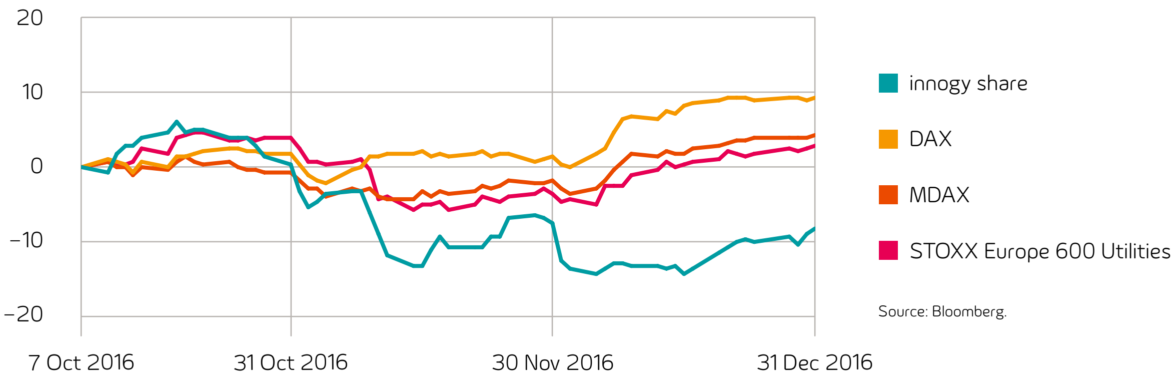
Essen, 7 March 2017

Our share

With the successful initial public offering (IPO) on 7 October and the inclusion in the MDAX in December, innogy passed two milestones in the last fiscal year. We now have our own access to the capital market and are in dialogue with parties in the financial markets. This independence gives us financial room to manoeuvre; it enables us to react faster and be more flexible to changes on the energy market. The key figures of the first listing are respectable: the placement price was €36.00, which was at the upper end of the established price range. The opening quotation on the first day of trading was €37.30, exceeding the placement price. Some 129 million innogy shares were issued within the scope of the IPO. This corresponds to an issue volume of about €4.6 billion. innogy received approximately €2.0 billion in cash from the placement of about 55.6 million shares from a capital increase. RWE generated proceeds of about €2.6 billion from the sale of some 73.4 million innogy shares. Accounting for a stake of approximately 76.8%, RWE is the majority shareholder and holds innogy as a financial investment.

Performance of the innogy share and of the DAX, MDAX and STOXX Europe 600 Utilities indices

Indexed figures, % (daily closing quotations)



Source: Bloomberg.

2016 stock market year characterised by low interest rates and political events. Political upheaval and uncertainty as well as low interest rates dominated developments on stock markets last year, resulting in major fluctuations over the course of 2016. Nevertheless, the DAX and MDAX, Germany's two largest share indices, displayed positive development. The DAX rose by about 7% to 11,481 points during 2016. Germany's second-most important index, the MDAX, developed similarly, closing the year with an all-time high of 22,189 points. This also represents an increase of some 7% compared to the beginning of the year.

The two leading German stock market barometers ended with a gain for the fifth consecutive year. The extremely loose monetary policy pursued by leading central banks proved to be an important stimulus for share prices, with the European Central Bank and the US Federal Reserve leading the way. This policy was one of the main reasons why the DAX and the MDAX displayed very good development in the closing weeks of 2016. That said, the DAX suffered some setbacks over the course of the year. Germany's biggest share index recorded its low for the year in February, when it fell below the 9,000-point mark. It had just stabilised when stock markets became turbulent due to the Brexit vote at the end of June. However, the

German lead index made up for the losses within a month, despite Europe's joint political future being still unclear. As the year progressed, this uncertainty was further fuelled by the discord in the EU over the challenges in relation to the influx of refugees as well as over the need for European governments to implement reforms and the resulting weakness of the economies of certain countries in Southern and Western Europe.

Development of the innogy share. innogy shareholders experienced a gloomy trading period, which lasted slightly less than three months. The share closed December 2016 trading at €33.01 on Xetra, 8% down on the issue price of €36.00. On 18 October, our share price hit its high for the year of €38.25, and its low of €30.82 was recorded on 5 December. At the end of the year under review, innogy's market capitalisation amounted to €18.3 billion. Therefore, innogy was Germany's most valuable energy company at the end of the year.

The development of our share price was mainly determined by macroeconomic influences. Many utility stocks with a high share of regulated business were adversely affected by the rising returns on US treasury bonds and ten-year German government bonds. In the nearly three months from the IPO on 7 October to the end of the year, the yield on federal bonds advanced by 19 basis points. Utilities with a large proportion of regulated business benefited from the low interest rates of the preceding months as they are considered an alternative to fixed-interest bonds due to their low-risk profile. About 60% of innogy's earnings stem from activities that are either fully or partially regulated by the state. The macroeconomic influences were flanked by political uncertainty. In November, the election of Donald Trump as the 45th President of the United States of America gave rise to unrest. The entire utility sector came under pressure on the capital markets. Among the open issues is how Trump will keep his promise to spur economic growth in the USA. Conceivable measures include higher government spending, tax cuts and infrastructure investments. This would drive up inflation, a scenario which many experts assume has already been factored into prices by the US bond market.

Inclusion in the MDAX on 19 December. Only two months after the successful IPO, the innogy share was included in the MDAX. Companies qualify generally based on the market capitalisation of their free float and trading volume. The MDAX encompasses Germany's 50 largest listed companies after the 30 DAX blue chips. At the end of 2016, the innogy share was 46th in the DAX index ranking in terms of trading volume and 49th based on free-float market capitalisation.

innogy stands for attractive dividends.

Dividend proposal for fiscal 2016. innogy pursues a long-term and stable dividend policy that is in line with our company's development and a robust financial structure. Therefore, adjusted net income serves as the basis for the dividend payment. It differs from net income in that it excludes the non-operating result, which is characterised by non-operating or aperiodic one-off or exceptional effects, and certain other special items (see pages 63 et seqq.). We have established a target payout ratio of 70% to 80%.

The Executive Board and the Supervisory Board of innogy SE will propose to the Annual General Meeting on 24 April 2017 that a dividend of €1.60 per dividend-bearing share be paid for fiscal 2016. This corresponds to a payout ratio of about 80% relative to adjusted net income. The dividend yield is approximately 5%, based on the Xetra closing quotation as of 30 December 2016.

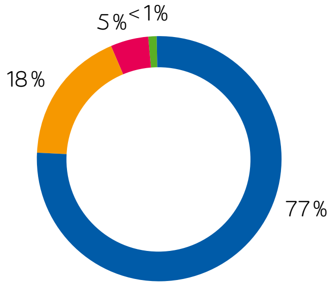
innogy share indicators		2016
Rebased earnings per share[1]	€	2.72
Adjusted net income per share[1]	€	2.02
Cash flows from operating activities per share[1]	€	4.81
Dividend per share[2]	€	1.60
Dividend payment[2]	€ million	888.9
Payout ratio[2]	%	79
Dividend yield[3]	%	4.8
Share price		
End of fiscal year	€	33.01
High	€	38.25
Low	€	30.82
		31 Dec 2016
Market capitalisation	€ billion	18.3
Number of shares outstanding	thousands	555,555

1 In relation to the number of shares outstanding at 31 December 2016.
2 Dividend proposal for innogy SE's 2016 fiscal year, subject to the passing of a resolution by the 24 April 2017 Annual General Meeting.
3 Ratio of the dividend per share to the share price at the end of the fiscal year.

Broad international shareholder base. innogy SE's capital stock is divided into 555,555,000 shares. Through its subsidiary RWE Downstream Beteiligungs GmbH, RWE AG holds a 76.8% stake in innogy, making it the single-largest shareholder. According to available information, the asset management firm BlackRock holds the biggest position outside Germany of just under 5%. The remainder of the free float, approximately 18%, is held by institutional investors and private shareholders in Germany and abroad. Institutional investors in Germany held approximately 79% of the capital stock, with those in North America, the United Kingdom and Ireland accounting for a combined 16% and those in Continental Europe, excluding Germany, owning 4% of the shares. At the end of 2016, less than 1% of the innogy shares were held by private investors.

Shares in innogy are traded under the securities identification numbers A2AADD (WKN) and DE000A2AADD2 (ISIN) on the regulated market ('Prime Standard') of the Frankfurt Stock Exchange and via the electronic trading platform Xetra. They are also available on other exchanges in Germany and abroad as well as over the counter.

innogy's shareholder structure[1]



- RWE AG
- Other institutional investors
- BlackRock
- Private investors

Institutional investors by region:

79% Germany
9% North America
7% United Kingdom/Ireland
4% Continental Europe excluding Germany
1% Other countries

1 Rounded figures; percentages relate to the share in subscribed capital.

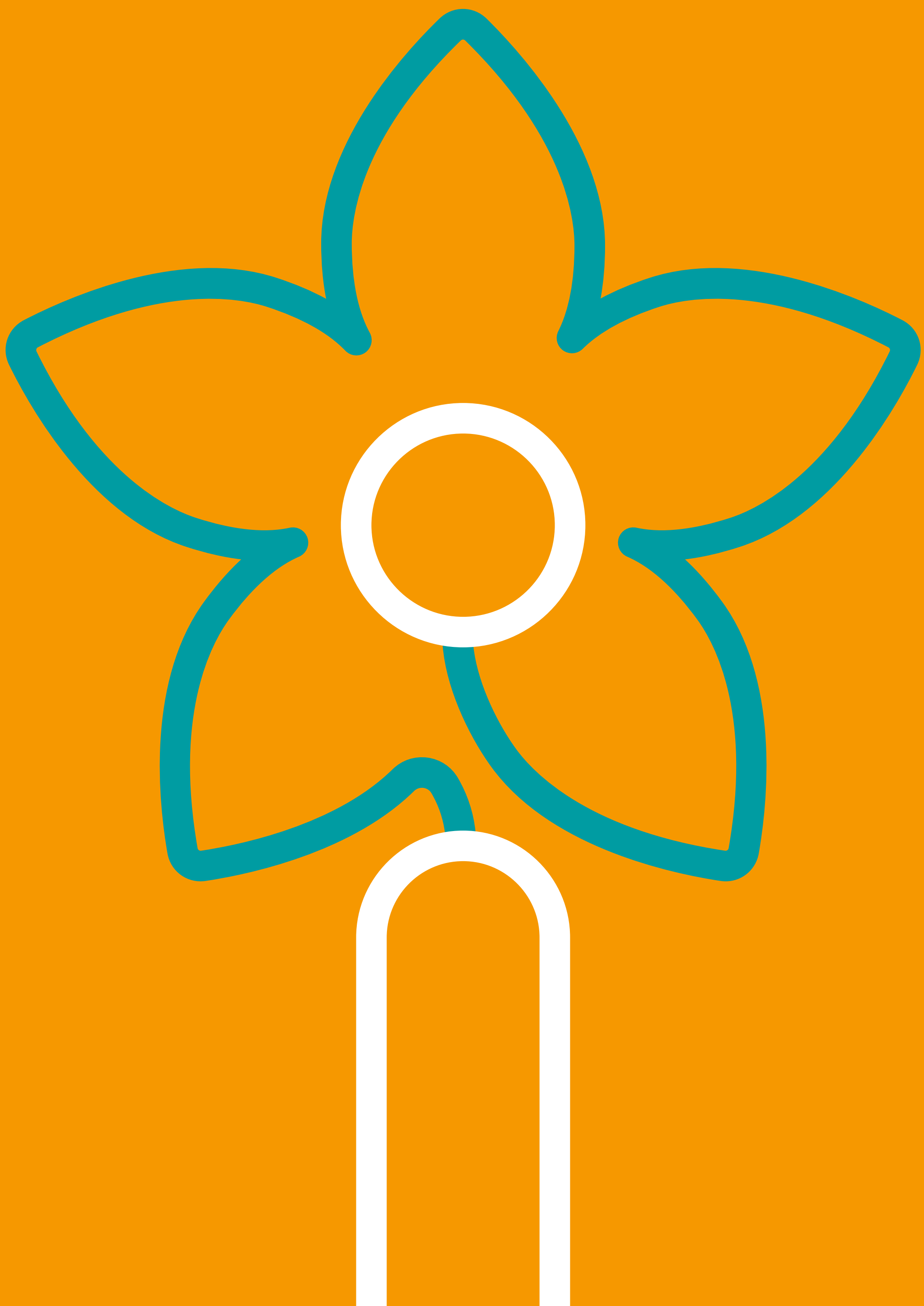
Sources: In-house surveys and notifications in compliance with the German Securities Trading Act; as of December 2016.

innogy – an attractive investment. Why? Our equity story provides the answer to this question. We intend to be a leading provider in tomorrow's energy world. We achieve this ambition by generating our electricity nearly entirely from renewable sources, by technologically refining our electricity and gas distribution network infrastructure, and by offering our customers innovative products and services. The geographical point of focus is Europe and Germany is our largest market. However, we also explore attractive growth markets with stable environments. A large portion of our adjusted EBITDA, approximately 60%, is based on regulated businesses. innogy thus generates stable and largely predictable income and cash flows. They form the basis for an attractive dividend and a robust capital structure. The latter gives us the financial flexibility we need to expand our business. In the next three years, the lion's share of our capital expenditure will be dedicated to our grid business. Moreover, we intend to further expand our renewable generation capacity. Innovation has a key role to help realise our ambition. Our innovation team tracks new trends and works with start-ups and other partners in order to test joint concepts, develop new business models and rapidly launch valuable products (see pages 31 et seqq.).

Ticker symbols of innogy shares	
Reuters: Xetra	IGY.DE
Reuters: Frankfurt Stock Exchange	IGY.F
Bloomberg: Xetra	IGY GY
Bloomberg: Frankfurt Stock Exchange	IGY GR
German Securities Identification Number (WKN)	A2AADD
International Securities Identification Number (ISIN)	DE000A2AADD2

1

Combined review of operations



1.1 Our strategy

The energy market is undergoing fundamental change. The three major trends – decarbonisation, decentralisation and digitisation – are setting the pace and forcing the energy sector to evolve and re-invent itself. innogy wants to seize the opportunities offered by its flexible, forward-looking business model and be a pace-setter of change – by investing in renewable generation capacity, flexible networks and innovative products.

Energy goes innogy. At the end of 2015, RWE AG decided to pool the Renewables, Grid and Supply divisions in a subsidiary and conduct an inital public offering (IPO) for it. This created innogy SE, which initially began operating as 'RWE International SE' on 1 April 2016. Held by RWE AG as a financial investment, with its Renewables, Grid & Infrastructure and Retail divisions, innogy is focussing on designing a sustainable and more decentralised energy landscape. This will enable innogy to concentrate its activities even more on the requirements of the various markets and develop offerings that better satisfy customer needs. With our products, intelligent solutions and services as well as ideas, we are shaping the transformation of the energy world and consider ourselves the blueprint of a modern, European energy company.

Thanks to its IPO on 7 October 2016, innogy immediately became Germany's largest energy company based on market capitalisation. As a listed company, we enter into direct dialogue with parties on the capital market and make use of the financial agility this has given us in order to transform changes on the energy market into value-creating strategies for our customers, investors and employees both faster and in a more flexible way.

Sustainable change of the energy system. In recent years, the entire energy sector has rethought the role of energy utilities and the management of energy systems. This has triggered a fundamental transformation of the energy system, not just in Germany, but throughout Europe. The pace-setters are the three major trends: decarbonisation, decentralisation and digitisation. More and more households and operations have become 'prosumers', producing their own 'green' electricity and feeding the energy that they do not use themselves into the public grid. The progressive expansion of electricity generation above all from solar panels and wind farms, which fluctuates depending on the time of day and the weather, poses a huge challenge to the electricity networks. Here, the network operators' main task is to offset the volatile decentralised feed-ins of electricity from renewable sources and ensure network stability, thus guaranteeing security of supply in general. The key prerequisite for this are new, intelligent technologies. Moreover, in terms of demand, customers increasingly seek to make more efficient use of energy and ask for products that are perfectly suited to their needs in their daily lives and work. We want to play a leading role in shaping the future energy system. In view of the convergence of various fields such as telecommunications, transportation and energy systems, we constantly work on developing business models that go beyond the traditional energy supply business.

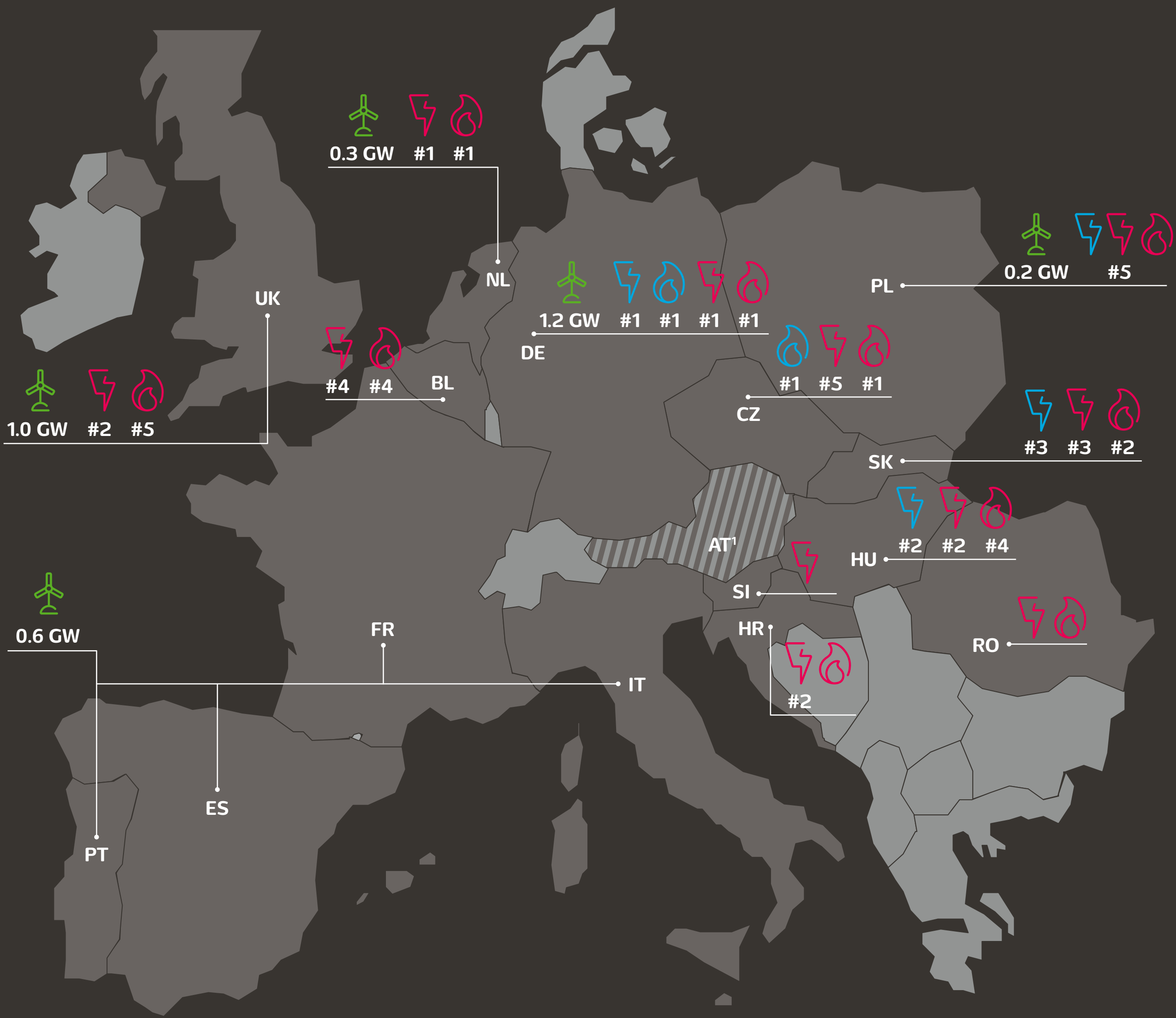
innogy – what we do. With 3.7 gigawatts of renewable generation capacity, we generate enough emissions-free electricity for about three million homes in Europe. We reliably supply some 23 million customers with energy in eleven European countries. The electricity and gas grids operated by innogy extend over approximately 574,000 kilometres throughout Europe. Our major markets are Germany, the United Kingdom, the Netherlands and Belgium as well as Eastern Europe. We are also active outside of these regions, for example in Spain and Italy, where we generate electricity from renewables. On top of this, we supplement our retail activities with innovative solutions and products. To defend our position in this market environment, we are expanding our range of activity far beyond the classical supply of electricity and gas. We are developing new business models for our three divisions by pooling our experience and knowledge in the fields of energy supply and information technology. Our goal is to develop innovative products and solutions that are tailored to individual needs, with which our customers can use energy more efficiently and improve their quality of life.

Leading in many European countries

3.7 GW renewable capacity

574,000 km grid length

5x No. 1 positions



Renewables[2]	Grid & Infrastructure[3]		Retail[4]		Market position
	Electricity	Gas	Electricity	Gas	#

1 Strategic partnership.
2 Capacity in the Renewables division as of 31 December 2016. Excludes 0.4 GW of renewable generation capacity in the Grid & Infrastructure and Retail divisions.
3 Positions in the Grid & Infrastructure division are based on distributed volumes in 2015.
4 Market positions based on volumes sold; for Belgium, Poland and the Czech Republic, based on customer numbers and for the Netherlands, based on market research – all based on the latest information available as of 31 December 2016.
Source: Group data as well as company estimates based on competitor publications, regulatory reports and analyst reports.

innogy – what drives us. Our company's name is a combination of 'innovation', 'energy' and 'technology'. As one of the leading players on the European energy market, we intend to help shape the energy system of the future. We provide energy in a sustainable manner, which is gentle on the environment, both for current and future generations. We aspire to radical innovations and focus on future-oriented solutions tailored to the needs of our customers. We provide answers to the three major trends – decarbonisation, decentralisation and digitisation – that are changing the energy sector around the world, primarily in Europe and Germany:

- **Decarbonisation.** The need for the more responsible handling of our environment and its resources has now been acknowledged by mainstream society. Political interest currently centres around the reduction of carbon dioxide emissions. The energy transition is an expression of the will to give renewable energy priority in electricity generation, predominantly in Germany. Expanding onshore and offshore wind farms as well as photovoltaic stations is the main pillar of zero-carbon electricity generation. In addition, the cost of producing electricity from renewable sources is dropping continuously. Furthermore, on the path to a decarbonised world, transportation and heat generation will increasingly be electric. This is an area where we are already positioning ourselves as a one-stop shop of products and services related to electric vehicles (see page 29) and a provider of customised electric heating solutions.

- **Decentralisation.** To create a sustainable energy landscape, Europe requires a network infrastructure that is better adapted to networking, flexibility and needs orientation. After all, the number of decentralised wind and solar generation assets is rising. This places increasing demands on the flexibility of distribution networks and new technical solutions that ensure network stability and enable energy to be stored. At the same time, consumers are beginning to question their usage patterns more and to change them: How and when can I save energy every day or use self-generated energy more efficiently? The rising energy-consciousness increases demand for entirely new products and services that must be sustainable, personalised and affordable. innogy's business model covers all of the stages of the value chain, from generation via distribution and storage to the efficient use of energy. Therefore, we have the answers to our customers' questions and can offer them products and solutions tailored to their needs.

- **Digitisation.** Our lives are becoming more and more digital. It has become impossible to imagine everyday life without the internet or smartphones. Innovation and cutting-edge technology have always provided the key stimulus for change for both innogy and the entire energy sector. Digitisation also offers us a host of possibilities: it is not just an accelerator of the creation of new products and services, but also a support for the complex management of the entire energy system, from production to use. We consider ourselves a pace-setter of this change and are helping to shape digitisation at various levels. You will find more detailed information in the 'Innovation' chapter (see pages 31 et seqq.).

innogy's divisions mirror the trends of the energy industry. Our three divisions – Renewables, Grid & Infrastructure and Retail – today represent the energy world of tomorrow. We rank among Europe's market leaders in the grid and retail business and have leading positions in renewables. We intend to spend a total of between €6.5 billion and €7.0 billion in capital throughout the Group from 2017 to 2019.

> "innogy is the blueprint of a modern energy company. We are very well positioned to benefit from the decarbonisation, decentralisation and digitisation megatrends."
> Peter Terium

innogy's strategy rests on three pillars: (1) taking advantage of our competitiveness, (2) tapping into new business and (3) creating new options through innovation.

(1) Taking advantage of our competitiveness. Our business model and our good positions on the markets that are important to us enable us to become more competitive and benefit from sustainable growth. To tap this potential, we have defined clear paths that we are charting in each of our three divisions:

Renewables: We are convinced that the future belongs to renewable energy. Our large portfolio of assets – we rank among the world's leading offshore wind companies – is an expression of this conviction. We intend to continue growing in onshore and offshore wind and do so through partnerships where appropriate. We plan to invest between €1.5 billion and €1.7 billion in the Renewables division from 2017 to 2019. All capital expenditures must satisfy clearly defined requirements in terms of profitability. Among our largest wind energy operations are the Nordsee One and Galloper projects, which are scheduled for commissioning at the end of 2017 and the first quarter of 2018, respectively. The Nordsee One wind farm is located north of the East Frisian Isle of Juist and will have a maximum installed generation capacity of 332 megawatts (MW) (innogy share: 15% = 50 MW). The Galloper wind farm, with a maximum installed generation capacity of 336 MW, is being built off the coast of Suffolk (United Kingdom) (innogy share: 25% = 84 MW). Wind farms accounting for a total of 300 MW (based on prorated capacity) are under construction. Furthermore, innogy will participate, among other things, in the 2017 auctions with the Kaskasi and Triton Knoll offshore wind projects, which are located off Helgoland (Germany) and off the coast of Lincolnshire (United Kingdom), respectively.

Grid & Infrastructure: We are the biggest operator of electricity distribution networks in Germany and feature among the leading operators of electricity and gas distribution networks in several Eastern European countries. Our prime objective is to reliably supply our network customers with electricity and gas. This is why we are driving the development and expansion of grids: we have earmarked about €4.1 billion to €4.4 billion in capital expenditure for our grids and infrastructure from 2017 to 2019. This will enable the integration of further decentralised electricity generation capacity and make our grids more 'intelligent'. Since January 2017, a large consortium has been working hard on this very issue, e.g. under innogy's lead within the scope of the 'Designetz' project (see page 35 for details). In addition to numerous other projects, innogy and Deutsche Telekom have joined forces to drive the broadband expansion demanded by the German government by 2018 (see page 49).

Retail: In this division, we supply some 23 million customers with energy in eleven countries. We rank among the major providers in most of these markets. We want to defend this position by retaining existing customers and further developing our customer base. We want to invest about €0.7 billion to €0.8 billion in the retail business from 2017 to 2019. We offer our customers innovative products and tailor-made solutions. Examples of this strategy are the first nationwide annual electricity flat rate introduced in Germany in 2016, which rules out unexpected back payments, and the SmartHome home automation solution successfully introduced in 2011. SmartHome enables a large number of electronic devices such as intelligent radiator thermostats, door locks and lights in one's home to be networked and controlled centrally using a smartphone or tablet – either when at home or on the road. We want to leverage the sales potential of additional products and services outside the electricity and gas retail business in our markets. We intend to step up our business activity in Eastern Europe by selling electricity where we already provide gas and vice-versa. The restructuring of the UK business is on schedule.

(2) Tapping into new business. We intend to expand our activities, extend our value chain and increase our reach. To this end, we are developing new geographical markets and business fields while using new technologies.

Renewables: We plan to venture into new regions and technologies such as the construction of large-scale photovoltaic installations and have already made good progress: at the beginning of 2017, we acquired the international solar and battery specialist Belectric (see page 49), positioning ourselves as an international supplier of ground-mounted solar panel arrays and battery storage facilities. These technologies – in combination with our skills and experience as a developer, builder, owner and operator of large-scale solar panel arrays – are making a major contribution to creating the decentralised renewable energy system of the future. In addition, we monitor new markets as we seek to develop and implement further profitable growth projects. For instance, we are currently analysing and evaluating the Irish and US markets with a view to expanding our wind power activities. Belectric's regional focus regarding ground-mounted solar panel arrays is on Europe, the Middle East and North Africa as well as on India, South America and the USA.

Grid & Infrastructure: We are only active at the distribution system level of the grid business. The returns we earn tend to fluctuate slightly, because the regulatory framework in this area is usually established for several years. Therefore, the income generated from this business makes a valuable contribution to stabilising our consolidated earnings. However, mounting competition for concessions is a challenge in Germany. In most cases, concession agreements are required to operate grids in Germany. In these contracts, the municipality in charge gives the network company the right to use public transportation routes in its area to lay and operate power lines and gas pipelines. By the end of 2016, we owned about 3,000 electricity and 800 gas network concessions with an average term of 15 to 20 years. We seek to conclude new concession agreements whenever concessions expire. Furthermore, we participate in tender processes for new grid concessions in Germany. In this area, we increasingly compete against other companies and municipalities, as more and more cities and communities want to be involved in the distribution system business. We counter this trend with attractive participation models that are tailored to the municipalities. We operate distribution systems outside Germany (electricity/gas), in the Czech Republic (gas), Hungary (electricity), Poland (electricity) and Slovakia (electricity). Besides expanding our activities in existing markets, we will also explore opportunities for growth in other select regions and markets. In line with this strategy, we further expanded our international distribution network in February 2017 and signed a contract to acquire a 75% stake in the gas utility of the Croatian town of Koprivnica. This extended our gas network by about 450 kilometres.

Retail: In this division, we intend to seize opportunities to further expand our existing business and to venture into new regions through organic growth or minor acquisitions. Proof of the success of this approach is our entry into the Slovenian market last year and the expansion of our retail business in Croatia where we expanded our gas operations as we started to serve residential customers in September 2016. This makes us the only energy provider on the Croatian market to sell electricity and gas to all customer segments. In parallel to regional expansion, we are entering into fields of business that are related to our core business, the sale of electricity and gas. The main area in this context is the development and sale of intelligent energy solutions: products for the self-generation and feed-in of electricity (primarily the use of one's own solar panels and energy storage facilities), for the optimisation of energy usage (e.g. 'shine'; see page 32) and for the control and automation of homes (expansion of our 'SmartHome' offering). Moreover, we want to benefit from changing customer needs in the retail business: by selling additional products and efficient energy solutions tailored to satisfy customer requirements, we plan to retain customers over the long term and tap into new fields of business. Electric vehicles (EVs) are also part of our retail business. We have pooled our activities in this field in a dedicated business unit. As a technology leader, we have been a partner and supplier to the automotive industry for years. This makes innogy not only a pioneer, but also a one-stop shop: from charging infrastructure via the supply of green electricity for EVs through to billing. With over 5,400 charging points, we are already one of the leading providers in Germany and Europe. We are currently driving the expansion of the nationwide charging network together with 130 municipal and regional utilities. Our customers charge their car batteries with solar power coming right from their roofs using wall boxes installed in their garages. By the end of 2017, we intend to have finished setting up approximately 150 fast charging stations for the motorway service operator Tank & Rast.

"Electric vehicles are the ultimate global growth story. And we innogy are already at the forefront."
Peter Terium

(3) Innovation creates options. Society and our industry are changing extremely quickly. The rapid development and implementation of ideas and innovative processes is becoming more important than ever. Therefore, innovation is a key element of innogy's strategy. So far, we have achieved success with 860 patents and patent filings, which have put us in a leading position among Europe's energy companies. In this area, we co-operate with many external partners – start-ups and established companies, research institutes and universities. In so doing, we pool in-house and third-party know-how without tying down too much capital, thus remaining financially flexible.

We support the culture of innovation within the company and drive technology-oriented research and development as well as work on new, digital business models. Crucial to this is not only our close co-operation with young companies (e.g. start-ups) and established companies that aims to share knowledge, jointly test concepts, but also to establish our own start-ups and rapidly launch innovative products. Our network encompasses partnerships with a variety of companies such as Google Nest, AXA and the start-ups Bidgely (**www.bidgely.com**) and Planet OS (**www.planetos.com**; see page 34 et seq.). Innovation projects are constantly underway in all of the Group's divisions. At the same time, innovation teams work on detecting trends and developments early in order to rapidly implement and deliver new products and solutions – if expedient with partners. This is why we are active in many of the world's innovation hotspots, including Berlin, London, Tel Aviv and Silicon Valley. Our teams at these locations also assist us in establishing new business models in markets in which we do not yet rank among the leading providers. You will find further information in the 'Innovation' chapter, starting on page 31.

Moreover, in 2016 we initiated new venture capital activities, on which we plan to spend €130 million during the next ten years. Centre stage in this context are young companies with business models focussing on, e.g. decentralised energy supply, Urban Solutions (concepts for living and working in the cities of the future), Smart & Connected (digitisation of daily life) or customer retention.

innogy continues to drive its cultural change. innogy is an innovative company that is deeply rooted in the energy sector. As the market environment is dynamic, we continue to develop as well. We have the tools, resources and skills to be successful in the energy world of today and tomorrow. This includes our accurate knowledge of customer needs and the regulatory landscape as well as our stringent change management. The measures we are currently taking are diverse, including efficiency improvements, improved customer acquisition and retention, and the development of new business models. We work in agile teams with a customer-oriented approach – with lean hierarchies and short decision-making paths. We laid the foundation for this way of working by setting up our organisational and monitoring model functionally, i.e. along our stages of the value chain: Renewables, Grid & Infrastructure and Retail. This enables us to react in a more flexible way to changes in the market.

innogy stands for sustainability. Our contribution to a sustainable energy system involves our business adhering to the principles of sustainable development. To innogy, consideration of social and ethical standards and fair business practices is just as important and self-evident as respecting natural resources. Therefore, we design all business processes along the value-added chain in a sustainable and environmentally compatible manner. In so doing, innogy demonstrates entrepreneurial farsightedness and assumes responsibility in terms of environmental and climate protection as well as at the societal level.

Energy supply is a long-term business model. It is therefore all the more important that our actions be in line with the expectations of society. To better assess these expectations, we are in constant dialogue with representatives of our stakeholder groups. These are primarily shareholders, employees, customers, politicians, associations, non-government organisations and civic initiatives.

You will find further information on this topic in our Sustainability Report at **www.innogy.com/sustainability_report.**

1.2 Innovation

'innogy' – our name expresses what we stand for: innovation around energy and technology. Our ideas, new business models and projects for engineering new technologies help to shape the transformation of the energy system by developing compelling, creative offerings today to satisfy the needs of customers tomorrow. Many of our new products and solutions are created through the co-operation of the operating units and our development teams. This is how we ensure that fresh ideas enrich our existing core business while maintaining the necessary practical orientation.

Innovation at innogy

innogy is a company that thrives on innovation. Curiosity and open-mindedness are two of our key success factors. One of the main drivers is our ambition to convince our customers with compelling offerings that meet their needs in relation to energy and beyond. The innogy Innovation Hub, an innovation platform that we set up in early 2014, helps reach this goal. It is the hotbed for growing ideas until they turn into valuable business models, innogy products or new companies. Most of the business concepts originate from the hub's branches in Berlin, London, Tel Aviv and Silicon Valley where we work with start-up companies. We assess the technologies that they have already created, after which we collaborate with them and additional partners to develop products and services with which we intend to make the lives of our customers more comfortable and simpler. What counts here is agility and speed – within the scope of pilot projects, ideas and technologies are quickly tested in select customer groups and then brought to market maturity. By the end of 2016, some 130 employees worked in the Innovation Hub. In addition, we launched new venture capital activities last year. We use the venture capital pooled in innogy Ventures to invest in start-ups that give us access to further promising innovations in Europe, Israel and the USA.

Another focal point of our activities in relation to innovation are new technologies: last year, we worked on about 150 research and development (R&D) projects in which we improve existing products and methods and explore future technologies. Our R&D projects usually have medium or long-term horizons and often run for several years including associated pilot tests. Our research and development supports the transformation of the European energy system: we want to contribute to making electricity generation from renewable sources more sustainable, efficient and profitable and the distribution network more intelligent. Furthermore, we want to ensure that our customers have access to convenient solutions to producing electricity as well as using and storing energy. The R&D teams in our three divisions, Renewables, Grid & Infrastructure and Retail ensure that new developments are tailored precisely to satisfy the requirements of the relevant markets and customers. Moreover, a central R&D team works on groupwide research and development issues and processes such as the early detection of trailblazing new technologies and our company's patents.

At innogy, creativity, a passion to innovate, and technical expertise are combined with the extensive experience and entrepreneurial mindset of our employees. Last year, they helped to create new business models and developed numerous good ideas for improving technical processes and workflows in our business areas.

Innovation Hub in 2016

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potential start-ups identified

Innovation Hub: new business models for digital living

Last year, the Innovation Hub worked on five focal topics and associated business models (in brackets):

1. **Smart & Connected:** The objective is to offer residential and commercial customers intelligent and networked solutions relating to their homes and production operations. The buzzwords are energy management (shine) and building automation (bit.B).
2. **Urban Solutions:** This involves the development of infrastructure and mobility concepts for modern urban structures (ucair; innogy eCarSharing).
3. **Machine Economy:** We work on solutions for a future in which machines will increasingly communicate directly with each other (Lemonbeat).
4. **Disruptive Digital:** The business models that we develop in the Innovation Hub should be able to replace the existing business of our own and other branches of industry, similarly to what was accomplished by the e-commerce platform Amazon and the online encyclopaedia Wikipedia. Our example is Fresh Energy.
5. **Big Data:** This is yet another aspect of the work done by the Innovation Hub to improve the entire business. The centrepiece is the linking and use of huge amounts of data (Planet OS, the Silicon Valley start-up with which innogy's R&D department meanwhile is working closely together; see page 34 et seq.).

We present the aforementioned innogy products and start-ups in the following passages.

shine: energy manager for residential electricity producers. 'shine' is the first start-up founded by innogy from within the Innovation Hub. The keystone of the offering is the shine energy manager. It enables customers who operate solar panels to optimise both electricity generation and their personal consumption automatically. All that is needed is a small box with integrated software that is connected to the power meter. By analysing the collected data, the energy manager learns how the customer uses energy, regulates electricity production accordingly, or stores excess energy to heat water or in a battery. The potential harboured by shine is substantial: more than a million solar panel arrays have already been installed on the roofs of German homes, a trend that is rising. The vision of shine is to develop the product to a point where customers can trade energy amongst each other. A first step in this direction is shineConnect Power: people who produce green energy are networked with others, who would like to use the energy. shine optimises the production and consumption of the electricity, both for individuals and in communities. Additional information can be found at **www.shinepowered.com.**

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business models commercialised

ucair: maintenance of solar panel arrays. 'ucair' is the second start-up resulting from the work of the Innovation Hub. It offers corporate and residential customers inspections of photovoltaic units (PV units) and of solar farms. Investigations have shown that 80% of Germany's PV units have faults and could deliver increased yields if they were maintained regularly. ucair uses a nationwide network of drone pilots to conduct inspections in Germany. The pilots create thermographic images of the assets using their drones. The temperature difference identifiable in the images are indicative of damage to the units and even of total failure. The customer receives from ucair a report of the findings and recommendations concerning the maintenance work necessary for a full yield. This type of check-up is much cheaper and faster for the customer than customary types of inspection. Additional information can be found at **www.ucair.de.**

Lemonbeat: communicating without boundaries in the Internet of Things. Lemonbeat is another innogy start-up. It is also the origin of the name of Lemonbeat smart Device Language (LsDL), the new, secure digital transmission protocol which can be likened to a universal language in the Internet of Things (IoT). The IoT is full of devices that exchange data and assist us so inconspicuously in our daily lives and provide us with information around the clock: Where is my parcel? Is my train delayed? What will the weather be like? However, the devices usually talk to each other via a sort of switchboard instead of directly. This is complex, expensive and problematic if the switchboard fails. Thanks to LsDL, enabled devices can communicate with each other directly around the globe, for instance within the SmartHome environment using the necessary chip and software provided by Lemonbeat. Existing customers besides SmartHome providers are manufacturers of home and garden appliances as well as of smart meters. For example, Lemonbeat is used by bit.B (see the next paragraph). For details on the offering, go to **www.lemonbeat.com.**

bit.B: process and energy monitoring for manufacturing operations. ‘bit.B’ has also also started operating. The product comprises hardware and software for monitoring processes and energy consumption in small and medium-sized enterprises, helping them to optimise their production. To this end, a large number of small sensors are mounted in a factory hall, providing data on energy consumption as well as on the environment such as temperature and humidity along with operating data (e.g. engine speed and units) of the machines in real time. This gives companies important pointers for improving production and operations. Additional information can be found at **www.bitb.innogy.com.**

eCarSharing: get in and drive off thanks to tailor-made mobility offerings. We created innogy eCarSharing for municipalities and corporate customers seeking to reduce their vehicle fleet or get rid of it completely, but want to remain flexible and mobile. We supply the electric cars, the software, and full fleet management as a package deal. Monthly tariffs enable customers to book certain time contingents for electric cars online and reserve the appropriate vehicle, which is filled with green electricity from innogy charging stations. innogy’s eCarSharing takes advantage of the ‘sharing economy’ trend: people feel it is increasingly important to be able to use things whenever they need them instead of owning them. There are already proven business models for apartments and overnight accommodations as well as taxi services. We took the concept of sharing one step further and applied it to mobility that is gentler on the environment. We are currently testing our concept in Xanten, where city employees already share three electric cars. We plan to offer car rentals to small business customers and residents there. We launched a second pilot project in Hamminkeln in February 2017. The town administration shares three electric cars during the day and residents and businesses can use the cars for the rest of the time. In addition, they have a fourth electric car at their sole disposal.

Fresh Energy: more transparent electricity consumption and billing. A fresh breeze has been blowing in the electricity market since November 2016: Fresh Energy is a new energy solution by the Innovation Hub, consisting of a smart meter, a smartphone app, and 100% green electricity. When used with Fresh Energy, smart meters go beyond tracking consumption to tell residential customers what they want to know about their electricity usage. The smart meters do this by sending all the data they collect to the Fresh Energy app or the user’s Fresh Energy account at **www.getfresh.energy.** The website presents all consumption data in a manner that is easy to understand, as in mobile phone bills. This shows customers how to optimise their energy patterns and achieve savings. Moreover, they are invoiced monthly only for the electricity they have actually used, without any advance or back-payments. In addition to the smart meter, users receive the matching green electricity tariff from the innogy subsidiary eprimo at permanently fair rates. We intend to offer further features on this basis, e.g. reminders of when appliances have been left switched on. Fresh Energy is a good example of how quickly ideas are put into practice at the Innovation Hub: the business model was only set up in May 2016.

R&D: technical innovation for the energy system of tomorrow

We identify, evaluate, develop and test new technologies, ensuring that we remain competitive even when the market changes: in electricity generation, in network operation, in energy storage and at the interface to the customer, i.e. in energy usage. Most of our R&D projects involve co-operating with external partners – in total more than 180 manufacturers, universities and research institutions. A large number of projects receive subsidies or support from funding programmes. Therefore, the financial volume of our projects significantly exceeds the share attributable to us. In 2016, our operating R&D expenses amounted to €149 million (previous year: €83 million). Many new products and solutions for residential and commercial customers, known as Energy+ products, which are a fixture of innogy's offering today, were born in our R&D departments. Examples are our SmartHome system and our charging stations for electric vehicles. We also safeguard our know-how via patents: with approximately 860 patents and patent filings, which are based on about 280 inventions, we belong to the leading group of European energy companies. In 2016 alone, we filed patent applications for 54 new inventions. A total of 260 of our employees were solely or partially dedicated to R&D activities. The following is a presentation of some important current R&D projects.

R&D in 2016

150 projects

Smart wind turbine monitoring. innogy's 107 onshore wind farms make the company one of Europe's major operators, with 50 in Germany alone. Added to these are six offshore wind farms in the United Kingdom, Germany and Belgium, most of which we operate together with partners. All assets must be maintained regularly in order to ensure their safety and availability, from the foundation to the tips of the turbine blades at heights of up to 200 metres. The plants are monitored with the assistance of condition monitoring systems (CMS). They monitor the condition of each component using a large number of sensors that are attached, e.g. to the drive trains, the rotor blades and the turbines' foundations. This allows for the early detection of damage and the optimisation of both electricity generation and maintenance. Pressures, temperatures and vibrations are measured several times a second, creating huge amounts of data, which has to be structured and subsequently analysed. This is done automatically via simple statistical evaluations, but also via sophisticated, learning algorithms. The medium-term goal is an overall more intelligent operation of the wind farms and, ultimately, a reduction in the cost of building and running the assets.

By co-operating with Planet OS, a young company based in Palo Alto in the Silicon Valley, we intend to take this another step further. Planet OS offers real-time environmental and geographical data (geodata), e.g. weather data from all over the world. The geodata is linked to the information obtained from the wind power plants' sensors in the product called 'Powerboard'. These enormous amounts of data are presented graphically so that they can be viewed at a glance on a monitor. This provides a basis, e.g. for the improved co-ordination of maintenance work: maintenance teams are sent to wind farms, the operation of which – e.g. during an expected phase of high wind levels – is decisive, instead of to the ones that are scheduled for maintenance according to the maintenance plan. Whenever it is very windy, as many turbines should be running as possible. Scheduled maintenance can wait until the next lull. innogy has been a shareholder in Planet OS since last year. Initial experiences gained with Powerboard in use at our Gwynt y Môr wind farm off the coast of Wales – with 160 turbines the largest in innogy's portfolio – convinced us of the benefits of Powerboard and of the value of an investment in Planet OS.

Heliatek – photovoltaics reinvented. innogy is also a strategic investor in Heliatek. Last year, we significantly increased our stake, which we have owned since 2009. Together with Heliatek, we made good inroads on the field trials. Heliatek intends to play a major role in shaping the future of solar. Under the motto 'The Future is Light' the company produces a film that generates electricity from sunlight. HeliaFilm is flexible and thin – but nevertheless sturdy. Furthermore, it is organic and thus spares resources. The film can be laminated between or on top of various materials such as glass and concrete. Thanks to its low weight, it can easily be applied to existing facade structures. The main applications are car roofs and building facades. The film has a good energy yield even on vertical surfaces. We are currently testing HeliaFilm on the fermentation tanks of a biogas plant in Paffendorf in the vicinity of Bergheim in the state of North Rhine-Westphalia. All the electricity produced in this manner is used on site. With this unit, the largest built by Heliatek to date, we are exploring the behaviour of HeliaFilm and, in particular, its energy yield at various temperatures and light conditions, e.g. under overcast skies. HeliaFilm could be used wherever conventional solar modules made of crystalline silicon are impractical due to their weight or shape. Heliatek's vision is of a world in which high-rise buildings and vehicles generate electricity. Through its involvement with Heliatek, innogy has the possibility of helping to shape the market for one of the most exciting innovations in the field of renewable energy.

Designetz – an Energiewende project spearheaded by innogy. Industry, the sciences and municipalities must work closely together in order to make the energy transition a success. This is happening in the Designetz project. It was initiated in January 2017 and is scheduled to last four years. A consortium under the lead of innogy has set itself the goal of developing a sustainable overall concept for integrating renewable energy into the supply system. The crucial question that must be answered in this regard is: How can the large number of decentralised rural generators and the numerous urban power consumers be networked intelligently? Designetz aims not only to develop model solutions for a reliable, economically viable and environmentally compatible supply of energy with a high proportion of fluctuating wind and solar power, but also to test them in expansive field trials. The objective is the interconnection of local solutions to satisfy regional and supra-regional energy supply needs. Among the 45 consortium partners are municipal utilities, renowned research institutions and major industrial enterprises with which innogy is working on 30 sub-projects. Designetz is being rolled out in North Rhine-Westphalia, Rhineland-Palatinate and Saarland, where over a quarter of the German population lives. These states are representative of the German public and thus ideally suited to conducting field trials for the decentralised energy landscape of the future. The German Federal Ministry for Economic Affairs and Energy attaches such high importance to the project that it has provided the project with about €30 million in subsidies.

Electricity from gas. Electricity can also be produced using gas infrastructure – and is carbon neutral to boot. To do this, the gas distribution system – the subterranean pipeline network over which gas is transported over long distances – is to be used until it reaches the customer after having been decelerated incrementally. innogy has developed an innovative patented technology involving the use of a gas expander to take advantage of the necessary pressure reduction in the gas distribution network and geothermal heat to generate electricity. The electricity produced decentrally at various points in this manner is fed into the power grid without the need for any additional expansion. This is because electricity generation using this method is especially high when feed-ins from photovoltaic installations are low: in the autumn and winter months when there is much less sunshine, but gas purchases – and in turn activity in the gas distribution system – are very high. Since May 2016, we have been testing the prototype that we have developed in co-operation with Dortmund Technical University. Potential users of this technology alongside gas utilities are municipal utilities and industrial key accounts with proprietary pipeline networks.

Patents filed for

54

inventions in 2016

Electricity storage in all sizes. The expansion of renewable energy is making it increasingly challenging to provide the electricity generated decentrally by wind power plants and photovoltaic units to customers when they need it, instead of only when the wind is blowing and the sun is shining. One way to strike a balance between supply and demand is to use storage facilities. Small storage units for single-family homes, called home battery storage systems, have been offered by innogy for quite some time. However, we are also conducting research on large-scale battery storage facilities. Last year, we tested a mobile battery storage unit in Wettringen in Münsterland. It is as big as a shipping container and can accommodate a megawatt hour of energy from private photovoltaic installations, roughly corresponding to the daily energy consumption of 250 single-person households, and feed it into the grid in the region of origin whenever the need arises. Based on the test results, it is likely that such mobile storage units can be used in rural areas in the medium term in place of conventional network expansion or as a stopgap until the network is expanded. Operating a battery storage unit is still difficult for network operators, given the current legal and regulatory framework. This is why the project also entails developing possible operator models.

NILM: development of an energy management system for industrial and commercial customers. What in-company processes cause the highest electricity costs? Are the plants running as they should or is a production outage imminent? New data analysis methods enable one to answer such questions. The objective of our NILM project is to develop an energy management system for industrial and commercial customers that breaks electricity usage down to individual devices and assets within a company in real time so that consumption can be analysed immediately. NILM stands for non-intrusive load monitoring, which means that no connection to the power consuming devices is necessary. The standout feature of NILM is that only one measurement point is used (usually at the central meter) and there is no longer a need to conduct measurements in other rooms or on other devices. The detection of the electricity usage of each device is handled by the NILM algorithm, a software designed for this specific purpose. NILM is based on the concept that nearly all assets and devices leave a 'fingerprint' of their typical electricity and voltage patterns in the network. The savings potential resulting from operational optimisation through NILM is estimated to be a maximum of 10% in the commercial sector. At the same time, irregular measurement values enable the identification of damage or wear and tear, allowing customers to order repairs in good time and prevent costly production downtime. We are working on NILM in a team of partners from industry and the sciences. The project, which is supported by the German Federal Ministry for Economic Affairs and Energy, is designed to run for two years. We have been doing measurements on the electrical systems of select commercial and industrial customers as part of a field trial since November 2016. NILM may open the door to new promising products and services that innogy can offer to commercial and industrial customers.

860

patents and patent filings!
Puts us among the top European utilities.

DELTA: safe electric mobility. Policymakers and industry agree that the future belongs to electric vehicles. One of the preconditions for this is that they are comfortable and safe. The project has a rather clumsy name: 'Data Security and Data Integrity of Electric Vehicle Charging and Calibration Law-Compliant Billing', which in German is abbreviated to DELTA, and aims to accelerate the roll out of electric vehicles. The project aims to provide drivers of electric vehicles with end-to-end data protection and data security for all measuring and billing processes. The background to this is that electric vehicles exchange data during certain transactions, e.g. when charging and during the digital billing for the charge. Usage fee billing and communication between electric vehicles and charging infrastructure have been regulated by International Standards Organisation (ISO) Standard 15118 since 2013. However, further players are involved in the process and value chain of electric vehicles, such as network operators, fleet managers and vehicle manufacturers. They provide value-added services, e.g. online registration, charging station bookings, and map services such as route planning including the public transport system. This is an area in which communication has not yet been standardised and is precisely what DELTA experts from industry, research institutes and universities are working on in a consortium led by innogy. The objective is to develop recommendations for action for product manufacturers, infrastructure and service providers and standardisation committes based on the demands placed on economically feasible, practicable data and consumer protection. In addition, prototypes are subjected to tests to validate the practicality of the concepts and infrastructure components developed by DELTA.

Learn more about innovation and technology at innogy here:
www.innogy.com/innovation

Employee ideas

innogy has called on all employees to submit all their ideas relating to new business models to the internal idea laboratory (IdeaLab), to comment on the ideas of others and to refine them. By the end of December 2016, nearly 250 ideas had been entered, 25 of which were rated 'hot'. These ideas are reviewed by experts in depth and refined in projects if they are considered promising. One example is an idea some of our colleagues at our Dutch subsidiary Essent came up with for the local market and that is 'hot' for two reasons. It is called 'Kamin 2.0' and is a complete solution for cosiness at home. The offer consists of a modern fireplace including installation and maintenance as well as regular supplies of Essent wood pellets neatly packed in film bags for a monthly flat rate. The benefits are lower costs compared to gas furnaces, ease of use and the cosy crackling of a fireplace. In the Netherlands, wood pellet heating is subsidised, providing an additional cost reduction for customers.

Staff members can also submit suggestions to improve existing products and services and suggestions concerning technological innovations to the innogy idea management department. One suggestion came from employees of innogy Gas Storage NWE, which operates five large-scale subterranean gas storage facilities for gas traders, gas utilities and industrial customers in northwestern Europe. Electricity demand and costs are particularly high when introducing the gas into our storage facilities, as this involves our compressors, which force the gas into the cavities of the storage facilities like air pumps, running at full tilt. The employees found a way to reduce these electricity costs: they filed an application for what is termed 'atypical electricity usage' with the electricity network operators. At all gas storage sites, the compressors now primarily run at night, when network fees are up to 80% lower. This enabled us to save about €850,000 last year alone.

1.3 Economic environment

Economic stimulus, the slightly colder weather compared to 2015, and further reductions in wholesale electricity and gas prices spurred energy consumption in Europe last year. Our retail business benefited from this, but the low wholesale prices had a negative effect on our power generation from renewables. In addition, we made less use of our wind farms than in the previous year because overall wind levels were below average.

Eurozone economic output up 1.7%. Based on initial estimates, world economic output increased by about 2.5% in 2016 compared to the previous year. Growth in the Eurozone was slightly weaker: it is estimated to have amounted to 1.7%. In Germany, the currency area's largest economy, gross domestic product (GDP) probably rose by 2%. Robust consumer and increased government spending were the economy's drivers. The Netherlands recorded similar growth, with Belgium close behind. Based on current data, the United Kingdom, our largest market outside of the currency area, also posted a gain of 2%, which was largely attributable to the expanding service sector. However, the country's economy was slightly curtailed by the referendum in favour of leaving the EU. The positive development in our key Central European markets witnessed in the previous year appears to have continued. Available data shows that GDP was up by 2.5% in both the Czech Republic and Poland and 2% higher in Hungary. Slovakia may actually have achieved 3.5% growth.

Weather slightly colder than in 2015. Whereas demand for energy among industrial enterprises is primarily affected by the economic trend, residential energy consumption is influenced more by weather conditions. The higher the outside temperatures, the less energy is needed for heating purposes and vice-versa. The first and fourth quarters of a year are decisive to our earnings. The weather was fairly mild in nearly the whole of Europe in 2016. The average temperatures in our core markets were slightly above the respective ten-year averages. Compared to 2015, however, temperatures were lower. They were flat in the United Kingdom, but nearly matched the year-earlier level in the Netherlands/Belgium. Temperatures were much lower year on year in Germany and Eastern Europe, down by 0.4 and 0.6 degrees Celsius, respectively. The fourth quarter in particular was relatively cold. Temperatures were over 2 degrees Celsius below the average of the previous year's corresponding quarter in each of our key regions.

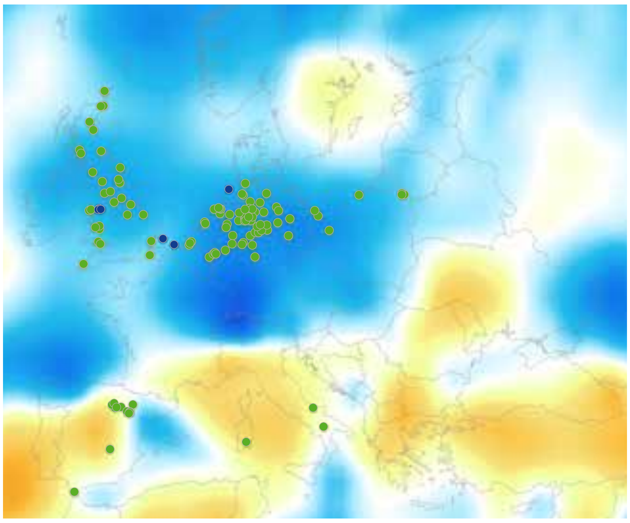
Average temperature deviation	Germany		United Kingdom		Netherlands/Belgium		Eastern Europe[1]	
Degrees Celsius	2016 vs. 2015	2016 vs. 10-yr. avg.	2016 vs. 2015	2016 vs. 10-yr. avg.	2016 vs. 2015	2016 vs. 10-yr. avg.	2016 vs. 2015	2016 vs. 10-yr. avg.
1st quarter	−0.1	1.1	0.4	0.2	0.5	0.4	0.0	2.0
2nd quarter	0.9	0.2	0.2	−0.2	0.7	−0.1	1.1	0.6
3rd quarter	0.3	1.1	1.7	1.1	1.1	1.2	−1.2	0.6
4th quarter	−2.7	−0.3	−2.3	−0.1	−2.9	−0.6	−2.1	−0.7
Full year	**−0.4**	**0.5**	**0.0**	**0.3**	**−0.2**	**0.2**	**−0.6**	**0.6**

1 Czech Republic, Poland, Slovakia and Hungary.
Source: Bloomberg, based on data of the European Centre for Medium-Range Weather Forecasts (ECMWF).

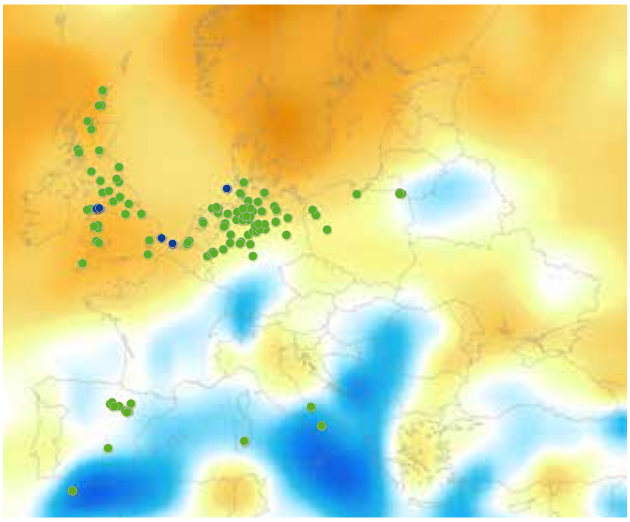
Wind levels clearly down on long-term average. In addition to energy consumption, the generation of electricity is also subject to weather-related influences. Wind levels play an important role for innogy, as the utilisation of our wind farms greatly depends on them. In 2016, European wind levels were down on the long-term average overall and were also lower than in 2015. The situation was very heterogeneous from one region to the next. Whereas wind levels were slightly above the long-term average in most southern European Countries, they were significantly below them in the centre and the north. Declines were recorded at our generation sites in Germany, the United Kingdom, the

Wind levels in Europe

Medium wind speed compared to the 30-year average



2016



2015

Wind speed index (30-year reference period)

innogy onshore wind farm

innogy offshore wind farm

Source:
NCEP/NCAR (National Centres for Environmental Prediction/National Centre for Atmospheric Research).

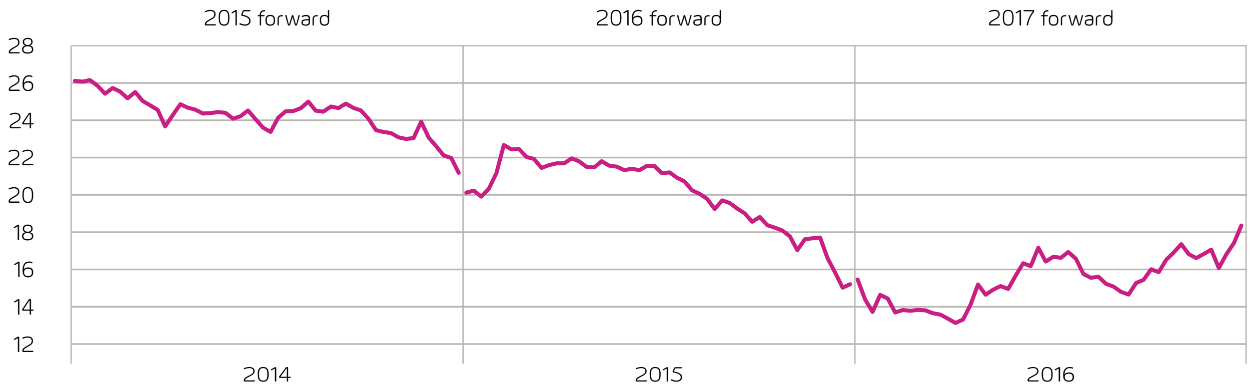
Netherlands and Poland, some of which were considerable. Conversely, wind levels in Italy were higher year on year. Our run-of-river power stations, most of which are located in Germany, are also subject to weather conditions. Their generation depends in part on precipitation and melt water levels, which hovered around the long-term average in 2016.

Higher energy consumption on innogy's key markets. Economic growth and the generally slightly colder weather stimulated energy consumption in our core markets, whereas the trend towards energy savings had a counteracting effect. According to preliminary calculations by the German Association of Energy and Water Industries (BDEW), demand for electricity in Germany decreased slightly in 2016 compared to the previous year. By contrast, expert estimates indicate a rise in consumption in both the Netherlands and the United Kingdom. Demand for electricity in the Eastern European markets, i.e. Poland, Slovakia and Hungary, is likely to at least have matched the previous year's level.

Demand for gas displayed much more dynamic development. Besides the weather-induced increase in demand for heating, a contributing factor was that gas prices dropped, resulting in the increased use of this fuel to produce electricity. According to an analysis conducted by BDEW, gas consumption in Germany was about 10% higher year on year. Based on available data, the United Kingdom posted a gain of as much as 14%. In contrast, an increase of roughly 5% has been estimated for the Netherlands and the Czech Republic.

One-year forward prices of gas on the wholesale market

€/MWh (average weekly figures)

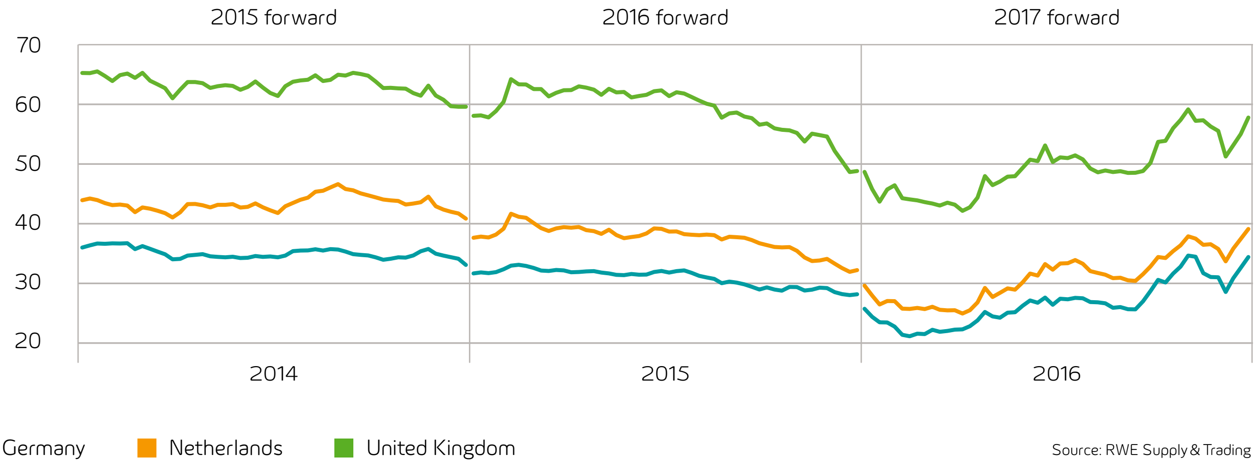


Source: RWE Supply & Trading

Drop in wholesale and retail gas prices. Prices in European gas trading were much lower in 2016 than a year before. Averaged for the year, spot prices at the Dutch Title Transfer Facility (TTF), the reference market for Continental Europe, amounted to €14 per MWh, €6 less than in 2015. In TTF forward trading, contracts for delivery in the following calendar year (2017 forward) were settled for an average of €15 per MWh. By comparison, €20 per MWh was paid for the 2016 forward in the preceding year. The slump on the gas market was mirrored in end customer prices. However, residential tariffs typically react to wholesale developments with a time lag. Based on available data, in 2016 gas became 3% and 15% cheaper for German households and industrial customers than in 2015. The situation in the United Kingdom and the Czech Republic was similar: residential tariffs decreased by about 6% and 2% and prices paid by industrial enterprises were down 16% and 15% in these countries. Contrary to the trend on the wholesale market, households and industry in the Netherlands paid a little more than in 2015. This is because the taxes and levies included in these countries' gas prices rose.

One-year forward prices of base-load electricity on the wholesale market

€/MWh (average weekly figures)



Source: RWE Supply & Trading

Average wholesale electricity prices down year on year. In 2016, average wholesale electricity prices declined in all innogy core markets, albeit to varying degrees. Last year, the average spot price for the base-load product in Germany was €29 per MWh, down €3 on the level recorded in the previous year. Quotations in forward trading also decreased, falling to new lows at the beginning of the year before trending back upwards somewhat as the year progressed. The 2017 base-load forward cost an average of €27 per MWh. By comparison, in 2015 the 2016 forward had traded for €31 per MWh. In addition to the expansion-driven rise in renewable energy feed-ins, which reduce the utilisation of conventional generation assets, the slump on the hard coal market had a price-dampening effect. Hard coal-fired power plants, which have a significant influence on the formation of electricity prices in Germany, were able to sell their generation at very favourable conditions.

Gas-fired power plants account for a much bigger share of electricity generated in the United Kingdom than in Germany and therefore have a stronger influence on electricity prices. UK quotations are relatively high because power stations in that country have had to pay a CO_2 tax since April 2013. Last year, base-load power sold for an average of £40 (€49) per MWh on the spot market, matching the price in 2015. At £41 (€50) per MWh, the 2017 forward was £2 cheaper than in the previous year. In euro terms, the drop in price was more significant due to the devaluation of sterling.

In the Netherlands, gas-fired power plants also play an important role in the formation of wholesale electricity prices. At the same time, German exports of electricity weigh on prices. Base-load power on the Dutch spot market was quoted at an average of €32 per MWh, down €8 compared to 2015. Forward contracts for 2017 traded for €31 per MWh, €7 less than the price paid for the 2016 forward in the preceding year.

innogy's electricity generation only partially dependent on wholesale price developments. A large portion of our electricity production assets in the Renewables division receive a fixed feed-in fee for a predefined period of time and is thus independent of prices on wholesale electricity markets. This applies especially to our wind farms in Germany. About two-thirds of our income in this division is earned in quasi-regulated businesses. Conversely, the subsidy systems in some countries, e.g. the Netherlands, the United Kingdom and Poland, stipulate that green certificates be granted in addition to the electricity price as a subsidy for every megawatt hour of electricity generated. Furthermore, we sell most of the generation of our German run-of-river power stations on the wholesale market. A part of our portfolio is thus exposed to market price risks. To limit the impact of sudden price fluctuations, we sell some of the electricity produced by these stations up to three years forward. Last year, we realised an average price of €43 per MWh across all markets for this portion of our electricity generation. Due to the development on wholesale electricity markets, this price was much lower than the €56 MWh achieved in the previous year. Electricity generation from German assets, which was sold on the wholesale market, fetched an average price of €31 per MWh (previous year: €42 per MWh). The average price realised for UK generation was £46 (€56) per MWh, some £9 down on the previous year's comparable figure. Changes in the price of wholesale electricity have a direct impact on earnings owing to the relatively firm cost structure of wind farms and hydroelectric power plants.

End customer electricity business: disparate price developments on innogy's retail markets. The development of electricity prices in the end customer business – above all with households – is influenced not only by wholesale quotations, but also by network costs, levies and taxes. In Germany, where these elements account for an ever-higher portion of the bill, electricity tariffs charged to residential and industrial customers rose slightly. Prices for UK households were stable, whereas industry saw a marginal increase in prices. In the Netherlands, tax cuts resulted in households and industrial enterprises paying about 15% and 11% less for electricity. Developments in our Eastern European electricity markets were as follows: residential tariffs were marginally down in Poland and Hungary, whereas they rose slightly in Slovakia. Industrial enterprises paid less for electricity in all three countries: 3% in Slovakia, 5% in Poland and 13% in Hungary.

1.4 Political environment

Climate protection was the main topic of national and European energy policy last year. The global Paris Convention, the successor to the Kyoto Protocol which expires in 2020, entered into force in November 2016. The implementation of the Paris Convention took centre stage at the UN Climate Conference in Morocco. The European Commission presented its winter package, aiming to spur the energy transition. The German government adopted its Climate Action Programme 2050, amended the Incentive Regulation Directive, and established new returns on equity for German electricity and gas networks through the German Federal Network Agency. Germany, the United Kingdom and Poland reformed their renewable energy support schemes at the national level.

Paris Convention enters into force – UN Climate Conference in Marrakech. Nearly a year after the climate conference in Paris, the worldwide convention for combatting global warming agreed upon there entered into force on 4 November 2016. The prerequisite for the legal validity of the Paris Convention was its ratification by at least 55 countries, responsible for about 55% of global greenhouse gas emissions. After the two biggest emitters of greenhouse gases, the USA and China, signed the convention in September 2016, Germany followed suit at the end of the month; the entire European Union (EU) signed at the beginning of October. By the middle of November, 111 countries had consented to the treaty.

In the accord, it was agreed with legally binding effect to limit global warming to clearly below 2 degrees Celsius compared to pre-industrial figures – if possible to 1.5 degrees Celsius. To achieve this ambitious goal, the climate treaty contains far-reaching requirements for the coming decades. The Paris Convention is the successor to the Kyoto Protocol of 1997, which expires in 2020.

In the middle of November 2016, delegates from approximately 190 countries met at the UN Climate Conference in Marrakech, Morocco, to consult on the implementation of the Paris climate agreement. It is now up to the countries to follow their words with actions.

European Commission presents winter package. On 30 November 2016, the European Commission submitted a comprehensive reform paper on 'Clean Energy for all Europeans', referred to as the winter package. It contains a number of proposed laws, reports and communications on the transformation and harmonisation of the national energy markets in the EU. The main contents include suggestions for reforming the guidelines for supporting renewable energy and on energy efficiency as well as the draft of a new electricity market regulation. With this package, the European Commission wants to ensure that the climate and energy goals adopted by the European Council in 2014 are achieved by 2030. The implementation of an 'energy union' and the enforcement of the EU Climate Protection Programme, which aims to reduce carbon dioxide emissions by 40% by 2030 compared to 1990 levels, are expected to contribute to this. The European Commission seeks to improve energy efficiency by 30% instead of the 27% originally envisaged, in order to achieve these carbon reduction targets. The main measures identified to help accomplish this relate to buildings, e.g. heat insulation. Furthermore, the European Commission confirmed its goal to cover 27% of the EU's demand for energy with renewable sources by 2030 and for electricity generation to be nearly entirely carbon-free by 2050. At the same time, the European Commission wants to bring the electricity market more in line with the increased share accounted for green electricity, limiting the feed-in priority accorded to renewable energy. The objective is to increase competition on the electricity market in order to limit the costs for the residents despite billions in investments.

Whereas energy trading occurs across borders in Europe, energy networks are usually regulated nationally. The winter package includes a proposal to set up a DSO entity – a representation of the distribution system operators – at the European level. It is envisaged that the representation develop proposals for the pan-European harmonisation of various regulations applicable to the electricity distribution network, e.g. for the integration of electricity from renewables in the distribution networks, for load management, for digitisation and for data management.

The road for the reform's entry into force is still long: the European Parliament and the Council of Ministers are yet to establish positions on the energy laws. Only once these two institutions have agreed on a common stance regarding the proposals can the EU winter package enter into force.

German government adopts Climate Action Programme 2050. Following intense debates, the German Federal Cabinet adopted the Climate Action Programme 2050 in mid-November. This document charts the course towards a largely greenhouse gas-neutral Germany in 2050. The Climate Action Programme contains strategies and measures designed to ensure that the national climate protection goals, which are in line with the Paris Convention, are achieved. The Climate Action Programme envisages lowering greenhouse gas emissions by at least 55% compared to 1990 levels by 2030 and by between 80% and 95% by 2050. Climate targets have been mentioned for individual branches of industry for the first time. The goal set for the energy industry is a reduction in carbon emissions by over 60% by 2030 compared to 1990. Industry is to roughly cut its greenhouse gas emissions in half, with the reduction achieved by agriculture amounting to about one-third. The targeted decrease is approximately two-thirds for the building sector and about 40% for transportation. However, when the consequences are assessed, the goals may be re-evaluated and corrected by 2018 if deemed appropriate. Achieving the climate protection goals will require the efforts of our entire society. Therefore, the German government is engaging in a widespread dialogue with companies, associations and non-government organisations in order to refine the Climate Action Programme. This includes regularly reviewing the catalogue of measures and adapting it to technological and economic developments if necessary.

Germany reforms renewable energy support scheme. On 8 July 2016, the German Lower House of Parliament decided to fundamentally reform the Renewable Energy Act (REA), aiming to make support mechanisms more efficient and bring the expansion of generation capacity more in line with the development of network infrastructure. Called 'EEG 2017', the reformed law received EU subsidy law approval in December 2016 and entered into force on 1 January 2017. The future support scheme satisfies the requirement of the European Commission that member states bring their renewable energy support mechanisms more in line with the market and make increasing use of mechanisms relevant to competition such as public auctions.

Pursuant to the new Act, operators of new assets will usually receive subsidies only if they have qualified by successfully going through a tender process. So far, electricity generation under the REA has been guaranteed a fixed feed-in fee. This will only remain in force for small assets. In the future, the government will determine the desired capacity expansion and call for bids. Potential investors submit bids for a generation price per megawatt hour at which they can offer portions of the desired capacity. The lowest bids win until the desired expansion has been achieved. For onshore wind, it is envisaged to initially limit this expansion to 2,800 megawatts (MW) and to 2,900 MW per year from 2020 onwards. The figure is gross, i.e. it includes the replacement of existing plant by more efficient generation units, referred to as repowering. For offshore wind, the average expansion envisaged by the German government is 730 MW per annum. The annual capacity for which bids will be called is limited to 600 MW for photovoltaics and between 150 MW and 200 MW for biomass. Plant operators that have been granted support receive the exact sum they bid at the auctions. A location bonus or deduction may be granted or made for onshore wind projects. As long as the price the plant operators achieve for their electricity on the wholesale market taking account of fair value factors is below the subsidy rate, they are refunded the difference as a market bonus. The first auction under the new subsidy system was held on 1 February 2017.

German government changes the conditions for supporting combined heat and power generation. With the latest amendment to the German Combined Heat and Power Act, which came into force as of 1 January 2017, the German government is satisfying EU requirements with respect to facilitating combined heat and power (CHP) generation. In the future, support for CHP stations that can generate between 1 MW and 50 MW of electricity and feed it into the grid will be determined by invitations to tender. Coal-fired CHP plants no longer qualify to participate in these calls for bids. The CHP support scheme has thus been tightened significantly. Small assets rated at less than 1 MW and generation units with an output which is partially consumed by the owner are excluded from invitations to tender.

CHP plants use the heat produced by the electricity generation process, for example to heat residential buildings and for industrial processes. This increases the amount of energy recovered from fuels.

New incentive-based regulation in the grid business with lower returns on equity but immediate recognition of investments, as expected. In the middle of October 2016, the German Federal Network Agency established the returns on equity for German electricity and gas grids effective from the coming five-year regulatory periods onwards. In the future, returns of 6.91% and 5.12% (before corporate tax) will apply to assets capitalised after 2005 (new assets) and assets capitalised before 2005 (old assets), respectively. In the current regulatory periods for gas (2013 to 2017) and electricity (2014 to 2018), the returns on equity currently allowed are 9.05% and 7.14%, respectively. The new rates apply to gas network operators from 1 January 2018 and to electricity network operators from 1 January of 2019. The significant drop in interest rates on the capital markets was the main reason for the reduction of the allowed returns. The objective is to keep network investments attractive while achieving returns in line with market requirements. At the same time, the German Federal Network Agency wants to ensure that gas and electricity customers are not faced with an undue burden.

A portion of the lower proceeds from the reduced returns on equity received by network operators is compensated by the amendment to the German Incentive Regulation Directive adopted by the German government at the beginning of August 2016. This is because the commercial conditions for network operators investing in the expansion and modernisation of networks are to be improved. Among other things, the amendment stipulates that the capital costs of investments now be factored without delay into the legally prescribed revenue caps for the network operators, and thus into the network fees as well. Previously, investments made during an ongoing regulation period were only reflected in the allowed grid fees of the following regulatory period. Since the costs were calculated two years in advance, this could take up to seven years. The reform is scheduled to come into effect at the beginning of the next regulatory period for gas (starting in 2018) and electricity (starting in 2019).

Besides the immediate recognition of the capital costs, the new Incentive Regulation Directive also ensures increased transparency by imposing additional disclosure obligations on the regulatory authorities. The government has abandoned its plan to give the network operators a limited grace period of three years for reducing inefficiencies. The German Upper House of Parliament made its approval of the amendment contingent on the maintenance of the five-year grace period.

German government establishes details of concession award law. In December 2016, the German government completed the process of amending concession award law. The goal of the procedure was to create increased legal certainty with respect to the acquisition of distribution grids by municipal utilities. One of the main new provisions relates to the criteria applicable to the selection of the new franchisee: Section 1 of the German Energy Act, which aims to maximise the reliability, affordability, efficiency and environmental compatibility of the grid-bound supply of electricity and gas that is increasingly based on renewable energy, is still binding. According to the new rules, the interests of the local community can now also be considered, albeit only if the demands placed on the network business – primarily security of supply and cost efficiency – are met. Furthermore, the amendment specifies the method used to calculate an appropriate purchase price – referred to as the objectivised earnings value – for network assets that are to be transferred. It remains to be seen whether the objectivised earnings value actually provides legal certainty. This term was introduced into the German Energy Act, whereas the previous rule had already been specified and commented on by the German Court of Justice. The main point of criticism is that the application of the objectivised earnings value can cause the calculated purchase prices to be systematically too low.

Digitisation: smart meters for Germany. The nationwide installation of smart meters forms the core of the German Measuring Point Operation Act, which was passed in August 2016. The intelligent measuring systems (smart meters) are to be gradually installed at all power consumption points in Germany. Initially, only delivery points with an annual consumption of at least 10,000 kWh are to be equipped with an intelligent measuring system starting in 2017. From 2020 onwards, consumption points accounting for an annual 6,000 kWh or more will also have to be equipped accordingly. Consumers remaining below this threshold will receive what is referred to as a 'modern measuring system', which unlike an intelligent measuring system is neither controllable nor able to communicate, but much less expensive. Operators of generation assets (e.g. of photovoltaic units) with a net installed capacity of over 7 kilowatts are also obliged to install an intelligent measuring system.

Unless the connection user chooses another provider, the measuring point operator is responsible for installing and operating the smart meters. The measuring point operator is usually the operator of the local distribution network.

UK cartel office intends to increase competition in the retail sector. In the middle of 2016, the UK Competition and Markets Authority (CMA) presented the results of its analysis of the competitive landscape in the UK energy sector. It had been commissioned by the UK regulator, the Office of Gas and Electricity Markets (Ofgem), with the investigation two years earlier. In its final report, the CMA considers the national wholesale markets to be functional. The CMA does not see any reason why major energy companies would gain a competitive advantage through vertical integration. However, the CMA feels there are signs of insufficient competition in the retail business with residential and small commercial customers. It states that this mostly affects customers who do not bother to get more favourable conditions by signing a new agreement. Based on CMA calculations, the annual price advantage attainable by customers of the UK's six major energy utilities by changing providers doubled from £164 in 2012 to £330 in 2015. Therefore, the CMA intends to oblige companies to inform Ofgem of all customers who have been buying electricity or gas based on the same tariff for more than three years. Ofgem would then make the data available to all competitors in order to enable them to make the individuals affected alternative offers. Preparatory work is currently being done to implement this measure, but this is meeting with resistance from data privacy activists. The CMA also decided to cap tariffs for customers with pre-payment meters until 2020. The affected customers usually have slightly higher bills, which reflect the increased expenses of the utilities, among other things. The price cap will be effective from 1 April 2017 and is limited to three years. The CMA has returned to giving the supply companies more freedom in the number of tariffs they are allowed to offer. Before, each company was limited to four different electricity and four different gas tariffs. This limitation was removed as of November 2016.

New scheme for supporting the expansion of renewable energy in the UK. As part of its 2013 electricity market reform, the United Kingdom introduced contracts for difference (CfDs) as the primary source for financing the support of low-carbon electricity generation technologies. CfDs are granted via auctions. Successful bidders receive the difference between the auction price and the wholesale price for a period of 15 years. If the reference exchange price is higher than the strike price, the electricity producer has to repay the difference. There are two auction pots for low-carbon electricity generation projects which compete for CfDs: pot 1 is available for 'established' technologies (e.g. onshore wind and solar PV) and pot 2 is available for less established technologies (e.g. offshore wind, biogas and biomass). In November 2016, the responsible authority, the Department of Business, Energy and Industrial Strategy, published details on a further round of bidding for pot 2. The total budget amounts to £290 million and will be allocated to projects that go into operation between 2021 and 2023. The auction procedure is scheduled to begin in April 2017. So far, the Department has not announced when the next auction for established technologies (pot 1) will take place.

Netherlands adopt energy savings pact. For over a year, the government and energy utilities – represented by the Energie-Nederland industrial association – negotiated over additional energy savings measures. At the end of 2016, the negotiating parties reached agreement aiming for savings of 10 petajoules, or 2.8 billion kWh, in homes. The pact regulates the progress that must be made in achieving the targets. If the goal remains out of range, the Dutch government can impose compulsory measures on market participants – consumers and utilities alike. Another objective is to install smart meters that facilitate energy savings in all homes by 2020. Furthermore, the government is putting €160 million at the disposal of consumers in order to implement energy savings measures.

Poland introduces new support scheme for renewables. In addition to Germany and the United Kingdom, Poland has also fundamentally reformed its system of supporting renewable energy. In the middle of 2016, a new law was passed, replacing the old subsidy system that used green electricity certificates with an auction-based procedure. The new support scheme is similar to the one in the UK. The state concludes CfDs with operators of new assets, which guarantee fixed compensation for a period of 15 years. If the price realised by the operators on the wholesale market is below the fee, they are paid the difference. If it exceeds the fee, the difference is set off against future entitlements. Support is provided through auctions. As in the United Kingdom, there are separate auctions for projects that differ based on their technological characteristics. The government sets an annual budget for each of the auction pots, which occurred in November 2016 for the 2017 auctions. The funds available for onshore wind projects with a capacity of more than 1 MW were calculated so that only about 100 MW in generation capacity can be financed. Small units with a net installed capacity of up to 10 kW are subject to a special rule: they do not have to participate in a CfD auction and instead receive fixed feed-in payments. Operators of existing assets can choose whether to use the old support mechanism via green energy certificates or switch to the CfD regime by participating in an auction.

Deregulation of the Polish gas market. On 27 April 2016, the Polish government presented a plan for implementing the court ruling on the liberalisation of the gas supply business as of 1 April 2017. The plan envisages a gradual adjustment (deregulation) of the current system. The first step involves adjusting the tariffs for industrial customers, followed by those for corporate customers. Households are scheduled to be affected by deregulation from the end of 2023 onwards.

1.5 Major events

innogy looks back on its first and a successful financial year: at the end of 2015, RWE AG decided to transfer its renewables, grid and retail operations into a new subsidiary and to conduct an IPO for it. It was the largest IPO in Germany since 2000. Just a few weeks later, the rating agency Fitch assigned innogy a rating of BBB+, independent of RWE AG's rating. We further developed our business with resolve: we increased our share of the Eastern European gas market and at the start of 2017, we positioned ourselves as an international provider of ground-mounted solar panel arrays and battery technology via the acquisition of Belectric. innogy is co-operating with Deutsche Telekom to drive broadband expansion in nearly 60 local networks in Germany. In the Renewables division, we optimised our portfolio and sold a stake in a UK wind farm portfolio in the summer.

In the period under review

innogy further expands Hungarian gas retail business. At the end of February, we reached an agreement with the Hungarian gas utility TIGÁZ, which belongs to the Italian ENI Group, to acquire its industrial and corporate customers. These customers were transferred to our subsidiary MÁSZ with effect from 1 April. With this, our share of the unregulated Hungarian gas market climbed to about 10%. Over the medium term, our aim is to increase it to 15%.

innogy divests stake in UK wind farm portfolio Zephyr. At the end of July, we sold our 33.3% interest in UK-based Zephyr Investments Limited along with shareholder loans to a financial investor. Zephyr was established in 2003 and owns and operates a portfolio of 17 wind farms, of which 16 are on mainland UK, and one is off the coast of Wales (North Hoyle). These generation assets have a total net installed capacity of 391 MW. We intend to use the proceeds from the sale to finance other renewables projects.

innogy successfully completes IPO, resulting in Germany's most valuable energy company.

innogy shares listed on the Frankfurt Stock Exchange. On 7 October 2016, innogy SE celebrated its debut on the Frankfurt trading floor. With a placement price of €36.00 per share, the transaction, which was several times oversubscribed, was priced at the upper end of the price range. The innogy share's opening quotation was €37.30. A total of approximately 129 million innogy shares – widely held by domestic and foreign shareholders – was placed. innogy intends to use the proceeds of about €2 billion from the placement of approximately 55.6 million shares from a capital increase within the scope of its IPO to finance investments in growth projects, among other things (details on the innogy share can be found starting on page 19).

Shortly thereafter, on 19 December 2016, the innogy share was included in the MDAX, Germany's second-largest stock index.

Fitch assigns innogy its first independent credit rating. On 31 October 2016, just a few weeks after the IPO, innogy was assigned a rating of BBB+ with a stable outlook by the rating agency Fitch. Fitch thus placed innogy in the strong investment grade category and confirmed the company's high creditworthiness. innogy's senior unsecured rating, which is relevant to senior bonds, was even a notch higher, at A–. Commercial paper with a short tenor received an F2 rating grade. According to Fitch, the good ratings reflect innogy's very solid business profile with a large proportion of earnings from the predominantly regulated networks and quasi-regulated renewables generation. The investment grade rating is helping innogy to establish itself as a reliable debt issuer.

innogy receives several awards – we are the customer service champion in Germany. At the beginning of December 2016, the German business magazine WirtschaftsWoche published the result of a ranking seeking to establish the brands and companies most trusted by German customers. innogy was the only one of twelve companies in the category 'Energy Utilities Active Nationwide' to receive the distinction 'Highest Level of Customer Trust', thus winning the top spot. The financial magazine FOCUS Money also selected innogy as the sector winner in the category 'Customer Loyalty'. Tens of thousands of online messages and over a million social media sources were evaluated for the study. The statements were analysed in three categories: buying decision, satisfaction as well as loyalty and resale.

innogy also received good grades for its German online brand eprimo: according to a study of the newspaper WELT, eprimo is the 'service champion' of Germany's nationwide electricity utilities. eprimo was also in the top ranking for 'Brand of the Year' (business magazine Handelsblatt) and 'Top Electricity Provider' (WirtschaftsWoche). FOCUS Money attested eprimo 'very good customer consulting, very good customer service and very good value for money'. These awards are impressive proof of our determination to serve our customers and their needs.

innogy and Deutsche Telekom drive broadband expansion. The Internet has become a fixture in our daily lives. Broadband access to the World Wide Web has thus become one of the key factors involved in a company's choice of location: only with the appropriate Internet infrastructure and high-speed data transmission, can German companies survive in the face of global competition. The German government has set the goal of making bandwidths of at least 50 megabits per second available to all households by 2018. At the end of 2016, innogy and Deutsche Telekom signed a co-operation agreement to drive the necessary expansion of the broadband network. It currently covers about 60 local networks in Eifel, Hunsrück and Münsterland. Customers looking for a local supplier have a free choice: they can opt for our 'innogy Highspeed' product or a different provider.

After the period under review

innogy acquires Belectric Solar & Battery Holding GmbH. At the beginning of January 2017, innogy SE successfully completed the acquisition of the international solar and battery specialist Belectric Solar & Battery Holding GmbH (Belectric). The preliminary purchase price is €77 million and includes a €7 million conditional payment obligation. As a result of the acquisition of Belectric, innogy advanced to become a global player on the market for ground-mounted solar collectors and battery storage systems. These technologies make a significant contribution towards the development of the decentralised, renewable energy system of the future. The acquisition is thus a perfect fit with innogy's strategic direction in its quest to be a pioneer of efficient, climate-friendly and intelligent energy solutions. Belectric develops, builds and operates ground-mounted solar collectors.

> In Belectric, we acquired an innovative solar and battery specialist that has achieved a strong position on the international market.

The geographical points of focus besides Europe are the Middle East and North Africa as well as India, South America and the USA. Since its inception in 2001, Belectric has built more than 280 ground-mounted and roof-mounted solar panel arrays with a total net installed capacity of over 1.5 gigawatts (GW). In addition, the new innogy subsidiary is responsible for the operation and maintenance of solar collectors with a combined net installed capacity in excess of 1.0 GW. In the field of battery technology, Belectric focuses on the development of turnkey large-scale battery storage solutions. In 2015, the company achieved an adjusted EBITDA of a low double-digit million euro amount. Belectric is domiciled in Kolitzheim, Bavaria, and had approximately 600 people on its payroll the world over in 2016.

Largest creditor and guarantor exchange for corporate bonds. innogy has laid the cornerstone of its financial autonomy through its independence under company law and its successful IPO. Furthermore, innogy has been a new issuer and guarantor of bonds in various currencies previously issued by RWE since February 2017.

The German Bond Act, which was amended in 2009, simplifies the restructuring of bonds, particularly the creditor and guarantor exchange. This new rule enabled us to complete the exchange in just a few months. With a total volume of €11 billion, this transaction has been the largest of its type by a company in Europe. You will find additional information in the chapter on the financial position and net worth starting on page 68.

innogy acquires majority stake in Croatian gas utility. innogy continues to expand its international distribution business. The contracts for taking a 75% interest in the gas utility of the town of Koprivnica for a purchase price of about €6.9 million were signed on 7 February 2017. The remaining 25% are still held by the municipal company Komunalec. The transaction is subject to the approval of the Croatian Cartel Office. We anticipate obtaining this clearance before the second quarter of 2017. The acquisition puts innogy in the role of pioneer, as this is the first privatisation on the Croatian gas market. The takeover increases our customer base by 13,000 and extends our gas network by about 450 kilometres. In the next three years, innogy intends to own 10% of the Croatian gas market. innogy has been active on the country's electricity market since 2013 and is currently the second-largest electricity provider in Croatia, with approximately 110,000 customers.

1.6 Reporting principles

innogy Group

Renewables

Grid & Infrastructure
- Germany
- Eastern Europe

Retail
- Germany
- United Kingdom
- Netherlands/Belgium
- Eastern Europe

Corporate/other

As of 31 December 2016.

Group structure features three divisions. Our financial reporting reflects our Group structure, which includes three functionally distinct divisions: Renewables, Grid & Infrastructure and Retail. As we also consider geographical aspects, the Group is divided into seven operating segments. Pursuant to IFRS 8.12, operating segments can be combined to form a division or reporting segment if the operating segments have similar commercial features and can be compared to one another in respect of product type and customer group, among other things.

The following is a presentation of the divisions:

- **Renewables.** This is where we report on our activities relating to electricity generation from renewable sources. Besides the operation of green energy assets, this also includes construction and project development. Our current focus is on onshore and offshore wind as well as hydroelectric power. Our major production sites are located in Germany, the United Kingdom, the Netherlands, Poland, Spain and Italy. This is also where we report on our activities relating to the expansion of the solar and photovoltaic business. Therefore, from fiscal 2017 onwards, Belectric Solar & Battery GmbH will be included in this division. The acquisition of the international solar and battery specialist was completed at the beginning of January 2017 (see page 49).
- **Grid & Infrastructure.** This division encompasses our electricity and gas distribution operations. The Grid & Infrastructure Germany segment includes the German electricity and gas distribution network business. With the exception of retail, it also includes the activities of the fully consolidated regional utilities (grid operation, power generation, water, etc.) our gas storage business as well as our non-controlling interests (e.g. in German municipal utilities and Austria-based KELAG). The Grid & Infrastructure Eastern Europe segment encompasses our gas distribution network and gas storage operations in the Czech Republic as well as our electricity distribution network business in Poland, Hungary and Slovakia.
- **Retail.** This is where we present our energy retail activities which, in addition to the sale of electricity and gas, include the provision of innovative energy solutions to meet customer demands. Geographically, we distinguish among the four following operating segments: Retail Germany, Retail United Kingdom, Retail Netherlands/Belgium and Retail Eastern Europe. The last segment in this list comprises activities in the Czech Republic, Slovakia, Hungary, Poland, Slovenia, Croatia and Romania. We also recognise the small share in power generation of individual retail companies in Germany and abroad here.

We present certain groupwide activities and consolidation effects outside the divisions in the Corporate/other line item. This also contains the holding activities of innogy SE and our internal service providers.

In the period under review, innogy's capital structure was changed fundamentally as part of the extensive reorganisation of the RWE Group, from which innogy emerged. This had a significant impact on the balance sheet and is also reflected in the reconciliation to net income and the cash flow statement. The financial result, cash flows from investing activities, cash flows from financing activities and net debt are most affected. Prior-year figures are of limited informational value. Therefore, we do not comment on year-on-year comparisons of some of these items or of indirectly affected key figures.

Management ratios and alternative performance indicators ('non-IFRS performance indicators')

Our performance indicators serve to assess the commercial success of our divisions and operating segments as well as of the innogy Group as a whole. The financial management ratio of major importance to us is adjusted EBIT. Components of the compensation of a part of the workforce, in particular of the Executive Board and executives, are linked to it. Additional important key financials for managing the company are adjusted EBITDA, adjusted net income, the leverage factor, and free cash flow. The aforementioned management ratios are not defined by IFRS or other international accounting principles. Therefore, we collectively refer to them as **'alternative performance indicators'.**

We comment on these alternative performance indicators here, because they are used in presentations for the members of the Executive Board and Supervisory Board, in order to present operating earnings and indebtedness. At the same time, they serve as a basis for the Group's financial planning and forecasting. Furthermore, we believe that these key figures are expected and used by a large number of investors, equity analysts and other stakeholder groups as supplementary information regarding a company's operating and financial position. For instance, EBITDA is generally widely used by investors to determine the operating earnings position of a company. It is short for earnings before interest, taxes, depreciation and amortisation. This is important as depreciation and amortisation according to IFRS are company-dependent to a certain degree and can therefore influence the comparability of companies.

We have defined the key financial management ratios of relevance to us as follows:

Adjusted EBIT (previously the operating result) is calculated by deducting the cost of material, staff costs and operating depreciation and amortisation from revenue, to which other operating result and income from investments are added. It excludes certain items which are considered non-operating or aperiodic or one off or special items, which are unusual from a business perspective and are recognised in the non-operating result. The non-operating result can generally include income from the disposal of investments or non-current assets not required for operations, goodwill impairments, as well as effects of the fair valuation of certain derivatives. In regular reporting for the Executive Board and Supervisory Board adjusted EBIT is also a key financial management ratio, on the basis of which the segments' business performance is discussed and controlled.

Adjusted EBITDA (previously EBITDA) is defined as the adjusted EBIT before operating depreciation and amortisation and does not include income taxes, the financial result, or the non-operating result.

We define **adjusted net income** as net income adjusted for certain special items. It differs from net income in that the non-operating result and – possibly – further special items are deducted from it. Additional special items that are eliminated primarily include certain interest and currency effects that are included in the financial result. We determine a target range for the normalised effective tax rate of 25% to 30% to calculate adjusted net income. In the reporting period, we applied a normalised effective tax rate of 25%. The high relevance of adjusted net income is in part due to the fact that this earnings figure is the basis for determining the dividend of innogy SE. In the coming years, we want to pay between 70% and 80% of our adjusted net income to our shareholders. In addition, adjusted net income is the major basis for the new long-term compensation system for Executive Board members and executives of innogy.

Free cash flow is defined as cash flows from operating activities minus capital expenditure on property, plant and equipment and intangible assets.

We manage our indebtedness via the ratio of net debt to adjusted EBITDA (referred to as the **leverage factor**; see page 73). Net debt is defined as the sum of all bonds and financial liabilities to banks adjusted to exclude the effects of the initial recognition of certain financial liabilities at fair value, plus other financial liabilities including loans from RWE, minus cash and cash equivalents, marketable securities and other financial assets, plus provisions for pensions and similar obligations as well as provisions for wind farm decommissioning.

For current reporting, we partially adjusted the terminology for the aforementioned management ratios. 'Adjusted EBITDA' describes the key figure that we previously referred to as 'EBITDA'. 'Adjusted EBIT' corresponds to the key figure that we previously referred to as the 'operating result'. Both changes only concern the terminology. The content and definition of the key figures have not been changed. Our aim is to make the definition easy to understand and make our key figures even more comparable for participants on the capital market.

1.7 Business trend

innogy achieved its financial goals in 2016. At €4.2 billion, adjusted EBITDA was within the forecast range of €4.1 billion to €4.4 billion. Net of operating depreciation and amortisation, we posted adjusted EBIT of €2.7 billion. Adjusted net income amounted to €1.1 billion, which was also in line with the forecast. As expected, earnings were therefore down year on year. Additional costs incurred to maintain and modernise our grid infrastructure were the main reason. In addition, wind levels were much lower year on year, having a negative effect on the use of our wind assets. The Executive Board and the Supervisory Board of innogy SE will propose to the Annual General Meeting on 24 April 2017 that a dividend of €1.60 per dividend-bearing share be paid for fiscal 2016. This corresponds to a pay-out ratio of about 80% based on adjusted net income.

2016 business trend: outlook fulfilled

Outlook vs. actual	2015 actual € million	Outlook for fiscal 2016[1] € billion	2016 actual € million	Outlook fulfilled?
Adjusted EBITDA	4,521	4.1–4.4	4,203	Yes
Renewables	818	0.6–0.8	671	Yes
Grid & Infrastructure	2,878	2.5–2.7	2,622	Yes
Retail	988	1.0–1.2	1,057	Yes
Adjusted net income	–	In the order of 1.1	1,123	Yes

1 See page 13 of the interim report for January to September 2016.

innogy is amongst Europe's biggest producers of electricity from renewable sources. At the end of 2016, innogy had electricity generation assets with a total net installed capacity of 4.5 gigawatts (GW), of which 3.7 GW was from renewables. These figures also include capacity operated by our fully consolidated subsidiaries in the Grid & Infrastructure and Retail divisions, which account for 0.4 GW of renewable energy capacity and 0.8 GW of conventional electricity generation capacity.

The geographical point of focus of our electricity production is Germany, where 52% of our installed capacity is located, followed by the United Kingdom with 22%, Spain with 10%, the Netherlands with 6% and Poland with 5%.

In the Renewables division, wind power is our most important technology, representing 84% of total capacity. In offshore wind, we are among the world's largest operators, with an installed capacity of 0.9 GW. Our 1.9 GW of onshore wind capacity make us one of the largest operators also in this category in Europe. In the 2016 financial year, we commissioned the Kattenberg wind farm (10 megawatts – MW – near Eindhoven/Netherlands) and ten of the twelve turbines of the Zuidwester wind farm (90 MW, Ijsselmeer/Netherlands). We intend to further expand our market position in the years ahead. We are currently implementing two large-scale offshore projects with partners: Nordsee One in Germany and Galloper off the southeastern coast of the United Kingdom. Commissioning is scheduled for the end of 2017 and the first quarter of 2018, respectively. At the end of 2016, wind farms with a combined volume of approximately 300 MW (based on our pro-rata capacity) were under construction. Above and beyond this, at the beginning of 2017, we reached an investment decision on two onshore wind farms in Germany and the United Kingdom (40 MW). We secured the level of compensation for an additional project (96 MW) through our successful bidding at an auction beforehand. In addition to our wind energy activities, we operate run-of-river power stations, which accounted for 16% (539 MW) of total capacity in the Renewables division.

Power generation capacity by division[1]	Wind[2]		Hydro		Other renewables[3]		Renewables total		Conventional power generation[4]		Total	
MW	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Renewables	2,832	2,748	539	525	7	7	3,378	3,280	–	–	3,378	3,280
Germany	862	862	380	375	7	7	1,249	1,244	–	–	1,249	1,244
United Kingdom	934	934	81	77	–	–	1,015	1,011	–	–	1,015	1,011
Spain	447	447	12	12	–	–	459	459	–	–	459	459
Netherlands	280	197	–	–	–	–	280	197	–	–	280	197
Poland	242	242	–	–	–	–	242	242	–	–	242	242
Italy	67	67	–	–	–	–	67	67	–	–	67	67
France	–	–	50	44	–	–	50	44	–	–	50	44
Portugal	–	–	16	16	–	–	16	16	–	–	16	16
Grid & Infrastructure	80	59	184	192	30	27	294	278	704	703	998	981
Retail	–	–	1	1	62	56	63	57	92	106	155	163
innogy Group	**2,912**	**2,807**	**724**	**718**	**99**	**90**	**3,735**	**3,615**	**796**	**809**	**4,531**	**4,424**

1 Figures as of 31 December; differences due to rounding possible.
2 Due to the sale of Zephyr in fiscal 2016, 256 MW from the associated electricity purchase agreement were deducted from the prior-year figures related to the United Kingdom in the Renewables division.
3 Includes capacity from biomass and photovoltaic stations.
4 Includes capacity from the energy sources hard coal (2016: 399 MW), gas (2016: 244 MW), lignite (2016: 17 MW) and pumped storage hydro, oil and other (2016: 137 MW).

2016 electricity generation slightly lower than in the previous year. In the financial year that just ended, innogy produced 10.8 billion kWh of electricity, 3% less than in 2015. A large portion of this was attributable to generation from renewables: 65% from onshore and offshore wind farms, 26% from run-of-river power stations, and 2% from biomass and photovoltaic plants. Approximately 7% stemmed from conventional electricity generation capacity, which we state via our fully consolidated investments.

Weather conditions curtailed electricity production. Generation from renewable energy sources strongly depends on the weather. Wind levels play an important role for innogy's wind power assets; when they are low, these assets are less utilised. In 2016, wind levels at our most important generation sites were lower than in the year before – much lower in some cases. Electricity generation was also lower because we sold our stake in Zephyr Investment Limited in the middle of 2016 and that the associated portfolio thus only contributed to electricity generation pro-rata last year. Weak wind conditions could only partially be offset by the improved technical availability and extended availability periods of the assets.

Electricity generation benefited from Gwynt y Môr off the coast of Wales and Nordsee Ost near Helgoland having been constantly online at full capacity for the first time last year. The commissioning of new onshore wind turbines also made a contribution (about 90 MW).

Last year, we produced 0.3 billion kWh of electricity more than in 2015 with our run-of-river power stations in Germany, France, the United Kingdom and Portugal. The growth primarily stemmed from our German run-of-river power plants, where precipitation and melt water volumes were within the long term-average and had a positive impact on electricity generation compared to the previous year.

Power generation by divison[1]	Wind		Hydro		Other renewables[2]		Renewables total		Conventional power generation		Total	
Billion kWh	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Renewables	7.0	7.5	2.1	1.8	–	–	9.1	9.4	–	–	9.1	9.4
Germany	1.8	1.6	1.7	1.5	–	–	3.5	3.1	–	–	3.5	3.1
United Kingdom	3.1	3.7	0.2	0.2	–	–	3.3	3.9	–	–	3.3	3.9
Spain	1.0	1.0	–	–	–	–	1.0	1.0	–	–	1.0	1.0
Netherlands	0.5	0.5	–	–	–	–	0.5	0.5	–	–	0.5	0.5
Poland	0.5	0.5	–	–	–	–	0.5	0.5	–	–	0.5	0.5
Italy	0.1	0.1	–	–	–	–	0.1	0.1	–	–	0.1	0.1
France	–	–	0.1	0.1	–	–	0.1	0.1	–	–	0.1	0.1
Portugal	–	–	0.1	–	–	–	0.1	–	–	–	0.1	–
Grid & Infrastructure[3]	n/a	n/a	n/a	n/a	n/a	n/a	0.9	0.8	0.3	0.3	1.2	1.1
Retail[3]	n/a	n/a	n/a	n/a	n/a	n/a	–	0.1	0.5	0.5	0.5	0.6
innogy Group	**7.0**	**7.5**	**2.8**	**2.5**	**0.2**	**0.2**	**10.0**	**10.3**	**0.8**	**0.8**	**10.8**	**11.1**

1 Differences due to rounding possible.
2 Includes generation volumes from biomass and photovoltaic stations.
3 Due to the reassignment of Group companies within the scope of the IPO of innogy SE, the figures of the individual renewable generation technologies in this segment can only be presented from fiscal 2017 onwards. This is why we only report the total electricity generation from renewables; n/a = not available.

Nearly zero carbon emissions from electricity generation. Most of the electricity we produce is from renewable sources and free of carbon dioxide, which has a significant influence on specific emissions, i.e. carbon discharge per megawatt hour (MWh) of electricity. These emissions amounted to 0.065 metric tons per MWh in the period under review. In sum, our conventional generation assets emitted 0.7 million metric tons of carbon dioxide, as much as in the prior year. Direct carbon emissions occur when producing electricity primarily in power stations fired by fossil fuels. We have small volumes of conventional generation capacity at our disposal in the Grid & Infrastructure division. The largest portion of our carbon emissions is accounted for by gas, as some of our subsidiaries operate highly efficient gas-fired and combined heat and power stations. In this context, account should be taken of the fact that the emissions figures shown here only relate to the power plants recognised by the European Emission Trading Scheme (ETS).

External electricity sales volume	Residential and commercial customers		Industrial and corporate customers		Distributors		Total	
Billion kWh	2016	2015	2016	2015	2016	2015	2016	2015
Renewables	–	–	–	–	8.4	7.2	8.4	7.2
Grid & Infrastructure	0.3	0.1	0.5	–	11.5	13.7	12.3	13.8
Germany	0.3	–	0.5	–	11.5	13.7	12.3	13.7
Eastern Europe	–	0.1	–	–	–	–	–	0.1
Retail	52.0	53.6	73.0	76.9	96.8	82.0	221.8	212.5
Germany	20.2	20.7	26.6	28.8	90.9	78.4	137.7	127.9
United Kingdom	12.0	12.8	28.3	30.3	2.1	2.1	42.4	45.2
Netherlands/Belgium	9.4	10.6	7.0	7.7	0.5	0.6	16.9	18.9
Eastern Europe	10.4	9.5	11.1	10.1	3.3	0.9	24.8	20.5
innogy Group[1]	**52.3**	**53.7**	**73.5**	**76.9**	**116.7**	**102.9**	**242.5**	**233.5**

1 Includes volumes from companies subsumed under 'Corporate/other'.

Electricity sales volume slightly higher. In the year under review, innogy sold 242.5 billion kWh of electricity to external customers, 4 % more than in 2015. We grew sales in the distributor segment amongst others, particularly in Germany and Eastern Europe. This was in part because we won new customers in Germany and intensified our supply relationships with existing ones. Further volume increases resulted from the fact that the Slovak energy utility VSE was fully consolidated from the end of August 2015 and its supply activities contributed to electricity sales volume for a full year for the first time in 2016 (see page 61). This was primarily reflected in the residential and small commercial enterprises segment. However, in sum we recorded a slight drop in sales in this customer group. In this context, the trend towards saving energy plays an important role. In the Netherlands, Belgium and the United Kingdom, this was exacerbated by customer losses. However, they were contrasted by gains in Eastern Europe. In the Renewables division, we increased sales to distributors, in part because the Gwynt y Môr and Nordsee Ost wind farms were operated year-round for the first time.

Electricity customers by country[1]	Total		Of which: residential and commercial customers	
Thousands	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Germany	6,806	6,788	6,730	6,738
United Kingdom	2,917	2,978	2,898	2,961
Netherlands/Belgium	2,407	2,516	2,401	2,511
Hungary	2,141	2,118	2,131	2,117
Poland	941	934	939	932
Czech Republic	343	300	342	299
Other[2]	581	583	578	580
innogy Group	**16,136**	**16,216**	**16,019**	**16,137**

1 Differences due to rounding possible.
2 Customers in Croatia, Romania, Slovakia and Slovenia.

By the end of the year, the innogy Group's fully consolidated companies supplied electricity to about 16,136,000 customers, of which approximately 6,806,000 were in Germany. Our customer base thus decreased by about 80,000 customers compared to 2015. We recorded the steepest decline in the Netherlands. Here again, the reason was the increased competitive pressure, especially in the budget segment. We also lost customers in the hotly contested UK residential business compared to 2015. However, in the end, we countered the trend, posting net customer gains in the second half of the year. By contrast, we improved our share of the markets in Eastern Europe, where we benefited above all from increased customer figures in the Czech Republic and Hungary. Our customer base in Germany was essentially stable.

External gas sales volume	Residential and commercial customers		Industrial and corporate customers		Distributors		Total	
Billion kWh	2016	2015	2016	2015	2016	2015	2016	2015
Grid & Infrastructure	0.2	–	0.2	–	0.4	2.4	0.8	2.4
Germany	0.2	–	0.2	–	0.4	2.4	0.8	2.4
Eastern Europe	–	–	–	–	–	–	–	–
Retail	102.7	102.6	82.9	81.1	54.9	59.7	240.5	243.4
Germany	24.5	24.7	17.2	18.3	47.6	51.5	89.3	94.5
United Kingdom	29.6	30.0	4.0	3.6	6.7	6.4	40.3	40.0
Netherlands/Belgium	32.9	32.9	28.3	28.6	–	–	61.2	61.5
Eastern Europe	15.7	15.0	33.4	30.6	0.6	1.8	49.7	47.4
innogy Group[1]	**102.9**	**102.6**	**83.1**	**81.1**	**55.3**	**62.1**	**241.3**	**245.8**

1 Includes volumes from companies subsumed under 'Corporate/other'.

Gas supply volume slightly down year on year. Our gas sales dropped by some 2% to 241.3 billion kWh compared to 2015. This was due to declines in sales to distributors which increased their purchases from other energy suppliers or began buying all their electricity from them. Whereas gas sales from industrial and corporate customers posted a marginal rise, in part due to successful acquisitions in several Eastern European countries, they were on a par with the previous year's level in the residential and commercial customer segment. Two opposing effects came to bear here: the colder weather had a positive impact, which counteracted the volume shortfalls caused by customer losses and energy savings.

Gas customers by country[1]	Total		Of which: residential and commercial customers	
Thousands	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Netherlands/Belgium	2,073	2,189	2,068	2,184
United Kingdom	2,004	2,020	1,999	2,015
Germany	1,313	1,334	1,301	1,323
Czech Republic	1,310	1,349	1,304	1,343
Hungary	2	–	–	–
Poland	1	–	1	–
Other[2]	129	126	129	125
innogy Group	**6,833**	**7,018**	**6,801**	**6,991**

1 Differences due to rounding possible.
2 Customers in Croatia, Romania, Slovakia and Slovenia.

As of the balance-sheet date, our fully consolidated companies had a total of about 6,833,000 gas customers, most of which were in the United Kingdom, the Netherlands/Belgium, Germany and the Czech Republic. This represents a decrease of roughly 185,000 customers compared to the previous year. As with electricity, we experienced the most significant decline in our Dutch retail unit. Again, the reason is the increased pressure from the competition particularly in the budget segment. In the UK residential business, the drop was moderate, because – as with electricity – we also grew our UK customer base in the second half of the year. Furthermore, our position also deteriorated in the Czech Republic.

External revenue by product[1] € million	2016	2015	+/– %
Electricity sales	31,422	32,561	–3.5
Renewables	602	574	4.9
Grid & Infrastructure	9,138	8,636	5.8
Germany	8,625	8,255	4.5
Eastern Europe	513	381	34.6
Retail	21,681	23,351	–7.2
Germany	12,528	12,957	–3.3
United Kingdom	6,154	7,119	–13.6
Netherlands/Belgium	1,044	1,570	–33.5
Eastern Europe	1,955	1,705	14.7
Gas sales	10,387	11,299	–8.1
Grid & Infrastructure	924	985	–6.2
Germany	554	652	–15.0
Eastern Europe	370	333	11.1
Retail	9,463	10,314	–8.3
Germany	3,620	3,934	–8.0
United Kingdom	1,853	2,173	–14.7
Netherlands/Belgium	2,484	2,576	–3.6
Eastern Europe	1,506	1,631	–7.7
Other sales	1,802	1,708	5.5
innogy Group	**43,611**	**45,568**	**–4.3**

1 Differences due to rounding possible.

External revenue slightly down. In 2016, our external revenue declined by 4 % to €43,611 million. This figure includes natural gas and electricity tax. Electricity revenue decreased by 3 % year on year to €31,422 million. A decline in sales to residential and corporate customers was the main reason. The resulting decrease in revenue could not be offset by an increase in sales to German distributors. A positive effect was felt from the fact that the Slovak energy utility VSE has been fully consolidated since August 2015 and it contributed to Group revenue for a full year for the first time. Our gas revenue dropped by 8 % to €10,387 million, in part owing to the decline in sales volume. In addition, some of our retail companies reduced their prices. The revenue trend was also affected by currency translation: on average, sterling, which is the foreign currency of greatest importance to us, dropped relative to the euro from €1.38 in 2015 to €1.22 in 2016. By consequence, our UK revenue from the Renewables and Retail divisions was lower once converted to euros. Net of the effects of the full consolidation of VSE and currency translation, our revenue dropped by 2 %.

External revenue € million	2016	2015	+/– %
Renewables	768	710	8.2
Grid & Infrastructure	10,761	10,176	5.7
Germany	9,854	9,451	4.3
Eastern Europe	907	725	25.1
Retail	31,909	34,491	–7.5
Germany	16,540	17,301	–4.4
United Kingdom	8,111	9,552	–15.1
Netherlands/Belgium	3,744	4,241	–11.7
Eastern Europe	3,514	3,397	3.4
Corporate/other	173	191	–9.4
innogy Group	**43,611**	**45,568**	**–4.3**
Natural gas tax/electricity tax	2,062	2,112	–2.4
innogy Group (excluding natural gas tax/electricity tax)	**41,549**	**43,456**	**–4.4**

Adjusted EBITDA € million	2016	2015	+/– %
Renewables	671	818	–18.0
Grid & Infrastructure	2,622	2,878	–8.9
Germany	1,844	2,016	–8.5
Eastern Europe	778	862	–9.7
Retail	1,057	988	7.0
Germany	592	583	1.5
United Kingdom	–11	–65	83.1
Netherlands/Belgium	233	236	–1.3
Eastern Europe	243	234	3.8
Corporate/other	–147	–163	9.8
innogy Group	**4,203**	**4,521**	**–7.0**

Adjusted EBIT € million	2016	2015	+/– %
Renewables	359	488	–26.4
Grid & Infrastructure	1,708	1,930	–11.5
Germany	1,188	1,282	–7.3
Eastern Europe	520	648	–19.8
Retail	844	830	1.7
Germany	553	545	1.5
United Kingdom	–109	–137	20.4
Netherlands/Belgium	182	194	–6.2
Eastern Europe	218	228	–4.4
Corporate/other	–176	–198	11.1
innogy Group	**2,735**	**3,050**	**–10.3**

Adjusted EBIT of about €2.7 billion achieved – adjusted EBITDA of €4.2 billion within the forecast range. In the financial year that just ended, we achieved adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA) of €4,203 million. It was 7% down on the previous year's comparable figure. The forecast that we published on 1 August 2016 envisaged a range of €4.1 billion to €4.4 billion (see page 13 of the interim report for January to September 2016). Adjusted EBITDA was thus within the expected range. Net of operating depreciation and amortisation of €1,468 million, we posted adjusted EBIT of €2,735 million.

Adjusted EBIT 10% down year on year – adjusted EBITDA drops by 7%. In the period under review, we achieved adjusted EBIT of €2,735 million, down 10% on the previous year. Adjusted EBITDA displayed a similar development, amounting to €4,203 million, which was 7% lower than the comparable figure in 2015. Both adjusted EBITDA and adjusted EBIT were significantly affected by the following events: the Renewables division was very negatively affected by wind levels, on which the utilisation of our wind farms largely depends. They were lower than in 2015 especially in the second half of 2016. The decline in earnings in the Grid & Infrastructure division was due to additional costs incurred to maintain and upgrade our network infrastructure, primarily in Germany. Earnings in the retail business displayed a positive development. Our UK retail unit made the largest contribution to the growth, although it recorded another loss based on adjusted EBITDA and adjusted EBIT. In addition, a positive one-off effect in the previous year did not recur: in August of 2015, we assumed control over the Slovak energy utility VSE on the basis of contractual arrangements. Since then, the stake in that company, which was previously accounted for using the equity method, has been fully consolidated. The change in accounting treatment followed the revaluation of the investment, which revealed a hidden reserve of €185 million in 2015. Of this sum, €143 million were allocable to the Grid & Infrastructure Eastern Europe segment while €42 million were attributable to the Retail Eastern Europe segment. However, in 2016 we benefited from the fact that VSE was considered in earnings on a full-year basis for the first time because it was consolidated fully.

The development of earnings in our divisions were as follows.

- **Renewables:** Our adjusted EBIT declined by 26% to €359 million, similar to adjusted EBITDA, which dropped by 18% to €671 million. An earnings-reducing effect was felt above all from low wind levels, which led to a significant decline in the utilisation of our capacities, especially in the second half of the year. Compared to the previous year, at our major generation sites in Germany, the United Kingdom, the Netherlands, Spain and Poland we recorded declines, some of which were significant. Only in Italy did plant capacity utilisation increase over 2015. The improved technical availability of our offshore assets only partially offset this. Another major reason was the significant drop in wholesale electricity prices, as some of our renewable energy generation assets do not receive fixed compensation for the electricity they put on the system and are therefore exposed to a market price risk. Moreover, earnings achieved in the same period last year included extraordinary income from the sale of shares in the Galloper offshore wind project and the disposal of the network infrastructure of Gwynt y Môr, one of our Welsh offshore wind farms. The significant depreciation of sterling compared to the euro also had a negative impact. A positive effect on earnings was felt from the fact that Gwynt y Môr and Nordsee Ost, the German offshore wind farm that was also newly built, were constantly online at full capacity for the first time since the beginning of 2016. In addition, we achieved book gains on the sales of small run-of-river power plants in Germany and on the sale of an onshore wind farm in the United Kingdom.

- **Grid & Infrastructure:** This division saw its adjusted EBIT decline by 12% to €1,708 million compared to 2015, with adjusted EBITDA dropping by 9% to €2,622 million. Developments at the segment level were as follows:

- **Grid & Infrastructure Germany:** Adjusted EBIT declined by 7% to €1,188 million. Adjusted EBITDA recorded a similar drop. At €1,844 million, it was 9% down year on year, partially due to additional costs incurred to maintain our network infrastructure. Furthermore, we accrued provisions for partial retirement measures. Our operating depreciation decreased, as impairment losses recognised for our gas storage facilities had a negative effect in 2015.

- **Grid & Infrastructure Eastern Europe:** Adjusted EBIT posted by this segment declined by 20% to €520 million. Totalling €778 million, adjusted EBITDA was 10% lower than last year's corresponding figure, which – as set out above – included exceptional income from the revaluation of VSE. Conversely, we benefited from a rise in transit volumes in our Czech gas distribution network.

- **Retail:** Our adjusted EBIT in the retail business rose by 2% to €844 million, whereas adjusted EBITDA increased by 7% to €1,057 million. This positive development is all the more pleasing given that the previous year's earnings contained exceptional income from the revaluation of VSE. Developments by region were as follows:

  - **Retail Germany:** Adjusted EBIT and adjusted EBITDA rose by 1% and 2%, to €553 million and €592 million, respectively. Efficiency-enhancing measures had a positive effect. Furthermore, our retail companies often managed to purchase volumes of electricity and gas at lower prices. However, the advantages in sourcing were more than offset by a considerable rise in up-front costs associated with network usage fees, taxes and levies. As in 2015, in the financial year that just ended, we reversed provisions for legal risks which we had accrued between 2008 and 2016 in connection with customer supply agreements.

  - **Retail United Kingdom:** Our UK retail business increased adjusted EBIT by €28 million to −€109 million and adjusted EBITDA by €54 million, to −€11 million. Whereas the earnings generated in the same period last year were curtailed by substantial process and system-related costs in billing, the restructuring programme we initiated in early 2016 has already started to bear fruit. The persistently fierce competitive pressure in the residential customer business had a counteracting effect. Some customers can only be retained by making the conditions of their contracts more favourable to them. Competition also became more intense in the commercial customer segment. In addition, the first full-year depreciation of the capital expenditure on our IT infrastructure curtailed adjusted EBIT.

  - **Retail Netherlands/Belgium:** Adjusted EBIT was down by 6% to €182 million, whereas adjusted EBITDA essentially matched the previous year's level, totalling €233 million. In the residential customer business, customer losses and lower sales volumes were partially offset by efficiency measures. The migration was caused by the increased pressure from the competition, above all in the budget segment. Mounting competitive pressure in the corporate customer group also weighed on earnings.

  - **Retail Eastern Europe:** In this segment, adjusted EBIT declined by 4% to €218 million, whereas adjusted EBITDA grew by 4% to €243 million. The main reasons were the full-year full consolidation of the Slovak utility VSE and declines in purchase prices. In the Czech Republic, we benefited from positive weather-related effects.

Reconciliation to net income: prior-year comparison not representative. As set out on page 52, innogy created the envisaged capital structure during 2016. Therefore, in assessing the financial result and, in turn, net income, a comparison to the previous year can only be drawn to a very limited extent.

The non-operating result, in which we recognise certain one-off effects or special items which are not related to operations or to the period being reviewed, increased by €205 million to €255 million. The accounting treatment of derivatives, which we use to hedge price fluctuations, led to much higher income than in the previous year (€356 million in 2016 compared to €135 million in 2015). Furthermore, we received a compensatory payment of €250 million from the unwinding of gas storage contracts with RWE Supply & Trading. The sale of our 33.3% stake in UK-based Zephyr Investments Limited resulted in a capital gain of €76 million. However, in the year being reviewed, we also took charges. They resulted from impairments of €204 million recognised for our German gas storage facilities and of €97 million recognised for wind farms in Poland. In addition, the IPO led to a prorated one-off cost of €131 million borne by innogy.

Financial result € million	2016	2015[1]
Interest income	195	279
Interest expenses	−746	−606
Net interest	**−551**	**−327**
Interest accretion to non-current provisions	−167	−132
Other financial result	−71	157
Financial result	**−789**	**−302**
Adjustments in the financial result	−85	–
Adjusted financial result to derive the adjusted net income	**−874**	**–**

1 Prior-year figures are of limited informational value; see commentary on page 52.

Financial result down year on year. The financial result dropped by €487 million to −€789 million, largely due to the reorganisation of the RWE Group and the transfer of participations of the three divisions to innogy in return for consideration. This led to a rise in innogy's financial liabilities. These measures contributed to creating the envisaged capital structure (see page 72), which led to an increase in interest expenses. The other financial result deteriorated mainly because we achieved high gains on the sale of securities in 2015, whereas we incurred marginal losses from such transactions in the period under review.

As early as the end of 2015, the current innogy Finance B.V. and the bonds issued by it were transferred to a company, the legal successor of which is innogy SE. Furthermore, today's innogy Finance II B.V. assumed liability for a bond from RWE AG. These bonds were accounted for at their fair values as of their respective transfer dates. The difference between their fair values compared to their carrying amounts previously stated by the RWE Group totalled €1.2 billion. This valuation differential does not affect the actual, ongoing payment obligations arising from the bonds or the redemption amount when they mature and is amortised on the balance sheet over the remaining term to maturity of each individual bond. This has a positive impact on net interest, which is shown in the interest expenses and amounted to €212 million in the year being reviewed. Furthermore, our foreign-currency bonds benefited from foreign exchange rate effects due to the difference in valuation. In the year under review, this impact amounted to €67 million and was recognised in the 'other financial result' line item. As the interest and currency impact does not affect the actual payment obligations, we adjust the financial result by both effects to calculate adjusted net income. Furthermore, in 2016 we excluded negative one-off effects totalling €194 million as a result of transferring further bonds from RWE to innogy and redeeming loans from RWE early (see page 69). Therefore, the total positive impact on the reported financial result for 2016 was €85 million, which we consider when adjusting net income.

Reconciliation to net income		2016	2015
Adjusted EBITDA	€ million	**4,203**	**4,521**
Operating depreciation, amortisation and impairment losses	€ million	−1,468	−1,471
Adjusted EBIT	€ million	**2,735**	**3,050**
Non-operating result	€ million	255	50
Financial result	€ million	−789	−302
Income before tax	€ million	**2,201**	**2,798**
Taxes on income	€ million	−415	−860
Income	€ million	**1,786**	**1,938**
Non-controlling interests	€ million	273	325
Net income/income attributable to innogy SE shareholders	€ million	**1,513**	**1,613**
Effective tax rate	%	19	31
Rebased earnings per share[1]	€	2.72	–
Number of shares outstanding at the end of the year	thousands	555,555	–

1 In relation to the number of shares outstanding at 31 December 2016.

Income before tax dropped by 21% to €2,201 million. The effective tax rate was 19%. Reassessments of the future usability of existing loss carryforwards in the Netherlands led to the recognition of deferred tax assets on the balance sheet and therefore to a commensurately lower tax expense.

After tax, we generated income of €1,786 million (prior year: €1,938 million).

The non-controlling interest in income dropped by 16% to €273 million, because some fully consolidated companies, in which entities not belonging to the Group hold a stake, generated lower income than in the previous year. This primarily relates to our German regional utilities, which had benefited from the aforementioned exceptional income on the sale of securities in 2015.

The developments presented above are the reason why net income decreased to €1,513 million (prior year: €1,613 million). Based on the 555,555,000 innogy shares outstanding, rebased earnings per share amounted to €2.72.

Deriviation of adjusted net income		2016	2015
Adjusted EBIT	€ million	2,735	3,050
Adjusted financial result	€ million	−874	–
Adjusted result before tax	€ million	**1,861**	**–**
Taxes on income on the basis of the adjusted tax rate	€ million	−465	–
Non-controlling interests	€ million	−273	–
Adjusted net income[1]	€ million	**1,123**	**–**
Adjusted tax rate	%	25	–
Adjusted net income per share[2]	€	2.02	–
Number of shares outstanding at the end of the year	thousands	555,555	–

1 We did not state adjusted net income for 2015. This is due to the fact that our capital structure in 2015 was much different than our envisaged capital structure (see page 52).
2 In relation to the number of shares outstanding at 31 December 2016.

Forecast met: adjusted net income of €1,123 million achieved. In the year under review, adjusted net income totalled €1,123 million, which was within the forecast range of around €1.1 billion. Adjusted net income differs from net income in that the non-operating result and – possibly – further special items are deducted from it. Further special items that were excluded in 2016 primarily include the aforementioned interest and currency effects in the financial result.

We apply a normalised effective tax rate of 25% in calculating adjusted net income for the year being reported. It is thus at the lower end of our target range of 25% to 30%.

We did not state adjusted net income for the previous year. This is due to the fact that our capital structure in 2015 was much different than our envisaged capital structure, as a result of which the financial result in particular was not representative (see page 52).

Dividend proposal: €1.60 per share. Adjusted net income is the basis for the dividend payment. Dividing the former by the current number of shares issued results in adjusted net income per share of €2.02. The Executive Board and the Supervisory Board of innogy SE will propose a dividend of €1.60 per dividend-bearing share for fiscal 2016 to the Annual General Meeting on 24 April 2017. This corresponds to a payout ratio of about 80% and is therefore at the upper end of the range of 70% to 80%, which we have set as the target range for the dividend payment.

Capital expenditure € million	2016	2015
Capital expenditure on property, plant and equipment and on intangible assets	1,833	2,024
Renewables	242	404
Grid & Infrastructure	1,191	1,305
Germany	832	968
Eastern Europe	359	337
Retail	203	287
Germany	51	53
United Kingdom	90	189
Netherlands/Belgium	30	25
Eastern Europe	32	20
Corporate/other	197	28
Capital expenditure on financial assets	290	164
Total capital expenditure	**2,123**	**2,188**

Capital expenditure slightly lower year on year. At €2,123 million, our capital spending was 3% down on 2015. We spent €1,833 million on property, plant and equipment and intangible assets, 9% less than in 2015. Capital spending decreased primarily in the Renewables division, dropping by 40%. The completion of two large-scale projects in 2015, the offshore wind farms Nordsee Ost and Gwynt y Môr, was the main reason. Capital expenditure in the Grid & Infrastructure division was also slightly down, but as before nearly two thirds of the total capital spent on property, plant and equipment and intangible assets went to this division. Besides maintenance, the focus was on the connection of decentralised generation assets and network expansion associated with the energy transition. The halving of capital expenditure to €90 million in the UK retail business was due to reduced spending on IT projects, which have nearly been completed in the meantime. The rise in capital expenditure in the Corporate/other area was due to the establishment of innogy. The increase in capital expenditure primarily stemmed from the transfer of real estate and factory and office equipment used by innogy from RWE Service. This item alone accounted for €158 million. Our capital expenditure on financial assets rose by €126 million to €290 million, in part because newly founded and existing subsidiaries were provided with capital.

Investment process and economic criteria

We measure the value-added growth of our capex projects applying clearly defined profitability criteria. The following section sets out how exactly we implement this.

Investment process. In the financial year that just ended, innogy spent about €2.1 billion in capital on property, plant and equipment and financial investments as well as intangible assets. We plan to invest €2.0 billion to €2.5 billion per annum also over the next three years. This capital will be spent on the maintenance and modernisation of our grids and on infrastructure as well as on new projects in the field of renewables. In the retail business, we want to become even more efficient as a result of our capital expenditure. All capital expenditures comply with a strict framework.

The Group's maintenance needs and growth options are analysed and evaluated as part of our Group planning. In this context, risk-return-profile, diversification and portfolio issues, business model maturity, manpower allocations and financing capacity play a role in particular. Potential capex projects compete against each other across all divisions. The decisions resulting from this groupwide strategic investment process lay the foundation for detailed planning in our operating segments.

Whether planned capital expenditures are actually implemented depends not only on the strategic and economic assessment, but also on other factors such as the findings of legal and tax reviews. Final investment decisions on projects are usually made by the divisional boards and, if materiality thresholds are exceeded, also with the involvement of the Executive Board or Supervisory Board of innogy SE.

Compliance with the capital expenditure plans is monitored and regularly discussed by the Executive Board members in charge of the division in question and the Executive Board of innogy SE – usually once a quarter. Two years after completion of a major project, a recalculation is performed in order to consider experience gained from the project in planning future projects.

Profitability criteria. All capital expenditure is evaluated based on uniform generally accepted principles in order to ensure the high quality, objectivity and transparency of assessments. The absolute and relative advantages of an investment decision are determined quantitatively by conducting profitability studies in which capital value-oriented methods are primarily used.

First and foremost, we use the internal rate of return (IRR) to assess the attractiveness of capex projects. The IRR is a post-tax figure that reflects the profitability of an entire project irrespective of the underlying financing structure. We then put the IRR in relation to the minimum return we intend to achieve. The appropriateness and level of these return targets ('hurdle rates') for the innogy Group and its divisions are reviewed once a year and adjusted if necessary.

The hurdle rates are composed of the following elements:

- Weighted average cost of capital (WACC) of the Group/division
- Risk premiums reflecting specific construction risks (e.g. relating to new technologies)
- Country risk premium
- Risk premium for non-controlling interests
- Value-added allowance

The following table provides an overview of the current hurdle rate ranges by division. We distinguish between our core business and new markets/technologies. Our core business encompasses the conventional retail electricity and gas business as well as the activities in the Grid & Infrastructure division and the construction of renewable energy assets (wind farms and hydro power stations) in our core markets in Europe. We have different return criteria for new energy service products (referred to as the Energy+ business) in the retail business and for new technologies and/or markets.

Hurdle rate ranges (rounded)	innogy Group	Renewables	Grid & Infrastructure	Retail
Core business	5–9%	5–7%	5–7%	6–9%
New markets/technologies	5–14%	5–14%	5–7%	5–10% (Energy+)

Employees[1]	31 Dec 2016	31 Dec 2015
Renewables	974	921
Grid & Infrastructure	21,012	20,833
Retail	15,430	15,728
Corporate/other	3,220	2,678
innogy Group	**40,636**	**40,160**
In Germany	20,553	19,934
Outside of Germany	20,083	20,226

1 Converted to full-time positions.

innogy had 40,636 employees at the end of 2016. As of 31 December 2016, innogy had 40,636 people on its payroll throughout the Group. Part-time positions were considered in these figures on a pro-rata basis. Last year, net personnel figures grew by 476 employees. At our German sites, manpower rose by 619 from the end of the previous year to 20,553, whereas our workforce abroad shrank by 143 to 20,083 staff members.

In 2016, headcount developed as follows by division: we further expanded our activities in the United Kingdom in the Renewables division. This was also reflected in the number of people on the payroll, which increased slightly compared to the previous year. We also recorded a slight rise in personnel in the Grid & Infrastructure division. By contrast, the labour force of the Retail division shrank due to restructuring and efficiency-enhancing measures. There was an increase in the Corporate/other area owing to the gradual transfer of employees from RWE AG and RWE Group Business Services GmbH to the innogy Group.

Apprentices are not included in the personnel headcount. By the end of 2016, 1,512 young people were in a professional training programme at innogy, slightly more than in 2015 (1,497 apprentices).

1.8 Financial position and net worth

innogy is financially independent. The highlight of the 2016 fiscal year was the company's IPO. In addition, guarantor and debtor exchanges to innogy were initiated for RWE AG bonds. With a total volume of about €11 billion, this transaction was the biggest of its kind by a company in Europe to date. In parallel, we launched a €3 billion commercial paper programme in December, creating our own access to the money market for the first time. A debt issuance programme for long-term debt instruments has been planned for the spring of 2017. These steps were already supported by our independent investment-grade ratings issued by Fitch and Standard & Poor's in 2016. At the end of 2016, our leverage factor based on net debt of €15.7 billion and adjusted EBITDA of €4.2 billion was 3.7, which was below the envisaged ratio of about 4.0.

Central financing. The innogy Group's financing is the responsibility of innogy SE, which obtains funds from banks or on the money and capital markets. In the future, the Dutch subsidiary innogy Finance B.V. can issue senior bonds guaranteed by innogy SE. Only in specific cases do other subsidiaries raise debt capital directly, for example if it is more advantageous economically to make use of local credit and capital markets, or if we implement projects together with partners. Furthermore, innogy SE acts as co-ordinator when Group companies assume a liability. The holding company decides on the scope of warranties issued and letters of comfort signed. Pooling these activities enables us to plan, manage and monitor our financial and liquidity positions. Moreover, this strengthens our position when negotiating with banks, business partners, suppliers and customers.

Flexible tools for raising debt capital. We largely meet our financing needs with cash flows from operating activities. In addition, we have access to a number of flexible financing instruments.

At the end of 2016, innogy set up its own commercial paper programme, giving us a maximum of €3 billion in headroom for short-term financing on the money market.

We assumed a large volume of long-term debt capital from RWE AG. We also plan to be active on the capital market in the future and will set up our own debt-issuance programme for this purpose in the spring of 2017. This will allow us to issue senior bonds on the market. Taking account of the senior bonds assumed, the volume shall total €20 billion. We did not make any issuances in 2016.

Our subsidiary innogy Finance B.V. can draw on RWE AG's syndicated credit line as an additional borrower. The credit line, which expires at the end of March 2021, is being granted by an international consortium of banks. It has a total volume of €4 billion, of which €1.5 billion can be used by innogy. Furthermore, we had access to an additional €1.0 billion line of credit from RWE AG during the reporting period, which we cancelled for economic reasons upon establishing our commercial paper programme at the end of February 2017. Neither the two credit lines, nor the commercial paper programme, had been used by the end of the year. None of the aforementioned financing instruments obligates us to comply with defined interest payment, debt or minimum capital limits, the violation of which would obligate us to make premature repayments, provide surety, or make increased interest payments. Likewise, we are not required to maintain a pre-determined credit rating in order to use the financing tools.

innogy SE becomes guarantor and debtor of RWE senior bonds. The capital structure envisaged for innogy involved assuming the capital market liabilities of the RWE Group – with the exception of the hybrid bonds – as consideration for the assets transferred. Today's innogy Finance B.V. was transferred to innogy's predecessor company along with the associated senior bonds at the end of 2015. Furthermore, a bond was transferred from RWE AG to today's newly established innogy Finance II B.V. However, RWE AG continued to be the guarantor of these senior bonds. Furthermore in June 2016, intragroup loan agreements were concluded between innogy and RWE, referred to as RWE loans hereinafter, through which the lion's-share of the bonds directly issued by RWE and loans from the European Investment Bank (EIB) were passed on to innogy in economic terms.

After the IPO, steps were undertaken as required to implement the external guarantor and debtor exchange for a total of 18 senior bonds with a volume of €11 billion.

- In December 2016, a debtor exchange was performed via a bond swap for just two privately placed senior bonds, because the German Bond Act did not apply to them. This related to a JPY 20 billion bond that matures in 2040 and was fully exchanged and to the €500 million senior bond that matures in 2037. €468 million of the latter bond were presented for the exchange, leaving a remaining €32 million bond with RWE.
- At the beginning of 2017, innogy SE replaced RWE AG as guarantor for senior bonds of innogy Finance B.V. and innogy Finance II B.V. The basis for this was the bond creditors' approval in accordance with the German Bond Act, achieving the minimum participation quotas and majorities necessary for the change in guarantor.
- In addition at the beginning of 2017, based on the German Bond Act, a debtor exchange to innogy was conducted for further privately placed senior bonds directly issued by RWE.

On completion of the debtor exchange, the corresponding RWE loans were redeemed or reduced.

The loan agreements reached between innogy and RWE in June 2016 also relate to two EIB loans of €645 million and £350 million. These loans have terms expiring in 2020 and 2023, respectively. We would like innogy to become the debtor of these loans in legal terms as well. We began talks with the EIB last year and are confident of obtaining approval for a debtor exchange.

Accounting treatment of the debtor exchange. As a result of the transfer of debt within the scope of the restructuring, the senior bonds transferred must be recognised at fair value in accordance with applicable accounting policies. Due to the reduction in market interest rates since the issuance, the fair value was much higher than the carrying amount of the bonds recognised in the RWE Group. The additional liability resulting from this difference will be reversed with an expense-reducing effect over the tenor of the corresponding bonds. The interest and principal payments will not change due to this accounting and earnings effect.

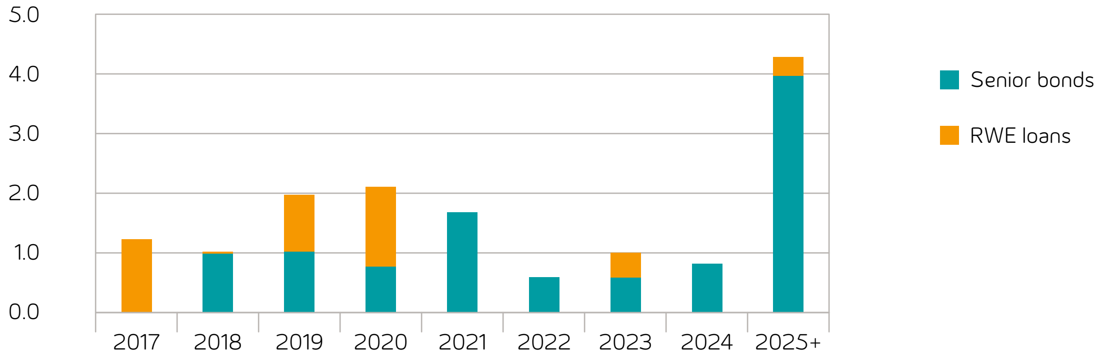
The aforementioned transfer of RWE senior bonds to today's innogy at the end of 2015 resulted in a valuation difference of €1.2 billion at the transfer date, which amounted to €958 million at the end of 2016.

The change in debtor of two privately placed senior bonds in December 2016 gave rise to another valuation difference of €76 million that will be reversed with an effect on income in the future. The valuation difference resulting from senior bonds that must be reversed in the future rose to a total of €1,034 million as of the end of the year under review.

In 2017, further valuation differences may arise from the completion of the guarantor and debtor exchange (also for the EIB loans).

Maturity profile of senior bonds and RWE loans as of 31 December 2016

€ billion



Senior bonds and RWE loans total €14.6 billion at the end of 2016. In the year under review, we redeemed a senior bond with a nominal volume of €850 million, but no new issuances were conducted. At the end of 2016, the nominal volume of the senior bonds outstanding totalled €10.3 billion, of which €0.6 billion is attributable to private placements. Furthermore, there were €4.3 billion in liabilities from RWE loans to RWE AG. The weighted average remaining term to maturity of the senior bonds and the RWE loans amounts to 8.1 years.

The senior loans are denominated in euros, sterling, US dollars and Japanese yen. We concluded hedges to manage the currency risk. Taking account of these transactions, 66 % of our debt was in euros and 34 % was in sterling at the end of the year. This means that there was no foreign currency risk arising from capital markets in US dollars or yen.

The implementation of the debtor exchange caused the bond volume to rise by a nominal €0.4 billion to €10.7 billion at the beginning of 2017. Accordingly, the nominal amount of the RWE loans dropped to €3.9 billion, of which about €1.0 billion are allocable to loans for which another debtor exchange is to be performed, subject to EIB approval.

In 2017, approximately €1.2 billion of the total of €14.6 billion in senior bonds and RWE loans fall due.

Maturities of senior bonds and RWE loans[1] (as of 31 Dec 2016)		2017–2021	2022–2026	2027–2031	From 2032
Nominal volume of senior bonds	€ billion	4.4	2.0	0.9	3.0
Nominal volume of RWE loans	€ billion	3.5	0.4	–	0.4
Total nominal volume	€ billion	**7.9**	**2.4**	**0.9**	**3.4**
Prorated	%	54	16	6	24

1 Differences due to rounding possible.

Weighted average cost of debt totals 4.1%. Relative to the nominal volume of senior bonds and RWE loans outstanding as of 31 December 2016, innogy's volume-weighted average cost of debt was 4.1%. The cost of debt includes interest and currency hedges. It considers the senior bonds based on an average yield of 5.3% and the RWE loans based on an average interest rate of 1.3%.

Cash flow statement € million	2016	2015
Funds from operations	2,952	2,545
Change in working capital	−278	210
Cash flows from operating activities	**2,674**	**2,755**
Cash flows from investing activities	5,218	−1,102
Cash flows from financing activities	−7,042	−1,593
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents	−21	15
Net change in cash and cash equivalents	829	75
Cash flows from operating activities	2,674	2,755
Capital expenditure on property, plant and equipment and on intangible assets[1]	−1,833	−2,025
Free cash flow	**841**	**730**
Investments in financial assets	−216	−99
Dividend payments	−979	−1,017

1 The item solely includes capital expenditure with an effect on cash.

Operating cash flows 3% down year on year. Cash flows generated from operating activities decreased by €81 million to €2,674 million compared to the same period last year. This was predominantly due to the change in working capital. Working capital is subject to significant fluctuation, especially in the Grid & Infrastructure and Retail divisions. In the year under review, a number of transactions came to bear as did the one-off effects of the determined implementation of receivables management in the German and UK retail business, which had a positive impact in 2015 and did not recur in 2016. This had a negative effect on the changes in working capital compared to the prior year.

The improvement in funds from operations was predominantly due to transactions leading to the establishment of innogy. For example, the cancellation of gas storage contracts with RWE Supply & Trading led to a compensatory payment of €250 million.

In the period being reviewed, cash flows from investing activities totalled €5,218 million, and cash flows from financing activities amounted to −€7,042 million. Prior-year comparisons of these two items are of little informational value (see page 52). This is because the cash flows are related to the transfer of business units from RWE to innogy. The changes to the cash flows from investing and financing activities result from the creation of our capital and corporate structure during the reporting period. Therefore, conclusions from cash flows from investing activities to the actual amount of capital spent on property, plant equipment and financial assets can only be drawn to a limited extent (see page 65).

On balance, the presented cash flows from operating, investing and financing activities increased our cash and cash equivalents by €829 million. Deducting capital expenditure on property, plant and equipment and intangible assets from cash flows from operating activities results in free cash flow. The latter amounted to €841 million compared to €730 million in the same period last year.

Net debt € million	31 Dec 2016	31 Dec 2015[1]
Cash and cash equivalents	1,379	550
Marketable securities	2,722	1,921
Other financial assets	519	12,387
Financial assets	**4,620**	**14,858**
Bonds, other notes payable, bank debt, commercial paper	11,826	12,894
Hedge transactions related to senior bonds	−12	–
Adjustment for the fair valuation of senior bonds	−1,034	−1,237
Other financial liabilities including liabilities to RWE AG	5,395	6,081
Financial liabilities	**16,175**	**17,738**
Net financial debt	**11,555**	**2,880**
Provisions for pensions and similar obligations	3,888	3,461
Surplus of plan assets over benefit obligations	−29	−5
Provisions for wind farm decommissioning	334	337
Total net debt	**15,748**	**6,673**

1 Prior-year figures are of limited informational value; see commentary on page 52.

Net debt rises to €15.7 billion due to reorganisation. As of 31 December 2016, our net debt totalled €15.7 billion, up €9.1 billion compared to the 2015 balance-sheet date. This substantial rise in net financial debt was largely due to the fact that in the period under review, we established the envisaged capital structure of the innogy Group. As part of the reorganisation, operations were transferred from RWE to innogy, the purchase prices of which were offset against the financial accounts receivable from RWE. This is the reason for the decline in other financial assets. Prior-year figures are therefore of limited informational value.

Provisions for pensions rose from €3.5 billion to €3.9 billion. The drop in discount rates to 1.8 % in Germany and 2.6 % in the United Kingdom from 2.4 % and 3.6 %, respectively, in the 2015 financial statements played a major role. The funding of our pension vehicles, without which pension provisions would have risen by another €0.3 billion, had a dampening effect. By contrast, this measure did not have an impact on net debt.

The drop in value of sterling had a debt-reducing effect: It caused the volume of our bonds issued in this currency to be lower in euro terms in particular. Furthermore, the €2.0 billion capital increase within the scope of innogy's IPO as well as the free cash flow and the divestments contributed to limiting the rise in debt. Dividend payments increased debt by €1.0 billion.

Off-balance-sheet obligations higher from gas procurement contracts and lower from electricity procurement contracts. Net debt does not include our off-balance-sheet obligations, which mostly result from long-term contracts for the supply of gas and electricity. Our payment obligations arising from long-term gas purchase agreements increased in 2016 compared to the previous year. However, the obligations arising from electricity contracts decreased. We calculate them based on the expected development of commodity prices. For further commentary on our off-balance-sheet obligations, please turn to page 165 in the notes to the consolidated financial statements.

Credit rating (as of 31 Dec 2016)	Standard & Poor's	Fitch
Long-term debt	BBB−	BBB+
Senior bonds	BBB−	A−
Short-term debt	A3	F2
Outlook	Positive	Stable

innogy classified as investment grade. Just a few weeks after its IPO, on 31 October 2016, innogy was assigned a BBB+ rating with a stable outlook from Fitch. This was its first independent rating of innogy's creditworthiness, putting it in a category of solid investment grade. The so-called senior unsecured rating, which is relevant to senior bonds, was actually rated a notch higher, at A−. Our commercial paper with a short tenor received an F2 rating grade. According to Fitch, the good ratings reflect innogy's very solid business profile with a large proportion of earnings from predominantly regulated networks and quasi-regulated power generation from renewables.

In November, Standard & Poor's (S & P) published its rating for innogy: BBB-. In S & P's view, innogy's rating, which is considered to be better on a stand-alone basis, is limited by RWE AG's group rating. No independent rating for innogy has been published by Moody's yet.

Leverage factor at 3.7. We manage our indebtedness via the leverage factor, which is the ratio of net debt to adjusted EBITDA. This performance indicator is more useful than the absolute level of liabilities, as it considers the company's earnings power and, in turn, its capacity to service debt. We are striving for a leverage factor of around 4.0. As of 31 December 2016, it was 3.7.

Balance sheet structure: equity ratio of nearly 23%. As of 31 December 2016, our balance sheet total was €46.9 billion, as opposed to €58.0 billion at the end of the prior year. The change in the balance sheet structure is closely connected to the creation of innogy's envisaged capital and company structure during the year being reviewed. The purchase prices established in this context were largely offset against the financial accounts receivable from RWE recognised by innogy on its balance sheet at the end of the preceding year. These transactions were the main reason why financial receivables decreased by a total of €11.9 billion. Our current financial liabilities declined, in part due to the redemption of a €850 million senior bond. The effects of the establishment of the company and capital structure also came to bear. The reduction in derivatives of €0.5 billion on the assets side and of €0.8 billion on the equity and liabilities side was primarily due to the realisation of commodity derivatives. Besides other effects, the drop in discount rates led to a €0.4 billion increase in our pension provisions.

The aforementioned transactions were the main reason why equity decreased from €18.5 billion to €10.7 billion. The equity ratio fell from 31.8% to 22.7%. Our equity position was strengthened by innogy SE's capital increase within the scope of the IPO from which we generated proceeds of about €2.0 billion.

Balance sheet structure	31 Dec 2016		31 Dec 2015	
	€ million	%	€ million	%
Assets				
Non-current assets	36,239	77.3	38,235	66.0
Intangible assets	11,709	25.0	12,178	21.0
Property, plant and equipment	17,954	38.3	18,308	31.6
Current assets	10,651	22.7	19,737	34.0
Receivables and other assets[1]	6,193	13.2	16,913	29.2
Total	**46,890**	**100.0**	**57,972**	**100.0**
Equity and liabilities				
Equity	10,667	22.7	18,460	31.8
Non-current liabilities	24,442	52.2	23,700	40.9
Provisions	5,518	11.8	5,077	8.8
Financial liabilities	16,556	35.3	15,291	26.4
Current liabilities	11,781	25.1	15,812	27.3
Other liabilities[2]	8,662	18.5	9,583	16.5
Total	**46,890**	**100.0**	**57,972**	**100.0**

1 Including financial accounts receivable, trade accounts receivable and income tax refund claims.
2 Including trade accounts payable and income tax liabilities.

1.9 Notes to the financial statements of innogy SE

Headquartered in Essen, Germany, innogy SE is the operating parent company of the innogy Group, which was established in the financial year that just ended. The innogy Group has three divisions – Renewables, Grid & Infrastructure and Retail – and is one of Europe's largest energy utilities.

Financial statements. innogy SE prepares its financial statements in compliance with the rules set out in the German Commercial Code and the German Stock Corporation Act. The financial statements are announced in the German Federal Gazette. They can be ordered directly from innogy and are also available on the internet at **www.innogy.com/ir.**

Balance sheet of innogy SE (abridged) € million	31 Dec 2016	31 Dec 2015
Non-current assets	**22,625**	**–**
Financial assets	22,298	–
Other non-current assets	327	–
Current assets including prepaid expenses	**4,769**	**–**
Accounts receivable from affiliated companies	2,238	–
Marketable securities and cash and cash equivalents	1,658	–[1]
Other current assets	782	–
Prepaid expenses	91	–
Total assets	**27,394**	**–**
Equity	8,908	–[1]
Exceptional items with a reserve element	1	–
Provisions	938	–[1]
Accounts payable to affiliated companies	16,130	–
Other liabilities	1,381	–
Deferred income	36	–
Total equity and liabilities	**27,394**	**–**

1 Only negligible amounts are presented, as the company was only established in December 2015.

Income statement of innogy SE (abridged) € million	2016	2015
Revenue	10,952	–
Other operating income	2,278	–
Cost of materials	−10,345	–
Staff costs	−330	–
Other operating expenses	−1,238	–[1]
Net income from financial assets	781	–
Net interest	−404	–
Other income and expenses	−3	–
Taxes on income	−103	–
Income after tax	**1,588**	**–[1]**
Net profit (previous year: net loss)	**1,588**	**–[1]**
Loss carryforward	–[1]	–
Transfer to other retained earnings	−698	–
Distributable profit	**890**	**–[1]**

1 Only negligible amounts are presented, as the company was only established in December 2015.

innogy SE. Within the scope of the establishment of innogy SE as operating parent company, the activities of RWE Innogy GmbH (Renewables), RWE Deutschland AG (Grid & Infrastructure) and RWE Vertrieb AG (Retail) were transferred to innogy SE. Back-office administration and management functions were transferred from RWE AG and RWE Group Business Services GmbH to innogy SE during the 2016 financial year as well.

Moreover, RWE Effizienz GmbH, RWE Energiedienstleistungen GmbH and RWE Netzservice GmbH were folded into innogy SE, in order to pool further operating tasks.

Since the successful IPO in October 2016, innogy SE's majority shareholder has been RWE AG, owning a stake of 76.8%, which it holds via its wholly owned subsidiary RWE Downstream Beteiligungs GmbH. Therefore, innogy SE and the entire innogy Group are included in the consolidated financial statements of RWE AG as subsidiary and sub-group, respectively.

Assets. Despite the operating tasks performed by innogy SE, the company's assets are predominantly characterised by its role as financial and management holding company. A large portion of the assets side of the balance sheet consists of financial assets. A significant portion of the financial assets are accounted for in particular by shares held by innogy SE in companies in Europe outside Germany, e.g. in the United Kingdom, the Netherlands and Eastern Europe, but also in German regional companies. This reflects the Group's international reach and diversity, which we consider to be one of the cornerstones of our success.

Financial position. The equity and liabilities side of the balance sheet of innogy SE is primarily characterised by the company's equity and accounts payable to affiliated companies. innogy's role as financial and management holding company is mainly reflected here as well, whereas the company's operating tasks are hardly apparent. At approximately €8,908 million, the company's equity is a major item, from which a comfortable equity ratio of 33% can be derived, accounting for nearly one-third of total equity and liabilities.

The liabilities of €17,511 million recognised as of the balance-sheet date are largely payable to RWE AG as well as to innogy Finance B.V. and innogy Finance II B.V. The two latter companies are used by innogy SE to finance its own activities and those of its subsidiaries. The financing companies had issued bonds backed by RWE AG, their parent at the time, which also procured further funds from external banks as well as on the money and capital markets. The financing and award of guarantees via RWE AG reflect the external market conditions. At the time of the IPO, it had already been envisaged that innogy SE replace RWE AG as guarantor or debtor for all capital market debt (except for the hybrid bonds). Corresponding bondholder resolutions were initiated within the scope of the German Bond Act at the end of 2016. Two bonds (JPY 20 billion and €468 million) were already transferred from RWE AG to innogy SE in December 2016 by way of a change in guarantor.

Earnings position. The operating activities of innogy SE in addition to its role as the financial and management holding company of the innogy Group are apparent in view of the company's earnings. The following is an overview of the percentage breakdown of the key earnings items among the divisions of innogy SE. The activities of innogy SE as the financial and management holding company of the innogy Group are subsumed in the Corporate/other item.

Breakdown of the key earnings items by division[1]	Revenue		Other operating income		Cost of materials		Other operating expenses		Net income from financial assets		Net interest	
	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
Renewables	354	3.2	120	5.3	−303	2.9	−95	7.7	99	12.7	−122	30.2
Grid & Infrastructure	1,454	13.3	106	4.7	−1,467	14.2	−189	15.3	173	22.1	−1	0.2
Retail	9,129	83.4	119	5.2	−8,544	82.6	−206	16.6	6	0.8	4	−1.0
Corporate/other	15	0.1	1,933	84.8	−31	0.3	−749	60.4	503	64.4	−285	70.6
innogy SE	**10,952**	**100.0**	**2,278**	**100.0**	**−10,345**	**100.0**	**−1,239**	**100.0**	**781**	**100.0**	**−404**	**100.0**

1 Differences due to rounding possible.

Of the €10,952 million in revenue achieved in the financial year that just ended, 83% was allocable to the German retail business. We supply regional municipal utilities and distributors with electricity and gas and offer further key accounts a broad portfolio of energy-related services. We have a diverse range of products and solutions for electricity and gas procurement and the optimisation of energy consumption adressing the needs of both residential and commercial customers.

A small portion of revenue, or 13%, was allocable to the Grid & Infrastructure division, where we achieve the most revenue from lease instalments and concession fees as well as from the provision of additional services.

The Renewables division accounted for 3% of the revenue at the level of innogy SE, playing a minor role as almost all of the operating activities in the Renewables division are done by our subsidiaries and investments.

The cost of materials of €10,345 million was distributed among the divisions similarly to revenues: the lion's share of about 83% was attributable to the Retail division and primarily consisted of expenses associated with the procurement of electricity and gas.

The cost of materials allocable to the Grid & Infrastructure division amounted to 14% of the total cost of materials and largely consists of lease instalments and expenses incurred for concession fees.

Analogous to revenue, the share of the cost of materials allocable to the Renewables division was about 3% and therefore minor.

In fiscal 2016, the other operating result was affected by the large number of restructurings – both within the innogy Group and within innogy SE itself – and the role of innogy SE as the Group's financial and management holding company. A major factor of earnings were the measures under company transformation law taken regarding investments held in connection with the structuring of innogy SE under company law and the IPO. Furthermore, major contributions to earnings were made primarily from the accounting treatment of financial derivatives used by innogy SE to hedge currency and interest-rate risks arising from foreign-currency positions, cash investments and financing transactions.

Income from financial assets amounted to €781 million, thus making a substantial contribution to the good earnings position. This item primarily includes income from profit transfers and dividends as well as expenses associated with loss assumptions which innogy SE as the Group parent appropriates from its material subsidiaries. In the financial year that just ended, we also appropriated positive earnings contributions from investments, which are held as investments accounted for at equity due to a material influence.

At −€404 million, innogy SE's net interest was clearly negative: the expenses associated with financing its own activities and those of its subsidiaries and investments clearly exceeded income from loans passed on to subsidiaries. As described earlier, RWE AG and innogy Finance B.V. act as the two major financing companies. Accordingly, they accounted for most of the financing expenses.

Disclosure in compliance with Section 6b, Paragraph 7 of the German Energy Act. As a vertically integrated energy utility, innogy SE is required by the provisions of the German Energy Act to maintain separate accounts for each of the activities it undertakes and to prepare and report on activity reports for each activity. innogy SE undertakes the following activities:

- Distribution of electricity
- Intelligent measuring systems
- Energy-specific services relating to the distribution of electricity
- Other activities within the electricity sector
- Distribution of gas
- Energy-specific services relating to the distribution of gas
- Activities outside of the electricity and gas sectors

For reporting purposes, assets, shareholders' equity and liabilities as well as expenses and income are directly assigned to these activities. Only in cases where a direct assignment is impossible or would be an undue burden is the assignment based on an adequate key derived from a similar item on the balance sheet or income statement.

In addition, a separate balance sheet and income statement is prepared for electricity distribution, gas distribution, and energy-specific services.

As regards the definition of the activities as well as the balance sheets and income statements of the electricity and gas distribution activities, we refer to the activity reports of our company. The following is a presentation of the main balance-sheet items and income from operating activities by distributing activity in 2016:

- Earnings achieved by the electricity and gas distribution activities primarily stem from being a lessor or lessee of electricity and gas grids.
- Income before tax from the distribution of electricity amounted to −€16.2 million.
- Income before tax from the distribution of gas amounted to −€1.4 million.

Final declaration of the Executive Board on the report on relations to affiliates. As of 31 December 2016, RWE Downstream Beteiligungs GmbH, a subsidiary wholly owned by RWE AG, held 76.8% of the voting shares in the capital stock of innogy SE. For this reason, an absolute voting majority is expected at future Annual General Meetings, resulting in innogy SE being dependent on RWE Downstream Beteiligungs GmbH and RWE AG pursuant to Section 17, Paragraph 2 of the German Stock Corporation Act.

The domination agreement concluded between RWE Downstream Beteiligungs GmbH and innogy SE on 26 February 2016 was cancelled on 7 September 2016 with effect from the end of the day on 30 September 2016. This results in the obligation to prepare a report on relationships to affiliates ('dependency report') in accordance with Section 312, Paragraph 1 of the German Stock Corporation Act for the period from 1 October 2016 to the end of the fiscal year (31 December 2016).

The Executive Board of innogy SE prepared a dependency report in which it made the following final declaration: "Our company received appropriate consideration for every legal transaction and measure mentioned in the report on relations to affiliates under the circumstances known to us when the legal transactions were concluded and the measures were taken and was not put at a disadvantage as a result of measures being taken. There were no measures that were not implemented."

Appropriation of distributable profit. The Executive Board and the Supervisory Board of innogy SE will propose a dividend of €1.60 per dividend-bearing share for fiscal 2016 to the Annual General Meeting on 24 April 2017. The basis for calculating the dividend is the adjusted IFRS net profit of the innogy Group. The payout ratio corresponds to a share of around 80 %.

Outlook. Earnings for the 2016 fiscal year under the German Commercial Code were affected by the establishment of innogy SE and the innogy Group under company law. For the 2017 financial year, we expect a net profit of between 70 % and 80 % of the forecasted adjusted IFRS net profit of the innogy Group.

Summarised corporate governance declarations in accordance with Section 315, Paragraph 5 of the German Commercial Code in conjunction with Section 289a of the German Commercial Code. On 21 February 2017, the Executive Board of innogy SE issued a summarised corporate governance statement in accordance with Section 315, Paragraph 5 of the German Commercial Code in conjunction with Section 289a of the German Commercial Code and published it on the internet at **www.innogy.com/corporate-governance-declaration.**

1.10 Disclosure relating to German takeover law

The following disclosure is in accordance with Section 315, Paragraph 4 and Section 289, Paragraph 4 of the German Commercial Code as well as with Section 176, Paragraph 1, Sentence 1 of the German Stock Corporation Act. The information relates, among other things, to legal regulations governing executive board authorisations to change a company's capital structure and may play a role for innogy in the event of a change of control of the company. These regulations are in line with the standards of German capital market-oriented companies.

Composition of subscribed capital. The capital stock of innogy SE amounts to €1,111,110,000.00 and is divided into 555,555,000 bearer shares (shares without par value). Each share grants the same rights.

Shares in capital accounting for more than 10% of voting rights. As of 31 December 2016, only one holding in innogy SE exceeded 10% of the voting rights. It was owned by RWE Downstream Beteiligungs GmbH, headquartered in Essen, Germany, a subsidiary wholly owned by RWE AG.

In connection with the IPO of innogy SE, RWE AG and RWE Downstream Beteiligungs GmbH have undertaken to refrain from directly or indirectly selling, marketing, transferring or otherwise divesting any innogy SE shares and securities for a six-month period starting on 7 October 2016 without the prior written consent of certain syndicate banks. This obligation also applies to any transaction commercially similar to a sale such as the issuance of option or convertible rights to shares in innogy SE. It does not apply to (i) shares used for stabilisation, (ii) (over-the-counter) transfers to third parties, (iii) transfers to affiliates of RWE AG, (iv) future pledges to one or several banks or their affiliates or (v) transfers of shares to one or several banks or their affiliates within the scope of the realisation of associated pledged assets – in the event of (ii) and (iii) under the condition that the transfer recipient(s) adhere to the same blocking periods as RWE AG and RWE Downstream Beteiligungs GmbH.

Appointment and dismissal of Executive Board members/ amendments to the Articles of Incorporation. Executive Board members are appointed and dismissed in accordance with Article 39, Paragraph 2 and Article 46 of Regulation (EC) No. 2157/2001 of the Council of 8 October 2001 on the Statute for a European Company (SE) (SE Regulation), Article 7, Paragraph 2 of the Articles of Incorporation and – subsidiarily – Section 84 et seq. of the German Stock Corporation Act. The members of the Executive Board are appointed by the Supervisory Board for a maximum of five years. Reappointments may be made for the aforementioned period. Amendments to the Articles of Incorporation are made pursuant to Article 59 of the SE Regulation and Section 51 of the German Act on the Implementation of the SE Regulation in conjunction with Article 19, Paragraph 5 of the Articles of Incorporation of innogy SE. According to Article 19, Paragraph 5 of the Articles of Incorporation, unless otherwise required by law or the Articles of Incorporation, the Annual General Meeting shall adopt all resolutions by a simple majority of the votes cast; if a majority of the capital stock represented is required, a simple majority of the capital shall suffice. This also applies to resolutions that result in amendments to the Articles of Incorporation if at least half of the capital stock is represented in the passage of the resolution. Pursuant to Article 13, Paragraph 9 of the Articles of Incorporation, the Supervisory Board is authorised to pass resolutions to amend the Articles of Incorporation that only concern the wording without changing the content.

Executive Board authorisations for implementing share buybacks. Pursuant to a resolution passed by the Annual General Meeting on 30 August 2016, innogy SE is authorised to buy back up to 10% of its capital stock in shares as of the entry into force of said resolution or – if this figure is lower – when this authorisation is exercised until 29 August 2021. At the Executive Board's discretion, the acquisition shall be made on the stock exchange or via a public purchase offer. Shares purchased following this procedure may then be cancelled. Furthermore, the purchased shares may be transferred to third parties or sold otherwise in connection with mergers or acquisitions of companies, parts of companies, operations, or of stakes in companies. Shares that are not sold on the stock exchange or through a tender to all shareholders may only be sold for cash. Moreover, in such cases, the sale price may not be significantly lower than the price at which the shares are listed on the stock market and the prorated amount allocable to the shares for sale may correspond to a maximum 10% of the company's capital stock as of the entry into force of this authorisation or – if this figure is lower – at the exercise of this authorisation.

Other cash capital measures waiving subscription rights are considered when determining whether the 10% threshold has been exceeded. The company may give shares bought back to the holders of option or convertible bonds if the prorated amount allocable to the shares to be transferred does not exceed 10% of the capital stock as of the entry into force of this authorisation or at its exercise date. Other cash capital measures waiving subscription rights are also considered when determining whether the 10% threshold has been exceeded in such cases. In addition, the company may also use the shares to fulfil its obligations resulting from employee share schemes or to pay a scrip dividend. In the aforementioned cases, shareholder subscription rights are excluded. These authorisations may be exercised in full or in part, or once or several times for partial amounts.

Executive Board authorisation for the issuance of new shares and of option and convertible bonds. Pursuant to the resolution passed by the Annual General Meeting on 30 August 2016, the Executive Board is authorised to increase the company's capital stock, subject to the Supervisory Board's approval, by up to €333,333,000.00 until 29 August 2021, through the issuance of up to 166,666,500 no-par-value shares in return for contributions in cash or in kind (authorised capital). This authorisation may be exercised in full or in part, or once or several times for partial amounts. In principle, shareholders are entitled to subscription rights. However, subject to the approval of the Supervisory Board, the Executive Board may exclude subscription rights in the following cases: subscription rights may be excluded in order to prevent the number of shares allocated from the subscription resulting in fractional amounts (fractions of shares). Subscription rights may also be excluded in order to issue shares in exchange for contributions in kind for the purposes of mergers or acquisitions of companies, parts of companies, operations, or of stakes in companies, if the total prorated amount allocable to the new shares, for which subscription rights are excluded, does not exceed 20% of the capital stock either as of the entry into force of the resolution or at the exercise date of this authorisation. Subscription rights may be excluded in the event of a cash capital increase if the price at which the new shares are issued is not significantly lower than the price at which shares are quoted on the stock market and the portion of the capital stock accounted for by the new shares, for which subscription rights are excluded, does not exceed 10% of the capital stock as of the entry into force of this authorisation or at its exercise date. Other cash capital measures waiving subscription rights are considered when determining whether the 10% threshold has been exceeded. Furthermore, subscription rights may be excluded in order to offer shares to holders of convertible or option bonds commensurate to the rights to which they would be entitled as shareholders on conversion of the bond or on exercise of the option.

Pursuant to the resolution passed by the Annual General Meeting on 30 August 2016, the Executive Board is authorised until 29 August 2021, subject to the Supervisory Board's approval, to issue option and/or convertible bonds either once or several times and to back option and convertible bonds issued by subordinate Group companies. The total nominal amount is limited to €3,000,000,000.00. The capital stock has been conditionally increased by a maximum of €111,111,000.00, divided into a maximum of 55,555,500 bearer shares (conditional capital) in order to redeem convertible or option bonds. In principle, shareholders are entitled to subscription rights. However, subject to the approval of the Supervisory Board, the Executive Board may exclude subscription rights in the following cases: subscription rights may be excluded in order to prevent the number of shares allocated from the subscription resulting in fractional amounts (fractions of shares) and if the price at which the bonds are issued is not significantly lower than their fair value and the portion of the capital stock accounted for by the new shares, for which subscription rights are excluded, does not exceed 10% of the capital stock as of the entry into force of this authorisation or at its exercise date. Other cash capital measures waiving subscription rights are considered when determining whether the 10% threshold has been exceeded. Furthermore, subscription rights may be excluded in order to offer shares to holders of convertible or option bonds issued previously, commensurate to the rights to which they would be entitled as shareholders on conversion of the bond or on exercise of the option. Subject to the approval of the Supervisory Board, the Executive Board is authorised to establish a profit participation for new shares that deviates from the provisions of Section 60, Paragraph 2 of the German Stock Corporation Act as well as further details concerning the implementation of the conditional capital increase.

In connection with its IPO, innogy SE has undertaken to refrain from (i) announcing or implementing an increase in the company's capital stock using authorised or conditional capital, (ii) proposing an increase in the capital stock to its Annual General Meeting (direct capital increase resolution) and (iii) announcing, implementing or proposing the issuance of securities with convertible or option rights in relation to shares in the company or conducting transactions of commercial similarity without the prior written consent of certain syndicate banks for a period of six months starting on 7 October 2016. However, the company may (a) issue or sell shares or other securities to employees and members of its management bodies or its subsidiaries within the scope of management and employee profit participation programmes and (b) implement any kind of capital measure for the purpose of forming a joint venture or concluding a shareholding acquisition agreement or passing a resolution on the formation of a joint venture or the conclusion of a shareholding acquisition agreement if the parties to the joint venture or the purchasing company to which such shares are issued agree to be bound by the same blocking periods as RWE AG and RWE Downstream Beteiligungs GmbH.

Effects of a change of control on debt financing. Our debt financing instruments often contain clauses that take effect in the event of a change of control. This also applies to our bonds. In the event of a change of control in conjunction with a drop in innogy SE's credit rating below investment-grade status, creditors may demand immediate redemption. RWE AG's €4 billion syndicated credit line, to which innogy Finance B.V. is an additional borrower, includes a change-of-control clause, which essentially has the following content: in the event of a change of control or majority shareholder at RWE AG, further drawings are suspended until further notice. The lenders enter into negotiations with us on a continuation of the credit line. Should we fail to reach an agreement with the majority of them within 30 days from such a change of control, the lenders may cancel the line of credit.

Effects of a change of control on Executive Board and executive compensation. Members of the Executive Board of innogy SE have a special right of termination in the event that shareholders or third parties take control of the company, resulting in major disadvantages for the Executive Board member in question. In such cases, they have the right to retire from the Executive Board within six months of the change of control and to request that their employment contract be terminated in combination with a one-off payment. The one-off payment is equal to the compensation due until the end of the term of the contract originally agreed upon, but no higher than three times their total contractual annual compensation. The share-based payments under the Long-Term Incentive Plan are not considered here. This rule is in line with the applicable recommendations of the German Corporate Governance Code.

The Strategic Performance Plan (SPP), the long-term incentive for the Executive Board and executives of innogy SE and subordinate affiliates, stipulates that all holders of performance shares receive compensation in the event of a change of control. Performance shares that have become fully vested and have not been paid out are paid out early. The sum paid out is calculated by multiplying the number of these performance shares by the sum of the average closing quotation of the innogy share during the last 30 stock exchange trading days before the announcement of the change of control and the dividend paid per share up until this point in time, calculated from the vesting date of the performance shares. The performance shares conditionally granted under the SPP on a provisional basis lapse on the date of the change of control.

Detailed information on the compensation of the Executive Board and executives can be found on pages 84 et seqq. and 145 et seqq.

1.11 Compensation report

We believe that the transparent reporting of Supervisory and Executive Board compensation is a key element of good corporate governance. In this chapter, we have provided some information on the principles of innogy SE's remuneration system as well as its structure and benefits. The 2016 compensation report adheres to all statutory regulations and is fully compliant with the recommendations of the German Corporate Governance Code.

Structure of Supervisory Board compensation

The remuneration of the Supervisory Board is governed by the provisions of the Articles of Incorporation of innogy SE and was granted for work from 27 July 2016 onwards. The Chairman and the Deputy Chairman of the Supervisory Board receive a fixed compensation of €300,000 and €200,000 per fiscal year, respectively. The compensation of the other members of the Supervisory Board consists of the fixed compensation of €100,000 per fiscal year and an additional compensation for committee mandates according to the following rules:

The members of the Audit Committee receive an additional remuneration of €40,000. This additional payment is increased to €80,000 for the Chair of this committee. With the exception of the Nomination Committee, the members and the Chairs of all the other Supervisory Board committees receive an additional €20,000 and €40,000 in compensation, respectively. Remuneration for a committee mandate is only paid if the committee is active at least once in the fiscal year.

Supervisory Board members who hold several offices in this corporate body concurrently only receive compensation for the highest-paid position. Compensation for certain functions performed by Supervisory Board members for only part of a fiscal year is prorated.

In addition to the remuneration paid, out-of-pocket expenses are refunded to the members of the Supervisory Board. Certain members also receive income from the exercise of Supervisory Board mandates at subsidiaries of innogy SE.

The members of the Supervisory Board imposed on themselves the obligation to spend 25% of the total compensation paid (before taxes), subject to any obligations to relinquish any portion of their pay, to buy innogy shares and to hold them for the duration of their membership in the Supervisory Board. All of the members of the Supervisory Board, who do not relinquish their compensation, met this self-imposed obligation in the 2016 financial year.

Dr. Jens Hüffer, Dr. Michael Müller and Otger Wewers, who resigned from their offices on the Supervisory Board of innogy SE with effect from the end of the day on 30 June 2016, did not receive any compensation for fiscal 2016.

Level of Supervisory Board compensation

In total, the emoluments of the Supervisory Board (including compensation for committee mandates) amounted to about €966,000 in fiscal 2016. Of this sum, roughly €141,000 was remuneration paid for mandates on committees of the Supervisory Board. In addition approximately €19,000 in compensation was paid for mandates exercised at subsidiaries. Total compensation amounted to some €985,000.

The total compensation of the Supervisory Board members after 30 June 2016 and the remuneration included for mandates exercised on Supervisory Board committees are shown in the following table.

Supervisory Board compensation € '000	Fixed compensation	Compensation for committee offices[1]	Total compensation[2]	Compensation for offices held at subsidiaries
Dr. Werner Brandt, Chairman (since 1 Jul 2016)	130	–	130	–
Frank Bsirske, Deputy Chairman (since 1 Jul 2016)	86	–	86	–
Reiner Böhle (since 1 Sep 2016)	33	7	40	–
Ulrich Grillo (since 1 Sep 2016)	33	7	40	–
Arno Hahn (since 1 Sep 2016)	33	13	47	–
Maria van der Hoeven (since 1 Sep 2016)	33	–	33	–
Michael Kleinemeier (since 1 Sep 2016)	33	7	40	–
Martina Koederitz (since 1 Sep 2016)	33	–	33	–
Dr. Markus Krebber (since 1 Sep 2016)	33	13	47	–
Hans Peter Lafos (since 1 Sep 2016)	33	7	40	13
Robert Leyland (since 1 Sep 2016)	33	7	40	–
Meike Neuhaus (since 1 Sep 2016)	33	–	33	–
Dr. Rolf Pohlig (since 1 Sep 2016)	33	27	60	–
René Pöhls (since 1 Sep 2016)	33	13	47	6
Pascal van Rijsewijk (since 1 Sep 2016)	33	7	40	–
Gabriele Sassenberg (since 1 Sep 2016)	33	13	47	–
Dr. Dieter Steinkamp (since 1 Sep 2016)	33	–	33	–
Marc Tüngler (since 1 Jul 2016)	43	7	50	–
Šárka Vojíková (since 1 Sep 2016)	33	–	33	–
Deborah Wilkens (since 1 Sep 2016)	33	13	47	–
Total	**820**	**141**	**966**	**19**

1 Committees formed on 1 September 2016.
2 The commercial rounding of certain figures representing the fixed and committee compensation can result in the sum of the rounded figures deviating from the rounded total emoluments.

Structure of Executive Board compensation

Compensation system. The Supervisory Board of innogy SE adopted a compensation system for the members of the Executive Board in fiscal 2016 that incentivises the implementation of the strategic orientation of the new company and meets the demands placed on the members of the Executive Board by the newly developed business model. The new compensation system for the Executive Board builds on proven elements of the system used in the RWE Group so far, but is less complex and has been adapted to the Group's changed company structure. The structure and level of Executive Board member compensation are determined by the Supervisory Board of innogy SE and reviewed on a regular basis to determine whether they are appropriate and in line with the market.

Composition of the Executive Board. Fiscal 2016 was characterised by the beginning of innogy SE's operations and its IPO. This led to changes in the composition of the Executive Board. In the first quarter of 2016, when innogy was called RWE International SE, the company was represented by the following Executive Board members: Dr. Claudia Mayfeld, Katja van Doren and Dr. Stephan Lowis. All of the aforementioned Executive Board members exercised this office while fulfilling their employment contracts with RWE AG and resigned from their offices on the Executive Board by mutual agreement with effect from 31 March 2016. The Executive Board of RWE International SE was not granted separate pay for its work during the period that ended on 31 March 2016.

When innogy started operating on 1 April 2016, Peter Terium, Dr. Bernhard Günther and Uwe Tigges were appointed members of the Executive Board of the new company in addition to the offices they already held on the Executive Board of RWE AG. As of this date, Peter Terium became the CEO and Dr. Bernhard Günther became the

CFO. After the successful IPO of innogy SE, Peter Terium and Dr. Bernhard Günther resigned from their offices on the Executive Board of RWE AG with effect from the end of the day on 14 October 2016 in order to work solely for innogy. Uwe Tigges will resign from his office on 30 April 2017. Until then, he will be the Labour Director for both companies. The compensation granted for the period during which Peter Terium, Dr. Bernhard Günther and Uwe Tigges were appointed to the Executive Board of both innogy SE and RWE AG was mutually offset pro-rata.

In addition, Dr. Hans Bünting (COO Renewables) and Martin Herrmann (COO Retail) were appointed members of the Executive Board of innogy SE with effect from 1 April 2016. Hildegard Müller (COO Grid & Infrastructure) has been on the Executive Board of innogy SE since 1 May 2016.

Employment contracts of the Executive Board. All of the members of the Executive Board received employment contracts based on the new compensation system adopted by the Supervisory Board in 2016. The structure and components of the new compensation system are set out in detail herein below. Dr. Hans Bünting, Martin Herrmann and Hildegard Müller each received an employment contract as of the date of their appointment. Peter Terium, Dr. Bernhard Günther and Uwe Tigges concluded new employment contracts with innogy SE with effect from 1 October 2016. Their employment contracts with RWE AG were cancelled early by mutual agreement as of 30 September 2016.

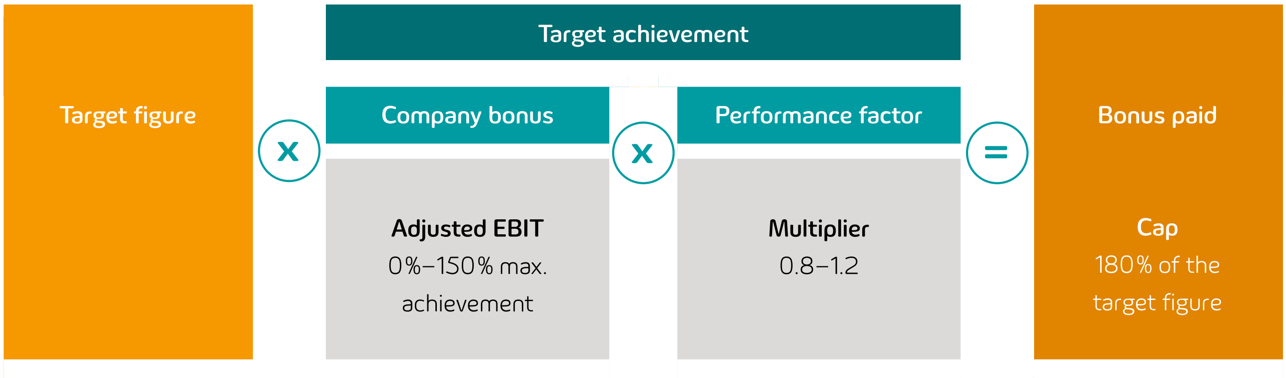
Main features of the compensation model. The remuneration of the Executive Board is made up of non-performance and performance-based components: the former consists of the fixed salary, the pension instalment as well as compensation in kind and other emoluments. The performance-based components are a one-year bonus and a share-based payment in accordance with the Strategic Performance Plan (SPP), which is a long-term compensation component.

Fixed compensation and pension instalment. All Executive Board members receive a fixed salary, which is paid in twelve monthly instalments. They are entitled to a contractually defined pension payment for every year of service, which is the second fixed compensation component. They can choose whether the sum is paid in cash or retained in part or in full in exchange for a pension commitment of equal value through a gross compensation conversion. innogy has concluded a reinsurance policy to finance the pension commitment. The amassed capital may be drawn upon on retirement, but not before the Executive Board member turns 63. The Executive Board members can choose between a one-time payment and a maximum of nine instalments. Executive Board members and their surviving dependants do not receive any further benefits.

Non-cash and other remuneration. Non-performance-based compensation components also include non-cash and other remuneration, consisting primarily of the use of a company car and accident insurance premiums.

Compensation for exercising mandates. Executive Board members are paid for exercising supervisory board mandates at affiliates. This income is deducted from the bonus of the Executive Board members described below and therefore does not increase the total remuneration.

Bonus. Executive Board members receive a bonus, which is based on the economic development of innogy and the degree to which they achieve their individual goals. The starting point for calculating the bonus is what is referred to as the ‘company bonus’. It depends on the Group’s adjusted EBIT and, after the end of the fiscal year, is measured against a target figure previously established by the Supervisory Board. If the actual figure is identical to the target figure at the end of the fiscal year, the target achievement is 100 %. In this case, the bonus paid equals the baseline bonus agreed upon in the respective individual’s contract. Depending on the level of adjusted EBIT, the company bonus paid can equal between 0 % and 150 % of the baseline bonus amount.



The individual performance of Executive Board members is considered by multiplying the company bonus by a performance factor. It may vary between 0.8 and 1.2. In addition to the targets agreed with each individual member of the Executive Board, it is one-third based on the collective performance of the Executive Board and one-third based on the performance in the field of sustainability (corporate responsibility) and employee motivation. The corporate responsibility criterion reflects the company's environmental and social action. Employee motivation is determined by the motivation index of the innogy Group, which measures employee commitment and satisfaction based on anonymous surveys. At the end of the fiscal year, the Supervisory Board assesses the performance of the Executive Board members relative to these criteria and determines the performance factor. The bonus is paid in full after the end of the fiscal year and after calculating the company bonus and the performance factor.

For fiscal 2016, an exception was made and the bonus of the Executive Board members was determined in deviation from the described methodology. As a result of the structural changes at innogy SE after starting operations, the introduction of the new compensation system and the conclusion of new employment contracts with the members of the Executive Board during the year, it was impossible to calculate the bonus applying the new methodology. Therefore, the bonus of the members of the Executive Board was determined based on an assessment made by the Supervisory Board. The Supervisory Board took account of innogy's successful IPO and the individual performance of the members of the Executive Board.

Share-based payment. As a result of the introduction of the compensation system for the members of the Executive Board in fiscal 2016, the SPP replaced the Long-Term Incentive Plan (LTIP) in effect at the RWE Group as a long-term compensation component. To participate in the SPP, the members of the Executive Board voluntarily renounced all outstanding tranches of the LTIP. The performance shares allocated from these tranches lapsed, for which the Executive Board members did not receive any compensatory payments.

The SPP reflects the strategic orientation of innogy SE and rewards the achievement of long-term goals. Therefore, Peter Terium, Dr. Bernhard Günther and Uwe Tigges received their allocation entirely from the SPP of innogy SE, despite their prorated work on the Executive Board of RWE AG in 2016, which was a transitional year.

The SPP's conditions envisage a tranche in fiscal 2016 and three further tranches, which will begin in fiscal 2017, 2018 and 2019. As a rule, performance shares are granted retroactively to 1 January of a fiscal year. However, in 2016, an exception to this rule was made and they were granted to Executive Board members for the period from their appointment to the Executive Board. Executive Board members receive for each tranche a personalised grant letter specifying the gross grant value (in euros) determined by the Supervisory Board and the number of performance shares granted.

The SPP is based on performance shares that are allocated conditionally on a preliminary basis. At the beginning of a tranche, the number of conditionally allocated performance shares is calculated for each Executive Board member. This is done by dividing the individual allocation value by the average closing quotation of the innogy share on the last 30 days of trading on Xetra before the grant. Deviating from this procedure, in 2016, the year of introduction, the calculation of the number of performance shares allocated conditionally on a preliminary basis for fiscal 2016 was made from the date of the IPO of innogy SE and is therefore based on the average closing quotation of the innogy share on the first ten days of trading on Xetra starting on 7 October 2016. The granted performance shares have a vesting period of four years in total.

The final number of performance shares of every tranche is determined after the end of the first year. It depends on the adjusted net income (ANI) achieved by the company in relation to a target figure set by the Supervisory Board and can range between 0% and 150% of the preliminarily allocated performance shares. If the target ANI figure established for the year is achieved exactly, 100% of the performance shares of the tranche that have been conditionally allocated on a preliminary basis is fully vested. The ANI targets for fiscal 2017, 2018 and 2019 were established by the Supervisory Board in fiscal 2016 and, as a rule, cannot be changed.

The number of performance shares that become fully vested in this manner is fully paid out in cash after a holding period of another three years. The level of the payment is calculated by multiplying the number of fully vested performance shares by the average closing quotation of the innogy share on the last 30 days of trading on Xetra before the end of the vesting period and adding to this the dividend which is paid during the holding period. The payment calculated by this method is limited to 200% of the individual allocation value.

For fiscal 2016, the share-based payment of the members of the Executive Board will be fully granted based on the SPP. The performance measurement of adjusted net income for this tranche will be done concurrently to the performance measurement of the 2017 SPP tranche, based on adjusted net income in 2017. The determination of the number of fully vested performance shares will be followed by a shortened holding period of two years for the 2016 tranche. Therefore, the vesting period for this tranche will end on conclusion of the 2019 financial year.

Executive Board members are obligated to make a personal investment in shares in innogy SE. For this purpose, 25% of the sum paid after the end of the holding period, minus applicable tax, must be invested in innogy shares, which must then be held for another three years.

In anticipation of the amendments to the German Corporate Governance Code (GCGC) expected in 2017, the SPP contains a demerit provision. It empowers the Supervisory Board of innogy SE, e.g. to punish serious violations of the company’s Code of Conduct by reducing or completely voiding ongoing SPP tranches.

Shares of total compensation accounted for by the individual components. Assuming that both the company and the members of the Executive Board achieve their performance targets to a degree of 100% for a fiscal year, the compensation structure roughly breaks down as follows:

The non-performance-based components, i.e. the base salary, pension instalment, non-cash remuneration and other emoluments, make up about 42% of total compensation. Twenty-five percent is allocable to short-term variable compensation, i.e. the bonus paid directly after the end of a financial year. The SPP’s long-term compensation component accounts for 33% of total compensation.

End of tenure benefits. Under certain conditions, Executive Board members also receive benefits from innogy when they retire from the Executive Board. These benefits are described below.

Pension scheme. Executive Board members who worked for the RWE Group before being appointed to the Executive Board of innogy SE were made a salary-dependent pension commitment until the introduction of the pension instalment. Retirement benefits vested before this point in time remain unaffected by this. The pension commitment is an entitlement to life-long retirement benefits granted to beneficiaries in the event of retirement upon reaching the company age limit, permanent disability, early termination or non-extension of the employment contract by the company. In the event of death, their surviving dependants are entitled to benefits. The last agreed amount of qualifying income from earlier employment and the level of benefits determined by the duration of service are taken as a basis for each member's individual pension and for the surviving dependants' benefits.

Therefore, the vested retirement benefits from earlier activities acquired by Peter Terium, Dr. Bernhard Günther and Uwe Tigges were transferred to innogy SE upon termination of their employment contracts with RWE AG. An agreement was also signed with Martin Herrmann to transfer his vested retirement benefits from earlier activities to innogy SE. The vested retirement benefits of Dr. Hans Bünting were transferred when RWE Innogy GmbH was folded into innogy SE.

Change of Control. Members of the Executive Board of innogy SE have a special right of termination in the event that shareholders or third parties take control of the company, resulting in major disadvantages for the Executive Board member in question. In such cases, they have the right to retire from the Executive Board and to request that their employment contract be terminated in combination with a one-off payment within six months from the change of control.

A change of control as defined by this provision occurs when one or several shareholders or third parties acting jointly account for at least 30% of the voting rights in the company, or if any of the aforementioned can exert a controlling influence on the company in another manner. A change of control also occurs if the company is merged with another legal entity, unless the value of the other legal entity is less than 50% of the value of innogy SE.

Upon termination of their employment contracts, Executive Board members receive a one-off payment equalling the compensation due until the end of the duration of their contract. This amount shall not be higher than three times their total contractual annual compensation. The share-based payments under the SPP are not considered here.

In the event of a change of control, all performance shares under the SPP that have become fully vested and have not been paid out are paid out early. All performance shares conditionally granted under the SPP on a preliminary basis lapse on the date of the change of control.

Early termination and severance cap. If an Executive Board mandate is otherwise terminated early without due cause, a severance payment of no more than two total annual compensations and no more than the remuneration due until the end of the employment contract is paid.

Level of Executive Board compensation

The Executive Board remuneration presented below was calculated in compliance with the rules set out in the German Commercial Code. It considers the compensation granted to the members of the Executive Board during their tenure in fiscal 2016. The compensation of Peter Terium, Dr. Bernhard Günther and Uwe Tigges considers the emoluments granted for the period during which they were concurrently appointed to the Executive Boards of both innogy SE and RWE AG, prorated to reflect the share accounted for by their work for the Executive Board of innogy SE and the amounts cleared between the two companies.

Total compensation for fiscal 2016. The Executive Board of innogy SE received a total of €9,905,000 in remuneration for fiscal 2016, calculated according to the German Commercial Code. The compensation of Peter Terium, Dr. Bernhard Günther and Uwe Tigges also considers the prorated emoluments they were paid by RWE AG in fiscal 2016 for the period during which they were appointed to the Executive Board of innogy SE but were on-debited to innogy SE. The remuneration of Uwe Tigges, which was paid by innogy SE in the fourth quarter of 2016, but is allocable to his work for RWE AG and was on-debited accordingly, is not included in total compensation.

Level of the individual compensation components. In 2016, non-performance-based components amounted to €3,969,000. Pursuant to the German Commercial Code, pension instalments are considered compensation. Dr. Bernhard Günther and Dr. Hans Bünting turned their pension instalments into a pension commitment of equal value through a gross compensation conversion. The amounts converted for Dr. Bernhard Günther and for Dr. Hans Bünting totalled €64,000 and €150,000, respectively.

Performance-based components totalled €5,936,000, of which €2,832,000 were attributable to the bonus directly payable for fiscal 2016 and €3,104,000 were attributable to the allocation of performance shares under the SPP.

Short-term compensation in accordance with the German Commercial Code paid for fiscal 2016 is summarised in the following overview. No emoluments were paid to the members of the Executive Board of innogy SE in 2015. Therefore, we opted for a simplified, clear presentation in the following tables and renounced including empty columns that would have shown 'zero' for the prior-year figures.

Short-term Executive Board compensation 2016 € '000	Peter Terium Chief Executive Officer since 1 Apr 2016	Dr. Bernhard Günther Chief Financial Officer since 1 Apr 2016	Uwe Tigges Chief Human Resources Officer since 1 Apr 2016	Dr. Hans Bünting Chief Operating Officer Renewables since 1 Apr 2016	Martin Herrmann Chief Operating Officer Retail since 1 Apr 2016	Hildegard Müller Chief Operating Officer Grid & Infrastructure since 1 May 2016	Total
Non-performance-based compensation							
Fixed compensation	700	375	281	525	525	467	2,873
Fringe benefits (company car, accident insurance)	11	16	8	12	12	21	80
Other payments (pension instalments)	240	128	96	191	191	170	1,016
Subtotal	**951**	**519**	**385**	**728**	**728**	**658**	**3,969**
Performance-based compensation							
Bonus payment	834	440	330	400	424	351	2,780
Remuneration for mandates[1]	–	–	–	25	1	27	52
Bonus	834	440	330	425	425	378	2,832
Subtotal	**834**	**440**	**330**	**425**	**425**	**378**	**2,832**
Grand total	**1,785**	**959**	**715**	**1,153**	**1,153**	**1,036**	**6,801**

1 Income from exercising intragroup supervisory board offices was fully set off against the prorated bonus paid by RWE AG to Peter Terium, Dr. Bernhard Günther and Uwe Tigges in fiscal 2016.

Long-term incentive plan. In the 2016 financial year, the members of the Executive Board received a full grant under the SPP of innogy SE. The grant for Peter Terium, Dr. Bernhard Günther and Uwe Tigges is also effected fully by innogy SE. Due to their concurrent appointments to the Executive Boards of RWE AG and innogy SE in fiscal 2016, the value at grant is carried on RWE AG's books pro-rata and cleared between the two companies. Deviating from the conditions of the SPP, the members of the Executive Board did not receive a grant in fiscal 2016 as of 1 January, but rather with effect from the date of their appointment.

The following is an overview of the number and value of the performance shares allocated to the members of the Executive Board in fiscal 2016 for their work on the Executive Board of innogy SE.

Long-term incentive payment	Strategic Performance Plan (SPP)			
	SPP	Average share price €	Performance shares	Allocation value at grant € '000
Peter Terium	innogy SE	37.13	18,684	694
Dr. Bernhard Günther	innogy SE	37.13	10,773	400
Uwe Tigges	innogy SE	37.13	7,448	277
Dr. Hans Bünting	innogy SE	37.13	16,159	600
Martin Herrmann	innogy SE	37.13	16,159	600
Hildegard Müller	innogy SE	37.13	14,364	533
Total			**83,587**	**3,104**

The following table shows the reversal and accrual of provisions for share-based payments by innogy SE.

Addition to (+) or release of (–) provisions for long-term incentive share-based payments	2016 € '000
Peter Terium	119
Dr. Bernhard Günther	70
Uwe Tigges	45
Dr. Hans Bünting	120
Martin Herrmann	120
Hildegard Müller	111
Total	**585**

Recommendations of the German Corporate Governance Code

According to the version of the German Corporate Governance Code published on 5 May 2015, the total remuneration of management board members comprises the monetary compensation elements, pension commitments, other awards, fringe benefits of all kinds and benefits by third parties which were granted or paid in the financial year with regard to management board work.

Item 4.2.5, Paragraph 3 of the Code lists the compensation components that should be disclosed for every management board member. The recommended presentation is illustrated by sample tables that have been used on the following pages. They show the benefits granted to the members of the Executive Board of innogy SE for 2016 (see the table 'Benefits granted'). As some of these benefits have not yet resulted in payments, the tables also show the level of funds paid to the Executive Board members (see the table 'Payments').

No benefits were granted or paid to the members of the Executive Board of innogy SE in the previous year. Therefore, we opted for a simplified presentation in the following tables and renounced including empty columns that would have shown 'zero' for the prior-year figures.

Benefits granted	Peter Terium Chief Executive Officer since 1 Apr 2016			Dr. Bernhard Günther Chief Financial Officer since 1 Apr 2016			Uwe Tigges Chief Human Resources Officer since 1 Apr 2016		
€ '000	2016	(min)	(max)	2016	(min)	(max)	2016	(min)	(max)
Fixed compensation	700	700	700	375	375	375	281	281	281
Pension instalment	240	240	240	128	128	128	96	96	96
Fringe benefits	11	11	11	16	16	16	8	8	8
Total fixed compensation	**951**	**951**	**951**	**519**	**519**	**519**	**385**	**385**	**385**
Bonus	675	0	1,215	356	0	641	267	0	481
SPP 2016 tranche (term: 2016 – 2019)	694	0	1,388	400	0	800	277	0	554
Total variable compensation	**1,369**	**0**	**2,603**	**756**	**0**	**1,441**	**544**	**0**	**1,035**
Total compensation	**2,320**	**951**	**3,554**	**1,275**	**519**	**1,960**	**929**	**385**	**1,420**

Benefits granted	Dr. Hans Bünting Chief Operating Officer Renewables since 1 Apr 2016			Martin Herrmann Chief Operating Officer Retail since 1 Apr 2016			Hildegard Müller Chief Operating Officer Grid & Infrastructure since 1 May 2016		
€ '000	2016	(min)	(max)	2016	(min)	(max)	2016	(min)	(max)
Fixed compensation	525	525	525	525	525	525	467	467	467
Pension instalment	191	191	191	191	191	191	170	170	170
Fringe benefits	12	12	12	12	12	12	21	21	21
Total fixed compensation	**728**	**728**	**728**	**728**	**728**	**728**	**658**	**658**	**658**
Bonus	375	0	675	375	0	675	333	0	599
SPP 2016 tranche (term: 2016 – 2019)	600	0	1,200	600	0	1,200	533	0	1,066
Total variable compensation	**975**	**0**	**1,875**	**975**	**0**	**1,875**	**866**	**0**	**1,665**
Total compensation	**1,703**	**728**	**2,603**	**1,703**	**728**	**2,603**	**1,524**	**658**	**2,323**

Payments 2016 € '000	Peter Terium Chief Executive Officer since 1 Apr 2016	Dr. Bernhard Günther Chief Financial Officer since 1 Apr 2016	Uwe Tigges Chief Human Resources Officer since 1 Apr 2016
Fixed compensation	700	375	281
Pension instalment	240	128	96
Fringe benefits	11	16	8
Total fixed compensation	**951**	**519**	**385**
Bonus	834	440	330
Total variable compensation	**834**	**440**	**330**
Total compensation	**1,785**	**959**	**715**

Payments 2016 € '000	Dr. Hans Bünting Chief Operating Officer Renewables since 1 Apr 2016	Martin Herrmann Chief Operating Officer Retail since 1 Apr 2016	Hildegard Müller Chief Operating Officer Grid & Infrastructure since 1 May 2016
Fixed compensation	525	525	467
Pension instalment	191	191	170
Fringe benefits	12	12	21
Total fixed compensation	**728**	**728**	**658**
Bonus[1]	425	425	378
Total variable compensation	**425**	**425**	**378**
Total compensation	**1,153**	**1,153**	**1,036**

1 The bonus considers income from exercising intragroup supervisory board offices; also see the table 'Short-term Executive Board compensation' on page 89.

1.12 Opportunities and risks

innogy SE's risk management system is based on methods and processes which have proven themselves in the RWE Group and which we have adopted and resolutely refined for our company. On this basis, we can identify both risks and opportunities early on and adapt our action accordingly. Our risk management system thus does justice to the requirements of the German law on corporate control and transparency. Due to the high share of innogy's earnings accounted for by the regulated business, regulatory intervention can curtail our business performance in all three divisions: Renewables, Grid & Infrastructure and Retail. In addition, competition on the markets on which we are active is very fierce. These framework conditions bring huge entrepreneurial challenges. We tackle them with a variety of measures, for example by further increasing our efficiency. At the same time, we intend to seize the opportunities arising from the future development of the energy market. At present, there are no identifiable risks that could jeopardize our existence.

Organisation of risk management at innogy. Overall responsibility for our groupwide risk management as well as for monitoring and managing the group's overall risk lies with the Executive Board of innogy. It establishes the rules and minimum standards and determines how much risk the company is willing to take, e.g. by defining the limits for aggregated market risks. Via the Group strategy, it also takes decisions on individual transactions that can also result in substantial risks.

Responsibility for applying, refining and coordinating risk management lies with the Controlling & Risk Department, receiving support from the Risk Management Committee, which is composed of the heads of the following innogy departments accountable for the entire Group: Controlling & Risk (chair), Strategy, Finance, Accounting & Tax, Legal & Compliance as well as the heads of Controlling of the Renewables, Grid & Infrastructure and Retail divisions. The Controlling & Risk Department provides the Executive Board and the Supervisory Board of innogy SE with regular reports on the Group's risk exposure. The Head of Controlling & Risk reports to the CFO.

Furthermore, several other organisational units are entrusted with groupwide risk management and/or risk controlling tasks:

- **Credit and insurable risks:** organisational units that report to the Head of Controlling & Risk.
- **Commodity risk in the retail business and resulting from marketing electricity generation from renewables:** organisational units within these divisions; they are functionally overseen by the Head of Controlling & Risk.
- **Financial risks:** Finance Department, which directly reports to the CFO.
- **Accounting and tax risks:** Accounting & Tax Department, which also reports to the CFO; the accounting-related internal control system (ICS, see page 100) is an important tool.
- **Corruption risks:** Legal & Compliance Department which reports to the CEO or – if members of the Executive Board are affected – directly to the Chairman of the Supervisory Board and the Chairman of the Supervisory Board's Audit Committee; innogy's Code of Conduct is an important feature of our work.
- **Security risks:** Group Security Department; reports directly to the Chief HR Officer.

Under the expert management of the aforementioned organisational units and in adherence with our general guidelines, our divisions are responsible for identifying risks early, assessing them correctly and reporting and managing them in compliance with the Group's standards.

In addition, various committees perform groupwide risk management tasks:

- **Asset Management Committee.** We entrusted the management of our financial assets to RWE AG. The Committee determines the strategic guidelines for the management of securities held by innogy (and by RWE AG, including the funds of RWE Pensionstreuhand e.V. and RWE Pensionsfonds AG). It is composed of representatives of RWE AG and of the heads of the following innogy SE departments: Finance, Controlling & Risk and Accounting & Tax.

- **Retail Hedge Committee.** It approves strategies for hedging market risks in the retail business. Members of the Retail division's management team and the Head of Controlling & Risk belong to the Committee.

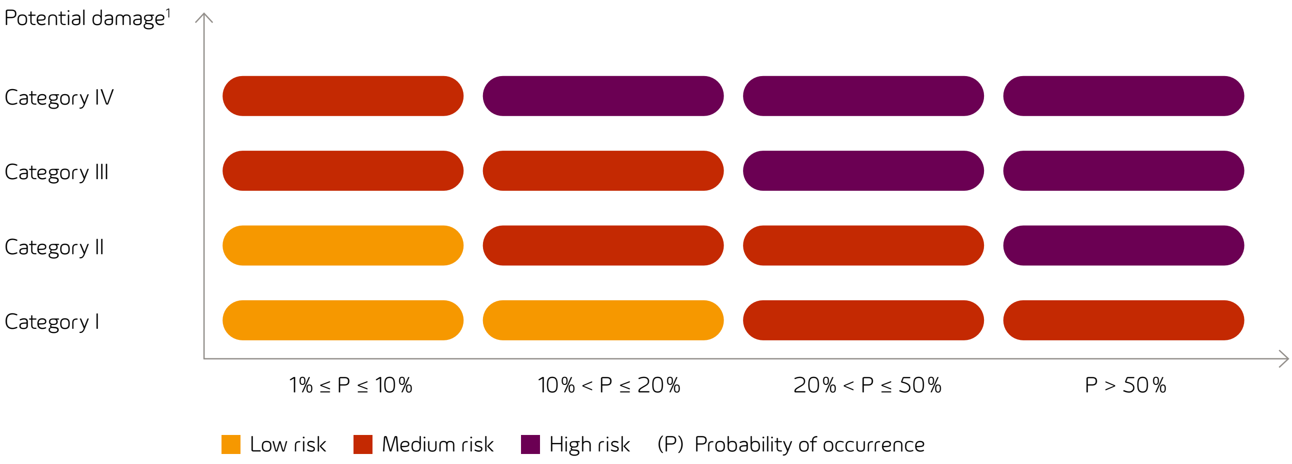
- **ICS Committee.** Its objective is to ensure that the ICS is implemented throughout the Group following uniform principles, meeting the high ambitions in terms of correctness and transparency. The Committee is composed of officers from Accounting & Tax, Controlling & Risk, Finance, Human Resources, Purchasing, IT and Retail Customer Billing.

Risk management as a continuous process. Risk management is an integral and continuous part of our operating workflow. Once every six months, by performing a bottom-up analysis, we record risks and opportunities – defined as negative or positive deviations from plan figures. We also monitor risk exposure between the six-monthly survey dates. The Executive Board is immediately informed of all material changes. The executive and supervisory bodies are updated on the risk exposure at least once a quarter within the scope of regular reporting.

The bottom-up analysis normally covers the three-year horizon of our medium-term planning and may extend beyond that for significant long-term risks. We evaluate risks to determine their impact on earnings, free cash flow and net debt. We calculate the probability of occurrence for all risks as well as their potential damage. Risks that share the same cause are aggregated to one position. We present the material individual risks using a matrix in which the risks' probability of occurrence and potential net damage are presented, i.e. taking account of hedging measures such as insurance policies and provisions. Depending on their position in the matrix, we distinguish between low, medium and high risks. Based on this analysis, we determine whether there is a need for action and whether risk-mitigating measures have to be initiated.

It is the Internal Audit Department's duty to regularly assesses the quality and functionality of our risk management system. In functional respects, it reports to the Executive Board and for disciplinary matters, it reports to the CFO.

innogy risk matrix



Damage category	Earnings risks Potential effect on earnings % of planned adjusted EBIT[2]	Indebtedness/liquidity risks Potential effect on the net debt/free cash flow € million
Category IV	≥ 50	≥ 4,000
Category III	≥ 20 and < 50	≥ 2,000 and < 4,000
Category II	≥ 10 and < 20	≥ 1,000 and < 2,000
Category I	< 10	< 1,000

1 Relative to the year in which the maximum damage could occur.
2 Average for 2017 to 2019 derived from the medium-term plan.

Overall assessment of the risk and opportunity situation by executive management. Innogy SE's risk position is significantly affected by economic and political framework conditions.

We mitigate risks that may result from the difficult framework conditions in the energy sector by tapping into additional earnings potential arising from the transformation of the energy system and changing customer needs, value-based investment criteria and extensive efficiency-enhancing measures.

By analysing the liquidity effects of risks and pursuing a prudent financing strategy, we ensure that we always have enough cash and cash equivalents to meet our payment obligations punctually. Such obligations result above all from our financial liabilities, which we must service. We have strong cash flows from operating activities, substantial cash and cash equivalents and unused credit lines. In December 2016, we gave ourselves additional financial headroom through our commercial paper programme. Moreover, we plan to launch a debt issuance programme for issuing bonds in the spring of 2017 (see page 68). We budget our liquidity with foresight, based on the short, medium and long-term needs of our Group companies, and have an appropriate amount of minimum liquidity on a daily basis.

Thanks to our comprehensive risk management system and the measures for safeguarding our financial and earning power described earlier, we currently do not see any risks jeopardising the continued operation of innogy SE.

innogy's material risks. Our material risks can be divided into five categories (see following table). As indicated earlier, we quantify each risk based on its potential effects on earnings and/or leverage and liquidity. The highest individual risk determines the classification of the risk of the entire risk class. At present, there are no clear dominating risks, and several classes now have medium risks. In particular, the RWE risk of financing the nuclear phase-out in Germany, which was classified high last year, is not part of innogy SE's exposure. We comment on the risk classes and their material individual risks below. In addition, we explain the measures we take to mitigate the risks.

innogy's material risk classes	Classification of the single highest risk[1]	
	31 Dec 2016	31 Dec 2015
Market risks	**Medium**	**Medium**
Framework risks	**Medium**	**High**
Regulatory and political risks	Medium	High
Legal risks	Medium	Medium
Operational risks	**Low**	**Low**
Financial market and credit risks	**Medium**	**Medium**
Financial risks	Medium	Medium
Creditworthiness of business partners	Medium	Medium
Other risks	**Medium**	**Medium**

1 The risk classification reflects the effects that a risk may have on earnings and/or indebtedness and liquidity. The classification for 2016 relates to innogy SE's risk exposure. The classification for 2015 corresponds to the presentation in RWE AG's 2015 Annual Report in relation to RWE's material risks as innogy was still covered by RWE's annual report in fiscal 2015.

Market risks. innogy's corporate profile is characterised by a high proportion of regulated activities. Nevertheless, our operations are also exposed to market risks (see pages 24 et seq.). In most of the countries in which we are active the energy sector is characterised by the free formation of prices on wholesale markets and a high level of competition, especially in retail. For example the increasingly intense competition may have a negative impact on our customer figures and realisable margins. Moreover, in such an environment a weak appearance on the market can quickly lead to customer losses and a drop in earnings.

Developments on wholesale markets have an influence on the portion of the earnings from electricity generation from renewables that is not fully secured by a subsidy model. Furthermore, in the gas storage business impairments may have to be recognised, for example if the seasonal differences in the price of gas decline, reducing the realisable margins. However, wholesale price developments may also have a positive impact on our earnings.

In addition, our electricity generation in the Renewables division depends on the influence of the weather. The output of wind farms and hydroelectric power plants can be curtailed in particular by low wind and precipitation levels. However, favourable weather conditions can also drive up electricity production (see pages 38 et seq.).

Price risks arising from electricity generation and the sale of electricity and gas (referred to as commodity price risks) faced by the retail companies are managed through hedging rules established by innogy SE. We have pooled our know-how in managing commodity price risks and weather risks – in particular temperature-dependent risks in the retail business – in the Retail Energy Management Organisational Unit. It also manages wholesale electricity and gas purchases used to supply our customers in Germany, the United Kingdom, the Netherlands, Belgium, the Czech Republic and Poland. At the interface to the wholesale market, primarily at the point of access to energy exchanges and OTC markets, we continue to work closely together with RWE Supply & Trading GmbH on the basis of service level agreements. Managing commodity price risks in the Renewables division is the responsibility of the Commercial Organisational Unit. This is an area in which RWE Supply & Trading continues to render services to us, i.e. in relation to the marketing of our generation positions.

As mentioned earlier, commodity price risks are controlled by a risk management system and limited by caps. Groupwide guidelines provide clear structures and processes for the treatment of commodity price risks and associated credit risks. Accordingly, commodity price risks are hedged based on the liquidity of wholesale markets. For later years, the price risk in relation to our electricity generation from renewable sources increases, as only a small portion of the expected generation volumes is hedged.

We apply the Value at Risk (VaR) concept to measure the extent to which commodity price risks can affect the Group's adjusted EBIT. To this end, we calculate the overall risk for the Group on the basis of the commodity risk positions of the individual companies. The VaR specifies the maximum loss from a risk position not exceeded with a given probability over a certain period of time. The VaR figures at innogy are generally based on a confidence interval of 95%. On this basis, changes in commodity prices will curtail our adjusted EBIT in 2017 by no more than €40 million. The cut-off date for determining this figure was 31 December 2016.

Financial instruments are used to hedge commodity positions. They are also used to limit interest and currency risks; in such cases, they are partially presented as on-balance-sheet hedging relationships in the consolidated financial statements. More detailed information can be found in the notes to the consolidated financial statements on pages 161 et seq.

We currently classify our market risks as medium.

Framework risks

- **Regulatory and political risks.** Electricity generation from renewables is exposed to the danger that governments may cut subsidies, for instance due to state budget deficits. In the past, this applied primarily to Spain, with intervention also occurring in the United Kingdom, which was to the detriment of the utilities. For example, in 2014 the Spanish government made drastic cuts to the subsidy rates for renewable energy – also for existing assets with retroactive effect from 2013. The UK government curtailed the earnings prospects of operators of renewable energy assets in 2015 in connection with the climate change levy (CCL). Until then, levy exemption certificates (LECs) were an additional source of income, which was abolished when changes were made to the exemption of green electricity consumption from the CCL (see pages 36 and 83 of RWE AG's 2015 Annual Report). As reported last year, on the Spanish matter we filed a suit with the International Centre for Settlement of Investment Disputes in Washington, D.C., USA. We continue to hope that the outcome will limit the effects of the subsidy cut on our earnings.

  Regulatory intervention to the detriment of energy utilities can be observed not only in the electricity generation sector, but also in the supply business. For instance, in the United Kingdom the Competition and Markets Authority (CMA) wants to oblige energy utilities to inform the Office of Gas and Electricity Markets (Ofgem) of customers who have been purchasing electricity or gas based on the same standard tariff for more than three years. This data is to be made available to all competitors in order to enable them to make the individuals affected alternative offers. Ofgem is conducting a pilot project to prepare the implementation. It was also decided to cap tariffs for customers with pre-payment meters until 2020. The cap is expected to be introduced in April 2017. We are concerned about the price cap, but we welcome the retail companies regaining the freedom to determine the number of tariffs they offer in the future. We also see the risk of regulatory intervention on other markets on which innogy is active.

The network business in Germany and Eastern Europe is subject to state regulation. However, regulatory parameters can change at the beginning of new regulatory periods. In Germany, for example, the amendment to incentive-based regulation for the third regulatory period (starting in 2018 for gas and in 2019 for electricity), some framework conditions such as the immediate recognition of investments in network fees, and the return on equity have already been established. However, two factors remain to be clarified with regard to the caps on the total allowable revenue of a network operator from network fees (revenue cap): operating costs and efficiency factor. The German Federal Network Agency has not yet made a decision in this regard. Furthermore, in Eastern Europe the future details of regulation determined by the regulatory authorities can have an effect on our revenue.

- **Legal risks.** We are also exposed to legal risks due to our operations, as we can be involved in litigation and arbitration proceedings, for example. Burdens can result from contractual agreements being retrospectively considered invalid. Out-of-court claims may also be filed against us. Furthermore, we are directly involved in various procedures with public authorities or are at least affected by their outcomes. We have accrued provisions for potential resulting losses.

We currently classify our framework risks as medium.

Operational risks. We operate technologically complex, interconnected production assets in all parts of our value chain. The construction of new assets may be delayed, for example due to accidents, material defects, delayed deliveries or time-consuming approval procedures. We counter this through diligent plant and project management as well as high safety standards. In addition, we perform regular inspections, maintenance and repairs. Nevertheless, it cannot be ruled out that outages occur, e.g. of network operation equipment or offshore plants. If economically viable, we take out insurance policies to cover these risks.

Moreover, our business processes are supported by secure, effective data processing systems. Nevertheless, we cannot rule out a lack of availability of IT infrastructure or a breach in the security of our data. Our high security standards, e.g. the ICS quality standards regarding the accounting-related IT systems, are designed to prevent this. In addition, we regularly invest in hardware and software upgrades.

Cyber security risks are assessed by Group Security, which is separate from IT operations in disciplinary terms. Our computing centres are certified to high security standards. We are in the final stages of taking the measures required to implement the German IT security law for critical infrastructure enacted on 3 May 2016 in close co-operation with the relevant security authorities.

We currently classify the operating risks as low.

Financial and credit risks

- **Financial risks.** The volatility of market interest and foreign exchange rates as well as share prices can also have a significant effect on our earnings, which can be positive or negative, depending on the development. As we are not just active in the Eurozone, we attach high importance to currency risk management. Group companies are generally obliged to hedge their currency risks via innogy SE. The parent company determines the net financial position for each currency and hedges it externally if necessary. The VaR concept is one of the tools used to measure and limit risk. Unless set out otherwise, the VaR figures for our financial risks are based on a confidence level of 95% and a holding period of one day. In 2016, the average VaR for innogy SE's foreign currency position from transactional risks was less than €1 million.

  We differentiate between several categories of interest rate risks. Rises in interest rates can lead to reductions in the price of securities held by innogy. This primarily relates to fixed-interest bonds. The VaR for our securities price risk associated with our capital investments in 2016 averaged €4 million.

Moreover, increases in interest rates cause our financing costs to rise. We measure this risk using the Cash Flow at Risk. We apply a confidence level of 95% and a holding period of one year. The Cash Flow at Risk in the end of the year was €1 million.

Furthermore, market interest rates have an effect on our provisions, as they are the point of reference for determining the discount rates for the net present values of obligations. In other words, declining market interest rates tend to increase our provisions and vice-versa. In the notes (see pages 150 et seq.), we have provided commentary on how sensitively the net present values of pension obligations react to rises and drops in discount rates.

The securities we hold in our portfolio include shares. In 2016, the VaR for the risk associated with changes in share prices averaged €7 million. RWE AG's Asset Management Department has been entrusted with the management of share investments as well as the management of interest-rate risks in relation to the securities we hold. The Asset Management Committee, which – as mentioned earlier – includes representatives of innogy, determines the strategic guidelines for managing securities.

Range of action, responsibilities and controls are set out in guidelines to which our Group companies are obliged to adhere when concluding financial transactions. The innogy Group's financial transactions are recorded in a central system, enabling them to be monitored.

The conditions at which we can finance our business on the debt capital market is also largely dependent on the credit ratings we receive from international rating agencies. In addition to the independent rating of BBB+ issued by Fitch, we also have a rating from S&P of BBB–, which is limited by the group rating of RWE AG (see page 73). Future downgrades to innogy SE's and RWE AG's rating can result in additional security being requested. However, a good business performance by innogy or RWE can have a positive effect on our rating.

- **Creditworthiness of business partners.** Our business relations with customers, suppliers, trading partners and financial institutions expose us to credit risks. Therefore, we track the creditworthiness of our transaction partners closely and assess their credit standing based on internal and external ratings, both before and during the business relationship. Transactions that exceed certain approval thresholds are subject to a credit limit, which we determine before the transaction is concluded and adjust if necessary, for instance in the event of a change in the creditworthiness of our transaction partners. Sometimes we request cash collateral or bank guarantees. We take out insurance policies to cover payment defaults in the retail business. Credit risks and the utilisation of the limits are measured constantly.

  Due to various contractual relationships with RWE AG, this also exposes us to a creditworthiness risk. For example, we continue to purchase commodities via RWE Supply & Trading. These contracts can be cancelled by either party by giving appropriate notice. Furthermore, we had individual lines of credit from and with RWE AG in the period under review.

In sum, we classify the financial and credit risks as medium.

Other risks. This risk class includes reputation risks and risks associated with non-compliance and criminal offences committed by employees of the Group. It also encompasses the possibility of planned divestments not being implemented, for example owing to regulatory hurdles or the lack of acceptable bids.

It cannot be ruled out that income achieved from capital expenditure on property, plant and equipment and intangible assets falls short of expectations, keeping us from meeting our internal return requirements. Conversely, these expectations may also be exceeded, for instance if the capital expenditure proves to be more profitable than originally assumed. Furthermore, prices paid for acquisitions may prove to be too high in hindsight. Impairments may have to be recognised for such cases. The risk of impairment to which renewable generation assets are exposed is that regulatory framework conditions may develop to our disadvantage. In addition, markets may display negative development, projects may be discontinued and projects may be sold under their carrying amount. For example, the rising competition among bidders can prevent planned projects from being implemented. innogy has specific accountability provisions and approval processes in place to prepare and implement investment decisions. Closely monitoring both our markets and competitors helps us record and assess strategic risks and opportunities early on.

We attach very high importance to the challenges arising from the competitive environment on the energy market. We tackle them with comprehensive measures to increase our efficiency and with a value-based investment policy. On this basis, we make our decisions and orient our organisation and processes towards this. Nevertheless, there is a risk that improvements sought may not be fully achieved or may be achieved later than originally planned. However, we also see opportunities in the development of the energy market, which we intend to seize through innovative customer solutions, capital expenditures or acquisitions.

We currently classify this risk category as medium.

Report on the accounting-related internal control system: statements in accordance with Sec. 315, Para. 2, No. 5 and Sec. 289, Para. 5 of the German Commercial Code.
Risks associated with financial reporting reflect the fact that our annual, consolidated and interim financial statements may contain misrepresentations that could have a significant influence on the decisions made by the reader. Our ICS aims to detect potential sources of error and limit the resulting risks. This enables us to ensure with sufficient certainty that the parent company and consolidated financial statements are prepared in compliance with statutory regulations.

The foundations of the ICS are our basic principles, which are set out in innogy's Code of Conduct and include our ambition to provide complete, objective, correct, intelligible and timely information, as well as the company's groupwide guidelines. Building on this, the ICS quality standards applicable to the accounting-related IT systems are designed to ensure the reliability of data collection and processing.

In the second half of 2016, we adapted the organisation of our accounting to the new structure of innogy SE. The accounting units for the innogy Group were spun out of the former centre of expertise and transferred to the Accounting & Tax Department. The Shared Service Centre in Krakow, in which transaction-related accounting activities take place, was renamed innogy Business Services Polska Sp. z o.o. and assigned to innogy SE. Expert management is handled by the Accounting & Tax Department of innogy SE, which is also responsible for preparing the consolidated financial statements of the innogy Group.

A dedicated department within Accounting & Tax is responsible for designing and monitoring the ICS of the innogy Group. It is supported by the ICS Committee mentioned on page 94 in implementing the ICS. innogy SE adopted RWE AG's rules for designing and monitoring the ICS unamended.

In order to verify that the ICS is effective, as a first step, with respect to the Accounting Department, we examine whether the risk situation is presented appropriately and whether suitable controls are in place for the identified risks. In a second step, the effectiveness of the controls is verified. This task has been entrusted to employees in the Accounting and Internal Audit Departments as well as independent auditing companies. They use an IT system that we introduced for this purpose in 2015. The officers in charge check whether the agreed ICS quality standards are complied with for Finance, HR, Procurement, IT and – starting in 2016 – Retail Customer Billing. The results of the checks are reported to the Executive Board.

Within the scope of external reporting, the members of the Executive Board of innogy SE took an external full-year balance sheet oath and signed the responsibility statement. They thus confirmed that the prescribed accounting standards have been adhered to and that the figures give a true and fair view of the net assets, financial position and results of operations. When in session, the Supervisory Board's Audit Committee regularly concerned itself with the effectiveness of the ICS. At the beginning of March 2017, the Executive Board of innogy SE submitted its first report on the appropriateness of the design and effectiveness of the ICS to the committee.

The assessments and audits carried out in 2016 proved that the ICS was effective yet again in the Accounting, Finance, Human Resources, Procurement and IT functions. However, this merely reduces the risk of gross misrepresentations in accounting, as this cannot be eliminated completely.

Last year, the ICS was refined. One of the focal points were the billing processes of innogy's major retail companies. These activities will continue in 2017. Furthermore, the billing processes in the smaller retail companies will be included in the ICS in the current year.

1.13 Outlook

innogy successfully completed its first financial year – we want to continue this success story in 2017. We have a good setup, thanks to our three divisions. We expect adjusted EBITDA of about €4.4 billion, adjusted EBIT of about €2.9 billion, and adjusted net income of over €1.2 billion. Lower costs in the Grid & Infrastructure division will have a particularly positive effect on the development of earnings. We intend to continue paying 70 % to 80 % of adjusted net income as a dividend.

Outlook 2017:

- Adjusted EBITDA of about €4.4 billion
- Adjusted EBIT of about €2.9 billion
- Adjusted net income of over €1.2 billion

Eurozone economy continues to post moderate growth. Based on initial forecasts for 2017, world economic output will increase by about 3 %, and by approximately 1.5 % in the Eurozone. The German Council of Economic Experts are of the opinion that the country will record a gain of 1.3 %. Economic output is likely to outgrow the Eurozone in the Netherlands and roughly match it in Belgium. Due to the Brexit vote, the United Kingdom will probably experience an increase of just 1%. The economic prospects of our Central Eastern European markets are brighter. Experts anticipate that Poland and Slovakia will achieve 3 % growth, with the Czech Republic and Hungary lagging slightly behind, increasing output by some 2.5 %.

Energy consumption probably higher than in 2016. Our forecast for this year's energy consumption is based on the estimated economic developments. In addition, we assume that temperatures in 2017 will normalise and therefore be lower overall than in 2016. If these conditions materialise, we expect that demand for electricity will be stable or rise marginally in Germany, the Netherlands and the United Kingdom. Stimulus, which is expected to come from expanding economies and the possibly colder weather, will be contrasted by the dampening effects of the increasingly efficient use of energy. We expect to see slight gains in Eastern Europe: increases of 1% to 2 % have been forecasted for innogy's most important electricity markets Poland, Slovakia and Hungary.

Our prognosis for gas envisages rising consumption in all of innogy's sales regions. This results from assumed normalised temperatures, which are expected to lead to an increased need for heating. In addition, the prognosticated economic growth should stimulate demand for gas. Stimulus may also come from the electricity generation sector, if the market conditions for gas-fired power plants improve further. We anticipate opposing effects from the trend towards saving energy.

Outlook for 2017: adjusted net income of over €1.2 billion. We expect adjusted EBITDA of about €4.4 billion in the current fiscal year. We are thus narrowing the original range of between €4.3 billion and €4.7 billion that we had included in our first forecast on 1 August 2016 and confirmed on 11 November 2016. We expect adjusted EBIT of about €2.9 billion. Therefore, adjusted EBITDA and adjusted EBIT will both be higher than in 2016. Lower costs in the Grid & Infrastructure Germany segment are a major reason. In 2016, we saw an increase in expenses for maintenance work done on our distribution grids. Adjusted net income is anticipated to total over €1.2 billion, also exceeding the figure achieved in the year under review. This item will additionally benefit from lower expenses recognised in the financial result. We continue to apply a normalised effective tax rate of between 25 % and 30 % in calculating adjusted net income.

Outlook € million	2016 actual	Outlook for 2017
Adjusted EBITDA	4,203	About 4,400
Adjusted EBIT[1]	2,735	About 2,900
Renewables	359	About 350
Grid & Infrastructure	1,708	About 1,900
Retail	844	About 850
Adjusted net income	1,123	Over 1,200

1 'Corporate/other' not stated separately.

The expected development of adjusted EBIT by division in 2017 is characterised by the following:

- **Renewables:** This division will probably close fiscal 2017 on a par with last year's level (2017: adjusted EBIT of about €350 million). When drawing a year-on-year comparison, the fact that in 2016 we benefited from positive special items including the sale of small run-of-river power stations and of an onshore wind development project in the United Kingdom has a negative effect. Furthermore, we expect to see a drop in revenue from electricity sales for the portion of generation for which we do not receive a fixed feed-in fee. However, we anticipate our existing assets to increase generation volume because weather conditions are likely to normalise and wind levels should return to the long-term average after being below par in 2016. In addition, we expect the commissioning of new wind farms with a capacity of more than 130 MW over the course of the year to have a positive impact.

- **Grid & Infrastructure:** Here, we expect to close the current year clearly up on 2016 (2017: adjusted EBIT of about €1,900 million). As mentioned earlier, the costs we incur to operate and maintain our German distribution networks will decline. Furthermore, income from network sales in Germany will probably decrease and the positive one-off effects recognised in income from investments will not recur this year. Furthermore, we anticipate lower earnings in the storage business in Germany and the Czech Republic.

- **Retail:** This division will probably close fiscal 2017 on a par with last year (2017: adjusted EBIT of about €850 million). One of the main factors is the implementation of our restructuring programme in the United Kingdom. A large portion of the cost savings that we intend to achieve in this division by 2018 should already have a positive effect in 2017. Another reason are efficiency improvements in all of our markets. Moreover, we want to further expand our innovative customer solutions business to cover both residential customers and key accounts as well. A negative effect will come from the continued increase in competition, primarily in the United Kingdom and the Netherlands.

Dividend policy in line with earnings. Our dividend policy remains oriented towards economic sustainability and continuity. The goal is a positive development of the dividend over the medium term which is in line with our earnings after adjusting them to exclude special items. We confirm our intention to pay 70% to 80% of adjusted net income as a dividend. The Executive Board and the Supervisory Board of innogy SE plan to decide in early 2018 on the exact amount of the dividend payment which will be proposed to the Annual General Meeting in April 2018.

Transfer of employees will be completed in 2017. Our workforce is expected to expand slightly in 2017. This is because the transfer of personnel from RWE AG to innogy SE will only be completed in 2017 as staff members have to be distributed among corporate functions and individual business units within the scope of the Group's restructuring. Furthermore, we took over about 600 employees when we acquired Belectric Solar & Battery Holding GmbH at the beginning of January 2017. However, headcount will decrease slightly over the medium term, primarily owing to efficiency improvements in Germany and abroad.

Capital expenditure of €6.5 billion to €7.0 billion by 2019. Over our medium-term planning horizon from 2017 to 2019, we intend to spend between €6.5 billion and €7.0 billion in capital. This includes capital expenditure on financial assets. More than half of this sum has been earmarked for the maintenance and expansion of our distribution networks. We intend to continue expanding our renewable generation capacity. As a rule, however, we want to maintain a certain degree of flexibility in distributing our investment resources. We anticipate capital expenditure to total between €2.0 billion and €2.5 billion in 2017.

Leverage factor of about 4.0. A key parameter for managing our indebtedness is the ratio of net debt to adjusted EBITDA, known as the leverage factor. We have set ourselves the medium-term target of a leverage factor of about 4.0. In our opinion, this is in line with innogy's stable earnings profile and robust financing structure and enables us to refinance our business at attractive conditions on the capital market at all times. This parameter can fluctuate from one year to the next, in particular if our net debt changes due to adjustments made to the discount factors for non-current provisions or effects in working capital relating to the cut-off date.

2 Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group review of operations includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

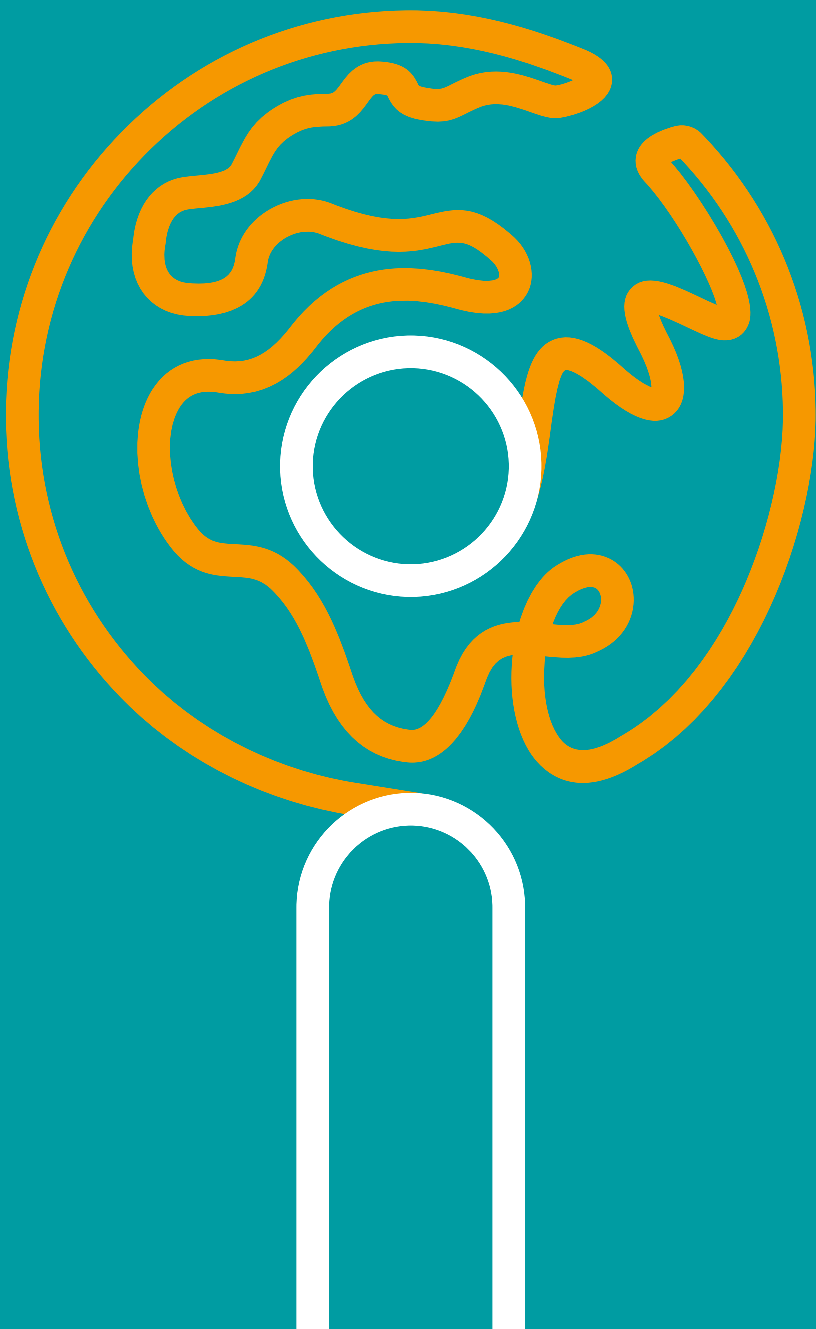
Essen, 24 February 2017

The Executive Board

Terium Bünting Günther

Herrmann Müller Tigges

3
Consolidated financial statements



3.1 Income statement

€ million	Note	2016	2015
Revenue (including natural gas tax/electricity tax)	(1)	**43,611**	**45,568**
Natural gas tax/electricity tax	(1)	2,062	2,112
Revenue	(1)	**41,549**	**43,456**
Other operating income	(2)	1,090	1,104
Cost of materials	(3)	32,714	34,760
Staff costs	(4)	2,858	2,736
Depreciation, amortisation and impairment losses	(5), (10), (11)	1,769	1,634
Other operating expenses	(6)	2,757	2,823
Income from investments accounted for using the equity method	(7), (12)	276	228
Other income from investments	(7)	173	265
Financial income	(8)	1,029	578
Finance costs	(8)	1,818	880
Income before tax		**2,201**	**2,798**
Taxes on income	(9)	415	860
Income		**1,786**	**1,938**
of which: non-controlling interests		273	325
of which: net income/income attributable to innogy SE shareholders		**1,513**	**1,613**
Basic and diluted earnings per common and preferred share in €[1]	(27)	**4.15**	

1 No earnings per share are presented for fiscal 2015 (see Note 27).

3.2 Statement of comprehensive income[1]

€ million	Note	2016	2015
Income		**1,786**	**1,938**
Actuarial gains and losses of defined benefit pension plans and similar obligations		−500	359
Income and expenses of investments accounted for using the equity method (pro-rata)	(12)	34	−71
Income and expenses recognised in equity, not to be reclassified through profit or loss		**−466**	**288**
Currency translation adjustment	(20)	−7	177
Fair valuation of financial instruments available for sale	(28)	33	−184
Income and expenses of investments accounted for using the equity method (pro rata)	(12), (20)	−17	4
Income and expenses recognised in equity, to be reclassified through profit or loss in the future		**9**	**−3**
Other comprehensive income		**−457**	**285**
Total comprehensive income		**1,329**	**2,223**
of which: attributable to innogy SE shareholders		1,085	1,957
of which: attributable to non-controlling interests		244	266

1 Figures stated after taxes.

3.3 Balance sheet

Assets € million	Note	31 Dec 2016	31 Dec 2015	1 Jan 2015
Non-current assets				
Intangible assets	(10)	11,709	12,178	11,695
Property, plant and equipment	(11)	17,954	18,308	17,309
Investments accounted for using the equity method	(12)	2,256	2,137	2,379
Other non-current financial assets	(13)	703	555	510
Financial receivables	(14)	456	2,211	1,458
Other receivables and other assets	(15)	523	866	477
Income tax assets			8	16
Deferred taxes	(16)	2,638	1,972	1,805
		36,239	**38,235**	**35,649**
Current assets				
Inventories	(17)	391	380	491
Financial receivables	(14)	291	10,425	10,316
Trade accounts receivable		4,022	4,551	5,708
Other receivables and other assets	(15)	1,729	1,816	1,478
Income tax assets		151	121	164
Marketable securities	(18)	2,688	1,894	1,913
Cash and cash equivalents	(19)	1,379	550	475
Assets held for sale				310
		10,651	**19,737**	**20,855**
		46,890	**57,972**	**56,504**

Equity and liabilities € million	Note	31 Dec 2016	31 Dec 2015	1 Jan 2015
Equity				
innogy SE shareholders' interest	(20)	8,931	16,649	16,937
Non-controlling interests	(20)	1,736	1,811	1,461
		10,667	**18,460**	**18,398**
Non-current liabilities				
Provisions for pensions and similar obligations	(22)	3,888	3,461	4,595
Other provisions	(23)	1,630	1,616	1,887
Financial liabilities	(24)	16,556	15,291	11,786
Other liabilities	(26)	1,847	2,428	2,274
Deferred taxes	(16)	521	904	772
		24,442	**23,700**	**21,314**
Current liabilities				
Other provisions	(23)	2,454	2,545	2,613
Financial liabilities	(24)	665	3,684	4,687
Trade accounts payable	(25)	4,302	4,553	4,906
Income tax liabilities		53	199	194
Other liabilities	(26)	4,307	4,831	4,392
Liabilities held for sale				
		11,781	**15,812**	**16,792**
		46,890	**57,972**	**56,504**

3.4 Cash flow statement

€ million	Note (31)	2016	2015
Income		1,786	1,938
Depreciation, amortisation, impairment losses/reversals		1,780	1,640
Changes in provisions		−4	−234
Changes in deferred taxes		−648	−77
Income from disposal of non-current assets and marketable securities		−215	−623
Other non-cash income/expenses		253	−99
Changes in working capital		−278	210
Cash flows from operating activities		**2,674**	**2,755**
Intangible assets/property, plant and equipment			
Capital expenditures		−1,833	−2,025
Proceeds from disposal of assets		126	663
Acquisitions, investments			
Capital expenditures		−216	−99
Proceeds from disposal of assets/divestitures		290	300
Changes in marketable securities and cash investments		7,166	655
Cash flows from investing activities (before initial/subsequent transfer to plan assets)		**5,533**	**−506**
Initial/subsequent transfer to plan assets		−315	−596
Cash flows from investing activities (after initial/subsequent transfer to plan assets)		**5,218**	**−1,102**
Net changes in equity (including non-controlling interests)		−7,199	−178
Dividends paid to innogy shareholders and non-controlling interests		−979	−1,017
Issuance of financial debt		9,265	8,982
Repayment of financial debt		−8,129	−9,380
Cash flows from financing activities		**−7,042**	**−1,593**
Net cash change in cash and cash equivalents		850	60
Effects of changes in foreign exchange rates and other changes in value on cash and cash equivalents		−21	15
Net change in cash and cash equivalents		**829**	**75**
Cash and cash equivalents at the beginning of the reporting period as per the consolidated balance sheet		**550**	**475**
Cash and cash equivalents at the end of the reporting period as per the consolidated balance sheet		**1,379**	**550**

3.5 Statement of changes in equity

Statement of changes in equity € million	Subscribed capital of innogy SE	Additional paid-in capital of innogy SE	Retained earnings and distributable profit	Accumulated other comprehensive income		innogy SE shareholders' interest	Non-controlling interests	Total
				Currency translation adjustments	Fair value measurement of financial instruments available for sale			
Note (21)								
Balance at 1 Jan 2015			**17,631**	**−914**	**220**	**16,937**	**1,461**	**18,398**
Dividends paid[1]			−960			−960	−227	−1,187
Income			1,613			1,613	325	1,938
Other comprehensive income			355	134	−145	344	−59	285
Total comprehensive income			1,968	134	−145	1,957	266	2,223
Withdrawals/ contributions			−1,285			−1,285	311	−974
Balance at 31 Dec 2015			**17,354**	**−780**	**75**	**16,649**	**1,811**	**18,460**
Dividends paid[1]			−724			−724	−226	−950
Income			1,513			1,513	273	1,786
Other comprehensive income			−452	14	10	−428	−29	−457
Total comprehensive income			1,061	14	10	1,085	244	1,329
Withdrawals/ contributions	1,111	6,210	−15,400			−8,079	−93	−8,172
Balance at 31 Dec 2016	**1,111**	**6,210**	**2,291**	**−766**	**85**	**8,931**	**1,736**	**10,667**

1 Following reclassification of non-controlling interests to other liabilities as per IAS 32.

3.6 Notes

General information

innogy SE, headquartered at Opernplatz 1, 45128 Essen, Germany, is the parent company of the innogy (Sub-) Group ("innogy" or "Group"). innogy is a supplier of energy in Europe.

On 1 December 2015, RWE AG, headquartered in Essen, Germany ("RWE AG", the parent company of the RWE Group) announced its plan to bundle the RWE Group's retail, grid and renewables operations in a European stock corporation ("Societas Europaea", SE) and list shares of this stock corporation on a stock exchange. This plan was approved by the Supervisory Board of RWE AG on 11 December 2015.

On 11 December 2015, "RWE Downstream Beteiligungs GmbH", located in Essen, was founded as a 100% subsidiary of RWE AG. On the same day, "RWE Downstream AG", located in Essen, was founded as a 100% subsidiary of RWE Downstream Beteiligungs GmbH. On 11 March 2016, "RWE International SE" was established by a cross-border merger of German-based RWE Downstream AG with Essent SPV N.V., located in 's Hertogenbosch, Netherlands, a Dutch corporation founded especially for this purpose. RWE International SE was renamed "innogy SE" on 1 September 2016.

The innogy Group encompasses certain companies from the scope of consolidation of the RWE Group: The business activities of the "Supply/Distribution Networks Germany", "Central Eastern and South Eastern Europe", "Supply Netherlands/Belgium", "Supply United Kingdom" and "Renewables" segments presented in RWE's consolidated financial statements for the period ended 31 December 2015 have been bundled in innogy. The companies forming the innogy Group were transferred to the innogy Group from other RWE Group companies. The legal reorganisation was completed as of 30 June 2016. All control and profit-and-loss-pooling agreements between innogy Group companies and RWE AG as well as other RWE Group companies were terminated by mutual consent as of 30 June 2016. On 26 February 2016, RWE and innogy SE concluded a control agreement that was terminated on 7 September 2016 with effect from the end of the day on 30 September 2016.

RWE AG remains the innogy Group's parent company despite the stock market launch of innogy SE, which was conducted on 7 October 2016.

The consolidated financial statements for the period ended 31 December 2016 were approved for publication on 24 February 2017 by the Executive Board of innogy SE, Opernplatz 1, 45128 Essen, Germany. The statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable in the European Union (EU), as well as in accordance with the supplementary accounting regulations applicable pursuant to Sec. 315a, Para. 1 of the German Commercial Code (HGB). In compliance with IFRS 1.21, innogy has presented an opening balance sheet as of 1 January 2015. With respect to the disclosures in the Notes as of 1 January 2015, reference is made to the commentary in the combined financial statements. As no consolidated financial statements had to be prepared for the innogy Group in the past, no reconciliations to previous financial statements are presented. The combined financial statements of innogy SE were published on 30 June 2016 and can be found at **www.innogy.com/ir**.

Pursuant to E.U. Prospectus Regulation No. 809/2004 and E.U. Prospectus Regulation No. 211/2007, innogy SE's listing prospectus had to include historical financial information covering the fiscal years from 1 January 2013 to 31 December 2013, from 1 January 2014 to 31 December 2014, and from 1 January 2015 to 31 December 2015. These financial statements were prepared on a combined basis ("combined financial statements") as the legal reorganisation and transfer of the business activities to the innogy Group had not yet been completed by 31 December 2015.

The legal reorganisation and the transfer of business activities to the innogy Group were completed by 30 June 2016. Since then, innogy SE has controlled the business activities pooled in the innogy Group within the meaning of IFRS 10. The Group's consolidated financial statements for the period ended 31 December 2016 have thus been prepared on a consolidated basis.

During the first six months of 2016, the innogy Group was created by transferring entities from

RWE Group companies to the innogy Group.

The following transactions took place:

- March 2016: Merger of Essent SPV N.V., 'sHertogenbosch, Netherlands and RWE Downstream AG, Essen, Germany. innogy SE was established as a result of this merger.

- March 2016: Contribution in kind of the investment in innogy International Participations N.V. (formerly RWE Gas International N.V.), 's-Hertogenbosch, Netherlands, to RWE Innogy GmbH, Essen, Germany. The investment was transferred to RWE Innogy GmbH in exchange in new granted shares with a par value of €1,000 and a payment of €3,500 million.

- March 2016: Acquisition of innogy Gas Storage NWE GmbH (formerly RWE Gasspeicher GmbH), Dortmund, Germany, by RWE Innogy GmbH, Essen, Germany, for a purchase price of €470 million.

- March 2016: Transfer of the shares in RWE IT GmbH, Essen, Germany, to innogy SE.

- March 2016: Transfer of the shares in GBV Einundzwanzigste Gesellschaft für Beteiligungsverwaltung mbH, which was renamed GfP Gesellschaft für Pensionsverwaltung mbH, Essen, Germany, to innogy SE.

- April 2016: Merger of RWE Innogy GmbH, Essen, Germany, into innogy SE. In line with the previous stake in the merged RWE Innogy GmbH, 5.1% of the shares in innogy SE were granted to RWE AG and 94.9% were granted to RWE Downstream Beteiligungs GmbH.

- April 2016: Merger of RWE Effizienz GmbH, Dortmund, Germany, into innogy SE.

- April 2016: Merger of RWE Vertrieb AG, Dortmund, Germany, into innogy SE.

- April 2016: Transfer of the investment in RWE Deutschland AG, Essen, Germany, to innogy SE. As consideration, innogy SE granted to the former shareholders RWE AG and RWE Downstream Beteiligungs GmbH 121 and 879 new shares with a nominal amount of €1, respectively.

- April 2016: Acquisition of RWE Npower Group plc, Swindon, United Kingdom, by innogy International Participations N.V. for a purchase price of £1,438 million. On 9 September 2016, innogy International Participations N.V. paid a purchase price adjustment for the acquisition of Npower Group plc in the amount of £36 million. The purchase price was adjusted to compensate for the difference between the pension obligation of Npower Group plc in accordance with IAS 19 that (i) had already been considered in the original purchase price and (ii) was actually allocated to Npower Group plc after the acquisition (both amounts were calculated as of 31 December 2015).

- May 2016: Merger of GBV Zweiundzwanzigste Gesellschaft für Beteiligungsverwaltung mbH, Essen, Germany, into innogy SE.

- May 2016: Acquisition of RWE Group Business Services Polska Sp. Z.o.o., Cracow, Poland, by innogy SE for a purchase price of €6 million.

- May 2016: Merger of RWE Energiedienstleistungen GmbH, Dortmund, Germany, into innogy SE.

- May 2016: Contribution of the shares in the following entities to innogy SE:

  - RWE East s.r.o., Prague, Czech Republic

  - RWE Hrvatska d.o.o., Zagreb, Croatia

  - RWE Polska S.A., Warsaw, Poland

  - RWE Polska Generation Sp. Z.o.o., Warsaw, Poland

  - RWE Slovensko s.r.o., Bratislava, Slovakia

  - RWE New Energy Ltd., Dubai, United Arab Emirates

  - RWE New Ventures LLC, Wilmington, USA
  - MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale), Germany
  - SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus, Germany
  - Pfalzwerke AG, Ludwigshafen, Germany
  - easyOptimize GmbH, Essen, Germany
  - RWE-EnBW Magyarország Energiaszolgáltató Kft., Budapest, Hungary

  The portfolio made up of these entities was transferred to innogy SE in exchange for new granted shares in innogy SE with a par value of €1,000.

- May 2016: Transfer of the shares in the following entities to innogy SE:
  - Budapesti Elektromos Müvek Nyrt., Budapest, Hungary
  - enviaM Beteiligungsgesellschaft mbH, Chemnitz, Germany
  - envia Mitteldeutsche Energie AG, Chemnitz, Germany
  - Észak-magyarországi Áramszolgáltató Nyrt., Miskolc, Hungary
  - Kärntner Energieholding Beteiligungs GmbH, Klagenfurt, Austria
  - KELAG-Kärntner Elektrizitäts-AG, Klagenfurt, Austria
  - Lechwerke AG, Augsburg, Germany
  - VSE AG, Saarbrücken, Germany
  - Východoslovenská energetika Holding a.s., Košice, Slovakia

  The portfolio made up of the shares in these entities was transferred to innogy SE against the granting of shares in innogy SE with a par value of €1,000 and a payment of €3,923 million.

- May 2016: Transfer of 77.58% of the shares in Süwag Energie AG, Frankfurt am Main, Germany, to innogy SE against the granting of shares in innogy SE with a par value of €1,000.
- May 2016: Transfer of 51% of the shares of RL Beteiligungsverwaltung mit beschränkter Haftung oHG, Gundremmingen, Germany, to innogy SE.
- May 2016: Transfer of the shares in innogy Consulting GmbH (formerly RWE Consulting GmbH), Essen, Germany, to innogy SE.
- May 2016: Acquisition of 1% of the shares in RWE Slovensko s.r.o., Bratislava, Slovakia, by innogy International Participations N.V.
- June 2016: Acquisition of 49% of the shares in RWE Power International Middle East, Dubai, United Arab Emirates, by innogy Consulting GmbH for a purchase price of €31,220.
- June 2016: Gain of control of RWE Rheinhessen Beteiligungsgesellschaft mbH, Essen, Germany, by contractual arrangement.
- June 2016: Acquisition of RWE Benelux Holding B.V., 'sHertogenbosch, Netherlands, by innogy International Participations N.V. for a purchase price of €1,256 million.
- June 2016: Transfer of the shares in RWE Aqua GmbH, Mülheim an der Ruhr, Germany, to innogy SE against the granting of shares in innogy SE with a par value of €5,000.
- June 2016: Acquisition of RWE SWITCH GmbH, Essen, Germany, by innogy SE for a purchase price of €25,000.
- June 2016: Acquisition of RWE Gastronomie GmbH, Essen, Germany, by innogy SE for a purchase price of €275,000.

Moreover, in May 2016 19.99% of the shares in Dii GmbH, Munich, Germany, were transferred to innogy SE.

innogy has exercised the discretionary right granted to business combinations under joint control to apply the predecessor accounting method with retrospective presentation. This means that the assets and liabilities of the business activities considered in the consolidated financial statements are stated at the amounts historically disclosed in the RWE IFRS consolidated financial statements. Business activities as defined by IFRS 3, which were transferred from the RWE Group to innogy during the legal reorganisation until 30 June 2016, have been included in the consolidated financial statements since the later of 1 January 2015 or the date since which the companies have been controlled by the RWE Group. Prior-year information in the consolidated financial statements for the period ended 31 December 2016 is designated "consolidated" and corresponds to the presentation in the combined financial statements.

Before 1 April 2016, various services were provided to the innogy Group by the RWE Group without innogy being billed for them. In addition, before 1 April 2016, innogy did not have an active executive board or supervisory board, as a result of which the members of the Executive and Supervisory Boards of RWE AG were considered the members of the management in key positions of the innogy Group. The innogy Group has recorded expenses for the services received including the management in key positions and recognised them as a shareholder contribution to equity. Starting on 1 April 2016, innogy SE concluded various service agreements according to which innogy SE is billed for the services it receives. Furthermore, the Executive Board of innogy SE took office on 1 April 2016. Its members are paid either directly by the company or their compensation is settled under service agreements with the RWE Group.

A statement of changes in equity has been disclosed in addition to the income statement, the statement of comprehensive income, the balance sheet and the cash flow statement. The Notes also include segment reporting.

Several balance sheet and income statement items have been combined in the interests of clarity. These items are stated and explained separately in the Notes. The income statement is structured according to the nature of expense method.

The consolidated financial statements have been prepared in euros. All amounts are stated in millions of euros (€ million) unless otherwise stated. Due to calculation procedures, rounding differences may occur.

These consolidated financial statements were prepared for the fiscal year from 1 January to 31 December 2016. The Executive Board of innogy SE is responsible for the preparation, completeness and accuracy of the consolidated financial statements and the Group review of operations, which is combined with the review of operations of innogy SE.

We employ internal control systems, uniform groupwide directives, and programmes for basic and advanced staff training to ensure that the consolidated financial statements and combined review of operations are adequately prepared. Compliance with legal regulations and the internal guidelines as well as the reliability and viability of the control systems are continuously monitored throughout the Group.

In line with the requirements of the German Corporate Control and Transparency Act (KonTraG), the Group's risk management system enables the Executive Board to identify risks at an early stage and take countermeasures, if necessary.

The consolidated financial statements, the combined review of operations and the independent auditors' report are discussed in detail by the Audit Committee and at the Supervisory Board's meeting on financial statements with the independent auditors present. The results of the Supervisory Board's examination are presented in the report of the Supervisory Board on page 14 et seqq.

Scope of consolidation

In addition to innogy SE, the consolidated financial statements contain all material German and foreign companies which innogy SE controls directly or indirectly. In determining whether there is control, in addition to voting rights, other rights in the company contracts or articles of incorporation and potential voting rights are also taken into consideration.

Principal associates are accounted for using the equity method, and principal joint arrangements are accounted for using the equity method or as joint operations. Joint operations result in pro-rata inclusion of the assets and liabilities, and the revenues and expenses, in accordance with innogy's rights and obligations.

A company is deemed to be an associate if there is significant influence on the basis of voting rights between 20% and 50% or on the basis of contractual agreements. In classifying joint arrangements which are structured as independent vehicles, as joint operations, or as joint ventures, other facts and circumstances – in particular delivery relationships between the joint arrangement and the parties participating in such – are taken into consideration, in addition to legal form and the contractual agreements.

Investments in subsidiaries, joint ventures, joint operations or associates which are of secondary importance from a Group perspective are accounted for in accordance with IAS 39.

The list of Group shareholdings pursuant to Sec. 313, Para. 2 of the German Commercial Code (HGB) is presented on page 174 et seqq.

The following summaries show the changes in the number of fully consolidated companies and investments and joint ventures accounted for using the equity method:

Number of fully consolidated companies	Germany	Abroad	Total
Balance at 1 Jan 2016	**117**	**140**	**257**
First-time consolidation	5	14	19
Deconsolidation	−1	−3	−4
Mergers	−12	−5	−17
Balance at 31 Dec 2016	**109**	**146**	**255**

Number of investments and joint ventures accounted for using the equity method	Germany	Abroad	Total
Balance at 1 Jan 2016	**64**	**16**	**80**
Acquisitions			
Disposals		−1	−1
Other changes		−2	−2
Balance at 31 Dec 2016	**64**	**13**	**77**

Furthermore, five companies are presented as joint operations (previous year: four). Of these, Greater Gabbard Offshore Winds Ltd., UK, is a material joint operation of the innogy Group. Greater Gabbard holds a 500 megawatt offshore wind farm, which innogy operates together with Scottish and Southern Energy (SSE) Renewables Holdings. Innogy Renewables UK owns 50% of the shares and receives 50% of the power generated (including green power certificates). The wind farm is a key element in the offshore portfolio of the Renewables Segment.

First-time consolidations and deconsolidations generally occur when control is transferred. Business activities as defined by IFRS 3 which were transferred from the RWE Group to innogy during the legal reorganisation by 30 June 2016 have been included in the scope of consolidation of the consolidated financial statements since 1 January 2015, the cut-off date of the balance sheet of the earliest comparable period presented, and are thus not shown in the first-time consolidations of 2016.

Disposals

Zephyr

In July 2016, innogy sold its shares in the associate Zephyr Investments Ltd. (Zephyr) and the related shareholder loans. The associate was assigned to the Renewables Segment.

The impact of changes in the scope of consolidation of special importance is mentioned in the Notes.

Due to sales of shareholdings, which led to a change of control, the result from disposals of €28 million was recognised in other operating income, other operating expenses and income from investments (previous year: €77 million). €8 million of this (previous year: €23 million) was attributable to the revaluation of remaining shares.

Purchase prices amounting to €16 million (previous year: €45 million) were paid and sales prices amounting to €30 million (previous year: €116 million) were achieved within the scope of acquisitions and sales of subsidiaries and other business units, which led to a change of control; they were all made in cash. In this connection cash and cash equivalents (without consideration of 'Assets held for sale') were acquired in the amount of €0 million (previous year: €2 million) and sold in the amount of €1 million (previous year: €9 million).

Consolidation principles

The financial statements of German and foreign companies included in the scope of the Group's financial statements are prepared using uniform accounting policies. On principle, subsidiaries whose fiscal years do not end on the Group's balance-sheet date (31 December) prepare interim financial statements as of this date. One subsidiary (previous year: three) has a different balance-sheet date of 31 March. Different fiscal years compared to the calendar year stem from business or tax-related reasons, or country-specific regulations.

The predecessor accounting method is applied to business combinations under joint control. This means that the assets and liabilities of the business activities considered in the consolidated financial statements are stated at the amounts historically disclosed by RWE in the IFRS consolidated financial statements. Therefore, no new goodwill was recognised. The consideration given or received is shown directly in equity in the "withdrawals/contributions" line item and recognised in cash flows from financing activities.

Business combinations are reported according to the acquisition method. This means that capital consolidation takes place by offsetting the purchase price, including the amount of the non-controlling interests, against the acquired subsidiary's revalued net assets at the time of acquisition. In doing so, the non-controlling interests can either be measured at the prorated value of the subsidiary's identifiable net assets or at fair value. The subsidiary's identifiable assets, liabilities and contingent liabilities are measured at full fair value, regardless of the amount of the non-controlling interests. Intangible assets are reported separately from goodwill if they are separable from the company or if they stem from a contractual or other right. In accordance with IFRS 3, no new restructuring provisions are recognised within the scope of the purchase price allocation. If the purchase price exceeds the revalued prorated net assets of the acquired subsidiary, the difference is capitalised as goodwill. If the purchase price is lower, the difference is included in income.

In the event of deconsolidation, the related goodwill is derecognised with an effect on income. Changes in the ownership share which do not alter the ability to control the subsidiary are recognised without an effect on income. By contrast, if there is a change in control, the remaining shares are revalued with an effect on income.

Expenses and income as well as receivables and payables between consolidated companies are eliminated. Intra-group profits and losses are eliminated.

For investments accounted for using the equity method, goodwill is not reported separately, but rather included in the value recognised for the investment. In other respects, the consolidation principles described above apply analogously. If impairments become necessary, we report such under income from investments accounted for using the equity method. The financial statements of investments accounted for using the equity method are prepared using uniform accounting policies.

For joint operations, the assets and liabilities and the expenses and income of the companies which are attributable to innogy are reported. In the event that innogy's shareholding in a joint operation differs from the share of output attributable to innogy, the assets, liabilities, expenses and income are recognised in accordance with the share of output.

Foreign currency translation

In their individual financial statements, the companies measure non-monetary foreign currency items at the balance-sheet date using the exchange rate in effect on the date they were initially recognised. Monetary items are converted using the exchange rate valid on the balance-sheet date. Exchange rate gains and losses from the measurement of monetary balance-sheet items in foreign currency occurring up to the balance-sheet date are recognised in the income statement under other operating income or expenses.

Functional currency translation is applied when converting the financial statements of companies with functional currencies other than euros. As the principal foreign enterprises included in the consolidated financial statements conduct their business activities independently in their functional currencies, their balance-sheet items are translated into euros in the consolidated financial statements using the daily average exchange rate prevailing on the balance-sheet date. This also applies for goodwill, which is viewed as an asset of the economically autonomous foreign entity. Changes in currency translation year over year are recorded in other comprehensive income without an effect on income. Expense and income items are translated using annual average exchange rates. When translating the adjusted equity of foreign companies accounted for using the equity method, the same procedures are followed.

The following exchange rates (amongst others) were used as a basis for foreign currency translations:

Exchange rates	Average		Year-end	
€	2016	2015	31 Dec 2016	31 Dec 2015
1 US dollar	0.91	0.91	0.95	0.92
1 Pound Sterling	1.22	1.38	1.17	1.36
100 Czech korunas	3.70	3.67	3.70	3.70
100 Hungarian forints	0.32	0.32	0.32	0.32
1 Polish zloty	0.23	0.24	0.23	0.23

Accounting policies

Intangible assets are carried at amortised cost. With the exception of goodwill, intangible assets have finite useful lives and are amortised using the straight-line method. The useful lives and methods of amortisation are reviewed on an annual basis.

Software for commercial and technical applications is amortised over a period of three to five years. "Operating rights" refer to the entirety of the permits and approvals required for the operation of a power plant. Such rights are generally amortised over the economic life of the plant, using the straight-line method. Easement agreements in the electricity and gas business, and other easement rights, usually have useful lives of 20 years. Concessions in the water business generally have terms of up to 25 years. Capitalised customer relations are amortised over a period of up to ten years.

Goodwill is not amortised; instead it is subjected to an impairment test annually, or more frequently if there are indications of impairment.

Development costs are capitalised if a newly developed product or process can be clearly identified, is technically feasible, and if the company intends to either use the product or process itself or market it. Furthermore, capitalisation of development costs requires that there be a sufficient level of certainty that the development costs lead to future cash inflows. Capitalised development costs are amortised over the time period during which the products are expected to be sold. Research expenditures are recognised as expenses in the period in which they are incurred.

An impairment loss is recognised for an intangible asset if the recoverable amount of the asset is less than its carrying amount. A special regulation applies for cases when the asset is part of a cash-generating unit. Such units are defined as the smallest identifiable group of assets which generates cash inflows; these inflows must be largely independent of cash inflows from other assets or groups of assets. If the intangible asset is a part of a cash-generating unit, the impairment loss is calculated based on the recoverable amount of this unit. If goodwill was allocated to a cash-generating unit and the carrying amount of the unit exceeds the recoverable amount, the allocated goodwill is initially written down by the difference. Impairment losses which must be recognised in addition to this are taken into account by reducing the carrying amount of the other assets of the cash-generating unit on a prorated basis. If the reason for an impairment loss recognised in prior periods has ceased to exist, a reversal to intangible assets is performed. The increased carrying amount resulting from the reversal may not, however, exceed the amortised cost. Impairment losses on goodwill are not reversed.

Property, plant and equipment is stated at depreciated cost. Borrowing costs are capitalised as part of the asset's cost, if they are directly attributable to the acquisition or production of a "qualified asset" for which a considerable period of time is required to prepare the asset for use or sale. If necessary, the cost of property, plant and equipment may contain the estimated expenses for the decommissioning of plants or site restoration. Maintenance and repair costs are recognised as expenses.

With the exception of land and leasehold rights, as a rule, property, plant and equipment is depreciated using the straight-line method, unless in exceptional cases another depreciation method is better suited to the usage pattern.

We calculate the depreciation of our typical property, plant and equipment according to the following useful lives, which apply throughout the Group:

Useful life in years	
Buildings	10–54
Technical plants	
Thermal power plants	10–40
Wind turbines	Up to 23
Electricity grids	20–45
Water main networks	20–80
Gas and water storage facilities	15–60
Gas distribution facilities	10–40
Other renewable generation facilities	4–40

For operating leases, in which innogy is the lessee, the minimum lease payments are recognised as an expense over the term of the lease. If innogy is the lessor, the minimum lease payments are recognised as income over the term of the lease.

Impairment losses and reversals on property, plant and equipment are recognised according to the principles described for intangible assets.

Investments accounted for using the equity method are initially recognised at cost and thereafter based on the carrying amount of their prorated net assets. The carrying amounts are increased or reduced annually by prorated profits or losses, dividends and all other changes in equity. Goodwill is not reported separately, but rather included in the recognised value of the investment. Goodwill is not amortised. An impairment loss is recognised for investments accounted for using the equity method, if the carrying amount exceeds the recoverable amount.

Other financial assets are comprised of shares in non-consolidated subsidiaries and in associates and joint ventures not accounted for using the equity method, as well as other investments and non-current marketable securities; these assets are shown in the category "Available for sale". This category includes financial instruments which are neither loans or receivables, nor financial investments held to maturity, and are not measured at fair value through profit or loss. Upon initial recognition and in the following periods, they are recorded at fair value as long as such can be determined reliably. Initial measurement occurs at the settlement date; unrealised gains and losses are stated as other comprehensive income, with due consideration of any deferred taxes. Gains or losses are recognised on the income statement upon the sale of the financial instruments. If there is objective, material evidence of a reduction in the value of an asset, an impairment loss is recognised with an effect on income. Such indications can be that there is no longer an active market for a financial asset or that a debtor is experiencing significant financial difficulties, or is possibly delinquent on payments of interest and principal.

Receivables are comprised of **financial receivables, trade accounts receivable** and **other receivables**. Aside from financial derivatives, **receivables and other assets** are stated at amortised cost. Allowances for doubtful accounts are based on the actual default risk. As a rule, the amounts of receivables are corrected through the use of an allowance account, in accordance with internal Group guidelines. Prepayments received from customers for consumption which is yet to be metered and billed are netted out against trade accounts receivable.

Loans reported under financial receivables are stated at amortised cost. Loans with interest rates common in the market are shown on the balance sheet at nominal value. As a rule, however, non-interest and low-interest loans are disclosed at their present value discounted using an interest rate commensurate with the risks involved.

Renewable energy certificates are accounted for as intangible assets and reported under other assets. Allowances which are purchased and allowances allocated free of charge are both stated at cost and are not amortised.

Deferred taxes result from temporary differences in the carrying amount in the separate IFRS financial statements and tax bases, and from consolidation procedures. Deferred tax assets also include tax reduction claims resulting from the expected utilisation of existing loss carryforwards in subsequent years. Deferred taxes are capitalised if it is sufficiently certain that the related economic advantages can be used. Their amount is assessed with regard to the tax rates applicable or expected to be applicable in the specific country at the time of realisation. The tax regulations valid or adopted as of the balance-sheet date are key considerations in this regard. The tax rate used to calculate deferred taxes in Germany is 31.4% (previous year: 31.4%). This is derived from the prevailing 15% corporate tax rate, the solidarity surcharge of 5.5%, and the Group's average local trade tax rate. Deferred tax assets and deferred tax liabilities are netted out for each company and/or tax group.

Inventories are assets which are held for sale in the ordinary course of business (finished goods and goods for resale), which are in the process of production (work in progress – goods and services) or which are consumed in the production process or in the rendering of services (raw materials).

Inventories carried at the lower of cost or net realisable value. Production costs reflect the full costs directly related to production; they are determined based on normal capacity utilisation and, in addition to directly allocable costs, they also include adequate portions of required materials and production overheads. They also include production-related depreciation. Borrowing costs, however, are not capitalised as part of the cost. The determination of cost is generally based on average values.

If the net realisable value of inventories written down in earlier periods has increased, the reversal of the write-down is recognised as a reduction of the cost of materials.

Securities classified as current **marketable securities** essentially consist of marketable securities held in special funds as well as fixed-interest securities which have a maturity of more than three months and less than one year from the date of acquisition. All of these securities are classified as "Available for sale" and are stated at fair value. The transaction costs directly associated with the acquisition of these securities are included in the initial measurement, which occurs on their settlement date. Unrealised gains and losses are included in other comprehensive income without an effect on income, with due consideration of any deferred taxes. If there are objective, material indications of a reduction in value, an impairment loss is recognised with an effect on income. The results of sales of securities are also recognised on the income statement.

Cash and cash equivalents consist of cash on hand, demand deposits and current fixed-interest securities with original maturities of three months or less from the date of acquisition.

Assets are stated under **Assets held for sale** if they can be sold in their present condition and their sale is highly probable. Such assets may be certain non-current assets, asset groups ("disposal groups") or operations ("discontinued operations"). Liabilities intended to be sold in a transaction together with assets are part of a disposal group or discontinued operations, and are reported separately under **Liabilities held for sale**.

Non-current assets held for sale are no longer depreciated or amortised. They are recognised at fair value less costs to sell, as long as this amount is lower than the carrying amount.

Gains or losses on the valuation of specific assets held for sale and of disposal groups are stated under income from continuing operations until final completion of the sale.

The groupwide stock option plans are accounted for as cash-settled **share-based payment**. At the balance-sheet date, a provision is recognised in the amount of the prorated fair value of the payment obligation. Changes in the fair value are recognised with an effect on income. The fair value of options is determined using generally accepted valuation methodologies.

Provisions are recognised for all legal or constructive obligations to third parties which exist on the balance-sheet date and stem from past events which will probably lead to an outflow of resources, and the amount of which can be reliably estimated. Provisions are carried at their prospective settlement amount and are not offset against reimbursement claims. If a provision involves a large number of items, the obligation is estimated by weighting all possible outcomes by their probability of occurrence (expected value method).

All non-current provisions are recognised at their prospective settlement amount, which is discounted at the balance-sheet date. In the determination of the settlement amount, any cost increases likely to occur up until the time of settlement are taken into account.

If necessary, the cost of property, plant and equipment may contain the estimated expenses for the decommissioning of plants or site restoration. Decommissioning, restoration and similar provisions are recognised for these expenses. If changes in the discount rate or changes in the estimated timing or amount of the payments result in changes in the provisions, the carrying amount of the respective asset is increased or decreased by the corresponding amount. If the decrease in the provision exceeds the carrying amount, the excess is recognised immediately through profit or loss.

As a rule, releases of provisions are credited to the expense account on which the provision was originally recognised.

A provision is recognised to cover the obligation to submit renewable energy certificates to the respective authorities; this provision is measured at the carrying amount of the renewable energy certificates capitalised for this purpose. If a portion of the obligation is not covered with the available certificates, the provision for this portion is measured using the market price of the renewable energy certificates on the reporting date.

Provisions for pensions and similar obligations are recognised for defined benefit plans. These are obligations of the company to pay future and ongoing post-employment benefits to entitled current and former employees and their surviving dependents. In particular, the obligations refer to retirement pensions. Individual commitments are generally linked to the employees' years of service and compensation.

Provisions for defined benefit plans are based on the actuarial present value of the respective obligation. This is measured using the projected unit credit method. This benefit/years-of-service method not only takes into account the pension benefits and benefit entitlements known as of the balance-sheet date, but also anticipated future increases in salaries and pension benefits. The calculation is based on actuarial reports, taking into account appropriate biometric parameters (for Germany, in particular Klaus Heubeck's 2005 G mortality tables and for the United Kingdom, the Standard SAPS Table S2PA (previous year: S1PA) and taking account of future changes in mortality). The provision derives from the balance of the actuarial present value of the obligations and the fair value of the plan assets. The service cost is disclosed in staff costs. Net interest is included in the financial result.

Gains and losses on the revaluation of net debt or net assets are fully recognised in the fiscal year in which they occur. They are reported outside of profit or loss, as a component of other comprehensive income in the statement of comprehensive income, and are immediately assigned to retained earnings. They remain outside profit or loss in subsequent periods as well.

In the case of defined contribution plans, the enterprise's obligation is limited to the amount it contributes to the plan. Contributions to the plan are reported under staff costs.

Liabilities consist of **income tax liabilities, financial liabilities, trade accounts payable** and **other liabilities**. Upon initial recognition, these are stated at fair value including transaction costs and are carried at amortised cost in the periods thereafter (except for derivative financial instruments).

Other liabilities include advances and contributions in aid of construction and building connection that are carried as liabilities by the utilities and are generally amortised and included in income over the useful life of the corresponding asset.

Furthermore, purchase price obligations from rights to tender non-controlling interests (put options) are also included in other liabilities.

Derivative financial instruments are recognised as assets or liabilities and measured at fair value, regardless of their purpose. Changes in their fair value are recognised with an effect on income, unless the instruments are used for hedge accounting purposes.

The purpose of hedges of a net investment in foreign operations is to hedge the currency risk from investments with foreign functional currencies. Unrealised gains and losses from such hedges are recognised in other comprehensive income until disposal of the foreign operation.

IAS (International Accounting Standard) 39 stipulates the conditions for the recognition of hedging relationships. Amongst other things, the hedging relationship must be documented in detail and be effective. According to IAS 39, a hedging relationship is effective when the changes in the fair value of the hedging instrument range from 80% to 125%, both prospectively and retrospectively, of the opposite change in the fair value of the hedged item. Only the effective portion of a hedge is recognised in accordance with the preceding rules. The ineffective portion is recognised immediately on the income statement with an effect on income.

Contracts on the receipt or delivery of non-financial items in accordance with the company's expected purchase, sale or usage requirements (own-use contracts) are not accounted for as derivative financial instruments, but rather as executory contracts. If the contracts contain embedded derivatives, the derivatives are accounted for separately from the host contract, insofar as the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract. Written options to buy or sell a non-financial item which can be settled in cash are not own-use contracts.

Contingent liabilities are possible obligations to third parties or existing obligations which will probably not lead to an outflow of economic benefits or the amount of which cannot be measured reliably. Contingent liabilities are only recognised on the balance sheet if they were assumed within the framework of a business combination. The amounts disclosed in the Notes correspond to the exposure at the balance-sheet date.

Management judgements in the application of accounting policies. Management judgements are required in the application of accounting policies. In particular, this pertains to the following:

- With regard to certain contracts, a decision must be made as to whether they are treated as derivatives or as what is known as own-use contracts, and be accounted for as executory contracts.
- Financial assets must be allocated to the categories "Held to maturity investments", "Loans and receivables", "Financial assets available for sale", and "Financial assets at fair value through profit or loss".
- With regard to "Financial assets available for sale", a decision must be made as to if and when reductions in value are to be recognised as impairments with an impact on income.
- With regard to assets held for sale, it must be determined if they can be sold in their current condition and if the sale of such is highly probable. If both conditions are met, the assets and any related liabilities must be reported and measured as "Assets held for sale" or "Liabilities held for sale", respectively.

Management estimates and judgements. Preparation of consolidated financial statements pursuant to IFRS requires assumptions and estimates to be made, which have an impact on the recognised value of the assets and liabilities carried on the balance sheet, on income and expenses and on the disclosure of contingent liabilities.

Amongst other things, assumptions and estimates are made in the accounting and measurement of provisions. With regard to non-current provisions, the discount rate to be applied is an important estimate, in addition to the amount and timing of future cash flows. The discount rate for pension obligations is determined on the basis of yields of high quality, fixed-rate corporate bonds on the financial markets as of the balance-sheet date.

The impairment test for goodwill and non-current assets is based on certain assumptions pertaining to the future, which are regularly adjusted. Property, plant and equipment is tested for indications of impairment on each balance-sheet date.

Upon first-time consolidation of a company, the identifiable assets, liabilities and contingent liabilities are recognised at fair value. Determination of fair value is based on valuation methods which require a projection of anticipated future cash flows.

Deferred tax assets are recognised if realisation of future tax benefits is probable. Actual future development of income for tax purposes and hence the potential realisation of deferred tax assets, however, may deviate from the estimation made when the deferred taxes are capitalised.

Further information on the assumptions and estimates upon which these consolidated financial statements are based can be found in the explanations of the individual items.

All assumptions and estimates are based on the circumstances and forecasts prevailing on the balance-sheet date. Furthermore, as of the balance-sheet date, realistic assessments of overall economic conditions in the sectors and regions in which innogy conducts operations are taken into consideration with regard to the prospective development of business. Actual amounts may deviate from the estimated amounts if the overall conditions develop differently than expected. In such cases, the assumptions, and, if necessary, the carrying amounts of the affected assets and liabilities are adjusted.

As of the date of preparation of the consolidated financial statements, it is not presumed that there will be any material changes compared to the assumptions and estimates.

Capital management. In the year under review, the innogy Group's capital structure mainly changed due to the restructuring of the RWE Group and the initial public offering of innogy. Capital market debt amount to €10.3 billion and debt payable to RWE AG totals €4.3 billion.

The focus of innogy's financing policy is on ensuring access to the capital market at all times, to enable the efficient refinancing of maturing debts at any time. This goal is pursued by maintaining a solid investment grade rating and by targeting positive cash flow and partially pre-financing the non-current provisions with invested financial assets.

innogy manages its capital structure on the basis of financial indicators, among other things. One key indicator is the "leverage factor", which is calculated using net debt. Net debt is calculated by adding material non-current provisions to net financial debt, and subtracting the surplus of plan assets over benefit obligations. The leverage factor is the ratio of net debt to adjusted EBITDA. In the financial year that just ended, it was 3.7. Since innogy's capital structure was changed fundamentally during the period under review within the scope of the extensive reorganisation of the RWE Group, no prior-year figure is stated.

innogy's credit rating is influenced by a number of qualitative and quantitative factors. These include aspects such as the amount of cash flows and debt as well as market conditions, competition, and the political framework.

The non-subordinated bonds issued by innogy have been assigned an "A–" rating with a stable outlook by Fitch and a "BBB–" rating with a positive outlook by Standard & Poor's. This classifies our rating as investment grade. The credit ratings issued for innogy's short-term bonds are "F-2" and "A-3", respectively.

Changes in accounting Standards

The International Accounting Standards Board (IASB) has approved amendments of existing International Financial Reporting Standards (IFRSs), which became effective for the innogy Group as of fiscal 2016:

- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (2014)
- Amendments to IAS 1 Disclosure Initiative (2014)
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (2014)
- Amendments to IAS 16 and IAS 41 Bearer Plants (2014)
- Amendments to IAS 27 Equity Method in Separate Financial Statements (2014)
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (2014)
- Annual Improvements to IFRSs 2012–2014 Cycle (2014)
- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (2013)
- Annual Improvements to IFRSs 2010–2012 Cycle (2013)

First-time application of these changes has no material effect on the consolidated statements.

New accounting Standards

The IASB has adopted further Standards and amendments to Standards, which were not yet mandatory in the European Union (EU) in fiscal 2016. The most important changes are presented below. EU endorsement is still pending in some cases.

IFRS 9 Financial Instruments (2014) replaces the previous regulations of IAS 39 on financial instruments. The Standard contains amended regulations on measurement categories for financial assets and includes some smaller changes in relation to the measurement of financial liabilities. Fair value measurement without an effect on income is stipulated for certain debt instruments reported under assets. It also contains regulations on the impairment of assets and hedge accounting. The rules on impairment will now apply to expected losses. The new regulations on hedge accounting are intended to enable better reporting of the risk management activities in the consolidated financial statements. To this end, IFRS 9 expands the range of underlying transactions qualifying for hedge accounting and simplifies effectiveness testing, amongst other things. The new Standard becomes effective for fiscal years starting on or after 1 January 2018.

In relation to the classification and measurement of financial assets, innogy does not currently expect any material impacts on the accounting treatment of debt instruments. Shares in mutual funds will mostly be recognised at fair value through profit or loss. At this point, it is not possible to estimate the extent to which the effects from the fair value measurement of equity instruments will be material. Furthermore, no decision has yet been reached on exercising the option to recognise fair value changes in other comprehensive income for equity instruments. Hardly any changes are anticipated in relation to the classification and measurement of financial liabilities.

The recognition of expected losses pursuant to the new impairment model is anticipated to result in the earlier recognition of impairments, and in lower equity and higher volatility in the income statement at the time of transition.

innogy currently expects that the previous hedge accounting can be continued. The extent to which additional hedge accounting relationships can be designated on the basis of IFRS 9 is currently being reviewed. The exercise of the fair value option for self consumption contracts is being examined. The possibility of excluding the fair value components of options in hedge accounting will probably not be exercised.

In the transition to the classification and measurement methods pursuant to IFRS 9, innogy will not restate any previous-year figures and will thus adjust retained earnings as of 1 January 2018, in order to recognise the impacts from first-time application of the Standard.

System-related and reporting adjustments are necessary in order to ensure the presentation of new information in the notes primarily with regard to hedge accounting, credit risks and expected losses.

IFRS 15 Revenue from Contracts with Customers (2014) including Amendments to IFRS 15, Effective Date of IFRS 15 (2015) and Clarifications to IFRS 15 Revenue from Contracts with Customers (2016) will replace the contents of IAS 18 Revenue and IAS 11 Construction Contracts. The new Standard does not distinguish between different types of orders and performance. It establishes uniform criteria as to when revenue is realised for a performance obligation at a point in time or over time. This is the case when the customer obtains control of the agreed goods and services and can benefit from such. Application of the new Standard is required for annual periods beginning on or after 1 January 2018. First-time application can occur fully retrospectively or based on a retrospective application without adjustments based on the comparable period (modified retrospective application).

Currently innogy examines the results of the IFRS 15 impact contract analysis. A preliminary assessment identified the following areas of possible change in accounting for revenue under IFRS 15:

Supply of energy to households

Customers can receive a free gift as an incentive for closing a contract such as thermostats, vouchers or household appliances. Under IFRS 15, revenue will have to be recognised for these free gifts if certain conditions are met. If these gifts are identified as separate performance obligations, the corresponding revenue will be recognised upon transfer of control over the good. In addition to that, goods offered at a reduced price are subject to a different allocation of the transaction price compared to IAS 18. Both will result in an earlier revenue recognition for the transaction price allocated to the free gifts and reduced goods, respectively.

If a contract includes a warranty, a distinction needs to be made between an assurance-type warranty, which provides a customer with assurance that the related product will function as intended, and a service-type warranty. Assurance-type warranties do not represent additional services to the customer and are therefore not a seperate performance obligation. Service-type warranties represent a separate performance obligation to which a portion of revenue will be allocated. Recognition of the related revenue will have to take place depending on the terms and conditions in the warranty clause in the contract. This is likely to cause a change in the pattern of revenue recognition.

Supply of energy to businesses

Contracts with businesses often contain a band-width clause, allowing the customer to deviate his actual consumption from the contracted volume. At the same time a penalty clause will be applicable for the situation that actual take off will be out of band-width. When this penalty is considered significant and the consumption is not metered on a monthly basis, the accounting of advances received may require a change.

Principal-Agent relations

IFRS 15 includes additional guidance to determine an entity's role as either principal or agent. In the future, the Standard will focus on the control over the product or service and no longer on the allocation of risks and rewards. Therefore, in some cases, companies might no longer qualify as principal and record revenue, but generate revenue from commissions from their function as agent.

Further effects and first-time application

The presentation and disclosure requirements under IFRS 15 are more detailed in comparison to the current requirements pursuant to IAS 18. innogy is currently reviewing the new disclosure for the notes and revising its systems and processes in order to comply with the new requirements. innogy will presumably use the modified retrospective method as the transitional method for first-time application. Early adoption of IFRS 15 is not intended by innogy. Furthermore, innogy is already considering potential changes resulting from the Clarifications to IFRS 15 issued by the IASB in April 2016, even though these have not yet been endorsed, and will monitor any further developments.

IFRS 16 Leases (2016) will replace the contents of IAS 17 Leases and the related Interpretations IFRIC 4, SIC-15 and SIC-27. According to this new Standard on leases, aside from short-term leases (less than 12 months) and leases of low-value assets, all leases are to be reported on the balance sheet. Consequently, regardless of economic ownership of the leased asset, the lessee must recognise a right-of-use asset and a corresponding lease liability in the amount of the present value of the fixed lease payments. For lessors, the new Standard does not result in any significant changes to the current accounting treatment pursuant to IAS 17 also in terms of classifying the lease, which is still necessary. The new Standard becomes effective for fiscal years starting on or after 1 January 2019. innogy does not expect to apply IFRS 16 early starting from 2018 in conjunction with IFRS 15. The effects of IFRS 16 (2016) on the innogy Group's consolidated financial statements are being reviewed.

The following Standards, amendments to Standards, and Interpretations are not expected to have any material effects on innogy's consolidated financial statements:

- Annual Improvements to IFRS Standards 2014–2016 Cycle (2016). The collective Standard contains amendments and clarifications to IFRS 1, IFRS 12 and IAS 28.18.
- Amendments to IAS 40 Transfers of Investment Property (2016)
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (2016)
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (2016)
- Amendments to IAS 7 Disclosure Initiative (2016)
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and an Associate or Joint Venture (2014). First-time application of these amendments in the EU was delayed indefinitely.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (2016)

Notes to the Income Statement

(1) Revenue

Generally revenue is recorded when the goods have been delivered or the services have been rendered, and the risks related to the goods or services have been transferred to the customer.

A breakdown of revenue by division and geographical region is contained in the segment reporting on page 165 et seqq.

Revenue increased by a net total of €418 million as a result of first-time consolidations and deconsolidations.

innogy did not generate more than 10 % of revenues with any single customer in the year under review or the previous year.

The item "Natural gas tax/electricity tax" comprises the taxes paid directly by Group companies.

(2) Other operating income

Other operating income € million	2016	2015
Income from own work capitalised	199	235
Income from changes in finished goods and work in progress	5	51
Cost allocations/refunds	79	55
Disposal and reversal of current assets (excluding marketable securities)	76	55
Disposal and reversal of non-current assets including income from deconsolidation	121	193
Income from derivative financial instruments	29	8
Compensation and insurance benefits	57	47
Rent and lease	11	14
Exchange rate gains		14
Remeasurement gain in step acquisitions		159
Income from the commutation of contracts	250	
Miscellaneous	263	273
	1,090	**1,104**

Income from the disposal of non-current financial assets and loans is disclosed under income from investments if it relates to investments; otherwise it is recorded as part of the financial result as is the income from the disposal of current marketable securities.

Changes in the scope of consolidation reduced other operating income by €9 million.

(3) Cost of materials

Cost of materials € million	2016	2015
Cost of raw materials and of goods for resale	22,462	25,226
Cost of purchased services	10,252	9,534
	32,714	**34,760**

Changes in the scope of consolidation resulted in an increase of €247 million in the cost of materials.

(4) Staff costs

Staff costs € million	2016	2015
Wages and salaries	2,298	2,127
Cost of social security, pensions and other benefits	560	609
	2,858	**2,736**

Number of employees	2016	2015
Employees covered by collective agreements and other employees	32,039	30,619
Employees not covered by collective agreements	8,426	7,983
	40,465	**38,602**

The number of employees is calculated by converting to full-time equivalents, meaning that part-time and fixed-term employment relationships are included in accordance with the ratio of the part-time work or the duration of the employment to the annual employment time. On average, 1,359 trainees were employed (previous year: 1,357). Trainees are not included in the personnel headcount.

An increase of €53 million in staff costs is attributable to changes in the scope of consolidation.

(5) Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses € million	2016	2015
Intangible assets	246	394
Property, plant and equipment	1,523	1,240
	1,769	**1,634**

In respect of amortisation on intangible assets, €26 million (previous year: €24 million) pertained to customer bases of acquired enterprises.

Changes in the scope of consolidation increased depreciation, amortisation and impairment losses by €37 million.

Impairments € million	2016	2015
Intangible assets	25	221
Property, plant and equipment	289	48
	314	**269**

€97 million in impairment losses were attributable to onshore wind farms in Poland in the Renewables Segment (of which €90 million pertained to property, plant and equipment and €7 million to operating rights recognised in intangible assets), primarily due to deteriorated regulatory framework conditions in Poland (recoverable amount: €0.2 billion).

In the year under review, impairment losses of €204 million were recognised for gas storage facilities in the Grid & Infrastructure Segment (of which €186 million pertained to property, plant and equipment and €18 million to intangible assets), (recoverable amount: €0.1 billion), predominantly due to changed price expectations.

Recoverable amounts are determined on the basis of fair values less costs of disposal using valuation models based on planned cash flows. The discount rates used were 4.5% to 5.25% (previous year: 5.25%). Key planning assumptions relate to the development of wholesale prices of electricity and natural gas, retail prices of electricity and natural gas, market shares and regulatory framework conditions, among other things. Based on the use of internal planning assumptions, the determined fair values are assigned to Level 3 of the fair value hierarchy.

Other impairments on intangible assets and property, plant and equipment were recognised primarily on the basis of cost increases and changed price expectations.

(6) Other operating expenses

Other operating expenses € million	2016	2015
Maintenance and renewal obligations	788	711
Concessions, licenses and other contractual obligations	443	435
Structural and adaptation measures	29	4
Legal and other consulting and data processing services	220	234
Disposal of current assets and decreases in values (excluding decreases in the value of inventories and marketable securities)	237	320
Disposal of non-current assets including expenses from deconsolidation	26	26
Insurance, commissions, freight and similar distribution costs	125	117
General administration	99	115
Advertising	259	194
Expenses from derivative financial instruments	29	30
Lease payments for plant and grids as well as rents	114	126
Postage and monetary transactions	64	75
Fees and membership dues	70	60
Exchange rate losses	4	
Other taxes (primarily on property)	51	57
Miscellaneous	199	319
	2,757	**2,823**

Changes in the scope of consolidation increased other operating expenses by €8 million.

(7) Income from investments

Income from investments includes all income and expenses which have arisen in relation to operating investments. It is comprised of income from investments accounted for using the equity method and other income from investments.

Income from investments € million	2016	2015
Income from investments accounted for using the equity method	**276**	**228**
of which: amortisation/impairment losses/reversals on investments accounted for using the equity method		−5
Income from non-consolidated subsidiaries	−3	3
of which: amortisation/impairment losses on non-consolidated subsidiaries	−9	−1
Income from other investments	39	32
of which: impairment of shares in other investments	−3	−1
Income from the disposal of investments	124	221
Expenses from the disposal of investments		7
Income from loans to investments	21	34
Expenses from loans to investments	8	18
Other income from investments	**173**	**265**
	449	**493**

Expenses from loans to investments relate exclusively to impairment losses.

(8) Financial result

Financial result € million	2016	2015
Interest and similar income	195	279
Other financial income	834	299
Financial income	**1,029**	**578**
Interest and similar expenses	746	606
Interest accretion to		
Provisions for pensions and similar obligations (including capitalised surplus of plan assets)	81	95
Other provisions	86	37
Other finance costs	905	142
Finance costs	**1,818**	**880**
	–789	**–302**

The financial result is composed of net interest, interest accretion to provisions, other financial income and other finance costs.

Interest accretion to provisions contains the annual amounts of accrued interest. It is reduced by interest income on plan assets for the coverage of pension obligations.

Net interest essentially includes interest income from interest-bearing securities and loans, income and expenses relating to marketable securities, and interest expenses.

In the year under review, €7 million in borrowing costs were capitalised in connection with the acquisition, construction and production of qualifying assets (previous year: €4 million). The underlying capitalisation rate ranged from 4.4% to 5.0% (previous year: from 5.0% to 5.1%).

Net interest € million	2016	2015
Interest and similar income	195	279
Interest and similar expenses	746	606
	–551	**–327**

Net interest stems from financial assets and liabilities, which are allocated to the following categories:

Net interest by category € million	2016	2015
Loans and receivables	152	236
Financial assets available for sale	44	43
Financial liabilities carried at (amortised) cost	–747	–606
	–551	**–327**

Other financial income includes €89 million in gains realised from the disposal of marketable securities (previous year: €279 million). Of the other finance costs, €91 million (previous year: €37 million) resulted from realised losses on the disposal of marketable securities. The rise on other finance costs compared to the previous year was largely due to the restructuring of the Group, which did not start until the end of 2015. Therefore, only a limited comparison can be drawn to the prior year.

(9) Taxes on income

Taxes on income € million	2016	2015
Current taxes on income	1,326	937
Deferred taxes	−911	−77
	415	**860**

Of the deferred taxes, €605 million was related to temporary differences (previous year: €36 million). In the year under review, changes in valuation allowances for deferred tax assets amounted to €592 million (previous year: €115 million).

Current taxes on income contained −€537 million in net tax expenses (previous year: income of €49 million) relating to prior periods.

Due to the utilisation of tax loss carryforwards unrecognised in prior years, current taxes on income were reduced by €3 million (previous year: €1 million). Expenses from deferred taxes declined by €126 million (previous year: €100 million), due to reassessments of and previously unrecognised tax carryforwards.

Changes in the scope of consolidation increased taxes on income by €16 million.

Income taxes recognised in other comprehensive income € million	2016	2015
Fair valuation of financial instruments available for sale	15	15
Actuarial gains and losses of defined benefit pension plans and similar obligations	99	−213
	114	**−198**

€11 million in taxes were directly offset against equity.

Tax reconciliation € million	2016	2015
Income before tax	**2,201**	**2,798**
Theoretical tax expense	**691**	**879**
Differences to foreign tax rates	−155	−55
Tax effects on		
Tax-free domestic dividends	−38	−68
Tax-free foreign dividends		−7
Other tax-free income	−1	−14
Expenses not deductible for tax purposes	29	258
Accounting for associates using the equity method (including impairment losses on associates' goodwill)	−37	16
Unutilisable loss carryforwards, utilisation of unrecognised loss carryforwards, write-downs on loss carryforwards, recognition of loss carryforwards	−112	−61
Income on the disposal of investments	17	−95
Changes in foreign tax rates	9	−19
Other allowances for deferred taxes in the innogy SE tax group		
Other	12	26
Effective tax expense	**415**	**860**
Effective tax rate in %	18.9	30.7

The combined corporate tax, solidarity surcharge and trade tax rate applicable to innogy SE is used to calculate the theoretical tax expense. For 2015, the combined corporate tax, solidarity surcharge and trade tax rate applicable to RWE AG was used, as the domestic management companies of the innogy Group were included in the RWE AG tax group during the 2015 financial year.

Notes to the Balance Sheet

(10) Intangible assets

Intangible assets € million	Development costs	Concessions, patent rights, licences and similar rights	Customer relationships and similar assets	Goodwill	Prepayments	Total
Cost						
Balance at 1 Jan 2016	1,106	1,959	3,318	10,974	6	17,363
Additions/disposals due to changes in the scope of consolidation	−36	31	5	113	−1	112
Additions	107	64			3	174
Transfers	6	7			−4	9
Currency translation adjustments	−141	−40	−401	−393		−975
Disposals	27	39	8	35		109
Balance at 31 Dec 2016	1,015	1,982	2,914	10,659	4	16,574
Accumulated amortisation/impairment losses						
Balance at 1 Jan 2016	637	1,508	3,039		1	5,185
Additions/disposals due to changes in the scope of consolidation	−35	29		2	−1	−5
Amortisation/impairment losses in the reporting period	107	113	26			246
Transfers	−1	2				1
Currency translation adjustments	−80	−14	−400	−1		−495
Disposals	26	33	8			67
Reversals						
Balance at 31 Dec 2016	602	1,605	2,657	1		4,865
Carrying amounts						
Balance at 31 Dec 2016	413	377	257	10,658	4	11,709
Cost						
Balance at 1 Jan 2015	987	1,902	3,073	10,501	1	16,464
Additions/disposals due to changes in the scope of consolidation		16	83	271		370
Additions	206	49		10	5	270
Transfers	−1	3				2
Currency translation adjustments	53	19	162	192		426
Disposals	139	30				169
Balance at 31 Dec 2015	1,106	1,959	3,318	10,974	6	17,363
Accumulated amortisation/impairment losses						
Balance at 1 Jan 2015	516	1,400	2,853			4,769
Additions/disposals due to changes in the scope of consolidation		−6				−6
Amortisation/impairment losses in the reporting period	234	135	24		1	394
Transfers						
Currency translation adjustments	24	7	162			193
Disposals	137	28				165
Reversals						
Balance at 31 Dec 2015	637	1,508	3,039		1	5,185
Carrying amounts						
Balance at 31 Dec 2015	469	451	279	10,974	5	12,178

In the reporting period, the innogy Group's total expenditures on research and development amounted to €149 million (previous year: €250 million). Development costs of €113 million were capitalised (previous year: €205 million).

Goodwill breaks down as follows:

Goodwill € million	31 Dec 2016	31 Dec 2015
Renewables	705	754
Grid & Infrastructure Germany	2,768	2,696
Grid & Infrastructure Eastern Europe	1,107	1,107
Retail Netherlands/Belgium	2,670	2,695
Retail Germany	929	898
Retail United Kingdom	2,070	2,415
Retail Eastern Europe	409	409
	10,658	**10,974**

An impairment test is performed in the third quarter of every year, in order to identify any need to recognise impairment losses on goodwill. In so doing, goodwill is assigned to cash-generating units at the operating segment level.

New cash-generating units were formed with effect from 1 January 2016. In this context, €2,696 million and €898 million in goodwill were transferred from the former Supply/Distribution Networks Germany cash-generating unit to the new Grid & Infrastructure Germany cash-generating unit and the new Retail Germany cash-generating unit, respectively. €1,107 million and €409 million in goodwill was transferred from the former Central Eastern and South Eastern Europe cash-generating unit to the new Grid & Infrastructure Eastern Europe cash-generating unit and to the new Retail Eastern Europe cash-generating unit, respectively.

The impairment test performed in connection with the formation of the new cash-generating units did not result in any impairment losses.

In the year under review, deconsolidations caused goodwill to decrease by €0 million (previous year: €22 million). In the Retail Germany and Grid & Infrastructure Germany Segments, changes in current redemption liabilities from put options resulted in an increase in goodwill without an effect on income; it is included in additions in the amount of €92 million (previous year: €197 million).

The recoverable amount of the cash-generating unit is determined, which is defined as the higher of fair value less costs to sell or value in use. Fair value is the best estimate of the price that an independent third party would pay to purchase the cash-generating unit as of the balance-sheet date. Value in use reflects the present value of the future cash flows which are expected to be generated with the cash-generating unit.

Fair value less costs to sell is assessed from an external perspective and value in use from a company-internal perspective. Values are determined using a business valuation model, based on planned future cash flows. These cash flows, in turn, are based on the the mid-term business plan, as approved by the Executive Board and valid at the time of the impairment test. They pertain to a detailed planning period of three years. In certain justifiable cases, a longer detailed planning period is taken as a basis, insofar as it is necessary due to economic or regulatory conditions. The cash flow plans are based on experience as well as on expected market trends. If available, market transactions in the same sector or third-party valuations are taken as a basis for determining fair value. Based on the use of internal planning assumptions, the determined fair values are assigned to Level 3 of the fair value hierarchy.

Mid-term business plans are based on country-specific assumptions regarding the development of key economic indicators such as gross domestic product, consumer prices, interest rate levels and nominal wages. These estimates are derived from various inputs, including macroeconomic and financial studies among other things.

The key planning assumptions for the business segments active in Europe's electricity and gas markets relate to the development of wholesale prices of electricity and natural gas, retail prices of electricity and natural gas, market shares and regulatory framework conditions.

The discount rates used for business valuations are determined on the basis of market data. With regard to cash-generating units, during the period under review they ranged from 4.0% to 5.75% after tax (previous year: 4.5% to 5.75%).

For the extrapolation of future cash flows going beyond the detailed planning horizon, constant growth rates of 0.0% to 1.0% were used (previous year: 0.0% to 1.0%). These figures are derived from experience and future expectations for the individual divisions and do not exceed the long-term average growth rates in the markets in which the Group companies are active. In calculating cash flow growth rates, the capital expenditures required to achieve the assumed cash flow growth are subtracted.

As of the balance-sheet date, the recoverable amounts of the operating segments, which were calculated as fair value less costs to sell, were higher than the carrying amounts of the cash-generating units. These surpluses react especially sensitively to changes in the discount rate, the growth rate and adjusted EBIT after taxes in the terminal value.

The operating Segment Grid & Infrastructure Eastern Europe exhibited the smallest surpluses of recoverable amount over the carrying amount. The recoverable amount was €1.5 billion higher than the carrying amount. Impairment would have been necessary if the calculations had used an after-tax discount rate increased by more than 1.6 percentage points to above 6.6%, a growth rate decreased by more than 1.9 percentage points to below −1.9%, or an after-tax adjusted EBIT reduced by more than €83 million in terminal value.

(11) Property, plant and equipment

Property, plant and equipment € million	Land, land rights and buildings incl. buildings on third-party land	Technical plant and machinery	Other equipment, factory and office equipment	Prepayments and plants under construction	Total
Cost					
Balance at 1 Jan 2016	2,837	38,316	1,310	642	43,105
Additions/disposals due to changes in the scope of consolidation	3	−80	26	−31	−82
Additions	216	1,070	115	315	1,716
Transfers	80	185	−27	−244	−6
Currency translation adjustments	−19	−462	−17	−20	−518
Disposals	25	446	81	10	562
Balance at 31 Dec 2016	3,092	38,583	1,326	652	43,653
Accumulated depreciation/impairment losses					
Balance at 1 Jan 2016	1,484	22,469	829	15	24,797
Additions/disposals due to changes in the scope of consolidation	2	−100	14		−84
Depreciation/impairment losses in the reporting period	83	1,339	100	1	1,523
Transfers	27	−12	−15		
Currency translation adjustments	−9	−63	−13		−85
Disposals	16	355	80		451
Reversals		1			1
Balance at 31 Dec 2016	1,571	23,277	835	16	25,699
Carrying amounts					
Balance at 31 Dec 2016	1,521	15,306	491	636	17,954
Cost					
Balance at 1 Jan 2015	2,719	34,937	1,055	3,045	41,756
Additions/disposals due to changes in the scope of consolidation	36	317	162	−221	294
Additions	37	1,079	86	555	1,757
Transfers	108	2,622	96	−2,828	−2
Currency translation adjustments	10	192	12	117	331
Disposals	73	831	101	26	1,031
Balance at 31 Dec 2015	2,837	38,316	1,310	642	43,105
Accumulated depreciation/impairment losses					
Balance at 1 Jan 2015	1,416	22,052	784	195	24,447
Additions/disposals due to changes in the scope of consolidation	2	−229	6		−221
Depreciation/impairment losses in the reporting period	61	1,083	91	5	1,240
Transfers	29	123	33	−185	
Currency translation adjustments	4	53	10		67
Disposals	28	613	95		736
Reversals					
Balance at 31 Dec 2015	1,484	22,469	829	15	24,797
Carrying amounts					
Balance at 31 Dec 2015	1,353	15,847	481	627	18,308

Property, plant and equipment in the amount of €87 million (previous year: €13 million) were subject to restrictions from land charges, chattel mortgages and other restrictions.

(12) Investments accounted for using the equity method

Information on material and non-material investments in associates and joint ventures accounted for using the equity method is presented in the following summaries:

Material investments accounted for using the equity method	KELAG-Kärntner Elektrizitäts-AG/ Kärntner Energieholding Beteiligungs GmbH (KEH), Klagenfurt/Austria		RheinEnergie AG, Cologne	
€ million	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Balance sheet[1]				
Non-current assets	1,607	1,595	1,589	1,557
Current assets	318	261	732	944
Non-current liabilities	837	809	751	813
Current liabilities	261	262	573	696
Proportional share of equity[2]	341	339	203	183
Consolidation adjustments	198	198		
Carrying amount	540	537	203	183
Statement of comprehensive income				
Revenue	1,383	1,441	2,281	2,291
Income	90	83	147	103
Other comprehensive income	−6	−18	−35	−51
Total comprehensive income	84	66	111	53
Dividends	30	15	28	25
innogy shareholding	49%	49%	20%	20%

1 Figures based on a 100% shareholding in KEH.
2 Figures based on the proportional share of equity in KEH and KELAG.

KELAG-Kärntner Elektrizitäts-AG, located in Klagenfurt, Austria, is a leading Austrian energy service provider in the fields of electricity, district heating and natural gas. innogy SE holds a share of 49% in Kärntner Energieholding Beteiligungs GmbH, which is the main shareholder of KELAG. The consolidation adjustments presented are primarily attributable to the goodwill recognised in the context of the aquisition.

RheinEnergie AG, domiciled in Cologne, Germany, supplies households and companies in Cologne and the Rhine region with electricity, gas, water and heat.

Non-material investments accounted for using the equity method	Associates		Joint ventures	
€ million	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Income (pro-rata)	132	99	56	70
Other comprehensive income (pro-rata)	13	−47	13	−14
Total comprehensive income (pro-rata)	145	52	69	56
Carrying amounts	1,083	1,044	430	373

The innogy Group holds shares with a carrying amount of €95 million (previous year: €92 million) in associates and joint ventures, which are subject to temporary restrictions or conditions in relation to their distributions of profits, due to provisions of loan agreements.

(13) Other non-current financial assets

Other non-current financial assets € million	31 Dec 2016	31 Dec 2015
Non-consolidated subsidiaries	213	119
Other investments	456	410
Non-current securities	34	26
	703	**555**

Non-current securities primarily consist of fixed-interest marketable securities and shares of listed companies.

(14) Financial receivables

Financial receivables	31 Dec 2016		31 Dec 2015	
€ million	Non-current	Current	Non-current	Current
Loans to non-consolidated subsidiaries and investments	227	3	208	3
Collateral for trading activities		6		6
Other financial receivables	229	282	2,003	10,416
	456	**291**	**2,211**	**10,425**

For the other financial receivables, there is limited control in the amount of €87 million related to the financing of the pension commitments of two innogy Group companies.

(15) Other receivables and other assets

Other receivables and other assets	31 Dec 2016		31 Dec 2015	
€ million	Non-current	Current	Non-current	Current
Derivatives	471	583	843	675
Capitalised surplus of plan assets over benefit obligations	29		5	
Prepayments for items other than inventories		53		58
Miscellaneous other assets	24	1,093	18	1,083
	524	**1,729**	**866**	**1,816**
of which: financial assets	503	763	850	878
of which: non-financial assets	21	966	16	938

(16) Deferred taxes

Deferred tax assets and liabilities principally stem from the fact that measurements in the IFRS statements differ from those in the tax bases. €747 million and €446 million of the gross deferred tax assets and liabilities, respectively, will be realised within twelve months (previous year: €387 million and €236 million).

The following is a breakdown of deferred tax assets and liabilities by item:

Deferred taxes	31 Dec 2016		31 Dec 2015	
€ million	Assets	Liabilities	Assets	Liabilities
Non-current assets	1,048	1,183	870	1,386
Current assets	373	280	77	209
Exceptional tax items	1	726	10	82
Non-current liabilities				
Provisions for pensions	1,894	150	859	31
Other non-current provisions	678	30	517	24
Current liabilities	374	166	310	27
	4,368	**2,535**	**2,643**	**1,759**
Tax loss carryforwards				
Corporate income tax (or comparable foreign income tax)	284		184	
Trade tax				
Gross total	**4,652**	**2,535**	**2,827**	**1,759**
Netting	−2,014	−2,014	−855	−855
Net total	**2,638**	**521**	**1,972**	**904**

As of 31 December 2016, innogy reported deferred tax claims which exceeded the deferred tax liabilities by €9 million (previous year: €219 million), in relation to companies which suffered a loss in the current or previous period. The basis for the formation of deferred tax assets is the judgement of the management that it is likely that the companies in question will generate taxable earnings, against which unutilised tax losses and deductible temporary differences can be applied.

The capitalised tax reduction claims from loss carryforwards result from the expected utilisation of previously unused tax loss carryforwards in subsequent years.

It is sufficiently certain that these loss carryforwards will be realised. At the end of the reporting period, corporate income tax loss carryforwards and trade tax loss carryforwards for which no deferred tax claims have been recognised amounted to €3,304 million and €5 million, respectively (previous year: €826 million and €5 million, respectively). Of these income tax loss carryforwards, €2,995 million will expire within the following nine years. The other loss carryforwards can essentially be used for an unlimited period.

In the year under review, a deferred tax expense of −€10 million arising from the currency translation of foreign financial statements was offset against equity (previous year: tax income of €3 million).

(17) Inventories

Inventories € million	31 Dec 2016	31 Dec 2015
Raw materials	137	134
Work in progress – goods/services	168	170
Finished goods and goods for resale	86	75
Prepayments		1
	391	**380**

(18) Marketable securities

Of the current marketable securities, €2,169 million were fixed-interest marketable securities (previous year: €1,258 million) with a maturity of more than three months from the date of acquisition, and €519 million were stocks and profit-participation certificates (previous year: €636 million). Marketable securities are stated at fair value.

(19) Cash and cash equivalents

Cash and cash equivalents € million	31 Dec 2016	31 Dec 2015
Cash and demand deposits	1,339	549
Marketable securities and other cash investments (maturity less than three months from the date of acquisition)	40	1
	1,379	**550**

innogy keeps demand deposits exclusively for short-term cash positions. For cash investments, banks are selected on the basis of various creditworthiness criteria. Examples of such criteria include their rating from one of the three renowned rating agencies – Moody's, Standard & Poor's and Fitch – their equity and the prices for credit default swaps. As in the previous year, interest rates on cash and cash equivalents were at market levels.

(20) Shareholders' equity

The breakdown of fully paid-in shareholders' equity is presented on page 112. As of 31 December 2016, innogy SE's **subscribed capital** was based on 555,555,000 no-par-value bearer shares (previous year: 120,000 no-par-value registered shares) with a carrying amount of €1,111,110,000 (previous year: €120,000).

Pursuant to a resolution passed by the Annual General Meeting on 4 April 2016, the company's capital stock was increased by €999,870,000 to €999,990,000 through the issuance of 999,870,000 new no-par-value registered shares. The capital increase was entered in the Commercial Register on 18 April 2016.

Pursuant to a resolution passed by the Annual General Meeting on 25 April 2016, the company's capital stock was increased by €1,000 to €999,991,000 through the issuance of 1,000 new no-par-value registered shares against a contribution in kind. The capital increase was entered in the Commercial Register on 23 May 2016.

Pursuant to a resolution passed by the Annual General Meeting on 25 May 2016, the company's capital stock was increased by €4,000 to €999,995,000 through the issuance of 4,000 new no-par-value registered shares against a contribution in kind. The capital increase was entered in the Commercial Register on 16 and 17 June 2016.

Pursuant to a resolution passed by the Annual General Meeting on 15 June 2016, the company's capital stock was increased by €5,000 to €1,000,000,000 through the issuance of 5,000 new no-par-value registered shares against a contribution in kind. The capital increase was entered in the Commercial Register on 11 July 2016.

Pursuant to a resolution passed by the Annual General Meeting on 18 July 2016, the no-par-value registered shares of innogy SE were converted to bearer shares. Furthermore, the Annual General Meeting resolved on 18 July 2016 to adjust the number of shares from 1,000,000,000 to 500,000,000 by combining every two shares, causing the imputed par value of each share to increase from €1 to €2. The conversion and combination were entered in the Commercial Register on 27 July 2016.

Another increase in capital stock resulted from the issuance of shares to investors within the scope of the initial public offering of innogy SE on 7 October 2016. To this end, the Annual General Meeting of innogy SE resolved on 30 August 2016 to increase the company's capital stock by up to €111,110,000 to up to €1,111,110,000 through the issuance of up to 55,555,000 new bearer shares. The 55,555,000 shares were placed with private and institutional investors at a price of €36 per share.

Pursuant to a resolution passed by the Annual General Meeting on 30 August 2016, subject to the approval of the Supervisory Board, the Executive Board has been authorised to increase the Company's capital stock by a maximum of €333,333,000 through the issuance of a maximum of 166,666,500 bearer shares in return for contributions in cash or in kind until 29 August 2021 (authorised capital). Subject to the approval of the Supervisory Board, the shareholders' subscription rights may be excluded in certain cases.

Pursuant to a resolution passed by the Annual General Meeting on 30 August 2016, subject to the approval of the Supervisory Board, the Executive Board has been authorised to issue option and/or convertible bonds or to guarantee option and convertible bonds issued by subordinated Group companies once or several times until 29 August 2021. The total nominal amount has been limited to €3,000,000,000. To redeem the convertible and option bonds, the capital stock has been conditionally increased by a maximum of €111,111,000, divided into a maximum of 55,555,500 bearer shares (conditional capital). Subject to the approval of the Supervisory Board, the shareholders' subscription rights may be excluded in certain cases.

Pursuant to a resolution passed by the Annual General Meeting on 30 August 2016, the company has been authorised until 29 August 2021 to purchase shares in the company amounting to a maximum of 10% of the capital stock on the effective date of this authorisation or – if this value is lower – on the exercise date of this authorisation. Pursuant to this resolution, the company's Executive Board has been further authorised to retire treasury stock without the need for a further resolution by the Annual General

Meeting. In addition, the Executive Board has been authorised to transfer or sell treasury stock to third parties under certain conditions and exclusion of the shareholders' subscription rights. Moreover, treasury stock may be issued to holders of option or convertible bonds. The Executive Board has also been authorised to use treasury stock to meet the company's obligations arising from future employee share ownership programmes; the shareholders' subscription rights have been waived in this case.

No treasury shares were held as of 31 December 2016.

In fiscal 2016, innogy SE purchased 1,760 of its own shares on the capital market for a total purchase price of €55,522. Employees of innogy SE and its subsidiaries received these shares at a rebate on the occasion of anniversaries. The differences to the purchase price were offset against available retained earnings.

€1,889 million in proceeds from the issuance in connection with the initial public offering was transferred to **additional paid-in capital**. Furthermore, changes in additional paid-in capital from various contributions made by the shareholders of innogy SE resulted from a debt-to-equity swap in the amount of €1,009 million, a cash contribution of €900 million and transfers of parts of businesses, the valuation of which in the separate financial statements of innogy SE under German GAAP led to an increase in additional paid-in capital of €2,412 million.

In the year under review, **withdrawals from retained earnings and contributions to retained earnings** mainly consisted of payments to RWE AG as a result of various transactions in connection with the legal reorganisation amounting to −€16,144 million (previous year: −€518 million), adjustments due to the allocation of overhead costs through to 31 March 2016 amounting to €24 million (previous year: €107 million), adjustments due to the application of the separate tax return approach amounting to €740 million (previous year: €50 million) and other stand-alone adjustments amounting to €5 million (previous year: −€34 million). In connection with the initial public offering of innogy SE, transaction costs of €46 million were incurred, of which €36 million are directly allocable and were directly deducted from retained earnings after subtracting a tax benefit of €11 million.

The various transactions with RWE in connection with the legal reorganisation, which have an impact on subscribed capital, the additional paid-in capital of innogy SE and the Group's retained earnings, encompass payments for acquired companies amounting to €11,041 million (see "General principles"), withdrawals from receivables from RWE Group companies amounting to €4,364 million and contributions amounting to €4,582 million. These transactions were effected by using cash pooling accounts with the RWE Group. Receivables and other assets declined, and financial liabilities increased.

Accumulated other comprehensive income reflects changes in the fair values of financial instruments available for sale and hedges of the net investment in foreign operations, as well as changes stemming from foreign currency translation adjustments from foreign financial statements.

As of 31 December 2016, the share of accumulated other comprehensive income attributable to investments accounted for using the equity method amounted to €26 million (previous year: €43 million).

During the reporting year, €0 million in **differences from currency translation** (previous year: −€22 million) which had originally been recognised without an effect on income were realised as expenses. Income and expenses of investments accounted for using the equity method which had previously been recognised pro rata without an effect on income were realised in the amount of €2 million as expenses (previous year: €0 million) during the year under review.

As a result of **equity capital transactions with subsidiary companies** which did not lead to a change of control, the share of equity attributable to innogy SE's shareholders changed by €3 million (previous year: €73 million) and the share of equity attributable to non-controlling interests changed by −€1 million (previous year: €97 million).

Dividend proposal

We propose to the Annual General Meeting that innogy SE's distributable profit for fiscal 2016 be appropriated as follows:

Dividend	€888,888,000.00
Profit carryforward	€810,409.54
Distributable profit	€889,698,409.54

Distribution of a dividend of €1,60 per dividend-bearing share.

Non-controlling interests

The share ownership of third parties in Group entities is presented in this item. In the year under review, the withdrawals and contributions of the non-controlling interests related to miscellaneous transactions.

The income and expenses recognised directly in equity (other comprehensive income – OCI) include the following non-controlling interests:

Non-controlling interests in OCI € million	2016	2015
Actuarial gains and losses of defined benefit pension plans and similar obligations	–14	–67
Income and expenses recognised in equity, not to be reclassified through profit or loss	**–14**	**–67**
Currency translation adjustment	–21	43
Fair valuation of financial instruments available for sale	6	–35
Income and expenses recognised in equity, to be reclassified through profit or loss in the future	**–15**	**8**
	–29	**–59**

Subsidiaries with material non-controlling interests	envia Mitteldeutsche Energie AG, Chemnitz, Germany		GasNet, s.r.o., Ústí nad Labem, Czech Republic	
€ million	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Balance sheet				
Non-current assets	2,434	2,811	1,585	1,532
Current assets	577	304	168	154
Non-current liabilities	355	480	523	504
Current liabilities	775	638	601	580
Statement of comprehensive income				
Revenue	2,334	2,388	516	473
Other comprehensive income	2	–22		14
Total comprehensive income	104	261	150	138
Cash flows from operating activities	16	521	254	218
Non-controlling interests	779	828	314	301
Dividends paid to non-controlling interests	91	72	48	
Income of non-controlling interests	42	117	75	62
Shareholdings of non-controlling interests	41.43%	41.43%	49.96%	49.96%

(21) Share-based payment

For executives of innogy SE and subordinate affiliates, there is a groupwide share-based payment system known as Beat 2010, that is oriented towards RWE AG's share price. The expenses associated with these are borne by the Group companies which employ the persons holding notional stocks.

	Beat 2010			
	2012 tranche Vesting period: 4 years	2013 tranche Vesting period: 4 years	2014 tranche Vesting period: 4 years	2015 tranche Vesting period: 4years
Grant date	1 Jan 2012	1 Jan 2013	1 Jan 2014	01 Jan 2015
Number of conditionally granted performance shares	2,765,350	2,035,873	987,310	1,305,770
Term	5 years	5 years	5 years	5 years
Pay-out conditions	Possible pay-out on three exercise dates (valuation dates: 31 Dec of the fourth year, 30 June and 31 Dec of the fifth year) if – as of the valuation date – an outperformance compared to at least 25% of the peer group of the STOXX Europe 600 Utilities Index has been achieved, measured in terms of their index weighting as of the issue of the tranche. Measurement of outperformance is carried out using Total Shareholder Return, which takes into account both the development of the share price together with reinvested dividends. Automatic pay-out occurs on the third valuation date; the number of performance shares available for pay-out can be freely chosen on the first and second valuation date.			
Determination of payment	1. Determination of the index weighting of the peer group companies which exhibit a lower Total Shareholder Return than RWE at the valuation date. 2. The total number of performance shares which can be paid out is determined on the basis of a linear payment curve. If the index weighting of 25% is outperformed, 7.5% of the conditionally-granted performance shares can be paid out. Another 1.5% of the performance shares granted can be paid out for each further percentage point above and beyond the index weighting of 25%. 3. Payment corresponds to the number of payable performance shares valued at the average RWE share price during the last 60 exchange trading days prior to the valuation date. The payment for each performance share is limited to twice the value of each performance share as of the grant date.			
Change in corporate control/ merger	• If during the vesting period there is a change in corporate control, a compensatory payment is made. This is calculated by multiplying the price paid in the acquisition of the RWE shares by the final number of performance shares which have not been used. The latter shall be determined as per the plan conditions with regard to the time when the bid for corporate control is submitted. • In the event of a merger of RWE AG with another company, the performance shares shall expire and a compensatory payment shall be made. First, the fair value of the performance shares as of the time of merger shall be calculated. This fair value is then multiplied by the number of performance shares granted, reduced pro-rata. The reduction factor is calculated as the ratio of the time from the beginning of the total vesting period until the merger takes place to the entire vesting period of the programme, multiplied by the ratio of the performance shares not yet used as of the time of the merger to the total number of performance shares granted at the beginning of the programme.			
Personal investment	As a prerequisite for participation, plan participants must demonstrably invest one sixth of the gross grant value of the performance shares before taxes in RWE common shares and hold such investment until expiration of the vesting period of the tranche in question.			
Form of settlement	Cash settlement			

The fair values of the performance shares conditionally granted in the Beat programme as of the grant date are shown in the following table:

Performance shares from Beat 2010 €	2012 tranche	2013 tranche	2014 tranche	2015 tranche
Fair value per share	6.66	8.09	7.44	5.05

These fair values were calculated externally using a stochastic multivariate Black-Scholes standard model via Monte Carlo simulations on the basis of one million scenarios each. In the calculations, due consideration was taken of the maximum payment stipulated in the programme's conditions for each conditionally granted performance share, the discount rates for the remaining term, the volatilities and the expected dividends of RWE AG and of peer companies.

In the year under review, the number of performance shares developed as follows:

Performance shares from Beat 2010	2012 tranche	2013 tranche	2014 tranche	2015 tranche
Outstanding at the start of the fiscal year	2,088,157	1,568,688	827,944	1,305,770
Granted				
Change (granted/expired)	994,187	992,821	544,563	563,261
Paid out				
Outstanding at the end of the fiscal year	3,082,344	2,561,509	1,372,507	1,869,031
Payable at the end of the fiscal year				

The remaining contractual term amounts to three years for the 2015 tranche, two years for the 2014 tranche, and one year for the 2013 tranche. The contractual duration for the 2012 tranche expired at the end of the reporting year. As the pay-out conditions were not fulfilled, there was no pay-out. No new tranche was issued in 2016. Instead, there is a new Long-term Incentive Plan for executives at innogy SE, the Strategic Performance Plan (SPP). The new SPP uses an internal performance target derived from the medium-term planning (adjusted net income) and takes account of the development of innogy SE's share price. The executives receive a number of notional shares. The final number of the notional shares of a tranche is determined after a year, based on the degree to which the target ANI is achieved. This is followed by a three-year vesting period before any potential pay-out. During the period under review, expenses for the groupwide share-based payment system totalled €4 million (previous year: €9 million). As of the balance-sheet date, provisions for cash-settled share-based payment programmes amounted to €4 million (previous year: €0 million).

	innogy SE SPP
	2016 tranche
Start of term	1 Jan 2016
Number of conditionally granted performance shares	352,834
Performance target	Adjusted net income
Term	4 years
Cap/number of performance shares	150%
Cap/payment amount	200%
Determination of payment	The payment amount is calculated on the basis of the determined number of finally granted performance shares multiplied by the sum of a) the mathematical average of the closing share prices (including all available decimal places) of the innogy SE share (ISIN DE 000A2AAD02) in Deutsche Börse AG's Xetra trading (or a successor system which subsequently takes the place of the Xetra system) for the last 30 trading days prior to the end of the vesting period rounded to two decimal places according to standard commercial practice and b) the dividends paid per share for the fiscal years between the determination of the performance shares and the end of the vesting period. Dividends do not bear interest and are not reinvested. If a dividend payment occurs during the 30-day period for calculating the share price, the share prices of the trading days leading up to the payment (CUM share prices) are adjusted by the dividend, as the dividend would otherwise be considered twice. Payment amount = (number of finally granted performance shares) x (mathematical average of the share price + dividends paid) The payment amount calculated in this manner is limited to no more than 200% of the grant amount.
Change in corporate control/ merger	A change in corporate control ("change of control") shall occur if a) a shareholder gains control in accordance with Section 29 of the German Securities Acquisition and Takeover Act (WpÜG) by holding at least 30% of the voting rights including third-party voting rights attributable to it in accordance with Section 30 WpÜG or b) a control agreement in accordance with Section 291 of the German Stock Corporation Act (AktG) is concluded by a company that does not belong to the RWE Group with innogy SE as a dependent company, or c) innogy SE is merged with another legal entity that does not belong to the Group in accordance with Section 2 of the German Company Transformation Act (UmwG) unless the value of the other legal entity is less than 50% of the value of innogy SE based on the agreed conversion rate; in such a case, item a) shall not apply. In the event of a change of control, the performance shares that fully vested and have not yet been paid out shall be paid out early. The payment amount shall be calculated by applying exercise conditions analogously, wherein in deviation herefrom, the basis of calculation shall be the last 30 stock exchange trading days before the announcement of the change of control in addition to the dividends paid per share in the fiscal years between the vesting of the performance shares and the effective date of the change of control relative to the fully vested performance shares. The payment amount calculated in this manner shall be paid to the plan participant together with his or her next salary payment. All conditionally granted performance shares as of the effective date of the change of control shall lapse without consideration.
Personal investment	Not necessary for executives
Form of settlement	Cash settlement
Payment date	2020

(22) Provisions for pensions and similar obligations

The company pension plan consists of defined contribution and defined benefit plans. The defined benefit commitments mainly relate to pension commitments based on final salary.

In the reporting period, €34 million (previous year: €36 million) was paid into defined contribution plans. This includes payments made by innogy for a benefit plan in the Netherlands which covers the commitments of various employers. This fund does not provide the participating companies with information allowing for the pro-rata allocation of commitments, plan assets and service cost. In innogy's consolidated financial statements, the contributions are thus recognised analogously to a defined contribution plan, although this is a defined benefit plan. The pension plan for employees in the Netherlands is administered by Stichting Pensioenfonds ABP (cf. http://www.abp.nl/). Contributions to the pension plan are calculated as a percentage rate of employees' salaries and are paid by the employees and employers. The rate of the contributions is determined by ABP. There are no minimum funding requirements. Approximately €11 million in employer contributions will be paid to the ABP pension fund in fiscal 2017 (planned in the previous year: €11 million). The contributions are used for all of the beneficiaries. If ABP's funds are insufficient, it can either curtail pension benefits and future post-employment benefits, or increase the contributions of the employer and employees. In the event that innogy terminates the ABP pension plan, ABP will charge a termination fee. Amongst other things, this depends on the number of participants in the plan, the amount of salary and the age structure of the participants. As of 31 December 2016, there were around 1,600 active participants in the plan (previous year: approximately 1,700).

innogy Group companies transferred assets to RWE Pensionstreuhand e.V. within the framework of a contractual trust arrangement (CTA). There is no further funding requirement. From the assets held in trust, funds were transferred to RWE Pensionsfonds AG to cover pension commitments to most of the employees who have already retired. RWE Pensionsfonds AG falls under the scope of the German Act on the Supervision of Insurance Undertakings and oversight by the German Federal Financial Supervisory Agency (BaFin). Insofar as a regulatory deficit occurs in the pension fund, supplementary payment shall be requested from the employer. Independently of the aforementioned rules, the liability of the employer shall remain in place. The bodies of RWE Pensionstreuhand e.V. and RWE Pensionsfonds AG are responsible for ensuring that the funds under management are used in compliance with the contract and thus fulfil the requirements for recognition as plan assets.

In the United Kingdom, corporate defined benefit plans provided with adequate and suitable assets to cover pension provisions are legally mandated. The corporate pension system in the United Kingdom is managed by Electricity Supply Pension Scheme (ESPS) in its own special-purpose section. Within the scope of the preparation of the initial public offering of innogy SE on 7 October 2016, the section for parent RWE Group was split into two new independent sections as of 31 July 2016. Each of the new sections comprises associated pension obligations and associated plan assets for subsidiaries of the innogy Group and of the RWE Group. Until 31 July 2016, the pension plan was treated like a defined benefit plan, which distributes the risks among several companies under joint control. Therefore, until this date, based on its share of salaries qualifying for a pension, innogy accounted for 56.5% of the defined benefit obligation, the plan assets and the costs associated with the plan. The split into two new sections was implemented by assigning about 70% of the obligations and plan assets to innogy. Pension provisions are measured on the basis of conservative assumptions, taking into consideration specific demographic aspects for the members of the plan and assumptions for the market returns on the plan assets.

The last valuation of the ESPS was carried out on 31 March 2016 taking account of the split and revealed a deficit of £390.6 million. innogy and the trustees then prepared a plan for annual payments to rectify this deficit. These payments were calculated for the period from 2017 to 2025. The amounts determined were as follows: £106 million for 2017 and £39.6 million p.a. for 2018 to 2025. The next valuation has to be available by 31 March 2019. From this point in time, the company and the trustees have 15 months to approve the valuation. The ESPS is managed by nine trustees. They are responsible for management of the plan, including investments, pension payments and financing plans.

The payments to offset the deficit are billed to the participating companies based on a contractual agreement. In addition, regular payments are made to finance the new vested rights of active employees every year, which increase the pension benefits.

Provisions for defined benefit plans are determined using actuarial methods. We apply the following assumptions:

Calculation assumptions	31 Dec 2016		31 Dec 2015	
%	Germany	Foreign[1]	Germany	Foreign[1]
Discount rate	1.80	2.60	2.40	3.60
Compensation increase	2.35	3.30	2.35	2.10 and 3.50
Pension increase	1.00, 1.60 and 1.75	2.20 and 3.10	1.00, 1.60 and 1.75	1.90 and 2.80

1 Pertains to benefit commitments to employees of the innogy Group in the UK.

Composition of plan assets (fair value) € million	31.12.2016				31.12.2015			
	Germany[1]	Of which: active market	Foreign[2]	Of which: active market	Germany[1]	Of which: active market	Foreign[2]	Of which: active market
Equity instruments, exchange-traded funds	1,604	1,564	559	559	1,588	1,578	495	495
Interest-bearing instruments	3,285		3,208	1,225	2,870	60	2,596	1,437
Real estate	25				31		5	
Mixed funds[3]	710	398			667	352		
Alternative investments	669	466	800		695	336	592	70
Other[4]	275	50	96	6	226	43	−8	3
	6,568	**2,478**	**4,663**	**1,790**	**6,077**	**2,369**	**3,680**	**2,005**

1 Plan assets in Germany primarily pertain to assets of innogy SE and other Group companies which are managed by RWE Pensionstreuhand e.V. as a trust, as well as to assets of RWE Pensionsfonds AG.
2 Foreign plan assets pertain to the assets of a UK pension fund for covering benefit commitments to employees of the innogy Group in the UK.
3 Includes dividend securities and interest-bearing instruments.
4 Includes claims from corporate tax credits transferred to RWE Pensionstreuhand e.V., reinsurance claims against insurance companies and other fund assets of provident funds.

The investment policy is based on a detailed analysis of the plan assets and the pension commitments and the relation of these two items to each other, in order to determine the best possible investment strategy (Asset Liability Management Study). Using an optimisation process, portfolios are identified which can earn the best targeted results at a defined level of risk. One of these efficient portfolios is selected and the strategic asset allocation is determined; furthermore, the related risks are analysed in detail.

The focus of the strategic investment policy is on domestic and foreign government bonds. In order to increase the average yield, corporate bonds with a higher yield are also included in the portfolio. The ratio of equities in the portfolio is lower than that of bonds. Investment occurs in various regions. The investment position in equities is intended to earn a risk premium over bond investments over the long term. In order to achieve additional returns which are consistently as high as possible, there is also investment in products which offer relatively regular positive returns over time. This involves products which fluctuate similar to bond investments, but which achieve an additional return over the medium term, such as what are known as absolute return products (including funds of hedge funds).

As a part of its investment strategy, the British ESPS uses asset liability management and invests in liability matching investments, interest rate swaps and inflation swaps. As of 31 December 2016, 64 % of the interest rate risk (2015: 63 %) and 65 % of the inflation risk (2015: 63 %) was hedged.

Pension provisions for pension commitments changed as follows:

Changes in pension provisions € million	Present value of pension commitments	Fair value of plan assets	Capitalised surplus of plan assets	Total
Balance at 1 Jan 2016	**13,213**	**9,757**	**5**	**3,461**
Current service cost	166			166
Interest cost/income	357	276		81
Return on fund assets less interest components		817		–817
Gain/loss on change in demographic assumptions	97			97
Gain/loss on change in financial assumptions	1,655			1,655
Experience-based gains/losses	–353			–353
Currency translation adjustments	–638	–584		–54
Employee contributions to funded plans	7	7		
Employer contributions to funded plans[1]		394		–394
Benefits paid[2]	–514	–456		–58
Changes in the scope of consolidation	179	92		87
Addition from ESPS split	949	933		16
Past service cost	–28			–28
General administration expenses		–5		5
Change in capitalised surplus of plan assets			24	24
Balance at 31 Dec 2016	**15,090**	**11,231**	**29**	**3,888**
of which: domestic	10,094	6,568	29	3,555
of which: foreign	4,996	4,663		333

1 Of which initial/supplementary funding of pension plans totalling €236 million and €158 million in cash flows from operating activities.
2 Included in cash flows from operating activities.

Changes in pension provisions € million	Present value of pension commitments	Fair value of plan assets	Capitalised surplus of plan assets	Total
Balance at 1 Jan 2015	**13,570**	**8,974**		**4,596**
Current service cost	198			198
Interest cost/income	342	247		95
Return on fund assets less interest components		69		–69
Gain/loss on change in financial assumptions	–564			–564
Experience-based gains/losses	–76			–76
Currency translation adjustments	243	215		28
Employee contributions to funded plans	12	12		
Employer contributions to funded plans[1]		726		–726
Benefits paid[2]	–541	–482		–59
Changes in the scope of consolidation	18			18
Past service cost	11			11
General administrative expenses		–4		4
Change in capitalised surplus of plan assets			5	5
Balance at 31 Dec 2015	**13,213**	**9,757**	**5**	**3,461**
of which: domestic	9,149	6,077	5	3,077
of which: foreign	4,064	3,680		384

1 Of which initial/supplementary funding of pension plans totalling €592 million and €134 million in cash flows from operating activities.
2 Included in cash flows from operating activities.

Changes in actuarial assumptions would lead to the following changes in the projected benefit obligation:

Changes of present values of defined benefit obligations € million	31 December 2016		31 December 2015	
Change in the imputed interest rate by +50 or −50 basis points				
Domestic	−783	882	−655	841
Foreign	−413	474	−260	294
Change in the salary trend by −50 or +50 basis points				
Domestic	−93	98	−124	132
Foreign	−36	42	−30	34
Change in the pension trend by −50 or +50 basis points				
Domestic	−536	588	−468	524
Foreign	−308	340	−185	206
Increase in life expectancy by 1 year				
Domestic		397		368
Foreign		153		128

The sensitivity analyses are based on a change of one assumption each, with all other assumptions remaining unchanged. Actual developments will probably be different than this. The methods for calculating the aforementioned sensitivities and for calculating the pension provisions are identical.

The dependence of pension provisions on market interest rates is limited by a counteracting effect. This is because the obligations arising from corporate pension plans are largely funded and the plan assets are largely negatively correlated to the market yields on fixed-interest securities. Therefore, declines in market interest rates are typically reflected in rises in plan assets and vice-versa.

The recognised amount of pension provisions totalled €2,497 million for funded pension plans (previous year: €2,230 million) and €1,391 million for unfunded pension plans (previous year: €1,231 million).

In fiscal 2016, the past service cost mainly included effects related to domestic restructuring measures. In the previous year, the past service cost primarily consisted of an increase in benefit commitments in the United Kingdom.

The present value of pension obligations, less the fair value of the plan assets, equals the net amount of funded and unfunded pension obligations.

Domestic company pensions are subject to an obligation to review for adjustment every three years pursuant to the German Act on the Improvement of Company Pensions (Sec 16 of the German Company Pension Act (BetrAVG)). Additionally, some commitments grant annual adjustments of pensions, which may exceed the legally mandated adjustment obligation.

Some domestic pension plans guarantee a certain pension level, taking into account the statutory pension (total retirement earnings schemes). As a result, future reductions in the statutory pension can result in higher pension payments by innogy.

The weighted average duration of the pension obligations is 17 years for domestic beneficiaries (previous year: 17 years) and 18 years for foreign beneficiaries (previous year: 15 years). The foreign duration is predominantly determined by the ESPS split and the associated assignment of pension obligations.

In fiscal 2017, €366 million in payments for defined benefit plans are expected to be made as direct pension benefits and contributions to plan assets (planned in the previous year: €350 million).

As a result of assumptions of joint liabilities with accepted obligations to perform, RWE AG was obligated to reimburse some innogy companies for their expenses for certain defined benefit pension obligations. The right of recourse was limited to the local GAAP obligation. In the combined financial statements of the innogy Group for the periods ended 31 December 2015, 31 December 2014 and 31 December 2013, the contractual arrangements resulted in the allocation of plan assets and the recognition of rights of reimbursement from RWE AG. The reimbursement rights do not qualify as plan assets and may thus not be deducted when determining the net funded benefit obligations. They were stated as a separate asset as part of financial receivables. As planned, these contractual arrangements were cancelled as of 1 January 2016 and plan assets were transferred to the innogy companies. Furthermore, the right to reimbursement from RWE AG was redeemed by payment. As the allocated amounts correspond to the amounts transferred, there are no additional effects on the consolidated financial statements.

Change in reimbursement rights € million	Fair value of reimbursement rights
Balance at 1 Jan 2016	**480**
Reimbursements received due to the cancellation of the agreements	−480
Balance at 31 Dec 2016	
of which: domestic	
of which: foreign	

Change in reimbursement rights € million	Fair value of reimbursement rights
Balance at 1 Jan 2015	**540**
Interest income	11
Return on reimbursement rights less interest components	−132
Reimbursements received due to benefit payments	−12
Employer contributions to reimbursement rights	73
Balance at 31 Dec 2015	**480**
of which: domestic	480
of which: foreign	

(23) Other provisions

Other provisions	31 Dec 2016			31 Dec 2015		
€ million	Non-current	Current	Total	Non-current	Current	Total
Staff-related obligations (excluding restructuring)	338	364	702	390	348	738
Restructuring obligations	132	77	209	145	74	219
Provisions for taxes	118	265	383	98	185	283
Purchase and sales obligations	93	205	298	82	238	320
Provisions for wind farm decommissioning	334		334	337		337
Uncertain obligations for other decommissioning	230	30	260	194	24	218
Obligations to deliver certificates for renewable energies		563	563		580	580
Miscellaneous other provisions	385	950	1,335	370	1,096	1,466
	1,630	**2,454**	**4,084**	**1,616**	**2,545**	**4,161**

Roll-forward of other provisions € million	Balance at 1 Jan 2016	Additions	Unused amounts released	Interest accretion	Changes in the scope of conso-lidation, currency adjust-ments, transfers	Amounts used	Balance at 31 Dec 2016
Staff-related obligations (excluding restructuring)	738	388	−26	16	−68	−346	702
Restructuring obligations	219	43	−19	6	10	−50	209
Provisions for taxes	283	292	−8		−19	−165	383
Purchase and sales obligations	320	121	−34	3		−112	298
Provisions for wind farm decommissioning	337	9	−5	26	−32	−1	334
Uncertain obligations for other decommissioning	218	12	−2	35		−3	260
Obligations to deliver certificates for renewable energies	580	769			−85	−701	563
Miscellaneous other provisions	1,466	328	−293	48	−17	−197	1,335
	4,161	**1,962**	**−387**	**134**	**−211**	**−1,575**	**4,084**

Provisions for taxes primarily consist of income taxes.

Provisions for staff-related obligations mainly consist of provisions for pre-retirement part-time work arrangements, outstanding vacation and service anniversaries and performance-based pay components. Based on current expectations, the majority of utilisation is anticipated to occur from 2017 to 2025.

Provisions for restructuring pertain mainly to measures for socially acceptable payroll downsizing. Based on current estimates, the majority of utilisation is anticipated to occur from 2017 to 2025.

Provisions for purchase and sales obligations primarily relate to contingent losses from pending transactions.

Based on current expectations, **provisions for wind farm decommissioning** will mostly be utilised in the period from 2020 to 2037 and the **uncertain obligations for other decommissioning** will mostly be utilised in the period from 2017 to 2060.

(24) Financial liabilities

Financial liabilities	31 Dec 2016		31 Dec 2015	
€ million	Non-current	Current	Non-current	Current
Bonds	11,336		11,649	864
Bank debt	381	110	226	155
Other financial liabilities				
Collateral for trading activities		1		
Miscellaneous other financial liabilities	4,839	554	3,416	2,665
	16,556	**665**	**15,291**	**3,684**

€15,751 million of the non-current financial liabilities were interest-bearing liabilities (previous year: €9,967 million).

The outstanding bonds payable were primarily issued by innogy SE, innogy Finance B.V. or innogy Finance II B.V. A 15-year bond with a carrying amount of €850 million and a coupon of 6.25% p.a. fell due in April 2016.

On 13 June 2016, innogy SE and RWE AG concluded fifteen individual loan agreements under which RWE AG granted innogy SE loans of €5,257 million, USD 50 million, GBP 350 million and JPY 20 billion. Furthermore, innogy SE concluded derivative hedge transactions with RWE AG, in order to commercially convert the aforementioned USD and JPY loans to EUR loans. In addition, on 13 June 2016, innogy SE as borrower and RWE AG as lender agreed on a revolving credit line with a total volume of €1 billion and a term expiring on 31 December 2018, which we terminated for commercial reasons in late February of 2017 after having established our commercial paper programme. Moreover, on 29 June 2016, RWE Finance B.V., which was renamed innogy Finance B.V. with effect from 1 September 2016, became an additional borrower for a revolving credit line agreed upon between RWE AG and certain banks.

As part of the legal reorganisation, the innogy Group repaid long-term loans with a carrying amount of €1,942 million early by making a payment equal to the fair value of the loans of €2,062 million as of the transaction date. This transaction was concluded by using the cash pooling accounts with the RWE Group. The difference of €120 million was recognised as an interest expense.

Measures to optimise the capital structure were implemented in July 2016. These measures included a €1,009 million debt-to-equity swap involving certain of the aforementioned loans (including accrued interest) being transferred to innogy SE's additional paid-in capital and ceasing to exist with effect from 31 July 2016.

In December 2016, a swap was concluded to fully transfer RWE AG's outstanding JPY 20 billion bond to innogy. Furthermore, €468 million of the €500 million bond expiring in 2037 was converted to an innogy bond. In return, the corresponding internal loans were repaid.

The following overview shows the key data for innogy's major bonds as of 31 December 2016.

Bonds payable Issuer	Outstanding amount	Carrying amount € million	Coupon in %	Maturity
innogy Finance B.V.	€980 million	1,053	5.125	July 2018
innogy Finance B.V.	€1,000 million	1,118	6.625	January 2019
innogy Finance B.V.	€750 million	767	1.875	January 2020
innogy Finance B.V.	£570 million	744	6.5	April 2021
innogy Finance B.V.	€1,000 million	1,217	6.5	August 2021
innogy Finance B.V.	£500 million	635	5.5	July 2022
innogy Finance B.V.	£488 million	621	5.625	December 2023
innogy Finance B.V.	€800 million	847	3.0	January 2024
innogy Finance B.V.	£760 million	982	6.25	June 2030
innogy Finance II B.V.	€600 million	734	5.75	February 2033
innogy Finance B.V.	£600 million	654	4.75	January 2034
innogy SE	€468 million	514	3.5	October 2037
innogy Finance B.V.	£1,000 million	1,258	6.125	July 2039
innogy SE	JPY 20 billion	192	4.76[1]	February 2040
Bonds payable		**11,336**		

1 After swap into euros.

€96 million (previous year: €56 million) of the financial liabilities are backed by mortgages, and €0 million (previous year: €8 million) by similar rights.

(25) Trade accounts payable

Trade accounts payable are presented as current because they are part of the working capital used in the normal operating cycle even if they are due to be settled more than twelve months after the cut-off date for the financial statements.

(26) Other liabilities

Other liabilities	31 Dec 2016		31 Dec 2015	
€ million	Non-current	Current	Non-current	Current
Tax liabilities		746		658
Social security liabilities	5	53	6	68
Derivatives	517	729	984	1,106
Advances and contributions in aid of construction and building connection	1,187	158	1,198	168
Miscellaneous other liabilities	138	2,621	240	2,831
	1,847	**4,307**	**2,428**	**4,831**
of which: financial debt	549	2,837	1,018	2,960
of which: non-financial debt	1,298	1,470	1,410	1,871

The principal component of social security liabilities are the amounts payable to social security institutions.

Of the miscellaneous other liabilities, €1,488 million (previous year: €1,395 million) related to financial debt in the form of current purchase price obligations from rights granted to tender non-controlling interests (put options).

Other information

(27) Earnings per share

Basic and diluted earnings per share are calculated by dividing the portion of net income attributable to innogy shareholders by the average number of shares outstanding; treasury shares are not taken into account in this calculation. For the calculation of the average number of shares the combination of shares on 27 July 2016 – resulting in a decrease of the number of shares from 1,000,000,000 to 500,000,000 – was considered as if it had occured at the beginning of the year. As innogy did not exist as a separate group before December 2015 and the capital structure had not been finalised in the 2015 fiscal year, no earnings per share are shown for the previous year.

Earnings per share		2016
Net income/Income attributable to innogy SE Shareholders	€ million	1,513
Number of shares outstanding (weighted average)	thousands	364,523
Basic and diluted earnings per share	€	4.15
Dividend per share	€	1.60[1]

1 Proposal for fiscal 2016.

(28) Reporting on financial instruments

Financial instruments are divided into non-derivative and derivative. Non-derivative financial assets essentially include other non-current financial assets, accounts receivable, marketable securities and cash and cash equivalents. Financial instruments in the "available for sale" category are recognised at fair value, and other non-derivative financial assets at amortised cost. On the liabilities side, non-derivative financial instruments principally include liabilities recorded at amortised cost.

The fair value of financial instruments "available for sale" which are reported under other financial assets and securities is the published exchange price, insofar as the financial instruments are traded on an active market. The fair value of non-quoted debt and equity instruments is determined on the basis of discounted expected payment flows, taking into consideration macro-economic developments and corporate business plan data. Current market interest rates corresponding to the remaining maturity are used for discounting.

Derivative financial instruments are recognised at their fair value as of the balance-sheet date, insofar as they fall under the scope of IAS 39. Exchange-traded products are measured using the published closing prices of the relevant exchange. Non-exchange traded products are measured on the basis of publicly available broker quotations or, if such quotations are not available, of generally accepted valuation methods. In doing so, we draw on prices on active markets as much as possible. If such are not available, company-specific planning estimates are used in the measurement process. These estimates encompass those market factors which other market participants would take into account in the course of price determination. Assumptions pertaining to the energy sector and economy are made within the scope of a comprehensive process with the involvement of both in-house and external experts.

Measurement of the fair value of a group of financial assets and financial liabilities is conducted on the basis of the net risk exposure per business partner, in accordance with IFRS 13.48.

The following overview presents the classifications of financial instruments measured at fair value in the fair value hierarchy prescribed by IFRS 13. In accordance with IFRS 13, the individual levels of the fair value hierarchy are defined as follows:

- Level 1: Measurement using (unadjusted) prices of identical financial instruments formed in active markets

- Level 2: Measurement on the basis of input parameters which are not the prices from Level 1, but which can be observed for the financial instrument either directly (i.e. as price) or indirectly (i.e. derived from prices)
- Level 3: Measurement using factors which cannot be observed on the basis of market data

Fair value hierarchy € million	Total 2016	Level 1	Level 2	Level 3	Total 2015	Level 1	Level 2	Level 3
Other financial assets	703	38	26	639	555	43	27	485
Derivatives (assets)	1,054	1	1,044	9	1,518		1,491	27
of which: used for hedging purposes	2		2		18		18	
Marketable securities	2,688	1,870	818		1,894	1,894		
Derivatives (liabilities)	1,246	3	1,234	9	2,090		2,060	30
of which: used for hedging purposes	12		12		1		1	

The development of the fair values of Level 3 financial instruments is presented in the following table:

Level 3 financial instruments: Development in 2016 € million	Balance at 1 Jan 2016	Changes in the scope of consolidation, currency adjustments, and other	Changes: Recognised in profit or loss	Changes: With a cash effect	Balance at 31 Dec 2016
Other financial assets	485	74	7	73	639
Derivatives (assets)	27		1	−19	9
Derivatives (liabilities)	30	3	−1	−23	9

Level 3 financial instruments: Development in 2015 € million	Balance at 1 Jan 2015	Changes in the scope of consolidation, currency adjustments, and other	Changes: Recognised in profit or loss	Changes: With a cash effect	Balance at 31 Dec 2015
Other financial assets	438	−13	7	53	485
Derivatives (assets)	31		27	−31	27
Derivatives (liabilities)			30		30

Amounts recognised in profit or loss generated through Level 3 financial instruments were recognised in the following line items on the income statement:

Level 3: financial instruments: Amounts recognised in profit or loss € million	Total 2016	Of which: attributable to financial instruments held at the balance-sheet date	Total 2015	Of which: attributable to financial instruments held at the balance-sheet date
Revenue	2	2	27	27
Cost of materials			–30	–30
Other operating income/expenses	20	20	8	8
Income from investments	–13	–10	–1	–2
	9	**12**	**4**	**3**

Level 3 derivative financial instruments essentially consist of weather derivatives to hedge temperature-dependent fluctuations in demand. The valuation of such depends on the development of temperatures in particular. As a rule, all other things being equal, rising temperatures cause the fair values to increase and vice-versa. Assumptions that the future development of average temperatures will differ from the past long-term average over the derivatives' remaining term to maturity may only be made for extremely short periods of time. Therefore, the fair values are predominantly determined based on the long-term average temperatures.

The following impairments were recognised on financial assets which fall under the scope of IFRS 7 and are reported under the balance-sheet items stated below:

Impairments on financial assets € million	Other financial assets	Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
Balance at 1 Jan 2016	**29**	**36**	**575**	**10**	**650**
Additions	12	8	103		123
Transfers	–2	117	–1		114
Currency translation adjustments			–38		–38
Disposals		17	178	1	196
Balance at 31 Dec 2016	**39**	**144**	**461**	**9**	**653**

Impairments on financial assets € million	Other financial assets	Financial receivables	Trade accounts receivable	Other receivables and other assets	Total
Balance at 1 Jan 2015	**29**	**205**	**477**	**10**	**721**
Additions	3	18	101	1	123
Transfers		−154	131	−1	−24
Currency translation adjustments			14		14
Disposals	3	33	148		184
Balance at 31 Dec 2015	**29**	**36**	**575**	**10**	**650**

As of the cut-off date, there were unimpaired, past due receivables falling under the scope of IFRS 7 in the following amounts:

Receivables, past due and not impaired € million	Gross amount as of 31 Dec 2016	Receivables, past due and impaired	Receivables not impaired, past due in: less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
Financial receivables	892	14					
Trade accounts receivable	4,483	632	225	44	28	26	120
Other receivables and other assets	1,246	7					1
	6,621	**653**	**225**	**44**	**28**	**26**	**121**

Receivables, past due and not impaired € million	Gross amount as of 31 Dec 2015	Receivables, past due and impaired	Receivables not impaired, past due in: less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	over 120 days
Financial receivables	12,672	15					
Trade accounts receivable	5,126	625	304	59	34	24	170
Other receivables and other assets	1,734	8					
	19,532	**648**	**304**	**59**	**34**	**24**	**170**

Financial assets and liabilities can be broken down into categories with the following carrying amounts:

Carrying amounts by category € million	31 Dec 2016	31 Dec 2015
Financial assets recognised at fair value through profit or loss	1,052	1,500
of which: held for trading	1,052	1,500
Financial assets available for sale	3,391	2,449
Loans and receivables	6,325	17,903
Financial liabilities recognised at fair value through profit or loss	1,234	2,088
of which: held for trading	1,234	2,088
Financial liabilities carried at (amortised) cost	20,549	23,942

As a rule, the carrying amounts of financial assets and liabilities within the scope of IFRS 7 are identical to their fair values. There are deviations only in relation to bonds, bank debt, and other financial liabilities. The carrying amount of these was €17,222 million (previous year: €18,975 million), while the fair value amounted to €19,540 million (previous year: €20,234 million). Of this, €12,290 million (previous year: €12,794 million) was related to Level 1 and €7,250 million (previous year: €7,440 million) to Level 2 of the fair value hierarchy.

For financial assets, deviations between carrying amounts and fair values predominantly stem from financial receivables due from RWE companies. The carrying amounts of these were €748 million (previous year: €12,636 million) while the fair values, which were fully assigned to Level 2 of the fair value hierarchy, amounted to €748 million (previous year: €12,728 million).

The following net results from financial instruments as per IFRS 7 were recognised on the income statement, depending on the category:

Net gain/loss by category € million	2016	2015
Financial assets and liabilities recognised at fair value through profit or loss	174	203
of which: held for trading	174	203
Financial assets available for sale	206	535
Loans and receivables	382	−60
Financial liabilities carried at (amortised) cost	−969	−545

The net result as per IFRS 7 essentially includes interest, dividends and results from the measurement of financial instruments at fair value.

In fiscal 2015, changes of €44 million (previous year: €53 million) after taxes in the value of financial assets available for sale were recognised in accumulated other comprehensive income without an effect on income. Above and beyond this, €11 million in changes in the value of financial instruments available for sale which had originally been recognised without an effect on income were realised as income (previous year: €237 million).

The following is an overview of the financial assets and financial liabilities which are netted out in accordance with IAS 32 or are subject to enforceable global offsetting agreements or similar arrangements.

Netting of financial assets and financial liabilities as of 31 Dec 2016 € million	Gross amounts recognised	Amounts set off	Net amounts recognised	Related amounts not set off		Net total
				Financial instruments	Cash collateral received/ pledged	
Derivatives (assets)	402	−175	227			227
Derivatives (liabilities)	483	−175	308			308

Netting of financial assets and financial liabilities as of 31 Dec 2015 € million	Gross amounts recognised	Amounts set off	Net amounts recognised	Related amounts not set off		Net total
				Financial instruments	Cash collateral received/ pledged	
Derivatives (assets)	930	−143	787			787
Derivatives (liabilities)	394	−143	251			251

The innogy Group is exposed to market, credit and liquidity risks in its ordinary business activity. These risks are limited via systematic, groupwide risk management. The range of action, responsibilities and controls are defined in binding internal directives.

Market risks stem from changes in exchange rates and share prices as well as interest rates and commodity prices, which can have an influence on business results.

Due to the innogy Group's international profile, exchange rate management is a key issue. Various currencies such as the British pound and the Czech crown are important currencies for the Group. The companies of the innogy Group are generally required to hedge their transactional foreign currency risks via innogy SE. Only innogy SE itself may maintain open foreign currency positions, subject to predefined limits, or authorize corresponding limits of the Group companies.

Interest rate risks stem primarily from financial debt and the Group's interest-bearing investments. We hedge against negative changes in value caused by unexpected interest-rate movements using non-derivative and derivative financial instruments.

Market interest rates also affect the level of our provisions, as the discount rates for determining the net present value of obligations are oriented towards them. This means the reductions in market interest rates tend to cause our provisions to increase and vice-versa. We state on page 151 how sensitive the present values of pension obligations are to increases and declines in discount rates.

Opportunities and risks from changes in the values of securities are controlled by a professional fund management system. innogy has commissioned RWE AG to manage the interest-rate risks arising from these securities and regularly reviews the development of the value of these investments. Range of action, responsibilities and controls are set out in guidelines to which our Group companies are obliged to adhere when concluding financial transactions.

The innogy Group's financial transactions are recorded in a central inventory management system and the position is monitored for financial risks.

For commodity operations, directives have been established by the Controlling & Risk Department. These regulations stipulate that derivatives may be used to hedge price risks. innogy does not use derivatives for trading purposes.

Financial risks are monitored and managed by innogy using indicators such as Value at Risk (VaR). In addition, for the management of interest rates risk, a Cash Flow at Risk (CFaR) is determined.

Using the VaR method, we determine and monitor the maximum expected loss arising from changes in market prices with a specific level of probability during specific periods. Historical price volatility is taken as a basis in the calculations. With the exception of the CFaR data, all VaR figures concerning financial risks are based on a confidence interval of 95% and a holding period of one day. For CFaR, a confidence interval of 95% and a holding period of one year is taken as a basis.

In respect of interest rate risks, innogy distinguishes between two risk categories: on the one hand, increases in interest rates can result in declines in the prices of securities from innogy's holdings. This primarily relates to fixed-interest instruments. On the other hand, financing costs also increase along with the level of interest rates. A VaR is determined to quantify securities price risk. As of 31 December 2016, the VaR for securities price risk amounted to €5.0 million (previous year: €5.4 million). The sensitivity of interest expenses to increases in market interest rates is measured with CFaR. As of 31 December 2016 this amounted to €1.0 million (previous year: −€3.3 million). As of 31 December 2016, the VaR for foreign currency positions was €1.1 million (previous year: n.a.). As of 31 December 2016, the VaR for risks related to the innogy share portfolio amounted to €4.0 million (previous year: €2.4 million).

The VaR concept is used to measure the extent to which commodity price risks can affect the Group's adjusted EBIT. As of 31 December 2016, the VaR for commodity positions of the innogy Group, which was determined based on the commodity risk positions of the individual companies, amounted to €40 million. This figure is based on a confidence level of 95%.

The commodity price risks of the segments are hedged in accordance with Group directives. Analogously to the procedure applied to non-current investments, commodity price risks from non-current positions or from positions that cannot be hedged yet given the market's current liquidity due to their size, are not managed using the VaR concept and are thus not considered in the VaR figures.

One of the most important instruments to limit market risk is the utilisation of hedging transactions. The instruments most commonly used are forwards and options with foreign currency, interest rate swaps, interest rate currency swaps and forwards, options, futures and swaps with commodities.

Maturities of derivatives related to interest rates, currencies, equities, indices and commodities for the purpose of hedging are based on the maturities of the underlying transactions and are thus primarily short term and medium term in nature. Hedges of the foreign currency risks of foreign investments have maturities of up to 22 years.

All derivative financial instruments are recognised as assets or liabilities and are measured at fair value. When interpreting their positive and negative fair values, it should be taken into account that these financial instruments are generally matched with underlying transactions that carry offsetting risks.

Hedges of net investment in a foreign operation pursuant to IAS 39 are used to hedge the foreign currency risks of net investment in foreign entities whose functional currency is not the euro. We use bonds with various terms in the appropriate currencies, currency swaps and forwards. If there are changes in the exchange rates of currencies in which the bonds used for hedging are denominated or changes in the fair values of currency swaps and forwards, this is recorded under foreign currency translation adjustments in other comprehensive income. As of the cut-off date for the consolidated financial statements, the fair value of the bonds amounted to €1,546 million (previous year: €1,984 million) and the fair value of the swaps and forwards amounted to €8 million (previous year: €18 million).

Income of €6 million was recognised with an effect on income in relation to the ineffective portions of hedges of net investments in foreign entities in the reporting period (previous year: €0 million).

Credit risks. In the fields of finance and commodities as well as within the scope of large-scale projects such as the construction of wind farms, we primarily have credit relationships with banks and other business partners with good creditworthiness. The resulting counterparty risks are reviewed upon concluding contracts and constantly monitored. We mitigate them by establishing credit limits that we adjust if necessary, for instance in the event of changes in creditworthiness. To hedge credit risks, we use guarantees and other forms of security as well as credit insurance against defaults. The credit risk is constantly monitored and proactively managed in all business fields.

The maximum balance-sheet default risk is derived from the carrying values of the receivables stated on the balance sheet. If default risks materialise, they are recognised through impairments. The default risks for derivatives correspond to their positive fair values. Risks can also stem from financial guarantees and loan commitments for external creditors. As of 31 December 2016, these obligations amounted to €49 million (previous year: €126 million). As of 31 December 2016, default risks were balanced against credit collateral, financial guarantees, bank guarantees and other collaterals amounting to €42 million (previous year: €90 million). There were no material defaults in fiscal 2016 or the previous year.

Liquidity risks. As a rule, innogy Group companies centrally refinance with innogy SE. In this regard, there is a risk that liquidity reserves will prove to be insufficient to meet financial obligations in a timely manner. In 2017, €1.2 billion in loans received from RWE AG and €110 million in short-term bank debt is due.

As of 31 December 2016, holdings of cash and cash equivalents and current marketable securities amounted to €4,067 million (previous year: €2,444 million). As of the balance-sheet date, innogy's new €3 billion commercial paper programme had not been used. In the spring of 2017, the company will launch its own debt issuance programme, which will allow us to place senior bonds on the market. Additionally, via innogy Finance B.V. (additional borrower) we can draw on a syndicated credit line of RWE AG, which is being granted by an international consortium of banks. innogy is allowed to use €1.5 billion of the €4 billion at RWE AG's disposal. This credit line agreement will remain in force until the end of March 2021. Furthermore we had access to an additional credit line agreement of RWE AG of €1.0 billion, which we canceled after establishing our commercial paper programme due to economic reasons at the end of February 2017. Accordingly, the medium-term liquidity risk can be classified as low.

Financial liabilities falling under the scope of IFRS 7 are expected to result in the following (undiscounted) payments in the coming years:

Repayments and interest payments on financial liabilities € million	Carrying amounts 31 Dec 2016	Repayments			Interest payments		
		2017	2018 to 2021	From 2022	2017	2018 to 2021	From 2022
Bonds payable	11,336		4,396	6,016	545	1,883	3,192
Bank debt	491	110	174	207	6	11	3
Other financial liabilities	5,393	1,705	2,374	1,312	61	176	249
Derivative financial liabilities	1,246	705	402	141			9
Collateral for trading activities	1	1					
Redemption liabilities from put options	1,488	1,488					
Miscellaneous other financial liabilities	4,880	4,852	19	16			

Repayments and interest payments on financial liabilities € million	Carrying amounts 31 Dec 2015	Repayments			Interest payments		
		2016	2017 to 2020	From 2021	2016	2017 to 2020	From 2021
Bonds payable	12,513	850	2,730	7,738	619	1,649	4,073
Bank debt	381	155	150	76	5	11	6
Other financial liabilities	6,081	2,665	1,793	1,623	115	365	417
Derivative financial liabilities	2,090	910	1,180				
Collateral for trading activities							
Redemption liabilities from put options	1,395	1,395					
Miscellaneous other financial liabilities	4,974	4,939	19	16			

In addition, as of 31 December 2016, there were financial guarantees for external creditors in the amount of €2 million (previous year: €1 million), which are to be allocated to the first year of repayment. Additionally, Group companies have provided loan commitments to third-party companies amounting to €47 million (previous year: €125 million), which are callable in 2017.

Detailed information on the risks of the innogy Group and on the objectives and procedures of risk management is presented on pages 93 et seqq. in the review of operations.

(29) Contingent liabilities and financial commitments

As of 31 December 2016, the amount of capital commitments totalled €284 million (previous year: €325 million). In addition, unrecognised commitments to provide loans or other financial support to joint ventures amounted to €26 million (previous year: €125 million).

Commitments from operating leases refer largely to rental agreements and leases for storage and administration buildings. Minimum lease payments have the following maturity structure:

Operating leases	Nominal value	
€ million	31 Dec 2016	31 Dec 2015
Due within 1 year	218	219
Due after 1 to 5 years	622	620
Due after 5 years	1,103	967
	1,943	**1,806**

innogy has long-term contractual obligations to purchase gas, which are mostly based on long-term take-or-pay contracts. As of 31 December 2016, the payment obligations arising from the major long-term gas procurement agreements totalled €1,766 million (previous year: €1,530 million), of which €569 million were due within one year (previous year: €284 million).

Furthermore, innogy has long-term financial commitments for purchases of electricity. As of 31 December 2016, the minimum payment obligations stemming from the major purchase contracts totalled €1,043 million (previous year: €3,563 million), of which €530 million are due within one year (previous year: €454 million).

innogy SE and its subsidiaries are involved in official, regulatory and anti-trust proceedings, litigation and arbitration proceedings related to their operations and are affected by the results of such. In some cases, out-of-court claims are also filed. However, innogy does not expect any material negative repercussions from these proceedings for the innogy Group's economic or financial position.

(30) Segment reporting

innogy is divided into seven operating segments, which are delineated on the basis of regional and functional criteria and are grouped into three reporting segments.

Electricity generation from renewable sources, i.e. onshore and offshore wind, as well as hydroelectric power, are reported in the "Renewables" Segment. The major generation sites are located in Germany, the United Kingdom, the Netherlands, Poland, Spain and Italy.

The electricity and gas distribution system business in Germany and the distribution system business in Central Eastern and South Eastern Europe are reported in the "Grid & Infrastructure Germany" and "Grid & Infrastructure Eastern Europe" operating segments, respectively. The two operating segments have similar economic characteristics and are both responsible for the planning, operation, maintenance, development and expansion of the distribution systems. Pursuant to EU legislation, the operating segments are similar with respect to the regulatory environment, which is the key value driver of the segments' financial performance. Therefore, these two operating segments have been combined to form the "Grid & Infrastructure" reporting segment. This segment also includes non-controlling interests in utilities (e.g. in German municipal utilities and Austria-based KELAG) as well as the gas storage business.

The "Retail Germany", "Retail United Kingdom", "Retail Netherlands/Belgium" and "Retail Eastern Europe" operating segments are responsible for the corporate and retail electricity, gas and energy solution businesses in their respective regions. They have similar processes and organisational structures in procurement, portfolio management, customer acquisition and customer care. Furthermore, their business fundamentals have a high degree of similarity due to EU legislation and European market integration. Their key value drivers are identical and their financial performance is influenced by the same factors, e.g. level of competition. These operating segments thus have similar economic characteristics and have been combined to form the "Retail" reporting segment.

"Corporate/other" covers consolidation effects and the activities of other business areas which are not presented separately. These include the holding activities of innogy SE and the internal service providers.

Segment reporting 2016 € million	Renewables	Grid & Infra-structure	Retail	Corporate/other	innogy Group
External revenue (incl. natural gas tax/electricity tax)	**768**	**10,761**	**31,909**	**173**	**43,611**
Intra-group revenue	329	3,279	645	−4,253	
Total revenue	1,097	14,040	32,554	−4,080	43,611
Adjusted EBIT	**359**	**1,708**	**844**	**−176**	**2,735**
Operating income from investments	17	337	13	1	368
Operating income from investments accounted for using the equity method	11	252	13		276
Operating depreciation, amortisation and impairment losses	312	914	213	29	1,468
Total impairment losses	106	219	2		327
Adjusted EBITDA	**671**	**2,622**	**1,057**	**−147**	**4,203**
Carrying amount of investments accounted for using the equity method	178	2,013	76	−11	2,256
Capital expenditures on intangible assets, property, plant and equipment	242	1.191	203	197	1.833

Regions 2016	EU			Rest of Europe	Other	innogy Group
€ million	Germany	United Kingdom	Other EU			
External revenue[1,2]	25,720	8,443	7,370	15	1	41,549
Intangible assets, property, plant and equipment	14,807	5,385	9,327		144	29,663

1 Excluding natural gas tax/electricity tax.
2 Broken down by the region in which the service was provided.

Segment reporting 2015 € million	Renewables	Grid & Infra-structure	Retail	Corporate/other	innogy Group
External revenue (incl. natural gas tax/electricity tax)	**710**	**10,176**	**34,491**	**191**	**45,568**
Intra-group revenue	448	3,049	577	−4,074	
Total revenue	1,158	13,225	35,068	−3,883	45,568
Adjusted EBIT	**488**	**1,930**	**830**	**−198**	**3,050**
Operating income from investments	102	294	19		415
Operating income from investments accounted for using the equity method	−2	217	12	1	228
Operating depreciation, amortisation and impairment losses	330	948	158	35	1,471
Total impairment losses	34	70	173		277
Adjusted EBITDA	**818**	**2,878**	**988**	**−163**	**4,521**
Carrying amount of investments accounted for using the equity method	135	1,924	77	1	2,137
Capital expenditures on intangible assets, property, plant and equipment	404	1,305	287	28	2,024

Regions 2015	EU			Rest of Europe	Other	innogy Group
€ million	Germany	United Kingdom	Other EU			
External revenue[1,2]	26,323	9,624	7,480	23	6	43,456
Intangible assets, property, plant and equipment	14,373	6,374	9,592		147	30,486

1 Excluding natural gas tax/electricity tax.
2 Broken down by the region in which the service was provided.

Products	innogy Group	
€ million	2016	2015
External revenue[1]	41,549	43,456
of which: electricity	30,421	31,354
of which: gas	9,324	10,394

1 Excluding natural gas tax/electricity tax.

Notes on segment data. We report revenue between the segments as innogy intragroup revenue. Internal supply of goods and services is settled at arm's length conditions.

The adjusted EBIT is used for internal management. The following table presents the reconciliation of adjusted EBITDA to adjusted EBIT and to income before tax:

Reconciliation of income items € million	2016	2015
Adjusted EBITDA	**4,203**	**4,521**
– Operating depreciation, amortisation and impairment losses	–1,468	–1,471
Adjusted EBIT	**2,735**	**3,050**
+ Non-operating result	255	50
+ Financial result	–789	–302
Income before tax	**2,201**	**2,798**

Income and expenses that are unusual from an economic perspective, or stem from exceptional events, prejudice the assessment of operating activities. They are reclassified to the non-operating result. Amongst other things, these can include book gains or losses from the disposal of investments or non-current assets not required for operations, impairment of the goodwill of fully consolidated companies, as well as effects of the fair valuation of certain derivatives.

Non-operating result € million	2016	2015
Capital gains	92	65
Income effects of derivatives	356	135
Restructuring, other	–193	–150
Non-operating result	**255**	**50**

More detailed information is presented on page 63 et seq. in the review of operations.

(31) Notes to the cash flow statement

The cash flow statement classifies cash flows according to operating, investing and financing activities. Cash and cash equivalents in the cash flow statement correspond to the amount stated in the balance sheet. Cash and cash equivalents consist of cash on hand, demand deposits and fixed-interest marketable securities with a maturity of three months or less from the date of acquisition.

Amongst other things, cash flows from operating activities include:

- cash flows from interest income of €195 million (previous year: €260 million) and cash flows used for interest expenses of €604 million (previous year: €606 million)
- €620 million (previous year: €862 million) in taxes on income paid (less refunds)
- income from investments, corrected for items without an effect on cash flows, in particular from accounting using the equity method, amounting to €234 million (previous year: €241 million)

Flows of funds from the acquisition and sale of consolidated companies are included in cash flows from investing activities. Effects of foreign exchange rate changes and other changes in value are stated separately.

Cash flows from financing activities include €724 million (previous year: €960 million) which was distributed to innogy shareholders and €255 million (previous year: €57 million) which was distributed to non-controlling interests . Furthermore, cash flows from financing activities include purchases of €2 million (previous year: €0 million) and sales in the amount of €0 million (previous year: €170 million) of shares in subsidiaries and other business units which did not lead to a change of control.

Restrictions on the disposal of cash and cash equivalents amounted to €19 million (previous year: €19 million).

(32) Information on concessions

In the fields of electricity, gas and water supply, there are a number of easement agreements and concession contracts between innogy Group companies and the governmental authorities in the areas we supply.

Easement agreements are used in the electricity and gas business to regulate the use of public rights of way for laying and operating lines for public energy supply. These agreements are generally limited to a term of 20 years.

After expiry, there is a legal obligation to transfer ownership of the local distribution facilities to the new operator, for appropriate compensation.

Water concession agreements contain provisions for the right and obligation to provide water and wastewater services, to operate the associated infrastructure, such as water utility plants, as well as to implement capital expenditure. Concessions in the water business generally have terms of up to 25 years.

(33) Related party disclosures

Within the framework of their ordinary business activities, innogy SE and its subsidiaries have business relationships with numerous companies. These include the parent company RWE AG and its subsidiaries, associates and joint ventures as well as associates and joint ventures of the innogy Group which are classified as related parties.

Business and financial transactions were concluded with RWE AG, its subsidiaries, associates and joint ventures as well as with major associates and joint ventures of the innogy Group, resulting in the following items in innogy's consolidated financial statements:

Key items from transactions with related parties	RWE AG		Subsidiaries, joint ventures and associates of the RWE Group		Associates of the innogy Group		Joint ventures of the innogy Group	
€ million	2016	2015	2016	2015	2016	2015	2016	2015
Income	107	71	7,412	5,058	97	216	24	15
Expenses	684	1,136	16,630	19,833	21	43		

Key items from transactions with related parties	RWE AG		Subsidiaries, joint ventures and associates of the RWE Group		Associates of the innogy Group		Joint ventures of the innogy Group	
€ million	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Receivables	226	5,063	1,190	7,147	43	56	93	86
Liabilities	4,492	5,405	2,425	1,505	4	4	3	11

In addition to the amounts stated in the table, the innogy Group also recognised contributions and withdrawals by RWE Group companies totalling −€10,054 million (previous year: −€1,285 million) directly in equity.

The items resulting from transactions with related parties mainly stemmed from supply and service as well as financial transactions with RWE Group companies. As of 31 December 2016, the receivables included loans to and financial receivables from the RWE Group totalling €176 million (previous year: €11,613 million). As of 31 December 2016, loans and financial liabilities owed to the RWE Group totalled €4,329 million (previous year: €5,140 million). In the year under review, the underlying interest rates of the loans and financial liabilities owed to the RWE Group ranged from 0.06 % to 4.75 % (previous year: 0.12 % to 7.06 %) and their underlying terms ranged from 1 to 27 years (previous year: 1 to 16 years).

innogy Group companies entered into contracts with RWE Group companies, in particular with RWE Supply & Trading, to purchase or supply commodities, mainly electricity and gas. In addition, services were provided by RWE Group companies to the innogy Group and by the innogy Group to RWE Group companies based on service level agreements. During the reporting year, supply transactions, services and other transactions led to income in the amount of €6,906 million and €495 million, respectively (previous year: €4,872 million and €54 million, respectively) and expenses of €16,531 million and €557 million, respectively (previous year: €19,082 million and €1,737 million, respectively).

In the year being reviewed, finance transactions led to income in the amount of €118 million (previous year: €203 million) and expenses of €227 million (previous year: €150 million).

During the reporting period, income of €4 million (previous year: €4 million) was recorded from interest-bearing loans to joint ventures. As of the balance-sheet date, financial receivables accounted for €89 million of the receivables from joint ventures (previous year: €71 million).

All transactions were completed at arm's length conditions; i.e. on principle the conditions of these transactions did not differ from those with other enterprises. €963 million of the receivables (previous year: €10,903 million) and €2,366 million of the liabilities (previous year: €3,918 million) fall due within one year. Other obligations from executory contracts amounted to €20,886 million (previous year: €23,578 million).

Above and beyond this, the innogy Group did not execute any material transactions with related companies or persons.

The compensation model and compensation of the Executive and Supervisory Boards is presented in the compensation report. The compensation report is included in the review of operations. The following results with respect to the prior-year compensation figures stated for the Executive and Supervisory Boards: innogy SE did not exist as a separate group in the previous year and thus there were no key management personnel for the Group. Therefore, analogously to the presentation in the combined financial statements, the prior-year compensation figures are those of the Executive Board and the Supervisory Board of RWE AG based on the allocation keys that were used for the allocation of overhead costs to innogy. Before 1 April 2016, innogy SE did not have an operationally active Executive board or a Supervisory board. Therefore, the Executive Board and the Supervisory Board of RWE AG were considered the members of the innogy Group's management in key positions. In this context, the innogy Group stated €1.7 million in allocated expenses on its balance sheet in the first quarter of 2016 and recognised them in equity as a shareholder contribution.

Total compensation of the key management personnel since 1 April 2016 amounted to €6,935,000 (previous year: €6,510,000). In the financial year 2016, no additional pension service costs occurred (previous year: €333,000). The Executive Board received short-term compensation components for the financial year 2016 in the amount of €6,350,000 (previous year: €5,076,000). In the financial year 2016, no long-term compensation components were granted other than the share-based compensation within the framework of LTIP SPP (expenses previous year: €432,000). For LTIP SPP expenses of €585,000 were recorded in 2016 (previous year: Beat tranche 2015 expenses of €1,002,000). For obligations to key management personnel in total €3,067,000 is accrued.

The Supervisory Board received total compensation of €966,000 (previous year: €1,557,000) in fiscal 2016. Supervisory Board members also received a total of €19,000 in compensation from subsidiaries for the exercise of mandates (previous year: €151,000). The employee representatives on the Supervisory Board have labour contracts with the respective Group companies. Remuneration occurs in accordance with the relevant contractual conditions.

During the year under review, no loans or advances were granted to members of the Executive or Supervisory Boards.

Former members of the Executive Board and their surviving dependents received €5,236,000. As of the balancesheet date, €124,137,000 had been accrued for defined benefit obligations to former members of the Executive Board and their surviving dependents.

Information on the members of the Executive and Supervisory Boards is presented on page 196 et seqq.

(34) Auditor's fees

innogy recognised the following fees as expenses for the services rendered by the auditors of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) and companies belonging to PwC's international network:

Auditor's fees	2016		2015	
€ million	Total	of which: Germany	Total	of which: Germany
Audit services	12.8	7.2	9.7	4.5
Other assurance services	3.6	3.4	2.9	2.6
Tax services	0.2	0.2	0.3	0.2
Other services	2.6	2.6	1.5	0.3
	19.2	**13.4**	**14.4**	**7.6**

The fees for audit services primarily contain the fees for the audit of the consolidated financial statements and for the audit of the financial statements of innogy SE and its subsidiaries as well as the review of the interim reports. They also include the fees for the audit of the combined financial statements that were prepared for the IPO. Other assurance services in exchange for consideration include the review of the internal controlling system as well as expenses related to statutory or court ordered requirements. In particular, the fees for tax services include compensation for consultation in the preparation of tax returns and other national and international tax-related matters as well as review of resolutions of the tax authorities. The increase in the fees for audit services was primarily due to the IPO, the audit fees of which totalled €5 million.

(35) Application of Sec. 264, Para. 3 and of Sec. 264b of the German Commercial Code

In fiscal 2016, the following German subsidiaries made partial use of the exemption clause included in Sec. 264, Para. 3 and Sec. 264b of the German Commercial Code:

- GfP Gesellschaft für Pensionsverwaltung mbH, Essen
- innogy Aqua GmbH, Mülheim an der Ruhr
- innogy Gastronomie GmbH, Essen
- innogy Renewables Beteiligungs GmbH, Essen
- innogy Seabreeze II GmbH & Co. KG, Essen
- innogy TelNet GmbH, Essen
- iSWITCH GmbH, Essen
- Nordsee Windpark Beteiligungs GmbH, Essen
- NRW Pellets GmbH, Erndtebrück
- RWE IT GmbH, Essen

(36) Events after the balance-sheet date

The following major events occurred between 1 January 2017 and 24 February 2017, the date on which the consolidated financial statements were approved for publication:

Belectric

The acquisition agreed upon with Belectric Holding GmbH at the end of August 2016 of 100% of the shares in its subsidiary Belectric Solar & Battery Holding GmbH (Belectric) was completed on 3 January 2017. Belectric develops, builds and operates ground-mounted solar collectors. The geographical points of focus besides Europe are the Middle East and North Africa region, India, South America and the USA. The preliminary purchase price amounts to €77 million and includes a conditional payment obligation of €7 million. Above and beyond this, the purchase price is subject to potential adjustments on the basis of the asset position pursuant to the closing balance sheet for 2016, which is yet to be finalised.

Since the activities pooled in Belectric have been part of a larger group so far, the assets and liabilities attributable to these activities must be carved out in order to prepare a balance sheet as of the acquisition cut-off date. The closing balance sheet of the Belectric Group had not yet been finalised when innogy's consolidated financial statements were prepared. Disclosure on the fair values of the assumed assets – including acquired receivables – and liabilities as well as on the factors that may contribute to goodwill and the information that may be required for an acquisition at a price below market value can thus not be made.

Creditor and guarantor substitution for corporate bonds completed

At the beginning of February 2017, a debtor substitution to innogy was performed for further privately placed senior bonds directly issued by RWE. The basis for this was the approval of the bond creditors under the German Debt Securities Act (Gesetz über Schuldverschreibungen aus Gesamtemissionen, SchVG), which resulted in the required minimum participation quotas and majorities in favour of the guarantor switch.

Acquisition of a majority stake in gas utility in Croatia

On 7 February 2017, innogy signed agreements to acquire a 75% stake in the gas utility of the town of Koprivnica (Croatia) for a purchase price of €7 million. The remaining 25% will stay in the ownership of the municipal company Komunalec. The transaction is subject to the approval of the Croatian Cartel Office and is scheduled to be completed by the beginning of the second quarter of 2017.

(37) Declaration according to Sec. 161 of the German Stock Corporation Act

The declaration regarding the German Corporate Governance Code prescribed by Sec. 161 of the German Stock Corporation Act (AktG) has been made for innogy SE and has been made permanently and publicly available to shareholders on the Internet pages of innogy SE.

Essen, 24 February 2017

The Executive Board

Terium Bünting Günther

Herrmann Müller Tigges

3.7 List of shareholdings (part of the notes)

List of shareholdings as per Sec. 285 No. 11 and No. 11a and Sec. 313 Para. 2 (in relation to Sec. 315 a I) of HGB as of 31 Dec 2016

I. Affiliated companies which are included in the consolidated financial statements	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
Aktivabedrijf Wind Nederland B.V., Zwolle/Netherlands		100	212,021	26,174
An Suidhe Wind Farm Limited, Swindon/United Kingdom		100	22,218	712
Andromeda Wind S.r.l., Bolzano/Italy		51	14,152	1,595
Artelis S.A., Luxembourg/Luxembourg		53	39,074	2,663
A/V/E GmbH, Halle (Saale)		76	2,069	522
Bayerische Bergbahnen-Beteiligungs-Gesellschaft mbH, Gundremmingen		100	25,431	1,307
Bayerische Elektrizitätswerke GmbH, Augsburg		100	24,728	[1]
Bayerische-Schwäbische Wasserkraftwerke Beteiligungsgesellschaft mbH, Gundremmingen		62	54,665	266
Bilbster Wind Farm Limited, Swindon/United Kingdom		100	3,101	231
Bristol Channel Zone Limited, Swindon/United Kingdom		100	−2,059	−101
BTB-Blockheizkraftwerks, Träger- und Betreibergesellschaft mbH Berlin, Berlin	100	100	19,783	[1]
Budapesti Elektromos Muvek Nyrt., Budapest/Hungary		55	637,797	15,555
Carnedd Wen Wind Farm Limited, Swindon/United Kingdom		100	−3,484	−3,625
Cegecom S.A., Luxembourg/Luxembourg		100	11,125	1,225
Channel Energy Limited, Swindon/United Kingdom		100	−17,024	−800
CR-Immobilien-Vermietungsgesellschaft mbH & Co. KG Cottbus, Cottbus		[9]	−1,284	426
EGG Holding B.V. – Group – (pre-consolidated)			22,188	2,030[2]
Bakker CV Installatietechniek B.V., Zwaagdijk/Netherlands		100		
EGG Holding B.V., Meppel/Netherlands		100		
Energiewacht Facilities B.V., Zwolle/Netherlands		100		
Energiewacht Steenwijk B.V., Zwolle/Netherlands		100		
Energiewacht VKI B.V., Dalfsen/Netherlands		100		
Energiewacht-A.G.A.S.-Deventer B.V., Deventer/Netherlands		100		
Energiewacht-Gazo B.V., Zwolle/Netherlands		100		
GasWacht Friesland B.V., Gorredijk/Netherlands		100		
GasWacht Friesland Facilities B.V., Leeuwarden/Netherlands		100		
N.V. Energiewacht-Groep, Zwolle/Netherlands		100		
Sebukro B.V., Amersfoort/Netherlands		100		
ELE Verteilnetz GmbH, Gelsenkirchen		100	25	[1]
Elektrizitätswerk Landsberg GmbH, Landsberg am Lech		100	1,015	426
ELMU DSO Holding Korlátolt Felelosségu Társaság, Budapest/Hungary		100	716,450	−6
ELMU Halozati Eloszto Kft., Budapest/Hungary		100	785,797	27,088
ELMU-ÉMÁSZ Energiakereskedo Kft., Budapest/Hungary		100	6,856	6,350
ELMU-ÉMÁSZ Energiaszolgáltató Zrt., Budapest/Hungary		100	6,010	−13,710
ELMU-ÉMÁSZ Halozati Szolgáltató Kft., Budapest/Hungary		100	−220	122
ELMU-ÉMÁSZ Ügyfélszolgálati Kft., Budapest/Hungary		100	1,440	1,422
ÉMÁSZ DSO Holding Korlátolt Felelosségu Társaság, Miskolc/Hungary		100	272,945	−6
ÉMÁSZ Halozati Kft., Miskolc/Hungary		100	277,250	4,278
Emscher Lippe Energie GmbH, Gelsenkirchen	50	50	46,325	29,718
Energiedirect B.V., Waalre/Netherlands		100	−51,980	4,800
Energienetze Berlin GmbH, Berlin		100	25	[1]

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2 Figures from the Group's consolidated financial statements.
3 Newly founded, financial statements not yet available.
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5 innogy SE bears unlimited liability pursuant to Sec. 285, No. 11a of HGB.
6 No control by virtue of company contract.
7 Significant influence via indirect investments.
8 Significant influence via virtue of company contract.
9 Structured entity pursuant to IFRS 10 and 12.

I. Affiliated companies which are included in the consolidated financial statements	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
Energies France S.A.S. – Group – (pre-consolidated)			33,083	–338[2]
Centrale Hydroelectrique d'Oussiat S.A.S., Paris/France		100		
Energies Charentus S.A.S., Paris/France		100		
Energies France S.A.S., Paris/France	100	100		
Energies Maintenance S.A.S., Paris/France		100		
Energies Saint Remy S.A.S., Paris/France		100		
Energies VAR 1 S.A.S., Paris/France		100		
Energies VAR 3 S.A.S., Paris/France		100		
SAS Île de France S.A.S., Paris/France		100		
Energiewacht N.V. – Group – (pre-consolidated)			36,435	2,741[2]
EGD-Energiewacht Facilities B.V., Assen/Netherlands		100		
Energiewacht N.V., Veendam/Netherlands		100		
Energiewacht West Nederland B.V., Assen/Netherlands		100		
Mercurius Klimaatbeheersing B.V., Assen/Netherlands		100		
energis GmbH, Saarbrücken		72	138,514	24,454
energis-Netzgesellschaft mbH, Saarbrücken		100	25,851	[1]
envia Mitteldeutsche Energie AG, Chemnitz	39	59	1,667,226	149,286
envia SERVICE GmbH, Cottbus		100	3,415	2,415
envia TEL GmbH, Markkleeberg		100	15,994	3,476
envia THERM GmbH, Bitterfeld-Wolfen		100	63,463	[1]
enviaM Beteiligungsgesellschaft Chemnitz GmbH, Chemnitz		100	56,366	[1]
enviaM Beteiligungsgesellschaft mbH, Essen	60	100	187,419	43,403
eprimo GmbH, Neu-Isenburg	100	100	4,600	[1]
Essent Belgium N.V., Antwerp/Belgium		100	88,047	11,109
Essent CNG Cleandrive B.V., 's-Hertogenbosch/Netherlands		100	0	0
Essent Energie Verkoop Nederland B.V., 's-Hertogenbosch/Netherlands		100	128,220	–1,680
Essent Energy Group B.V., Arnhem/Netherlands		100	–428	–6
Essent IT B.V., Arnhem/Netherlands		100	–263,425	–3,500
Essent Nederland B.V., Arnhem/Netherlands		100	2,897,900	12,000
Essent N.V., 's-Hertogenbosch/Netherlands		100	10,858,000	133,500
Essent Personeel Service B.V., Arnhem/Netherlands		100	4,937	1,026
Essent Retail Energie B.V., 's-Hertogenbosch/Netherlands		100	456,520	137,300
Essent Sales Portfolio Management B.V., 's-Hertogenbosch/Netherlands		100	–427,556	–285,204
Essent Wind Nordsee Ost Planungs- und Betriebsgesellschaft mbH, Helgoland	100	100	256	[1]
Eszak-magyarorszagi Aramszolgáltató Nyrt., Miskolc/Hungary		54	298,596	14,004
EuroSkyPark GmbH, Saarbrücken		51	473	245
EVIP GmbH, Bitterfeld-Wolfen		100	11,347	[1]
EWV Energie- und Wasser-Versorgung GmbH, Stolberg	54	54	41,090	12,736
FAMIS Gesellschaft für Facility Management und Industrieservice mbH, Saarbrücken		100	4,180	797
Fri-El Anzi Holding S.r.l., Bolzano/Italy		51	7,340	1,581
Fri-El Anzi S.r.l., Bolzano/Italy		100	5,159	1,108
Fri-El Guardionara Holding S.r.l., Bolzano/Italy		51	22,018	1,309

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	Direct	Total	€'000	€'000
Fri-El Guardionara S.r.l., Bolzano/Italy		100	26,931	1,502
GasNet, s.r.o., Ústí nad Labem/Czech Republic		100	831,580	116,767
GBV Siebenundzwanzigste Gesellschaft für Beteiligungsverwaltung mbH, Essen		100	6,883	[1]
Geas Energiewacht B.V., Enschede/Netherlands		100	13,889	1,633
Georgia Biomass Holding LLC, Savannah/USA	95	100	66,512	1,145
Georgia Biomass LLC, Savannah/USA		100	25,736	8,690
GfP Gesellschaft für Pensionsverwaltung mbH, Essen	100	100	25	[1]
Green Gecco GmbH & Co. KG, Essen	51	51	102,913	4,587
GridServices, s.r.o., Brno/Czech Republic		100	34,562	29,813
GWG Grevenbroich GmbH, Grevenbroich		60	21,523	4,802
Immobilien-Vermietungsgesellschaft Schumacher GmbH & Co. Objekt Kundenzentren KG, Düsseldorf		[9]	−473	891
Inhome Energy Care N.V., Houthalen-Helchteren/Belgium		100	−310	−68
innogy Aqua GmbH, Mülheim an der Ruhr	100	100	233,106	[1]
innogy Benelux Holding B.V., 's-Hertogenbosch/Netherlands		100	721,100	43,300
innogy Bergheim Windparkbetriebsgesellschaft mbH, Hanover		100	25	[1]
innogy Brise Windparkbetriebsgesellschaft mbH, Hanover		100	226	[1]
innogy Business Services Benelux B.V., Arnhem/Netherlands		100	−5,942	−176
innogy Business Services CZ, s.r.o., Prague/Czech Republic		100	15,245	2,188
Innogy Business Services Limited, Swindon/United Kingdom		100	34,678	−12,477
innogy Business Services Polska Sp. z o.o., Krakow/Poland	100	100	3,463	−960
innogy Ceská republika a.s., Prague/Czech Republic		100	1,932,961	124,479
innogy Energetyka Trzemeszno Sp. z o.o., Wroclaw/Poland		100	1,756	225
innogy Energie, s.r.o., Prague/Czech Republic		100	167,401	102,423
innogy Energo, s.r.o., Prague/Czech Republic		100	18,413	235
innogy Finance B.V., 's-Hertogenbosch/Netherlands		100	10,761	1,806
innogy Finance II B.V., 's-Hertogenbosch/Netherlands		100	2,699	−9
innogy Gas Storage NWE GmbH, Dortmund	100	100	350,087	[1]
innogy Gas Storage, s.r.o., Prague/Czech Republic		100	511,978	14,156
innogy Gastronomie GmbH, Essen	100	100	275	[1]
innogy Grid Holding, a.s., Prague/Czech Republic		50[4]	1,117,764	123,912
Innogy Gym 2 Limited, Swindon/United Kingdom		100	−5,241	−2,760
Innogy Gym 3 Limited, Swindon/United Kingdom		100	−5,240	−2,745
Innogy Gym 4 Limited, Swindon/United Kingdom		100	−15,712	−8,248
innogy Hörup Windparkbetriebsgesellschaft mbH, Hanover		100	26	[1]
innogy Hungária Tanácsadó Kft., Budapest/Hungary		100	520	−181
innogy International Participations N.V., 's-Hertogenbosch/Netherlands	100	100	6,050,116	205,758
innogy IT Magyarország Kft., Budapest/Hungary		100	1,090	37
innogy Italia S.p.A., Milan/Italy	100	100	5,428	1,238
innogy Kaskasi GmbH, Hamburg	100	100	99	[1]
innogy Lengerich Windparkbetriebsgesellschaft mbH, Gersten		100	25	[1]
innogy Lüneburger Heide Windparkbetriebsgesellschaft mbH, Walsrode		100	25	[1]

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	Direct	Total	€'000	€'000
innogy Metering GmbH, Mülheim an der Ruhr	100	100	25	[1]
innogy Mistral Windparkbetriebsgesellschaft mbH, Hanover		100	578	[1]
innogy Netze Deutschland GmbH, Essen	100	100	497,854	[1]
innogy Offshore Wind Netherlands B.V., 's-Hertogenbosch/Netherlands		100	−2,911	−2,931
innogy Polska Contracting Sp. z o.o., Wroclaw/Poland		100	5,419	0
innogy Polska S.A., Warsaw/Poland		100	416,942	90,193
innogy Renewables Benelux B.V., 's-Hertogenbosch/Netherlands		100	−14,682	−3,628
innogy Renewables Beteiligungs GmbH, Essen	100	100	7,350	[1]
innogy Renewables Polska Sp. z o.o., Warsaw/Poland	100	100	277,049	−69,119
Innogy Renewables UK Holdings Limited, Swindon/United Kingdom	100	100	1,688,264	9,462
Innogy Renewables UK Limited, Swindon/United Kingdom		100	1,996,707	140,160
innogy SE, Essen			8,908,422	1,587,710
innogy Seabreeze II GmbH & Co. KG, Essen	100	100	33,232	697
innogy Slovensko s.r.o., Bratislava/Slovakia		100	4,494	4,143
innogy Solutions s.r.o., Banská Bystrica/Slovakia		100	1,103	60
innogy Sommerland Windparkbetriebsgesellschaft mbH, Hanover		100	26	[1]
innogy South East Europe s.r.o., Bratislava/Slovakia		100	720	−390
innogy Spain, S.A.U. – Group – (pre-consolidated)			259,919	−99,823[2]
Danta de Energías, S.A., Soria/Spain		99		
Explotaciones Eólicas de Aldehuelas, S.L., Soria/Spain		95		
General de Mantenimiento 21, S.L.U., Barcelona/Spain		100		
Hidroeléctrica del Trasvase, S.A., Barcelona/Spain		60		
innogy Spain, S.A.U., Barcelona/Spain	100	100		
Innogy Stallingborough Limited, Swindon/United Kingdom		100	−8,451	−182
innogy Stoen Operator Sp. z o.o., Warsaw/Poland		100	650,485	54,845
innogy Süderdeich Windparkbetriebsgesellschaft mbH, Süderdeich		100	106	[1]
innogy TelNet GmbH, Essen	100	100	25	[1]
innogy Titz Windparkbetriebsgesellschaft mbH, Essen		100	25	[1]
innogy Wind Onshore Deutschland GmbH, Hanover	100	100	77,373	[1]
innogy Windpark Bedburg GmbH & Co. KG, Bedburg	51	51	93,613	4,997
innogy Windpower Netherlands B.V., 's-Hertogenbosch/Netherlands		100	−36,316	−4,582
innogy Zákaznické služby, s.r.o., Ostrava/Czech Republic		100	1,445	1,037
INVESTERG – Investimentos em Energias, SGPS, Lda. – Group – (pre-consolidated)			12,516	3,084[2]
INVESTERG – Investimentos em Energias, Sociedade Gestora de Participações Sociais, Lda., São João do Estoril/Portugal	100	100		
LUSITERG – Gestão e Produção Energética, Lda., São João do Estoril/Portugal		74		
iSWITCH GmbH, Essen	100	100	25	[1]
Knabs Ridge Wind Farm Limited, Swindon/United Kingdom		100	8,788	1,422
Krzecin Sp. z o.o., Warsaw/Poland		100	17,011	519
Lechwerke AG, Augsburg	75	90	491,819	111,520
Leitungspartner GmbH, Düren		100	100	[1]
LEW Anlagenverwaltung GmbH, Gundremmingen		100	282,071	8,854

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	Direct	Total	€'000	€'000
LEW Beteiligungsgesellschaft mbH, Gundremmingen		100	456,307	1,540
LEW Netzservice GmbH, Augsburg		100	87	1
LEW Service & Consulting GmbH, Augsburg		100	1,250	1
LEW TelNet GmbH, Neusäß		100	13,342	12,118
LEW Verteilnetz GmbH, Augsburg		100	139,816	1
Little Cheyne Court Wind Farm Limited, Swindon/United Kingdom		59	50,366	7,836
MI-FONDS 178, Frankfurt am Main		100	722,490	12,145
MI-FONDS F55, Frankfurt am Main		100	596,754	5,417
MI-FONDS G55, Frankfurt am Main		100	273,968	1,756
MI-FONDS J55, Frankfurt am Main		100	14,996	390
MI-FONDS K55, Frankfurt am Main		100	274,191	910
MITGAS Mitteldeutsche Gasversorgung GmbH, Halle (Saale)		75	120,341	28,385
Mitteldeutsche Netzgesellschaft Gas mbH, Halle (Saale)		100	25	1
Mitteldeutsche Netzgesellschaft Strom mbH, Halle (Saale)		100	4,171	1
Mittlere Donau Kraftwerke AG, Munich		40[9]	5,113	0
ML Wind LLP, Swindon/United Kingdom		51	90,166	8,597
NEW AG, Mönchengladbach	40	40[4]	175,895	69,137
NEW Netz GmbH, Geilenkirchen		100	95,769	20,167
NEW Niederrhein Energie und Wasser GmbH, Mönchengladbach		100	15,857	40,627
NEW NiederrheinWasser GmbH, Viersen		100	46,613	9,870
NEW Service GmbH, Mönchengladbach		97	825	1,512
NEW Tönisvorst GmbH, Tönisvorst		98	13,961	3,103
NEW Viersen GmbH, Viersen		100	13,714	2,699
Nordsee Windpark Beteiligungs GmbH, Essen	100	100	8,087	1
Npower Business and Social Housing Limited, Swindon/United Kingdom		100	4,112	−718
Npower Commercial Gas Limited, Swindon/United Kingdom		100	−1,851	2,990
Npower Direct Limited, Swindon/United Kingdom		100	246,141	−26,506
Npower Financial Services Limited, Swindon/United Kingdom		100	−194	28
Npower Gas Limited, Swindon/United Kingdom		100	−226,879	6,294
Npower Group plc, Swindon/United Kingdom		100	127,310	27,957
Npower Limited, Swindon/United Kingdom		100	108,622	−47,405
Npower Northern Limited, Swindon/United Kingdom		100	−1,074,542	−216,363
Npower Yorkshire Limited, Swindon/United Kingdom		100	−722,161	−34,599
Npower Yorkshire Supply Limited, Swindon/United Kingdom		100	0	0
NRW Pellets GmbH, Erndtebrück	100	100	312	1
Octopus Electrical Limited, Swindon/United Kingdom		100	2,529	0
OIE Aktiengesellschaft, Idar-Oberstein	100	100	11,426	1
Park Wiatrowy Nowy Staw Sp. z o.o., Warsaw/Poland		100	64,183	3,140
Park Wiatrowy Opalenica Sp. z o.o., Warsaw/Poland		100	22,291	157
Park Wiatrowy Suwalki Sp. z o.o., Warsaw/Poland		100	56,620	3,521
Park Wiatrowy Tychowo Sp. z o.o., Warsaw/Poland		100	41,120	−6,200
Piecki Sp. z o.o., Warsaw/Poland		51	34,451	−44
Plus Shipping Services Limited, Swindon/United Kingdom		100	29,125	88

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	Direct	Total	€'000	€'000
Powerhouse B.V., Almere/Netherlands		100	42,918	11,000
PS Energy UK Limited, Swindon/United Kingdom		100		3
regionetz GmbH, Eschweiler		100	37	1
Rheinkraftwerk Albbruck-Dogern Aktiengesellschaft, Waldshut-Tiengen	77	77	31,080	1,757
Rhein-Sieg Netz GmbH, Siegburg		100	20,774	1
rhenag Rheinische Energie Aktiengesellschaft, Cologne	67	67	152,182	38,059
Rhyl Flats Wind Farm Limited, Swindon/United Kingdom		50[4]	188,010	12,295
RL Besitzgesellschaft mbH, Gundremmingen		100	114,033	13,629
RL Beteiligungsverwaltung beschr. haft. OHG, Gundremmingen[5]	51	100	353,300	24,713
RUMM Limited, Ystrad Mynach/United Kingdom		100	360	47
RWE East, s.r.o., Prague/Czech Republic		100	204	167
RWE Energie S.R.L., Bucharest/Romania		100	556	−379
RWE Energija d.o.o., Zagreb/Croatia		100	695	−1,052
RWE Hrvatska d.o.o., Zagreb/Croatia		100	9,402	−2,677
RWE IT GmbH, Essen	100	100	22,724	1
RWE Ljubljana d.o.o., Ljubljana/Slovenia		100	399	−1,702
RWE Plin d.o.o., Zagreb/Croatia		100	178	−324
RWE Solutions Ireland Limited, Dublin/Ireland		100	3,948	756
RWW Rheinisch-Westfälische Wasserwerksgesellschaft mbH, Mülheim an der Ruhr		80	76,872	13,446
SARIO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Würzburg KG, Würzburg		9	−10,498	292
Stadtwärme Kamp-Lintfort GmbH, Kamp-Lintfort		100	2,970	1
STADTWERKE DÜREN GMBH, Düren	50	50	27,457	5,993
Stadtwerke Kamp-Lintfort GmbH, Kamp-Lintfort	51	51	14,868	3,678
Südwestsächsische Netz GmbH, Crimmitschau		100	1,070	−20
Süwag Energie AG, Frankfurt am Main	78	78	581,905	104,750
Süwag Grüne Energien und Wasser GmbH, Frankfurt am Main		100	6,441	1
Süwag Vertrieb AG & Co. KG, Frankfurt am Main		100	680	1
Syna GmbH, Frankfurt am Main		100	8,053	1
Taciewo Sp. z o.o., Warsaw/Poland		100	24,416	620
The Hollies Wind Farm Limited, Swindon/United Kingdom		100	676	−59
Überlandwerk Krumbach GmbH, Krumbach		75	5,793	1,366
Verteilnetz Plauen GmbH, Plauen		100	22	1
VKB-GmbH, Neunkirchen		50	43,114	3,389
Volta Limburg B.V., Schinnen/Netherlands		100	30,894	6,327
Volta Service B.V., Schinnen/Netherlands		100	102	0
VSE Aktiengesellschaft, Saarbrücken	50	50	200,917	22,861
VSE Net GmbH, Saarbrücken		100	14,150	2,064
VSE Verteilnetz GmbH, Saarbrücken		100	3,109	1
VWS Verbundwerke Südwestsachsen GmbH, Lichtenstein		98	26,813	2,170
Východoslovenská distribucná, a.s., Košice/Slovakia		100	615,265	16,905
Východoslovenská energetika a.s., Košice/Slovakia		100	70,917	6,188
Východoslovenská energetika Holding a.s., Košice/Slovakia		49[4]	617,430	42,207

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I. Affiliated companies which are included in the consolidated financial statements	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
Wendelsteinbahn GmbH, Brannenburg		100	3,612	834
Wendelsteinbahn Verteilnetz GmbH, Brannenburg		100	38	[1]
Westerwald-Netz GmbH, Betzdorf-Alsdorf		100	9,875	[1]
Westnetz GmbH, Dortmund	100	100	240,308	[1]
Windpark Kattenberg B.V., Zwolle/Netherlands		100	–37	–52
Windpark Zuidwester B.V., 's-Hertogenbosch/Netherlands		100	11,144	–212
WKN Windkraft Nord GmbH & Co. Windpark Wönkhausen KG, Hanover	100	100	898	16
WTTP B.V., Arnhem/Netherlands		100	11,654	200
2. CR Immobilien-Vermietungsgesellschaft mbH & Co. Objekt MEAG Halle KG, Düsseldorf		[9]	–877	421

II. Affiliated companies which are not included in the consolidated financial statements due to secondary importance for the assets, liabilities, financial position and profit or loss of the Group	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
AQUAVENT Gesellschaft für Umwelttechnik und regenerierbare Energien mbH, Lützen		100	1,592	773
AVB GmbH, Lützen		100	14	–10
Balve Netz Verwaltung GmbH, Balve		100		[3]
Beteiligungsgesellschaft Werl mbH, Essen	51	51	326	496
bildungszentrum energie GmbH, Halle (Saale)		100	1,082	607
Bioenergie Bad Wimpfen GmbH & Co. KG, Bad Wimpfen		51	2,192	88
Bioenergie Bad Wimpfen Verwaltungs-GmbH, Bad Wimpfen		100	30	1
Bioenergie Kirchspiel Anhausen GmbH & Co. KG, Anhausen		51	137	60
Bioenergie Kirchspiel Anhausen Verwaltungs-GmbH, Anhausen		100	30	1
Biogas Schwalmtal GmbH & Co. KG, Schwalmtal		66	807	0
Biogasanlage Schwalmtal GmbH, Schwalmtal		99	40	4
Burgar Hill Wind Farm Limited, Swindon/United Kingdom		100	0	0
Causeymire Two Wind Farm Limited, Swindon/United Kingdom		100	0	0
COMCO MCS S.A., Luxembourg/Luxembourg		95	385	204
Doggerbank Project 1A Innogy Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 1B Innogy Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 2A Innogy Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 2B Innogy Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 3A Innogy Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 3B Innogy Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 4A Innogy Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 4B Innogy Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 5A RWE Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 5B RWE Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 6A RWE Limited, Swindon/United Kingdom		100	0	0
Doggerbank Project 6B RWE Limited, Swindon/United Kingdom		100	0	0
easyOptimize GmbH, Essen	100	100	24	–1
easyOptimize Service B.V., Almelo/Netherlands		100		[3]

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	Direct	Total	€'000	€'000
EDON Group Costa Rica S.A., San José/Costa Rica		100	837	−133
Energetyka Wschod Sp. z o.o., Wroclaw/Poland		100	74	19
Energiegesellschaft Leimen GmbH & Co. KG, Leimen		75	198	14
Energiegesellschaft Leimen Verwaltungsgesellschaft mbH, Leimen		75	27	1
energienatur Gesellschaft für Erneuerbare Energien mbH, Siegburg		64	108	4
Energieversorgung Timmendorfer Strand GmbH & Co. KG, Timmendorfer Strand		51	3,177	140
enervolution GmbH, Bochum		100	48	51
enviaM Erneuerbare Energien Verwaltungsgesellschaft mbH, Markkleeberg		100	32	2
enviaM Neue Energie Management GmbH, Halle (Saale)		100	25	0
Eólica de Sarnago, S.A., Soria/Spain		73	1,576	−42
Erste WEA Vetschau GmbH & Co. KG, Breklum		100	−1,184	−1,143
ESK GmbH, Dortmund	100	100	128	1
Fernwärmeversorgung Saarlouis-Steinrausch Investitionsgesellschaft mbH, Saarlouis		100	7,567	1
"Finelectra" Finanzgesellschaft für Elektrizitäts-Beteiligungen AG, Hausen/Switzerland	100	100	11,491	553
FUCATUS Vermietungsgesellschaft mbH & Co. Objekt Recklinghausen KG, Düsseldorf	94	94	0	0
Fundacja innogy w Polsce, Warsaw/Poland		100	46	−125
GKB Gesellschaft für Kraftwerksbeteiligungen mbH, Cottbus		100	292	−20
Green Gecco Verwaltungs GmbH, Essen	51	51	37	1
GWE-energis Netzgesellschaft mbH & Co. KG, Eppelborn		100	147	173
GWE-energis-Geschäftsführungs-GmbH, Eppelborn		100	34	1
GWG Kommunal GmbH, Grevenbroich		100	100	−468
GWS Netz GmbH, Schwalbach		100	50	−2
Harryburn Wind Farm Limited, Swindon/United Kingdom		100		3
Hospitec Facility Management im Krankenhaus GmbH, Saarbrücken		100	−101	−31
Infraestructuras de Aldehuelas, S.A., Barcelona/Spain		100	428	0
Infrastrukturgesellschaft Netz Lübz mbH, Hanover		100	12	−19
innogy Consulting GmbH, Essen	100	100	1,555	1
innogy Corporate Ventures GmbH, Essen	100	100		3
innogy Dritte Vermögensverwaltungs GmbH, Essen	100	100		3
innogy Energetyka Zachod Sp. z o.o., Wroclaw/Poland		100	117	13
innogy Erste Vermögensverwaltungs GmbH, Essen	100	100		3
INNOGY INNOVATION CENTER LTD, Tel Aviv/Israel	100	100		3
innogy Middle East & North Africa Ltd., Dubai/UAE	100	100	1,602	−1,488
innogy New Ventures LLC, Menlo Park/USA	100	100	24,295	−3,935
innogy Offshore Wind Netherlands Participations I B.V., 's-Hertogenbosch/Netherlands		100		3
innogy Offshore Wind Netherlands Participations II B.V., 's-Hertogenbosch/Netherlands		100		3
innogy Offshore Wind Netherlands Participations III B.V., 's-Hertogenbosch/Netherlands		100		3

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	Direct	Total	€'000	€'000
innogy Offshore Wind Netherlands Participations IV B.V., 's-Hertogenbosch/Netherlands		100		[3]
innogy Polska Solutions Sp. z o.o., Warsaw/Poland		100	146	–5
Innogy Renewables Ireland Limited, Dublin/Ireland	100	100		[3]
Innogy Renewables US LLC, Delaware/USA	100	100	58,022	–649
innogy Seabreeze II Verwaltungs GmbH, Essen	100	100	45	6
innogy solutions Kft., Budapest/Hungary		100	10	0
innogy Stiftung für Energie und Gesellschaft gGmbH, Essen	100	100	58,072	0
innogy Turkey Energi Anonim Sirketi, Istanbul/Turkey	100	100		[3]
Innogy US Renewable Projects LLC, Delaware/USA		100	0	0
innogy Windpark Bedburg Verwaltungs GmbH, Bedburg	51	51	40	1
innogy Windpark Eschweiler GmbH & Co. KG, Essen	51	100	9,800	–89
innogy Windpark Eschweiler Verwaltungs GmbH, Essen		100	35	–3
innogy Windpark Jüchen A44n GmbH & Co. KG, Essen	100	100		[3]
Innogy Windpark Jüchen A44n Verwaltungs GmbH, Essen	100	100		[3]
innogy Zweite Vermögensverwaltungs GmbH, Essen	100	100		[3]
Kiln Pit Hill Wind Farm Limited, Swindon/United Kingdom		100	0	0
KWS Kommunal-Wasserversorgung Saar GmbH, Saarbrücken		100	134	16
Lech Energie Gersthofen GmbH & Co. KG, Gersthofen		100		[3]
Lech Energie Verwaltung GmbH, Augsburg		100		[3]
Lemonbeat GmbH, Dortmund	100	100	21	–4
Lochelbank Wind Farm Limited, Swindon/United Kingdom		100	0	0
Lößnitz Netz GmbH & Co. KG, Lößnitz		100	12	–3
Lößnitz Netz Verwaltungs GmbH, Lößnitz		100	27	0
Middlemoor Wind Farm Limited, Swindon/United Kingdom		100	0	0
Mitteldeutsche Netzgesellschaft Gas HD mbH, Halle (Saale)		100	25	[1]
Mitteldeutsche Netzgesellschaft mbH, Chemnitz		100	22	–1
Netzgesellschaft Hüllhorst Verwaltung GmbH, Hüllhorst		100		[3]
Netzwerke Saarwellingen GmbH, Saarwellingen		100	50	[1]
NEW b_gas Eicken GmbH, Schwalmtal		100	–890	38
NEW Re GmbH, Mönchengladbach		95	414	–29
NEW Schwalm-Nette Netz GmbH, Viersen		100	25	0
NEW Windenergie Verwaltung GmbH, Mönchengladbach		100		[3]
NEW Windpark Linnich GmbH & Co. KG, Mönchengladbach		100		[3]
Novar Two Wind Farm Limited, Swindon/United Kingdom		100	0	0
Npower Northern Supply Limited, Swindon/United Kingdom		100	0	0
NRF Neue Regionale Fortbildung GmbH, Halle (Saale)		100	164	32
Oschatz Netz GmbH & Co. KG, Oschatz		75	1,880	536
Oschatz Netz Verwaltungs GmbH, Oschatz		100	26	0
Park Wiatrowy Dolice Sp. z o.o., Warsaw/Poland		100	1,046	–67
Park Wiatrowy Elk Sp. z o.o., Warsaw/Poland		100	6	–756
Park Wiatrowy Gaworzyce Sp. z o.o., Warsaw/Poland		100	2,783	–45

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	Direct	Total	€'000	€'000
Park Wiatrowy Msciwojów Sp. z o.o., Warsaw/Poland		100	1,909	−45
Park Wiatrowy Prudziszki Sp. z o.o., Warsaw/Poland		100	−233	−243
Park Wiatrowy Smigiel I Sp. z o.o., Warsaw/Poland		100	2,521	−38
Park Wiatrowy Znin Sp. z o.o., Warsaw/Poland		100	2,224	−46
Powerhouse Energy Solutions S.L., Madrid/Spain		100	−1	0
Projecta 5 – Entwicklungsgesellschaft für kommunale Dienstleistungen mbH, Saarbrücken		100	8	−4
Rheinland Westfalen Energiepartner GmbH, Essen	100	100	5,369	[1]
rhenagbau GmbH, Cologne		100	1,258	[1]
Rowantree Wind Farm Ltd., Swindon/United Kingdom		100	0	0
RWE Innogy Galloper 1 Limited, Swindon/United Kingdom		100	−1,041	−885
RWE Innogy Galloper 2 Limited, Swindon/United Kingdom		100	−1,041	−885
RWE Innogy Serbia d.o.o., Belgrade/Serbia	100	100	0	−1
RWE Teplárna Náchod, s.r.o., Náchod/Czech Republic		100	7	0
RWE-EnBW Magyarország Energiaszolgáltató Korlátolt Felelösségü Társaság, Budapest/Hungary		70	372	12
Scarcroft Investments Limited, Swindon/United Kingdom		100	0	0
Scharbeutzer Energie- und Netzgesellschaft mbH & Co. KG, Scharbeutz		51	4,380	213
SchlauTherm GmbH, Saarbrücken		75	239	72
SEG Solarenergie Guben GmbH & Co. KG, Guben		100		[3]
SSE RENEWABLES (GALLOPER) NO. 1 LIMITED, Swindon/United Kingdom		100	−3,357	−3,527
SSE RENEWABLES (GALLOPER) NO. 2 LIMITED, Swindon/United Kingdom		100	−3,357	−3,527
Stadtwerke Korschenbroich GmbH, Mönchengladbach		100	51	−6
Stadtwerke Siegburg GmbH & Co. KG, Siegburg		100	100	0
Stadtwerke Siegburg Verwaltungs GmbH, Siegburg		100	25	0
Stadtwerke Verl Netz Verwaltungs GmbH, Verl		100		[3]
Stromnetz Gersthofen GmbH & Co. KG, Gersthofen		100	5	−5
Stromnetz Gersthofen Verwaltung GmbH, Gersthofen		100	22	−3
Süwag Vertrieb Management GmbH, Frankfurt am Main		100	26	0
Thermolux S.a.r.l., Luxembourg/Luxembourg		100	98	−484
Thyssengas-Unterstützungskasse GmbH, Dortmund		100	53	−26
TWS Technische Werke der Gemeinde Saarwellingen GmbH, Saarwellingen		51	3,621	1,040
Verwaltungsgesellschaft Energieversorgung Timmendorfer Strand mbH, Timmendorfer Strand		51	26	1
Verwaltungsgesellschaft Scharbeutzer Energie- und Netzgesellschaft mbH, Scharbeutz		51	26	1
VKN Saar Geschäftsführungsgesellschaft mbH, Ensdorf		51	51	1
VKN Saar Gesellschaft für Verwertung von Kraftwerksnebenprodukten und Ersatzbrennstoffen mbH & Co. KG, Ensdorf		51	−94	−111
Volta Solar B.V., Heerlen/Netherlands		95		[3]
VSE – Windpark Merchingen GmbH & Co. KG, Saarbrücken		100	2,800	40
VSE – Windpark Merchingen VerwaltungsGmbH, Saarbrücken		100	62	1
VSE Agentur GmbH, Saarbrücken		100	15	−1
VSE Call centrum, s.r.o., Košice/Slovakia		100	72	17

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	Direct	Total	€'000	€'000
VSE Ekoenergia, s.r.o., Košice/Slovakia		100	92	–39
VSE-Stiftung gGmbH, Saarbrücken		100	2,578	–17
Wadersloh Netz Verwaltungs GmbH, Wadersloh		100		3
Wärmeversorgung Schwaben GmbH, Augsburg		100	31	–179
WIJA GmbH, Bad Neuenahr-Ahrweiler		100	454	–66
Windkraft Hochheim GmbH & Co. KG, Hochheim		100	2,750	263
Windpark Eschweiler Beteiligungs GmbH, Stolberg		59		3
Windpark Verwaltungsgesellschaft mbH, Lützen		100	31	1
YE Gas Limited, Swindon/United Kingdom		100	0	0
Zweite WEA Vetschau GmbH & Co. KG, Breklum		100	–51	–48
2. CR Immobilien-Vermietungsgesellschaft mbH & Co. Objekt Naumburg KG, Düsseldorf		9	–788	0

III. Joint operations	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
EnergieRegion Taunus – Goldener Grund – GmbH & Co. KG, Bad Camberg		49	29,873	1,739
Gas-Netzgesellschaft Kolpingstadt Kerpen GmbH & Co. KG, Kerpen		49	4,149	1,118
Greater Gabbard Offshore Winds Limited, Reading/United Kingdom		50	1,278,354	105,750
Netzgesellschaft Kreisstadt Bergheim GmbH & Co. KG, Bergheim		49	3,682	1,193
Netzgesellschaft Südwestfalen mbH & Co. KG, Netphen		49	12,264	0

IV. Affiliated companies of joint operations	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
EnergieRegion Taunus – Goldener Grund Verwaltungsgesellschaft mbH, Bad Camberg		100	26	1

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V. Joint ventures accounted for using the equity method	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
AS 3 Beteiligungs GmbH, Essen	51	51[6]	37,092	37
AVU Aktiengesellschaft für Versorgungs-Unternehmen, Gevelsberg	50	50	101,713	14,400
BEW Netze GmbH, Wipperfürth	61	61[6]	6,534	392
Budapesti Disz- es Közvilagitasi Korlatolt Felelössegü Tarsasag, Budapest/Hungary		50	29,988	765
C-Power N.V., Oostende/Belgium	27	27	200,443	19,860
Energie Nordeifel GmbH & Co. KG, Kall	33	33	6,232	3,285
FSO GmbH & Co. KG, Oberhausen	50	50	33,588	12,572
Galloper Wind Farm Holdco Limited, Swindon/United Kingdom		25	−33,673	3,370
Gwynt Y Môr Offshore Wind Farm Limited, Swindon/United Kingdom		50	−1,005	−1,686
Innogy Venture Capital GmbH, Dortmund	75	75[6]	397	80
Konsortium Energieversorgung Opel beschränkt haftende oHG, Karlstein[5]	67	67[6]	36,308	5,308
PRENU Projektgesellschaft für Rationelle Energienutzung in Neuss mbH, Neuss	50	50	180	−18
Rain Biomasse Wärmegesellschaft mbH, Rain		75[6]	5,752	538
SHW/RWE Umwelt Aqua Vodogradnja d.o.o., Zagreb/Croatia		50	430	11
Stadtwerke Dülmen Dienstleistungs- und Beteiligungs-GmbH & Co. KG, Dülmen	50	50	26,401	3,641
Stadtwerke Lingen GmbH, Lingen (Ems)	40	40	13,471	0
Stromnetz Günzburg GmbH & Co. KG, Günzburg		49	2,999	150
SVS-Versorgungsbetriebe GmbH, Stadtlohn	30	30	19,430	2,992
Triton Knoll Offshore Wind Farm Limited, Swindon/United Kingdom		50	13,067	−6,183
Zagrebacke otpadne vode d.o.o., Zagreb/Croatia		48	187,134	23,348

VI. Associates accounted for using the equity method	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
ATBERG – Eólicas do Alto Tâmega e Barroso, Lda., Ribeira de Pena/Portugal		40	3,689	316
Dortmunder Energie- und Wasserversorgung GmbH (DEW 21), Dortmund	40	40	157,589	39,115
EnergieServicePlus GmbH, Düsseldorf	49	49	704	4
Energieversorgung Guben GmbH, Guben		45	16,272	617
Energieversorgung Hürth GmbH, Hürth		25	4,961	0
Energieversorgung Oberhausen AG, Oberhausen	10	10[7]	4,331	11,192
ENNI Energie & Umwelt Niederrhein GmbH, Moers	20	20	32,915	0
e-regio GmbH & Co. KG, Euskirchen		43	82,712	28,693
EWR GmbH – Energie und Wasser für Remscheid, Remscheid	20	20	83,816	12,767
Freiberger Stromversorgung GmbH (FSG), Freiberg		30	9,655	1,360
Gas- und Wasserwerke Bous-Schwalbach GmbH, Bous		49	13,693	2,734
HIDROERG – Projectos Energéticos, Lda., Lisbon/Portugal		32	11,209	1,125
Innogy Renewables Technology Fund I GmbH & Co. KG, Essen	78	78[6]	21,782	−11,072
Kärntner Energieholding Beteiligungs GmbH, Klagenfurt/Austria		49	827,429	89,971[2]
KELAG-Kärntner Elektrizitäts-AG, Klagenfurt/Austria		13[7]	773,142	89,889
Kemkens B.V., Oss/Netherlands		49	32,234	8,192

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VI. Associates accounted for using the equity method	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
KEW Kommunale Energie- und Wasserversorgung AG, Neunkirchen		29	72,983	9,769
MAINGAU Energie GmbH, Obertshausen		47	29,650	9,174
medl GmbH, Mülheim an der Ruhr	49	49	21,829	0
Nebelhornbahn-Aktiengesellschaft, Oberstdorf		27	5,145	398
Pfalzwerke Aktiengesellschaft, Ludwigshafen	27	27	203,148	12,864
Projecta 14 GmbH, Saarbrücken		50	38,138	1,913
Propan Rheingas GmbH & Co KG, Brühl		30	6,838	685
Recklinghausen Netzgesellschaft mbH & Co. KG, Recklinghausen		50	16,854	1,136
RheinEnergie AG, Cologne	20	20	886,918	154,626
Rhein-Main-Donau AG, Munich		22	110,169	0
Siegener Versorgungsbetriebe GmbH, Siegen		25	24,436	4,436
SpreeGas Gesellschaft für Gasversorgung und Energiedienstleistung mbH, Cottbus	33	33	32,797	4,225
SSW Stadtwerke St. Wendel GmbH & Co. KG, St. Wendel		50	20,215	2,100
Stadtwerke Aschersleben GmbH, Aschersleben		35	16,990	3,044
Stadtwerke Bernburg GmbH, Bernburg (Saale)		45	31,859	5,315
Stadtwerke Bitterfeld-Wolfen GmbH, Bitterfeld-Wolfen		40	19,939	1,654
Stadtwerke Duisburg Aktiengesellschaft, Duisburg	20	20	184,636	0
Stadtwerke Emmerich GmbH, Emmerich am Rhein	25	25	12,115	0
Stadtwerke Essen Aktiengesellschaft, Essen	29	29	124,866	24,920
Stadtwerke Geldern GmbH, Geldern	49	49	11,304	2,324
Stadtwerke GmbH Bad Kreuznach, Bad Kreuznach	25	25	39,925	0
Stadtwerke Kirn GmbH, Kirn	49	49	2,134	248
Stadtwerke Meerane GmbH, Meerane		24	13,903	1,934
Stadtwerke Merseburg GmbH, Merseburg		40	21,392	4,520
Stadtwerke Merzig GmbH, Merzig		50	15,906	3,118
Stadtwerke Neuss Energie und Wasser GmbH, Neuss	25	25	88,344	9,687
Stadtwerke Radevormwald GmbH, Radevormwald	50	50	5,324	2,201
Stadtwerke Ratingen GmbH, Ratingen	25	25	51,982	4,471
Stadtwerke Reichenbach/Vogtland GmbH, Reichenbach im Vogtland		24	13,339	1,689
Stadtwerke Saarlouis GmbH, Saarlouis		49	36,022	4,535
Stadtwerke Velbert GmbH, Velbert	50	50	82,005	0
Stadtwerke Weißenfels GmbH, Weißenfels		24	23,333	3,489
Stadtwerke Willich GmbH, Willich	25	25	13,981	0
Stadtwerke Zeitz GmbH, Zeitz		24	20,734	2,950
SWTE Netz GmbH & Co. KG, Ibbenbüren	33	33	23,836	–231
Wasser- und Energieversorgung Kreis St. Wendel GmbH, St. Wendel		28	22,093	1,606
wbm Wirtschaftsbetriebe Meerbusch GmbH, Meerbusch	40	40	24,417	5,713
Zagrebacke otpadne vode-upravljanje i pogon d.o.o., Zagreb/Croatia		31	2,047	3,378
Zwickauer Energieversorgung GmbH, Zwickau		27	42,360	7,339

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	Direct	Total	€'000	€'000
Alfred Thiel-Gedächtnis-Unterstützungskasse GmbH, Essen	50	50	5,113	0
Awotec Gebäude Servicegesellschaft mbH, Saarbrücken		48	84	–1
Bäderbetriebsgesellschaft St. Ingbert GmbH, St. Ingbert		49	80	1
Bayerische Ray Energietechnik GmbH, Garching		49	427	154
Biogas Wassenberg GmbH & Co. KG, Wassenberg		32	1,179	123
Biogas Wassenberg Verwaltungs GmbH, Wassenberg		32	37	1
Breer Gebäudedienste Heidelberg GmbH, Heidelberg		45	280	89
Breitband-Infrastrukturgesellschaft Cochem-Zell mbH, Cochem	21	21	–638	–220
Brüggen.E-Netz GmbH & Co. KG, Brüggen		25	1,000	0
Brüggen.E-Netz Verwaltungs-GmbH, Brüggen		25	27	2
DES Dezentrale Energien Schmalkalden GmbH, Schmalkalden	33	33	252	15
Dii GmbH, Munich	20	20	875	–872
Doggerbank Project 1 Bizco Limited, Reading/United Kingdom		25	0	0
Doggerbank Project 2 Bizco Limited, Reading/United Kingdom		25	0	0
Doggerbank Project 3 Bizco Limited, Reading/United Kingdom		25	0	0
Doggerbank Project 4 Bizco Limited, Reading/United Kingdom		25	0	0
Doggerbank Project 5 Bizco Limited, Reading/United Kingdom		25	0	0
Doggerbank Project 6 Bizco Limited, Reading/United Kingdom		25	0	0
Dorsten Netz GmbH & Co. KG, Dorsten		49	5,828	856
EfD Energie-für-Dich GmbH, Potsdam	49	49	28	3
ELE-GEW Photovoltaikgesellschaft mbH, Gelsenkirchen		49	69	44
ELE-RAG Montan Immobilien Erneuerbare Energien GmbH, Bottrop		50	54	19
ELE-Scholven-Wind GmbH, Gelsenkirchen		30	801	276
Energie BOL GmbH, Ottersweier		50	32	3
Energie Mechernich GmbH & Co. KG, Mechernich		49	3,743	350
Energie Mechernich Verwaltungs-GmbH, Mechernich		49	29	2
Energie Nordeifel Beteiligungs-GmbH, Kall	33	33	26	1
Energie Rur-Erft GmbH & Co. KG, Essen	21	21	25	1,020
Energie Rur-Erft Verwaltungs-GmbH, Essen	21	21	28	1
Energie Schmallenberg GmbH, Schmallenberg	44	44	28	2
Energiepartner Dörth GmbH, Dörth		49	29	4
Energiepartner Elsdorf GmbH, Elsdorf		40	49	12
Energiepartner Hermeskeil GmbH, Hermeskeil		20	38	20
Energiepartner Kerpen GmbH, Kerpen		49	26	0
Energiepartner Projekt GmbH, Essen		49	25	0
Energiepartner Solar Kreuztal GmbH, Kreuztal		40	25	1
Energiepartner Wesseling GmbH, Wesseling		30	27	2
Energie-Service-Saar GmbH, Völklingen		50	–1,790	–24
Energieversorgung Bad Bentheim GmbH & Co. KG, Bad Bentheim		25	2,911	558
Energieversorgung Bad Bentheim Verwaltungs-GmbH, Bad Bentheim		25	29	2
Energieversorgung Beckum GmbH & Co. KG, Beckum	34	34	5,207	2,171
Energieversorgung Beckum Verwaltungs-GmbH, Beckum	34	34	56	2

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Energieversorgung Horstmar/Laer GmbH & Co. KG, Horstmar		49	2,556	340
Energieversorgung Kranenburg Netze GmbH & Co. KG, Kranenburg		25	1,206	206
Energieversorgung Kranenburg Netze Verwaltungs GmbH, Kranenburg		25	27	2
Energieversorgung Marienberg GmbH, Marienberg		49	3,007	969
Energieversorgung Niederkassel GmbH & Co. KG, Niederkassel		49	2,745	192
Energieversorgung Oelde GmbH, Oelde	25	25	7,388	1,813
Energotel, a.s., Bratislava/Slovakia		20	9,422	1,562
ENERVENTIS GmbH & Co. KG, Saarbrücken		33	1,090	162
Erdgasversorgung Industriepark Leipzig Nord GmbH, Leipzig		50	430	–5
Erdgasversorgung Schwalmtal GmbH & Co. KG, Viersen		50	3,109	1,515
Erdgasversorgung Schwalmtal Verwaltungs-GmbH, Viersen		50	36	1
Esta V.O.F., Ridderkerk/Netherlands		50		[3]
evm Windpark Höhn GmbH & Co. KG, Höhn		33	0	–77
EWV Baesweiler GmbH & Co. KG, Baesweiler		45	2,047	799
EWV Baesweiler Verwaltungs GmbH, Baesweiler		45	29	1
FAMOS – Facility Management Osnabrück GmbH, Osnabrück	49	49	97	–9
Fernwärmeversorgung Zwönitz GmbH, Zwönitz		50	3,115	246
Forewind Limited, Swindon/United Kingdom		25	205	–631
Foton Technik Sp. z o.o., Warsaw/Poland		50	132	–69
FSO Verwaltungs-GmbH, Oberhausen	50	50	34	0
Gasgesellschaft Kerken Wachtendonk mbH, Kerken	49	49	4,988	745
Gas-Netzgesellschaft Elsdorf GmbH & Co. KG, Elsdorf		49		[3]
Gas-Netzgesellschaft Kolpingstadt Kerpen Verwaltungs-GmbH, Kerpen		49	29	2
Gasnetzgesellschaft Wörrstadt mbH & Co. KG, Saulheim		49	2,228	869
Gasnetzgesellschaft Wörrstadt Verwaltung mbH, Wörrstadt		49	30	2
Geiger Netzbau GmbH, Mindelheim		49		[3]
Gemeindewerke Bad Sassendorf Netze GmbH & Co. KG, Bad Sassendorf		25	2,142	315
Gemeindewerke Bad Sassendorf Netze Verwaltung GmbH, Bad Sassendorf		25	27	2
Gemeindewerke Bissendorf Netz GmbH & Co. KG, Bissendorf		49	511	0
Gemeindewerke Bissendorf Netz Verwaltungs-GmbH, Bissendorf		49	26	0
Gemeindewerke Everswinkel GmbH, Everswinkel	45	45	6,764	52
Gemeindewerke Namborn GmbH, Namborn		49	800	101
GfB, Gesellschaft für Baudenkmalpflege mbH, Idar-Oberstein		20	76	8
Gichtgaskraftwerk Dillingen GmbH & Co. KG, Saarbrücken		25	29,544	4,159
GISA GmbH, Halle (Saale)		24	8,049	2,449
GkD Gesellschaft für kommunale Dienstleistungen mbH, Cologne		50	51	–3
G & L Gastro-Service GmbH, Augsburg		35		[3]
GNEE Gesellschaft zur Nutzung erneuerbarer Energien mbH Freisen, Freisen		49	13	–5
GREEN GECCO Beteiligungsgesellschaft mbH & Co. KG, Troisdorf		21	57,027	2,630
GREEN GECCO Beteiligungsgesellschaft-Verwaltungs GmbH, Troisdorf		21	37	1
GREEN Gesellschaft für regionale und erneuerbare Energie mbH, Stolberg		49	662	35
Green Solar Herzogenrath GmbH, Herzogenrath		45	3,822	404

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	Direct	Total	€'000	€'000
Greenergetic GmbH, Bielefeld	27	27	–191	–1,750
Greenplug GmbH, Hamburg	49	49	613	–10
HaseNetz GmbH & Co. KG, Gehrde		25	25	0
HCL Netze GmbH & Co. KG, Herzebrock-Clarholz		25	2,813	–3
Heizkraftwerk Zwickau Süd GmbH & Co. KG, Zwickau		40	1,814	502
Hochsauerland Netze GmbH & Co. KG, Meschede		25	5,363	1,233
Hochsauerland Netze Verwaltung GmbH, Meschede		25	26	1
Homepower Retail Limited, Swindon/United Kingdom		50	–26,127	0
Humada Holdings Inc., Palo Alto/USA		40		3
IWW Rheinisch-Westfälisches Institut für Wasserforschung gemeinnützige GmbH, Mülheim an der Ruhr		30	890	10
Kavernengesellschaft Staßfurt mbH, Staßfurt	50	50	678	80
KAWAG AG & Co. KG, Pleidelsheim		49	10,542	536
KAWAG Netze GmbH & Co. KG, Abstatt		49	2,328	142
KAWAG Netze Verwaltungsgesellschaft mbH, Abstatt		49	28	1
KDT Kommunale Dienste Tholey GmbH, Tholey		49	1,224	83
KEN Geschäftsführungsgesellschaft mbH, Neunkirchen		50	51	0
KEN GmbH & Co. KG, Neunkirchen		46	2,786	–143
KEVAG Telekom GmbH, Koblenz		50	2,286	570
Kiwigrid GmbH, Dresden	20	20	–4,222	–2,320
KlickEnergie GmbH & Co. KG, Neuss		65	–1,146	–1,636
KlickEnergie Verwaltungs-GmbH, Neuss		65	22	–1
K-net GmbH, Kaiserslautern		25	1,242	108
KnGrid, Inc., Laguna Hills/USA		42		3
Kommunale Dienste Marpingen GmbH, Marpingen		49	2,681	–148
Kommunale Netzgesellschaft Steinheim a. d. Murr GmbH & Co. KG, Steinheim a. d. Murr		49	4,951	331
Kommunalwerk Rudersberg GmbH & Co. KG, Rudersberg		50	161	8
Kommunalwerk Rudersberg Verwaltungs-GmbH, Rudersberg		50	24	1
Kraftwerk Wehrden GmbH, Völklingen		33	30	0
KSP Kommunaler Service Püttlingen GmbH, Püttlingen		40	150	73
KVK Kompetenzzentrum Verteilnetze und Konzessionen GmbH, Cologne		75	54	28
Mainzer Wärme PLUS GmbH, Mainz	45	45	2,190	420
Metering Süd GmbH & Co. KG, Augsburg		42		3
MNG Stromnetze GmbH & Co. KG, Lüdinghausen		25	19,534	1,935
MNG Stromnetze Verwaltungs GmbH, Lüdinghausen		25	27	2
Moravske Hidroelektrane d.o.o., Belgrade/Serbia	51	51	3,515	–15
Murrhardt Netz AG & Co. KG, Murrhardt		49	2,790	3
Naturstrom Betriebsgesellschaft Oberhonnefeld mbH, Koblenz		25	160	–1
Netzanbindung Tewel OHG, Cuxhaven		25	710	–13
Netzgesellschaft Bühlertal GmbH & Co. KG, Bühlertal		50	2,296	159
Netzgesellschaft Elsdorf Verwaltungs-GmbH, Elsdorf		49	25	2
Netzgesellschaft Grimma GmbH & Co. KG, Grimma		49	7,670	569

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	Direct	Total	€'000	€'000
Netzgesellschaft Korb GmbH & Co. KG, Korb		50	1,417	99
Netzgesellschaft Korb Verwaltungs-GmbH, Korb		50	27	1
Netzgesellschaft Kreisstadt Bergheim Verwaltungs-GmbH, Bergheim		49	28	2
Netzgesellschaft Lauf GmbH & Co. KG, Lauf		50	758	53
Netzgesellschaft Leutenbach GmbH & Co. KG, Leutenbach		50	1,531	108
Netzgesellschaft Leutenbach Verwaltungs-GmbH, Leutenbach		50	26	1
Netzgesellschaft Maifeld GmbH & Co. KG, Polch		49	6,176	0
Netzgesellschaft Maifeld Verwaltungs GmbH, Polch		49	26	0
Netzgesellschaft Ottersweier GmbH & Co. KG, Ottersweier		50	2,027	145
Netzgesellschaft Rheda-Wiedenbrück GmbH & Co. KG, Rheda-Wiedenbrück		49	3,261	469
Netzgesellschaft Rheda-Wiedenbrück Verwaltungs-GmbH, Rheda-Wiedenbrück		49	27	0
NiersEnergieNetze GmbH & Co. KG, Kevelaer		51	6,211	551
NiersEnergieNetze Verwaltungs-GmbH, Kevelaer		51	27	2
Novenerg limited liability company for energy activities, Zagreb/Croatia		50	100	–1
Offshore Trassenplanungs-GmbH OTP i.L., Hanover		50	168	0
Peißenberger Wärmegesellschaft mbH, Peißenberg		50	1,438	–99
prego services GmbH, Saarbrücken		50	–7,722	567
Propan Rheingas GmbH, Brühl		28	49	2
Qualitas-AMS GmbH, Siegen	38	38		3
Recklinghausen Netz-Verwaltungsgesellschaft mbH, Recklinghausen		49	26	1
Renergie Stadt Wittlich GmbH, Wittlich		30	23	2
RIWA GmbH Gesellschaft für Geoinformationen, Kempten		33	1,273	405
RurEnergie GmbH, Düren		30	5,846	–83
RWE Power International Middle East LLC, Dubai/UAE		49	–1,838	–939
Sandersdorf-Brehna Netz GmbH & Co. KG, Sandersdorf-Brehna		49	4,826	170
Selm Netz GmbH & Co. KG, Selm		25	3,225	0
SHS Ventures GmbH & Co. KGaA, Völklingen		50		3
SolarProjekt Mainaschaff GmbH, Mainaschaff		50	47	1
SolarProjekt Rheingau-Taunus GmbH, Bad Schwalbach		50	431	–18
SPX, s.r.o., Zilina/Slovakia		33	131	10
SSW Stadtwerke St. Wendel Geschäftsführungsgesellschaft mbH, St. Wendel		50	120	4
Stadtentwässerung Schwerte GmbH, Schwerte		48	51	0
Städtische Werke Borna GmbH, Borna		37	5,152	1,102
Städtisches Wasserwerk Eschweiler GmbH, Eschweiler		25	1,526	–1,311
Stadtwerke – Strom Plauen GmbH & Co. KG, Plauen		49	5,358	1,151
Stadtwerke Ahaus GmbH, Ahaus		36	11,086	0
Stadtwerke Aue GmbH, Aue		24	12,415	1,394
Stadtwerke Dillingen/Saar GmbH, Dillingen		49	6,411	1,756
Stadtwerke Dülmen Verwaltungs-GmbH, Dülmen	50	50	29	0
Stadtwerke Gescher GmbH, Gescher	25	25	3,167	546
Stadtwerke Geseke Netze GmbH & Co. KG, Geseke		25	2,377	0

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Stadtwerke Geseke Netze Verwaltung GmbH, Geseke		25	25	0
Stadtwerke Goch Netze GmbH & Co. KG, Goch		25	1,319	319
Stadtwerke Goch Netze Verwaltungsgesellschaft mbH, Goch		25	27	2
Stadtwerke Haan GmbH, Haan	25	25	20,725	1,875
Stadtwerke Langenfeld GmbH, Langenfeld	20	20	8,051	300
Stadtwerke Oberkirch GmbH, Oberkirch		33	6,792	1,295
Stadtwerke Roßlau Fernwärme GmbH, Dessau-Roßlau		49	1,543	362
Stadtwerke Schwarzenberg GmbH, Schwarzenberg/Erzgeb.		28	14,325	1,263
Stadtwerke Steinfurt GmbH, Steinfurt	33	33	10,695	300
Stadtwerke Unna GmbH, Unna		24	14,382	3,146
Stadtwerke Vlotho GmbH, Vlotho	25	25	4,989	101
Stadtwerke Wadern GmbH, Wadern		49	4,103	671
Stadtwerke Waltrop Netz GmbH & Co. KG, Waltrop		25	2,543	−1
Stadtwerke Weilburg GmbH, Weilburg		20	7,902	618
Stadtwerke Werl GmbH, Werl		25	6,735	0
STEAG Windpark Ullersdorf GmbH & Co. KG, Jamlitz		21	20,160	2,410
Stromnetz Diez GmbH & Co. KG, Diez		25	1,383	95
Stromnetz Diez Verwaltungsgesellschaft mbH, Diez		25	29	1
Stromnetz Euskirchen GmbH & Co. KG, Euskirchen		25	3,796	5
Stromnetz Günzburg Verwaltungs GmbH, Günzburg		49	28	1
Stromnetz Hofheim GmbH & Co. KG, Hofheim		49	3,455	255
Stromnetz Hofheim Verwaltungs GmbH, Hofheim		49	26	1
Stromnetz Verbandsgemeinde Katzenelnbogen GmbH & Co. KG, Katzenelnbogen		49	2,275	174
Stromnetz Verbandsgemeinde Katzenelnbogen Verwaltungsgesellschaft mbH, Katzenelnbogen		49	27	1
Stromnetz VG Diez GmbH & Co. KG, Altendiez		49	2,403	176
Stromnetz VG Diez Verwaltungsgesellschaft mbH, Altendiez		49	28	1
Strom-Netzgesellschaft Elsdorf GmbH & Co. KG, Elsdorf		49	3,611	418
Stromnetzgesellschaft Gescher GmbH & Co. KG, Gescher		25		[3]
Strom-Netzgesellschaft Kolpingstadt Kerpen GmbH & Co. KG, Kerpen		49	4,803	693
Strom-Netzgesellschaft Kolpingstadt Kerpen Verwaltungs-GmbH, Kerpen		49	28	2
Stromnetzgesellschaft Neuenhaus mbH & Co. KG, Neuenhaus		49	1,000	345
Stromnetzgesellschaft Neuenhaus Verwaltungs-GmbH, Neuenhaus		49	25	0
Stromnetzgesellschaft Neunkirchen-Seelscheid mbH & Co. KG, Neunkirchen-Seelscheid		49	2,625	313
Stromnetzgesellschaft Schwalmtal mbH & Co. KG, Schwalmtal		51	3,578	582
Stromverwaltung Schwalmtal GmbH, Schwalmtal		51	28	2
Südwestfalen Netz-Verwaltungsgesellschaft mbH, Netphen		49	25	0
SWL-energis Netzgesellschaft mbH & Co. KG, Lebach		50	3,703	279
SWL-energis-Geschäftsführungs-GmbH, Lebach		50	34	1
SWT trilan GmbH, Trier		26	1,203	478
SWTE Netz Verwaltungsgesellschaft mbH, Ibbenbüren	33	33	24	0

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Technische Werke Naumburg GmbH, Naumburg (Saale)		47	11,477	2,531
TEPLO Votice s.r.o., Votice/Czech Republic		20	91	14[2]
TNA Talsperren- und Grundwasser-Aufbereitungs- und Vertriebsgesellschaft mbH, Saarbrücken		23	969	127
Toledo PV A.E.I.E., Madrid/Spain		33	2,339	630
TRANSELEKTRO, s.r.o., Košice/Slovakia		26	627	–51
TWE Technische Werke der Gemeinde Ensdorf GmbH, Ensdorf		49	2,004	69
TWL Technische Werke der Gemeinde Losheim GmbH, Losheim		50	6,283	1,009
TWM Technische Werke der Gemeinde Merchweiler GmbH, Merchweiler		49	2,027	135
TWN Trinkwasserverbund Niederrhein GmbH, Grevenbroich		33	148	–5
TWRS Technische Werke der Gemeinde Rehlingen-Siersburg GmbH, Rehlingen		35	4,802	136
Umspannwerk Putlitz GmbH & Co. KG, Frankfurt am Main		25	0	–200
Untere Iller Aktiengesellschaft, Landshut		40	1,134	41
Untermain EnergieProjekt AG & Co. KG, Kelsterbach		49	1,958	146
Untermain Erneuerbare Energien Verwaltungs-GmbH, Raunheim		25	31	2
VEM Neue Energie Muldental GmbH & Co. KG, Markkleeberg		50	6	–4
Verteilnetze Energie Weißenhorn GmbH & Co. KG, Weißenhorn		35	906	509
Verwaltungsgesellschaft Dorsten Netz mbH, Dorsten		49	27	2
Verwaltungsgesellschaft Energie Weißenhorn GmbH, Weißenhorn		35	25	0
Verwaltungsgesellschaft GKW Dillingen mbH, Saarbrücken		25	174	7
Voltaris GmbH, Maxdorf		50	933	150
Wärmeversorgung Limburg GmbH, Limburg an der Lahn		50		[3]
Wärmeversorgung Mücheln GmbH, Mücheln		49	916	96
Wärmeversorgung Wachau GmbH, Markkleeberg OT Wachau		49	91	–1
Wärmeversorgung Würselen GmbH, Würselen		49	1,449	61
Wasserverbund Niederrhein Gesellschaft mit beschränkter Haftung, Krefeld		42	10,805	538
Wasserversorgung Main-Taunus GmbH, Frankfurt am Main		49	134	6
Wasserzweckverband der Gemeinde Nalbach, Nalbach		49	1,736	47
WEV Warendorfer Energieversorgung GmbH, Warendorf	25	25	12,243	0
Windenergie Briesensee GmbH, Neu Zauche		50	1,434	1,181
Windenergie Frehne GmbH & Co. KG, Marienfließ		41	6,264	202
Windenergie Merzig GmbH, Merzig		20	3,515	276
Windenergiepark Heidenrod GmbH, Heidenrod		51	11,871	865
Windkraft Jerichow – Mangelsdorf I GmbH & Co. KG, Jerichow		25	4,163	652
Windpark Borssele I & II B.V., Amsterdam/Netherlands		50		[3]
Windpark Borssele I & II C.V., Amsterdam/Netherlands		50		[3]
Windpark Jüchen GmbH & Co. KG, Essen		21	2,385	276
Windpark Losheim-Britten GmbH, Losheim am See		50	1,991	22
Windpark Nohfelden-Eisen GmbH, Nohfelden		50	3,468	–57
Windpark Oberthal GmbH, Oberthal		35	4,673	281
Windpark Perl GmbH, Perl		42	8,229	478
WINDTEST Grevenbroich GmbH, Grevenbroich	38	38	898	248

1 Profit and loss-pooling agreement.
2 Figures from the Group's consolidated financial statements.
3 Newly founded, financial statements not yet available.
4 Control by virtue of company contract.
5 innogy SE bears unlimited liability pursuant to Sec. 285, No. 11a of HGB.
6 No control by virtue of company contract.
7 Significant influence via indirect investments.
8 Significant influence via virtue of company contract.
9 Structured entity pursuant to IFRS 10 and 12.

VII. Companies which are not accounted for using the equity method due to secondary importance for the assets, liabilities, financial position and profit or loss of the Group	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
WLN Wasserlabor Niederrhein GmbH, Mönchengladbach		45	520	20
WVG-Warsteiner Verbundgesellschaft mbH, Warstein	25	25	8,295	1,673
WVL Wasserversorgung Losheim GmbH, Losheim		50	5,083	405
WWS Wasserwerk Saarwellingen GmbH, Saarwellingen		49	3,486	236
WWW Wasserwerk Wadern GmbH, Wadern		49	3,516	166

VIII. Other investments	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
BEW Bergische Energie- und Wasser-GmbH, Wipperfürth		19	28,847	5,892
BFG-Bernburger Freizeit GmbH, Bernburg (Saale)		1	9,675	−1,201
BIDGELY Inc., Sunnyvale/USA		5	10,512	−5,235
Bürgerenergie Untermain e.G., Kelsterbach		4	59	14
Deutsches Forschungszentrum für Künstliche Intelligenz GmbH, Kaiserslautern		4	15,473	1,127
Die BürgerEnergie eG, Dortmund		0	1,750	85
eins energie in sachsen GmbH & Co. KG, Chemnitz		9	461,046	77,029
Energías Renovables de Ávila, S.A., Madrid/Spain		17	595	0
Energieagentur Region Trier GmbH, Trier	14	14	17	6
Energiegenossenschaft Chemnitz-Zwickau eG, Chemnitz		7	553	25
Energiehandel Saar GmbH & Co. KG, Neunkirchen		1	400	−5
Energiehandel Saar Verwaltungs-GmbH, Neunkirchen		2	25	0
Energieversorgung Limburg GmbH, Limburg an der Lahn		10	27,079	4,844
Entwicklungsgesellschaft Neu-Oberhausen mbH-ENO, Oberhausen		2	627	−1,010
ESV-ED GmbH & Co. KG, Buchloe		4	332	63
GasLINE Telekommunikationsnetz-Geschäftsführungsgesellschaft deutscher Gasversorgungsunternehmen mbH, Straelen	10	10	64	1
GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. KG, Straelen	10	10	41,000	44,282
Gemeinschafts-Lehrwerkstatt Arnsberg GmbH, Arnsberg	7	7	130	73
Gesellschaft für Wirtschaftsförderung Duisburg mbH, Duisburg	1	1	698	−120
Heliatek GmbH, Dresden		14	8,414	−7,701
High-Tech Gründerfonds II GmbH & Co. KG, Bonn	1	1	65,314	0
Hubject GmbH, Berlin	17	17	338	−2,145
Intertrust Technologies Corporation, Sunnyvale/USA		10	121	−16
IZES gGmbH, Saarbrücken		8	624	2
KEV Energie GmbH, Kall	2	2	457	0
Kreis-Energie-Versorgung Schleiden GmbH, Kall	2	2	12,098	4,500
LEW Bürgerenergie e.G., Augsburg		0	1,724	45
Move24 Group GmbH, Berlin		5	7,964	−1,628
Neckar-Aktiengesellschaft, Stuttgart		12	10,179	0
Neue Energie Ostelbien eG, Arzberg		29		3
Neustromland GmbH & Co. KG, Saarbrücken		5	2,757	128

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8 Significant influence via virtue of company contract.
9 Structured entity pursuant to IFRS 10 and 12.

VIII. Other investments	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
Nordsee One GmbH, Hamburg		15	46,436	–13,148
Nordsee Three GmbH, Hamburg		15	20	5
Nordsee Two GmbH, Hamburg		15	20	5
Ökostrom Saar Biogas Losheim KG, Merzig		10	–206	61
Parque Eólico Cassiopea, S.L., Oviedo/Spain		10	53	0
Parque Eólico Escorpio, S.A., Oviedo/Spain		10	499	–1
Parque Eólico Leo, S.L., Oviedo/Spain		10	134	0
Parque Eólico Sagitario, S.L., Oviedo/Spain		10	124	0
People Power Company, Redwood City/USA		5	934	–2,405
Planet OS Inc., Sunnyvale/USA		9	–2,264	–2,091[2]
pro regionale energie eG, Diez		2	1,383	49
Promocion y Gestion Cáncer, S.L., Oviedo/Spain		10	65	0
PSI AG für Produkte und Systeme der Informationstechnologie, Berlin	18	18	82,733	5,244
Sdruzení k vytvorení a využívání digitální technické mapy mesta Pardubic, Pardubice/Czech Republic		12	1	0
SE SAUBER ENERGIE GmbH & Co. KG, Cologne		17	1,326	209
SE SAUBER ENERGIE Verwaltungs-GmbH, Cologne		17	127	7
Solarpark Freisen "Auf der Schwann" GmbH, Nohfelden		15	380	68
Solarpark St. Wendel GmbH, St. Wendel		15	1,133	170
SolarRegion RengsdorferLAND eG, Rengsdorf		2	318	17
Stadtmarketing-Gesellschaft Gelsenkirchen mbH, Gelsenkirchen		2	50	7
Stadtwerke Delitzsch GmbH, Delitzsch		18	14,937	2,467
Stadtwerke Detmold GmbH, Detmold	12	12	31,495	0
Stadtwerke ETO GmbH & Co. KG, Telgte	3	3	32,121	4,639
Stadtwerke Porta Westfalica GmbH, Porta Westfalica	12	12	15,566	810
Stadtwerke Sulzbach GmbH, Sulzbach		15	11,431	2,106
Stadtwerke Tecklenburger Land Energie GmbH, Ibbenbüren	15	15	–1,913	–1,197
Stadtwerke Tecklenburger Land GmbH & Co. KG, Ibbenbüren	1	1	131	–106
Stadtwerke Völklingen Netz GmbH, Völklingen		18	16,387	1,674
Stadtwerke Völklingen Vertrieb GmbH, Völklingen		18	7,301	3,452
Store-X storage capacity exchange GmbH, Leipzig		12	468	168[2]
SWT Stadtwerke Trier Versorgungs-GmbH, Trier	19	19	36,256	0
SWTE Verwaltungsgesellschaft mbH, Ibbenbüren	1	1	24	0
Telecom Plus plc, London/United Kingdom		1	231,588	38,622[2]
TGZ Halle TECHNOLOGIE- UND GRÜNDERZENTRUM HALLE GmbH, Halle (Saale)		15	14,498	51
Trianel Erneuerbare Energien GmbH & Co. KG, Aachen		2		[3]
Trianel GmbH, Aachen		3	88,077	124
Umspannwerk Lübz GbR, Lübz		18	32	12
Union Group, a.s., Ostrava/Czech Republic		2	85,123	0
Untermain ErneuerbareEnergien GmbH & Co. KG, Raunheim		17	22	–16
WASSERWERKE PADERBORN GmbH, Paderborn		10	24,105	0
WiN Emscher-Lippe Gesellschaft zur Strukturverbesserung mbH, Herten	1	2	129	–320

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7 Significant influence via indirect investments.
8 Significant influence via virtue of company contract.
9 Structured entity pursuant to IFRS 10 and 12.

VIII. Other investments	Shareholding in %		Equity	Net income/loss
	Direct	Total	€'000	€'000
Windenergie Schermbeck-Rüste GmbH & Co. KG, Schermbeck		14		3
Windenergie Schermbeck-Rüste Verwaltungsgesellschaft mbH, Schermbeck		14		3
Windpark Mengerskirchen GmbH, Mengerskirchen		15	3,013	327
Windpark Saar GmbH & Co. Repower KG, Freisen		10	9,566	1,139
Windpark Saar 2016 GmbH & Co. KG, Freisen		15		3

Changes in shareholding without change of control	Shareholding 31 Dec 2016 in %	Shareholding 31 Dec 2015 in %	Change
Affiliated companies which are included in the consolidated financial statements			
FAMIS Gesellschaft für Facility Management und Industrieservice mbH, Saarbrücken	100	63	37
Associates accounted for using the equity method			
SWTE Netz GmbH & Co. KG, Ibbenbüren	33	98	−65

Changes in shareholding with change of control	Shareholding 31 Dec 2016 in %	Shareholding 31 Dec 2015 in %	Change
Additions to affiliated companies which are included in the consolidated financial statements			
Bakker CV Installatietechniek B.V., Zwaagdijk/Netherlands	100		100
EGD-Energiewacht Facilities B.V., Assen/Netherlands	100		100
Energiewacht Facilities B.V., Zwolle/Netherlands	100		100
Energiewacht Steenwijk B.V., Zwolle/Netherlands	100		100
Energiewacht VKI B.V., Dalfsen/Netherlands	100		100
Energiewacht West Nederland B.V., Assen/Netherlands	100		100
Energiewacht-A.G.A.S.-Deventer B.V., Deventer/Netherlands	100		100
Energiewacht-Gazo B.V., Zwolle/Netherlands	100		100
GasWacht Friesland B.V., Gorredijk/Netherlands	100		100
GasWacht Friesland Facilities B.V., Leeuwarden/Netherlands	100		100
Mercurius Klimaatbeheersing B.V., Assen/Netherlands	100		100
N.V. Energiewacht-Groep, Zwolle/Netherlands	100		100
Sebukro B.V., Amersfoort/Netherlands	100		100
Transfer of joint ventures accounted for using the equity method to affiliated companies which are included in the consilidated financial statements			
EGG Holding B.V., Meppel/Netherlands	100	50	50
Disposals of affiliated comapnies which are included in the consolidated financial statements			
Batsworthy Cross Wind Farm Limited, Swindon/United Kingdom		100	−100
Disposals of associates accounted for using the equity method			
Zephyr Investments Limited, Swindon/United Kingdom		33	−33

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3.8 Boards (part of the notes)

As of 27 February 2017

Supervisory Board

Dr. Werner Brandt
Bad Homburg
Chairman since 1 July 2016
Business Consultant
Year of birth: 1954
Member since: 1 July 2016

◇ Deutsche Lufthansa AG
◇ OSRAM Licht AG
◇ ProSiebenSat.1 Media SE (Chairman)
◇ RWE AG (Chairman)

Frank Bsirske[1]
Berlin
Deputy Chairman since 1 July 2016
Chairman of ver.di Vereinte Dienstleistungsgewerkschaft
Year of birth: 1952
Member since: 1 July 2016

◇ Deutsche Bank AG
◇ Deutsche Postbank AG
◇ IBM Central Holding GmbH
◇ RWE AG

- KfW Bankengruppe

Reiner Böhle[1]
Witten
Chairman of the Group Works Council of innogy SE
Chairman of the General Works Council of Westnetz GmbH
Year of birth: 1960
Member since: 1 September 2016

◇ RWE AG

Ulrich Grillo
Mülheim an der Ruhr
Chairman of the Management Board of Grillo-Werke AG
Year of birth: 1959
Member since: 1 September 2016

◇ Klöckner & Co. SE
◇ Rheinmetall AG

- Grillo Zinkoxid GmbH
- RHEINZINK GmbH & Co. KG
- Zinacor S.A.

Arno Hahn[1]
Waldalgesheim
Chairman of the Group Works Council of RWE AG
Chairman of the General Works Council of innogy SE
Year of birth: 1962
Member since: 1 September 2016

◇ RWE AG

Maria van der Hoeven
Maastricht, Netherlands
Former Executive Director of the International Energy Agency
Year of birth: 1949
Member since: 1 September 2016

◇ Total S.A.

Michael Kleinemeier
Heidelberg
Member of the Management Board of SAP SE
Year of birth: 1957
Member since: 1 September 2016

◇ Member of other mandatory supervisory boards.
- Member of comparable domestic and foreign supervisory boards of commercial enterprises.

1 Employee representative.

Martina Koederitz
Stuttgart
Chairwoman of the Board of Directors
of IBM Central Holding GmbH
Chairwoman of the Board of Directors
of IBM Deutschland GmbH
Chairwoman of the Board of Directors of
IBM Deutschland Management & Business Support GmbH
Managing Director of IBM Munich Center GmbH
Year of Birth: 1964
Member since: 1 September 2016

◇ IBM Deutschland Research & Development GmbH
◇ RWE AG

Dr. Markus Krebber
Essen
Member of the Executive Board of RWE AG
Chairman of the Board of Directors of
RWE Supply & Trading GmbH
Year of birth: 1973
Member since: 1 September 2016

◇ RWE Generation SE
◇ RWE Power AG

Hans Peter Lafos[1]
Bergheim
Regional District Sector Head, Utilities and Disposal
(Sector 2), ver.di Vereinte Dienstleistungsgewerkschaft
District of NRW
Year of birth: 1954
Member since: 1 September 2016

◇ GEW Köln AG
◇ RheinEnergie AG
◇ RWE Generation SE
◇ RWE Power AG

Robert Leyland[1]
Washington, United Kingdom
Member of the European Works Council of RWE AG
Member of the SE Works Council of innogy SE
Year of birth: 1962
Member since: 1 September 2016

Meike Neuhaus[1]
Essen
Head of PR, Sponsoring and Event Management,
of innogy SE
Year of birth: 1966
Member since: 1 September 2016

Dr. Rolf Pohlig
Mülheim an der Ruhr
Business Consultant
Year of birth: 1952
Member since: 1 September 2016

- World Airport Partners Management GmbH

René Pöhls[1]
Halle (Saale)
Chairman of the Group Works Council of
eniva Mitteldeutsche Energie AG
Chairman of the Joint Combined Works Council of
envia Mitteldeutsche Energie AG, MITGAS Mitteldeutsche
Gasversorgung GmbH, Mitteldeutsche Netzgesellschaft
Strom mbH and Mitteldeutsche Netzgesellschaft Gas mbH
Year of birth: 1970
Member since: 1 September 2016

◇ envia Mitteldeutsche Energie AG

Pascal van Rijsewijk[1]
Helmond, Netherlands
Chairman of the Main Works Council of Essent N.V.
Chairman of the Retail Works Council of Essent N.V.
Member of the European Works Council of RWE AG
Member of the SE Works Council of innogy SE
Year of birth: 1977
Member since: 1 September 2016

Gabriele Sassenberg[1]
Bottrop
Chairwoman of the Essen Works Council of innogy SE,
Renewables division
Year of birth: 1961
Member since: 1 September 2016

◇ Member of other mandatory supervisory boards.
- Member of comparable domestic and foreign supervisory boards of commercial enterprises.
1 Employee representative.

Dr. Dieter Steinkamp
Duisburg
Chairman of the Board of Management of RheinEnergie AG
Chairman of the Board of Management of GEW Köln AG
Speaker of the Board of Directors of
Stadtwerke Köln GmbH
Year of birth: 1960
Member since: 1 September 2016

◇ AWB Abfallwirtschaftsbetriebe Köln GmbH
◇ BRUNATA-METRONA GmbH
◇ NetCologne Gesellschaft für Telekommunikation mbH
◇ rhenag Rheinische Energie AG

- AggerEnergie GmbH
- AVG Abfallentsorgungs- und Verwertungsgesellschaft Köln mbH
- BELKAW GmbH
- Energieversorgung Leverkusen GmbH & Co. KG
- Gasversorgungsgesellschaft mbH Rhein-Erft
- modernes Köln, Gesellschaft für Stadtentwicklung mbH
- moderne Stadt, Gesellschaft zur Förderung des Städtebaus und der Gemeindeentwicklung mbH (Chairman)
- Stadtwerke Lohmar GmbH & Co. KG
- Stadtwerke Troisdorf GmbH
- Stromnetz Bornheim GmbH & Co. KG

Marc Tüngler
Düsseldorf
Attorney-at-Law
Chief Managing Director of Deutsche Schutzvereinigung für Wertpapierbesitz e.V.
Member of the German Corporate Governance Code Government Commission
Year of birth: 1968
Member since: 1 July 2016

◇ freenet AG
◇ InnoTec TSS AG

Šárka Vojíková[1]
Prague, Czech Republic
President of the Czech Federation of Trade Unions
SOS Energie
Member of the Committee of the European Works Council of RWE AG
Member of the SE Works Council of innogy SE
Year of birth: 1967
Member since: 1 September 2016

Deborah B. Wilkens
London, United Kingdom
Business Consultant
Year of birth: 1971
Member since: 1 September 2016

◇ Member of other mandatory supervisory boards.
- Member of comparable domestic and foreign supervisory boards of commercial enterprises.
1 Employee representative.

Former members of the Supervisory Board of innogy SE (formerly RWE International SE)[1]

Dr. Jens Hüffer
Head of Internal Audit of RWE AG
Chairman from 25 February 2016 to 30 June 2016
Member from 26 January 2016 to 30 June 2016

◇ RWE Pensionsfonds AG

Dr. Michael Müller
Head of Group Controlling of RWE AG until 31 August 2016
Member of the Board of Directors of RWE Supply & Trading GmbH since 1 September 2016
Deputy Chairman from 25 February 2016 to 30 June 2016
Member from 26 January 2016 to 30 June 2016

◇ RWE Group Business Services GmbH

- Essent N.V.

Otger Wewers
Head of the Tax Department of RWE AG
Member from 26 January 2016 to 30 June 2016

Supervisory Board Committees (since 1 September 2016)

Executive Committee of the Supervisory Board
Dr. Werner Brandt (Chairman)
Frank Bsirske
Ulrich Grillo
Dr. Markus Krebber
Hans Peter Lafos
Robert Leyland
Dr. Rolf Pohlig
Pascal van Rijsewijk

Personnel Affairs Committee
Dr. Werner Brandt (Chairman)
Reiner Böhle
Frank Bsirske
Michael Kleinemeier
René Pöhls
Marc Tüngler

Audit Committee
Dr. Rolf Pohlig (Chairman)
Arno Hahn
Dr. Markus Krebber
René Pöhls
Gabriele Sassenberg
Deborah B. Wilkens

Nomination Committee
Dr. Werner Brandt (Chairman)
Ulrich Grillo
Dr. Rolf Pohlig

Strategy Committee
Dr. Werner Brandt (Chairman)
Frank Bsirske
Arno Hahn
Martina Koederitz
Dr. Dieter Steinkamp
Šárka Vojíková

IPO Committee
Dr. Werner Brandt (Chairman)
Frank Bsirske
Ulrich Grillo
Dr. Markus Krebber
Hans Peter Lafos
Robert Leyland
Dr. Rolf Pohlig
Pascal van Rijsewijk
Deborah B. Wilkens

◇ Member of other mandatory supervisory boards.
- Member of comparable domestic and foreign supervisory boards of commercial enterprises.
1 Information relates to the date of resignation.

Executive Board

Peter Terium (Chief Executive Officer)
Chairman of the Executive Board of innogy SE
since 1 April 2016,
appointed until 31 March 2021

Dr. Hans Bünting (Chief Operating Officer Renewables)
Member of the Executive Board of innogy SE
since 1 April 2016,
appointed until 31 March 2019

◇ Rheinkraftwerk Albbruck-Dogern AG (Chairman)

- Finelectra AG

Dr. Bernhard Günther (Chief Financial Officer)
Member of the Executive Board of innogy SE
since 1 April 2016,
appointed until 31 March 2021

◇ RWE IT GmbH (Chairman)

Martin Herrmann (Chief Operating Officer Retail)
Member of the Executive Board of innogy SE
since 1 April 2016,
appointed until 31 March 2019

- Essent N.V.

Hildegard Müller (Chief Operating Officer Grid & Infrastructure)
Member of the Executive Board of innogy SE
since 1 May 2016,
appointed until 31 March 2019

◇ Dortmunder Energie- und Wasserversorgung GmbH
◇ envia Mitteldeutsche Energie AG
◇ NEW AG
◇ rhenag Rheinische Energie AG
◇ Stadtwerke Essen AG
◇ SÜWAG Energie AG
◇ Vonovia SE

- EWG Essener Wirtschaftsförderungsgesellschaft mbH

Uwe Tigges (Chief HR Officer and Labour Director)
Member of the Executive Board of innogy SE
since 1 April 2016,
appointed until 31 March 2021, and member of the Executive Board of RWE AG since 1 January 2013,
appointed until 30 April 2017

◇ Amprion GmbH
◇ RWE Pensionsfonds AG (Chairman)

- VfL Bochum 1848 Fußballgemeinschaft e. V.

Former members of the Executive Board of innogy SE (formerly RWE International SE)[1]

Katja van Doren
Member of the Executive Board
from 1 January 2016 until 31 March 2016

◇ SÜWAG Energie AG

- Stadtwerke Kamp-Lintfort GmbH

Dr. Stephan Lowis
Member of the Executive Board
from 1 January 2016 until 31 March 2016

Dr. Claudia Mayfeld
Member of the Executive Board
from 1 January 2016 until 31 March 2016

◇ SÜWAG Energie AG

◇ Member of other mandatory supervisory boards.
- Member of comparable domestic and foreign supervisory boards of commercial enterprises.
1 Information relates to the date of resignation.

3.9 Independent auditor's report

To innogy SE, Essen

Report on the Audit of the Consolidated Financial Statements

Audit Opinion on the Consolidated Financial Statements

We have audited the consolidated financial statements of innogy SE, Essen, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, to December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material respects, with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the financial year from January 1, to December 31, 2016, in accordance with these requirements.

According to § 322 Abs. 3 Satz 1 erster Halbsatz HGB, we state that our audit has not led to any reservations with respect to the propriety of the consolidated financial statements.

Basis for Audit Opinion on the Consolidated Financial Statements

We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), and additionally considered the International Standards on Auditing (ISA). Our responsibilities under those provisions and standards, as well as supplementary standards, are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group entities in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other German ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate audit opinion on these matters.

In our view, the key audit matters were as follows:

❶ **IPO of innogy SE**
❷ **Segment reporting of innogy SE**
❸ **Recoverability of goodwill**
❹ **Recognition and measurement of tax items**

Our presentation of these key audit matters has been structured as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

❶ IPO of innogy SE

① The shares of innogy SE have been listed on the regulated market of the Frankfurt Stock Exchange since October 2016. In connection with preparations for this IPO, a considerable number of legal and organizational conditions were adjusted. For the purposes of the IPO, a total of 128,930,315 shares were placed with new investors, of which 55,555,000 stemmed from a capital increase at innogy SE and 73,375,315 from the holdings of the majority shareholder, a subsidiary of RWE Aktiengesellschaft, Essen. A total of EUR 2.0 billion in cash and cash equivalents was generated as issue proceeds from the capital increase and the majority shareholder's interest in innogy SE decreased from 100% to 76.8% due to the IPO.

Due in particular to the share premium amounting to EUR 1.9 billion from the capital increase that was contributed to capital reserves, the IPO had a positive impact on the Group's equity (balance sheet line item "innogy SE shareholders' interests"). The year-on-year decline in equity, which occurred in contrast to this impact, is attributable primarily to payments that were made to RWE Aktiengesellschaft, Essen, or its subsidiaries in connection with the conclusion of the legal reorganization to form the innogy Group. The changes in the "Cash flows from financing activities" line item of the cash flow statement and the corresponding change in the balance sheet line item "Cash and cash equivalents" were also primarily attributable to the IPO and the issue proceeds. Due to the scale of this transaction as well as the effects of the restructurings planned or made to the legal and organizational conditions on the internal control system at the innogy Group, this matter was of particular importance during our audit.

② We took into consideration those legal and organizational restructurings connected with the IPO of innogy SE that were of significance for our audit of the financial statements. This includes in particular the organizational measures intended to ensure that the information needed to prepare the consolidated financial statements is complete, accurate and provided in due time. As part of our audit of Group equity, cash and cash equivalents and the cash flow statement, we, among other things, obtained evidence about the amount of the issue proceeds and the effects on Group equity. For this, we primarily relied on bank statements and commercial register excerpts as well as the resolutions adopted by the executive bodies of innogy SE and RWE Aktiengesellschaft, Essen. We also satisfied ourselves that the costs of the IPO had properly been taken into account. In our opinion, the accounting and measurement policies used by the management are on the whole appropriate and therefore properly reflect the effects of innogy SE's IPO in the consolidated financial statements.

③ The Company's disclosures relating to the effects of innogy SE's IPO are contained in note 20 of the notes to the consolidated financial statements.

❷ Segment reporting of innogy SE

① As part of innogy SE becoming an independent entity in connection with the IPO carried out in October 2016, the internal reporting was also reorganized. This forms the basis of the segment reporting in accordance with IFRS 8.

The Executive Board of innogy SE was defined as the "chief operating decision maker" in accordance with IFRS 8.7.

In total, seven operating segments were identified: Renewables, Grid and Infrastructure Germany, Grid and Infrastructure Eastern Europe, Retail Germany, Retail United Kingdom, Retail Netherlands and Retail Eastern Europe. These seven operating segments were allocated goodwill commensurate to the relative fair values of the operating segments. Goodwill is tested for impairment at least once annually at the level of the operating segments. The segment reporting itself contains three reporting segments (Renewables, Grid and Infrastructure and Retail) since the regional operating segments were aggregated into the respective reporting segments in accordance with IFRS 8.12.

The presentation of the segment reporting depends on the actual internal reporting and therefore the control of the Company by management ("management approach"). To a high degree, this requires that judgments be made, which is why the reorganization of the segment reporting was of particular importance during our audit.

② As part of our audit, we assessed the segment reporting criteria described above. Specifically, we examined the definition of the Executive Board of innogy SE as the "chief operating decision maker" pursuant to IFRS 8.7 using the allocation of resources criterion. Furthermore, we assessed the internal reporting to the Executive Board and, after inspecting the minutes of Executive Board meetings, satisfied ourselves that the Executive Board does not receive any other form of regular reporting. In addition, we also matched the operating segments to the internal reporting and satisfied ourselves that no disaggregated information is reported to innogy SE's Executive Board on a regular basis. We assessed the aggregation of the seven operating segments into three reporting segments using the criteria set out in IFRS 8.12, whereby we critically assessed in particular the management's assumptions with respect to the regulatory environment (IFRS 8.12 (e)). We were able to follow the presentation of segment reporting based on management's judgments.

③ The disclosures relating to the innogy Group's segment reporting are contained in note 30 of the notes to the consolidated financial statements.

❸ Recoverability of goodwill

① In the consolidated financial statements of innogy SE, goodwill amounting to EUR 10.7 billion (22,7% of consolidated total assets) is reported under the line item "Intangible assets" of the balance sheet. Goodwill is tested for impairment ("impairment test") on an annual basis or if there are indications that goodwill may be impaired. The impairment tests are performed at the level of the cash-generating units or groups of cash-generating units to which the respective goodwill is allocated. The measurements to ascertain the fair value less costs of disposal for the purpose of the impairment tests are based on the present value of the future cash flows derived from the budget projections for the coming three years (medium-term planning) prepared by management and duly noted by the supervisory board. Thereby expectations relating to future market developments and country-specific assumptions concerning macroeconomic factors are also taken into account. The present values are calculated using discounted cash flow models. The discount rate used is determined using the weighted average cost of capital for the relevant cash-generating unit. The result of these measurements depends to a large extent on management's assessment of future cash inflows and the discount rate used. The measurement is therefore subject to material uncertainties. Against this background and due to the highly complex nature of the measurement, this matter was of particular importance during our audit.

② As part of our audit, we, among other things, reviewed the method used for performing impairment tests and examined the calculation of the weighted average cost of capital. In addition, we satisfied ourselves that, overall, the future cash inflows underlying the measurements, in connection with the weighted cost of capital used, constitute an appropriate basis for the impairment tests. We based our assessment of the impairment test as at December 31, among other things, on a comparison with general and sector-specific market expectations as well as management's detailed explanations concerning the key planning value drivers underlying the expected cash inflows. We also examined that the costs for Group functions were properly included in the respective cash-generating unit. With the knowledge that even relatively small changes in the discount rate applied can in some cases have material effects on the goodwill calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model.

Furthermore, we additionally assessed the sensitivity analyses performed by the Company in order to assess any impairment risk (higher carrying amount versus present value) relating to any potential change in a material assumption underlying the measurement. Taking into consideration the information available, we believe that the measurement parameters and assumptions used by management are appropriate for goodwill impairment tests.

③ The Company's goodwill disclosures are contained in note 10 of the notes to the consolidated financial statements.

❹ Recognition and measurement of tax items

① In the consolidated financial statements of innogy SE, taxes on income decrease income before tax by 18,9%. A key portion of this net figure for tax income and expenses results from the recognition of deferred taxes on temporary differences in the balance sheet that will not be realized until future financial years. Furthermore, the "Deferred taxes" balance sheet line item under "Non-current assets" includes recognized tax loss carryforwards amounting to EUR 284 million, that Company's management is convinced can be utilized in the future. The measurements underlying the recognized tax items are based on the expected future tax results, which are primarily derived from the budget projections for the coming three years (medium-term planning) prepared by management. The results of these measurements – which in particular also take into consideration the legal reorganization measures for preparing and executing the Company's IPO, including the formation of a new German consolidated tax group, with innogy SE as the tax group parent, in financial year 2016 – depends to a large extent on the management's estimates of the future financial performance and is therefore subject to material uncertainties.

Against this background and due to the in some cases highly complex nature of the tax-related assessments, this matter was of particular importance during our audit.

② As part of our audit, we, among other things, reviewed the method used for performing impairment tests with respect to recognized tax items and assessed the calculation, recognition and measurement of the deferred taxes. In particular, we satisfied ourselves that, overall, the budget projections underlying the measurements constitute an appropriate basis for the measurements. We also satisfied ourselves that the items were properly accounted for either through profit or loss in the income statement or in equity through the statement of comprehensive income, depending on and in accordance with the respective underlying transaction. In our audit of the consolidated financial statements for the 2016 financial year this included in particular the recognition of tax advantages from expenses in connection with innogy SE's IPO. Taking into consideration the information available, we believe that the measurement parameters and assumptions used by management are on the whole appropriate to examine the recoverability of tax items and that the items are properly accounted for.

③ The Company's disclosures relating to income taxes are contained in notes 9, 16 and 23 of the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises

- the Corporate Governance Report according to section 3.10 of the German Corporate Governance Code,
- the Corporate Governance Statement pursuant to § 289a HGB and § 315 Abs. 5 HGB, as well as
- other parts of the annual report of innogy SE, Essen, for the financial year ended on December 31, 2016, which were not subject of our audit.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements, which comply with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion on the consolidated financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), under additional consideration of the ISA, will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), under additional consideration of the ISA, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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 override of internal control.
- Obtain 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated financial statements or the group management report or, if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an audit opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, 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 also provide those charged with governance 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 related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Audit of the Group Management Report

Audit Opinion on the Group Management Report

We have audited the group management report of innogy SE, Essen, which is combined with the Company's management report, for the financial year from January 1, to December 31, 2016.

In our opinion, based on the findings of our audit, the accompanying group management report as a whole provides a suitable view of the Group's position. In all material respects, the group management report is consistent with the consolidated financial statements, complies with legal requirements and suitably presents the opportunities and risks of future development.

Our audit has not led to any reservations with respect to the propriety of the group management report.

Basis for Audit Opinion on the Group Management Report

We conducted our audit of the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Group Management Report

Management is responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position, is consistent with the consolidated financial statements, complies with legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for such policies and procedures (systems) as management determines are necessary to enable the preparation of a group management report in accordance with the German legal requirements applicable under § 315 Abs. 1 HGB and to provide sufficient and appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the group management report.

Auditor's Responsibilities for the Audit of the Group Management Report

Our objective is to obtain reasonable assurance about whether the group management report as a whole provides a suitable view of the Group's position as well as, in all material respects, is consistent with the consolidated financial statements as well as the findings of our audit, complies with legal requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the group management report.

As part of an audit, we examine the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the IDW. In this connection, we draw attention to the following:

- The audit of the group management report is integrated into the audit of the consolidated financial statements.
- We obtain an understanding of the policies and procedures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these policies and procedures (systems).
- We perform audit procedures on the prospective information presented by management in the group management report. Based on appropriate and sufficient audit

evidence, we hereby, in particular, evaluate the material assumptions used by management as a basis for the prospective information and assess the reasonableness of these assumptions as well as the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

- We are also not issuing a separate audit opinion on individual disclosures in the group management report; our audit opinion covers the group management report as a whole.

Responsible Auditor

The auditor responsible for the audit is Ralph Welter.

Essen, February 27, 2017

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Reuther Wirtschaftsprüfer (German Public Auditor)	Ralph Welter Wirtschaftsprüfer (German Public Auditor)

Information on the independent auditor

The consolidated financial statements of innogy SE and its subsidiaries for the 2016 fiscal year – consisting of the consolidated balance sheet, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements – have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (since 1 March 2017: PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft).

The certified public accountant with PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (since 1 March 2017: PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft) responsible for innogy is Mr. Ralph Welter. Mr. Welter has previously performed this task in one financial statement audit.

Four-year overview

innogy Group[1]		2016	2015	2014	2013
External revenue	€ million	43,611	45,568	45,681	48,589
Income					
Adjusted EBITDA	€ million	4,203	4,521	4,297	4,194
Adjusted EBIT	€ million	2,735	3,050	2,859	2,844
Income before tax	€ million	2,201	2,798	2,221	1,445
Net income/income attributable to innogy SE shareholders	€ million	1,513	1,613	1,467	664
Rebased earnings per share[2]	€	2.72	–	–	–
Adjusted net income	€ million	1,123	–	–	–
Adjusted net income per share[2]	€	2.02	–	–	–
Cash flow/capital expenditure					
Cash flows from operating activities	€ million	2,674	2,755	2,977	3,658
Free cash flow	€ million	841	730	918	1,361
Capital expenditure including acquisitions	€ million	2,123	2,188	2,233	2,426
Property, plant and equipment and intangible assets	€ million	1,833	2,024	2,060	2,302
Asset/capital structure					
Non-current assets	€ million	36,239	38,235	35,649	34,427
Current assets	€ million	10,651	19,737	20,855	20,386
Balance sheet equity	€ million	10,667	18,460	18,398	16,989
Non-current liabilities	€ million	24,442	23,700	21,314	22,259
Current liabilities	€ million	11,781	15,812	16,792	15,565
Balance sheet total	€ million	46,890	57,972	56,504	54,813
Equity ratio	%	22.7	31.8	32.6	31.0
Net financial debt	€ million	11,555	2,880	–	–
Net debt	€ million	15,748	6,673	–	–
Leverage factor		3.7	–	–	–
Workforce as of year-end[3]		40,636	40,160	–	–
Research & development					
Operating R&D costs	€ million	149	83	88	110
R&D employees as of year-end[3]		260	213	236	259
Dividend/dividend payment					
Dividend payment[4]	€ million	888.9	–	–	–
Dividend per share[4]	€	1.60	–	–	–
Capital market indicators					
Market capitalisation as of year-end	€ billion	18.3	–	–	–
Credit rating as of year-end					
Fitch					
Non-current financial liabilities		BBB+	–	–	–
Outlook		Stable	–	–	–
Standard & Poor's					
Non-current financial liabilities		BBB–	–	–	–
Outlook		Positive	–	–	–

1 Key figures for 2013 to 2015 are of limited informational value; see commentary on page 52.
2 In relation to the number of shares outstanding at 31 December 2016.
3 Converted to full-time positions.
4 Dividend proposal for the 2016 fiscal year of innogy SE, subject to the passing of a resolution by the Annual General Meeting on 24 April 2017.

Legal disclaimer

This document contains forward-looking statements. These statements reflect the current views, expectations and assumptions of the management, and are based on information currently available to the management. Forward-looking statements do not guarantee the occurrence of future results and developments and are subject to known and unknown risks and uncertainties. Therefore, actual future results and developments may deviate materially from the expectations and assumptions expressed in this document due to various factors. These factors primarily include changes in the general economic and competitive environment. Furthermore, developments on financial markets and changes in currency exchange rates as well as changes in national and international laws, in particular in respect of fiscal regulation, and other factors influence the company's future results and developments. Neither the company nor any of its affiliates undertakes to update the statements contained in this notification.

References to the internet. The contents of pages on the internet to which we refer are not part of the review of operations and are merely intended to provide additional information. The summarised corporate governance declaration in accordance with Section 315 of the German Commercial Code in conjunction with Section 289a of the German Commercial Code is an exception.

Imprint

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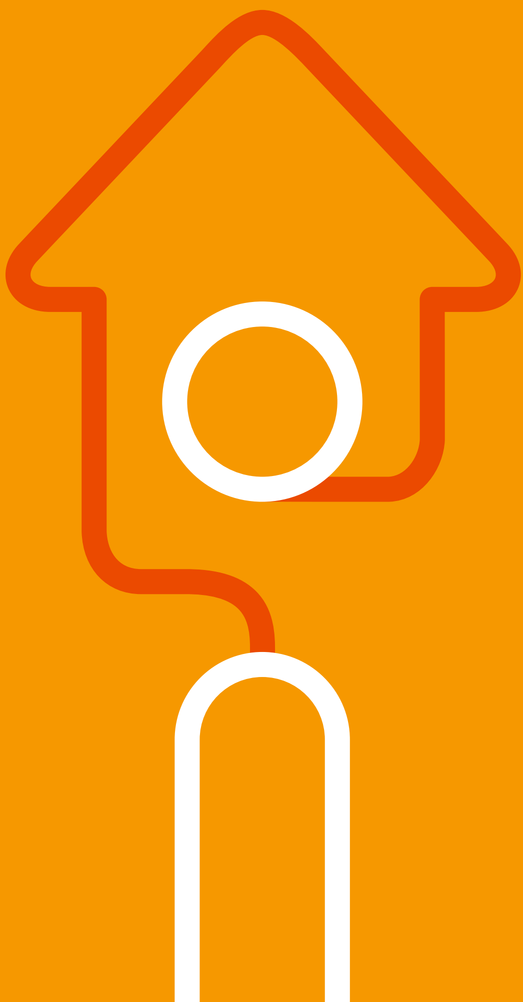
Financial calendar

	12 Mar 2018 Annual report for fiscal 2017
24 Apr 2017 Annual General Meeting	**24 Apr 2018** Annual General Meeting
27 Apr 2017 Dividend payment	**27 Apr 2018** Dividend payment
12 May 2017 Interim report for January to March 2017	**14 May 2018** Interim report for January to March 2018
11 Aug 2017 Half-year report 2017	**13 Aug 2018** Half-year report 2018
13 Nov 2017 Interim report for January to September 2017	**13 Nov 2018** Interim report for January to September 2018



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