Financial report 2017

innogy Finance B.V.

‘s-Hertogenbosch, the Netherlands

Directors' report

Directors' report

Introduction
innogy Finance B.V. acts to facilitate the financing of the innogy Group. The external funding is inter alia carried out via innogy Finance B.V. guaranteed by innogy SE, and the funds are then lent from innogy Finance B.V. to the innogy Group companies. innogy Finance B.V. is a wholly owned (indirect) subsidiary of innogy SE and has no subsidiaries of its own.

Main developments during the year
In February 2017 innogy concluded the process of the change of the guarantor from RWE AG to innogy SE for all bonds of innogy Finance B.V. and innogy Finance II B.V. Since then all bonds of innogy Finance B.V. and innogy Finance II B.V. are solely guaranteed by innogy SE and RWE AG has been released from its former guarantee obligations. At the end of June innogy Finance II B.V. was merged with innogy Finance B.V. As the result of the merger innogy Finance B.V. substituted innogy Finance II B.V. as issuer of the EUR 600 million bond with the coupon of 5.75% due on 14 February 2033 and became the lender of the corresponding intercompany loan to innogy SE.

On 13 April innogy Finance B.V. issued a senior, unsecured bond with the volume of EUR 750 million, a coupon of 1% and the maturity on 13 April 2025. The bond is guaranteed by innogy SE. The funds were on-lent to innogy SE.

Another senior, unsecured bond (so called Green bond) with 10 year maturity was issued by innogy Finance B.V. on 19 October 2017. The volume amounts to EUR 850 million and the coupon was set at 1.25%. The bond is guaranteed by innogy SE. The proceeds were used to refinance some renewables projects of the innogy Group.

The ability of innogy Finance B.V. to fulfill its short-term obligations is expressed in the current ratio. Short-term receivables and short-term liabilities are almost equal as the difference is only caused by a small margin for interest spread. The year-end current ratio of 2017 is 1.009 which is lower compared to the current ratio of 1.026 in 2016. This is mainly driven by the transfer of one bond and the corresponding loan from non-current to current, as the maturity will be in 2018.

The solvency ratio (equity / total equity and liabilities) shows a result of 0.12% (2016: 0.13%). The equity is consistent at a level of EUR 13.8 million, based on the tax ruling. The solvability is low as a result of the significant amount of bonds. The payment obligation towards bondholders is covered by the fact that all proceeds are used for loans to related parties and is additionally supported by a guarantee fee from innogy SE.

The profitability of the company, expressed as return on shareholder's equity (net income/ equity), is with 12.50% slightly higher than last year (2016: 11.21%). When compared to last year, the average pound to euro exchange rate has improved, resulting in lower costs for guarantee fees which is partly paid in British pounds.

The innogy Group achieved its financial independence from RWE by signing its own EUR 2 billion Revolving Credit Facility (RCF) in October 2017. Within the RCF innogy Finance B.V. acts as Permitted Additional Borrower. Upon concluding the new credit line, the participation of innogy Finance B.V. in the syndicated credit line of RWE AG was terminated.

The next upcoming maturity will be in July 2018 for one bond in the amount of EUR 980 million. All bonds are guaranteed by innogy SE and are listed on the Luxembourg Stock Exchange. Since October

2013 one bond is also listed on the Frankfurt Stock Exchange, which means this bond is listed on two Stock Exchanges.

Risk management and use of financial instruments

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

Both an external and internal legal counsel continuously monitor the compliance to relevant regulations and the internal legal counsel informs the Board of Directors in case of any changes or other relevant information. During the Board meetings, which take place three times a year, an update on compliancy is discussed by the internal legal counsel and documented in the minutes of the meetings.

The Company has designed and implemented control measures in order to mitigate risks. These control measures are both automated and manual. Amongst others the control measures are monitoring, reviewing, 4-eye principles and authorization matrices. To ascertain the existence and correct execution of control measures, different types of control monitoring are executed. Most important example of these are the assessments on the controls performed by innogy SE once a year.

Currency risk

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

Interest rate risk

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

Credit risk

The loans to group companies have been granted to the direct parent company innogy International Participations N.V. as well as to innogy Benelux Holding B.V. and innogy SE, all being 100% group companies. Repayment of the bonds is guaranteed by innogy SE.

In October 2017 S&P upgraded the rating of innogy from BBB- (positive outlook) to BBB (stable outlook) recognizing innogy’s independent financing status and solid business profile. In June 2017 Moody’s assigned innogy the rating of Baa2 (stable outlook) underlying innogy’s solid investment grade credit profile. In December 2017 the agency changed the outlook from stable to negative.
innogy‘s rating by Fitch did not change and stayed at BBB+ (stable outlook). Due to assumed high recovery rates the senior unsecured bonds are rated one notch higher at A-.

innogy possesses currently ratings from 3 main agencies:

- Moody’s => long term: Baa2, negative outlook; short-term: P2
- S&P => long-term: BBB, stable outlook; short-term: A2

- Fitch => long-term: BBB+, stable outlook (senior unsecured bonds are rated at A-); short-term: F2.

Financial Outlook
innogy Finance B.V. intends to continue its operations as an intragroup finance company of the innogy Group for the foreseeable future.

On 31 January 2018 innogy Finance B.V. successfully placed a senior, unsecured bond with a volume of one billion euro and an 11.5 year maturity. The bond is guaranteed by innogy SE. Based on a coupon of 1.5% p.a. and an issue price of 98.785% the yield-to-maturity amounts to 1.617% p.a. The funds were lent to innogy SE.

In March 2018, RWE AG and E.ON SE have announced that they have reached an agreement in principle according to which RWE shall sell its 76.8% stake in innogy SE to E.ON. Amongst others, the announcement further states that the sale will be performed via a wide-ranging exchange of business activities and participations.

Board
During 2017 there was a change in the composition of the Board of Directors. As per 31 October 2017, Mr. S. Lowis resigned as managing director of the Company. As per 1 November 2017, Ms. S. Weitz was appointed as managing director of the Company.

According to legislation the Company is required to include certain disclosures regarding the appointment of at least 30% female board members. In the previous selection process, other criteria were given priority over diversity. Based on the current change in composition the criterion is nearly met. The importance of diversity is duly recognised. In case a position will become vacant in the future, the Company will actively seek for female candidates and invite them to apply.

Responsibility Statement
"The Managing Directors of the Company hereby declare that to the best of their knowledge and in accordance with the applicable reporting principles for the financial reporting, the financial statements for the period ending 31 December 2017 give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and that the Directors' report referred to above gives a true and fair view concerning the position as per the balance sheet date, the development and performance of the business during the financial year of the Company together with a description of the principal risks that it faces.

‘s-Hertogenbosch, The Netherlands, 19 March 2018

Board of Directors,

S. Weitz

V. Heischkamp

J. Stollenga

H. Dullens

Financial Statements

Balance sheet

(before appropriation of profit)

	Ref.	31 December 2017		31 December 2016	
		EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Non-current assets					
Financial assets	5.1		10,165,428		9,705,556
Current assets					
Receivables	5.2	1,508,747		523,076	
Derivatives	5.7	-		57	
Cash and cash equivalents	5.3	10,169		10,410	
			1,518,916		533,543
			11,684,344		10,239,099
Equity and liabilities					
Shareholder's equity	5.4				
Share capital		2,000		2,000	
Retained earnings		10,083		10,060	
Profit for the financial year		1,726		1,523	
			13,809		13,583
Non-current liabilities	5.5		10,165,428		9,705,556
Current liabilities	5.6		1,505,107		519,960
			11,684,344		10,239,099

Income statement

	Ref.	2017		2016	
		EUR'000	EUR'000	EUR'000	EUR'000
Interest and similar income	6.1	544,030		551,495	
Interest and similar expenses	6.2	(532,340)		(539,774)	
Total financial result			11,690		11,721
General and administrative expenses	6.3		(9,388)		(9,690)
Operating income			2,302		2,031
Income tax expense	6.4		(576)		(508)
Net result after taxation			1,726		1,523

Cash flow statement

	Ref.	2017	2016
		EUR'000	EUR'000
Cash flows from operating activities			
Cash generated from operations:			
Interest received		531,004	607,194
Interest paid		(519,325)	(594,547)
Expenses paid		(289)	(211)
Income tax paid		(514)	(598)
Guarantee fee paid		(9,585)	(10,080)
Net cash from operating activities		1,291	1,758
Cash flows from investment activities		-	-
Cash flows from financing activities			
Issuance of long-term bonds	5.5	1,600,000	-
Issuance of long-term loans	5.1	(1,600,000)	-
Repayment of long-term bonds	5.6	-	(850,000)
Repayment of long-term loans	5.2	-	850,000
Dividends paid	5.4	(1,500)	(1,400)
Net cash used in financing activities		(1,500)	(1,400)
Net cash flows		(209)	358
Exchange and translation differences on cash and cash equivalents		(32)	(32)
Net increase/(decrease) in cash and cash equivalents		(241)	326
Cash and cash equivalents			
Opening balance		10,410	10,084
Closing balance		10,169	10,410
Net increase/(decrease) in cash and cash equivalents		(241)	326

Notes to the financial statements

1 General

1.1 Activities

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

1.2 Group structure

innogy Finance B.V., incorporated on 14 February 2001, is a private limited liability company. Since July 2016 the direct parent company is innogy International Participations N.V. in ‘s-Hertogenbosch, the Netherlands. RWE AG is the ultimate parent company. The financial statements of innogy Finance B.V. are included in the consolidated financial statements of innogy SE, available via www.innogy.com.

innogy Finance B.V. is seated at Willemsplein 4, 's-Hertogenbosch, the Netherlands and registered in the Trade register Brabant no. 34 15 11 16.

1.3 Accounting policies

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

1.4 Comparison previous year

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

1.5 Notes to the cash flow statement

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

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

1.6 Estimates

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

1.7 Related parties

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

Transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is necessary in order to provide the required insight.

1.8 Merger innogy Finance II B.V. and innogy Finance B.V.

On 29 June 2017 innogy Finance II B.V. and innogy Finance B.V. have been merged with innogy Finance B.V. as the acquiring company. This merger of interest has been accounted for based on the pooling of interest method. Following this method the merger is accounted for as if merger was effective on 1 January 2016. The comparative figures have been adjusted as if in previous years the company was already merged.

The balance sheet as of 31 December 2016 after the merger is as follows:

	innogy Finance B.V. EUR'000	innogy Finance II B.V. EUR'000	innogy Finance B.V. after merger as presented in these financial statements EUR'000
Financial assets	9,105,556	600,000	9,705,556
Receivables	355,472	167,604	523,076
Derivatives	57	-	57
Cash and cash equivalents	10,306	104	10,410
Total assets	9,471,391	767,708	10,239,099
Share capital	2,000	-	2,000
Retained earnings	7,361	2,699	10,060
Profit for the financial year	1,546	(23)	1,523
Shareholder's equity	10,907	2,676	13,583
Non-current liabilities	9,105,556	600,000	9,705,556
Current liabilities	354,928	165,032	519,960
Total equity and liabilities	9,471,391	767,708	10,239,099

The income statement 2016 after the merger is as follows:

	innogy Finance B.V. EUR'000	innogy Finance II B.V. EUR'000	innogy Finance B.V. after merger as presented in these financial statements EUR'000
Interest and similar income	510,910	40,585	551,495
Interest and similar expenses	(499,261)	(40,513)	(539,774)
Total financial result	11,649	72	11,721
General and administrative expenses	(9,588)	(102)	(9,690)
Operating income	2,061	(30)	2,031
Income tax expense	(515)	7	(508)
Net result after taxation	1,546	(23)	1,523

2 Accounting policies for the balance sheet

2.1 General

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

2.2 Foreign currencies

Transactions, receivables and payables

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

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

Functional currency

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

2.3 Financial instruments

Derivatives are initially recognised in the balance sheet at fair value, the subsequent valuation of derivative financial instruments depends on whether or not the instrument is quoted in an open market. If the underlying object of the derivative financial instrument is listed on an open market, it is valued at fair value. If the object is not quoted in an open market, it will be stated at cost or current value, if lower.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. If no fair value can be readily and reliably established, fair value is approximated by deriving it from the fair value of components or of a comparable financial instrument, or by approximating fair value using valuation models and valuation techniques. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and/or option pricing models, making allowance for entity-specific inputs.

The Company uses as derivatives Foreign Exchange contracts for hedging its foreign exchange risk. The Foreign Exchange contracts are valued at market value. The Foreign Exchange contracts were entered into in order to eliminate the risk stemming from exchange rate differences of interest accruals.

2.4 Financial assets

Loans to group companies

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

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

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

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

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

2.5 Receivables

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

2.6 Cash and cash equivalents

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

2.7 Non-current liabilities

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, being the amount received taking account of any premium or discount, less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest in the income statement over the period of the borrowings using the effective interest method. The deferred part of the premiums and discounts is included under the receivables and current liabilities.

2.8 Current liabilities

On initial recognition current liabilities are recognised at fair value. After initial recognition current liabilities are recognised at the amortised cost price, being the amount received, taking into account premiums or discounts, less transaction costs. This usually is the nominal value.

2.9 Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised at non-discounted value for temporary differences between the tax bases and the carrying amounts of assets and liabilities and for unused tax losses carried forward. Deferred tax items are calculated using the tax rates that are expected to apply to the period when the asset will be realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the balance sheet date. The effects of changes in income tax rates are recognised directly in profit or loss, unless the effects relate to items recognised directly in equity.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses carried forward, to the extent that it is probable that taxable profit will be available in the foreseeable future against which these deductible temporary differences and unused tax losses carried forward can be realised.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset and they all relate to the same taxable entity and the same taxation authority

3 Accounting policies for the income statement

3.1 General

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

3.2 Foreign currencies

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

3.3 Interest income and expense

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

3.4 General and administrative expenses

Since February 2017 all innogy Finance B.V. bonds are guaranteed by innogy SE. Accordingly, as of February 2017 all future guarantee fees will be due to innogy SE. The guarantee fee that is due by innogy Benelux Holding B.V. and innogy International Participations N.V. is received by the Company as part of their interest payments and accounted for and paid to innogy SE as an operating expense by the Company.

3.5 Taxation

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

4 Financial instruments and risk management

4.1 Market risk

Currency risk

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

Price risk

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

4.2 Interest rate risk

The Company's exposure to interest rate risk on interest-bearing receivables and interest-bearing non-current and current liabilities is limited as the bonds and loans issued all have fixed interest rates. The spread on loans amounts to 0.0237% for loans issued before 2008 and 0.0225% for loans issued thereafter till 2012. For 2012 and 2013 the spread was again 0.0237% and for 2014 as well as 2015 0.03%. As from 2016 the spread is 0.0639%.

4.3 Credit risk

The loans to group companies have been granted to the direct parent company innogy International Participations N.V. as well as to innogy Benelux Holding B.V. and innogy SE, all being 100% group companies. Repayment of the bonds is guaranteed by innogy SE. The actual long-term rating for innogy SE provided by S&P is BBB (stable outlook); Moody's rates innogy with Baa2 (negative outlook) and Fitch with BBB+ (stable outlook; senior, unsecured bonds are rated with A-).

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

4.4 Liquidity risk

The liquidity risk is limited, because the proceeds of the bonds outstanding are one-on-one lent to innogy International Participations N.V., innogy Benelux Holding B.V. and innogy SE.
The interest rates on the loans to innogy International Participations N.V., innogy Benelux Holding B.V. and innogy SE are higher than the interest rates on the related bonds.

5 Notes to the balance sheet

5.1 Financial assets

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

	2017	2016
	EUR'000	EUR'000
1 January		
Book value	9,705,556	10,467,557
Movements financial year		
New loans issued	1,600,000	-
Exchange rate differences	(160,128)	(762,001)
Short-term part of loans transferred to receivables	(980,000)	-
	459,872	(762,001)
31 December		
Book value	10,165,428	9,705,556

The loans are to be repaid in the period between 2018 and 2039. An amount of EUR 2,750 million and GBP 1,070 million is to be repaid between 1 January 2019 and 31 December 2022.
In April 2017 a new loan was issued to innogy SE (EUR 750 million) with a maturity date of 13 April 2025 and an interest rate of 1.0639%. A second new loan was issued to innogy SE (EUR 850 million) in October 2017 with a maturity date of 19 October 2027. The interest rate of this loan is 1.3139%.

Currency

The loan to the direct parent company innogy International Participations N.V. is contracted in GBP for a nominal amount of GBP 600 million (EUR 676.3 million). Furthermore four loans for a total amount of EUR 2,550 million have been lent on to innogy Benelux Holding B.V., a 100% group company. With the new loans issued and the new acquired loan, a total of five loans for a total amount of EUR 4,180 million have been lent to innogy SE. Next to this, eight loans contracted in GBP for a total amount of GBP 3,317.5 million (EUR 3,739.1 million) have been lent on to innogy SE, also a 100% group company.

Interest

The interest rates are fixed, ranging from:

Loan	Amount	Interest rate
EUR	6,730,000,000	1.0639% - 6.6475%
GBP	3,917,500,000	5.3737% - 6.5237%

5.2 Receivables

	31 December 2017		31 December 2016	
	Total	**Term > 1 year**	**Total**	**Term > 1 year**
	EUR'000	EUR'000	EUR'000	EUR'000
Short-term part of group loans	980,000	-	-	-
Interest receivable from group companies	332,584	-	329,917	-
Deferred premiums and discounts	196,124	196,021	193,149	193,149
Current income tax receivable	39	-	10	-
	1,508,747	196,021	523,076	193,149

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

5.3 Cash and cash equivalents

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

	31 December 2017	31 December 2016
	EUR'000	EUR'000
Current account group companies	10,160	10,396
Cash	9	14
Total cash and cash equivalents	10,169	10,410

The fair value of the cash and cash equivalents is in line with their carrying amount.

5.4 Shareholder's equity

Share capital

The authorized share capital as at 31 December 2017 amounts to EUR 2 million of which 20,000 ordinary shares of EUR 100 each have been issued and fully paid up. The breakdown of the share capital can be specified as follows:

Share capital

	2017		2016	
	Shares	**Share capital**	**Shares**	**Share capital**
		EUR'000		EUR'000
1 January				
Issued and fully paid-up	20,000	2,000	20,000	2,000
Movements financial year				
Additionally paid-in capital	-	-	-	-
31 December				
Issued and fully paid-up	20,000	2,000	20,000	2,000

Retained earnings

	2017	2016
	EUR'000	EUR'000
Balance as at 1 January	10,060	9,663
Additions from profit previous year	1,523	1,797
Dividends declared/paid	(1,500)	(1,400)
Balance as at 31 December	10,083	10,060

Profit for the year

	2017	2016
	EUR'000	EUR'000
Balance as at 1 January	-	-
Profit for the financial year	1,726	1,523
Balance as at 31 December	1,726	1,523

During the year the Company declared an interim dividend to a total amount of EUR 1.5 million. The Company will not advise the shareholder to pay a final dividend and add the remainder of the profit for the year to the retained earnings.

5.5 Non-current liabilities

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

	2017	2016
	EUR'000	EUR'000
1 January		
Book value	9,705,556	10,467,557
Movements financial year		
New bonds issued	1,600,000	-
Exchange rate differences	(160,128)	(762,001)
Short-term part of bonds transferred to current liabilities	(980,000)	-
	459,872	(762,001)
Balance as at 31 December		
Book value	10,165,428	9,705,556

The bonds are to be repaid in the period between 2018 and 2039. An amount of EUR 2,750 million and GBP 1,070 million is to be repaid between 1 January 2019 and 31 December 2022. During the year under review two new bonds have been issued. In April, a new bond has been issued (EUR 750 million) with a maturity date of 13 April 2025 and an interest rate of 1%. In October, a new bond had been issued (EUR 850 million) with a maturity date of 19 October 2027 and an interest rate of 1.25%.

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

Currency

The nominal amount of the bonds consists of nine bonds contracted in EUR amounting to EUR 6,730 million and nine bonds contracted in GBP to a total amount of GBP 3,917.5 million (EUR 4,415.4 million). The bonds are listed at the Luxembourg Stock Exchange and one of these bonds also at the Frankfurt Stock Exchange since October 2013.

Interest

The interest rates are fixed, ranging from:

Bond	**Amount**	**Interest rate**
EUR	6,730,000,000	1.000% - 6.625%
GBP	3,917,500,000	4.750% - 6.500%

5.6 Current liabilities

	31 December 2017		**31 December 2016**	
	Total	**Term > 1 year**	**Total**	**Term > 1 year**
	EUR'000	EUR'000	EUR'000	EUR'000
Short-term part of bonds	980,000	-	-	-
Interest payable	322,203	-	319,831	-
Guarantee Fee (innogy SE/ RWE AG)	8,180	-	8,600	-
Derivatives	131	-	-	-
Corporate income tax	608	-	547	-
Accrued liabilities	17	-	80	-
Accounts payable	10	-	-	-
Deferred tax liability	163	-	195	163
Deferred premiums and discounts	193,795	193,692	190,707	190,707
	1,505,107	193,692	519,960	190,870

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

For explanation on derivatives, reference is made to note 5.7.

innogy Finance B.V. is part of the fiscal unity innogy International Participations N.V. as of 1 January 2015. The current tax expense is settled with the fiscal unity parent within one year.

Deferred tax liability

	2017
	EUR'000
At 1 January 2017	195
Movements	(32)
At 31 December 2017	163

During the coming year EUR 32,371 will be released to the income statement.

The deferred tax liability is caused by a penalty payment in 2007 for early termination of a loan. For tax purposes the payment is spread over the original duration of the loan which originally ended in 2030.

5.7 Financial instruments

Financial instruments valued at cost

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

	31 December 2017		31 December 2016	
	Market value	**Book value**	**Market value**	**Book value**
	EUR'000	EUR'000	EUR'000	EUR'000
Financial assets				
Loans to group companies	13,378,041	10,165,428	11,881,756	9,705,556
Financial liabilities				
Bonds issued	13,295,166	10,165,428	11,970,623	9,705,556

The market value of bonds and loans is determined through different valuation methods. The market value of bonds is determined based on market quotes, whereas the market value of loans is based on a discounted cash flow model. As a result of the different valuation methods the market values are different.

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

The derivatives comprise the fair value of financial contracts with innogy SE to cover the risk of foreign exchange rates related to interest balances in GBP and the guarantee fee payable in GBP.

6 Notes to the income statement

6.1 Interest and similar income

	2017	2016
	EUR'000	EUR'000
Interest income on loans group companies	533,689	542,328
Release deferred premiums and discounts	10,342	9,110
Income derivatives	-	57
	544,030	551,495

6.2 Interest and similar expenses

	2017	2016
	EUR'000	EUR'000
Interest expenses on bonds issued	521,697	530,555
Release deferred premiums and discounts	10,455	9,219
Expenses derivatives	188	-
	532,340	539,774

6.3 General and administrative expenses

	2017	2016
	EUR'000	EUR'000
Guarantee Fee	9,163	9,438
Audit fees	43	56
Management and administrative expenses	170	188
Other	12	8
	9,388	9,690

In 2016 and 2017 the remuneration of the Board of Directors was nil. PricewaterhouseCoopers Accountants N.V. is the auditor of the financial statements of the Company. The composition of the fees paid to the auditor is as follows:

	2017	2016
	EUR'000	EUR'000
Audit of the Financial Statements	26	56
Other assurance services	17	-
Total audit fees	43	56

The fees for audit of the financial statements relate to the audit of the 2017 financial statements, regardless of whether the work was performed during the financial year.

6.4 Income tax expense

	2017	2016
	EUR'000	EUR'000
Current tax:		
Current income tax	608	540
Deferred tax:		
Net movement in deferred taxes	(32)	(32)
Income tax expense	576	508
Income before tax	2,302	2,031
Effective tax rate	25.0%	25.0%

The statutory tax rate is 25% for the year 2017 (2016: 25%).

7 Supplementary information

7.1 Employees

innogy Finance B.V. had no employees in 2016 and 2017.

7.2 Commitments and contingencies

Fiscal Unity

innogy Finance B.V. is part of the fiscal unity innogy International Participations N.V. with effective date 1 January 2015. The company and its fellow group members are jointly and severally liable for all tax liabilities within the fiscal unity.

Revolving credit facility

To strengthen its financing capacity innogy SE signed its own EUR 2 billion Revolving Credit Facility (RCF) in October 2017. Within the RCF innogy Finance B.V. acts as Permitted Additional Borrower.

7.3 Subsequent events

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

‘s-Hertogenbosch, The Netherlands, 19 March 2018

Board of directors,

S. Weitz V. Heischkamp

J. Stollenga H. Dullens

Other information

Other information

Articles of association governing profit appropriation
According to article 27 of the Articles of Association the profit for the year is at the free disposal of the General Meeting of Shareholders.

Independent auditor's report

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

Report on the financial statements 2017

Our opinion

In our opinion innogy Finance B.V.'s financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its result and its cash flows for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2017 of innogy Finance B.V., Den Bosch ('the Company').

The financial statements comprise:

- the balance sheet as at 31 December 2017;
- the income statement for the year then ended;
- the cash flow statement for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

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

The basis for our opinion

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

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

Independence

We are independent of innogy Finance B.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountants-organisaties'(Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands.

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Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 2.4 of the financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the impairment assessment of assets, we considered this to be a key audit matter as set out in the section 'Key audit matters' of this report.

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

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

Materiality

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

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

We used our professional judgement to determine overall materiality. As a basis for our judgment we used 1% of total assets. We used total assets as the primary benchmark, a generally accepted auditing practice, based on our analysis of the information needs of the common stakeholders, of which we believe the shareholders and bondholders to be the most important stakeholders.

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

We agreed with the directors that we would report to them misstatements identified during our audit above €5,842,000 (2016: €4,735,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

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

Due to the nature of the company's business key audit matters do not change significantly year over year. As compared to last year there have been no changes in key audit matters.

Key audit matter	How our audit addressed the matter
Valuation and existence of the loans issued *Note 5.1* We consider the valuation and existence of the loans issued, as disclosed in note 5.1 to the financial statements for a total amount of €11,145,428,000, to be a key audit matter. This is due to the size of the loan portfolio in combination with the fact that the directors' assessment of objective evidence of impairment is very important and judgmental. As a result, any impairment may have a material effect on the financial statements. The directors did not identify any objective evidence that a loan is impaired.	We performed the following procedures to test the existence of the loans issued to innogy SE group companies and to test the directors' assessment of possible loss events to address the valuation: • We evaluated the financial situation of the group companies to which loans have been provided by analysing their respective current financial data (such as result and equity) and their ability to repay the notional and interest payments to the company. • We evaluated the financial position of innogy SE by verifying observable data from rating agencies, developments in credit spreads and other publicly available data. • We performed a margin analysis. • We recalculated the amortised cost value based on the effective interest method. • We have reconciled data input such as projected cash flow, interest rates and maturities with underlying contracts. We have reconciled credit spreads and market interest with data from external data providers. • We compared interest receipts with bank statements. • We performed confirmation procedures with the counterparties of the loans. • We tested the input of contracts in the company's treasury management system.

Key audit matter	*How our audit addressed the matter*
	We found the directors' assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences.

Report on the other information included in the annual report

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of innogy Finance B.V. following the passing of a resolution by the shareholders at the annual meeting held in 2002 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 16 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 6.3 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the directors

The directors are responsible for:

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

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

Our responsibilities for the audit of the financial statements

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

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

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

Amsterdam, 19 March 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by V.S. van der Reijden RA

Appendix to our auditor's report on the financial statements 2017 of innogy Finance B.V.

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

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

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

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

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