innogy – Retail business update
innogy SE · Martin Herrmann · 20 June 2017
innogy – European leader serving around 23m customers with energy and energy+ products

Diversified electricity and gas customer base

# B2C contracts End-of-Year 2016

- East: 5.4m (24%)
- Germany: 8.0m (35%)
- Netherlands/Belgium: 4.5m (20%)
- UK: 4.9m (21%)

- Gas: 6.8m (30%)
- Electricity: 16.0m (70%)

Total: 23m customers¹

With respect to the Retail segment, the term customers refers to customer contracts (electricity and gas counted separately) throughout the presentation.

In terms of electricity and gas supply. Active in more than 20 countries with energy+ and electric vehicle charging infrastructure.

3 Market positions based on volumes, or, in the case of Czech Republic, Poland, Netherlands based on customer numbers, as per latest available data, electricity and gas markets counted separately.

Source: Company estimate based on competitors’ disclosure, regulatory reports and research reports.
The retail business is facing changing market dynamics and customer demands across markets

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<tr>
<th>Customer dynamics</th>
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<tr>
<td>• Increasing churn rates</td>
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<td>• Declining demand due to efficiency</td>
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<td>• Increasing convenience and service expectations</td>
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<th>Competition dynamics</th>
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<tr>
<td>• Aggressive price players with lean op. models</td>
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<td>• Energy as &quot;by-product&quot; bundle</td>
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<td>• Price comparison websites</td>
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<td>• Agile technology players &amp; service innovators occupy E+ core topics</td>
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<th>Regulation dynamics</th>
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<td>• Transparency interventions by regulators</td>
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<td>• Changes in price (de)regulation</td>
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<td>• Smart meter regulation</td>
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<th>Disruptive forces</th>
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<tr>
<td>• Potential market entry of online giants</td>
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<tr>
<td>• Customer interface to intermediaries</td>
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<td>• New ways of using electricity (e-mobility)</td>
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<td>• New sharing models (e.g., blockchain)</td>
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<td>• &quot;Sektorenkopplung&quot; (shifting energy mix)</td>
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<th>B2C</th>
<th>B2B</th>
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<td>• Volume growth expected between 0-2%</td>
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<td>• Strong energy+ value pool, concentrated on Germany and UK</td>
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<td>• Diminishing premium and partly irrational pricing by competitors</td>
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<td>• Different competitor moves: restructuring of commodity, partnerships, strong Energy+ efforts</td>
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<tr>
<td>• New regulations (e.g. on smart metering, flexibility, efficiency) as drivers for new Energy+ value pools and business models</td>
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<tr>
<td>• Potential market entry of online giants</td>
<td></td>
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<tr>
<td>• Localization of power demand with new business models</td>
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<td>• New technological/digital opportunities</td>
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innogy is well prepared to address these challenges – focus on operational excellence and value proposition

### B2C Strategy

**Customer Experience**
- CRM excellence
- Journey excellence
- CSAT/ICE

**Product & Go-to-market excellence**
- Category management
  - Commodity
  - Stand-alone E+
  - Go-to-market excellence

**Digital & Advanced Analytics**
- Enabler

**Cost Efficiency**
- Cost excellence in legacy organization
- Lean backend

### B2B Strategy

**Steering model**
- Organization
- Tactical pricing
- Channel mix

**Category management**
- Commodity, E+ product push
- E+ / Solutions

**Digital & Advanced Analytics**
- Enabler

**Cost stretch + MTP-planned reductions**
- Lean + agile business model

**Restructure the core**

**B2B operating model**
- Grow beyond the core
Energy+ business to be developed also via M&A and partnerships along B2C and B2B product categories

### Long-term directions

- **For stand-alone Energy+ products** (heating and decentralized generation) M&A required to boost growth
- **Commodity retention/acquisition products** (Smart & Connected Home) could benefit from strategic partnerships, currently derived in strategy project for this category

### Long-term directions

- Further upscale innogy offering in distributed generation and storage area
- Improve innogy competence in energy data services and flexibility area
- Build-up capabilities in design engineering
UK: Good progress on recovery program, tightening regulation requires further strategic actions

In the UK we reached progress on our recovery
• The ambitious program is well on track: £100m delivered as per March 2017, further £50m expected as per year-end 2017
• The same holds true for our operational KPIs, bringing the B2C business back on track

Tightening B2C regulations challenge however the path towards sustainability
• Gross margins have been decreasing faster than anticipated, thus recent EBIT developments fell short of plan
• Government investigates introduction of a price cap for SVT\(^1\) customers, with a likely substantial impact for npower

This requires further strategic actions
• A further recovery program to make npower competitive in this more challenging environment
• Consideration of other strategic alternatives

\(^1\) SVT – Standard Variable Tariff or “Grundversorgertarif”
E-mobility – we want to be the leading solution provider in Europe as well as in the US by...

... offering our customers fully integrated solutions

... putting a special focus on data driven business models

... providing the most customer-oriented IT backend

... not seeing our future in purely providing hardware

...innogy being the top brand in the E-mobility business

*incl. third party
Four use cases for E-mobility to be further exploited

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<th>Case</th>
<th>Potential Customer Groups</th>
<th>Ranked Potential Customer Groups</th>
<th>Assessed Overall Attractiveness</th>
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| @SEMI-PUBLIC (B2B) | Semi-Public Parking Charging (B2B) | 1. Retail Industry  
2. Business/Car Fleets  
3. Workplace/Employer  
4. Hotels  
5. Car Parks  
6. Housing Industry  
7. Utility Companies | • Existing market entry  
• Customers require full service package  
• Most attractive in short to mid term |
| @HOME | Residential Charging | 1. Single Home Residences  
2. Apartment Residences | • Short term margins from hardware and electricity  
• 360° solution needed  
• Attractiveness increases in long term |
| @STATION | Dedicated Charging Stations | 1. Long-Range EV Drivers | • High investment costs  
• Payback time ~ 8-10 yr.  
• Long term potential |
| @PUBLIC | Public Parking Charging | 1. Municipalities  
2. Local Authorities  
3. Public Sector | • Municipalities want to foster E-mobility without own investment  
• Overall urban concepts/solutions needed |