



Carve-out and IPO of innogy

20. DIRK-Konferenz 2017
Frankfurt am Main

innogy SE - Case Study - 13 June 2017

Executive summary



- ✓ As reaction to rapidly changing market conditions, RWE decided to carve out its future growth business (Grid, Retail, Renewables) in its new subsidiary innogy
- ✓ Additionally, RWE decided to bring in new shareholders via an IPO (capital increase of innogy) and potential secondary offering of shares owned by RWE
- ✓ In December 2015, the high-priority project was started with the aim to implement the carve-out and to conduct the IPO of innogy
- ✓ RWE leads innogy as financial holding as opposed to its conventional power generation and trading subsidiaries
- ✓ innogy went public on October 7th 2016, the transaction could be settled at the top of the price range. i.e. €36
- ✓ In total, the value of the innogy shares sold is €4.6 billion, whereof innogy received €2.0 billion from 10% capital increase & whereof RWE received €2.6 billion from the sale of existing shares
- ✓ Despite the challenging timeline, business continuity was ensured throughout the entire project for both, RWE and innogy
- ✓ Key success factors of the project were a project setup strongly focused on key deliverables and their fast implementation as well as full attention and backing by the board at all times

Source: Phoenix

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- ① **Strategic considerations**
- ② Project Setup
- ③ IPO
- ④ Project Management support
- ⑤ Success factors

Heavily changing market conditions forced RWE to react

Due to changing market conditions ...



Bloomberg

08/24/15

German Power Slumps Below 30 Euros as EON, RWE Fall to Records

Electricity for year-ahead delivery [...] fell 2.1 percent to its lowest level since October 2003. EON [...] declined 8.6 percent, the most since November 2012, while RWE dropped 9.1 percent, the biggest slump since August 2011.



... RWE's Supervisory Board agreed on a radical transformation ...



RWE plans IPO of its business focused on renewable energy

RWE [...] responded to radical changes in energy policy by unveiling **plans to spin off its operations focused on renewable power, electricity distribution and retail sales.**

First IPO Announcement 12/01/15

Bloomberg

12/01/15

RWE's U-Turn on Splitting Forced by Merkel's Love of Green Power

It "will leave RWE as a much more viable company that can invest in renewables and grids," and is the best option, [...] an analyst at Sanford Bernstein Ltd. said.

... with three upsides for RWE AG



- Increased **strategic focus** through carve-out
- Increased **financial flexibility**
- and **value enhancement** through IPO

Source: Phoenix

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RWE formed innogy: Strong downstream business and attractive renewables footprint



innogy SE comprises three divisions with strong market positions in Europe

Grid & Infrastructure



- innogy operates c. 570,000 km of grid assets in five European markets (GER, PL, CZ, HU, SK)
- Leading positions in core markets (e.g., largest electricity DSO in GER¹, largest gas DSO in CZ¹)
- Excellent distribution grid management for electricity and gas supply
- EBITDA of €2.9bn (2015)

Retail



- Strong retail organisation with 23m customers in 11 European markets
- Leading electricity and gas retailer with four No. 1 market positions²
- Well positioned in various B2C markets in terms of profitability, customer growth and satisfaction (e.g., GER, NL)
- EBITDA of €1.0bn (2015)

Renewables



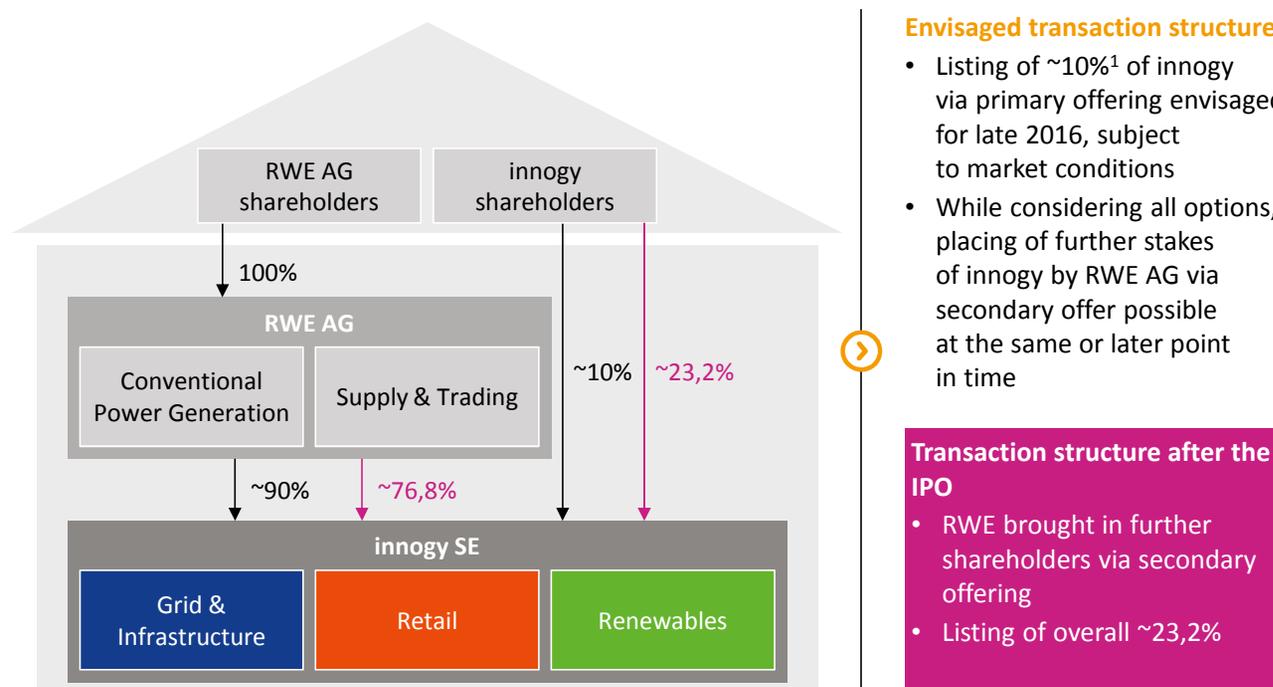
- Renewables portfolio of more than 3.3 GW capacity mainly in six European markets (GER, UK, SPA, NL, PL, ITA)³
- RWE has a leading position in the European offshore market with ~1 GW of capacity
- Focus on operational excellence and value-adding growth across entire fleet
- EBITDA of €0.8bn (2015)

innogy offers a compelling value proposition: unique European asset base, stable business, resilient financial profile, platform for growth, focus on value creation.

¹ Measured by distributed volumes | ² Market positions based on volumes, or, in the case of Czech Republic, Poland, Netherlands and Belgium, based on customer numbers, as per latest available data, electricity and gas markets counted separately | ³ As of Dec. 2015; Accounting view, excluding Zephyr & Markinch
Source: Transforming RWE

RWE decided to bring in new shareholders via an IPO (capital increase) and potential secondary offering

Target picture of RWE Group as decided in Supervisory Board Meeting on 11th December 2015



Envisaged transaction structure

- Listing of ~10%¹ of innogy via primary offering envisaged for late 2016, subject to market conditions
- While considering all options, placing of further stakes of innogy by RWE AG via secondary offer possible at the same or later point in time

Transaction structure after the IPO

- RWE brought in further shareholders via secondary offering
- Listing of overall ~23,2%

¹ Post money
 Source: Phoenix; innogy company presentation, 1st August 2016
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→ Envisaged transaction structure
 → Transaction structure after IPO

The new structure provides three upsides for RWE AG



Clear strategic focus



- Creation of homogenous business portfolios with clear strategic focus
- Increased management attention to address specific challenges and opportunities of different businesses

Value enhancement



- Unlock value through enhanced transparency via separate listing of innogy
- Improved access to funds for dedicated growth investments in innogy
- Ability to set independent financial targets and dividend policies in line with companies' specific operational performance

Increased financial flexibility



- Increased flexibility to cope with future funding needs; innogy shareholding as liquid asset if needed
- No dilution of asset base backing liabilities
- Broad political acceptance as RWE will continue to take full responsibility for liabilities

Source: Transforming RWE

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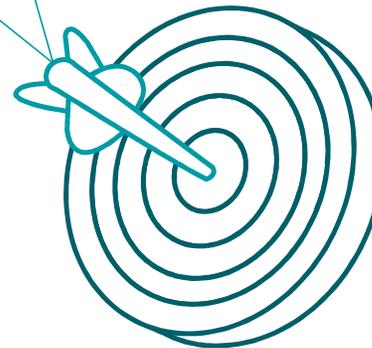
Main aims of the project (Carve-out and IPO)

Carve-out

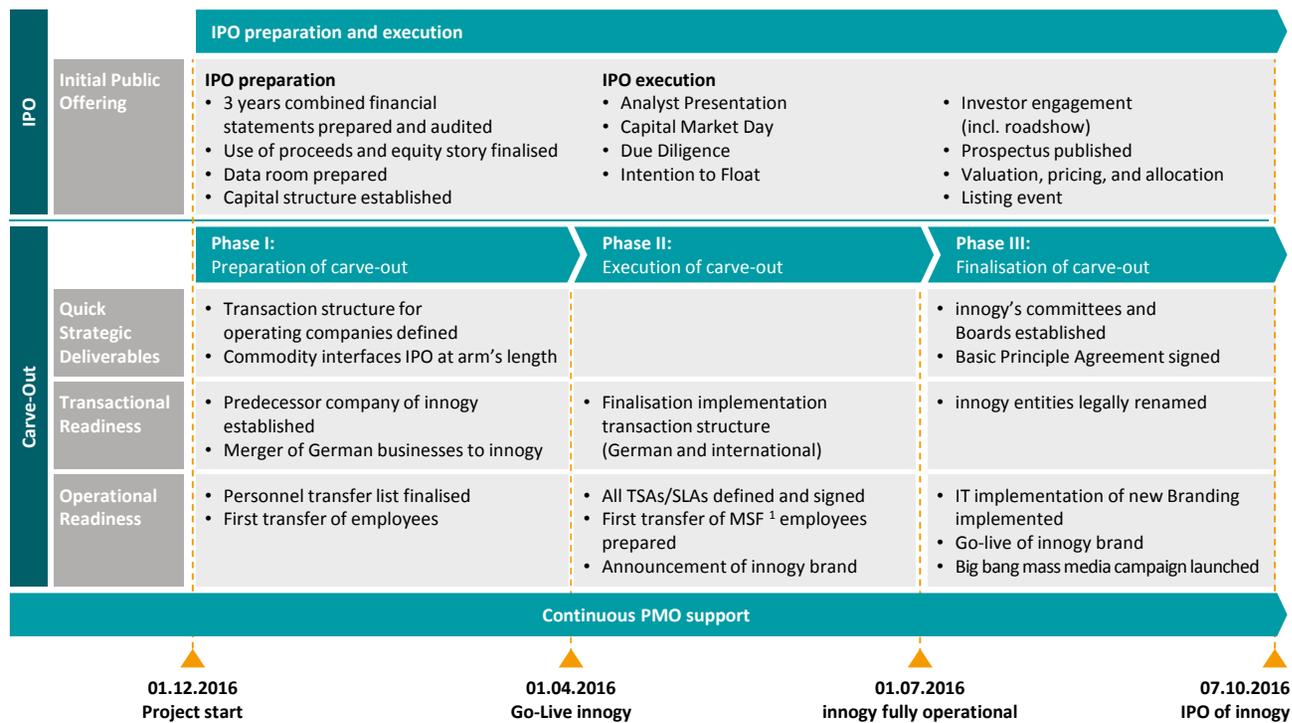
- Set up innogy as an independent and fully operational company
- Ensure business continuity throughout the project for both, RWE and innogy

IPO

- Complete Initial Public Offering (IPO) in Q4 2016
- Obtain proceeds to finance future growth according to plan



Carve-out and IPO of innogy were executed in ten months



Note: Before 1st September innogy SE was registered as RWE International SE | ¹ MSF = Management & Support Functions
 Source: Phoenix

Principles of cooperation were defined in the project kick-off on 19th Jan 2015

Top priority

| | |
|---------------------------------|---|
| Prioritise | De-prioritise other projects/non-essential activities in case of conflicts with Phoenix |
| Commit | Core project members are expected to be 80% of their time available for Phoenix |
| Escalate resource issues | Escalate resource constraints early in case of availability or workload issues |

High speed

| | |
|------------------------------|---|
| Be pragmatic | Resolve issues fast and without unnecessary levels of complexity |
| Get decisions rapidly | Get (or make) decisions fast and escalate issues within project structure if needed |
| Communicate directly | Communicate directly with other workstreams → no need to always include central PMO |

One team

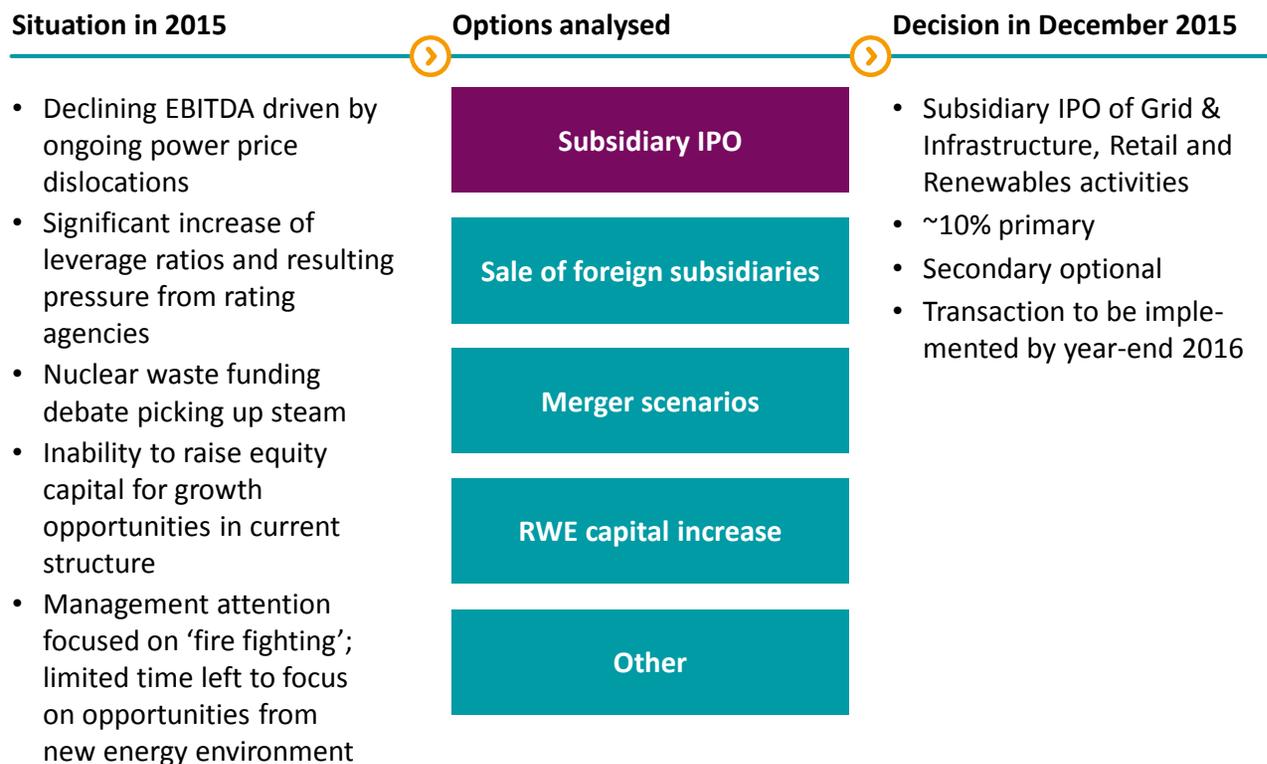
| | |
|---------------------------------|---|
| Collaborate | We are one team, irrelevant of workstream, OpCo, function (incl. external partners!) |
| Be transparent | Employ an open and transparent way of working across workstreams → No silos! |
| Involve the right people | Involve the best people for problem solving, independent of hierarchy, politics, etc. |

Source: Phoenix



- ① Strategic considerations
- ② Project Setup
- ③ **IPO**
- ④ Project Management support
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Transaction background

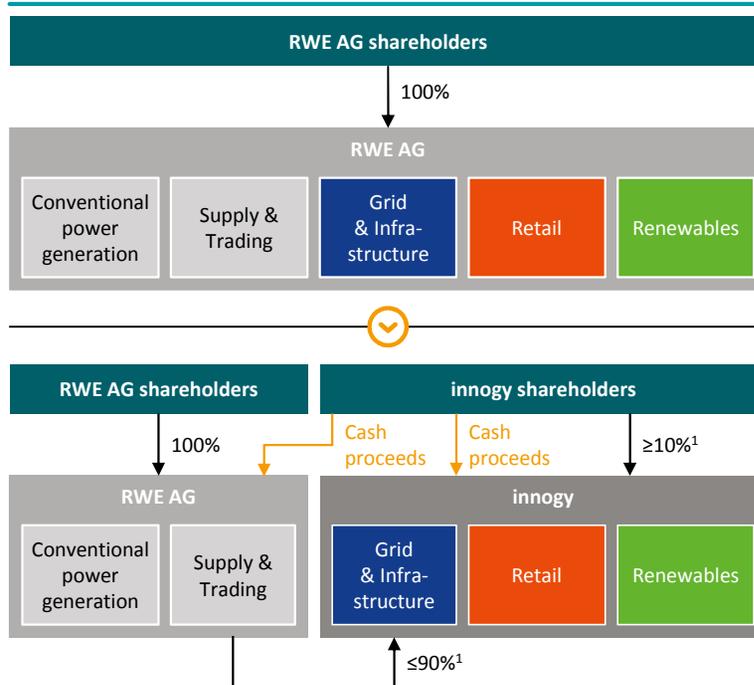


Source: Phoenix

Transaction background (continued)



Transaction structure



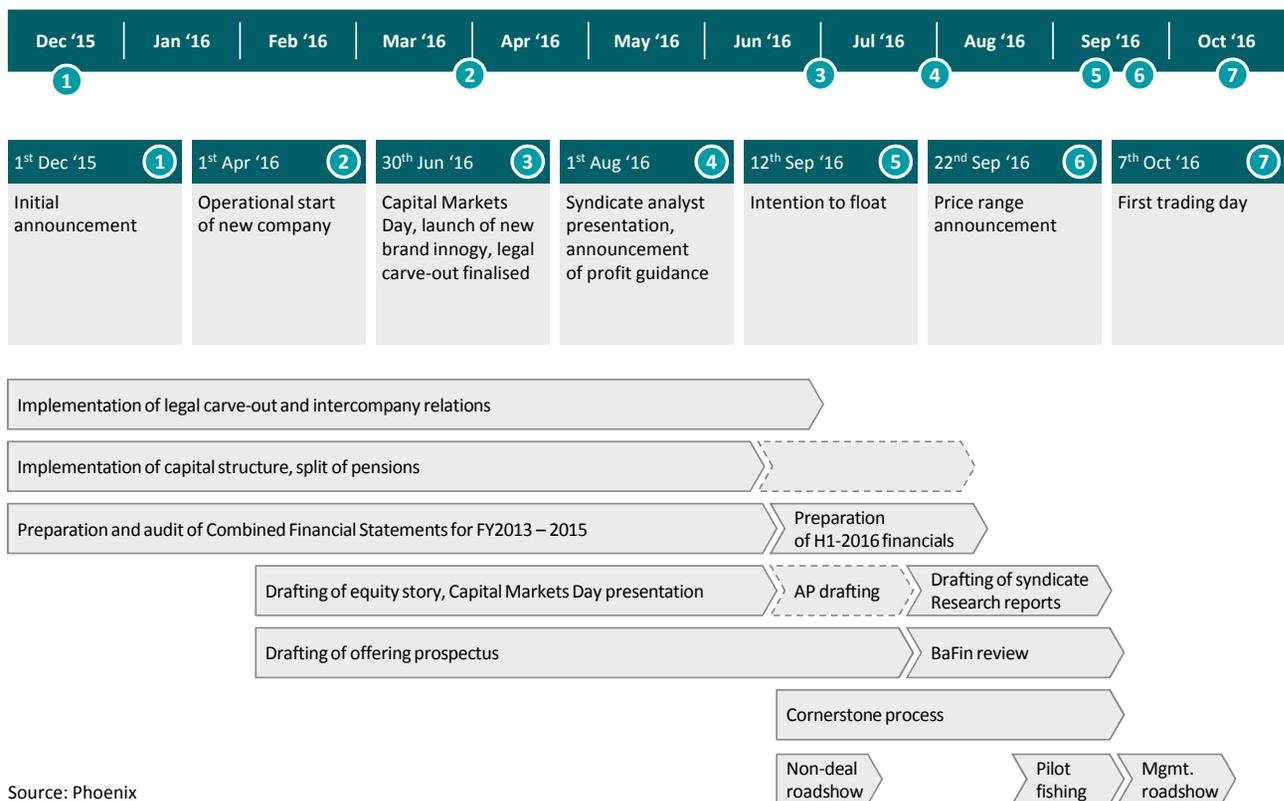
¹ Initial target at time of announcement | Source: Company information

RWE's press coverage on the day of the announcement

A collage of press coverage headlines from various media outlets on the day of the announcement:

- manager magazin**: Terium steuert um - RWE bringt Ökostromtöchter an die Börse
- DIE WELT**: Die raffinierte Kernspaltung des Energie-Dinosauriers
- DER TAGESSPIEGEL**: WAZ: Klüger Schöpfung von RWE - Kommentar von Ulf Meinke zu RWE
- Reuters BREAKINGVIEWS**: Spinoff may recharge drained RWE
- BRUNNEN & WAZ**: Kernspaltung bei RWE
- Hausarbeiten**: Ein Zauberer wird zum Zauberer

Flawless execution from announcement to pricing



Source: Phoenix

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Multi-step approach for drafting of core marketing documents

STEP 1: Building blocks and data requirements

- Descriptive building blocks for business units
- Definition of data requirements
 - Market data and business facts
 - KPIs and financial disclosure

January/February

Step 2: innogy strategy

- Core marketing messages
- Definition of key selling points
 - Strategy and competitive strengths
 - Supporting data and evidence

By end of February

STEP 3: Drafting of documents

- Core marketing documents
 - Capital Market Day presentation/analyst presentation
 - Prospectus

Starting in March

Source: Phoenix

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Overview of innogy's corporate governance



innogy management board structure

- Former RWE CEO Peter Terium, RWE CFO Bernhard Günther & RWE CHO and Labour Director Uwe Tigges moved to respective positions on innogy mgmt. board
- Additional three board members for three innogy segments: Hildegard Müller (COO Grid & Infrastructure), Martin Herrmann (COO Retail), Hans Bünting (COO Renewables)
- Rolf Martin Schmitz as new RWE CEO and Markus Krebber as new RWE CFO

innogy supervisory board structure

- 20 members, thereof 10 shareholder and 10 employee representatives
- RWE represented by one board member only, new CFO Markus Krebber
- Werner Brandt and Frank Bsirske in personal union as supervisory board chairman and supervisory board deputy chairman for RWE and innogy
- Spring 2017: election of 10 shareholder representatives by annual general meeting

Source: Phoenix

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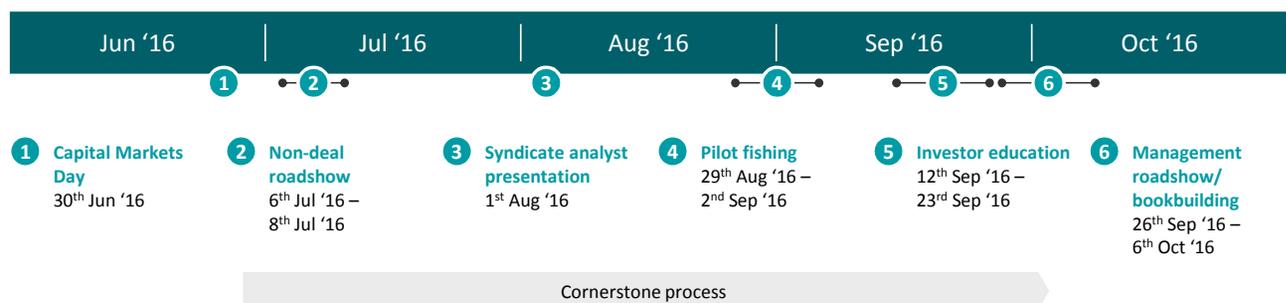
Key principles governing innogy/RWE relationship

- Both parties – RWE and innogy – shall be in the position to pursue their strategic, operational and financial targets individually and independent from each other
- Shortly prior to the IPO the domination agreement between innogy and RWE was terminated
- All intercompany relations and agreements to be carried out at arm's length

Selected features of "agreement on basic principles"

- Non-compete clause states that RWE is largely restrained from competing in innogy's core businesses until 31st December 2019
- RWE will manage innogy as a financial investment
 - RWE will not impose strategic and financial targets and is not involved in planning and management incentive discussions
 - Investment decisions at innogy will not be subject to approval by RWE

Tailored marketing approach for the innogy IPO



Key features

Key achievements

| Key features | Key achievements |
|-------------------------------|---|
| Capital Markets Day | <ul style="list-style-type: none"> Helped investor and research community to familiarise themselves with innogy early in the process Introduced consistent set of information on innogy in the public domain which could be used in subsequent investor meetings without legal limitations RWE share price increased 6.8% on that day |
| Profit guidance | <ul style="list-style-type: none"> Provided clear guidance and comfort on EBITDA development for 2016 (group and segments level) and 2017 (group level) Helped analysts and investors to understand expected earnings development in light of various one-off effect, recovery of UK retail business etc |
| Non-deal roadshow | <ul style="list-style-type: none"> Facilitated establishing early dialogue with key institutional investors for the IPO Helped to collect early feedback on innogy equity story as well as to identify areas of interest and concern for analyst presentation and upcoming marketing process |
| Pilot fishing | <ul style="list-style-type: none"> Helped to intensify dialogue with key institutional investors for the IPO Provided first feedback on valuation and appetite to invest |
| Selective cornerstone process | <ul style="list-style-type: none"> Resulted in €940m cornerstone commitment from BlackRock which represents the largest ever single cornerstone commitment in a European IPO Added additional credibility to the investment case as well as the price range Substantially derisked the IPO by securing €940m fully allocable demand throughout the price range ahead of bookbuilding |
| Upsize option | <ul style="list-style-type: none"> Upsize option provided flexibility to adjust size of RWE secondary sell-down in IPO depending on demand and achievable valuation Full exercise of upsize option resulted in €0.9bn additional IPO proceeds |

Excellent investors' appetite allowing for pricing at superior valuation



1 Message to market on 26th September (afternoon):

“Books covered within the range on the full deal size (incl. the upside option & greenshoe option).”

2 Message to market on 30th September (early afternoon):

“Books covered throughout the range on the full deal size (incl. the upside option & greenshoe option).”

3 Message to market on 5th October (12:30pm CET):

“Narrowed price guidance: €35.00 – €36.00 per share. Books are covered throughout this range on the full deal size (incl. the upside option & greenshoe option)”

4 Message to market on 6th October (09:30am CET):

“Final price guidance: Orders limited below €36.00 per share are likely to miss. The upside option will be exercised in full.”

5 Ad-hoc 6th October (21:58pm CET):

“The Management Board of innogy SE together with the Executive Board of RWE AG [...] determined the offer price for shares in innogy SE at €36.00.”

Source: Phoenix

IPO – Transaction outcome

Positive press coverage across the board



BREAKINGVIEWS-RWE beats E.ON in parallel power spin-offs

“Innogy has the stronger pitch to investors. The stock was priced at the top end of the book-building range of 32 to 36 euros, and traded above that level in the first hours of trading, giving it a market capitalisation of 20 billion euros.”#

Handelsblatt

Handelsblatt Nr. 194 vom 07.10.2016 Seite 030 / Finanzen & Börsen
Getranke

Innogy holt alles raus

„Der Börsengang der „grünen“ Tochter Innogy, die Terium aktuell in Personalunion führt, ist perfekt geglückt. [...] Innogy wird insgesamt mit 20 Milliarden Euro bewertet. Das neue Unternehmen ist damit aus dem Stand heraus der wertvollste deutsche Energiekonzern.“

ZEIT ONLINE UNTERNEHMEN

INNOCY

Ein reines Geschäft

Der Energieriese RWE bringt seine Tochter Innogy an die Börse. Die versprochenen Renditen für die Anleger bezahlen die Stromkunden.

„Es war ein genialer Schachzug: Die Nachfrage der Anleger nach innogy-Aktien hat das Angebot bei weitem überstiegen; allein der weltgrößte Vermögensverwalter Blackrock kaufte für 940 Millionen Euro innogy-Anteile. Schließlich verspricht die RWE-Tochter den Geldgebern satte, dauerhaft gesicherte Dividenden.“

GLOBAL EDITION
Handelsblatt
Companies & Markets
power floatation; Making a Renewable Giant



5bn Innogy IPO the largest for five years in Europe

Frankfurter Allgemeine
ZEITUNG FÜR WESTFALEN

Frankfurter Allgemeine Zeitung, 07.10.2016, Nr. 234, S. 27

Innogy zeigt wie es geht

„Durch eine clevere Bündelung zukunftssträchtigen Geschäfts ist es jetzt ausgerechnet dem unter der Energiewende leidenden Versorger RWE gelungen, für Aktien seiner Tochtergesellschaft Innogy 5 Milliarden Euro zu Erlösen. Damit ist Innogy bei weitem der größte Börsengang in diesem Jahrzehnt und erreicht mit seiner Größe Emissionen, wie sie zuletzt um die Jahrtausendwende zu sehen waren.“

Allgemeine Zeitung
WIRTSCHAFTS-ZEITUNG

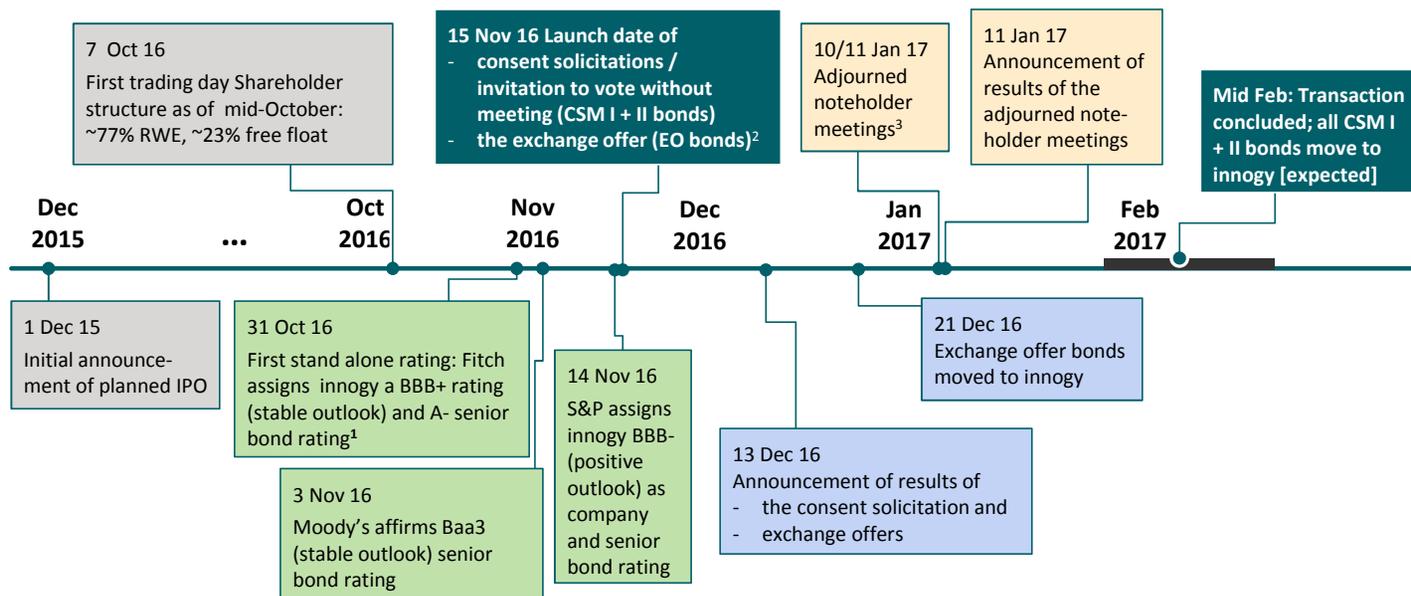
Allgemeine Zeitung Mainz vom 07.10.2016 Seite 7 / Wirtschaft

Märchenhafte Geldvermehrung

Source: Press articles

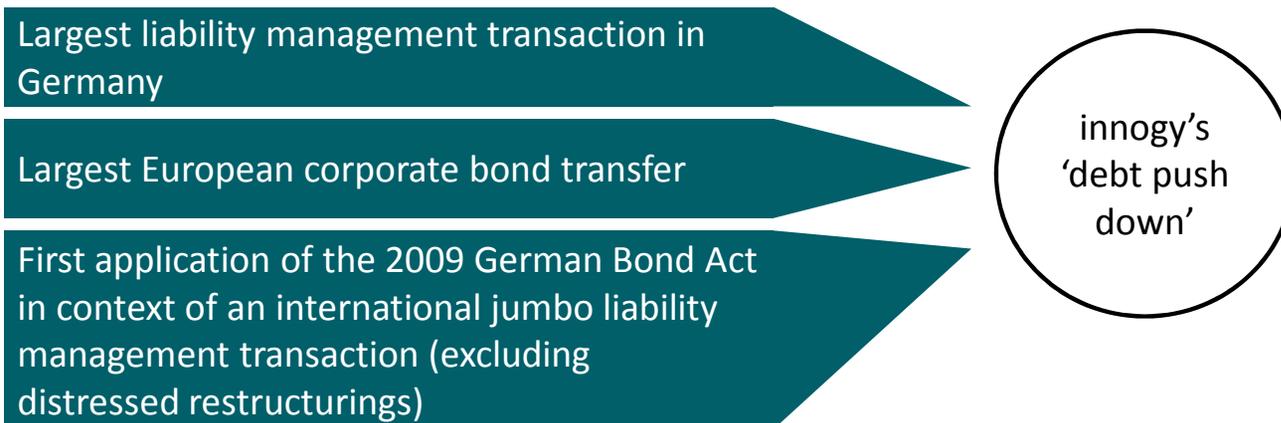
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RWE's 'debt push down' to innogy



1 assigned ratings are 'expected' (exp) 2 The specific bonds are listed in the Annex 3 For bonds where quorum was not met in ,votes without meeting'
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Characteristics of innogy's liability management transaction



1 assigned ratings are 'expected' (exp) 2 The specific bonds are listed in the Annex 3 For bonds where quorum was not met in ,votes without meeting'
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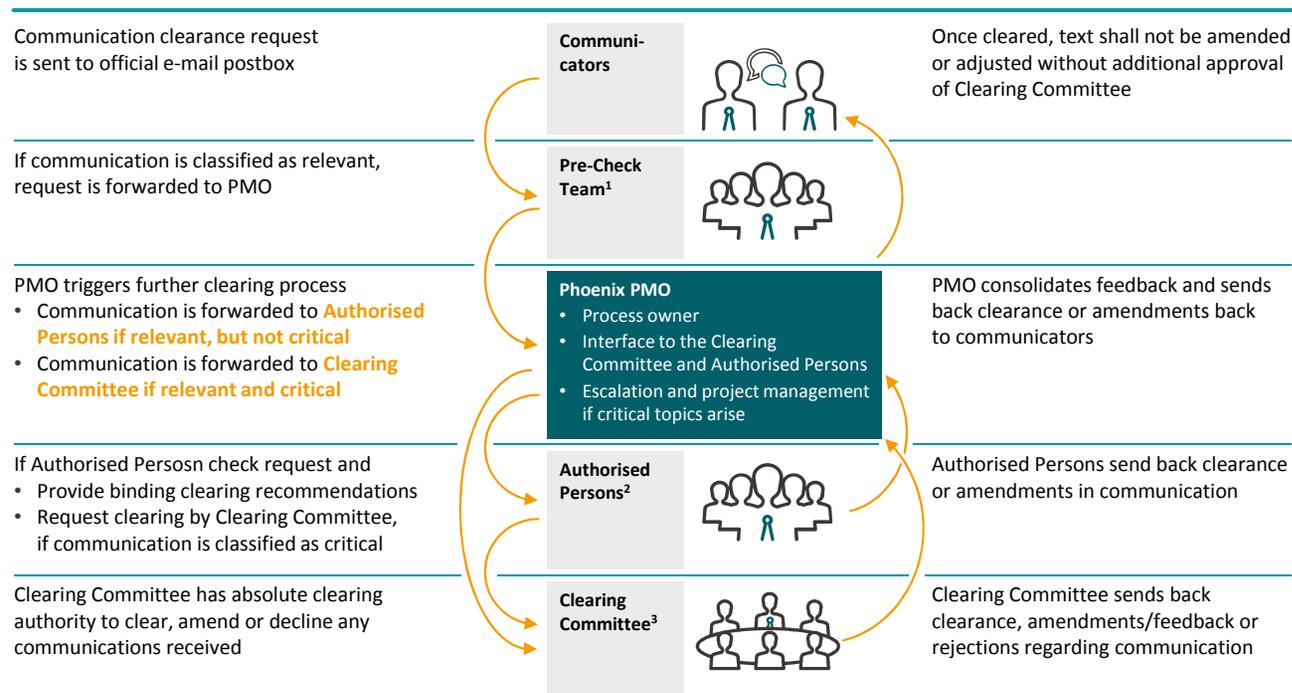
The project held many challenges that needed to be mitigated by the central PMO in collaboration with the workstreams

| | Challenges | Mitigations |
|--|---|--|
| <p>1</p> <p>Project Management</p> | <ul style="list-style-type: none"> • Extraordinary complexity of Phoenix with five workstreams and various functions involved • Carve-out and IPO running parallel • Very tight timeline, especially for transaction of this size • Cost intensive project with one budget for both carve-out and IPO • Extremely large project team of >2,000 internal and >100 external project members • Top level management buy-in and alignment crucial for project success | <ul style="list-style-type: none"> • Rigorous time-planning and project timeline tracking with agreed milestones • Detailed analysis and tracking of interdependencies between workstreams • “Holding the boundaries”: sticking to decisions without moving back and forth • Close monitoring of costs and rigid budget management • Tracking of project members and strict confidentiality management • Continuous update meetings and working sessions with highest level stakeholders |
| <p>2</p> <p>Content</p> | <ul style="list-style-type: none"> • Popping up of various “special topics” difficult to allocate elsewhere in project organisation • Opposing communication needs within the project (carve-out: “You cannot not communicate”; IPO: “project information is strictly confidential”) | <ul style="list-style-type: none"> • Taking over of special tasks, such as setting up and organising the Clearing process, or the analysis of financial disadvantages • Alignment and mutual agreement achieved in Workstream Leads Meetings; distribution and enforcement of Publicity Guidelines¹ |

¹ Guidelines explaining the rules of communication during an IPO (i.e. what can and what cannot be communicated?)
Source: Phoenix

A streamlined Clearing Process facilitated by PMO ensured communication according to Publicity Guidelines

Process overview



¹ Team of internal communicators | ² Team of Phoenix PMO (process coordinator), Communications, Investor Relations, IPO Lead/M&A, Legal

³ Team of international lawyers and underwriters | Source: Phoenix



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Overall project goal can be achieved by having sophisticated project setup and complementary implementation

Project setup



- Set clear goal which is generally understood, with strict deliverables and assigned responsibilities to ensure progress and transparency
- Set-up one project having in mind interdependencies of topics in order to guarantee overall project realisation; e.g. Carve-out and IPO workstream were set up as one project, although thematically different
- Staff key project members continuously to the project to ensure consistency and high quality
- Prioritise project to allow fast access to resources and fast realisation of deliverables
- Secure full attention and backing by the board with quick and pragmatic decision-making

Project implementation



- Involve stakeholder frequently to ensure transparency, short communication channels, and fast decision making; e.g. by having board sponsors for individual topics
- Understand complexities of own company by thorough analysis of risks to predict potential difficulties in due time
- Assign and communicate responsibilities clearly to ensure delivery of results on time
- Ensure meeting discipline with standard agendas to enhance meeting efficiency
- Establish positive way of working by decreasing hierarchies, allowing tolerance for error, and establishing pragmatism
- Employ team building programs to decrease political and personal barriers upfront thereby ensuring better collaboration

Source: Phoenix

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Project in numbers



Key numbers



| | |
|--|---|
| More than 2,100 RWE/innogy employees were involved | ~4800 FTE in Management & Support Functions in scope regarding future allocation to RWE or innogy |
| More than 100 external advisors, lawyers, bankers, etc. involved | 1 change of legal form |
| 11 th December 2015 – 7 th October 2016: 209 working days | 7 demergers in Germany and the Netherlands |
| 9 Supervisory Board Meetings were prepared | 9 business lease or management agreements |
| 21 Board Meetings were prepared | 24 mergers of legal entities |
| 73 top level Workstream Lead Meetings plus hundreds of specific topic related meetings were prepared | 50 sales or contributions of shares |
| More than 700 communication requests cleared in Publicity Guidelines process | ~100 change of company names |
| ~130 Board decisions were taken | |

Source: Phoenix

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