EnBW AG

The financial statements of EnBW AG have been prepared in accordance with the regulations in the German Commercial Code (HGB), taking into account the amendments of the German Accounting Directive Implementation Act (BilRUG), and in accordance with the regulations in the German Stock Corporation Act (AktG) and the law governing the electricity and gas industries in Germany (Energy Industry Act – EnWG). The regulations for large corporations apply.

The financial statements as audited by the KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as well as the management report of EnBW AG contained in the combined management report, will be published in the German Federal Gazette (Bundesanzeiger).

For statements that are necessary to understand the position of EnBW AG and which are not explicitly described in the following sections, especially those relating to the strategy of the company and economic and political conditions, please refer to the information provided for the EnBW Group (p. 24 ff. and 49 ff.).

The annual net profit which indicates the company's ability to pay a dividend is an important performance indicator for EnBW AG.

The full financial statements of EnBW AG are available for download at (www.enbw.com/report2017-downloads).

Results of operations of EnBW AG

Condensed income statement of EnBW AG

in € million[1]	2017	2016	Change in %
Revenue	16,734.6	16,288.5	2.7
Cost of materials	-15,969.4	-15,513.0	2.9
Amortisation and depreciation	-436.4	-591.4	-26.2
Other operating result	1,228.7	131.8	–
Earnings before interest and taxes	**1,557.5**	**315.9**	**–**
Financial result	673.9	-532.5	–
Tax	-241.7	-15.3	–
Annual net profit/loss	**1,989.7**	**-231.9**	**–**

1 In accordance with German commercial law.

EnBW AG reports an annual net profit of €1,989.7 million. The substantial increase in comparison to the previous year was influenced mainly by €1,241.6 million higher earnings before interest and taxes and the increase in the financial result of €1,206.4 million.

The operating result of EnBW AG is determined primarily by the revenues generated from electricity and gas sales, as well as by the associated cost of materials.

In the earnings before interest and taxes, the increase in revenues of €446.1 million was offset by a corresponding increase in the cost of materials of €456.4 million.

The revenue (after the deduction of electricity and energy taxes) of €16,734.6 million primarily includes revenue from electricity sales of €8,399.1 million and from gas sales of €7,449.0 million. Electricity and gas sales comprise both sales activities in the form of the direct delivery of energy to end customers and also trading business involving deliveries to trading partners and stock exchanges.

Revenues from sales activities were split into €1,854.9 million for electricity and €209.2 million for gas, which represented an overall fall of €112.4 million.

In the retail and end customer sector (B2C), electricity sales were slightly below the level in the previous year, decreasing by 0.1 billion kWh to 7.2 billion kWh, which was also reflected in the fall in revenues. In the same period, gas sales of 3.8 billion kWh were at the same level as the previous year although revenues fell. This was primarily due to a price adjustment as of 1 October 2016, the full impact of which was only felt for the first time in the 2017 financial year.

The trading business was positively influenced above all by the increase in the trading volume for gas, which was primarily due to the higher volumes purchased by GasVersorgung Süddeutschland GmbH. This mainly resulted in the significant increase in revenues of €663.4 million, which was almost fully offset by a corresponding increase in the cost of materials of €662.8 million. Revenue from the trading business for electricity fell slightly in the same period. The increased trading volumes were more than offset by lower wholesale market prices.

The cost of materials includes costs for electricity procurement of €6,529.3 million and costs for gas procurement of €7,294.8 million.

Alongside scheduled amortisation and depreciation, the amortisation and depreciation item includes impairment losses of €100.4 million.

The considerable increase in the other operating result can be primarily explained by the positive extraordinary effect of the reimbursement of the nuclear fuel rod tax (including the interest relating to the legal proceedings) that was declared unconstitutional. The share of the reimbursement attributable to EnBW AG was €1,340.0 million for the years 2011 to 2016.

The positive development of the financial result was mainly influenced by the increase in income from profit and loss transfer agreements of €410.0 million, which was primarily due to the positive extraordinary effect of the reimbursement of the nuclear fuel rod tax, which was declared unconstitutional, to a subsidiary in the amount of €180.8 million. In addition, there were higher returns on the investment fund of €282.3 million compared to the previous year. The fall in the interest expense for nuclear provisions of €316.0 million was due to the transfer of the obligations for intermediate and final storage of radioactive waste and the significantly lower discounting basis compared to the previous year as a result. The interest expense for personnel provisions that was €152.1 million lower was primarily due to positive valuation effects within the Contractual Trust Arrangement (CTA) as of the reporting date.

The tax expense in the 2017 financial year was €241.7 million, which represents an increase of €226.4 million. The taxes mainly comprise current corporate income tax and trade tax expenses. The option of recognising a surplus of deferred tax assets was not exercised.

Net assets of EnBW AG

Balance sheet of EnBW AG

in € million[1]	31/12/2017	31/12/2016	Change in %
Assets			
Non-current assets			
Intangible assets	762.2	930.7	-18.1
Property, plant and equipment	1,385.3	1,315.8	5.3
Financial assets	19,558.1	20,017.6	-2.3
	21,705.6	**22,264.1**	**-2.5**
Current assets			
Inventories	594.9	559.0	6.4
Receivables and other assets	3,123.1	3,297.2	-5.3
Securities	114.3	1,466.9	-92.2
Cash and cash equivalents	1,655.7	2,884.9	-42.6
	5,488.0	**8,208.0**	**-33.1**
Prepaid expenses	**545.0**	**285.6**	**90.8**
Surplus from offsetting	**266.1**	**144.2**	**84.5**
	28,004.7	**30,901.9**	**-9.4**
Equity and liabilities			
Equity			
Subscribed capital	708.1	708.1	0.0
Treasury shares	-14.7	-14.7	0.0
Issued capital	(693.4)	(693.4)	(0.0)
Capital reserve	776.0	776.0	0.0
Revenue reserves	2,124.5	1,161.5	82.9
Retained earnings	963.2	-63.5	–
	4,557.1	**2,567.4**	**77.5**
Extraordinary items	**23.6**	**21.6**	**9.3**
Provisions	**10,965.9**	**13,751.0**	**-20.3**
Liabilities	**12,044.4**	**14,300.0**	**-15.8**
Deferred income	**413.7**	**261.9**	**58.0**
	28,004.7	**30,901.9**	**-9.4**

1 In accordance with German commercial law.

The net assets of EnBW AG as of 31 December 2017 are significantly influenced by the non-current assets (particularly the financial assets), the receivables and other assets, as well as by cash and cash equivalents. These are primarily offset by non-current liabilities and provisions relating to nuclear power and for pensions and similar obligations.

The main changes in comparison to the previous year were the implementation of the Act for the Reorganisation of Responsibility in Nuclear Waste Management based on the recommendations made by the "Commission to examine the financing of the phase-out of nuclear power" appointed by the German Federal Ministry for Economic Affairs and Energy in 2015. EnBW AG paid the total amount of €4.8 billion due for the EnBW Group to the fund for financing the disposal of nuclear waste (disposal fund) on time on the first working day after 1 July 2017 (3 July 2017). The financial burden for the transport, intermediate storage and final storage of the waste has thus been transferred to the German government. Transferring these obligations mainly resulted in both a fall in the provisions of €2,785.1 million and also a fall in liabilities to affiliated companies of €1,178.5 million because EnBW AG made payments for its subsidiaries TWS Kernkraft GmbH and Kernkraftwerke Obrigheim GmbH of €916.6 million and €420.2 million, respectively. In preparation for the payment to the disposal fund, securities from non-current and current assets were sold, which resulted in decreases to these items of €1,356.7 million and €1,352.6 million, respectively, in comparison to the previous year.

Financial assets primarily consist of shares in affiliated entities to the amount of €13,021.4 million, securities from non-current assets to the amount of €2,751.8 million and equity investments to the amount of €1,916.5 million. The fall in financial assets of €459.5 million includes the disposal of securities. This was offset by the increase in shares in affiliated entities of €293.9 million, primarily as a result of payments into the capital reserve of EnBW Offshore 3 GmbH of €191.8 million. In addition, loans to affiliated entities increased by €162.1 million in comparison to the previous year.

Trade receivables to the amount of €1,371.4 million mainly comprise receivables for trading activities and consumption accruals for electricity and gas deliveries not yet invoiced. This was €163.8 million above the figure in the previous year.

The cash and cash equivalents of EnBW AG totalling €1,655.7 million mainly consist of positive bank balances, which are invested as fixed-term deposits to the amount of €1,526.2 million. More details on the composition of this item can be found under "Financial position of EnBW AG".

Provisions relating to nuclear power of €3,741.4 million are recorded for EnBW AG, which arise due to public law obligations and requirements in the operating licences. Furthermore, provisions for pensions and similar obligations to the amount of €4,264.0 million combine obligations from the company pension scheme and other company agreements made by major subsidiaries and EnBW AG. The resulting annual expenses for retirement benefits are paid by the subsidiaries concerned in each case. The increase in the provisions for pensions and similar obligations of €312.1 million was mainly due to the effect of the further decrease in the discount rate as in the previous year.

Of the liabilities totalling €12,044.4 million, €6,095.1 million have a residual term of more than one year. Overall, there are liabilities of €8,333.2 million to affiliated entities, which primarily result from intercompany settlement transactions within the framework of the centralised financial and liquidity management, as well as from loan agreements.

The fall in liabilities by a total of €2,255.6 million was attributable to the repayment of a hybrid bond with a volume of €1,000.0 million and also the fall in liabilities to affiliated companies of €1,178.5 million. This fall includes the payments made to the disposal fund on behalf of the subsidiaries of €1,336.8 million.

Non-current liabilities exist to the amount of €2,199.3 million to EnBW International Finance B.V. as part of the Debt Issuance Programme (DIP), to the amount of €1,992.6 million from the issuing of three hybrid bonds and to the amount of €738.6 million from loan agreements with credit institutions.

The non-current provisions relating to nuclear power as well as for pensions and similar obligations to the total amount of €7,493.4 million are mainly offset by shares in investment assets, which are recorded as securities in non-current assets. This mixed fund focusing on assets in the eurozone countries consists mainly of direct or indirect investments in fixed-interest securities and shares. In addition, EnBW AG holds shares in an investment company with variable capital (SICAV), where infrastructure funds are bundled. Furthermore, these long-term obligations are offset by directly held fixed and variable interest securities which form part of the non-current assets, as well as by other equity investments, which had a total carrying amount on the reporting date of €1,579.7 million.

The goal is to cover these non-current pension and nuclear provisions with appropriate financial assets within an economically feasible time period. Overall, non-current assets of €21,705.6 million are offset by long-term debt of €13,588.5 million.

The liquidity of EnBW AG on the reporting date guarantees the solvency of the company for the payment of current liabilities from the operating business.

Financial position of EnBW AG

The liquidity of EnBW AG decreased from €2,884.9 million by €1,229.2 million to €1,655.7 million in comparison to the reporting date in the previous year.

The cash flows of EnBW AG arise fundamentally from both its own operating business and also those of its subsidiaries which balance payments received and made via the bank accounts of EnBW AG as part of the intercompany cash pooling system within the framework of the central financing and liquidity management.

Important business transactions that had an effect on the financial position of EnBW AG in the financial year are summarised below:

The most important liquidity-related business transaction in the 2017 financial year was the timely payment of €4.8 billion by EnBW AG to the disposal fund, which transferred the financial burden for the intermediate storage and final storage of the radioactive waste to the German government.

This was offset to some extent by the reimbursement to EnBW AG of the nuclear fuel rod tax that was declared unconstitutional, in the amount of €1,520.8 million.

The sale of securities from the non-current and current assets, against the background of the payment to the disposal fund, led to a further cash inflow of €2,150.0 million. In addition, the changes in financial assets included the return of share certificates from the fund assets of €700.0 million and the sale of shares in a subsidiary of €216.9 million, which also increased liquidity.

In the 2017 financial year, EnBW AG received tax refunds for previous years (including the associated interest) in the amount of €403.4 million.

Terminating the cash pooling for the EEG account of the subsidiary TransnetBW GmbH led to a cash outflow during the course of the year of €407.5 million.

In addition, the call option on the hybrid bond with a volume of €1,000.0 million issued in 2011 and increased in 2012 was exercised as of the first call date and repaid.

Overall assessment of the economic situation of EnBW AG and the development of EnBW AG

In our judgement, the development of the results of operations, financial position and net assets of EnBW AG as of 31 December 2017 is satisfactory after taking into account the effects described below that are not relevant to the ongoing management of the company. In the previous year, an annual net profit of €250 million was expected for 2017. The annual net profit for 2017 stands at €1,989.7 million and was significantly influenced by effects not relevant to the ongoing management of the company, which arose both at EnBW AG itself and also at its subsidiaries which had an impact on EnBW AG via profit and loss transfer agreements. Important effects not relevant to the ongoing management of the company included the reimbursement of the nuclear fuel rod tax that was declared unconstitutional in July 2017 of €1,520.8 million (of which €1,340.0 million was reported under the other operating result of EnBW AG). In addition, fund distributions of €364.0 million, income from the return of share certificates from the fund assets of €218.4 million and the reversal of impairment losses on property, plant and equipment and financial assets of €322.9 million also had a positive effect.

This was offset by higher interest expenses for pension provisions and provisions relating to nuclear power of €434.7 million (of which €365.7 million was reported under the interest expenses of EnBW AG). In addition, allocations to the provisions relating to nuclear power of €159.2 million (of which €121.4 million was reported under the cost of materials of EnBW AG) and impairment losses on intangible assets and property, plant and equipment of EnBW AG of €100.4 million had a negative effect.

Based on an annual net profit of €1,989.7 million and taking account of the loss carried forward of €63.5 million and the transfer to other revenue reserves of €963.0 million, retained earnings amounted to €963.2 million.

We anticipate an annual net loss of around €400 million in 2018. The net result for the year will be negatively influenced by high interest expenses for non-current provisions. As a result of the low-interest phase, the average interest rate will fall further in the future. In 2018, we expect a negative impact on earnings due to effects not relevant to the ongoing management of the company of between €600 million and €700 million overall. Adjusted for these effects, the annual net profit will be between €200 million and €300 million. The amount from the valuation of the provisions for pension obligations that is ineligible for distribution as dividends will stand at around €800 million by 31 December 2018. In 2019 and 2020, we expect further negative impacts on earnings due to the falling average interest rate.

Opportunities and risks

As the business performance, economic situation and opportunities and risks relating to the future development of EnBW AG do not deviate from the business performance, economic situation and opportunities and risks relating to the future development of the EnBW Group, the management report of EnBW AG is combined with that of the EnBW Group (p. 91 ff.).

Comments on reporting

The consolidated financial statements of EnBW AG are prepared in accordance with section 315e (1) HGB using the International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB), the adoption of which is mandatory in the EU as of the reporting date. As a vertically integrated energy company in the sense of EnWG, EnBW AG engages in other activities within the electricity sector, other activities within the gas sector and other activities outside of the electricity and gas sectors in accordance with section 6b (3) sentence 3 and sentence 4 EnWG.

EnBW share and dividend policy

As a result of the small proportion of EnBW shares in free float (www.enbw.com/shareholder-structure), events on the financial markets and the development of the DAX generally only have a very minor influence on the development of the EnBW share price. The price of EnBW shares was €20.00 at the start of 2017 and stood at €28.78 at the end of the year (www.enbw.com/stock-chart).

The trust placed in EnBW by capital market participants is based on the value generated by the company. Against this background, EnBW pursues the goal of disclosing a positive internal financing capability in each financial year and refraining from building up any additional net financial debt. The size of the dividend is based on the amount of net investment and the retained cash flow. Based on the annual net profit of EnBW AG of €1,989.7 million and taking account of the loss carried forward of €63.5 million and the transfer to other revenue reserves of €963.0 million, there are retained earnings of €963.2 million for the financial year and thus dividends will be paid for the 2017 financial year. If approved by the Annual General Meeting, the dividend to be distributed for the 2017 financial year will be €0.50 per share.