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 Group management report, will be published in the German Federal Gazette (Bundesanzeiger).

For statements that 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. 22 ff. and 42 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/report2016-downloads).

The structure of the income statement has been changed in accordance with BilRUG. As a result, extraordinary income from the previous year has been reported under other operating income. Other values for the previous year have been left as they were before BilRUG. The figures for the previous year for the items listed below in the condensed income statement are not comparable with the reporting year. If BilRUG had been applied in the previous year, it would have resulted in the following figures for the previous year.

in € million[1]	2015 after application of BilRUG	2015 before application of BilRUG	2015 Change
Revenue	20,465.7	20,069.0	396.7
Other operating income	634.2	1,030.7	-396.5
Cost of materials	-19,323.2	-19,239.0	-84.2
Other operating expenses	-709.4	-793.6	84.2
Extraordinary income	0.0	0.2	-0.2

[1] In accordance with German commercial law.

Results of operations of EnBW AG

Condensed income statement of EnBW AG

in € million[1]	2016	2015
Revenue	16,288.5	20,069.0
Cost of materials	-15,513.0	-19,239.0
Amortisation and depreciation	-591.4	-502.3
Other operating result	131.8	-295.5
Earnings before interest and taxes	**315.9**	**32.2**
Financial result	-532.5	-679.8
Tax	-15.3	302.4
Annual net loss	**-231.9**	**-345.2**

[1] In accordance with German commercial law.

EnBW AG reports an annual net loss of €231.9 million. This represents an improvement of €113.3 million in comparison to the previous year and is mainly influenced by €283.7 million higher earnings from operating activities. The effect of the fall in revenue was partially compensated for by the decrease in the cost of materials. In addition, it includes the reversal of provisions relating to nuclear power of €737.3 million resulting from a re-evaluation of the rate of increase of costs for the remaining provisions relating to nuclear power held by EnBW AG. The financial result improved by €147.3 million. The tax expense in the financial year was €15.3 million, following a tax income of €302.4 million in the previous year and thus represents a negative change of €317.7 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.

The revenue (after the deduction of electricity and energy taxes) of €16,288.5 million primarily includes revenue from electricity sales of €8,527.5 million and from gas sales of €6,721.8 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.

Of the revenues from sales activities, which are almost at the same level as in the previous year, €1,929.4 million was attributable to electricity and €247.1 million to gas.

In the retail and end customer sector (B2C), electricity sales of 7.3 billion kWh were 0.4 billion kWh below the level in the previous year, mainly due to the decreasing contract portfolio. However, the price adjustment on 1 January 2016 was able to largely compensate for this negative effect on the sales side. Gas sales also fell slightly in the same period by 0.2 billion kWh to 3.8 billion kWh.

The fall in gas sales from 0.7 billion kWh to 0.2 billion kWh in the business and industrial customer sector (B2B) arises primarily as a result of the termination of an important contract, which has also led to a decrease in revenue from this business field in comparison to the previous year.

The trading business of EnBW AG continued to decline in the financial year. While the trading volume for electricity fell significantly in the financial year, the trading volume for gas rose in the same period. The continuously falling procurement and sales prices over the last few years, especially for gas, were the main reason for the further decrease in revenue of EnBW AG of €3,780.5 million and the cost of materials of €3,726.0 million in the financial year compared to the previous year.

The cost of materials includes costs for electricity procurement of €6,477.9 million and costs for gas procurement of €6,579.1 million.

As well as scheduled amortisation and depreciation, amortisation and depreciation includes impairment losses of €232.9 million, mainly on power plants and electricity procurement agreements. In comparison to the previous year, these impairments were €100.4 million higher, due mainly to changed assumptions about the profitability of the power plants.

The financial result primarily comprises revenue from profit and loss transfers of €286.3 million, income from equity investments of €234.2 million and income from other securities and loans held as financial assets of €111.9 million. This is mostly offset by interest expenses resulting from increases in non-current provisions relating to nuclear power and pensions and similar obligations due to the passage of time of €724.4 million, as well as intercompany settlement transactions as part of the centralised financial and liquidity management of €229.5 million. The decrease in interest expenses of €480.1 million in the nuclear power sector and the €425.5 million lower impairment losses on financial assets in comparison to the previous year are offset by €512.1 million lower returns on the investment fund and falling income from profit and loss transfers of €199.6 million.

Tax of €15.3 million mainly comprises current corporate income tax and trade tax. The positive tax result of €302.4 million in the previous year primarily included tax refunds from previous years and the reversal of provisions for tax audit risks. The option of recognising deferred tax assets was not exercised for the active surplus of deferred tax assets.

Net assets of EnBW AG

Balance sheet of EnBW AG

in € million[1]	31/12/2016	31/12/2015
Assets		
Non-current assets		
Intangible assets	930.7	1,116.6
Property, plant and equipment	1,315.8	1,543.9
Financial assets	20,017.6	20,803.9
	22,264.1	**23,464.4**
Current assets		
Inventories	559.0	601.2
Receivables and other assets	3,297.2	3,474.3
Securities	1,466.9	1,224.4
Cash and cash equivalents	2,884.9	2,318.3
	8,208.0	**7,618.2**
Prepaid expenses	**285.6**	**192.4**
Surplus from offsetting	**144.2**	**85.4**
	30,901.9	**31,360.4**
Equity and liabilities		
Equity		
Subscribed capital	708.1	708.1
Treasury shares	-14.7	-14.7
Issued capital	(693.4)	(693.4)
Capital reserve	776.0	776.0
Revenue reserves	1,161.5	1,161.5
Retained loss/earnings	-63.5	317.4
	2,567.4	**2,948.3**
Extraordinary items	**21.6**	**22.3**
Provisions	**13,751.0**	**14,175.2**
Liabilities	**14,300.0**	**13,945.6**
Prepaid expenses	**261.9**	**269.0**
	30,901.9	**31,360.4**

[1] In accordance with German commercial law.

The net assets of EnBW AG as of 31 December 2016 are significantly influenced by non-current assets (particularly financial assets), 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.

Financial assets primarily consist of shares in affiliated entities of €12,727.5 million, securities for the non-current assets of €4,108.6 million and loans to affiliated entities of €1,702.4 million.

Trade receivables of €1,207.6 million mainly comprise receivables for trading activities and consumption accruals for electricity and gas deliveries not yet invoiced. The trade receivables are €119.2 million lower than the value in the previous year, which is primarily due to the further decrease in trading volumes of EnBW AG.

The cash and cash equivalents of EnBW AG totalling €2,884.9 million mainly consist of positive bank balances, which are invested as fixed-term deposits totalling €2,121.6 million. More details on the composition of this item can be found under "Financial position of EnBW AG".

Provisions relating to nuclear power of €6,960.6 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 of €3,951.9 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 €242.3 million is due mainly to interest rate effects. For the provisions relating to nuclear power, there is an increase of €293.9 million in the provisions to be transferred to the disposal fund, primarily due to increases arising from the legislative implementation of the KFK recommendation. The remaining provisions relating to nuclear power held by EnBW AG have decreased by €486.0 million mainly as a result of a re-evaluation of the rate of increase of costs leading to a reduction in the rate from 3.5% to 1.4%. There were also compensatory effects from increases in the provisions due to the passage of time.

Of the liabilities totalling €14,300.0 million, €7,056.1 million have a remaining term of more than one year. Overall, there are liabilities of €9,511.7 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 increase in liabilities of €354.4 million mainly relates to the issuing of two further hybrid bonds with a total volume of €992.6 million. This was offset to a significant extent by the repayment of a liability to the Dutch financing subsidiary EnBW International Finance B.V. of €500.0 million to repay one of the bonds issued by the subsidiary.

There are non-current liabilities of €2,956.9 million to EnBW International Finance B.V. as part of the Debt Issuance Programme (DIP), €1,992.6 million from the issuing of three hybrid bonds and €809.1 million from loan agreements with credit institutions.

Non-current provisions relating to nuclear power and for pensions and similar obligations to the total amount of €7,188.7 million are mainly offset by shares in investment assets, which are recorded as securities for non-current assets. This mixed fund focusing on assets in the eurozone countries is mainly direct or indirect investments in fixed-interest securities and shares. After the return of share certificates from the fund assets of €723.6 million were recorded in the financial year, the carrying amount of the fund assets fell by the same amount to €3,122.4 million. Furthermore, these long-term obligations are offset by directly held fixed and variable interest securities for non-current assets, as well as by other equity investments, which had a total carrying amount on the reporting date of €1,927.4 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 €22,264.1 million are offset by long-term debt of €14,244.8 million.

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

Financial position of EnBW AG

The liquidity of EnBW AG increased from €2,318.3 million by €566.6 million to €2,884.9 million in comparison to the previous year in anticipation of planned payments in the 2017 financial year. As part of the law of reorganising responsibility for nuclear waste management made according to the recommendations of the "Commission to examine the financing of the phase-out of nuclear power" (KFK), EnBW AG will make payments of around €4.7 billion to the German government. In addition, the repayment of a hybrid bond with a volume of €1.0 billion is planned in April 2017.

The cash flows of EnBW AG arise fundamentally from both its own operating business and also balance payments in and out of the bank accounts of EnBW AG made by its subsidiaries 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 change in financial assets includes the return of share certificates from the fund assets of €723.6 million.

Significant additions to the shares in affiliated entities led to a cash outflow of €961.4 million. This was offset by a cash inflow of €513.6 million due to the sale of shares in a shareholding.

In the financial year, two new hybrid bonds with a total volume of €992.6 million were issued, the full amount of which increases the liquidity.

A bond issued by EnBW International Finance B.V. as part of the DIP with a total volume of €500.0 million was repaid on time by the company. The associated liability to EnBW International Finance B.V. in this context decreased accordingly.

As dividends, a total of €149.0 million was distributed to the shareholders of EnBW AG.

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 2016 is satisfactory after taking into account the effects described below that are not relevant to the ongoing management of the company. The annual net loss for 2016 stands at €231.9 million and is significantly influenced by these effects, which arose both at EnBW AG itself and also at its subsidiaries which had an impact on EnBW AG due to profit and loss transfer agreements. The main effects not relevant to the ongoing management of the company were the expenses relating to the law of reorganising responsibility for nuclear waste management of €383.2 million (€295.0 million of which

is disclosed under cost of materials of EnBW AG) and the higher interest expenses for pension provisions and provisions relating to nuclear power totalling €494.2 million (€437.3 million of which is disclosed under interest expense of EnBW AG). Mainly as a result of the amended assessment of the profitability of the power plants, there were impairment losses on property, plant and equipment and financial assets of EnBW AG totalling €268.8 million. In addition, the restructuring expenses totalling €138.1 million (€15.8 million of which is disclosed under financial result of EnBW AG) and impending losses for pending transactions to the amount of €64.0 million (disclosed under the cost of materials of EnBW AG) had a negative effect. This was offset by revenue from the reversals of provisions relating to nuclear power of €1,006.0 million (€737.3 million of which is disclosed under other operating income of EnBW AG), which were mainly attributable to a re-evaluation of the rate of increase of costs for the remaining provisions relating to nuclear power held by EnBW, and to other reversals of provisions at EnBW AG totalling €181.9 million. There is thus an annual net loss for 2016 adjusted for effects not relevant to the ongoing management of the company of around €70 million, which is around €20 million below the expected adjusted earnings.

In accordance with the amended regulations in section 253 HGB, a 10-year average discount rate is to be applied to provisions for pension obligations. The difference between the valuation of the provisions for pension obligations with a 7-year and a 10-year average discount rate is ineligible for distribution as dividends and stands at €571.6 million as of 31 December 2016. Overall, the amount ineligible for distribution as dividends according to section 253 (6) and section 268 (8) HGB as of 31 December 2016 is €670.8 million.

Based on the annual net loss of €231.9 million and taking into account the profit carried forward of €168.4 million, there is a retained loss of €63.5 million.

We anticipate an annual net profit of around €250 million in 2017. The net result for the year will be negatively influenced by higher 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 2017, we expect a resulting negative impact on earnings of around €450 million to €550 million. These negative impacts on earnings will be offset by income not relevant to the ongoing management of the company of around €550 million. Adjusted for these effects, the annual net profit will be between €150 million and €250 million. The amount from the valuation of the provisions for pension obligations that is ineligible for distribution as dividends will stand at around €718.5 million by 31 December 2017.

In 2018 and 2019, 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. 80 ff.).

Comments on reporting

The consolidated financial statements of EnBW AG are prepared in accordance with section 315a (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 have no influence on the development of the EnBW share price. The energy policy conditions remain challenging for German energy supply companies. Accordingly, the price of EnBW shares was €20.58 at the start of 2016, falling by the end of the year to €19.70 (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 retained cash flow in each financial year and refraining from building up any additional net financial liabilities. The size of the dividend is based on the earnings performance of the company and the internal financing capability. Based on the annual net loss of EnBW AG of €231.9 million and taking into account the profit carried forward of €168.4 million, there is a retained loss of €63.5 million for the financial year and thus no dividends will be paid for the 2016 financial year. We anticipate an improvement in the earnings performance and economic situation in the next few years. Therefore, we will strive to distribute an adequate dividend.