EnBW AG

The financial statements of EnBW AG have been prepared in accordance with the regulations in the German Commercial Code (HGB), 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.

EnBW AG is utilizing the option of already applying the amended regulations for discounting the provisions for pension obligations according to section 253 of the HGB, which came into force on 17 March 2016, for the 2015 financial year.

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). The full financial statements of EnBW AG are available for download at (www.enbw.com/bericht2015-downloads).

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.

Results of operations of EnBW AG

EnBW AG reported an annual net loss of €345.2 million, which was primarily influenced by the negative financial result of € -679.8 million that was offset, to some extent, by tax income of €302.4 million.

This represents a fall of €1,594.6 million in comparison to the annual net profit of €1,249.4 million in the previous year. The improvement in the result from ordinary business activities of €357.6 million compared to the previous year was primarily offset by a fall of €2,237.0 million in the extraordinary result, which in the previous year contained the profits from the merger of subsidiaries.

The operating result of EnBW AG is primarily determined by the generated revenue 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 €20,069.0 million primarily includes revenue from electricity sales to the amount of €11,045.9 million and gas sales to the amount of €8,027.0 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 redistributors and trading platforms. Of the revenues from sales activities, which were around the same level as in the previous year, €1,888.5 million was attributable to electricity sales and €274.1 million to gas sales.

In the retail and end customer sector (B2C), electricity sales of 7.6 billion kWh were at the same level as in the previous year, while gas sales increased by 0.5 billion kWh to 4.0 billion kWh. Gas sales in the business and industrial customer sector (B2B) of 0.9 billion kWh were slightly lower than in the previous year.

Revenue from the trading business fell significantly compared to the previous year and this is the main reason for the fall in revenue of €4,037.6 million compared to the previous year. These changes resulted from both the fall in traded volumes of electricity and gas and also the lower procurement and sales prices in the reporting year.

This was offset by the cost of materials mainly for the generation and procurement of volumes of electricity and gas, which fell in comparison to the previous year by €4,084.4 million to €19,239.0 million primarily as a result of the trading business. The cost of materials includes costs for electricity procurement to the amount of €8,610.6 million and costs for gas procurement to the amount of €7,879.2 million.

Alongside scheduled amortisation and depreciation, the amortisation and depreciation item includes impairment losses on power plants to the amount of €132.5 million, which were €187.8 million lower than in the previous year.

The financial result primarily comprises income from other securities and loans held as financial assets to the amount of €626.9 million, revenues from profit and loss transfers to the amount of €485.8 million and income from equity investments to the amount of €337.4 million. This was offset by the reversal of impairments to financial assets to the amount of €486.6 million. In addition, interest expenses accrued for non-current provisions in the nuclear power sector and for pensions and similar obligations to the amount of €1,216.0 million, and from intercompany settlement transactions as part of the centralised financial and liquidity management to the amount of €249.4 million are included.

The full amount of the extraordinary result comprises profits from the merger of a subsidiary.

The taxes primarily include tax refunds from previous years and the reversal of provisions for tax audit risks that led to a positive tax result, which was €284.8 million higher than the figure in the previous year. The option of recognising deferred tax assets was not exercised for the active surplus of deferred tax assets.

We will propose to the Annual General Meeting on 10 May 2016 that a dividend of €0.55 per share be distributed from the retained earnings of EnBW AG. As of 31 December 2015, a total of 270,855,027 shares were entitled to a dividend. If the Annual General Meeting approves this proposal, the total amount distributed by EnBW AG for the 2015 financial year will be €149.0 million.

Condensed income statement of EnBW AG

in € million[1]	2015	2014
Revenue	20.069,0	24.106,6
Cost of materials	-19.239,0	-23.323,4
Amortisation and depreciation	-502,3	-712,7
Other operating result	-295,7	-384,3
Operating result	**32,0**	**-313,8**
Financial result	**-679,8**	**-691,6**
Extraordinary result	0,2	2.237,2
Tax	302,4	17,6
Annual net loss/profit	**-345,2**	**1.249,4**

1 In accordance with German commercial law.

Net assets of EnBW AG

The net assets of EnBW AG as of 31 December 2015 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. This is primarily offset by provisions from the nuclear power sector and for pensions and similar obligations, as well as non-current liabilities.

Financial assets stood at the same level as in the previous year and primarily consisted of shares in affiliated entities to the amount of €12,096.1 million, securities from non-current assets to the amount of €4,842.3 million and equity investments to the amount of €2,334.9 million.

Trade receivables to the amount of €1,326.8 million mainly comprise receivables for trading activities and consumption accruals for electricity and gas deliveries not yet invoiced. These were €382.4 million below the figure in the previous year, which was due to the slightly lower trading volumes of EnBW AG and the fall in wholesale prices.

The cash and cash equivalents of EnBW AG totalling €2,318.3 million mainly consist of positive bank balances, which are invested as fixed-term deposits to the amount of €1,599.5 million. More details on the composition of this item can be found under "Financial position of EnBW AG".

Provisions for the nuclear power sector to the amount of €7,152.7 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 €3,709.6 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 in the nuclear power sector and for pensions and similar obligations to the total amount of €1,074.6 million in comparison to the previous year were mainly due to interest accrual.

Of the liabilities totalling €13,945.6 million, €7,130.8 million have a term of more than one year. Overall, there are liabilities of €9,883.2 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.

Non-current liabilities exist to the amount of €3,456.0 million to the Dutch financing subsidiary EnBW International Finance B.V. as part of the DIP programme, to the amount of €2.0 billion from the issuing of two hybrid bonds and to the amount of €950.0 million from loan agreements with credit institutions.

The non-current provisions from the nuclear power sector and for pensions and similar obligations to the total amount of €10,862.3 million are mainly offset by shares in investment assets, which are recorded as securities for non-current assets. These two mixed funds focusing on assets in the eurozone countries are mainly direct or indirect investments in fixed-interest securities and shares. After €50.0 million was invested in the funds in the reporting year, the total carrying amount of the funds on the reporting date was €3,846.0 million. Furthermore, these long-term obligations are offset by directly held fixed and variable interest securities for the non-current assets, as well as in other equity investments, which had a total carrying amount on the reporting date of €1,835.1 million.

The goal is to cover these non-current pension and nuclear provisions with appropriate financial assets within an economically feasible time period. Overall, the non-current assets to the amount of €23,464.4 million are offset by long-term debt to the amount of €17,993.1 million.

The liquidity of EnBW AG to the amount of €2,318.3 million on the reporting date guarantees the solvency of the company for the payment of dividends and current liabilities from the operative business.

Balance sheet of EnBW AG

in € million[1]	31/12/2015	31/12/2014
Assets		
Non-current assets		
Intangible assets	1.116,6	1.225,0
Property, plant and equipment	1.543,9	1.855,7
Financial assets	20.803,9	20.745,0
	23.464,4	**23.825,7**
Current assets		
Inventories	601,2	834,0
Receivables and other assets	3.474,3	3.651,4
Securities	1.224,4	921,8
Cash and cash equivalents	2.318,3	1.850,3
	7.618,2	**7.257,5**
Prepaid expenses	**192,4**	**193,2**
Surplus from offsetting	**85,4**	**35,1**
	31.360,4	**31.311,5**
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 earnings	317,4	849,5
	2.948,3	**3.480,4**
Extraordinary items	**22,3**	**8,8**
Provisions	**14.175,2**	**13.097,6**
Liabilities	**13.945,6**	**14.275,6**
Deferred income	**269,0**	**449,1**
	31.360,4	**31.311,5**

[1] In accordance with German commercial law.

Financial position of EnBW AG

The liquidity of EnBW AG increased by €468.0 million from €1,850.3 million to €2,318.3 million in comparison to the reporting date in the previous year. This increase was primarily due to lower net capital expenditure in the reporting year. The cash flows of EnBW AG result primarily from both its own operating business and also its subsidiaries balance payments in and out of 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 reporting year will be summarised below:

Financial assets included investments of €180.0 million in fund assets made in the reporting year. This was offset by dividend payments from the funds to the amount of €836.0 million.

Significant additions to the shares in affiliated entities led to a cash outflow to the amount of €300.7 million. This was offset by a cash inflow of €721.7 million due to the sale of shares in affiliated entities. The increase in financial investments to the amount of €127.4 million can mainly be attributed to capital calls in the reporting year.

A bond with a total volume of €750.0 million issued as part of the DIP programme was repaid on time to the Dutch financing subsidiary EnBW International Finance B.V. Interest for the DIP programme to the amount of €193.9 million was paid via EnBW International Finance B.V.

The company paid €228.0 million in relation to the nuclear fuel rod tax. In contrast, income tax-related circumstances resulted on balance in tax refunds to the amount of €158.2 million.

As dividends, a total of €186.9 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 2015 is satisfactory. The annual net loss for 2015 stands at €345.2 million and was as expected significantly influenced by extraordinary items, which arose both at EnBW AG itself and also at its subsidiaries and which had an impact on EnBW AG due to profit and loss transfer agreements. Significant extraordinary items included the predicted higher interest expenses for non-current provisions to the amount of €1,036.4 million. As a result of the sharp fall in the price of electricity, there were further impairment losses on property, plant and equipment and financial assets to the amount of €617.3 million and impending losses for pending transactions to the amount of €291.9 million. This was offset by disbursements of financial assets to the amount of €737.8 million, write-ups of financial assets to the amount of €319.6 million and reversals of provisions to the amount of €277.2 million. The net annual profit for 2015 adjusted for extraordinary items stands at around €250 million and was thus €100 million above the expected result, which was primarily due to the improved financial result. In accordance with the amended regulations in section 253 of the 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 stood at €275.3 million as of 31 December 2015.

The retained earnings of €317.4 million can still be distributed in full as dividends because the amount ineligible for distribution is covered by the freely available reserves. The ability to pay a dividend for the 2015 financial year is thus guaranteed.

We anticipate an annual net profit of around €70 million in 2016. 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 in the future. In 2016, we expect a resulting negative impact on earnings of between €1.0 billion and €1.2 billion. These negative impacts on earnings are offset by extraordinary income to the amount of €1.3 billion. After it has been adjusted for these extraordinary items, the annual net loss will be around €50 million. The amount from the valuation of the provisions for pension obligations that is ineligible for distribution as dividends will stand at around €550 million by 31 December 2016.

In 2017 and 2018, 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. 74 ff.).

Comments on reporting

The consolidated financial statements of EnBW AG are prepared in accordance with section 315a (1) of the German Commercial Code (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 of the EnWG.

Dependent company declaration

Pursuant to section 312 AktG, the Board of Management of EnBW AG prepared a dependent company report for the 2015 financial year. This report details relationships with affiliated entities, and closes with the following declaration: "In the legal transactions listed in the dependent company report, and according to the circumstances that were known to us when those legal transactions were performed, our company received appropriate consideration for each legal transaction and was not placed at a disadvantage. We did not take, or refrain from taking, any reportable actions motivated by, or in the interest of, the controlling companies or their affiliated entities."

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 €25.18 at the start of 2015 yet fell by the end of the year to €20.62 (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 free 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, the scope of the capital expenditure programme, as well as the volume of net debt and the dynamic leverage ratio. Depending on these parameters, EnBW strives to always pay out between 40% and 60% of adjusted Group net profit. If the Annual General Meeting approves the corresponding proposal, the dividend payout ratio for the 2015 financial year, adjusted for the results of the sale of securities to the amount of €522.7 million, will be 34.7%.