

# Overall assessment of the economic situation of the Group

In Germany and the surrounding countries, the Energiewende has fundamentally changed the political and regulatory conditions. In 2017, the adoption of the Act for the Reorganisation of Responsibility in Nuclear Waste Management established a long-term arrangement. In addition, the  nuclear fuel rod tax was declared unconstitutional by the supreme court in the summer of 2017 and the taxes paid up to then were reimbursed. For the expansion of renewable energies, state incentive systems are being increasingly replaced by market-driven developments. The continuing low prices and  spreads on the wholesale markets for electricity and the trend of growing generation from renewable energies have kept the pressure on conventional power plants at a high level. At the same time, market and competitive structures are changing. The energy landscape is becoming more decentralised and sustainable, as well as becoming increasingly interconnected with other economic sectors. As a consequence, energy supply companies require new business models and a more dynamic corporate culture.

EnBW is well on track in its EnBW 2020 strategy to once again achieve the same level of earnings in 2020 as in 2012 – although on the basis of a realigned business portfolio. An important milestone was reached by EnBW in 2017 when the operating result improved on the figure in the previous year for the first time since 2010.

The operating business of the EnBW Group developed better in 2017 than expected and forecast at the start of the year: The  adjusted EBITDA of the EnBW Group increased by 9.0% in comparison to the previous year and thus exceeded our forecast. The full consolidation of VNG had a significant effect, which was also felt in the individual segments. Adjusted for consolidation effects, the adjusted EBITDA would have remained almost constant at 1.4% above the previous year. The result in the Sales segment developed very positively in the reporting year. The result in the Grids segment was impacted by the full consolidation of VNG. In contrast, there were lower earnings from the use of the distribution grids. In the positive earnings performance in the Renewable Energies segment, the higher contributions made by the offshore and onshore wind farms more than offset the lower electricity generation from our run-of-river power plants. The result in the Generation and Trading segment developed better than expected. There was a positive influence on earnings due, above all, to the full consolidation of VNG and the elimination of the nuclear fuel rod tax. These effects more than compensated for the negative impacts of the temporary shutdown of Block 2 of the Philippsburg nuclear power plant (KKP 2) and the continuing low wholesale market prices on the  forward market for electricity. In total, the Grids and Renewable Energies segments contributed around two thirds of the adjusted EBITDA of EnBW.

The non-operating result, which includes effects not relevant to the ongoing management of the company, stood at a high positive value in 2017. In the previous year, the non-operating  EBIT was impacted by, amongst other things, large impairment losses on power plants. The positive earnings performance in the reporting year was mainly attributable to the reimbursement of the nuclear fuel rod tax and the sale of shares in the offshore wind farms EnBW Hohe See and EnBW Albatros.

In total, these developments – together with the changes in the investment result, financial result and income taxes – resulted in a Group net profit attributable to EnBW shareholders for the 2017 financial year of €2,054.1 million. A net loss of €1,797.2 million was reported in the previous year. Earnings per share amounted to €7.58 in 2017 compared to €-6.64 in the previous year.

The financial position of the company remains sound. The solvency of the EnBW Group was ensured at all times throughout the 2017 financial year thanks to the company's available liquidity and the external sources available for financing. The key performance indicator internal financing capability stood at 111.9% and was thus above the target value of  $\geq 100\%$ . The fall in the key performance indicator  ROCE was mainly due to the increase in the average  capital employed.

In the customers and society goal dimension, the reputation of EnBW improved noticeably in 2017, which was due to, amongst other things, the image campaign focusing on the themes of wind power and electromobility. The satisfaction of the customers of EnBW and Yello also increased in comparison to the previous year. Supply reliability continued to remain at a high level in 2017. In the employees goal dimension, the degree to which employees identify with EnBW improved slightly due to, amongst other things, a better assessment of the current competitiveness of the company. Occupational safety improved in comparison to the previous year. This is demonstrated by a fall in the LTIF. In the environment goal dimension, the expansion of renewable energies continued according to plan. The year 2017 was characterised above all by the expansion of onshore wind farms. The  CO<sub>2</sub> intensity of own generation of electricity decreased in 2017 because generation from renewable sources increased slightly and a more efficient mix of fossil fuel-fired power plants was used.

In the estimation of the Board of Management, the operating business of the EnBW Group developed positively, and largely according to expectations in 2017. EnBW is also on course in the non-financial goal dimensions. We will continue to rigorously implement our EnBW 2020 strategy and we assume from our current perspective that the goals being pursued through it will be achieved with a high degree of probability.