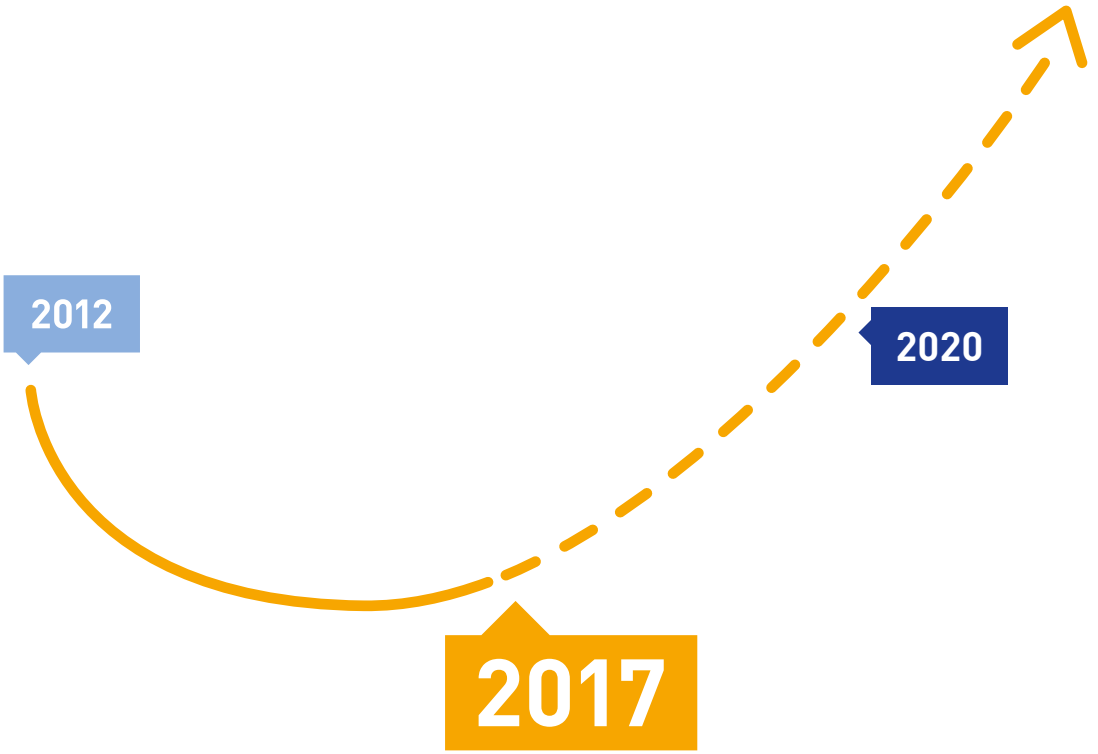
Integrated Annual Report 2017

Excluding the notes and
the declaration of corporate management



On track

2020 strategy

EnBW

Performance indicators of the EnBW Group

Financial and strategic performance indicators

in € million	2017	2016	Change in %
External revenue	21,974.0	19,368.4	13.5
TOP Adjusted EBITDA	2,113.0	1,938.9	9.0
TOP Share of adjusted EBITDA accounted for by Sales in € million/in %	330.0/15.6	249.7/12.9	32.2/–
TOP Share of adjusted EBITDA accounted for by Grids in € million/in %	1,045.9/49.5	1,004.1/51.8	4.2/–
TOP Share of adjusted EBITDA accounted for by Renewable Energies in € million/in %	331.7/15.7	295.3/15.2	12.3/–
TOP Share of adjusted EBITDA accounted for by Generation and Trading in € million/in %	377.1/17.8	337.2/17.4	11.8/–
Share of adjusted EBITDA accounted for by Other/Consolidation in € million/in %	28.3/1.4	52.6/2.7	-46.2/–
EBITDA	3,752.4	730.7	–
Adjusted EBIT	998.8	1,024.5	-2.5
EBIT	2,504.0	-1,662.9	–
Group net profit/loss[1]	2,054.1	-1,797.2	–
Earnings per share from Group net profit/loss in €[1]	7.58	-6.64	–
Retained cash flow	3,050.3	949.5	–
Retained cash flow II	1,529.5	949.5	61.1
Net (cash) investments	1,367.1	1,316.9	3.8
TOP Internal financing capability in %	111.9	72.1	55.2
Net financial debt[2]	2,917.8	3,653.8	-20.1
Coverage ratio ALM in %[2]	52.9	60.8	–
TOP Return on capital employed (ROCE) in %[2]	7.3	7.8	–
Weighted average cost of capital before tax in %	6.3	6.9	–
Average capital employed[2]	15,146.1	13,760.9	10.1
Value added[2]	151.5	123.8	22.4

Non-financial key performance indicators

	2017	2016	Change in %
Customers and society goal dimension			
TOP Reputation Index	52.1	50.0	4.2
TOP EnBW/Yello Customer Satisfaction Index[3]	143/161	132/150	8.3/7.3
TOP SAIDI (electricity) in min./year	19	16	18.8
Employees goal dimension			
TOP Employee Commitment Index (ECI)[4]	60	59	1.7
TOP LTIF[4]	3.0	3.9	-23.1
Environment goal dimension			
TOP Installed output of renewable energies (RE) in GW and the share of the generation capacity accounted for by RE in %	3.4/25.9	3.1/23.1	9.7/12.1
TOP CO_2 intensity in g/kWh	556	577	-3.6

Employees of the EnBW Group[5]

	31/12/2017	31/12/2016	Change in %
Employees	21,352	20,409	4.6
Full-time equivalents[6]	19,939	18,923	5.4

1 In relation to the profit/loss attributable to the shareholders of EnBW AG.
2 The figures for the previous year have been restated.
3 EnBW has been working together with a new market research company since 2017. Despite using the same survey methodology and random sampling, current and earlier values are only comparable to a limited extent.
4 Variations in the group of consolidated companies; see also the definition of key performance indicators on page 30.
5 Number of employees excluding marginally employed persons, apprentices/trainees and inactive employees.
6 Converted into full-time equivalents.

Profile 2017

2012

On track. EnBW reached an important milestone in the history of the company in 2017: a turning point in earnings on the basis of a realigned business portfolio. We thus remain on track to achieve our goals in the EnBW 2020 strategy and anticipate that we will once again reach the same level of earnings in 2020 as in 2012.

The further development of the EnBW strategy post 2020 is picking up speed: Based on our core expertise – the safe and reliable operation of critical infrastructure in the energy sector – we want to increasingly place the strategic focus of our company on the aspect of infrastructure within our existing business fields and also exploit new growth opportunities above and beyond the energy sector.

2017

EnBW is one of the largest energy supply companies in Germany and Europe with a workforce of more than 21,000 employees and supplies electricity, gas, water and energy solutions and energy industry services to around 5.5 million customers. We aim to further strengthen our position as a sustainable and innovative infrastructure partner for customers, citizens and local authorities to an even greater extent.

2020

Note: The full set of financial statements of the EnBW Group 2017 including the notes to the consolidated financial statements and the declaration of corporate management 2017 of the EnBW Group and EnBW AG, as well as the corporate governance report 2017 are available to download on our website www.enbw.com/report2017.

A detailed table of contents with an explanation on how to navigate through the report can be found on the rear cover.

On track

EnBW has been changing more profoundly than ever before since 2012. This is necessary to accomplish the goals in the 2020 strategy. The company already reached crucial milestones such as the turning point in earnings in 2017.

2012

€2.4 billion

adjusted EBITDA

2017

€2.1 billion

adjusted EBITDA

2020

€2.4 billion

adjusted EBITDA

2012

Strategy defined for 2020

The phasing out of nuclear power, tougher competition and climate change have caused upheaval in the energy sector. EnBW was one of the first energy companies that decided to undergo radical change. In cooperation with managers and employees selected from all areas of the company, the Board of Management developed the 2020 strategy and since then, EnBW has been reorganising its business portfolio and exploiting new growth opportunities. The strategy focuses above all on the expansion of renewable energies and the grids. In addition, it concentrates on the development of new products and services for customers.

2017

Financial trend reaches turning point

EnBW cleared an important strategic hurdle in 2017. The annual operating result rose again for the first time since 2010. An important intermediate goal of the strategy has thus been achieved because the cost of the Energiewende and the fall in electricity prices had caused the profits of EnBW to collapse. The Group countered these problems and radically simplified its structures so that today it can work more economically. EnBW spends €1 billion less per year than in 2012. This amount is set to rise to €1.4 billion per year by 2020. At the same time, increasing revenue and the expansion of renewable energies and the grids have supported the turnaround in earnings. They are making a growing contribution to the Group net profit – with, for example, the expansion of onshore wind power having a significant positive impact in 2017.

We are making every effort to further increase profits. EnBW is already earning more today through renewable energies and the grids than through gas and coal power plants. In addition, we are investing in innovative and digital products: We are developing modern storage systems, smart street lighting and virtual platforms for trading electricity and gas. But we are not travelling this road alone. We are also opening ourselves up to companies that are not from the energy industry. For example, we now have start-ups as important partners. EnBW identifies these companies outside of the Group or builds them up itself – such as at the Innovation Campus in Karlsruhe or the Company Builder in Stuttgart.

2020

Time is on our side

We will do all we can to once again achieve earnings of €2.4 billion by 2020 and thus reach the same level as in 2012 – yet we will achieve this result under totally different conditions: renewable energies, grids and sales will contribute 85 % of the net profits. The share of the generation capacity accounted for by renewable energies will increase from the current figure of just under 26 % to 40 %. This period of radical change is likely to come to an end by 2020. We will then concentrate on growth and innovation to secure new markets.

Development of adjusted EBITDA
in € billion

2025

Prospects for growth

Alongside our existing growth fields of renewable energies, grids and sales, we have identified future growth fields in the area of critical infrastructure – i.e. systems that maintain important social functions. These are not only found in the energy sector but also in adjacent fields such as transport or telecommunications. EnBW can safely manage large, complex energy plants, extensive electricity and gas grids and highly complicated IT systems. We want to transfer this expertise to other sectors. The infrastructure market in Germany is highly attractive. In the next ten years alone, investment will increase by 50 percent to €150 billion – both within the energy system and also in adjacent sectors.

Group management did not develop the 2020 strategy on its own. Employees contributed their ideas in workshops and seminars.

A look ahead to the future. Three questions for …

Question: Why is the energy sector changing so profoundly?

An important reason is the trend towards decarbonisation due to climate protection. Technical developments mean that renewable energies are today often cheaper than conventional energy even without subsidies. Another driver of this change is digitalisation. Customers expect innovations from energy companies that are already commonplace in other sectors.

Question: What challenges do companies still face?

Energy companies need to focus on future sectors in which they are highly proficient – such as offshore wind or energy-related services. This will enable them to succeed against strong and new competitors from other sectors and exploit important growth opportunities. This applies above all to the end-customer business but also to the areas of infrastructure or renewable energies.

Question: How will the energy world look in the future?

An important trend is the coupling of various different sectors of the energy industry. Electric cars could be used as storage systems for the electricity grid, while the areas of electricity, heating and gas could be combined in sustainable residential districts. The energy industry will experience another period of profound change due to this type of networking.

"Energy companies need to focus on future sectors in which they are highly proficient."

Frank Klose,
The Boston Consulting Group

Frank Klose is a Senior Partner and Managing Director of the strategy consultants The Boston Consulting Group (BCG). One of his specialist areas is the energy industry.

Tailwind

The expansion of renewable energies is a central component of the future plans of EnBW. An important role will be played here by wind power – an area in which the company has already realised important projects today.

2012

48 MW

installed output from offshore wind energy

2017

336 MW

installed output from offshore wind energy

2020

945 MW

installed output from offshore wind energy

2012

First milestones

Concerns about the global climate and society's demands for renewable energies have provided photovoltaics and wind power with new impetus. The expansion of renewable energies has become a core component of our strategy. Alongside onshore wind power, the massive expansion of offshore wind power in particular is making a decisive contribution. We already achieved the first milestone in 2011 when EnBW Baltic 1 was connected to the grid – the first commercial wind farm in the German Baltic Sea. Its installed output of 48 MW supplies electricity for an aggregate of around 50,000 households. In the same year, the German government decided to phase out nuclear power.

2017

Expansion of wind power on land and at sea

We have significantly increased offshore wind power output in the last few years. EnBW Baltic 2 was connected to the grid in 2015 – with more than five times as much output as EnBW Baltic 1. The electricity generated by the wind farm supplies an aggregate of around 340,000 households. We are now moving from the Baltic Sea to even larger projects in the North Sea. The construction of two new wind farms has begun far beyond the coast of Helgoland – EnBW Albatros and EnBW Hohe See. They will feature a total of 87 turbines – only a few more than at EnBW Baltic 2. However, the individual turbines are significantly more powerful and demonstrate the technical developments that have taken place in the offshore wind industry.

This technical progress has also had an impact on land. In 2017, we placed onshore wind farms with an output of 204 MW into operation. Three quarters of these were located in Baden-Württemberg. Our onshore wind farms have a total output of 540 MW – more than three times as much as in 2012. Wind power plants do not only need to be planned and constructed, but also maintained. In order to continue to grow in this attractive business field, EnBW acquired the service provider Connected Wind Services in 2016 – a specialist in wind farm maintenance. In cooperation with the company's own operations managers, this company has thus become a powerful full-service provider in the area of wind power.

Alongside the expansion of renewable energies and the phasing out of nuclear power, the operation of our conventional power plants forms a third important pillar of our power plant business. Conventional power plants will still safeguard the reliable supply of electricity for a long time to come – especially at times when solar and wind power plants cannot generate enough electricity. To ensure we are well equipped for this task, we are optimising our conventional power plants: old coal-fired blocks are being transferred to the reserve and later decommissioned. Priority is being given to new, modern and highly efficient power plants. For example, our combined heat and power plant in Stuttgart-Gaisburg – a power plant that has so far been primarily fired with coal – is being replaced by a flexible gas power plant. This will reduce the CO_2 emissions and secure the environmentally friendly supply of district heating in Stuttgart, while the combined heat and power plant itself will integrate even better into the cityscape of Stuttgart.

2020

Venturing abroad

We want to increase the share of our generation capacity accounted for by renewable energies to 40 % by 2020 – more than twice as much as in 2012. The EnBW Albatros and EnBW Hohe See wind farms with an output of more than 600 MW will be connected to the grid in 2019. The wind farms are located close to one another and will jointly make use of the maintenance and supply infrastructure. They will have twelve times as much output in total as the first wind farm EnBW Baltic 1. EnBW also wants to benefit from the growth of the offshore wind market abroad and will develop three offshore wind projects off the coast of Taiwan together with partners. In contrast, operations at the nuclear power plants will soon cease. The last two nuclear power plant blocks operated by EnBW will be disconnected from the grid in 2019 and 2022, respectively.

Development of adjusted EBITDA
Renewable Energies, Generation and Trading
in € billion

2025

A superlative wind farm

As things currently stand, our largest offshore wind farm EnBW He Dreiht is due to be connected to the grid in 2025. The plans envisage the erection of 100 turbines with a total output of 900 MW. We want to increase our offshore capacity to around 2,500 MW over the long term. The face of the energy industry will also continue to change on land. The expansion of decentralised generation such as onshore wind power and photovoltaics means that energy will be generated in many different locations. These generators need to be sensibly networked so that they can feed in, sell or consume electricity, while the overall system remains stable despite the numerous players on the market. Many different measures will contribute to the constant balancing of supply and demand – such as virtual power plants, smart meters or modern electricity storage systems.

A look ahead to the future. Three questions for …

Question: When will it be possible to exclusively rely on renewable energies in Europe?

The EU has set the goal of generating half of the required electricity from renewable energies by 2030. Electricity generation should then be fully decarbonised by 2050. However, electricity only accounts for 22 % of the overall energy consumption in Europe. The rest is spread across the areas of heating and transport. Renewable energies currently account for 18 % of the energy consumed for heating and only 6 % of the energy consumed for transport. These values also need to increase significantly.

Question: The expansion of renewable energies requires acceptance amongst the general population. How do we win acceptance?

It is important to involve the population in the planning of new onshore wind farms. Modernisation of the wind farms at the end of their 20 year service lives can also increase acceptance. After all, the turbines of today are much more powerful than in the past. 69 old turbines were recently replaced at a wind farm in Spain. Seven new turbines now generate twice as much electricity as before.

Question: How uniform is the expansion of renewable energies worldwide?

There has been significant growth in renewable generation around the world. However, there are differences between the various regions. This becomes particularly clear if you examine the geographical distribution of the 540 GW of installed global output in 2017. There was 178 GW of output attributable to Europe, with 56 GW in Germany. Yet thanks to the massive expansion in China, the figure for Asia was 229 GW, while 105 GW was attributable to North America.

"It is important to involve the population in the planning of new onshore wind farms."

Giles Dickson, WindEurope

Giles Dickson has been CEO of the European wind energy association WindEurope in Brussels since 2015. He previously worked for the Alstom Group in France and for the British government.

In the area of onshore wind power, EnBW will not limit itself to only the German market but will also invest in major projects abroad.

In close proximity

The changes to the energy world will have an impact on all areas of life. We are developing smart and useful solutions for our customers that will make their lives easier and reliably cover their need for electricity and heating now and in the future.

2012

0
quick-charging stations

2017

128
quick-charging stations

2020

1,000
quick-charging stations

2012

Business model no longer viable

For a long period of time, EnBW primarily supplied electricity, gas, heating and water to its end customers. Since 2012, we are no longer limiting ourselves to just this role but are rather expanding renewable energies and offering new energy solutions to our customers.

2017

Life becomes easier

In the past five years, EnBW has managed to develop numerous new products for its customers and launch them onto the market. This is demonstrated above all in the area of electromobility, where EnBW is today the number 1 in Germany with over 120 quick-charging stations. In Baden-Württemberg we have developed a comprehensive charging network covering more than 300 locations. This will enable us to exploit the benefits of networked technology and help electromobility to make the breakthrough more quickly. This starts with making payment easier. Therefore, we are combining our charging network with those from other suppliers. Electric cars were able to be charged at more than 11,000 charging stations in Germany, Austria and Switzerland using the EnBW mobility+ charging card by the end of 2017 – from different suppliers but always at the same price.

The right choice of vehicle is also important so that customers feel happy with an electric car. The EnBW mobility+ app recommends a vehicle model for customers that precisely matches their requirements. In addition, it guides them to the nearest charging station. EnBW mobility+ has really struck a chord with this service and it has become the most downloaded electromobility app in Germany.

Simple solutions are important in a complex energy world where customers are both generators and consumers all at the same time. Anyone who owns their own home does not necessarily have to feed the solar electricity generated on the roof into the grid today as they did before. EnBW solar+ enables users to utilise it to a large extent for their own consumption and share it with others: The product combines a photovoltaic power plant, storage system for the home and access to an energy community. In the past year, 680 customers have chosen to purchase EnBW solar+ and more than 300 systems have already been installed.

We often develop ideas for new products within our own ranks. Our Innovation Campus in Karlsruhe launched, for example, the multifunctional street lighting SM!GHT onto the market. It is not just a street light but also provides Internet access, measures environmental data or is equipped with a socket for charging electric vehicles. And the proportion of new business models is growing. Nine new projects were developed by Group-wide innovation management in 2017 alone.

2020

The energy manager next door

People are increasingly becoming independent generators and consumers of energy. We want to make this possible for them through our products and services. Charging an electric car will soon not only be possible via a charging card but also via the EnBW mobility+ app. We also aim to expand the number of our quick-charging stations to 1,000 by 2020. To reduce charging times even further, we will gradually improve their performance to at least 150 kW and build quick-charging hubs in conurbations – such as in car parks where several e-cars can charge their batteries at the same time.

The ability to store and share self-generated solar electricity using EnBW solar+ will be successively expanded. It will soon be possible to also connect electromobility and heating to this smart system. The decentralised energy landscape will become a highly complex system. EnBW will use its experience to ensure that its customers can easily benefit from the energy system of the future.

2025

Power plant? What power plant?

The number of wind, photovoltaic and biomass power plants is growing. Their output can be combined and controlled. These invisible virtual power plants are still in their infancy but will become a reality by 2025. EnBW is developing the modern IT platforms required to operate them. This networked technology should guarantee the security of supply and also help customers to sell their self-generated energy at an appropriate price on the market.

Development of adjusted EBITDA Sales
in € billion

A look ahead to the future. Three questions for …

Question: What developments will shape the cities of tomorrow the most?

The cities of the future will be shaped by digitalisation, decentralisation, partial dematerialisation and, above all, networking. The reasons for these developments are that we need to become more efficient, sustainable, resilient and cooperative to secure our future viability. All of these aspects are already influencing and changing the energy industry today.

Question: How important will the role of energy be in the smart cities of tomorrow?

There can be no smart cities without a reliable and sufficient supply of energy. Smart cities will aspire to be sustainable but will also consume huge amounts of energy at the same time. We will utilise the opportunities offered by automation and the integration of digitalisation to a much greater extent and thus not only become much more efficient but also generate additional consumption. Therefore, we require an urban Energiewende. The competition for space and high demand for energy per square metre in cities make this transformation very challenging. It is also for this reason that the process should run hand in hand with urban planning and the residents.

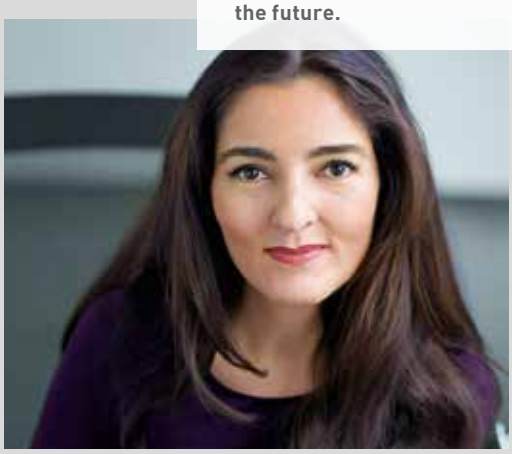
Question: What do energy companies need to do for their customers in urban areas?

The task of the energy supply companies and municipal utilities will be to shape the urban Energiewende. At the same time, they need to update their business models for the future and adapt them to the changing nature of public services and the associated demand. We view the supply companies as the city managers of the future. Until then, the task is to protect the interface to customers and accompany them into the future with suitable sales solutions and services. Those companies who are reliable and forward-looking should be able to defend their position against new players.

"Smart cities will aspire to be sustainable but will also consume huge amounts of energy at the same time."

Chirine Etezadzadeh, SmartCity.institute

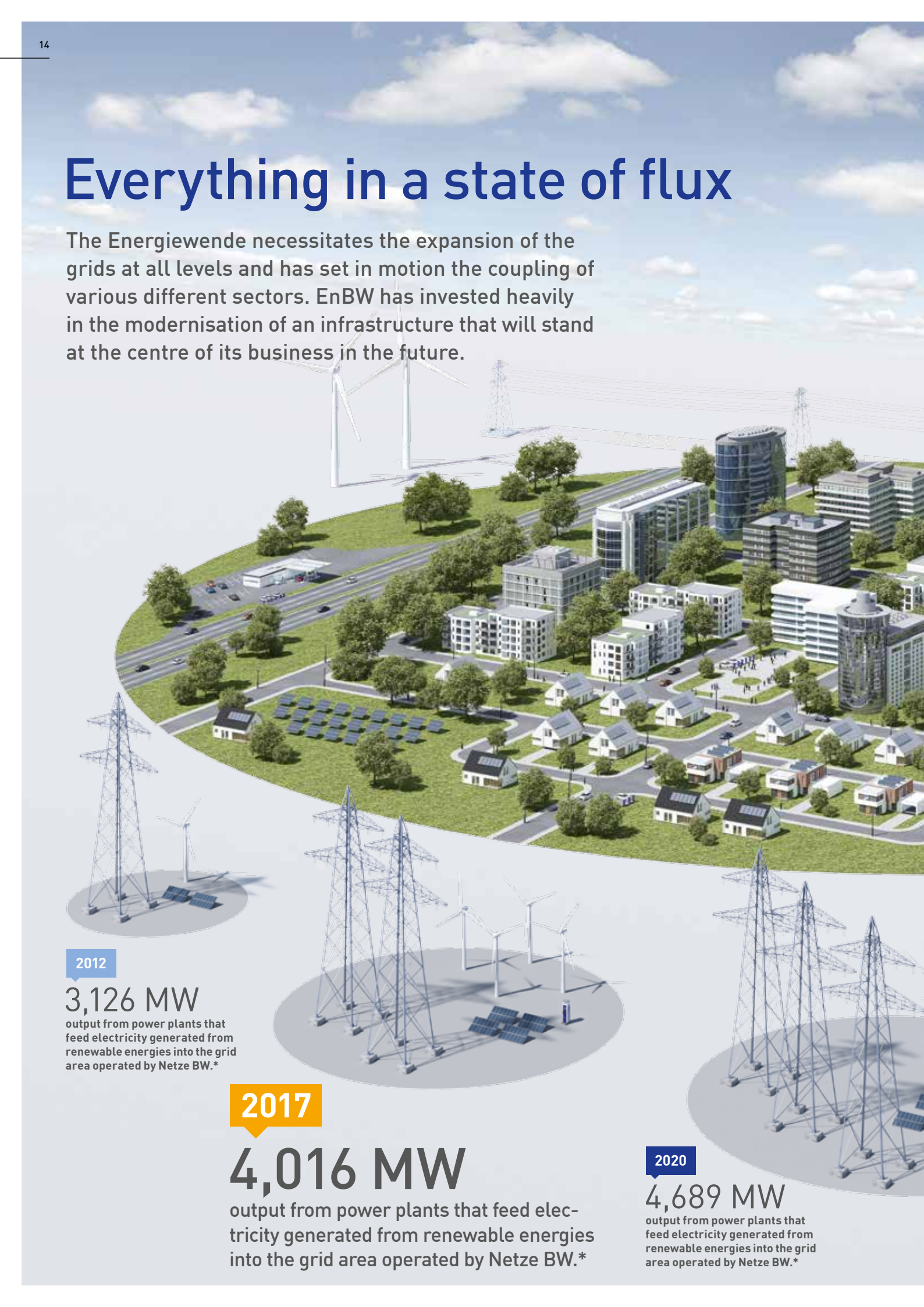
Prof. h.c. Dr. Chirine Etezadzadeh heads the SmartCity.institute in Stuttgart. As a strategy consultant, she focuses on research themes relating to the city of the future.



The boundaries between energy and mobility are becoming blurred. Customers will be able to take advantage of the benefits of this new era thanks to new products from EnBW. Self-generated solar electricity can, for example, be stored and sold together with that of other customers via tablet.

Everything in a state of flux

The Energiewende necessitates the expansion of the grids at all levels and has set in motion the coupling of various different sectors. EnBW has invested heavily in the modernisation of an infrastructure that will stand at the centre of its business in the future.



2012

3,126 MW

output from power plants that feed electricity generated from renewable energies into the grid area operated by Netze BW.*

2017

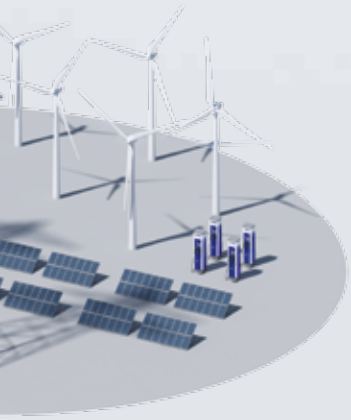
4,016 MW

output from power plants that feed electricity generated from renewable energies into the grid area operated by Netze BW.*

2020

4,689 MW

output from power plants that feed electricity generated from renewable energies into the grid area operated by Netze BW.*



2012

"Simple" is a thing of the past!

The old energy world was clearly organised – control centres managed large, centralised power plants. The electricity generated in the power plants then flowed through cables to consumers. Decentralised production in wind farms and solar power plants was barely provided for in this system.

2017

Maintaining a clear overview

The situation is different today. The grid needs to be expanded to receive electricity generated at many different locations. The challenge is that there is an increasing amount of "contraflow" on the grid – self-generated electricity is being fed into the grid, while customers draw electricity from the grid at the same time. In order to address this challenge, the company is contributing to the development of smart transformers and smart meters.

The intensive modernisation of the grids is necessary so that more electricity can be fed in from private rooftops. The Group invested around €200 million in the last year alone in the modernisation of the distribution grid at a local level and the strengthening or new construction of long distance connections. Electromobility places further demands on the distribution grid, for example, when a growing number of residents on the same street want to charge their electric cars at the same time. In a number of field tests, EnBW examined the impact of charging behaviour on the electricity grid. In the coming years, the company will once again invest a sum in the three-digit million euro range in electromobility.

Electricity from renewable energies is not just a regional matter. Depending on the demand, it must travel large distances to reach end customers. Therefore, the expansion of the nationwide transmission grids is important. EnBW is participating in the construction of the ULTRANET transmission line via its subsidiary TransnetBW. The construction of a converter on the site of the Philippsburg nuclear power plant that is still in operation is also planned for the same project. Furthermore, TransnetBW is involved in the construction of the SuedLink transmission line.

*Similar development at other distribution grid operators in the Group.

Alongside reliable energy grids, fast Internet connections are also fundamental for the well-being of a region. The planning, construction and operation of fibre-optic networks is a business field with great potential for the future. We laid and placed into operation 450 kilometres of fibre-optic cables for our telecommunications subsidiary NetCom BW last year alone. NetCom BW provides 43,000 customers with a fast Internet connection. A special project is the construction of a 450 kilometre empty pipe network for 30 local communities in cooperation with the administrative district of Karlsruhe. The EnBW subsidiary Netze BW is responsible for 130 kilometres, of which 80 kilometres are already finished. These empty pipes will form the basis for a future data highway that will connect the communities in the administrative district together. Fibre-optic cables can be blown into the empty pipes later on without having to dig up the roads, paths and squares again.

2020

Networked for the future

In the coming years, EnBW will plan the infrastructure for whole city districts. This includes electricity for the household and electromobility, fast Internet and a modern supply of heating – for example, from combined heat and power blocks that generate electricity from waste heat and work in combination with solar power plants on the roof. The area of transport management is also being expanded, for example, with the monitoring of parking spaces.

Development of adjusted EBITDA Grids
in € billion

2025

A smart grid

Solar power plants, electric cars or smart household devices can overload the grid if they consume or feed in electricity in an uncoordinated way. Therefore, EnBW is developing smart technology to predict when the grid will experience peak loads and to what extent. If there is a danger of the grid being overloaded, the grid operator can reduce feed-ins from solar power plants or charge electric cars more slowly. Electricity storage systems will also help to ease the burden on the grids by storing surplus energy and feeding it back in at a later point in time. An interesting option in the future may also be converting the electricity into gas via electrolysis. The energy can thus be stored in the gas grid. Another approach could be to directly transform the electricity from renewable energies into heating or cooling. This will set in motion the networking of sectors that were previously separate within the energy industry.

A look ahead to the future. Three questions for …

Question: Why does the grid infrastructure play such an important role in the Energiewende?

In the past, if more electricity was required, another shovel of coal was simply added at the power plant. This will not be possible in the future. The generation of electricity from the wind and sun is dependent on the weather. The grid of the future will therefore need, on the one hand, a storage system, and, on the other hand, the ability to flexibly adapt consumption to the amount of electricity being generated.

Question: What technical requirements will be necessary for this?

Firstly, the consumption of individual units must be large enough to make flexible management worthwhile. This is the case, for example, for charging stations for electric cars. A smart management system will ensure that the connected batteries are only charged when the grid has sufficient output. A similar principle is conceivable for industrial companies that could use energy management systems to flexibly manage their production plants.

Question: Why is the phrase critical infrastructure being talked about more and more in relation to grids?

The term "grid" or "network" will have a much broader scope in the future. Flexible consumers require not only electricity but also extensive communication links. The security of the entire IT infrastructure for the energy supply system, as well as the data for individual consumers, is necessary in these networks. In addition, we need to work across sectors if we want to generate 80 % of our electricity from renewable energies in the future. One example of this is heat pumps – which link together the markets for electricity and heating. Electricity can also be transformed into gas via electrolysis and thus stored in a neighbouring grid.

"We need to work across sectors if we want to generate 80 % of our electricity from renewable energies in the future."

Stefan Tenbohlen,
University of Stuttgart

Prof. Dr. Stefan Tenbohlen heads the Institute of Energy Transmission and High Voltage Engineering at the University of Stuttgart. He is Chairman of the Board of Management for Smart Grids-Plattform Baden-Württemberg e. V.

Smart grids can predict how much electricity will be generated and consumed. The required data will flow through fibre-optic cables.

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2020 strategy

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Service

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Interview with the Board of Management

Dr. Hans-Josef Zimmer

- born 1958 in Merzig
- Member of the Board of Management
- Chief Technical Officer since 1 January 2012
- appointed until 31 May 2021
- lives in Steinfeld (Pfalz)

Dr. Bernhard Beck LL.M.

- born 1954 in Tuttlingen
- Member of the Board of Management
- Chief Personnel Officer since 1 October 2002
- appointed until 30 June 2019
- lives in Stuttgart

Dr. Frank Mastiaux

- born 1964 in Essen
- Chairman of the Board of Management
- Chief Executive Officer since 1 October 2012
- appointed until 30 September 2022
- lives in Stuttgart

Thomas Kusterer

- born 1968 in Pforzheim
- Member of the Board of Management
- Chief Financial Officer since 1 April 2011
- appointed until 31 March 2019
- lives in Ettlingen

Employees ask, the Board of Management answers

Where do we stand with regards to the implementation of our strategy? What's next for the expansion of renewable energies? These and similar questions from employees have been posed to the members of the Board of Management at various events during the year. They all came together to answer questions posed by employees as part of the internal "EnBW aktuell" series. We have summarised the most important questions posed by employees.

"2017 was an important milestone in the achievement of our strategic goals."

Dr. Frank Mastiaux

Question: How do you rate the 2017 financial year in retrospect?

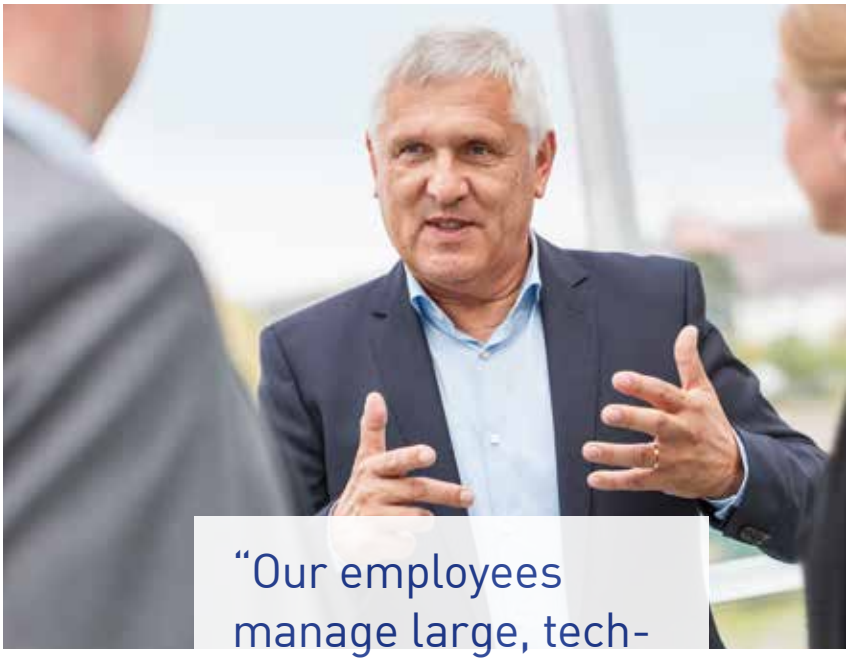
Dr. Frank Mastiaux: 2017 was an important milestone in the achievement of our strategic goals. We made good progress in areas important to us and have reached the planned turning point in terms of earnings. The earnings contributions made by the individual units already look quite different to five years ago. Our rigorous approach is now paying off: We made progress in the expansion of renewable energies and have launched smart customer solutions and the first products from the Innovation Campus onto the market. However, it is still crucial that we do not let up on our efforts to improve efficiency because they will be indispensable for the further transformation of EnBW. One example: In 2017, we were the first company to have a bid accepted for a large offshore wind farm without the need for state funding and have thus given a confident signal to the market. Onshore, we erected as many wind power plants in one year as we did over several years in the past and also invested a lot in the grids. More and more quick charging stations from EnBW can be found on the motorways, which demonstrates how progress is also being made in the area of electromobility.

Thomas Kusterer: The 2017 financial year was an important turning point from an economic viewpoint. The operating result of EnBW was better than that of the previous year for the first time since 2010. This shows that our strategy is bearing fruit and will thus form a good basis for the future viability of EnBW and for further growth. Both of these things are immensely important. In the summer, legislators regulated the responsibilities for the disposal of nuclear waste and we now have clarity in this area as well. And we have had the nuclear fuel rod tax reimbursed, which has given us more financial headroom.

Dr. Hans-Josef Zimmer: We initially faced some challenges in the 2017 financial year. We had to deal with the temporary shutdown of Block 2 of the Philippsburg nuclear power plant. Due to low water levels, we produced less electricity at the run-of-river power plants and the electricity prices on the forward market were lower than the previous year. This makes me even more pleased with how EnBW caught up during the course of 2017. We were also supported by the full consolidation of VNG and its good result.

Question: The Board of Management informed us a while ago about the key points of a strategy for the post-2020 period. Where do we now stand and what will be the next themes?

Dr. Frank Mastiaux: I would firstly like to emphasise that the achievement of our 2020 goals has priority. We still have a long way to go. And then we will align ourselves for the period after 2020. The framework conditions are



> “Our employees manage large, technically complex systems. We want to use this strength to develop infrastructure services.”
>
> Dr. Hans-Josef Zimmer

continuing to change: the market, customers and technology will lead the way to a greater extent than legislators. We have already identified themes that fit to our areas of expertise and with which we can earn money in the future, and more will follow. We want to strategically orientate our company more and more towards the infrastructure aspects of existing business fields.

Dr. Hans-Josef Zimmer: Our long-standing experience will help us here. Our employees manage large, technically complex systems. We want to use this strength to develop infrastructure services. That’s why we have founded the business unit “System Critical Infrastructure”. It will develop new business models and take on two important roles: Firstly, it will act as a networker, mediator and facilitator within the Group because many infrastructure themes, such as broadband or also electromobility, are already being pursued in the business units. The new unit will combine them into one complete package and market them. Secondly, it will develop themes that we have not yet pursued at EnBW. We have been identifying business fields in the last few months that are starting to take shape, such as the areas of district development, safety infrastructure and transport management.

"We need to think beyond departmental boundaries."

Dr. Bernhard Beck

Employees ask, the Board of Management answers – as here in December 2017 live in Karlsruhe.

"EnBW supports climate-related corporate reporting."

Thomas Kusterer

Question: What do you expect from employees in the further development of EnBW? How will you ensure that everybody stays on board?

Dr. Bernhard Beck: It can be summed up in two words: Get involved! Everybody should ask themselves: What can I do to help make our company successful? When we are working on solutions for our customers, we need to think beyond departmental boundaries. This requires a sense of innovation and discovery, combined with team spirit. Making mistakes is fine when something new is being developed – as long as the same mistakes don't keep happening. New and agile working practices are just as important here as traditional approaches. As you can see, there are many aspects that need to be considered under the label of cultural change.

Dr. Frank Mastiaux: I would also like to say something about "keeping employees on board": I have got to know the employees at EnBW as experienced people with their own opinions. They do not need any "supervision" from the Board of Management. The role of the Board of Management is, above all, to provide the framework, direction and space.

Question: Sustainability and climate protection are becoming increasingly important. This also applies to the business model of EnBW. How are we handling it?

Thomas Kusterer: We take sustainability and climate protection very seriously and this is why they have become a fixed component of the EnBW strategy. We focus intensively on the future development of the energy landscape including the associated opportunities and risks for our business. Society and many of our stakeholders are interested in these subjects and judge us on them. Therefore, we don't just act but we also report transparently about them. EnBW thus supports, for example, the development of climate-related corporate reporting. We have taken the first steps in this direction in the Integrated Annual Report 2017. And further steps will follow.

Report of the Supervisory Board (condensed)

Lutz Feldmann

- born 1957 in Bonn
- Chairman of the Supervisory Board since 10 May 2016
- independent business consultant
- lives in Bochum

The Supervisory Board dutifully and comprehensively performed all of the tasks incumbent on it in the 2017 financial year as required by law and the Articles of Association. It regularly advised the Board of Management on its management of the company and continuously accompanied and monitored all important management measures for the Group. In the process, the Supervisory Board was involved in all decisions of fundamental importance to the company and the Group.

The Board of Management regularly, comprehensively and promptly informed the Supervisory Board about all relevant aspects of intended business policies and other fundamental issues relating to business planning and also provided reasons for any discrepancies between the actual development of business and the plans and targets reported at an earlier date. The Board of Management informed the Supervisory Board about the economic position of the company and the Group including, amongst other things, the profitability of the company (especially the equity), the development of business (especially the revenue and earnings, the net assets, financial position and results of operations, as well as HR development at the company) and the business transactions that could be of significant importance for the profitability or liquidity of the company. In addition, the Board of Management informed the Supervisory Board about the risk situation of the Group and individual areas of the Group, corporate strategy and planning, risk management, the internal control system and compliance.

Key topics of the discussions at the plenary meetings of the Supervisory Board

In the 2017 financial year, the Supervisory Board dealt extensively with verbal and written reports and proposals for resolutions issued by the Board of Management at its six ordinary meetings on 27 March, 8 May, 13 July, 27 September, 9 November and 7 December. Furthermore, it requested reports and information from the Board of Management on individual topics, which were comprehensively provided in a timely manner in each case. The key topics of the discussions and resolutions in the plenary meetings beyond the themes mentioned above were:

- In-depth consultations and discussions with the Board of Management about the strategic positioning of EnBW AG and the EnBW Group (with a focus on the further development of the corporate strategy post 2020 and questions dealing with storage technologies and the business fields of natural gas and sales)
- Defining the level of the short-term variable remuneration for the Board of Management for 2016 and the long-term variable remuneration for the Board of Management for 2014 (performance period 2014 to 2016)
- Consultation on the status and further development of reputation management at EnBW
- Consultation on the annual compliance and data protection report
- Approval for the planning, construction and commissioning of a waste material processing centre including social and infrastructure-related buildings by Gesellschaft für nukleares Reststoffrecycling at each of the sites in Neckarwestheim and Philippsburg
- Approval for final decommissioning of hard coal block Combined Heat and Power Plant 1 (HKW 1) in Altbach/Deizisau
- Approval for the acquisition of the Kiyiköy and Datca wind projects by the joint venture Borusan EnBW Enerji yatirimlari ve Üretim A.S.
- Approval for submission of a binding bid to the Federal Network Agency for acceptance of the grid connection capacity for the He Dreiht offshore wind farm
- Approval of the required measures for the realisation of the EnBW Albatros offshore wind farm project (in the production and installation phases)
- Redefinition of the target for the proportion of women on the Board of Management
- Extensive consultation on the developments relating to the first onshore wind auctions
- Consultation on the participation of ONTRAS Gastransport GmbH in the construction and operation of the EUGAL transmission line
- Approval of the budget for the 2018 financial year and acknowledgement of the medium-term planning for the period 2018 to 2020 consisting of the Group earnings, finance, investment and personnel plans, as well as the result (HGB) and liquidity plans of EnBW AG
- Advice and resolution on new regulations for the variable remuneration of the Board of Management
- Defining the targets for the variable remuneration for the Board of Management 2018
- Approval of the provision of financial resources to VNG Norge AS by VNG-Verbundnetz Gas Aktiengesellschaft for the financing and development of the offshore oil and gas field Fenja in Norway
- Approval for investment in project companies for the erection of offshore wind farms in Taiwan, including approval of the associated development budget and the provision of sureties
- Approval of measures to finance the joint venture Borusan EnBW Enerji yatirimlari ve Üretim A.S.
- Regular consultations on the effects of the political events and developments in Turkey on the Turkish business of EnBW
- Consultation on the legal and economic effects in

relation to the suspected irregularities in the business relationships with companies in the Bykov Group
- Regular reporting on major investment projects, as well as other projects that form part of the generation strategy

Aside from the meetings, the Board of Management informed the Supervisory Board in writing about all business transactions of particular importance for the company or the Group. In addition, there was ongoing communication between the Chairman of the Supervisory Board and the Board of Management, particularly with the Chairman of the Board of Management, in order to discuss issues relating to the strategic positioning, planning, business development, risk situation, risk management, compliance, important individual transactions and currently pending decisions.

There was a consistently very high attendance rate at the individual meetings of the Supervisory Board. The majority of the members of the Supervisory Board attended all meetings of the Supervisory Board. No member of the Supervisory Board participated in less than half of the meetings.

Work of the committees

In order for the Supervisory Board to optimally perform its functions, it has set up committees which once again met regularly in the 2017 financial year. The respective members of the committees are listed on page 125. The Chairpersons of the committees regularly reported on the work of the committees at each subsequent plenary meeting of the Supervisory Board.

Corporate governance

The Supervisory Board also approved the joint corporate governance report together with the Board of Management in the 2017 financial year, which has been published on the website of EnBW AG as part of the declaration of corporate management in accordance with section 289a (1) sentence 2 German Commercial Code (HGB) at (www.enbw.com/corporate-governance).

Audit of the annual and consolidated financial statements

Following a thorough examination by the audit committee, the Supervisory Board undertook a detailed review of the annual financial statements and consolidated financial statements as of 31 December 2017 that were audited and issued with an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, and of the combined management report including the non-financial statement for the 2017 financial year. The final results of its own reviews did not lead to any reservations on behalf of the Supervisory Board. It approved the audit results of the independent auditor and endorsed the annual financial statements prepared by the Board of Management as of 31 December 2017 – which have thus been ratified – and the consolidated financial statements as of 31 December 2017, as well as the combined management report including the non-financial statement for the 2017 financial year.

Reference to the complete version of the report of the Supervisory Board

Further details on the topics "Work of the committees", "Corporate governance", "Audit of the annual and consolidated financial statements" and "Personnel changes at the level of the Board of Management and Supervisory Board" can be found in the full version of the Report of the Supervisory Board made available to the public on the company's website at www.enbw.com/corporate-governance.

Karlsruhe, 20 March 2018

The Supervisory Board

Lutz Feldmann
Chairman

About this report

Integrated reporting

In this Integrated Annual Report – as in previous years – EnBW also takes ecological and social aspects of the company's activities into account as well as economic aspects. We have published an Integrated Annual Report based on the recommendations of the International Integrated Reporting Council (IIRC) since the 2014 financial year, with the aim of achieving a holistic representation of the performance of the company. EnBW has been an active supporter of integrated reporting and the IIRC from the very beginning. We participate in the ongoing development of integrated reporting in bodies such as the IIRC Business Network and IIRC Framework Panel, where Thomas Kusterer, member of the Board of Management of EnBW, represents EnBW as a member of the IIRC.

Using the EnBW 2020 strategy as a basis, EnBW applies the concepts behind integrated reporting to strive for the comprehensive integrated management of the company. By presenting financial and non-financial corporate goals – the achievement of which is measured using key performance indicators – we are seeking to promote integrated thinking within the company and underline the importance of being comprehensively oriented towards performance and our stakeholders. The corporate performance of EnBW is thus not only measured by financial results as the short to long-term success of the company is also dependent on the decisions EnBW takes in response to the constantly changing economic, ecological and social conditions. More about integrated reporting at EnBW can be found at www.enbw.com/integrierte-berichterstattung.

Together with existing legal requirements, the IIRC reporting principles and elements create the foundations for integrated reporting. Some of the recommendations found in the IIRC reporting principles cannot be fully implemented because the different regulations are not compatible with each other. The Integrated Annual Report 2017 of EnBW contains the combined management report of the EnBW Group and EnBW AG in accordance with the regulations found in commercial law. The (Group) declaration of corporate management 2017, including the corporate governance report 2017, is not included in this report, although it is available for download on our website at www.enbw.com/report2017.

The contents of this Integrated Annual Report exclusively serve to provide information and do not constitute an offer or an investment recommendation. Please take this into consideration and also refer to the other important notes on page 138.

Financial publications 2017

Integrated Annual Report 2017
This report is published in print and in PDF format. It contains the combined management report of the EnBW Group and EnBW AG, as well as the condensed version of the consolidated financial statements without the notes to the financial statements. Selected content from this report and additional information on aspects of sustainability can be found at www.enbw.com/report2017.

Financial statements of the EnBW Group 2017
This document is published in PDF format and contains the full set of consolidated financial statements.

Financial statements of EnBW AG 2017
This report is published in PDF format and contains the annual financial statements of EnBW AG.*

Declaration of corporate management 2017
of the EnBW Group and EnBW AG including the corporate governance report 2017. This document is also published as a PDF.*

All documents relating to the financial statements for the 2017 financial year can be found at www.enbw.com/report2017-downloads. We publish the quarterly statements and the six-monthly financial report at www.enbw.com/financial-publications.
* The report ist only available in German.

Continued development of integrated reporting

We have made our reporting more concise and transparent over the last few years to meet the increased needs of stakeholders for more information. This development has continued with the Integrated Annual Report 2017, where we have focussed above all on the implementation of the new legal requirements for strengthening non-financial reporting by companies in their management reports and Group management reports (CSR Directive Implementation Act) and the associated preparation of a non-financial declaration.

Non-financial declaration: The contents required in the non-financial declaration have been fully included within the Integrated Annual Report 2017. For a clear overview of the contents, we refer you to the index for the non-financial declaration of the EnBW Group and EnBW AG (p. 114). Additional sustainability information material to EnBW in accordance with the guidelines of the Global Reporting Initiative (GRI) can be found on our website at www.enbw.com/verantwortung.

TCFD recommendations: Through the participation of the EnBW Chief Financial Officer in the international Task Force on Climate-related Financial Disclosures (TCFD), EnBW actively supports the strengthening of climate-related risk reporting by companies (www.enbw.com/verantwortung). In this Integrated Annual Report, we have taken into account the recommendations published by the TCFD in June 2017 for the first time. The aim is to present in a clearer and more understandable way how EnBW handles climate-related risks. The first steps for implementing these recommendations in this report include, for example, an overview of the EnBW scenario analysis to present the robustness of our business model in relation to climate protection (p. 15). An overview of the contents for this complex range of topics can be found in the index of TCFD recommendations on page 115.

We will also strive in future years to continuously improve our integrated reporting. Our plans for 2018 thus include the further development of the content in this report in accordance with the requirements for a non-financial declaration and the disclosures recommended by the TCFD .

Main elements of the further development of the Integrated Annual Report 2017 of EnBW

Topic	Further development
Interdependencies (page 30 f.)	Continuation and stabilisation of already achieved illustrations
Non-financial declaration (Index: page 114)	› Integration of the information for the CSR Directive Implementation Act by supplementing the relevant chapters (including Business model, Compliance, Procurement, In dialogue with our stakeholders, customer and society, employees and environment goal dimensions, Report on opportunities and risks) › Incorporation of an index
TCFD recommendations (pages 15, 115)	› Presenting the robustness of our business model in terms of climate protection › Incorporation of an index
Report on opportunities and risks (page 91 ff.)	Extended presentation of the non-financial opportunities and risks with respect to the non-financial declaration and the TCFD recommendations

Basis for the presentation of the report

The information given on the results of operations, net assets and financial position of the EnBW Group is based on the requirements of the International Financial Reporting Standards (IFRS), and, where applicable, German commercial law and German Accounting Standards (GAS). In this context, sections 289b and 315b HGB "Obligation to provide a non-financial declaration" must be applied from the 2017 financial year. Internal control mechanisms ensure the reliability of the information presented in this report. Furthermore, this Integrated Annual Report is based on the recommendations for reporting principles and reporting elements contained within the IIRC framework.

The selection of topics and the level of detail given to them in this Integrated Annual Report is based, as in previous years, on their materiality. Building on the materiality analysis that was conducted for the first time in 2013 with the assistance of central stakeholders of EnBW and an internal survey conducted amongst senior management, this process has been continuously transferred to the strategy process and developed further (p. 36 f.).

The reporting of sustainability topics in the 2017 reporting year has for the first time been based on the standard issued by the Global Reporting Initiative (GRI). Further information on the GRI Content Index can be found at www.enbw.com/gri-index. Further information on the fulfilment of other sustainability standards is available on our website at www.enbw.com/weitere-kennzahlen. Our sustainability reporting also complies with the Communication on Progress requirements for the UN Global Compact. These two framework standards have been used as the basis for the non-financial declaration.

All data and calculation methods used for this Integrated Annual Report are based on German and international

standards for financial and sustainability reporting. The responsible specialist units applied representative methods in each case for the collection of all data and information for the reporting period. The reporting period comprises the 2017 financial year. We took into account all relevant information up to 1 March 2018. Along with EnBW AG, with its headquarters in Karlsruhe, Germany, the group of consolidated companies of EnBW for financial reporting also includes all of its key subsidiaries. The reporting limits for the non-financial performance indicators correspond to the scope of consolidation for financial reporting, unless otherwise stated. In addition, we have also taken other issues into account in various chapters of this Integrated Annual Report, especially against the background of the legal requirement for a non-financial declaration, in order to provide a holistic representation of the performance of the company. The index for the non-financial declaration of the EnBW Group and EnBW AG is presented on page 114.

Independent auditing and evaluation

The condensed financial statements for the 2017 financial year that form part of the Integrated Annual Report do not include the notes to the consolidated financial statements and the (Group) declaration of corporate management 2017 including the corporate governance report 2017. The full set of consolidated financial statements – including the notes to the consolidated financial statements – and the management report for the company and the Group were both audited for the 2017 financial year by KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor and Group auditor elected by the Annual General Meeting of EnBW Energie Baden-Württemberg AG on 9 May 2017. Following an extension of the auditing mandate by the Supervisory Board, KPMG AG Wirtschaftsprüfungsgesellschaft also audited the non-financial declaration with reasonable assurance. We underline the high level of integration in the whole reporting process with this first audit of the complete Integrated Annual Report with reasonable assurance. KPMG AG Wirtschaftsprüfungsgesellschaft arrived at the overall conclusion that the entire audit did not lead to any reservations and issued an unqualified audit opinion. This includes the non-financial declaration. The full set of consolidated financial statements and the combined management report for the company and the Group for the 2017 financial year, as well as the unqualified audit opinion issued by the auditor, are accessible to the public on the website of EnBW Energie Baden-Württemberg AG at www.enbw.com/report2017-downloads.

In the 2017 financial year, KPMG AG Wirtschaftsprüfungsgesellschaft was commissioned to audit our tax compliance management system (Tax CMS) in accordance with the IDW auditing standard "Principles for the proper auditing of compliance management systems" (IDW PS 980) in relation to the following types of tax: income tax (corporate income tax and trade tax), VAT and capital gains tax. The audit covered the appropriateness and implementation of the Tax CMS of EnBW Energie Baden-Württemberg AG (EnBW), as well as – depending on the type of tax – the income tax and VAT tax group for EnBW, for companies that EnBW supports in the areas of income tax, VAT and capital gains tax, as well as for all partnerships in which EnBW directly or indirectly controls 100% of the shares. It was concluded on 14 February 2018.

Combined management report

of the EnBW Group and EnBW AG

Fundamentals of the Group

From page 14

Significant events after the reporting date are part of the financial statements of the EnBW Group 2017 and are available to download at www.enbw.com/report2017-downloads.

The declaration of corporate management 2017 of the EnBW Group and EnBW AG including the corporate governance report 2017 is not included in this Integrated Annual Report 2017, although it is available for download on our website (www.enbw.com/report2017-downloads).

The cross-references marked with orange icons do not form part of the audited management report.

Business report

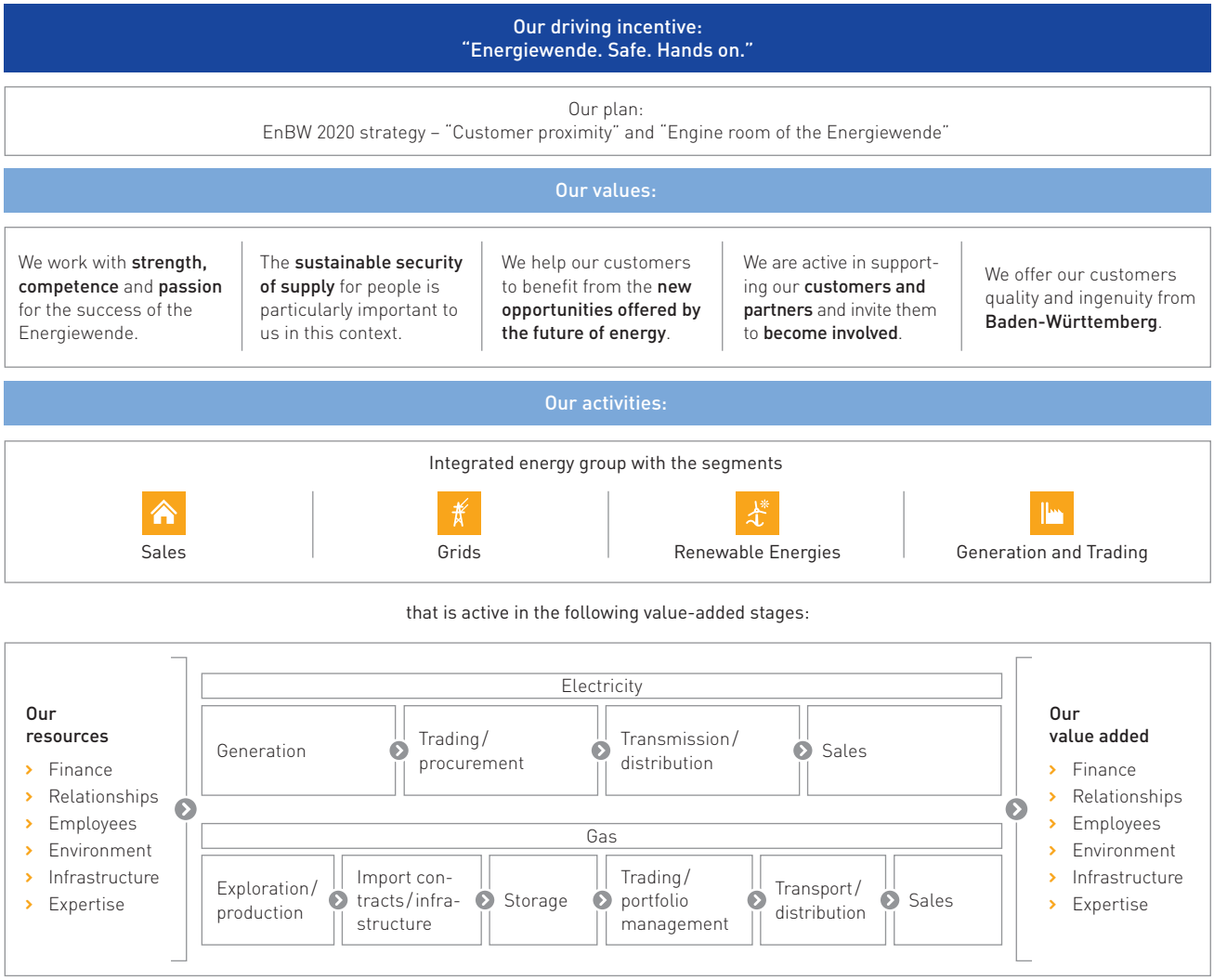
From page 49

Fundamentals of the Group

Business model

Business principles

Business model



As an integrated energy company, EnBW operates in Germany along the entire energy industry value chain in four segments: Sales, Grids, Renewable Energies, and Generation and Trading. We draw on a variety of resources – from finances through to expertise – for our corporate activities. As a result of the efficient application of these resources, we create value for ourselves and our stakeholders. EnBW has a diversified business portfolio with a once again increasingly favourable risk-return profile. Following our realignment as part of the Energiewende, the overall share of adjusted EBITDA accounted for by the regulated grid business and the share accounted for by renewable energies is increasing.

We have closely analysed future revenue sources in the energy industry to further develop our business portfolio. According to our estimations, revenue flows in the energy industry will shift considerably. Renewable energies, grids and the decentralised solution business are growing in importance (p. 24 and 49). On this basis, we have developed the EnBW 2020 strategy guided by the principle "Energiewende. Safe. Hands on.", which charts the course for the future development of our business model and strengthens the future viability of the company. The two complementary operating models of "Customer proximity" and the "Engine room of the Energiewende" lie at the core of the EnBW 2020 strategy. "Customer proximity" places the customer at the centre of our activities to an even greater degree, through a focused orientation on the key elements of innovation and cooperative partnership models. In the "Engine room of the Energiewende", we rely above all on operational excellence and strict efficiency and cost orientation for the achievement of defined quality levels, to ensure the efficient and safe operation, construction and dismantling of energy supply plants (p. 24 f.).

With strength, competence and passion, EnBW is committed to the success of the Energiewende and guarantees a sustainable and reliable supply of energy. We invite our customers and partners to join us in shaping the future energy landscape and benefit from new opportunities. We convince our customers through quality and creativity, and are acutely aware of our responsibility towards our employees. We are active along the entire electricity and gas value chain. Thanks to our comprehensive and profound system competence, we remain excellently positioned despite the fundamentally changed framework conditions resulting from the Energiewende. Due to the increasing decentralisation of the energy system, we have firmly anchored customer orientation and joint business development with partners into our company. Our current activities are governed by the fostering of dialogue, the principle of partnership and a solution-based approach.

Robustness of our business model with respect to climate protection

EnBW has analysed the robustness of its business model based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The EnBW strategy takes into account the demands of the Energiewende and climate protection. Accordingly, an evaluation of the way the Energiewende could possibly develop over the coming years, including the opportunities and risks for the business of EnBW, constitutes a decisive component of our market analyses (p. 96).

Scenarios used to model the main input parameters for the German and European electricity markets, such as the development of demand, the development of the power plants or assumptions about price-relevant fuels, are an important element in this process. On this basis, possible paths for the long-term development of electricity prices – one of the most important market factors for the business of EnBW – can be derived. The scenarios are geared towards the international climate protection targets (such as limiting greenhouse gas concentrations to 450 ppm [parts per million]) and the resulting targets derived by the German government (a reduction of at least 80% of the CO_2 emissions by 2050 in comparison to 1990). The results obtained from the model for electricity prices, as well as other relevant market trends such as those in the areas of renewable energies or electromobility, enable a precise assessment of the robustness of the strategic planning at EnBW to developments caused by climate change.

In order to evaluate the robustness of our business model against the backdrop of social efforts to limit climate change and achieve the two-degree target, the following scenarios are used:

- The Energiewende proceeds with a focus on the expansion of renewable energies in the electricity sector.
- There are long-term regulatory interventions into the electricity market against the background of poor investment incentives due to low commodity prices worldwide.
- The Energiewende is confined in an international environment that is oriented toward strong economic growth, also in conventional industrial sectors.

Value added

Value added for EnBW and its stakeholders

The aim of the corporate activities of EnBW is to add value in the short, medium and long term. This reflects corporate success, as well as competitiveness and future viability, and does not only depend on the company itself but also on the business environment, relationships with stakeholders (p. 36 ff.) and the application of a variety of different resources. As a result of the efficient use of these resources within the scope of our activities, we create value for ourselves and our stakeholders. We associate the concept of sustainable economic development with our aspiration to conduct all of our business activities in a responsible way. This is closely associated with our reputation, that is the public opinion our stakeholder groups hold about EnBW (p. 69). Further information on the interdependencies between our key performance indicators can be found in the chapter "Interdependencies" (p. 30 f.).

Value added for EnBW and its stakeholders

Resources of EnBW	Significant activities in 2017	Value added for EnBW	Value added for stakeholders
Finance			
A constantly solid financial structure (equity, debt, positive cash flow levels) for financing our business activities	› Repayment of hybrid bond in the amount of €1 billion › Sale of shares in EnBW Hohe See and EnBW Albatros › Reimbursement of nuclear fuel rod tax	› TOP Securing profitability › TOP High level of financial discipline › TOP Increasing Group value	› Paying interest on time to our creditors › Wages, salaries and pensions for active and former employees › Paying tax to the state › Dividends for our shareholders
Financial position › page 60 ff.	Targets for the key performance indicators › page 28 f.	Value added statement › page 18	
Relationships (customers / society)			
Our customers are the central focus of our philosophy and actions. We actively promote dialogue with our stakeholders and thus build trust and social acceptance	› Entering the digital product world (digital meters: EnBW is a certified supplier for smart meter gateway operation) and expansion of e-mobility (expansion of charging infrastructure) › "We're making it happen" image campaign › "Making it happen" bus with EnBW employees providing support where it is needed	› TOP Increasing share of result from "Customer proximity" / Sales › TOP Increasing customer satisfaction: "Customer proximity" › TOP Improving reputation › Efficient, sustainable and responsible procurement	› TOP Increasing customer satisfaction: "Customer proximity" › TOP SAIDI: Maintaining supply reliability › Engaging in social issues with activities for our end customers, business partners and local authority target groups › Numerous awards for our sustainability reporting
Customers and society goal dimension › page 69 ff.	Targets for the key performance indicators › page 28 f.	In dialogue with our stakeholders › page 36 ff.	
Employees			
The expertise, experience and diversity of our employees contribute to the success of the company, supported by an effective and efficient HR policy	› Promoting diversity and inclusion through various measures and events › Representative random sample surveys for Employee Commitment Index (ECI) › Projects and campaigns on occupational safety and health protection	› TOP Increasing employee commitment (ECI) › TOP Improving occupational safety (LTIF) › Always having the right employees with the right skills in the right place › Setting targets for proportion of women in the first and second management levels › Women's network	› TOP Measuring employee identification with the company based on the Employee Commitment Index › Engagement in the area of diversity ("Diversity Charter") › Offering trainee and degree places › Launch of the second round of the career integration programme for refugees
Employees goal dimension › page 72 ff.	Targets for the key performance indicators › page 28 f.	In dialogue with our stakeholders › page 36 ff.	

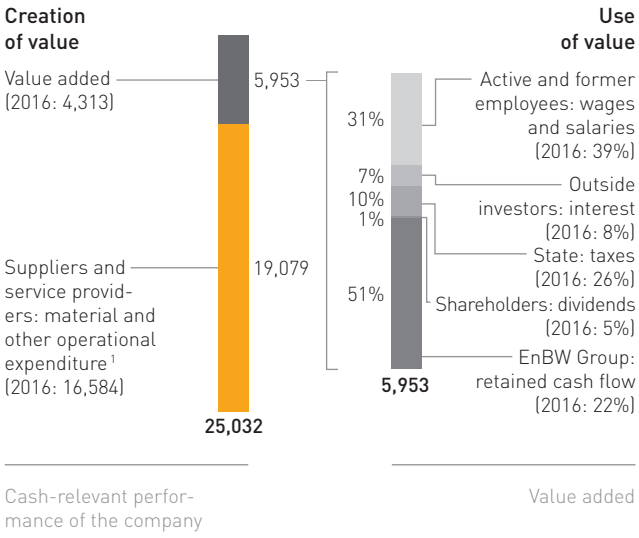
Resources of EnBW	Significant activities in 2017	Value added	
		for EnBW	for stakeholders
Environment			
Using the natural resources wind, water and sun to generate energy	› Constructing and expanding 21 onshore wind farms with a total of 204 MW › Award of contract for 900 MW offshore wind farm He Dreiht in auction › Participating in the Task Force on Climate-related Financial Disclosures (TCFD) › Funding programme "Stimuli for Diversity" for the protection of amphibian and reptile species	› TOP Expanding renewable energies (RE) › TOP Reducing CO_2 intensity › Carbon footprint › Safe dismantling of nuclear power plants	› TOP Expanding and integrating RE for customers and society › TOP Reducing CO_2 intensity › Energy-efficient products for our customers › Responsible handling of the resource water
Environment goal dimension › page 77 ff.	Targets for the key performance indicators › page 28 f.	Overview of the segments › page 22 f.	
Infrastructure			
We are one of the most important energy companies in Germany and Europe thanks to our power plants, electricity and gas grids and gas storage systems	› Expansion of gas business through first-time full consolidation of VNG › Investment decision for 112 MW offshore wind farm EnBW Albatros › Start of construction of new district heating plant in Stuttgart-Gaisburg › Expansion of charging infrastructure for e-mobility › Expansion of broadband business through NetCom BW › SuedLink: Application for southern section and converter made by TransnetBW	› TOP Expanding renewable energies (RE) › TOP Raising the value of the Group › TOP Reducing CO_2 intensity › Driving the Energiewende	› TOP SAIDI: Supply reliability for our customers (maintained by investments in upgrading grids and expanding distribution grids) › TOP Reducing CO_2 intensity › TOP Investing in the expansion of RE for customers and society › Contracting third-party companies and suppliers
The EnBW Group › page 56 ff.	Targets for the key performance indicators › page 28 f.	Overview of the segments › page 22 f.	
Expertise			
We develop models for new future business areas through our research and innovation activities	› Spin-off companies from Innovation Campus: WTT CampusONE and LIV-T › Company Builder: accompanying internal projects and start-ups as they scale up › Joint project by EnBW and Bosch on large batteries develops first storage system	› TOP Securing profitability and increasing share of result from "Customer proximity"/Sales by identifying new sources of revenue › Early identification of medium to long-term market opportunities and trends	› New smart products for the benefit of our customers › EnBW as a provider of venture capital for the development of the portfolio (opening up to the outside: New Ventures)
Research, development and innovation › page 41 ff.	Targets for the key performance indicators › page 28 f.	Overview of the segments › page 22 f.	

Value added statement

The value added statement indicates the degree to which EnBW contributes to the prosperity of society (stakeholders) and to further economic development, particularly in Germany and Baden-Württemberg, using its financial resources. Further information on the dialogue with our stakeholders is summarised in the chapter "In dialogue with our stakeholders" (p. 36 ff.).

We define value added as the cash-relevant business performance of EnBW in the past financial year minus cash-relevant expenses. The value added is derived from the cash flow statement and corrected based on the use of funds. The value added generated by the EnBW Group amounted to 23.8% in the reporting year (previous year: 20.6%). As well as being used in the form of wages, salaries and pension payments for active and former employees, a further share is dedicated to payments to the state in the form of income taxes and electricity and energy taxes. After consideration of all stakeholder groups, the retained cash flow of the EnBW Group is available to the company for future investments without the need to raise additional debt (p. 64). Due to the reimbursement of the nuclear fuel rod tax, retained cash flow was significantly higher in the reporting year than in the previous period. EnBW will use the reimbursement for future investments, as well as for the repayment of debt.

Value added of the EnBW Group
in € million



1 Includes interest and dividends received, as well as the contribution to dedicated financial assets.

As of 31/12/2017

Group structure and business radius

EnBW is organised according to the model of an integrated company. EnBW AG is managed through business units and functional units: Core operating activities along the entire energy industry value chain are concentrated in the business units. The functional units carry out Group-wide support and governance tasks. The EnBW Group consists of EnBW AG as the parent company and 146 fully consolidated companies, 22 companies accounted for using the equity method and 3 joint operations. Further information on the organisational structure can be found in the chapter "Corporate governance" under "Management and supervision" on page 32 f.

Baden-Württemberg

EnBW has its roots in Baden-Württemberg. We are active here along the entire energy industry value chain and are positioned as a market leader. In the process, we are supported by a series of key subsidiaries.

Germany and Europe

We also operate throughout Germany and in Europe. The most important participating interests of EnBW in relation to the value added chain and their contribution to the result of the EnBW Group include the following groups of companies:

Energiedienst Holding (ED), based in Laufenberg, Switzerland, has around 900 employees and is an ecologically oriented German-Swiss listed company with various subsidiaries that is active in South Baden and Switzerland. ED exclusively generates green electricity primarily using hydropower. Alongside the supply of electricity, this group of companies offers its customers smart, networked products and services, including photovoltaic plants, heat pumps, electricity storage systems, electromobility and e-car sharing.

Pražská energetika (PRE), based in Prague, Czech Republic, has almost 1,500 employees and its core business activities include the sale of electricity and gas, the distribution of electricity in Prague, the generation of electricity from renewable energies and the provision of energy services. PRE is the third largest electricity supplier in the Czech Republic and the operator of a high-quality and reliable distribution grid. As part of its activities, PRE promotes the use of modern technological solutions and advises on the implementation of innovative technologies and achieving energy savings.

Stadtwerke Düsseldorf (SWD) is one of the largest municipal energy supply companies in Germany. It has 3,100 employees and supplies SWD customers in Düsseldorf and the surrounding region with electricity, natural gas, district heating and drinking water, as well as providing waste disposal and street cleaning services in its city. The company's focus is placed on the needs-based development of networked urban infrastructures in the areas of energy, mobility and property.

VNG-Verbundnetz Gas is based in Leipzig and has around 1,200 employees. It is a horizontally and vertically integrated corporate group in the European gas industry with more than 20 companies in eight countries. The company is active along the entire value added chain for the German and European gas industry and focuses on the four core business areas of Exploration and Production, Gas Trading and Service, Gas Transport and Gas Storage. It is actively involved in the search for and production of natural gas along the Norwegian and Danish coasts via its subsidiaries. Through its independent transmission system operator ONTRAS Gastransport GmbH, the company operates the second largest German gas transmission grid and, as the third largest national operator of storage facilities, markets its storage capacities, which comprise several underground gas storage facilities in central and northern Germany, throughout Europe.

Customers and brands

EnBW supplies around 5.5 million customers with energy and provides them with energy solutions and energy industry services. EnBW is one of the leading providers of energy and environmental services in Germany. Another focus is placed on the development of our cooperation with municipal utilities and local authorities in Baden-Württemberg. The supply of district heating and drinking water is also part of the range of services offered by EnBW.

EnBW and its subsidiaries differentiate between two customer groups: The **B2C** customer group includes retail customers, commercial enterprises, the housing industry and agriculture. The **B2B** customer group encompasses major commercial enterprises and industrial customers, as well as redistributors, municipal utilities, local authorities and public entities.

With its strong brands, EnBW enjoys a close relationship with customers and is consistently oriented to their needs. As an active partner for the energy system of the future, EnBW sells electricity, gas, district heating, energy industry services, energy solutions and drinking water in the B2C sector under the **EnBW brand** (www.enbw.com). These products and services focus on Baden-Württemberg. EnBW primarily sells electricity and gas, as well as solutions and digital services related to energy, to retail and commercial customers throughout Germany through the **Yello brand** (www.yello.de). The needs of ecologically oriented customers are addressed across Germany through the **NaturEnergiePlus brand** (www.naturenergieplus.de).

Under the **NaturEnergie brand** (www.naturenergie.de), ED sells green electricity and gas to retail customers in South Baden. It caters for business customers across Germany and in Switzerland.

PRE sells electricity, gas, energy services and mobile communication services to retail and commercial customers in Prague and the surrounding region under the **PRE brand** (www.pre.cz). PRE also supplies electricity, gas and energy services to industrial customers across the Czech Republic under the PRE brand. Electricity and gas are sold nationwide, under the **Yello brand** (www.yello.cz), primarily via online channels to domestic and commercial customers.

SWD supplies retail and commercial customers, as well as customers in the agricultural sector, with electricity, gas, heating and drinking water in the B2C sector under the **Stadtwerke Düsseldorf brand** (www.swd-ag.de). In the B2B sector, the range of services is directed at business and industrial customers and marketed across Germany, with a focus on North Rhine-Westphalia.

VNG supplies gas to municipal utilities, regional supply companies, gas traders, power plant operators, industrial and commercial companies and contractors in Germany and Europe – from full service provision through to highly flexible products – under the **VNG brand** (www.vng.de). The company goldgas GmbH, a wholly owned subsidiary of VNG, sells gas and electricity – especially to private households, commercial customers and property management companies in Germany – under the **goldgas brand** (www.goldgas.de).

Key companies

Key EnBW companies in Baden-Württemberg, Germany and Europe

EnBW Energie Baden-Württemberg AG, Karlsruhe

EnBW Kernkraft GmbH, Obrigheim

EnBW Kommunale Beteiligungen GmbH, Stuttgart

EnBW ODR
EnBW Ostwürttemberg DonauRies AG, Ellwangen

Erdgas Südwest
Erdgas Südwest GmbH, Karlsruhe

GasVersorgung Süddeutschland
GasVersorgung Süddeutschland GmbH, Stuttgart

NaturEnergie+ Deutschland GmbH, Mühlacker

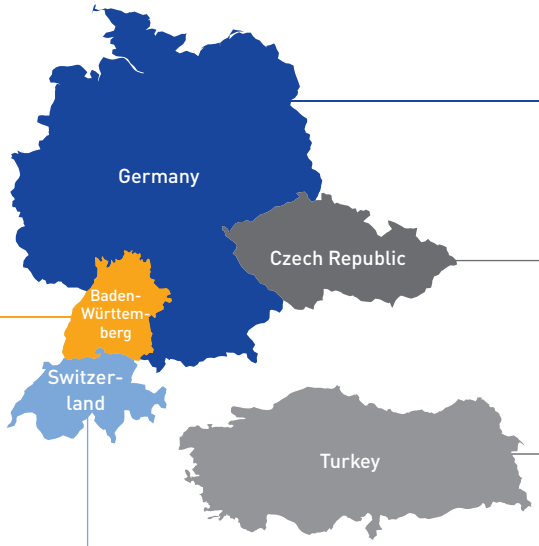
NetCom BW
NetCom BW GmbH, Ellwangen

Netze BW
Netze BW GmbH, Stuttgart

terranets bw
terranets bw GmbH, Stuttgart

TRANSNET BW
TransnetBW GmbH, Stuttgart

ZEAG Energie AG, Heilbronn



Stadtwerke Düsseldorf AG, Düsseldorf

VNG-Verbundnetz Gas Aktiengesellschaft [1], Leipzig

Yello Strom GmbH, Cologne

Pražská energetika a.s.[2], Prague

Borusan EnBW Enerji yatırımları ve Üretim A.S[3], Istanbul

EnergieDienst
Energiedienst Holding AG, Laufenburg

1 Full consolidation 2017.
2 Directly and indirectly held shares.
3 Not fully consolidated, accounted for using the equity method.

The full list of shareholdings can be found in the notes to the consolidated financial statements under "(36) Additional disclosures". The full set of consolidated financial statements is published at www.enbw.com/report2017-downloads. Further information: www.enbw.com/beteiligungen.

Our operating segments

Sales segment

The Sales segment encompasses the sale of electricity and gas. We utilise our broad energy industry and process-based expertise, as well as our existing relationships with our customers, and provide energy solutions and energy industry services (p. 70 f.). Against the background of advancing digitalisation, we are optimising, amongst other things, our customer processes and expanding our digital range of products.

Grids segment

The Grids segment encompasses the transmission and distribution of electricity and gas, the provision of grid-related services, e.g. the operation of grids for third parties, and the supply of water. Value added in the Grids segment is based on the existing infrastructure and the process know-how necessary to operate and expand this infrastructure efficiently. Furthermore, value added is anchored in the numerous close relationships with local authorities and citizens. We will further expand our grid business at all voltage levels in the course of the Energiewende and thus contribute to supply reliability. For example, our subsidiary TransnetBW, together with partners, is currently involved in planning two high-performance north-south connections using high-voltage DC transmission technology (HVDC). Partnerships will also play a more important role in the distribution grid in future as we efficiently manage our customers' grid installations and infrastructures and prepare them to meet the new requirements.

Renewable Energies segment

The company's activities in the area of power generation from renewable energy sources – where we utilise the natural resources of water, wind and sun – are combined under the Renewable Energies segment. We are expanding renewable energies, above all in the areas of onshore and offshore wind energy, and broadening our activities along the value chain (p. 77). The principle of partnership plays a central role in this context and we offer potential investors such as local authorities and private citizens, whom we attract with the aid of targeted models, the chance to participate in renewable energy projects. The value we add in this segment encompasses project development, construction and efficient operation, as well as the repowering of the plants in the future.

Generation and Trading segment

The Generation and Trading segment encompasses electricity generation, the exploration, production and storage of gas, the trading of gas and electricity, the provision of system services for the operators of transmission grids, the operation of reserve power plants, the gas midstream business, district heating, environmental services and the dismantling of power plants. This business is primarily based on the generation of electricity and heat from our coal, gas, pumped storage and nuclear power plants and our operational and optimisation expertise. Due to continuing, unattractive wholesale market prices and spreads (p. 54 f.), our fossil fuel power plants will also remain under pressure in the future. The power plants operating on the market, as well as those power plants transferred to the grid reserve, make a significant contribution to the security of supply in Germany. As equal partners, we support our customers in the integration of their power plants into the market using our services and expertise – such as in the area of direct marketing.

Overview of the segments

Sales

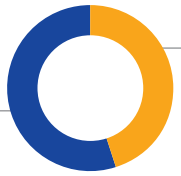
Tasks

Sale of electricity, gas, energy solutions and energy industry services; energy efficiency consultancy; cooperation with local authorities; collaboration with municipal utilities

Significant events in 2017

- Expansion of electromobility: expansion of EnBW's own quick-charging station network and providing an easy charging solution for at home with the EnBW mobility+ charging box
- Expansion of our range of services, such as in the area of energy industry billing services
- Digitalisation of customer processes
- Strengthening digital interaction with customers: EnBW solar+ app, EnBW mobility+ app and charging card, EnBW Smile
- Expansion of services for local authorities in the area of urban planning and digital infrastructures such as broadband and security through to smart services
- Repositioning of the brand Yello and expansion of the bundle portfolio
- Acquisition of bmp greengas, one of the leading biomethane dealers in Germany, by Erdgas Südwest (ESW)
- Introduction of the energy marketplace "E-Point" by GasVersorgung Süddeutschland (GVS)

Sales in 2017



57.0 billion kWh
Gas (B2C / B2B)

38.7 billion kWh
Electricity
(B2C / B2B)

Number of B2C and B2B customers

Around **5.5** million

Key figures in 2017

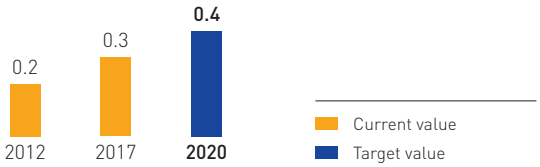
3,331
employees (as of 31/12/2017)

€330.0 million
adjusted EBITDA in 2017

€110.6 million
investment in 2017

15.6%
share of adjusted EBITDA in 2017

Development of adjusted EBITDA (in € billion)



Grids

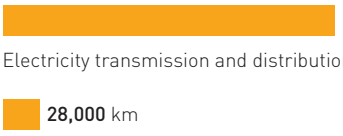
Tasks

Transmission and distribution of electricity and gas as well as expansion of HVDC connections; provision of grid-related services; water supply; guaranteeing the security of supply and system stability

Significant events in 2017

- ULTRANET HVDC project: further preparations for the construction of the converter at the site in Philippsburg by TransnetBW in cooperation with EnBW Kernkraft (EnKK)
- SuedLink HVDC project: plans adapted to meet the political guidelines (priority to underground cables) and submission of the documentation for the approval of construction of the converter at the site in Leingarten
- Participation of VNG subsidiary ONTRAS in European pipeline project EUGAL
- Certification as supplier for the entire smart meter gateway operation
- Grid integration for the expansion of charging infrastructure for electromobility
- Upgrading of the grids and connecting renewable energy power plants
- Further expansion of broadband networks

Grid lengths in 2017



151,000 km
Electricity transmission and distribution grid

28,000 km
Gas transmission and distribution grid

Transmission volume in 2017

64.4 billion kWh
electricity

33.1 billion kWh
gas

Key figures in 2017

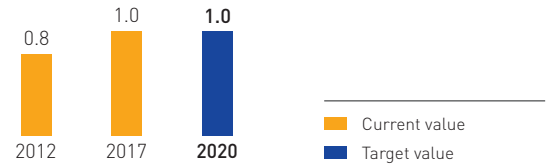
8,858
employees (as of 31/12/2017)

€1,045.9 million
adjusted EBITDA in 2017

€787.5 million
investment in 2017

49.5%
share of adjusted EBITDA in 2017

Development of adjusted EBITDA (in € billion)



Renewable Energies

Tasks

Project development and management; construction and operation of renewable energy power plants

Significant events in 2017

- Expansion of onshore portfolio: due to construction and enlargement of 21 onshore wind farms to add a total output of 204 MW in various regions of Germany, EnBW moves into the top league of project developers for wind power plants in Germany
- The "Harthäuser Wald" wind farm from ZEAG will become the largest wind farm in Baden-Württemberg again after its expansion
- No EnBW bids accepted in the 3 rounds of auctions for onshore wind power plants 2017. Nearly all of the bids accepted were developed by community energy cooperatives, who have less stringent conditions for participating in the auctions
- Investment decision for offshore wind farm EnBW Albatros with capacity of 112 MW
- Start of construction of the offshore wind farms EnBW Hohe See and EnBW Albatros with total capacity of 609 MW
- Awarded contract for 900 MW offshore wind farm He Dreiht in auction; commissioning planned for 2025, as first offshore wind farm without state funding
- 10 photovoltaic power plants with 29 MW capacity were added in 2017

Generation portfolio in 2017[1]

7,088 GWh
generation

1,734 MW
installed output

Key figures in 2017

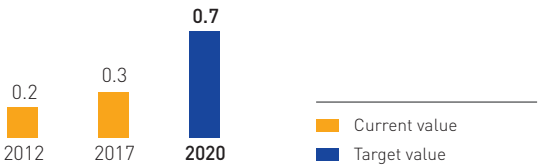
1,050
employees (as of 31/12/2017)

€331.7 million
adjusted EBITDA in 2017

€706.4 million
investment in 2017

15.7 %
share of adjusted EBITDA in 2017

Development of adjusted EBITDA (in € billion)



Generation and Trading

Tasks

Advisory services, construction, operation and dismantling of thermal power plants; exploration, production and storage of gas; trading of electricity and gas, provision of system services; operation of reserve power plants; expansion of gas midstream business, district heating; waste management/environmental services; direct marketing of renewable energy power plants

Significant events in 2017

- Start of construction of the gas-fired CHP power plant in Stuttgart-Gaisburg with a heating capacity of up to 210 MW
- Decision to decommission block HKW 1 in Altbach/Deizisau
- Use of blocks HKW 1 and 4 S Rheinhafen Steam Power Plant (RDK) in Karlsruhe as network reserve power plants
- Temporary shutdown of block 2 of the Philippsburg nuclear power plant due to damaged ventilation system brackets for almost 5 months
- Dismantling of nuclear power plants: received the decommissioning and the first dismantling approvals for the blocks GKN I and KKP 1
- Transfer of fuel elements from Obrigheim to Neckarwestheim in 5 castor transports via the Neckar river
- Decision to invest in a waste material processing centre at each of the sites in Neckarwestheim and Philippsburg
- Decision not to continue with the Atdorf pump storage project
- Final investment decision for the development of the Fenja offshore oil and gas field in Norway
- Official opening of the natural gas storage facility "Katharina" in Saxony-Anhalt by VNG

Generation portfolio in 2017[1]

42,827 GWh
generation

11,234 MW
installed output

Key figures in 2017

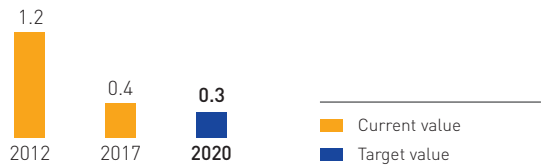
5,457
employees (as of 31/12/2017)

€377.1 million
adjusted EBITDA in 2017

€140.2 million
investment in 2017

17.8 %
share of adjusted EBITDA in 2017

Development of adjusted EBITDA (in € billion)



1 The sums stated for the generation and installed output in the Renewable Energies and Generation and Trading segments are not identical to the totals for the EnBW Group. Some of the generation plants are assigned to other segments. The total generation of the EnBW Group is 50,194 GWh, of which 8,290 GWh or 16.5% is generated from renewable energy sources. The total installed output of the EnBW Group is 13,054 MW, of which 3,381 MW or 25.9% is from renewable energy power plants. The total generation and installed output for the Group are illustrated in detail on page 77f.

Strategy, goals and performance management system

Strategy

Market conditions and structures

The energy sector in Germany has been experiencing profound change since 2012 due to the Energiewende. The share of electricity generation accounted for by renewable energies is increasing, driven by regulatory funding mechanisms, the trend towards decentralisation and technological advances. Nuclear electricity generation will cease by 2022. The use of fossil fuels, above all brown coal and hard coal, is currently the subject of intense political debate. Another driver of change in the energy sector are new patterns of demand amongst customers (local authorities, households, trade and industry) due to an increasing desire for autonomy and sustainability, as well as falling energy consumption due to improved energy efficiency (p. 49 ff.). The business models followed by energy supply companies are changing as a result.

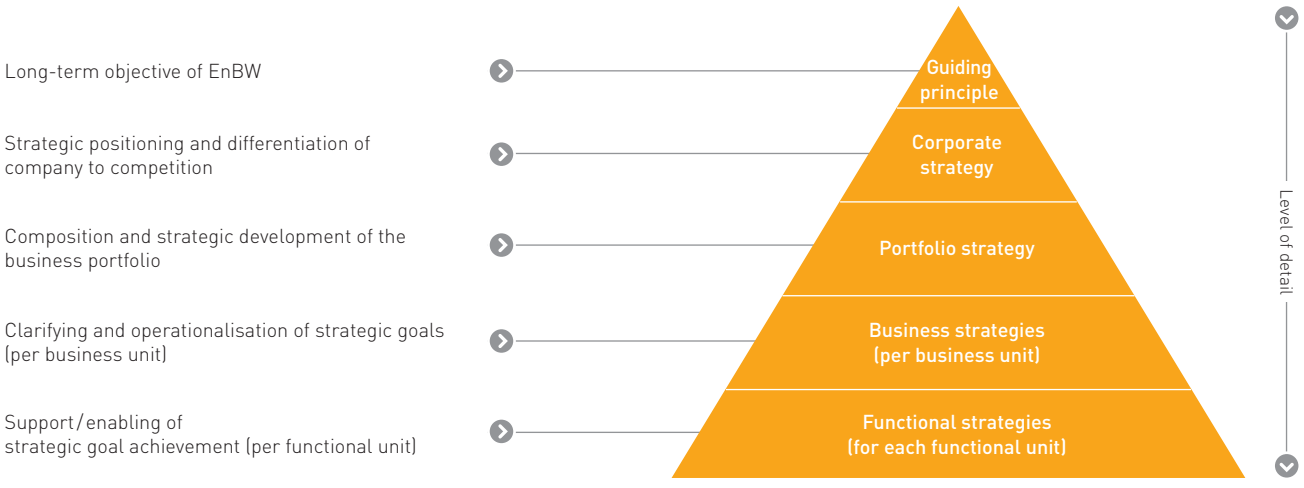
Strategy process

The development of strategy at EnBW is governed by a uniform and structured process. This begins with our vision which is guided by the principle "Energiewende. Safe. Hands on." The Group strategy describes our positioning and how we differentiate ourselves from our competitors. Sustainability is also an integral component of our Group strategy so that we can guarantee the creation of economic, ecological and social value for our stakeholders.

The sustainability concept at EnBW defines areas of action, targets and measures. It takes into account external demands for sustainable corporate activities, as well as integrating aspects of sustainability into the operating business along the entire value added chain (p. 36 ff.).

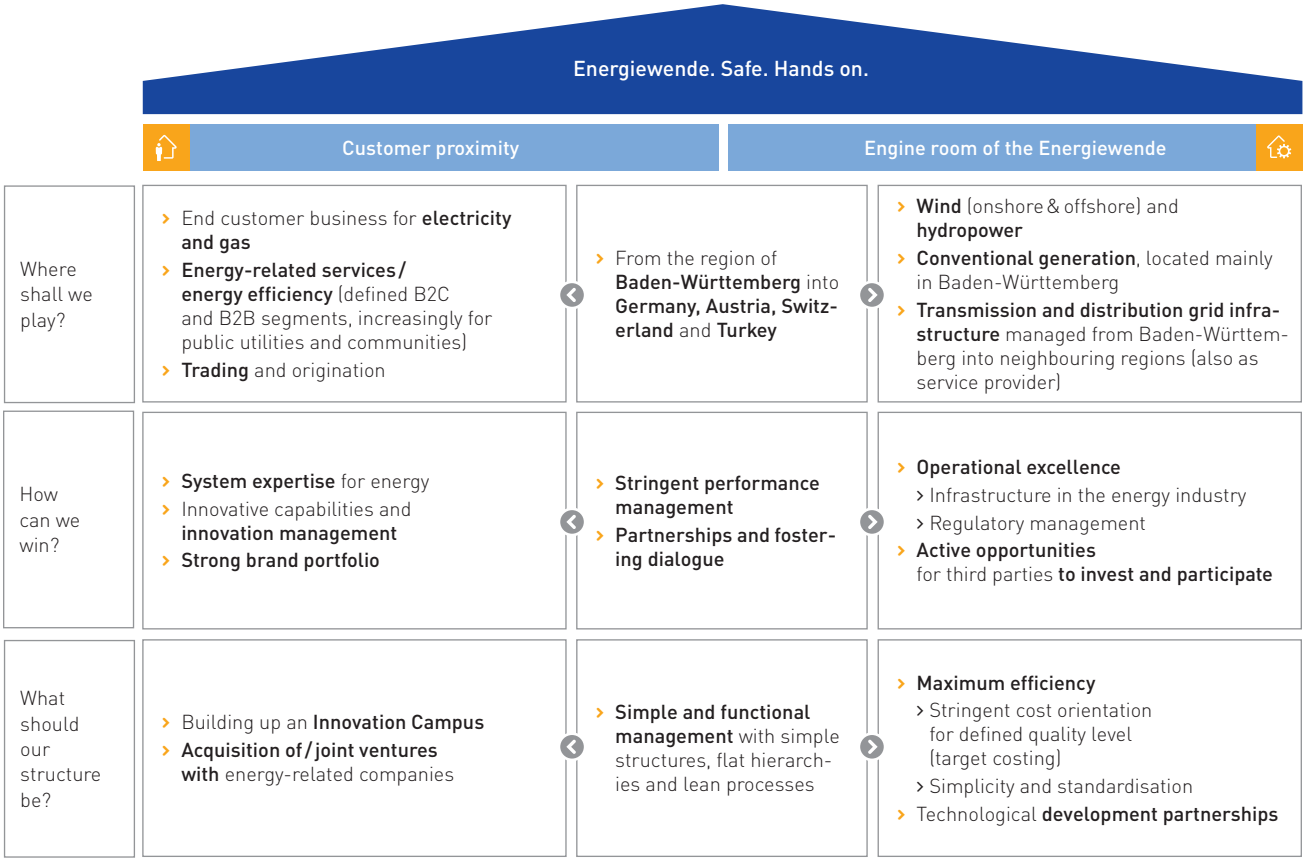
We shape the composition and strategic development of our business portfolio through our portfolio strategy. Our strategic goals are then defined and operationalised in a final step through the design of our business, investment and functional strategies.

Process for strategic goal achievement



Guiding principle and Group strategy

EnBW 2020 strategy



The EnBW Group strategy developed in accordance with our guiding principle encompasses two operative and complementary models encapsulated in the EnBW Strategy House:

Customer proximity: The EnBW 2020 strategy places the focus on customers to an even greater degree. Targeted innovation management and short development times for new products and services will become key components. Cooperation with municipal utilities and local authorities will be expanded, primarily on the basis of partnership cooperation models. EnBW aims to gain an advantage over its competitors through the development of system and complete solutions for specific customer segments and a strong brand portfolio. An Innovation Campus supports the rapid development of forward-looking products. It is characterised by its focus on market proximity, bringing together the necessary expertise from the areas of research and development right through to sales and also by its entrepreneurial thinking. In the area of energy-related services, in particular, selective company acquisitions shall complement existing expertise and round off the range of products and services offered (p. 41 ff.).

Engine room of the Energiewende: Safety, simplicity and flexibility are crucial when it comes to operating system-relevant infrastructure. EnBW relies on operational excellence and a strict focus on efficiency and cost-orientation to achieve defined standards and levels of quality. Partnerships formed in the area of technological development serve to minimise costs and risks. In addition, EnBW actively offers the opportunity to invest in grids and power plants, especially to local authorities. In the "Engine room of the Energiewende", EnBW uses its expertise to guarantee a reliable supply of energy – which also needs to be ensured during the transformation of the energy landscape.

Portfolio strategy

Repositioning the business portfolio

EnBW aims to more than double the share of its generation capacity accounted for by renewable energies from 19% (based on the reference year of 2012) to more than 40% in 2020. Our capacities from onshore wind farms should increase significantly in Germany and – should suitable framework conditions remain – Turkey. Offshore wind power represents a further opportunity for growth. By investing significantly in grid expansion, we will be making a substantial contribution to the infrastructure required by the energy system and thus to the security of supply.

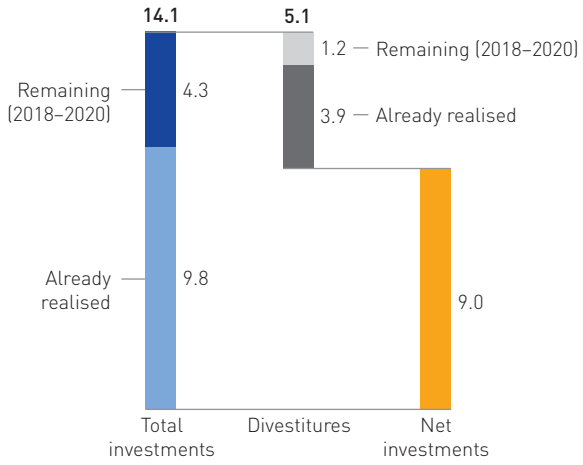
Innovative products and services will form another important pillar of the company's business. By 2020, a significant share of our earnings – the target value for adjusted EBITDA is

between €2.3 and €2.5 billion – is to be generated through strategic initiatives. At the same time, the overall share of adjusted EBITDA accounted for by the regulated grid business and renewable energies will increase from around 40% (based on the reference year of 2012) to at least 70% in 2020. This will improve the risk-return profile of EnBW.

Significant investments and divestitures

EnBW intends to invest €14.1 billion in total by 2020 (based on the reference year of 2012). In this context, the focus will be placed on expanding renewable energies on an industrial scale. Moreover, we will also concentrate on the expansion and upgrading of our transmission and distribution grids right through to so-called E smart grids. Beyond Baden-Württemberg, we will be focusing our investment activities on Germany, Switzerland, the Czech Republic and Turkey. In order to obtain the financial headroom required for such significant investments, we have significantly extended our divestiture programme – involving divestitures, cash inflow from participation models, the disposal of assets and subsidies – with our EnBW 2020 strategy to around €5.1 billion (based on the reference year of 2012). Investment of €9.8 billion (around 70% of the target) had already been made and divestitures of €3.9 million (around 75% of the target) were already completed by the end of 2017. On the basis of our current plans up to 2020, we expect to exceed the targets for both strategic investment and divestitures. You can find further information on this subject in the "Forecast" on page 87.

Investments and divestitures as part of the transformation of the portfolio
in € billion



EnBW 2020 strategy is well on track

As an integrated energy supply company, EnBW is rigorously and confidently implementing its 2020 strategy. It is clear after the half-way point of the strategy period 2013 to 2020 that the improvements in efficiency and the growth initiatives designed to place the company on new foundations ready for the future have been implemented to a significant extent, or are well on track. As a result of the full consolidation of VNG in 2017, EnBW has become the number 2 in the gas transport sector and the third largest German gas supplier. If there is no new and unexpected massive deterioration in the general conditions, EnBW will achieve its earnings targets for 2020 at both a Group and also segment level and thus reach one of the most important milestones in the history of the company.

Corporate strategy outlook

Next phase of the Energiewende

The first phase of the Energiewende in Germany was mainly driven by energy policy and regulation. A second phase of the Energiewende is now rapidly starting to take shape, the full impact of which will be seen in the period after 2020 as the market, customers and technology lead the way. There are six key trends that are most relevant to the further development of the EnBW strategy:

- The goal of decarbonising the economy, which is shared by almost all countries in the world, is setting the political and regulatory agenda.
- New competitors and technological advances are fundamentally changing the value added chain – every business is increasingly dependent on its own success factors.
- Renewable energies and smart grids continue to be the focus of future, decentralised energy systems.
- Electrification and digitalisation are shaping industrial development, while energy and infrastructure themes are converging across sector boundaries.
- The demand for smart and reliable infrastructure is increasing due to factors such as demographic trends and urbanisation. The infrastructure market in Germany will grow from a volume of €100 billion in 2015 to an anticipated €150 billion in 2025 (source: PWC/Oxford Economics, own calculations).
- Individualisation, digitalisation and networking are massively changing customer behaviour and making it more difficult to predict.

Sustainable and innovative infrastructure partner

The further development of the EnBW strategy post 2020 will focus on the key trends defining the second phase of the Energiewende. We want to increasingly place the strategic focus of our company on the aspect of infrastructure within our existing business fields and also use the core expertise of EnBW to exploit new growth opportunities above and beyond the energy sector. The core expertise of EnBW – what we do well and do better than many others – lies in the safe and reliable operation and management of critical infrastructures in the energy sector. This distinctive expertise can be transferred to other infrastructure sectors – the first themes have already been identified and work is in progress – for example in the broadband business, district development in cities or the expansion of E charging infrastructure as the basis for electromobility. The aim is to develop a balanced business portfolio that has diverse potential for growth, a high proportion of stable regulated business and an attractive risk-return profile.

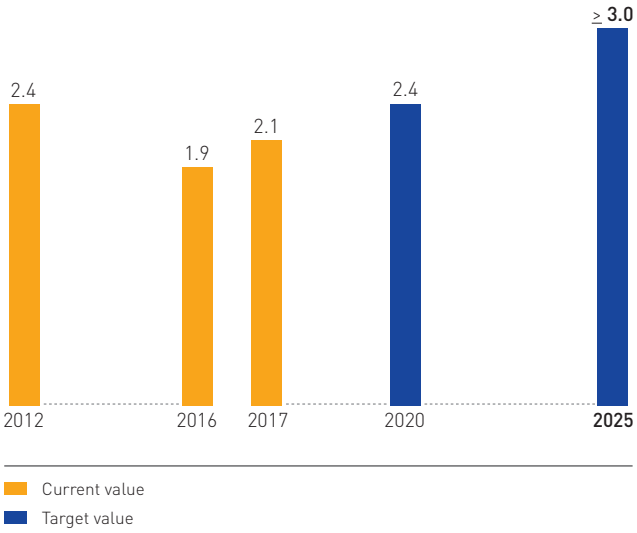
EnBW is transforming itself into a sustainable and innovative infrastructure partner with an emphasis on three central themes:

- Sustainable Generation Infrastructure will be achieved through the further expansion of low-carbon electricity generation, the active shaping of decarbonisation in relation to coal-based conventional generation and the phasing out of nuclear energy.
- System Critical Infrastructure comprises the expansion and operation of the transmission grids and the upgrading of distribution grids, as well as grid-related services.
- Smart Infrastructure for customers involves us developing new, digital business models and launching them onto the market where we will then scale them up.

EnBW is focussing on growth and innovation for the markets of the future. An integral part and driver of this corporate economic development is the digital transformation of EnBW. Digitalisation permeates into all business areas, opening up new growth opportunities and earnings potential.

Repositioning will be followed by growth

Development of adjusted EBITDA
in € billion



EnBW will generate – if our forecasts are correct – an E adjusted EBITDA of around €2.4 billion in 2020 and once again achieve the same level of earnings as in 2012, although based on a drastically changed business portfolio. From 2020, EnBW will switch from a phase of business repositioning to a phase of "growth" with the aims of asserting its competitive position, offering our employees an attractive place to work with good prospects and achieving dividends for our shareholders that are in line with the market. The further development of the EnBW 2020 strategy will provide the necessary foundations. It envisages the doubling of installed output from onshore and offshore wind power to over 3.5 GW, sharp expansion in the transmission grids, profitable growth of the distribution grids and the further development of sales into a customer infrastructure business. EnBW has set itself the target of increasing the adjusted EBITDA for the Group to at least €3 billion by 2025. In addition, EnBW is striving to maintain an E internal financing capability ≥ 100% and thus a constant level of net financial debt. The increase in adjusted EBITDA will thus lead to a reduction in the leverage ratio. This will also increase the value of the company. All stakeholders of EnBW shall partake in this growth.

Goals and performance management system

We will safeguard the implementation of our 2020 strategy by means of a holistic goal and performance management system. This system reflects the overall performance of the company and strengthens integrated thinking within EnBW. At the same time, it underpins the comprehensive and transparent focus on performance and stakeholders within our company.

Performance management system

Since 2013, corporate management has been continually expanded through the addition of non-financial and strategic goals, so that it encompasses the dimensions of strategy, customers and society, employees and environment. The centrepiece of this integrated corporate management is the performance management system (PMS). As of 2015, the PMS incorporates all tools used in strategic and operational management. The financial and non-financial Group goals have been broken down into target agreements at all management levels since 2015, insofar as they are considered a sensible performance indicator for the relevant area. The quarterly performance reviews conducted at a Board of Management level introduced in 2013 were revised in 2015 and have since included operating performance indicators that will promote the achievement of targets for the financial and non-financial key performance indicators. In 2016, this concept was fully implemented. In terms of external communication, the PMS feeds into the integrated reporting of the financial and non-financial performance of EnBW based on the reporting framework of the International Integrated Reporting Council (IIRC). This Integrated Annual Report 2017 of EnBW incorporates the financial and non-financial aspects of our business activities.

TOP Target values and further development of the key performance indicators

The key performance indicators enable us to measure the degree to which goals are achieved and to manage our company.

In the 2017 financial year, we adjusted the E retained cash flow to take account of the extraordinary effect of the reimbursement of the E nuclear fuel rod tax of €1,520.8 million (E retained cash flow II). In the 2018 financial year, the reimbursement will be used for a debt repayment of around €830.0 million and also for strategic investment of around €200.0 million. The remaining amount will be distributed on a straight line basis in the period 2019 to 2020, also for the purpose of strategic investment. Accordingly, this will lead to an increase in the retained cash flow II over the period 2018 to 2020.

TOP Financial and non-financial key performance indicators and targets

Goal	Key performance indicator	2017	Target in 2020	
Finance goal dimension				
Secure profitability	Adjusted EBITDA in € billion	2.1	2.3 – 2.5	The operating result is to return to the average level achieved before the Energiewende. The total regulated business (Grids and Renewable Energies segments) together contributes around 70% to this result.
High level of financial discipline	Internal financing capability in %	111.9	≥ 100	The amount of net financial liabilities is controlled by limiting net investment to the level of retained cash flow II. The Group can thus finance its own restructuring internally.
Increasing Group value	ROCE in %	7.3	8.5 – 11	Return on capital employed (ROCE) is higher than the cost of capital. EnBW is creating value for its stakeholders.

Finance and strategy goal dimension › pages 56 ff. Expected trends › page 87 ff. Report on opportunities and risks › page 91 ff.

Strategy goal dimension[1]				
Share of result from "Customer proximity"/Sales	Share of overall adjusted EBITDA in € billion/in %	0.3/15.6	0.4/15.0	The operating result for the Sales segment doubles from €0.2 billion (reference year: 2012) to €0.4 billion in 2020 and represents around 15% of the Group operating result. Innovations make this possible.
Share of result from Grids	Share of overall adjusted EBITDA in € billion/in %	1.0/49.5	1.0/40.0	The operating result for the Grids segment increases by 25% from €0.8 billion (reference year: 2012) to €1.0 billion in 2020 and represents around 40% of the Group operating result. The share accounted for by stable regulated business is expanding.
Share of result from Renewable Energies	Share of overall adjusted EBITDA in € billion/in %	0.3/15.7	0.7/30.0	The operating result for the Renewable Energies segment increases by 250% from €0.2 billion (reference year: 2012) to €0.7 billion in 2020 and represents around 30% of the Group operating result. EnBW becomes more sustainable.
Share of result from Generation and Trading	Share of overall adjusted EBITDA in € billion/in %	0.4/17.8	0.3/15.0	The operating result for the Generation and Trading segment falls by 80% from €1.2 billion (reference year: 2012) to €0.3 billion in 2020 due to changed framework conditions and only represents around 15% of the Group operating result.

Finance and strategy goal dimension › pages 58 Expected trends › page 88 Report on opportunities and risks › page 91 ff.

Goal	Key performance indicator	2017	Target in 2020	
Customers and society goal dimension				
Reputation	Reputation Index	52.1	55.4	In parallel with the restructuring of the business model, EnBW aims to continuously improve its reputation.
Customer proximity	EnBW/Yello Customer Satisfaction Index	143/ 161	> 136/ > 159	EnBW and Yello customers are satisfied customers with a high level of customer loyalty. EnBW and Yello are organisations strongly oriented towards customers and meet the needs and wishes of their customers through tailored solutions and products.
Supply reliability	SAIDI (electricity) in min./year	19	< 25	Maintaining supply quality for its customers is of central importance to EnBW in the further development of its grids. The high degree of supply reliability in the grid area operated by EnBW is based on comprehensive investment in grids and plants and our abundant system expertise.

Customers and society goal dimension › page 69 ff. Expected trends › page 89 f. Report on opportunities and risks › page 91 ff.

Employees goal dimension				
Employee commitment	Employee Commitment Index (ECI) [2]	60	65	The commitment of our employees to EnBW is very strong and there is faith in the future viability of the company.
Occupational safety	LTIF [2]	3.0	≤ previous year	The number of accidents at work and the resulting days of absence remains stable or is falling.

Employees goal dimension › page 72 ff. Expected trends › page 90 Report on opportunities and risks › page 91 ff.

Environment goal dimension				
Expand renewable energies (RE)	Installed output of RE in GW and the share of the generation capacity accounted for by RE in %	3.4/ 25.9	5.0/ > 40	The share of the generation capacity accounted for by renewable energies has doubled compared with 2012. Onshore and offshore wind power and hydropower are at the forefront of this development.
Climate protection	CO_2 intensity in g/kWh	556	-15% to -20%	EnBW actively contributes to climate protection by successively reducing the CO_2 intensity of its own generation of electricity (excluding nuclear power) by 15 to 20% by 2020 compared to 606 g/kWh in the reference year 2015.

Environment goal dimension › page 77 ff. Expected trends › page 90 Report on opportunities and risks › page 91 ff.

1 Other/Consolidation accounts for €0.03 billion/+1% of the overall adjusted EBITDA.
2 Variations in the group of consolidated companies; see also the definition of key performance indicators on page 30.

TOP Definition of key performance indicators

The financial and strategic key performance indicators within the PMS are the E adjusted EBITDA, the shares of the adjusted EBITDA accounted for by the segments, the E internal financing capability and E ROCE.

The **adjusted EBITDA** is the earnings before the investment and financial results, income taxes and amortisation and adjusted for non-operating effects. Adjusted EBITDA is a key performance indicator for the finance goal dimension, and the key performance indicators for the strategy goal dimension, which describe the shares of adjusted EBITDA accounted for by the segments, are derived directly from it (p. 57 f. and 88). The key performance indicator **internal financing capability** describes the E retained cash flow II in relation to the cash-relevant E net investment and is the most significant performance indicator for the Group's ability to finance its activities internally (p. 64 and 89). After covering ongoing costs and dividend payments, the retained cash flow II is available to the company for net investment without the need to raise additional debt. Since the 2017 financial year, the internal financing capability has been calculated using the retained cash flow II, which is the retained cash flow adjusted for the effects of the reimbursement of the E nuclear fuel rod tax. **ROCE** (return on capital employed) is the ratio of E adjusted EBIT including the adjusted investment result to the average capital employed and forms the basis for determining the value added, reflecting the development of the company's value from a financial point of view (p. 68 f. and 89).

In addition to the financial key performance indicators, the PMS also includes non-financial key performance indicators.

The customers and society goal dimension comprises the Reputation Index, the Customer Satisfaction Index and the SAIDI (System Average Interruption Duration Index) (p. 69 ff. and 89 f.). In order to calculate the **Reputation Index,** a total of around 5,000 people – from the stakeholder groups relevant for the EnBW brand of customers, the wider public, industrial companies, opinion leaders and investors – were asked about their impressions of the EnBW brand by an external market research institute. Results were collected for each stakeholder group about the distinctiveness of the brand and the assessment of the competence of and emotional attitude towards the EnBW brand. These are merged together to form a Reputation Index. The individual reputation indices for each stakeholder group are weighted equally to form a consolidated and reported Reputation Index. The key performance indicator **Customer Satisfaction Index** comprises an integrated analysis of the average satisfaction of private end consumers of electricity over the year, which is directly linked to customer loyalty. It is compiled from customer surveys carried out by an external provider. This key indicator is compiled for the Group's two core brands of EnBW and Yello. **SAIDI** serves as the key performance indicator of supply reliability. It expresses the average length of supply interruption in the electricity distribution grid experienced annually by each connected customer. SAIDI includes all unscheduled interruptions to supply that last more than three minutes for the end consumer. The definition and calculation of this performance indicator is based on the guidelines issued by the Network Technology/Network Operation Forum (FNN) of the VDE (German Association for Electrical, Electronic & Information Technologies).

The Employee Commitment Index (ECI) and LTIF (Lost Time Injury Frequency) are utilised as performance indicators in the employees goal dimension (p. 72 ff. and 90). The **ECI** expresses the degree to which employees identify with EnBW. It is compiled using employee surveys and is based on standardised questions that address the degree to which employees identify with their company, including satisfaction with their employer-employee relationship, attractiveness of the employer, identification with the company, motivational climate, competitiveness and future viability. The ECI is compiled every two to three years for those companies controlled by the Group (except E ITOs) as part of a full employee survey. Representative random sample surveys are completed in the periods between the full surveys – as was also the case in 2017. **LTIF** is calculated on the basis of LTI (Lost Time Injuries) which denotes the number of accidents during working hours which have occurred exclusively because of a work assignment from the company and result in at least one day of absence. LTIF indicates how many LTI occurred per one million working hours performed. This key indicator takes all employees at those companies controlled by the Group into account, except external agency workers and contractors.

The key performance indicators in the environment goal dimension are the **installed output of renewable energies (RE) and the share of the generation capacity accounted for by RE** and E **CO_2 intensity** (p. 77 f. and 90). The first are measures of the expansion of renewable energies and refer to the installed output of the power plants and not to their weather-dependent contribution to electricity generation. The emissions of CO_2 from own generation of electricity for the Group, as well as the volume of electricity generated by the Group without the contribution made by the nuclear power plants, form the basis for the calculation of the key performance indicator CO_2 intensity. This performance indicator is calculated as the ratio between the emissions and the generated volume of electricity and thus specifically describes the amount of CO_2 released per kilowatt hour. By discounting the electricity generated by nuclear power plants, the performance indicator will not be influenced by the phasing out of nuclear energy in the coming years.

TOP Interdependencies between the key performance indicators

We are convinced that in order to give a comprehensive portrayal of the company, it is not only necessary to describe the economic, ecological and social context but also to illustrate and provide an analysis of interdependencies in this report. Linking together information about the various goal dimensions is an important element of integrated reporting. At the same time, this type of reporting encourages a holistic corporate management approach within EnBW. In order to illustrate these interdependencies, the key performance

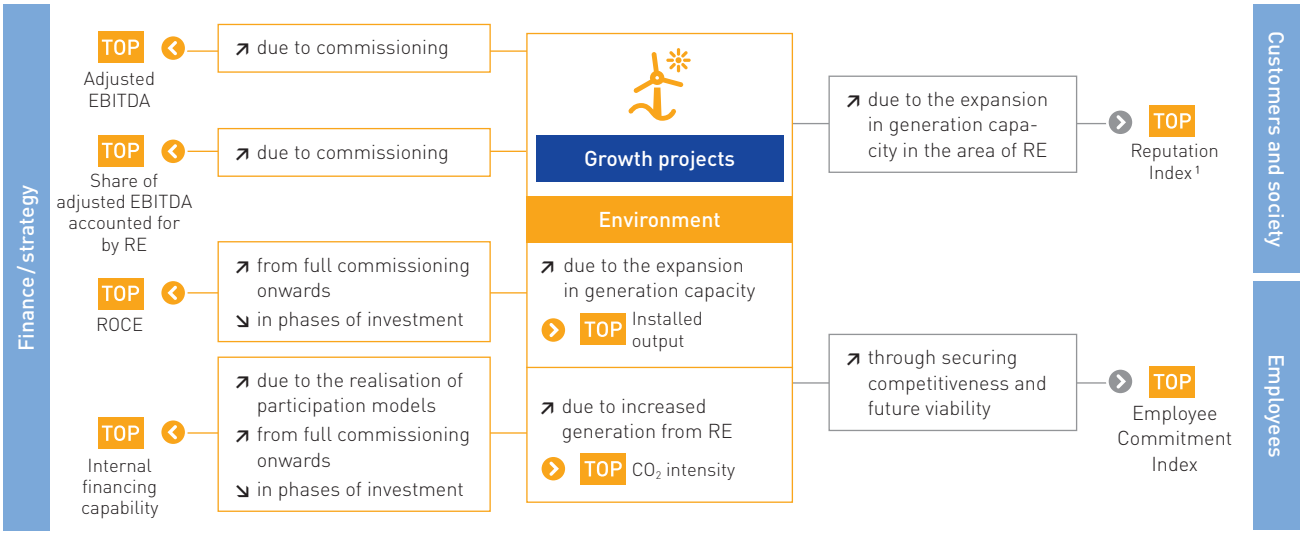
indicators for the goal and performance management system are used (p. 28 f.). The basic assumption for illustrating interdependencies is that a change in one key performance indicator can also lead in many cases to changes in one or more other key performance indicators. For example, an expansion in the installed output in the area of renewable energies will also have an impact on the adjusted EBITDA and CO_2 intensity. Reciprocal relationships thus exist between the key performance indicators – in the most extreme case, all key performance indicators can even influence one another.

We have illustrated these interdependencies since 2015 using concrete examples that were important for the relevant financial year, and can thus also be found in other sections of the report. As part of an internal coordination process, various examples were examined by several specialist areas and selected based on the respective feedback. In order to reduce the complexity, the illustration focuses on one example.

Due to its great importance for the EnBW 2020 strategy, the illustration of the interdependencies in 2017 focuses on the key example of implementing growth projects in the area of renewable energies (p. 23). In the 2017 financial year, EnBW invested €1,324.2 million in growth projects (p. 63). In this context, EnBW placed onshore wind farms with a total output of 204 MW into operation. At this stage, it should be pointed out that EnBW did not have any of its bids for future onshore wind projects accepted in the 2017 financial year (p. 53). In the area of offshore wind power plants, EnBW started construction of the EnBW Hohe See and EnBW Albatros offshore wind farms and had its bid for the He Dreiht offshore wind farm accepted.

The key performance indicators directly influenced in this example are positioned in the centre of the diagram and are essentially directly measurable. The interdependencies between the financial and strategy key performance indicators are also essentially directly measurable and are represented in the following diagram by orange arrows. The interdependencies with the other non-financial key performance indicators are difficult to measure and generally tend to be potential or long term in nature. In the 2017 financial year, these interdependencies were not measured individually. They are presented based on internal discussions with the relevant specialist areas and those responsible for the performance indicators. For this reason, they are represented less boldly with grey arrows. The upward pointing black arrows show a positive influence on the key performance indicator, while the downward pointing arrows show a negative influence.

Interdependencies between key performance indicators using the implementation of growth projects in the area of RE as an example



Direct influence · Potential/long-term influence · ↗ Positive influence on key performance indicator · ↘ Negative influence on key performance indicator

1 We also anticipate a potential negative influence on the Reputation Index due to the risk of individual projects being rejected locally. However, this type of localised risk is more than compensated for by the overall potential positive influence on the Reputation Index.

Corporate governance

Corporate management

Good corporate governance is an essential part of the corporate culture at EnBW. We are convinced that responsible and transparent corporate governance strengthens the trust and confidence that customers, capital providers, employees and the general public place in the company, thereby contributing to its long-term success. The Board of Management and Supervisory Board have the responsibility of managing and supervising the company above and beyond merely fulfilling statutory requirements, but to do it in accordance with recognised benchmarks for good corporate governance and in harmony with the principles of a social market economy, guaranteeing the continued existence of the company and ensuring a sustainable increase in its added value. Therefore, EnBW also meets all the recommendations of the German Corporate Governance Code (www.enbw.com/corporate-governance).

As in previous years, Dr. Bernhard Beck, the member of the Board of Management responsible for corporate governance, monitored conformity with the Code at EnBW and reported extensively to the Board of Management and Supervisory Board on all current themes pertaining to corporate governance. Both boards acknowledged his report and addressed the recommendations and suggestions in the Code. They subsequently approved the company's annual declaration of compliance pursuant to section 161 German Stock Corporations Act (AktG) on 7 December 2017. The current declaration of compliance and the declarations from previous years are published at www.enbw.com/entsprechenserklaerung.

The "Remuneration report" is contained in the management report on page 103 ff. of this report.

Management and supervision

Board of Management

As of 31 December 2017, the Board of Management of EnBW AG consisted of four members. The Board of Management is jointly responsible for managing Group business. In addition to the role of CEO, the tasks performed by the Board of Management are split into the remits of "finance", "personnel, law and compliance, auditing" and "technology".

Allocation of responsibilities at Board of Management level (as of 31/12/2017)

CEO	Finance	Personnel, law and compliance, auditing	Technology
Dr. Frank Mastiaux	Thomas Kusterer	Dr. Bernhard Beck (Chief Personnel Officer)	Dr. Hans-Josef Zimmer
› Corporate development/sustainability › Strategy/energy industry › Communication/policy › Transformation/IT/procurement/infrastructure › Innovation management › Sales, marketing and operations › Gas value chain › Escalation: risk management and trading	› Accounting › Tax › Controlling › Finance › Investor Relations › Mergers and acquisitions › Risk management/ICS › Trade	› Personnel and executive management › Law › Auditing › Compliance management/data protection › Regulatory management › Boards/shareholder relationships › Equity investment management › Health management	› Generation (renewable, conventional, nuclear) › Waste management/environmental services › Electricity and gas transmission grids › Distribution grids (electricity and gas) › Grid technology › Research and development › Occupational safety/environmental protection/crisis management

www.enbw.com/board-of-management

Supervisory Board

The Supervisory Board of EnBW AG consists of 20 members in accordance with section 8 (1) of the Articles of Association. In accordance with the German Co-determination Act (MitbestG), an equal number of members represent shareholders and employees. Three employee representatives are nominated by the ver.di trade union. The Supervisory Board appoints the members of the Board of Management and advises them on their management of the company. It discusses business performance, planning and strategy of the company together with the Board of Management at regular intervals and ratifies the annual financial statements. The Supervisory Board is always involved in decisions of

fundamental importance to the company. Legal transactions and measures subject to the approval of the Supervisory Board are defined in its rules of procedure. In order for the Supervisory Board to optimally perform its functions, it has formed the following standing committees: a personnel committee, a finance and investment committee, an audit committee, a nomination committee and a mediation committee in accordance with section 27 (3) MitbestG, as well as an ad-hoc committee.

Further information on the Board of Management and Supervisory Board can be found in this report under the section on "Corporate bodies" (p. 124 ff.) as well as in the declaration of corporate management 2017 of the EnBW Group and EnBW AG including the corporate governance report 2017 and the Report of the Supervisory Board (www.enbw.com/corporate-governance).

Annual General Meeting

Shareholders exercise their rights with regard to company matters at the Annual General Meeting. The Annual General Meeting passes resolutions on the discharge of Board of Management and Supervisory Board members, the appropriation of earnings and selection of the auditor. Resolutions of the Annual General Meeting only require a simple majority of votes in most cases. Each bearer share is equivalent to one vote. Further information on the Annual General Meeting is available at http://hv.enbw.com.

Shares of EnBW AG are listed on the General Standard segment of the Frankfurt Stock Exchange. A stake of 46.75% of the share capital in EnBW AG is owned by each of both the Federal State of Baden-Württemberg – via its wholly owned subsidiary NECKARPRI GmbH and, in turn, via its wholly owned subsidiary NECKARPRI-Beteiligungsgesellschaft mbH – and by Zweckverband Oberschwäbische Elektrizitätswerke (Zweckverband OEW) via its wholly owned subsidiary OEW Energie-Beteiligungs GmbH.

Overall, the shareholder structure is unchanged as of 31 December 2017 when compared to the previous year.

Shareholders of EnBW

Shares in %[1]	
OEW Energie-Beteiligungs GmbH	46.75
NECKARPRI-Beteiligungsgesellschaft mbH	46.75
Badische Energieaktionärs-Vereinigung	2.45
Gemeindeelektrizitätsverband Schwarzwald-Donau	0.97
Neckar-Elektrizitätsverband	0.63
EnBW Energie Baden-Württemberg AG	2.08
Other shareholders	0.39

1 The figures do not add up to 100% due to rounding differences.

Compliance

Compliance management system

The natural compliance with the relevant legal regulations and internal company rules forms the basis for the business activities of EnBW and is part of our corporate structure. The compliance management systems (CMS) and functions at EnBW, and of the companies in which it has a participating interest, are individually designed: They are based on company and sector-specific priorities and risks, the size of the company and other factors. They are designed to support each company – and thus the whole Group – in avoiding risks, liability claims and damage to reputation.

The CMS at EnBW is continuously examined and revised. It covers the directly controlled Group companies with employees[1]. The CMS focuses on the prevention, detection and sanctioning of corruption, the prevention of violations against competition and antitrust laws, the prevention of money laundering and data protection, which is part of the compliance department at EnBW. In the reporting year, there were 27 directly controlled Group companies with employees integrated into the CMS at EnBW. The integration methods were modified in 2017 to achieve a more risk-based integration in order to make management more efficient and effective.

The compliance management systems at the de facto controlled Group companies[2] also cover the companies in which there is a relevant participating interest. Three companies in the ED Group were integrated into the CMS for Energiedienst Holding, while two subsidiaries have independent control over compliance. Five companies with employees were integrated into the CMS at Pražská energetika (PRE), three at Stadtwerke Düsseldorf (SWD) and 17 at VNG.

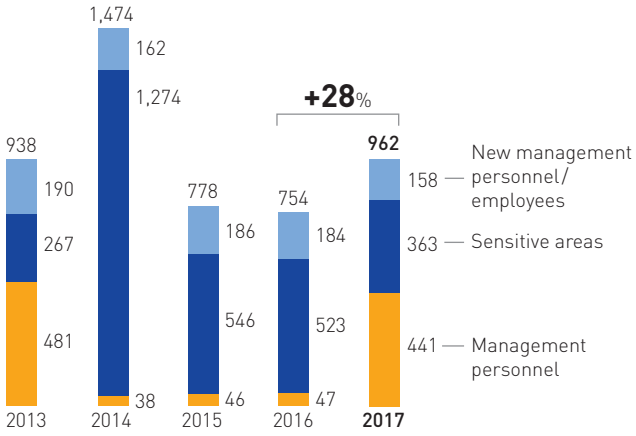
In order to safeguard the commercial success of the company against compliance risks – especially to fight corruption and bribery – preventative risk assessment methods, advisory services, training concepts and reporting channels have been set up at EnBW, the directly controlled Group companies with employees, the de facto controlled Group companies and the ITOs (independent transmission operators).

1 Directly controlled: companies with a shareholding >50%, where EnBW AG or a GmbH directly controlled by EnBW AG is listed as the shareholder; a corresponding domination agreement needs to also exist for public limited companies (Aktiengesellschaften). As well as directly controlled subsidiaries of these companies with an attributable shareholding calculated as >50%.

2 De facto controlled: public limited companies with a shareholding >50% without a domination agreement (legal presumption of Group affiliation); currently: ED, PRE, SWD, VNG, ZEAG.

Activities this year

Number of participants in compliance training events[1]



1 At EnBW AG and directly controlled companies with employees.

Management personnel formed the main focus of the face-to-face training events for the EnBW CMS in 2017. The third management personnel compliance campaign started at the end of 2016. It targeted all employees in a management position and emphasised the importance of a solid compliance culture during periods of change. More than 460 management personnel participated in 28 workshops. In accordance with the risk-based training plan, face-to-face training events with a focus on the prevention of corruption and antitrust issues – such as in business activities dealing with renewable energies – were held in which around 360 employees and management personnel were provided with business-relevant compliance know-how. The completion of an e-learning course or participation in face-to-face introductory training courses is obligatory for new EnBW employees. The main focus of the employee communication this year at EnBW was the compliance week in September: The necessary "culture of taking a closer look" was raised and employees were presented with real examples of compliance breaches from the past on the Intranet for the first time in order – just like with the annual compliance day – to stimulate discussion about compliant behaviour.

Employees and management personnel were also the main focus at the de facto controlled Group companies: for example, the sales team, assistants and new employees were given training on corruption risks at the ED Group (a total of 43 persons). In addition, the provision of internal information was optimised, risks relating to money laundering were analysed and the auditing of business partners was expanded. ED discusses compliance issues with its independent subsidiaries Tritec and EnAlpin. Tritec established a new compliance department in spring 2017.

In the last year, PRE provided more than 300 employees and management personnel with training after a new law dealing with the criminal liability of legal persons came into force. This change in the law extended the range of offences that apply to legal persons. PRE introduced numerous new processes, pushed forward the integration of compliance systems into existing subsidiaries and began the process of modernising all operating standards in 2017.

VNG amended, above all, the process of auditing business partners.

The new umbrella directive dealing with compliance was the focus of the communication and training at terranets bw.

At many of the de facto controlled Group companies, employees were also made aware of compliance issues via e-learning courses.

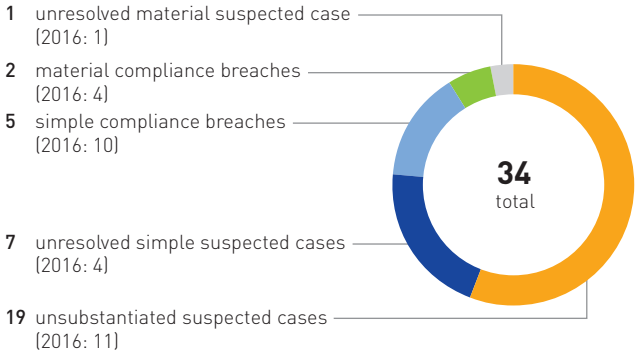
The annual compliance risk assessments at EnBW investigate the corruption, antitrust, fraud and data protection risks and act as the basis for the compliance and data protection programme, as well as for decentralised preventative activities. They were carried out at twelve Group companies in 2017. At the same time, in-depth antitrust workshops were held in the first company departments. This new in-depth approach for assessing and raising awareness for risks will be continued in 2018. The summary of the material compliance risks is contained in the "Report on opportunities and risks" (p. 95 and 98). At the de facto controlled Group companies, as well as the ITOs, risks were also assessed, such as at ED, PRE and VNG. SWD analyses the compliance risks across all 100%-owned subsidiaries with employees on a three-yearly basis, while TransnetBW analyses the risks on an annual basis. terranets bw carried out an analysis of corruption risks for the first time in 2017.

The advisory services offered by the EnBW compliance department, which form another key element of prevention, were also utilised in 2017 to the same high degree as in previous years. The compliance hotline, which is reachable by e-mail or telephone and deals with matters on a personal level, received around 1,000 enquiries relating to the key issues of gifts, donations and sponsoring, as well as to further topics such as conflicts of interest and the auditing of business partners. Comparable advisory services with similar main themes exist at the subsidiaries: ED received, for example, 26 requests for advice, while SWD documented around 50 requests for advice.

Compliance breaches and suspected cases

EnBW and the companies in which it has a participating interest have established reporting channels via which internal, and in isolated cases also external, whistle-blowers can report compliance breaches or suspected cases. Whistleblowers always have a right to the confidential and prompt handling of any compliance breaches or suspected cases they report and can always contact the relevant compliance department or external bodies under the guarantee of complete anonymity with respect to the company (at EnBW, ED, PRE, SWD and TransnetBW).

Number of compliance breaches and suspected cases[1]



1 At EnBW AG and directly controlled companies with employees.

As of 17/01/2018

The number of indications received in 2017 was at the same level as in the previous year. The compliance department of EnBW received 34 indications of compliance breaches and suspicious cases in the reporting year, 3 of which were submitted to the ombudsman. The cases dealt with sales and also procurement-related matters. There was no evidence for cases of corruption. Due to their level of importance, 3 of the 34 cases were handled by the compliance committee task force. Disciplinary measures were taken in two cases. In addition, a serious case of fraud at EnBW AG from 2016 that caused significant damage to the company was rigorously pursued and handled in the reporting year.

A total of two suspected cases of corruption were investigated at TransnetBW and VNG, although they proved to be unfounded. A total of eight breaches or suspected cases were reported to the compliance department at PRE and three suspected cases were reported at the SWD subsidiaries.

The EnBW Group faced neither antitrust law penalty procedures nor third-party antitrust lawsuits in the 2017 financial year. Law enforcement agency investigations of individual employees and former members of corporate bodies relating to the so-called Russian business deals and the so-called sales tax carousel in CO_2 allowance trading were also ongoing in 2017. It is not possible to say at the present time when these proceedings will end.

Data protection

In the area of data protection, the main focus in the reporting year was placed on providing advice about the new requirements in the EU General Data Protection Regulation. Advancing digitalisation in both internal processes and in sales projects necessitates an in-depth examination of the requirements under data protection law and the provision of corresponding advice and support to the specialist departments by the compliance and data protection department. Concrete examples include the support provided for cloud solutions and for new smart products such as EnBW solar+. The number of consultations and requests for information rose as a result.

In dialogue with our stakeholders

Our stakeholders

Continuous and systematic dialogue with our internal and external stakeholders is an important component for determining key issues as part of our business activities. The important stakeholder groups include shareholders and the capital market, employees, customers, local authorities, municipal utilities, society and environment, suppliers, business partners, the political community and the media. A fundamental aspect of our dialogue with stakeholders is the identification and prioritisation of stakeholder groups relevant to strategically significant and current issues, particularly with regards to the Energiewende.

This dialogue is conducted using a variety of communication channels ranging from conferences to social media platforms. In direct dialogue with our stakeholders, we listen to their interests and their expectations of EnBW and take these into account in the strategic positioning of our company and in our business decisions. At the same time, we inform all important stakeholders about the company's needs and the prerequisites for providing an efficient, reliable and sustainable supply of energy. As part of this dialogue, it is also important for us to listen to critical opinions such as those expressed at events held by our Energy & Climate Protection Foundation Baden-Württemberg. Mutual understanding, social acceptance and trust are increased further through this purposeful exchange of insights and perspectives. In addition, it also means that central developments and key topics can be identified at an early stage.

Materiality analysis

Based on the systematic materiality analysis that was carried out for the first time in 2013, EnBW has continuously expanded its processes over the last few years for identifying material topics and linking them simultaneously with the development of the company's strategy. Material aspects are determined via standard internal processes, the framework provided by the International Integrated Reporting Council (IIRC), as well as in accordance with the GRI standards for sustainability reporting issued by the Global Reporting Initiative (GRI). Other current developments flow into the determination of future key issues, such as the work of the E Task Force on Climate-related Financial Disclosures (TCFD) on climate-related risk reporting.

On the one hand, topics are considered material if they have a significant influence on long-term value added and thus the performance and future viability of EnBW. Contributions to the strategic orientation as a sustainable and innovative infrastructure partner are of particular importance in this context. On the other hand, aspects reflecting any important economic, environmental and social impacts the organisation may have and that significantly influence the perception of stakeholders are also taken into account.

EnBW uses the materiality analysis process to ensure that the viewpoints and expectations of all stakeholders are taken into account. The importance of stakeholder perspectives is also illustrated by the expanded mapping of the resources and the effects they have on value added for the stakeholders of EnBW (p. 14 ff.).

Material themes are continuously implemented in the functional and business units, as well as in the individual companies of EnBW. In addition, the findings from the materiality analysis flow into, for example, the strategy process and stakeholder management. This materiality analysis is continuously updated.

The following topics are material for EnBW in the 2017 financial year:

- **Corporate strategy and contribution to the Energiewende:** EnBW continues to work on resolutely implementing its EnBW 2020 strategy and is pushing forward the Energiewende using targeted measures in each of the individual stages along the value chain. The planned repositioning of the portfolio will be felt above all in the Grids and Renewable Energies segments. These segments generate around two thirds of the E adjusted EBITDA. In the consistent further development of the 2020 strategy, we will continue to invest heavily in growth areas such as grids, renewable energies and infrastructure for customers (p. 26 f.).
- **Reputation management:** EnBW strives continuously to improve its reputation. As part of the further development of our reputation management, the stakeholder team was established in 2017, with representatives from all important areas of the company, who communicate and maintain dialogue with important stakeholders. Reputation is measured using the key performance indicator Reputation Index (p. 69).
- **Portfolio of products and services:** EnBW develops sustainable, innovative products and digital solutions for its customers to meet their different expectations and needs (p. 70 f.).
- **Infrastructure:** EnBW places the focus in this area on strengthening new infrastructure businesses such as the E charging infrastructure for electromobility, E district development in cities and broadband networks (p. 70).
- **Efficiencies and optimisations:** The existing policy for improving the level of efficiency within EnBW continues to be rigorously pursued. Other measures to optimise processes across the whole company with a focus on the

functional units and sales have been agreed for the future (p. 90).

In the operating segments, the following key themes will be followed (p. 22 f.):

- **Sales:** EnBW is improving customer satisfaction through new products and services, changed product logics and optimised processes tailored to customers (p. 70 f.).
- **Grids:** The expansion of our grids business at all voltage levels as part of the Energiewende will help to guarantee a reliable supply of energy (p. 71 f.). Another main focus is the expansion of municipal data networks using the latest broadband technology.
- **Renewable Energies:** The focal points are the significant expansion of renewable energies and the development of suitable models for other investors, such as local authorities and citizens, to participate in projects (p. 77).
- **Generation and Trading:** The main focus is guaranteeing the security of supply through conventional and nuclear electricity generation, as well as increasing the efficiency of the power plants. An important measure in the 2017 financial year was the start of the modernisation work at the combined heat and power plant in Stuttgart-Gaisburg (p. 63). Following the decommissioning of the Neckarwestheim I and Philippsburg 1 nuclear power plants, EnBW received approval in 2017 to start the dismantling of these power plants.

Improving sustainability performance secures the future viability of the company:

- **Development of new business models:** In the area of research and development, EnBW focuses on identifying important trends and technological advances at an early stage and developing the expertise for subsequent commercial utilisation in pilot and demonstration projects. In innovation management, the main focus is placed on the development of new business models to identify new sources of revenue for the Group (p. 41 ff.).
- **Commitment to climate protection:** EnBW supports the global efforts to protect the climate and is emphatically advocating ambitious targets (p. 50). The company contributes to climate protection through its corporate strategy that resolutely focuses on the further expansion of renewable energies, as well as sustainable and innovative business models. In addition, EnBW is actively participating in the TCFD, is committed to the development of climate-related risk reporting (p. 96) and, by presenting the robustness of its business model in terms of climate protection in this Integrated Annual Report 2017, is implementing first elements of the TCFD recommendations (p. 15).
- **Improving employee commitment and occupational safety:** Important areas of action in the employees goal dimension are promoting diversity and continuously improving occupational safety (p. 72 ff.). In addition, networked mobility services for employees are being developed as part of the "New Mobility" project. Employee commitment is examined using regular surveys.
- **Responsible coal procurement:** EnBW follows the approach of organising its coal procurement as responsibly as possible and thus making a positive contribution for people and the environment in the mining areas. On the basis of the rules of conduct governing the responsible procurement of hard coal and other raw materials, the current CSR performance of existing and potential coal suppliers is regularly discussed to decide on any further action (p. 47 f.).
- **Development of the sustainability concept:** The conceptual orientation of the company towards sustainability will be guaranteed through stronger links with the corporate strategy and the core business. The CSR committee – whose members are the managers of the relevant functional units – regularly checks, for example, the non-financial key performance indicators and determines key issues. Using a control process, the intensive cooperation between the sustainability department and the business units will be guaranteed at a management and operational level (p. 24).

Development of the sustainability rating

EnBW also maintains close contacts with leading rating agencies and includes their analyses and evaluations in the decision-making processes for the corporate strategy, company situation and business prospects. At the same time, these analyses increase transparency with respect to the performance of EnBW – also in comparison to other companies.

EnBW strives to continuously improve its ratings from leading agencies in the area of sustainability. It thus aims to strengthen its position as a responsible and sustainable company and also wants to be an attractive investment opportunity for financial investors whose investment decisions are based wholly or partially on sustainability criteria. In 2017, EnBW achieved significant improvements in important sustainability ratings:

- In the rating issued by oekom research AG, EnBW improved from an average rating of C+ to a good rating of B- (on a twelve step scale from D- to A+). The company thus achieved prime status and now belongs to the leading group of energy companies in Germany and Europe. The agency evaluates the performance of the company based on social, governance and environmental aspects using more than 100 sector-specific criteria.

› EnBW also received a climate protection rating of A-/Leadership for its climate reporting, after a previous rating of B/Management, from the Carbon Disclosure Project (CDP). This rating also sees EnBW taking a leading position in the sector. In 2017, more than 6,000 companies worldwide participated in the questionnaire issued by the CDP.

Further information on the sustainability ratings can be found at www.enbw.com/weitere-kennzahlen. Further details on non-financial performance indicators are presented in the chapter "The EnBW Group" (p. 69 ff.). Information on the ratings issued by the rating agencies Moody's, Standard & Poor's and Fitch can be found on page 62.

Social engagement

EnBW is acutely aware of its responsibility towards society. Through its commitment to addressing the concerns and interests of society, it conducts its business in close customer proximity and aligns its activities to the target groups of end customers, business partners and local authorities. It is mainly involved within its primary business sphere of influence in Baden-Württemberg in this regard. Support for superordinate social issues is concentrated on the **core areas** of popular sport, education, social issues, the environment and art and culture.

The Group guidelines on corporate sponsoring, memberships, donations and involvement with universities govern the goals, responsibilities, standards, principles and processes. They apply to all companies in which EnBW AG either directly or indirectly holds a majority of the shares or voting rights, and were last updated in September 2016. The activities are designed to promote the brand image of EnBW, solidify its regional roots in Baden-Württemberg and support sustainable causes. The **donations** made by EnBW are documented on a yearly basis in the donation report that is presented to the Board of Management. In 2017, the sum of all the donations made by the EnBW Group came to €1.0 million, following €1.2 million in the previous year. Donations worth €383,000 (2016: €611,000) were attributable to EnBW AG.

As in the previous year, EnBW AG supported social or charitable projects in 2017 with the **"Making it happen" bus** as part of the "We're making it happen" campaign. Associations and charitable organisations could apply for assistance with their projects. The winners were selected via an Internet vote and were provided with support in the form of manpower, motivation and materials worth up to €5,000 per winner by an EnBW team consisting of up to ten persons. A total of 13 projects have been successfully realised up to now – of which 4 were completed in 2017. Materials worth around €60,000 have been donated in total for all of the projects. In addition, there is also the working hours of the EnBW employees given permission to work on the "Making it happen" bus (www.enbw.com/wir-machen-das-schon).

The EnBW Board of Management decided a number of years ago not to send Christmas gifts to business partners but instead to make charitable donations in Baden-Württemberg. As part of the **Christmas donations** in 2017, a total of €32,000 was given to eight charitable campaigns or campaigns initiated by readers of regional newspapers in Baden-Württemberg. Netze BW also made donations in 2017 to social causes run by charitable organisations in Baden-Württemberg. In the Czech Republic, Pražská energetika (PRE) has also made donations for many years to charitable projects for the benefit of disabled people, young people and children, and in the areas of health care, culture, education and the environment. Education is made a high priority at Stadtwerke Düsseldorf (SWD). It has provided financial support for many years to Bildung^3 gGmbH, which helps integrate young people and adults into the training and job markets using a variety of different measures. In cooperation with the newspaper "Westdeutsche Zeitung", the Düsseldorf School Prize was awarded for the eleventh time in 2017, with which school classes receive funding for their projects. In addition, SWD also makes donations to social institutions in Düsseldorf and the surrounding area at Christmas.

In the arts, EnBW works together closely with, amongst others, Kunstakademie Stuttgart (Stuttgart Art Academy) and regularly offers young artists space in its buildings for their **exhibitions**. Students on the "Industrial Design" course presented, for example, installations and experimental objects in the foyer of the EnBW building in Fasanenhof in Stuttgart from 20 June to 21 July 2017.

EnBW provides manpower and financial support to the **Energy & Climate Protection Foundation Baden-Württemberg**. The foundation holds numerous events dealing with questions about the energy industry, as well as on the themes of climate protection and renewable energies, digitalisation and innovation. At the Urban Energy Talks 2017 held on 29 June, the focus was placed, for example, on the Energiewende in cities and individual panels discussed the future of housing, the urban infrastructures of tomorrow and urban mobility (www.energieundklimaschutzbw.de).

Although the influx of refugees into Europe, especially to Germany, has lessened over the last year, it remains a major social, political and economic challenge. Long-term perspectives for asylum seekers are just as important as short-term humanitarian assistance. EnBW is engaged here on multiple levels: EnBW already developed a training concept for refugees at the request of the Board of Management in 2015 with the goal of providing sustainable support with an eye to the future for the affected people and their countries of origin. Following its initial success in 2016, EnBW also offered a **career integration programme** in 2017. Around 160 refugees participated in introductory and orientation days in Karlsruhe und Stuttgart in the first half of 2017. Around 90 of these refugees completed an integration programme in Karlsruhe and Stuttgart to prepare them for an apprenticeship at EnBW. In

September 2017, 31 refugees selected from the pre-study placement programme started their one-year introductory qualification in preparation for their technical apprenticeship at EnBW, while 13 participants from the previous year's programme started their apprenticeship at EnBW. Alongside these integration measures, EnBW is continuing to support employees who are voluntarily providing assistance to refugees and encouraging them to network with each other in order to coordinate aid measures, exchange experiences and mobilise other helpers. Numerous small aid projects are also being promoted that mainly focus on language training, sport and meaningful leisure activities. Around 40% of the donation pot established by EnBW for this purpose had been utilised by the end of 2017.

We also refer you to the details provided in the "Report on opportunities and risks" (p. 95).

Dialogue with citizens

The **expansion of renewable energies** is an important goal that EnBW is pursuing with great commitment. We plan, construct and operate wind power plants and solar parks in direct partnership with or with the participation of local authorities and citizens. At various sites, we offer free tours for visitors and visitor groups throughout the year. Our employees guide visitors through the large technical plants, explain how the plants work and their interactions and answer any questions.

The **expansion of the grids** for the purpose of connecting up renewable energies is gaining more and more attention amongst the media and general public. At the very forefront of this work are the central infrastructure projects forming part of the Energiewende to expand the transmission grids with the two north-south connections SuedLink and ULTRANET by our subsidiary TransnetBW GmbH. The early involvement of citizens provides transparency and creates trust. The SuedLink project team was a guest at 36 events held in six German federal states who presented the project and the different proposals for the corridors with underground cables that run from Schleswig-Holstein to Bavaria and Baden-Württemberg. Over 5,000 visitors received information in discussions with the specialists about the possible routes, the technology and the implementation plans. Dialogue with the general public is also a fundamental component of the planning and implementation of ULTRANET. For this reason, there is a comprehensive range of opportunities for citizens to participate both before and during the public law proceedings, e.g. via channels such as council meetings, local events for citizens and the media.

Alongside economic and technical aspects, the Energiewende and the associated phasing out of nuclear energy also encompass elements of social responsibility. EnBW unequivocally assumes responsibility for the safe **dismantling** of the nuclear power plants it operates. This process is accompanied by intensive and open dialogue with all stakeholder groups to ensure transparency and acceptance. A current example is the transfer of fuel rods from the Obrigheim nuclear power plant to the intermediate storage site in Neckarwestheim. The total of five transports by ship were all successfully completed in 2017. EnBW had already begun to inform the public about its plans to transfer the fuel rods from Obrigheim in 2013. This public relations work was continued and intensified once the decision to realise the project was taken in June 2016. Alongside the general public, particular attention was also given to those communities neighbouring the transport route. EnBW has set up a project website to provide further information to the public. Further information and also short films that explain the processes involved in the transport can be found at www.enbw.com/castortransport.

Stakeholder dialogue

In dialogue with our stakeholders (examples)

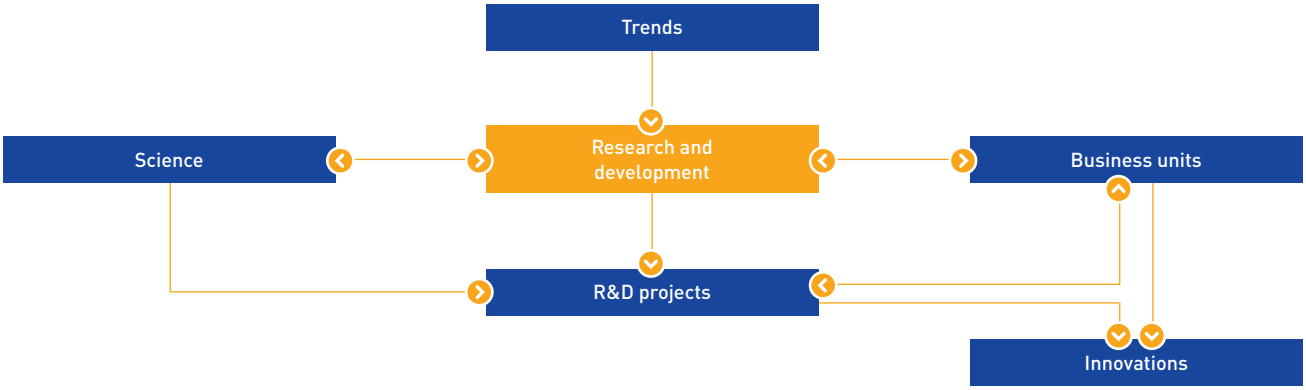
Stakeholder	Opportunity for dialogue	Main themes	Further information
Shareholders/ capital market	Financial reports	Financial and non-financial development of the company	www.enbw.com/financial-publications
	Annual General Meeting	Dialogue with shareholders	http://hv.enbw.com
	Telephone conferences/updates for analysts and investors	Corporate economic development, positioning on capital market	www.enbw.com/investor-update www.enbw.com/conferencecall
	Bankers' Day and Capital Market Day	Current themes in the sector and EnBW strategy	www.enbw.com/bankersday www.enbw.com/capital-markets-day
Employees	EnBW aktuell	Mid-term review of EnBW 2020 strategy and strategic outlook, current insights into the themes of wind power and gas, questions from employees	
	Strategy dialogue workshops	71 workshops with more than 1,500 participants on the EnBW 2020 strategy and strategic outlook for the post 2020 period	page 72
	Compliance week/day	Example compliance breach demonstrations and discussions on compliance culture	page 33 ff.
	4th and 5th series of "1492"	Project teams work on cross-departmental projects outside normal Group processes	page 44
	EnBW InnovationDays	For the third time, employees have 72 hours to develop the first business models based on their ideas	
Customers	E-mobility campaign day, specialist conference and accompanying trade fair EVS 30 in Stuttgart	EnBW and Netze BW use the world's largest e-mobility symposium to present their mobility solutions to a wide audience	www.evs30.org www.dialog-energie-zukunft.de www.enbw.com/elektromobilitaet
	Platforms for dialogue and discussion with customers	For example: customer parliament, Energy Strategy Days, practical day on current billing themes and a forum for existing customers	
	EnBW Smile	World of experience for customers and registered employees with exclusive offers from the areas of art and culture, events, sport or gastronomy	www.enbw.com/smile
	Social media/customer blog & newsletter/customer magazine	Information on latest news, products, services and events	https://twitter.com/enbw www.facebook.com/enbw www.enbw.com/blog
Local authorities/ public utilities	Community 4.0	Developing future concepts for local authorities	www.enbw.com
	Kooperationsnetzwerk Baden-Württemberg e. V.	Association for developing innovative solutions in the energy sector	www.kooperationsnetz-bw.de
Society/ environment	TCFD Conference in the EnBW representative offices in Berlin	"New developments in climate reporting – TCFD recommendations: added value or added work?"	www.fsb-tcfd.org
	Biodiversity: funding programme: "Stimuli for Diversity"	100th project for the protection and preservation of habitats for indigenous amphibians and reptiles	www.enbw.com/biodiversitaet page 80
	Green Innovation and Investment Forum	Honouring the best green tech ideas in cooperation with bwcon and Umwelttechnik BW	www.energieundklimaschutzbw.de
	Supporting events for children and young people	For example: Science Days in the Europa-Park, Children's and Youth Festival in Stuttgart, environmental education initiative "Neckar Junior Ranger"	www.science-days.de www.kinder-jugendfestival.de www.energieundklimaschutzbw.de
	Start-up summit Baden-Württemberg	EnBW is participating in this major networking event for start-ups	
Suppliers/ business partners	Development discussions with suppliers	Dialogue and training events for suppliers to further develop cooperation	
	Dialogue on the responsible handling of coal procurement	Continuous dialogue with stakeholders with a focus on Germany and Colombia	www.enbw.com/kohlebeschaffung page 47 f.
Politics/ media	Joint project "The road to a <2° economy"	Development of inter-enterprise projects for reducing emissions and decarbonisation	www.stiftung2grad.de/en
	EnBW Energy and Business Club (EWC)	Various events on future themes in energy policy	
	Five debate evenings held by the Energy & Climate Protection Foundation	Events dealing with energy and climate policy themes, digitalisation and electromobility	www.energieundklimaschutzbw.de
	Active and transparent communication via the media	Alongside traditional media such as newspapers or magazines, also via social media channels such as Twitter or Facebook	

Research, development and innovation

Research and development: Goals, guidelines and processes

The goal of research and development at EnBW is to identify important trends and technological developments at an early stage and to develop the know-how for subsequent commercial utilisation in pilot and demonstration projects. For this purpose, research projects are carried out in collaboration with the operational units at EnBW or with customers – directly at the site of their subsequent application. They form a project portfolio that is centrally coordinated for all EnBW units. This ensures that successful research projects deliver innovations for EnBW. The research and development activities are integrated into an external and internal network of partners. Research, development and innovation also leads in many cases to inventions and patents. The portfolio of patents grew by nine patents (previous year: eight) in 2017; the EnBW Group held 183 patents (previous year: 174) at the end of the year. The patents held by EnBW focus mainly on the areas of smart solutions and electromobility.

The research process at EnBW



Research and development: Key points and selected results

Research and development at EnBW focuses on renewable energies and storage systems for the smart digital energy world.

Renewable Energies

Photovoltaics: The University of Stuttgart has developed a new laser process that enables the inexpensive production of non-toxic silicon solar cells with a high level of efficiency. Since August 2017, EnBW has been participating in a government-funded research project at the university that now aims to bring the laser-based process for linking these cells together to form modules to maturity. As part of these activities, the EnBW subsidiary EnPV was founded in December 2017. If the project is successful, EnPV will form the nucleus of the future marketing of this patented production process.

Weather forecasts: Energy supply companies are increasingly dependent on wind and sunshine forecasts due to the ongoing expansion of renewable energies. Weather forecasts for the energy trade have only been available for a standard period of around 14 days up to now. Against this background, the European Union approved a project in July 2017 that aims to improve the quality of forecasts that are made for a period of several months. Twelve European weather institutes and companies – including EnBW as the only German energy company – are working together on the project. The first results are due by the end of 2018.

Soultz-sous-Forêts geothermal power plant: The partners Electricité de Strasbourg and EnBW jointly operate the Soultz-sous-Forêts geothermal power plant in the Alsace region of France that uses a natural geothermal reservoir lying at a depth of 5,000 metres. The electrical output of the power plant is 1.7 MW. Following the end of research operation, the commercial generation of geothermal electricity started in autumn 2016. In 2017, the power plant generated 7.7 GWh of electricity with an availability of 90% (7,900 operating hours).

Bruchsal geothermal power plant: EnBW has operated the Bruchsal geothermal power plant together with Energie- und Wasserversorgung Bruchsal GmbH since 2009. The demonstration plant generates electricity with a nominal output of 0.5 MW using 120 degree hot thermal water pumped from a depth of 2,500 metres. The plant achieved 2,100 operating hours in 2017. The replacement of a connecting pipeline between the power plant and the borehole was brought forward after there were a number of leaks. The power plant can commence operating again in the spring. From autumn 2018, the power plant will not only generate electricity but also provide a public facility in the local vicinity with heating. The supply contract was concluded in December 2017. EnBW is thus expanding its geothermal expertise to include the supply of heating to customers.

Storage systems for the smart digital energy world

Electromobility: As part of the "SLAM – Quick-Charging Network for Road Axes and Metropolises" research project funded by the German Federal Ministry for Economic Affairs and Energy, a total of 68 quick-charging stations was installed by EnBW at 34 motorway service stations across Germany by the start of 2017. Business models for the operation of quick-charging stations with very high charging outputs were developed in the SLAM project. The cooperation with Germany's largest service station operator Autobahn Tank & Rast GmbH is an important component for the implementation of the e-mobility strategy at EnBW, which aims to make it possible for customers to quickly and easily charge their electric cars everywhere. EnBW installed a quick-charging station at each of an additional 117 locations operated by Autobahn Tank & Rast GmbH by the end of 2017, 80 of which with the help of funding from the Federal Ministry of Transport. Technical improvements were made in 2017 to the charging network installed in Stuttgart with the help of state funding and it is now even more user friendly. New developments in the area of parking space sensors and value added services were initiated and will be field tested in 2018.

EnBW is investigating how green electricity can be used to cover regional demands to a greater extent than ever before with the help of storage systems in a variety of research projects:

Storage systems for commercial customers: In 2017, EnBW cooperated with the storage system supplier ads-tec, the solar experts from Pohlen Solar and the retail company Aldi Süd to find out how the discount store could use even more self-generated solar electricity in their branches. Photovoltaic power plants fitted to the roofs of more than 1,200 branches generated climate-friendly solar electricity, of which around 80% was used for the company's own consumption. The solar power plants have now been combined with a battery storage system at three branches in the Frankfurt am Main region to create a virtual power plant. EnBW was responsible for energy management and used a self-developed algorithm to continuously evaluate whether it was more beneficial for Aldi Süd to directly consume the solar electricity, store it or make it available on the energy market. In this practical test, EnBW was able to demonstrate the great potential offered by solar power plants and storage systems when they are combined to form a virtual power plant.

Storage systems for household customers: In autumn 2016, three household customers were fitted with storage systems in order to develop a smart control system that can adapt to the availability of electricity on the grid and postpone the times electricity is drawn from the grid without any loss in comfort. In the 2017 measurement phase, EnBW determined how to manage the household storage system to the benefit of the customer so they are able to make use of any electricity surpluses on the regional grid.

Power plant storage systems: Cross-sector considerations on how storage systems can provide added value led to a cooperation with Bosch to develop battery solutions for the energy market. A large 5 MW battery was installed at the Heilbronn coal power plant in November that will enable the plant to respond even better to fluctuating decentralised feed-ins from spring 2018. EnBW is responsible for the marketing of the stored energy in this joint venture.

Power to x: EnBW has been researching the possibilities for generating and storing climate-friendly energy sources such as biogas and hydrogen from green electricity (sector coupling) since 2011, with funding from, amongst others, the German government. The projects have revealed the conditions necessary to already make synthetic fuels economically viable today. EnBW gained experience in the storage of green electricity and the use of hydrogen in the transport sector, for example, with a hydrogen filling station in both Stuttgart and Karlsruhe. Following the end of the project in 2016, EnBW is continuing to supply the hydrogen buses operated by Stuttgarter Straßenbahn AG at the bus extension to the Stuttgart filling station that was built with state funding. In another project, the EnBW subsidiary ZEAG is generating hydrogen from green electricity sourced from the nearby "Harthäuser Wald" wind farm, also with the help of state funding, and is supplying it to the rocket test rig at the German Aerospace Center (DLR) in nearby Lampoldshausen.

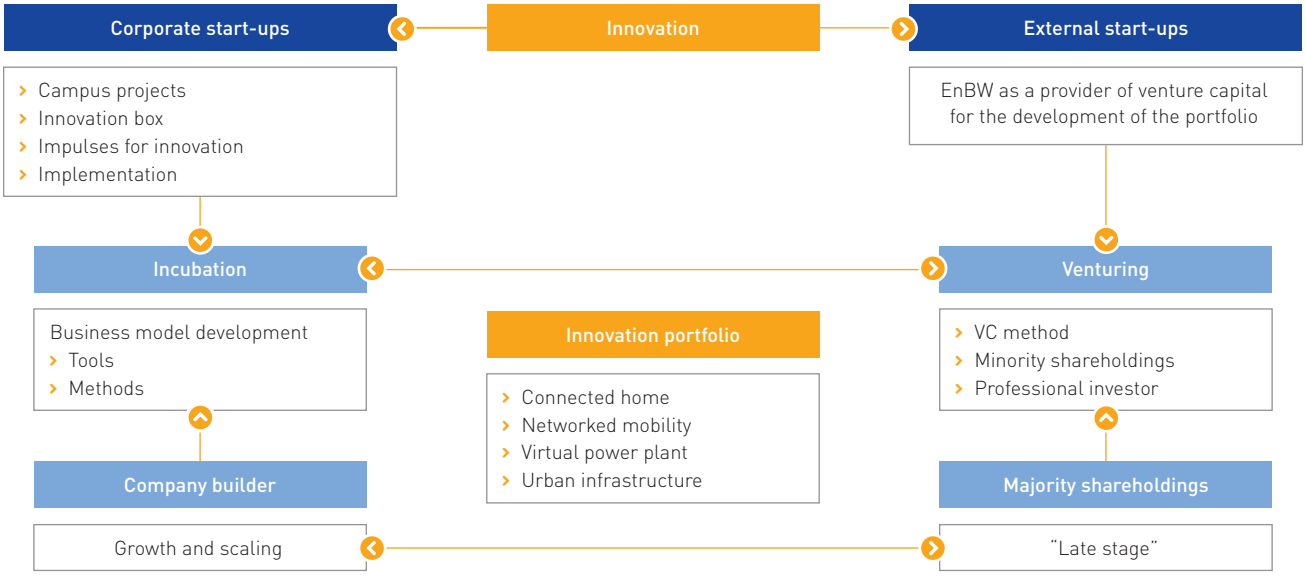
In the Biohybrid project, the EnBW subsidiary Erdgas Südwest has developed a concept to make biogas with the quality of natural gas available everywhere where customers may require electricity and heating. This also includes providing bio-liquefied natural gas for the transport sector, the market for which is starting to emerge. The first biohybrid plant is due to be constructed in Ostrach in the Sigmaringen region in 2018. Energiedienst Holding (ED) also intends to build a plant for synthetic liquid fuel (power to liquid) in 2018. One of the fundamental substances required is hydrogen, which will be generated using hydropower. The ED power-to-gas plant in Wyhlen is under construction and should be placed into operation by the end of 2018.

Innovation management: Goals, guidelines and processes

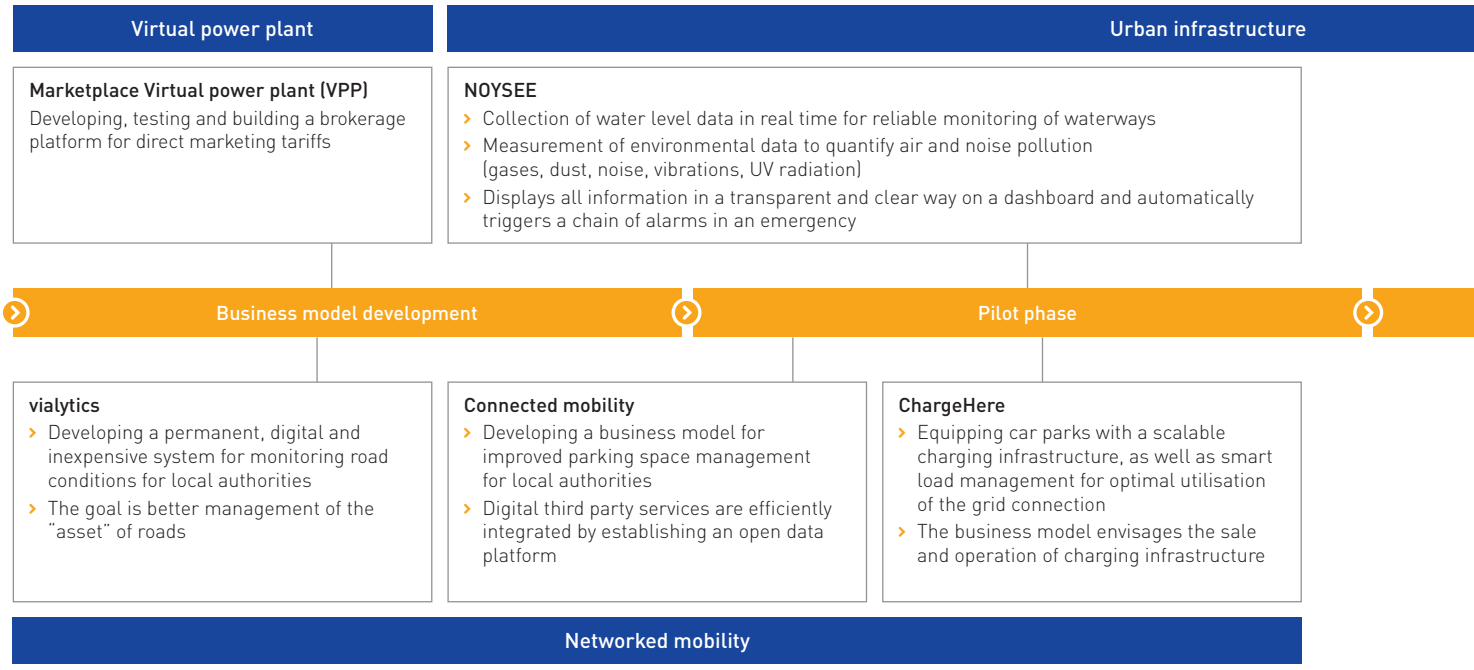
EnBW develops new business models outside of its core business with the central innovation management system in order to quickly identify new sources of revenue for the Group and bring them to the market. The development of new skills and work processes plays a major role. An agile innovation culture has been established at EnBW in this way – supported by selected partnerships and participating interests in start-up companies. The innovation strategy focuses on two main approaches: the internal generation and scaling up of new business models in corporate start-ups and investments in external start-ups by EnBW New Ventures GmbH. In the internal generation of new business ideas, innovation management has developed a new framework in the form of the Company Builder that provides additional skills to support the scaling up of corporate start-ups after they are launched onto the market. The Company Builder provides the start-ups with experts from controlling, sales and marketing so that they can optimise their products and establish them on the market. Above all, it supports the start-ups in the expansion of existing sales channels and the development of new ones.

EnBW New Ventures invests in start-ups that are pushing forward the converging markets for energy, mobility and urban living. It focuses on entrepreneurial teams who realise value added for their customers using scalable business models and new technologies. The aim is to use the total available investment volume of €100 million to secure minority shareholdings of between 10% and 30% in up to 20 start-ups. EnBW New Ventures plays the role of an active investor here: it supports the start-ups as a sparring partner and is represented on their boards. Via EnBW New Ventures, the start-ups receive access to professional investor expertise and a customer and supplier network on the energy market. In addition, commercial cooperation with the operative units at EnBW is also possible.

The innovation process at EnBW



Current projects at the EnBW Innovation Campus

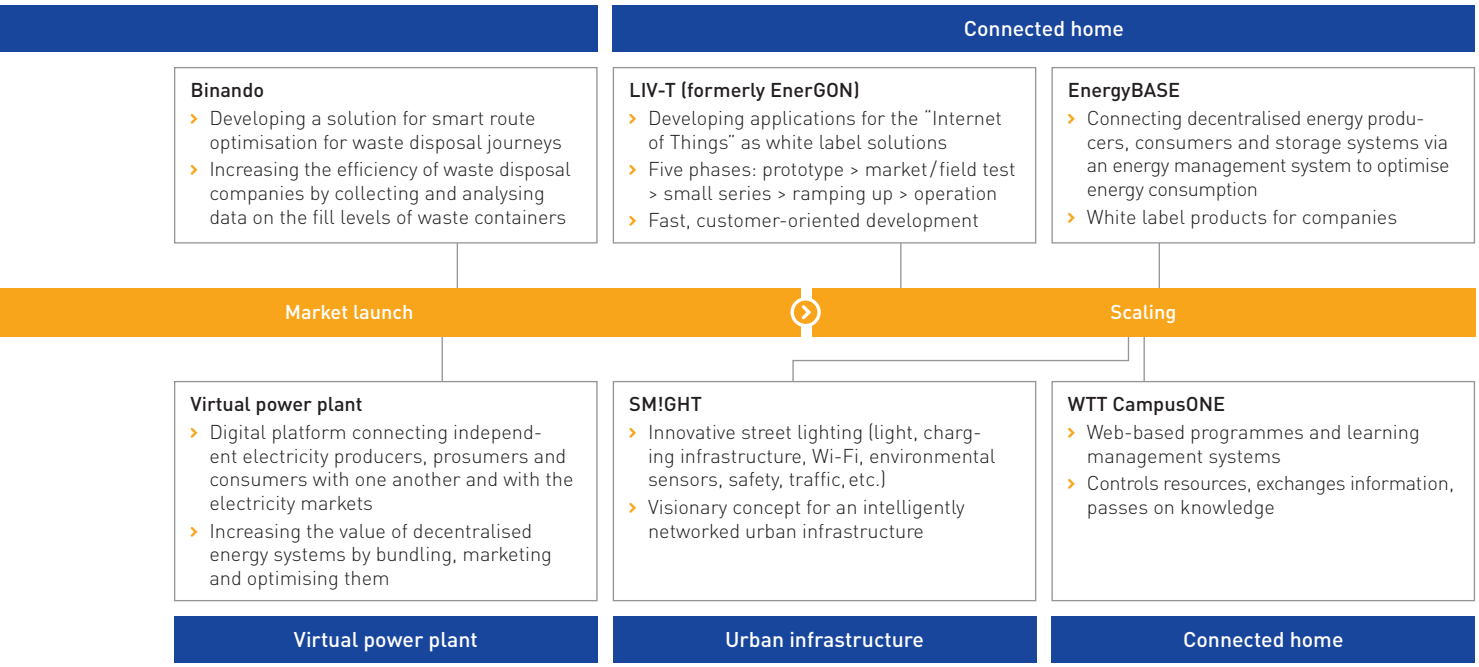


Innovation: Key points and selected results

1492@EnBW: In 2013, the concept 1492@EnBW was brought to life by human resources and innovation management. It is designed to take up business ideas that cannot be developed in normal operations so that they can be independently developed by Group-wide, interdisciplinary teams. If successfully developed, the projects are transferred back to the corresponding business unit or to the EnBW Innovation Campus to take them through to market maturity. The kick-off event for the fifth 1492@EnBW season was held at the Innovation Campus on 15 November 2017. In the previous four seasons, which usually run for four to six months, a total of 16 business ideas were developed.

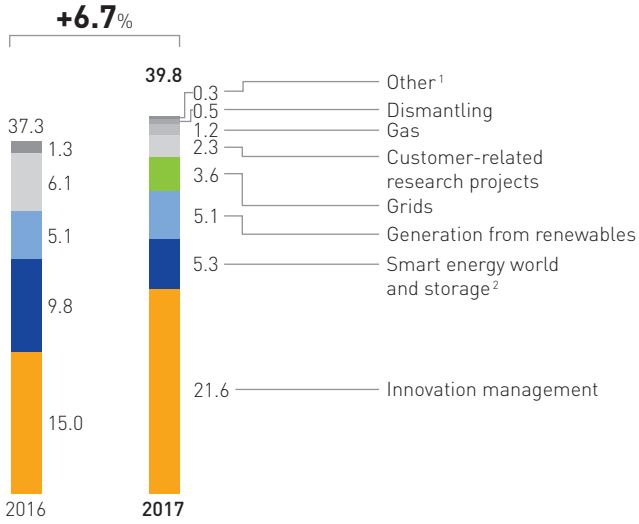
External accelerator programme ACTIVATR: After participating in 2016, EnBW took part in this programme with interdisciplinary external teams for the second time in 2017. The aim of the programme is to take ideas for new business models through to market maturity and found start-ups. One successful example is the start-up Binando, which aims to make waste management innovative and digital. As part of the E smart city strategy in cooperation with EnBW, the fill level of waste containers can be detected so that they can be emptied at the right time. This enables waste management companies to work up to 40% more efficiently. The vialytics project is currently developing the business model "smart sensors for better roads" for the management of road maintenance. It comprises a complete digital solution for continuously and automatically monitoring the quality of roads for local authorities. The project grew out of the last ACTIVATR programme and is being supported by EnBW.

Spin-off of LIV-T: The EnerGON (today LIV-T) project was started at the Innovation Campus almost two years ago. After the first spin-off company WTT CampusONE GmbH was formed on 1 January 2017, a second independent company was formed by innovation management with effect from 1 October 2017. The new company based in Munich is called LIV-T GmbH and develops data-based Internet-of-things (IoT) products that allow the energy infrastructure in buildings to be smartly networked. Alongside EnBW as the majority shareholder, company builder Mantro GmbH from Munich is also participating in this joint venture. In cooperation with Mantro, two products have already been developed and launched on the market: Oilfox is an intelligent fill-level sensor for oil tanks. The oil level can be read using the associated app at any time and more oil can be ordered directly. Oilfox is being distributed throughout Germany by BayWa AG and the trading company Mobene GmbH & Co. KG. Many thousands of units have been sold since March 2017. The heating and air conditioning system Raumgold automatically detects whether a room is being used or not and adjusts the temperature accordingly. The system consists of a central unit with various different sensors and is used above all in public buildings such as schools. Local authorities were able to reduce their energy costs by 18% on average using Raumgold.



Expenditure and personnel

Expenditure on research, development and innovation
in € million



1 Also includes conventional generation.
2 Includes, e.g. electromobility and hydrogen.

The EnBW Group spent €39.8 million (previous year: €37.3 million) on research, development and innovation in the 2017 financial year. The Group received government research grants of €2.9 million (previous year: €3.8 million). A total of 61 staff (previous year: 38) were employed in the areas of research, development and innovation in 2017. The increase in expenditure and personnel is due to the expansion of the group of consolidated companies. A further 105 employees (previous year: 72) were involved in innovation projects. 193 employees (previous year: 155 employees) were involved in research and development projects as part of their operational work.

The main points of focus of the research and development activities in the grids sector were the integration of electromobility, smart electricity grids and the application of sustainable operating materials. Innovation projects mainly focussed on the theme of digitalising grid and customer processes.

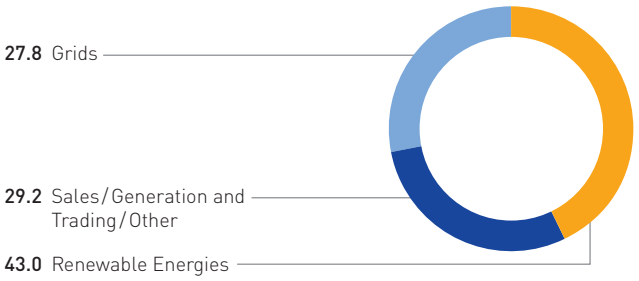
Procurement

Efficient and sustainable procurement processes

Purchasing at EnBW views itself as a partner for generating added value within the Group. It ensures the supply of materials and services at the best possible quality/cost ratio and thus strengthens the competitiveness of the company. EnBW places great emphasis on the efficient design of its procurement processes for achieving cost-effective purchasing results, as well as on sustainable procurement – while taking into account the requirements of national laws, EU law and the Group's internal guidelines. In order to manage the procurement processes, a system using various different performance indicators is used. It continually delivers a realistic picture of the current situation in purchasing and enables a comparison of the target and actual situation, as well as the prompt implementation of control measures.

The procurement volume of the EnBW Group in 2017 (without E ITOs) amounted to around €4.1 billion (previous year: around €2.4 billion).

Procurement volumes of the EnBW Group by segment
in %



A large number of suppliers and service providers contribute to the services rendered by EnBW. They play an important role in the company's efforts to achieve a leading position on the energy market. Supplier management promotes successful cooperation between suppliers and EnBW because it makes the performance of the suppliers transparent and also makes continuous optimisation in partnership possible. This is connected with the desire to procure high-quality materials and services that are safe and socially acceptable.

Sustainable procurement begins with the careful selection of business partners. Central purchasing at EnBW AG uses a standardised pre-qualification process for this purpose. Starting from a certain procurement volume, suppliers are required to provide a self-assessment via the EnBW supplier portal about whether they practise sustainable measures in the areas of data protection, quality management, environmental management, the respect for human rights, the fight against corruption, and occupational health and safety. This self-assessment was submitted by 93% of our suppliers by the end of 2017 (measured by procurement volume). Centralised documenting of certificates enables us to ensure that all the necessary prerequisites for awarding a contract are fulfilled. The information is updated every three years on the basis of a renewed self-assessment.

Companies in which EnBW has a participating interest that are not overseen by central purchasing address a number of non-financial aspects. Challenges in the area of human rights do not exist in the opinion of EnBW due to the existing minimum standards in Europe, where the vast majority of the suppliers are based.

Energiedienst Holding (ED) works closely together with central purchasing at EnBW AG to procure important product groups using joint invitations to tender and framework contracts, as well as in the associated pre-qualification processes. In addition, orders are placed largely with regional suppliers from Switzerland or neighbouring EU countries. ED believes that cooperation with these suppliers has proven its worth due to good supplier relationships and short response times. In addition, the purchasing guidelines have been revised with the aim of bundling procurement orders to a greater extent.

The purchasing department at Pražská energetika ensures that key sustainability aspects are observed by suppliers, such as the payment of social security contributions, the settlement of tax liabilities and the prevention of money laundering. Potential suppliers are required to verify their compliance with these aspects by either submitting a sworn declaration or by presenting corresponding certificates when bidding for invitations to tender. The fulfilment of these obligations is also defined in the supplier contracts.

Stadtwerke Düsseldorf uses compliance guidelines, environmental management system manuals and process descriptions to fight corruption and bribery, as well as for the protection of the environment.

The fundamental principles for procurement at VNG-Verbundnetz Gas are regulated by a code of conduct, the management handbook and Group guidelines. Aspects such as sustainable environmental protection and the protection of corruption are fixed components of the procurement regulations and the compliance management system.

In order to identify potential new sources of supply, such as in Asia, and to expand the supplier portfolio, market analyses on

global procurement markets are carried out and meetings with suppliers are held. Procurement plays an important role in the strategically important expansion of the portfolio of power plants in the area of renewable energies. EnBW was able to achieve significant savings in the area of procurement for onshore and offshore wind power plants.

Due to the growing focus on results in purchasing, suppliers increasingly attempt to make supplementary claims above and beyond the originally agreed order volumes. In order to reduce the risk of supplementary claims, contract management is working on further improving the general quality of the contracts for supplier relationships. One measure is, for example, the close cooperation between the legal, technology and purchasing departments, especially in the field of onshore and offshore wind power plants.

The opportunities and risks in relation to procurement can be found in the "Report on opportunities and risks" (p. 95).

Responsible raw materials procurement in the coal sector

Positioning, overarching concepts and due diligence for the protection of human rights

In October 2017, the Board of Management of EnBW confirmed the existing approach for the responsible procurement of coal and also resolved additional measures. The aim is to significantly strengthen the company's influence on the Colombian producers and also improve their CSR performance. For this purpose, EnBW will strengthen the influence it has over producers through the targeted expansion of direct supplier relationships. By adding CSR clauses to direct supply contracts, the producers will be obligated to observe the EnBW code of conduct. The first contract based on the resolutions made by the Board of Management was already concluded at the end of 2017, which will significantly increase the proportion of direct supplier relationships with Colombian producers over the next few years.

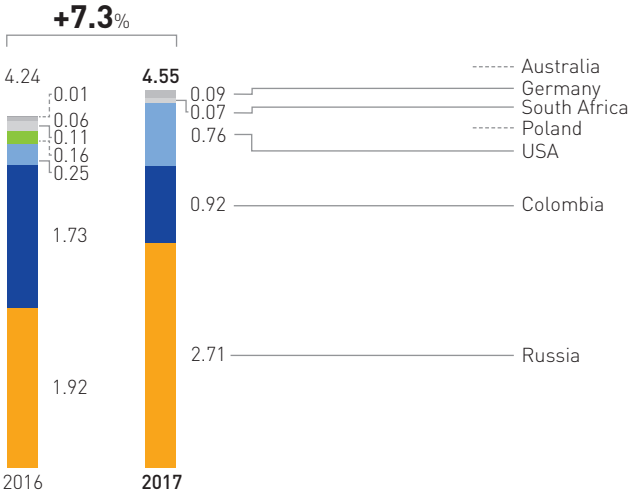
In accordance with the Guiding Principles on Business and Human Rights of the United Nations, EnBW strives to procure coal responsibly and thus to fulfil its human rights responsibilities. Due to the special challenges faced in the area of coal procurement, especially in Colombia, the current CSR performance of potential coal suppliers is regularly discussed on the basis of the rules of conduct governing the responsible procurement of hard coal and other raw materials (www.enbw.com/verhaltenskodex), which were adopted in July 2014, and used to determine any future action. The coal suppliers are evaluated on the basis of relevant international standards, such as the UN Global Compact, the OECD Guidelines and the IFC (International Finance Corporation) Performance Standards. The latest studies by competitors and international initiatives also flow into the evaluation of the producers, such as information and contributions from civil society organisations.

Our code of conduct in combination with an internal implementation guide act as the foundations for the targeted achievement of responsible coal procurement. The annual assessment of coal producers is carried out using the EnBW sustainability index, which covers all areas of the code of conduct. In addition to regular auditing of the sustainability performance of business partners, a multi-stage auditing process will come into force in the event of suspected breaches of the code, which can lead to the termination of the business relationship or exclusion from our procurement process. The results of the analyses in the sustainability index are discussed as part of a control process by the committee for the responsible procurement of raw materials (comprising members from all relevant specialist departments) at least once a year. Findings from discussions with external stakeholders groups, such as representatives from civil society, legal experts for the individual countries and human rights experts, also flow into these analyses. If any deviations from the minimum standards are identified, corrective measures are implemented, where necessary, in cooperation with the producers for existing supply contracts. The committee for the responsible procurement of raw materials met on two occasions in 2017, to discuss the sustainability performance of all significant supplier companies on the basis of existing findings from the sustainability index.

Origin of coal supplies

Hard coal will continue to play an important role for EnBW as a source of energy to ensure a reliable and economic supply of electricity. Some 4.55 million t of coal were delivered to EnBW power stations in 2017 (previous year: 4.24 million t of coal). This corresponds to a procurement volume of €340.4 million. In the reporting year, Russia further strengthened its position as the main country of origin for coal supplies. The share accounted for by Colombian coal fell significantly.

Origin of coal supplies to EnBW power plants
in million t



As the three major coal producers in Colombia have their own shipping ports, it is possible to precisely trace the source of the coal from this country. The Colombian coal delivered to EnBW power plants was sourced via various contracts, primarily from the producers Drummond and Prodeco. Coal from the USA originated mainly from coal mines in the Illinois Basin, where the controversial method of mountaintop removal mining is not used. A small amount originated from non-traceable sources in the USA. The origin of coal sourced from Russia can only be localised to the mining region due to the large number of coal mines and coal producers in the country. The Russian coal sourced by EnBW originates from the Kusnezk Basin.

EnBW places importance on maintaining a balanced procurement portfolio to avoid becoming dependent on individual producing countries, producers or traders, and the associated price and supply risks. EnBW covers the largest part of its coal requirements through contracts with trade intermediaries, which usually define quality standards but not from where the coal originates. In addition, direct business relationships exist with selected coal producers which we will expand in the future. More information on coal procurement by EnBW can be found on our website at www.enbw.com/kohlebeschaffung and in our Energiewende blog at www.dialog-energie-zukunft.de/infografik_kohle.

The opportunities and risks in relation to raw materials procurement can be found in the "Report on opportunities and risks" (p. 95).

Observance of the code of conduct and other measures

All current coal suppliers fulfil the minimum requirements of the code of conduct. The developments in Colombia, particularly in relation to the implementation of the peace process, is a special area of focus. In order to continue to discuss and agree suitable measures in cooperation with the suppliers in the sense of the direct, constructive dialogue practised over the past few years, discussions have been held with representatives of the Colombian government and civil society. In addition, EnBW is expanding its activities in Russia. We have been supporting, for example, a project headed by the UNDP (United Nations Development Programme) and the WWF (World Wide Fund For Nature) for identifying and evaluating the sustainability activities of companies in the coal sector. The further development of our own measures for responsible coal procurement is significantly influenced by the recommendations of the National Action Plan for Business and Human Rights from the German government – with EnBW having intensified its discussions with governmental and non-governmental representatives for this purpose.

Business report

General conditions

External influences

The business performance of EnBW is greatly influenced by a wide range of external factors. These include, above all, the development of the wholesale market prices for electricity, the political/regulatory framework conditions and also the weather conditions. The price of electricity is not only dependent on demand but also on the development of the global fuel and CO_2 markets. In an environment characterised by a constantly growing share of generation accounted for by renewable energies, earnings are naturally influenced by the weather conditions. In addition to these factors, the energy sector is still experiencing a period of fundamental change due to the transition to increasingly carbon-neutral methods of energy generation. On the sales side of the business, there is very intensive competition with ever more newer players joining the market.

Macroeconomic trends

Economies

Economic growth accelerated in 2017 in almost all of the economies relevant to EnBW. The growth in economic output was based above all on buoyant levels of private consumption. However, there was also an increase in economic and political risks, such as populist and separatist movements and the abandonment of tried-and-tested international trade agreements.

The general conditions for the business activities of EnBW should remain favourable in 2018. Economic growth in Europe is expected to be at the same level as in the previous year. The slower rate of growth anticipated in Turkey and the Czech Republic will not have any significant effect on the business performance of EnBW.

Development of gross domestic product (GDP)

in %	2018	2017	2016[1]
World	3.9	3.7	3.2
Eurozone	2.2	2.4	1.8
Germany	2.3	2.2	1.9
Switzerland	2.0	1.0	1.4
Czech Republic	3.3	4.4	2.6
Turkey	3.5	7.5	3.2

1 The figures for the previous year have been restated.

Development of interest rates

The European Central Bank (ECB) continued its expansive monetary policy in 2017. In the middle of the year, suggestions of a possible reduction in the purchase of securities by the central bank led to a temporary rise in yields for government bonds, which declined again during the remainder of the year.

The discount rates, especially those for the pension and nuclear provisions of the company, also followed this trend. For the year as a whole, both the discount rates and also the present value of the pension and nuclear provisions remained almost stable.

The average of the consensus forecasts for the ECB main financing rate has remained unchanged at 0.0% since the middle of March 2016.

Development of the sector and competitive situation

The energy sector is still undergoing a period of fundamental change. The Energiewende has concentrated up to now on the generation of electricity using renewable energies, but the focus will expand in future to bring the themes of heating and electromobility more and more into play. This will result in fierce competition in all segments of the market.

Many new business models are being developed and new competitors are emerging on the market offering new products and services. In this challenging environment, traditional energy supply companies need to review their business models and orientate themselves to the new market conditions (p. 14 f. and 24).

International, national, regional and new competitors

Competitor segment	Companies	Characteristics
International competitors	EDF, Enel, Engie, E.ON, Uniper, Iberdrola, RWE, innogy, Vattenfall	› Broad-based, internationally oriented growth strategy › Growth especially in renewable energies, grids and sales/solutions
National competitors (DACH region)	ALPIQ, EVN, Verbund	› Stable national position, activities in selected foreign markets › Focus on market development, for example in renewable energies, grids, sales and/or solutions
Regional competitors	Badenova, EWE, MVV, SWM, Thüga	› Focus on regional markets › Main focus of the business activities mostly in area of grids and sales
New competitors	1&1, Capital Stage, Deutsche Telekom, Google, NEXT Kraftwerke, sonnen, Tesla, wpd	› Entry of new market participants increases competition and leads to a fragmentation of the value chain

Cross-segment framework conditions

Climate protection

The business activities of EnBW will be significantly influenced by international climate protection targets and the associated measures for their achievement. The 23rd UN Climate Change Conference was held in Bonn in November 2017. Its main aim was to push forward with the practical implementation of the Paris Climate Change Agreement. The achievement of Germany's climate protection targets for 2020 and maybe also those for 2030 is under threat. Therefore, further measures are now required – with political discussions focussing above all on the accelarated phasing out of coal-fired power generation.

The achievement of Germany's climate protection targets up to 2050 will affect all levels of the value added chain for electricity and gas in which EnBW is active. Starting with the transition from generation using fossil fuels to renewable energies such as wind and sun, the implementation of the climate protection targets will involve the expansion of the grid infrastructure as well as customer-oriented areas of activity, such as energy efficiency, e-mobility or energy services, for all customer segments from household customers through to the housing industry, industrial customers and local authorities.

EnBW published a Declaration on Climate Policy together with the development and environmental organisation Germanwatch, Foundation 2°, B.A.U.M and more than 50 companies (www.enbw.com/klimaschutz). It demands that climate protection together with concrete measures in this area are made a central task of the future German government.

In addition, Thomas Kusterer, EnBW Chief Financial Officer, is a member of the Task Force on Climate-related Financial Disclosures (TCFD) and committed to the development of climate-related risk reporting. The TCFD published recommendations for effective climate reporting in summer 2017. It emphasises that, by implementing the recommendations, companies can demonstrate how they handle climate-related opportunities and risks. In addition, the TCFD standard requires companies to explain how robust their business models are on the way towards creating a low-carbon economy. Presenting the robustness of our business model with respect to climate protection (p. 15) and an index of the TCFD recommendations (p. 115) represents the first steps towards its implementation in this report.

The strategy being followed by EnBW of concentrating investment on renewable energies, expanding the grids and developing new and increasingly digitalised business models supports the achievement of the targets set at the Climate Change Conference, while the strategy itself is being promoted by the international efforts for climate protection.

Energiewende 2.0

At the beginning of the Energiewende, the main focus was placed on the expansion of energy generation using renewable sources. Since the Paris Climate Change Agreement in 2015, it has become clear that transforming the energy industry will not be sufficient on its own for the achievement of the greenhouse gas targets. Rather, all other sectors need to be included in order to achieve the climate target of limiting the increase in global temperature to well below two degrees Celsius.

The residual budget that is still available for greenhouse gas emissions for Germany in 2050 of 250 million t CO_2 (80% target) or 62 million t CO_2 (95% target) will be required to a significant extent for remaining process-related emissions in industry and agriculture. Therefore, private households, industry, trade and commerce, as well as transport and the energy industry, need to make a greater contribution to the reduction of greenhouse gases and be almost fully decarbonised by 2050. This will require a complete transformation of the energy system because fossil fuels will by and large need to be completely replaced.

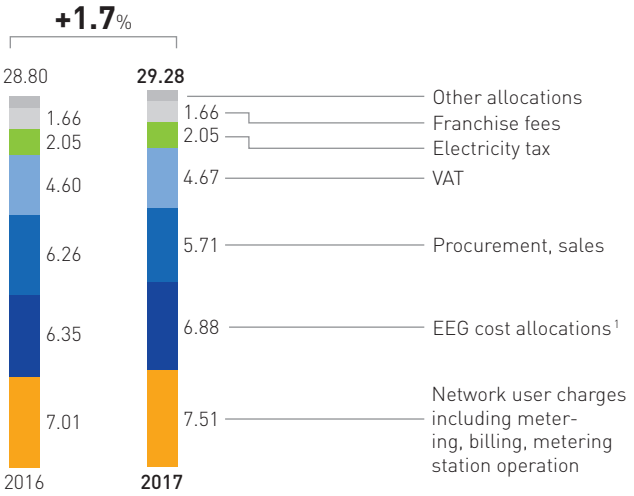
Sector coupling – the networking of the three sectors of electricity, heating and transport – is associated with an increase in the levels of complexity. Balancing the generation of electricity from renewable energies that cannot be directly controlled and the demand for energy is an important aspect of the Energiewende. The necessary flexibility will, to a certain extent, mean controlling demand, such as the charging of e-vehicles at times beneficial to the system and the short-term

or seasonal storage of energy. This movement towards a holistic approach across all sectors, the stronger links to sustainable infrastructure themes as a result and the development of numerous cross-sector business models will act as an important basis for the strategy of EnBW in the post 2020 period (p. 26 f.). We are already developing one growth field through the provision of a charging infrastructure for electric vehicles.

Activities in Turkey

EnBW has been actively involved in the expansion of electricity generation in Turkey, above all through investment in wind power plants, as part of its joint venture with its Turkish partner Borusan since 2009. In 2017, the joint venture was the second most successful company in the auctions for wind projects with bids accepted for around 400 MW. It was thus able to increase its existing generation portfolio from around 750 MW to around 1,150 MW. In the past few years, the economic and political conditions in Turkey have deteriorated noticeably. EnBW continues to closely monitor these developments. In our opinion, there is currently no immediate danger to the employees working in Turkey or to the security of the investments made jointly with our Turkish partner.

Average electricity price for a 3-person household (annual consumption of 3,500 kWh)
in ct/kWh



1 Use of the German Compensation Mechanism Ordinance (AusglMechV) applies since 2010.

Source: BDEW
As of January 2018

Sales segment

Electricity and gas prices for retail and industrial customers

According to an analysis of electricity prices by the German Association of Energy and Water Industries (BDEW) published in January 2018, the average monthly electricity bill for a household with an annual consumption of 3,500 kWh in 2017 came to €85.42 compared to €83.99 in the previous year. Taxes and levies account for more than half of this amount. EnBW was able to keep the price for the basic supply of electricity stable in 2017 as lower wholesale market prices compensated for the increase in levies. In the case of industrial customers receiving a medium-voltage supply, the average electricity price including electricity taxes increased according to calculations made by the BDEW by 9.9%, from 15.55 ct/kWh in the previous year to 17.09 ct/kWh in 2017.

According to calculations by the German Federal Statistical Office in 2017, natural gas prices for private households had fallen by 3.0% compared to the previous year; the price of natural gas for industrial customers had risen by 3.8%.

Structural changes

In the area of **energy services**, there will be new applications for electricity in the areas of electromobility and urban infrastructure and in other business fields. In the long term there may even be an increase in demand as fossil fuels are replaced by electricity – such as through the use of heat pumps – and due to the politically desired expansion of electromobility. More than 20% of new buildings are now equipped with heat pumps. An expanding range of vehicles with electric drives and the increase in state funding in 2016 has led to a significant rise in newly registered e-vehicles: Growth of 133% was recorded in the first half of 2017 alone compared to the previous year. The expansion of the public charging infrastructure is also accelerating: Around 10,700 publicly accessible charging points were available in Germany by the middle of 2017 – which represented an increase of over 4,000 charging points in comparison to the previous year. EnBW made an important contribution in 2017 with the expansion of the charging infrastructure at around 120 motorway service stations together with Autobahn Tank & Rast GmbH. EnBW believes that the "transport transition" (Verkehrswende) – a further component of the Energiewende – is an important prerequisite for achieving the German climate protection targets. For this reason, electromobility is a strategically relevant area of activity.

The increasing digitalisation of the energy supply system is also acting as the basis for the development of innovative business models. The digitalisation law that came into force in 2016 includes an obligation for the installation of **smart meters** in progressive stages. Large consumers with annual consumption of more than 10,000 kWh will receive digital smart meters from 2017. Smart meters will then become obligatory for private households with an annual consumption of 6,000 kWh or more from 2020. The certification of the devices by the Federal Office for Information Security (BSI) has been delayed – the roll-out will begin as soon as the first certified devices are available on the market.

The act to promote **tenant electricity** came into force on 25 July 2017. Tenant electricity describes electricity that is generated in solar power plants on the roof of a residential building and supplied to end consumers – especially tenants – in the same building or in residential buildings and ancillary facilities in the immediate vicinity without transmission via the grid. The electricity that is not used by the tenants is fed into the grid for general supply and reimbursed accordingly. Funding could only be provided up to now for electricity from PV power plants that was fed into the grid for the general supply of electricity. The new regulations should also allow tenants to enjoy the benefits of decentralised, renewable generation. EnBW believes that the improved general conditions offer opportunities for developing innovative business models and is already offering an innovative product called EnBW solar+ that optimally combines a photovoltaic power plant and a storage system.

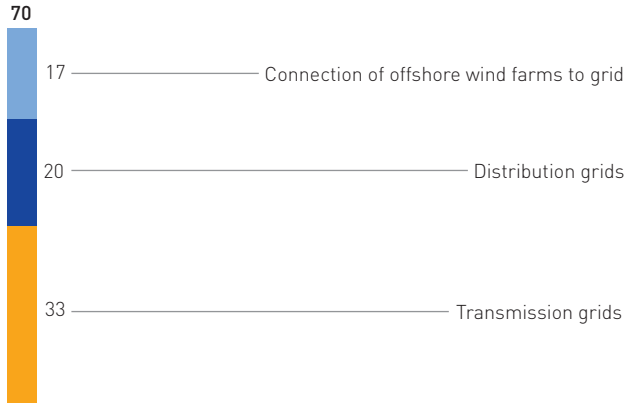
The German Federal Ministry for Economic Affairs and Energy (BMWi) published the **"Funding strategy for energy efficiency and heating from renewable energies"** in May 2017. The strategy describes measures for the further development of energy efficiency funding in the new legislative period and contains recommendations for action to define the climate protection plan in concrete terms in relation to energy efficiency and heating from renewable energies. The aim is over the next few years to combine, for example, energy efficiency and renewable energy funding programmes and align them towards specific target groups. In addition, the funding of heat generation that is exclusively based on fossil fuels is due to be phased out from 2020. EnBW believes that the pending "heating transition" (Wärmewende) offers opportunities for the provision of energy-efficient and low-carbon heating solutions.

Grids segment

The success of the Energiewende is closely linked to the **expansion of the transmission and distribution grids**. The connection of renewable energies will require further construction measures at all levels of the electricity grid. Furthermore, the electricity grid also needs to be equipped for the expected escalation in the number of electric cars. The distribution grid operators at EnBW are preparing to face these challenges.

The **Network Development Plan Electricity (NDP Electricity)** up to 2030 anticipates further demand for new power lines for the German transmission grid. The Federal Network Agency (BNetzA) has examined and approved 16 new projects for inclusion in the Federal Requirements Plan. According to assessments made by the transmission system operators (TSO), further expansion of the grid will be necessary even after 2030, which could also comprise pure high-voltage direct current transmission lines (HVDC lines). Our transmission system operator TransnetBW is involved in these grid development plans through the SuedLink and ULTRANET projects.

Investment for the expansion of the German electricity grid up to 2030
in € billion



Source: Own estimates based on latest Network Development Plan Electricity from TSO and the BMWi 2014 Distribution Grids Study.

The final version of **Network Development Plan Gas (NDP Gas)** 2016 to 2026 from 16 October 2017 comprises an investment volume of €3.9 billion to expand the transmission gas pipelines by 823 km and increase compressor capacity by 429 MW. This does not include expansion measures with a volume of around €500 million linked to the Nord Stream 2 pipeline that has not yet been approved. If approval for Nord Stream 2 is received, the gas transmission grid operators want to include these measures again in an addendum to the final NDP Gas. There are no measures for the grid area operated by ONTRAS in the NDP Gas. As part of the work to strengthen the German and European gas supply, ONTRAS is participating in the European Gas Pipeline Link (EUGAL) as a project shareholder. A further revision was necessary to create the conditions for the future development of the power plant sites in Altbach and Heilbronn am Neckar as possible locations for gas-fired grid reserve power plants. Both of these planned power plants are located in the grid area covered by our gas transmission grid operator terranets bw.

The German government passed a law on the modernisation of grid fees **(Netzentgeltmodernisierungsgesetz, NEMoG)** on 30 June 2017. NEMoG envisages the stepwise harmonisation of the transmission grid fees from 2019 until 1 January 2023. Furthermore, the remuneration for decentralised feed-ins (so-called avoided grid fees) will be

adjusted: The payments for all controllable power plants will be frozen at the grid fees for 2016 and adjusted for the costs of connecting up the offshore wind farms and of the underground cables for the transmission grids. In the case of non-controllable power plants (wind and photovoltaic power plants), the avoided grid fees will be phased out from 2018 in three stages up to 1 January 2020. It can be assumed that cost components for the Energiewende across Germany will be additionally contained within the network user charges for TransnetBW, as the network user charges are currently lower than at other German TSOs. The earnings for our EnBW power plants from the decentralised feed-in remuneration will reduce in accordance with the legal agreements.

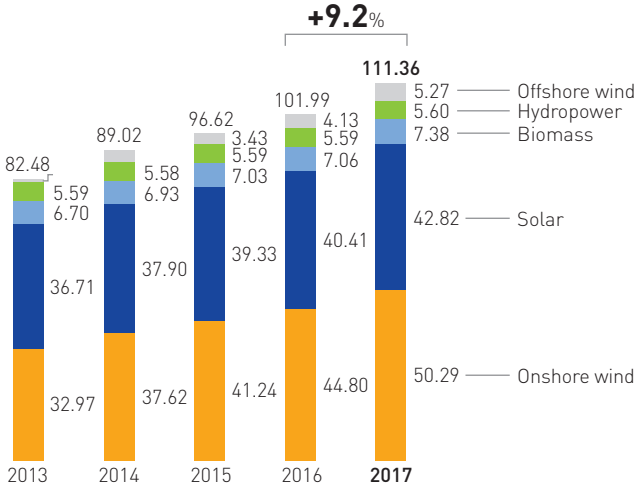
The natural gas market in Germany has been split into the two balancing zones NetConnect Germany (NCG) and GASPOOL – both of which supply L-gas and H-gas – since October 2011. The Bundesrat agreed on the **reform to the Gas Grid Access Directive** (GasNZV) on 7 July 2017. In particular, the reform requires the merging of the two German market areas by 1 April 2022. This is seen as an important step for future European developments that could also include a cross-border market area with German participation. This would prevent any discrimination within Germany caused by the integration of only one of the two German market areas. We view the merging of the two German market areas as a necessary intermediate step in the further development of the national gas market, as well as for cross-border integration, such as with the Benelux countries. In particular, we anticipate that this will result in an improvement to the liquidity situation on the forward market.

As part of the cost assessments for the third incentive regulation period, the electricity grid operators submitted their **network user charge applications** using the data for base year 2016 by 30 June 2017. The corresponding network user charge notices for the third regulatory period for electricity (2019 to 2023) are only expected during the course of 2018. The gas grid operators had already submitted their network user charge applications for the third regulatory period for gas (2018 to 2022) in 2016, using the 2015 financial year as a basis. The cost assessments are very relevant for our grid operators because the results have a significant effect on their earnings situation.

Renewable Energies segment

Renewable energies in Germany experienced significant growth in 2017 both in terms of their capacity and also the volume of electricity generated. According to the Fraunhofer ISE, the proportion of total German electricity generation accounted for by renewable energies increased to 38.4% (2016: 33.6%). Generation from photovoltaics increased by around 1%. Generation from wind power increased by around 32% in comparison to 2016, which had experienced relatively poor wind conditions. The area of onshore wind power experienced especially strong growth in 2017 with the addition of more than 5 GW of capacity.

Installed net output for electricity generation from renewable energies in Germany
in GW/year



Source: AGEE, BMWi, Bundesnetzagentur
As of 02/01/2018

For **onshore wind power plants**, there is a transitional period for the completion of already approved projects with fixed funding up to the end of 2018. Three rounds of auctions were held in 2017 for later projects. The existing privileges for community energy cooperatives (BEG) meant that nearly all of the bids accepted were for projects from these types of cooperative. EnBW did not have any of its bids accepted in Germany in 2017. The rate of expansion is set to decrease in 2018 and 2019 because BEG enjoy greater freedom for the implementation of the projects. The first two rounds of auctions without privileges for BEG will be held in 2018, which means that all of the projects can bid under the same conditions in these auctions. It is anticipated that BEG will once again enjoy the same privileges in the two subsequent rounds of auctions.

For **offshore wind power plants**, the target of 15 GW of installed output by 2030 has been defined. There will also be a period of transition to competitive auctions for offshore wind power plants: All wind farms that are placed into operation by 2020 will receive funding in accordance with the EEG 2014. The first of a total of two transitional auctions for wind turbines to be connected to the grid between 2021 and 2024 was held in April 2017. Three projects that did not require any state funding were accepted, including the He Dreiht project from EnBW. The central auction process will apply to new projects from 2025. EnBW will realise its EnBW Hohe See and EnBW Albatros projects as planned by 2019 and participate in the tender procedures with its subsequent projects (p. 90).

A central auction model is also being used for **photovoltaic power plants** with an installed output of more than 750 kWp. The prices in the accepted bids for the participating projects fell during the course of the three rounds of auctions in 2017, from an initial 6.6 ct/kWh to 4.9 ct/kWh. The development of photovoltaic output in Germany is also dependent on the growth of smaller power plants, whose profitability is in-

creasingly characterised by own consumption models. A continuous fall in the cost of battery storage systems in combination with lower feed-in remuneration already makes these models an attractive option today.

Generation and Trading segment

Electricity wholesale market

Following a low in 2016 and lateral movement in the first half of 2017, prices on the wholesale market for electricity rose significantly during the remainder of the year. While the market prices for the 2018 delivery year stood at €30/MWh on average in the first half of the year, prices already increased in the third quarter to €33/MWh and in the fourth quarter to €37/MWh. The increased prices on the electricity market were due primarily to higher prices for hard coal and emission certificates. As a result, the pressure on generation from coal power plants remains high, especially in Germany. The trend for electricity generated at large power plants to be driven out of the market by the increasing level of generation from renewable energies is continuing.

The front year E base load prices in 2018 will remain highly dependent on the development of prices for fuel and CO_2 allowances. In the medium term, the price level will be increasingly influenced by changes in energy and environmental policies at home and abroad.

Development of prices for electricity (E EPEX), E base load product

in €/MWh	Average 2017	Average 2016
Spot	34.19	28.98
Rolling front year price	32.38	26.58

Gas market

Long-term gas import contracts form a primary basis of Germany's gas supply. The wholesale markets, such as the TTF and the trading point of the E NetConnect Germany (NCG) market area, are other important sources of natural gas. Prices track the oil price trends with a time lag. In addition, prices on the European wholesale market have developed more autonomously because the increased supply of Liquefied Natural Gas (LNG) from the USA and Australia has meant that gas and oil prices have become less and less tightly linked to one another. The border price index for natural gas published monthly by the German Federal Office of Economics and Export Control (BAFA) stood at €16.34/MWh in August 2017, which was 7.2% below the December 2016 figure (€17.60/MWh) and 15.5% above the figure for the same month in the previous year (€14.15/MWh). As a result of the oversupply on the gas markets, we do not anticipate that prices will recover further in the short term.

Development of prices for natural gas on the TTF (Dutch wholesale market)

in €/MWh	Average 2017	Average 2016
Spot	17.29	14.02
Rolling front year price	16.98	15.40

Oil market

The oil market in 2017 was primarily supported by the joint production cuts agreed by OPEC, but not including Libya and Nigeria, as well as by some non-OPEC countries such as Russia. Due to the more limited supply from these countries, global stocks fell steadily in 2017 but still continued to be above the target five-year average. The very dynamic growth in oil production in the USA, combined with a sometimes poor level of compliance by individual OPEC countries and the threat that the agreement to limit production would expire at the end of June 2017 meant that oil prices were consistently under pressure from March to June. The extension to the production cuts initially up to the end of March 2018 and then until the end of 2018 ultimately ended the fear of a return to oversupply. As a result, oil prices recovered by September to the levels seen at the start of the year, before the impact of the hurricanes Harvey and Nate as well as – from the middle of October – a series of geopolitical risks led to a further increase in prices to more than US$60/bbl. These risks included the conflict between the Iraqi central government and the Kurds in northern Iraq, new tensions between Saudi Arabia and Iran, the internal power struggle in Saudi Arabia, the potential reintroduction of US sanctions against Iran and the threat of Venezuela going bankrupt. We thus anticipate that the sharp increase in oil production outside of OPEC will mean that any price rises to anything significantly over US$70/bbl will be prevented, as long as there are no further production shortfall or geopolitical crises.

Development of prices on the oil markets

in US$/bbl	Average 2017	Average 2016
Crude oil (Brent), front month (daily quotes)	54.75	45.13
Crude oil (Brent), rolling front year price (daily quotes)	54.87	49.35

Coal market

In the first half of 2017, the prices of API #2 quality coal for delivery in the 2018 calendar year (API #2 Cal 18) fluctuated on the E forward market in a range between US$60/t and US$70/t. In the second half of the year, prices rose continuously to a value above US$85/t. The main reason for this were the severe restrictions on Chinese coal production due to comprehensive safety checks in the country's coal mines. Coal imports into China rose as a result to more than 27 million t in September 2017, which was the highest monthly volume since December 2014. The demand for coal was higher than in the previous year in many other, primarily Asian

countries, which resulted in global coal imports increasing by more than 20 million t in 2017 compared to 2016. In addition, higher freight costs and oil prices led to a rise in prices for deliveries to Europe. We thus anticipate that coal prices on the spot market in 2018 will level off at a price of over US$80/t if the high demand for coal in Asia continues.

Development of prices on the coal markets

in US$/t	Average 2017	Average 2016
Coal – API #2 rolling front year price	73.70	53.63
Coal – API #2 spot market price	84.52	60.05

CO_2 allowances

Under the European emissions trading system, proof must be provided of CO_2 allowances for CO_2 emissions from power plants. In the first half of 2017, the price of EU allowances (EUA) fluctuated between €4.30/tCO_2 and almost €6/tCO_2. In the second half of the year, the prices for emission allowances rose to around €8/tCO_2. The total supply of EUA certificates was slightly above the anticipated emissions in 2017. However, the hedging demand was higher due to the increase in clean dark spread during the course of the year. In addition, the ongoing negotiations on the reform of the EU Emissions Trading System (ETS) have provided some impetus for prices to rise. A general increase in EUA prices is expected in 2018.

Development of prices for emission allowances/daily quotes

in €/t CO_2	Average 2017	Average 2016
EUA, rolling front year price	5.77	5.34
CER, rolling front year price	0.23	0.38

Nuclear power

The Act for the Reorganisation of Responsibility in Nuclear Waste Management came into force in the middle of June 2017. It establishes new rules for the roles and financial responsibilities of the German government and operators. According to the new law, operators are responsible for the decommissioning and dismantling of their nuclear power plants, as well as for the conditioning and packaging of the radioactive waste. The obligations remain with the companies. The transport, intermediate storage and final storage of the waste will be the responsibility of the German government in future. A fund under public law took over these obligations from the operators on 3 July 2017. The payment of a risk premium of around 35% releases the operators from any subsequent liability for the areas of responsibility transferred to the German government. The law is accompanied by a public law contract between the government and the operators that not only clarifies the rules established in the law in more detail but also stipulates the further course of action to be taken regarding the repatriation of reprocessing waste from France and Great Britain. The operators are obligated in the contract to prepare applications for the storage of this waste at selected intermediate storage sites. The transport of the waste will only be carried out when the intermediate storage sites for highly radioactive waste have been transferred to the German government; this will not be the case before 1 January 2019.

On 7 June 2017, the Federal Constitutional Court declared the law for the nuclear fuel rod tax unconstitutional; EnBW has received a tax refund as a result (p. 56 ff.).

The EnBW Group

Finance and strategy goal dimensions

Results of operations

Electricity sales increase slightly, gas sales significantly higher due to full consolidation of VNG

Electricity sales of the EnBW Group (without Grids)

in billions of kWh	Sales		Renewable Energies		Generation and Trading		Total (without Grids)		Change in %
	2017	2016	2017	2016	2017	2016	2017	2016	
Retail and commercial customers (B2C)	15.0	15.0	0.0	0.0	0.0	0.0	15.0	15.0	0.0
Business and industrial customers (B2B)	23.7	28.2	0.0	0.0	0.0	0.0	23.7	28.2	-16.0
Trade	1.0	0.7	2.2	3.3	80.1	67.6	83.3	71.6	16.3
Total	**39.7**	**43.9**	**2.2**	**3.3**	**80.1**	**67.6**	**122.0**	**114.8**	**6.3**

In the 2017 financial year, electricity sales of the EnBW Group were slightly above the level in the previous year. Adjusted for consolidation effects, there was hardly any change (+0.1%). It was possible to more than offset the falling sales in the business and industrial customer sector (B2B) by a small margin through the effects in trade of the full consolidation of VNG-Verbundnetz Gas and an increase in trading activity. However, the effect of trading activities on the earnings potential of the company is limited. In a persistently challenging competitive environment, electricity sales in business with retail and commercial customers (B2C) reached the same level as in the previous year, due mainly to the full consolidation of VNG.

Gas sales of the EnBW Group (without Grids)

in billions of kWh	Sales		Generation and Trading		Total (without Grids)		Change in %
	2017	2016	2017	2016	2017	2016	
Retail and commercial customers (B2C)	14.4	10.8	0.0	0.0	14.4	10.8	33.3
Business and industrial customers (B2B)	42.6	41.5	51.1	0.0	93.7	41.5	125.8
Trade	0.3	2.1	141.7	84.7	142.0	86.8	63.6
Total	**57.3**	**54.4**	**192.8**	**84.7**	**250.1**	**139.1**	**79.8**

The gas sales of the EnBW Group increased significantly in 2017 compared to the previous year. Adjusted for consolidation effects, there was only a slight increase of 1.2%. Gas sales in the retail customer business (B2C) were significantly above the level in the previous year due to the full consolidation of VNG. Sales to business and industrial customers (B2B) also benefited considerably from the full consolidation of VNG. The level of trading activity was significantly higher than in the previous year, which was also due to the full consolidation of VNG. However, the effect of the trading activities on the earnings potential of the company is limited.

External revenue higher than the previous year due to consolidation effects

External revenue of the EnBW Group by segment

in € million[1]	2017	2016	Change in %
Sales	7,354.3	7,771.1	-5.4
Grids	7,471.8	6,643.7	12.5
Renewable Energies	507.5	510.6	-0.6
Generation and Trading	6,631.1	4,433.9	49.6
Other/Consolidation	9.3	9.1	2.2
Total	**21,974.0**	**19,368.4**	**13.5**

1 After deduction of electricity and energy taxes.

Sales: In the 2017 financial year, revenue in the Sales segment was slightly below the figure in the previous year. Adjusted for consolidation effects, this would have been a fall of 9.4% or €765.4 million. This was mainly due to lower sales volumes as a result of the withdrawal from the B2B commodity business under the EnBW and Watt brands.

Grids: Revenue in the Grids segment increased in 2017 compared to the previous year. Adjusted for consolidation effects, this would have been an increase of 9.1% or €621.5 million. Revenue in this segment grew mainly as a result of higher EEG revenues.

Renewable Energies: In the 2017 financial year, external revenue in the Renewable Energies segment was at the same level as in the previous year. Adjusted for consolidation effects, there was a fall of 5.8% or €31.4 million. The decrease in revenue was primarily due to the fact that less electricity was delivered by our hydropower plants and was also sold on the forward market at lower wholesale market prices than was the case for deliveries in the previous year.

Generation and Trading: Revenue in the Generation and Trading segment increased significantly in 2017 in comparison to the previous year. Adjusted for consolidation effects, revenue increased by 5.2% or €326.9 million. There were higher gas revenues due to the growth in trading activities. In contrast, our electricity deliveries were sold on the forward market at lower wholesale market prices than in the previous year.

Material developments in the income statement

The balance from other operating income and other operating expenses increased from €-417.4 million in the previous year to a positive value of €1,587.2 million in the reporting year, which was mainly due to the reimbursement of the nuclear fuel rod tax that was declared unconstitutional in June 2017. In addition, there was the sale of 49.89% of the shares in each of the EnBW Hohe See GmbH & Co. KG and EnBW Albatros GmbH & Co. KG wind farms and the revaluation of the remaining shares. The cost of materials stood at €18,189.3 million, which was 9.0% higher than the figure in the previous year. This was primarily attributable to consolidation effects. The decrease in amortisation and depreciation of €1,145.2 million is primarily attributable to high impairment losses on power plants in the previous year as a consequence of the Act for the Reorganisation of Responsibility in Nuclear Waste Management. The investment result stood at €159.3 million, which was €41.7 million higher than the figure in the previous year. This development was mainly due to consolidation effects. The financial result improved significantly in the reporting year in comparison to the previous year by €1,371.2 million to €194.6 million (previous year: €-1,176.6 million). This was primarily due to expenses in the previous year relating to the Act for the Reorganisation of Responsibility in Nuclear Waste Management, interest effects on the nuclear provisions and interest received due to the legal proceedings for the reimbursement of the nuclear fuel rod tax in 2017. Overall, earnings before tax (EBT) totalled €2,857.9 million in the 2017 financial year, compared with €-2,721.9 million in the previous year. The complete consolidated financial statements can be found at www.enbw.com/report2017-downloads.

Earnings

The Group net profit/loss attributable to the shareholders of EnBW AG increased from €-1,797.2 million in 2016 by €3,851.3 million to €2,054.1 million in the reporting period. Earnings per share amounted to €7.58 in the 2017 financial year compared to €-6.64 in the previous year.

Adjusted earnings and non-operating result

The sum of the adjusted earnings figures and non-operating figures gives the figures on the income sheet. The non-operating result includes effects that either cannot be predicted or cannot be directly influenced by EnBW and as such are not relevant to the ongoing management of the company. The effects are presented and explained in the section "Non-operating EBITDA" (p. 59). The business activities relevant to the ongoing management of the company are of particular importance for internal management and for the external communication of the current and future earnings potential of EnBW. We use the adjusted EBITDA – earnings before the investment and financial results, income taxes and amortisation, adjusted for non-operating effects – as the key reporting indicator for disclosing this information.

TOP Adjusted EBITDA and the TOP share of the adjusted EBITDA accounted for by the segments

Adjusted EBITDA of the EnBW Group by segment

in € million	2017	2016	Change in %	Forecast 2017
Sales	330.0	249.7	32.2	+15% to +25%
Grids	1,045.9	1,004.1	4.2	-5% to +5%
Renewable Energies	331.7	295.3	12.3	+5% to +15%
Generation and Trading[1]	377.1	337.2	11.8	0% to -10%
Other/Consolidation	28.3	52.6	-46.2	–
Total	**2,113.0**	**1,938.9**	**9.0**	**0% to +5%**

1 The forecast for the Generation and Trading segment was adjusted during the year.

Share of adjusted EBITDA for the EnBW Group accounted for by the segments

in %	2017	2016	Forecast 2017
Sales	15.6	12.9	10% to 20%
Grids	49.5	51.8	45% to 55%
Renewable Energies	15.7	15.2	15% to 20%
Generation and Trading	17.8	17.4	10% to 20%
Other/ Consolidation	1.4	2.7	–
Total	**100.0**	**100.0**	

The E adjusted EBITDA for the EnBW Group increased in the 2017 financial year by 9.0% compared to the previous year. Consolidation effects – mainly the full consolidation of VNG on 18 May 2017– were responsible for 7.6 percentage points of this growth. Adjusted for consolidation effects, the adjusted EBITDA of the EnBW Group would have remained almost constant at 1.4% above the previous year. The increase thus exceeded our forecast of between 0% and 5%. In particular, the Sales and Generation and Trading segments performed better than forecasted.

Sales: The adjusted EBITDA for the Sales segment in 2017 exceeded our forecast (+15% to +25%) with an increase of 32.2% compared to the previous year. Adjusted for consolidation effects, this would have been an increase of 22.1%. Alongside the positive effects from the withdrawal from the B2B commodity business under the EnBW and Watt brands, the billing service for other sales and network operators contributed to the improvement in earnings due to lower start-up costs. In addition, unsustainable positive out-of-period effects – including, amongst other things, the reversal of provisions for issues that have since lapsed – were also a reason for exceeding the forecast. The share of the adjusted EBITDA for the Group accounted for by this segment grew in line with our forecast in comparison to the previous year.

Grids: The adjusted EBITDA for the Grids segment grew in the 2017 financial year within the range of our forecast (-5% to +5%) by 4.2% compared to the previous year. The earnings performance in this segment was decisively impacted by the full consolidation of VNG. Adjusted for consolidation effects, there was a fall of 5.8%. This was mainly due to lower earnings from the use of the distribution grids in comparison to the previous year. The share of the adjusted EBITDA for the Group accounted for by this segment remained almost constant in line with our forecast.

Renewable Energies: In the Renewable Energies segment, the adjusted EBITDA increased by 12.3% compared to the previous year and was thus within the range of our forecast (+5% to +15%). Adjusted for consolidation effects, this would have been an increase of 12.5%. The wind yields at our offshore wind farms were higher than the previous year, while further onshore wind farms with a total capacity of 204 MW were placed into operation (p. 31). In contrast, lower water levels negatively impacted the electricity generation from our run-of-river power plants in comparison to the previous year. In addition, the electricity delivered from our hydropower plants was sold on the E forward market at lower wholesale market prices than in the previous year. The share of the adjusted EBITDA for the Group accounted for by this segment rose slightly in comparison to the previous year and was thus within the range of our forecast.

Generation and Trading: In the Generation and Trading segment, the adjusted EBITDA rose in the 2017 financial year by 11.8% compared to the previous year. The result thus exceeded both our original forecast (-10% to -20%) and also our adjusted forecast (0% to -10%). The earnings performance in this segment was decisively impacted by the full consolidation of VNG, which led to a significantly better result than expected. Adjusted for consolidation effects, the result for this segment was at the same level as in the previous year (+0.2%). In addition, there were positive effects from the elimination of the E nuclear fuel rod tax and positive out-of-period effects from, amongst other things, decentralised feed-ins. As a result, it was possible to compensate for the negative impacts of the temporary shutdown of Block 2 of the Philippsburg nuclear power plant (KKP 2) due to damaged ventilation system brackets and the fact that our electricity deliveries were sold on the forward market at lower wholesale market prices than in the previous year. The share of the adjusted EBITDA for the Group accounted for by this segment increased slightly in line with our forecast.

Non-operating EBITDA benefits from reimbursement of the nuclear fuel rod tax

Non-operating EBITDA of the EnBW Group

in € million	2017	2016	Change in %
Income/expenses relating to nuclear power	1,278.2	-860.6	–
Income from the reversals of other provisions	25.7	18.9	36.0
Result from disposals	317.8	28.4	–
Reversals of/additions to the provisions for onerous contracts relating to electricity procurement agreements	59.2	-198.1	–
Income from reversals of impairment losses	93.1	5.9	–
Restructuring	-70.0	-110.4	36.6
Other non-operating result	-64.6	-92.3	30.0
Non-operating EBITDA	**1,639.4**	**-1,208.2**	**–**

Non-operating EBITDA increased significantly in the reporting year compared to the previous year. This positive earnings performance can be primarily attributed to the reimbursement of the nuclear fuel rod tax. In contrast, the previous year was impacted by the effects of the Act for the Reorganisation of Responsibility in Nuclear Waste Management. In addition, the sale of 49.89% of the shares in each of the EnBW Hohe See GmbH & Co. KG and EnBW Albatros GmbH & Co. KG wind farms in 2017 and the revaluation of the remaining shares had a positive impact on earnings. Furthermore, provisions for onerous contracts for long-term electricity procurement agreements were reversed in 2017, whereby additions to these provisions were still necessary in the previous year. The reversals of impairment losses on power plants also had a positive effect; in the previous year, high impairment losses on power plants were still necessary. This was offset to some extent by costs in the reporting year related to the decision not to continue with the Atdorf pump storage project, which were reported under the other non-operating result.

Group net profit also influenced by the reimbursement of the nuclear fuel rod tax

Group net profit of the EnBW Group

in € million	2017	2016	Change in %
Adjusted EBIT	998.8	1,024.5	-2.5
Adjusted EBITDA	(2,113.0)	(1,938.9)	9.0
Scheduled amortisation and depreciation	(-1,114.2)	(-914.4)	21.9
Non-operating EBIT	1,505.2	-2,687.4	–
Non-operating EBITDA	(1,639.4)	(-1,208.2)	–
Impairment losses	(-134.2)	(-1,479.2)	-90.9
EBIT	**2,504.0**	**-1,662.9**	**–**
Investment result	159.3	117.6	35.5
Financial result	194.6	-1,176.6	–
Income tax	-681.6	1,049.4	–
Group net profit/loss	**2,176.3**	**-1,672.5**	**–**
of which profit/loss shares attributable to non-controlling interests	(122.2)	(124.7)	-2.0
of which profit/loss shares attributable to the shareholders of EnBW AG	(2,054.1)	(-1,797.2)	–

The increase in scheduled amortisation and depreciation was due to, amongst other things, changes to the group of consolidated companies. The sharp fall in impairment losses was because of high impairment losses in the previous year. These were mainly carried out on power plants – due to the implementation of the Act for the Reorganisation of Responsibility in Nuclear Waste Management. Another reason was the adjustment to the evaluation of the service life of our conventional power plants following discussions about future decarbonisation. The increase in the investment result was due above all to changes in the group of consolidated companies. The substantial increase in the financial result in comparison to the previous year was attributable to expenditure in the previous year in relation to the Act for the Reorganisation of Responsibility in Nuclear Waste Management. Due to their short-term nature, the provisions to be transferred to the "fund for the financing of the disposal of nuclear waste" (disposal fund) were no longer increased to

reflect the compounding in the reporting period. Another effect was the reimbursement of interest relating to the legal proceedings for the nuclear fuel rod tax. The change in income tax was primarily due to the change in deferred taxes. The high income from deferred taxes in the previous year was mainly attributable to the adjustment to the provisions relating to nuclear power as a result of the Act for the Reorganisation of Responsibility in Nuclear Waste Management (KFK). This effect is no longer included in the 2017 financial year.

Financial position

Financial management of EnBW

Basis and objectives

Financial management is responsible for securing the existing financial assets of the EnBW Group and their development, for the optimisation of financing, as well as for guaranteeing a sufficient level of liquidity reserves. This ensures that the Group is able to meet its payment obligations at all times without restriction. The treasury guidelines of the EnBW Group define the financial transactions permitted by the Board of Management of EnBW and the specified scope within which they may be carried out. The guidelines are applicable to all companies that are either fully consolidated or with which EnBW AG has a profit and loss transfer agreement. The guidelines also act as basic principles for all other companies. The centralised financial management system serves to minimise risks, provide transparency and optimise costs.

In the operating business, derivatives are generally deployed for hedging purposes only: for example, for forward contracts for electricity and primary energy source trading. This also applies for foreign exchange and interest rate derivatives. Propriety trading is only permitted within narrow, clearly defined limits.

Another important aspect of financial management is to manage financial assets (asset management) in order to cover the corresponding obligations to make provisions.

Treasury

In general, the treasury controls all processes in all companies that are fully consolidated, or with which EnBW AG has a profit and loss transfer agreement. Liquidity management is based on a rolling liquidity planning system and applies within the scope of validity defined above. The treasury is also responsible for the central management of credit lines and bank guarantees, the issuing of guarantees and letters of comfort, as well as interest rate risk and currency management.

Interest rate risk and currency management

Interest rate risk and currency management involves the management and monitoring of interest-bearing and interest-sensitive assets and liabilities. The consolidated companies regularly report on the existing risk position via the rolling liquidity planning system. An interest rate risk strategy is devised based on an analysis conducted every quarter on an aggregated basis. The purpose is to limit the impact of fluctuations in interest rates and interest rate risks on the results of operations and net assets.

The interest rates on the financial liabilities of the EnBW Group are predominantly fixed. We use interest rate derivatives to keep the relationship between fixed and variable interest rates within predefined limits in order to optimise the interest earnings of EnBW. The potential risk is determined on the basis of current interest rates and possible changes in these interest rates.

Generally, currency positions resulting from operations are closed by appropriate forward exchange contracts. Overall, currency fluctuations from operating activities do not have any major effect on the operating result of EnBW. Foreign exchange risks are monitored on a case-by-case basis within the framework of the currency management system. Details on the risk management system are presented in note 24 of the notes to the consolidated financial statements at www.enbw.com/report2017-downloads.

Asset management

Our aim is to cover the Group's non-current pension and nuclear provisions within an economically feasible period of time by means of appropriate financial assets. EnBW uses an Asset Liability Management model (ALM model) based on cash flows to determine the effects on the balance sheet, income statement and cash flow statement over the next 30 years. Alongside the anticipated return on financial assets, the actuarial valuations of pension provisions and sector-specific appraisals by external experts on costs for nuclear decommissioning and disposal are taken into account. The goal of this model is to limit the effect on the operating business which the utilisation of the pension and nuclear obligations may have. Accordingly, funds are also taken from the financial assets for this purpose. This model also allows simulations of various alternative scenarios. Following the cash outflow of €4.8 billion to finance the disposal fund on 3 July 2017, the position continues to remain stable. As of 31 December 2017, the dedicated financial assets for pension and nuclear provisions totalled €6,232.7 million (previous year adjusted: €9,917.1 million). Alongside the dedicated financial assets, there are plan assets to cover certain pension obligations with a market value of €1,226.6 million as of 31 December 2017 (previous year: €1,138.5 million).

We strive to reach the defined investment targets with minimum risk. We also further optimised the risk/return profile of the financial assets in 2017. The main part of the dedicated financial assets is distributed as investments across nine asset classes. The financial assets are bundled in two master funds with the following investment targets:

- Risk-optimised investments, with a performance in line with market trends
- Consideration of the effects on the balance sheet and income statement
- Broad diversification of the asset classes
- Reduction of costs and simplification of administrative processes

Financing facilities

In addition to the internal financing capability from the retained cash flow II of €1,529.5 million in 2017 (previous year: €949.5 million) and its own funds, the EnBW Group had the following instruments at its disposal to cover its overall financing needs (as of 31 December 2017):

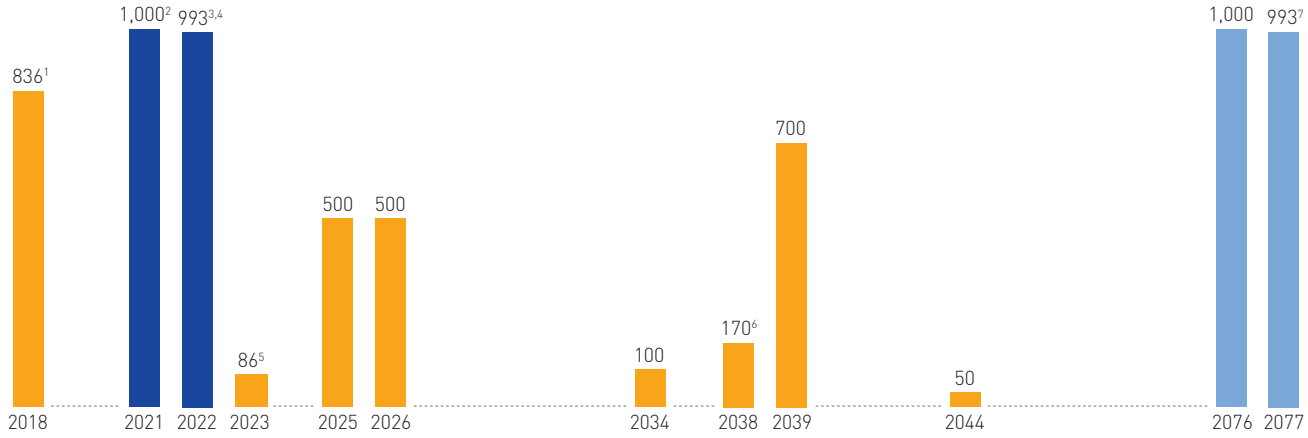
- Debt Issuance Programme (DIP), via which bonds are issued: €3.0 billion of €7.0 billion has been drawn
- Hybrid bonds: €2.0 billion
- Commercial paper (CP) programme: €2.0 billion undrawn
- Syndicated credit line: €1.5 billion undrawn with a term until 2021
- Bilateral free credit lines: €1.4 billion. The free credit lines have increased significantly due to the full consolidation of VNG. The credit lines are used to finance all business activities of VNG, including in particular the financing of the seasonal requirement for working capital in the gas trading business and for hedging liquidity risks.
- Project financing and low-interest loans from the European Investment Bank (EIB)

Established issuer on the debt capital market

EnBW has sufficient and flexible access to the capital market at all times. The EnBW bonds continue to have a well-balanced maturity profile. As part of its financing strategy, EnBW constantly assesses capital market development with regard to the current interest rate environment and to any potentially favourable refinancing costs.

In February 2017, EnBW exercised the call option on its hybrid bond issued in 2011 and increased in 2012 as of the first call date. The repayment of the security with a total volume of €1.0 billion was carried out on 3 April 2017. No senior bonds were due for repayment in 2017.

Maturity profile of EnBW bonds
in € million



Senior bonds
First call dates for hybrid bonds
Hybrid bonds

1 Includes CHF 100 million, converted in € as of 31/12/2017.
2 First call date: hybrid maturing in 2076.
3 First call date: hybrid maturing in 2077.
4 Includes US$300 million, coupon before swap 5.125%.
5 CHF 100 million, converted in € as of 31/12/2017.
6 JPY 20 billion (swap in €), coupon before swap 3.880%.
7 Includes US$300 million, converted in € as of at rate of 05/10/2016.

Documentation of short-term and long-term borrowings on the capital market under the established DIP and CP programmes of EnBW AG, as well as all other credit documentation with banks (e.g. syndicated lines of credit) includes internationally standardised clauses. The issuing of a negative pledge, as well as a pari passu clause, to all creditors forms a key element of the financing policy of EnBW. The use of undrawn credit lines is not subject to restrictions.

Details on financial liabilities are presented in note 21 and explanations on other financial commitments are presented in note 25 of the notes to the consolidated financial statements at www.enbw.com/report2017-downloads.

Rating and rating development

EnBW targets to maintain a solid investment-grade rating. By limiting the cash-relevant net investment to the retained cash flow II, measured by the internal financing capability, EnBW manages the level of net financial debt. The company thus maintains its high level of financial discipline, irrespective of the interest rate-related volatility of the pension and nuclear provisions (p. 49). EnBW ensures the timely coverage of the pension and nuclear obligations using an asset liability management model (p. 60). The burden of the operating business to meet the pension and nuclear obligations is limited to €300 million annually (adjusted for inflation) due to an ongoing contribution from financial assets. If the provisions

are fully covered by the financial assets, no further funds will be taken from operating cash flow as part of the model.

With a solid investment-grade rating, we want to ensure:

- permanent access to capital markets
- being a credible financial counterpart
- being a reliable business partner in our trading activities
- low capital costs
- the implementation of an appropriate number of projects and thereby maintain the future viability of the company

Overview of the ratings for EnBW – rating/outlook

	2017	2016	2015	2014	2013
Moody's	Baa1/stable	A3/negative	A3/negative	A3/negative	A3/negative
Standard & Poor's	A-/stable	A-/negative	A-/stable	A-/stable	A-/stable
Fitch	A-/stable	A-/stable	A-/stable	A-/stable	A-/stable

Moody's downgraded its rating for EnBW by one notch to Baa1 on 24 May 2017. The rating outlook was raised from negative to stable because Moody's believes that EnBW is well positioned in the current rating category. On 20 June 2017, Standard & Poor's (S&P) confirmed its A- rating for EnBW and raised the outlook from negative to stable. Fitch confirmed its EnBW rating on 27 February 2017.

Assessment by the rating agencies

Moody's (24/05/2017)	Standard & Poor's (20/06/2017)	Fitch (07/07/2017)
Conventional generation to remain challenging, EnBW 2020 strategy to compensate for negative impact of changing market conditions	Considerable progress in its business repositioning strategy	Ratings reflect strong integration, expected increase in earnings visibility and lower financial leverage than many of its peers
De-risking of EBITDA mix, increasing contribution from more stable profit streams	Funding of nuclear waste-related liabilities without major disruptions to strategy or capital structure	Payment to the state-run nuclear fund (KFK) puts pressure on credit metrics
KFK agreement creates additional financial burden	Nuclear tax refund will support recovery of credit measures	Prudent investment and dividend policy supporting credit ratios
Continuing implementation of measures to defend credit quality	Stable outlook reflects expectation that network operations and growing renewable business will mitigate volatility in power generation and sales, and that credit measures will recover in the near term	Nuclear fuel tax refund will lead to increased headroom assuming that at least part of the amount will be used for strengthening the balance sheet
Strong shareholder support		

The current ratings reflect the repositioning of the EnBW portfolio towards low-risk activities. The following aspects, amongst others, contribute to this goal:

- the planned increase in the share of EBITDA accounted for by regulated business (Grids segment and Renewable Energies segment) to around 70% by 2020
- a solid financial profile
- a conservative financial policy with flexible dividend distribution
- a stable shareholder structure
- a cash flow based asset liability management model for covering the pension and nuclear obligations of EnBW

Investment analysis

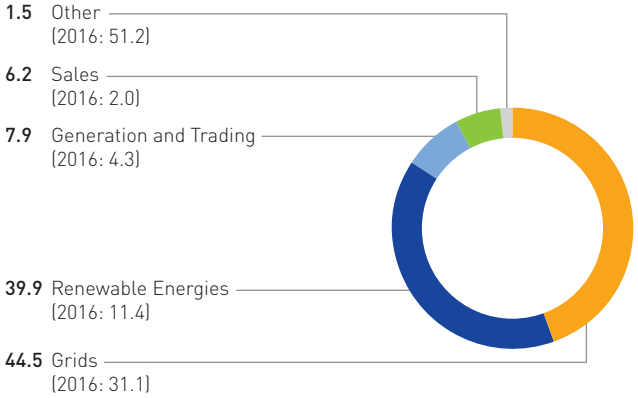
Net cash investment of the EnBW Group

in € million[1]	2017	2016	Change in %
Investments in growth projects[2, 3]	1,324.2	2,070.7	-36.0
Investments in existing projects	446.1	514.4	-13.3
Total investments	**1,770.3**	**2,585.1**	**-31.5**
Divestitures[4]	-298.5	-1,123.6	-73.4
Participation models	61.9	32.0	93.4
Other disposals and subsidies	-166.6	-176.6	-5.7
Total divestitures	**-403.2**	**-1,268.2**	**-68.2**
Net (cash) investment	**1,367.1**	**1,316.9**	**3.8**

1 Excluding investments held as financial assets.
2 Does not include cash and cash equivalents acquired with the acquisition of fully consolidated companies. These amounted to €0.0 million in the reporting period (previous year: €2.1 million).
3 In the reporting period, this includes cash and cash equivalents of €51.0 million relinquished with sale of the shares in EnBW Hohe See GmbH & Co. KG and cash and cash equivalents of €6.8 million relinquished with sale of the shares in EnBW Albatros GmbH & Co. KG, because they will be used for future investments for the realisation of both offshore wind farms.
4 Does not include cash and cash equivalents relinquished with the sale of fully consolidated companies. These amounted to €57.8 million in the reporting period (previous year: €1.4 million).

The **investments** of the EnBW Group decreased significantly in 2017 compared to the previous year. In the previous year, they included the acquisition of 74.21% of the shares in VNG-Verbundnetz Gas Aktiengesellschaft. Adjusted for this effect in the previous year, investment was above the value in the previous year. Around 74.8% of overall gross investment was attributable to growth projects; the proportion of investments in existing facilities stood at 25.2%.

Investment by segment
in %



In the reporting year, €110.6 million was invested in strengthening the **Sales** segment. In the previous year, investment in this segment stood at €52.0 million.

Investment in the **Grids** segment stood at €787.5 million, compared to €802.9 million in the previous year. This was mainly attributable to measures for the expansion and upgrade of the grids.

Investment in the **Renewable Energies** segment of €706.4 million was significantly higher than the figure in the previous year (€294.7 million) because both the offshore wind farms EnBW Hohe See and EnBW Albatros have entered the implementation phase. In addition, significantly more onshore wind farms have been built.

Investment in the **Generation and Trading** segment stood at €140.2 million in 2017, compared to €111.1 million in the previous year, due mainly to the modernisation of the combined heat and power plant in Stuttgart-Gaisburg.

Divestitures were significantly lower than the level in the previous year.

Divestitures reduced significantly in the reporting year compared to the previous year. They mainly included the sale of 49.89% of the shares in each of the EnBW Hohe See GmbH & Co. KG and EnBW Albatros GmbH & Co. KG wind farms. In the same period of the previous year, the divestitures mainly included the disposal of a 20% shareholding in EWE Aktiengesellschaft.

The divestitures from participation models contain payments due to capital decreases in non-controlling interests of €55.0 million (previous year: €25.6 million).

Other disposals and subsidies were at the same level as in the previous year.

Capital commitments for the procurement of intangible assets and property, plant and equipment amounted to €829.1 million as of 31 December 2017 (previous year: €478.5 million). Commitments to purchase companies totalled €454.1 million (previous year: €553.3 million). The capital commitments will be financed from the newly defined retained cash flow II.

Liquidity analysis

Retained cash flow of the EnBW Group

in € million	2017	2016	Change in %
EBITDA	**3,752.4**	**730.7**	**–**
Changes in provisions	-472.3	721.9	–
Non-cash-relevant expenses/income	-385.9	-78.1	–
Income tax received/paid	81.1	-243.4	–
Interest and dividends received	591.7	345.1	71.5
Interest paid for financing activities	-425.6	-351.3	21.2
Dedicated financial assets contribution	-6.4	50.7	–
Funds from operations (FFO)	**3,135.0**	**1,175.6**	**–**
Dividends paid	-84.7	-226.1	-62.5
Retained cash flow	**3,050.3**	**949.5**	**–**
+/- effects from the reimbursement of the nuclear fuel rod tax	-1,520.8	0.0	–
Retained cash flow II	**1,529.5**	**949.5**	**61.1**

The funds from operations (FFO) increased significantly in comparison to the previous year. This increase was mainly attributable to the reimbursement of the nuclear fuel rod tax. In addition, interest and dividends received increased, mainly due to interest relating to the legal proceedings for the nuclear fuel rod tax that was reimbursed in the third quarter. Furthermore, income tax refunds, which were offset in the previous year by higher income tax paid, led to an increase in FFO in the reporting year. This was offset to some extent by higher interest paid, primarily due to the interest due on the payment to the disposal fund at the beginning of July. Mainly as a result of the sharp increase in FFO, retained cash flow also rose significantly. In addition, lower dividends paid in comparison to the previous year had a positive effect. The retained cash flow reflects the internal financing capability of EnBW after all stakeholder needs have been settled. It is available to the company for investment without the need to raise additional debt (p. 18). The reimbursement of the nuclear fuel rod tax of €1,520.8 million in the 2017 financial year will be used by EnBW, as well as for the debt repayment in 2018 of around €830.0 million, for future investments in 2018 to 2020. For this purpose, we have translated the retained cash flow into the retained cash flow II, which eliminates the reimbursement of the nuclear fuel rod tax. In the 2017 financial year, this led to a reduction in retained cash flow II compared to retained cash flow and will lead to an increase of €690.0 million in subsequent years up to and including 2020 (nuclear fuel rod tax adjusted for the debt repayment). Of this, an amount of €200.0 million has been earmarked for 2018 and we anticipate that the remaining amount will be distributed on a straight line basis in the period 2019 to 2020.

TOP Internal financing capability of the EnBW Group

	2017	2016	Change in %
Retained cash flow II in € million	1,529.5	949.5	61.1
Net (cash) investment in € million	1,367.1	1,316.9	3.8
Internal financing capability in %	**111.9**	**72.1**	**55.2**

Due to the increase in retained cash flow II in the reporting year compared to 2016 and the fact that net investment was at around the same level as in the previous year, the internal financing capability increased and reached our target value of ≥ 100%. As part of the restructuring of shareholdings, there was the acquisition of shares in VNG and the associated disposal of shares in EWE in the previous year. Adjusted for this effect in the net investment, the internal financing capability would also have been above our target of ≥ 100%.

The internal financing capability is the key performance indicator for the Group's ability to finance its activities internally. We aim to achieve an internal financing capability of ≥ 100% each year.

Free cash flow of the EnBW Group

in € million	2017	2016	Change in %
Funds from operations (FFO)	**3,135.0**	**1,175.6**	**–**
Change in assets and liabilities from operating activities	-4,671.4	-657.5	–
Capital expenditure on intangible assets and property, plant and equipment	-1,419.2	-1,189.4	19.3
Disposals of intangible assets and property, plant and equipment	52.8	115.5	-54.3
Cash received from construction cost and investment subsidies and tax refunds from recognised exploration expenditure	113.8	61.1	86.3
Free cash flow	**-2,789.0**	**-494.7**	**–**

Despite the considerable increase in FFO, the free cash flow fell significantly in the reporting year. The reason for this was primarily the payment to the disposal fund at the beginning of July 2017 included in the net balance of assets and liabilities from operating activities. In addition, higher capital expenditure contributed to the fall in the free cash flow. Overall, free cash flow fell in comparison to the same period of the previous year by €2,294.3 million.

Condensed cash flow statement of the EnBW Group

in € million	2017	2016	Change in %
Cash flow from operating activities	-1,696.1	473.6	–
Cash flow from investing activities	2,160.7	333.9	–
Cash flow from financing activities	-1,541.3	-316.6	–
Net change in cash and cash equivalents	**-1,076.7**	**490.9**	**–**
Change in cash and cash equivalents due to changes in the consolidated companies	300.3	0.0	–
Net foreign exchange difference	-1.9	-0.4	–
Change in cash and cash equivalents	**-778.3**	**490.5**	**–**

Cash flow from operating activities fell significantly in comparison to the previous year. This was mainly due to the fact that the payment to the disposal fund was significantly higher than the reimbursement of the nuclear fuel rod tax. This was offset to some extent by the income tax received, which itself was offset by payments of tax arrears in the previous year.

Cash flow from investing activities increased significantly in 2017 in comparison to 2016. The cash inflow was due primarily to higher sales of securities against the background of the cash outflow to finance the disposal fund at the beginning of July 2017. In addition, the interest relating to the legal proceedings for the nuclear fuel rod tax was reimbursed in the third quarter of 2017. Furthermore, the acquisition of VNG shares from EWE as part of the restructuring of shareholdings also led to a cash outflow in the same period of the previous year.

The significantly higher cash outflow from financing activities in comparison to the previous year was mainly due to the repayment of the first hybrid bond in the amount of €1 billion in April 2017. A bond with a volume of €500 million was repaid in the same period of the previous year. This was offset by the issuing of two hybrid bonds with volumes of €725 million and US$300 million, respectively.

The solvency of the EnBW Group was ensured at all times throughout the 2017 financial year thanks to the company's available liquidity and its internal financing capability, as well as external sources available for financing. The company's future solvency is secured by its solid financial position (p. 60 ff.).

Net assets

Condensed balance sheet of the EnBW Group

in € million	31/12/2017	31/12/2016	Change in %
Assets			
Non-current assets	26,766.6	25,418.4	5.3
of which intangible assets	(1,905.9)	(1,636.5)	16.5
of which property, plant and equipment	(15,597.4)	(13,481.9)	15.7
of which entities accounted for using the equity method	(1,388.6)	(1,835.6)	-24.4
of which other financial assets	(5,985.7)	(6,428.0)	-6.9
of which deferred taxes	(956.4)	(1,268.9)	-24.6
Current assets	12,015.3	12,943.9	-7.2
Assets held for sale	3.0	173.0	-98.3
	38,784.9	**38,535.3**	**0.6**
Equity and liabilities			
Equity	5,862.9	3,216.2	82.3
Non-current liabilities	21,919.7	22,172.0	-1.1
of which provisions	(13,124.5)	(13,011.9)	0.9
of which deferred taxes	(799.4)	(652.8)	22.5
of which financial liabilities	(5,952.0)	(6,720.2)	-11.4
Current liabilities	11,002.3	13,123.1	-16.2
of which provisions	(1,598.7)	(6,060.2)	-73.6
of which financial liabilities	(1,306.8)	(1,208.7)	8.1
Liabilities directly associated with assets classified as held for sale	0.0	24.0	-100.0
	38,784.9	**38,535.3**	**0.6**

As of 31 December 2017, the total assets held by the EnBW Group were slightly higher than the level at the end of the previous year. The increase in non-current assets by €1,348.2 million was primarily attributable to changes in the group of consolidated companies, mainly due to the first-time consolidation of VNG. This was partly offset by the sale of securities to finance the payment made to the disposal fund in July 2017. Current assets fell by €928.6 million. This fall resulted primarily from the reduction of the liquid medium-term and short-term securities due to the payment made to the disposal fund on 3 July 2017. This was partly offset by the reimbursement of the E nuclear fuel rod tax including the interest relating to the associated legal proceedings, as well as an increase due to changes in the group of consolidated companies. The fall in the assets held for sale of €170.0 million was mainly due to the sale of shares in EnBW Hohe See GmbH & Co. KG.

The equity held by the EnBW Group increased by €2,646.7 million as of the reporting date of 31 December 2017. The equity ratio increased from 8.3% at the end of 2016 to 15.1% on the 2017 reporting date as a result. This was due primarily to an increase in revenue reserves by €2,054.1 million to €3,636.6 million because of the high annual net profit. In addition, the non-controlling interests increased by €417.0 million due to changes in the group of consolidated companies. Non-current liabilities decreased by €252.3 million. The reason for this was the repayment of the hybrid bond in April 2017. However, this was offset by the interest rate-related increase in pension provisions, as well as the increase in other provisions and deferred taxes due to changes in the group of consolidated companies. Current provisions fell by €4,461.5 million. This was mainly attributable to the payment of €4.8 billion to the disposal fund on 3 July 2017. This was offset by the increase in current liabilities that was mainly due to changes in the group of consolidated companies. The decrease in liabilities directly associated with assets held for sale was mainly the result of the sale of shares in EnBW Hohe See GmbH & Co. KG.

Net debt

As of 31 December 2017, E net debt, which is relevant from a ratings perspective, decreased significantly by €1,586.5 million compared to the figure posted at the end of 2016. This fall was mainly due to the reimbursement of the E nuclear fuel rod tax that was declared unconstitutional in June 2017 and the

interest relating to the associated legal proceedings. In addition, the sale of 49.89% of the shares in each of the offshore wind farms EnBW Hohe See GmbH & Co. KG and EnBW Albatros GmbH & Co. KG also contributed to the fall in net debt. This was offset in net financial debt by the repayment of the hybrid bond in April 2017 due to it being partly classified as equity.

As a result of the payment to the disposal fund on 3 July 2017, the nuclear obligations and the dedicated financial assets have each decreased by around €4.8 billion. The amount to be paid to the fund increased from the original figure of €4.7 billion to €4.8 billion. The reason for this was the final determination of the payment contributions by the German Federal Ministry for Economic Affairs and Energy that took into account differences between the estimated expenditure for 2015 and 2016 and the actual expenditure.

The coverage ratio describes the dedicated financial assets in relation to the pension and nuclear obligations less the receivables associated with nuclear obligations. Against the background of the payment to the disposal fund, the coverage ratio fell from 60.8% (adjusted) as of 31 December 2016 to 52.9% as of 31 December 2017. Within the scope of its ALM model, EnBW is still in a position to cover its future cash outflows for pension and nuclear provisions without burdening the cash flow from operating activities to an above-average extent.

Net debt of the EnBW Group

in € million[1]	31/12/2017	31/12/2016	Change in %
Cash and cash equivalents available to the operating business	-2,954.7	-2,264.3	30.5
Current financial assets available to the operating business	-277.0	-320.7	-13.6
Long-term securities available to the operating business	-4.3	-42.5	-89.9
Bonds	4,934.3	6,008.1	-17.9
Liabilities to banks	1,705.6	1,455.5	17.2
Other financial liabilities	618.9	465.3	33.0
Valuation effects from interest-induced hedging transactions	-96.4	-109.2	-11.7
Restatement of 50% of the nominal amount of the hybrid bonds[2]	-996.3	-1,496.3	-33.4
Other	-12.3	-42.1	-70.8
Net financial debt	**2,917.8**	**3,653.8**	**-20.1**
Provisions for pensions and similar obligations[3]	6,341.2	6,116.7	3.7
Provisions relating to nuclear power	5,802.7	10,972.0	-47.1
Pension and nuclear obligations	**12,143.9**	**17,088.7**	**-28.9**
Long-term securities and loans to cover the pension and nuclear obligations[4]	-5,487.6	-6,096.4	-10.0
Cash and cash equivalents to cover the pension and nuclear obligations	-258.6	-1,727.3	-85.0
Current financial assets to cover the pension and nuclear obligations	-307.2	-2,060.0	-85.1
Surplus cover from benefit entitlements	-179.3	-33.4	–
Dedicated financial assets	**-6,232.7**	**-9,917.1**	**-37.2**
Receivables relating to nuclear obligations	-369.5	-779.4	-52.6
Net debt relating to pension and nuclear obligations	**5,541.7**	**6,392.2**	**-13.3**
Net debt	**8,459.5**	**10,046.0**	**-15.8**

1 The figures for the previous year have been restated.
2 The structural characteristics of our hybrid bonds meet the criteria for half of the bond to be classified as equity, and half as debt, by the rating agencies Moody's and Standard & Poor's.
3 Less the market value of the plan assets of €1,047.3 million (31/12/2016: €1,105.1 million).
4 Includes equity investments held as financial assets.

TOP ROCE and value added

The E cost of capital before tax represents the minimum return on average E capital employed (calculated on the basis of the respective quarterly figures for the reporting year and the year-end figure for the previous year). Positive value is added when the return on capital employed (E ROCE) exceeds the cost of capital. The cost of capital is determined based on the weighted average cost of equity and debt together. The value of equity is based here on a market valuation and thus deviates from the value recognised in the balance sheet. The cost of equity is based on the return of a risk-free investment and a company-specific risk premium. The latter is calculated as the difference between a risk-free investment and the return for the overall market, weighted with a company-specific business field risk. The terms according to which the EnBW Group can raise long-term debt are used to determine the cost of debt.

There are various factors that influence value added. The level of ROCE and value added depend not only on the development of the operating result but above all on the invested capital. Large-scale investments tend to significantly increase the capital employed in the early years, while the effect on income that boosts value, however, only filters through over a lengthier period of time, often long after the investments were initially made. This is especially true of capital expenditure on property, plant and equipment relating to the construction of new power plants, which do not have any positive effect on the operating result of the Group until after they are commissioned. Capital expenditure on power plants, on the other hand, is already taken into account in the capital employed during the construction phase. In a comparison of individual years, the development of ROCE and value added is, to a certain extent, cyclical in nature, depending on the investment volume. This effect is therefore inherent in the system and results in lower ROCE in phases of strong growth or phases of investment.

Value added to the EnBW Group for 2017 by segment

	Sales	Grids	Renewable Energies	Generation and Trading	Other/ Consolidation	Total
Adjusted EBIT including the adjusted investment result[1] in € million	262.8	686.8	164.9	-27.0	21.2	1,108.7
Average capital employed in € million	836.8	5,919.2	3,276.9	2,242.4	2,870.8	15,146.1
ROCE in %	**31.4**	**11.6**	**5.0**	**-1.2**	**–**	**7.3**
Weighted average cost of capital before tax in %	7.7	5.4	6.1	8.0	–	6.3
Value added in € million	**198.3**	**367.0**	**-36.0**	**-206.3**	**–**	**151.5**

1 Investment result of €77.6 million, adjusted for taxes (investment result/0.706 - investment result; with 0.706 = 1 - tax rate 29.4%). Does not include write-ups and write-downs on investments, the result from the sale of equity investments, the share of the result from entities accounted for using the equity method not relevant to the ongoing management of the company and the result from equity investments held as financial assets.

Value added to the EnBW Group for 2016 by segment[1]

	Sales	Grids	Renewable Energies	Generation and Trading	Other/ Consolidation	Total
Adjusted EBIT including the adjusted investment result[2] in € million	193.2	668.2	130.1	44.8	40.2	1,076.5
Average capital employed in € million	619.7	5,108.5	2,996.9	2,091.7	2,944.1	13,760.9
ROCE in %	**31.2**	**13.1**	**4.3**	**2.1**	**–**	**7.8**
Weighted average cost of capital before tax in %	8.3	5.8	7.5	8.4	–	6.9
Value added in € million	**141.9**	**372.9**	**-95.9**	**-131.8**	**–**	**123.8**

1 The figures for the previous year have been restated.
2 Investment result of €36.9 million, adjusted for taxes (investment result/0.71 - investment result; with 0.71 = 1 - tax rate 29%). Does not include write-ups and write-downs on investments, the result from the sale of equity investments, the share of the result from entities accounted for using the equity method not relevant to the ongoing management of the company and the result from equity investments held as financial assets.

The value added generated by the EnBW Group increased in the 2017 financial year compared to the previous year to €151.5 million. The adjusted EBIT including the adjusted investment result increased slightly, while the average capital employed also rose slightly. Due to the consistently low interest rate, the risk-adjusted weighted average cost of capital fell on average by 0.6 percentage points compared to the previous year. The ROCE of 7.3% was slightly higher than our forecast for the 2017 financial year (Forecast 2017: 6.3% to 7.2%).

Sales: Value added in the Sales segment increased in 2017 by €56.4 million. This was mainly due to the increase in adjusted EBIT including the adjusted investment result. The average capital employed increased, which was due, amongst other things, to the consolidation of VNG's activities in the gas sector from the second quarter of 2017.

Grids: Value added in the Grids segment stood at the same level as in 2016. Both the adjusted EBIT including the adjusted investment result and also the capital employed rose slightly. This was primarily due to the consolidation of the gas grids operated by VNG from the second quarter of 2017.

Renewable energies: Value added in the Renewable Energies segment improved in comparison to the previous year to €-36.0 million. The adjusted EBIT including the adjusted investment result increased as expected to €164.9 million. In addition, value added was positively influenced by the adjustments to the capital costs in the Renewable Energies segment. In contrast, investments in the expansion of onshore and offshore wind power led to an increase in the capital base in the reporting year.

Generation and Trading: The Generation and Trading segment achieved value added of €-206.3 million. In contrast to the increase in adjusted EBITDA, the adjusted EBIT including the adjusted investment result for the Generation and Trading segment fell to €-27.0 million. This was due, above all, to higher impairment losses on the power plants. At the same time, the average capital employed increased by €150.7 million, which was due primarily to the consolidation of VNG from the second quarter of 2017.

Customers and society goal dimension

Reputation

A strong reputation is an important factor for the sustainable success of a company. The good social reputation of a company reflects the trust placed by the general public and relevant stakeholders in the competent and responsible actions of a company.

Especially for companies in the energy industry, which is undergoing a period of fundamental change, this social acceptance is vitally important. A good reputation signals the willingness of society and its different stakeholder groups to cooperate with and invest in the company.

EnBW aims to continuously improve its reputation. The Supervisory Board and the Board of Management dealt with this theme in depth in 2017 and agreed to the further development of reputation management. The focal point of this concept is the stakeholder team, consisting of representatives from all important areas of the company, that was established in 2017. The stakeholder team directly or indirectly communicates and maintains dialogue with relevant stakeholder groups. It gathers the opinions of stakeholders and passes them onto the company, identifies reputational opportunities and risks, develops measures to protect and improve the reputation of the company, advises the Board of Management and management and gives recommendations for action. Reputation is thus becoming an important aspect for all meaningful decisions made by the company. Protecting and improving the reputation of EnBW are tasks and responsibilities of the entire management team.

TOP Reputation Index

Reputation is measured using the key performance indicator Reputation Index.

Key performance indicator

	2017	2016	Change in %	Forecast 2017
Reputation Index	52.1	50.0	4.2	51.4

The Reputation Index increased noticeably in the reporting year to 52.1 index points and thus stands at a medium level – below that of public utilities but significantly better than the values for larger comparable companies. The image campaign “We’re making it happen”, focusing on the themes of wind power and electromobility, which started in 2016 and was continued in 2017, contributed to an improvement in the reputation of EnBW. The forecast for 2017 was thus achieved.

Opportunities and risks related to reputation exist, for example, in the area of responsible coal procurement, a topic which the Board of Management addressed once again in 2017 (p. 47 f.). In this context, the reputation management department commissioned a representative survey in Germany, analysed and evaluated the results and used this information to develop four scenarios in cooperation with the relevant specialist departments that were then presented to the Board of Management for a decision. The Board of Management approved the recommendations made by the stakeholder team. This systematic management of reputation supports the implementation of the company's strategy and the operating business of EnBW.

More details on reputational risks can be found in the “Report on opportunities and risks” on p. 95.

Customer proximity

The customers of EnBW increasingly desire digital interaction both in the area of energy sales and also the grids business. The type and intensity of these interactions are also changing. Local authorities are increasingly viewing digital infrastructure as a decisive location factor. This area offers EnBW great opportunities for acquiring new customers using tailored digital services and solutions and for generating additional revenue.

TOP Customer Satisfaction Index

Customer loyalty is based on high customer satisfaction. Customer satisfaction is measured in accordance with the requirements of the EnBW Group standard for market research and surveys. The Group standard regulates the general procedure for the preparation, implementation and follow-up work for market research studies. It is binding for EnBW AG and all Group companies that are controlled by EnBW AG. The Customer Satisfaction Index for the two core brands EnBW and Yello are compiled from customer surveys carried out by an external provider.

Key performance indicator

	2017	2016	Change in %	Forecast 2017
EnBW/Yello Customer Satisfaction Index[1]	143/161	132/150	8.3/7.3	128–138/ 145–155

1 EnBW has been working together with a new market research company since 2017. Despite using the same survey methodology and random sampling, current and earlier values are only comparable to a limited extent.

The satisfaction of the customers of EnBW reached a very good level again in 2017 at 143 points, which was above the forecasted range for 2017 (128–138). A very good level starts at a value of 136 points for the Customer Satisfaction Index.

It was possible to further increase the satisfaction of Yello customers again in comparison to the previous year. It stood at 161 points in 2017, which was once again at a very high level and above the forecasted range for 2017.

In 2017, EnBW expanded its portfolio of energy industry services and energy solutions considerably and carried out numerous sales activities and communication measures. In the process, EnBW strongly oriented the range of services to the individual expectations and needs of customers by closely integrating customers into product development at an early stage – for example in customer workshops and discussions with customers. In addition, the opportunities for customers to engage in dialogue with the company include apps, dialogue boxes or feedback buttons. This enables customers to quickly and easily inform us of their experiences and expectations in relation to our products and services. We use this information to constantly improve our customer orientation and expand the digital literacy of EnBW in a targeted manner.

The establishment of the Net Promoter Score (NPS), which is designed for directly collecting and utilising customer opinions, is also delivering some initial insights (p. 95).

On our path towards becoming one of the leading developers of **broadband infrastructure** in Baden-Württemberg, we were able to grow considerably in 2017. EnBW supports local authorities and municipal associations with tasks ranging from broadband planning and the installation of infrastructure through to operation and the end customer business. Cost efficiency, fast implementation and customer satisfaction hold the highest priorities in this area.

Modern inner city residential districts also need to be conceived for efficiency and networking in future. Therefore, we are utilising our expertise in the area of **district development** and advising local authorities on urban planning and urban infrastructures – holistically across the product areas of energy, grids, e-mobility, communication/digital networking, safety and smart services.

Electromobility is not only a key theme in urban districts, which is why we are offering an easy charging solution for the home with the **EnBW mobility+ charging box**. The **EnBW mobility+ app** shows users where the nearest charging station is located when they are out and about. In addition, anyone who is still undecided can use the app to find out whether to make the switch to electromobility – and if yes – what electric car would be the right choice for them. The **EnBW mobility+ charging card** can be used to charge vehicles at the same tariff within our roaming network at more than 8,000 charging points in Germany, Austria and Switzerland. The expansion of EnBW's own charging network is progressing at full speed. We now operate quick-charging stations at more than 120 locations in total. In addition, EnBW has intensified its contact with possible cooperation partners in order to be able to offer e-mobility customers more than 1,000 **quick-charging stations** by 2020.

E-mobility will also play a role in the future through our complete photovoltaic solution **EnBW solar+**. EnBW solar+ enables customers to generate their own solar energy, store it and sell it to the energy community. In future, our customers will also be able to integrate heating solutions into EnBW solar+ and charge their electric cars at home using self-generated electricity.

Bundle offers are used to provide customers with more added value – EnBW Entertain gives customers, for example, free membership to Amazon Prime. As the first energy industry partner for Amazon in Germany, we are breaking new ground in the sector with this offer and thus creating a unique selling point for ourselves. EnBW Secure combines an electricity or gas tariff with household insurance cover that will quickly provide support in the event of accidents or problems at home. We will continue to expand our bundle portfolio in a targeted manner.

The very successful performance of **Yello** demonstrates that **bundle offers** not only promote market penetration but also

strengthen customer loyalty. Therefore, Yello expanded its bundle range in 2017: customers can now select exclusive hardware products such as the Samsung AddWash™ washing machine or the Playstation 4 Pro in a plus tariff with an electricity or gas contract. In addition, bundle products are now also available in the Yello Shop – with a large and regularly updated range of hardware products available.

Furthermore, a cooperation with the Bild newspaper (Bild Electricity and Gas powered by Yello) was started in 2017. Bild readers are able to select from three different Yello tariffs. Alongside the cooperation with Bild, the interface between sales and customers has been digitally expanded through the Yello app kWhapp, which enables users to directly conclude their electricity contract via the app. In addition, the app also provides an overview of electricity and gas costs. Yello also expanded its product range to include Yello Solar in 2017. This is a complete photovoltaic product that enables customers to lease a solar power plant. The e-mobility offer in cooperation with Sixt Neuwagen was also very successful. It enabled customers to lease and test a BMW i3 in a Yello design at a very low price to see how electromobility would work for them in everyday life. The stock of BMW i3 cars for the offer was sold out within one day.

Due to its product range, which has grown constantly over the years, and changing market requirements, it was a logical step to turn Yello Strom into the **Yello brand** at the beginning of 2017. The company has had a new logo and corporate design since then, as well as the new tagline "More than you think.", because the range of products and services now extends far beyond electricity. The repositioning of the brand has been accompanied by an image campaign.

The **EnBW campaign** "We're making it happen" was successfully continued in 2017. The key themes of wind power and electromobility were presented in the spring and autumn via various different communication channels. Our aim is to rejuvenate the EnBW brand and show that EnBW has changed in a positive way. That's why, in addition to previous measures, we also produced an unconventional advertising video for the first time. Animated, talking birds play the lead roles and present the subject of electricity sourced from renewable energies in a totally new way for EnBW. The commercial received very positive feedback on the social media channels operated by EnBW and was rated one of the top 5 YouTube advertising videos in December 2017 (youtu.be/RSEEgQQTi0A).

The business models of the future are digital and will emerge from customers. We want to play an active role in shaping this digital future and the networking of energy industry services for our market. But to achieve this we need to develop the ability to impress customers, remain commercially viable and achieve operational excellence all at the same time. In order to take on these challenges, we have created the necessary foundations in the form of the new sales and operation platform **EnPower**. EnPower enables us to achieve operational excellence in terms of digitalisation, automation and streamlining existing processes, as well as ensuring optimal interaction externally between customers and the brands of EnBW. EnPower was launched for the first time for the sustainability brand NaturEnergiePlus in the middle of 2017. We have thus taken an important step on the path to a 100% online brand to meet the needs of consumers. Yello and EnBW will also utilise this platform in the future.

Customer orientation also plays a central role in the area of contracting. In 2017, EnBW concluded an important contract with the international chemical company Dow: an **energy supply contract** that guarantees the long-term supply of energy in the form of electricity and steam from the Bomlitz combined heat and power plant. In this context, the plants were modernised and expanded to include two highly efficient combined heat and power blocks and three additional steam boilers.

The Law on Digitalizing the Energiewende will present energy supply companies with great challenges. EnBW has developed this theme into a new field of business and, following the successful certification of the smart meter gateway operation, has produced a holistic solution for the roll-out and operation of **smart meters**. Smartpack100 – the first lean entry-level package for gateway administration and the receipt of meter readings – was developed and has been in great demand.

We also refer you to the details provided in the "Report on opportunities and risks" (p. 95).

Supply reliability

Guaranteeing a reliable supply of electricity to our customers is a key goal of EnBW. It means that the generation and consumption of electricity must be continuously synchronised and sufficient generation capacities must be made available at peak times. Ultimately, electricity grids must be able to fulfil their transport role and feature control mechanisms to guarantee grid stability at all times. SAIDI is used as an indicator for supply reliability; it states the average duration of supply interruptions per connected customer in minutes per year.

TOP SAIDI

SAIDI is one of the key performance indicators in the area of grids and is optimised by the distribution grid operators of EnBW using various processes that are sometimes integrated with one another: the desired grid topology in the long term is thus already oriented towards optimising SAIDI at the planning stage. As part of an IT-supported asset simulation, various technical variants and their associated investment budgets are then analysed. Once the chosen variant has been implemented, the available investment budget for optimising SAIDI is distributed to the various different projects on an annual basis. The specific measures are selected based on performance indicators for plant reliability.

Key performance indicator

	2017	2016	Change in %	Forecast 2017
SAIDI (electricity) in min./year	19	16	18.8	15

A similarly good level for SAIDI was achieved in the EnBW Group in 2017 as in the previous year. The deviation from the level achieved in the previous year as well as from the forecasted level were within the acceptable range.

Employees goal dimension

The key tasks of HR are providing the company with employees, including the promotion of young talent, encouraging loyalty to the company amongst employees and maintaining and fostering their motivation, satisfaction and employability. Leadership, corporate culture, HR development and health management are key aspects in this area. Other important elements of a successful HR policy are ensuring the best possible employment conditions, such as in the negotiation of collective bargaining agreements, as well as adapting the organisational structure to the business environment.

Therefore, we believe that the value drivers for our HR policy can be found in the following areas of focus:

- Leadership
- Safeguarding and promoting expertise
- Employment conditions and structures
- Health management

Employee commitment

TOP Employee Commitment Index (ECI)

The key performance indicator ECI is an important indicator for EnBW as it reflects the degree to which employees identify with the company. The annual measurement of this indicator enables us to respond specifically to any negative trends at an early stage.

Key performance indicator

	2017	2016	Change in %	Forecast 2017
Employee Commitment Index (ECI)[1]	60	59	1.7	≥ 60

1 Variations in the group of consolidated companies; see also the definition of key performance indicators on p. 30.

The third short survey for monitoring the ECI – MAB-Blitzlicht (Employee Flashlight) – was carried out between 18 September and 6 October 2017. Following last year's full employee survey, the MAB-Blitzlicht survey was carried out as in 2014 and 2015 by using just twelve questions and taking a random representative sample. As in the full surveys, it collected information on the level of commitment of the employees to the Group and to their respective company. The ECI from MAB-Blitzlicht in 2017 revealed a positive trend and improved slightly from 59 (2016) to 60 points. The target set for 2017 was thus achieved. In an external comparison, the ECI stabilised at an average level.

The positive development of the ECI can be attributed to employees being able to better assess the current competitiveness of the company and having greater trust in the future viability of the company. Following the last survey, the Board of Management set itself the goal of reducing the uncertainty and scepticism of the workforce with respect to these two factors. This was achieved through the resolute implementation of the 2020 strategy, in which we have made successful progress, and the presentation of the post 2020 strategy in dialogue with managers and employees across all departments and companies. In particular, the significant improvement in the assessment of the competitiveness and future viability of the company by top and upper management demonstrated that the strategy presented and followed by the Board of Management of the Group has been met with acceptance and support. The aim is now to transfer this increasingly positive assessment to the remaining management team and employees, and integrate them even more strongly into the process.

Areas of focus in HR

The main measures and activities carried out by the key Group companies in these areas of focus are reported below.

Leadership: "Drive – Work together – Deliver" has been the motto followed by top management since 2016 in the area of leadership. EnBW anchors these leadership principles within the company using targeted measures to bring them to life. This includes programmes for leadership development and receiving feedback from managers, as well as special theme-based measures such as dialogue on the strategic outlook to 2025, the concept of "digital leadership experience" and the "reflection for managers" workshop.

At Pražská energetika (PRE), the active participation in specialist conferences and discussion forums form an

important measure for developing leadership skills and the knowledge potential of managers at all levels. In 2017, 39 management personnel at the PRE Group participated in 20 events. The international energy forum "New Business Models in the Energy Sector" and the nationwide conference Energetika 2017 were, for example, important platforms for discussing current themes in the energy industry.

At Stadtwerke Düsseldorf, the concept "Start-up assistance for new managers" was established in the reporting year. It comprises a workshop to clarify expectations, a training course on communication, networking events, start-up coaching and a mentoring programme.

VNG-Verbundnetz Gas completed the "Leadership compass" project in 2017, in which the principles for respectful management were developed with the management personnel. It was followed by a 180 degree feedback process for all management personnel at VNG which included a self-assessment by the managers and also an assessment by their superiors and employees. A meeting to discuss the results was then held with the managers and the employees with the participation of an external consultant.

The digital energy industry is characterised by a high level of complexity. In order to be able to react and lead appropriately in this environment, new skills are required. The key companies are thus focussing their leadership development activities on the development of these skills. Special importance is being given here to the improvement of cross-departmental cooperation and the formation of effective leadership coalitions, which are also supported by the increased use of agreements on team targets. In addition, the new tasks, responsibilities and value contributions of leaders and also the significance of digital, data-driven business models is being communicated in a digital leadership programme. The programme uses modern learning formats that enable participants to directly experience contemporary leadership at work. The aim is to realise the digital transformation of the Group more quickly and effectively.

Safeguarding and promoting expertise: An important goal for EnBW is to be an attractive employer so that it can secure the expertise it requires and then retain this expertise within the company. In particular, the concepts and measures developed for this purpose focus on the themes of diversity, the promotion of young talent and the attractiveness of the employer.

EnBW promotes **diversity** amongst its employees. Under the motto "Diversity generates added value", EnBW relies on a diverse workforce in terms of numerous different criteria such as gender, age or disability, but also education and life situations. We hope to use this diverse range of people to better respond to the needs of the market, accelerate the speed of innovation, be an attractive employer and thus shape a successful future. The aim is to utilise the opportunities offered by diversity in all areas of the company so as to generate added value for employees and also for EnBW.

Diversity at EnBW

in %	2017	2016	Change
Proportion of women in the overall workforce	26.2	25.4	0.8
Proportion of women in management positions	15.2	12.5	2.7
Proportion of women in management positions at EnBW AG			
First level below the Board of Management[1]	4.3	4.5	-0.2
Second level below the Board of Management[1]	14.0	13.0	1.0
Total proportion of part-time employees[2]	9.4	8.9	0.5
of which women[2]	82.6	85.1	-2.5
of which men[2]	17.4	14.9	2.5

1 The values refer to EnBW AG.
2 Excluding those in semi-retirement.

The increase in the proportion of women in management positions by 2.7 percentage points is due to the full consolidation of VNG.

With respect to gender, EnBW AG has binding targets for the proportion of women in management positions at the first two levels below the Board of Management. In the period from 1 January 2017 until 31 December 2020, the goal is to increase the proportion of women at the first level (top management) and second level (upper management) of management to at least 20%. These target values were not yet achieved in the first year of the evaluation period for the achievement of the targets (status: 31 December 2017). After increasing the ratios in the previous evaluation period (1 January 2016 until 31 December 2016), it was not possible to make any noticeable improvement in 2017 despite a great deal of effort.

Above and beyond the statutory requirements, the Board of Management focuses on diversity when filling management positions at the EnBW Group and also strives to give appropriate consideration to women. A fundamental goal of EnBW is not only to appoint women to the two management levels below the Board of Management but also to other levels of the hierarchy. The internal EnBW women's network is a well used platform for female employees to exchange information and ideas. As part of the mentoring programme, dialogue is promoted between management and female employees with potential. Following a successful pilot programme, the "CareerCompass" service will offer advice to female employees throughout the Group who are interested in their first management position.

In the external recruitment of young female leadership talent, EnBW relies on, amongst other measures, the Femtec network and participates in trade fairs and discussion forums tailored specifically for women. As a result, half of those enrolled on the Group trainee programme were young female talent. In addition, EnBW has signed up to the "Diversity Charter"

(Charta der Vielfalt) and actively participates in the "Initiative Chefsache" network, which focuses on the theme of promoting equal opportunities across companies. A particularly noteworthy development here was the creation of a "Flex Report" that highlights the possibility of more flexible forms of working for managers and proposes specific courses of action. In the individual business units, sector-specific events and campaigns are carried out to attract female managers.

Promotion of young talent

in %	2017	2016	Change
Promotion of trainees including DH students	4.3	4.3	0.0
Proportion of working students/interns	4.2	4.2	0.0

Another part of the HR policy is **promoting young talent**. The EnBW Group employed 955 trainees and students from the Cooperative State University (DH) as of 31 December 2017. There are plans to appoint 293 new trainees and DH students in 2018.

VNG started discussions with the Berufsakademie Sachsen, Staatliche Studienakademie Leipzig (University of Cooperative Education) in 2017 about replacing the apprenticeship to become an industrial merchant with a dual degree. In particular, the new course should take into account the requirements of the digital world. The aim is for VNG and the university to develop a module on digitalisation together by 2019 that accounts for around 30% of the teaching content.

An online platform has been created on the Internet with access for almost 60% of the Group employees – the **EnBW project exchange** – that enables them to apply to take part in temporary and interdepartmental cooperation in projects. This project exchange collects together all project activities from short secondments that only last a few weeks and assignments that only take up part of the employee's working hours through to full-time activities lasting many months. The project announcements and the application process have been purposely kept simple. The specific form of activities are individually agreed between the employee, their departmental manager and those responsible for the project. After the conclusion of the project, the employee resumes their full activities in their original team.

In 2017, EnBW AG was honoured by the business magazine Focus as one of the 1,000 **top employers** in Germany. In the industry rankings, EnBW achieved 21st place – ahead of RWE (37th place), E.ON (49th place) and Vattenfall (50th place). Furthermore, EnBW AG was also certified by the Top Employers Institute as a Top Employer Germany 2017 based on a comprehensive catalogue of criteria and an external audit. VNG Norge was ranked in seventh place in the Great Place to Work list in 2017 in the category for companies with 50 to 199 employees. The ratings are based on the assessments of more than 28,000 employees from 191 Norwegian organisations.

Employment conditions and structures: Further **efficiency measures** in the operational areas and functional units of EnBW AG are required to achieve additional savings up to 2020. For this purpose, discussions are being held with employee representatives about a diverse range of workplace optimisations and job retention solutions. In those areas facing consistently tough competition, the aim is to find the best possible solutions for reducing costs, achieving greater flexibility and being able to respond appropriately to different market situations. As part of the negotiations about reduction and restructuring tools for the functional units, the company and works council have agreed as a first step to offer semi-retirement plans in selected areas in order to achieve the planned workforce reductions by 2020.

EnBW achieved its ambitious earnings target for 2017. The Board of Management believes that this was possible thanks to the whole EnBW team. In agreement with shareholders and employee representatives, it was thus agreed that the existing agreement to suspend **profit sharing plans** for employees in 2017 would be lifted and the profit sharing bonuses would be paid in 2017.

The **collective remuneration negotiations** between the union ver.di and the Employers Association for Electricity Power Plants in Baden-Württemberg came to the following result on 19 February 2018: remuneration will increase by 3.0% as of 1 February 2018. In addition, a special bonus of 9% of the holiday pay will be made. Monthly remuneration for apprentices will rise by €70.00. The collective agreement becomes valid after the agreed deadline for the declaration expires, with retroactive effect as of 1 January 2018 and can be terminated at the earliest as of 28 February 2019.

The HR department at PRE plays an active role in the integration of acquired companies. Following the acquisition of the company KORMAK in 2016, all HR activities and processes at this new Group company were initially handled by an external service provider. The HR department at PRE took over responsibility for the entire payroll accounting at the beginning of 2017 and human resources management, social issues and training from the middle of the year. They then took over responsibility for occupational, fire and environmental protection at the beginning of 2018. The HR department at PRE was able to perform all these tasks for the new subsidiary without increasing its own personnel thanks to the modification and streamlining of its internal processes.

VNG started an earnings performance programme in 2015 against the background of poor results of operations. As part of this programme, the total number of 400 employees at VNG AG was reduced by around 100 in a socially responsible manner in 2016 and 2017 via semi-retirement schemes, severance payments and through the natural turnover of employees.

Health management: The welfare of employees has always been an important issue for EnBW. As part of occupational health and safety management, the company offers a variety of activities in the areas of occupational safety and health protection in the key companies. A centrally managed and anonymous online survey on the subject of "Risk assessment – psychological stress" was thus carried out at 18 Group companies from 24 April to 16 May 2017. The survey was precipitated by the legal requirement to supplement risk assessments with the aspect of psychological work stress. The aim of the survey was to identify collective psychological stresses at work in order to derive possible areas for action and preventative measures. The results were available to the Board of Management from the end of June and were also shared with management personnel and the works councils. The areas and teams have introduced, where necessary, specific measures based on the evaluation reports. Managers are legally obligated to document the measures and examine their effectiveness. SWD and VNG had already complied with the legal obligation and had already conducted their own surveys at the time the centrally managed survey was completed. Overall, 85% of the workforce within the scope of the law were covered by the survey.

In the area of generation at EnBW AG and EnBW Kernkraft GmbH, a number of staggered health days were held at seven power plant sites – dealing with the theme of "Health and movement". In cooperation with the staff restaurants and a number of statutory health insurance funds, a holistic health programme was subsequently offered at the individual sites. Employees were able, for example, to have their flexibility, endurance or strength measured as part of the programme. In addition, it was possible for employees to talk to specialists from the areas of occupational medicine and health management at all of the sites involved in the health programme. The aim of these campaigns was not only to make the theme of health more tangible for employees but also to create new momentum in relation to health issues and use this for further campaigns.

Our subsidiaries are also active in the area of health management: Occupational health management was intensified at the Swiss company Energiedienst Holding during the course of 2017 on the basis of targeted interviews with employees and managers. PRE offers, amongst other things, a comprehensive cancer prevention programme that focuses on breast, skin and prostate cancer. SWD has a programme focussing on health-oriented management at the team leader level. VNG offers a comprehensive range of preventative occupational medicine via its company doctors and also arranges appointments with specialist doctors at short notice in cooperation with a healthcare centre in Leipzig.

Sickness ratio

in %	2017	2016	Change
Sickness ratio	5.0	4.8	0.2

The sickness ratio did not change significantly compared to the previous year.

Other performance indicators

Employees of the EnBW Group[1]

	31/12/2017	31/12/2016	Change in %
Sales	3,331	3,244	2.7
Grids	8,858	8,330	6.3
Renewable Energies	1,050	1,029	2.0
Generation and Trading	5,457	5,076	7.5
Other	2,656	2,730	-2.7
Total	**21,352**	**20,409**	**4.6**
Number of full-time equivalents[2]	19,939	18,923	5.4

1 Number of employees excluding apprentices/trainees and inactive employees.
2 Converted into full-time equivalents.

As of 31 December 2017, the EnBW Group had 21,352 employees. The increase compared to the figure at the end of the 2016 financial year was primarily attributable to the first-time consolidation of the VNG Group. This effect impacts all of the segments with the exception of Renewable Energies. The further increase in the number of employees in the Grids segment was due to the growing importance of regulated business and the associated increase in activities. In Other, the increase in employees due to VNG was more than balanced out by efficiency programmes in the functional units at EnBW AG and the planned departure of employees based on an earlier restructuring programme. Alongside the increase due to VNG, the acquisition of Messerschmid Energiesysteme GmbH and winsun AG by Energiedienst Holding AG increased the number of employees in the Sales segment. However, these two effects were almost balanced out by the closure of the B2B business under the EnBW and Watt brands and the reduction in employees in the operations area of EnBW AG.

The expansion of the offshore business led to an increase in the number of employees in the Renewable Energies segment. In the Generation and Trading segment, the increase in the number of employees due to VNG is partially compensated for by the reduction in employees in conventional generation.

Turnover

in %	2017	2016	Change
Employee turnover ratio	7.0	5.2	1.8

Employee turnover ratio increased, which was due primarily to the severance payments and planned retirement of employees based on an earlier restructuring programme.

Further performance indicators for employees such as the regional distribution or age structure of our employees can be found on our website at www.enbw.com/weitere-kennzahlen.

We also refer you to the details provided in the "Report on opportunities and risks" (p. 96).

Occupational safety

The main goals of EnBW in the area of occupational safety are to avoid accidents and work-related illness, to create a safe working environment and clearly regulate responsibilities, roles and processes. In order to achieve these targets, EnBW already founded the Occupational Safety Working Group (AK KAS) in 2003. AK KAS has the task of regulating issues that affect all companies uniformly within the Group. Its scope of application covers those companies that use LTIF as a performance indicator. AK KAS is headed by the Chief Technical Officer of EnBW and has the power to make binding decisions in accordance with the company's rules of procedure.

TOP LTIF

The key performance indicator LTIF is used to measure the number of accidents at work and the resulting days of absence. Every Group company included in the consolidated companies for the LTIF receives an individual target from the Board of Management for the relevant year – the fulfilment of this LTIF target flows into the monetary assessments for the achievement of relevant targets. Above and beyond these targets, the companies also set their own individual targets.

Key performance indicator

	2017	2016	Change in %	Forecast 2017
LTIF[1]	3.0	3.9	-23.1	≤ 3.7[2]

1 Variations in the group of consolidated companies; see also the definition of key performance indicators on p. 30.
2 Three-year target for 2017, 2018 and 2019.

The LTIF improved significantly in 2017 to 3.0 compared to the previous year (3.9) – average days of absence per accident increased slightly to 16.8 compared to the previous year (14.5).

In the reporting year, there was a fatal accident at a third-party company that was working on behalf of the EnBW Group.

The measures for achieving the target are independently defined by the Group companies. There were various different activities focussing on occupational safety in 2017:

The new software EcoWebDesk (EWD) was introduced into further areas at EnBW. In the next few months, it will be rolled out to around 10,000 employees. Important elements of the EWD are the documentation of risk assessments and hazardous substance management.

In the Grids segment, a series of campaigns to further improve the safety culture have been or will be carried out:

- Seminars for managers to raise awareness and explain different tools such as incentives, safety briefings and inspections of behavioural conduct
- A short workshop for managers on the practical completion of safety briefings
- The preventative health programme "Think about me, your back" for technical and commercial employees
- The project "Working safely on the grid" (SaiN) that is designed to ensure that employees working on behalf of the grid operating company are trained sufficiently

In the area of conventional and renewable energies, weekly inspections with a focus on occupational safety were conducted by management. In addition, the "100 days without accidents" campaign started in 2015 was continued. The 100-day goal was achieved a total of eight times across a number of power plants.

We also refer you to the details provided in the "Report on opportunities and risks" (p. 96).

Environment goal dimension

The main Group companies at EnBW have an environmental management system certified according to DIN ISO 14001:2015. It follows a concept of continuous improvement in environmental performance and is based on the method Plan – Do – Check – Act (PDCA). The system encompasses the definition and realisation of environmental targets with their performance indicators and corresponding measures, the procedures and responsibilities and the identification of environmentally relevant risks and opportunities. Using defined due diligence processes and an audit programme, the agreed regulations and guidelines are then monitored in terms of legal and other requirements, as well as with regard to the defined targets. If necessary, the processes and guidelines, as well as the targets and measures, will be adjusted. The consistent implementation and further development of the environmental management system guarantees that negative impacts on the environment can be avoided as well as possible during all activities (p. 78 ff.). Risks generally exist in the area of environmental protection due to the operation of power plants and the possible consequences for the air, water and soil. These risks are countered by EnBW using an emergency and crisis management system that has been implemented throughout the Group and includes comprehensive organisational and procedural measures.

Our key environmental targets are related to the expansion of renewable energies and making our contribution to climate protection. These targets are measured using the key performance indicators "installed output of renewable energies (RE) and the share of the generation capacity accounted for by RE" and CO_2 intensity.

Expansion of Renewable Energies

Key performance indicator

	2017	2016	Change in %	Forecast 2017
Installed output of RE in GW and the share of the generation capacity accounted for by RE in %	3.4/25.9	3.1/23.1	9.7/12.1	3.3–3.4/ 25–26

TOP Installed output of renewable energies (RE) and the share of the generation capacity accounted for by RE

In the reporting year, the installed output of renewable energies increased by 241 MW to around 3.4 GW and was thus within the range of the forecast.

Some 204 MW of this was attributable to the construction and expansion of several onshore wind farms with a total of 66 wind turbines. In contrast, the installed output of the EnBW Group fell to 13.0 GW, primarily as a result of the transfer of the RDK 4 S power plant at the Rheinhafen Steam Power Plant in Karlsruhe (gas) and the Combined Heat and Power Plant 1 (HKW 1) in Altbach/Deizisau (hard coal) to the grid reserve. As a result, the share of the generation capacity accounted for by RE increased – as forecast – to 25.9%.

Own generation of the EnBW Group fell significantly in 2017 compared to the previous year to around 50.2 TWh. This was caused by a considerable reduction in own generation from nuclear power due to the temporary shutdown of KKP 2, while generation based on renewable energies increased slightly. The proportion of own generation from renewable energy sources increased to 16.5%, which was attributable to higher production in the area of wind power. This was offset by the lower electricity generation from run-of-river power plants due to consistently low water levels.

Breakdown of the generation portfolio of the EnBW Group[1] (as of 31/12)

Electrical output[2] in MW	2017	2016
Renewable energies	**3,381**	**3,140**
Run-of-river power plants	1,034	1,032
Storage/pumped storage power plants using the natural flow of water[2]	1,327	1,322
Wind onshore	540	336
Wind offshore	336	336
Other renewable energies	144	114
Thermal power plants[3]	**9,673**	**10,442**
Brown coal	875	875
Hard coal	3,523	3,956
Gas	1,448	1,784
Other thermal power plants	349	349
Pumped storage power plants that do not use the natural flow of water[2]	545	545
Nuclear power plants	2,933	2,933
Installed output of EnBW Group[5]	**13,054**	**13,582**
of which renewable in %	25.9	23.1
of which low CO_2 in %[4]	15.3	17.1

1 The generation portfolio includes long-term procurement agreements and generation from partly owned power plants.
2 Output values irrespective of marketing channel, for storage: generation capacity.
3 Including pumped storage power plants that do not use the natural flow of water.
4 Excluding renewable energies; only gas power plants and storage power plants that do not use the natural flow of water.
5 In addition, power plants with an installed output of 1,706 MW were registered for decommissioning. However, they were classified as system relevant by the Federal Network Agency and TransnetBW and are thus used by TransnetBW as reserve grid capacity.

Own generation of the EnBW Group[1] by primary energy source

in GWh	2017	2016
Renewable energies	**8,290**	**8,257**
Run-of-river power plants	5,012	5,284
Storage/pumped storage power plants using the natural flow of water	946	1,052
Wind onshore	661	413
Wind offshore	1,416	1,265
Other renewable energies	255	243
Thermal power plants[2]	**41,904**	**44,538**
Brown coal	6,027	5,802
Hard coal	12,977	12,625
Gas	3,436	3,199
Other thermal power plants	211	174
Pumped storage power plants that do not use the natural flow of water	1,721	1,722
Nuclear power plants	17,532	21,016
Own generation of the EnBW Group	**50,194**	**52,795**
of which renewable in %	16.5	15.6
of which low CO_2 in %[3]	10.3	9.3

1 Own electricity generation includes long-term procurement agreements and partly owned power plants.
2 Including pumped storage power plants that do not use the natural flow of water.
3 Excluding renewable energies; only gas power plants and storage power plants that do not use the natural flow of water.

Climate protection

Key performance indicator

	2017	2016	Change in %	Forecast 2017
CO_2 intensity in g/kWh	556	577	-3.6	-5% to +5%

TOP CO_2 intensity

The E CO_2 intensity of own generation of electricity excluding nuclear power fell in comparison to the previous year – despite the higher utilisation of the power plants for redispatch due to the requirements of the transmission system operators – by 3.6% to 556 g/kWh and was thus within our forecasted range. The fall was due to the higher generation from renewable sources in comparison to 2016 and the simultaneous increase in electricity generation from a more efficient mix of fossil fuel-fired power plants, especially the use of block RDK 8 at the Rheinhafen Steam Power Plant in Karlsruhe.

Other performance indicators

In addition to the key performance indicators in the area of the environment, EnBW utilises a broad range of additional environmental indicators for measuring, controlling and presenting the other results of our environmentally relevant activities. The most important performance indicators are presented in the following table on page 79. A comprehensive presentation of the environmental performance indicators for EnBW can be found on the Internet at www.enbw.com/umweltschutz.

There is also information available here on our wide-ranging measures to improve energy efficiency, the conservation of biological diversity and the protection of nature and species, such as our EnBW amphibian protection programme or activities to protect birds in the grids sector. In addition, further information relating to the Global Reporting Initiative (GRI G4) can be found on the Internet.

Carbon footprint: Direct CO_2 emissions are determined mainly by the deployment of power plants. Despite the increase in electricity generation from renewable energies, direct CO_2 emissions increased moderately from 16.3 to 16.8 million t CO_2eq. This was due to the slightly higher electricity generation from fossil fuels in comparison to the previous year. Slightly higher indirect CO_2 emissions from grid losses led to an increase in Scope 2 CO_2 emissions from 1.1 million t CO_2eq to 1.2 million t CO_2eq. The Scope 3 CO_2 emissions are mainly influenced by the gas consumption of our customers. EnBW significantly expanded its gas sales due to the full consolidation of VNG. Accordingly, EnBW recorded a significant increase in Scope 3 CO_2 emissions. Numerous activities at EnBW also avoid CO_2 emissions: primarily that of generating electricity from renewable energy sources. The reduction in the underlying avoidance factors by the German Environment Agency by more than 10% (publication Climate Change 23/2017, Version October 2017) led to a decrease in the CO_2 emissions avoided in 2017 compared to the previous year from 6.8 million t CO_2eq to 6.6 million t CO_2eq despite the increase in electricity generation from renewable energies.

Energy consumption: Total final energy consumption includes the consumption of final energy for the business activities of EnBW. It does not include conversion losses during energy generation or grid losses. Total final energy consumption is mostly influenced by pump energy as well as the company's own consumption requirements and the operating consumption of the power plants. In comparison to the previous year, final energy consumption increased from 2,784 GWh to 3,247 GWh. The main reasons for this were the increase in the pump energy at the pumped storage power plants as well as the higher own consumption and operating consumption of the power plants due to increased electricity generation from fossil fuels.

The proportion of renewable energies in final energy consumption increased from 47.9% in 2016 to 48.8% in 2017. This was primarily due to an increase in the pump energy at the pumped storage power plants operated by Vorarlberger Illwerke, which utilises green electricity.

The energy consumption of our buildings per employee increased from 9,456 kWh in 2016 to 9,582 kWh in 2017. The reason for this increase was the above-average fall in energy consumption in buildings in 2016 due to extraordinary effects.

Environmental protection expenditure: We report environmental protection expenditure in line with the requirements of the statistical offices and using the guidelines published by our sector association, BDEW. Due to the increased expansion in the areas of onshore and offshore wind power, investment in environmental protection increased to €650 million and current environmental protection expenses increased to €348 million.

Environmental performance indicators[1]

	Unit	2017	2016
Carbon footprint			
Direct CO_2 emissions (Scope 1)[2, 3]	millions of t CO_2eq	16.8	16.3
Indirect CO_2 emissions (Scope 2)[4]	millions of t CO_2eq	1.2	1.1
Other indirect CO_2 emissions (Scope 3)[5]	millions of t CO_2eq	23.7	12.4
CO_2 emissions avoided[3, 6]	millions of t CO_2eq	6.6	6.8
CO_2 intensity of business journeys and travel[7]	g CO_2/km	176	180
Energy consumption			
Total final energy consumption[8]	GWh	3,247	2,784
Proportion of renewable energies in final energy consumption[3, 9]	%	48.8	47.9
Energy consumption of buildings per employee[10]	kWh/MA	9,582	9,456
Environmental protection expenditure[11]			
Investment in environmental protection	€ millions	650	315
Current environmental protection expenses	€ millions	348	311

1 Unless otherwise indicated, the data reflect the business entities and plants of the consolidated Group.
2 Preliminary data.
3 The figures for the previous year have been restated.
4 Includes greenhouse gas emissions through electricity grid losses and through electricity consumption of plants in the gas and electricity grid, water supplies and buildings.
5 Includes greenhouse gas emissions through consumption of purchased electricity volumes by customers, consumption of gas by customers, fuel provision and business travel.
6 Includes CO_2 emissions avoided through the expansion of renewable energies, through energy efficiency projects with customers/partners and through the generation and sale of biogas.
7 Includes all business travel and business activities (Scope 1 and Scope 3).
8 Includes final energy consumption of production including pump energy, energy consumption of grid facilities (electricity, gas and water) excluding grid losses, energy consumption of buildings and vehicles.
9 For electricity consumers for which the proportion of renewable energies is unknown, a proportion of renewable energies in accordance with the current Bundesmix (federal mix) label for electricity of 32% is used. For fuels, a proportion of 5% bioethanol is generally used
10 Calculated partially on the basis of assumptions and estimations.
11 Pursuant to the German Environmental Statistics Act (UStatG) and BDEW guidelines on the recognition of investment and ongoing expenditure relating to environmental protection (April 2007).

Electromobility at EnBW: In 2017, EnBW expanded its fleet of electric vehicles even further. Netze BW has now passed the mark of 100 electric vehicles and is thus the largest operator of electric fleets in Germany. The purchased vehicles once again include numerous e-Golfs and a number of "Streetscooters" adapted by the company Deutsche Post. The vehicles are operated from around 20 Netze BW locations across the whole of Baden-Württemberg.

Conservation of biological diversity: EnBW initiated the programme "Stimuli for Diversity" for the protection of amphibian species together with the LUBW (Baden-Württemberg State Institute for the Environment) in 2011. Due to the major success of, and positive response to, the programme in the first five years, the funding programme was updated in 2016 to include funding for protective measures for reptiles. The EnBW funding programme "Stimuli for Diversity" is part of the project "The economy and business for nature", which is a component of the state initiative "Active for biological diversity". It still remains the first conservation programme of this scope from a company both in Baden-Württemberg and nationwide that not only funds the protection of one single species but two whole groups of species across the state. The successful realisation of the 100th project was celebrated in the reporting year. Due to the numerous different measures implemented in the programme, it was possible to successfully improve the living conditions for numerous endangered species in the state. EnBW will also continue the funding programme in 2018 based on this tried-and-tested method.

We also refer you to the details provided in the "Report on opportunities and risks" (p. 96).

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.

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 ≥ 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_2 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.

Forecast

In our forecast we take a look, as far as possible, at the expected future growth and development of EnBW in the years 2018 to 2020.

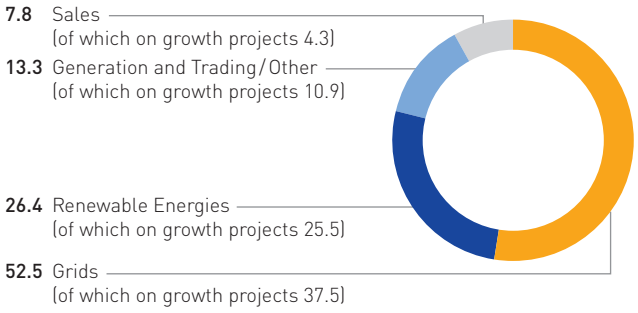
The expected economic, political and regulatory conditions are presented in the chapter "General conditions" (p. 49 ff.). Potential factors influencing the forecast are described in detail in the "Report on opportunities and risks" (p. 91 ff.).

Expected trends in the finance and strategy goal dimensions

Implementation of the strategy for a three-year period

In order to continue to play an active role in shaping the Energiewende, **gross investment** of €6.3 billion is planned for the 2018 to 2020 period. This represents on average €2.1 billion per year. Some €1.4 billion (22%) of this investment will be on existing projects and €4.9 billion (78%) on growth projects. Around 63% of the gross investment or 80% of the growth investment is earmarked for regulated business.

Total investments 2018–2020
in %



Around 53% of the investment will flow into the Grids segment, of which around 38% will be for growth projects and 15% for existing projects. In order to make the transport of renewable energies from the north to the south of Germany possible, investment in the transmission grid is planned to realise two corridors that are part of the Network Development Plan, in which our subsidiary TransnetBW GmbH is involved. In addition, significant investment in the expansion and upgrading of the existing grids is planned.

Around 26% of the total investment will be attributable to the Renewable Energies segment – almost exclusively for growth investment. This includes funds for the realisation of the offshore wind farms EnBW Hohe See and EnBW Albatros with a total output of 609 MW, which are planned to be placed into operation in 2019. In addition, funds have been allocated for the erection of onshore wind farms from our comprehensive project pipeline (p. 63).

Around 8% of the investment will be attributable to the Sales segment, split 50/50 between growth and existing investment. The investment is mainly intended for the expansion of electromobility, as well as for the development of EnBW as a supplier of decentralised solutions.

Around 13% of the total investment will be attributable to the Generation and Trading segment and Other. This will be primarily for growth investment. In the planning period, the modernisation of the combined heat and power plant in Stuttgart-Gaisburg to guarantee the supply of district heating for the greater Stuttgart area and the exploration and production business of VNG will be the main areas of investment.

This investment programme of the EnBW Group thus reflects our strategy for expanding renewable energies and ensuring security of supply in the regulated areas of the transmission and distribution grids.

It is expected that the target set in the EnBW 2020 strategy of making gross investment of around €14 billion by 2020 (based on the reference year of 2012) will be exceeded by around €2 billion (p. 26).

In order to finance the entire investment volume of around €6 billion, **divestitures** amounting to €1.7 billion are planned in the years 2018 to 2020. This includes divestitures in the onshore sector, which will build on our already realised participation models. The remaining divestitures will involve the sale of property, the receipt of construction cost subsidies and the disposal of subsidiaries.

It is expected that the target set in the EnBW 2020 strategy of €5.1 billion in divestitures (based on the reference year of 2012) will be exceeded because divestitures of around €3.9 billion were already realised by the end of 2017 and divestitures of €1.7 billion are still planned (p. 26).

The balance of gross investment and divestitures gives the **net investment**, which is €4.6 billion or €1.5 billion on average per year. The net investment will be fully financed from the company's own funds (p. 89).

TOP Adjusted EBITDA and the TOP share of adjusted EBITDA accounted for by the segments

Development in 2018 (adjusted EBITDA and the share of adjusted EBITDA accounted for by the segments) compared to the previous year

	Earnings performance (adjusted EBITDA) compared to the previous year		Development of the share of adjusted EBITDA for the EnBW Group accounted for by the segments	
	2018	2017	2018	2017
Sales	-5% to -15%	€330.0 million	10% to 15%	15.6%
Grids	+5% to +15%	€1,045.9 million	45% to 60%	49.5%
Renewable Energies	+10% to +20%	€331.7 million	15% to 20%	15.7%
Generation and Trading	0% to -10%	€377.1 million	15% to 20%	17.8%
Other/Consolidation	–	€28.3 million		1.4%
Adjusted EBITDA, Group	**0% to +5%**	**€2,113.0 million**		**100.0%**

In the **Sales** segment, we expect a drop in earnings in 2018 in comparison to the previous year. This is due to the elimination of out-of-period effects such as the reversal of provisions for issues that have since lapsed, which benefited the result in the previous year. However, this fall will be compensated for to some extent by the full-year earnings contribution of VNG. Therefore, we expect a slight decrease in the share of the E adjusted EBITDA for the Group accounted for by this segment.

The adjusted EBITDA for the **Grids** segment will increase further in 2018. It will continue to be the segment with the highest earnings. On the one hand, there is the positive effect of the full-year earnings contribution of VNG, and on the other hand, we anticipate higher revenues from the grid user charges that have now been published. The share of the adjusted EBITDA for the Group accounted for by this segment is expected to remain stable or increase slightly.

The adjusted EBITDA for the **Renewable Energies** segment will increase further in 2018. This is due, on the one hand, to the better water levels for the run-of-river power plants expected in comparison to the previous year. Our forecast is based on the long-term average and the water levels in 2017 were below the long-term average. This will be offset to some extent by a negative effect from the electricity deliveries for 2018 from our run-of-river power plants already placed on the E forward market: The margins achieved were slightly lower than those for 2017. In addition, the onshore wind farms already realised in 2017 and the planned expansion of onshore wind farms in 2018 will have a positive effect on earnings. In the offshore wind sector, there will not be any further expansion until the planned commissioning of our offshore wind farms EnBW Hohe See and EnBW Albatros in 2019. The wind yield forecasts are based on the long-term average. As the wind conditions in 2017 were higher than in the previous year but still below the long-term average, this alone will result in slightly higher earnings in 2018 in comparison to 2017. However, the level of improvement is dependent on the actual wind strength. We expect a stable or a slight increase in the share of the adjusted EBITDA for the Group accounted for by this segment.

The adjusted EBITDA for the **Generation and Trading** segment will once again fall slightly in 2018. This is due to the fact that we have already placed most of the electricity deliveries for 2018 on the forward market at lower margins than in 2017. In addition, we anticipate lower out-of-period earnings compared to the previous year because 2017 was influenced by positive effects such as decentralised feed-ins. The full-year earnings contribution of VNG will mitigate to some extent the negative earnings performance in comparison to the previous year. We expect a slight decrease in the share of the adjusted EBITDA for the Group accounted for by this segment.

The **adjusted EBITDA** for the EnBW Group in 2018 will increase further and be between 0% and +5% above the level in 2017. This will be primarily due to the areas of growth in the Grids and Renewable Energies segments, as well as the year-round full consolidation of VNG. In the Sales and Generation and Trading segments, we expect a weaker performance because the positive out-of-period effects from the previous year no longer exist. Due to the planned commissioning of our offshore wind farms in the second half of 2019 and the early achievement of our efficiency targets in the amount of €650 million for 2019, we anticipate a positive development of the adjusted EBITDA for the Group in 2019. We expect – based on the status today – a growth in earnings in the range of between +0% and +5% compared to 2018.

The E **EBITDA** can only be forecast to a limited extent because it is strongly influenced by effects not relevant to the ongoing management of the company that cannot be planned for, such as reversals to impairment losses or impending losses for onerous contracts for electricity procurement agreements. From today's perspective, we expect an EBITDA in 2018 that will be slightly lower than the adjusted EBITDA. This will be due primarily to increased provisions for semi-retirement plans.

The **EBT**, which will be relevant in future for the remuneration of the Board of Management, is expected to be between €800 to €900 million and will thus fall significantly in comparison to the previous year. The result in the previous year was positively influenced by the extraordinary effect of the reimbursement of the nuclear fuel rod tax. In comparison to the EBITDA, the accuracy of the forecast for the EBT for the year is, however, still dependent on other exogenous factors that cannot be planned for, such as impairment losses and interest rate changes.

Assuming an increase of up to 5% in the adjusted EBITDA, the **retained cash flow II** (p. 64) will reach a level of between €1.4 and €1.5 billion. This will include an increase of €200 million from the reimbursement of the nuclear fuel rod tax. Adjusted for this effect and the anticipated dividend payment of around €250 million, we expect a FFO of between €1.5 and €1.6 billion. The FFO will be a further performance indicator for the remuneration of the Board of Management in future.

TOP Internal financing capability

Key performance indicator

	2018	2017
Internal financing capability in %	≥ 100	111.9

We anticipate that we will also be able to cover our net investment from the retained cash flow II in 2018 so that the internal financing capability will continue to be ≥ 100%. We will also be striving to achieve this in subsequent years. The aim is to receive a solid investment-grade rating. In 2018, a bond with a volume of CHF 100 million and a bond with a volume of €750 million will be due for repayment. Based on the current plans, the bonds will be repaid from the reimbursement of the nuclear fuel rod tax received in 2017.

TOP ROCE

Key performance indicator

	2018	2017
ROCE in %	6.3–7.0	7.3

The ROCE in 2018 will be influenced by the anticipated slight decrease in the adjusted EBIT (including the adjusted investment result) and the increase in capital employed compared to the previous year. This increase will be primarily due to growth investments and the full-year consolidation of VNG. These factors mean that in comparison to the previous year the ROCE is anticipated to fall to between 6.3% and 7.0%. In general, investments tend to lead at first to a fall in ROCE due to a low initial contribution to earnings. In accordance with our strategy, we also expect a high volume of investment with a further increase in earnings in subsequent years. After the commissioning of our offshore wind farms EnBW Hohe See and EnBW Albatros, we expect the ROCE to increase again from 2020.

Expected trends in the customers and society goal dimension

Key performance indicators

	2018	2017
Reputation Index	52.7	52.1
Customer Satisfaction Index EnBW/Yello	128–138/ 148–159	143/ 161
SAIDI (electricity) in min./year	15–20	19

TOP Reputation Index

The Reputation Index should improve continuously over the coming years. We anticipate an increase in the Reputation Index to 52.7 points for the 2018 reporting year. The "We're making it happen" image campaign that ran successfully in 2017 will be continued in 2018. In addition, the expanded reputation management department and the new stakeholder team that was founded in 2017 will carefully monitor its development and implement further measures where necessary.

TOP Customer Satisfaction Index

We anticipate that other competitors, in some cases financially strong companies with impressive ranges of products, from other sectors will enter the energy market in 2018. In addition, exogenous factors will negatively impact customer satisfaction more and more in the future, such as discussions about the future of coal-fired power generation, the development of state levies, increasing costs or delays to the expansion of the grids. To improve the satisfaction of the customers of EnBW, we are thus expanding our range of sustainable energy industry services and energy solutions and targeting our sales activities in this direction. By introducing additional products close to home, such as EnBW Secure, we will present ourselves as a partner for our customers. Customers will continue to enjoy up-to-date and convincing experiences of the highest level as a result of our new digital capabilities. On this basis, we are striving to achieve an index value of between 128 and 138 points in the 2018 financial year – as in the previous year.

We also want to maintain the satisfaction of Yello customers at a stable, high level of between 148 and 159 points in 2018. To ensure this is successful despite the difficult market conditions, the image campaign with the tagline "More than you think" will be continued on TV and online in 2018. The aim is to maintain a high level of awareness for the brand on the market and thus amongst customers. In addition, the Yello Shop will be expanded and the range of products offered in its bundles enlarged. The upcoming conversion to the new sales and operation platform EnPower (p. 71) will help to ensure that products and services are developed for our customers and launched on the market even more quickly than before.

TOP SAIDI

EnBW has always ensured a highly reliable supply throughout its grid area and for its customers. The corresponding key performance indicator SAIDI, which states the average

duration of supply interruptions per connected customer per year, stood at 19 minutes in 2017. We are striving to achieve a value of between 15 and 20 minutes in the 2018 financial year and subsequent years.

Expected trends in the employees goal dimension

Key performance indicators

	2018	2017
Employee Commitment Index (ECI)[1]	62	60
LTIF[1]	< 3.7[2]	3.0

1 Variation in the group of consolidated companies; see also the definition of key performance indicators on page 30.
2 Three-year target for 2017, 2018 and 2019.

TOP Employee Commitment Index

The Employee Commitment Index (ECI) increased from 59 to 60 points in 2017. The implementation of the 2020 strategy is already bearing fruit, while the communication of the post 2020 strategy was positively received by management and employees. The perception of the competitiveness and future viability of the company has improved. Therefore, EnBW has set itself the target for 2018 of further increasing the ECI to 62 points.

TOP LTIF

Our goal is to continuously improve occupational safety within the company for both our own and third-party employees. Therefore, EnBW has implemented numerous accident prevention measures. In 2018, we are striving to once again keep the value for this key performance indicator for occupational safety below the three-year target. The main focus will be placed on the roll-out of the new software EcoWebDesk (EWD) and an awareness for unsafe situations and conditions. Consistent reporting of these types of occurrences and communication amongst employees about hazardous situations will help EnBW to increase the awareness of employees. EnBW intends to lower the LTIF in small steps in the long term.

Further significant developments

In view of the difficult conditions, it will be important over the coming years to realise further improvements in efficiency across the entire company. There will be a moderate increase in the number of employees in the Renewable Energies and Grids segments as part of the repositioning of our business portfolio. This will be offset by further measures to optimise processes across the entire company with a focus on the functional units, sales and operations of EnBW AG and in the area of thermal power plants.

Expected trends in the environment goal dimension

Key performance indicators

	2018	2017
Installed output of RE in GW and the share of generation capacity accounted for by RE in %	3.6–3.7/ 27–28	3.4/ 25.9
CO_2 intensity in g/kWh	-10% to 0%	556

TOP Installed output of renewable energies (RE) and the share of the generation capacity accounted for by RE

The installed output of renewable energies is expected to increase by around 300 MW in 2018 as a result of the construction of a number of onshore wind farms and photovoltaic power plants, as well as the commissioning of the pumped storage power plant Obervermuntwerk II. As a result, the share of the generation capacity of the EnBW Group accounted for by renewable energies will increase appreciably. In subsequent years, we also expect a continuous increase in the installed output of renewable energies, especially due to the commissioning of the offshore wind farms EnBW Hohe See (497 MW) and EnBW Albatros (112 MW) in the North Sea scheduled for 2019. This will also increase the share of the generation capacity accounted for by RE further.

TOP CO_2 intensity

In 2018, we expect an increase in own electricity generation from renewable energy sources due to the further expansion of renewable energies. We also expect the continued good availability of our highly efficient hard coal power plants this year. Important factors for uncertainty in the 2018 forecast include the volatility of the wind supply, the further development of the E clean dark spread and the utilisation of the power plants for redispatch. We anticipate a positive development overall and expect a reduction in the E CO_2 intensity of between -10% and 0% in 2018 in comparison to the 2017 reporting year. In the coming years, we continue to expect a gradual reduction in CO_2 intensity.

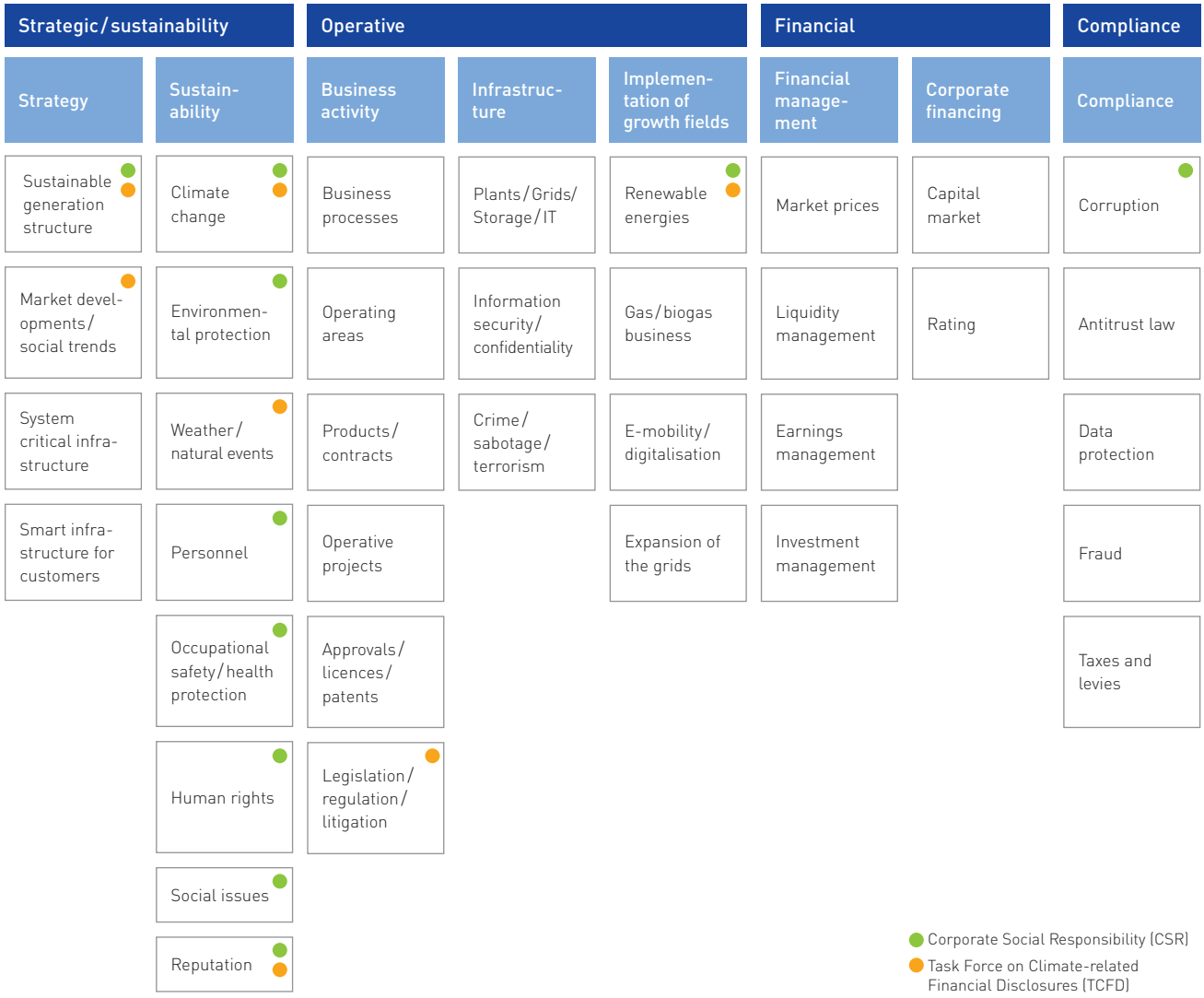
Overall assessment of anticipated developments by the management

We expect an increase in E adjusted EBITDA for the Group in 2018 compared to 2017. The shift in earnings between the segments laid out in our strategy will continue in 2018. We are well on the way to achieving our 2020 targets at a Group and segment level. We are adhering to the implementation of our divestiture programme and are able to continue to make sufficient investment funds available to enable us to play an active role in shaping the Energiewende. This also supports our aim to maintain a solid E investment-grade rating. With respect to our non-financial key performance indicators, we expect a stable to positive development in 2018 towards our 2020 targets.

Report on opportunities and risks

Principles of the integrated opportunity and risk management system

Opportunity and risk map



The integrated opportunity and risk management system (iRM) of EnBW is based on the internationally established COSO II framework standard for risk management systems that span entire companies. The iRM aims, through a holistic and integrated approach, to effectively and efficiently identify, evaluate and manage opportunities and risks (including monitoring) and report on the opportunity/risk position, as well as to ensure the appropriateness and functionality of related processes. Risk management involves measures for avoiding, reducing or transferring risk through adequate accounting provisions, as well as rules for risk tolerance. For this purpose, EnBW defines an opportunity/risk as an event that might cause a potential over-attainment/non-attainment of strategic/sustainability, operational, financial and compliance goals in the future. The processes in the iRM were fundamentally revised and expanded to take account of the guidelines for a non-financial declaration. In order to identify and categorise opportunities and risks, the opportunity and risk map that is anchored throughout the Group is utilised. The map now explicitly considers – alongside the previous themes – possible opportunities and risks that affect the sustainable orientation of EnBW. As well as focusing on the fulfilment of the requirements for a non-financial declaration, the recommendations of the Task Force on Climate-related

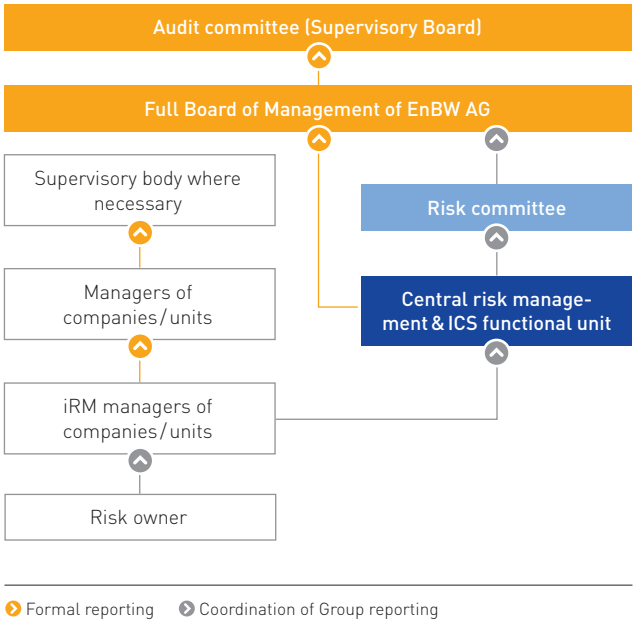
Financial Disclosures (TCFD) were also taken into account. In addition, the efficiency of all the processes in the iRM and reporting were improved further. Amongst other things, this involved making the risk map leaner and improving the technical aspects of reporting.

Structure and processes of the integrated opportunity and risk management system

The structures and processes of the iRM are anchored throughout the Group in all relevant business entities, business units and functional units. The central risk management & ICS functional unit is responsible for specifying methods, processes and systems for the whole Group, determining the opportunity and risk position of the Group and for reporting. The central steering body is the risk committee, which – with the involvement of specially selected business units/entities – is responsible for clarifying relevant issues from various Group perspectives, as well as for determining the top opportunities/risks.

The iRM is regularly checked by the Group auditing department and the results of the audit are presented to the Supervisory Board.

Structure and processes of the iRM system



Relevance filter for classifying opportunities and risks

Reporting level	Company, business and functional unit			
Relevance class	**0**	**1**	**2**	
Strategic/sustainability				
Achievement of strategic targets, sustainability targets, e.g. climate protection, environmental protection, reputation	None	No relevant impact on the achievement of strategic/sustainability targets	The ability to achieve the strategic/sustainability targets of the company/business units/functional units is negatively impacted	
Operative				
Achievement of business targets, functional processes, retaining added value, customer/external effects	None	› One operational target for an internal department/area is not achieved › Short-term negative impact on a relevant process without a material effect on the maintenance of operations	› Several operational targets for an internal department/area are not achieved › Short-term negative impact on a relevant process with maintenance of operations negatively impacted	
Financial				
Achievement of financial targets, generally in accordance with medium-term planning or approved (project) budgets	None	≤ €0.2 million	≥ €0.2 million (relevance threshold for small companies/business units)	
Compliance				
Compliance with legal/official regulations and internal regulations	None	Breach of legal/official regulations and/or internal regulations with minor negative consequences for the department/area (trivial breaches)	Breach of legal/official regulations and/or internal regulations with negative consequences for the department/area	

For the purposes of evaluation, all opportunities and risks are firstly assessed with the help of the iRM relevance filter before and after consideration has been taken of both implemented and envisaged management instruments. The relevance class is determined in each case based on quantitative and qualitative criteria for each of the four dimensions: strategic/sustainability, operational, financial and compliance.

The opportunities and risks allocated to relevance class 5 or higher and with a probability of occurrence of over 50% are generally included in the Group report on opportunities and risks. Insofar as a financial evaluation is possible, this corresponds to a value of €50 million within the medium-term planning period. Long-term opportunities and risks that are of particular importance are then added. The reports are submitted on a quarterly basis in standardised form. In the case of any significant changes, a special report is immediately issued.

The probability of occurrence is split into six levels:

iRM levels for the probability of occurrence

Description	Level for the probability of occurrence
Very low	0% to 10%
Low	10% to 30%
Medium	30% to 50%
High	50% to 70%
Very high	70% to 90%
Almost certain	90% to 100%

Those opportunities or risks relevant to the Group report on opportunities and risks are generally evaluated in relation to the current planning period using quantitative methods (e.g. scenario techniques and distribution functions) for the purpose of stochastic modelling. Any possible effects on the E adjusted EBITDA, the E adjusted EBIT and the E capital employed (with any associated impact on the E ROCE) and the E retained cash flow or E net investment (with any associated impact on the E internal financing capability) are considered. Alongside these financial effects, opportunities and risks can also have impacts on the other key performance indicators (p. 30 f.), which are discussed with those responsible in the specialist areas.

			Group	
	3	4	5	6
	One strategic/sustainability target for the company/business units/functional units is not achieved	Several strategic/sustainability targets for the company/business units/functional units are not achieved	One strategic/sustainability target for the EnBW Group is not achieved	Several or all strategic/sustainability targets for the EnBW Group are not achieved
	› One operational target for the company/business units/functional units is not achieved › Long-term negative impact on one/multiple relevant process with maintenance of operations severely impacted	› Several operational targets for the company/business units/functional units are not achieved › The value added of the company/business units/functional units is massively disrupted	› One key operational target for the EnBW Group is not achieved › The value added is massively disrupted beyond the company/business units/functional units	› Several or all operational targets for the EnBW Group are not achieved › Value added across the whole Group is massively disrupted
	≥ €1 million (relevance threshold for medium-sized companies/business units)	≥ €5 million (relevance threshold for large companies/business units)	≥ €50 million (relevance threshold for functional units and EnBW Group)	≥ €250 million
	Breach of legal/official regulations and/or internal regulations with negative consequences for the company/business units/functional units	Breach of legal/official regulations and/or internal regulations with serious negative consequences for the company/business units/functional units	Breach of legal/official regulations and/or internal regulations with negative consequences for the EnBW Group	Breach of legal/official regulations and/or internal regulations with serious negative consequences for the EnBW Group

Any opportunities and risks with a probability of occurrence of up to 50% are subject to an individual review to determine whether they should be taken into account in the next planning session. Opportunities and risks with a probability of occurrence of over 50% are generally taken into account in the planning process and, as far as possible, appropriate accounting measures are taken in the consolidated financial statements in accordance with IFRS.

Alongside the top opportunities/risks, there are a wide variety of other opportunities and risks facing the Group that are allocated to relevant risk categories on the opportunity and risk map (p. 91) and evaluated with the aid of the iRM relevance filter. Alongside the key performance indicators in the finance and strategy goal dimensions, these effects can also have an impact on the key performance indicators in the customers and society, employees and environment goal dimensions. Any impact on the areas of compliance, social engagement and procurement is also examined in the process.

Non-financial declaration

As part of the non-financial declaration, EnBW will analyse the non-financial opportunities and risks for compliance (main focus: fighting corruption and bribery), social engagement, procurement, the customers and society goal dimension, the employees goal dimension and the environment goal dimension in more detail from the 2017 financial year onwards. For this purpose, processes in the iRM established across the Group and other associated processes have been fundamentally revised and the risk map and relevance filter expanded to ensure the fulfilment of the requirements for a non-financial declaration. From relevance class 5 and a probability of occurrence of over 50%, opportunities and risks will also be reported externally. In this context, the iRM also identifies opportunities and risks relating to climate protection and thus provides important impetus for the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). You can find further information on this subject on page 115.

Structure and processes of the accounting-related internal control system

Principles

Alongside the internal control system (ICS) that is anchored within the company's business processes via the iRM, an accounting-related ICS was established at EnBW that is designed to ensure proper and reliable financial reporting. In order to guarantee that this ICS is effective, the appropriateness and functionality of the Group-wide control mechanisms are tested regularly at an individual business entity and Group level.

If any existing weaknesses are identified in the control system and are considered relevant to the financial statements, they are promptly remedied. This accounting-related ICS methodology is based on the COSO II standard – an internationally accepted framework for internal control systems.

Once the control mechanisms have reached a standardised and monitored degree of maturity, and no material control weaknesses can be identified, the accounting-related ICS is deemed to be effective. The materiality of control weaknesses is measured as the probability of occurrence and the extent to which there could be a potential misstatement in connection to those financial statement items concerned. The accounting-related risk management system defines measures for identifying and assessing risks that jeopardise the preparation of compliant financial statements as part of the accounting-related ICS.

Despite having established an ICS, there is no absolute certainty that it will attain its objectives or that it will be complete. In exceptional cases, the effectiveness of the ICS can be impaired by unforeseeable changes in the control environment, fraud or human error.

Structure

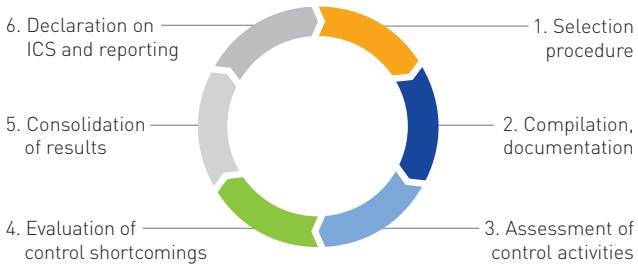
The accounting-related ICS at EnBW is organised at both a centralised and decentralised level. All important business entities, business units and functional units have an ICS officer. These officers monitor the effectiveness of the ICS and evaluate any control weaknesses that may arise. A report on the effectiveness of the ICS is prepared on an annual basis, which is approved by the management of the business entity or unit. The ICS officer at Group level assists the business entities/units with the implementation of standardised procedures and also consolidates collected data.

Processes

Standardised procedures ensure completeness and consistency in the preparation of the financial statements and financial reporting. The accounting-related ICS defines controls designed to ensure compliance with the accounting policies used by the Group, as well as procedures and deadlines for the individual accounting and consolidation processes. During the Group consolidation process, the rigorous implementation of the four-eye principal is observed, while random samples and deviation analyses improve quality. An annual control cycle monitors whether the documentation is up to date and also checks the appropriateness and functionality of the controls. In addition, it identifies and evaluates any control weaknesses that may arise.

A risk-based selection process defines relevant business entities/units, significant items in the financial statements and processes including their associated control measures. This selection process is based on quantitative and qualitative risk indicators.

Phases of accounting-related ICS



The defined processes and controls are recorded in a central documentation system. The effectiveness of the various control activities is then assessed. This includes analysing whether the control activities are generally appropriate for the purpose of reducing the risk of erroneous financial reporting. In addition, regular monitoring of the implementation of the controls and their documentation is carried out to review the functionality of the defined controls, as well as the operational effectiveness of the processes. If any control weaknesses are identified, their effect on the financial statements is evaluated. The results are reported at both a business entity or unit level and at a Group level. Furthermore, the Group auditing department performs ICS reviews as part of its risk-oriented audit planning.

Risks associated with the non-financial declaration

The non-financial declaration describes, amongst other things, the fundamental opportunities and risks connected with the EnBW business model and the activities based upon it that could have a possible impact on any individual issue. Material individual risks with a very high probability of a serious negative impact in relation to any of the following issues do not exist at EnBW.

Compliance

The observance of relevant legal regulations and internal company rules forms the basis of our business activities. Managing compliance risks at EnBW (with a main focus on corruption, antitrust and data protection risks) is the responsibility of the Compliance Management System, which includes regular risk assessments of this type. Risks related to fighting corruption and bribery are addressed on page 33 ff. in a cross-segment manner.

Social engagement

There are no risks in the area of social engagement. In fact, we take our social responsibility for civic and social engagement seriously.

Procurement

Sustainable procurement – purchasing: In the area of procurement, risks cannot be excluded due to increasing levels of complexity and the large number of suppliers. Purchasing utilises an active risk management system, counters procurement risks and implements the necessary measures for safeguarding against and avoiding risk.

Raw materials procurement – coal and gas: In the area of raw materials procurement and thus in the associated supply chain, there are above all potential human rights risks. These risks are managed using defined processes in purchasing, especially in the pre-qualification process. Compliance with the rules is ensured by regularly checking individual product groups. In addition, around 85% of the suppliers are based in the EU. In the area of raw materials procurement, respect for human rights is ensured using a multi-stage auditing process as part of the procurement process – with all potential suppliers being regularly subjected to a screening process. Other measures that form part of the assessment are carried out in direct cooperation with the compliance department. In coal mining, there are possible human rights risks related to the working and living conditions of people in the coal mining regions. Increasing civil society activity in this context can in turn increase reputational risks. EnBW is in constant contact with representatives from civil society and keeps them informed about the advances made and challenges faced in all sustainability topics.

In gas procurement, EnBW has carried out the first preliminary checks so that it can better assess whether human rights risks exist in the supply chain. The first results indicate that there are no risks.

Customers and society goal dimension

Reputation: All opportunities and risks, as well as non-financial issues, can have a positive or negative impact on reputation and thus on the key performance indicator Reputation Index (p. 69). The reputation management department thus identifies opportunities and risks related to reputation, develops measures to protect and improve reputation, advises the Board of Management and management and provides recommendations for action.

Customer proximity: Risks exist above all in connection with changing competitive conditions and the associated risk of a negative impact on the customer base and sales volumes. In addition, there are also opportunities due to, amongst other things, changing demand for climate friendly products (p. 49). Therefore, EnBW will also continue to expand its range of sustainable energy industry services and energy solutions in the future. EnBW is also currently establishing a system to continuously collect customer feedback (Net Promoter Score – NPS). The resulting findings could be used to recognise product, service and process deficiencies and identify business opportunities and risks more quickly, making it possible to tackle them better from a customer perspective.

Employees goal dimension

Employee commitment: Due to competition on the job market, there is a risk when recruiting employees that the company will not be able to secure a sufficient number of employees with the necessary qualifications and expertise in the relevant target groups. In addition, this risk is exacerbated by demographic trends and the stricter conditions facing the energy industry. We believe that regular anonymous employee surveys, from which we derive the Employee Commitment Index (ECI) as a key performance indicator, are an important tool for seizing opportunities early in the areas of employee development and employee loyalty (p. 72 ff.).

Occupational safety: Risks generally exist in the areas of occupational safety and health protection in our business activities. The EnBW Group counters these risks using comprehensive organisational and procedural measures, such as workplace-specific hazard analyses, to protect employees as well as possible against any adverse consequences. EnBW also views these measures as an opportunity to preserve the capacity of its employees to do their work and to maintain the position of EnBW as an attractive employer. Occupational safety is measured in the form of the key performance indicator LTIF within the employees goal dimension (p. 76).

Environment goal dimension

Expansion of Renewable Energies: In relation to the expansion of renewable energies, there is a general risk posed by the auction process and thus the sluggish expansion of onshore wind power. Due to the fact that the auctions are held on equal terms, we continue to expect a high level of competition. We measure the expansion of renewable energies with our key performance indicator "installed output of renewable energies and the share of the generation capacity accounted for by renewable energies" (p. 77).

Climate protection: Risks generally exist in the area of environmental protection due to the operation of power plants and the possible consequences for the air, water, soil and ozone layer. The importance of climate protection is taken into account in, amongst other things, the key performance indicator CO_2 intensity (p. 78 f.).

EnBW counters these risks using, amongst other things, an environmental management system certified according to DIN ISO 14001, which has been established at key Group companies (p. 77). EnBW takes the safety of the population and the environment very seriously. In this context, risks also exist due to external circumstances, such as extreme weather conditions. These risks are countered by EnBW using an emergency and crisis management system that has been implemented throughout the Group and includes comprehensive organisational and procedural measures. EnBW ensures that the risks posed by crisis and emergency situations are mitigated quickly, effectively and with a coordinated approach through the use of regular crisis management exercises and other measures. Through its diverse range of activities in the areas of environmental, nature and species protection, EnBW also utilises the opportunity – beyond its core activities – to make a substantial contribution to improving environmental protection. Thanks to the positive public perception of these activities, they can also have a positive impact on our key performance indicator, the Reputation Index (p. 69).

At the same time, EnBW also faces potential risks due to the ongoing process of climate change. For example, more frequent extreme weather conditions leading to highly fluctuating water levels or limits being placed on emissions locally could have an especially negative impact on the operation of power plants and thus the security of supply (electricity grids). The operation of hydropower plants can be restricted by both a lack of or also an abundance of water. The output from thermal power plants that must be cooled could possibly be impacted by temperature limits on discharged water. Increasing volatility in the availability of wind, water and sun presents challenges in terms of planning certainty for the operation of power plants and the sale of volumes of electricity (p. 49 ff.). For this reason, the top opportunity/risk wind fluctuations has been reported since the Integrated Annual Report 2016, although this has no material effect on non-financial issues. In addition, there is uncertainty due to increasing environmental restrictions for the realisation of projects for sustainable energy generation and the operation of power plants. These risks are managed and mitigated in internal processes using targeted control measures.

Alongside changes in physical climate parameters and other developments relating to or governed by environmental factors, regulatory guidelines and changes in the market also flow into the risk evaluation process. However, there are also opportunities such as changing customer needs (p. 70 f.) and an increasing demand for climate-friendly products such as e-mobility. These opportunities and risks are regularly and systematically identified Group-wide. The first recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) have been implemented and are communicated in the report on opportunities and risks.

Opportunity and risk position

The following diagram illustrates how the opportunity and risk position is reported to the Board of Management and the audit committee of the Supervisory Board. The arrangement of the top opportunities/risks in the quadrants indicates whether EnBW can employ control measures to exploit the opportunities or to counteract the risks.

On the basis of the individual evaluation of the top opportunities/risks, the diagram illustrates what effects – based on the relative level of opportunity/risk they could likely have on – the adjusted EBITDA, adjusted EBIT, capital employed, retained cash flow or retained cash flow II and net investment. The risks are depicted after the implementation of risk limitation measures.

Top opportunities / risks as of 31/12/2017

The following important opportunities and risks emerged in 2017:

- **Political and economic environment in Turkey:** The economic and political framework conditions in Turkey have deteriorated noticeably in the past few years. EnBW is monitoring these developments very closely. This risk is handled as a top opportunity/risk.
- **Operation and dismantling of nuclear power plants:** At the two power plants GKN I and KKP 1, there is a possibility of delays and additional costs due to an increase in complexity and expenses during the dismantling and disposal process. Deadlines and costs are being permanently monitored and controlled within a strategic dismantling project. This risk is now handled as a top opportunity/risk.

Details on the top opportunities/risks, as well as other opportunities/risks relevant to the report, and their potential effects on the relevant performance indicators are listed in the following section.

Cross-segment opportunities and risks

EnBW faces general risks from legal proceedings due to its contractual relationships with customers, business partners and employees **(previously: Legal risks).** To a lesser extent, we are also conducting legal proceedings relating to topics in the area of corporate law. For this purpose, adequate accounting provisions are made or, in the event of a probability of occurrence of < 50%, adequate contingent liabilities. As a consequence, there is also an opportunity of positive effects on earnings if these provisions can be reversed once again. In addition, various court cases, official investigations or proceedings and other claims are pending against EnBW. The probability of these actions being successful is, however, considered very low and thus they are not reported under contingent liabilities and other financial obligations.

In connection with these types of legal proceedings, we also recognise the **water concession risk in Stuttgart.** In the court proceedings dealing with the takeover of the water grid after the water concession in the state capital Stuttgart expires, EnBW is still striving to reach an amicable settlement. The court proceedings were placed on hold from January 2015 until the end of 2016 to give the parties the opportunity to reach an amicable settlement. Unfortunately, it was not possible to reach such an agreement – even after the reactivation of the court proceedings by the City of Stuttgart at the end of 2016– due to a difference of opinion on the valuation. The next negotiations are due to be held in April 2018. Therefore, there continues to be a risk in 2018 of losing the water grid without receipt of adequate compensation.

Due to the multitude of different investments, there are opportunities and risks due to changes in share prices for equity investments that are to be stated at market value using share prices **(previously: Impairment risks).** A risk of impairment exists if there is a negative trend in share prices. In contrast, there is a possible opportunity that the value of these investments will increase due to positive developments in share prices.

Strategic opportunities and risks

1 **Participation models and divestitures:** Opportunities and risks exist due to surplus or reduced revenue, as well as time delays, in the investment and divestiture portfolio. The majority of the planned divestitures have now been implemented. Opportunities and risks exist for the years 2018 and 2019 that could have an impact on net investment and thus on the key performance indicator internal financing capability,

insofar as the actual revenue from the investments and divestitures does not meet our medium-term planning goals. We currently identify a balanced level of opportunity and risk in this area.

2 **Political and economic environment in Turkey:** EnBW has been commercially active in Turkey for many years in the expansion of energy generation from wind power and hydropower. In the past few years, the economic and political framework conditions in Turkey have deteriorated noticeably. EnBW is continuing to monitor these developments very closely, especially because it has a duty of care for those employees working in Turkey. There has been an increased security risk for a number of years. However, an immediate danger to local employees does not exist. EnBW is in regular contact with the German embassy, the German Consulate General, our partner Borusan and other German companies active in Turkey so that it will be able to identify any negative developments as early as possible and respond in good time.

Financial opportunities and risks

3 **Market prices of financial investments:** The financial investments managed by the E asset management system are subject to opportunities and risks due to price changes and other valuation changes as a result of the volatile financial market environment (p. 60). A significantly higher amount of securities held within the reserve funds will be measured at fair value through profit or loss in accordance with IRFS 9 from 2018. Fluctuations in the value of these securities will be directly shown on the income statement in future. Due to the implementation of the Act for the Reorganisation of Responsibility in Nuclear Waste Management, there was a large cash outflow in 2017, which has significantly reduced the opportunities and risks. In the 2017 financial year, impairment losses stood at €3.8 million (previous year: €133.3 million). Through corresponding effects, this could have both a positive and negative impact in 2018 and 2019 on E net debt in the low to mid three-digit million euro range. For the market prices for financial investments, we currently identify an equal level of opportunity and risk due to the increased volatility on the financial markets.

4 **Discount rate applied to pension provisions:** There is a general opportunity and risk due to any change in the discount rate applied to the pension provisions because the present value of the pension provisions falls when the discount rate increases and increases when the discount rate falls. At the end of the 2017 financial year, the discount rate was 1.8%, which was down 0.1 percentage points on the rate at the end of the previous year (1.9%). This resulted in the present value of the defined pension benefit obligations increasing by €117.8 million (previous year: €463.3 million). The future development of interest rates could have a positive or negative impact in the low three-digit million euro range on E net debt in 2018, and a positive impact in the medium three-digit million euro range or a negative impact in the low four-digit million euro range on net debt in 2019. Against the background of the expected development of interest rates in future, we currently identify a high level of opportunity and a low level of risk.

5 **Liquidity (previously: Margin payments):** Due to unforeseeable payments, especially margin payments, unused project funds or tax issues, as well as exogenous shocks, such as financial market crashes, the Group's liquidity planning is subject to uncertainty that could lead to deviations from the planned payments. There is also a risk that the rating agencies will downgrade the credit rating of EnBW due to further deterioration of the economic and political conditions or unfulfilled expectations (p. 61 f.). In the case of a downgraded rating **(previously: Rating)** and the associated deterioration in capital market conditions, it is possible that this will result in additional liquidity requirements in the form of refinancing costs. These effects could have a negative impact in the low double-digit to mid three-digit million euro range in 2018, and a positive impact in the low double-digit million euro range or a negative impact in the low three-digit million euro range in 2019 on the key performance indicator E ROCE. In this context, we currently identify a medium level of opportunity and a high level of risk.

Compliance opportunities and risks

The Compliance Risk Assessment focuses, in particular, on assessing risks and defining appropriate preventative measures in the compliance risk areas of corruption, antitrust law and data protection.

Risks for which EnBW derives measures for fighting corruption and bribery primarily exist in sales activities relating to local authority/political business when dealing with public officials. Important preventative measures, especially training and advisory services, are described on page 33 ff.

In addition, there are antitrust risks in the sales activities of some Group companies that could result in fines and also have significant strategic implications and damage reputation. This risk is countered by the joint preventative measures of the compliance and legal departments.

The incorrect handling, illicit disclosure or use of personal data poses data protection risks. The risks are increasing due to the digital transformation of many business activities, as well as a raised level of awareness for this subject due to new legislation. Advisory and awareness services and process controls are in place to guarantee adherence to legal data protection requirements in the Group.

The risk of failing to implement the requirements of the EU General Data Protection Regulation is countered by EnBW through a corresponding Group data protection project. Company-specific measures are coordinated via the compliance and data protection departments.

Sales segment

Financial opportunities and risks

6 **Competitive environment:** There is a risk that the continued tense competitive situation for all EnBW brands in the electricity, gas and energy solutions business could have a negative effect on the customer base, sales volumes and price levels. The willingness of customers to switch suppliers and the pressure on prices remain high. The EnBW 2020 strategy also covers the development and expansion of system solutions and complete solutions that are specifically tailored to the various customer segments (p. 24 ff.). Alongside the traditional supply of electricity and gas, EnBW also sees good long-term opportunities here for offering its customers additional innovative energy solutions in the areas of energy technology in the home, such as with the product EnBW solar+, corporate energy efficiency or also electromobility (p. 70 f.). The aim is to generate corresponding earnings contributions for EnBW. This could result in both a positive or negative effect in 2018 and 2019 on the key performance indicator adjusted EBITDA in the low single to double-digit million euro range. We currently identify a low level of opportunity and risk in this area.

Grids segment

Strategic opportunities and risks

Recognition of costs for high-voltage direct current (HVDC) transmission technology (previously: HVDC projects): TransnetBW plans to set up new connections using HVDC transmission technology with other transmission system operators. A regulation stipulating the use of underground cabling also applies to the SuedLink project. In both projects, there are currently general risks of potential delays and additional costs, as well as a low level of risk that the necessity for these transmission lines might no longer be confirmed in a new Network Development Plan.

Financial opportunities and risks

Year-end balance on the EEG bank account: The EEG bank account is a separately managed bank account in accordance with section 5 of the German Compensation Mechanism Ordinance (AusglMechV) and is thus kept separate from other areas of activity. In accordance with AusglMechV, a surplus or deficit on the account balance can have a temporary positive or negative effect on the calculation of the net debt of EnBW, respectively. As of the reporting date on 31 December 2017, a net surplus in the mid three-digit million euro range existed on the EEG bank account of our subsidiary TransnetBW GmbH. Due to the EEG cost allocations defined for 2018, we anticipate a positive value for the bank account for 2018.

Renewable Energies segment

Financial opportunities and risks

7 **Fluctuations in wind energy yield:** There is a general opportunity or risk for wind power plants due to wind fluctuations because the amounts of electricity generated by them are subject to fluctuations in the mean annual wind speed. In order to take these wind fluctuations into account, wind reports are created. This could result in both a positive or negative effect in 2018 and 2019 on the key performance indicator adjusted EBITDA and the key performance indicator internal financing capability in the low double-digit million euro range. We identify a balanced low level of opportunity and risk in this area.

Generation and Trading segment

There are general risks associated with the operation and dismantling of nuclear power plants.

During the dismantling of nuclear power plants, there is a risk of a delay in the return of waste to the local intermediate storage facilities **(previously: Intermediate storage facilities),** with possible additional costs as a result of the waste being stored for a longer period of time in Great Britain and France, as well as the risk of further costs for approval and authorisation procedures.

In addition, following the adoption of the Act for the Reorganisation of Responsibility in Nuclear Waste Management, the remaining provisions with shorter maturities held by EnBW were re-evaluated **(previously: Changes to interest rates on nuclear provisions).** We currently identify a low level of opportunity and risk for the remaining provisions.

Depending on market developments and the framework conditions related to the Energiewende, there is a general risk of a negative impact on earnings due to impairment losses on power plants and impending losses for onerous contracts for electricity procurement agreements **(previously: Impairment losses and provisions for onerous contracts).**

Operative opportunities and risks

8 **Availability of nuclear power plants:** There is a general risk that exogenous and endogenous factors will have an influence on the availability of power plants. We strive to counter these risks using preventive measures. Depending on their duration, interruptions to the operation of the power plants can positively or negatively impact the operating result. In 2018 and 2019, this could result in both a positive or also negative effect on the key performance indicator adjusted EBITDA and on the key performance indicator internal financing capability in the low single to double-digit million euro range. We currently identify a relatively low level of opportunity and risk in this area.

9 **Operation and dismantling of nuclear power plants:** At the two power plant blocks GKN I and KKP 1, there is a possibility of delays and additional costs due to an increase in complexity and expenses during the dismantling and disposal process. Deadlines and costs are being permanently monitored and controlled within a strategic dismantling project. This could have a negative effect on the net debt in the low to mid double-digit million euro range in 2018 and 2019. We currently identify a relatively low level of risk in this area.

Financial opportunities and risks

10 **Hedging:** When selling generated electricity volumes, EnBW is exposed to the risk of falling electricity prices and the risk of the unfavourable development of fuel prices in relation to electricity prices. The concept underlying our hedging strategy also involves the exploitation of opportunities and the limitation of risks. The hedging instruments utilised in 2017 were forwards, futures and swaps. The EnBW Group has exposure to foreign exchange risks from procurement and hedging of prices for its fuel requirements, as well as from gas and oil trading business. This could have a positive effect in 2019 on the key performance indicator adjusted EBITDA and on the key performance indicator internal financing capability in the low to high double-digit million euro range. We currently identify a medium level of opportunity in the area of hedging for 2019. Further information can be found in the section "Accounting for financial instruments" in the notes to the consolidated financial statements (www.enbw.com/report2017-downloads).

11 **Power plant optimisation:** Following the conclusion of the hedging of generation activities, the trading business unit will manage the further deployment of the power plants. This is being carried out as part of power plant optimisation on the forward market, through the sale of system services and through placements on the spot and Intraday trading platforms. However, regulatory interventions continue to have a strong influence. In particular, fluctuating revenues from system services and volatility on the forward and spot markets could have a positive or negative effect on the key performance indicator adjusted EBITDA in 2018 and 2019 in the low double-digit million euro range. We currently identify a low level of opportunity and risk that is dependent on the development of market prices.

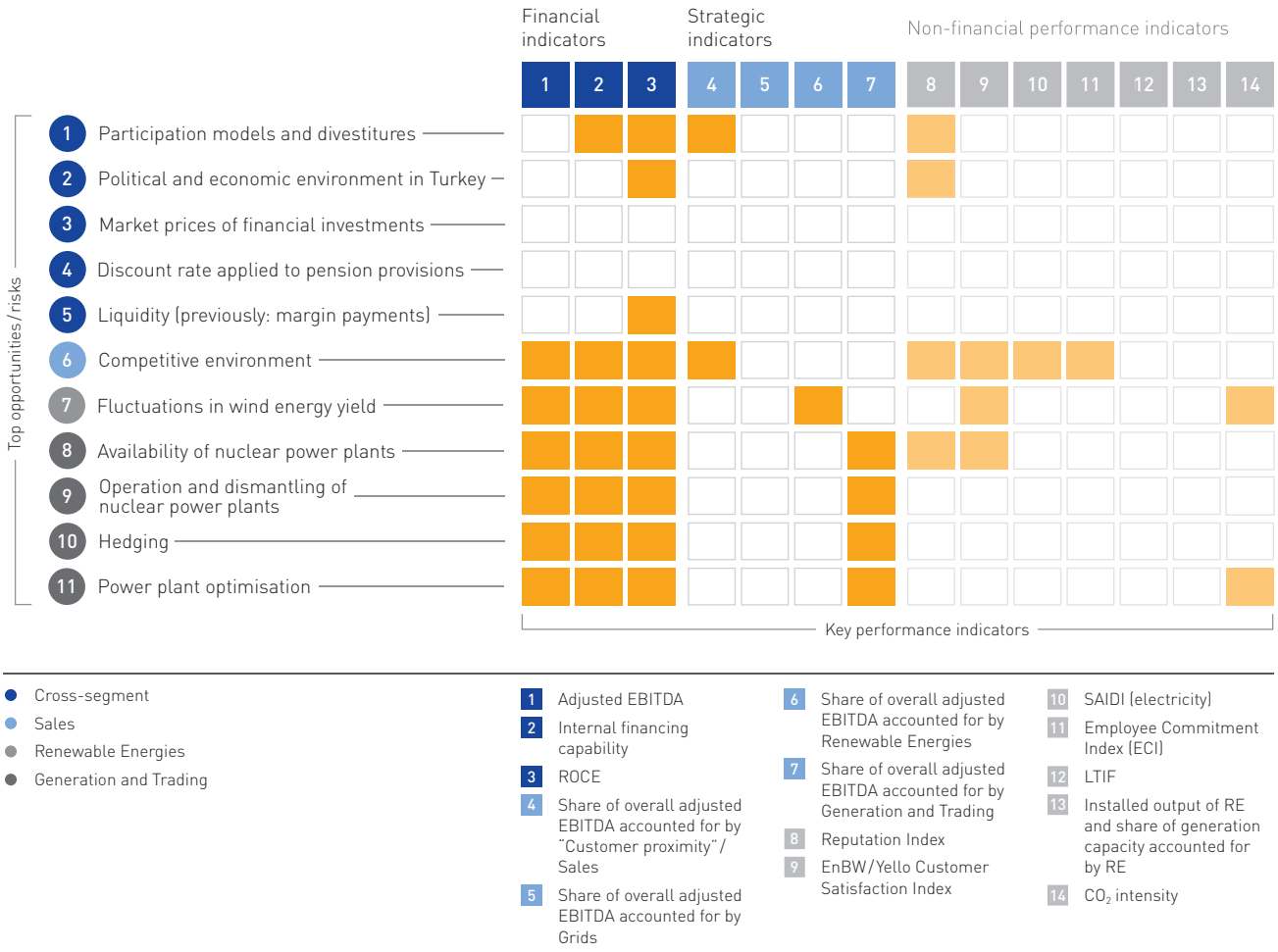
Compared with the previous year, the following opportunities and risks were either eliminated or will no longer be included in the Group reporting due to their low level of relevance:

- **Final storage:** This risk no longer exists due to the fact that the Act for the Reorganisation of Responsibility in Nuclear Waste Management has come into effect, the corresponding contract has been signed and the risk premium paid by EnBW.
- **Moratorium lawsuit:** In signing the contract for financing the costs of the phase-out of nuclear power, EnBW obligated itself to withdraw the moratorium lawsuit.
- **Nuclear fuel rod tax:** The Federal Constitutional Court declared the law for the nuclear fuel rod tax unconstitutional on 7 June 2017, which was the subject of the opportunity "Lawsuit against the nuclear fuel rod tax". The opportunity has thus been realised as a result of this judgement, while the basis for the risk or the risk of an extension of the nuclear fuel rod tax to the end of the operating life of the nuclear power plants has now been eliminated.
- **EU sanctions against Russia:** The risk of possible sanctions with a negative impact on existing business relations with Russian companies cannot be completely excluded, yet due to the continuing unchanged political developments, this risk falls short of the materiality threshold for reporting.
- **Shutdown and early inspection of KKP 2:** The damaged ventilation system brackets identified during routine inspections of Block 2 of the Philippsburg nuclear power plant (KKP 2) have been repaired. The power plant has been back in operation since 15 May 2017. This risk thus no longer exists.
- **Improvements in efficiency:** The increases in earnings due to efficiency improvement measures have now mostly been realised so that this top opportunity/risk has fallen short of the materiality threshold for reporting.

Link to the key performance indicators

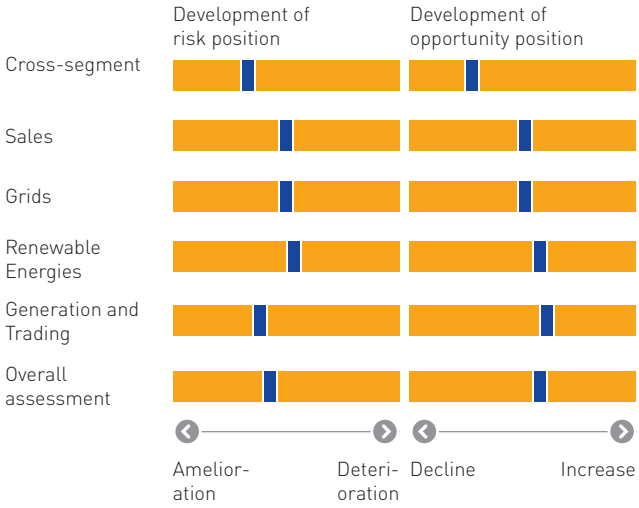
The top opportunities/risks can have an impact on our key performance indicators, whereby the effects on the non-financial key performance indicators are potential in nature and have thus been shown less boldly in the following diagram. In the past financial year, these links were not monitored individually.

Linking the top opportunities / risks with the key performance indicators



Overall assessment by the Group management

Risk and opportunity position 2017



The risk situation for the EnBW Group reduced significantly in 2017. Changes to the framework conditions for the entire sector of energy companies are continuing. However, the major uncertainties with respect to risk potential and payment flow have reduced. Due to increased fuel prices and a recovery in the CO_2 prices, 2017 was thus characterised by a recovery in electricity prices. After the nuclear fuel rod tax was declared unconstitutional, the tax payments already made by the company were reimbursed. The risk of these tax payments continuing until the end of the service lives of the power plants thus no longer exists. In addition, there was a significant reduction in the risks related to final storage for nuclear energy due to the implementation of the Act for the Reorganisation of Responsibility in Nuclear Waste Management. EnBW still faces numerous factors that pose a danger to planning certainty and thus the achievement of its economic targets and that have high risk potential, such as regulatory requirements and laws dealing with sustainable energy generation. This has far-reaching consequences for the operating business of the EnBW Group and places a burden on its earnings potential.

The persisting competitive and market risks could influence the operating result, financial position and net assets.

At the same time, the Energiewende offers a multitude of opportunities to develop new models for future business segments. We will resolutely pursue these with our revised post 2020 strategy – which is based on the EnBW 2020 strategy that has been successfully implemented up to now. For example, the EnBW Group believes there are opportunities in the dismantling of power plants due to synergy effects, which could have a positive impact on the opportunity position in the future. In addition, EnBW is developing a diverse range of customer-oriented measures such as innovative energy solutions in the areas of energy technology, for example the product EnBW solar+, corporate energy efficiency and electromobility. The commercial development of environmentally friendly and CO_2-efficient energy solutions will be resolutely pushed forward. The implementation of our post 2020 strategy thus aims to secure the future viability of the company and tap into this potential for growth.

Although several risks were reduced or eliminated during the course of 2017, additional risks for EnBW have either emerged or were exacerbated. No risks currently exist that might jeopardise the EnBW Group as a going concern.

Remuneration report

The remuneration report summarises the principles relevant for determining the remuneration of the members of the Board of Management and explains the structure and level of both Board of Management and Supervisory Board remuneration.

The remuneration report takes the recommendations of the German Corporate Governance Code (DCGK) and the German Accounting Standard (GAS) 17 (amended in 2010) into consideration in this respect. It also contains disclosures required by German commercial law included in the notes pursuant to section 314 of the German Commercial Code (HGB) and the management report pursuant to section 315 HGB.

Board of Management remuneration

Based on proposals of the personnel committee, the Supervisory Board passes resolutions on the remuneration of the Board of Management, including the main contract elements, and reviews it on a regular basis. The criteria for determining appropriate remuneration include the responsibilities and performance of the members of the Board of Management, the economic situation, the success and sustainable development of the company and the relationship between the remuneration of the Board of Management and the remuneration of senior management and the workforce as a whole, as well as its development over time.

The current version of the Board of Management remuneration system is valid until 31 December 2017. The remuneration for 2017 consists of the following essential components:

Fixed remuneration

This remuneration component comprises fixed basic annual remuneration and other earnings.

Variable remuneration

- **Performance bonus (Short Term Incentive – STI):** The level of the performance bonus depends on the extent to which the respective targets agreed for the financial year have been achieved. These include financial targets at a Group level (corporate targets), which are measured relative to the two performance indicators E EBITDA and E ROCE, as well as individual targets. The Supervisory Board is entitled to adjust the targets if events arise that are not relevant to the ongoing management of the company. The size of the performance bonus for 100% achievement of the targets, as well as the maximum and minimum values for the overachievement or underachievement of the agreed targets, can be found in the table "Target income of members of the Board of Management". The performance bonus for the current assessment year is paid immediately. The delayed payment from 2014 for the year 2016 (deferral 2, payment in 2017) was adjusted to reflect the extent to which the corporate targets were met in 2016. Interest of 3% per annum is accrued on this payment, which is made following ratification of the annual financial statements (see table "Payments to Board of Management members").
- **Value appreciation bonus (Long Term Incentive – LTI):** The value appreciation bonus consists of a basic LTI, a competition component and a sustainability component. The total value appreciation bonus is the sum of the variable remuneration payments that are calculated from these three components. As with the performance bonus, the Supervisory Board defines target values, lower limits and upper limits in advance. The basic LTI is determined by the accumulated contribution to value derived from the three-year medium-term planning. It is calculated from the difference between the performance indicators E ROCE and E WACC (weighted average cost of capital) multiplied by the average E capital employed. The competition component measures the relative performance of the EnBW Group in the respective three-year performance period against a peer group of competitors on the basis of the value spread (= ROCE - WACC). The goal of the sustainable growth of the company in its strictest sense is also taken into account through the LTI sustainability component. In this component, the impact of the sustainable growth of the company on the areas of customers, employees and environment/society is taken into account. The extent to which the targets for all three components have been achieved is determined after the conclusion of the three-year planning period that acts as the basis for the calculations in each case. The Supervisory Board is entitled to adjust the targets if events arise that are not relevant to the ongoing management of the company and thus outside of the sphere of influence of the Board of Management. The size of the value appreciation bonus for 100% achievement of the targets, as well as the maximum and minimum values for the overachievement or underachievement of the agreed targets, can also be found in the table "Target income of members of the Board of Management". The amount based on the achievement of the relevant targets is paid out after the conclusion of the three-year measurement period. With a view to maintaining the previous level of target income, interest of 3% per annum is accrued on the calculated bonus payment for two years and is paid after the conclusion of the three-year calculation period.

Remuneration of members of the Board of Management in the 2017 financial year

in €	Dr. Frank Mastiaux, Chairman		Dr. Bernhard Beck, LL.M.	
	2017	2016	2017	2016
Fixed remuneration				
Basic remuneration	990,000	990,000	515,000	515,000
Other remuneration[1]	30,933	26,960	32,078	66,036
Variable remuneration				
Without long-term incentive	999,350	878,268	593,950	508,016
With long-term incentive	1,282,331[2]	1,241,349	755,354[2]	647,960
Total	**3,302,614**	**3,136,577**	**1,896,382**	**1,737,012**

1 Other remuneration includes monetary benefits, particularly from the provision of company cars amounting to €126,911 (previous year: €159,603).
2 Current preliminary value appreciation bonus for the performance periods 2016 to 2018 (and 2017 to 2019) is €1,301,710 for Dr. Frank Mastiaux (€1,315,516), €773,984 for Dr. Bernhard Beck (€780,822), €675,836 for Thomas Kusterer (€671,550) and €665,227 for Dr. Hans-Josef Zimmer (€671,550). The exact level of the value appreciation bonus for the performance periods 2016 to 2018 (and 2017 to 2019) can only be determined following the end of the 2018 financial year (and 2019 financial year), and can fluctuate within the LTI spread pursuant to the following table "Target income of members of the Board of Management".

Target income of members of the Board of Management[1]

in €	Dr. Frank Mastiaux Chief Executive Officer				Dr. Bernhard Beck, LL.M. Chief Personnel Officer			
	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)	2016
Fixed remuneration	990,000	990,000	990,000	990,000	515,000	515,000	515,000	515,000
Fringe benefits	30,933	30,933	30,933	26,960	32,078	32,078	32,078	66,036
Total	**1,020,933**	**1,020,933**	**1,020,933**	**1,016,960**	**547,078**	**547,078**	**547,078**	**581,036**
One-year variable remuneration performance bonus	748,000	0	1,089,000	748,000	455,000	0	628,000	455,000
Multi-year variable remuneration								
LTI 2015 to 2017	1,026,000	0	1,494,000	1,026,000	630,000	0	870,000	630,000
Total	**2,794,933**	**1,020,933**	**3,603,933**	**2,790,960**	**1,632,078**	**547,078**	**2,045,078**	**1,666,036**
Pension expenses	545,005	545,005	545,005	-57,648	222,398	222,398	222,398	-282,520
Total remuneration	**3,339,938**	**1,565,938**	**4,148,938**	**2,733,312**	**1,854,476**	**769,476**	**2,267,476**	**1,383,516**

1 This table illustrates the remuneration in both the reporting year and previous year which arises given 100% achievement of the targets (target income) and the potential minimum and maximum remuneration for the financial year. Remuneration is described for Board of Management members who were appointed at least on a part-time basis in either the reporting year or previous year to the Board of Management at EnBW AG.

Payments to Board of Management members[1]

in €	Dr. Frank Mastiaux Chief Executive Officer		Dr. Bernhard Beck, LL.M. Chief Personnel Officer	
	2017	2016	2017	2016
Fixed remuneration	990,000	990,000	515,000	515,000
Fringe benefits	30,933	26,960	32,078	66,036
Total	**1,020,933**	**1,016,960**	**547,078**	**581,036**
One-year variable remuneration performance bonus	892,250	974,178	503,050	542,906
Multi-year variable remuneration				
Deferrals from 2013	–	520,374	–	320,230
Deferrals from 2014	445,231	493,657	261,901	290,387
LTI 2014 to 2016	796,118	–	386,059	–
Total	**3,154,532**	**3,005,169**	**1,698,088**	**1,734,559**
Pension expenses	545,005	-57,648	222,398	-282,520
Total remuneration	**3,699,537**	**2,947,521**	**1,920,486**	**1,452,039**

1 This table illustrates payments in both the reporting year and previous year pursuant to the German Income Tax Act (Einkommensteuergesetz). Earnings are described for members of the Board of Management who were appointed at least on a part-time basis in either the reporting year or previous year to the Board of Management of EnBW AG.

	Thomas Kusterer		Dr. Hans-Josef Zimmer	
	2017	2016	2017	2016
	515,000	515,000	515,000	515,000
	23,313	29,116	41,309	41,642
	514,994	448,500	514,820	448,500
	651,327[2]	585,164	651,327[2]	585,164
	1,704,634	**1,577,780**	**1,722,456**	**1,590,306**

	Thomas Kusterer Chief Financial Officer				Dr. Hans-Josef-Zimmer Chief Technical Officer			
	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)	2016
	515,000	515,000	515,000	515,000	515,000	515,000	515,000	515,000
	23,313	23,313	23,313	29,116	41,309	41,309	41,309	41,642
	538,313	**538,313**	**538,313**	**544,116**	**556,309**	**556,309**	**556,309**	**556,642**
	390,000	0	546,000	390,000	390,000	0	546,000	390,000
	535,000	0	749,000	535,000	535,000	0	749,000	535,000
	1,463,313	**538,313**	**1,833,313**	**1,469,116**	**1,481,309**	**556,309**	**1,851,309**	**1,481,642**
	320,993	320,993	320,993	-533,743	239,981	239,981	239,981	-307,973
	1,784,306	**859,306**	**2,154,306**	**935,373**	**1,721,290**	**796,290**	**2,091,290**	**1,173,669**

	Thomas Kusterer Chief Financial Officer		Dr. Hans-Josef-Zimmer Chief Technical Officer	
	2017	2016	2017	2016
	515,000	515,000	515,000	515,000
	23,313	29,116	41,309	41,642
	538,313	**544,116**	**556,309**	**556,642**
	475,294	503,870	475,120	478,870
	–	288,207	–	288,207
	235,711	261,348	235,711	261,348
	349,453	–	349,453	–
	1,598,771	**1,597,541**	**1,616,593**	**1,585,067**
	320,993	-533,743	239,981	-307,973
	1,919,764	**1,063,798**	**1,856,574**	**1,277,094**

Compensation agreed with the Board of Management in the event of termination of service

The Supervisory Board of EnBW AG passed a new resolution on 18 March 2016 for the reorganisation of the company pension scheme for the Board of Management, effective as of 1 January 2016.

The regulations that were valid up until then can be found in the following publications:

- The company pension scheme that was valid for members of the Board of Management up until 31 December 2015 is presented in detail in the remuneration report for 2015, which was published in the combined management report of the EnBW Group and EnBW AG for the 2015 financial year.
- The regulations governing the transition of the company pension scheme that were valid for members of the Board of Management up until 31 December 2015 are presented in detail in the remuneration report for 2016, which was published in the combined management report of the EnBW Group and EnBW AG for the 2016 financial year.

The company pension scheme for the members of the Board of Management at the company is a modern and market-oriented pension system that provides members of the Board of Management with flexibility with respect to how the pension benefits are paid out. Following the introduction of the new system, there has been a shift from the previous defined benefit pension plan to a defined contribution pension model. In the new system, annual pension contributions will be paid that accrue interest at a rate oriented to the capital market. In order to ensure that the business risks associated with the pension scheme – especially the interest rate risks and biometric risks – remain calculable in the future, the interest model only contains a relatively low fixed interest entitlement that forms the basic interest rate plus a non-guaranteed surplus that is based on the actual development of interest rates in the life insurance industry.

During the term of the contract, EnBW pays fixed annual contributions to the pension scheme to an individual pension account. Pension contributions are paid for a maximum period of three terms of office (or 13 years in office). The fixed annual contributions are €230,000 for ordinary members of the Board of Management and €390,000 for the Chairman of the Board of Management. In the event of invalidity and as a supplementary risk benefit, age-dependent "notional" contributions will be paid on top of the balance already existing on the pension account until the member reaches the age of 60 – although at the most seven contributions will be paid.

As well as the annual contributions, interest is paid that is oriented to the market and consists of a guaranteed basic interest rate and a non-guaranteed surplus. The guaranteed interest is paid on every contribution in advance until the defined retirement age (63 years old). In addition, annual surplus payments can be paid above and beyond the guaranteed interest. These are based on the current average interest rate for capital investments actually achieved in the past year in the life insurance industry and are not guaranteed.

When the pension is due (age, invalidity, death), payment of the pension assets is generally made in five to ten instalments. Alternatively, a life-long pension payment can be made on the request of the member of the Board of Management – including a 60% entitlement for surviving dependants – or a mixed form of payment. Payment options are also available to the surviving dependants. If the member leaves the Board of Management before the pension is due, the pension account will remain at its current balance plus any surplus payments that are still due to be made.

The members of the Board of Management are entitled to make their own contributions to the pension scheme and supplement the pension provision financed by the employer. For this purpose, a proportion of the annual STI bonus up to a maximum sum of €50,000 p.a. can be converted into a pension entitlement. The regulations described above apply correspondingly to self-financed contributions.

Vested pension entitlements from the old pension scheme: As part of the transfer of the existing pension entitlements from the old pension scheme, the following vested pension entitlements – in accordance with the individual term of service in each case – were determined for the serving members of the Board of Management as of 31 December 2015: Dr. Frank Mastiaux: €80,676 p.a., Dr. Bernhard Beck: €195,846 p.a., Thomas Kusterer: €89,523 p.a., Dr. Hans-Josef Zimmer: €174,636 p.a.

Individual pension contributions that deviate from the regulations for the new pension scheme: From 1 January 2016, the annual pension contributions and the interest on the contributions will generally be paid in accordance with the rules of the new system for new members of the Board of Management appointed in the future. However, a deviation was necessary for the current members of the Board of Management to take account of the transition to the new system, and individual pension contributions and an individual contribution period have been defined. The following individual pension contributions were determined: Dr. Frank Mastiaux: €360,000 p.a., Dr. Bernhard Beck: €170,000 p.a., Thomas Kusterer: €215,000 p.a., Dr. Hans-Josef Zimmer: €120,000 p.a.

Regulation for limiting severance payments: No severance benefit obligations exist in the event of premature termination of service on the Board of Management. However, severance benefits may be payable on the basis of a severance agreement made with the individual. For agreements in place as of the reporting date, it was agreed that payments made to a member of the Board of Management on premature termination of his or her contract without serious cause, including fringe benefits, shall not exceed the value of two years' remuneration (severance cap) and compensate for no more than the remaining term of the contract. In concluding or extending contracts for the Board of Management, care is taken to ensure that no payments will be made to a member of the Board of Management in the event of the premature termination of the

contract due to an important reason for which the member of the Board of Management is responsible.

In the event of the premature termination of service on the Board of Management due to a change of control, the possibility of a severance payment for the member of the Board of Management is limited to the pro rata share of annual remuneration(s) for the residual term of the contract. However, the severance payment must not exceed three times the annual remuneration.

In concluding or extending contracts for the Board of Management in the event of the premature termination of service on the Board of Management due to a change of control, it is agreed that settlement or severance payments should not exceed three times the annual remuneration and must not compensate for more than the residual term of the contract.

Temporary unavailability for work: In the event of temporary unavailability for work on the part of a member of the Board of Management due to illness or any other reason for which the member of the Board of Management is not responsible, remuneration will be paid for the first six months. The amount of variable remuneration will be calculated from the average of the last three years, and basic remuneration will be paid for a further six months. However, payments in the event of unavailability for work will be made no longer than until the end of the term of the service agreement.

The disclosures for the 2017 financial year concerning post-employment benefits are presented below. This presentation satisfies the requirements of section 285 No. 9a HGB. The disclosures include the vested entitlement as of the reporting date, the annual expenses for pension obligations and the present value of the pension obligations earned as of the reporting date.

Post-employment benefits

in €	Dr. Frank Mastiaux, Chairman		Dr. Bernhard Beck, LL.M.		Thomas Kusterer		Dr. Hans-Josef Zimmer	
	2017	2016	2017	2016	2017	2016	2017	2016
Vested benefit from previous entitlement p.a.	80,676	80,676	195,846	195,846	89,523[2]	89,523[2]	174,636	174,636
Capital from contribution model	877,398	408,885	312,129	171,059	515,493	256,636	254,643	126,773
Annual expenses for pension obligations[1]	545,005	-57,648	222,398	-282,520	320,993	-533,743	239,981	-307,973
Present value of pension obligations (defined benefit obligations)	2,899,870	1,895,835	4,971,364	5,602,207	2,786,574	2,223,910	4,564,216	4,722,748

1 Including an addition to capital for pension benefits totalling €74,580 (previous year: €101,001). This is a pension commitment financed through voluntarily waiving part of the salary. An extraordinary item (income) of € -2,528,767 is included in the figure for the previous year, which results from the conversion of the pension commitments.
2 In addition to the vested pension, Thomas Kusterer also has a special capital component of €135,000.

Annual expenses for pension obligations include both service and interest costs. There are defined benefit obligations in accordance with IFRS of €15.2 million for the current members of the Board of Management (previous year: €14.4 million).

Former members of the Board of Management and their surviving dependants received total remuneration of €4.7 million in the 2017 financial year (previous year: €6.5 million). These pension payments are indexed to the percentage change in remuneration according to the collective bargaining agreement.

There are defined benefit obligations to former members of the Board of Management and their surviving dependants in accordance with IFRS of €98.8 million (previous year: €97.2 million).

As in the previous year, no loans or advances to members of the Board of Management existed at the end of the financial year.

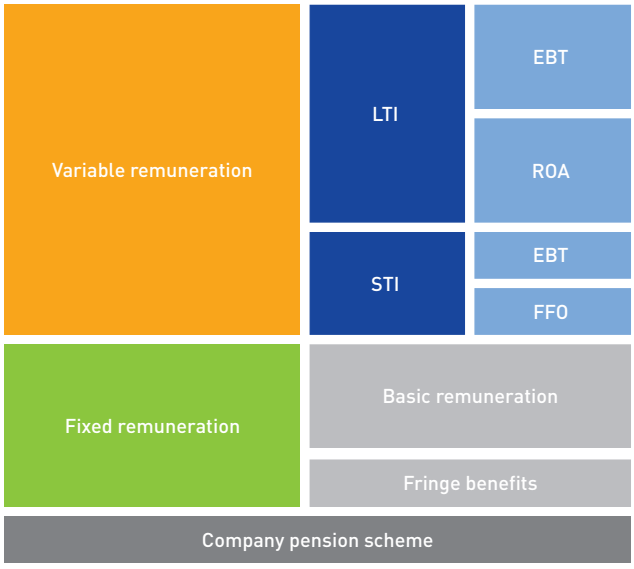
Restructuring of the remuneration system

The Supervisory Board of EnBW AG passed a resolution on 7 December 2017 for the restructuring of the remuneration system for the members of the Board of Management, effective as of 1 January 2018. The new regulations will be presented to the Annual General Meeting on 8 May 2018 for approval in accordance with article 120 (4) AktG. The following description is not part of the remuneration report.

The aim of the restructuring is, above all, to reduce complexity and thus increase the transparency and clarity of the system. In addition, it is designed to increase the incentive effect by focussing on the achievement of targets that can be influenced by the Board of Management. This applies, in particular, with a view to the long-term ability to distribute dividends and increasing the competitiveness of the remuneration system, while at the same time, maintaining the fundamental orientation of the system towards sustainable development and the long-term growth of the company and Group.

The existing remuneration structure, consisting of basic remuneration, one-year and multi-year variable remuneration, the (unchanged) contributions as part of the company pension scheme and the regulations in the event of the premature termination of service, remains unchanged. The ratio of basic remuneration to the target remuneration for the variable remuneration components has also been retained. The ratio of single-year to multi-year variable remuneration is 40% to 60%. Multi-year variable remuneration will thus still significantly outweigh single-year variable remuneration in the future. In general, the variable remuneration components have a multi-year measurement basis in accordance with section 4.2.3 sentence 4 DCGK. The single-year variable remuneration component is also described below as the Short Term Incentive (STI) while the multi-year variable remuneration component is described as the Long Term Incentive (LTI). The following diagram shows the structure of the total remuneration:

Components of the target remuneration



Fixed remuneration

The fixed remuneration, consisting of basic remuneration and fringe benefits, remains unchanged.

Variable remuneration

Short-term variable remuneration (Short Term Incentive – STI)

The STI is paid for a period of one financial year in each case and paid out in the following financial year. The measurement period for the STI is the financial year for which it is paid.

The performance indicators for calculating the extent to which the target for the STI has been achieved are the following non-adjusted corporate performance indicators for the EnBW Group determined for one financial year:

- EBT (earnings before taxes), adjusted for earnings from the measurement of financial assets allocated to the financial result and outstanding items for derivatives allocated under trading.
- E FFO (funds from operations), adjusted for the items of income tax paid and income tax received.

The Supervisory Board will define the target values for the performance indicators EBT and FFO each year before the start of the single-year measurement period.

The target value for the performance indicator EBT is generally defined on the basis of the figure actually achieved in the previous year, whereby the Supervisory Board can, at its own discretion, make the achievement of the target easier or more difficult by adjusting the figure from the previous year, taking into account extraordinary events in the previous year and general considerations about the development of earnings (target-actual comparison).

The target value for the performance indicator FFO corresponds to the value defined for the performance indicator in the single-year budget plan approved in the year before the start of the measurement period (plan-actual comparison).

The target remuneration for the STI consists of two equally weighted partial remuneration amounts (50:50). Each partial remuneration amount will be achieved if the target value for the respective performance indicator is achieved to 100%.

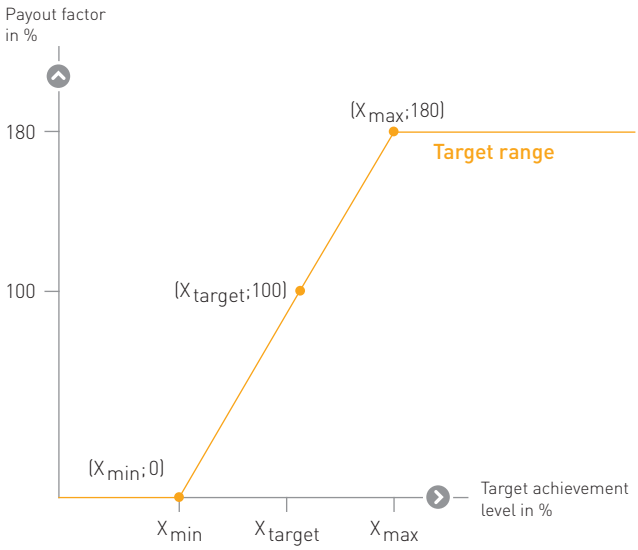
The extent to which the individual targets for each of the performance indicators are achieved is based on the underachievement or overachievement of the target value, which is the ratio of the defined target value and the actual value for the performance indicator in the measurement period as defined in the consolidated financial statements for the year of payment.

In the event of the overachievement of the target, the maximum possible remuneration that can be paid is limited to 180% of the partial target remuneration defined for each performance indicator (partial remuneration cap). The sum of

both partial remuneration caps gives the total STI remuneration cap, which is 180% of the total amount for the STI target remuneration. In the event of the underachievement of the target, STI remuneration has no lower limit and can fall to an amount of €0.

When defining the target values for the short-term remuneration components, the Supervisory Board can also separately define a minimum and maximum value – at its own discretion – and thus the target range for each of the performance indicators on an annual basis.

Target range



The target range corresponds to a linear function, as shown in the above diagram, which is determined by the value of the lowest achievement level X_{min} in relation to the lowest payout factor and the value of the highest achievement level X_{max} in relation to the highest payout factor. The relationship between the target value and the minimum and maximum values can be used to determine the lowest and highest achievement levels (X_{min} and X_{max}) respectively, while the relationship between the target remuneration and the minimum and maximum remuneration can be used to determine the lowest and highest payout factors, respectively. The partial amount of the short-term variable remuneration for each performance indicator based on the achievement level is calculated by multiplying the actual payout factor by the target remuneration defined for the respective performance indicator. The actual payout factor is derived using the actual value achieved for the performance indicator and the linear function for the target range.

If the definitions for the performance indicators or accounting policies change, especially as a result of amendments to accounting standards, the target values and ranges will be adjusted correspondingly during the ongoing measurement period, insofar as these changes cause the relevant achievement level to differ by more than +/-5 percentage points in comparison to the value that would have been achieved without these changes. The sum of the partial remuneration amounts for each performance indicator gives the total preliminary STI remuneration.

The amount of the total preliminary STI remuneration, which is calculated exclusively on the basis of financial performance indicators, is then evaluated qualitatively using additional criteria. The adjustment is carried out by multiplying the total preliminary remuneration by a certain factor, whose lowest value is 0.7 and highest value is 1.3. Only one decimal place is used for this factor. If not defined otherwise by the Supervisory Board, the default factor is 1.0. The level of this factor is determined primarily by the Supervisory Board on the basis of an evaluation of criteria that are defined in advance on an annual basis. The sustainable growth of the company is an aspect that is particularly taken into account.

Calculation of the Short Term Incentive (STI)

In the event of extraordinary performance by the whole Board of Management or one member of the Board of Management, the Supervisory Board can, at its own discretion, grant special remuneration as part of the short-term variable remuneration.

As part of a final evaluation of the short-term variable remuneration, the Supervisory Board also has the discretionary power to appropriately adjust the amount of the STI to take into account extraordinary and unforeseeable events that cannot be controlled by the Board of Management that have had a considerable impact on the financial performance indicators on which the remuneration system is based. This discretionary power does not apply to the success targets or comparative values, the subsequent adjustment of which should be excluded according to the recommendations in section 4.2.3 paragraph 2 DCGK.

If remuneration is granted in accordance with the two previous paragraphs, the total STI remuneration cap of 180% of the target STI remuneration still applies.

Long-term variable remuneration (Long Term Incentive – LTI)

The LTI is paid for a period of one financial year and paid out in the financial year following the conclusion of the measurement period. The measurement period for calculating the LTI covers a period of three financial years which includes the year for which the remuneration is being paid and the two subsequent financial years (performance period).

The performance indicators for calculating the extent to which the target for the LTI has been achieved are the following non-adjusted corporate performance indicators for the EnBW Group determined for one financial year in each case:

- EBT (earnings before taxes), adjusted for earnings from the measurement of financial assets allocated to the financial result and outstanding items for derivatives allocated under trading
- ROA (return on assets = return on the capital expenditure for intangible assets and property, plant and equipment based on the relationship between the non-adjusted EBIT and the sum of the intangible assets and property, plant and equipment [adjusted for subsidies related to capital expenditure]).

The target values for the performance indicators EBT and ROA for a performance period are defined by the Supervisory Board at its own discretion on an annual basis based on the corporate strategy and with effect for the next performance period that begins in the following year.

The target remuneration for the LTI consists of two equally weighted partial remuneration amounts (50:50). Each partial remuneration amount will be achieved if the target value for the respective performance indicator is achieved to 100%.

The extent to which the individual targets for each of the performance indicators are achieved is based, in case of the underachievement or overachievement of the target value, on the ratio of the defined target value and the arithmetic mean of the actual values for the performance indicator as defined in the consolidated financial statements for each individual year of the performance period.

In the event of the overachievement of the target, the maximum possible remuneration that can be paid is limited to 180% of the partial target remuneration defined for each performance indicator (partial remuneration cap). The sum of both partial remuneration caps gives the total LTI remuneration cap, which is 180% of the total amount of the LTI target remuneration. In the event of the underachievement of the target, the amount of the LTI remuneration has no lower limit and can fall to an amount of €0.

When defining the target values for the long-term remuneration components, the Supervisory Board can also separately define a minimum and maximum value – at its own discretion – and thus the target range for each of the performance indicators on an annual basis (see here the information provided on the target range for the STI).

The partial amount of the long-term variable remuneration for each performance indicator based on the achievement level is calculated by multiplying the actual payout factor by the target remuneration defined for the respective performance indicator. The actual payout factor is derived using the actual value achieved for the performance indicator and the linear function for the target range. The sum of the partial remuneration amounts for each performance indicator gives the total LTI remuneration.

If the definitions for the performance indicators or accounting policies change, especially as a result of amendments to accounting standards, the target values and ranges will be adjusted correspondingly during the ongoing measurement period, insofar as these changes cause the relevant achievement level to differ by more than 5 percentage points in comparison to the value that would have been achieved without these changes.

Supervisory Board remuneration

In response to a proposal of the Board of Management and Supervisory Board, the Annual General Meeting on 25 April 2013 revised the regulations for Supervisory Board remuneration. Accordingly, members of the Supervisory Board receive fixed remuneration of €40,000 each payable at the end of the financial year in addition to reimbursement of their expenses for the entire 2017 financial year. The Chairman of the Supervisory Board receives twice the above, while the Deputy Chairman of the Supervisory Board receives one and a half times the aforementioned amount.

Members of the Supervisory Board receive fixed remuneration of €7,500 each per financial year to offset the additional work involved in any activities in one or more Supervisory Board committees. The Chairperson of one or more committees receives twice the amount of the remuneration for the committee work, unless the respective committee has not met in the financial year concerned.

Supervisory Board members who have only belonged to the Supervisory Board or a committee or acted as a Chairperson for part of the financial year are paid remuneration proportionate to the duration of their office or their position in that financial year.

In addition, members of the Supervisory Board receive an attendance fee of €750 for Supervisory Board meetings and committee meetings. Attendance at preliminary meetings is remunerated with €250 per meeting, but only for one preliminary meeting per Supervisory Board meeting.

According to this remuneration system, the members of the Supervisory Board will receive the total remuneration (including attendance fees and remuneration for offices held at subsidiaries) shown in the table for the 2017 financial year:

The disclosures for the remuneration for members of the Supervisory Board include attendance fees amounting to

€227,250 (previous year: €240,000) and attendance fees totalling €20,265 in the remuneration for offices held at subsidiaries (previous year: €20,515). No other remuneration or benefits for services rendered personally, in particular consulting or mediation services, were paid to members of the Supervisory Board, nor did they receive any loans or advances in the reporting year.

The members of the Board of Management and the Supervisory Board are covered by adequate D&O insurance concluded in the interest of EnBW. For this D&O insurance, the deductible for members of the Board of Management and the Supervisory Board is 10% of the claim in each case, but no more than one and a half times the fixed annual remuneration.

Total remuneration for members of the Supervisory Board of EnBW AG

in €	Fixed remuneration (incl. attendance fees)		Remuneration for offices held at subsidiaries		Total	
	2017	2016	2017	2016	2017	2016
Lutz Feldmann, Chairman	113,000	92,378	0	0	113,000	92,378
Dietrich Herd, Deputy Chairman	88,500	85,000	9,800	10,400	98,300	95,400
Dr. Dietrich Birk	57,250	17,986	0	0	57,250	17,986
Stefanie Bürkle[1]	54,250	36,628	0	0	54,250	36,628
Stefan Paul Hamm[2]	66,250	61,250	7,513	9,413	73,763	70,663
Michaela Kräutter[2]	46,000	49,250	1,500	1,500	47,500	50,750
Silke Krebs[3]	61,000	59,500	0	0	61,000	59,500
Marianne Kugler-Wendt[2]	56,500	60,500	6,400	7,000	62,900	67,500
Thomas Landsbek	46,000	32,292	0	0	46,000	32,292
Dr. Hubert Lienhard	55,000	55,750	0	0	55,000	55,750
Sebastian Maier	56,500	55,586	6,615	6,615	63,115	62,201
Arnold Messner	66,250	63,500	8,113	8,413	74,363	71,913
Dr. Wolf-Rüdiger Michel[1]	54,250	59,500	0	0	54,250	59,500
Gunda Röstel	66,250	67,000	11,513	7,427	77,763	74,427
Klaus Schörnich	56,500	60,500	11,150	12,500	67,650	73,000
Heinz Seiffert[1]	55,750	58,000	0	0	55,750	58,000
Edith Sitzmann[4]	55,750	18,736	0	0	55,750	18,736
Ulrike Weindel	56,500	38,628	0	0	56,500	38,628
Lothar Wölfle[1]	64,750	59,500	0	0	64,750	59,500
Dr. Bernd-Michael Zinow	68,500	68,750	12,200	12,747	80,700	81,497
Dr. Claus Dieter Hoffmann (Member and Chairman until 10/05/2016)	0	37,753	0	0	0	37,753
Wolfgang Lang (until 10/05/2016)	0	21,751	0	0	0	21,751
Dr. Nils Schmid[3] (until 31/08/2016)	0	39,167	0	0	0	39,167
Carola Wahl (until 31/07/2016)	0	27,029	0	0	0	27,029
Dietmar Weber (until 10/05/2016)	0	22,001	0	0	0	22,001
Total	**1,244,750**	**1,247,935**	**74,804**	**76,015**	**1,319,554**	**1,323,950**

1 The regulations in the State Civil Service Act (Landesbeamtengesetz) and the Ancillary Activities Ordinance (Landesnebentätigkeitsverordnung – LNTVO) of the Federal State of Baden-Württemberg for relinquishing remuneration from secondary employment to the administrative district apply. The term of office of Mr Seiffert ended on 30 September 2016. From 1 October 2016, the regulations for LBeamtVG apply.

2 In accordance with the regulations of the German Federation of Trade Unions (DGB) on the transfer of supervisory board remuneration, the remuneration is transferred to the Hans Böckler foundation and ver.di GewerkschaftsPolitische Bildung gGmbH.

3 The members of the state government and the state secretaries have agreed to relinquish any remuneration received for membership of supervisory boards, advisory boards and all other comparable boards to which they have been appointed in connection with their office or to which they are assigned as a member of the state government, applying section 5 of the Ancillary Activities Ordinance (LNTVO) analogously, provided that the extent to which the remuneration received in the calendar year exceeds a gross total of €6,100 (council of ministers resolution dated 24 May 2011). The membership of Mrs. Krebs and Dr. Schmid in the cabinet of the state government ended on 18 March 2016 and 11 May 2016, respectively.

4 The members of the state government and the state secretaries are obligated to relinquish any remuneration, including attendance fees, received for membership of supervisory boards, executive boards, advisory boards and all other comparable boards to which they have been appointed in connection with their office or to which they are assigned as a member of the state government, applying section 5 of the Ancillary Activities Ordinance (LNTVO) analogously, provided that the remuneration received in the calendar year exceeds the gross total for level "B6 and higher" (currently €6,100) (council of ministers resolution dated 5 July 2016).

Disclosures pursuant to sections 289a (1) and 315a (1) German Commercial Code (HGB) and explanatory report of the Board of Management

In the following, the Board of Management provides the information prescribed by sections 289a (1) and 315a (1) German Commercial Code (HGB) and explains this in accordance with section 176 (1) sentence 1 German Stock Corporations Act (AktG).

The composition of the subscribed capital is described and explained in the notes to the annual and consolidated financial statements in the section "Equity". Direct or indirect shares in capital which exceed 10% of the voting rights are described and explained in the notes to the annual financial statements in the sections "Shareholder structure" and "Disclosures pursuant to section 21 German Securities Trading Act (WpHG)" and the notes to the consolidated financial statements in section "Related parties (entities)".

Details on the treasury shares are presented in note 18 of the notes to the consolidated financial statements at www.enbw.com/report2017-downloads.

Restrictions relating to voting rights or transferability of shares

Agreements were reached on 22 December 2015 between, on the one hand, Zweckverband Oberschwäbische Elektrizitätswerke (Zweckverband OEW) and OEW Energie-Beteiligungs GmbH and, on the other, the Federal State of Baden-Württemberg, NECKARPRI GmbH and NECKARPRI-Beteiligungsgesellschaft mbH, which include clauses relating to restrictions of authorisation over EnBW shares held by these parties and a general mutual obligation of both main shareholders to maintain parity investment relationships in EnBW with respect to each other. Restrictions relating to voting rights no longer exist to the knowledge of the Board of Management since the aforementioned direct and indirect EnBW shareholders annulled a shareholder agreement on 22 December 2015 that had previously existed between them.

Legal provisions and statutes on the appointment and dismissal of members of the Board of Management and amendments to the Articles of Association

Pursuant to section 84 AktG in conjunction with section 31 German Co-determination Act (MitbestG), responsibility for the appointment and dismissal of members of the Board of Management rests with the Supervisory Board. This competence is stipulated in section 7 (1) sentence 2 of the Articles of Association of EnBW. If, under exceptional circumstances, a necessary member of the Board of Management is missing, section 85 AktG requires that a member of the Board of Management be appointed by the court in urgent cases.

The Annual General Meeting has the right to make changes to the Articles of Association in accordance with section 119 (1) No. 5 AktG. The specific rules of procedure are contained in sections 179 and 181 AktG. For practical reasons, the right to amend the Articles of Association was transferred to the Supervisory Board where such amendments affect the wording only. This option pursuant to section 179 (1) sentence 2 AktG is embodied in section 18 (2) of the Articles of Association.

Pursuant to section 179 (2) AktG, resolutions by the Annual General Meeting to amend the Articles of Association require a majority of at least three quarters of the capital stock represented when passing the resolution, unless the Articles of Association stipulate a different majority, which however for any amendment of the purpose of the company would require a higher majority of the capital stock. Pursuant to section 18 (1) of the Articles of Association, resolutions by the Annual General Meeting require a simple majority of the votes cast, unless legal regulations or the Articles of Association stipulate otherwise. If the law requires a larger majority of the votes cast or of the capital stock represented when passing the resolution, the simple majority suffices in those cases where the law leaves the determination of the required majority to the Articles of Association.

Authority of the Board of Management regarding the possibility to issue or redeem shares

No authorised or conditional capital nor any authorisation of the Annual General Meeting pursuant to section 71 (1) No. 8 AktG for the purchase of treasury shares by the company currently exists at EnBW. Therefore, the company may only acquire treasury shares on the basis of other reasons justifying such purchases in accordance with section 71 (1) AktG. As of 31 December 2017, the company holds 5,749,677 treasury shares which were purchased on the basis of earlier authorisations in accordance with section 71 (1) No. 8 AktG. The company's treasury shares can be sold on the stock exchange or by public offer to all company shareholders. The use of treasury shares, in particular their sale, in any other way can only occur within the scope of the resolution issued by the Annual General Meeting on 29 April 2004. The treasury shares held by EnBW do not grant the company any rights in accordance with section 71b AktG.

Material agreements of the company subject to the condition of a change of control as a result of a takeover bid and the resulting effects

The following EnBW agreements are subject to the condition of a change of control following a takeover bid as defined by sections 289a (1) No. 8 and 315a (1) No. 8 HGB:

A syndicated credit line of €1.5 billion, which had not been drawn as of 31 December 2017, can be terminated by the lenders and become due for repayment given a change of control at EnBW. This does not apply if the purchaser of the shares is the Federal State of Baden-Württemberg or Zweckverband OEW or another German state-owned public law legal entity.

A promissory note loan of €200 million, two bilateral bank loans together totalling €50 million and a syndicated loan, of which around €192 million was drawn as of 31 December 2017, taken out by Stadtwerke Düsseldorf AG (SWD) relating to the financing of their CCGT power plant could become due for repayment given a change of control at SWD, including an indirect change of control. This does not apply if, after the change of control, the majority of shares in SWD are held directly or indirectly by German government entities and the City of Düsseldorf holds at least 25.05% of the shares in SWD.

A promissory note loan of €80 million and a syndicated credit line of €1 billion, of which €44.2 million was drawn as of 31 December 2017, taken out by VNG-Verbundnetz Gas Aktiengesellschaft could each become due for repayment given a change of control at VNG, including an indirect change of control. This does not apply if, after the change of control, the majority of shares in VNG continue to be held directly by German public sector shareholders or indirectly by these shareholders via controlled legal entities.

A bond of JPY 20 billion issued on 12 December 2008 under the E Debt Issuance Programme can be terminated by the lenders and become due for repayment given a change of control at EnBW. This does not apply if the purchaser of the shares is EDF (whose legal successor as shareholder is now the Federal State of Baden-Württemberg) or Zweckverband OEW or another German state-owned public law corporation.

Two bilateral long-term bank loans, drawn to the value of €400 million and €409 million as of 31 December 2017, can be terminated by the lender and become due for repayment given a change of control at EnBW, provided the change of control has a negative effect on repayment of the loan in future. This does not apply if the purchaser of the shares is EDF (whose legal successor as shareholder is now the Federal State of Baden-Württemberg) or Zweckverband OEW.

Compensation agreements

Compensation agreements pursuant to sections 289a (1) No. 9 and 315a (1) No. 9 HGB concluded with members of the Board of Management to cover any case of a change of control are described and explained in the remuneration report.

Nos. 4 and 5 of sections 289a (1) and 315a (1) HGB were not relevant for EnBW in the 2017 financial year.

Index for the non-financial declaration of the EnBW Group and EnBW AG

In accordance with sections 315b and 289b HGB, the EnBW Group and EnBW AG are obligated to issue a non-financial declaration from the 2017 financial year onwards. EnBW is complying with the new requirements in the Act on Strengthening Non-Financial Reporting by Companies in Management Reports and Group Management Reports (CSR Directive Implementation Act) through a non-financial declaration that is fully integrated into the Integrated Annual Report as part of the combined management report of the EnBW Group and EnBW AG. We comply with all of the aspects required by the act and also with other material aspects by providing the respective information in each relevant section of the Integrated Annual Report 2017. The following table describes the relevant aspects that are contained in the integrated report. They each provide explanations of the concepts and processes, measures, performance indicators and risks.

Index for the non-financial declaration of the EnBW Group and EnBW AG

Themes	Aspects	Chapter	Page reference
Compliance	› Fighting corruption and bribery	› Corporate governance › Report on opportunities and risks	page 33 ff. page 91 ff.
Social engagement	› Social issues	› In dialogue with our stakeholders › Report on opportunities and risks	page 38 f. page 95
Procurement	› Respect for human rights	› Procurement › Report on opportunities and risks	page 46 ff. page 95
Customers and society goal dimension			
Reputation	› Standing in society	› The EnBW Group › Forecast › Report on opportunities and risks	page 69 page 89 page 95
Customer proximity	› Customer satisfaction	› The EnBW Group › Forecast › Report on opportunities and risks	page 70 f. page 89 page 95
Supply reliability	› Supply quality	› The EnBW Group › Forecast	page 71 f. page 89 f.
Employees goal dimension			
Employee commitment	› Employee issues	› The EnBW Group › Forecast › Report on opportunities and risks	page 72 ff. page 90 page 96
Occupational safety	› Employee issues	› The EnBW Group › Forecast › Report on opportunities and risks	page 76 page 90 page 96
Environment goal dimension			
Expand renewable energies	› Environmental issues	› The EnBW Group › Forecast › Report on opportunities and risks	page 77 f. page 90 page 96
Climate protection	› Environmental issues	› Business model › General conditions › The EnBW Group › Forecast › Report on opportunities and risks	page 15 page 50 page 78 ff. page 90 page 96

The non-financial declaration is issued jointly for the EnBW Group and EnBW AG. Differences between the statements for the Group and EnBW AG are clearly identified in the text. Information on the business model can be found in the section Business model (p. 14 ff.). We have not identified any material individual risks in the 2017 financial year that have a very high probability of a serious negative impact in relation to the relevant non-financial issues.

The reporting of sustainability topics is based as previously on the guidelines issued by the Global Reporting Initiative (GRI), as well as, in the 2017 financial year for the first time, on the GRI standard and can be viewed at www.enbw.com/gri-index. Our sustainability reporting also complies with the Communication on Progress requirements for the UN Global Compact.

Information on the diversity concept can be found in the declaration of corporate management at www.enbw.com/corporate-governance.

KPMG AG Wirtschaftsprüfungsgesellschaft is commissioned to audit the consolidated financial statements and the combined management report including the contents of the non-financial declaration with reasonable assurance and then to issue an audit opinion following the conclusion of the audit.

The full consolidated financial statements and the combined management report for the 2017 financial year are accessible to the public on the website at www.enbw.com/report2017-downloads.

Index for the Task Force on Climate-related Financial Disclosures (TCFD)

Task Force on Climate-related Financial Disclosures (TCFD)

Issue	Contents	Page reference
Governance	› Role and function of the Board of Management/Supervisory Board in the evaluation and handling of climate-related opportunities and risks	page 15
Strategy	› Climate-related opportunities and risks of a short, medium and long-term nature	page 24 ff. page 36 f. page 50 f.
Risk management	› Company processes for identifying and evaluating climate-related risks	page 91 ff. page 96
Performance indicators and targets	› Performance indicators and targets for the evaluation of climate-related opportunities and risks (including CO_2 emissions)	page 29 f. page 77 ff. page 90

Condensed financial statements

of the EnBW Group

From page 117

Income statement

in € million[1]	Notes	2017	2016	Change in %
Revenue including electricity and energy taxes		22,622.7	20,080.2	12.7
Electricity and energy taxes		-648.7	-711.8	-8.9
Revenue	(1)	**21,974.0**	**19,368.4**	**13.5**
Changes in inventories		22.7	15.9	42.8
Other own work capitalised		134.9	118.5	13.8
Other operating income	(2)	2,750.3	807.5	–
Cost of materials	(3)	-18,189.3	-16,681.3	9.0
Personnel expenses	(4)	-1,777.1	-1,673.4	6.2
Other operating expenses	(5)	-1,163.1	-1,224.9	-5.0
EBITDA		**3,752.4**	**730.7**	**–**
Amortisation and depreciation	(6)	-1,248.4	-2,393.6	-47.8
Earnings before interest and taxes (EBIT)		**2,504.0**	**-1,662.9**	**–**
Investment result	(7)	159.3	117.6	35.5
of which net profit/loss from entities accounted for using the equity method		(43.3)	(-10.0)	–
of which other profit/loss from investments		(116.0)	(127.6)	-9.1
Financial result	(8)	194.6	-1,176.6	–
of which finance income		(704.1)	(431.9)	63.0
of which finance costs		(-509.5)	(-1,608.5)	-68.3
Earnings before tax (EBT)		**2,857.9**	**-2,721.9**	**–**
Income tax	(9)	-681.6	1,049.4	–
Group net profit/loss		**2,176.3**	**-1,672.5**	**–**
of which profit/loss shares attributable to non-controlling interests		(122.2)	(124.7)	-2.0
of which profit/loss shares attributable to the shareholders of EnBW AG		(2,054.1)	(-1,797.2)	–
EnBW AG shares outstanding (million), weighted average		**270.855**	**270.855**	**0.0**
Earnings per share from Group net profit/ loss (€)[2]	(23)	**7.58**	**-6.64**	**–**

1 We publish the full set of consolidated financial statements at www.enbw.com/report2017-downloads.
2 Diluted and basic; in relation to profit/loss attributable to the shareholders of EnBW AG.

Statement of comprehensive income

in € million[1]	2017	2016	Change in %
Group net profit/loss	**2,176.3**	**-1,672.5**	**–**
Revaluation of pensions and similar obligations	86.6	-427.4	–
Entities accounted for using the equity method	0.0	1.4	-100.0
Income taxes on other comprehensive income	-14.7	124.1	–
Total of other comprehensive income and expenses without future reclassifications impacting earnings	**71.9**	**-301.9**	**–**
Currency translation differences	46.0	7.0	–
Cash flow hedge	4.5	247.8	-98.2
Available-for-sale financial assets	103.8	192.8	-46.2
Entities accounted for using the equity method	-4.1	-39.8	89.7
Income taxes on other comprehensive income	-33.1	-105.2	68.5
Total of other comprehensive income and expenses with future reclassifications impacting earnings	**117.1**	**302.6**	**(61.3)**
Total other comprehensive income	**189.0**	**0.7**	**–**
Total comprehensive income	**2,365.3**	**-1,671.8**	**–**
of which profit/loss shares attributable to non-controlling interests	(135.6)	(130.3)	4.1
of which profit/loss shares attributable to the shareholders of EnBW AG	(2,229.7)	(-1,802.1)	–

1 Further information is available in the notes under (18) "Equity". We publish the full set of consolidated financial statements at www.enbw.com/report2017-downloads.

Balance sheet

in € million[1]	Notes	31/12/2017	31/12/2016
Assets			
Non-current assets			
Intangible assets	(10)	1,905.9	1,636.5
Property, plant and equipment	(11)	15,597.4	13,481.9
Entities accounted for using the equity method	(12)	1,388.6	1,835.6
Other financial assets	(13)	5,985.7	6,428.0
Trade receivables	(14)	320.9	357.4
Other non-current assets	(15)	611.7	410.1
Deferred taxes	(20)	956.4	1,268.9
		26,766.6	**25,418.4**
Current assets			
Inventories		958.1	806.8
Financial assets	(16)	588.1	2,389.5
Trade receivables	(14)	4,408.7	3,129.1
Other current assets	(15)	2,847.1	2,626.9
Cash and cash equivalents	(17)	3,213.3	3,991.6
		12,015.3	**12,943.9**
Assets held for sale	(22)	3.0	173.0
		12,018.3	**13,116.9**
		38,784.9	**38,535.3**
Equity and liabilities			
Equity	(18)		
Shares of the shareholders of EnBW AG			
Subscribed capital		708.1	708.1
Capital reserve		774.2	774.2
Revenue reserves		3,636.6	1,582.5
Treasury shares		-204.1	-204.1
Other comprehensive income		-1,367.4	-1,543.0
		3,547.4	**1,317.7**
Non-controlling interests		2,315.5	1,898.5
		5,862.9	**3,216.2**
Non-current liabilities			
Provisions	(19)	13,124.5	13,011.9
Deferred taxes	(20)	799.4	652.8
Financial liabilities	(21)	5,952.0	6,720.2
Other liabilities and subsidies	(21)	2,043.8	1,787.1
		21,919.7	**22,172.0**
Current liabilities			
Provisions	(19)	1,598.7	6,060.2
Financial liabilities	(21)	1,306.8	1,208.7
Trade payables	(21)	4,838.1	3,193.0
Other liabilities and subsidies	(21)	3,258.7	2,661.2
		11,002.3	**13,123.1**
Liabilities directly associated with assets classified as held for sale	(22)	0.0	24.0
		11,002.3	**13,147.1**
		38,784.9	**38,535.3**

1 We publish the full set of consolidated financial statements at www.enbw.com/report2017-downloads.

Cash flow statement

in € million[1]	2017	2016
1. Operating activities		
EBITDA	3,752.4	730.7
Changes in provisions	-472.3	721.9
Result from disposals	-317.8	-28.4
Other non-cash expenses/income	-68.1	-49.7
Change in assets and liabilities from operating activities	-4,671.4	-657.5
Inventories	(-27.3)	(67.9)
Net balance of trade receivables and payables	(277.6)	(-302.6)
Net balance of other assets and liabilities	(-4,921.7)	(-422.8)
Income tax received/paid	81.1	-243.4
Cash flow from operating activities	**-1,696.1**	**473.6**
2. Investing activities		
Capital expenditure on intangible assets and property, plant and equipment	-1,419.2	-1,189.4
Disposals of intangible assets and property, plant and equipment	52.8	115.5
Cash received from construction cost and investment subsidies and tax refunds from recognised exploration expenditure	113.8	61.1
Acquisition of subsidiaries, entities accounted for using the equity method and interests in joint operations	-227.9	-961.3
Sale of subsidiaries, entities accounted for using the equity method and interests in joint operations	235.4	189.9
Cash paid for investments in other financial assets	-721.2	-331.6
Sale of other financial assets	3,491.0	2,065.2
Cash received/paid for investments in connection with short-term finance planning	44.3	39.4
Interest received	452.1	203.0
Dividends received	139.6	142.1
Cash flow from investing activities	**2,160.7**	**333.9**
3. Financing activities		
Interest paid for financing activities	-425.6	-351.3
Dividends paid	-84.7	-226.1
Cash received for changes in ownership interest without loss of control	1.5	0.0
Cash paid for changes in ownership interest without loss of control	0.0	-8.0
Increase in financial liabilities	302.3	999.2
Repayment of financial liabilities	-1,279.8	-704.8
Payments from alterations of capital in non-controlling interests	-55.0	-25.6
Cash flow from financing activities	**-1,541.3**	**-316.6**
Net change in cash and cash equivalents	**-1,076.7**	**490.9**
Change in cash and cash equivalents due to changes in the consolidated companies	300.3	0.0
Net foreign exchange difference	-1.9	-0.4
Change in cash and cash equivalents	**-778.3**	**490.5**
Cash and cash equivalents at the beginning of the period	3,991.6	3,501.1
Cash and cash equivalents at the end of the period	**3,213.3**	**3,991.6**

1 Further information is available in the notes under (31) "Notes to the cash flow statement". We publish the full set of consolidated financial statements at www.enbw.com/report2017-downloads.

Statement of changes in equity

in € million[1]					Other comprehensive income[3]						
	Subscribed capital and capital reserve[2]	Revenue reserves	Treasury shares	Revaluation of pensions and similar obligations	Currency translation differences	Cash flow hedge	Available-for-sale financial assets	Entities accounted for using the equity method	Shares of the shareholders of EnBW AG	Non-controlling interests[3]	Total
As of 01/01/2016	**1,482.3**	**3,634.8**	**-204.1**	**-1,482.7**	**-54.4**	**-256.9**	**213.1**	**-63.3**	**3,268.8**	**1,854.4**	**5,123.2**
Other comprehensive income				-301.9	6.2	159.2	170.0	-38.4	-4.9	5.6	0.7
Group net profit/loss		-1,797.2							-1,797.2	124.7	-1,672.5
Total comprehensive income	**0.0**	**-1,797.2**	**0.0**	**-301.9**	**6.2**	**159.2**	**170.0**	**-38.4**	**-1,802.1**	**130.3**	**-1,671.8**
Dividends paid		-149.0							-149.0	-59.1	-208.1
Other changes		-106.1						106.1	0.0	-27.1	-27.1
As of 31/12/2016	**1,482.3**	**1,582.5**	**-204.1**	**-1,784.6**	**-48.2**	**-97.7**	**383.1**	**4.4**	**1,317.7**	**1,898.5**	**3,216.2**
Other comprehensive income				67.7	36.2	-11.5	87.3	-4.1	175.6	13.4	189.0
Group net profit/loss		2,054.1							2,054.1	122.2	2,176.3
Total comprehensive income	**0.0**	**2,054.1**	**0.0**	**67.7**	**36.2**	**-11.5**	**87.3**	**-4.1**	**2,229.7**	**135.6**	**2,365.3**
Dividends paid									0.0	-84.7	-84.7
Other changes									0.0	366.1	366.1
As of 31/12/2017	**1,482.3**	**3,636.6**	**-204.1**	**-1,716.9**	**-12.0**	**-109.2**	**470.4**	**0.3**	**3,547.4**	**2,315.5**	**5,862.9**

1 Further information is available in the notes under (18) "Equity". We publish the full set of consolidated financial statements at www.enbw.com/report2017-downloads.
2 Of which subscribed capital €708.1 million (31/12/2016: €708.1 million, 01/01/2016: €708.1 million) and capital reserve €774.2 million (31/12/2016: €774.2 million, 01/01/2016: €774.2 million).
3 Of which other comprehensive income directly associated with the assets held for sale as of 31/12/2017 to the amount of €0.0 million (31/12/2016: €0.0 million, 01/01/2016: € -45.4 million). Of which attributable to the shareholders of EnBW AG: €0.0 million (31/12/2016: €0.0 million, 01/01/2016: € -45.4 million). Of which attributable to non-controlling interests: €0.0 million (31/12/2016: €0.0 million, 01/01/2016: €0.0 million).

Information on the result of the audit of the consolidated financial statements and the combined management report of the company and the Group of the 2017 financial year

The condensed financial statements for the 2017 financial year that form part of the Integrated Annual Report do not include the notes to the consolidated financial statements and the declaration of corporate management 2017 of the EnBW Group and EnBW AG including the corporate governance report 2017. The full set of consolidated financial statements – including the notes to the consolidated financial statements – and the combined management report for the company and the Group, both for the 2017 financial year, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor and Group auditor elected by the Annual General Meeting of EnBW Energie Baden-Württemberg AG on 9 May 2017. Based on its audit, KPMG AG Wirtschaftsprüfungsgesellschaft arrived at the overall conclusion that the audit did not lead to any reservations and issued an unqualified audit opinion. The full set of consolidated financial statements and the combined management report for the company and the Group, both for the 2017 financial year, as well as the unqualified audit opinion issued by the auditor, can be accessed on the website of EnBW Energie Baden-Württemberg AG.

Corporate bodies

From page 124

The Supervisory Board

Members

- **Lutz Feldmann, Bochum**
  Independent Business Consultant,
  Chairman
- **Dietrich Herd, Philippsburg**
  Chairman of the Group works council for the EnBW Group and Chairman of the central works council for the "production sector" of EnBW Energie Baden-Württemberg AG
  Deputy Chairman
- **Dr. Dietrich Birk, Göppingen**
  Managing Director of the Verband Deutscher Maschinen- und Anlagenbau e.V. (VDMA), Regional Association for Baden-Württemberg
- **Stefanie Bürkle, Sigmaringen**
  District Administrator of the Sigmaringen district
- **Stefan Paul Hamm, Gerlingen**
  Head of the Department for Utilities and Waste Management, ver.di Baden-Württemberg
- **Michaela Kräutter, Stutensee**
  Union Secretary for Utilities and Waste Management, ver.di Central Baden/North Black Forest district
- **Silke Krebs, Stuttgart**
  Freelance Consultant (strategic and organisational consultancy)
- **Marianne Kugler-Wendt, Heilbronn**
  Regional Director, ver.di Heilbronn-Neckar-Franconia district
- **Thomas Landsbek, Wangen im Allgäu**
  Member of the Group works council for the EnBW Group and Chairman of the central works council for the "market sector" and Chairman of the Stuttgart works council for the "market sector" of EnBW Energie Baden-Württemberg AG
- **Dr. Hubert Lienhard, Heidenheim an der Brenz**
  Chief Executive Officer of Voith Management GmbH
- **Sebastian Maier, Ellenberg**
  Member of the Group works council for the EnBW Group and Chairman of the works council at EnBW Ostwürttemberg DonauRies AG
- **Arnold Messner, Aichwald**
  Deputy Chairman of the Group works council for the EnBW Group and Chairman of the central works council of Netze BW GmbH
- **Dr. Wolf-Rüdiger Michel, Rottweil**
  District Administrator of the Rottweil district
- **Gunda Röstel, Flöha**
  Commercial Director of Stadtentwässerung Dresden GmbH and Authorised Officer of Gelsenwasser AG
- **Klaus Schörnich, Düsseldorf**
  Member of the Group works council for the EnBW Group and Chairman of the works council of Stadtwerke Düsseldorf AG
- **Heinz Seiffert, Ehingen**
  District Administrator (retired)
- **Edith Sitzmann MdL, Freiburg**
  Minister for Finance of the Federal State of Baden-Württemberg and member of the State Parliament of Baden-Württemberg
- **Ulrike Weindel, Karlsruhe**
  Consultant for HR and member of the Karlsruhe works council for the "functional units sector" of EnBW Energie Baden-Württemberg AG
- **Lothar Wölfle, Friedrichshafen**
  District Administrator of the Lake Constance district
- **Dr. Bernd-Michael Zinow, Pfinztal**
  Head of the functional unit Legal Services, Compliance and Regulation (General Counsel) at EnBW Energie Baden-Württemberg AG

Key

- **Active member**
- Inactive member

As of 1 March 2018

Further information is available at:
www.enbw.com/supervisory-board

Committees

Personnel committee

- **Lutz Feldmann**
  Chairman
- **Stefan Paul Hamm**
- **Dietrich Herd**
- **Silke Krebs**
- **Arnold Messner**
- **Lothar Wölfle**

Audit committee

- **Gunda Röstel**
  Chairwoman
- **Marianne Kugler-Wendt**
- **Dr. Hubert Lienhard**
- **Sebastian Maier**
- **Dr. Wolf-Rüdiger Michel**
- **Klaus Schörnich**
- **Heinz Seiffert**
- **Ulrike Weindel**

Ad hoc committee (since 7 June 2010)

- **Dr. Bernd-Michael Zinow**
  Chairman
- **Stefanie Bürkle**
- **Dietrich Herd**
- **Gunda Röstel**

Finance and investment committee

- **Lutz Feldmann**
  Chairman
- **Dr. Dietrich Birk**
- **Stefan Paul Hamm**
- **Dietrich Herd**
- **Arnold Messner**
- **Edith Sitzmann**
- **Lothar Wölfle**
- **Dr. Bernd-Michael Zinow**

Nomination committee

- **Lutz Feldmann**
  Chairman
- **Dr. Dietrich Birk**
- **Silke Krebs**
- **Gunda Röstel**
- **Heinz Seiffert**
- **Lothar Wölfle**

Mediation committee (committee pursuant to section 27 (3) of the German Co-determination Act (MitbestG))

- **Lutz Feldmann**
  Chairman
- **Dietrich Herd**
- **Silke Krebs**
- **Thomas Landsbek**

Key

- **Active member**
- Inactive member

As of 1 March 2018

Offices held by members of the Board of Management

› **Dr. Frank Mastiaux**
Chairman
– EWE Aktiengesellschaft (Deputy Chairman of the Supervisory Board and member of the Executive Committee of the Supervisory Board) (until 16 May 2017)

› **Dr. Bernhard Beck**
– EnBW Kernkraft GmbH (Chairman)
– Energiedienst AG
– Stadtwerke Düsseldorf AG (Chairman)

– BKK VerbundPlus, Körperschaft des öffentlichen Rechts (alternating Chairman)
– Energiedienst Holding AG
– Pražská energetika a.s.

› **Thomas Kusterer**
– Netze BW GmbH
– VNG-Verbundnetz Gas Aktiengesellschaft (Chairman)

– EVN AG (until 19 January 2017)

› **Dr. Hans-Josef Zimmer**
– EnBW Kernkraft GmbH
– Netze BW GmbH (Chairman)
– terranets bw GmbH (Chairman)
– TransnetBW GmbH (Chairman)

– Vorarlberger Illwerke AG

Key

› **Active member**
› Inactive member

Disclosures of office holders pursuant to section 285 No. 10 German Commercial Code (HGB)

– Membership in other statutory supervisory boards
– Membership in comparable domestic and foreign control bodies of business

As of 1 March 2018

Further information is available at:
www.enbw.com/board-of-management

Other offices held by members of the Supervisory Board

› **Lutz Feldmann**
Chairman
– Villa Claudius gGmbH
– Thyssen'sche Handelsgesellschaft mbH

› **Dietrich Herd**
Deputy Chairman
– EnBW Kernkraft GmbH

› **Dr. Dietrich Birk**
– SRH Holding (SdbR)

› **Stefanie Bürkle**
– Hohenzollerische Landesbahn AG
– SV SparkassenVersicherung Lebensversicherung AG (until 13 July 2017)

– Hohenzollerische Landesbank Kreissparkasse Sigmaringen, Anstalt des öffentlichen Rechts (Chairwoman)
– Flugplatz Mengen Hohentengen GmbH (Chairwoman)
– Regionalverband Bodensee-Oberschwaben, Anstalt des öffentlichen Rechts
– SRH Kliniken Landkreis Sigmaringen GmbH (Chairwoman)
– Sparkassenverband Baden-Württemberg, Anstalt des öffentlichen Rechts
– Verkehrsverbund Neckar-Alb-Donau GmbH (naldo) (Chairwoman)
– Wirtschaftsförderungs- und Standortmarketinggesellschaft Landkreis Sigmaringen mbH (Chairwoman)
– Zweckverband Oberschwäbische Elektrizitätswerke (Deputy Chairwoman)
– Zweckverband Thermische Abfallverwertung Donautal (TAD) (Deputy Chairwoman)

› **Stefan Paul Hamm**
– Netze BW GmbH

› **Michaela Kräutter**
– NetCom BW GmbH

› **Silke Krebs**

› **Marianne Kugler-Wendt**
– Bausparkasse Schwäbisch-Hall AG
– EnBW Kernkraft GmbH
– SLK-Kliniken Heilbronn GmbH

– Heilbronner Versorgungs GmbH
– Stadtwerke Heilbronn GmbH

› **Thomas Landsbek**
– Gemeindewerke Bodanrück GmbH & Co. KG
– BürgerEnergiegenossenschaft Region Wangen im Allgäu eG (since 20 June 2017)

› **Dr. Hubert Lienhard**
– Heraeus Holding GmbH
– SGL Carbon SE
– SMS Group GmbH
– Voith Turbo Beteiligungen GmbH (Chairman)
– Kuka Aktiengesellschaft (until 31 January 2017)

– Voith Hydro Holding GmbH & Co. KG (Chairman)
– Voith Turbo GmbH & Co. KG (Chairman)
– Voith Digital Solutions Holding GmbH (Chairman)

› **Sebastian Maier**
– EnBW Ostwürttemberg DonauRies AG

– NetCom BW GmbH
– Netzgesellschaft Ostwürttemberg GmbH

› **Arnold Messner**
– Netze BW GmbH

› **Dr. Wolf-Rüdiger Michel**
– Kreisbaugenossenschaft Rottweil e. G. (Chairman)

– Kreissparkasse Rottweil, Anstalt des öffentlichen Rechts (Chairman)
– Schwarzwald Tourismus GmbH
– SMF Schwarzwald Musikfestival GmbH
– Sparkassen-Beteiligungen Baden-Württemberg GmbH
– Sparkassenverband Baden-Württemberg, Körperschaft des öffentlichen Rechts
– Wirtschaftsförderungsgesellschaft Schwarzwald-Baar-Heuberg mbH
– Zweckverband Bauernmuseum Horb/Sulz
– Zweckverband Kommunale Informationsverarbeitung Reutlingen-Ulm
– Zweckverband Oberschwäbische Elektrizitätswerke (Deputy Chairman)
– Zweckverband Protec
– Zweckverband Ringzug Schwarzwald-Baar-Heuberg

› **Gunda Röstel**
– Universitätsklinikum Carl Gustav Carus Dresden an der Technischen Universität Dresden, Anstalt des öffentlichen Rechts (Deputy Chairwoman)
– VNG-Verbundnetz Gas Aktiengesellschaft
– Netze BW GmbH

– University council of Technische Universität Dresden, Körperschaft des öffentlichen Rechts (Chairwoman)
– Stadtwerke Burg GmbH

› **Klaus Schörnich**
- AWISTA GmbH
- Stadtwerke Düsseldorf AG (until 12 July 2017)
- Netzgesellschaft Düsseldorf mbH

› **Heinz Seiffert**

› **Edith Sitzmann**
- Landesbank Baden-Württemberg, Anstalt des öffentlichen Rechts (active member since special approval granted by the state parliament on 21 July 2016) (Deputy Chairwoman)
- Landeskreditbank Baden-Württemberg, Förderbank, Anstalt des öffentlichen Rechts (Chairwoman of the Administrative Board) (Chairwoman of the Advisory Board since 1 May 2017)
- Kreditanstalt für Wiederaufbau, Anstalt des öffentlichen Rechts (since 1 January 2017)
- Baden-Württemberg Stiftung gGmbH

› **Ulrike Weindel**

› **Lothar Wölfle**
- Abfallwirtschaftsgesellschaft of the Lake Constance and Konstanz districts (Chairman since 1 January 2017)
- Verkehrsverbund Bodensee-Oberschwaben of the Ravensburg and Lake Constance districts (Chairman)
- Bodensee-Oberschwaben-Bahn Verkehrsgesellschaft mbH
- Sparkasse Bodensee (Chairman since 1 January 2018)
- Zweckverband Oberschwäbische Elektrizitätswerke (Chairman)
- Zweckverband Tierkörperbeseitigung Protec (Deputy Chairman)
- Wirtschaftsförderungsgesellschaft Bodenseekreis GmbH (Chairman)
- Regionales Innovations- und Technologietransfer Zentrum GmbH (RITZ) (Chairman)

› **Dr. Bernd-Michael Zinow**
- TransnetBW GmbH
- VNG-Verbundnetz Gas Aktiengesellschaft

Key

› **Active member**
› Inactive member

Disclosures of office holders pursuant to section 285 No. 10 German Commercial Code (HGB)
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As of 1 March 2018

Further information is available at:
www.enbw.com/supervisory-board

Service

From page 130

Multi-year overview

Financial and strategic performance indicators

EnBW Group		2017	2016	2015	2014	2013
Earnings						
Revenue	in € million	21,974	19,368	21,167	21,003	20,545
TOP Adjusted EBITDA	in € million	2,113	1,939	2,110	2,167	2,225
EBITDA	in € million	3,752	731	1,918	2,137	2,000
Adjusted EBIT	in € million	999	1,025	1,182	1,291	1,340
EBIT	in € million	2,504	-1,663	277	0	1,024
Group net profit/loss[1]	in € million	2,054	-1,797	158	-466	51
Earnings per share from Group net profit/loss[1]	in €	7.58	-6.64	0.58	-1.72	0.19
Balance sheet						
Non-current assets	in € million	24,878	23,382	24,388	25,995	24,318
Total assets	in € million	38,785	38,535	38,158	38,312	35,758
Equity	in € million	5,863	3,216	5,123	4,546	6,083
Equity ratio	in %	15.1	8.3	13.4	11.9	17.0
Net financial debt[2]	in € million	2,918	3,654	3,329	4,403	2,975
Coverage ratio ALM[2]	in %	52.9	60.8	74.2	–[3]	–[3]
Cash flow						
Retained cash flow	in € million	3,050	950	1,718	–[3]	–[3]
Retained cash flow II	in € million	1,530	950	1,718	–[3]	–[3]
Net (cash) investment	in € million	1,367	1,317	494	1,427	816
TOP Internal financing capability	in %	111.9	72.1	347.8	–[3]	–[3]
Profitability						
TOP Return on capital employed (ROCE)[2]	in %	7.3	7.8	9.5	10.0	9.7
Weighted average cost of capital before tax	in %	6.3	6.9	6.9	7.2	8.5
Average capital employed[2]	in € million	15,146	13,761	13,627	13,424	14,973
Value added[2]	in € million	152	124	354	376	180
Sales						
Electricity[4]	in billions of kWh	122	115	115	126	128
Gas	in billions of kWh	250	139	135	117	100

Financial and strategic performance indicators

EnBW Group		2017	2016	2015	2014	2013
Sales						
Electricity sales	in billions of kWh	40	44	48	48	52
Gas sales	in billions of kWh	57	54	82	72	69
Revenue	in € million	7,354	7,771	9,061	9,067	9,568
TOP Adjusted EBITDA	in € million	330	250	255	231	227
Grids						
Electricity sales	in billions of kWh	–[4]	–[4]	–[4]	–[4]	13
Revenue	in € million	7,472	6,644	6,351	6,231	5,708
TOP Adjusted EBITDA	in € million	1,046	1,004	747	886	962
Renewable Energies						
Electricity sales	in billions of kWh	2	3	3	4	4
Revenue	in € million	508	511	447	407	372
TOP Adjusted EBITDA	in € million	332	295	287	191	220
Generation and Trading						
Electricity sales	in billions of kWh	80	68	65	75	60
Gas sales	in billions of kWh	193	85	53	45	31
Revenue	in € million	6,631	4,434	5,300	5,290	4,888
TOP Adjusted EBITDA	in € million	377	337	777	900	839

1 In relation to the profit/loss attributable to the shareholders of EnBW AG.
2 The figures for the 2016 financial year have been restated.
3 No figures for the comparative periods 2014 and 2013 are available for the new performance indicators.
4 Since the beginning of 2015, electricity sales from the Grids segment are no longer disclosed because the Independent Transmission Operators (ITO) no longer report their data. The figures for the 2014 financial year have been restated.

Non-financial performance indicators

EnBW Group	2017	2016	2015	2014	2013
Customers and society goal dimension					
TOP Reputation Index	52.1	50.0	48.5	–[1]	–[1]
TOP EnBW/Yello Customer Satisfaction Index[2]	143/161	132/150	136/152	114/145	111/148
TOP SAIDI (electricity) in min./year	19	16	15	15	21
Employees goal dimension					
TOP Employee Commitment Index (ECI)[3]	60	59	60	56	58
TOP LTIF[3]	3.0	3.9	3.8	4.3	3.7
Environment goal dimension					
TOP Installed output of renewable energies (RE) in GW and the share of the generation capacity accounted for by RE in %	3.4/25.9	3.1/23.1	3.1/23.6	2.6/19.1	2.6/19.1
TOP CO_2 intensity in g/kWh	556	577	606	–[1]	–[1]

1 No figures for the comparative periods 2014 and 2013 are available for the new performance indicators.
2 EnBW has been working together with a new market research company since 2017. Despite using the same survey methodology and random sampling, current and earlier values are only comparable to a limited extent.
3 Variations in the group of consolidated companies; see also the definition of key performance indicators on page 30.

Glossary

A

Adjusted earnings figures
Adjusted earnings figures are operational earnings figures that are adjusted for non-operating effects. They include, amongst others, adjusted EBIT.

Adjusted EBITDA
The operating earnings of companies are often measured based on adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation). It describes earnings before the investment and financial results, income taxes and amortisation, adjusted for non-operating effects. The key performance indicator adjusted EBITDA is the central earnings indicator for EnBW.

Asset liability management model (ALM)
A model for asset liability and cash flow management. A cash flow-based model is used to determine the effects of the pension and nuclear provisions on the balance sheet, income statement and cash flow statement over the next 30 years. This ensures that the Group can cover its long-term pension and nuclear provisions within an economically viable time period using corresponding financial investments (so-called › dedicated financial assets).

Asset management
A financial asset management system facilitates the active management of investments that are used to cover pension and nuclear provisions. The central focus of this activity is to generate appropriate returns while taking into account the risks incurred.

B

Base
Base load product. The constant base level of supply/demand over a period of time.

Broadband infrastructure
EnBW supports local authorities and municipal associations with tasks ranging from broadband planning and the installation of the infrastructure through to operation, as well as with the associated end customer business (Internet, telephone and television).

Bundle
Product bundling (bundle offer) describes offering multiple products or services together in one package. Customers receive a suitable add-on in addition to their purchase.

C

Capital employed
Capital employed comprises all assets from the operating business. At EnBW, it primarily comprises property, plant and equipment in the form of power plants or grids. Non-interest-bearing liabilities – such as trade payables – are deducted.

Cash pooling
Daily pooling of the cash or cash equivalents of one or multiple companies within a Group with the goal of concentrating and transparently depicting them at the level of the parent company in order to optimise the interest result.

Certified Emission Reduction (CER)
Certified emission reductions from Clean Development Mechanism (CDM) projects. Pursuant to the Kyoto protocol, investors in industrialised countries earn these in developing countries with CDM emission reduction projects. 1 CER corresponds to 1 t CO_2. CERs can be used by companies to meet the obligation to return allowances under the European emissions trading system.

Charging Infrastructure
(› Electromobility charging infrastructure)

Clean Dark Spread (CDS)
The difference between the electricity price and the generation costs for a typical coal power station, which is calculated using the coal price, CO_2 allowance price and the degree of efficiency of the power station.

CO_2 allowances
CO_2 allowances have been traded on the Leipzig electricity exchange since 2005. If a company purchases a CO_2 allowance, it is entitled to emit 1 t CO_2.

CO_2 intensity
In the energy sector, CO_2 intensity refers to CO_2 emissions connected with electricity generation. It is measured in terms of g/kWh or t/MWh. CO_2 intensity as referred to here in the energy sector should not be confused with the meaning used in the wider economy.

Commercial paper (CP) programme
The CP programme is a flexible financing instrument and serves to issue unsecured bonds on the money market for the purpose of short-term financing.

Community energy cooperatives
Community energy cooperatives are players in the energy industry with the legal form of a cooperative, mostly with the aim of decentralised, independent and ecological energy generation. They are a form of citizen participation, primarily at a local authority or regional level. Community energy cooperatives offer citizens the opportunity to contribute to the Energiewende and climate protection through investment in local and regional energy projects.

Cost of capital
(› WACC)

Coverage ratio
Coverage of the pension and nuclear provisions of the Group by financial assets in the dedicated financial assets.

CSR performance
CSR performance provides an indication of a company's entire sustainability performance. It examines measures to protect the environment and human rights, promote good working conditions and fight corruption within the traditional dimension of corporate social responsibility (CSR) and also focuses on which processes a company has established to guarantee them.

D

Debt Issuance Programme (DIP)
The DIP, also known as EMTN (Euro Medium Term Notes), is a standardised documentation platform for raising debt through the issuing of medium and long-term bonds on the capital market.

Dedicated financial assets
Dedicated financial assets are cash and cash equivalents and financial assets that are held to cover the pension and nuclear obligations.

Derivatives
Financial instruments whose price or market rate is derived from its underlying asset.

District development
District development deals with smart and sustainable urban planning, as well as connecting up, constructing and operating modern residential districts. District development comprises urban infrastructure themes such as energy, grids, e-mobility, communication and digital networking, safety and smart services.

E

EBIT
EBIT stands for earnings before interest and taxes.

EBITDA
EBITDA stands for earnings before interest, taxes, depreciation and amortisation.

EEG cost allocations
Cost allocations under the EEG (Renewable Energies Act) are charged by the transmission system operators (TSO). On the one hand, the cost allocations cover the difference between the income generated by the transmission system operators from selling the electricity from EEG plants and the expenses incurred by the transmission system operators for the fixed feed-in remuneration and market premium payments to direct marketers of EEG plants, while on the other hand, they also cover the costs of implementing the EEG. More than half of the electricity price for household customers today consists of taxes, duties and cost allocations. The EEG cost allocation of 6.88 ct/kWh in 2017 (+8.3% in comparison with 2016) accounts for the largest share.

Electromobility charging infrastructure
There are currently four different types of electrical connectors for charging electric vehicles. An AC charging station provides alternating current with up to 3.6 kW of electricity via a Schuko connector and up to 22 kW of electricity via a type-2 connector at each charging point. An AC/DC charging station (quick-charging station) is equipped with a CCS and CHAdeMO connector providing up to 50 kW (DC = direct current) of electricity and with a type-2 connector providing up to 43 kW (AC = alternating current) of electricity. A charging station can have multiple charging points. The actual charging output is dependent on how quickly a vehicle can charge. The quick-charging stations provided by EnBW are generally equipped so that the charging infrastructure can be scaled up, both in terms of the number of charging points and especially the charging output. There are plans in 2018 to upgrade the quick-charging stations on or near to motorways to a charging capacity of 150 kW per CCS quick-charging point.

Energy saving contracting
The cross-discipline optimisation of building technology together with building operation based on cooperation in partnership. Investments in renovations or efficiency enhancement measures are financed through energy cost-savings.

Energy supply contracting
The outsourcing, for a specific period and for a specific area, of tasks relating to energy optimisation or utility energy supplies to a third party.

EPEX
The European Power Exchange (EPEX SPOT SE) is a stock exchange for the short-term wholesale trading of electricity in Germany, France, Austria, Switzerland and Luxembourg.

EU allowance (EUA)
EU emission allowance. An EUA entitles a company to emit 1 t CO_2. Each EU state allocates its supply of EUAs (1 EUA = 1 t CO_2) to its national companies either free of charge or via auctions.

F

Forward market
Market on which the supply and procurement of electricity, fuel and CO_2 allowances are traded for a future period. Usual periods include weeks, months, quarters and years. Settlement can be either physical or financial. The forward market has the primary function of acting as a price hedge.

Free cash flow
The cash flow freely available to the company for the distribution of dividends and for the repayment of debt.

Funds from operations (FFO)
Funds from operations (FFO) is the cash-relevant earnings from operating activities that is available to the company for investments, the distribution of dividends and the repayment of debt.

G

GASPOOL
GASPOOL Balancing Services GmbH, based in Berlin, is one of two market area managers on the German natural gas market. Market area managers are joint ventures formed by multiple independent transmission system operators. The gas grid operator GASCADE Gastransport GmbH (formerly Wingas Transport GmbH), Gasunie Deutschland GmbH & Co. KG, ONTRAS Gastransport GmbH (formerly VNG Gastransport GmbH) and Dong Energy Pipelines GmbH combined their respective market areas in 2009 and thus created a cross-regional market area cooperation; the company GASPOOL Balancing Services GmbH was founded for this purpose.

Greenhouse gas emissions
The increase in the concentration of various greenhouse gases, especially carbon dioxide (CO_2), increases the greenhouse effect and leads to global warming, which itself has many consequences. Alongside carbon dioxide, other greenhouse gases include methane, nitrous oxide, fluorinated hydrocarbons, sulphur hexafluoride and nitrogen trifluoride.

Grid topology
Grid topology describes the structure of the supply network and is developed primarily based on the criteria of security of supply, investment and operating costs, load density, spatial conditions and the function of the grids (transmission grid, distribution grid). Common grid topologies are star, ring and mesh networks, as well as mixed forms of these basic structures.

H

H-gas
H-gas is natural gas that has a higher methane and thus energy content than › L-gas, yet the chemical composition can also differ. H-gas is usually sourced from the North Sea or from the CIS countries in the south of Germany. The higher the methane content of natural gas, the higher its energy content and calorific value. The methane content of H-gas is generally between 87% and 98.9%.

Hedging
Hedging is a structured approach for securing against financial risks through financial transactions. Hedging involves engaging in countertrade transactions to offset a transaction or an existing position. This is usually carried out in the form of futures contracts.

HVDC
High-voltage DC transmission lines (HVDC) are used to transport electrical energy across large distances. The transmission lines use direct current for transportation as the transmission losses are lower.

I

Independent Transmission Operator (ITO)
The Independent Transmission Operators must fulfil the European unbundling regulations for greater liberalisation of the electricity and natural gas markets (3rd EU internal energy market package), that were implemented in the German Energy Industry Act (EnWG) in 2011. The aim of the unbundling regulations defined in the EnWG is to increase competition on the European energy market. An important prerequisite here is that the transmission grids are made available to all market participants as a neutral platform in a non-discriminatory way.

Internal financing capability
The key performance indicator internal financing capability describes the retained cash flow in relation to the cash-relevant › net investment and is the most significant performance indicator for the Group's ability to finance its activities internally.

Intraday trading
Intraday trading of electricity is carried out on both the › EPEX SPOT in Paris and the OTC (Over-the-Counter) market, i.e. via contracts negotiated off-exchange between electricity purchasers and sellers. It describes the continuous purchase and sale of electricity that is delivered on the same day. Therefore, it is also described as short-term wholesale electricity trading.

Investment-grade rating
An investment-grade rating exists from a credit rating of at least Baa3 (Moody's) or BBB- (Standard & Poor's).

L

L-gas
L-gas has a lower methane content than › H-gas. The methane content is usually between 80.1% and 87%. L-gas has a lower energy content but generally fulfils the same functions – although more L-gas than H-gas needs to be used for the same heating effect.

N

NCG
NetConnect Germany, a market area operator on the German natural gas market; NetConnect Germany GmbH & Co. KG (NCG), based in Ratingen, is one of two market area managers on the German natural gas market. Market area managers are joint ventures formed by multiple independent transmission system operators.

Net debt
Net debt comprises net financial debt and the net debt relating to pension and dismantling provisions.

Net debt relating to pension and nuclear obligations
Net debt relating to pension and nuclear obligations comprises the provisions for pensions and similar obligations and provisions relating to nuclear power. These provisions are netted against receivables relating to the dismantling of nuclear power plants and the › dedicated financial assets.

Net financial debt
Net financial debt comprise the financial liabilities (including financial leasing) taken on by the company less cash and cash equivalents and financial assets that are available to the company for its operating business. Financial liabilities are adjusted for valuation effects from interest-induced hedging transactions and for the portion of equity for the hybrid bonds.

Net (cash) investment
Cash-relevant net investment describes the overall cash-relevant investment less the overall cash-relevant divestitures in the relevant financial year.

Network Development Plan Electricity (NDP Electricity)
This plan describes the measures that need to be deployed over the next 10 and 20 years to expand and restructure the German land-based high-voltage grid to ensure the secure operation of the network. These measures make a significant contribution to the integration of rapidly growing renewable energies and thus also to the Energiewende. The NDP Electricity is prepared jointly by the four German transmission system operators every two years (since 2016), before being submitted to the German Federal Network Agency (BNetzA) as the responsible regulator.

Network Development Plan Gas (NDP Gas)
In the NDP Gas, German gas transmission system operators calculate the transportation capacities that they will require in the future. The plan is prepared every two years in close cooperation with the German Federal Network Agency (BNetzA) and in consultation with relevant market participants.

Non-operating figures
The non-operating figures include effects that cannot be predicted or cannot be directly influenced by EnBW and as such are not relevant to the ongoing management of the company. This includes, amongst others, non-operating EBIT.

Non-operating result
The non-operating result includes effects that cannot be predicted or cannot be directly influenced by EnBW and as such are not relevant to the ongoing management of the company.

Nuclear fuel rod tax
This tax was imposed from 2011 to 2016 at a rate of €145/g of nuclear fuel employed. However, it was declared unconstitutional on 7 June 2017 and also repaid to all energy supply companies in 2017.

P

Pari passu clause
A pari passu clause (Latin "pari passu" = on equal footing) is an obligation in financial agreements (for example, in bond agreements or loan agreements). The debtor/issuer obligates themselves during the term of the uncollateralised financial liability (for example, bond or loan) to the principle of equality, meaning future uncollateralised financial liabilities will not be given precedence over the existing financial liability.

R

Repowering
Old power plants for generating energy are replaced by newer and more efficient ones. The term is mainly used in connection with wind turbines.

Retained cash flow
The retained cash flow is decisive for the internal financing capability of EnBW. After covering ongoing costs and dividend payments, it is available to the company for investment without the need to raise additional debt.

Retained cash flow II
The retained cash flow II is the adjusted retained cash flow from the extraordinary effect of the reimbursement of the nuclear fuel rod tax. In the 2018 financial year, the reimbursed funds will be used for the repayment of debt and for strategic investments. The remaining amount will be distributed on a straight line basis in the period 2019 to 2020, also for the purpose of strategic investment. Accordingly, this will lead to an increase in the retained cash flow II over the period 2018 to 2020.

ROCE
ROCE is the return on capital employed in a company. The key performance indicator ROCE describes the relationship between adjusted EBIT including the adjusted investment result and the average capital employed and is thus the central value-oriented performance indicator of EnBW for assessing the return on capital employed in the relevant financial year.

S

Sector coupling
Sector coupling is the networking of electricity, heating, mobility and industrial processes for the purpose of lowering carbon dioxide emissions. As sector coupling offers synergy effects in the integration of high proportions of renewable energies, it is viewed as a key concept for the Energiewende and the development of energy systems using 100% renewable energies. There is a general consensus that sector coupling is necessary for the implementation of the Energiewende and the achievement of climate protection targets.

Smart city
New technologies in the areas of energy, infrastructure, buildings and mobility are intelligently networked across various systems to enable the highly efficient utilisation of resources such as energy and water, and reduce their consumption. Integrated (urban) planning processes such as integrated energy or mobility concepts are interlinked with the opportunities and demands of new technologies.

Smart grid
The smart electricity grid: a communication and control network that monitors and optimises the operation of its interconnected elements – from electricity generators, storage systems, consumers of electricity and network operating equipment in energy transmission and distribution grids. The aim is to optimise the supply of energy by operating the system efficiently, reliably and cost-effectively.

Smart meters
A combination of a modern measurement system and a data communication module (smart meter gateway). The smart meter can be safely integrated into a communication network.

Spot market
Market on which electricity supply and procurement quantities are offered and requested for the following day.

Spread
This term describes here the difference in the electricity price and the costs for coal, gas or brown coal and emissions allowances used for the generation of electricity.

System services
The complete set of services required to ensure the quality of electricity supplies: provision of operating reserves, maintaining frequency stability, maintaining voltage levels, re-establishing supply, management services.

T

TCFD (Task Force on Climate-related Financial Disclosures)
The Task Force on Climate-related Financial Disclosures (TCFD) examines the opportunities and risks associated with climate change and derives recommendations for transparent and understandable climate-related risk reporting by companies. EnBW is represented on the international task force appointed by the G20 through its Chief Financial Officer Thomas Kusterer (www.fsb-tcfd.org).

Treasury
Department of the company that deals with liquidity management (disposition, liquidity planning, money markets), currency management (hedging against foreign exchange risks, obtaining foreign currencies) and interest management (hedging against risks due to changes in interest rates, managing the interest rate position).

V

Virtual power plant
A virtual power plant is a business segment where products are marketed through a single platform that increases the value of decentralised energy plants – renewable energies, storage system, load-based plants – by bundling, marketing and optimising them together.

W

WACC
WACC stands for the weighted average cost of capital and is used in combination with value-based performance indicators. The cost of capital is determined based on the weighted average cost of equity and debt together.

Highlights 2017

Yello Strom becomes Yello

Since January, the Group's yellow brand has been using a new tagline "More than you think" and operating only under the name Yello. The relaunch takes into account the brand's product portfolio that has been steadily growing over the years and which now extends far beyond electricity.

EnBW has bids accepted for three further solar parks

As part of the auction process, EnBW had its bids for three solar parks with a total capacity of 16 MW accepted in February by the Federal Network Agency. They include a project in Mecklenburg-West Pomerania and two projects in Baden-Württemberg. The company is aiming to complete the solar parks by the middle of 2018.

EnBW further expands its contracting business

In parallel to the conclusion of important energy supply contracts with two large industrial companies, EnBW started operating an Energy Networking Centre in Waldbronn in February. Alongside the buildings of the technology group Agilent Technologies Inc. and of the company Taller GmbH, the centre will also supply the outdoor pool and ice rink in the municipality with heating, cooling and electricity using smart networking. EnBW currently operates around 200 plants across Germany and is one of the leading suppliers of contracting services.

E-world 2017: EnBW presents itself as a certified provider for the entire smart meter gateway business

EnBW presented itself as one of the first certified suppliers of administration services for smart meter gateways at E-world in February. The ISO-27001 certification covers the provision of IT services and also the realisation of business processes for the installation, commissioning, configuration, administration and monitoring of smart meter gateways. The certificate was awarded by TÜV Austria Deutschland GmbH.

EnBW has bid accepted for 900 MW wind farm He Dreiht

EnBW was successful in the first German offshore wind auction and had its bid accepted in April for one of the largest offshore projects in Europe – He Dreiht in the North Sea. EnBW He Dreiht is one of the world's first offshore wind farms that will not receive any state funding and thus represents a milestone in the expansion of wind power. It is due to be connected to the grid in 2025.

Important steps in the expansion of the gas business

Following the full consolidation of VNG-Verbundnetz Gas, EnBW became the third largest gas supplier in Germany in May and thus achieved a further milestone in its gas strategy. VNG started work on the natural gas storage facility "Katharina" in Saxony-Anhalt in May. In order to strengthen the security of supply for Germany and the entire European market, the underground gas storage facility will have a storage volume of 614 million m^3 when it is finally finished in 2024.

Onshore wind power: EnBW achieves commissioning record in September

In September, EnBW placed seven onshore wind farms into operation – more than ever before in just one month. The total of 21 onshore turbines with a hub height of between 134 and 164 metres have a total capacity of 70 MW. After total onshore expansion of more than 200 MW in 2017, EnBW is now one of the top 3 developers and operators of onshore wind farms in Germany.

The dismantling of nuclear power plants enters the next phase

The decommissioning and dismantling of the nuclear power plant blocks Philippsburg 1 (KKP1) and Neckarwestheim I (GKN I) began in the first half of the year. In parallel, five castor transports will be safely completed during the year. The transports – which involve moving spent fuel rods from Obrigheim via the Neckar river to the intermediate storage site in Neckarwestheim for secure storage – are completed in close consultation with the public.

Investment decision made: the offshore wind farm EnBW Albatros will be constructed

In cooperation with the Canadian energy infrastructure company Enbridge Inc. (Enbridge), EnBW will construct the North Sea wind farm EnBW Albatros with a capacity of 112 MW. The investment volume of €1.8 billion means that this is one of the largest investment decisions made in the history of EnBW. As with the EnBW Hohe See (497 MW) offshore wind farm project agreed with Enbridge in December 2016, EnBW will be the majority shareholder. Both wind farms are due to be connected to the grid in 2019.

NE+ on the road to becoming a digital energy supplier

EnPower – the first digital billing and customer interaction platform – has been launched online for NaturEnergiePlus customers. The focus has been placed on simplification, improving efficiency, digitalisation and customisation. The aim is to launch EnPower for Yello in 2018 and for EnBW in 2019.

TransnetBW submits application for direct current converter

In October, the transmission system operator TransnetBW submitted its approval application for the construction of the SuedLink converter at the site in Leingarten. The converter has been designed to convert direct current transported from Schleswig-Holstein to Baden-Württemberg via an around 700 kilometre-long underground cable into alternating current. This will be fed into the existing transport grid at the Großgartach substation (municipality of Leingarten). SuedLink is (alongside ULTRANET) one of the planned direct current power lines designed to transport electricity generated from renewable energies in northern Germany to the south.

All signs point to e-mobility

At the international Electric Vehicle Symposium & Exhibition (EVS 30) in October, one of the most important sector meeting places for the entire electromobility industry, EnBW presented its EnBW mobility+ app and other new products in the area of e-mobility. For example, the EnBW mobility+ charging card makes it possible to recharge electric vehicles at more than 8,000 charging points throughout Germany, Austria and Switzerland. The continuous expansion of quick-charging stations was also pushed forward in 2017. A total of 120 service stations operated by Autobahn Tank & Rast GmbH were equipped with quick-charging stations by the end of the year.

Important notes

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The complete consolidated financial statements prepared by EnBW Energie Baden-Württemberg AG and audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, and the management report, which is combined with the Group management report, will be published in the German Federal Gazette ("Bundesanzeiger") together with the unqualified audit opinion. The necessary documents will be submitted to the German Federal Gazette ("Bundesanzeiger") by 30 April 2018 at the latest.

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This report contains forward-looking statements which are based on current assumptions, plans, estimates and forecasts made by the management of EnBW. Forward-looking statements of this kind are therefore only valid at the time they were first published. Forward-looking statements are indicated by the context, but may also be identified by the use of the words "can", "will", "should", "plans", "intends", "expects", "thinks", "estimates", "forecasts", "potential", "continued" and similar expressions.

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No obligation to update the information
EnBW assumes no obligation of any kind to update the information contained in this report or to adjust or otherwise update forward-looking statements to future events or developments. This Annual Report can also be downloaded from the Internet in German or English. In cases of doubt, the German version shall be authoritative.

Financial calendar 2018

22 March	Publication of the Integrated Annual Report 2017
8 May	Annual General Meeting 2018
15 May	Publication of the Quarterly Statement January to March 2018
26 July	Publication of the Six-Monthly Financial Report January to June 2018
12 November	Publication of the Quarterly Statement January to September 2018

On track: Dates, facts and figures

2012

€2.4 billion
adjusted EBITDA

48 MW
installed output from offshore wind

0
quick-charging stations

18.9%
share of the generation capacity accounted for by renewable energies

2017

540 MW
installed output from onshore wind (portfolio tripled since 2012)

1.3 million t
CO_2 savings due to wind power

128
quick-charging stations

75,000
users of the EnBW mobility+ app (most downloaded e-mobility app in Germany)

€787.5 million
investment in the grids sector (more than doubled since 2012)

11,400 km
backbone network of NetCom BW (one of the largest broadband networks in Baden-Württemberg)

Number 3
on the German gas market

9
new projects on the Innovation Campus

2020

1,000
quick-charging stations

945 MW
installed output from offshore wind

40%
share of the generation capacity accounted for by renewable energies

€2.4 billion
adjusted EBITDA

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On track: 2020 strategy

The image section can be found at the beginning of the report.

Navigation

The following symbols indicate that further information is available within the report or on the Internet::

Further information is available in another section of the report.

This term is explained in our glossary on page 132ff.

Further information is available on the Internet.

The integrated management report of EnBW comprises financial and non-financial goals in the dimensions of finance, strategy, customers and society, employees and the environment.

TOP Our key performance indicators are labelled with this symbol.

We have also published an online version of the Integrated Annual Report 2017 at:

www.enbw.com/report2017

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