Combined management report

47

Report on expected developments and their key opportunities and risks

56

Current situation of EWE AG

Business conditions and general framework

The EWE Group

Organisation and Reporting principles

We are an energy company which operates primarily in the fields of energy, telecommunications and information technology (IT) in Germany, Turkey and Poland. Besides operating state-of-the-art, reliable energy grids, we are a pioneer in the field of renewable energy and, as the first company in Germany to do so, tap the joint potential of energy, telecommunications and IT. The EWE Group comprises EWE Aktiengesellschaft (also referred to as EWE AG), an 'Aktiengesellschaft' (public limited company) incorporated under German law, as well as its subsidiaries. Our company's headquarters are located in Oldenburg, Germany. In the 2017 business year, the Group had an average of 9,134 employees (previous year: 9,048 employees).

Description of business activities

Renewables, Grids and Gas Storage segment

In the Renewables segment, we plan, build and operate renewable power generation plants, including within the scope of investment and partner models. We market our expertise in the construction and operation of offshore wind farms internationally. In the current business year we have improved our power generation capacity (including proportional capacities of holdings consolidated using the equity method), from 296,8 megawatt to 332,0 megawatt.

In the Grids business area, we operate state-of-the-art, efficient power grids and natural gas networks in the Weser-Ems region of Germany, as well as natural gas networks in Brandenburg / Rügen and Nordvorpommern totalling 139.2 thousand km in length (previous year 138.5 thousand km). Thanks to low outage times, our distribution grids are some of the safest in Europe. We also operate a wide telecommunications network approximately 40.1 thousand km in length (previous year: around 38.8 thousand km). The company is continuously pushing forward with the expansion of broadband in the rural areas of north-western Germany. We also operate several drinking water networks and, as an energy company with regional roots, are active in the waste water business. We purified 18.4 million cubic metres of water in the reporting year (previous year: 17.6 million cubic metres).

In the field of Gas Storage we construct, acquire and operate systems to store as well as inject and withdraw gaseous and liquid energy carriers such as high-pressure natural gas, hydrogen, liquefied petroleum gas and compressed air, and render all related services. In this business area we operate a total of 38 underground reservoirs in locations throughout northern Germany, as well as in Rüdersdorf near Berlin, and sell storage capacity to internal and external customers. With a total storage capacity of 2.1 billion cubic metres, we are one of the largest operators of gas storage reservoirs in the German-European natural gas market.

Sales, Services and Trading segment

The Energy and Telecommunications business area combines the sale of energy products with telecommunications. In the domestic market, the sale of energy products takes up the leading position in the competitive environment. The focus of its telecommunications sales lies primarily in north-western Germany, parts of Brandenburg, on the island of Rügen and in the Ostwestfalen-Lippe region. We support commercial customers nationwide. Through the establishment of additional business activities such as light contracting, power storage and energy audits, we are currently transitioning into a service provider for which – in addition to the classic power, gas and heat products and telecommunications – customer-specific services and solutions will open up new business opportunities.

The IT area contains our holistic range of IT products and services designed especially for the energy and telecommunications sectors, the public sector, industrial companies and service providers. Our key areas of expertise lie in consulting, system integration and applications and system management. We place a focus on energy-related software products.

The Trading business area encompasses services relating to the procurement and marketing of electricity and gas. Additionally, the Trading business area facilitates the optimisation of the entire energy portfolio of the EWE Group, allowing it to provide its customers and partners with a wide range of services, for instance portfolio and balancing group management. By directly marketing renewable energy, the Trading business area helps operators of wind and solar parks throughout Germany market their electricity. Trading services to provide market access to our Group's sales and generation activities.

International segment

In Turkey and Poland, the distribution and sale of natural gas are key components of our business operations. Our business in Turkey holds long-term gas trade and liquefied natural gas licences as well as a power trading licence. We supply natural gas to industrial customers, industrial zones, gas power plants and utility companies throughout the country. Business customers are also supplied with electricity in both countries.

Through Millenicom, we have also been active in telecommunications in Turkey since 2016.

swb segment

This segment encompasses our business activities in the cities of Bremen and Bremerhaven. swb and its subsidiaries are active in the fields of electricity, natural gas, heating, drinking water and telecommunications. Likewise, this segment includes the Conventional Generation and Disposal business unit of swb.

Group Central Division

EWE AG manages the EWE Group as its holding company. Its duties lie in the strategic and cross-market development of the business areas as well as strategic planning and assuring the Group's financing. In addition, EWE AG performs centralised corporate services for the Group's companies.

Internal management system

The EWE Group uses a multilevel management system which makes it possible to decentralise corporate responsibility and at the same time create a high level of transparency. The internal management system differentiates between the Group and the segment level. The operative segments Renewables, Grids and Gas Storage; Sales, Services and Trading; International and swb form the basis of the internal reporting structures and external reporting (segment reporting). Internal and external reporting is based on the same management information system. This technological platform enables the use of a uniform database for a variety of reporting needs and ensures that the content of information is the same between reporting levels and within one reporting level.

As the parent company, EWE AG has defined targets for measuring and controlling company performance which will ensure the long-term success of the company. Integral components of this overarching objective include long-term value creation, assuring adequate financing and stabilising the company's external rating.

Earnings before interest and taxes are of key importance, represented by the leading key performance indicator operating EBIT. Operating EBIT represents earnings before interest and taxes, adjusted for special items. This includes valuation effects from financial instruments, impairment, reversals of write-downs and special items resulting from changes to the basis of consolidation, as well as those resulting from restructuring measures and donations.

At the level of operative segments, the main key performance indicator operating EBIT is complemented by specific figures. Furthermore, investments and their distribution across the individual segments represent a further focus of Group-wide reporting.

Internal and external Group reporting is continuously adjusted to meet the operative requirements of managing the EWE Group as well as current legal stipulations.

Research and development

In the 2017 business year, the company optimised its innovation-related activities and kept them in line with the requirements of the market. All business units and Group companies worked together to launch the holistic innovation process. An integrated organisational model was therefore developed to pool activities, allowing for greater professionalism through the specialisation of expertise and clear responsibility rules. Its objective is to systematically and efficiently create business model opportunities across company departments in a digital market and innovation landscape.

The enera project 'Digital Agenda for the Energy Transition' takes a systematic approach to demonstrate the thorough digitisation and increased technical flexibility of the energy system. The four-year project ends on 31 December 2020. In 2017, the first year of the project, the conceptual work from the pre-project phase was completed and transferred to the roll-out phase which will last until around the end of 2018. This phase will focus on the installation of technology. This includes the installation of smart measurement systems and modern grid technology (e.g. controllable mains transformers). Additionally, the construction of three battery storage systems in the model region was prepared. The enera market approach was developed and enera Smart Data and Service Platform were implemented and tested in collaboration with the European power spot trading stock exchange EPEX SPOT SE. Similarly, the first data-based business models were tested in a specially developed proprietary format and some put into further development.

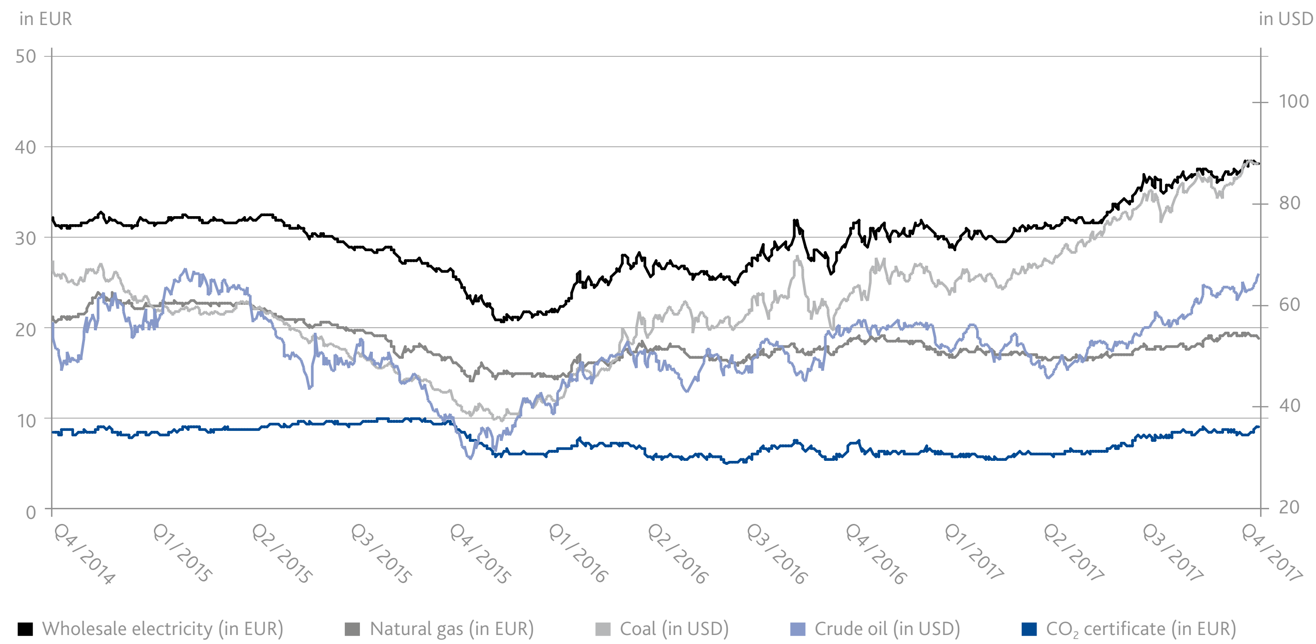
The project 'Regional Virtual Power Plant Field Test on the Basis of Micro-CHP Technology' is a building block in the developing field of virtual power plants which is being realised in collaboration with the university of technology TU Dresden. It is currently in the final year of its funding phase. The completion of this year's field test produced the following results in particular: Modern heating systems in private households with combined heat and power systems (micro-CHP systems) and electrical heating elements were successfully integrated into a virtual power plant and operated as regionally available flexibility. This could be done by fitting the micro-CHP systems with smart metering and control technology and by building on the virtual power plants of EWE AG. The communications gateway developed especially for the project was fitted with an interface based on a standardised energy efficiency protocol. The gateway is based on a low-cost microcontroller in order to ensure that it will be possible to use the gateway competitively and in line with the energy transition. A variety of utilisation and operation strategies were developed and then tested and evaluated from technical and economic perspectives. The findings from the project will pave the way to integrating even small plants into modern energy grids.

In the green mega-battery project 'brine4power', the Friedrich Schiller University in Jena has determined in an initial research phase that stable electricity storage situations can be created even in brine saturated with salt. Therefore, the next investigations into the feasibility of electricity storage in underground storage facilities have been launched.

The 'Green Access' research project is examining how smart power grids must be to absorb as much green electricity as possible at low cost. The project is working with partners from industry and the world of science to determine how smart distribution grid automation can prevent restrictive bottlenecks. Power grid components and control concepts are being developed and linked in order to communicate and operate with one another. The medium and low-voltage network automation solutions will be applied in a field test in order to derive practical approaches. The focus was on adherence to requirements in connection with network and system technology as well as information and communication technology. Additionally, the self-learning automated distribution grid should be able to adapt to new situations. The project assesses the efficiency of the measures on the basis of reliability considerations and a performance measurement system.

Energy market and prices

Electricity, gas, CO_2, coal and crude oil



Source: EEX, Intercontinental / 31.12.2017

General economic conditions

Development of the market

The business of EWE is more greatly affected by developments in the energy and telecommunications sectors than by global economic developments, which is why the information provided below focuses on the energy and telecommunications markets.

Energy market and prices

International commodity prices, particularly of oil, gas and coal, as well as the prices of CO_2 certificates, are the predominant factors that affect price trends on the power and gas markets. The petroleum market can be considered a leading indicator. The price of the front-month contract on the crude oil type Brent started at 55.47 US dollars per barrel in 2017 and essentially hovered around 55.00 US dollars per barrel in the first quarter. The price hit its lowest level in the year at 44.82 US dollars per barrel in June 2017. Afterwards, the contract started to experience upwards movement which continued until the end of the year, closing at 66.87 US dollars per barrel. The front-month contract on electricity (base load) in Germany and Austria (Base Cal 18) started at 30.08 euros per MWh on the European Energy Exchange (EEX). It remained stable until the end of April. Additionally, the same contract was traded exclusively for Germany from 25 April 2017. It was introduced to the EEX as part of the preparations for a market area separation. The first settlement price on this day was 29.07 euros per MWh. The electricity market also started experiencing an upwards trend in the middle of the year, leading to a closing price of 37.67 euros per MWh. The German-Austrian contract closed the year at 37.72 euros per MWh. The same trends could be observed on the coal and emissions markets. Only the gas market experienced seasonal influences (high prices in winter months and low prices in summer).

In contrast, the spot prices in the electricity market were noticeable. These were influenced by low temperatures combined with a low renewable energy feed-in rate, especially at the start of the year. Additionally, the poor availability of its nuclear power stations caused France, normally an exporter of electricity, to become an importer of electricity. For example, the average price in January 2017 was 52.37 euros per MWh, the highest January price since 2009.

According to preliminary calculations by the Working Group on Energy Balances (Arbeitsgemeinschaft Energiebilanzen – AGEB), in 2017 energy consumption in Germany increased by 0.8 per cent compared to the previous year. Primary energy consumption in the reporting year totalled 461.5 million Tonnes of Coal Equivalent (TCE), compared to 457.9 million TCE in the previous year. This growth is due primarily to the positive development of the economy. The AGEB expects CO_2 emissions to have stagnated.

Natural gas consumption increased by 5.2 per cent to 109.2 million TCE. This is largely due to the increased use of natural gas in combined heat and power stations. However, the relatively colder weather led to increased use of natural gas for heating purposes. Comprising 23.7 per cent of total primary energy consumption, natural gas slightly increased its share compared to the previous year (22.7 per cent).

Renewable energy increased its contribution by 6.1 per cent to 60.5 million TCE. The feed-in of electricity generated by wind turbines increased significantly by 34.0 per cent year-over-year. Solar power (+5.0 per cent) and geothermal energy (+7.0 per cent) also experienced growth over the previous year. As a result, the proportion of renewables in the overall energy mix increased slightly to 13.1 per cent (previous year: 12.5 per cent).

The increased feed-in of electricity from renewable sources and the increased generation of the natural gas CHP plants had a negative effect on coal consumption (which decreased by 10.4 per cent).

Due to plant overhauls, the contribution of nuclear power to the total energy consumption in 2017 fell by 10.3 per cent.

Telecommunications market

The total revenue in the telecommunications services market in Germany was around 58.8 billion euros in 2017. It was therefore 1.3 per cent lower than in the previous year (60.5 billion euros). Of this figure, around 26.2 billion euros were attributable to mobile communication services (previous year: 26.4 billion euros) and around 32.6 billion euros were attributable to landlines including the cable network (previous year: 34.1 billion euros). Therefore, the decrease is essentially attributable to landlines. The reasons remain the falling average revenue per user brought about by competitive pressure.

Unlike in previous years, Telekom Deutschland GmbH, Bonn (TDG), and the cable network operators were unable to increase their landline revenue further. It stabilised at around 19.1 billion euros (previous year: 19.1 billion euros) while alternative providers generated around 0.4 billion euros less in revenue. Adjusting the figure by the turnover of the cable network operators reveals that this is the first year since 2015 in which the revenue of TDG decreased slightly. The situation is different in the field of mobile communications: revenue has remained stable at 8.0 billion euros whereas competitors were forced to report decreases of around 0.5 billion euros.

A comparison of the origins of the revenue makes it clear for the entire market that the price competition between market players has led to increased pressure in the business customer segment. Over the long term, revenue has fallen by around 3.4 billion euros since 2012 to 21.4 billion euros in 2017. In contrast, revenue in the private customer segment is increasing, largely due to the growing demand for high bandwidths. In this segment, the market has grown by around 2.0 billion euros from 35.4 billion in 2012 to 37.4 billion euros in 2017.

Due to the fact that fewer and fewer companies are investing in expanding their telecommunications infrastructure, the level of investments in 2017 was around 0.1 billion euros below the level of TDG. Likewise, the total volume of the investments decreased by around 0.3 billion euros to 7.9 billion euros.

Political and regulatory environment

New framework for combined heat and power

The new German Combined Heat and Power Act (KWKG) came into effect at the start of 2017. The amendments to the current law focus on the introduction of tendering for plants with installed capacities of between 1 and 50 MW as well as particularly innovative CHP plants. For the EWE Group, the introduction of tendering will make the field of business for plants of this scale a more challenging environment. Additionally, the amendments increased the subsidy criteria for heating networks in which a higher proportion of CHP heat or heat from renewable sources is required.

New regulations for renewable energy and self-supply

The reformed German Renewable Energy Sources Act (EEG) came into force on 1 January 2017. It stipulates that the scale of subsidies for renewables will be determined by a competitive tendering process. The regulations concerning onshore wind energy are particularly relevant to EWE as we aim to expand this method of generation even further. The 2017 version of the EEG defines a network expansion area in northern Germany in which only the expansion of cost-effective, easily controlled wind turbines on land is to be restricted. EWE is critical of the expansion limit for onshore wind energy.

Additionally, the Act Amending the Combined Heat and Power Act and the Renewable Energy Sources Act (KWKG-EEG-Änderungsgesetz) will change the general framework for renewable energy in such a way that own consumption will only remain unaffected by the EEG reallocation charge under certain circumstances and for certain plants. This could render certain projects unattractive to EWE customers.

Transition from low-calorific gas to high-calorific gas

Due to the declining reserves of low-calorific gas in Germany and the Netherlands, a transition to high-calorific gas is essential. This will also ensure supply security in the market regions that up until now have been supplied with low-calorific gas, of which the EWE service area is one. In light of recurring earthquakes in the Groningen region, the Dutch government is currently drawing up a new statutory subsidy framework by autumn 2018. In this regard, we are monitoring the effects of the political situation on the market region transition and the security of supply in the EWE service area, and are holding constructive dialogues with political representatives and authorities in Germany and the Netherlands. The market region transition started successfully in the Bremen supply area this year, whereas the transition will not start until 2018 in EWE’s other network areas.

The German Grid Tariff Modernisation Act (NEMoG)

The NEMoG came into effect in July 2017. The NEMoG affects the entire energy sector, especially the operators of taxable, decentralised power plants. If new plants are built after 2023, these will no longer have any avoided grid fees. They will continue to be paid for existing power plants, although on a reduced calculation basis. Compared to the previous regulations, this will lead to fewer avoided grid tariffs which directly affect the conventional generation of swb AG, Bremen (swb AG), in the EWE Group. Additionally, the Act provides for the gradual national unification of transmission grid fees from 2019 onwards. This is expected to have a generally positive effect on the grid fees charged to consumers in north-western Germany and therefore in the domestic market of EWE.

The German Gas Network Access Ordinance (GasNZV)

The amended GasNZV came into force in August 2017. In the EWE Group, the grid and marketing companies as well as EWE GASSPEICHER GmbH, Oldenburg, are most affected. The amended Ordinance provides for the combination of both German gas market areas on 1 April 2022. Additionally, it abolishes the first-come-first-served principle (a method for awarding transport capacity) for gas storage units by 1 April 2018. Additionally, the amended GasNZV rules that long-distance network operators must offer all transport customers underground capacity, even at non-interconnection points; these regulations will come into effect on 1 January 2018. Other amendments affect the auctioning procedure for awarding capacity, the determination of long-term capacity requirements and the margin of discretion of the Federal Network Agency.

The German Electricity Network Access Ordinance (StromNZV)

In December 2017, the Bundesrat approved the amendments to the StromNZV proposed by the German government. It can now come into effect. The amendment defines the national duties of transmission grid operators to preserve the unified German electricity bidding zone. They are legally obliged to facilitate trades in Germany without awarding capacity in such a way that the territory of the Federal Republic of Germany represents a unified electricity bidding zone. It is prohibited to unilaterally introduce capacity allocation that would lead to a unilateral division of the unified German electricity bidding zone. Such a division of the electricity bidding zone would likely lead to region-specific price increases or decreases and would probably have considerable effects on society in general. This would directly affect the companies of the EWE Group.

Equity interest rates for the third regulatory period

In October 2016, the German Federal Network Agency published the equity interest rates for electricity and gas network operators for the third regulatory period. Despite in-depth discussion, the Federal Network Agency did not deviate from its massive planned decrease in equity interest rates following the consultation phase. EWE NETZ GmbH, Oldenburg (EWE NETZ), has joined other grid operators and filed an appeal against this decision with the Higher Regional Court (OLG) of Düsseldorf.

German Federal Network Agency lowers X Generell

In order to determine the revenue ceiling for the third regulatory period, the German Federal Network Agency has set the general industrial productivity factor X Generell for gas network operators at 0.49 per cent in a preliminary announcement. The factor was 1.50 per cent previously. EWE NETZ is still of the opinion shared by the sector that an X Generell of above 0 per cent for the third regulatory period cannot be derived or justified to any great extent and will therefore voice this opinion in the ongoing consultation process. With regard to the third regulatory period for electricity which starts on 1 January 2019, it is possible that the Federal Network Agency will set different general productivity specifications for electricity and gas.

Installation of intelligent meters and communication infrastructure

The objective of the statutory regulations in the EU Third Internal Energy Package and amended Energy Industry Act (EnWG) (2011) is to fit and control distribution networks with intelligent meters and communication infrastructure in the future. EWE NETZ is still going to great lengths to implement these specifications without jeopardising the security of supply of the service area. Intelligent networks will help overcome these challenges. The use of information and communication technology creates integrated data and electricity networks with novel features. For example, intelligent control systems can balance out the fluctuations in electricity generation from renewable sources as well as electricity consumption. Smart grids guarantee secure, efficient and reliable system and network operation and help lower the need to expand networks. Intelligent measurement systems – smart meters – are one component of the intelligent networks. They help increase energy efficiency whilst saving electricity. Additionally, they support the novel features of the network.

In accordance with the German Metering Point Operation Act (MsbG), EWE NETZ registered its status as a fundamentally responsible metering point operator in its service area on 30 June 2017. In its role as a fundamentally responsible metering point operator, the network company has to replace all conventional electricity meters with modern measurement systems and smart meters by 2032.

The German Tenant Electricity Act (Mieterstromgesetz)

The German act on the subsidisation of tenant electricity came into force on 25 July 2017 and subsidies were approved by the European Commission on 20 November 2017. Under the Tenant Electricity Act, landlords receive a subsidy if they pass electricity generated by solar panels mounted on the roof or adjacent building Sections directly to their tenants. One requirement is that at least 40 per cent of the area in the building be used for residential purposes. The subsidies are capped at 500 MW per year. For EWE, this can open up new options for shared business models with the housing sector.

The German Sewage Sludge Ordinance (Klärschlammverordnung)

The amended Sewage Sludge Ordinance and therefore stricter requirements concerning the ground-based utilisation of sewage sludge came into force on 3 October 2017. One key element of the amended ordinance is that, after the expiry of certain transition periods for larger wastewater treatment plants, phosphorous must be recovered from the sewage sludge or from sewage sludge incineration ash. This will be followed by the duty to prepare a report on sewage sludge disposal and phosphorous recovery in 2023 and mandatory phosphorous recovery with thermal treatment for wastewater treatment plants with a population equivalent of over 100,000 in 2029, which will extend to wastewater treatment plants with a population equivalent of over 50,000 in 2032. Therefore, EWE is increasingly interested in thermal sewage sludge utilisation with mono-incineration systems as an alternative to agricultural disposal.

The German Fertiliser Regulation (DüMV) and Fertiliser Act (DüG)

The amended DüG and the new DüMV further limit fertilizer use, including with new blocking periods and limits on pollutant inputs. This also concerns the use of sewage sludge in agriculture. From 2019 onwards, only polymers that are recoverable and meet certain composition requirements can be used. At the moment, the disposal of sewage sludge for EWE is still contractually secured, although in the long term, the new statutory fertilizer regulations are making mono-incineration systems an alternative to the agricultural disposal of sewage sludge.

Expansion of VDSL vectoring in short-range networks

EWE has received permission from the Federal Network Agency to expand around 300,000 connections and will augment them with vectoring technology by early 2019. Users will then have access to broadband speeds of up to 100 Mbit / s. The appeal against the decision of the Federal Network Agency has not been continued after the decision was not corrected in expedited proceedings.

Implementation of the German Digital Network Act (DigiNetz-Gesetz)

The first official implementation measures and dispute resolution proceedings took place in 2017 in connection with the Digital Network Act that came into effect in late 2016. EWE is fulfilling the expanded duties to map its own infrastructure. In a controversial decision, the Federal Network Agency forced one company to allow shared use of its underground works with no significant compensation. Companies that are investing in fibre optic expansion are therefore pressing for a change to the statutory regulations in this context.

New state government in Lower Saxony

Following the state parliamentary elections in Lower Saxony on 15 October 2017, the SPD and CDU quickly formed a grand coalition. The coalition agreement signed in mid November contains certain plans of relevance to EWE: the state remains committed to renewable energy and will work on a national level to raise the offshore expansion target from 15 to 20 GW by 2030. The state government also wishes to provide political support for the project ‘enera’. With regard to telecommunications, Lower Saxony has set itself the ambitious target of comprehensive 1 Gbit connection availability by 2025 and, as part of a ‘digitisation master plan’, wants to provide 1 billion euros for broadband expansion with fibre optic technology by 2022. In terms of transport, Lower Saxony hopes to become a pioneer in e-mobility amongst the German states. The new state government wants to continue working on the Climate Protection Act in Lower Saxony with an integrated energy and climate programme for Lower Saxony which started under the SPD and Greens in 2017.

Current situation of the EWE Group

Overall assessment of business performance

Overall, the Board of Management of EWE AG can look back on a positive 2017 business year, even if at 256,1 million euros, the net income for the period was lower than in the previous year. The main reason for this decrease was the successful disposal of the shares in VNG – Verbundnetz Gas Aktiengesellschaft, Leipzig (VNG), in the previous year. The decrease was offset to a certain extent by the lower impairment and higher net interest which does not include a prepayment penalty this year. Operating EBIT is 503,4 million euros and is 31,2 million euros lower than in the previous year. This decrease is due primarily to income from the reversal of pension provisions in connection with the reorganisation of swb's company pension scheme in the previous year.

At 503,4 million euros, the operating EBIT of the EWE Group for the 2017 business year was slightly above expectations. The Renewables, Grids and Gas Storage and International segments in particular experienced positive deviations from their forecasts. The Sales, Services and Trading and swb segments remained consistent with their forecasts.

The developments in the Renewables, Grids and Gas Storage segment are due primarily to higher earnings contributions from the electricity and gas networks as well as less of a need for planned expenses. An allocation to the rehabilitation provisions for gas storage in particular had the opposite effect.

The International segment performed above expectations, due largely to the significant improvements in the earnings of Bursagaz which more than balanced out the negative effects of our trading activities resulting from expected but unrealised increases in gas prices.

Results of operations

The ability of the EWE Group's normal business operations to generate earnings over the long term is of particular importance to both internal governance as well as the external communication of the current and future development of the Group's earnings. Operating EBIT is an adjusted earnings figure which is used to illustrate and manage operative earnings performance. To calculate operating EBIT, EBIT is adjusted for special items such as financial instruments, impairment, reversals of write-downs and special items resulting from changes to the basis of consolidation, as well as those resulting from restructuring measures and donations.

The following chart illustrates the reconciliation to the consolidated result for the period:

T002

in millions of euros	2017	2016
Operating EBIT	503.4	534.6
Derivatives	25.2	87.7
Fair value measurement of other financial instruments	41.2	
Reversals of write-downs	60.3	
Impairments	–132.9	–174.9
Investments	1.7	243.0
Restructuring	4.9	–21.2
Donations		–20.0
EBIT	503.8	649.2
Net interest income / expense	–142.5	–206.5
Income taxes	–105.2	–109.8
Consolidated result for the period	**256.1**	**332.9**

T001

Forecast deviations

Operating EBIT in millions of euros	2016	2017 target	2017	Achievement
Renewables, Grids and Gas Storage segment	333.7	+0% to +10%	388.8	16.5%
Sales, Services and Trading segment	61.2	+10% to +35%	70.6	15.4%
International segment	25.6	–30% to –15%	24.8	–3.1%
swb segment	165.2	–60% to –45%	89.3	–45.9%
Group Central Division	–51.1		–70.1	–37.2%
EWE Group	**534.6**	**–20% to –10%**	**503.4**	**–5.8%**

T003

Significant changes to the consolidated income statement

in millions of euros	2017	2016	Change in %
Revenue (excluding electricity and energy taxes)	**8,250.5**	7,566.3	9.0
Material expenses	–6,333.7	–5,761.7	–9.9
Personnel expenses	–711.8	–722.5	1.5
Other income and expenses	–169.8	–81.6	<–100
Impairment losses / income pursuant to IFRS 9.5.5	–16.1		
Depreciation, amortisation and write-downs	–558.9	–605.8	7.7
Income from investments	43.6	254.5	–82.9
EBIT	**503.8**	649.2	–22.4
Net interest income / expense	–142.5	–206.5	31.0
Earnings before income taxes	**361.3**	442.7	–18.4
Income taxes	–105.2	–109.8	4.2
Earnings in the period	**256.1**	332.9	–23.1
Thereof attributable to:			
Shareholders of the parent company	254.9	331.9	–23.2
Minority shares	1.2	1.0	20.0
	256.1	**332.9**	**–23.1**

In the 2017 business year, our Group generated turnover (excluding electricity and energy taxes) of 8,250.5 million euros (previous year: 7,566.3 million euros). This represents an increase of 684.2 million euros over the same period in the previous year (9.0 per cent). Due to the almost fully proportional increase in material expenses (9.9 per cent), the material usage rate of 76.8 per cent was at the same level as in the previous year (76.1 per cent). In the reporting year, approximately 92 per cent of the turnover was generated inland and approximately 8 per cent was generated abroad.

Personnel expenses were at the same level as in the previous year.

The balance of other operating income and other operating expenses (including inventory changes and internally produced and capitalised assets) totalled –169.8 million euros (previous year: –81.6 million euros). The change compared to the same period in the previous year is largely due to the lower income from the reversal of provisions and from the lower positive measurement effects for derivative financial instruments and recognised underlying transactions with regard to energy. This was balanced out by the reversals of write-downs of property, plant and equipment by EWE energia (51.0 million euros) and the reversal of write-downs of intangible assets by Kayserigaz (9.3 million euros).

Overall, due to lower impairments, depreciation, amortisation and write-downs decreased from 605.8 million euros to 558.9 million euros.

The income from investments fell significantly by 210.9 million euros. This is because the value in the previous year contained the proceeds from the disposal of the shares in VNG totalling 240.3 million euros.

The net interest of –142.5 million euros resulted primarily from interest on bearer bonds (public-sector bonds), bonds (private placement), interest on floating bank debts and the compounding of non-current liabilities. The net interest is 64.0 million euros higher than in the previous year. This is due to the prepayment penalties of around 50 million euros incurred in the previous year in connection with the premature buy-back of bonds.

Segment performance

The following chart illustrates the operating EBIT and external sales:

T004

in millions of euros	External sales 2017	External sales 2016	External sales Change in %	Operating EBIT 2017	Operating EBIT 2016	Operating EBIT Change in %
Renewables, Grids and Gas Storage segment	2,118.5	2,012.9	5.2	388.8	333.7	16.5
Sales, Services and Trading segment	4,421.1	3,763.9	17.5	70.6	61.2	15.4
International segment	623.8	727.9	–14.3	24.8	25.6	–3.1
swb segment	1,085.1	1,058.7	2.5	89.3	165.2	–45.9
Group Central Division	2.0	2.9	–31.0	–70.1	–51.1	–37.2
Total	**8,250.5**	**7,566.3**	**9.0**	**503.4**	**534.6**	**–5.8**

T005

Renewables, Grids and Gas Storage segment

in millions of euros	2017	2016
Operating EBIT	388.8	333.7
Derivatives	–0.2	0.2
Fair value measurement of other financial instruments	1.3	
Impairments	–75.5	–149.2
Investments	1.1	–0.1
Restructuring	–1.2	–14.0
Donations		–7.0
EBIT	314.3	163.6

In our Renewables, Grids and Gas Storage segment, external revenue in the reporting period grew by 5.2 per cent year-over-year to 2,118.5 million euros (previous year: 2,012.9 million euros). The increase in turnover resulted primarily from higher electricity and gas grid tariffs and from the increased electricity generation capacity of the RIFFGAT offshore wind farm following its disconnection from the grid in the previous year. This segment contributed approximately 25.7 per cent to the Group's total revenue in the reporting period (previous year: 26.6 per cent). Operating EBIT amounted to 388.8 million euros (previous year: 333.7 million euros). This was due in particular to positive effects on earnings by the Grids business area. The Renewables business area is profiting from the increase in the earnings of the RIFFGAT offshore wind farm. This is due primarily to a better wind year and a permanently smaller depreciation, amortisation and write-down scale due to the valuation allowances that were carried out. The decrease in changes in the value of gas inventories as at the reporting date and an allocation to the gas storage facility rehabilitation provisions had a compensatory effect.

Due to the aforementioned operating EBIT effects and lower impairments, the EBIT of 314.3 million euros increased over the previous year (150.7 million euros). The impairments in 2017 are essentially attributable to the RIFFGAT offshore wind farm.

T006

Sales, Services and Trading segment

in millions of euros	2017	2016
Operating EBIT	70.6	61.2
Derivatives	23.7	64.3
Fair value measurement of other financial instruments	–0.3	
Impairments	–8.7	–6.1
Restructuring	0.4	–3.0
Donations		–13.0
EBIT	85.7	103.4

Compared to the same period in the previous year, the external turnover of our Sales, Services and Trading segment has increased by 17.5 per cent to around 4,421.1 million euros. This is largely due to increased sales quantities in conjunction with higher commodity prices. This segment contributed approximately 53.6 per cent to the Group's total revenue in the reporting period (previous year: 49.7 per cent). Operating EBIT has increased to 70.6 million euros (previous year: 61.2 million euros). In energy sales, operating EBIT was positively influenced by the lack of special items such as the formation of provisions for impending losses in connection with the operation of the natural gas fuel station network and the promise of a subsidy to the DLR Institute of Networked Energy Systems (formerly NEXT ENERGY). In the previous year, the telecommunications business area contained income from a settlement with TDG.

Essentially, EBIT was adjusted for the gains from derivative financial instruments and impairments of individual investments. Additionally, the amount in the previous year included the one-off donation to the EWE STIFTUNG.

T007
International segment

in millions of euros	2017	2016
Operating EBIT	24.8	25.6
Derivatives	–6.6	8.1
Reversals of write-downs	60.3	
Impairments	–28.6	
EBIT	49.9	33.7

Our International segment experienced a decline in external turnover of 14.3 per cent to 623.8 million euros (previous year: 727.9 million euros). This decrease is primarily associated with the business in Turkey where earnings declined predominantly due to currency conversion. The segment contributed approximately 7.6 per cent to the Group's total revenue in the reporting period (previous year: 9.6 per cent). Operating EBIT amounted to 24.8 million euros (previous year: 25.6 million euros) and has therefore remained almost stable compared to the previous year.

The non-operative items are primarily reversals of write-downs in Poland and Kayserigaz due to positive business developments, offset by impairments on the part of Millenicom and Bursagaz.

T008
swb segment

in millions of euros	2017	2016
Operating EBIT	89.3	165.2
Derivatives	2.9	15.1
Fair value measurement of other financial instruments	–17.0	
Impairments	–20.1	–6.6
Investments	0.7	3.3
Restructuring	5.4	0.7
EBIT	61.2	177.7

At 1,085.1 million euros in the reporting period (previous year: 1,058.7 million euros), the external turnover of our swb segment has increased by 2.5 per cent over the previous year. This segment contributed approximately 13.2 per cent to the Group's total revenue in the reporting period (previous year: 14.0 per cent). Operating EBIT amounted to 89.3 million euros (previous year: 165.2 million euros). The decrease compared to the previous year is due primarily to the positive one-off special item of 90,6 million euros resulting from the reorganisation of the company pension scheme in the previous year.

The impairments of non-operative items mainly comprise write-downs of the conventional generation capacity of swb Erzeugung. The fair value measurement effect essentially reflects the change in the value resulting from the recognition of the interest in Osterholzer Stadtwerke GmbH & Co. KG, Osterholz-Scharmbeck. Additionally, the provisions for restructuring ('Human Resources 2017' programme) have been reversed in the amount of 5.4 million euros.

T009
Group Central Division

in millions of euros	2017	2016
Operating EBIT	**–70.1**	**–51.1**
Derivatives	5.4	
Fair value measurement of other financial instruments	57.2	
Impairments		–13.0
Investments	–0.1	239.8
Restructuring	0.3	–4.9
EBIT	**–7.3**	**170.8**

Our Group Central Division segment only generates a low level of revenue. Operating EBIT amounted to –70.1 million euros (previous year: –51.1 million euros). These earnings resulted from the holding function of EWE AG and the other investments attributed to it. The negative effect on earnings compared to the previous year is due primarily to lower rental income and higher IT expenses.

The fair value measurements of other financial instruments in the Group Central Division segment include the change in the value of the interest in E3 / DC GmbH, Oldenburg. Compared to the previous year, impairments were attributable to buildings and software. Additionally, the previous year comprises proceeds from the disposal of the shares in VNG with regard to investments, whereas provisions were formed for the cash settlement of in-kind benefits in connection with restructuring.

At 22.9 per cent, the equity ratio has remained almost entirely stable since the previous year. The absolute increase in equity is due primarily to the net income for the period (+256.1 million euros) and the transition effect of IFRS 9 recognised directly in equity (+4.7 million euros), less the payment of a dividend (–88.0 million euros) and the changes in hedging relationships (–24.2 million euros).

Non-current liabilities primarily encompass contributions to building costs, pension reserves, bonds and liabilities to financial institutions. The latter in particular (+214.7 million euros) are the reason behind the increase over 31 December 2016. Additionally, the interest-induced increase in rehabilitation provisions of 121.6 million euros had a positive effect.

T010
Net assets

in millions of euros	31.12.2017	in %	31.12.2016	in %
Assets				
Non-current assets	6,652.4	73.1	6,494.8	77.0
Current assets	2,444.7	26.9	1,940.4	23.0
Total assets	**9,097.1**	**100.0**	**8,435.2**	**100.0**
Equity and Liabilities				
Equity	2,084.7	22.9	1,941.9	23.0
Non-current liabilities	5,104.4	56.1	4,745.5	56.3
Current liabilities	1,908.0	21.0	1,747.8	20.7
Total equity and liabilities	**9,097.1**	**100.0**	**8,435.2**	**100.0**

As a result of its business activities, our Group has a high intensity of investments with the associated capital commitment. Due to the increase in total assets as at 31 December 2017, the proportion of non-current assets in the total assets has decreased to 73.1 per cent. The non-current assets are due largely to the increase in other financial assets. This in turn was due to the measurement effects of equity and debt instruments. The increase in current assets is primarily due to an increase in trade receivables (277.8 million euros) and a significant increase in liquid assets (257.0 million euros). The non-current assets are financed with equity and non-current debt.

The increase in current debt (+160.2 million euros) is largely the result of the increase in trade payables (+304.5 million euros). The repayment of loans (–149.1 million euros) had the opposite effect.

T011
Financial position

in millions of euros	2017	2016	Change in %
Cash flow from operating activities	655.8	471.7	39.0
Cash flow from investing activities	–446.2	570.8	< –100
Cash flow from financing activities	56.7	–1,033.2	> 100
Changes to cash and cash equivalents	266.3	9.3	> 100
Currency translation and changes to the basis of consolidation	–9.0	–9.4	4.3
Cash and cash equivalents at the beginning of the period	352.2	352.3	
Cash and cash equivalents at the end of the period	609.5	352.2	73.1

The cash flow from operating activities represents a key element of our financing. In the 2017 business year, EWE generated a cash flow from operating activities of 655.8 million euros.

The cash flow from investing activities of –446.2 million euros comprises investments in the infrastructure of the Group in particular (especially grids, renewables and broadband network expansion). The deviation from the previous year is due largely to the received payment of the purchase price for the disposal of the shares in VNG in 2016.

In particular, the cash flow from financing activities comprises higher loans (378.8 million euros) than loan repayments (–225.2 million euros), as well as the payment of a dividend (88.0 million euros) for the 2016 business year. The amount in the previous year is characterised by the buy-back of bonds (448.4 million euros), the repayment of loans (366.8 million euros) and the dividend of 225.5 million euros for the 2015 business year.

The financial flexibility of our Group is secured with bilateral credit lines as well as a syndicated, revolving credit facility of 750.0 million euros. The original five-year term of the syndicated credit facility was extended by one year following the utilisation of the first extension option and therefore ends in November 2022. As at 31 December 2017, EWE had drawn on a total of 0.0 million euros of this credit line (previous year: 0.0 million euros). The bilateral credit lines available as at the reporting date totalled 556.7 million euros (previous year: 409.4 million euros). Of this amount, 186.5 million euros (previous year: 120.4 million euros) has been drawn on in some form, including as guarantees.

Issuing bonds, bonded loans and registered bonds represents another key component of EWE's financing. As at 31 December 2017, unsecured bonds quoted in euros with a total nominal value of 1,351.6 million euros (previous year: 1,401.6 million euros) have been issued. Additionally, bonded loans and registered bonds still exist in the amount of 150.0 million euros (previous year: 0.0 million euros). The aforementioned financial instruments have terms ending between 2019 and 2032. They have fixed interest rates between 1.26 per cent and 5.25 per cent.

Non-financial performance indicators

Installed output of renewable energy

In the 2017 business year, the installed output of renewables increased by 374.1 megawatt year-over-year to 425.3 megawatt in total. The increase is due primarily to the acquisition of the Walsrode, Adorf / Diemelsee, Lichtenau and Garnholt wind farms. Of the total electrical power generation capacity of the EWE Group, renewables account for 29.2 per cent (previous year: 23.7 per cent).

Changes to the number of employees

During the 2017 business year, our Group had an average of 9,134 employees (previous year: 9,048). One of the reasons for the increase is the acquisition of the TURBOWIND Group. This figure includes all full-time and part-time employees as well as trainees and temporary staff.

T012
Number of employees by segment

	2017	2016
Renewables, Grids and Gas Storage	2,119	2,079
Sales, Services and Trading	3,247	3,213
International	1,011	965
swb	2,150	2,178
Group Central Division	607	613
Total	**9,134**	**9,048**

Vocational training

As a predominantly local corporate Group, EWE has a long-term commitment to providing professional training to young people from the region. Through internships and regional and national vocational training fairs and events, secondary school and university students are given the opportunity to acquire an in-depth look at EWE and its business and make their first professional connections. A vocational training programme or combined degree and vocational training programme at EWE goes far beyond the mandatory training content. The young people who participate in a training programme at EWE are provided with a comprehensive range of educational, mentoring and recreational activities, from communication training and in-depth economic knowledge to athletics and culture. The trainers are particularly focused on providing support in the development of professional decision-making and responsibility, primarily with regard to the requirements of the energy transition. Additionally, skills and abilities in connection with MINT are developed strategically and digital expertise is promoted. The reading-to-learn methods are continuously optimised and are currently being converted to digital processes and learning methods in many areas. Additionally, decentralised training as a plant mechanic in Brandenburg is a new addition. In the 2017 business year, the EWE Group employed an average of 408 vocational trainees (previous year: 395).

University students also have the option of completing their final project at EWE. After earning their degree, graduates can choose from a variety of models (including trainee programmes and entry-level positions) to launch their career at one of the EWE Group's companies.

Advanced training

EWE brings together three sectors – energy, telecommunications and information technology – that are shaped by rapid technological developments and stiff competition. In order to overcome these challenges, the company offers its employees a wide range of internal and external advanced training opportunities. We improve and refine these programmes and factor in current trends, such as digitisation or working with lean project management methods. The managers of the Group are the key drivers and designers of the reorientation of EWE. This target group faces significant challenges as part of this role, both with regard to everyday management and to dealing with the specific challenges of our sector. Managerial development in 2017 centred on the opening of the EWE Akademie. There, managers are being assisted in implementing the strategy in their fields of responsibility with collaboration skills, customer orientation and agility, negotiation management and business development courses. The opening of the participant group to all managers and the opening of certain aspects for all employees are attesting to the cultural change in no uncertain terms.

A large number of distinct change processes were carried out in the Group, catering to and moulding the corporate culture, and the teams were involved continuously by means of suitable formats and instruments.

Comprehensive change and training expertise was the driver of the success of the project NETZ PRO, AK GO and in EWE TRADING. Extensive change architectures focused on skill acquisition, employee qualification and improving the capability of the teams in the organisations – enabling them to pursue the targets of the company – had been developed and some had even been implemented by late 2017.

An extensive offering in the fields of health management and work-life balance rounds out EWE's advanced training and staff retention activities.

Gender quota

The EWE Group has a great interest in further increasing the percentage of women in managerial positions in the future. EWE wants to offer women and men the same opportunities when filling management positions. In this context, the company relies on both tried-and-tested and new measures to further strengthen the work-life balance and promote diversity in professional and career development. The aim here is to ensure that key positions are filled by the most suitable candidate, regardless of gender.

In light of this, target quotas have been specified pursuant to the German law for the equal participation of women and men in managerial positions in both the private and public sectors. The proportion of women in the Supervisory Board, Board of Management and executive positions, as well as the top two levels of management in the companies to which the law applies, have been defined as follows:

T013

Target percentages for the Supervisory Board and Board of Management of EWE AG

Board or level of management	Percentage of women (as at 31.12.2017)	Target percentage by 30.06.2022 (by 30.06.2017)	Defined by:
Supervisory Board	15.0%	15% (5.0%)	Supervisory Board of EWE AG
Board of Management	0.0%	20.0% (20%)	

T014

Target percentages for the top two levels of management of EWE AG

Board or level of management	Percentage of women (as at 31.12.2017)	Target percentage by 30.06.2022 (by 30.06.2017)	Defined by:
Supervisory Board	5.3%	12.5% (12.5%)	Board of Management of EWE AG
Board of Management	20.0%	24.4% (24.4%)	

The aim of the EWE Group to increase the proportion of women in managerial positions is reflected in its ambitious targets to be met by 30 June 2022. Whereas on the level of the Board of Management, the company only temporarily failed to adhere to its target for the proportion of women in 2017, there are not enough suitable young female managers to meet the target on the level of middle management.

Therefore, a variety of support measures designed to increase the proportion of women in managerial positions are focused on young female managers. They are made ready to assume a managerial position through networking initiatives, mentoring programmes, dedicated seminars and personalised support measures. The in-house daycare facility supports a work-life balance with a wide range of services.

Non-financial Group declaration

The non-financial Group declaration for the 2017 business year is available in a separate non-financial Group report on the website https://www.ewe.com/en/investor-relations/publications/annual-reports for ten years after publication (the statutory period). The separate non-financial Group report is compiled with the separate non-financial report of EWE AG.

Report on expected developments and their key opportunities and risks

Forecast report

Business environment forecast

The Paris Agreement and the 2050 climate targets agreed therein require the rapid decarbonisation of not only the electricity and heat markets, but also of the mobility and industrial sectors.

Therefore, the generation of electricity from renewable sources will continue to grow in significance. In light of technological advances and the markets, costs can be expected to fall. For example, the costs of generating electricity from renewable sources have decreased significantly in recent years. The price of solar power in sunny regions is now lower than power generated using oil, coal and even natural gas. The same goes for onshore wind energy which even now can demonstrate exceptionally competitive generation costs in good locations. The increasing volatility of energy generation is causing demand for flexibility and network stability to rise and leading to market growth in these segments. Initially, considerable growth in the electricity storage market is necessitating an adjustment to the general regulatory conditions. Necessary back-up capacity in the form of natural gas will be made available in Germany and on an international level in the event of an accelerated withdrawal from coal by 2030.

The decarbonisation of the heat market is facing considerable obstacles. The current rates of rehabilitation as well as the heating technology and building shells in place will likely lead to the heat market being dominated by natural gas. However, heat pumps will likely become more established in new builds. The current gas infrastructure remains essential to buildings.

The ongoing liquidity of the European gas market is preventing the gas storage market from recovering. The decrease in Dutch and German low-calorific gas production might give rise to temporary market opportunities for gas storage in low-calorific gas market areas until the end of the market region transition from low-calorific to high-calorific gas.

From a current perspective, the energy landscape will become further decentralised and access to customers will be a crucial factor. We believe that various markets and products will merge in future, especially electricity, heating, telecommunications, IT and mobility. Even now many customers possess their own power supply systems and infrastructure. This means that in the energy industry, it is a question of recognising customers as partners who not only purchase electricity, but also generate it. The increasing granularity of the energy system is not a mandatory prerequisite to a successful energy transition. Following the Europeanisation of the energy transition and the related scale effects, a scenario with increased interregional load smoothing instead of regional optimisation is not unlikely.

Furthermore, markets and politics will demand even greater efficiency in all business segments. The transition to tendering for onshore wind, offshore wind and solar power has lead to significantly more transparency, competition and price reductions throughout Europe. The production costs for offshore wind have fallen below 100 euros per MWh and solar power and onshore wind are already far below this threshold. Returns are being limited further in regulated markets, merit orders and market mechanisms are resulting in low electricity prices and the high level of stock exchange liquidity is bringing about transparency and dynamism. New technologies are lowering transaction costs and new sales channels no longer target small markets with a 100 per cent market share, rather are generating dynamic, adaptable structures and systems. All of these factors are increasing the efficiency requirements faced by all market participants.

Digitisation is both an unavoidable consequence of underlying technological and societal developments and a necessary prerequisite for a sustainable, cost-effective energy supply. It will cause fundamental changes in customer habits, the culture and organisation of companies, the rendering of services and in value-creating structures and business models. Half of all electricity and gas provider switches already take place online – and many customers only see offers when they are available online or can be purchased using a smartphone. Digitisation will lower the transaction costs of product creation and customer interfaces and facilitate the development of new business models.

Future political and regulatory conditions

As part of its implementation of a general strategy for a European energy union and the decisions of the Council of Europe regarding the 2030 climate and energy framework of the EU, the European Commission has published a number of legislative proposals, most recently in the package 'Clean Energy for All Europeans' in November 2016. The following dossiers will potentially have the greatest direct influence on our business activities and are currently in the legislative pipeline.

A reformed EU emissions trading scheme (ETS)

In order to realise a 40 per cent cut in greenhouse gas emissions in the EU by 2030 (compared to 1990 levels), the European Commission proposed a structural reform of the EU ETS for the period between 2021 and 2030. For one, the annual reduction factor of the current certificates is to be increased. However, the protective measures required to protect industrial competitiveness in Europe must also be upheld. The political talks are largely complete. The new regulations are expected to come into effect on 1 January 2019. The structure of the EU ETS could have a considerable effect on the costs of conventional generation, energy-intensive industries and the conditions for investing in low-CO_2 technologies. The EWE Group is therefore committed to an effective, stable system which protects industries competing on an international level at the same time.

Regulation on the internal market for electricity

The proposal for a new regulation on the internal market for electricity published in November 2016 aims to redefine the regulations and key principles of the European internal market for electricity. The new regulation is expected to set out regulations for the feed-in of renewable energy and for cross-border participation in order to ensure the security of supply (including regulations on capacity mechanisms). It will also set out principles for a market-based, cross-border electricity market. The proposed regulations would therefore affect the trading activities of the Group, its power distribution grids and its business with renewable energy in particular. The legislative proceedings for this and the following dossiers will end in the first six months of 2018 at the latest and then come into effect.

Internal electricity market directive

The proposal for a new directive seeks to introduce common rules for the internal electricity market and set out the legal framework for the roles and rights of consumers, for independent energy generation and aggregators and explains the duties and obligations of transmission grid operators and distribution grid operators. For one, in future energy consumers will be entitled to demand a dynamic energy tariff from their energy provider, i.e. a variable energy tariff which differentiates between the intervals of the wholesale market, enter into agreements with aggregators without the consent of other market participants and change supplier free of charge. Additionally, consumers will be entitled to produce, consume, store or trade their own renewable energy in all segments of the market. This proposal is comprehensive and will affect almost all of the electricity-related business areas of the EWE Group.

Renewable Energy Directive

The proposed revision of the current Renewable Energy Directive aims to set out the framework for ensuring that the binding target of at least 27 per cent renewables in the final energy consumption in the EU by 2030 is met. The proposal sets out requirements for financial subsidies for renewables, for opening subsidy schemes for other Member States, for the independent generation and consumption of green electricity, for authorisation processes, for using renewable energy for refrigeration, heating and transportation, for partnerships between Member States and with third countries and for guarantees of origin and sustainability criteria for biofuels. This European framework will have a significant impact on the investment conditions and our business activities in the field of renewable energy.

Energy Efficiency Directive and Energy Performance of Buildings Directive

The proposal for a new Energy Efficiency Directive sets out a common framework for measures designed to promote energy efficiency within the EU in order to ensure that energy efficiency increases by 20 per cent by 2020 and by 30 per cent by 2030. It also contains rules on removing barriers in the energy market and correcting market shortfalls that impair the efficiency of the supply and consumption of energy. It also paves the way for setting national energy efficiency targets for 2020 and 2030. The proposal for a new Energy Performance of Buildings Directive aims to introduce a partially mandatory roll-out of the infrastructure necessary for e-mobility.

The rules will largely determine the general conditions of our business activities in connection with energy efficiency, for example e-mobility charging infrastructure, smart home solutions, energy consultation, energy audits and contracting.

The German Market Master Data Register Ordinance (MaStRV)

Pursuant to the MaStRV which came into effect on 1 July 2017, a market master data register should have been introduced in summer 2017. This is now likely due to take place in summer 2018. The MaStRV aims to build a comprehensive official register of the electricity and gas markets that can be used by the authorities and market players in the energy sector. The register has been designed to unify, simplify or completely do away with various official duties of notification through the central register.

Exception for tenders for wind

With regard to the invitations to tender for onshore wind in 2017, the majority of contracts were awarded to energy cooperatives. During invitations to tender, energy cooperatives enjoy privileges; for example, they are not required to obtain permission under the German Federal Immission Control Act (BImSchG) to apply. In response to the results, the German Bundestag imposed a moratorium on privileges for energy cooperatives. It applies to the first two of the three auction rounds in the coming year. Afterwards, the results are due to be evaluated again. EWE advocates the full abolition of privileges for energy cooperatives as they are anti-competitive and it is not clear that the projects will even be realised at all.

Constitution of a national government

The election of the 19th Bundestag was held on 24 September 2017 and the opening session took place on 24 October. The former government has remained in power since then as no new government has yet been formed. It remains to be seen when this will happen and who will form the new government. Union and SPD opened coalition talks in late January 2018. These talks are based on a joint white paper from 12 January 2018 in which the parties embrace the climate targets and announce their intent to implement a series of measures followed by a law in 2019 in order to achieve them. In this regard, they are focused on the climate targets for 2030. The white paper contains positive points such as the announcement of special invitations to tender for renewables, although some important aspects remain unmentioned and often vague.

The acting government possesses the same authority as a regular government. However, given standard governmental practice, the acting government is not expected to make any far-reaching decisions that would bind a subsequent government.

Governmental broadband strategy

2018 will be a crucial year for telecommunications regulation. The new German government will define a new broadband strategy for Germany. We can expect a clear gigabit target, probably by 2025. This will also affect the conditions of subsidies. Additionally, experts are discussing whether and to what extent the regulation of fibre-optic connections is necessary and advisable. The previous German government believed that the full deregulation of Telekom would be a suitable way to move the leading company to change its strategy from copper-based technology to fibre optic expansion. Initially as part of its market analysis, the Federal Network Agency will examine whether changes in market conditions will give cause for changes to the current regulatory regime. The first draft of a decision from the Federal Network Agency can be expected over the course of the second quarter of 2018.

Fibre optic expansion project of EWE

In December 2016, EWE decided to invest 1.2 billion euros over the next few years in order to provide households with direct fibre optic connections. This investment could open up around 30 per cent of the total potential customer base in the EWE service area. EWE is also in talks with other companies about co-investment solutions so as to provide the entire region with future-proof, high-performance telecommunications infrastructure. One of the first key milestones has already been reached: in December 2017, EWE and Deutsche Telekom announced their plans to establish a joint venture through which they could jointly spur on fibre optic expansion in the northwest. This joint venture – in which each partner is to hold a 50 per cent stake – is expected to connect around one million households to the fibre optic network directly. The project is due to start in mid 2018, yet is still subject to the approval of the cartel authorities.

New EU legal framework in sight

The trilogue negotiations started in October 2017 after the parliamentary vote on the draft directive for a revised legal framework for telecommunications. These negotiations are necessary because the Council in which the governments of the Member States are represented did not agree with the amendments proposed by the Parliament. Now, compromises are to be drawn up over the next few months under the supervision of the European Commission. EWE's priority is to largely limit symmetrical regulation that is not dependent on a strong market position so as not to impede investments in fibre optic expansion. Additionally, EWE is in favour of cooperative regulations that are focused on competition and appropriate for the market. Once the directive has been passed and come into effect, the changes will have to be implemented into the national German Telecommunications Act (TKG). The entire process is therefore not expected to come to a close before 2020.

Start of operations of EWE NETZ RVN GmbH from 1 January 2018

From 1 January 2018, EWE NETZ is obliged to use a standardised price sheet for gas distribution grid charges in order to meet the criteria of the Federal Network Agency. EWE NETZ has filed an appeal against the decision of the Federal Network Agency with the OLG of Düsseldorf. Furthermore, as a precautionary measure, EWE NETZ established EWE NETZ RVN GmbH, Oldenburg, a 100 per cent subsidiary of EWE NETZ, which will supply the customers of the regional distribution network from 1 January 2018 in order to comply with the Federal Network Agency's principle of 'one company / one price sheet' without discrimination whilst preventing unreasonably high price increases for customers connected to the regional distribution network.

Expected performance of the EWE Group

We use the aforementioned expectations and assumptions as to sector-specific developments and the general political and regulatory landscapes to make forecasts concerning the EWE Group and its segments for the 2018 business year.

The forecast does not include the effects of legal developments. Our forecasts concern our key performance indicator operating EBIT, adjusted for unforeseeable special items.

T015

in millions of euros	2018	2017
Renewables, Grids and Gas Storage segment	–10% to +0%	388.8
Sales, Services and Trading segment	–30% to –15%	70.6
International segment	–60% to –45%	24.8
swb segment	–80% to –60%	89.3
Group Central Division	–	–70.1
Operating EBIT, EWE Group	**–30% to –15%**	**503.4**

Expected performance in the Renewables, Grids and Gas Storage segment

In the 2018 business year, we expect the operating EBIT of the Renewables, Grids and Gas Storage segment to be lower than in 2017, due largely to regulatory effects in connection with networks.

The investments due to be made in the Renewables, Grids and Gas Storage segment in 2018 total approximately 444 million euros. The investments are mostly in the infrastructure of the electricity, gas and telecommunications networks (approx. 294 million euros) and in onshore wind farms (approx. 127 million euros).

Expected performance in the Sales, Services and Trading segment

In the 2018 business year, we expect the Sales, Services and Trading segment to generate a lower operating EBIT than in 2017.

Energy sales are facing strong competition. Slight increases in sales quantities and shrinking electricity and gas margins are expected, as is a stable base of private customers. Margins are also expected to shrink with regard to business customers (including due to the increasing level of competition). In contrast, positive contributions to earnings are expected from energy trading due to energy storage, gas portfolio optimisation and expanded direct marketing activities. Initial losses are expected from the expansion of e-mobility activities.

EWE plans to make investments totalling approximately 99 million euros in the Sales, Services and Trading segment in 2018. Of the key investments, around 62 million euros have been invested in broadband and fibre optic expansion, backbone network expansion and other areas of technology. With regard to energy sales, heating plants in particular experienced growth. Other investments are planned, especially in order to expand e-mobility and in the field of large-scale battery storage.

Expected performance in the International segment

In the International segment, EWE expects a decrease in operating EBIT in the 2018 business year compared to 2017.

With regard to gas trading in Turkey, the gas trading volumes for 2018 are forecast on the basis of current contracts. The general conditions of the energy business remain difficult, which puts pressure on the slightly positive contribution to earnings forecast. The development of earnings for the regions of Bursa and Kayseri will be heavily influenced by regulatory plans. Overall, this will lead to a decrease in the operating EBIT of Bursagaz due to lower grid fees. We expect the operating EBIT of Kayserigaz to be higher due to moderate network expansions and improved tariffs compared to 2017. We continue to expect the number of customers and gas sales of Bursagaz and Kayserigaz to grow. Furthermore, the business activities of the Turkish telecommunications company Millenicom will have a negative impact on earnings.

In Poland, positive contributions to earnings are expected from electricity and external gas sales in particular, although these will be offset somewhat by higher personnel and operating expenses as well as initially negative effects of business developments.

The investments planned for 2018 in the International segment total approximately 35 million euros and primarily apply to developing business areas in Turkey (33 million euros). Essentially, investments in grids and expansion in the Bursa and Kayseri regions are planned.

Expected performance in the swb segment

In the swb segment, we expect operating EBIT in the 2018 business year to be significantly lower than in 2017. For one, this is due to the passing of the German Grid Tariff Modernisation Act (NEMoG) in 2017 and its implementation in 2018. This Act brings with it a significant (and permanent) reduction in revenue from avoided grid tariffs. The operating EBIT of the grid operators has also been affected as their revenue will decrease significantly due to regulatory requirements.

The Sales business area must face strong competition with only limited pricing options when it comes to the sale of power and natural gas. Overall, the operating EBIT from sales will increase due to the decreasing grid fees and the integration of elements of swb Abrechnungsservice GmbH, Bremen.

EWE plans to make investments totalling approximately 167 million euros in the swb segment in 2018. The focus here is on investments of around 117 million euros in grid infrastructure as well as investments of around 20 million euros in renewable energy.

Report on risks and opportunities

Principles of risk and opportunity management

The fields of business of the EWE Group continue to be characterised by a high level of dynamism and ongoing change. Our business activities are therefore linked with substantial risks and opportunities. The early identification and active management of these risks and opportunities is an integral element in the planning and implementation of our business strategies. This way we can support the sustainable growth and secure the long-term competitiveness of the EWE Group.

The Board of Management and risk committee set out the underlying risk management system for the business operations of the EWE Group. Additionally, regular reports to the decision-making and supervisory committees ensure transparency in connection with the current risk profile of the EWE Group and the continuous monitoring of the parameters of the risk management system.

Process of risk and opportunity management

Within the EWE Group, the internal control system and the risk management system are implemented through an integrated risk management approach using standardised methods and processes. The risk management system is based on a standardised planning and controlling process tailored specifically to the Group. During its audits, the internal auditing department regularly verifies the management's assessment of the key risks and the effectiveness of the key controls in the processes it is auditing. The risk management system was last audited in the fourth quarter of 2017.

Risks are identified early on, evaluated and reported to the EWE Group's Group-wide risk management at the level of the individual companies responsible for the risks in a structured, ongoing process with consideration for the Group-wide guidelines. Risk management involves measures designed to avoid, minimise and overcome risks.

The EWE Group's energy-trading activities are also subject to separate risk guidelines which define risk assessment and management instruments tailored specifically to the energy trade.

Risks are assessed by probability of occurrence and amount of damage. They are assigned to one of three risk categories: low, moderate and high, which represent the potential loss that the EWE Group would suffer.

The following Section describes risks and the most significant negative effects they might have on our business, assets, financial position, results of operations and reputation. Opportunities often stand directly opposite the corresponding risks and are assigned to the same categories and reported in them.

Risks and opportunities

Strategic risks and opportunities

Changes to the international macroeconomic market environment as well as adjustments to underlying legal and social conditions increase the potential risk to the company's long-term business development as it pertains to key financial target figures in the EWE Group's individual segments.

This applies to the field of conventional power generation, which is affected by the significant increase in the capacity from renewable energy sources available on the power market. Additionally, the NEMoG has had an impact on energy generation. In terms of gas storage, the changes in the competitive situation and market are taking hold. This has made it necessary to open up new revenue generation potential which comes with technical and market-related risks. With regard to revenue, the sales department is facing a continuous decline in consumption due to changes to customers' consumption patterns, improving energy efficiency and increasingly decentralised energy solutions from individual customers (prosumers).

The underlying conditions governing the energy sector continue to be heavily influenced by the 'German energy turnaround' enacted by the German government.

Society's increasing digitisation is creating opportunities for energy service providers such as EWE. At the same time, it is leading to a reduction in barriers to market entry for competitors from other industries.

In particular, the interaction between energy, telecommunications and information technology makes new product offerings with increased customer benefit as well as competitive differentiation possible. In addition, the combination of energy, telecommunications and information technology creates the conditions necessary to continue the stable and efficient operation of grids and networks, despite ever-increasing demands.

The company is working to open up new business models. These are not yet established in the market and investments in them are therefore highly risky. In order to manage these challenges, the Group has established an innovation process and assumes a limited amount of risk in terms of venture capital.

Its future growth will mainly be realised through partnerships instead. This will increase the ability of the company to adapt to changes in the general conditions. Likewise, divestitures are being examined and steps are being taken towards inorganic business expansions that would make it possible to rapidly open up each line of business. The company has therefore optimised its mergers and acquisitions processes.

Besides the German energy market, in recent years the EWE Group has established itself and its activities in the Polish and Turkish energy markets. This has resulted in additional growth opportunities that are, to a large extent, unaffected by the developments in the German market, yet utilise the EWE Group's existing areas of expertise. The country-specific risks inherent to the International segment are monitored systematically in this regard.

The political risk faced by the Turkish companies of the EWE Group has increased significantly ever since the unsuccessful coup by elements of the Turkish military in July 2016 and the measures them implemented by the Turkish government. There are currently no specific indications of short-term adverse effects on the business activities of Turkish EWE companies (such as non-fulfilment of contracts, termination of contracts without notice or official sequestration of Turkish EWE companies). No potential medium or long-term adverse effects are currently foreseeable. The emergence of political risks can negatively affect the stability of the value of foreign investments in the EWE Group, both directly and indirectly.

The significant risks that can be categorised as strategic risks and opportunities are rated moderate and low in financial terms.

Market price risks and opportunities as well as quantity risks and opportunities

Due to increasing competitive pressure in the national and international energy procurement and sales markets, the EWE Group is faced with constantly high market price, quantity and margin risks, primarily in the areas of generation and sales.

The competition in energy sales is being exacerbated by disruptive business models based on technological innovations, online price comparison platforms and the emergence of new market actors that previously operated in other sectors.

Additionally, energy sales to end customers are exposed to the risk that the actual sale deviates from expectations in terms of quantity or structure. Gas consumption in particular is highly dependent on weather conditions. This results in quantity risks to both sales and network operations. On the other hand, the possibility of a weather-related increase in consumption also exists. Unscheduled changes to cost elements outside of EWE's control could also have a negative effect on margins, both in sales as well as in network operations. We use sophisticated planning and forecasting methods in order to counter the risks and manage the opportunities. Additionally, the sales quantities in power and gas sales are secured via long-term procurement strategies.

In the field of conventional power generation, the attainable margins ('spreads') remain under pressure. Over the course of the German energy turnaround, supply has increased as a result of additional capacities from renewable energy sources that are not or only slightly affected by the market prices due to subsidy mechanisms.

In the Turkish market, which is going through the process of deregulation, imbalances still exist in the formation of prices. Unlike gas purchasing, the prices of gas sales are set by the national gas supplier BOTAS A.S, Ankara, Turkey. The aforementioned effects of weather conditions apply in similar fashion to the Group's gas business in Turkey, and result in the same opportunities and risks.

The significant risks that can be categorised as market price risks and opportunities as well as quantity risks and opportunities are rated low in financial terms.

Risks and opportunities from business operations

Operative risks to the EWE Group result both from the operation of technologically complex systems at all stages of the value creation chain as well as due to unscheduled interruptions to scheduled process work flows. EWE utilises state-of-the-art information and communications technology to efficiently support all of the individual units' business processes. Furthermore, extra quality assurance and coordinated redundancy concepts have been implemented to guarantee the reliability of processes, which are continuously enhanced in line with the requirements.

Given the increasing proliferation of digitisation in the business processes of the EWE Group, they have become dependent on secure, reliable and robust information processing. Therefore, risks to information security are becoming more significant both in the eyes of the company and from a legal perspective. The key objective of the information security department is therefore the appropriate handling of information and data in line with their confidentiality levels in order to ensure the effective, comprehensive control of information security risks.

Our operative activities are subjected to regular external audits. This is reflected by a range of ISO certifications in particular. Additionally, employees are involved in a system of continuous training designed to maintain and improve the high level of quality, minimise potential risks and identify new opportunities. We are also an active member of and have representatives on a number of expert committees and boards. This guarantees a structured approach to current and future challenges, measures relating to safety and statutory regulations.

The significant risks that can be categorised as risks and opportunities from business operations are rated low in financial terms.

Financial risks

Financial risks result from the operative business activities of the Group's various business areas in the form of liquidity, credit and valuation risks.

The EWE Group utilises a structured liquidity management process to confront general liquidity risks, which is used to manage and plan the changes to liquidity over the short, medium and long terms. In addition, the EWE Group maintains a sufficient level of liquidity reserves in the form of liquid funds and credit lines to ensure the Group can meet its financial obligations at any time.

EWE conducts an intensive analysis of the creditworthiness of major customers, wholesale partners and banks with the goal of preventing or limiting non-payment risks in Germany and abroad.

In general, the EWE Group is exposed to risks from changes in value that can inherently result from increasing capital market interest rates, fluctuating exchange rates as well as the business prospects of individual companies becoming permanently worse.

Fundamentally, the external rating of EWE AG is at risk of being downgraded. The development of and influences on its rating are monitored continuously and appropriate measures are implemented where possible.

The significant risks that can be categorised as financial risks are rated low in financial terms.

Legal and compliance risks

Within the scope of its business activities in Germany and other countries in which it is active, the EWE Group is faced with numerous legal risks and result from both general legal provisions as well as special, industry-specific legal, regulatory and miscellaneous requirements.

All relevant legislative and legal developments are being monitored continuously and their potential impacts on business operations are assessed.

Likewise, the EWE Group can be exposed to risks resulting from legal disputes or governmental or official procedures. We cannot rule out the possibility that the outcomes of these legal disputes and procedures might have a negative effect on our business, assets or results of operations.

To cover significant legal risks, we have taken out a liability insurance policy which the management considers adequate and reasonable. However, our insurance does not protect us against any damage to our reputation. Additionally, through legal disputes we can suffer losses beyond the amount covered by our insurance, not covered by our insurance or in excess of any provisions we have formed for losses from legal disputes.

In addition to general legal risks, the EWE Group is exposed to an increasing number of compliance risks. These risks result from increased activity on the part of national and EU lawmakers.

The significant risks that can be categorised as legal and compliance risks are rated moderate and low.

In its meeting on 8 September 2017, the Supervisory Board of EWE AG discussed and agreed a final evaluation of the results of the final reports of the audit firm KPMG which investigated possible misconduct at EWE in spring and summer 2017. The investigation focused on resolving matters, examining existing allegations and evaluating the legal nature of the identified matters. Additionally, recommendations for improving internal procedures with a focus on processes and controls were drawn up.

Finally, the Supervisory Board of EWE AG determined that the investigations which had run for several months had not found any evidence to vindicate the – partially anonymous – allegations of corruption against employees of EWE NETZ with a sufficient degree of certainty.

Risks from the use of financial instruments

Within the scope of risk management activities carried out by the EWE Group, financial risks are identified, evaluated and addressed. Financial instruments are regularly used when implementing hedging strategies.

The EWE Group mainly uses derivative financial instruments to hedge against market price risks resulting from physical gas and electricity trading. Additionally, the Board of Management of EWE AG has granted the Group's own trading company limited authority to take speculative steps in order to optimise its portfolio. The risk posed by market price risks to earnings is limited by an in-depth risk monitoring and loss limitation concept. Additionally, the use of derivative financial instruments is always linked with counterparty risks (see also financial risks).

To hedge against energy trading and finance-related price risks, the EWE Group utilises power futures, gas futures, coal swaps, oil swaps, EUA and CER futures contracts (European Union Allowances and Certified Emissions Reductions) as well as currency and interest rate hedges.

More disclosures regarding financial instruments can be found in the notes.

The significant risks that can be categorised as risks from the use of financial instruments are rated low in financial terms.

Summary of the risk situation

The Group risk management system did not identify any threats to the continued existence of the company in the 2017 business year or beyond, either individually or in their entirety.

In the 2017 business year the effectiveness of the internal control system was tested and confirmed by a self-assessment of all key controls.

Key characteristics of the EWE Group's accounting-related internal control system (pursuant to Section 289 (5) and Section 315 (2) no. 5 HGB)

The aim of EWE's financial reporting activities is for our annual and interim reports to provide complete and correct information to all interested parties. Our accounting-related internal control system (ICS) aims to identify potential sources of error and limit the resulting risks. The accounting-related ICS encompasses accounting and financial reporting across the entire EWE Group.

The Supervisory Board's audit committee regularly reviews the effectiveness of the accounting-related ICS. Once a year, the Board of Management reports to the audit committee regarding the risks from financial reporting, explains the implemented supervisory measures and illustrates how the correct implementation of these measures was verified.

The structure of the accounting-related ICS results from the organisation of EWE's accounting and financial reporting process.

One of the main functions of this process is the management of the EWE Group and its operative units. In this context, the targets set by the Board of Management of EWE AG form the initial points of reference. Based on these targets and EWE's expectations with regard to the company's operative development, once a year the company creates its medium-term plans. These encompass target figures for the upcoming business year as well as the following years. For current business years, EWE draws up forecasts which are reviewed and adjusted at regular intervals. The Board of Management of EWE AG as well as the boards of management and CEOs of the company's main subsidiaries meet at regular intervals to evaluate quarterly and annual financial statements and update forecasts.

The individual companies are responsible for their own bookkeeping, which is subject to various local standards, whereby the accounting-related ICS is tailored specifically to the needs of each company on the basis of Group-wide guidelines. In its position as a holding company, EWE AG carries out central accounting duties. This includes consolidating figures and analysing the recoverability of goodwill on the balance sheet.

The accounting guidelines standardised across the Group, which must be consistently applied by all units, form the conceptual framework for the preparation of the consolidated financial statements. EWE continuously analyses and takes into account new laws, accounting standards and other official statements with regard to their relevance and effects on the Group's consolidated financial statements and combined management report.

The annual financial statements submitted by EWE AG and its subsidiaries, which are based on the accounting entries recorded by each unit, form the data basis used to prepare the consolidated financial statements. The Group's financial statements are drawn up using the consolidation process based on the annual reports submitted. The steps required to prepare the consolidated financial statements undergo both manual and automated reviews.

Within the scope of external reporting, the members of EWE AG's Board of Management must take a 'balance sheet oath' and sign a responsibility statement. By signing this statement, they confirm adherence to the mandatory accounting standards as well as the EWE Group's accounting guidelines as codified in the Group's accounting handbook, and that the figures presented give a true and fair view of the Group's net assets, financial position and results of operations.

Potential financial reporting risks are identified at the division level based on quantitative, qualitative and process-related criteria. The company's generally binding guidelines represent a fundamental component of EWE's ICS. In addition, EWE defined minimum requirements governing the key processes used to secure an integrated system of data collection and management. An annual review is used to verify whether the necessary monitoring measures were appropriate, actually took place and were carried out correctly. Furthermore, the ICS is reviewed by the Group auditing department during the year as part of its auditing programme.

Current situation of EWE AG

The annual financial statements of EWE AG, with headquarters in Oldenburg, Germany, were prepared in accordance with the provisions of the German Commercial Code (HGB).

EWE AG manages the EWE Group as its holding company. Its duties lie in the strategic and cross-market development of the business areas as well as strategic planning and assuring the Group's financing. In addition, EWE AG performs centralised corporate services for the Group's companies.

T016
Results of operations

in millions of euros	2017	2016
Profit / loss from financial assets	92.2	378.1
Net interest income / expense	**–84.9**	**–142.4**
Revenue	198.0	199.8
Other operating income	5.8	6.0
Material expenses	–115.0	–102.7
Personnel expenses	–59.0	–68.6
Depreciation, amortisation and write-downs	–19.0	–32.5
Other operating expenses	–71.9	–67.8
Income taxes	–83.1	–67.6
Income after taxes	**–136.9**	**102.3**
Other taxes		1.6
Annual deficit / profit	**–136.9**	**103.9**
Profit carried forward from previous year	4.1	3.3
Withdrawals from the capital reserves	132.8	
Withdrawals from allocations to revenue reserves	88.0	
Allocations to reserves		–15.0
Net profit	**88.0**	**92.2**

Essentially, the results of operations of EWE AG comprise income from the performance of centralised services for Group companies, related material expenses, income from financial assets and net interest.

Compared to the previous year, the income from financial assets is 285.9 million euros lower due to lower income from the disposal of interests (–103.3 million euros) and amortisations of financial assets comprising write-downs of swb AG (349.2 million euros) and EWE Turkey Holding A.Ş., Istanbul, Turkey (31.3 million euros), in 2017. This was balanced out somewhat by higher income from the assumption of gains and losses (+66.0 million euros), especially due to higher profits from EWE VERTRIEB GmbH, Oldenburg, and EWE NETZ GmbH, the increase in income from investments largely resulting from the dividend of swb AG and the write-ups of EWE Polska Sp. z o.o., Poznań, Poland (42.0 million euros), EWE TEL GmbH, Oldenburg (11.6 million euros), and EWE GASSPEICHER GmbH, Oldenburg (3.6 million euros).

The net interest was influenced primarily by interest payable on bonds, loans from financial institutions and the bonded loan as well as interest income from Group companies. In the reporting year, the negative net interest (–84.9 million euros) improved by 57.5 million euros year-over-year. Interest income declined by 0.2 million euros. This was due to the persistently low market interest rate that EWE AG offers the subsidiaries as part of cash pooling and for loans. The decrease in interest expenses (of 57.8 million euros) was mainly due to lower expenditure in connection with the issued interest-bearing loans (–60.8 million euros). Unlike in the previous year, no prepayment penalties were paid in connection with the premature buy-back of bonds in the 2017 business year. In contrast, interest expenses for provisions increased by 5.3 million euros, due essentially to pension provisions.

In 2017, personnel expenses decreased by 9.6 million euros. This was due primarily to higher expenditure from the cash settlement of in-kind benefits of the employees of EWE AG (3.9 million euros) in the previous year. Furthermore, the basic remuneration and one-off payments to employees fell by 4.0 million euros.

Amortisation, depreciation and impairment decreased by 13.5 million euros year-over-year, reaching 19.0 million euros. This was due primarily to 4.3 million euros in write-downs of intangible assets and 6.4 million euros in write-downs of buildings in the previous year.

The tax expenses increased by 15.5 million euros due to the development of the financial result and the necessary formation of tax provisions.

Due to the aforementioned effects, the income after taxes decreased by 239.2 million euros, resulting in a deficit of 136.9 million euros for the 2017 business year (previous year: profit of 103.9 million euros).

T017
Net assets

in millions of euros	31.12.2017	in %	31.12.2016	in %
Assets				
Fixed assets	2,978.1	76.7	3,156.9	81.6
Current assets	891.3	23.0	696.4	18.0
Accrued and deferred items	12.4	0.3	15.7	0.4
Total assets	**3,881.8**	**100.0**	**3,869.0**	**100.0**
Equity and Liabilities				
Equity	1,346.5	34.7	1,571.5	40.6
Provisions	168.1	4.3	159.6	4.1
Liabilities	2,367.1	61.0	2,137.7	55.3
Accrued and deferred items	0.1		0.2	
Total equity and liabilities	**3,881.8**	**100.0**	**3,869.0**	**100.0**

EWE AG's balance sheet total at the end of the reporting period stood at 3.9 billion euros (previous year: 3.9 billion euros) and exhibited a well-balanced asset and capital structure. The balance sheet is structured around EWE AG's functions as the parent company of the EWE Group, in which the key shareholdings are held. Fixed assets represent the dominant item on the asset side, with a value of 3.0 billion euros, equal to 76.7 per cent of total assets (previous year: 81.6 per cent); the most significant item is the financial assets worth 2.8 billion euros (previous year: 3.0 billion euros). The decrease compared to the previous year was essentially the result of a write-down of the shares in swb AG totalling 0.3 billion euros.

The value of current assets including deferred expenses and accrued income increased to 903.7 million euros (previous year: 712.1 million euros). As in the previous year, the item is dominated by liquid assets, receivables from affiliated companies from cash pooling and profit and loss transfer as well as securities, and reflects EWE AG's financing role. The increase of 191.6 million euros over the previous year was essentially caused by a 237.6 million euro increase in liquid assets and a 50.0 million euro increase in securities. On the other hand, receivables and other assets decreased by 91.4 million euros, due primarily to cash pooling (–63.5 million euros).

On the liabilities side, the annual deficit of 136.9 million euros and the withdrawal of 88.0 million euros from the revenue reserves to be distributed to the shareholders caused equity to decrease to 1.3 billion euros (previous year: 1.6 billion euros). As the total assets remained stable compared to the previous year, the equity ratio fell to 34.7 per cent (previous year: 40.6 per cent). In addition to equity, non-current assets are accompanied by non-current debt with a value of 1.8 billion euros. As such, non-current assets (3.0 billion euros) were completely covered by non-current available capital (3.2 billion euros).

The non-current debt comprises bonds (1.4 billion euros), long-term loans (0.3 billion euros) and pension provisions (0.1 billion euros).

The 289.4 million euro increase in non-current liabilities consists of the issuance of a bonded loan of 150.0 million euros, the issuance of bonds totalling 100.0 million euros and the 39.4 million euro increase in non-current liabilities to financial institutions.

The current liabilities of 0.7 billion euros are dominated by liabilities to affiliated companies and are 93.1 million euros lower than in the previous year. In particular, this is due to the repayment of short-term loans (–150.0 million euros), the 11.8 million euro increase in loans and the reduction of other liabilities (14.4 million euros), essentially from taxes. In contrast, liabilities to affiliated companies increased (93.1 million euros) due to cash pooling and provisions (8.5 million euros).

T018

Financial position

in millions of euros	2017	2016
Cash flow from operating activities	8.7	–64.5
Cash flow from investing activities	237.5	1,246.2
Cash flow from financing activities	–8.6	–1,132.2
Changes to cash and cash equivalents	237.6	49.5

The cash flow from operating activities was 8.7 million euros in the business year. At –136.9 million euros, the net income for the year on which the calculation was based was 240.8 million euros lower than in the previous year. Non-cash depreciation, amortisation and write-downs of 349.7 million euros, interest expenses (84.9 million euros), income tax expenses (83.1 million euros) and the changes in provisions and liabilities (75.1 million euros) increased the cash flow, whereas income from investments (406.3 million euros) and income tax payments (59.4 million euros) decreased it.

The positive cash flow from investing activities was determined by the sale of the shares in VNG in the previous year. In 2017, the net total of the addition and disposal of financial assets was –163.0 million euros. Investments in intangible assets and property, plant and equipment were merely negligible. Incoming payments from dividends or profit transfers from financial investments (406.3 million euros) led to a positive cash flow overall. This income was higher than in the previous year.

The cash flow from financing activities largely reflects the assumption of loans and the issuance of bonds (365.2 million euros), as well as the retirement of bonds and repayment of loans (214.0 million euros), and the payment of the dividend of 88.0 million euros in the previous year.

Cash and cash equivalents represent liquid assets and increased by 237.6 million euros to 509.4 million euros.

The company was always capable of fulfilling its financial obligations.

Investments

In the 2017 business year, investments amounted to 554.6 million euros:

T019

in millions of euros	31.12.2017	31.12.2016
Intangible assets [1]	6.1	6.8
Land and buildings [2]	3.6	3.1
Power supply systems		
Other technical equipment and machinery	0.1	0.1
Furniture and office equipment	4.4	2.6
Financial assets	540.4	76.2
Total	**554.6**	**88.8**

1 of which 0.3 million euros (previous year: 2.7 million euros) in assets under construction

2 of which 0.6 million euros (previous year: 0.0 million euros) in assets under construction

The investments in financial assets are spread across acquisitions of interests, capital increases by affiliated and associated companies and short and long-term loans. The additions to the shares in affiliated companies resulted from the capital increase by EWE ERNEUERBARE ENERGIEN GmbH, Oldenburg (6.0 million euros), Grünspar GmbH, Münster (1.3 million euros), and three new start-ups in Berlin (totalling 6.6 million euros). With regard to investments, EWE AG acquired 1.0 per cent of the shares (3.2 million euros) of European Energy Exchange AG, Leipzig, and 22.9 per cent of Wärmeversorgungsgesellschaft Königs Wusterhausen mbH, Königs Wusterhausen (1.2 million euros), in the reporting period. Additionally, there were limited partner's capital contributions for GWAdriga GmbH & Co. KG, Berlin (1.6 million euros), and Trianel Windkraftwerk Borkum II GmbH & Co. KG, Oldenburg (36.3 million euros). With regard to loans, the majority of the investments are attributable to EWE NETZ, EWE GASSPEICHER GmbH, Oldenburg, EWE ERNEUERBARE ENERGIEN GmbH, Oldenburg, EWE Windpark Köhlen GmbH & Co. KG, Oldenburg, and EWE Windpark Hatten GmbH, Hatten. Loans to companies with which an investment relationship exists were issued to Trianel Windkraftwerk Borkum II GmbH & Co. KG, Oldenburg (34.7 million euros). Overall, the additions to loans to affiliated companies and nterests totalled 482.9 million euros in the reporting year. The additions as part of acquisitions of interests, capital increases and capital contributions amounted to 57.5 million euros.

Forecast deviations

EWE AG unexpectedly generated an annual deficit of 136.9 million euros for the 2017 business year. This was due to the write-down of the carrying amount of the interest in swb AG of 349.2 million euros.

Expected development of EWE AG

Due to its position as the Group's parent company, EWE AG's net income for the year is heavily influenced by income from financial assets. No write-downs of interests – as took place in the previous year – are expected in 2018. Instead, we expect tens of millions of euros in income from the disposal of interests. This will cause the income from investments to increase significantly. Nevertheless, earnings from energy sales, telecommunications and grids remain under constant price pressure and are facing regulation and changes in charges. Non-recurring special items notwithstanding and following an annual deficit in the reporting year, the company expects a net annual profit of hundreds of millions of euros, higher than in 2016, for the following business year.

Report pursuant to Section 312 of the German Stock Corporation Act

Pursuant to Section 312 of the German Stock Corporation Act (AktG), EWE AG has prepared a report on its relationship with affiliated companies. This report closes with the following statement by the Board of Management:

'In the transactions specified in the report on EWE AG's relationship with affiliated companies, our company – based on the circumstances we were aware of at the time the transactions were carried out – received fair compensation in each transaction.'

Forward-looking statements

All statements made are based on current knowledge and assumptions. They represent estimates that we have formulated on the basis of all information available to us at the present time. In the event that the underlying assumptions do not occur or additional risks develop, actual results could deviate from expected results. As such, we cannot assume liability for these statements.

Oldenburg, Germany, 19 February 2018

The Board of Management

Stefan Dohler

Michael Heidkamp

Wolfgang Mücher