Annual Report 2016
Extract from the German
original version

EnergieKontor
since 1990

Rethink – It's worth it

CONSOLIDATED KEY FIGURES

Income statement

in EUR million	2016	2015	Change
Revenue	201.8	191.3	+5%
Total output	166.7	210.1	–21%
EBITDA (EBIT plus depreciation and amortisation)	72.1	66.1	+9%
EBIT (EBT plus financial result)	53.8	49.7	+8%
EBT (earnings before tax)	35.5	29.7	+20%
Consolidated net income	25.3	20.9	+21%
Earnings per share (EPS) in EUR	1.74	1.43	+22%

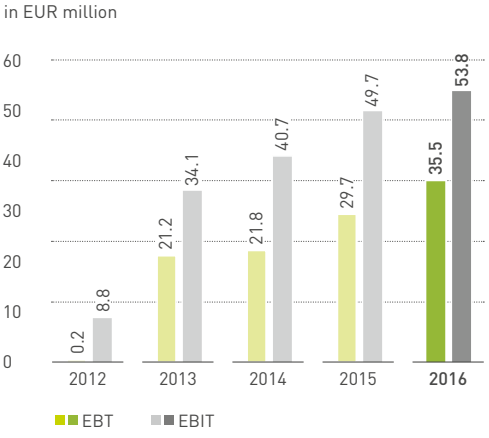
Bilanz

in EUR million	2016	2015	Change
Plant and equipment (wind farms)	170.9	222.7	–23%
Equity	69.5	50.5	+38%
Total assets	361.4	399.1	–9%
Equity ratio	19.2%	12.6%	
Notional equity ratio (see also explanation in Management Report, page 34)	20.5%	14.9%	

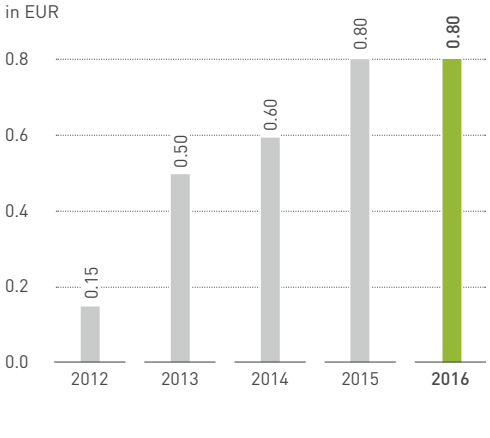
Cashflow

in EUR million	2016	2015	Change
Cash flow from operating activities (operating cash flow)	92.9	91.4	+2%
Cash and cash equivalents at end of period	118.5	104.0	+14%

EBT and EBIT



Dividend per share



Please see note on page 63 regarding pro-forma figures

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SHORT PORTRAIT OF ENERGIEKONTOR AG

For more than 25 years, Energiekontor has stood for a sound approach to business and a wealth of experience in wind power. Formed in Bremerhaven in 1990, the Company was one of the pioneers in the industry and is now one of the leading German project developers. The Company's core business covers the planning, construction and operational management of wind farms in Germany and abroad, and was expanded to include solar power in 2010. In addition, Energiekontor also currently owns and operates 31 wind farms with a total rated power of around 238 megawatts.

In addition to its headquarters in Bremen, Energiekontor also maintains offices in Bremerhaven, Hagen im Bremischen, Aachen, Bernau (near Berlin), Dortmund and Neubrandenburg. The Company also has branch offices in England (Leeds), Scotland (Glasgow) and Portugal (Lisbon). Our track record speaks for itself: 104 wind farms completed with around 576 turbines and a total rated power of more than 860 MW. This corresponds to an investment volume of over EUR 1.4 billion.

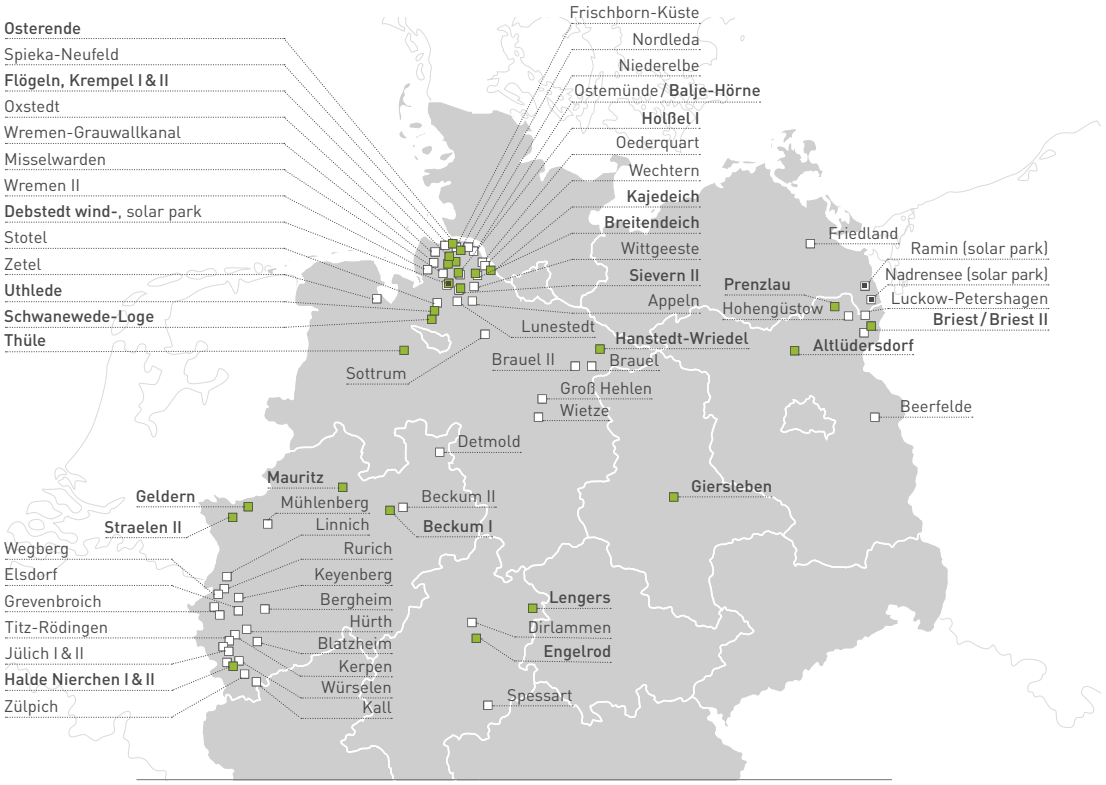
The Company went public on 25 May 2000. Energiekontor AG (WKN 531350/ISIN DE0005313506) is listed in the General Standard segment of the Frankfurt Stock Exchange and the Energiekontor shares can be traded on all German stock exchanges.

INVESTOR INFORMATION (OVERVIEW)

Stock exchange listing:	Deutsche Börse, Frankfurt (traded on the Frankfurt Stock Exchange, Xetra and all other German trading venues)
Market segment:	General Standard
Class of shares:	Bearer shares
Sector:	Renewable Energy
Initial listing (IPO):	25 May 2000
WKN (German securities identification number):	531350
ISIN:	DE0005313506
Reuters:	EKT
Shareholder structure:	57.1% management and supervisory bodies; 42.5% free float; 0.4% Energiekontor AG
Research:	Dr Karsten von Blumenthal, First Berlin Arash Roshan Zamir, Warburg Research
Designated Sponsor:	Oddo Seydler Bank AG
Financial calendar:	11 April 2017: Publication of 2016 Annual Report 15 May 2017: Publication of Q1/2017 Interim Report 23 May 2017: Annual General Meeting of Energiekontor AG 31 August 2017: Publication of H1/2017 Interim Report 15 November 2017: Publication of Q3/2017 Interim Report 27–29 November 2017: German Equity Forum, Frankfurt a.M.
Investor Relations:	Dr Stefan Eckhoff; phone: +49 (0)421-3304-0 e-mail: IR@energiekontor.de; website: www.energiekontor.de

REALISED WIND FARMS AND SOLAR PARKS

Germany

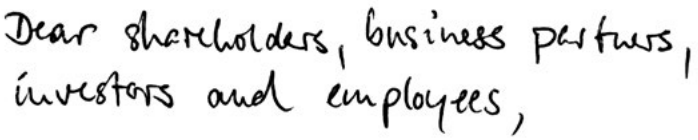


Great Britain

Portugal

■ **Group owned** □ Sold ▣ Solar ◪ both **Group-owned** and third-party-owned

LETTER TO OUR SHAREHOLDERS



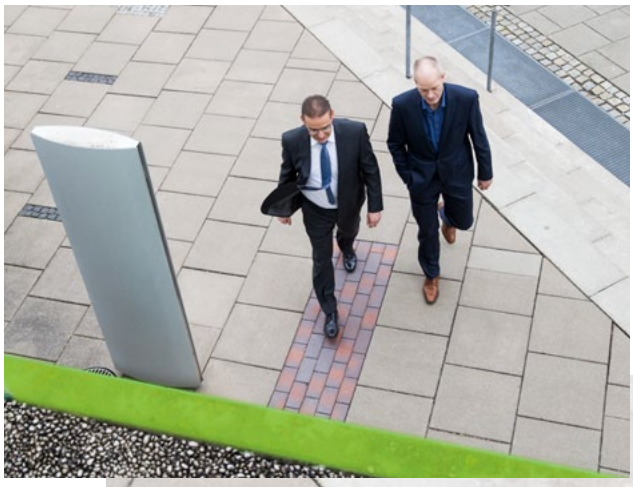
Energiekontor AG has once again achieved a considerable increase in earnings in the 2016 financial year. While consolidated revenue increased by 5 percent to EUR 201.8 million (previous year: EUR 191.3 million), consolidated income before taxes (EBT) climbed nearly 20 percent to EUR 35.5 million (previous year: EUR 29.7 million). Consolidated net income was EUR 25.3 million (previous year: EUR 20.9 million), which represents a year-on-year increase of 21 percent.

This means that the past financial year was generally in line with expectations. The positive performance was mainly driven by the new wind farm in Hürth near Cologne, which had already been completed in the first half of 2016, and also three repowering projects (Debstedt and Breitendeich in Lower Saxony, and Grevenbroich in North Rhine-Westphalia). In addition, another solar park, the Nadrensee project, which Energiekontor had won in the first auction round in 2015, was completed and sold. The British Gayton le Marsh wind farm, which had already been completed at the end of 2015, was also sold, and the proceeds were used to prematurely repay certain loans for Group-owned wind farms, which in turn contributed to the increase in the Group equity ratio to more than 19 percent. In addition, Energiekontor started the current financial year with a solid pipeline of approved projects with a total capacity of around 100 MW.

The successful performance of the Energiekontor AG in recent years should not obscure the fact that competition has increased considerably and that even in Germany, subsidies for new projects in the renewable energy sector are now determined in auctioning procedures. We have made intensive preparations for this scenario in recent years. The fact that Energiekontor has been awarded its third PV project in an auction in February 2017 shows that the Group can draw on the necessary experience to participate successfully in auctioning procedures.

In our second core market, the UK, we even expect subsidies for onshore wind to be abolished altogether. From our point of view, auctions will only take place in a transitional phase, before renewable energy, especially wind and solar, will compete directly with conventional energy sources. This is already partly the case today. For example, Energiekontor is already relying exclusively on direct power purchase agreements with major industrial corporations as the end customers to ensure the profitability of its wind farms in Scotland. This means that projects are measured directly at the market price.

In order to be able to continue on its successful growth path, the Energiekontor Group has developed various measures. These include tapping into new markets such as France, the Netherlands and the US, the further expansion of the solar business and the implementation of efficiency measures as well as using optimisation potential in the Project Development and Power Generation in Group-owned Wind Farms segments.



Management Board of Energiekontor AG: Günter Eschen and Peter Szabo.

For example, Energiekontor has already signed first option agreements for the development of wind farms in the Netherlands. The development of the Dutch market has been driven since 2016 by a Dutch project coordinator with an office in Nijmegen. The coordinator receives assistance from local agents, who are scouting for suitable sites and keep in contact with local stakeholders. Given the development times typical for the industry, it will take a few years before significant earnings contributions from wind farms will be realised in the Netherlands.

In France and the US, the situation is quite different. In these markets, Energiekontor is initially focusing on solar projects that have significantly shorter development times than wind farms. First sites have been identified in southwestern France and in the southwest of the US. In both countries, Energiekontor works with freelancers or local cooperation partners. The objective is to establish offices in the two countries. While France applies an auctioning system to determine subsidy rates, which is similar to the German system, the promotion of renewable energy in the US is largely based on tax incentives for investors. Because of superior radiation conditions compared to Germany, the profitability calculation in the two countries allows more leeway. As is the case for wind farms in Scotland, Energiekontor's assessment of the profitability of solar projects in the US is therefore based exclusively on PPAs.

The entire sector is on the verge of drastic change. We are currently taking the next step towards open competition of all energy supply systems. Given the continuous expansion of renewable energies together with gradual reductions in the levelized cost of electricity, strong growth is expected in general for this

sector. As soon as renewable energy prices draw even with the cost of electricity in fossil fuel power plants, the dependence on subsidies will be eliminated. Once that happens, a limit on the volume of new renewable energy installations will become obsolete. This should cause a rapid expansion of the renewable energy market. We intend to assume a pioneering role in this process by realising the most profitable wind and solar projects in order to be successful in auction procedures and maintain our competitive position.

In this context, we will also further expand our own portfolio of wind farms and potentially also solar parks in the coming years. As we have already seen in the past, the growth path of our Company will not always be linear. In 2016, for instance, the expansion of our own wind farm portfolio was deferred in order to reduce overall net debt. Whenever the portfolio is expanded, profit margins that could be realised in a sale, are temporarily left unutilised, meaning the expansion of the portfolio can have a temporary effect on net profit. Our focus is not on short-term profits, however, but on the long-term sustainable growth of the Energiekontor Group. This premise has time and again been supported by you as our long-term shareholders and investors.

We would therefore like to extend our thanks to you as well as to our employees and all other stakeholders of our Company for the persistent commitment and farsighted approach, and look forward to continue working together successfully in the pursuit of this goal.

Bremen, March 2017

Management Board

Peter Szabo
Chairman of the
Management Board

Günter Eschen
Member of the
Management Board

THE ENERGIEKONTOR SHARES

For a summary of key investor information, please also see the table in the cover of the Annual Report.

General information on the shares

a) Name and registered office of the Company

Energiekontor AG, Mary-Somerville-Strasse 5

28359 Bremen, Telephone: +49 421-3304-0

Energiekontor AG also maintains offices in Bremerhaven, Hagen im Bremischen, Aachen, Dortmund, Bernau (near Berlin) and Neubrandenburg. The Company also has branch offices in England (Leeds), Scotland (Glasgow), Portugal (Lisbon) and the Netherlands (Nijmegen).

b) Company objects

(1) The Company's object is to plan, develop, construct, sell and operate turbines and projects in the field of energy and environment and to sell electrical power, all including the corresponding financing and trading activities.

(2) The Company is entitled to expand its activities to other branches of trading and to acquire similar enterprises or enterprises of the same type in Germany and abroad, to acquire interests in such enterprises and to establish branch offices and subsidiaries.

(3) Furthermore, the Company is entitled to get involved in similar business areas and to conduct all business activities that are suited to promote, directly or indirectly, the Company purposes or any business activities in connection with these purposes.

c) Share capital

The Company's subscribed capital (share capital) as entered in the commercial register amounts to EUR 14,653,160 as of 31 December 2016 and is divided into 14,653,160 bearer ordinary shares.

d) Financial year

The Company's financial year is the calendar year.

Authorised capital

Following expiration of the existing authorised capital on 24 May 2016, new authorised capital was created at the Annual General Meeting on 26 May 2016. This also enables the Company to issue preferred shares in the scope of future capital increases.

Subject to the consent of the Supervisory Board, the Management Board was authorised to increase the Company's share capital by up to EUR 7,326,580 on one or several occasions until 23 May 2021 by issuing up to 7,326,580 new bearer ordinary and / or preferred shares with or without voting rights for cash and / or contributions in kind (authorised capital 2016).

The authorisation includes the authority to, if preferred shares are issued on multiple occasions, issue additional preferred shares (with or without voting rights) that precede the previously issued preferred shares or rank equally to them in the distribution of profits or Company assets. Here, the shareholders must generally be granted a subscription right. However, subject to the consent of the Supervisory Board, the Management Board is authorised to exclude the shareholders' legal subscription right (for the exact terms and conditions, see resolution in the invitation to the Annual General Meeting on 26 May 2016 at www.energiekontor.de > Investor Relations > Hauptversammlung).

This authorisation has not been used to date.

Contingent capital

The General Meeting on 28 May 2014 resolved to grant options for a total of 500,000 new bearer ordinary shares and to thus increase the Company's contingent share capital by a total of EUR 500,000.00 (contingent capital 2014 I). The contingent capital increase will only be realised to the extent that holders of subscription rights granted by the Company under the 2014 stock option plan actually exercise their subscription rights and the Company does not use treasury shares to fulfil such subscription rights. The new

shares start participating in the Company's profits from the start of the financial year in which the corresponding option is exercised. Pursuant to the 2014 stock option plan, subscription rights for up to 500,000 Company shares may be issued exclusively to members of the Management Board until 31 December 2018. Subject to the subscription right conditions issued by the Supervisory Board, each subscription right entitles its holder to acquire one bearer ordinary share of Energiekontor AG.

100,000 subscription rights were issued to the Management Board under the stock option plan in 2014.

Share buy-back programme

In line with the resolution of the General Meeting on 25 May 2011, a total of 185,435 shares were repurchased by Energiekontor AG between the date the resolution was passed and 31 December 2016, 20,165 thereof in the 2016 financial year; the purpose was to retire treasury shares and to thus reduce share capital. After the reduction of share capital in September 2014, Energiekontor AG held 61,085 shares at the end of the 2016 reporting period.

Directors' dealings

On 19 September 2016, the company founders and Supervisory Board members of Energiekontor AG, Dr Bodo Wilkens (Chairman of the Supervisory Board) and Günter Lammers (Deputy Chairman of the Supervisory Board), notified the Company pursuant to Art. 19 MAR (Market Abuse Regulation) that they had both sold part of their Energiekontor shares, each equalling around 7.0 percent of total share capital, to institutional investors via private placement on 15 September 2016. They stated that the transaction was aimed at increasing the free float and potentially also the liquidity and attractiveness of the Energiekontor shares, while diversifying their private assets.

The member of the Supervisory Board Darius Oliver Kianzad and the members of the Management Board Peter Szabo (Chairman) and Günter Eschen did not hold any shares of the Company in the period under review.

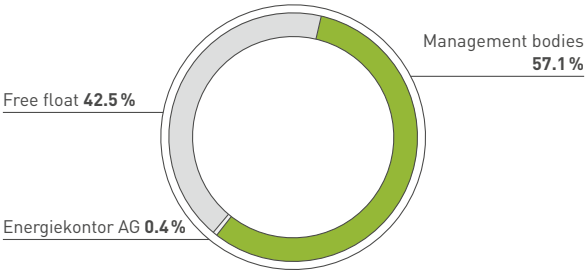
Shareholder structure

The Management Board is not aware of any direct or indirect shareholdings [Sec. 315 (4) No. 3 German Commercial Code (HGB)] in excess of ten percent, with the exception of the shareholdings stated below, which changed after the aforementioned transaction compared to the half-year report 2016:

Name, function	Number of shares
Dr Bodo Wilkens (Chairman of the Supervisory Board)	4,184,335
Günter Lammers (Deputy Chairman of the Supervisory Board)	4,187,974

Energiekontor AG therefore had the following shareholder structure as of 31 December 2016:

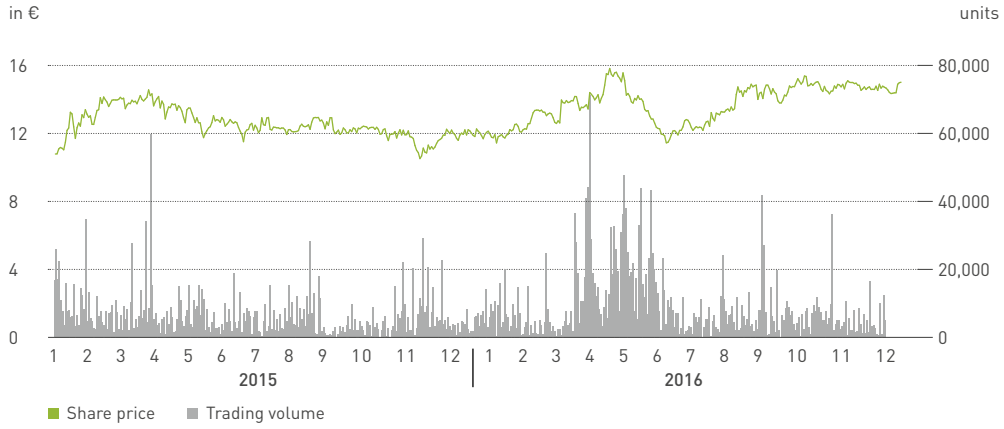
Shareholder structure as of 31 December 2016



Share price development and trading volume of Energiekontor AG in 2015/2016

The following chart shows the development of the closing price of the shares in Frankfurt (green) as well as the total daily stock trading volume of Energiekontor AG at all German exchanges (grey) from 1 January 2015 until 31 December 2016.

Energiekontor share price development and trading volume in 2015/2016



Share trading and market capitalisation in the 2016 financial year

The following table shows the highs and lows per month as well as the average closing prices (Frankfurt) of the Energiekontor share in the 2016 financial year. The average market capitalisation per month was then determined based on the average total trading volume and the average closing prices.

Share trading and average market capitalisation of Energiekontor AG

2016 Month	High (EUR)	Low (EUR)	Average closing price (EUR)	Average trading volume per day (units)	Average market capitalisation (EUR m)
January	12.35	11.48	11.99	5,572	175.7
February	13.50	11.84	12.75	7,023	186.8
March	14.29	12.61	13.49	3,857	197.7
April	**15.96**	13.20	14.35	19,260	210.3
May	15.59	12.96	14.41	**20,709**	211.1
June	13.26	**11.15**	12.28	16,965	179.9
July	13.30	12.08	12.70	4,926	186.1
August	14.95	13.16	14.12	6,712	206.8
September	14.93	13.83	14.42	8,587	211.3
October	15.44	14.30	14.87	5,888	**218.0**
November	15.10	14.20	14.80	7,083	216.9
December	15.01	13.90	14.66	4,731	214.8

Source: Oddo Seydler/Bloomberg

2016 MANAGEMENT REPORT

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Pursuant to Section 315 (3) German Commercial Code (HGB) together with Section 298 (3) HGB, the Management Report of Energiekontor AG, Bremen, as the parent company of Energiekontor Group, and the Management Report of the Energiekontor Group have been combined. Provided that no further restrictive information is given, the following statements apply to both Energiekontor AG and the Group.

THE FOUNDATIONS OF THE GROUP

The Energiekontor AG business model

Energiekontor AG specialises in wind power project development and wind farm operation in both Germany and abroad. As one of the pioneers in this area, the Company can call on 25 years of experience and covers the entire value chain in the onshore wind farm segment, from business and project development over financing and turbine installation to operational management of the completed facility.

A few years ago, the Company's business model was also expanded to include the project development of solar parks. This area is to be scaled up considerably, especially in the new markets of France and the US.

At the time of publication of the present annual financial statements, the Energiekontor Group had developed and installed a total of 576 wind turbines with a total rated power of over 860 MW in 104 wind farms in Germany, Portugal and the UK, as well as two ground-mounted solar arrays with a capacity of around 20 MW in Germany. Total capital spending on these projects amounts to about EUR 1.4 billion.

Complementing the sale of turnkey projects, the Energiekontor Group also operates a portfolio of Group-owned wind farms as an independent power producer. Owner-operated facilities currently (as of March 2017) amount to around 238 MW.

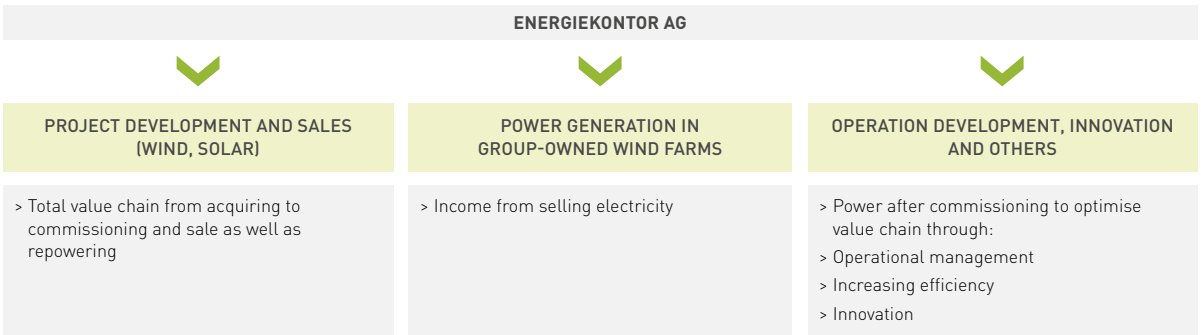
Business operations of the Energiekontor Group are handled by three divisions. Segment reporting also follows this same structural model:

- a) Project Development and Sales (Wind, Solar)
- b) Power Generation in Group-owned Wind Farms
- c) Operation Development, Innovation and Others

a) Project Development and Sales (Wind, Solar)

The Project Development and Sales (Wind, Solar) segment comprises project development for onshore wind farms and solar parks for sale outside the Group. This division handles the entire value chain from business development, planning and financing through to construction and/or repowering and the final sale of the plants. It also covers the solar power project development business. Buyers for wind farms and solar parks include domestic and international institutional investors, private turnkey system buyers and members of local communities. An independent project company is formed for each wind farm or solar park project.

The repowering of old sites – i.e. the replacement of old facilities with new, more powerful turbines – is a key part of the Energiekontor Group's business activities. The Group completed its first repowering projects as early as 2001 / 2002.



b) Power Generation in Group-owned Wind Farms

This segment comprises the generation of power in Group-owned wind farms. In expanding its portfolio of owner-operated wind farms, the Group is seeking to increase its independence from government policy and changes in interest rates or the prices of raw materials, while generating income to cover ongoing business costs if individual projects are delayed. The Group's owner-operated turbines also constitute hidden reserves. If required, these turbines could be sold, thus releasing the respective tied-up financial resources plus the associated hidden reserves. Additional potential lies in the possibility of upgrading the Group-owned wind farms, for example through repowering or efficiency increasing measures such as the rotor blade extension classified in the third segment and described under item c).

The first addition to the Energiekontor Group's wind farm portfolio was made in 2002. Since then, the portfolio has seen regular expansion. At present, this refers first and foremost to the assumption of final ownership of projects that the Group has developed itself. In the past, the Group also bought financially promising operational wind farms. Such wind farms may either be projects that Energiekontor developed itself and sold at an earlier point in time or projects developed and operated by other companies. The total rated power of the wind farms operated by Energiekontor in Germany, the UK and Portugal amounted to 238.2 MW at the end of the financial year 2016.

Group-owned wind farms (reference date: 31 December 2016)

Name of the wind farm	Total rated power / MW
Debstedt	3.0
Breitendeich	6.0
Sievern (Tandem II)	2.0
Briest (Tandem II)	7.5
Briest II	1.5
Geldern	3.0
Mauritz-Wegberg (Energiekontor holds 88.52 percent)	7.5
Halde Nierchen I	5.0
Halde Nierchen II	4.0
Osterende	3.0
Nordleda (Energiekontor holds 51 percent)	6.0
Kajedeich	4.1
Engelrod	5.2
Krempel	14.3
Schwanewede	3.0
Giersleben	11.3
Beckum	1.3
Balje-Hörne	3.9
Hanstedt-Wriedel	16.5
Lengers	4.5
Krempel II	6.5
Prenzlau	1.5
Flögeln	9.0
Altlüdersdorf	13.5
Thüle	14.0
Wind farms in Germany	*157.1*
Marão	10.4
Montemuro	10.4
Penedo Ruivo	13.0
Mafomedes	4.2
Wind farms in Portugal	*38.0*
Hyndburn	24.6
Withernwick	18.5
Wind farms in the UK	*43.1*
Total	**238.2**

c) Operation Development, Innovation and Others

The Operation Development, Innovation and Others segment brings together all of the various activities aimed at improving the operating profit margin following the commissioning of the wind farm or solar park. Such activities include in particular:

- Operational management of wind farms (technical and commercial)
- All activities aimed at reducing costs, extending service life and increasing yields, e.g.
  - predictive, preventive maintenance,
  - direct marketing of the generated power,
  - rotor blade extension.

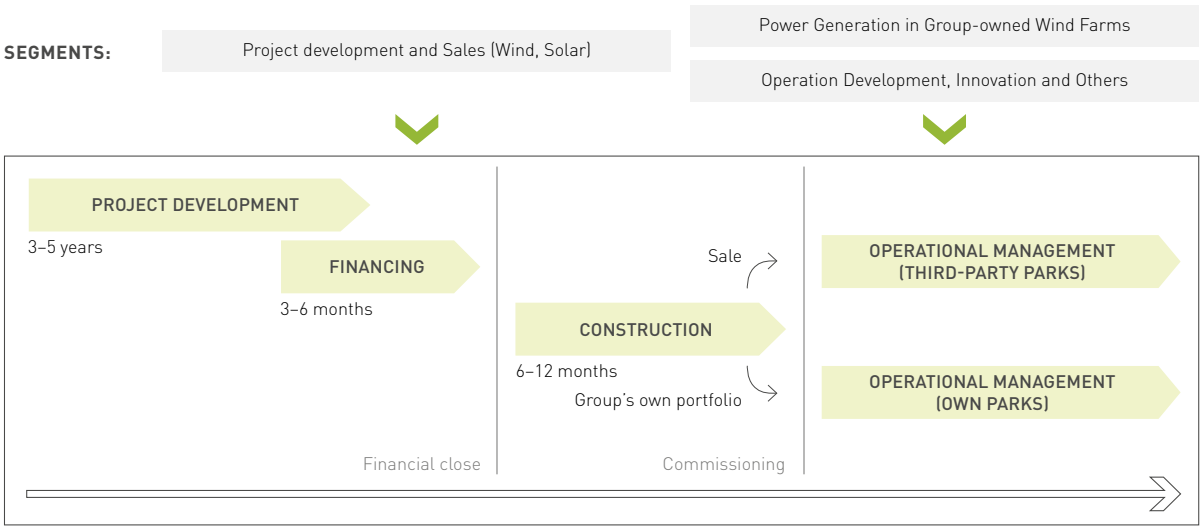
Regardless of whether the developed projects are sold or included in the Group's own portfolio, Energiekontor is typically in charge of commercial and technical operational management, thus generating an ongoing cash flow for the Company.

Commercial activities include in particular the settlement of accounts with the energy supplier, the service/maintenance companies and the facility lessors. Other activities include communicating with banks, insurance companies and investors.

Apart from wind turbine monitoring and data reporting and analysis, the technical services rendered by Energiekontor mostly involve the coordination of repairs and servicing teams working on-site, as well as the planning and implementation of preventive maintenance work. This preventive maintenance work can substantially extend the service life of both individual turbines and the overall site, while simultaneously achieving considerable savings in costs for repairs of primary components.

Technical innovations such as rotor blade extension also form part of the activities designed to optimise performance, yield and cost savings. This extension process invented and patented by Energiekontor is a technique for lengthening the rotor diameter that has now been tested and implemented successfully in the field for some years. Installation is carried out with the blade attached, i.e. without dismantling the blade. This concept allows crane costs and downtimes to be kept at a minimum. Currently, manufacturing of the rotor blade extension for serial operation is being prepared.

Energiekontor's activities taking onshore wind farms as an example (simplified)



Goals and Strategy

In the more than 25 years since the formation of our Company, the renewable energy market has undergone ongoing change and continuous development. Back in 1990 when the first Electricity Feed-in Act (StrEG) was introduced, renewable energies were still widely regarded as a rather crazy eco-idealist idea. Especially the large power companies that now play a major role in renewable energies were initially highly critical of these modern technologies. Today, a quarter of a century later, renewable energies have evolved into sophisticated, established and recognised technologies, making a significant contribution to energy production in many industrial nations. In Germany alone, the share of renewable energies already accounted for about a third of the total energy produced in 2016. The higher the share of renewable energies in meeting demand, the more sustainable and environmentally friendly the entire energy supply.

New self-perception of the pioneering role

Energiekontor's vision is to generate all the energy we need from renewable resources. In order for this to become reality and for renewable energies to gradually and sustainably attain stronger market penetration, they have to be economically comparable with conventional energy production. This requires further developments concerning technology and efficiency. As was the case when renewable energies were launched in the predominately fossil technological landscape of the early 1990s, Energiekontor is once again aware of its pioneering role and wants to realise the most efficient projects in the area of wind and solar in its industry, thus making a substantial contribution on the path to 100 % renewable energy.

A solid foundation for sustainable growth

The growth model of Energiekontor AG is closely linked to the Company's mission statement. The intensified regional approach and the diversification to new markets is aimed at strengthening organic company growth in order to continue actively accelerating the expansion of renewable energies, also in a more intense competitive environment. The management believes in employee involvement and development and creates the organisational framework required for achieving this goal. Basis and foundation of Energiekontor's growth strategy is its financial stability. This stability is predominately based on the steady surplus cash from Power Generation in Group-owned Wind Farms and from commercial and technical operation management activities.

A solid foundation for sustainable growth

Intensifying the regional approach

Energiekontor has always emphasised the importance of the regional approach. This allows close collaboration with local authorities and regions as well as a bespoke regional approach with a high level of local acceptance. At the same time, it generates a competitive advantage in each region and accelerates project development. In terms of organisation, the regional approach is implemented by local Energiekontor teams with far-reaching discretionary powers. This principle shall be further intensified by increasing the number of regions, in which Energiekontor is presented, both in Germany and abroad. Falling costs in the solar industry mean that solar power generation should soon be on an economic par with conventional energy sources.

Tapping into new foreign markets

One major element of the Energiekontor growth strategy is the gradual expansion of the existing portfolio of countries (Germany, UK, Portugal) through increased internationalisation and diversification to new foreign markets in order to develop additional growth potential for the coming years. Simultaneously, the expansion of the solar area is to be driven forward, especially in countries with favourable irradiation conditions and the correspondingly low electricity generation costs. Current target countries are:

- the Netherlands (wind)
- France (wind, solar)
- and the US (wind, solar)

Energiekontor has started acquiring suitable sites and has begun preliminary project development activities in all three of these countries. Further analyses may result in Energiekontor deciding to extend the selection of countries or, if the management believes that deeper involvement in one or several of these countries is not promising, it may decide to discontinue activities in one or more countries. Additional national markets could also be added to this list.

This does not mean that the Company directly enters a market and starts the cost-intensive process of setting up project development whenever a new national market is added; instead, Energiekontor carries out a systematic review, analysis and selection process to analyse and evaluate the specific conditions for wind and solar projects in the individual countries (legal, political, subsidy systems, grid connection regulations, authorisation etc.). Furthermore, the intention is to identify and, if suitable, take under contract the first partners for site acquisitions and further market development in order to create the structural prerequisites for a possible market entry at an early stage. The aim of this gradual and inexpensive review process – which can mainly be carried out by existing employees – is to identify the foreign markets that are best suited for market entry. Setting up local branches, employing own local staff and local project development will only begin once the final market entry decision has been made. This approach will improve the chances of success for developing the market while reducing the risk of misallocating resources.

Innovation and efficiency measures

Energiekontor intends to realise the most economically viable projects in its industry, thus contributing to the 100 % renewables vision. At the same time, this ensures the Company's competitive position in an increasingly market-oriented environment. Energiekontor will continue to strengthen its measures to increase innovation and efficiency in this environment. Innovation may refer to technical in-house developments such as e.g. rotor blade extension. However, innovation mostly refers to the fastest possible adaptation of new technologies and methods to benefit Energiekontor's projects. There are three approaches:

- increasing the economic viability of projects planned by Energiekontor,
- increasing profits of Group-owned wind farms, and
- accelerating project development solution finding.

These measures are closely linked to broadening the decentralised organisation, the project organisation led by employees and creating a "culture of development".

Room for initiative and organisational decentralisation

Innovation and efficiency are not necessarily restricted to technical innovations. For Energiekontor, broadening the decentralised organisational structure also contributes to increasing the Company's efficiency. Thus, the management deliberately focuses on a strong decentralisation of the working and decision-making processes with flat hierarchies in order to avoid unnecessary bureaucratisation and to ensure flexibility and fast decisions, even with a growing number of employees. At the same time, the Company creates room for creative and flexible problem-solving approaches and motivates each individual employee to act autonomously to establish an environment in which economic, legally compliant and technical innovations can evolve.

Owner-operated wind farms as a reliable growth driver

Expansion of power generation from Group-owned wind farms is the central element of the growth model. Steady income is generated by selling the power generated on our own wind farms. Another source of steady income is the provision of management services for completed and operational wind farms by specialised teams from the Energiekontor Group – possibly extending to solar parks in the future. This applies not only to the wind farms owned by the Group but also to turnkey facilities that have been sold to energy suppliers, strategic investors or financial investors. The provision of operational management services to the Company's facility buyers ensures that Energiekontor AG can retain the majority as customers, thus securing regular income from these wind farms well beyond their project completion dates.

Together with the steady income from the operational management of own and third-party farms, the income from selling electricity ensures financial stability and builds the basis for the Company's sustainable growth. Energiekontor uses the surplus cash thus generated to cover most of the costs of project development including Group-wide personnel and overhead costs. Income from selling in-house developed wind farms and solar parks drives net income and is used to pay taxes and dividends and as liquidity reserve.

Our strategy of expanding power generation in Group-owned wind farms includes

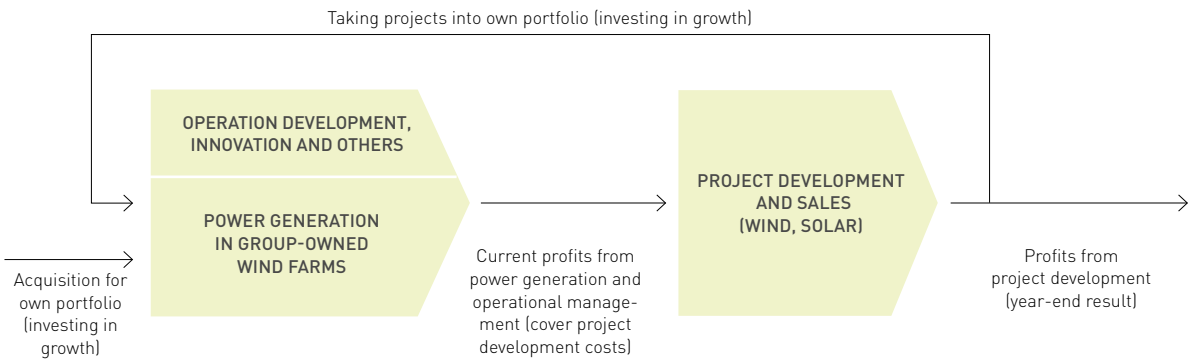
- retaining projects we have developed and completed within the Group,
- acquiring operational wind farms and solar parks,
- repowering Group-owned facilities, and
- optimising and increasing the efficiency.

We intend to transfer around half of the projects that we develop to Group ownership; the other half is designated for sale. The management reserves the right to adjust this ratio depending on the Company's business situation.

Varying growth dynamics

Company growth varies in the individual segments. In the area of project development, Energiekontor drives growth by increasing site acquisitions and the regional approach as well as by expanding to new markets. In contrast, growth in the Power Generation in Group-owned Wind Farms division is based on the incorporation of projects from project development into Company ownership or acquisition of external operational wind farms. The more wind farms become Group-owned wind farms, the higher the surplus cash from the sale of electricity and operational management. Thus, more funds are available for project development in order to promote growth. Further growth is thus mainly supported by additional expansion of the Group-owned farm portfolio and the increase in surplus cash by the operation of own wind farms and operational management. This organic growth process is supported by accompanying innovation and efficiency measures that lead to further rises in profits and that further increase the surplus cash from power generation in group-owned wind farms.

Growth model of Energiekontor AG



One positive side effect of this growth strategy is the fact that it reduces dependency on project selling and proceeds from project sales. Even if it were not possible to generate income from project sales, the Group's liquidity and the financing of the project development (including the Group-wide personnel and overhead costs) is covered by the surplus cash generated from power generation in Group-owned wind farms and operational management. Financial risk is thus minimised to the greatest possible extent. The Energiekontor growth model thus differs from many competitors' business models in the industry that do not have a comparable portfolio of Group-owned wind farms.

Business objectives

Energiekontor plans to use this strategy to increase project development EBT in a stable and sustainable manner to around EUR 30 million per year in the medium term. This figure already accounts for the elimination of profit from the construction of wind farms intended for Group ownership arising from Group consolidation; it is therefore not recognised in Group profit.

The intention behind expanding the portfolio of Group-owned wind farms is to establish Energiekontor as a medium-sized producer of renewable energy while effectively minimising dependency on general developments in the market. With the income from additional Group-owned wind farms and operation development, the Company intends to sustainably generate EBT of EUR 25–30 million p.a.

The expansion of the Group-owned wind farm portfolio will be sourced from the Company's own projects, the repowering of existing portfolio assets and, where appropriate, the acquisition of third-party facilities. The Company will finance this new tranche of capital spending with project financing loans, project-related bonds, equity capital and regular surplus cash from existing portfolio wind farm operations.

Energiekontor has spent the last few years creating an environment that favours a stable and sustainable growth trajectory, and is extremely well placed to face the challenges of the future in a highly competitive market.

Innovation (research and development)

While the Company does not conduct R&D in the conventional sense of the term, the various activities handled by the Operation Development, Innovation and Others division are, on the whole, nonetheless designed to improve the operational performance and efficiency of wind farms and solar parks. Besides the repowering of Group-owned wind farms or preventive turbine maintenance, this also refers to technological innovations such as rotor blade extension and optimising blade aerodynamics.

Blade extension involves the invention of a procedure for increasing the rotor diameter, for which Energiekontor AG holds a patent. The Company has been testing this on prototypes in the 1 MW class successfully for several years. An evaluation of the test results suggests facility earnings can be boosted by around 7 percent. In Portugal permits were already granted in 2013 for 26 turbines in the 1.3 MW class, and in the meantime an entire wind farm consisting of ten such 1.3 MW turbines has been furnished with rotor blade extensions. Preparation to equip further turbine types is currently underway. The deployment of this procedure is always advisable if the facility cannot be repowered in the short to medium term. The Company intends to step up rotor blade extension work both in its own wind farms and at third-party sites. Testing of the system will be expanded on the Iberian Peninsula before transitioning to regular operation and market launch.

Management system

Internal management at the Energiekontor Group is based on regular communication between Company management and the individual business units. Weekly meetings and, if necessary, incident-related special meetings take place. The internal control system covers all business units. This enables the Group to respond quickly to changes in all units and at all management levels within the Energiekontor Group.

The starting point for the management of the Group and its individual business units is the definition of sustainable strategic targets adopted by Company management, which are in turn derived from the overall strategy. These are supported by internal guidelines on processes, cost structures and risk assessment.

The individual business units provide monthly, quarterly and weekly reports on current developments and possible or potential deviations from strategic targets. Alongside these operational indicators, the market situation and upcoming regulatory, legal and political changes in individual countries are analysed and evaluated on a regular basis, so as to enable internal committees to decide on the appropriate strategies and measures.

The management of business activities in the operating units is based on selected performance indicators. The most important performance indicators are business development, gross margin and surplus cash targets in the individual segments and business units. Each business unit and segment has its own specific targets, which are used to measure the success of the business performance.

In this case, the gross margins are defined as the difference between the expected sales revenue and the external production costs of the wind farms and solar parks at the time of the financial close. The financial close is equivalent to the point in time when the equity is made available, the first call from the project financing is paid out and the conditions precedent in the construction and supply contracts are abolished. The expected sales revenue is determined based on the target returns of the investor market and the parameters from project financing. The customary target returns of the investor market serve as guidance and are derived from current price indications and past transactions.

The sustainable gross margin targets are the main basis for budget planning and allocating resources. The business development targets of the individual project development areas (Germany, abroad, solar, repowering) also play a major role in allocating resources, as project and site acquisitions lay the foundations for sustainable Company growth in the future. Already in the early phase before the site option agreements are concluded, profitability and sensitivity analyses with fixed profitability parameters are carried out in order to set up a resilient project pipeline through the business development activities that also withstands possible changes in regulatory or other economic conditions (feed-in tariffs, turbine purchase prices, interest levels etc.)

Certain business units with regular income such as e.g. operational management or the sales divisions are run as a profit centre. Surplus cash targets are defined for these units, surplus cash being the planned excess liquidity from cash inflow and outflow within a planning period. The aim of the profit centres is to generate surplus cash and/or to run the profit centre at least with break-even liquidity.

EBT (earnings before taxes) is the primary performance indicator for Energiekontor AG and the Group, and is broken down to various gross margin and surplus cash targets for the individual operating units. EBT is equivalent to the income from ordinary activities before tax. The difference between EBT and EBIT (earnings before interest and taxes) is that the interest result is already taken into consideration; EBT is determined as follows:

Revenue
+ / – Changes in inventories and work performed and capitalised
= Total output
\+ Other operating income
= Total operating output
– Cost of raw materials and supplies
– Personnel expenses
– Depreciation and amortisation
– Other operating expenses
= Operating expenses
= Operating profit (EBIT)
+ / – Interest result
= EBT (earnings before tax)

All in all, planning, budget and management of the Energiekontor Group is based on a distinct liquidity-oriented target and management system, which makes it relatively easy to determine and measure the business success of individual business units as well as the entire Company.

ECONOMIC REPORT

Macroeconomic and industry-specific environment

After a rather weak 2016, economic activities are expected to gain momentum again in 2017 and 2018, especially in the emerging growth markets. This forecast was issued in the January edition of the IMF's World Economic Outlook[1]. While the leading industrial nations are expected to achieve an increase in average economic growth from 1.6 percent in 2016 to 1.9 and 2.0 percent in the two years thereafter, the economic experts of the IMF forecast that the booming emerging economies will increase average growth rates from 4.1 percent in 2016 to 4.5 percent in 2017 and 4.8 percent in 2018.

In Germany, on the other hand, economic growth will be rather moderate with a decline to 1.5 percent in 2017 and 2018 compared to 1.7 percent in 2016, despite an upgrade of the growth forecasts for Germany, Japan, Spain and the UK. While growth in the US was at a comparable level to Europe in 2016, the US is expected to achieve growth of well over 2 percent in the next two years, driven by the expected tax incentives. It is however acknowledged that the political development under the new US administration still remains to be seen before the international impact can be assessed more accurately.

The economic growth trend in China is slowing down as the focus is shifting from investments in infrastructure towards a consumer and service-oriented society. Yet, at 6.7 (2016), 6.5 (2017) and 6.0 percent (2018), the expected increase in the gross domestic product in this country is still considerably higher than the global average of 3.1 percent in 2016 and estimated 3.4 and 3.6 percent in 2017 and 2018. The IMF forecasts are generally based on the assumption that the price of oil is stabilising.

Sector growth in the renewable energy market continues to vary considerably. China continues to be the frontrunner in the wind power as well as in the solar power markets. Together with the US, the People's Republic covers significantly more than half of annual new installations of wind and solar power plants. Cuts in the subsidy systems for renewable energy sources in some European industrial countries, in contrast, brought slight declines in the number of new installations, and uncertainty with regard to investments. More open questions result from issues such as the Brexit in Europe or the announcement of the introduction of protective tariffs in the US.

The international goals for environmental protection and sustainable energy production continue to be the main drivers for the continued industry growth. The EU member states have undertaken to meet mandatory expansion targets. The international agreement resulting from the UN climate conference in Paris at the end of 2015 showed that climate protection and the corresponding containment of carbon emissions are meanwhile globally accepted, although this is called into question at times when there is a change in government.

The expansion of renewable energy sources also lowers the levelized cost of electricity. In Europe, the price of electricity from renewable energy sources is increasingly determined in auction processes. The objective is to converge the renewable energy market with free market conditions. In some regions, the leading renewable technologies wind energy and PV are already competing directly with electricity from conventional energy sources.

In the following, the core markets as well as the new markets of Energiekontor AG for wind and solar will be looked at in more detail.

Wind

In 2016, new wind power systems with a total capacity of around 55 GW were installed. New installations in 2015 had amounted to 63.6 GW, which indicates a decline of 14 percent. This decline is mainly owed to the lower number of new installations in China, where new installations still amounted to 23.3 GW in 2016, by far the highest number of new wind farms (30.5 GW in the previous year). The second highest increase in installed capacity for wind power was again achieved in the US with 8.2 GW (8.6 GW in the previous year)[2].

In Germany, Europe's top performing market, capacity of newly installed turbines declined from 6.0 GW in 2015 to 5.4 GW in 2016. This, however, was due to the decline in new offshore capacity in 2016 compared to the previous year. Taking exclusively the new onshore installations in Germany into consideration, 2016 saw another increase to 4.6 GW (3.7 GW in the previous year) . On a net basis, i.e. taking into account the decommissioning of older systems, new onshore installations in Germany of around 4.3 GW in 2016 even exceeded the overall capacity of offshore wind farms in the country. 1.6 GW of new wind power capacity

1) International Monetary Fund (IMF): "World Economic Outlook, Update" from 16 January 2017
2) Global Wind Energy Council (GWEC): "Global Wind Statistics 2016" from 10 February 2017

was added in France, followed by the Netherlands (0.9 GW) and the UK (0.7 GW).

With a total capacity of 169 GW, more than one third of all global wind turbine systems are located in China. Together with the US (82 GW), this share even climbs to more than half. Germany had a total wind power capacity of 50 GW at the end of 2016, 46 GW thereof onshore. Worldwide installed power climbed to a total of 487 GW in 2016 (432.4 GW in the previous year)[2].

Germany

Under the energy transition scheme, Germany is planning to generate 40-45 percent of its required power from renewable energy sources by 2025; by 2035 this figure is supposed to reach 55 to 60 percent. By 2050, the share of electricity generated from renewable energy sources in gross electricity consumption will even be increased to a minimum of 80 percent.[3]

The German Renewable Energy Sources Act (EEG) forms the framework for the expansion of renewable energies. Since the introduction of the EEG, the share of renewable energies has increased from 6 percent of gross electricity consumption in 2000 to more than a third in 2016.

The new EEG 2017 became effective at the beginning of the current financial year. It prescribes that subsidies for renewable energy sources are granted via a market-based auction scheme for new permissions as from 1 January 2017. The first auction for onshore wind projects is scheduled for May 2017, when 800 MW in total rated power will be put to tender. Two additional auctions for 1,000 MW each will be held in August and November 2017. The amount of subsidised onshore wind power has been capped at 2,800 MW p.a. This also applies to 2018 and 2019 (auctions for 700 MW each in February, May, August and October). From 2020, total capacity is to be increased to 2,900 MW.

The auction process will be based on a single-stage reference yield model. According to this, the subsidy rate will be constant for a period of 20 years. The bids will relate to a 100 percent reference site that is defined via the average expected wind speeds. Depending on the quality of the concrete project site (wind conditions), the actual remuneration amount is adjusted by means of several factors along the reference yield curve (a site with low wind levels receives higher remuneration than a location with strong wind). This makes locations with weaker winds more profitable, thereby accommodating the desire to expand wind energy all the way to southern Germany. For the first auction round in May 2017, the highest bid price for the 100 % reference site has been limited to 7 euro cent / kWh.

Since the EEG was introduced in 2000, onshore wind power has been subsidised based on the two-stage reference yield model. The power generated in the wind farms was remunerated in two stages. A higher initial tariff reverted to the so-called basic subsidy after at least five years. The duration of the period in which the higher initial tariff is paid (max. 20 years) depended on the quality of the site; the weaker the wind at the site, the longer the period with a higher initial tariff. This rule still applies to all wind farms that obtained their permission before 31 December 2016 and will start operations before 31 December 2018.

The amended EEG 2014 also stipulated a deployment corridor. This has since been determining the degression of the remuneration rate that is fixed as of commissioning and that was already included in the previous German Renewable Energy Sources Act (EEG). New installations of 2,500 MW p.a. was set as the target. The more this target amount is exceeded by actual installed wind turbine system capacity, the more drastic the degression of the remuneration rate (so-called "breathing cap"). In the case of repowering projects, only the gains that exceed the original capacity of the relevant site for the intended trajectory of 2,500 MW will be taken into account.

In 2017, the state subsidies (basic remuneration and the higher initial tariff) for wind farms that obtained permission before 31 December 2016 will be lowered by 1.05 percent per month over a period of six months, depending on the date of commissioning. From 1 October 2017, the value to be used for the calculations will drop every quarter in accordance with the above-described breathing cap, depending on annual new onshore wind turbine installations (the highest degression would entail a reduction of 2.4 percent). In 2017, the degression cascade corresponds to a reduction in remuneration from 8.38 euro cent / kWh as at 1 January 2017 to 7.68 euro cent / kWh as at 1 December 2017. The objective of this degression system over one year is rapid commissioning of projects that have already been given permission and the harmonisation of subsidies to the remuneration that is to be expected as a result of the auctions.

Even though 2017 and 2018 will see additional installed capacity on top of the auction volume of 2,800 MW per year, which stems from the completion of projects that had already obtained permission before 31 December 2016 (according to the BW around 8.4 GW), Energiekontor expects Germany will see a significant decline in new wind farm

3) Website of the Federal Ministry for Economic Affairs and Energy (BMWi)

capacity as well as the rapid decrease in remuneration. Fixing a maximum bid price, which contradicts the objective of establishing open competition, and the attempt to introduce a drastic cap for new installations per year through tender quotas is viewed critically by Energiekontor.

A special feature of the amended EEG 2017 is the definition of so-called grid expansion areas. These include the northern federal states Lower Saxony (in parts), Bremen, Bremerhaven, Hamburg, Schleswig-Holstein and Mecklenburg-Western Pomerania, where the total volume of subsidised projects has been limited to 58 percent of the average capacity commissioned in 2013-2015. The impact of this on Energiekontor is marginal thanks to its high number of new projects in the key regions North Rhine-Westphalia and Brandenburg as well as the expansion into new national markets.

Energiekontor also takes a positive view on the prerequisites for participating in auctions. According to this, only approved projects may participate and a financial security amounting to EUR 30,000 per Megawatt installed rated power is required. Energiekontor welcomes this condition as it prevents strategic bidding and secures project realisation.

UK

Subsidies for renewable energy in the UK saw substantial cuts after the parliamentary elections in May 2015. A new remuneration system with auctions, similar to Germany, was supposed to be introduced in 2015 to 2017. This would have been based on so-called contracts for difference (CFD), a structure that is similar to the German market bonus scheme and pays the delta between market price and a fixed cap (award price). The price differences are determined in an auctioning procedure. Since the CFD was introduced, however, onshore wind has been excluded from the auctions and whether there will ever be any auctions for onshore wind farms is doubtful.

Onshore wind is now considered a "mature" technology by some government officials in the UK. The conservative government therefore strives to limit the expansion of onshore wind power. This mainly affects England, as Scotland insists on its own independent planning rights and can determine its own targets for the expansion of renewable energies. In Scotland, wind energy is still being supported, despite the fact that the remuneration system for the whole of the UK is determined in London.

Realising wind farms in the UK is based on long-term power purchase agreements (PPAs), which are usually concluded between operators and energy suppliers. In the case of the Energiekontor projects, however, PPAs are negotiated directly by operators and end users, usually large industrial conglomerates. The PPA determines the basic remuneration for the electricity generated over a certain period of time.

In addition, the project company received so-called renewable obligation certificates (ROCs) before the CFD system was introduced. On balance, the resulting remuneration per kilowatt-hour thus used to be considerably higher than in Germany, for example. Apart from a few exceptions for projects that had already been approved, which are connected to the grid and for which an option agreement is already in place, the ROC scheme is no longer relevant for the calculation of the economic efficiency of wind farms. However, most of the wind farms still receive embedded benefits, which subsidise power plants that feed into the medium-voltage grid instead of the high-voltage grid.

Furthermore, the provisions for obtaining a planning permission have become stricter in the UK. In the future, projects will apparently only receive permission if they are located in an area that is designated as a wind area in the development plan. This does not apply to Scotland, though. Moreover, local communities have more to say in the permitting process (community backing). As is also the case in Germany, the aim is to raise the attractiveness of wind farms for the local population and municipalities, for instance by opening up the possibility to invest. In addition, subsidies in the form of feed-in tariffs were cancelled for projects with more than 1.5 MW rated power.

In order to have a reliable contractual basis for planning and constructing wind farms in the UK and apart from selling the electricity on the electricity exchange at the respective market prices, the only remaining option is to conclude long-term PPAs (with a term of more than 15 years) directly with the end-users (so-called end-user PPAs). This business model requires companies to focus on large sites with strong winds – a strategy that Energiekontor has already been pursuing for several years with its sites in Scotland.

The decision of the UK to leave the EU (Brexit) is having an impact on Energiekontor AG's business to the extent that the potential reintroduction of customs duties and interest rate fluctuations could increase costs for the construction of wind farms and the financing thereof. These kinds of effects are already priced in to the profitability calculations for Energiekontor's development projects. Currency fluctuations would have a significant impact on the income from British wind farms in the company's own portfolio. In sum, the short term will be plagued with a degree of uncertainty over the possible effects of Brexit on the domestic European market, and investments from other EU member states in the UK might be restrained for the time being. In the medium term, however, Energiekontor does not expect it to have any lasting effects on the project business in the field of renewable energy sources.

Portugal

According to the German Foreign Office, the economic crisis in Portugal already bottomed out in 2013. Nevertheless, the economy is recovering very slowly from the consequences of the economic and financial market crisis, which is also reflected in the expansion of renewable energy.

At the same time, Portugal is considered to be one of the most advanced European countries when it comes to environmental, climate and energy policies. The ambitious plans of the Portuguese government envisage that 31 percent of total energy consumption in Portugal is to be covered by renewable energy from 2020. In 2015, the share already amounted to around 25 percent[4]. In 2016, hydro power, wind and solar energy as well as other renewable energy sources contributed far more than half of the overall power generation volume in Portugal[5].

Nonetheless, Portugal is in danger of missing its targets for 2020, as the development of renewable energy sources has been stagnating for years. There are still no new auctioning procedures that would provide grid licenses and thus promote new project developments. As in Germany, energy suppliers in Portugal are legally obliged to purchase wind energy. While grid connections for wind farms and solar parks can be applied for, the electricity produced would be remunerated at general market prices. Investment activity continues to be hesitant, especially from abroad.

While the government wants to simplify the construction of new projects in the renewable energy markets, environmental and nature conservation requirements are getting stricter in many locations. A project developer wishing to connect to the grid therefore needs to meet two key requirements: sufficient grid connection capacity for the inclusion of an additional wind farm or solar park in the area, and a positive assessment of the environmental impact.

One option for expanding wind energy in Portugal is the use of so-called overcapacities. Under certain conditions, the legislator allows the addition of a certain number of wind turbines to grid connection points already approved.

The Netherlands

The Dutch government is planning to expand onshore wind power to 6,000 MW by 2020. This means that the capacity available at the end of 2015 would be more or less doubled. By the end of 2020, 14 percent of total energy consumption is to be generated from renewable energy sources; the percentage is to be raised to 16 percent by 2023.

State subsidies for renewable energy in the Netherlands are currently regulated by the "Stimulering Duurzame Energieproductie" (SDE+), which is based on an auctioning system, similar to the German EEG. Subsidies for onshore wind power have been differentiated according to wind speeds since 2015. Depending on the wind speed, the maximum remuneration (trading price of electricity + premium) ranges roughly between 6.2 euro cent / kWh and 8.5 euro cent / kWh. The subsidy period is 15 years, with an extension option of one year, depending on the extent to which the annual promotion fund for wind farms has been utilised.

Permission, feasibility study, wind resource assessment and option agreements must be produced to obtain subsidies. A fixed annual budget of EUR 8 billion is provided until 2020. The subsidies are granted in several phases, in which the developer can submit an application for each wind category. As soon as the subsidy cap has been reached, the project is tendered in a free auction, in which all of the technologies compete for the remaining subsidies and the lowest bid is processed first. The permissions are granted by the individual provinces and municipalities. Only projects larger than 100 MW need to be authorised by state and provinces together.

4) Sara Stefanini: "Portugal's clean-power problem", article published on 5 September 2016
5) Website of the Portuguese Renewable Energy Association, APREN (Associação Portuguesa de Energias Renováveis)

France

With the new legislation "Loi relative à la transition énergétique pour la croissance verte" (in short LTE), the French law on energy transition that was passed in August 2015, France has set itself ambitious goals for the expansion of renewable energy. The share of renewable energy sources in final energy consumption is to be raised to 23 percent by 2020 and to 32 percent by 2030 (at the end of 2015 it stood at 14.9 percent).[6] In addition, the share of nuclear energy in the electricity mix is to be reduced to 50 percent by 2025 (currently still more than 70 percent).

Based on nearly 12 GW at the end of 2016, onshore wind capacity in France is to be raised to 14.3 GW by 2018 and to 21.8–26 GW by 2023.

In the course of 2016, the remuneration terms for onshore wind power were defined in more detail. Based on the German blueprint, France introduced a mandatory direct marketing scheme for onshore wind farms, which is to replace the previous tariff model. This means that in addition to the respective market price, a wind farm operator receives a variable market premium, which corresponds to the delta between the technology-specific reference tariff and an average reference trading price, which is determined in retrospect[7].

From 2017, direct marketing with a market premium is to apply to wind farms with up to six turbines and the auctioning system will be applied to larger wind farms.

United States

Regulations concerning the expansion of renewable energy sources in the US vary across states. Like in Europe, expansion targets for renewable energy sources have been defined. However, they are not binding and their definition varies across states. These so-called Renewable Portfolio Standards (RPSs) either state the absolute expansion targets in megawatts, or a percentage share of renewable energy sources in the energy mix for each of the 29 states and Washington D.C. In California and New York, the RPSs are set to 50 percent, for example, to be reached by 2030. Hawaii has set itself the most ambitious target with 100 percent by 2045.

Like in the UK, power purchase agreements (PPAs), i.e. contracts between a project company and an industrial customer or an energy supplier, determine the profitability of the project. The PPAs are usually issued in privately organised tender procedures or negotiated directly. The US does not have a centralised subsidy system like a feed-in tariff either. However, there is an option to be registered as a "qualified facility". In this case, the grid operator has to buy the electricity at cost ("avoided cost"). There are also subsidy systems at state, local and federal level. Local subsidy programmes do not play a major role for projects of energy supplier dimension.

However, indirect subsidies are granted at state level via tax benefits. The corresponding mechanisms are either Investment Tax Credit (ITC) or Production Tax Credit (PTC). They had originally been introduced at the beginning of the 1990s, were amended in 2009 by the Obama administration with the "American Recovery and Reinvestment Act (ARRA)" and were extended in 2015 until 2020 via the "Consolidated Appropriations Act".

Production Tax Credit (PTC) takes effect in the first ten years of operation, i.e. tax credit is given on profits from the sale of electricity generated with wind turbine systems. This typically involves an agreement with a tax equity investor (TEI) who is able to use the PTCs for tax purposes as partner or operator of the facility. Depending on the construction start of the wind farm, the PTC will gradually be reduced in the coming years (by 20 percent in 2017, 40 percent in 2018 and 60 percent in 2019)[8].

In addition, an accelerated depreciation scheme is in place, the Modified Accelerated Cost Recovery System (MACRS). In the US, investing in a facility that uses renewable energy sources gives rise to a special depreciation entitlement over five years. In addition, 50 percent of eligible investment costs can be written off in the first year. The MACRS then only apply to the remaining 50 percent of the investment. While the MACRS are supposed to be maintained, the special depreciation of 50 percent will gradually phase out: to 40 percent in 2018, 30 percent in 2019 and 0 percent in 2020.

Meeting the Renewable Portfolio Standards is ensured via so-called Renewable Energy Credits (RECs). The RECs are tradable, similar to emission certificates in Europe. One REC is granted for 1 MWh. However, the price of an REC is currently only 1 USD / MWh (voluntary market), and as a result its impact is minimal at the moment. In addition, significantly more expensive certificates are traded at the regional level, but the newly elected Trump administration is likely to abolish these.

6) Ministère de l'Environnement, de l'Énergie et de la Mer: "Chiffres clés des énergies renouvelables – Édition 2016", February 2017
7) French-German Office for Renewable Energy: "Neuordnung der Fördermechanismen für erneuerbare Energien in Frankreich" (reorganisation of the subsidies for renewable energy sources in France, version: February 2017), March 2017
8) Website of the US Department of Energy (DoE)

Apart from this, the Energiekontor Group does not expect any further policy restrictions that would have a negative impact on the renewable energy market in the US. As in the UK, Energiekontor's profitability calculation for new projects in the US is exclusively based on the conclusion of PPAs. All of the other incentives such as the PTCs for projects with a construction start before December 2019 are therefore "nice to have", but not a necessary prerequisite for market entry in the US.

Solar

As is the case with wind power, China also dominates the global market for new PV installations. New capacity of 34 GW was installed here in 2016, which is more than twice as much as in 2015 (approx. 15 GW). On an accumulated basis, total PV output in China therefore amounted to around 77 GW at the end of 2016. As with wind power, the US comes second in the PV market as well with about 13[9]–15[10] GW of new installations, followed by Japan with 8.6 GW. In Europe, about 6.6 GW new PV capacity was installed in 2016, predominantly in the UK, Germany, France and Turkey. This means that in total, around 100 GW PV capacity was installed in Europe at the end of 2016. With estimated new installations of 75 GW, the global threshold of 300 GW was surpassed[9].

Whereas the PV sector is growing globally, annual new installations of PV plants in Germany have been relatively low since 2013. Following new installations with a capacity of about 1.4 GW in 2015, the Fraunhofer Institute for Solar Energy Systems ISE states new installations of about 1.5 GW in 2016. This took total capacity of installed PV plants in Germany up to just under 41 GW at the end of 2016[11].

In Energiekontor's core markets, the geographic conditions in southern Portugal are very good for the use of solar power, but here the current restrictions described in the "Wind" chapter apply. In the UK, the development of PV projects for Energiekontor is largely limited to potentially using the grid connection of a wind farm for a solar park on the same site. Other than that, the solar activities of the Energiekontor Group mainly focus on Germany, France and the US.

Germany

Since 2015, financial subsidies for electricity generated in new ground-mounted solar arrays can only be obtained by participating successfully in a centralised auction organised by the German Federal Network Agency. In a pilot phase with three auction rounds, the Federal Network Agency tendered 500 MW of solar PV capacity in 2015, followed by 410 MW in 2016. From the first auction in April 2015 to the auction in December 2016, the average subsidy amount was reduced gradually from 9.17 euro cent / kWh to 6.90 euro cent / kWh.

With the EEG 2017 entering into force, the subsidy amounts for all ground-mounted solar arrays with a size of over 750 kWp are determined in a tendering procedure. The first auction took place in February 2017. Two more will take place in four-month intervals thereafter. From 2017, an annual total of 600 MW is set to be tendered in three auctions per year.

The potential locations are largely limited to conversion areas and strips of land (110 metre wide) alongside motorways and railway tracks. Another prerequisite for the acceptance of a bid in the auction is a decision to draw up a development plan and an initial security of EUR 5,000 per MW provided when placing the bid. If the bid is accepted, an interim security of EUR 45,000 per MW (EUR 20,000 if such resolution has been adopted) must be added, which is to ensure the bid is genuine; this process is comparable to wind power auctions.

Energiekontor's management is of the opinion that, unlike smaller developers, larger companies such as Energiekontor AG will benefit from the new auctioning system, as they have more flexibility. Maintaining the profitability of the projects despite increasing margin pressure rests on efficiency enhancements and price reductions along the entire value chain. In this context, the still remaining protective tariffs in Europe, such as on PV modules from China, are increasingly being questioned, especially since modules from other countries are already offered at significantly lower prices these days.

9) PV Market Alliance: Press release from January 2017
10) Solar Energy Industry Association (SEIA): "U.S. Solar Market Has Record-Breaking Year, Total Market Poised to Triple in Next Five Years", 9 March 2017
11) Website of Fraunhofer Institute for Solar Energy Systems (ISE): Energy Charts as at 2 February 2017

France

Compared to just over 7 GW of installed PV capacity at the end of 2016, the capacity for PV power in France is to be expanded to 10.2 GW by 2018 and to 18.2-20.2 GW by 2023.

Since 2016, remuneration for power generated with ground-mounted solar arrays in the size of 500 kWp to 17 MWp has been determined in auction processes in France. Six auction rounds with 500 MW each are planned for between 2017 to mid-2019. The auction volume has been divided into three plant categories: 300 MW for ground-mounted solar arrays with a capacity between 5 MWp and 17 MWp (Category 1), 135 MW for ground-mounted solar arrays with a capacity between 500 kWp and 5 MWp (Category 2) and 65 MW for roof-mounted solar arrays with a capacity between 500 kWp and 10 MWp (Category 3).

Direct marketing is also being introduced in the PV sector. Accordingly, each plant is granted a market premium in addition to the electricity exchange market price. A minimum and a maximum price is determined for each category. In March 2017, the French Ministry for Energy announced the results of the first auction round, in which 79 projects were tendered, most of them located in the south of France. The average bid price was 62.50 EUR / MWh for Category 1, 68.1 EUR / MWh for Category 2 and 105.6 EUR / MWh for Category 3 [12].

United States

At the end of 2016, total PV capacity in the US amounted to 40 GW, which is nearly on par with Germany, a country 28 times smaller than the US.

Like for wind turbine systems, power purchase agreements (PPAs), i.e. a contract between a project company and an industrial customer or a grid operator, form the basis for the profitability of a solar park in the US.

Additional state subsidy measures are largely identical with those described in the "Wind" chapter. Instead of Production Tax Credits, tax incentives in the PV sector are granted via so-called Investment Tax Credits (ITC), however.

ITCs allow investors to deduct 30 percent of the invested system costs from their tax load. Depending on when the construction of PV projects is started, the ITC will be reduced to 26 percent in 2020 and 22 percent in 2021. From 2022, the plan is for just 20 percent to be deductible. In order to use the ITC for a project, either an investor is needed who is able to activate the ITCs, or, as is the case with wind farms, a tax equity investor (TEI) must be integrated. Such TEIs must stay in the project company operating the PV park for at least five years.

Given excellent global radiation levels of sometimes far more than 2,000 kWh / m2 p.a.(kilowatt hours per square metre and year), roughly twice as much as for the best German sites, the expected levelized cost of electricity in the sunny areas of the US such as Arizona, New Mexico or Texas is much lower than in Europe.

12) Information of the French-German Office for Renewable Energy, March 2017

Business development by segment

a) Project Development and Sales (Wind, Solar)

Project development and the sale of wind farms and solar parks was again highly successful in 2016. All in all, the Company sold six projects developed and completed by Energiekontor, five wind farms and one solar park, with total output of more than 62 MW to investors. Furthermore, the Company had obtained permissions for wind farms with a total volume of around 100 MW by the end of the year, 80 MW thereof pertaining to projects in Germany and 20 MW in the UK.

In the following, we give a detailed account of this business performance by region. In the wind business, all projects in **Germany** except for one single turbine were completed as scheduled in the 2016 financial year.

In the key region of **Lower Saxony**, activities have to date mainly been focused on the Cuxhaven area. In the course of 2016, eight of the eleven existing 1 MW wind turbine systems in Debstedt were replaced by three new turbines with rated power of 4.5 MW each. Permission for the fourth was obtained in the first quarter of 2016. At the end of May 2016, the contract for the sale of the Debstedt repowering project was signed with the Hamburg-based solar park and wind farm operator Capital Stage, which is listed on the SDAX. The Debstedt wind farm was completed and commissioned in December 2016 as planned.

Energiekontor is also carrying out another repowering project, Breitendeich, in the Stade district. The Company received planning permission for Breitendeich at the end of the first quarter 2016. The financial close, which is required for construction to begin, was secured in April 2016. In July 2016, this repowering project was also sold to Capital Stage AG. The Breitendeich wind farm consists of two turbines with a total of some 6.4 MW rated power and is south of the Elbe estuary. This project was likewise commissioned in December 2016.

In addition to the permission for the fourth turbine in Debstedt that was already obtained in March 2016 (4.5 MW), the Company was granted planning permission for the Hammelwarder Moor project in October 2016. Three wind turbines with rated power of 3,4 MW and a hub height of 119 metres each are planned at this wind farm near the city of Brake. At year-end, two additional permissions for projects with total rated power of 22 MW had been granted.

In the key region of **North Rhine-Westphalia**, the Hürth wind farm (8.55 MW), which had been approved at the end of 2015, was built in the first few months of 2016 and went into operation in April 2016. Shortly thereafter, Energiekontor signed the contract to sell this project. The buyer is the listed wind farm and solar park operator Chorus Clean Energy AG from Neubiberg near Munich. The Hürth wind farm, located southwest of Cologne, consists of three turbines with rated power of 2.85 MW each.

Having been granted planning permission for a third repowering project near the city of Grevenbroich in the first quarter of 2016, Energiekontor began the construction and marketing of the wind farm with the aim of completing the project before the end of the year. This project with total rated power of 7.5 MW was then also sold to Capital Stage AG in August 2016. With Grevenbroich also being commissioned in December 2016, all three projects were completed on schedule.

At the end of the year, planning permission for another five projects with total rated power of just under 30 MW had been granted in North Rhine-Westphalia.

In February 2016, we concluded a new cooperation agreement with Thüga AG on joint wind farm development and construction projects, with a focus on the Lippe district in North Rhine-Westphalia. Currently, projects with a total volume of about 50 MW are being examined.

Permission for the Klein Woltersdorf project in the key region **Brandenburg** was obtained at the end of 2015. This was followed by the financial close at the end of February 2016 for the project consisting of a single turbine with rated power of 2.4 MW. Commissioning of the turbine, for which a purchase agreement had already been concluded in 2016, was postponed to the spring of 2017.

In Brandenburg, the Company was also able to successfully conclude the permitting process for projects totalling just under 16 MW.

Once the review of the **Mecklenburg-Western Pomerania** region revealed that the potential for projects that could be implemented at a profit is limited in this region, the activities were merged with those of the Brandenburg key region. In future, they will be coordinated from Bernau near Berlin.

The German state of **Thuringia** was added as a new key region and Energiekontor started investigating potential activities in that region in 2016. The management considers that this German state offers good conditions for realising efficient onshore wind projects. The Thüringer Energie- und GreenTech-Agentur (ThEGA) had already awarded Energiekontor the seal of "Fair Wind Energy Thuringia" in the first half of 2016 for adhering to the guidelines on cooperation and transparency when it comes to the state's citizens, municipalities and companies.

Including the repowering projects, acquisitions in Germany in 2016 resulted in areas being contractually secured for a total of around 240 MW in wind energy power.

In the UK, subsidies for onshore wind farms were basically cancelled since the government changed in May 2015. Following the end of the certificate-based ROC regime in April 2016, the Contracts for Difference auctioning system (CFD) now applies to renewable energy sources in the UK, but no auctions were scheduled for onshore wind in 2016.

At the end of June 2015, the Hyndburn II wind farm, i.e. an expansion of the already existing Hyndburn wind farm, received permission. Four wind turbine systems with rated power of 2 MW each are to be erected in Hyndburn II. Given the unanswered questions with the air traffic control authority, however, implementation of the project has been delayed. Talks with the operator and manufacturer of the radar systems in 2016 showed a positive tendency. At the end of 2016, permission was obtained for the Withernwick II expansion project that has a similar scope.

In addition to the above, a number of projects in the UK were in the permitting process in 2016, and Pencarreg (2 x 2.5 MW) in Wales was granted planning permission in the first quarter of 2016. In order to improve the profitability of this project, new permission with improved parameters was applied for.

Areas for roughly 200 MW were secured in the UK by acquisition in the course of 2016. Total rated power for the projects for which the Energiekontor Group secured exclusivity in England and Scotland has thus climbed to around 600 MW. The majority of these areas is in Scotland.

Another success was achieved by Energiekontor's sales team in selling the Gayton le Marsh wind farm (16.4 MW) on England's east coast commissioned at the beginning of 2016, which was previously operated as part of the Group's own portfolio. The sale of the Gayton le Marsh wind farm to a British investor was a strategic decision in order to accelerate the deleveraging of Group-owned wind farms and thus improve the Group's equity ratio. The proceeds from the sale were used to prematurely repay existing loans for Group-owned wind farms.

In **Portugal**, the activities of the Energiekontor Group are still mostly limited to the management of existing turbines as well as rotor blade extension (for further information see item c) Operation Development, Innovation and Others).

In the **Solar** division, the Company had two favourable outcomes to show for in 2016. Firstly, the Nadrensee solar park (about 10 MWp), which emerged as one of the winners from the first **German** auction round for PV ground-mounted solar arrays in the spring of 2015, was commissioned and sold to an investor in the late summer.

Secondly, the Energiekontor Group received the award for another project in the solar auction held in early April 2016. This project, Garzau-Garzin, is located in Brandenburg and also has rated power of around 10 MWp; at the end of 2016, it was undergoing area development planning.

Furthermore, the activities to acquire and secure sites for ground-mounted solar arrays were enhanced to be able to submit more projects to upcoming auctions. In addition to the ongoing solar activities in Germany, the acquisition of projects in neighbouring countries that have already received permission has become an option.

In 2016, the Energiekontor Group strengthened its personnel resources in order to explore the new markets of the **Netherlands**, **France** and the **US**. An office was opened in the Dutch town of Nijmegen at the end of the first half-year with the aim of coordinating project development activities for wind farms with national experts there. The first sites have already been identified. The team in the Netherlands is expected to grow gradually to secure these and other locations.

In France, Energiekontor is initially focusing on the field of solar. Here, too, the Group hired an experienced native speaker on a freelance basis, who will be in charge of identifying suitable sites in the southwest of the country and will help to acquire sites and establish an office in France.

Both options of Wind and Solar are being looked into in the US. Energiekontor used 2016 to make a selection of suitable states and possible sites. As in the other markets examined, there are also plans to establish the Company's own office in the US.

b) Power Generation in Group-owned Wind Farms

In the first quarter of 2016, Energiekontor was able to successfully place the step-up bond IX with a volume of nearly EUR 12 million. This bond was issued to finance the acquisition of the Portuguese Mafomedes wind farm and to refinance the Breitendeich wind farm in Lower Saxony. As agreed in the contract, the Mafomedes wind farm (4.2 MW) was incorporated into the Group's own portfolio on 1 January 2016. The number of wind farms operated by Energiekontor AG thus increased to 33, with total rated power of around 269 MW.

The sale of the English Gayton le Marsh wind farm took total capacity down by 16.4 MW at the end of 2016. Total capacity of the Group-owned portfolio was further influenced by three repowering projects. At the Debstedt and Breitendeich wind farms, some of the existing turbines were replaced with new and larger turbines. 3 MW of the capacity in Debstedt and 6 MW of the old turbines in Breitendeich remained with the Group, while the repowered turbines were sold to investors. The Grevenbroich wind farm was replaced entirely with new turbines and sold. At the end of 2016, the Group thus had 31 wind farms with total rated power of 238.2 MW in its own portfolio.

Despite this short-term effect, nothing has changed in Energiekontor AG's strategy to continuously expand its portfolio of Group-owned wind farms and to take over about half the projects it develops into this portfolio.

The operational management of the Energiekontor Group has further developed a package of measures to cut costs, increase the yield and prolong the useful life of wind farms. These measures include:

- **Repowering:** Wherever possible, Energiekontor intends to gradually replace old turbines with new, more powerful wind turbine systems and to thereby simultaneously extend the useful life of these sites.
- **Efficiency enhancement by means of technical innovations:** this comprises yield-enhancing measures (up to 10 percent) like optimising the aerodynamics of blades and extending the length of rotor blades.
- **Optimisation of operating expenses:** for this purpose, the operational management introduced an efficiency enhancement programme aimed at lowering operating expenses per kilowatt-hour generated by a number of measures.
- **Extension of useful life:** the terms of the existing turbines are to be secured beyond the guaranteed state subsidisation period by means of suitable lease and loan agreements.
- **Refinancing and repayment of loans:** liabilities are to be reduced via refinancing of existing farms and premature repayment of loans (deleveraging), thus reducing the interest burden considerably in the Power Generation in the Group-owned Wind Farms segment (example: refinancing of Withernwick and loan repayment using the proceeds from the sale of Gayton le Marsh).

Overall, the wind situation failed to meet Energiekontor's expectations in 2016. In Germany, the yields were about 20 percent below the previous year, also due to winds in the fourth quarter being even lower than in the rest of the year. In Portugal, the output was also clearly below expectations.

Only the winds in the UK fully met expectations. However, even here the yields declined year-on-year in 2016, because the previous year had been exceptional. Income from the UK was additionally burdened by a marked depreciation of the British pound year-on-year.

c) Operation Development, Innovation and Others

Income from ongoing operational management has continuously increased in recent years thanks to the expansion of the Group-owned wind farm portfolio. Efficient market observation and the resulting agreements for direct power marketing under the German Renewable Energy Sources Act (EEG) contributed to improving the income situation. It was possible to place almost the entire German wind farm portfolio with reputable direct power marketers. Energiekontor has achieved attractive marketing conditions here so far. Direct power marketing and the corresponding remuneration regulations were introduced in the amended EEG as of 1 January 2012; the amendment of the EEG made direct marketing obligatory as from August 2014.

The innovative rotor blade extension method is gaining significance within the segment. To date, this technology is being used in the Debstedt wind farm (where one wind turbine has been repowered), as well as in Portuguese wind farms. In addition to the extension of the AN Bonus turbine model (1 MW), further development for the 1.3 MW class has meanwhile been completed and certified.

Permission for converting 26 wind turbines in Portugal was already granted in November 2013. Following a successful test and optimisation phase, the first wind farm consisting of ten turbines, Penedo Ruivo, was equipped with the rotor blade extension in the autumn of 2016.

At present, Energiekontor is developing two new prototypes that are intended for the rotor blade extension of other turbines.

Overall Conclusion

The business performance and net profit of the AG and the Group were equally positive in the year under review.

This is due primarily to successful project management and the sale of wind and solar projects. Of the five wind farms built and sold to investors in 2016, four had been commissioned and were generating income by the end of the financial year. Furthermore, another solar park that had won the auction round in 2015, the Nadrensee solar park, was built and sold. Only the completion of the single turbine in Klein Woltersdorf had to be postponed to the 2017 financial year. Furthermore, the British Gayton le Marsh wind farm, which had already completed at the end of 2015, was sold, and the proceeds were used to prematurely repay the loans for Group-owned wind farms, which in turn contributed to the increase in the Group equity ratio to more than 19 percent. Total output in the Project Development and Sales (Wind, Solar) segment was below the level in 2015, but segment EBIT exceeded the target.

Especially in Germany, the wind year was significantly below the long-term average in 2016. Therefore, the income from power generation in Group-owned wind farms was lower than in the previous year. Portugal also failed to meet the expected income. Although the wind output in the UK was in line with the expectations based on the long-term median, income also declined year-on-year in 2016 as the figures in 2015 had been exceptionally good. Income was additionally burdened by the 2016 depreciation of the British pound versus the euro. All in all, both revenue and EBIT in the Power Generation in Group-owned Wind Farms segment were below the previous year's level in 2016.

The Operation Development, Innovation and Others segment likewise saw a moderate decline in revenue and EBIT versus the previous year in 2016; this was also due to the generally weak wind output in 2016.

A look at the consolidated figures of the entire Group shows that the earnings targets of Energiekontor AG and of the Group as well as the business development, sales and surplus cash targets of the operating segments and the profit centres were reached or even slightly exceeded in 2016. Below the line, the Company thus managed to grow its business as planned in 2016. Furthermore, thanks to the planning permissions totalling more than 80 MW in Germany and about 20 MW in the UK obtained by the end of 2016, a solid foundation was laid for the successful continuation of the positive Company performance in the current 2017 financial year.

Financial position, financial performance and results of Group operations

Results of Group operations

The 2016 financial year was again very positive for the Energiekontor Group. The sale of four German and one British wind farm as well as a German solar park has a positive effect on the consolidated balance sheet and the income statement. Despite the sale of Group-owned repowered wind farms and a British wind farm, the expansion of the Group-owned wind farm portfolio shall continue in the future. Moreover, a wide range of potential opportunities in Germany and abroad were further developed in the financial year, which are expected to drive the successful profit development in the future. The Group reports the following positive results:

in EUR thousand	2016	2015
Consolidated net income	**25,334**	**20,911**
plus tax expenses	10,162	8,751
EBT	**35,496**	**29,662**
plus financial result	18,254	20,006
EBIT	**53,750**	**49,668**
plus depreciation and amortisation	18,316	16,424
EBITDA	**72,066**	**66,092**

For the pro forma key figures shown above and used in this report (EBIT, EBITDA, etc.), please refer to the explanation on page 63.

Project implementations in the wind and solar sectors increase Group revenue to EUR 201,764 thousand (previous year: EUR 191,329 thousand). Consolidated revenue in the financial year comprises revenue in the Project Development and Sales (Wind, Solar) segment in the amount of EUR 148,655 thousand (previous year: EUR 132,936 thousand), the Power Generation in Group-owned Wind Farms segment in the amount of EUR 49,899 thousand (previous year: EUR 55,260 thousand) and the Operation Development, Innovation and Others segment in the amount of EUR 3,210 thousand (previous year: EUR 3,133 thousand).

The **Project Development and Sales (Wind, Solar)** segment includes proceeds from the sale of wind farms as well as proceeds from services rendered in connection with economic planning and the contractual and legal implementation, project management, company management in the foundation phase, sales and marketing measures and the procurement of own and external funds for the wind farm operators in the amount of EUR 148,655 thousand (previous year: EUR 132,936 thousand).

In the **Power Generation in Group-owned Wind Farms** segment, revenue declined compared to the previous year, reaching EUR 49,899 thousand (previous year: EUR 55,260 thousand), which was due primarily to the relatively weak wind year in Europe. Given the depreciation of the British pound, electricity income from the UK decreased in euro terms, leading to a decline of approximately EUR 2,828 thousand.

Revenue in the **Operation Development, Innovation and Others** segment was mainly driven by revenue from operational management services and amounted to EUR 3,210 thousand (previous year: EUR 3,133 thousand).

The item **Changes in inventories and other work performed and capitalised** totalling EUR –35,015 thousand (previous year: EUR 18,808 thousand) resulted in particular from the sale of the English Gayton le Marsh wind farm that had been included in the Group-owned wind farm portfolio in the previous year; following the decision to sell the wind farm, it was reclassified from fixed assets to current assets. Aside from this effect, inventories remained at a similar level as in the previous year.

Other operating income increased on the back of positive effects from the reversal of provisions as well as from foreign currency translation.

in EUR thousand	2016	2015
Reversal of provisions	2,831	890
Net income from foreign currency translation	1,357	0
Compensation of damages/ insurance settlement	196	214
Misc. other operating income	97	469
Other operating income total	**4,481**	**1,574**

At EUR 70,523 thousand, the **Cost of raw materials and supplies and purchased services** declined versus the previous year (EUR 116,590 thousand) due to lower total output.

Personnel expenses increased to EUR 10,922 thousand (previous year: EUR 10,476 thousand) due to an increase in the headcount, salary increases and higher bonuses.

in EUR thousand	2016	2015
Wages and salaries	9,289	8,884
Social security contributions and benefit expenses	1,632	1,592
Personnel expenses	**10,922**	**10,476**

The **Depreciation and amortisation of property, plant and equipment and intangible assets** shown in the amount of EUR 18,316 thousand (previous year: EUR 16,424 thousand) mainly refers to scheduled depreciation of Group-owned wind farms.

in EUR thousand	2016	2015
Amortisation of intangible assets	13	13
Depreciation of buildings	2	9
Depreciation of wind farms and plant and equipment	18,265	16,360
Depreciation of operational and office equipment	36	42
Total depreciation and amortisation	**18,316**	**16,424**

The year-on-year increase in depreciation of property, plant and equipment was mainly the result of the full-year depreciation of the Gayton le Marsh wind farm added to the Group inventory in the previous year.

Repair, maintenance and lease expenses for Group-owned wind farms, selling expenses in connection with the issuance of bonds, expenses from currency translation as well as legal and consultancy fees contributed to **Other operating expenses** of EUR 17,719 thousand (previous year: EUR 18,553 thousand).

in EUR thousand	2016	2015
Repair and maintenance expenses wind farms	7,014	5,909
Lease payments for wind farms	2,709	2,711
Project-related expenses (incl. planning, travel costs, etc.)	1,595	1,331
Legal, tax, audit and other consultancy fees, litigation expenses	1,429	1,630
Fees, dues and contributions	1,177	1,076
Administrative expenses	1,151	1,011
Insurance	1,112	1,239
Occupancy expenses	510	508
Electricity procurement from wind power plants	374	552
Misc. other operating expenses	316	206
Advertising and selling expenses	298	332
Deconsolidation losses	34	0
Net expense from foreign currency translation	0	2,048
Total other operating expenses	**17,719**	**18,553**

Interest income continues to be low due to the historically low interest level on the capital market. Interest expenses for long-term financing of Group-owned wind farms, construction period interest expenses for the wind farms constructed in the reporting year and expenses related to operating loans and bond capital together generated **Interest expenses** with a total volume of EUR 18,443 thousand (previous year: EUR 20,508 thousand).

in EUR thousand	2016	2015
Total interest and other income	**162**	**474**
Interest expenses to banks for capex loans	8,161	9,184
Interest expenses for bond capital	6,980	6,197
Financing expenses for other debt capital (external limited partners)	219	304
Other interest expenses	3,083	4,824
Total interest expenses	**18,443**	**20,508**
Interest result	**–18,281**	**–20,035**
Income from investments	**28**	**28**
Financial result	**–18,254**	**–20,006**

Financial performance of the Group

Financial management at the Energiekontor Group focuses on the efficient and sustainable use of existing financial resources, taking into account the expected development of the sector.

The Group's financial policy is in line with the strategy successfully applied in past financial years. With the issuance of corporate bonds, which has been successful throughout, the Company managed to create an important foundation for the Group's future growth, independent from banks' loan policies.

In the year under review, another corporate bond in the amount of EUR 10,950 thousand was successfully issued by Energiekontor Finanzanlagen IV GmbH & Co. KG. Repayments in the amount of EUR 6,600 thousand were made to bondholders during the financial year as scheduled.

Energiekontor is using part of the cash flow generated from its successful business for unscheduled deleveraging of the wind farm portfolio. The Group exercised its contractual termination right and terminated bonds totalling EUR 18,800 thousand in the year under review. The repayments to bondholders were thus made ahead of schedule, in the spring of 2017.

Credit lines with financial institutions amount to EUR 24,500 thousand (previous year: EUR 21,500 thousand) and a framework agreement for the granting of subordinate credit tranches for project financing ensures that short-term operating resources are available for the interim financing of wind farm and solar park projects.

Long-term bank financing, pertaining mainly to the financing of investments in the Group's own wind farms, amounted to EUR 90,308 thousand at the end of the financial year (previous year: EUR 128,762 thousand).

Cash and cash equivalents increased to EUR 118,528 thousand as at the reporting date (previous year: EUR 103,957 thousand). The Other securities portfolio, which mainly consists of German federal bonds, remained largely unchanged at EUR 10,305 thousand in the financial year (previous year: EUR 10,278 thousand).

Liabilities to financial institutions fell to EUR 107,010 thousand as of the reporting date (previous year: EUR 154,032 thousand). Redemption payments for borrowings by project companies were in line with the schedule, both in the financial year and in previous years.

in EUR thousand	2016	2015
Non-current liabilities to financial institutions	90,308	128,762
Current liabilities to financial institutions	16,702	25,271
Total liabilities to financial institutions	**107,010**	**154,032**

Non-current loans and borrowings pertain mainly to investments in Group-owned wind farm operators for the construction and acquisition of wind farms.

Current loans and borrowings mainly refer to financing of wind farm operators that are currently being established and are to be sold in the short term, operating loans for interim financing provided to wind farm operators, accrued interest from financing Group-owned wind farms as well as redemption payments for long-term loans that are due within the time frame of one year.

Total financial liabilities amount to EUR 230,910 thousand (previous year: EUR 280,769 thousand) and break down as follows:

in EUR thousand	2016	2015
Non-current financial liabilities		
Liabilities to financial institutions	90,308	128,762
Liabilities from bond capital	87,289	105,077
Other financial liabilities	5,911	13,423
Liabilities to external limited partners	1,667	1,637
Total non-current financial liabilities	**185,175**	**248,898**
Current financial liabilities		
Liabilities from bond capital	28,507	6,600
Liabilities to financial institutions	16,702	25,271
Liabilities to external limited partners	526	0
Total current financial liabilities	**45,735**	**31,871**
Total financial liabilities	**230,910**	**280,769**

Liabilities to external limited partners stated above under **Non-current financial liabilities** refer to limited partner shares (minorities) in wind farm operators, which are designated to remain in the Company and must be classified as borrowings in accordance with IAS 32.

Such **Liabilities to external limited partners** may also exist in **Current financial liabilities** if shares in a project company have already been sold and a wind farm is only completed and transferred after the reporting date.

Other financial liabilities include the fair values of interest and currency swaps concluded as long-term cash flow hedges; due to the low capital market interest rates, these are negative at EUR –4,513 thousand (previous year: EUR –12,439 thousand). The reduction results from the disposal of hedged liabilities and the depreciation of the British pound versus the euro.

Financial position of the Group

Equity increased due to the positive net income for the year and, after set-off against negative fair values of interest and currency swaps as well as the dividend distribution, amounts to EUR 69,477 thousand (previous year: EUR 50,460 thousand). With total assets falling below the prior year value and amounting to EUR 361,351 thousand, (previous year: EUR 399,118 thousand), the equity ratio increases significantly to 19.2 percent (previous year: 12.6 percent).

Compared to German commercial law, the application of the International Financial Reporting Standards (IFRS) involves certain conventions that have a negative effect on the Group's equity ratio.

At Energiekontor, hedging interest and currency risks, especially with regard to the interest and redemption plan of Group-owned wind farms, is a priority; this pays heed to economic considerations and disregards potential effects on the balance sheet. Increasingly, Energiekontor takes out loans with variable terms to finance its wind farms in order to hedge terms and conditions for the long term; these loans are already hedged with interest swaps (cash flow hedges) at closing. In IAS 39, IFRS require that derivatives (interest swaps with a fixed interest rate) are accounted for separately from the underlying transaction (loans with variable terms) and that the derivative is recognised in the balance sheet.

The derivatives, which are always contracted along with the financing agreements, are fully effective as interest hedges and therefore fully linked to the financing structure, as their sole economic purpose is to convert a variable interest loan into a synthetic fixed interest loan. According to German commercial law, which is known to maintain very strict principles of prudence when assessing liabilities, these loan contracts are not classified as liabilities that need to be recognised based on the available valuation units (Sec. 254 HGB); therefore, these would not be included in the balance sheet, if the consolidated financial statements had been prepared according to the principles of the German Commercial Code (HGB). In a situation of falling interest rates on the capital market, IFRS require the recognition of liabilities that are not actually existent, however, which leads to a lower equity ratio (compared to HGB).

The negative fair values of interest and currency swaps are calculated based on mathematical simulation models that forecast currency and interest developments; for the Energiekontor Group, these calculations are purely arithmetic, especially since a sale or the realisation of the fair values before the scheduled expiry of the interest contract hedged with the derivatives is not an option. If loans that are linked to interest swaps are refinanced, it is always ensured that full effectiveness and coherence are maintained. Economically, the negative fair values in the case of such synthetic fixed-interest loans compare to prepayment penalties for conventional fixed-interest loans, which are not included in the balance sheet under IFRS either. The fair values are therefore no longer included in segment reporting (segment liabilities) as debts (management approach); instead, their balance sheet values are neutralised when the net assets for the segment are calculated.

Moreover, the implementation of IAS 32, which is also controversial, stipulates that limited partner capital is usually not classified as equity but as borrowed capital, which means for the Group that minorities in wind farm operators, which are designated to remain in the Company for the long term, as well as in project companies held for sale must be classified as borrowings.

If the equity ratio were adjusted for these two IFRS specialities, the (notional) equity ratio at the reporting date would be 20.5 percent (previous year: 14.9 percent).

When looking at the equity ratio, not only IFRS characteristics but an even more significant issue needs to be taken into account, which distorts the ratios compared to the actual equity position of the Group. This is the fact that substantial assets related to Group-owned wind farms, which the Group constructed itself, are not recognised at their fair values but only at external construction costs. In

addition to several wind farm projects that have been acquired or not yet realised, which will also only be recognised at cost in the inventory, the Property, plant and equipment item in the consolidated balance sheet therefore contains considerable hidden reserves.

Due to the sale of a British wind farm and the share of three German Group-owned and repowered wind farms recognised in Group-owned wind farms in the previous year, Non-current assets declined to EUR 179,591 thousand (previous year: EUR 232,263 thousand). Non-current assets break down to the following balance sheet items and are explained below.

in EUR thousand	2016	2015
Property, plant and equipment	171,747	223,789
Deferred tax liabilities	7,721	8,327
Receivables and other financial assets	60	70
Investments	53	53
Other intangible assets	10	23
Non-current assets	**179,591**	**232,263**

Other intangible assets include software licences for ongoing business operations.

Property, plant and equipment is recognised at cost of acquisition or production less depreciation and includes the complete plant and equipment of the wind farm operators to be consolidated in the year under review, operational and office equipment of the office locations in Germany and abroad as well as the wind farm sites and compensatory land. The real estate portfolio of Energiekontor Umwelt GmbH & Co. Ökologische Wohn-Immobilien KG was completely sold in the year under review and is recognised with a value of EUR 0 (previous year: EUR 233 thousand).

In the year under review, an acquired wind farm was capitalised in Property, plant and equipment. Together with the adjusted decommissioning costs, this led to additions of EUR 9,653 thousand (previous year EUR 53,647 thousand). Disposals referring to wind farm property, plant and equipment, particularly from the sale of a British and three German repowered wind farms, amount to a total of EUR 36,715 thousand (previous year: EUR 332 thousand).

Taking into account scheduled depreciation in the period under review of EUR 18,265 thousand (previous year: EUR 16,360 thousand), the balance sheet item Plant and equipment of the wind farm operators amounts to EUR 170,928 thousand (previous year: EUR 222,745 thousand). Provisions for decommissioning and restoration included in the balance sheet increase as planned in the period under review due to accumulation and the expected cost increases; they are included in the additions stated above.

In the non-current **receivables and financial assets** item, **Receivables from affiliated companies** include minority interests in third party companies. **Other non-current assets** mainly include prepaid expenses in the amount of EUR 31 thousand as of the balance-sheet date (previous year: EUR 38 thousand).

Deferred tax assets of the Group are recognised at EUR 7,721 thousand (previous year: EUR 8,327 thousand) and explained in detail in the Notes (only available in German language). Deferred tax liabilities of EUR 4,225 thousand (previous year: EUR 4,670 thousand) eligible for netting pursuant to IAS 12 were deducted.

Current assets less cash and cash equivalents and other securities explained in the report on the financial performance amount to EUR 52,926 thousand (previous year: EUR 52,620 thousand).

Inventory reported in this item of EUR 34,272 thousand (previous year: EUR 32,871 thousand) includes capitalised services related to construction projects currently in process as well as planning services for new projects to be realised, especially pre-production costs related to planning activities in Germany and the UK.

Current receivables and other financial assets rose moderately from EUR 18,124 thousand to EUR 18,224 thousand in the year under review.

Income tax receivables (current) in the amount of EUR 430 thousand (previous year: EUR 1.624 thousand) include corporation tax and trade tax refunds.

Non-current liabilities amount to EUR 208,322 thousand (previous year: EUR 272,495 thousand). In addition to the Non-current financial liabilities and Deferred tax liabilities already explained in the report on the Group's financial performance, this item also includes Provisions for decommissioning and restoration at the Group-owned wind farm operators.

in EUR thousand	2016	2015
Provisions for decommissioning and restoration	12,099	12,861
Non-current financial liabilities	185,175	248,898
Other non-current liabilities	2,698	2,821
Deferred tax liabilities	8,350	7,914
Non-current liabilities	**208,322**	**272,495**

Provisions for the decommissioning of Group-owned wind farms and the restoration of the corresponding sites listed at present values have developed as follows:

in EUR thousand	2016	2015
Total provisions for decommissioning and restoration as of 1 January	12,861	11,033
Addition from accumulation of interest in the current year	383	480
Additions and depreciation of present values (changes in production costs, interest rate)	824	–71
Additions related to completion/ acquisitions	164	1,633
Depreciation of present values (changes in production/ decommissioning costs)	–649	–215
Disposals due to sale and repowering	–1,484	0
Provisions for decommissioning and restoration as of 31 December	**12,099**	**12,861**

Provisions and accounts payable, especially those related to wind farm construction, other liabilities and tax liabilities plus the current financial liabilities already stated in the section on the financial performance together produce current liabilities of EUR 83,551 thousand (previous year: EUR 76,163 thousand).

Provisions for taxes were made for expected additional trade and corporation tax payments for past tax periods.

The **Other provisions** item contains the following:

in EUR thousand	2016	2015
Project-related provisions	8,300	12,205
Personnel-related provisions	2,051	1,805
Provisions for legal disputes	29	50
Legal, tax and other consultancy fees	602	723
Misc. other provisions	1,673	1,499
Other provisions	**12,656**	**16,282**

Current accounts payable rose from EUR 4,480 thousand in the previous year to EUR 6,241 thousand in the year under review.

Additional liabilities include current tax liabilities for wage and church taxes as well as other miscellaneous liabilities.

Employees

A total of 132 permanent employees were working for the Energiekontor Group as of 31 December 2016 (previous year: 129), with an additional 19 temporary employees, students and interns (previous year: 16). The Company also employs 25 freelancers (previous year: 32). The permanent workforce was thus more or less in line with the previous year. Employees are predominantly engineers, economists, business experts and administrative staff. The subsidiaries in the UK and Portugal employ only local staff who are familiar with local business requirements and have knowledge of German practices. In addition to a monthly basic salary, the majority of the employees receive a performance-related bonus. This aims at raising motivation and ensuring the employees identify strongly with the Company. The Management Board and the Supervisory Board would like to thank the employees for their outstanding commitment and high motivation.

POST-CLOSING EVENTS

In the first auctioning round of the year, in February 2017, Energiekontor was awarded its third solar project since the beginning of the pilot phase in 2015. The project is a solar park in Brandenburg with a capacity of 5.5 MWp.

Furthermore, Energiekontor was able to complete the financial close for three approved wind farms in three different key regions in February and March 2017. This refers to the Niederzier project (8.25 MW) in North Rhine-Westphalia, the Hammelwarder Moor project (10.2 MW) in Lower Saxony and the Luckow-Petershagen II turbine (2.75 MW) in Brandenburg. The three wind farms are currently under construction.

Moreover, the Klein Woltersdorf wind turbine (2.4 MW) was commissioned at the end of March 2017.

FORECAST REPORT

The forecast for the current financial year takes into account Energiekontor AG's growth plans based on a sound business model, with a view to the regulatory changes in the remuneration of electricity from renewable sources.

a) Project Development and Sales (Wind, Solar)

The most significant development in 2017 for Energiekontor is the introduction of the auctioning system in Germany. The individual business units have been thoroughly preparing this for a long time. Nevertheless, only the end of the current 2017 financial year will show how successful the Company has been in the first auction rounds. One great advantage is certainly the fact that at the end of 2016, the Energiekontor Group had already obtained permission for projects with a total capacity of 80 MW in Germany alone, and these can be realised on the basis of the terms and conditions stipulated by the old German Renewable Energy Sources Act (EEG). This is particularly important, because the first onshore wind auction will not take place until May 2017 and we cannot expect that all projects awarded in this auction round will go into operation in 2018, given the delivery and realisation times that usually apply in this market.

In 2017, the management anticipates the following:

At the end of 2016, projects with a total output of 32 MW had been approved in **Lower Saxony**. The management assumes that these projects will be built and commissioned in the current 2017 financial year.

Renegotiations with the turbine manufacturer brought delays to the already approved Debstedt II project (4.5 MW). Currently, we therefore expect that the project will not be completed before 2018.

In **North Rhine-Westphalia**, we have permission for five projects with a total capacity of nearly 30 MW. Four of these projects are already under construction, while the fifth project is in the financing phase. The management assumes that all of these five projects will be built and commissioned before the end of the 2017 financial year.

In the key region of **north North Rhine-Westphalia**, the exploration of potential projects to be realised in cooperation with Thüga Erneuerbare Energien covers about 50 MW. About 36 MW thereof in the district of Lippe are in various planning phases including the permitting process. Nevertheless, we do not expect to complete the first projects in this region before 2018.

Energiekontor is currently negotiating with other potential partners. Energiekontor expects that these cooperations will not only bring an expansion of the project pipeline because of joint investment and the might of a strong group with common interest, but also create stronger regional ties and cooperation with the municipalities and their inhabitants.

Commissioning of the Klein Woltersdorf turbine (2.4 MW) in the key region of **Brandenburg** which had been postponed in 2016, took place in March 2017. Briest III (3.2 MW) is under construction after having passed the financial close in the fourth quarter of 2016, and is supposed to be completed in the second half of 2017. Energiekontor managed to obtain planning permission for another two projects with total rated power of 12.5 MW before the end of 2016. The financial close for one of these two projects, Luckow-Petershagen II in the district of Uckermark, was reached in March 2017. The 2.5 MW plant is currently under construction. Both projects are to commence operations before the end of the 2017 financial year.

In the new key region of **Thuringia**, we are still examining suitable sites for wind farms. The management believes that this German state offers good conditions for realising efficient onshore wind projects. However, given the usual planning periods, Energiekontor does not expect this region to contribute to earnings within the next two years.

The Energiekontor Group has a total pipeline for projects in Germany covering nearly 1,200 MW in various project phases. All these projects have at least passed the stage of concluding option agreements. Some of the projects have already entered the planning permission or permitting process, while others have already been approved or are under construction. This is complemented by a project pipeline of some 600 MW in the UK. Even if only some of these projects can be completed in the 2017 financial year, the Company has thus made sufficient provisions for its medium-term growth targets to be reached.

In the **UK**, subsidies for onshore wind farms have been on the back burner since the conservative government was elected in May 2015. Following the expiry of the certificate-based ROC system, the Contracts for Difference auctioning system should officially apply; however, to date this is not yet employed for onshore wind technology.

Nevertheless, we have planning permission for three projects in England (Hyndburn II and Withernwick II) and Wales (Pencarreg). Given the transitional provisions during the grace period, there might still be a chance of Withernwick II receiving remuneration under the old ROC system. This is subject to the minimum condition that this project is commissioned no later than by the end of January 2018. If the project runs according to plan, this is feasible as we are currently planning to put Withernwick II into operation at the end of 2017. Based on the current planning status, the other two projects will not be commissioned before 2018.

At present, we assume that all further UK wind projects in the development stage will have to do without state subsidies and must be realised on the basis of market prices or long-term end-user power purchase agreements (PPA). Therefore, project development concentrates on large and windy locations in Scotland where politics expressly welcome and support the further expansion of renewable energy sources. In the last two or three years, the Energiekontor Group has secured sites here for wind farms comprising more than 600 MW. However, the first turbines from this project pipeline will not be commissioned before 2018 / 19. In addition, the UK team is constantly surveying the market in order to possibly take over projects that have already been developed and / or approved and to thus increase the pipeline of projects that can be realised in the near future.

The situation in **Portugal** has not changed materially. There are first signs of an improvement in the capital market situation and general business environment, but the government has not announced any new procedures for tendering grid capacities as yet. Therefore, Energiekontor's activities in Portugal are currently concentrating on managing the existing wind farm portfolio and rotor blade extension.

In the **Solar** market, both Germany and the UK introduced an auctioning system in 2015. In **Germany**, Energiekontor is focusing on the key regions of Brandenburg, Mecklenburg-Western Pomerania, Thuringia and Saxony-Anhalt. Following Energiekontor's successful entry in the first auction round in Germany with the Nadrensee project (approx. 9 MW), another two projects were awarded in the August 2016 and February 2017 auctions. On the one hand, this demonstrates Energiekontor's experience when participating in such auctions and, on the other hand, it shows that the Company has a competitive edge despite the market environment of falling prices.

The second solar project that Energiekontor was awarded was the Garzau-Garzin project, which is currently in the planning phase, and should be completed in the late summer of 2017. The next auctions for 200 MW each will take place in June and August 2017, and Energiekontor intends to enter additional projects and thus expand the solar business as announced.

This is to be complemented by activities in the new markets of **France** and the **US**. In the meantime, Energiekontor has identified suitable sites in both countries and is pushing ahead with the development of projects or, if possible, acquisition of developed projects in France and the US. Given the shorter lead times in comparison with wind projects, the management believes that these markets might make the first sales contributions in 2018.

In the **Netherlands**, the Energiekontor Group is focusing on onshore wind in line with the government promotion plans for renewable energy sources. By setting up a national office and hiring a Dutch project manager, Energiekontor has managed to identify suitable sites and has already signed the first option agreements. However, given the relatively long project development periods for wind farms, we do not expect this market to contribute to sales in the next two years.

The general objective of the Energiekontor Group is to stabilise and sustainably increase the level of project realisations, which has been varying from year to year in the past. Roughly half of revenue and earnings are to be generated abroad in the future.

b) Power Generation in Group-owned Wind Farms

The Power Generation in the Group-owned Wind Farms segment generates continuous income, thereby providing financial stability and the basis of sustainable Company growth. For this reason, the Group intends to systematically strengthen and expand this segment, which does not necessarily mean the growth curve has to be linear. Repowering measures and the subsequent sale of such projects as well as the sale of the Gayton le Marsh wind farm in order to prematurely repay existing loans, for instance, led to a temporary dip in total Group-owned capacity. In the future, the management will also decide year by year subject to the

business development how many of the new projects to retain and how many to sell. In the medium term, however, nothing has changed in Energiekontor AG's overall strategy to take about half the projects it develops into its portfolio of Group-owned wind farms.

The efficiency measures described under c) in the "Business development by segment" chapter (repowering, technical innovation, optimisation of operating expenses, extension of useful life, and refinancing and repayment of loans) are to also help improve income in this segment and reduce costs over the coming years.

c) Operation Development, Innovation and Others

Despite fluctuating income due to changing wind years, the segment should see a rising liquidity and earnings trend in coming years. This is supported by the continuously climbing number of wind farms under operational management. Operations of all of the wind farms sold are still managed by the Energiekontor Group. It is also conceivable that this will be expanded by taking over operational management of external wind farms.

One focus area in innovation continues to be the rotor blade extension. Based on the successful development for 1 MW wind turbine systems, the 1.3 MW class was certified. After the successful test on Group-owned 1 MW turbines, the first wind farm with 1.3 MW turbines was recently equipped with rotor blade extensions in Portugal. Planning for the development of this technology for additional turbine types has already been initiated.

With performance enhancements of more than 7 percent, rotor blade extensions are not only an important efficiency measure for the Group's own wind farms but also a promising product for the international market. The technology is marketed by the Energiekontor branch office in Portugal. The Iberian Peninsula is considered to be a potentially important market for this technology.

Group-level

Energiekontor has set itself the objective of helping renewable energy achieve greater market penetration in order to be able to compete with electricity generated from conventional energy sources. Here, Energiekontor intends to assume a pioneering role in realising the most economic wind and solar projects. It has therefore been introducing various efficiency measures over the years in different departments to prepare for increased competition and higher pricing pressure.

The fact that the UK has stopped onshore wind subsidies and the new auctioning procedure regulated by the EEG 2017, which was introduced at the beginning of 2017, underline the general intention to converge renewable energy with free market conditions.

Investment security in Germany continues to be given in 2017, as all projects approved until the end of 2016 will still be remunerated according to the terms stipulated in the old EEG 2014, albeit with gradual discounts. In this context and considering most of these projects are supposed to be completed in 2017, Energiekontor successfully laid the groundwork in 2016 with planning permissions for projects with total rated power of more than 80 MW in Germany. As things currently stand, the management expects to obtain additional permissions in 2017 for projects that will at least match the volume of 2016. However, there is still some uncertainty, regarding the number of projects that will be won in the auctions and the respective feed-in tariffs.

Given the experiences with auctioning procedures in Portugal as well as three tenders for solar projects having been won in auctions in Germany since 2015, the Energiekontor Group is very optimistic that it will also be successful in the onshore wind power auctions.

As the conservative government in the UK virtually abolished all subsidies for onshore wind in mid-2015, Energiekontor is now focusing even more on large locations with strong wind, especially in Scotland. This shift of business development and project activities from England to Scotland prepares Energiekontor for a future scenario in which the Group will continue to plan and construct wind farms in the UK in a profitable manner that will purely be

remunerated at market prices on the electricity exchange or prices determined in long-term PPAs.

Thanks to many years of diversification of its activities across different countries, key regions and energy carriers as well as the portfolio of Group-owned wind farms, the Energiekontor Group has a solid base for continued success in coming years, despite changes in the regulatory environment and the downward feed-in tariff trend.

The continuation of the Group's integrated and proven structures and work processes such as flat hierarchies and cost-conscious management as well as the utilisation of diverse banks, financial instruments, turbine manufacturers, service providers and consultants contribute to the Group's sustainable and long-term future success. In addition, the strong liquidity position of the Group creates room for flexible actions in order to operate successfully in the market.

Wide-ranging project-pipelines have been established in recent years in order to generate stable and sustainable future company growth. In addition to regulatory uncertainty, project-specific or situation-specific issues can lead to delays, however – as has been the case in the past – with regard to permissions, financing of already approved projects and commissioning. The main risks and critical external factors are delays in permitting processes and in project implementation (e.g. for weather reasons, delays in supply or insufficient availability of erection devices). These types of external developments cannot be ruled out for the future either.

In the Solar division, in-house development and turnkey implementation of projects in Germany has considerably lost appeal in recent years due to decreasing feed-in tariffs and fixed module prices in the Far East because of punitive tariffs. The introduction of the auctioning procedure provides for new opportunities. Energiekontor has already won three tenders for solar projects in Germany since 2015. Moreover, the management intends to expand its scope for the future implementation of PV projects by tapping into the French and the US markets. In both countries, Energiekontor managed to identify suitable regions, in which the Group is now working together with local partners to buy suitable land or acquire project rights. A potential collaboration with cooperation partners is also currently under review. In both France and the US, the management believes planning permissions for the first projects can be obtained from 2018.

The Power Generation in Group-owned Wind Farms segment is of crucial importance for the further growth path of the Energiekontor Group. Despite wind-related fluctuations in income, revenue generated in this segment is easier to forecast than revenue generated in project development. In the 2016 financial year, the negative combination of wind output and currency effect had an unusually strong impact on the segment result, but generally the income from the sale of energy is a stable foundation for liquidity planning in the Group. Power Generation in Group-owned Wind Farms is therefore the strategic core segment of the Energiekontor AG. Liquidity surpluses generated from the operation of own wind farms are to be increased in the coming years by continuously expanding the Group-owned wind farm portfolio; the expansion will primarily be based on taking over turnkey wind farm projects from Energiekontor's own project development activities. The decision to take over wind farms into the Group's own portfolio always depends on the specific situation and project parameters.

The management's objective is to continue improving the basis for sustainable company growth by gradually and sustainably increasing total output and Group EBT in the coming years. The planned measures include intensifying the acquisition efforts in all planning areas (Germany, Solar, Repowering, UK and new foreign markets) and increasing efficiency by implementing commercial and technical optimisation measures, especially in the field of electricity generation in Group-owned wind farms and operational management. This is to be supplemented by a gradual and controlled increase in the headcount in the key growth areas. Even though the growth process may still not necessarily follow a straight line in the next few years due to policy changes and the conversion of the remuneration systems in all the relevant target markets, and income fluctuations cannot be ruled out either, Energiekontor is pursuing a growth strategy that enables the Company to gradually and sustainably reach its growth targets, thereby maintaining a solid financial basis.

In view of the targets for the year and the existing project backlog, the Management Board expects a positive business performance in the 2017 financial year, at the AG level as well as for the Group. If most of the projects that obtained permission in 2016 are built according to plan and commissioned before the end of 2017, net income at the level of 2016 is achievable from today's perspective. This is also based

on the assumption, however, that all of the projects commissioned in 2017 are sold to investors. If individual projects are not sold but included in Energiekontor's own portfolio, this would reduce the reported EBT for 2017 accordingly. Concrete decisions in this respect have not yet been made and depend on the further progress of the projects and the 2017 financial year. These considerations aside, risks continue to be mainly related to potential project delays that could have a negative effect on commissioning and the sale of the projects planned for 2017.

Expectations for the individual segments can be summarised as follows:

In the Project Development and Sales (Wind, Solar) segment, total output and EBT at the previous year's level would be possible if all of the projects completed in 2017 are sold. If, however, individual projects are added to Energiekontor's own portfolio as planned, reported EBT from project development will decrease accordingly vis-à-vis 2016.

For the Power Generation in Group-owned Wind Farms segment, the Company expects an increase in segment EBT versus the previous year, provided that the wind output is more or less normal and the British pound does not depreciate further versus the euro. While the total portfolio of own wind farms was temporarily reduced compared to the previous year because of divestments, premature deleveraging of some wind farms will lower the interest burden and increase the cash flow over the year. In terms of earnings, the management expects the one effect to roughly offset the other.

The Operation Development, Innovation and Others segment is expected to show a slight increase in revenue and EBT. This is driven by various efficiency measures as well as an increase in wind farm operation activities compared to the previous year. As the operational management remuneration is linked to the electricity production in all wind farms, positive earnings effects of the planned portfolio expansion could however be offset by negative effects of a below-average wind year.

Our mission statement

100 % RENEWABLE ENERGY

As a pioneer of renewable energy, Energiekontor is actively shaping the transition to 100 % renewables. Concentration on our core competences and innovation will drive our business to a successful future.

INDIVIDUAL RESPONSIBILITY AND AUTONOMY

We support a high level of individual responsibility and create room for autonomy at all levels as they are the precondition for creativity, flexibility and achieving our goals.

TEAM SPIRIT AND COLLEGIALITY

We encourage team spirit and collegiality as they are the key to our success.

FINANCIAL STABILITY AND SUSTAINABLE GROWTH

The financial stability of our Company is the basis for sustainable growth and plays a key role in our long-term strategy.

EnergieKontor
since 1990

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (IFRS)

Page **44** → Consolidated income statement

Page **45** → Consolidated statement of comprehensive income

Page **46** → Consolidated balance sheet

Page **48** → Consolidated statement of changes in equity

Page **50** → Consolidated cash flow statement

CONSOLIDATED INCOME STATEMENT (IFRS)

1 January 2016 to 31 December 2016

EUR thousand		2016	2015
1.	**Revenue**	**201,764**	**191,329**
2.	Changes in inventories and other work performed and capitalised	–35,015	18,808
3.	**Total output**	**166,749**	**210,137**
4.	Other operating income	4,481	1,574
5.	**Total operating output**	**171,230**	**211,711**
6.	Cost of raw materials and supplies and purchased services	–70,523	–116,590
7.	Personnel expenses	–10,922	–10,476
8.	Depreciation and amortisation	–18,316	–16,424
9.	Other operating expenses	–17,719	–18,553
10.	*Operating expenses*	*–117,480*	*–162,043*
11.	**Operating profit (EBIT)**	**53,750**	**49,668**
12.	Income from investments in associates	28	28
13.	*Income from investments*	*28*	*28*
14.	Interest and similar income	162	474
15.	Interest and similar expenses	–18,443	–20,508
16.	*Interest result*	*–18,281*	*–20,035*
17.	**Earnings before tax (EBT)**	**35,496**	**29,662**
18.	Income tax expense	–10,162	–8,751
19.	**Consolidated net income**	**25,334**	**20,911**
Disclosure of earnings per share (EPS), in accordance with IAS 33 *)			
Undiluted number of shares (weighted)		14,600,558	14,632,849
Diluted number of shares (weighted)		14,600,558	14,632,849
Basic earnings per share		1.74	1.43
Diluted earnings per share		1.74	1.43

* Dilution would occur if EPS were reduced through the issuance of potential shares, for example from option rights. Potential shares are only dilutive, however, if exercising them would lead to the issuance of shares below their average stock market price. As in the previous year, there was no dilutive effect on EPS in 2016.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 January 2016 to 31 December 2016

EUR thousand	2016	2015
Consolidated net income	**25,334**	**20,911**
Unrealised gains/losses from derivative financial instruments		
Unrealised gains/losses from derivative financial instruments (before taxes)	3,417	–2,880
Reclassified to profit or loss (before taxes)	4,509	882
Deferred taxes on unrealised gains/losses and reclassifications	–2,364	596
Unrealised gains/losses from derivative financial instruments (after taxes)	**5,562**	**–1,402**
Unrealised gains from available-for-sale financial assets		
Unrealised gains (before taxes)	92	55
Taxes on unrealised gains and reclassifications	–28	–16
Unrealised gains from available-for-sale financial assets (after taxes)	**65**	**38**
Items that may be reclassified subsequently to profit or loss	**5,627**	**–1,363**
Total comprehensive income	**30,961**	**19,548**
Shares attributable to Energiekontor AG's shareholders	30,961	19,548

CONSOLIDATED BALANCE SHEET (IFRS)

as of 31 December 2016

ASSETS EUR thousand		31.12.2016	31.12.2015
A.	**Non-current assets**		
I.	Other intangible assets	10	23
II.	Property, plant and equipment		
	1. Land, land improvements and buildings	693	926
	2. Plant and equipment (wind farms)	170,928	222,745
	3. Other equipment, operational and office equipment	126	118
		171,747	*223,789*
III.	Investments	53	53
IV.	Receivables and other financial assets		
	1. Receivables from affiliated companies	29	32
	2. Other receivables and financial assets	31	38
		60	*70*
V.	Deferred tax liabilities	7,721	8,327
	Total non-current assets	**179,591**	**232,263**
B.	**Current assets**		
I.	Inventory		
	Unfinished goods and work in process	34,272	32,871
II.	Receivables and other financial assets		
	1. Accounts receivable	17,469	16,932
	2. Other receivables and financial assets	755	1,192
		18,224	*18,124*
III.	Income tax receivables	430	1,624
IV.	Securities	10,305	10,278
V.	Cash and cash equivalents	118,528	103,957
	Total current assets	**181,759**	**166,855**
	Total assets	**361,351**	**399,118**

EQUITY AND LIABILITIES EUR thousand		31.12.2016	31.12.2015
A.	**Equity**		
I.	Issued capital		
	1. Subscribed capital (nominal capital)	14,653	14,653
	2. Treasury shares (to be retired)	–61	–41
		14,592	*14,612*
II.	Capital reserves	40,323	40,308
III.	Other reserves (not affecting earnings)		
	1. Foreign currency translation	–61	–61
	2. Fair value measurement (IAS 39)	–3,064	–8,691
		–3,124	*–8,751*
IV.	Retained earnings		
	1. Legal reserves	15	15
	2. Other retained earnings	30,149	16,406
		30,164	*16,421*
V.	Accumulated income	–12,477	–12,130
	Total equity	**69,477**	**50,460**
B.	**Non-current liabilities**		
I.	Other provisions		
	Provisions for decommissioning and restoration	12,099	12,861
II.	Financial liabilities		
	1. Bond capital	87,289	105,077
	2. Liabilities to financial institutions	90,308	128,762
	3. Liabilities to external limited partners	1,667	1,637
	4. Other financial liabilities	5,911	13,423
		185,175	*248,898*
III.	Other liabilities	2,698	2,821
IV.	Deferred tax liabilities	8,350	7,914
	Total non-current liabilities	**208,322**	**272,495**
C.	**Current liabilities**		
I.	Provisions for taxes	9,996	6,915
II.	Other provisions	12,656	16,282
III.	Financial liabilities		
	1. Bond capital	28,507	6,600
	2. Liabilities to financial institutions	16,702	25,271
	3. Liabilities to external limited partners	526	0
		45,735	*31,871*
IV.	Accounts payable	6,241	4,480
V.	Other liabilities	8,852	16,492
VI.	Income tax liabilities	71	123
	Total current liabilities	**83,551**	**76,163**
	Total equity and liabilities	**361,351**	**399,118**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IFRS) 2016

EUR thousand	Share capital outstanding	Capital reserves	Foreign currency translation reserve	
as of 31.12.2014	**14,649**	**40,293**	**–61**	
Changes in 2015 financial year				
Allocations to retained earnings				
Dividend distribution				
Repurchase of treasury shares/retirement	–37			
Differences from stock option plan measurement		15		
Differences from fair value measurement				
Differences from deferred taxes on fair value measurement				
Consolidated net income				
as of 31.12.2015	**14,612**	**40,308**	**–61**	
Changes in 2016 financial year				
Allocations to retained earnings				
Dividend distribution				
Repurchase of treasury shares/retirement	–20			
Differences from stock option plan measurement		15		
Differences from fair value measurement				
Differences from deferred taxes on fair value measurement				
Consolidated net income				
as of 31.12.2016	**14,592**	**40,323**	**–61**	

[1] From measurement of securities at fair value
[2] From unrealised gains/losses from cash flow hedges

	Fair value reserve (available for sale) [1]	Fair value reserve (cash flow hedges) [2]	Retained earnings	Accumulated income	Total	Number of shares thousand
	0	**–7,327**	**10,112**	**–17,511**	**40,154**	**14,649**
			6,748	–6,748		
				–8,781	–8,781	
			–438		–475	–37
					15	
	55	–1,997			–1,943	
	–16	596			579	
				20,911	20,911	
	38	**–8,729**	**16,421**	**–12,130**	**50,460**	**14,612**
			14,000	–14,000		
				–11,682	–11,682	
			–257		–278	–20
					15	
	92	7,926			8,018	
	–28	–2,364			–2,392	
				25,334	25,334	
	103	**–3,167**	**30,164**	**–12,477**	**69,477**	**14,592**

CONSOLIDATED CASH FLOW STATEMENT

1 January to 31 December 2016 (IFRS)

EUR thousand		2016	2015
1.	**Cash flow from operating activities**		
	Net income before interest and taxes	53,777	49,696
	Non-cash expenses and income		
	Write-downs on intangible assets and property, plant and equipment	18,316	16,424
	Adjustment of non-cash currency gains/losses	–1,357	2,048
	Non-cash measurement (write-downs on inventories)	4,536	2,591
	Non-cash adjustments due to effective interest method taken to profit or loss	113	–1,527
	Gains/losses on disposals	36	120
	Other non-cash expenses/income in equity	15	15
	Profit before changes in net working capital	**75,437**	**69,367**
	Changes in net working capital		
	Accounts receivable and other assets	–219	8,755
	Changes in income from project development and sales	35,336	3,781
	Accounts payable	1,761	–1,467
	Other current liabilities and provisions	–10,688	16,868
	Other non-current liabilities and provisions	–1,458	301
	Income taxes paid	–7,297	–6,180
	Cash flow from operating activities	**92,871**	**91,426**

EUR thousand		2016	2015
2.	**Cash flow from investing activities**		
	Payments for investments in property, plant and equipment	–6,885	–40,205
	Proceeds from sale of property, plant and equipment	0	300
	Payments for purchase of securities	0	–10,184
	Interest expense for the production of qualifying assets (IAS 23.8)	–1,489	–1,432
	Interest received	162	474
	Cash flow from investing activities	**–8,212**	**–51,048**
3.	**Cash flow from financing activities**		
	Interest expenditure	–16,441	–18,284
	Proceeds related to bonds	11,020	19,285
	Payments to bondholders	–6,600	–2,525
	Proceeds from taking out loans	30,552	75,930
	Payments for redeeming loans	–78,016	–81,116
	Dividends paid	–11,682	–8,781
	Payments for repurchase of treasury shares	–278	–475
	Cash flow from financing activities	**–71,444**	**–15,967**
4.	**Total cash flow**	**13,215**	**24,410**
	Currency-related changes to cash and cash equivalents (valuation)	1,357	–2,048
5.	**Net change in cash and cash equivalents**	**14,571**	**22,363**
	Cash and cash equivalents at beginning of period	103,957	81,594
	Cash and cash equivalents at end of period	**118,528**	**103,957**
6.	**Components of cash and cash equivalents**		
	Cash	118,528	103,957
	Cash and cash equivalents at end of period	**118,528**	**103,957**

SEGMENT REPORT 2016 (IFRS)

1. Principles of segment reporting

Based on the organisational and reporting structures at Energiekontor, business activities are organised in the business segments Project Development and Sales (Wind, Solar) (or, in short, Project Development and Sales), Power Generation in Group-owned Wind Farms (or, in short, Power Generation) and Operation Development, Innovation and Others (or, in short, Others).

The allocation to these segments depends on the different product groups on offer.

The commercial and technical operational management services offered are reported in the Operation Development, Innovation and Others segment, as are services in connection with repowering of third-party wind farms.

Financial information derived from the internal control system is reported separately for these Group units to the Management Board, who regularly reviews this information to be able to assess the business performance and decide on the allocation of resources.

As the data reported regularly to the management is compiled using pre-tax data (up to the EBT level), the income statements at segment level do not include expenses and income from income taxes.

The fair values of interest hedging instruments (interest / currency swaps) that are based on mathematical simulation models and take into account forecasts of currency and interest developments are purely arithmetic and are not shown in segment reporting as they are not relevant to Company management and segment reporting.

In principle, the accounting rules specified in item II. General accounting principles apply to the reportable segments.

2. Group segments

Project development and Sales (Wind, Solar)

The Project Development and Sales (Wind, Solar) segment covers the entire value chain up to the sale of wind farms and solar parks developed by the Group itself, i.e. the development, project development, realisation and sale of wind farms and solar parks in Germany, the UK and Portugal as well as the sale of shares in operating companies founded by the Group and repowering of Group-owned wind turbines. Usually wind farms and solar parks are sold in the way that a separate company is incorporated for each farm or park as a German GmbH & Co. KG (limited partnership with a limited liability company as sole general partner), which enters into all legal relationships required to construct and operate the farm or park (farm or park operator).

The sale of the wind farm or solar park by the Group is then effected via the sale of shares in the corresponding limited partnership.

All services rendered by Group companies in connection with the project development and sale of solar parks or onshore wind farms are also included in this segment. Specifically, this refers to the services that are required for the construction and sale of projects in connection with economic planning and the contractual and legal implementation, project management, company management in the foundation phase, sales and marketing measures and the procurement of own and external funds for the wind farm operators.

Since these services are directly related to the sale of the wind farm or solar park and are therefore an inseparable element of the project development and sales stage of the value chain, the management always assesses these services in connection with the construction and sale of the corresponding wind farm or solar park.

As such, these services do not constitute an independent operating segment in terms of IFRS 8, the financial information of which must be reported separately from the construction and sale and reviewed and assessed separately by the chief operating decision makers with regard to business performance criteria.

Power Generation in Group-owned Wind Farms

In recent years, more and more shares in wind farm operators have not been sold to third parties, but remain in the Group to secure reliable income from these wind farms in the long term. In addition to self-constructed wind farms, third-party facilities are also acquired to expand the wind farm portfolio. The corresponding Power Generation segment now includes the generation of energy in Group-owned wind farms and the sale of electricity to regional energy suppliers.

Operation Development, Innovation and Others

This segment includes all services rendered after the wind farms and solar parks are completed that aim to optimise the operating profit margin as from the time of commissioning. This comprises, in particular, technical and commercial operational management as well as services in connection with the replacement of facilities for power generation with new and more efficient facilities (repowering), measures to reduce costs, extend the service life (e.g. by way of preventive maintenance) and increase earnings (e.g. by direct marketing of electricity, rotor blade extension, etc.).

3. Transfers between segments

There are regular transfers between the individual segments of the Group. These transactions between segments are consolidated and fully eliminated in Group accounting.

3.1. Transfers Project Development and Sales (Wind, Solar) › Power Generation

Transfers between the Project Development and Sales (Wind, Solar) and the Power Generation in Group-owned Wind Farms segments mostly refer to wind farms that are developed and constructed without being sold to third parties but, instead, to a Group subsidiary that uses the wind farm to generate and sell energy in the long term. The actual acquisition cost is recognised and depreciated at the level of the separate financial statements. At the level of the consolidated financial statements, the profits of the involved Group companies pertaining to the construction price and the other fees are fully eliminated, so that only the production costs are capitalised and depreciated in the consolidated financial statements. As the internally generated hidden reserves in wind farms (difference between fair values and carrying amounts) may not be recognised in the consolidated financial statements, they have to be eliminated again for Group accounting purposes. The segment report only contains the figures that were adjusted accordingly.

The reverse transfer from the Power Generation segment to the Project Development and Sales (Wind / Solar) segment is also recognised directly in equity and is utilised whenever a wind farm previously classified as a fixed asset is to be sold and thus must be allocated to current assets. In the year under review, this transfer related to the Gayton le Marsh wind farm.

3.2. Transfers Operation Development Innovation and Others › Power Generation

Transfers between the Operation Development, Innovation and Others and the Power Generation in Group-owned Wind Farms segments refer to optimisation and innovation services as well as commercial and technical operational management services rendered by Group subsidiaries to wind farm operators. Income and expenses recognised in the relevant segments are also eliminated in the scope of reconciliation to Group income in the Reconciliation and consolidation item.

4. Reconciliation of segment assets and liabilities

Segment assets and liabilities that are broken down in the following segment report relate to gross assets and liabilities as follows:

EUR thousand	2016	2015
Gross assets as per the balance sheet	361,351	399,118
Deferred and current tax assets	–8,151	–9,952
Segment assets	**353,199**	**389,166**
Gross liabilities as per the balance sheet	291,874	348,657
Neutralisation of cash flow hedges from wind farm financing (interest and interest/currency hedges)	–5,023	–12,439
Deferred and current tax liabilities	–18,417	–14,952
Segment liabilities	**268,434**	**321,267**
Gross net assets as per the balance sheet	69,477	50,460
Neutralisation of cash flow hedges from wind farm financing (interest and interest/currency hedges)	5,023	12,439
Deferred and current net taxes	10,265	5,000
Net segment assets	**84,765**	**67,899**

The figures pertaining to assets and liabilities allocated to the segments were also adjusted for tax items as adjusted in internal reporting and the mathematical fair values of interest and currency hedging instruments (cash flow hedges).

5. Income statement by segment

	Project Development and Sales (Wind, Solar)		Power Generation in Group-owned Wind Farms	
EUR thousand	2016	2015	2016	2015
Revenue				
Revenue	148,655	132,936	49,899	55,260
Revenue with other segments	0	0	151	129
Total revenue	**148,655**	**132,936**	**50,050**	**55,389**
Changes in inventories and other work performed and capitalised	–35,109	18,831	14	–6
Total output	**113,546**	**151,767**	**50,064**	**55,383**
Other operating income	2,769	506	1,697	1,057
Total operating output	**116,316**	**152,273**	**51,760**	**56,440**
Cost of raw materials and supplies and purchased services	–69,795	–115,991	–146	0
Personnel expenses	–9,076	–8,897	–723	–652
Other operating expenses	–4,263	–6,040	–14,591	–13,712
EBITDA	**33,182**	**21,345**	**36,300**	**42,077**
Depreciation and amortisation of intangible assets and property, plant and equipment	–49	–52	–18,265	–16,360
EBIT	**33,133**	**21,293**	**18,035**	**25,717**
Income from investments	28	0	0	0
Interest and similar income	157	465	5	7
Interest and similar expenses	–5,042	–5,684	–13,397	–14,801
EBT	**28,276**	**16,075**	**4,643**	**10,923**

* The Project Development and Sales (Wind, Solar) segment includes EUR 4,536 thousand (previous year: EUR 2,591 thousand) in non-cash measurement effects from write-downs of inventories.

	Operation Development, Innovation and Others		Total before reconciliation / consolidation		Reconciliation		Energiekontor Group	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
	3,210	3,133	201,764	191,329	0	0	201,764	191,329
	2,024	2,154	2,175	2,283	–2,175	–2,283	0	0
	5,234	**5,287**	**203,939**	**193,612**	**–2,175**	**–2,283**	**201,764**	**191,329**
	80	–17	–35,015	18,808	0	0	–35,015	18,808
	5,314	**5,269**	**168,924**	**212,420**	**–2,175**	**–2,283**	**166,749**	**210,137**
	15	11	4,481	1,574	0	0	4,481	1,574
	5,329	**5,281**	**173,405**	**213,994**	**–2,175**	**–2,283**	**171,230**	**211,711**
	–582	–599	–70,523	–116,590	0	0	–70,523	–116,590
	–1,122	–927	–10,922	–10,476	0	0	–10,922	–10,476
	–1,041	–1,084	–19,895	–20,836	2,175	2,283	–17,719	–18,553
	2,584	**2,670**	**72,066**	**66,092**	**0**	**0**	**72,066**	**66,092**
	–2	–12	–18,316	–16,424	0	0	–18,316	–16,424
	2,582	**2,658**	**53,750**	**49,668**	**0**	**0**	**53,750**	**49,668**
	0	28	28	28	0	0	28	28
	0	2	162	474	0	0	162	474
	–5	–24	–18,443	–20,508	0	0	–18,443	–20,508
	2,577	**2,665**	**35,496**	**29,662**	**0**	**0**	**35,496**	**29,662**

6. Assets by segment

	Project Development and Sales (Wind, Solar)		Power Generation in Group-owned Wind Farms		Operation Development, Innovation and Others		Energiekontor Group	
EUR thousand	2016	2015	2016	2015	2016	2015	2016	2015
Non-current segment assets								
Other intangible assets	10	23	0	0	0	0	10	23
Property, plant and equipment								
Land, land improvements and buildings	0	0	693	693	0	233	693	926
Plant and equipment (wind farms)	0	0	170,928	222,745	0	0	170,928	222,745
Other equipment, operational and office equipment	125	117	1	1	0	0	126	118
Investments	53	53	0	0	0	0	53	53
Receivables and financial assets	48	47	12	23	0	0	60	70
Total non-current segment assets	**236**	**240**	**171,634**	**223,462**	**0**	**233**	**171,870**	**223,935**
Current segment assets								
Inventory	33,672	32,365	135	122	465	385	34,272	32,871
Receivables and financial assets	9,623	2,576	8,571	14,947	30	601	18,224	18,124
Securities classified as current assets	10,305	10,278	0	0	0	0	10,305	10,278
Cash and cash equivalents	93,894	99,979	23,605	3,711	1,029	267	118,528	103,957
Total current segment assets	**147,494**	**145,198**	**32,311**	**18,780**	**1,523**	**1,253**	**181,329**	**165,231**
Total segment assets	**147,730**	**145,438**	**203,946**	**242,242**	**1,523**	**1,486**	**353,199**	**389,166**

7. Liabilities and net assets by segment

	Project Development and Sales (Wind, Solar)		Power Generation in Group-owned Wind Farms		Operation Development, Innovation and Others		Energiekontor Group	
EUR thousand	2016	2015	2016	2015	2016	2015	2016	2015
Non-current segment liabilities								
Provisions for decommissioning and restoration	0	0	12,099	12,861	0	0	12,099	12,861
Financial liabilities	29,093	35,147	149,392	199,441	0	234	178,485	234,823
Liabilities to external limited partners	0	0	1,667	1,637	0	0	1,667	1,637
Other liabilities	0	0	2,698	2,821	0	0	2,698	2,821
Total non-current segment liabilities	**29,093**	**35,147**	**165,857**	**216,760**	**0**	**234**	**194,949**	**252,141**
Current segment liabilities								
Provisions	11,182	14,728	1,469	1,533	4	22	12,656	16,282
Financial liabilities	19,402	16,991	25,807	14,880	0	0	45,209	31,871
Accounts payable	5,180	3,692	1,033	774	28	14	6,241	4,480
Liabilities to external limited partners	526	0	0	0	0	0	526	0
Other liabilities	8,799	16,492	0	0	53	0	8,852	16,492
Total current segment liabilities	**45,089**	**51,902**	**28,310**	**17,186**	**85**	**36**	**73,485**	**69,125**
Total segment liabilities	**74,182**	**87,050**	**194,167**	**233,946**	**85**	**270**	**268,434**	**321,267**
Net segment assets	**73,548**	**58,388**	**9,779**	**8,296**	**1,438**	**1,216**	**84,765**	**67,899**

8. Capital expenditure by segment

	Project Development and Sales (Wind, Solar)		Power Generation in Group-owned Wind Farms		Operation Development, Innovation and Others		Energiekontor Group	
EUR thousand	2016	2015	2016	2015	2016	2015	2016	2015
Segment capital expenditure	**45**	**98**	**9,609**	**53,524**	**0**	**24**	**9,653**	**53,647**

9. Additional geographical information

The buyers of the domestic and foreign wind farms and solar parks realised by the Company in the Project Development and Sales (Wind, Solar) segment in the total amount of EUR 142,107 thousand are mainly German companies.

Likewise, the operational management services allocated to the Other operating segments are all rendered in Germany.

Additional information on geographical segments is only relevant in the Power Generation segment, as this segment deals with foreign markets in that the Energiekontor Group earns electricity income from Portuguese utilities as well as British electricity buyers.

Therefore, electricity income is broken down in accordance with the wind farm location as follows:

EUR thousand	2016	2015
Country where the wind farm is located		
Germany	21,407	26,008
Portugal	8,067	7,820
UK	20,425	21,432
Total electricity income	**49,899**	**55,260**

The carrying amounts of property, plant and equipment are broken down to geographical regions as follows:

EUR thousand	2016	2015
Country where the wind farm is located		
Germany	82,843	98,767
Portugal	28,406	23,630
UK	59,678	100,348
Carrying amounts of the wind farms	**170,928**	**222,745**

10. Information on important customers

In the Project Development and Sales (Wind, Solar) segment, two customers accounted for revenue totalling EUR 122,937 thousand.

SEPARATE FINANCIAL STATEMENTS OF THE AG (GERMAN GAAP: HGB)

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Balance sheet

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Profit and loss statement

BALANCE SHEET (HGB)
as of 31 December 2016

ASSETS		31.12.2016 EUR	31.12.2015 EUR thousand
A.	**Fixed assets**		
I.	Intangible assets		
	Patents, licenses, trademarks and similar rights and assets	10,117	23
II.	Tangible assets		
	Fixtures and fittings	123,040	112
III.	Financial assets		
	1. Shares in affiliated companies	38,159,966	40,344
	2. Loans to affiliated companies	2,148,055	7,883
	3. Investments	81,560	85
		40,389,582	*48,312*
B.	**Current assets**		
I.	Inventories		
	1. Unfinished goods and work in progress	11,530,779	11,396
	2. Payments received on account	–40,000	–40
		11,490,779	*11,356*
II.	Receivables and other assets		
	1. Trade receivables	424,101	964
	2. Receivables from affiliated companies	22,916,706	22,815
	3. Other assets	184,115	281
		23,524,923	*24,060*
III.	Other securities	10,223,871	10,224
IV.	Cash in hand and bank balances	79,437,325	62,043
C.	**Prepaid expenses**	45,537	30
	Total assets	**165,245,174**	**156,160**

LIABILITIES		31.12.2016 EUR	31.12.2015 EUR thousand
A.	**Equity**		
I.	Issued capital		
	1. Subscribed capital	14,653,160	14,653
	2. Nominal amounts/arithmetic value for retirement of purchased shares	–61,085	–41
		14,592,075	*14,612*
II.	Capital reserves	41,237,445	41,237
III.	Retained earnings		
	1. Statutory reserve	15,000	15
	2. Other retained earnings	29,667,370	15,925
		29,682,370	*15,940*
IV.	Net income	14,693,581	11,723
	Total equity	**100,205,471**	**83,512**
B.	**Provisions**		
	1. Provisions for taxes	9,222,644	6,484
	2. Other provisions	2,961,687	4,709
		12,184,331	*11,193*
C.	**Liabilities**		
	1. Bonds	21,000,000	27,530
	2. Liabilities to banks	2,287	6
	3. Trade payables	643,948	1,004
	4. Liabilities to affiliated companies	18,068,945	13,818
	5. Other liabilities	5,558,487	11,922
		45,273,667	*54,281*
D.	**Deferred tax liabilities**	7,581,705	7,174
	Total liabilities	**165,245,174**	**156,160**

PROFIT AND LOSS STATEMENT (HGB)

1 January 2016 to 31 December 2016

		2016 EUR	2015 EUR thousand
1.	**Revenue**	**51,649,261**	**29,056**
2.	Increase in inventories of finished goods and work in progress	135,066	2,218
3.	**Total output**	**51,784,327**	**31,275**
4.	Other operating income	3,307,158	286
5.	Cost of materials		
	Expenses for purchased services	6,969,426	5,318
6.	**Gross result**	**48,122,059**	**26,244**
7.	Personnel expenses		
	a) Wages and salaries	8,527,300	7,991
	b) Social security, pension and other benefits of which EUR 84,338.63 (previous year: EUR 81 thousand) relating to pensions	1,279,061	1,177
		9,806,361	*16,137*
8.	Depreciation and amortisation		
	Depreciation and amortisation of intangible and tangible fixed assets	46,806	48
9.	Other operating expenses	4,435,119	4,867
10.	Income from investments of which EUR 375 (previous year: EUR 534 thousand) from affiliated companies	374,524	534
11.	Income from profit and loss transfer agreements with affiliated companies	10,175,595	15,338
12.	Income from other long-term securities and loans of which EUR 260,568 (previous year: EUR 728 thousand) from affiliated companies	576,460	728
13.	Interest and similar income of which EUR 37,239 (previous year: EUR 56 thousand) from affiliated companies	98,522	550
14.	Depreciation and amortisation of financial assets	3,767,751	0
15.	Interest and similar expenses of which EUR 124,665 (previous year: EUR 116 thousand) to affiliated companies	1,733,085	1,696
16.	**Net operating income**	**39,558,038**	**27,615**
17.	Tax on profit	10,905,394	9,154
18.	**Profit or loss for the year**	**28,652,644**	**18,460**
19.	Profit carried forward		
	a) Profit carried forward before appropriation	11,722,528	8,792
	b) Dividend payments	–11,681,591	–8,781
		40,937	*10*
20.	Allocations to retained earnings	–14,000,000	–6,748
21.	**Net income**	**14,693,581**	**11,723**

LEGAL INFORMATION

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Picture credits
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www.fotoetage.de

PRYSMA MEDIA KÖLN
Jürgen Meier

Concept, layout, and typesetting
IR-ONE, Hamburg
www.ir-one.de

Translation
discover legal
Besendahl & Lehnich
Übersetzer & Dolmetscher
Partnerschaft, Hamburg
www.discoverlegal.de

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The EBIT and EBITDA figures used in this report as well as the cash flow figures are examples of so-called pro-forma key figures. Pro-forma key figures are not governed by national accounting rules, the German Commercial Code (HGB) or the international financial reporting requirements pursuant to the International Financial Reporting Standards (IFRS). As this terminology is not legally defined, other companies may not calculate pro-forma key figures in the same way as the Energiekontor Group; therefore, the Energiekontor Group's pro-forma key figures are only comparable to a limited extent with such or similarly named information from other companies. The pro-forma key figures stated in the Annual Report should, therefore, not be considered in isolation or as an alternative to operating profit, net income, consolidated net income or other Energiekontor Group figures presented in the financial statements.

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This report contains forward-looking statements. These statements are not historical facts and include information regarding the expectations and opinions of Energiekontor AG's management. The statements are based on current plans, assesments and forecasts by the Company's management. Investors are advised not to place undue reliance on these statements. Forward-looking statements must be understood in connection with the context at the time they were written. The Company is under no obligation to update the forward-looking statements in this report based on new information or future events. The Company's obligation to comply with the statutory duty to inform and report remains unaffected. Forward-looking statements always contain risks and uncertainty. Due to a multitude of factors, actual occurrences may differ significantly from the forward-looking statements contained in this report.

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