AMPRION ANNUAL REPORT 2017

2017

amprion

2017 was a successful year for Amprion. The expansion of our transmission network continued apace: 300 kilometres of line have been completed, and a further 135 are under construction. These projects are propelling us along the road to the energy world of the future, a world which we are helping to structure through our innovative solutions. Our goal for the future is to carry on fulfilling our statutory remit: to transmit electricity for the 29 million people living in our grid area.

KEY TO ICONS USED

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DR KLAUS KLEINEKORTE
Chief Technical Officer

DR HANS-JÜRGEN BRICK
Chief Commercial Officer and Chief Financial Officer

Dear Readers,

Amprion GmbH can look back on a positive financial year. In 2017 we again succeeded in operating our transmission network safely and further expanding it in response to customer needs. On this basis, we have returned stable business results: at 13,030 million euros Amprion GmbH's 2017 revenues and income reached a new high point, two per cent up on the 2016 figure. Revenues from the handling of the EEG (Renewable Energy Sources Act) balancing mechanism, which have a neutral effect on net income, fell in financial year 2017 amounting to 10,390 million euros. In contrast, revenues from the power grid side of the business rose markedly, coming in at 2,541 million euros. The company's net profit amounted to 174 million euros. The key driver here was the increase in the company's capital base due to our network expansion investments.

As a transmission system operator, 2017 posed major challenges for us right from the start: the effects of an exceptionally cold winter were exacerbated by very low feed-in from renewable energy sources and unscheduled shutdowns of conventional power stations both in Germany and abroad. Working intensively with other European transmission system operators, Amprion succeeded in mastering this extreme situation through a range of operational measures at domestic and international levels.

In view of the tight supply situation, it is all the more important for grid expansion to gain further impetus. Our total of 350 projects made good progress in 2017. We commenced our public relations activities for the A-North project to provide a new direct current connection from Lower Saxony to the Rhineland, engaging in constructive dialogue with many members of the public at a wide variety of events. Based on their feedback, we have developed a preferred route for the A-North corridor, on the basis of which we were able in March 2018 to commence the initial approval phase, the Federal Planning for Transmission Systems process.

We have also made substantial progress on ongoing planning processes: in 2017 Amprion was given the green light to construct around 60 kilometres of line. Moreover, through its landmark decisions the Federal Administrative Court has ratified the approval granted to a series of major projects, such as the one from Wehrendorf to St. Hülfe.

The implementation of our ongoing construction projects also continued apace, as demonstrated by the Kriftel and Oberottmarshausen substations, both of which we are commissioning in 2018. On the power line construction front, the new cross-border connection from Wesel to Doetinchem in the Netherlands took shape, and will be connected to the grid in autumn 2018. In total we implemented construction projects representing an investment volume of 701 million euros in financial year 2017 – a new record figure.

Sound financing is needed to ensure that the grid expansion process is successful. In 2017, Amprion undertook two capital market trans-

actions involving fixed-interest promissory note loans and registered debentures to a total value of €400.0 million. Our positive ratings (Moody's A3, Fitch A-) made an important contribution to this process.

However, the energy transition is a project spanning generations which will require more than just the expansion of renewable energy sources and the associated power grid. At Amprion, we intend to bring all our expertise to bear in the search for solutions. We aim to provide advice, while also demonstrating through our technical innovations that our systems function well in practice. This goes to the heart of how we see ourselves.

Amprion's success is only possible thanks to the efforts of our 1,300-strong workforce. Their skills and creativity, team spirit and know-how create the conditions which enable us to fulfil our statutory mandate. We would like to take this opportunity to offer them our heartfelt thanks and express our great appreciation. In light of the above, we are optimistic that our company can continue to enjoy positive progress throughout financial year 2018.

DR HANS-JÜRGEN BRICK
Chief Commercial Officer and
Chief Financial Officer

DR KLAUS KLEINEKORTE
Chief Technical Officer

Report of the Supervisory Board

Ladies and Gentlemen,

Amprion GmbH has brought financial year 2017 to a successful conclusion. This is reflected not only in our economic performance and progress with the expansion of our grid, but also in the innovative technological solutions whereby Amprion is contributing to the success of the energy transition. For instance, during 2017 Amprion brought into operation further routes fitted with high-temperature low-sag conductors, in order to increase the transmission capacity of particularly heavily utilised sections of the grid, as well as trialling new technology for the trenchless laying of underground cables. Moreover, Amprion has participated in national and European projects. The aim is to continuously reinforce the innovative strength the company can bring to bear in every of its parts.

The Supervisory Board was deeply involved in the company's development in financial year 2017. The Board fulfilled the obligations assigned to it by law and the shareholders' agreement, devoting especially close attention to its monitoring and advisory duties with respect to the Executive Management. The members received reports from the Managing Directors, both in writing and verbally, regarding the course of business, key issues of business policy and the company's position and performance. They discussed in depth significant business incidents with the Management Board and made any decisions that were required. In addition, the chairman of the Supervisory Board consulted the Managing Directors outside of the Supervisory Board meetings over individual events of importance, and discussed questions of corporate strategy and business policies in preparation for the Board meetings. Furthermore, the Audit Committee fulfilled the tasks assigned to it by the shareholders' agreement, in particular the comprehensive preparation of the adoption of the annual financial statements by the Supervisory Board.

Four Supervisory Board meetings were held during the reporting period. The focus of its deliberations was on the Managing Directors' detailed reporting of the company's position, including the development of revenues and profits and the company's strategic goals. In addition, the Supervisory Board intensively discussed and adopted the budget submitted for 2018. Furthermore, the long-term investment planning up to 2027 was discussed comprehensively and approved by the Supervisory Board. The Supervisory Board also gave due consideration to the regulatory environment in which the company operates as well as the changes in statutory regulations that have occurred or are imminent.

The auditor selected by shareholders' resolution of 30 April 2017 and engaged by the company's Supervisory Board for the annual audit, BDO AG Wirtschaftsprüfungsgesellschaft Düsseldorf, audited the annual financial statements and the management report of Amprion GmbH for financial year 2017, including the bookkeeping, and certified the statements with an unqualified auditor's opinion.

The auditor's report, the annual financial statements and the management report were submitted to the Supervisory Board members in good time prior to the Supervisory Board meeting on 10 April 2018 and were comprehensively reviewed during the meeting. The auditor participated in the Supervisory Board's deliberations and reported on the major results of his audit. In addition, he was available to provide any supplementary information. The Supervisory Board agreed with the results of the audit. The Board also conducted its own review of the annual financial statements and management report prepared by Executive Management. Upon completion of its review, no objections were raised. The Supervisory Board approved the management report and the annual financial statements for financial year 2017; the financial statements have therefore been adopted.

Financial year 2017 saw the following changes in the membership of the Supervisory Board:

Supervisory Board member Mr Manfred Rupps left the Board upon expiry of his term of office on 30 June 2017. By shareholders' resolution of 30 June 2017, Dr Peter-Henrik Blum-Barth, Department Head of Capital Investments Liquid Assets of SV SparkassenVersicherung Holding AG, was elected to the Supervisory Board of Amprion GmbH.

Supervisory Board member Mr Uwe Tigges left the Board upon expiry of his term of office on 30 April 2017. By shareholders' resolution of 30 April 2017, Dr Rolf Martin Schmitz, CEO of RWE AG, was elected to the Supervisory Board of Amprion GmbH.

The Chairman of the Supervisory Board would like to take this opportunity to express thanks and appreciation for all the good work done by the management and employees of Amprion GmbH during the 2017 financial year.

Dortmund, 10 April 2018

PROF HEINZ-WERNER UFER
Chairman of the Supervisory Board

MANAGEMENT REPORT

Fundamentals of the company

Business activity of the company

Amprion GmbH, based in Dortmund, is one of four transmission system operators (TSOs) in Germany and has about 1,300 employees. In a balancing zone that stretches from Lower Saxony to the Alps, Amprion operates its network at voltage levels of 220 and 380 kV and expands it in accordance with market requirements. Measuring about 11,000 kilometres in length and with 161 substations and **transformer stations** (≡ Page 67), it is the longest extra-high-voltage network in Germany. It links the power stations with the main centres of consumption and is a vital component of the transmission network in Germany and Europe. Amprion provides its extra-high-voltage network to industrial customers, redistributors, energy traders and generators via currently 1,028 feed-in and tapping points at standard prices in line with the market.

In addition, Amprion steers and monitors the secure transport of electricity within the extra-high-voltage network in its balancing zone. For this purpose, the system management in Brauweiler / Pulheim ensures that electricity consumption and generation are kept in balance at all times. The system output required (primary control, secondary control and tertiary control) and the necessary electricity for the compensation of grid losses are sourced using transparent tender procedures in line with regulations. The company also coordinates the exchange programmes and the subsequent volume balancing, both for the entire transmission network in Germany and for the northern section of the integrated European grid.

Thanks to its central location within Europe, Amprion's network is a vital hub for the European electricity trade between north and south and between east and west. Amprion provides transmission network capacities to the interconnecting feeder lines to France, the Netherlands and Switzerland by means of market-based auctions.

Amprion's shareholders are M 31 Beteiligungsgesellschaft mbH & Co. Energie KG, a company whose owners largely comprise German institutional financial investors from the insurance industry and pension funds, with 74.9 % of the shares, and RWE AG with the remaining 25.1 % of the shares.

Financial report

Political and energy regulatory environment

Network Charge Modernisation Act (Netzentgeltmodernisierungsgesetz - NEMoG)
The Act for the Modernisation of the Network Charge Structure (NEMoG) came into force on 22 July 2017. Its chief purpose is to amend the German Energy Industry Act (Energiewirtschaftsgesetz - **EnWG** (≡ Page 66)). The key feature of NEMoG is the harmonisation of transmission network fees. The nationwide harmonisation of TSO network charges will take place over a four-year period from 1 January 2019 to 1 January 2023. The precise arrangements for implementing the act remain undecided but will be laid down in a regulation.

From 1 January 2019 onwards, the cost of integrating offshore wind farms will cease to be refinanced via network charges, rather forming part of the smoothing of consumption included in the offshore surcharge. Within the Amprion control area the financial burden on consumers caused by the harmonisation of the TSO network charge will be reduced. In contrast, the charge to grid consumers caused by the adjustment of the offshore surcharge to reflect offshore connection costs will increase.

Another amendment contained in NEMoG concerns so-called avoided network charges. The network charges for decentralised feed-in to be paid from 1 January 2018 onwards will be fixed on the basis of the fees for the upstream grid or transformer level applying on 31 December 2016. Moreover, the TSO fees applied in calculating the avoided network charges will also be adjusted to allow for offshore connection costs and the extra cost of laying cables underground.

The Act provides for the phase-out of avoided network charges, over a three-year period starting in 2018, for volatile power sources such as wind power and photovoltaic installations. Accordingly, from 2018 onwards relevant new facilities will no longer receive avoided network charges. For taxable new facilities this will apply from 2023 onwards. The ending of avoided network charges for volatile power sources means that the corresponding income can no longer be offset against the **EEG** (≡ Page 66) remuneration, thereby increasing the EEG allocation.

Pursuant to Section 11 (3) EnWG, TSOs may maintain special technical grid operating facilities and deploy them outside the power market where necessary in order to ensure and restore the supply security and reliability of the transmission system in the event of the local breakdown of one or more transmission

system operating facilities. The EU Commission does not regard the provisions for special technical grid operating facilities as constituting a subsidy.

Amprion views the decision to replace the previously envisaged across-the-board, immediate harmonisation with the graduated harmonisation of transmission network fees as a positive step. The NEMoG paves the way for the wide-ranging reform of the network charge system in order to adjust it to the new conditions created by the energy transition.

Renewable Energy Sources Act

The **EEG** (≡ Page 66) 2017 entered into effect on 1 January 2017. The key new feature is the implementation of a tender procedure for competitive determination of the amount of the compensation claim. The act provides that the subsidisation for stations with outputs greater than 750 kW using the energy sources onshore wind and photovoltaics, and with output greater than 150 kW for biomass facilities, will be determined by a tender procedure. The terms and conditions for tender procedures for the energy source offshore wind are set forth in the Onshore Wind Energy Act (WindSeeG).

In addition, the Act for the Promotion of Tenant Energy Supply Models and in Amendment of the Renewable Energy Act (Gesetz zur Förderung von Mieterstrom und zur Änderung weiterer Vorschriften des Erneuerbare-Energien-Gesetzes) entered into effect on 25 July 2017. On its basis, operators of solar facilities up to 100 kW in residential buildings may in future charge a 'tenant energy surcharge' on electricity used by the tenants either on site or adjacent to the facility.

These regulations do not have any direct impact on Amprion. It is expected that the build-up in renewable energy stations will be more predictable because of the legally required tender procedure.

CHP Tender Regulation

The Regulation for the Introduction of Tenders to Determine the Size of the Surcharge Payments for combined heat and power (CHP) Facilities and Innovative CHP Systems entered into effect on 10 August 2017. A tendering process will be used to decide which CHP facilities and innovative CHP systems with an installed load of between one and 50 MW will receive subsidies. System operators in cooperating EU countries with whom corresponding international agreements exist may participate in the tendering process for up to 5 % of installed load tendered for each year. For Amprion, the tendering process will involve new billing processes (including penalty payments by system operators and an accounting

system for facilities in cooperating EU countries which are not directly connected with a German grid, as well as reporting duties) but will not have any long-term economic implications.

Business performance

Grid business

The revenue cap is determined within the framework of the incentive-based regulation and in accordance with the provisions of the **EnWG** (≡ Page 66), **ARegV** (≡ Page 66) and StromNEV. On 3 July 2014, the Federal Network Agency (**FNA** (≡ Page 66)) (Bundesnetzagentur - BNetzA) fixed the revenue cap for the second regulatory period from 2014 to 2018 on the basis of the 2011 costs. Pursuant to Section 4 (3) ARegV in conjunction with Section 34 (1) ARegV, Amprion can adjust the revenue cap, and consequently the network charges, on 1 January each calendar year in the event of changes to non-controllable costs. The FNA must be notified of these adjustments. Since the start of the incentive-based regulation system, pursuant to Section 5 ARegV Amprion has recorded increases or decreases in revenue in the regulatory account.

Amprion adjusted its network charges depending on the duration of use and voltage level as of 1 January 2017. Particularly in the 5,000 to 8,760 usage hour range, which is relevant to the majority of customers, network charges at the highest voltage level were increased by between 17.2 % and 19.9 %. The increases are due to the following circumstances:

- Rise in the costs for the connection of offshore wind farms passed on by the coastal TSOs
- Higher costs for approved investment activities for further network expansion pursuant to the energy transition
- Increased costs for reserve power stations arising from the Electricity Market Act
- The anticipated fall in transmitted volumes of electricity due to sharp increases in auto-generation and local feed-in to the upstream distribution networks

Amprion's customers are industrial companies, distribution networks and power stations connected directly to the extra-high-voltage network. The sales and revenue structure is characterised largely

by major distribution network operators, which account for approximately 84 % of Amprion's network charges. Some 13 % of the network charges originate from the chemicals, steel and aluminium industries. The remaining network charges result from the electricity needs of the power stations connected to the transmission network.

During the financial year, the quantities of electricity withdrawn from directly connected network customers fell by some 3 % due to increasing local feed-in to the upstream distribution networks. In view of the energy transition and the related subsidising of renewable and local energy generation, further declines in quantity are expected over the coming years.

Cost examination for the third regulatory period

Pursuant to Section 6 (1) **ARegV** (Page 66), in accordance with the provisions of the Electricity Network Fee Regulation Ordinance (StromNEV), the **FNA** (Page 66) ascertains the initial level for determining the revenue caps for the third regulatory period from 2019 to 2023 via a cost examination based on data for the 2016 financial year. The documents required for the cost examination were submitted to the FNA on 30 June 2017.

Benchmark and reference grid analysis for the third regulatory period

The FNA is conducting a relative reference grid analysis in order to determine the individual efficiency factors of German TSOs for the third regulatory period. The data collection involves the provision of details such as the TSOs' individual cost and structure data as well as TSOs' joint data sets charting the network topology for the years 2005 and 2016.

EEG implementation

The **EEG** (Page 66) equalisation mechanism operates on the basis of the Renewable Energies Regulation (**EEV** (Page 66)) and the Renewable Energies Implementation Regulation (EEAV). The amount of electricity fed in under the EEG outside of direct marketing measures is marketed by the TSOs on the electricity exchange, with the difference between the revenues and expenditures for the EEG feed-in amounts being passed on to energy utility companies via the EEG allocation. The EEG process is income-neutral for the TSOs.

The TSOs published the **EEG** (Page 66) allocation for 2018 on 13 October 2017. This resulted in a slight reduction in the EEG allocation of around one per cent, from 6.88 cents/kWh to 6.79 cents/kWh. The main reasons for this were the forecast continuing expansion of renewable energy, particularly in the field of wind turbines, as well as the anticipated increase in market proceeds from EEG electricity and the positive movement of the EEG account. After consultation with the **FNA** (Page 66), a liquidity reserve of € 1,534 million (corresponding to 6 % of the shortfall) was included in the EEG allocation.

System services

The TSOs continue to procure their control reserve jointly in accordance with the stipulations of the FNA. Financial year 2017 saw a significant decline in tertiary control volume, due to a reduction in the imbalances in the German control block. Prices in the secondary and tertiary control areas continue to show a strong downward trend.

The overall cost of lost energy procurement (to compensate for grid losses) incurred by Amprion was slightly down on the 2016 figure. This was chiefly due to a significant fall in prices, despite the increasing long-term procurement volumes. In contrast, the cost of short-term procurement went up as a result of sharp rises in both prices and quantities. Procurement of the long-term component was largely subject to contracts concluded in 2015 and 2016.

As a result of numerous redispatch actions, costs for redispatch activities rose greatly in financial year 2017. The extensive unscheduled shutdowns of nuclear power plants in France in December 2016, as well as the tight supply situation across much of Europe, meant that significantly higher utilisation of the Amprion network persisted at the beginning of the financial year. This situation led to major and sustained north-south power flows plus high export levels, chiefly to Austria, France and Switzerland.

High levels of wind feed-in subsequent to the connection of offshore wind farms in the North Sea increased the load on the interconnection lines in the north between TenneT and Amprion. Due to limited opportunities for redispatch activities by conventional power stations, financial year 2017 saw an increased need for TenneT to reduce the feed-in from offshore wind farms when the occasion demanded, in order to ensure system stability. Part of the associated costs were passed on by TenneT, leading to Amprion for the first time incurring EEG feed-in management costs. These were refinanced via the regulatory account.

Network reserve

Every year, the **FNA** (Page 66) publicly announces the grid's reserve needs for the next five years as determined by analyses conducted by the TSOs. The remaining additional needs that cannot be covered by reserves which have already been contractually secured have to be covered by expression-of-interest procedures (EIPs). In its report dated 28 April 2017, the FNA disclosed a need for reserve power station capacities of 10,400 MW for the winter half-year 2017/2018. This included an additional 1,600 MW requirement which has been contracted via an EIP. Amprion did not need to conclude any further contracts with foreign reserve power stations.

For the winter half-year 2017/2018 national power stations with a total output of 6,655 MW (of which Amprion: 1,799 MW) plus international power stations with a total output of 4,821 MW (of which Amprion: 429 MW) have been committed to the network reserve. The costs of the network reserve are fully refinanced via network charges.

Special technical grid operating facilities

Pursuant to Section 11 (3) **EnWG** (Page 66), TSOs may deploy special technical grid operating facilities in order to maintain security and stability of the transmission grid. A 1.2 GW requirement for the period from 2021 to 2025 was ascertained by the TSOs by 15 February 2017, and approved by the FNA on 31 May 2017. Procurement of this requirement is currently being assessed and will be determined in consultation with the other TSOs and the FNA. The special technical grid operating facilities are not installed or operated by the TSOs. They are deployed exclusively outside the power market in order to ensure supply security and the reliability of the transmission system.

System management

During the reporting period, Amprion did not register any supply disruptions in its extra-high-voltage network, i.e., no large-scale grid failures, despite the fact that operating the grid has become significantly more demanding. The main reason for the growing complexity of system operations is the continuing growth of renewable energy facilities, a process which demanded a great many interventions in the running of the system.

The start of financial year 2017 saw heavy grid capacity utilisation of the Amprion network, which necessitated a large number of redispatch activities and the deployment of reserve power stations. This situation arose due to the limited availability of nuclear power stations in France, power stations in

Germany and hydroelectric power stations in Austria and Switzerland, coupled with weather-related factors. In response, German TSOs, drawing on the interchanges between European TSOs, took coordinated redispatch action designed to safeguard supply security.

Apart from this specific consumption situation at the start of the year, the remainder of 2017 saw a repeated need for redispatch measures within the Amprion control area. The interconnection line in the Emsland region with the TenneT control area increasingly suffered from infringement of the (n-1)-criterion due to rising feed-in volumes from offshore wind farms. Therefore, redispatch activities had to be augmented by offshore wind farm feed-in management measures designed to alleviate network congestions.

Technical innovation

Amprion is actively engaged in the transformation of the energy system and in developing innovative solutions to facilitate the energy transition while simultaneously opening up business opportunities. In order to meet the growing demands made of the network's transmission capability and ensure its secure and reliable long-term operation, Amprion integrates innovative technologies into its transmission network. As part of Amprion's Strategy 2020, the company has set itself the goal of continuously boosting its innovation strength across all corporate divisions, to which end the company has developed and implemented an innovation process.

In response to the electricity supply constraints during the 2016/2017 winter half-year, with associated high redispatch costs which are likely to rise further in future, the Federal Ministry for Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie) has initiated a stakeholder process entitled "Greater utilisation of the power grid". The aim of the process is to identify innovative technologies and measures whereby the existing grid can be more effectively utilised, with a view to reducing redispatch costs during the period prior to the completion of the required network expansion. One of the main findings of a study conducted in this connection is that measures such as line monitoring and high-temperature conductors have already been implemented. The study also highlights the benefits of measures devised by the TSOs in connection with the delayed network roll-out, as well as additional load flow controlling elements, chief among them phase-shifting transformers. It also goes on to recommend the use of a more highly automated system operation. Amprion is continuing to work actively on the development and implementation of correspondingly innovative measures and concepts.

To boost supply capacity in the short term, Amprion is planning to install high-temperature low-sag (HTLS) conductors at several high-load grid locations. This requires ample operational experience with this innovative technology. After the first pilot project in 2009 yielded good results, in September 2017 a further four-kilometre long HTLS route came into operation. This time, the lines featured bundles of four conductor cables in order to subject them to further practical testing.

With the planned commissioning of the main control centre HSL2020 and the associated new limit system, Amprion's most important electrical circuits will be prepared step-by-step for the adaptive overhead line operation at the start of 2018. For this purpose, 14 weather stations have been installed in selected substations in order to provide representative data covering the meteorological parameters for the entire Amprion network. This will allow the current carrying capacity of each individual electrical circuit to be calculated on the basis of the ambient temperature. Coupled with the innovative protection and station control technology ("NBF NextGen") due to be installed in eight substations for the first time in 2018, this will permit a more efficient capacity utilisation of the existing 380 kV electrical circuits in response to ambient conditions.

In May 2017, the first variable 380 kV inductor came on line in the Leupolz substation. Its power spectrum ranges from 50-250 MVAr and can be adjusted during operation using a tap changer with 33 positions. Its principle purpose is to stabilise the grid voltage as well as compensating the charging capacity in the event of grid restoration. Over the coming years further variable inductors will be coming on line across the Amprion network.

In Borken, Amprion has trialled the E-Power Pipe® technology for the trenchless laying of **underground cables** (≡ Page 67) over a 300-metre route in order to establish which route sections the technique might be suitable for, as an alternative to the methods employed today. In the first field trials this technique met the bulk of the requirements made of it, and the experience gained during the process will be used to further refine the technology. Currently, the E-Power Pipe® is suitable for deployment on straight routes, but the aim is to render the technology also usable around slight bends in the route.

Amprion is involved as a partner in various European projects. The project "Massive InteGRATion of power Electronic devices" (MIGRATE) is exploring issues related to the network integration of electronic-coupled generators and power electronic devices. The focus is on hitherto unfamiliar stability issues which come to dominate the system's behaviour in the event of high levels of inverter-based power

generation, for instance by photovoltaic and wind power facilities. The project also involves the development of monitoring procedures designed to evaluate the impact of innovative operating and power generation facilities on system stability during ongoing grid operations. Once a risk has been identified, local regulations and central intervention can be employed to safeguard system security. Project SwarmGrid is investigating ways in which information and communication technology can be used to bring together power generation facilities, consumers and grid operation resources in 'swarms' so that they can interact with each other in ways conducive to network efficiency and system stability.

In the Lower Rhine–Doetinchem interconnector project, Amprion is trialling the use of innovative solid panel pylons. The first pylons were erected in 2017, along a seven-kilometre section from Millingen to the Germany-Netherlands border, where they visually match the pylons on the Dutch side of the border. The aim here is to test the general public's acceptance of the pylons, as well as to gain technical experience in their use.

Asset management

At the start of 2017, Amprion successfully renewed its certificate of compliance with the provisions of International Sta ndard ISO 55001, first awarded in 2015. The award of International Standard ISO 55001 attests to the company's efficient and effective processes for the management of its assets.

Personnel

Amprion continued the scheduled expansion of its workforce throughout financial year 2017. The number of permanent employees increased by 4.3 %, from 1,195 FTE (Full Time Equivalent) in 2016 to 1,246 FTE in 2017. This is 4.2 % below the figure forecast in the 2016 Management Report. Based on the assumption of process-related growth in assignments, Amprion's personnel requirements for 2018 have been updated to 1,326 permanent FTE in line with the company's process-related employment plan.

In addition, eight apprentices began their training in both commercial and technical occupations. All in all, 32 apprentices are currently receiving their training at Amprion. Nine apprentices successfully completed their training in 2017. Amprion offered employment to all of these apprentices, seven of whom accepted. The company thereby ensures not only that its future staffing needs are covered but also that it meets its social obligations towards young people.

The encouragement, advancement and ongoing development of the workforce are given high priority at Amprion. In 2017 company personnel attended over 2,300 internal and external advanced training courses and events designed to reinforce the occupational and personal skills of the company's employees. In addition, the company operates a system designed to assess employees' potential, with a view to ensuring that Amprion's own employees take up the majority of the future management positions. The potential candidates thus identified then undergo further training as executives in needs-based programmes. These assessments take place every two years.

The Amprion workforce is characterised by long-term professional experience and strong commitment to the company. This is reflected in an average employment period (including at predecessor companies) of 13.9 years and a low turnover rate of 1.3 %. The average age of the workforce remains at the 2016 level, and stood at 42.4 years as of 31 December 2017. The proportion of women in the workforce at the end of the reporting year was 17.6 % (previous year: 18.2 %). This proportion of women, which remains low compared to other sectors, is attributable to the company's specialised, technical business activities, and tallies with the low proportion of women who take degrees and vocational training courses in electrotechnology.

In 2017, Amprion maintained its employee equity participation scheme based on the issuance of jouissance rights. At around 81.9 %, the participation rate was slightly above the 2016 level of 81.5 %, and remains a testament to the workforce's high level of confidence in the company.

Industrial safety and health protection

Industrial safety and health protection are important corporate objectives for Amprion. The company's industrial safety management system lays down binding rules governing all industrial safety-related processes which must be adhered to by senior managers and employees in compliance with statutory provisions and company regulations. The Amprion industrial safety management system's certified compliance with the standard "Occupational Health and Safety Assessment Series 18001" (OHSAS 18001) was confirmed in 2017 by two monitoring audits conducted by BG ETEM. Industrial safety training courses for employees and safe workplace design seminars for plant managers are conducted before any work begins. During financial year 2017, the accident rate remained at a satisfactorily low level.

Promoting the health of the workforce is the objective of Amprion's corporate health management system. The system involves a broad spectrum of activities and support measures. Employees enjoy benefits such as accident prevention courses, preventive health cures and external welfare consultations.

Environmental protection

Environmental protection has a long tradition at Amprion. We regard it as our responsibility and as key to our identity. Our commitment is founded on the conviction that our company will only enjoy public acceptance if we address environmental concerns during our everyday business activities. We have enshrined this mode of thinking in environmental guidelines which are binding on all personnel. The Amprion environmental management system has been further improved and systematised, leading to its initial certification according to DIN EN ISO 14001 in December 2017. Recertification takes place every three years, with annual re-auditing in the interim. We regularly check our environmental protection programme to ensure it is up to date.

Information security

Information security is a key factor in ensuring robust business processes within our company. This applies particularly in the fields of system operation and control, project management and the running of Amprion's power transmission network. The introduction, operation and continuous improvement of the information security management system (ISMS) are vital prerequisites to the achievement of an acceptable level of information security. The successful certification of the ISMS in December 2017 demonstrates that Amprion has implemented and complies with the provisions of the IT Security Act, and in particular the requirements of the **FNA** (≡ Page 66) security catalogue.

Economic situation

Earnings

€ MILLION	01 JAN. – 31 DEC. 2017	01 JAN. – 31 DEC. 2016	CHANGE
Revenues and income	13,030.4	12,753.5	276.9
Operating expenses	–12,743.7	–12,510.6	–233.1
Operating result	**286.7**	**242.9**	**43.8**
Financial result	–32.3	–22.9	–9.4
Profit before taxes	**254.4**	**220.0**	**34.4**
Tax result	–80.7	–61.9	–18.8
Net profit	**173.7**	**158.1**	**15.6**

Revenues increased by 2.2 % to € 12,931.6 million (2016: € 12,650.1 million), which puts them at the level forecast in the 2016 Management Report. This increase is chiefly due to proceeds from grid business totalling € 2,541.3 million (2016: € 2,151.9 million). This increase of € 389.4 million derives from higher proceeds from network charges, system services and balancing group settlements, as well as the KWKG allocation and the offshore surcharge. These surcharges are offset by expenses of equal amount. The proceeds from the income-neutral **EEG** (≡ Page 66) equalisation mechanism, amounting to € 10,390.3 million (2016: € 10,498.2 million), decreased slightly due to lower volume sales to the electricity exchange despite an increased EEG allocation (2017: 6.88 ct/kWh; 2016: 6.35 ct/kWh).

The € 43.8 million increase in the operating result was chiefly due to higher proceeds from network charges. These were offset by increasing expenses for system services in relation to redispatch measures, higher expenses for pension schemes, wages and salaries due to the scheduled personnel increases, as well as an increase in investment-related depreciation.

The financial result decreased by € 9.4 million. This was mainly a result of higher long-term debt expenses and expenses from the compounding of pension provisions.

The tax result chiefly comprises expenses for current taxes on income as well as deferred taxes. The change is largely due to the higher profit before taxes.

As a result of the aforementioned effects, Amprion registered a 9.9 % increase in net profit, taking it to € 173.7 million. The 2016 Management Report forecast a slight decrease in profits.

Financial situation

€ MILLION	01 JAN. – 31 DEC. 2017	01 JAN. – 31 DEC. 2016	CHANGE
Cash flow from operating activities	748.0	298.8	449.2
Cash flow from investment activities	–693.8	–259.8	–434.0
Cash flow from financing activities	381.1	–50.1	431.2
Change in cash and cash equivalents	**435.3**	**–11.1**	**446.4**
Cash and cash equivalents at the end of the period	1,341.0	905.7	435.3

The cash flow from operating activities continues to be most strongly influenced by the **EEG** (≡ Page 66) equalisation mechanism, which led to a significant inflow of funds.

The cash flow from investment activities is dominated by investments in the transmission system, which rose by 23.8 %. In 2016, this was offset by the sale of current marketable securities to a value of € 300.0 million which were linked to the coverage of liabilities arising from the EEG equalisation mechanism.

The increase in cash flow from financing activities is chiefly due to taking out long-term loans totalling € 376.5 million via two capital market transactions, as well as the availment of a network credit tranche of € 112.7 million.

The cash and cash equivalents have been committed to cover future liabilities arising from the EEG equalisation mechanism.

Financing

To cover Amprion's operating processes, the interim financing of investments and the cash requirements for the **EEG** (≡ Page 66) equalisation mechanism, a consortium loan agreement was concluded with a syndicate of five commercial and regional banks. The consortium loan agreement is subject to a standard covenant requiring adherence to a customary financial ratio. Compliance with this covenant is audited annually on the balance sheet date of 31 December.

The network credit tranche under the consortium loan agreement was renewed for one year in February 2017. Its term now expires in March 2022, with a one-year renewal option. In March 2017, the line of credit was increased from € 400.0 million to € 600.0 million through the exercise of a contractually agreed increase option. The interest rate is based on the EURIBOR reference rate plus a maturity-based margin. As of the balance sheet date, € 149.3 million (of which € 5.4 million in sureties) of the line of credit had been utilised. The exercise of an increase option of € 250.0 million and of a one-year renewal option, until March 2023, are scheduled for Q1 2018.

The EEG credit tranche in the consortium loan agreement amounts to € 350.0 million. In February 2017 the first renewal option was exercised, extending the loan's maturity by one year to March 2020. Two further one-year renewal options exist. The interest rate is based on the EURIBOR reference rate plus a maturity-based margin, as well. The credit tranche ensures that the liquidity required for the EEG equalisation mechanism is available throughout the term of the loan. The exercise of a one-year renewal option until March 2021 is scheduled for Q1 2018.

Amprion holds a fixed-interest promissory note loan (Schuldscheindarlehen) of € 185.0 million, which matures in March 2021. To finance investments, in financial year 2017 Amprion took out long-term loan capital via two capital market transactions involving fixed-interest promissory note loans and registered debentures (Namensschuldverschreibungen) totalling € 400.0 million, with maturities varying from seven to 30 years. The value date for € 23.5 million hereof is in January 2018. Additional long-term capital and banking market transactions are planned for 2018, in order to finance future investments.

The rating agencies Moody's Investors Service Ltd. and Fitch Ratings Ltd. confirmed the ratings "A3" and "A–" respectively, along with a stable outlook. Amprion thus remains firmly entrenched in the solid investment grade range. These positive ratings help ensure access to capital markets for future financing purposes.

Investments

Demands on the transmission network have risen significantly over recent years. Increasing feed-in from renewable energy sources and changes in Germany's power station fleet result in greater volumes of electrical output to be transported over ever longer distances. In addition, major trading-related increases in the transport of energy throughout Europe as a consequence of the liberalisation of the European energy market are a further driver of the need to expand the transmission network.

The statutory deadlines for the decommissioning of nuclear power stations still in operation, plus the shutdown of further generation capacity and the expansion of renewable energy, are determining the pace of network expansion. During financial year 2017, Amprion further increased its investment activities aimed at boosting transport capacity and stabilising the transmission network in order to ensure ongoing system security. The north-south transmission network axes are being steadily expanded to integrate the growing feed-in of renewable energies and ensure the long-term provision of the required transmission capacity after the last nuclear power stations go off line. The largest investments in financial year 2017 were made in the projects Ultranet, Dortmund/Kruckel–Dauersberg, Wesel/Lower Rhine–Meppen, the new main control centre HSL2020 in Brauweiler, as well as additional reactive power compensation measures. Amprion received a total of three planning approvals, as well as three further public-law permits in relation to a total of 57 kilometres of transmission line, including one measure pursuant to the Energy Grid Expansion Act (**EnLAG** (≡ Page 66)). In addition, further progress was made with the approval planning for Amprion's entire overhead line and underground cable project portfolio, and important planning process milestones were reached on a variety of different projects.

Execution of the two interconnector projects to the Netherlands and Belgium is at an advanced stage. Construction work on the Lower Rhine–Doetinchem project began in 2017 and is expected to be completed in 2018. Amprion submitted its application for planning approval for the ALEGrO interconnector project to the appropriate authorities in May 2017. Furthermore, research in connection with the Ten-Year Network Development Plan (TYNDP) revealed a need for an additional capacity increase along the Germany-Belgium border. In light of this development, a specific project is under way in consultation with the Belgian TSO Elia. The latest Network Development Plan (NDP) 2030, Version 2017, includes this second interconnector between Germany and Belgium. The need for the project was confirmed by the **FNA's** (≡ Page 66) review of NDP 2030, Version 2017. The aforementioned interconnector projects represent a major cornerstone of the ongoing process of European market integration.

The Ultranet project using extra-high-voltage direct current transmission (HVDC) remains at the approval stage of the Federal Planning for Transmission Systems process. Pursuant to Section 8 of the Grid Expansion Acceleration Act (Netzausbaubeschleunigungsgesetz – NABEG), full application documents were submitted for Section A (Riedstadt–Wallstadt) to the **FNA** (≡ Page 66) in 2017, while progress simultaneously continued on the preparation of the application documents for the subsequent sections. In October 2017, the FNA began publishing the application documents for Section A.

In combination with the southern Ultranet project, the A-North direct current connection from Emden/East to Osterath forms the West German Direct Current Corridor A from Lower Saxony via North Rhine-Westphalia and Rhineland-Palatinate to Baden-Württemberg. On 10 March 2017, the FNA approved the transfer of the A-North project from TenneT to Amprion. During financial year 2017, major advance planning steps were made (e.g., dialogue events with local authorities and the public) in order to incorporate the suggestions and ideas thus gained into the planning process and ensure high-quality application documents. The project plan envisages submission of the federal planning application to the FNA in March 2018. The preconditions are thus in place for the scoping conferences to take place during the first half of 2018. The 300-kilometre-long underground cable is scheduled to come into operation in 2025.

The total investment volume in 2017 came to € 701.7 million, some 5.8 % above the figure forecast in the 2016 Management Report. Of these investments, € 591.9 million were attributable to expansion activities and € 109.8 million to renovation of the transmission grid and other investments. The investment volume increased by 23.8 % compared to the 2016 figure.

Since 2008 Amprion has submitted a total of 115 investment applications to the FNA, concerning projects extending until 2033. Thanks to the applications thus far approved, most of Amprion's planned investments in expansion over the next few years have been secured.

Assets and liabilities

ASSETS

€ MILLION	31 DEC. 2017	31 DEC. 2016	CHANGE
Non-current assets	3,466.3	2,918.8	547.5
Current assets	2,588.9	2,071.9	517.0
	6,055.2	**4,990.7**	**1,064.5**

LIABILITIES AND SHAREHOLDERS' EQUITY

€ MILLION	31 DEC. 2017	31 DEC. 2016	CHANGE
Equity	1,717.1	1,651.4	65.7
Non-current liabilities	1,006.9	654.9	352.0
Current liabilities	3,331.2	2,684.4	646.8
	6,055.2	**4,990.7**	**1,064.5**

At 57% (2016: 58%), non-current assets make up the largest portion of the company's assets. 79% of the non-current assets (2016: 79%) are covered by equity and long-term debt. The equity ratio amounts to 28% (2016: 33%). This decline is due to an increase in long-term debt as a result of taking out promissory note loans and registered debentures to a total value of € 376.5 million, as well as a sharp increase in current liabilities arising from **EEG** (≡ Page 66) business and for system services, as well as the availment of a network credit tranche in the amount of € 112.7 million.

In financial year 2017, € 58.1 million of the 2016 net profit was allocated to retained earnings.

General statement on Amprion's business performance and economic situation

Amprion's management views the company's business performance and economic situation in a positive light. The overall financial situation can be regarded as sound and provides the basis for further investments in the transmission network.

Outlook, opportunities and risk report

Outlook

Grid business

The **FNA** (≡ Page 66) has set the revenue cap for the second regulatory period from 2014 to 2018 on the basis of 2011 costs. This initial base level plus movements in the permanently non-controllable costs and the general consumer price index form the basis for the network charges published on 15 December 2017. The 2018 revenue cap has increased slightly as a consequence of the following changes:

- Increased budget costs of approved investment activities for further expansion of the network due to the energy transition
- Increased budget costs passed on by coastal TSOs for the connection of offshore wind farms
- Increased budget costs for redispatch, feed-in management and reserve power stations due to the tight grid situation during the 2016/2017 winter half-year

The above changes, which either cannot be influenced by Amprion, or only to a limited extent, will lead to a significant increase in network charges in the 5,000 to 8,760 usage hour range, which is relevant to the majority of customers, from 47.7% to 47.8%.

System services

The control reserve will continue to be sourced by Amprion, together with the other German TSOs, in accordance with FNA guidelines. Increasing quantities and prices are expected to lead to significantly higher control reserve expenses, especially for the secondary control reserve. The 2018 tendering process for the long-term component for lost energy is complete, with prices slightly up on their financial year 2017 levels. The costs of redispatch activities and activation of reserve power stations are expected to remain around the high levels experienced in financial year 2017.

Investments

The NDP forms the basis for Amprion's project planning. The Energy Line Extension Act (**EnLAG** (≡ Page 66)) and the NDP-based Federal Requirements Plan Act (Gesetz über den Bundesbedarfsplan – **BBPlG** (≡ Page 66)) have secured approximately € 4,400 million of Amprion's expansion investments over the coming decade, thereby placing the company's investment planning on a sound legal footing. These acts enshrine the projects in law, confirming that they are urgently needed by the power industry. Moreover, BBPlG projects are subject to an accelerated approval process. It should be noted in this respect that the EnLAG and BBPlG only lay down in law the starting and end points of a transmission line, whereas the exact route of the transmission line and all associated activities are specified during the subsequent planning stages.

To prevent successive network development plans from overlapping, the amended version of the **EnWG** (≡ Page 66) prescribes a two-year cycle for the preparation of network development plans. On 22 December 2017, the **FNA** (≡ Page 66) approved the NDP 2030, Version 2017, which addresses the target years 2030 and 2035. The projects in line with the BBPlG, which also includes the large-scale transmission corridors, were again approved by the FNA. The need for four power flow-controlling measures in the Amprion grid area was also confirmed. In 2018 the NDP will be redrafted for the identical target years, and the first draft will be published by the TSOs in January 2019.

The NDP 2030, Version 2017, includes the location Hanekenfähr as a grid connection point for two offshore grid connections in Amprion's control area, subject to corresponding approval in NDP 2030, Version 2019. The grid connections are expected to come on line between 2028 and 2030. In order to avoid pre-empting the Area Development Plan (ADP) and the closely associated NDP 2030, Version 2019, the FNA has granted approval subject to a proviso. The ADP is prepared by the Federal Maritime and Hydrographic Agency (Bundesamt für Seeschifffahrt und Hydrographie). Its purpose is to assign areas for offshore wind farms, and for portions of the offshore grid connections located in Germany's Exclusive Economic Zone, from 2026 until at least 2030. It is consulted by the TSOs. In the current state of knowledge it is to be assumed that the NDP 2030, Version 2019, will not deviate from Hanekenfähr as the grid connection point.

The preparation and publication of the European TYNDP at ENTSO-E are defined by Regulation (EU) No. 347 / 2013. The TYNDP 2016 thus forms the basis for the Amprion multilateral interconnector

planning. Preparation of the TYNDP 2018 began in 2017. During the two-stage development procedure for TYNDP 2018, in which Amprion was closely involved, the identification of the system needs process established the interconnector capacity required within intra-European borders in order to ensure the freest possible European energy trade and enhance supply security. Subsequently, studies by ENTSO-E's six regional groups examined the extent to which the required capacities could be secured by projects that have already been concretely planned, and whether there was a need for expansion of existing projects or the development of new ones. The project assessment took place during the second phase, which involved comparing the economic benefits of projects with their costs, employing a procedure developed by the ENTSO-E and recognised by the EU Commission. Publication of the TYNDP 2018 is scheduled for June 2018, and it will therefore form a key basis for the national analysis of NDP 2030, Version 2019.

In consultation with the Federal Ministry for Economic Affairs and Energy and the **FNA** (≡ Page 66), the German TSOs have assessed the use of further load flow control measures (in particular phase-shifting transformers) in response to the tight grid situation during the 2016/2017 winter half-year and to the major and growing need for redispatch activities. These ad hoc measures are designed to reduce the need for redispatch measures during the transition period prior to the completion of the required network expansion. The research identified Hanekenfähr and Oberzier as suitable locations for future phase-shifting transformers in the Amprion grid, and these were approved as ad hoc measures by the FNA in the Network Development Plan 2030, Version 2017, along with the existing location identified by the NDP, namely Kruckel.

The overall investment volume planned by Amprion up until 2027, comprising expansion investments, renovation investments and other investments, amounts to about € 6,760 million, of which around € 717 million will be invested in 2018. The above overall investments do not yet include investments in offshore grid connections.

Revenues and profit or loss

In the 2018 financial year, a moderate increase in revenues is anticipated. Due to higher network charges, proceeds from grid business are expected to increase significantly. Also, proceeds from Amprion's income-neutral **EEG** (≡ Page 66) -based activities are expected to increase slightly.

In light of the enduringly tense network situation, a slight decrease in net profit is expected in financial year 2018.

Overall assessment of future trends

The management expects a continuation of the company's positive development during 2018, thanks to the prevailing regulatory conditions as well as the company's stable assets, finance and earnings situation.

Opportunities and risk report

Risk management

The purpose of the risk management process is to raise awareness of risk within the company, to facilitate the early detection of all risks and thereby create transparency regarding Amprion's risk situation. Amprion's risk management system includes extensive organisational measures pertaining to the company's processes and structure, to ensure the early identification, analysis, control and reporting of risks, thereby complying with the provisions of the German Corporate Sector Supervision and Transparency Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG). The principal aim of risk management is to avoid and control risks which could affect the financial result and liquidity or jeopardise the company's existence, as well as to optimise the overall risk-opportunity portfolio.

Risk identification includes the structured recording of potential risks in all operational processes and functional areas. When assessing risks, their causes, early warning indicators, risk control measures, prevention measures, the extent of damage and the probability of occurrence are all analysed. The objective of risk control is to reduce the potential extent of damage, to minimise the probability of occurrence and, insofar as this is possible, to avoid risks by refraining from risk-inherent activities.

Regular risk reporting ensures that the Executive Management and Supervisory Board are kept informed of the current risk situation. Moreover, in the event of any significant adverse changes individual reports are submitted to decision makers without delay. The risk management system is an integral component of the business, planning and control processes, and its efficiency and effectiveness are reviewed at regular intervals.

In addition, a risk-oriented approach is used during internal audits aimed at ensuring a comprehensive appraisal of risks. From the planning stage onwards, auditing schedules and specific audit activities are founded on the existing risk portfolio and the consequent areas requiring action.

Principal risks and opportunities

System services
Market opportunities and risks arise from managing the balancing zone. Pursuant to Section 11 (2) **ARegV** (≡ Page 66), Amprion has in this regard agreed with the **FNA** (≡ Page 66) to subject itself to a regime of voluntary self-obligation which will apply throughout the term of the second regulatory period (2014 to 2018). Essentially, voluntary self-obligations define an income-neutral cost coverage across accounting periods, the specific details of which are regulated for each individual instrument.

Opportunities and risks arise from changes in control reserve procurement costs as a result of unforeseen volume effects. The voluntary self-obligation provides for price indexing so that opportunities and risks, which are limited by an incentive regulation, exist for the company's income due to volume effects. Only 25 % of the cost savings achieved, or cost increases incurred owing to unforeseen volume effects, will affect Amprion's result up to an absolute upper limit.

Pursuant to the according voluntary self-obligation, risks and opportunities arise from market price changes for the procurement of volumes to compensate for network losses, given that the settlement price is fixed. However due to the time lag in cost shifting, market price changes only pose moderate risks and opportunities. Tendering of the long-term component for network losses is complete for 2018 and has in some cases been completed for 2019 as well.

A periodic risk arises from redispatch activities because the additional costs cannot be shifted until after a time delay of two years via the network charges by means of the voluntary self-obligation "Redispatch".

Financing

As a TSO, Amprion is responsible for the implementation of the **EEG** (≡ Page 66) equalisation mechanism within its balancing zone. Essentially, in line with the statutory provisions, implementation of the EEG is income-neutral. However, should the course of events differ from the forecast, income from the EEG allocation and the actual sales revenue gained on the electricity exchange may be insufficient to cover the volatile feed-in remuneration paid to EEG plant operators. This results in periodic liquidity risk, which is countered by the maintenance of a suitably sized line of credit.

Credit risks arise if business partners meet their payment obligations either insufficiently or not at all. Credit risks are largely avoided by making appropriate checks on creditworthiness, through continuous receivables management and demanding collateral security (in justified cases).

Regulation

Regulatory risks arise from changes in European and national laws. Amprion monitors and offers input to legislative processes in order to take any opportunity to maintain the economic stability of the regulated grid business and to limit any burdens on the company.

Charges for the use of the network are subject to regulatory supervision by the **FNA** (≡ Page 66). Approvals given or decisions taken by the FNA may have positive or negative impacts on the company's results. In particular, the approval practice during cost audits is a key factor, because network charges for a regulatory period are based hereupon. When determining the revenue cap for the second regulatory period from 2014 to 2018, the FNA largely approved the costs applied for by Amprion, and these will therefore provide a sound and stable footing for the company's future development. The calculation of network charges is based on forecast sales volumes. In the event of unscheduled quantity deviations resulting from external factors such as the weather, economy or local power generation, revenue surpluses or shortfalls may result. These must be recorded in the regulatory account and taken into consideration when determining future network charges.

Further risks may arise if the investment measures applied for are only partially accepted by the **FNA** (≡ Page 66), as this could lead to lower imputed costs and thus to lower future revenues from network charges. The company counteracts this risk by controlling costs and furnishing the FNA with corresponding evidence of the cost of its investments.

Overall statement on risks

During financial year 2017 there were no discernible risks which could jeopardise the company's existence, taken either individually or in their entirety, or which could significantly impair the assets, financial and earnings position of the company. In the light of current knowledge, there are also no such risks foreseeable in the future, which could endanger the company's continued existence.

Corporate governance declaration pursuant to Section 289a (4) HGB (German Commercial Code)

The target set in 2015 for the women's quota was 8.3 % for the Supervisory Board, 0 % for the Executive Management, and 6.7 % for the two management levels immediately below the Executive Management. In all cases the targets were achieved by the prescribed deadline of 30 June 2017.

The target for the women's quota to be achieved by 30 June 2022 has been set at 8.3 % for the Supervisory Board, 0 % for the Executive Management, and 6.7 % for the two management levels immediately below the Executive Board.

Dortmund, 16 March 2018

The Executive Management

DR HANS-JÜRGEN BRICK

DR KLAUS KLEINEKORTE

FINANCIAL STATEMENTS

Balance sheet

OF AMPRION GMBH AS AT 31 DECEMBER 2017

ASSETS

	NOTES	31 DEC. 2017 € MILLION	31 DEC. 2016 € MILLION
Non-current assets	(1)		
Intangible assets		12.2	9.4
Tangible assets		3,448.3	2,903.3
Financial assets		6.0	6.3
		3,466.5	**2,919.0**
Current assets			
Inventories	(2)	63.9	63.5
Accounts receivable and other assets	(3)	1,182.2	1,100.5
Cash and cash equivalents	(4)	1,341.0	905.7
		2,587.1	**2,069.7**
Prepaid expenses		**1.6**	**2.0**
		6,055.2	**4,990.7**

LIABILITIES AND SHAREHOLDERS' EQUITY

	NOTES	31 DEC. 2017 € MILLION	31 DEC. 2016 € MILLION
Equity	(5)		
Subscribed capital		10.0	10.0
Jouissance rights capital		11.3	8.9
Additional paid-in capital		1,003.0	1,003.0
Retained earnings		519.1	471.4
Net profit		173.7	158.1
		1,717.1	**1,651.4**
Special items	(7)	**32.6**	**34.2**
Provisions and accruals	(8)	**350.7**	**432.2**
Liabilities	(9)	**3,684.4**	**2,637.9**
Deferred income	(10)	**126.2**	**109.8**
Deferred tax liabilities	(11)	**144.2**	**125.2**
		6,055.2	**4,990.7**

Income statement

OF AMPRION GMBH FROM 1 JANUARY TO 31 DECEMBER 2017

	NOTES	01 JAN.–31 DEC. 2017 € MILLION	01 JAN.–31 DEC. 2016 € MILLION
Revenues	(13)	12,931.6	12,650.1
Change in inventory of work in progress		–0.8	3.3
Other own work capitalised		71.6	61.5
Other operating income	(14)	28.0	38.6
Cost of materials	(15)	–12,360.9	–12,168.3
Staff costs	(16)	–144.7	–120.0
Depreciation		–144.2	–128.1
Other operating expenses	(17)	–93.9	–94.2
Financial result	(18)	–32.3	–22.9
Profit before taxes		**254.4**	**220.0**
Taxes on income and earnings	(19)	–80.7	–61.9
Net profit		**173.7**	**158.1**

Notes to the financial statements

OF AMPRION GMBH AS AT 31 DECEMBER 2017

Basis of presentation

The company, based in Dortmund, is entered in the Commercial Register of the District Court of Dortmund under registration number HRB 15940. The annual financial statements have been prepared in accordance with the provisions of the German Commercial Code (HGB) for a large capital corporation as required by Section 267 (3) HGB and pursuant to the supplementary provisions of the Act Regarding Limited Liability Companies (GmbHG) and the Energy Industry Act (**EnWG** (≡ Page 66)). To reflect the special nature of the company's business activities, certain items of the financial statements have been adjusted pursuant to Section 265 (5) HGB.

To ensure clarity of presentation, individual items have been combined in the balance sheet and in the income statement and are explained separately in the notes. The income statement has been prepared according to the nature of expense method. The amounts disclosed in the annual financial statements are stated in millions of euros (€ million) and thousands of euros (€ thousand).

Accounting policies

Non-current assets
Separately acquired intangible assets are initially recognised at acquisition costs and are amortised using the straight-line method over their normal useful lives of two to five years; if their value is likely to be permanently impaired, they are written down.

Tangible assets are measured at acquisition or manufacturing costs less accumulated scheduled straight-line depreciation and any unscheduled write-offs. Manufacturing costs include direct costs and any applicable overhead costs. If the reasons for the unscheduled write-offs cease to exist, appropriate reversals are recorded, but not in excess of the amortised cost. Depreciation pro rata temporis begins in the year of the addition. Scheduled write-offs are based on the lower range of useful life pursuant to Annex 1 to Section 6 (5) StromNEV (Electricity Network Fee Regulation Ordinance). Pursuant to Section 6 (2) EStG (German Income Tax Act), low-value assets whose acquisition costs do not exceed € 150 are recognised as costs in the year of their acquisition. If the acquisition costs exceed € 150, but

do not exceed € 410, they are capitalised at the point in time of their addition; at the end of the financial year, they are fully depreciated and recognised as disposals.

Financial assets are recognised at acquisition costs and measured at the lower fair value if there is a presumably permanent loss of value.

Current assets
Raw materials and supplies are recognised at acquisition or manufacturing costs measured by applying moving average prices according to the strict lower of cost or market principle. Inventory risks arising from reduced exploitability are given consideration in the form of appropriate allowances. Work in progress is measured at manufacturing costs. Direct costs as well as reasonable amounts of overhead costs for material and production are included in these measurements. The receivables and other assets are recognised at nominal value or acquisition costs. All discernible specific risks and the general credit risk are given consideration in the form of reasonable value allowances. Securities are measured at costs of acquisition or at the lower fair value.

Cash and cash equivalents are reported at nominal value.

Special items
Special items include advances and contributions in aid of construction and building connection that were received from 1 January 2003 to 31 December 2010, and are reversed in line with the useful lives of the related assets.

Provisions
Provisions for pensions and similar obligations are created on the basis of actuarial calculations, taking into account Klaus Heubeck's 2005 G reference tables and using the projected unit credit method. They are discounted by 3.68 % per year, based on the 10-year-average market interest rate as at 31 December 2017 published by the German central bank with an assumed residual term of 15 years. Other calculation assumptions include a 3.50 % per year increase in wages and salaries and pension increases of 1.00 % and 2.10 % per year.

In the assessment of other provisions, all identifiable risks and contingent liabilities have been taken into account. They are recognised at the amount required for settlement based on reasonable commercial judgement. Provisions with a residual term of more than one year are discounted in accordance with their residual term using the average market interest rate for the previous seven financial years published by the German central bank. Interest accretion on these provisions is calculated using the interest rate at the end of the financial year. The effects of the change in the discounting rate or in the estimation of the residual term are shown in the financial result.

Provisions for service anniversaries are accrued on the basis of an actuarial analysis, taking into account Klaus Heubeck's 2005 G reference tables. They are discounted using the average market interest rate for the previous seven financial years as at 31 December 2017 of 2.80 % per year published by the German central bank. Furthermore, depending on the relevant service anniversary regulations, wage and salary increases of 2.75 % and 3.50 % per year are used as actuarial assumptions.

Provisions for pre-retirement part-time employment are accrued on the basis of actuarial calculations, taking into account Klaus Heubeck's 2005 G reference tables. They are discounted using the average market interest rate for the previous seven financial years as at 31 December 2017 of 1.43 % per year for potential and concluded pre-retirement part-time employment agreements. Furthermore, wage and salary increases of 3.50 % per year are used as actuarial assumptions.

Provisions for pensions and similar obligations are covered in full by assets held in trust as part of a contractual trust arrangement. Credits from the block model pre-retirement part-time employment in accordance with Section 8a of the German Partial Retirement Act (Altersteilzeitgesetz – AltTZG) and credits on long-term working time accounts under Section 7e of the German Social Code Vol. IV (Sozialgesetzbuch – SGB IV) are likewise secured by assets held in trust as part of a contractual trust arrangement. These assets held in trust are recognised at fair value and are offset against the respective underlying obligations in accordance with Section 246 (2) sentence 2 HGB. Expenses associated with the interest accretion to provisions are netted against income and expenses from the related assets in the financial result.

Liabilities

Liabilities are generally measured at their settlement amount. Exceptions concern the liabilities to the Pensions Security Association and those arising from early retirement obligations which are stated at present value.

Deferred income

The advances and contributions in aid of construction and building connection accrued up until 31 December 2002 and after 1 January 2011 reported as deferred items are reversed through profit and loss using the straight-line method over a period of 20 years. The income from congestion management is used for maintenance or expansion of cross-border transmission capacities and is, in the same way as the construction grants, recognised in the balance sheet as deferred income.

Deferred tax liabilities

Deferred taxes arise from temporary differences in accounting treatment under commercial and tax law and are calculated using the current applicable tax rate and shown net.

Currency conversion

Transactions in foreign currency are valued at the current exchange rate at the time of their initial posting. Assets and liabilities quoted in foreign currency are converted at the mean spot rate of exchange prevailing on the accounting date.

Notes to the balance sheet

(1) Non-current assets

The structure of the non-current assets summarised in the balance sheet and their development during the financial year 2017 are described in the Appendix (pages 62/63). The following table contains information regarding stockholdings.

NAME AND HEADQUARTERS OF THE COMPANY	SHARE OF CAPITAL (%)	EQUITY IN € MILLION*	NET PROFIT IN € MILLION*
TSCNET Services GmbH, Munich	7.7	5.5	0.6
Holding des Gestionnaires de Réseau de Transport d'électricité SAS, Paris/France	5.0	92.1	8.6
Joint Allocation Office S.A., Luxembourg/Luxemburg	5.0	4.4	0.1

* Equity and profit for financial year 2016

(2) Inventories

IN € MILLION	31 DEC. 2017	31 DEC. 2016
Raw materials and supplies	6.4	60.2
Work in progress	2.5	3.3
	63.9	**63.5**

(3) Accounts receivable and other assets

IN € MILLION	31 DEC. 2017	31 DEC. 2016
Trade receivables	1,137.8	1,043.9
Other assets	44.4	56.6
	1,182.2	1,100.5

(4) Cash and cash equivalents

Cash and cash equivalents consist largely of bank deposits.

(5) Equity

The company's authorised capital has been paid in full; 74.9 % is held by M 31 Beteiligungsgesellschaft mbH & Co. Energie KG, Düsseldorf, and 25.1 % by RWE AG, Essen.

The jouissance rights, which are not securitised, are held by the company's employees and are not transferable. They can be redeemed after a minimum holding period of five years. The jouissance rights entitle to a limited interest claim on the nominal amount which is prioritised over the shareholders' interests. The amount of the interest yield is dependent on the company's profit. They do not entitle to any participation in returns from liquidation of the company. The yield on the jouissance rights capital in the financial period amounted to € 0.7 million. In total, jouissance rights in the following denominations have been issued.

NOMINAL AMOUNT	31 DEC. 2017
€ 180	57,520
€ 360	16
€ 720	298
€ 1,220	68
€ 1,720	375
	58,277

The retained earnings are entirely composed of the item "other retained earnings" within the meaning of Section 266 (3) A. III, no. 4 HGB. By resolution of the Supervisory Board on 11 April 2017, € 100.0 million of the net profit of € 158.1 million for the 2016 financial year was distributed to the owners. The remainder of € 58.1 million was transferred to other retained earnings.

(6) Payout block

The total amount in non-distributable profits in accordance with Section 268 (8) HGB of € 10.1 million results from the measurement of covering assets at their fair value pursuant to Section 253 (1) sentence 4 HGB. The fair value exceeds the cost of acquisition by € 14.7 million. The deferred tax liability due on this amount totals € 4.6 million.

The non-distributable amount of € 33.6 million in accordance with Section 253 (6) HGB arises from discounting the provisions for pension obligations using the ten-year-average market interest rate instead of the previous seven-year average.

The freely disposable reserves of € 1,522.1 million exceed the non-distributable amounts of € 43.7 million.

(7) Special items

Advances and contributions in aid of construction and building connection received from 1 January 2003 to 31 December 2010 are recognised under special items for investment grants associated with fixed assets.

(8) Provisions and accruals

IN € MILLION	31 DEC. 2017	31 DEC. 2016
Tax provisions	37.3	40.5
Other provisions	313.4	391.7
	350.7	**432.2**

Due to the offsetting rule pursuant to Section 246 (2) sentence 2 HGB, the provisions for pensions and similar obligations reported under other provisions are netted against plan assets.

IN € MILLION	HISTORICAL COST	FAIR VALUE	SETTLEMENT AMOUNT
Netted assets			
Securities	123.7	138.4	
Other assets	20.8	20.8	
	144.5	**159.2**	
Netted liabilities			
Provisions for pensions and similar obligations			159.2
			159.2
Difference from offsetting			–

The fair value corresponds to the market value as at 31 December 2017. The corresponding offsetting of expenses and income is disclosed in the notes to the financial result.

Tax provisions relate to tax periods not yet irrevocably closed.

Other provisions are accrued essentially for obligations for the overhaul of pylons, claims arising from the previous version of the KWKG (Combined Heat and Power Act), and personnel-related as well as regulatory obligations.

In accordance with the consolidation requirement pursuant to Section 246 (2) sentence 2 HGB, the provisions for pre-retirement part-time employment and long-term working hours accounts disclosed under other provisions are offset against the plan assets.

IN € MILLION	HISTORICAL COST	FAIR VALUE	SETTLEMENT AMOUNT
Netted assets			
Other assets	12.1	12.1	
	12.1	**12.1**	
Netted liabilities			
Provisions for pre-retirement part-time employment and long-term working time accounts			39.7
			39.7
Difference from offsetting			27.6

The fair value corresponds to the market value as at 31 December 2017. The corresponding offsetting of expenses and income is disclosed in the notes to the financial result.

(9) Liabilities

IN € MILLION (PRIOR-YEAR FIGURES IN BRACKETS)	31 DEC. 2017 (31 DEC. 2016)	OF WHICH, RESIDUAL TERM ≤ 1 YEAR	OF WHICH, RESIDUAL TERM > 1 YEAR	OF WHICH, RESIDUAL TERM > 5 YEARS
Liabilities to credit institutions	713.8 (222.4)	152.3 (37.4)	185.0 (185.0)	376.5 (–)
Prepayments received	12.2 (17.7)	7.7 (8.2)	2.7 (9.5)	1.8 (1.8)
Trade payables	2,790.7 (2,168.0)	2,790.7 (2,168.0)	– (–)	– (–)
Liabilities to companies with participation interest	* (*)	* (*)	– (–)	– (–)
Other liabilities	167.7 (229.8)	116.7 (146.5)	51.0 (83.3)	– (–)
– of which taxes	3.5 (9.5)	3.5 (9.5)	– (–)	– (–)
– of which for social security	0.4 (0.6)	0.1 (0.2)	0.3 (0.4)	– (–)
	3,684.4 (2,637.9)	**3,067.4 (2,360.1)**	**238.7 (277.8)**	**378.3 (1.8)**

* Negligible amount

Liabilities to credit institutions chiefly comprise promissory note loans and registered debentures totalling € 561.5 million.

Other liabilities primarily comprise liabilities for regulatory obligations.

(10) Deferred income

Deferred income includes € 26.1 million (previous year: € 30.1 million) in advances and contributions in aid of construction and building connection received up to 31 December 2002 and from 1 January 2011; advances from congestion management for maintenance or investments in the expansion of cross-border transmission capacities amounting to € 68.8 million (previous year: € 44.0 million) as well as various other advances for income in subsequent years amounting to € 31.3 million (previous year: € 35.7 million).

(11) Deferred tax liabilities

IN € MILLION	31 DEC. 2017	CHANGE	31 DEC. 2016
Deferred tax assets	76.7	15.6	61.1
Deferred tax liabilities	220.9	34.6	186.3
Deferred taxes liability gap	**144.2**	**19.0**	**125.2**

The deferred tax liabilities arise essentially from valuation differences with regard to land and buildings as well as technical plant and machinery. These liabilities exceed the deferred tax assets, which stem mainly from differences in the valuation of provisions for pensions and similar obligations, other provisions and deferred income. The calculation was based on a tax rate of 31.55 % (previous year: 31.33 %).

(12) Guarantees and other financial obligations

The guarantees consist exclusively of liabilities from guarantee contracts totalling € 160.5 million (previous year: € 151.1 million), with € 156.5 million of this amount (previous year: € 147.7 million) relating to the joint liability for pension obligations stated in the partner RWE AG's accounts. Amprion is responsible for the economic burdens and relief.

Guarantees are provided only after a thorough review of the related risks and are restricted to the company's scope of business activities. Based on all indications available up until the preparation of the annual financial statements, it is assumed that the main debtors will be able to fulfil the obligations underlying the guarantees and that the guarantees will therefore not be called upon.

The aggregate total of other financial liabilities is € 537.7 million and relates to the following circumstances: purchase obligations for electricity procurement for the market-oriented balancing-out of grid losses in the amount of € 141.5 million have been entered for 2018 and 2019.

Order commitments in the amount of € 382.2 million related to submitted investment and maintenance orders and to framework agreements regarding purchase obligations.

Non-discounted financial obligations of € 10.6 million (thereof < 1 year: € 8.3 million) are related primarily to long-term property leases.

A payment obligation in the amount of € 3.4 million results from contracts for the purchase of land that will be legally and commercially conveyed after 31 December 2017.

Due to the transfer of certain pension scheme liabilities to RWE Pensionsfonds AG which took place in previous years, the company – in its capacity as employer – has a legally mandated funding obligation in the event of a possible shortfall in the pension fund in the future. This financial liability is currently not quantifiable.

Notes to the income statement

(13) Revenues

IN € MILLION	01 JAN. – 31 DEC. 2017	01 JAN. – 31 DEC. 2016
Electricity	12,888.7	12,613.2
Other	42.9	36.9
	12,931.6	**12,650.1**

Electricity revenues essentially include revenues from the passing on of EEG expenses, network charges and income-neutral allocations. They are generated mainly within Germany.

(14) Other operating income

IN € MILLION	01 JAN. – 31 DEC. 2017	01 JAN. – 31 DEC. 2016
Reversal of provisions	19.1	25.9
Profits from disposal of non-current assets	1.2	1.2
Other	7.7	11.5
	28.0	**38.6**

Other operating income includes income related to other periods in the amount of € 22.6 million (previous year: € 34.6 million). Income of € 1.0 thousand (previous year: € 2.5 thousand) resulted from currency conversion.

(15) Cost of materials

IN € MILLION	01 JAN. – 31 DEC. 2017	01 JAN. – 31 DEC. 2016
Cost of raw materials, supplies and purchased goods	–11,703.8	–11,598.1
Cost of purchased services	–657.1	–570.2
	–12,360.9	**–12,168.3**

The cost of materials essentially consists of charges from EEG feed-ins and expenses for system services as well as income-neutral allocations.

(16) Staff costs

IN € MILLION	01 JAN. – 31 DEC. 2017	01 JAN. – 31 DEC. 2016
Wages and salaries	–111.1	–102.1
Costs of social security, pensions and other benefits	–33.6	–17.9
– of which relating to pensions	–17.4	–2.7
	–144.7	**–120.0**

	01 JAN. – 31 DEC. 2017	01 JAN. – 31 DEC. 2016
Executive employees	30	30
Non-tariff employees	252	235
Employees covered by collective wage agreements	996	934
	1,278	**1,199**

The figures stated above are related to the average employee equivalents employed during the financial year. Part-time employees are taken into account in proportion to their working hours.

(17) Other operating expenses

IN € MILLION	01 JAN. – 31 DEC. 2017	01 JAN. – 31 DEC. 2016
Services	–40.0	–34.1
Losses from disposal of non-current assets	–3.4	–9.1
Impairments or losses from disposal of current assets	–6.4	–0.3
Miscellaneous	–44.1	–50.7
	–93.9	**–94.2**

Other operating expenses include expenses related to other periods in the amount of € 9.8 million (previous year: € 9.4 million) and other taxes in the amount of € 2.2 million (previous year: € 2.2 million). Losses from currency conversion amounted to € 0.0 thousand (previous year: € 1.6 thousand).

Expenses for services relate largely to data processing and real estate management.

Miscellaneous other operating expenses essentially include expenses for fees and consulting services as well as for pre-retirement part-time employment obligations.

(18) Financial result

IN € MILLION	01 JAN. – 31 DEC. 2017	01 JAN. – 31 DEC. 2016
Income from participations	0.3	0.5
Earnings from other securities and loans of financial assets	*	*
Other interest and similar interest	1.6	8.4
Interest and similar expenses	–34.2	–31.8
– of which interest accretion	–19.3	–16.4
– of which remuneration from jouissance rights	–0.7	–0.5
	–32.3	**–22.9**

* Negligible amount

Expenses and earnings from plan assets were netted against expenditures from interest accretion in accordance with Section 246 (2) sentence 2 HGB. The resulting net amount is included in the item "Interest and similar expenses".

	IN € MILLION
Netted income	
Other operating income	5.6
Other interest and similar income	*
	5.6
Netted expenses	
Interest and similar expenses	–17.3
	–17.3
Difference from offsetting	**–11.7**

* Negligible amount

(19) Taxes on income and earnings

Expenses arising from taxes on income and earnings relating to the current financial year amount to € 64.3 million; expenses for deferred taxes amount to € 19.0 million. Tax income from previous years has an opposite effect.

Additional information

Directors and officers

The option pursuant to Section 286 (4) HGB was exercised and no disclosure of the total remuneration paid to Executive Management in the financial period pursuant to Section 285 no. 9a HGB was made.

Members of the Supervisory Board received remuneration in the amount of € 281.7 thousand during the financial year.

The members of the Supervisory Board are listed below:

- **Professor Heinz-Werner Ufer**
  Lecturer at the Chair of Management Accounting and Control of the Technical University of Dortmund
  Chairman

- **Dr Andreas Kretschmer**
  Consultant to Ärzteversorgung Westfalen-Lippe
  1st Deputy Chairman

- **Josef Frankemölle***
  Chairman of the General Works Council of Amprion GmbH and Chairman of the Works Council of Amprion GmbH at the Dortmund site
  2nd Deputy Chairman

- **Frank Amberg**
  Head of Private Equity & Infrastructure at MEAG MUNICH ERGO AssetManagement GmbH

- **Dr Peter-Henrik Blum-Barth**
  Senior Head of Department for Investments in Liquid Assets at SV SparkassenVersicherung Holding AG
  • Since 1 July 2017

- **Detlef Börger-Reichert***
  Deputy Chairman at of the Works Council of Amprion GmbH at the Dortmund site

* Employees' Representative

- **Malte Glasneck***
  Chairman of the Works Council of Amprion GmbH at the Hoheneck site

- **Natalie Kornowski***
  Chairman of the Works Council of Amprion GmbH at the Brauweiler site

- **Dr Thomas Mann**
  CEO of Ampega Investment GmbH

- **Christoph Manser**
  Head of Infrastructure Investments at Swiss Life Asset Management AG

- **Fred Riedel**
  Corporate Tax Consultant, Director of Finances and Administration at the International School of Düsseldorf e.V.

- **Manfred Rupps**
  Head of Main Department for Capital Investments in Real Estate and Alternative Investments at SV SparkassenVersicherung Holding AG
  • until 30 June 2017

- **Dr Rolf Martin Schmitz**
  Chairman of the Management Board of RWE AG
  • since 30 April 2017

- **Uwe Tigges**
  Chairman of the Management Board of innogy SE
  • until 30 April 2017

* Employees' Representative

The members of the Executive Management are listed below:

- **Dr Hans-Jürgen Brick**
  Chief Commercial Officer and Chief Financial Officer

- **Dr Klaus Kleinekorte**
  Chief Technical Officer

Auditor's fee

The auditor's fee breaks down as follows

	IN € THOUSAND	OF WHICH FOR PREVIOUS YEARS
Auditing services	155.3	–
Other assurance services	254.7	3.7
	410.0	3.7

Appropriation of net profit

The net profit for the financial year amounts to € 173.7 million. Pursuant to Section 16 (1) of the company's Articles of Association, Executive Management proposes to the Supervisory Board a distribution of € 100.0 million. In addition, Executive Management proposes the allocation of the surplus amount of € 73.7 million to other retained earnings according to Section 266 (3) III. no. 4 HGB for the purpose of creating appropriate reserves for future investments.

Events after the end of the reporting period

No significant events occurred during the period between the end of the reporting period and the preparation of the company's annual financial statements.

Information pursuant to EnWG

The company's business activities are related exclusively to the area "transport of electricity". Consequently, the activity report required pursuant to Section 6b (3) **EnWG** (≡ Page 66) is equivalent to the financial statements.

Dortmund, 16 March 2018

Executive Management

DR HANS-JÜRGEN BRICK

DR KLAUS KLEINEKORTE

Development of fixed assets (Appendix to the Notes)

OF AMPRION GMBH FROM 1 JANUARY TO 31 DECEMBER 2017

	COSTS OF ACQUISITION OR PRODUCTION IN € MILLION				
	AS OF 01 JAN. 2017	ADDITIONS	TRANSFERS	DISPOSALS	AS OF 31 DEC. 2017
Intangible assets					
Purchased concessions, patent rights and similar rights and assets, and licences in such rights and assets	33.7	5.3	0.3	*	39.3
Prepayments	0.8	1.1	–0.3		1.6
	34.5	**6.4**	**–**	*****	**40.9**
Tangible assets					
Land, land rights and buildings including buildings on third-party land	479.8	41.0	3.5	7.4	516.9
Technical plant and machinery	6,538.8	382.8	47.4	47.6	6,921.4
Other equipment, factory and office equipment	48.7	7.0	0.1	1.3	54.5
Advance payments and construction in progress	198.1	264.5	–51.0	1.2	410.4
	7,265.4	**695.3**	**–**	**57.5**	**7,903.2**
Financial assets					
Participations	5.2	*			5.2
Other loans	1.1			0.3	0.8
	6.3	*****	**–**	**0.3**	**6.0**
	7,306.2	**701.7**	**–**	**57.8**	**7,950.1**

* Negligible amount

	ACCUMULATED DEPRECIATION IN € MILLION				CARRYING AMOUNTS IN € MILLION	
	AS OF 01 JAN. 2017	DEPRECIATION DURING THE REPORTING PERIOD	DISPOSALS	AS OF 31 DEC. 2017	AS OF 31 DEC. 2017	AS OF 31 DEC. 2016
	25.1	3.6	*	28.7	10.6	8.6
					1.6	0.8
	25.1	**3.6**	*	**28.7**	**12.2**	**9.4**
	176.0	6.9	3.3	179.6	337.3	303.8
	4,154.8	129.2	43.2	4,240.8	2,680.6	2,384.0
	31.3	4.5	1.3	34.5	20.0	17.4
					410.4	198.1
	4,362.1	**140.6**	**47.8**	**4,454.9**	**3,448.3**	**2,903.3**
					5.2	5.2
					0.8	1.1
					6.0	6.3
	4,387.2	**144.2**	**47.8**	**4,483.6**	**3,466.5**	**2,919.0**

Independent auditors' report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of Amprion GmbH, Dortmund, for the business year from 1 January 2017 to 31 December 2017. In accordance with Section 6b (5) of the EnWG [Energy Industry Act], the audit also involved verifying the fulfilment of the accounting duties pursuant to Section 6b (3) of the EnWG, which stipulates that separate accounts be maintained and separate financial statements be prepared for activities defined in Section 6b (3) of the EnWG. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law as well as compliance with the obligations specified in Section 6b (3) EnWG are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report as well as on the fulfilment of the accounting duties pursuant to Section 6b (3) of the EnWG based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the HGB [German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance and that the fulfilment of the accounting duties pursuant to Section 6b (3) of the EnWG can be verified with reasonable certainty in all material respects. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report as well as the fulfilment of the accounting duties pursuant to Section 6b (3) of the EnWG are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the annual financial statements and management report, and assessing whether the valuations and the allocations of the accounts pursuant to Section 6b (3) of the EnWG are appropriate and clear and whether the principle of continuity has been adhered to. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and result of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with legal requirements, as a whole provides a suitable view of the company's position and correctly presents the opportunities and risks of future development.

The audit of the fulfilment of the accounting duties pursuant to Section 6b (3) of the EnWG, which stipulates that separate accounts be maintained and separate financial statements be prepared for activities defined in Section 6b (3) of the EnWG, has not led to any reservations.

Düsseldorf, 16 March 2018

BDO AG
Wirtschaftsprüfungsgesellschaft

signed Eckmann	**signed Wiening**
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Glossary

ARegV

The Ordinance on Incentive Regulation (Anreizregulierung – ARegV) is an official instrument for the regulation of monopolistic markets. As networks are seen as natural monopolies, in theory network operators do not have any incentive to maintain their efficiency and thus keep the costs of their services low. The Federal Network Agency therefore sets a revenue cap for network operators via the Incentive Regulation which is stipulated on the basis of the efficiency ratings of the most favourable network operator. Within this framework, network operators are allowed some leeway, for example for investments in the network. The difference between the revenue cap and actual revenues is placed in a regulatory account by the Federal Network Agency. The revenue cap is implemented through the transmission charges. If revenues exceed the cap by more than 5 %, the transmission charges must be adjusted.

BBPlG

The Federal Requirement Plan Act (Bundesbedarfsplangesetz, BBPlG) contains 47 of the grid expansion projects certified as necessary by the Federal Network Agency which must be implemented by the transmission system operators. They are considered to be necessary for the energy industry and are urgently required. The Federal Network Agency normally carries out federal planning for these projects.

www.netzausbau.net

EEG

The Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz, EEG) regulates the preferential feed-in of electricity from renewable sources, such as wind, sun, water or biomass, into the German electricity grid. This is intended to allow the operation of regenerative generation facilities on a financially sustainable basis. According to EEG, network operators are obliged to accept electricity from these facilities and market it in the spot market on the electricity exchange. The law also lays down fixed rates of remuneration for electricity from renewable sources. The difference between the remuneration and the price achieved in the spot market is balanced out via the EEG allocation.

EEV

The Renewable Energies Regulation (Erneuerbare-Energien-Verordnung) regulates the marketing of electricity generated from renewable sources. This electricity must be sold at the level of the transmission network operator and must no longer be sold by energy utilities which supply end customers. In addition, the EEV contains provisions on calculating the EEG allocation.

EnLAG

The Power Grid Expansion Act (Energieleitungsausbaugesetz, EnLAG) regulates the accelerated expansion of power lines in the extra-high-voltage transmission network and the introduction of technologies such as “high-voltage direct current transmission”. Attached to the law as an appendix is a Consumption Plan which contains the planned construction projects for the expansion of the transmission networks.

EnWG

The Energy Industry Act (Energiewirtschaftsgesetz, EnWG) contains fundamental regulations on the law on power-line-based energies. EnWG has the goal, among others, of ensuring a “best possible secure, affordable, consumer-friendly, efficient and environmentally sustainable” energy supply to the general public. This includes safeguarding effective and transparent competition on the energy market. The law also contains regulations on the supervision of the network operations by the regulatory authorities.

Federal Network Agency

The Federal Network Agency (Bundesnetzagentur, BNetzA) is a regulatory body that supervises, maintains and promotes competition in the network markets (electricity, gas, railway tracks). Once a year, the Federal Network Agency reviews and approves the Power Grid Development Plan and its basis as produced by transmission system operators and the scenario parameters for the development of electricity generation for the next ten years.

NEP

The Power Grid Development Plan (Netzentwicklungsplan, NEP) sets out the expansion projects in the German transmission network in the following ten years. The Power Grid Development Plans are developed by the four transmission system operators on the basis of assumptions about the development of electricity generation and consumption, the scenario parameters. The plan was created in 2012 for the first time and as of 2016 is to be developed further every second year.

Overhead power line

Overhead power lines – also known as overhead transmission lines – are electrical transmission lines where the conductor ropes – unlike underground cables – are insulated by the surrounding air. For the foreseeable future, overhead power lines will continue to be the most economical form of power transmission, particularly over long distances.

Transformer station

This is a junction in the electricity grid. Several high-voltage and extra-high-voltage transmission lines converge at a transformer station. In these facilities, individual electricity circuits can be selectively switched on and off. It is also possible to direct the electricity via the transformers – voltage converters – to be distributed further on grids with lower voltage.

Underground cables

The use of underground cables is widespread among lines for supplying towns and in regional electricity networks. On the other hand, in sections with 380 kilovolts, underground cables are unusual. Pilot sections with underground cables are provided for in EnLAG, for example, when a line is located less than 400 metres from a residential area. Cabled sections are essentially more cost-intensive than overhead power lines. The additional costs are passed on to the consumer through network use charges.

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Rüdiger Nehmzow [page 2]

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NOTE

This is a translation of the German version. In cases of uncertainty or conflict, the German version shall prevail.

CONNECTED TO EUROPE

The Amprion grid is located in the heart of Europe and is connected to the grids in the Netherlands, Luxembourg, France, Austria, Switzerland, and in future also Belgium, through cross-border interconnectors. Amprion is working towards making the European electricity network even more secure and efficient through numerous cooperations and projects.

COOPERATION WITH EUROPEAN PARTNERS

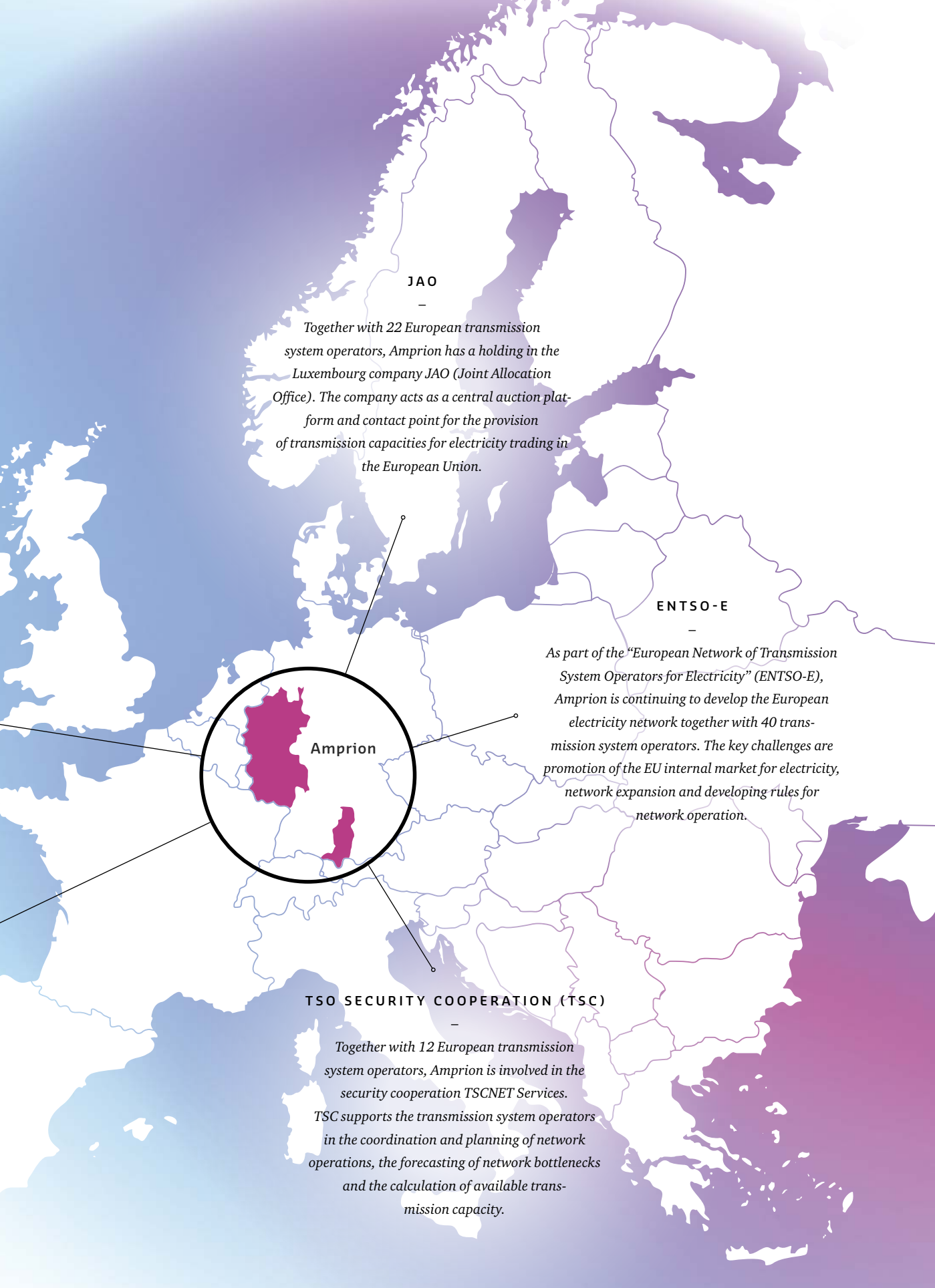
–

Amprion works intensively in many areas with other European transmission system operators. Our focus here is on the issues of system security, market integration and network planning, as well as the development of transmission technologies.

SECURITY SERVICE CENTRE (SSC)

–

In the SSC in Rommerskirchen near Cologne, there is a joint team of experts from Amprion, TenneT Netherlands and Germany supporting the security management and the extra-high-voltage network in Germany and the Netherlands.



JAO

–

Together with 22 European transmission system operators, Amprion has a holding in the Luxembourg company JAO (Joint Allocation Office). The company acts as a central auction platform and contact point for the provision of transmission capacities for electricity trading in the European Union.

ENTSO-E

–

As part of the "European Network of Transmission System Operators for Electricity" (ENTSO-E), Amprion is continuing to develop the European electricity network together with 40 transmission system operators. The key challenges are promotion of the EU internal market for electricity, network expansion and developing rules for network operation.

TSO SECURITY COOPERATION (TSC)

–

Together with 12 European transmission system operators, Amprion is involved in the security cooperation TSCNET Services. TSC supports the transmission system operators in the coordination and planning of network operations, the forecasting of network bottlenecks and the calculation of available transmission capacity.

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June 2018