

## Consolidated financial statements: contents

### Consolidated financial statements

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## Income statement for the STEAG Group

in € million	Note	Year	
		2016	2015
Sales	(5.1)	3,865.8	3,568.2
Change in inventories of finished goods		-4.1	3.2
Other own work capitalized		4.0	1.7
Other operating income	(5.2)	1,343.1	378.6
Cost of materials	(5.3)	-3,118.2	-2,672.6
Personnel expenses	(5.4)	-501.3	-404.3
Depreciation/amortization and impairment losses	(5.5)	-201.2	-201.9
Other operating expenses	(5.6)	-1,410.8	-472.3
<b>Income before the financial result and income taxes</b>		<b>-22.7</b>	<b>200.6</b>
Interest income	(5.8)	28.7	13.0
Interest expense	(5.8)	-121.4	-94.7
Result from investments recognized at equity	(5.9)	6.6	22.3
Other financial income	(5.10)	5.3	0.4
<b>Financial result</b>		<b>-80.8</b>	<b>-59.0</b>
<b>Income before income taxes</b>		<b>-103.5</b>	<b>141.6</b>
Income taxes	(5.11)	-117.3	-104.7
<b>Income after taxes</b>		<b>-220.8</b>	<b>36.9</b>
Thereof attributable to			
Non-controlling interests		55.4	54.3
Shareholders of STEAG GmbH (net income)		-276.2	-17.4

## Statement of comprehensive income for the STEAG Group

in €million	Note	Year	
		2016	2015
<b>Income after taxes</b>		<b>-220.8</b>	<b>36.9</b>
Thereof attributable to			
Non-controlling interests		55.4	54.3
Shareholders of STEAG GmbH (net income)		-276.2	-17.4
<b>Comprehensive income to be reclassified subsequently to profit or loss</b>		<b>17.0</b>	<b>65.5</b>
Thereof attributable to			
Gains/losses on available-for-sale securities		0.3	0.1
Gains/losses on financial instruments in hedge relationships		1.0	-4.9
Differences arising from currency translation		18.1	72.9
Investments recognized at equity		0.1	0.3
Deferred taxes		-2.5	-2.9
<b>Comprehensive income that will not be reclassified subsequently to profit or loss</b>		<b>-43.0</b>	<b>5.1</b>
Thereof attributable to			
Remeasurement of the net defined benefit liability from defined benefit plans		-38.7	72.1
Deferred taxes		-4.3	-67.0
<b>Other comprehensive income after taxes</b>	(6.10)	<b>-26.0</b>	<b>70.6</b>
Thereof attributable to			
Non-controlling interests		10.6	38.0
Shareholders of STEAG GmbH		-36.6	32.6
<b>Total comprehensive income</b>		<b>-246.8</b>	<b>107.5</b>
Thereof attributable to			
Non-controlling interests		66.0	92.3
Shareholders of STEAG GmbH		-312.8	15.2

## Balance sheet for the STEAG Group

in € million	Note	Dec. 31 2016	Dec. 31 2015
Intangible assets	(6.1)	173.7	154.1
Property, plant and equipment	(6.2)	1,842.2	1,999.8
Investment property	(6.3)	13.6	14.0
Investments recognized at equity	(6.4)	76.2	44.4
Financial assets	(6.5)	665.9	695.8
Deferred taxes	(6.15)	45.9	86.2
Other income tax assets	(6.15)	0.0	3.6
Other receivables	(6.7)	15.3	10.2
<b>Non-current assets</b>		<b>2,832.8</b>	<b>3,008.1</b>
Inventories	(6.6)	326.2	308.0
Other income tax assets	(6.15)	17.2	15.6
Trade accounts receivable	(6.7)	534.8	403.4
Other receivables	(6.7)	175.5	128.7
Financial assets	(6.5)	1,127.4	775.3
Cash and cash equivalents	(6.8)	536.9	573.3
		<b>2,718.0</b>	<b>2,204.3</b>
Assets held for sale	(6.9)	-	39.7
<b>Current assets</b>		<b>2,718.0</b>	<b>2,244.0</b>
<b>Total assets</b>		<b>5,550.8</b>	<b>5,252.1</b>
Issued capital		128.0	128.0
Reserves		-52.5	282.1
<b>Equity attributable to shareholders of STEAG GmbH</b>		<b>75.5</b>	<b>410.1</b>
Equity attributable to non-controlling interests		501.1	517.6
<b>Equity</b>	(6.10)	<b>576.6</b>	<b>927.7</b>
Provisions for pensions and other post-employment benefits	(6.11)	1,093.8	1,036.3
Other provisions	(6.12)	346.0	286.2
Deferred taxes	(6.15)	69.5	77.3
Financial liabilities	(6.13)	1,328.1	1,381.6
Other liabilities	(6.14)	54.9	91.2
<b>Non-current liabilities</b>		<b>2,892.3</b>	<b>2,872.6</b>
Other provisions	(6.12)	324.5	415.6
Other income tax liabilities	(6.15)	63.2	65.8
Financial liabilities	(6.13)	1,070.0	502.4
Trade accounts payable	(6.14)	482.0	333.6
Other liabilities	(6.14)	142.2	134.4
<b>Current liabilities</b>		<b>2,081.9</b>	<b>1,451.8</b>
<b>Total equity and liabilities</b>		<b>5,550.8</b>	<b>5,252.1</b>

## Statement of changes in equity for the STEAG Group

Note 6.10  in €million	Reserves				Equity attributable to shareholders of STEAG GmbH	Equity attributable to non- controlling interests	Total equity
	Issued capital	Capital reserve	Accumulated income/loss	Accumulated other comprehensive income			
<b>As at January 1, 2015</b>	<b>128.0</b>	<b>77.5</b>	<b>243.4</b>	<b>18.7</b>	<b>467.6</b>	<b>510.7</b>	<b>978.3</b>
Capital increases/decreases	-	-	-	-	-	-13.7	-13.7
Profit transfer/dividend distribution	-	-	-72.9	-	-72.9	-71.6	-144.5
Changes in shareholdings in subsidiaries without loss of control	-	-	-	-	-	-	-
Income after taxes	-	-	-17.4	-	-17.4	54.3	36.9
Other comprehensive income after taxes	-	-	4.5	28.1	32.6	38.0	70.6
Total comprehensive income	-	-	-12.9	28.1	15.2	92.3	107.5
Other changes	-	-	0.2	-	0.2	-0.1	0.1
<b>As at December 31, 2015</b>	<b>128.0</b>	<b>77.5</b>	<b>157.8</b>	<b>46.8</b>	<b>410.1</b>	<b>517.6*</b>	<b>927.7</b>
Capital increases/decreases	-	-	-	-	-	-	-
Profit transfer/dividend distribution	-	-	-54.6	-	-54.6	-67.0	-121.6
Changes in shareholdings in subsidiaries without loss of control	-	-	34.8	-0.1	34.7	-19.8	14.9
Income after taxes	-	-	-276.2	-	-276.2	55.4	-220.8
Other comprehensive income after taxes	-	-	-42.9	6.3	-36.6	10.6	-26.0
Total comprehensive income	-	-	-319.1	6.3	-312.8	66.0	-246.8
Other changes	-	-	-1.9	-	-1.9	4.3	2.4
<b>As at December 31, 2016</b>	<b>128.0</b>	<b>77.5</b>	<b>-183.0</b>	<b>53.0</b>	<b>75.5</b>	<b>501.1*</b>	<b>576.6</b>

\* As at December 31, 2016 accumulated other comprehensive income of minus €9.9 million was attributable to non-controlling interests (prior year: minus €20.7 million).

## Cash flow statement for the STEAG Group

in € million	Note	Year	
		2016	2015
Income before the financial result and income taxes		-22.7	200.6
Depreciation, amortization, impairment losses/reversal of impairment losses on non-current assets		129.5	172.4
Gains/losses on disposal of non-current assets		-25.6	-2.8
Other non-cash income/expense		-	0.8
Change in inventories		-13.9	-14.1
Change in trade accounts receivable		-123.9	49.5
Change in trade accounts payable and current advance payments received from customers		150.1	-20.5
Change in provisions for pensions and other post-employment benefits		-3.9	0.1
Change in other provisions		94.7	-7.8
Change in miscellaneous assets/liabilities		267.8	54.9
Cash outflows for interest payments		-105.4	-60.1
Cash inflows from interest		6.6	4.1
Dividend payments received		12.4	9.6
Cash outflows for income taxes		-103.7	-61.3
<b>Cash flow from operating activities</b>	<b>(7.1)</b>	<b>262.0</b>	<b>325.4</b>
Cash outflows for investments in intangible assets, property, plant and equipment and investment property		-159.4	-177.5
Cash outflows for investments in shareholdings		-27.4	-32.4
Cash inflows from divestments of intangible assets, property, plant and equipment and investment property		7.0	8.3
Cash inflows from divestments of shareholdings		45.2	7.9
Cash inflows/outflows relating to securities, deposits and loans		50.8	-0.6
<b>Cash flow from investing activities</b>	<b>(7.2)</b>	<b>-83.8</b>	<b>-194.3</b>
Cash inflows/outflows relating to capital contributions		-	-14.1
Cash outflows to non-controlling interests		-67.0	-80.4
Cash inflows/outflows relating to changes in shareholdings in subsidiaries without loss of control		34.1	-
Cash outflows for profit transfer for the prior year		-80.2	-77.9
Cash inflows from additions to financial liabilities		138.6	125.8
Cash outflows for repayment of financial liabilities		-244.2	-223.0
<b>Cash flow from financing activities</b>	<b>(7.3)</b>	<b>-218.7</b>	<b>-269.6</b>
<b>Change in cash and cash equivalents</b>		<b>-40.5</b>	<b>-138.5</b>
<b>Cash and cash equivalents as of January 1</b>		<b>573.3</b>	<b>686.9</b>
Change in cash and cash equivalents		-40.5	-138.5
Changes in exchange rates and other changes in cash and cash equivalents		4.1	24.9
<b>Cash and cash equivalents as reported on the balance sheet as of December 31</b>	<b>(6.8)</b>	<b>536.9</b>	<b>573.3</b>

## **(1) General information**

STEAG GmbH is an energy corporation headquartered in Germany which operates internationally. As one of Germany's largest electricity producers, its business focuses on planning, building, acquiring and operating energy generating facilities and the related services. Further core competencies include procurement, marketing, sale and trading of energy, energy sources and other process media, as well as the production, acquisition and provision of the plants required for this purpose and the related services.

The company's registered office is Rüttenscheider Straße 1-3, Essen (Germany), and it is registered in the Commercial Register at Essen Local Court under HRB No. 19649.

STEAG GmbH is a wholly owned subsidiary of KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG (KSBG KG), a consortium of seven municipal utility companies in the Rhine-Ruhr region<sup>1</sup>. A profit and loss transfer agreement has been in place between KSBG KG and STEAG GmbH since July 1, 2011.

The present consolidated financial statements for STEAG GmbH and its consolidated affiliated companies (referred to jointly as the "STEAG Group") have been prepared on a voluntary basis and are not published in the Federal Gazette (Bundesanzeiger).

The consolidated financial statements were authorized for issue by the Board of Management of STEAG GmbH on March 9, 2017.

As at December 31 of each year, STEAG GmbH and its subsidiaries are fully consolidated in the consolidated financial statements of KSBG KG, as the main parent company of the Group, which are prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable for use in the European Union, and in conformance with Section 315a of the German Commercial Code (HGB). The consolidated financial statements of KSBG KG are published in the electronic Federal Gazette.

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<sup>1</sup> From January 1, 2017, the consortium comprises six municipal utilities.

## **(2) Basis of preparation of the financial statements**

### **(2.1) Compliance with IFRS**

These consolidated financial statements have been prepared voluntarily on the basis of the IFRS adopted by the European Union. The IFRS comprise the standards (IFRS, IAS) issued by the International Accounting Standards Board (IASB), London (UK) and the interpretations (IFRIC, SIC) of the IFRS Interpretations Committee (IFRS IC).

### **(2.2) Presentation of the financial statements**

The consolidated financial statements cover the period from January 1 to December 31, 2016 and are presented in euros, which is the functional currency of STEAG Group. To enhance clarity and comparability, all amounts are stated in millions of euros (€ million) except where otherwise indicated.

The consolidated financial statements provide a snapshot of the actual situation as regards the company's net assets, financial position and results of operations.

The recognition and valuation principles and items presented in the consolidated financial statements are in principle consistent from one period to the next. To enhance the clarity of presentation, some items are combined in the income statement, statement of comprehensive income, balance sheet and statement of changes in equity and explained in detail in the Notes.

The income statement has been prepared using the total cost format.

The statement of comprehensive income is a reconciliation from income after taxes as shown in the income statement to the Group's total comprehensive income, taking into account other comprehensive income (OCI).

On the balance sheet, assets and liabilities are classified by maturity. They are classified as current if they are due or expected to be realized within twelve months from the reporting date. Accordingly, assets and liabilities are classified as non-current if they remain in the company for more than one year. Deferred tax assets and liabilities and provisions for defined benefit pension plans and other post-employment benefits are classified as non-current.

The statement of changes in equity shows changes in the issued capital, reserves attributable to shareholders of STEAG GmbH and non-controlling interests in the reporting period.

The cash flow statement provides information on the Group's cash flows. Cash flows from operating activities are calculated using the indirect method; cash flows from investing activities and financing activities are calculated using the direct method.



The Notes contain basic information on the financial statements, supplementary information on the above components of the financial statements and additional disclosures.

## **Newly issued IFRS**

### **Accounting standards applied for the first time**

The IASB regularly issues new and revised standards and interpretations. These have to be officially adopted into European law (endorsed) by the European Union before they can be applied.

Following endorsement, the STEAG Group applied the following new and amended standards and interpretations for the first time in fiscal year 2016.

In November 2013 the IASB published amendments to IAS 19 "Defined Benefit Plans: Employee Contributions". This simplifies recognition of defined benefit pension plans to which employees or third parties make mandatory contributions. The new rules specify that employee contributions that are set by the formal rules of a defined benefit pension plan and are linked to work performed should be allocated to the years in which the entitlement to the benefits is earned. In this case, the service cost can be reduced for the period in which the corresponding work was performed, irrespective of the formula used for the plan. The amendments have to be applied retrospectively. The STEAG Group did not utilize the option of earlier, voluntary application. The amendments to this standard do not have a material impact on the consolidated financial statements.

As part of its annual improvements process, comprising minor improvements to standards and interpretations, in December 2013 the ISAB issued "Annual Improvements to IFRSs 2010-2012 Cycle" containing amendments to a total of seven IFRSs. These contain clarification and minor amendments to the following standards and issues:

- IFRS 2: Definition of vesting conditions for share-based payment
- IFRS 3: Accounting for contingent consideration in a business combination
- IFRS 8: Disclosures on aggregation of segments and requirements for reconciliation of segment assets
- IFRS 13: Waiver of discounting for the fair value recognition of short-term receivables and payables if the impact is immaterial
- IAS 16 and IAS 38: Revaluation method – proportionate restatement of accumulated depreciation
- IAS 24: Extension of the definition of related parties to include "management entities" and rules on the associated disclosure requirements.

The amendments to IFRS 2 and IFRS 3 are applicable for transactions that take place on or after July 1, 2014. Mandatory application was postponed to February 1, 2015 when the amendments were endorsed by the EU. The amendments do not have a material impact on the consolidated financial statements.

In May 2014 the IASB published amendments to IFRS 11 "Joint Arrangements" relating to the acquisition of shares in joint arrangements. These amendments govern the recognition of shares acquired in a joint arrangement that is classified as a joint operation pursuant to IFRS 3 "Business Combinations". In such cases, the acquirer has to apply the principles of accounting for business combinations set out in IFRS 3 and meet the disclosure requirements of IFRS 3. The STEAG Group

did not utilize the option of earlier, voluntary application. The amendments to this standard do not have a material impact on the consolidated financial statements.

In May 2014 the IASB also published amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets". These clarify, in particular, that revenue-based depreciation methods are not appropriate for property, plant and equipment. This also applies in principle for the amortization of intangible assets, where the presumption is rebuttable. Further, the amendments clarify that a reduction in the selling price of goods and services may be an indication of commercial obsolescence and thus an indication of a reduction in the potential economic benefit of the assets used in their production. The STEAG Group did not utilize the option of earlier, voluntary application. The amendments to these standards do not have a material impact on the consolidated financial statements.

In June 2014, the IASB published amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture". Under IAS 41, all biological assets have so far been recognized in the income statement at fair value less estimated costs to sell. This also applies for bearer plants, in other words, plants used for the production of agricultural produce whose period of use extends over more than one period and where it is unlikely that the asset will be sold as a live plant or consumed as agricultural produce. Since their use is comparable to property, plant and equipment, under the amendments bearer plants will in future be recognized in the same way as property, plant and equipment, in accordance with IAS 16. By contrast, their fruits will still accounted for under IAS 41. To ease transition to the new ruling, the fair value of the bearer plants can be used as their deemed cost instead of the acquisition or production cost. The mandatory disclosures required by IAS 8.28(f) are not required for current periods. The STEAG Group did not utilize the option of earlier, voluntary application. The amendments to these standards do not have a material impact on the consolidated financial statements.

In August 2014 the IASB published amendments to IAS 27 "Separate Financial Statements". These permit the equity method as an additional option for the recognition of shares in subsidiaries, joint ventures and associates in separate financial statements prepared in accordance with the IFRS. This means that investments can be accounted for at amortized cost in accordance with IFRS 9 "Financial Instruments" or using the equity method. The STEAG Group did not utilize the option of earlier, voluntary application. The amendments to this standard only apply to the separate financial statements prepared in accordance with IFRS and therefore have no impact on the consolidated financial statements.

As part of its annual improvements process, comprising minor improvements to standards and interpretations, in September 2014 the IASB published a further standard containing amendments to a total of four IFRSs (Annual Improvements to IFRSs 2012-2014 Cycle). This contains clarification of the following standards and issues:

- IFRS 5: Non-current Assets Held For Sale and Discontinued Operations
- IFRS 7: Financial Instruments: Disclosures
- IAS 19 Employee Benefits
- IAS 34: Interim Reporting

The new rules have to be applied prospectively or retrospectively depending on the amendment. The STEAG Group did not utilize the option of earlier, voluntary application. The amendments to the standards do not have a material impact on the consolidated financial statements.

In December 2014 the IASB published amendments to IAS 1 "Presentation of Financial Statements". The amendments comprise clarification of materiality in the presentation of items on the balance sheet, statement of comprehensive income, cash flow statement and statement of changes in equity, and disclosures in the notes. They specify that non-material disclosures must not be made, even if they are required by other standards. Further, they clarify how components of OCI are to be presented for investments recognized at equity. Instructions on the presentation of interim amounts, the structure of the notes to the financial statements and the disclosure of accounting policies have been added or clarified. The STEAG Group did not utilize the option of earlier, voluntary application. The amendments to this standard do not have a material impact on the consolidated financial statements.

In December 2014, the IASB also published amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures". They clarify aspects of applying the exemption from mandatory consolidation under IFRS 10 when the parent company meets the definition of an investment company. The amendments were endorsed in September 2016. The amendments to the standards do not have a material impact on the consolidated financial statements as of December 31, 2016.

### **Accounting standards that are not yet mandatory**

#### **Standards already endorsed by the EU**

Up to December 31, 2016, the IASB had issued further accounting standards and amendments to accounting standards that had not yet become mandatory in the European Union in the reporting period. The most important of these are outlined below:

In July 2014 the IASB completed its project to replace IAS 39 “Financial Instruments: Recognition and Measurement” and published the final version of IFRS 9 “Financial Instruments”. The revised standard introduces a uniform approach to the classification and evaluation of financial assets based on their cash flow characteristics and the business model used to manage them. Further, IFRS 9 introduces a new impairment model based on expected credit losses. In addition, this standard contains new rules on the application of hedge accounting to reflect the company's risk management activities, especially with regard to the management of non-financial risks.

The new standard was endorsed in November 2016 and is applicable for financial years starting on or after January 1, 2018. Earlier application is permitted but not planned by the STEAG Group.

The STEAG Group is currently conducting a project to analyze the expected impact of IFRS 9. Based on the report on the differences, a decision on the options permitted by the standard will be taken in fiscal year 2017.

In some cases, the new rules on the classification of financial assets on the basis of the business model for them will result in changes in valuation and recognition. The new rules on non-consolidated financial investments may result in changes in the recognition of income and expenses in the mid term.

The STEAG Group is currently examining the benefits of the individual options.

No major changes are initially expected with regard to the recognition of hedge relationships on the balance sheet. The possibility of rebalancing may raise the effectiveness of individual hedge relationships. A detailed analysis of the new and amended rules has not yet been undertaken.

In principle, it can be assumed that the disclosures on financial instruments in the notes to the financial statements have to be extended. Based on present knowledge, it appears that material new and extended disclosures will relate to the new classification of assets, the impairment tables and rebalancing. The majority of the required disclosures will be determined in spring 2018 in the balance sheet reconciliation from December 31, 2017 to January 1, 2018.

Further, in May 2014 the IASB and the Financial Accounting Standards Board (FASB) published IFRS 15 “Revenues from Contracts with Customers” as part of the joint project on revenue recognition. The purpose of the new standard is to combine a large number of rules on revenue realization previously contained in various standards and interpretations. IFRS 15 will therefore supersede IAS 11 “Construction Contracts”, IAS 18 “Revenue” and the interpretations IFRIC 13 “Customer Loyalty Programs”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfer of Assets from Customers” and SIC 31 “Revenue - Barter Transactions Involving Advertising Services”.

The core principle for revenue recognition set out in IFRS 15 is recognition of the delivery of goods or provision of services to customers at an amount corresponding to the consideration that the company is expected to receive in exchange for the goods or services.

The new standard was endorsed in September 2016. It must be applied for the first time for reporting periods beginning on or after January 1, 2018. Earlier, voluntary application is permitted but is not planned for the STEAG Group. Initial application must in principle be retrospective. However, various simplification options are available for this.

In April 2016 the IASB published clarification of IFRS 15. This has not yet been endorsed by the European Union. The clarification mainly relates to the identification of separate leasing obligations, the definition of principal and agent, and the recognition of license revenues.

In 2016, the STEAG Group set up a Group-wide project on the introduction and analysis of the extended impact of IFRS 15. The project is divided into an analysis, a design and an implementation phase. Analysis of the contract structures in the various business units within the Group started in

2016. The aim is to assess the impact on the various units. Specific results in the form of a statement on the qualitative and quantitative impact of IFRS 15 are expected in spring 2017. Based on the results of the analysis, the design requirements for modification of IT processes and IT systems will then be developed. The subsequent implementation of the new rules in the Group will probably be completed in 2017.

#### **Standards not yet endorsed by the EU**

Further, up to December 31, 2016, the IASB had issued further accounting standards and amendments to accounting standards that had not yet become mandatory in the European Union in the reporting period.

In January 2014 the IASB published IFRS 14 “Regulatory Deferral Accounts”. This permits first-time adopters of IFRS in accordance with IFRS 1 who recognized certain regulatory deferral account balances in connection with rate-related activities in accordance with their previous national accounting standards to continue to recognize them in their IFRS statements. However, the new standard requires these balances and their earnings impact to be shown as separate line items in the balance sheet or statement of comprehensive income. In addition, it specifies specific disclosures on the type of underlying price regulation and the associated risks.

The rules set out in this new standard are intended to serve as an interim solution to simplify the transition to IFRS up to full and final regulation of price-regulated activities. Application of this standard by companies that already use IFRS is explicitly excluded. The standard is mandatory for reporting periods beginning on or after January 1, 2016. The European Commission does not intend to endorse IFRS 14. Consequently, this standard is not relevant for the consolidated financial statements.

In January 2016, the IASB published IFRS 16 “Leases”, a new standard to replace the old leasing standard IAS 17. The core principle of the new standard is that the lessee normally has to recognize all lease arrangements and the associated contractual rights and obligations on its balance sheet. The distinction between finance and operating leases required by IAS 17 will therefore no longer be necessary for lessees. Under IFRS 16, the lessee will recognize a lease liability for all lease arrangements at the present value of the future lease payments plus directly attributable costs on the balance sheet and simultaneously capitalize a corresponding right to use the leased asset (right-of-use asset). During the term of the lease agreement, the lease liability will continue to be recognized on the basis of financial mathematical principles similar to those used for finance leases in the present IAS 17, while the right-of-use asset will be depreciated over the term of the agreement. Exemptions will be permitted for short-term leases and leases where the underlying asset is of low value. For lessors, the rules in the new standard are almost identical to those in the previous standard IAS 17.

The new standard is mandatory for fiscal years beginning on or after January 1, 2019. Earlier application is permitted provided that IFRS 15 is also applied. Earlier application is not planned for the STEAG Group. The STEAG Group plans to set up a Group-wide project in 2017 to analyze the expected impact of IFRS 16 and to introduce the standard. For this reason, it is not yet possible to give a detailed assessment of the impact of initial application of this standard.

In September 2014 the IASB published amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” to eliminate an inconsistency between these two standards relating to recognition of the sale of assets or the contribution of assets to an associate or joint venture. The amendments clarify when unrealized gains from transactions between

an investor and an associate have to be recognized completely. Gaining or losing control is a significant economic transaction that requires remeasurement and recognition of gains. Accordingly, full recognition of gains is necessary for transactions that constitute a business within the meaning of IFRS 3 "Business Combinations". If, by contrast, the assets do not constitute a business, pro rata recognition of the gains is permitted. The initial application date has been postponed indefinitely. The amendments to these standards are not expected to have a material impact on the consolidated financial statements.

In May 2015 the IASB published amendments to the "International Financial Reporting Standard for Small and Medium-sized Entities" (IFRSs for SMEs). The standard and the associated changes do not apply for capital-market-oriented companies and are therefore not subject to endorsement by the European Union. The limited amendments were made in the context of the first extensive review of the "IFRS for Small and Medium-sized Entities" since its adoption in 2009 to assess initial practical experience. The amendments are applicable for the first time for reporting periods starting on or after January 1, 2017. Earlier, voluntary application is permitted. The amendments to these standards are not relevant for the consolidated financial statements.

In January 2016, the IASB published additions to IAS 12 "Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses". These additions relate to financial instruments that are measured at fair value. The amended standard is mandatory for fiscal years beginning on or after January 1, 2017 and has to be applied retrospectively. Earlier application is permitted and must be explained in the notes. The Group currently assumes that these amendments will not have a material impact on the consolidated financial statements.

In January 2016, the IASB also published additions to IAS 7 as part of its Disclosure Initiative IAS 7 "Statements of Cash flows". These comprise extended disclosures in the notes to the cash flow statements in connection with changes in liabilities arising from financing activities. The amended standard is mandatory for fiscal years beginning on or after January 1, 2017. The Group currently assumes that these amendments will not have a material impact on the consolidated financial statements.

In June 2016, the IASB published amendments to IFRS 2 as part of the project IFRS 2 "Share-based Payment: Classification and Measurement of Share-based Payment Transactions". These harmonize the present differences in the procedure for the classification and measurement of certain share-based remuneration plans. The amended standard is mandatory for fiscal years beginning on or after January 1, 2018. In principle, it has to be applied prospectively. The amendments to this standard are not relevant for the consolidated financial statements.

In September 2016, the IASB published amendments to IFRS 4 "Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". The additions address the transitional arrangements for accounting for actuarial provisions in connection with the application of IFRS 9 by the insurance sector. The amended standard is applicable for fiscal years beginning between January 1, 2018 and January 1, 2021. The amendments to this standard are not relevant for the consolidated financial statements.



As part of its annual improvements process, comprising minor improvements to standards and interpretations, in September 2016 the IASB published a further standard containing amendments to a total of four IFRSs (Annual Improvements to IFRSs 2014-2016 Cycle). These provide clarification on the following standards and issues:

- IFRS 1: First-time Adoption of International Reporting Standards; deletion of short-term exemptions
- IFRS 12: Disclosure of Interests in Other Entities; clarification of the scope of the Standard
- IAS 28: Investments in Associates and Joint Ventures; clarification of the option of measuring a venture capital company at fair value

The amendments to IFRS 1 and IFRS 28 are applicable for fiscal years starting on or after January 1, 2018. The amendments to IFRS 12 are applicable for fiscal years starting on or after January 1, 2017. The amendments to IFRS 12 will affect the consolidated financial statements through extended disclosures on interests in other entities in the notes to the financial statements. The clarification of IAS 28 with regard to the option of recognizing a venture capital company either at fair value or at cost of acquisition will probably not have any impact because there are no plans for fair value measurement. The amendments to IFRS 1 are not relevant for the consolidated financial statements.

In December 2016, the IASB also published a new interpretation, IFRIC 22 “Foreign Currency Transactions and Advance Consideration”. IFRIC 22 addresses foreign currency transactions where a company recognizes a non-monetary asset or a non-monetary liability arising from advance payment or advance receipt of a consideration before the company recognizes the associated asset, income or expense. This new interpretation is mandatory for fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Group currently assumes that this new interpretation will not have a material impact on the consolidated financial statements.

In addition, in December 2016 the IASB published amendments to IAS 40 “Transfers of Investment Property”. The amendments clarify transfers to or from investment property. This new interpretation is mandatory for fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Group currently assumes that these amendments will not have a material impact on the consolidated financial statements.

## **(2.4) Scope of consolidation and consolidation methods**

### **Scope of consolidation**

Alongside STEAG GmbH, the consolidated financial statements include all material subsidiaries in Germany and abroad that are directly or indirectly controlled by STEAG GmbH. STEAG GmbH controls a company if it is exposed to, or has rights to, variable returns from its involvement with the company and has the ability to affect those returns through its power over the subsidiary.

Associates and joint ventures are generally recognized using the equity method if the Group is able to exert a significant influence or exercises joint control. The STEAG Group does not have any material joint operations.

Initial consolidation or deconsolidation takes place as at the date on which the company gains or loses control.

Changes in the scope of consolidation are outlined in Note (4.1).

### **Consolidation methods**

The financial statements of the consolidated German and foreign subsidiaries are prepared using uniform accounting and valuation principles.

Capital is consolidated at the time of acquisition by offsetting the carrying amount of the business acquired against the pro rata revalued equity of the subsidiary. In accordance with IFRS 3 "Business Combinations", ancillary acquisition costs are recognized as expenses in the income statement rather than in the carrying amount of the subsidiary. The assets and liabilities (net assets) of the subsidiary are generally included at fair value. If shares in the subsidiary are held before acquiring control, they must be revalued and any resultant change in value must be recognized in the income statement in other operating income or other operating expenses. Gains or losses recognized in OCI must be derecognized in the same way as if the acquirer had divested the shares previously held. Any remaining excess of the acquisition cost over the fair value of the net assets is recognized as goodwill. Negative differences are included in the income statement following a renewed examination of the fair value of the net assets.

Changes in shareholdings in a previously consolidated subsidiary that do not result in a loss of control are recognized directly in equity as a transaction between owners. In this case, the shares attributable to the owners of the parent company and the other shareholders are adjusted to reflect the changes in their respective stakes in the subsidiary. Any difference between this adjusted amount and the fair value of the consideration paid or received is recognized directly in equity and allocated to the shares attributable to the owners of the parent company. Directly related transaction costs are also recognized as a transaction between owners that has no impact on income, with the exception of costs for the issuance of debt or equity instruments, which are still measured in accordance with the criteria for recognizing financial instruments.

The subsidiary must be deconsolidated as at the date on which control is lost. This involves derecognition of the net assets of the subsidiary and non-controlling interests (proportionate net assets of the subsidiary). The gain or loss on the divestments must be calculated from the Group viewpoint. This is derived from the difference between the proceeds of the divestment (selling price less costs to sell) and the proportionate divested net assets of the subsidiary (including the remaining hidden reserves and liabilities, and any goodwill shown on the balance sheet). The shares in the former subsidiary still held by the STEAG Group are revalued at fair value as at the date on which control is lost. All resulting gains and losses are also recognized in the income statement as other operating income or other operating expenses. In addition, amounts shown in equity under accumulated other comprehensive income are rebooked to the income statement, except where another accounting standard requires direct transfer to reserves.

Intragroup income and expenses, profits, losses, receivables and liabilities between consolidated subsidiaries are eliminated. Write-downs and write-ups of shares in consolidated affiliated companies recognized in the separate financial statements are reversed.

Shares in associates and joint ventures accounted for using the equity method are initially recognized at cost of acquisition, see Note (2.6) "Investments recognized at equity".



## (2.5) Currency translation

Foreign currency transactions are measured at the exchange rate on the transaction date. Any gains or losses resulting from the valuation of monetary assets and liabilities in foreign currencies as at the reporting date are recognized in other operating income or other operating expenses.

The financial statements of foreign subsidiaries outside the euro zone are translated on the basis of their functional currency. In the consolidated financial statements, the assets and liabilities of all foreign subsidiaries are translated from the functional currency of the company into euros at closing rates on the reporting date, since they conduct their business independently in their functional currency. The equity of foreign investments accounted for at equity is translated analogously. As an asset pertaining to an economically autonomous foreign sub-entity, goodwill is translated at the closing rate. Income and expense items are translated at average exchange rates for the year. The average annual exchange rates comprise the mean of the exchange rates at month-end over the past 13 months. Translation differences compared to the prior year and translation differences between the income statement and balance sheet are recognized in OCI.

The exchange rates used for currency translation included:

€1 corresponds to	Annual average rates		Closing rates	
	2016	2015	Dec. 31, 2016	Dec. 31, 2015
Botswana pula (BWP)	11.99	11.28	11.27	12.19
Brazilian real (BRL)	3.86	3.70	3.43	4.31
British pound (GBP)	0.82	0.73	0.86	0.73
Indian rupee (INR)	74.03	71.45	71.59	72.02
Indonesian rupiah (IDR)	14,706.29	14,905.06	14,173.43	15,039.99
Qatar riyal (QAR)	4.01	4.05	3.83	3.96
Colombian peso (COP)	3,361.87	3,044.34	3,162.87	3,453.06
Philippine peso (PHP)	52.43	50.68	52.27	51.00
Polish zloty (PLN)	4.37	4.19	4.41	4.26
Romanian leu (RON)	4.50	4.44	4.54	4.52
Singapore dollar (SGD)	1.53	1.53	1.52	1.54
Turkish lira (TRY)	3.33	3.02	3.71	3.18
US dollar (USD)	1.10	1.11	1.05	1.09

## **(2.6) Accounting policies and valuation principles**

### **Revenue recognition**

Revenues from the sale of goods and services that constitute part of the company's normal business activity and other revenues are recognized as follows:

#### **(a) Sales**

The STEAG Group generates sales principally through the operation of power plants in Germany and abroad, the operation of energy supply facilities based on renewable energy resources, coal trading and clean dark spread trading (CDS trading), and the marketing of related products and services. In addition, the interest portion of finance leases is recognized in sales if the customer bears substantially all the risks and rewards arising from ownership of the energy generating facilities.

Prices are contractually agreed between the parties to a transaction. Sales revenues are measured as the fair value of the consideration received or to be received less value-added tax and any discounts or bulk rebates granted. The general principle for revenue recognition is that both the revenues and the related costs can be measured reliably. It must also be sufficiently probable that the economic benefit will flow to the company.

Revenues from coal trading and CDS trading are recognized when title and the risks relating to the sale pass to the customer. Provisions are established for general risks arising from such sales on the basis of previous experience.

Revenues from services are recognized when the percentage of completion can be reliably measured. They are recognized in the year in which the service is rendered. Where the provision of services extends over more than one fiscal year, sales are determined from the costs incurred as a proportion of the anticipated total cost. Alternatively, sales can be measured by assessing the services provided if this method is more suitable to ensure reliable determination.

#### **(b) Other revenues**

Other revenues are only recognized if they can be determined reliably and it is sufficiently probable that the economic benefit will flow to the company.

Interest income is recognized on a pro rata temporis basis using the effective interest method. Income from royalties is accrued on the basis of the commercial terms of the underlying contract and recognized on a pro rata basis. Dividend income is recognized as at the date of the right to receive the payment. Unrealized and realized income from interest rate swaps, options, currency forward agreements and commodity forward agreements are recognized in other income if they are stand-alone instruments and are not included in a valuation unit with the associated hedged item (hedge accounting).

### **Intangible assets**

Intangible assets are capitalized at acquisition or production cost. Intangible assets with a finite useful life are amortized and an impairment test is conducted if there are specific indications of a possible impairment, see Note (2.6) "Impairment test". Intangible assets with an indefinite useful life are not

amortized; instead they are tested for impairment at least once a year. The assumptions regarding their indefinite useful life are also reviewed annually.

(a) Goodwill

Goodwill has an indefinite useful life and is tested for impairment at least once a year.

(b) Other intangible assets

Other intangible assets mainly comprise power supply rights, licenses and computer software. These are amortized over their estimated useful life of 3-30 years using the straight-line method.

### Property, plant and equipment

Property, plant and equipment are carried at acquisition or production cost and depreciated over their useful life using the straight-line method. Expected useful lives and residual values are reviewed periodically.

If there are indications that an impairment loss needs to be recognized, an impairment test is conducted on the items of property, plant and equipment, see Note (2.6) "Impairment test".

The cost of acquisition includes all expenses directly attributable to the acquisition. The cost of production of assets manufactured within the Group comprises all direct cost of materials and labor, plus the applicable proportion of material and manufacturing overheads, including depreciation. Costs relating to obligations to dismantle or remove non-current assets at the end of their useful life are capitalized as acquisition or production costs as at the date of acquisition or production. Acquisition and production costs may also include transfers from gains and losses on cash flow hedges entered into in connection with the purchase of property, plant and equipment in foreign currencies and previously recognized in OCI. Borrowing costs that can be allocated directly to the acquisition, construction or production of a qualifying asset are included in the cost of acquisition or production. A qualifying asset is an asset for which more than a year is required to get it ready for its intended use or for sale.

Property, plant and equipment are depreciated using the straight-line method over the expected useful life of the assets.

in years	
Buildings	7 - 50
Plant and machinery	
Power plants and related components	12 - 40
Distributed energy supply facilities	8 - 15
Other technical plant and machinery	3 - 25
Other plant, office furniture and equipment	3 - 25

Expenses for overhauls and major servicing (major repairs) are generally capitalized if it is probable that they will result in future economic benefits from an existing asset. They are then depreciated over the period until the next major repair date. Routine repairs and other maintenance work are expensed in the period in which they are incurred.

If there is a high probability that the project will be realized, costs incurred for planning and pre-engineering work for capital expenditures projects are capitalized. Depreciation is recognized in line with the useful life of the project.

If major components of an asset have different useful lives, they are recognized and depreciated separately.

Gains and losses from the disposal of assets are calculated as the difference between the net proceeds of sale and the carrying amount and recognized in other operating income or other operating expenses.

### **Investments recognized at equity**

Associates and joint ventures are generally recognized using the equity method if the Group is able to exert a significant influence or exercises joint control.

Initially they are measured at cost of acquisition. The cost of acquisition also contains all ancillary acquisition costs directly attributable to the investment.

As the basis for the measurement of the investment in subsequent periods, the difference between the cost of acquisition and the proportionate equity must be determined. This is analyzed to see to what extent it contains hidden reserves or hidden liabilities. Any positive difference remaining after allocation of hidden reserves or liabilities is treated as goodwill and taken into account in the carrying amount of the investment.

Starting from the acquisition cost of the investment, in subsequent periods its carrying amount is increased or reduced by the proportionate net income. The financial statements of the companies recognized at equity are prepared using uniform accounting and valuation principles for the STEAG Group. Further adjustments to the carrying amount of the investment are necessary if the equity of the investment alters as a result of items contained in OCI. Subsequent measurement must take into account depreciation of hidden reserves on depreciable assets identified at the time of initial consolidation and deducted from the proportionate net income. To avoid dual recognition, any dividends received must be deducted from the carrying amount.

The investment must be tested for impairment if there are indications of impairment see Note (2.6) "Impairment test". No separate impairment test is performed for the proportionate goodwill. The impairment test is performed for the entire carrying amount of the investment. Accordingly, impairment losses are not allocated to the proportionate goodwill included in the carrying amount of the investment and can be reversed in full in subsequent periods.

### **Impairment test**

If there are indications of possible impairment, an impairment test in accordance with IAS 36 "Impairment of Assets" is conducted on intangible assets, property plant and equipment, investment property and investments recognized at equity. The impairment test on such assets is generally conducted for a cash-generating unit (CGU), which is the smallest identifiable group of assets that generates independent cash flows, or for a group of CGUs. Goodwill is allocated to the divisions, in other words, to a group of CGUs, that are expected to benefit from the synergies from the business combination to which the goodwill refers. Goodwill is tested for impairment at least once a year. In addition, in accordance with IAS 36 impairment tests are carried out on certain assets as at the reporting date as a result of indications of possible impairment.

The impairment test comprises comparing the recoverable amount of the CGU or group of CGUs with its carrying amount. The recoverable amount is determined as the higher of the fair value less costs to sell and the value in use of the CGU or group of CGUs. If the recoverable amount is determined as fair value less costs to sell, the fair value is allocated to Level 2 of the fair value hierarchy, see Note (2.6) "Financial instruments". An impairment loss is recognized if the recoverable amount of a CGU or group of CGUs is less than its carrying amount. The impairment loss is reversed – except in the case

of goodwill – if the reason for the original impairment charge no longer applies, but the increased carrying amount may not be above the carrying amount less depreciation or amortization that would apply if no impairment loss had been recognized in previous years.

When testing goodwill for impairment, the recoverable value of goodwill is determined from the market value of the divisions in the STEAG Group. The market value is the present value of future cash flows determined using a valuation model. The future cash flows are derived from the current five-year mid-term planning. The mid-term planning is based on a mixture of experience of past market trends and expectations of future market trends. The main economic data that influence the impairment test include the development of interest rates, exchange rates, market prices for CO<sub>2</sub> allowances, coal and energy, and the regulatory environment. The mid-term planning is based on the corresponding market expectations, which are set centrally by STEAG GmbH. The specific growth rate is derived from experience and future expectations. It does not exceed the average long-term growth rates for the relevant markets.

The cost of capital used to discount the expected cash flows are calculated as the weighted average of equity and debt on the basis of a capital market-based model. The cost of equity is determined by the risk-free interest rate and a risk premium. The risk premium is derived by multiplying the beta factor by the sum of the market risk premium and the country risk premium. The beta factor is obtained from the capital market by comparison with the values for comparable companies (peer group). A terminal growth rate is assumed. The cost of debt for individual CGUs is derived from an analysis of the gearing of peer group companies and the resultant cost of debt. The discount rates are determined after taxes and refer to cash flow after taxes. As required by IAS 36, the recoverable amount determined on this basis corresponds to the value that would have been derived by discounting future cash flows before taxes using a pre-tax discount rate.

For the impairment test on goodwill, the following parameters are applied for the weighted average cost of capital:

Division	Risk-free interest rate		Risk-adjusted interest rate (WACC)		Growth discount	
	2016	2015	2016	2015	2016	2015
	%	%	%	%	%	%
Power	1.00	1.50	5.38	5.50	0.50	0.70
Renewable Energies and Distributed Facilities	1.00	1.50	5.38	5.20	0.50	0.70

For the purpose of impairment testing of property, plant and equipment, specific discount rates ranging from 4.36 percent to 6.98 percent are applied. Within the “Power” group of CGUs, the German power plants are divided into two separate CGUs. These comprise, on the one hand, those plants which are clearly expected to be shut down, and on the other, those with a strategy of continued operation, reflecting the corresponding internal management. For the CGU containing the power plants clearly scheduled for shutdown no further value contribution is expected over the remaining useful life of the assets. With regard to the resulting need for impairment, please see Note (5.5). For information on the

method used and principal assumptions, please see the comments on the impairment testing of groups of CGUs to which goodwill is allocated.

### **Inventories**

Inventories are measured at the lower of the cost of acquisition or production and net realizable value. The net realizable value corresponds to the net selling price that could be achieved in normal business operation less the production and selling expenses incurred prior to sale. To ensure risk-free valuation of inventories, adjustments are applied to inventories where the inventory value is inaccurate for technical reasons and for inventories that have become obsolete.

If impairment losses are no longer applicable, they are reversed, but only up to the historical acquisition or production cost.

The cost of inventories of similar structure or for similar applications is determined uniformly as an average. The production cost of finished goods and work in progress comprises the cost of raw materials and supplies, directly attributable personnel expenses, other direct costs and general overheads that can be assigned to production (based on normal operating capacity). The cost of inventories may also contain gains and losses for qualifying cash flow hedges for the purchase of raw materials which have been reclassified from OCI.

Purchased emission allowances are recognized at the cost of acquisition. They are not depreciated but the provisions of IAS 36 and IAS 2 still need to be applied. Analogously to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", a token amount is recognized for each power plant for emission allowances allocated free of charge. Provisions are recognized for the obligation to surrender emission allowances insofar as such allowances are available, at the amount capitalized for such allowances. If this obligation exceeds the allowances capitalized, the difference is recognized at the average price for the three months preceding the reporting date.

To ensure that recognition reflects the accounting period, renewable energy certificates allocated free of charge are recognized in the income statement at fair value as at the date of allocation in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" and IAS 38 "Intangible Assets". The fair value corresponds to the fictitious cost of acquisition of the certificates allocated and is allocated to Level 1 in the fair value hierarchy, see section on "Financial instruments" in Note (2.6).

### **Cash and cash equivalents**

This item contains balances held at banks, checks, and cash. It also includes liquid financial securities that can be sold at short notice, which have terms of no more than three months from the date of acquisition and are only subject to negligible fluctuations in value. They are measured at fair value as determined from stock market prices or using recognized valuation methods.

### **Provisions for pensions and other post-employment benefits**

Provisions for pensions and other post-employment benefits are measured using the projected unit credit method for defined benefit obligations in accordance with IAS 19 "Employee Benefits". This method takes account of expected future salary and pension increases as well as pension obligations and accrued entitlements as at the reporting date. For German companies valuation is generally based on the biometric data in the 2005 G mortality tables published by Klaus Heubeck. Since 2015, the probability of disability has been based on modified data derived from company-specific factors. Pension obligations outside Germany are determined using country-specific accounting parameters and measurement principles. The fair value of plan assets is deducted from the benefit obligation.

The present value of the defined benefit obligation is the fair value of expected future payments without deduction of the plan assets. These payments are required to fulfill obligations arising from employees' services in the reporting period or previous periods.

Actuarial gains and losses relating to the present value of defined benefit obligations and income from plan assets (apart from interest income) are derived from the difference between the expected pension obligations and the actual obligation calculated at year end, and from deviations between the present value of the defined benefit obligation and the fair value of plan assets. The gains and losses from the remeasurement of the net benefit obligation are recognized in OCI in the year in which they arise.

The STEAG Group recognizes current and past service cost and any gains or losses resulting from changes in plans and plan curtailments in personnel expense, while the net interest expense on the net benefit obligation is recognized in the interest result.

The benefit obligations at year end are compared with the fair value of the plan assets (funded status). Pension provisions are derived from the funded status, taking the asset ceiling into account.

Defined contribution plans exist for both company pension plans and state pension plans (statutory pension insurance). Risks arising from the investment of the contributions and actuarial parameters are not borne by the STEAG Group but by its employees. Defined contribution plans result in an expense in the period in which the contribution is made.

### **Other provisions**

Other provisions are liabilities of uncertain timing or amount. They are established if there are legal or constructive obligations to third parties as at the reporting date, based on past events, that will probably lead to an outflow of resources. It must also be possible to reliably estimate the level of the obligation. If there are several obligations of the same type, the probability of an outflow of resources is calculated for these obligations as an aggregate. Restructuring provisions are only established if constructive obligations exist on the basis of a formal, detailed plan and those affected have been given justifiable expectations before the reporting date that the restructuring will be carried out.

Provisions are based on settlement obligations and take account of future cost increases. Non-current provisions are discounted. Current provisions and the current portion of non-current provisions are not discounted.



### **Deferred taxes, other income taxes**

STEAG GmbH and KSBG KG form a single entity for income tax purposes. Consequently, STEAG GmbH is not a separate entity for income tax purposes. The presentation in the consolidated financial statements represents the economic view.

In compliance with IAS 12, deferred tax assets and liabilities are established for temporary valuation and recognition differences between the assets and liabilities recognized in the balance sheets prepared for tax purposes and those prepared in accordance with IFRS. Tax-deductible loss carryforwards that will probably be utilized in the future are capitalized at the amount of the deferred tax asset.

Deferred tax assets are recognized on the assumption that sufficient future taxable income is likely to be realized to cover these temporary differences. Where the realization of deferred tax assets is unlikely, they are written down.

Deferred tax assets and liabilities are offset if the company is permitted to net other income tax assets and liabilities and if the deferred tax assets and liabilities relate to income taxes in the same tax jurisdiction.

The tax rates used to calculate deferred taxes are those valid under current legislation or that have been announced as being applicable as at the date when the temporary differences will probably be settled. In view of the profit and loss transfer agreement with KSBG KG, the aggregate tax rate used to calculate deferred taxes for German companies in the tax entity is 16.0 percent. Since the main company in the tax entity is a partnership, the tax entity is not subject to corporation tax and the associated solidarity surcharge. The tax rates used for foreign companies and companies that do not form part of the tax entity are their national tax rates. The foreign tax rates vary between 16.0 percent (Romania) and 40.0 percent (Colombia).

Other income taxes for the reporting period and prior periods are recognized on the basis of the expected payment or refund. They are derived from the company-specific tax rates applicable on the reporting date.

### **Financial instruments**

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized as soon as the STEAG Group becomes a contractual party to the instrument. Financial assets and financial liabilities recognized as financial instruments are not normally netted. They are only netted if there is a netting right for the amounts at the present time and net settlement is planned.

Financial assets comprise, in particular, trade accounts receivable, cash and cash equivalents, primary and derivative financial assets, and equity instruments held by the Group. Financial liabilities comprise an obligation that will be settled in cash and cash equivalents or another financial asset. They include, in particular, trade accounts receivable, bonds, liabilities to banks, and primary and derivative financial liabilities.

Financial instruments are initially measured at fair value or the transaction price. For all financial instruments that are not allocated to the category "at fair value through profit or loss" in subsequent periods, the directly attributable transaction costs are taken into account. Subsequent measurement is based on the classification of the financial instruments.

The fair value of financial instruments is generally the amount that the Group would receive or pay if the financial instruments were exchanged or settled on the reporting date. To determine the fair value, the default risk of the Group or the counterparty is taken into account. The fair value of financial instruments is allocated among three levels depending on the input factors used to determine the fair value.

Financial instruments are allocated to the highest level (Level 1) if unadjusted quoted prices are available for identical financial instruments in an active market.

The second level (Level 2) comprises financial instruments whose price can be derived from the price of similar financial instruments in an active market or an inactive market for identical or similar financial instruments. Further, other observable inputs from the market can be included in their valuation, for example, the development of interests for which generally quoted ranges are observable, implicit volatilities, and credit spreads. For these financial instruments, future cash flows may be discounted using, for example, market interest rates that reflect the remaining term to maturity.

In all other cases, the valuation methods use one or more parameters that are not based on observable market data (Level 3). Discounted cash flow analyses or option pricing models have been selected as established valuation methods. To measure non-current financial instruments that do not bear interest at market rates, the expected future cash flows are discounted to the date of acquisition using the effective interest rate (present value). The effective interest rate takes account of all directly attributable fees that are by nature interest. Where the inputs used to value the financial instrument are drawn from different levels, the significant valuation factor with the lowest classification determines the classification of the financial instrument.

The fair value of standardized linear derivatives are derived from quoted price indicators. For fuels and emissions trading products, the prices on the Intercontinental Exchange (ICE) in London are used. For electricity products, the prices on the European Energy Exchange (EEX) in Leipzig are used. The decision to use the ICE or EEX is based on maximum liquidity of the underlying products.

The valuation of structured and non-linear products (options) is based on recognized valuation models. These models use observable market parameters. In addition, internal assumptions and estimates are made. These are regularly validated. Validation takes place quarterly through external benchmarking and past data.

The use and valuation of financial derivatives in the STEAG Group is subject to stringent controls and regular monitoring based on guidelines, and is part of regular reporting. A regular market conformance test ensures the market conformity of financial statements in the STEAG Group.

#### (a) Primary financial instruments

The STEAG Group classifies primary financial instruments as financial assets in the categories "loans and receivables", "at fair value through profit or loss - held for trading" or "available-for-sale". They are initially recognized at the settlement date. Financial assets are derecognized when the contractual rights to receive payments lapse or are transferred and the Group has transferred substantially all opportunities and risks associated with ownership. There were no instances where the STEAG Group

sold financial assets through securitization or a repurchase agreement and the assets were still reported in full or in part in the financial statements.

Primary financial instruments that constitute financial liabilities are assigned to the categories "liabilities at amortized cost" or "at fair value through profit or loss - liabilities held for trading". Financial liabilities are derecognized when the obligation has been settled or canceled or has expired.

The valuation categories used by the STEAG Group are outlined below.

The "loans and receivables" category principally comprises trade accounts receivable, loans, and cash and cash equivalents. The assets assigned to this category are valued at amortized cost using the effective interest rate method. An impairment loss is recognized if there are objective indications based on historical empirical values that it will not be possible to collect the full amounts due under the customary conditions. This is measured as the difference between the carrying amount of the asset and the present value of the estimated future payments calculated using the effective interest rate. Impairment losses are recognized in the income statement. If the original reason for the impairment loss no longer applies, it is reversed to income, but only up to the amortized cost.

The categories "at fair value through profit or loss - assets held for trading" and "at fair value through profit or loss - liabilities held for trading" mainly comprise security relating to the marketing of power plant capacity.

The category "available-for-sale assets" comprises non-derivative financial assets that are not allocated to one of the above categories, e.g. equity instruments that are neither consolidated nor recognized at equity, and securities and similar rights. These are recognized at fair value. The unrealized changes in fair value are recognized, net of deferred taxes, in OCI. If no fair value is available for such assets or the fair value cannot be determined reliably, for example, in the case of equity instruments that are not listed on a stock exchange, the assets are recognized at amortized cost. Financial assets are examined for objective indications of impairment on every reporting date. A material or lasting reduction in the fair value to below the carrying amount is regarded as an indication of impairment. In such cases, the corresponding losses are derecognized from OCI and recognized in the income statement. If the reason for the impairment loss no longer applies, the reversal is recognized in OCI. Only debt instruments that are allocated to this category are written back by up to the amount of the original impairment in the income statement.

The category "liabilities at amortized cost" mainly refers to trade accounts payable and liabilities to banks. The liabilities assigned to this category are valued at amortized cost using the effective interest rate method.

(b) Derivative financial instruments

Derivative financial instruments (derivatives) are normally used to hedge the risk of changes in exchange rates, the price of goods and interest rates relating to existing or forecast transactions. For this purpose, interest rate swaps, forward exchange contracts, commodity futures, and options on standardized and structured products are used as hedging instruments. Derivatives are always measured at the fair value that corresponds to the price quoted on an active and accessible market. If no stock exchange or market price is available for the derivative from an active market, the fair value is determined using capital market pricing methods. For forward exchange contracts, the forward exchange rate as at the reporting date is used. Commodity derivatives are valued with the aid of spot prices and forward rates while interest rate derivatives are valued by discounting future cash flows using current market interest rates that are congruent with their remaining term.

The market price of options is determined using established valuation methods, based on internal models. All market factors that other market participants would use to determine the price are taken into account. Alongside market parameters, valuation based on the option pricing model uses parameters that are not directly observable in the market. Plausible assumptions are used for these parameters. In the event that no or only immaterial amounts are physically delivered, option premiums are recognized in other operating income. Where physical delivery takes place, the realized revenues are recognized in sales. Changes in the fair value of options compared with the prior year are no longer recognized in the financial result but in income before the financial result and income taxes. Derivatives are initially recognized on the trading date.

Contracts relating to the receipt or delivery of non-financial assets or non-financial liabilities, based on the company's expected purchase, sale or usage requirements, are accounted for as executory contracts and not as derivative financial instruments as per IAS 39. If these contracts contain embedded derivatives that are not closely related to the economic characteristics and risks of the host contract, they are valued and accounted for separately from the host contract.

Stand-alone derivatives and those that are not included in hedge accounting are allocated to the categories "at fair value through profit or loss - assets held for trading" and "at fair value through profit or loss - liabilities held for trading" and therefore recognized in profit or loss at their fair value.

If certain criteria are met, IAS 39 allows the use of special provisions for hedge accounting. This can reduce the volatility of the income statement. The derivatives included in hedge accounting are not allocated to any category. Specific criteria have to be met for hedge accounting to be applied. In particular, hedge accounting requires extensive documentation and evidence that the expected and actual effectiveness of the hedge is within the permitted range of between 80.0 and 125.0 percent. A derivative no longer qualifies for hedge accounting if these conditions are not fulfilled. Depending on the type of hedged underlying, a distinction is made between a fair value hedge, a cash flow hedge and a hedge of a net investment in a foreign entity.

The purpose of fair value hedges is to hedge the fair value of assets or liabilities recognized in the balance sheet or of an off-balance-sheet firm commitment. Changes in the fair value of the hedging instrument are recognized in the income statement together with the change in the value of the hedged item. These changes must relate to the hedged risk. If off-balance-sheet firm commitments are hedged, changes in the fair value of the firm commitment relating to the hedged risk give rise to

recognition of an asset or liability that impacts profit or loss. In view of this method, in the case of a perfect hedge changes in the value of the hedged item and the hedge cancel each other out in the income statement.

The purpose of cash flow hedges is to minimize the risk of volatility of future cash flows from a recognized asset or liability or a forecast transaction that is considered highly probable. The effective portion of changes in the fair value of a hedging instrument is recognized in OCI and the ineffective portion of the change in value is recognized in the income statement. Amounts recognized in OCI are reclassified to the income statement as soon as the hedged item has an impact on the income statement or the forecast transaction is no longer probable. In the case of interest rate hedges, such amounts are included in net interest income or expense, while in the case of sales hedges they are included in the corresponding sales revenues and for procurement hedges in the cost of sales. If the hedged future transaction comprises a non-financial asset or liability, the profit or loss previously recognized in OCI is included in the cost of acquisition of the asset or liability when it is initially recognized.

The purpose of a hedge of a net investment in a foreign entity is to reduce the foreign currency risk involved in investment in an entity whose functional currency is not the euro. Such hedges are treated as cash flow hedges. Gains and losses recognized in OCI are reclassified to the income statement when the foreign subsidiary is divested or investment in it is reduced.

### Investment property

Property held as a financial investment to generate rental revenues or for capital appreciation is valued at the cost of acquisition or production, taking directly allocable transaction costs into account, and – insofar as it is subject to wear and tear – is depreciated over its useful life of 25-50 years using the straight-line method. If there are indications of a possible impairment, an impairment test is conducted, see Note (2.6) “Impairment test”.

The fair values of investment property shown in the Notes are essentially based on average land values, depending on the specific land use, and are assigned to Level 2 of the fair value hierarchy. Leasehold properties are valued using a capitalized ground rent and are assigned to Level 3.

Significant unobservable inputs	Spread (weighted average)
Ground rent	6 percent to 8 percent

In the event of a significant increase (decrease) in the ground rent, the estimated fair value would rise (fall).

### Leasing

A lease comprises an agreement that transfers the right to use an asset for a certain period in return for a single payment or a series of payments. The STEAG Group is party to various operating and finance leases as either lessor or lessee.

A lease is classified as a finance lease if, under the lease agreement, the lessee bears substantially all opportunities and risks associated with ownership of the asset. In addition to contractually agreed finance leases, lease agreements relating to the use of assets, for example, long-term power distribution agreements, may be classified as finance leases if they meet certain cumulative criteria. Where the STEAG Group is the lessee, the assets are included in property, plant and equipment at fair value or at the present value of the minimum lease payments, whichever is the lower. The payment obligations arising from future lease payments are recognized as a liability at the discounted settlement value. Where the STEAG Group is the lessor, it recognizes a receivable equivalent to the net investment value rather than the property, plant and equipment.

Receivables and liabilities from finance leases are recognized on the balance sheet as financial assets or financial liabilities.

All leasing arrangements that are not finance leases are classified as operating leases. The related income and expenses are recognized in the income statement in the period in which they are received or incurred.

#### **Construction contracts**

Customer-specific, long-term term construction contracts are accounted for using the percentage-of-completion (POC) method. The costs incurred plus the pro rata profit calculated from the percentage of completion are recognized in sales. The percentage of completion is derived from the costs incurred up to the reporting date relative to the estimated total cost of the construction contract. The sales less advance payments received are recognized in other receivables or other liabilities. Expected losses are recognized in profit or loss on the basis of the discernible risks.

### **Assets held for sale and the associated liabilities**

Non-current assets are classified as "held for sale" if the corresponding carrying amount is to be realized principally through a sale transaction rather than through continued use. Such assets must be available for immediate sale in their present condition, on terms that are usual and customary for the sale of such assets, and sale must be highly probable. If the associated liabilities are to be sold with the asset as part of the transaction, these must also be presented separately.

Assets and liabilities must be measured in accordance with the relevant accounting standards immediately before initial classification as "held for sale". They are subsequently valued at the lower of the carrying amount and fair value less costs to sell. Where the assets and liabilities do not fall within the scope of the measurement criteria set out in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", subsequent revaluation is performed in accordance with the relevant accounting standards. In the STEAG Group these are mainly:

- IAS 2 "Inventories"
- IAS 12 "Income Taxes"
- IAS 19 "Employee Benefits" and
- IAS 39 "Financial Instruments: Recognition and Measurement".

Unless they are classified as discontinued operations, the results of the valuation and the sale of the assets are still included in income from continuing operations.

### **Government grants**

Government grants for the purchase or construction of property, plant and equipment reduce the acquisition or production cost of such assets. They are recognized in profit or loss over the useful life of the assets through lower depreciation. Other grants are accrued and recognized as income over the same period as the expenses for which they are expected to compensate.

### **Contingent liabilities and other financial commitments**

Contingent liabilities are possible or present obligations arising from past events, where an outflow of resources is not probable and the level of the obligation cannot be estimated with sufficient reliability. They are only recognized on the balance sheet if they are acquired as part of a business combination. Other financial commitments result from non-onerous executory contracts, continuous obligations, statutory requirements and other commercial obligations that are not already included in the liabilities shown on the balance sheet or in contingent liabilities and that are of significance for an assessment of the company's financial position.

### **(3) Discussion of assumptions and estimation uncertainties**

The preparation of consolidated financial statements involves assumptions and estimates about the future. Evidently, the subsequent circumstances do not always match the estimates made. Adjustments to estimates are taken into account in the appropriate period as soon as better information is available. The estimates and assumptions that constitute a material risk that the carrying amounts of assets and liabilities may have to be adjusted within the next fiscal year are discussed below.

#### **(a) Goodwill impairment**

Testing intangible assets, especially goodwill, for impairment also involves assumptions and estimates regarding, for example, future cash flows, sustained earnings prospects, expected growth rates, exchange rates and discount rates. The relevant assumptions may change, leading to impairment losses in future periods.

The positive difference between recoverable amount and carrying amount of a CGU or group of CGUs to which goodwill is allocated is lowest in the "Renewable Energies and Distributed Facilities" division at €44.5 million. A sensitivity analysis was conducted for the parameters to which the recoverable amount reacts most sensitively. The recoverable amount would correspond to the carrying amount of the assets and liabilities assigned to the division if the discount rate used for the valuation were 0.4 percentage points higher or if the terminal value of EBITDA were 2.5 percent lower.

#### **(b) Impairment testing of deferred tax assets**

Deferred tax assets may only be recognized if it is probable that sufficient taxable income will be available in the future. Deferred taxes are calculated on the basis of the tax rates applicable on the date when temporary differences are likely to be reversed. If these expectations were not met, a write-down would have to be recognized in profit or loss for the deferred tax assets.

#### **(c) Measurement of provisions for pensions and other post-employment benefits**

The measurement of provisions for pensions and other post-employment benefits is based, inter alia, on assumptions about discount rates, expected future salary and pension increases and mortality tables. These assumptions may deviate from the actual data due to changes in economic or market conditions.

The sensitivity analysis for the main actuarial parameters is shown in Note (6.11).



(d) Measurement of other provisions

Other provisions, especially provisions for recultivation and environmental protection, dismantling obligations, litigation risks and restructuring, are naturally exposed to significant forecasting uncertainties regarding the level and timing of the obligation. The company has to make assumptions about the probability of occurrence of an obligation or future trends, such as the cost of obligations, on the basis of experience. Non-current provisions, in particular, are exposed to forecasting uncertainties. In addition, the level of non-current provisions depends to a large extent on the selection and development of the market-oriented discount rate and the estimate of the overall costs. The STEAG Group uses different interest rates for different currencies and terms to maturity.

(e) Measurement of financial instruments

To hedge future transactions relating to the distribution of energy from STEAG's power plants and from coal trading (see also Note (8.1) "Hedge accounting"), assumptions are made about the probability that the forecast transactions will take place. The STEAG Group hedges clean dark spread trading volumes in order to successively hedge expected future cash flows from the distribution of power. Expected distribution volumes are estimated by modeling expected future hourly power prices on the basis of historical data and expected market trends. Marketing is based on a model based on the assumption of a rolling intrinsic hedging approach and the sale of virtual shares of the power generated by power plants to third parties, which are valued using an in-house option pricing model. The assumptions and parameters used are regularly reviewed and adjusted to ensure the highest possible hedge quality. Alongside the futures price curve for power, a major factor influencing the volume to be hedged is the underlying power supply model. In the context of fuel trading, assumptions are made regarding the probability of sourcing and distribution volume for both long-term master agreements and shorter-term coal and sea freight contracts.

(f) Assumptions regarding subsidiaries

Although it holds less than 50 percent of the capital in GAL Fernwärmeschiene Saar-West Besitzgesellschaft mbH & Co. KG, the STEAG Group has control of this company as it has a majority of the voting rights. The company is not fully consolidated on materiality grounds.

(g) Assumptions regarding joint ventures

The STEAG Group holds more than 50 percent of the capital of the following material companies. At the same time, the company holds only 50 percent of the voting rights:

- Fernwärmeschiene Rhein-Ruhr GmbH
- STEAG O&M Company Pvt. Ltd. (India).

In addition stakes of less than 50 percent are held in the following material companies, that the Group controls jointly with several partners or with one partner, where the Group has 50 percent of the voting rights:

- Arenales Solar PS, S.L. (Spain)
- ENNI RMI Windpark Kohlenhuck Projektgesellschaft mbH
- STEAG SCR-Tech, Inc. (USA)
- Hawar Power Minerals W.L.L. (Qatar).

All of these companies are classified as joint ventures because the STEAG Group controls them jointly with one or more partners.

## (4) Scope of consolidation

### (4.1) General

Alongside STEAG GmbH, the consolidated financial statements include all material subsidiaries in Germany and abroad that are directly or indirectly controlled by STEAG GmbH. Associates and joint ventures are recognized at equity.

The scope of consolidation changed as follows:

Number of companies	Germany	Other	Total
<b>STEAG GmbH and consolidated subsidiaries:</b>			
As at December 31, 2015:	48	30	78
Acquisitions/newly established companies	3	1	4
Other companies consolidated for the first time	1	2	3
Intragroup mergers	1	-	1
Other companies derecognized	1	1	2
<b>As at December 31, 2016:</b>	<b>50</b>	<b>32</b>	<b>82</b>
<b>Investments recognized at equity:</b>			
As at December 31, 2015:	10	6	16
Acquisitions/newly established companies	-	3	3
Other first-time consolidations using the equity method	1	-	1
Divestments	1	-	1
Other companies derecognized	1	-	1
<b>As at December 31, 2016:</b>	<b>9</b>	<b>9</b>	<b>18</b>
	<b>59</b>	<b>41</b>	<b>100</b>

The impact of acquisitions made in the fiscal year on the assets, financial and earnings position was negligible.

### (4.2) Non-controlling interests

There are non-controlling interests of 49.0 percent in each case in the following subsidiaries, which are material for the STEAG Group: Iskenderun Enerji Üretim ve Ticaret A.S. (Turkey), STEAG State Power Inc. (Philippines), and STEAG-EVN Walsum 10 Kraftwerksgesellschaft mbH (Germany).

Condensed financial information for these subsidiaries is given below. It has been prepared in accordance with IFRS and adjusted for differences in the accounting methods used by the Group and any adjustment of the fair value as at the acquisition date. The amounts shown reflect the perspective of each subsidiary before intragroup elimination.

2016	Iskenderun Enerji Üretim ve Ticaret A.S.	STEAG State Power Inc.	STEAG-EVN Walsum 10 Kraftwerks- gesellschaft mbH
<b>in €million</b>			
Non-current assets as at December 31	158.4	217.1	771.4
Current assets as at December 31	280.0	53.2	270.6
Non-current liabilities as at December 31	11.7	75.5	427.7
Current liabilities as at December 31	99.7	39.0	175.7
<b>Net assets</b>	<b>327.0</b>	<b>155.8</b>	<b>438.6</b>
Sales	316.3	85.6	203.1
Income after taxes	5.2	15.2	17.1
Other comprehensive income after taxes	11.3	4.8	2.7
<b>Total comprehensive income</b>	<b>16.5</b>	<b>20.0</b>	<b>19.8</b>
Net assets attributable to non-controlling interests	160.2	76.4	216.5
Income after taxes attributable to non-controlling interests	2.5	7.5	30.6
Dividends attributable to non-controlling interests	38.7	15.1	2.6

2015	Iskenderun Enerji Üretim ve Ticaret A.S.	STEAG State Power Inc.	STEAG-EVN Walsum 10 Kraftwerks- gesellschaft mbH
<b>in €million</b>			
Non-current assets as at December 31	192.7	215.5	1,010.0
Current assets as at December 31	351.6	64.9	193.9
Non-current liabilities as at December 31	17.1	80.4	497.5
Current liabilities as at December 31	137.6	33.4	282.2
<b>Net assets</b>	<b>389.6</b>	<b>166.6</b>	<b>424.2</b>
Sales	309.3	91.9	207.8
Income after taxes	31.1	26.4	16.7
Other comprehensive income after taxes	45.6	18.4	9.5
<b>Total comprehensive income</b>	<b>76.7</b>	<b>44.8</b>	<b>26.2</b>
Net assets allocated to non-controlling interests	190.9	81.6	187.3
Income after taxes attributable to non-controlling interests	15.2	13.0	18.6
Dividends attributable to non-controlling interests	35.6	12.1	10.1

## (5) Notes to the income statement

### (5.1) Sales

in € million	2016	2015
Revenues from the sale of goods	3,547.7	3,186.5
Revenues from services	243.4	281.9
Revenues from finance leases	64.9	87.0
Revenues from construction contracts	9.8	12.8
	<b>3,865.8</b>	<b>3,568.2</b>

The increase in sales was mainly due to the rise of €361.2 million in revenues from the sale of goods, which mainly resulted from higher trading volumes, principally of power.

Sales include revenues of €4.4 million (prior year: €12.3 million) from renewable energy certificates allocated free of charge.

### (5.2) Other operating income

in € million	2016	2015
Income from the valuation of derivatives (excluding interest rate derivatives)	1,139.8	265.1
Income from the reversal of impairment losses	68.5	29.7
Income from the reversal of provisions	30.8	16.2
Income from the disposal of assets	28.7	4.9
Income from currency translation of monetary assets and liabilities	25.4	21.9
Income from other refunds and compensation for damage	6.7	2.3
Income from insurance refunds	6.5	4.0
Income from the reversal of deferred items	5.9	5.9
Income from non-core operations	5.0	6.5
Income from refunds of other taxes	4.3	5.2
Miscellaneous income	21.5	16.9
	<b>1,343.1</b>	<b>378.6</b>

The increase in income from the valuation of derivatives compared to the prior year mainly results from a sharp rise in trading volume, together with fluctuations in market prices, and is also reflected in higher expenses from the measurement of derivatives.

The income from the reversal of impairment losses contains write-ups of financial instruments, including €1.3 million (prior year: €3.9 million) relating to trade accounts receivable.

The remaining €67.2 million (prior year: €25.8 million) relates to write-ups of property, plant and equipment. Write-ups of €64.0 million (prior year: €25.7 million) were recognized, among other things, due to a revaluation of planning parameters following the partial arbitration award on the Walsum 10 power plant at the end of November 2016.

The income from the disposal of assets contains gains of €25.7 million (prior year: €0.4 million) relating to the loss of control of subsidiaries. €8.6 million (prior year: none) of this amount relates to the revaluation of the remaining shares in a subsidiary at a higher fair value. In addition, the income from the disposal of assets comprises gains of €1.4 million (prior year: €3.1 million) from the divestment of shareholdings and €1.5 million (prior year: €1.0 million) from the sale of property, plant and equipment and investment property.

The income from non-core operations contains rental income of €2.3 million (prior year: €2.1 million) from operating leases.

The nominal value of receivables from future minimum lease payments for assets leased under operating leases have the following payment terms:

in €million	Dec. 31, 2016	Dec. 31, 2015
Due within 1 year	1.4	1.8
Due within 1-5 years	1.1	1.0
	<b>2.5</b>	<b>2.8</b>

### (5.3) Cost of materials

in €million	2016	2015
Expenses for raw materials and supplies and goods and services sourced	3,107.9	2,669.4
Impairment losses on raw materials, supplies and goods sourced	12.6	6.9
Reversal of impairment losses on raw materials, supplies and goods sourced	-2.3	-3.7
	<b>3,118.2</b>	<b>2,672.6</b>

The cost of raw materials, supplies and goods and services sourced mainly comprises expenses for the coal used in the power plants and expenses for the procurement of power in fuel trading.

The €445.6 million increase in the cost of materials is mainly due to the increase of €552.0 million in goods sourced. At the same time, expenses for raw materials and supplies were €76.2 million lower, expenses for services sourced were €31.3 million lower, and maintenance and repair expenses were €6.0 million lower.

#### (5.4) Personnel expenses

in € million	2016	2015
Wages and salaries	421.1	322.5
Social security contributions	51.9	50.7
Pension expenses	26.7	28.6
Other personnel-related expenses	1.6	2.5
	<b>501.3</b>	<b>404.3</b>

The rise of €97.0 million in personnel expenses was mainly due to additions to restructuring provisions totaling € 106.2 million (prior year: € 2.5 million).

Net interest cost for pensions is reported in the interest result, see Note (5.8).

#### (5.5) Depreciation, amortization and impairment losses

This item includes depreciation and amortization resulting from the systematic allocation of the cost of acquisition or production over the useful life of assets. It also includes impairment losses on assets where the recoverable amount was below the carrying amount.

in € million	2016	2015
Depreciation and amortization	152.7	160.9
Impairment losses	48.5	41.0
	<b>201.2</b>	<b>201.9</b>

#### Depreciation and amortization

Depreciation and amortization refer to the following groups of assets:

in € million	2016	2015
Intangible assets	6.9	6.5
Property, plant and equipment	145.8	154.4
Investment property	0.0	0.0
	<b>152.7</b>	<b>160.9</b>

## Impairment losses

Impairment losses refer to the following groups of assets:

in € million	2016	2015
<b>Impairment losses pursuant to IAS 36:</b>	<b>42.1</b>	<b>35.6</b>
Intangible assets	1.3	0.8
Property, plant and equipment	40.6	34.8
Investment property	0.2	0.0
<b>Impairment losses pursuant to IAS 39:</b>	<b>6.4</b>	<b>5.4</b>
Financial assets	4.2	1.6
Trade accounts receivable and other receivables	2.2	3.8
	<b>48.5</b>	<b>41.0</b>

### (a) Impairment losses pursuant to IAS 36

As a consequence of the reorganization of the power plants in Germany in the prior year, they are divided into those that are clearly expected to be shut down and those with a strategy of continued operation. In 2016, further impairment losses of €3.4 million were recognized for intangible assets, property, plant and equipment at power plants that are clearly expected to be shut down (prior year: €34.4 million). Further, impairment losses of €38.5 million were recognized for intangible assets, property plant and equipment at other power generating plants in Germany and abroad, mainly due to a reduction in the marketability of renewable energy certificates at Crucea Wind Farm S.A., Romania. The fair values were determined on the basis of the recoverable value model, see the section on "Impairment testing" in Note (2.6).

### (b) Impairment losses pursuant to IAS 39

in € million	2016	2015
<b>Financial assets</b>	<b>4.2</b>	<b>1.6</b>
Loans	2.5	0.0
Other investments	1.7	1.6
<b>Trade accounts receivable</b>	<b>1.8</b>	<b>3.0</b>
<b>Other receivables</b>	<b>0.4</b>	<b>0.8</b>
	<b>6.4</b>	<b>5.4</b>

In the reporting period, several trade accounts receivable, which were individually immaterial, were combined and impairment losses totaling €1.8 million (prior year: €3.0 million) were recognized on them. Further, an impairment loss of €1.7 million was recognized for the shares in one investment in Germany included in other investments. The impairment losses on loans related to shareholder loans to other investments in Germany totaling €2.3 million and an impairment loss of €0.2 million outside Germany.

Further, in light of the planned shutdown of the West power plant, in the previous year the shares in GbR Gemeinschaftskraftwerk West totaling €1.6 million were written down entirely.



#### (5.6) Other operating expenses

in €million	2016	2015
Losses on the valuation of derivatives (excluding interest rate derivatives)	1,144.5	257.0
Administrative expenses	60.9	65.5
Insurance premiums	22.0	22.3
Losses on currency translation of monetary assets and liabilities	21.2	26.0
Rental expenses under leasing agreements	19.4	21.9
Miscellaneous tax expense	8.4	10.7
IT expenses	7.8	8.1
Expenses for maintenance and repairs	5.3	5.1
Selling expenses	4.9	5.3
Losses on the disposal of assets	3.3	2.9
Miscellaneous other operating expenses	113.1	47.5
	<b>1,410.8</b>	<b>472.3</b>

The increase in losses on the valuation of derivatives compared to the prior year mainly results from a sharp rise in trading volume, together with fluctuations in market prices, and is also reflected in higher income from the valuation of derivatives.

Losses on the disposal of assets comprise €1.8 million (prior year: €1.6 million) relating to the disposal of intangible assets, property, plant and equipment, €1.2 million (prior year: €0.1 million) relating to the disposal of investments, and €0.3 million (prior year: €1.2 million) relating to the disposal of other loans and receivables.

In 2016, miscellaneous other operating expenses comprised additions of €59.4 million to provisions for obligations to safeguard the future of the Lünen and West power plant sites, see Note (6.12). Further, other operating expenses mainly comprised plant and business management fees, expenses for other external services, additions to provisions, and travel expenses.

#### (5.7) Research and development expenses

Research and development expenses amounted to €1.0 million in 2016 (prior year: €1.1 million). In 2016, the majority of these expenses are included in the cost of materials. In the prior year, the majority were included in other operating expenses.

## (5.8) Interest result

in € million	2016	2015
Interest income from financial assets	19.2	10.4
Interest and similar income from interest rate derivatives	0.9	0.2
Interest income from discounting other provisions	-	1.7
Other interest-type income	8.6	0.7
<b>Interest income</b>	<b>28.7</b>	<b>13.0</b>
Interest expense for financial liabilities	-61.2	-52.8
Net interest expense for pensions	-22.5	-22.6
Interest expense for income tax liabilities	-16.5	0.0
Interest expenses on accrued interest on other provisions	-8.1	-6.3
Interest and similar expenses for interest rate derivatives	-3.9	-1.4
Interest expense for finance leases	-2.7	-3.0
Other interest-type expenses	-6.5	-8.6
<b>Interest expense</b>	<b>-121.4</b>	<b>-94.7</b>
	<b>-92.7</b>	<b>-81.7</b>

€ 6.4 million (prior year: none) of the interest income from financial assets comprises interest relating to the arbitration award in connection with the Walsum 10 project, see Note (6.7). Further, € 6.3 million (prior year: € 6.0 million) came from the € 150.0 million upstream loan granted by STEAG GmbH to KSBG KG in 2014, see Note (6.5).

The other interest-type income contains € 6.7 million from the reversal of a provision for a contract fulfillment guarantee in connection with the Walsum 10 project.

The interest expense for financial liabilities comprises € 9.9 million (prior year: € 9.7 million) in connection with the bonded loans taken out by STEAG GmbH in 2014.

The interest expense for income tax liabilities includes € 15.4 million (prior year: none) for interest on retrospective tax payments in Turkey, see Note (5.11).

Borrowing costs of € 1.4 million (prior year: € 3.4 million) were capitalized.

The average cost of capital for capitalized borrowing costs in the STEAG Group is 2.6 percent (prior year: 2.6 percent).

#### (5.9) Result from investments recognized at equity

in €million	2016	2015
Equity-method income	7.9	23.5
Equity-method expenses	-1.3	-1.2
	<b>6.6</b>	<b>22.3</b>

In 2016, the result came from investments recognized at equity that were individually non-material. REG Raffinerie-Energie GmbH & Co. oHG, Cologne (Germany), was divested in 2016. In the prior year, the result from investments recognized at equity mainly comprised the pro rata income from REG Raffinerie-Energie GmbH & Co. oHG, Cologne, totaling € 16.3 million.

#### (5.10) Other financial income

in €million	2016	2015
Income from other investments	5.2	4.7
Gains on the sale of current securities	0.1	-
Losses on the sale of current securities	-	-0.2
Other financial income	-	3.9
Other financial expenses	-	-8.0
	<b>5.3</b>	<b>0.4</b>

The other financial income and expenses in the prior year related to changes in the market value of energy contracts. In the reporting period, they are recognized as income and expenses for the valuation of derivatives in other operating income or other operating expenses.

## (5.11) Income taxes

Income taxes comprise the following:

in € million	2016	2015
Other income taxes	98.4	78.6
(thereof relating to other periods)	(33.0)	(-0.2)
Deferred taxes	18.9	26.1
(thereof relating to other periods)	(3.3)	(-3.3)
	<b>117.3</b>	<b>104.7</b>

The tax reconciliation shows the development of expected income taxes relative to the effective income taxes stated in the income statement.

The expected current income taxes are based on an aggregate tax rate of 16.0 percent (prior year: 16.0 percent). This comprises the average domestic trade tax. The effective income taxes include income taxes, income tax allocations and deferred taxes.

in € million	2016	2015
<b>Income before income taxes</b>	<b>-103.5</b>	<b>141.6</b>
Expected income taxes	-16.6	22.7
Variances/changes in tax rates	28.1	20.5
Change in the impairment of deferred taxes	33.8	40.6
Non-deductible expense	27.0	7.4
Tax-free income	-4.6	-1.6
Other	49.6	15.1
<b>Effective income taxes</b>	<b>117.3</b>	<b>104.7</b>

The variances between expected and effective income taxes are principally due to deviations in foreign tax rates. The change in the impairment of deferred taxes principally comprises €26.9 million (prior year: €34.3 million) relating to the impairment of deferred tax assets for the German tax entity, taking into account future tax planning. The other effects contain deferred tax liabilities relating to other periods totaling €3.3 million (prior year: minus €3.3 million), non-period taxes of €31.2 million (prior year: none) relating to tax proceedings at Iskenderun Enerji Üretim ve Ticaret A.S. (Turkey), and deferred tax assets totaling €12.0 million (prior year: €23.4 million) resulting from exchange rate fluctuations at Iskenderun Enerji Üretim ve Ticaret A.S. (Turkey).

## (6) Notes to the balance sheet

### (6.1) Intangible assets

in € million	Goodwill	Other intangible assets	Total
<b>Acquisition/production cost</b>			
<b>As at January 1, 2015</b>	<b>62.5</b>	<b>168.3</b>	<b>230.8</b>
Currency translation	0.8	4.9	5.7
Additions from business combinations	0.2	21.4	21.6
Other additions	-	5.9	5.9
Disposals	-	-2.2	-2.2
Reclassifications	-	1.2	1.2
<b>As at December 31, 2015</b>	<b>63.5</b>	<b>199.5</b>	<b>263.0</b>
Currency translation	-0.4	1.9	1.5
Additions from business combinations	1.2	24.1	25.3
Other additions	-	3.1	3.1
Disposals	-0.5	-3.1	-3.6
Reclassifications	-	0.0	0.0
<b>As at December 31, 2016</b>	<b>63.8</b>	<b>225.5</b>	<b>289.3</b>
<b>Amortization and impairment losses</b>			
<b>As at January 1, 2015</b>	<b>-</b>	<b>102.2</b>	<b>102.2</b>
Currency translation	-	1.3	1.3
Amortization	-	6.5	6.5
Impairment losses	-	0.8	0.8
Reversal of impairment losses	-	0.0	0.0
Disposals	-	-1.9	-1.9
Reclassifications	-	0.0	0.0
<b>As at December 31, 2015</b>	<b>-</b>	<b>108.9</b>	<b>108.9</b>
Currency translation	-	0.3	0.3
Amortization	-	6.9	6.9
Impairment losses	-	1.3	1.3
Reversal of impairment losses	-	-	-
Disposals	-	-1.8	-1.8
Reclassifications	-	0.0	0.0
<b>As at December 31, 2016</b>	<b>-</b>	<b>115.6</b>	<b>115.6</b>
<b>Carrying amounts as at December 31, 2015</b>	<b>63.5</b>	<b>90.6</b>	<b>154.1</b>
<b>Carrying amounts as at December 31, 2016</b>	<b>63.8</b>	<b>109.9</b>	<b>173.7</b>

The reported goodwill results from acquisitions of shares in subsidiaries.

Elektrociepłownia Mielec Sp. Z o.o. (Poland) was consolidated for the first time in 2016. The resulting goodwill of € 1.2 million was allocated to the Renewable Energies and Distributed Facilities division. The acquisition comprised the purchase of 85.37 percent of the shares in this company for € 18.4 million.

The goodwill is allocated to the Power group of CGUs and the Renewable Energies and Distributed Facilities CGU.

The table shows how it is broken down:

### Goodwill

in €million	Dec. 31, 2016	Dec. 31, 2015
Power	52.4	53.2
Renewable Energies and Distributed Facilities	11.4	10.3
	<b>63.8</b>	<b>63.5</b>

On the reporting date, there were other restrictions on the use of intangible assets totaling €50.2 million (prior year: €56.6 million). As in the prior year, there were no commitments to purchase intangible assets.

## (6.2) Property, plant and equipment

in € million	Land, land rights and buildings	Plant and machinery	Other plant, office furniture and equipment	Advance payments and construction in progress	Total
<b>Acquisition/production cost</b>					
<b>As at January 1, 2015</b>	<b>528.2</b>	<b>4,447.9</b>	<b>139.9</b>	<b>84.4</b>	<b>5,200.4</b>
Currency translation	5.3	6.4	3.2	1.6	16.5
Additions from business combinations	14.5	10.6	0.1	3.4	28.6
Other additions	7.8	41.0	9.5	126.2	184.5
Disposals	-1.2	-20.9	-8.6	-0.6	-31.3
Reclassifications	-3.3	141.0	1.8	-141.5	-2.0
<b>As at December 31, 2015</b>	<b>551.3</b>	<b>4,626.0</b>	<b>145.9</b>	<b>73.5</b>	<b>5,396.7</b>
Currency translation	0.0	0.4	1.2	0.3	1.9
Additions from business combinations	5.8	12.6	0.8	1.5	20.7
Other additions	7.8	81.4	8.8	62.6	160.6
Disposals	-11.0	-239.8	-4.1	-3.2	-258.1
Reclassifications	15.9	81.2	1.2	-99.7	-1.4
<b>As at December 31, 2016</b>	<b>569.8</b>	<b>4,561.8</b>	<b>153.8</b>	<b>35.0</b>	<b>5,320.4</b>
<b>Depreciation and impairment losses</b>					
<b>As at January 1, 2015</b>	<b>273.6</b>	<b>2,874.3</b>	<b>102.1</b>	<b>2.0</b>	<b>3,252.0</b>
Currency translation	1.2	2.5	2.2	-	5.9
Additions from business combinations	-	-	0.0	-	0.0
Depreciation	13.9	128.9	11.6	-	154.4
Impairment losses	8.4	26.2	0.0	0.2	34.8
Reversal of impairment losses	-1.0	-24.8	-	-	-25.8
Disposals	-0.5	-15.5	-8.4	0.0	-24.4
Reclassifications	-0.4	0.5	0.0	-0.1	0.0
<b>As at December 31, 2015</b>	<b>295.2</b>	<b>2,992.1</b>	<b>107.5</b>	<b>2.1</b>	<b>3,396.9</b>
Currency translation	-0.2	-0.6	0.8	-	0.0
Additions from business combinations	-	-	0.0	-	0.0
Depreciation	12.1	122.4	11.3	-	145.8
Impairment losses	1.0	37.6	2.0	0.0	40.6
Reversal of impairment losses	-2.6	-64.6	-	-	-67.2
Disposals	-1.9	-31.4	-3.7	-0.7	-37.7
Reclassifications	0.0	-0.8	0.0	0.6	-0.2
<b>As at December 31, 2016</b>	<b>303.6</b>	<b>3,054.7</b>	<b>117.9</b>	<b>2.0</b>	<b>3,478.2</b>
<b>Carrying amounts as at Dec. 31, 2015</b>	<b>256.1</b>	<b>1,633.9</b>	<b>38.4</b>	<b>71.4</b>	<b>1,999.8</b>
<b>Carrying amounts as at Dec. 31, 2016</b>	<b>266.2</b>	<b>1,507.1</b>	<b>35.9</b>	<b>33.0</b>	<b>1,842.2</b>

The carrying amounts recognized for finance lease contracts comprise €1.1 million for land, land rights and buildings (prior year: €1.3 million), €19.8 million for plant and machinery (prior year: €25.9 million), and €1.0 million for other plant, office furniture and equipment (prior year: €1.5 million).

In the legal dispute about the Walsum 10 power plant, a partial arbitration award was adopted at the end of November 2016. This rules mainly in favor of the joint project company STEAG-EVN Walsum 10 Kraftwerksgesellschaft Walsum 10 on the key economic claims.

€184.1 million of these claims were recognized in the Group's property, plant and equipment as a reduction in the acquisition cost.

The carrying amounts of property, plant and equipment pledged as collateral for Group liabilities amounted to €613.2 million (prior year: €721.0 million). Property, plant and equipment totaling €4.1 million (prior year: €12.6 million) was pledged as collateral for third-party liabilities. A further €426.2 million (prior year: €715.9 million) was subject to other restrictions on title. The decline in assets pledged as collateral relates primarily to STEAG-EVN Walsum 10 Kraftwerksgesellschaft mbH (Germany), and Crucea Wind Farm S.A. (Romania).

The Group has commitments of €19.3 million (prior year: €93.0 million) to purchase property, plant and equipment.



### (6.3) Investment property

in € million	Land, land rights	Buildings	Total
<b>Acquisition/production cost</b>			
<b>As at January 1, 2015</b>	<b>14.0</b>	<b>0.8</b>	<b>14.8</b>
Disposals	0.0	-0.2	-0.2
Reclassifications	-	-	0.0
<b>As at December 31, 2015</b>	<b>14.0</b>	<b>0.6</b>	<b>14.6</b>
Disposals	-0.1	-0.1	-0.2
Reclassifications	0.0	-	0.0
<b>As at December 31, 2016</b>	<b>13.9</b>	<b>0.5</b>	<b>14.4</b>
<b>Depreciation and impairment losses</b>			
<b>As at January 1, 2015</b>	<b>0.3</b>	<b>0.5</b>	<b>0.8</b>
Depreciation	-	0.0	0.0
Impairment losses	-	-	0.0
Disposals	-	-0.2	-0.2
<b>As at December 31, 2015</b>	<b>0.3</b>	<b>0.3</b>	<b>0.6</b>
Depreciation	-	0.0	0.0
Impairment losses	0.2	-	0.2
Disposals	-	-	0.0
<b>As at December 31, 2016</b>	<b>0.5</b>	<b>0.3</b>	<b>0.8</b>
<b>Carrying amounts as at December 31, 2015</b>	<b>13.7</b>	<b>0.3</b>	<b>14.0</b>
<b>Carrying amounts as at December 31, 2016</b>	<b>13.4</b>	<b>0.2</b>	<b>13.6</b>

The fair value of investment property was €22.3 million (prior year: €23.3 million).

The income statement contains operating expenses totaling €0.2 million (prior year: €0.2 million) that are directly related to investment property that generates rental revenues. Rental revenues amounted to €1.6 million (prior year: €1.6 million).

#### (6.4) Investments recognized at equity

The STEAG Group holds shares in a number of associates and joint ventures, which are individually non-material.

The carrying amount of associates recognized at equity is €44.9 million (prior year: €33.8 million) and the carrying amount of joint ventures recognized at equity is €31.3 million (prior year: €10.6 million). The following table shows the combined financial data from the latest available financial statements of these companies:

in €million	Associates		Joint ventures	
	2016	2015	2016	2015
Income after taxes	14.1	17.4	-7.2	-12.4
Other comprehensive income after taxes	0.0	0.0	4.7	-17.0
<b>Total comprehensive income</b>	<b>14.1</b>	<b>17.4</b>	<b>-2.5</b>	<b>-29.4</b>

In 2014, the STEAG Group granted a guarantee in favor of the joint venture Arenales Solar PS, S.L. (Spain). This was valued at €65.8 million on the reporting date (prior year: €67.6 million). Further, there is a contingent liability of €9.4 million (prior year: €9.4 million) for an obligation to make equity payments to Arenales Solar PS, S.L., (Spain).

A credit facility of €6.4 million was made available to the joint venture Fernwärmeschiene Rhein-Ruhr GmbH. A total of €3.0 million of this had been drawn as at year-end 2016.

## (6.5) Financial assets

in € million	Dec. 31, 2016		Dec. 31, 2015	
	Total	Thereof non-current	Total	Thereof non-current
Other investments	57.6	57.6	60.5	60.5
Loans	182.9	172.4	179.1	168.7
Securities and similar rights	20.0	0.0	19.7	0.0
Receivables from finance leases	376.9	307.1	496.7	360.0
Receivables from derivatives	962.4	128.6	374.2	106.6
Other financial assets	193.5	0.2	340.9	-
	<b>1,793.3</b>	<b>665.9</b>	<b>1,471.1</b>	<b>695.8</b>

### (a) Other investments

Other investments comprise investments in unlisted equity instruments that are recognized at cost of acquisition if their fair value cannot be determined reliably.

### (b) Loans

Loans are exposed to an interest rate risk, which can affect their fair value or future cash flows. They are recognized at the cost of acquisition.

In 2014, an upstream loan of € 150.0 million was granted to KSBG KG. Including capitalized interest, lending to KSBG KG totaled € 164.3 million (prior year: € 157.9 million).

The risk and maturity structure of loans is as follows:

in € million	Dec. 31, 2016	Dec. 31, 2015
<b>Impaired loans</b>	<b>3.5</b>	<b>2.3</b>
Gross amount	49.3	45.9
Impairment losses	-45.8	-43.6
<b>Non-impaired loans</b>	<b>179.4</b>	<b>176.8</b>
Not yet due	179.4	176.8
	<b>182.9</b>	<b>179.1</b>

### (c) Securities and similar rights

Securities and similar rights are exposed to an interest rate risk, which can affect their fair value or future cash flows. If no market price is available, they are valued at amortized cost. Securities listed on a stock exchange are exposed to a risk of changes in their market price.

(d) Receivables from finance leases

The reconciliation from gross investment to the present value of outstanding minimum lease payments and their due dates is as follows:

in €million	Dec. 31, 2016	Dec. 31, 2015
<b>Gross investment</b>	<b>682.4</b>	<b>853.7</b>
(thereof non-guaranteed residual value)	( - )	( - )
Due within 1 year	120.4	201.4
Due within 1-5 years	254.5	328.4
Due in more than 5 years	307.5	323.9
Interest included therein	-305.5	-357.0
<b>Net investment</b>	<b>376.9</b>	<b>496.7</b>
Accumulated impairment losses	-	-
<b>Carrying amount of receivables from finance leases</b>	<b>376.9</b>	<b>496.7</b>
Less present value of non-guaranteed residual values	-	-
<b>Present value of outstanding minimum lease payments</b>	<b>376.9</b>	<b>496.7</b>
Due within 1 year	69.7	136.6
Due within 1-5 years	137.9	191.8
Due in more than 5 years	169.3	168.3

No contingent lease payments were received under finance leases in 2016 or 2015.

Receivables from finance leases include a contract for the supply of electricity by the Iskenderun power plant in Turkey valued at € 129.8 million (prior year: € 211.4 million). This contract runs for 20 years and ends in November 2019.

The original planning for the Iskenderun power plant did not include any material earnings from the continued use of the power plant after the end of the finance lease. Based on the present assessment, it is assumed that positive earnings will be generated by continued use of the power plant, probably until 2035. In the light of this assessment, net revenues are anticipated for the period 2020 to 2035. Their unrecognized present value was € 687.3 million on the reporting date (prior year: € 607.6 million).

A further € 195.4 million (prior year: € 192.8 million) relates to receivables from a supply contract for power from the Mindanao power plant in the Philippines. This contract of STEAG State Power Inc. (Philippines) runs for 25 years and ends in November 2031. The leased assets will be transferred to the lessee when the contract ends.

Moreover, receivables from finance leases include € 0.9 million (prior year: € 30.0 million) relating to the lease agreement for the STEAG refinery power plant in Leuna (Germany). This agreement dates from November 1994 and had an original term of twelve years. In 2006 it was extended for another eight years to November 2014. In 2014 a new agreement was concluded up to November 2016. In 2016 a new agreement was concluded for a 10-year period.

Receivables from finance leases include a contract for the supply of electricity by the Termopaipa power plant (Colombia) valued at €40.2 million (prior year: €55.1 million). This contract ends in January 2019. Continued use of the power plant is expected after the end of this contract.

In 2016, there were further receivables from finance leases totaling €10.6 million (prior year: €7.4 million), none of which were individually material.

(e) Receivables from derivatives

The breakdown of receivables from derivatives is as follows:

in €million	Dec. 31, 2016	Dec. 31, 2015
Receivables from currency derivatives	30.5	54.3
Receivables from interest rate derivatives	1.6	0.2
Receivables from commodity derivatives	930.3	319.7
	<b>962.4</b>	<b>374.2</b>

Most of the receivables from interest rate derivatives – €1.6 million (prior year: €0.2 million) – derivatives related to interest rate swaps.

The positive fair value of options relating to energy contracts were recognized in receivables from commodity derivatives in the reporting period and in other financial assets in the prior year.

(f) Other financial assets

Financial assets include margining of €21.8 million (prior year: €115.9 million) for stock exchange forward contracts. Further, positive fair values from pending hedged transactions recognized as fair value hedges totaled €3.8 million (prior year: none). In 2015, financial liabilities included the positive fair values of options relating to energy contracts amounting to €7.1 million.

(g) Collateral pledged

Total financial assets pledged as collateral for Group liabilities amounted to €84.6 million (prior year: €96.3 million). A further €238.5 million (prior year: €235.6 million) was subject to other restrictions on use. In fiscal year 2016, the majority of the assets pledged as collateral related to receivables from finance leases of the project companies for the Termopaipa and Mindanao power plants.

The collateral can only be utilized by the financing banks in the event of permanent non-performance of contractual obligations, for example, non-payment of interest and repayment installments, or failure to achieve agreed financial covenants. Utilization of the collateral is not anticipated.

## (6.6) Inventories

in €million	Dec. 31, 2016	Dec. 31, 2015
Raw materials and supplies	283.7	277.4
Work in progress	38.3	21.3
Finished goods and merchandise	4.2	9.3
	<b>326.2</b>	<b>308.0</b>

The year-on-year increase of €6.3 million in raw materials and supplies was mainly due to higher inventories of coal. At the same time, there was a reduction in emission allowances intended for consumption. The increase of €17.0 million in work in progress was mainly due to heating plants currently under construction. The € 5.1 million reduction in finished goods and merchandise was caused by lower inventories of goods for resale than in the prior year.

Inventories totaling €36.0 million (prior year: €44.2 million) are recognized at net realizable value.

Inventories include €3.3 million (prior year: €4.1 million) for renewable energy certificates allocated free of charge.

Inventories of €6.9 million (prior year: €9.0 million) are subject to restrictions on use.

## (6.7) Trade accounts receivable and other receivables

in €million	Dec. 31, 2016		Dec. 31, 2015	
	Total	Thereof non-current	Total	Thereof non-current
Trade accounts receivable	534.8	-	403.4	-
Receivables from construction contracts	2.5	1.2	4.3	0.7
Advance payments made	6.1	-	4.4	-
Miscellaneous other receivables	165.7	9.1	118.6	8.5
Deferred expenses	16.5	5.0	11.6	1.0
	<b>725.6</b>	<b>15.3</b>	<b>542.3</b>	<b>10.2</b>

### (a) Trade accounts receivable

Trade accounts receivable include claims to reimbursement from third parties amounting to €18.7 million (prior year: €35.9 million). These related to other provisions for the obligation to surrender emission allowances (prior year: provisions for the obligation to surrender emission allowances and miscellaneous obligations), see Note (6.12).

The risk and maturity structure of trade accounts receivable is as follows:

in €million	Dec. 31, 2016	Dec. 31, 2015
<b>Impaired receivables</b>	<b>0.5</b>	<b>0.0</b>
Gross amount	3.7	3.9
Impairment losses	-3.2	-3.9
<b>Non-impaired receivables</b>	<b>534.3</b>	<b>403.4</b>
Not yet due	523.2	386.2
Overdue	11.1	17.2
Up to 30 days	2.8	9.4
30 to 60 days	1.4	2.1
60 to 90 days	1.3	0.7
More than 90 days	5.6	5.0
	<b>534.8</b>	<b>403.4</b>

in €million	Dec. 31, 2016	Dec. 31, 2015
Germany	411.3	305.1
Turkey	72.1	43.0
Other countries in the European Union	15.0	11.8
Other regions	36.4	43.5
	<b>534.8</b>	<b>403.4</b>

(b) Receivables from construction contracts

in €million	Dec. 31, 2016	Dec. 31, 2015
Costs incurred plus profits/less losses	6.1	11.7
Advance payments received for construction contracts	-3.6	-7.4
	<b>2.5</b>	<b>4.3</b>

In the reporting period, no advance payments were received from customers prior to the performance of the corresponding work (prior year: € 1.3 million).

(c) Miscellaneous other receivables

Miscellaneous other receivables include claims to reimbursement from third parties amounting to €28.2 million (prior year: €12.7 million) which relate to other provisions for restructuring, recultivation and environmental protection (prior year: provisions for recultivation and environmental protection), see Note (6.12).

As a result of the partial arbitration award of November 2016 relating to the arbitration proceedings in connection with the boiler damage at Walsum 10, the STEAG Group has capitalized a claim to a compensation payment of €59.3 million in other receivables.

(d) Collateral pledged

Receivables pledged as collateral for Group liabilities amounted to € 0.3 million (prior year: € 0.8 million).

A further € 120.9 million (prior year: € 62.3 million) was subject to other restrictions on use. The increase in restrictions on use is connected to the partial arbitration award in connection with the boiler damage at Walsum 10.

**(6.8) Cash and cash equivalents**

The cash and cash equivalents totaling € 536.9 million (prior year: € 573.3 million) include balances with banks, checks and cash. This item also includes financial securities with high liquidity and terms of no more than three months on the date of acquisition. The carrying amount of cash and cash equivalents pledged as collateral amounted to € 45.6 million (prior year: € 243.2 million). The reduction was mainly attributable to the complete repayment of the secured credit facilities at the subsidiaries Iskenderun Enerji Üretim ve Ticaret A.S. (Turkey) and Crucea Wind Farm S.A. (Romania).

**(6.9) Assets held for sale**

In the prior year, the assets held for sale comprised the shares in REG Raffinerie-Energie GmbH & Co. oHG. The agreement on the sale of the shares was concluded in fiscal 2015, with economic effect from 2016.



## **(6.10) Equity**

### **(a) Issued capital**

The company's fully paid-up capital stock was unchanged at €128,000,000 on the reporting date.

### **(b) Capital reserve**

As in the prior year, the capital reserve of STEAG GmbH totaling €79.5 million contains all other payments received from shareholders pursuant to Section 272 Paragraph 2 Nos. 1 and 4 of the German Commercial Code (HGB).

### **(c) Accumulated income/loss**

The accumulated loss of €183.0 million (prior year: accumulated income of €157.8 million) comprises Group earnings from fiscal 2016 and prior years. Income after taxes corresponds to the net income attributable to shareholders of STEAG GmbH, as stated in the income statement for the 2016 fiscal year. As at December 31, 2016, STEAG GmbH's profit reserves (HGB) were unchanged at €272.8 million. Earnings of €54.6 million (prior year: €72.9 million) are to be transferred under the profit and loss transfer agreement between STEAG GmbH and KSBG KG.

The accumulated income/loss also includes the remeasurement of the net defined benefit liability from defined benefit plans after taxes.

### **(d) Accumulated other comprehensive income**

Accumulated other comprehensive income contains gains and losses that are not recognized in the income statement.

The reserve for changes in the fair value of available-for-sale securities contains write-ups and write-downs resulting from changes in the value of financial instruments that are not expected to be permanent and are thus not recognized in profit or loss.

The reserve for changes in the fair value of financial instruments used in hedging relationships comprises net gains or losses resulting from changes in the fair value of the effective portion of hedging instruments that are accounted for as cash flow hedges or net investment hedges.

The reserve for differences arising from currency translation comprises differences arising from the translation of foreign financial statements to euros, which is the Group's reporting currency.

The reserve for investments recognized at equity contains the pro rata change in the equity of the companies that is recognized without any impact on profit or loss.

The changes in accumulated other comprehensive income were as follows:

<b>in € million</b>	Changes in the fair value of available-for-sale securities	Changes in the fair value of financial instruments used in hedging relationships	Differences arising from currency translation	Investments recognized at equity	<b>Total</b>
<b>As at January 1, 2015</b>	<b>-0.1</b>	<b>51.8</b>	<b>-31.3</b>	<b>-1.7</b>	<b>18.7</b>
<b>Other comprehensive income after taxes:</b>	<b>0.1</b>	<b>-11.8</b>	<b>39.5</b>	<b>0.3</b>	<b>28.1</b>
Gains/losses recognized in OCI	0.0	-21.4	39.5	0.3	18.4
Amounts reclassified to the income statement	0.1	-17.3	-	-	-17.2
Amounts reclassified to assets and liabilities	-	28.1	-	-	28.1
Deferred taxes on OCI	0.0	-1.2	-	-	-1.2
<b>As at December 31, 2015</b>	<b>0.0</b>	<b>40.0</b>	<b>8.2</b>	<b>-1.4</b>	<b>46.8</b>
<b>Other comprehensive income after taxes:</b>	<b>0.3</b>	<b>-4.0</b>	<b>9.9</b>	<b>0.1</b>	<b>6.3</b>
Gains/losses recognized in OCI	0.3	-34.1	11.6	0.1	-22.1
Amounts reclassified to the income statement	-	-39.6	-1.7	-	-41.3
Amounts reclassified to assets and liabilities	-	70.7	-	-	70.7
Deferred taxes on OCI	0.0	-1.0	-	-	-1.0
<b>Changes in shareholdings in subsidiaries without loss of control</b>	<b>-</b>	<b>-</b>	<b>-0.1</b>	<b>-</b>	<b>-0.1</b>
<b>As at December 31, 2016</b>	<b>0.3</b>	<b>36.0</b>	<b>18.0</b>	<b>-1.3</b>	<b>53.0</b>

(e) Equity attributable to non-controlling interests

Non-controlling interests comprise shares in the issued capital and reserves of consolidated subsidiaries that are not attributable to the shareholders of STEAG GmbH.

The change in OCI relating to non-controlling interests was €9.2 million (prior year: €38.0 million) and contains the change in accumulated income/loss and accumulated other comprehensive income.

The change in accumulated income/loss contains a loss of €0.1 million (prior year: income of €0.6 million) from remeasurement of the net defined benefit liability from defined benefit pension plans after taxes in the reporting period. Further, the change in accumulated income/loss is due to changes in shareholdings in subsidiaries without loss of control amounting to minus €1.5 million (prior year: none).

The changes in accumulated other comprehensive income relating to non-controlling interests were as follows:

in € million	Changes in the fair value of financial instruments used in hedging relationships	Differences arising from currency translation	Total
<b>As at January 1, 2015</b>	<b>-30.8</b>	<b>-27.3</b>	<b>-58.1</b>
<b>Other comprehensive income after taxes:</b>	<b>4.0</b>	<b>33.4</b>	<b>37.4</b>
Gains/losses recognized in OCI	-4.0	33.4	29.4
Amounts reclassified to the income statement	9.7	-	9.7
Deferred taxes on OCI	-1.7	-	-1.7
<b>As at December 31, 2015</b>	<b>-26.8</b>	<b>6.1</b>	<b>-20.7</b>
<b>Other comprehensive income after taxes:</b>	<b>2.5</b>	<b>8.2</b>	<b>10.7</b>
Gains/losses recognized in OCI	-4.7	8.2	3.5
Amounts reclassified to the income statement	8.7	-	8.7
Deferred taxes on OCI	-1.5	-	-1.5
<b>Changes in shareholdings in subsidiaries without loss of control</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>
<b>As at December 31, 2016</b>	<b>-24.3</b>	<b>14.4</b>	<b>-9.9</b>

#### (6.11) Provisions for pensions and other post-employment benefits

As in the prior year, German companies accounted for most of the pension provisions on the reporting date.

At the German companies, occupational pension plans are predominantly defined benefit plans. They are primarily funded by provisions.

The main defined benefit pension plans for the German companies in the STEAG Group comprise the "Ruhegeldordnung" pension regulation, the Bochumer Verband benefit plan (Bochumer Verband old), the Bochumer Verband benefit plan for employer-financed pension commitments (Bochumer Verband II - employer-financed) and the Bochumer Verband benefit plan - deferred compensation (Bochumer Verband - employee-financed).

The Bochumer Verband II employer- and employee-financed plans are defined contribution plans. All of these plans are based on a company agreement and are financed by the employer, which recognizes provisions for these commitments.

Under the "Ruhegeldordnung" and "Bochumer Verband old" plans, all employees were granted rights to lifelong retirement pension benefits, disability benefits and surviving dependents' benefits by way of direct commitments. These are final-salary plans. Benefits depend on pensionable income, the contribution ceiling for statutory pension insurance and the number of eligible years of service. The

"Ruhegeldordnung" and "Bochumer Verband old" plans were closed to new entrants on June 30, 2002.

Starting in January 1, 1982, the "Ruhegeldordnung" granted non-managerial employees a company pension plan. Employees hired prior to January 1, 1982 have salary-based vested rights from a previous company agreement. Current benefits are reviewed regularly in accordance with Section 16 Paragraph 1 of the German Company Pensions Improvement Act (BetrAVG). Therefore, the benefit obligation for these pension commitments is dependent on inflation.

The "Bochumer Verband old" pension plan provided pensions for exempt and managerial employees through individual contractual arrangements. The contributions made by these groups are set by the Bochumer Verband, taking into account the general development of salaries for exempt employees, by applying a salary trend for valuation purposes. Current benefits are reviewed by Bochumer Verband and adjusted at its discretion, with due consideration being given to the interests of the beneficiaries and the economic situation of the members. The adjustments to the benefits are indirectly related to inflation.

The Bochumer Verband II - employer-financed - and Bochumer Verband II - employee-financed - plans grant employees covered by collective agreements, exempt employees and senior management staff rights to lifelong retirement benefits, disability benefits and surviving dependents' benefits. For the employer-financed Bochumer Verband II plan, rights are granted as direct commitments, while the employee-financed Bochumer Verband II plan is financed through deferred compensation. The employer and employee contributions are converted into pension increments on the basis of age using conversion factors set out in the relevant actuarial tables. The pension benefits payable are derived from the sum of all pension increments accrued up to the date of eligibility. The guaranteed annual pension increase of 1 percent p.a. based on current benefits relieves the employer from the additional review in accordance with Section 16 of the German Company Pensions Improvement Act (BetrAVG). Therefore, the present value of the defined benefit obligation used for valuation purposes is not dependent on inflation. Furthermore, the valuation is based on the present value of the benefits earned in accordance with Section 2 Paragraph 5a BetrAVG, so it is not dependent on salary either.

The pension rules for the employee-financed Bochumer Verband II plan allow employees to opt for a lump-sum payment rather than lifelong pension benefits. Unlike the employer-financed commitments under the Bochumer Verband II plan, the deferred compensation plan does not provide for disability benefits.

For all four of the plans outlined above, the quantified benefit obligation depends to a large extent on the discount rate applied. In addition, the benefit obligations for the "Ruhegeldordnung" and the commitments under the "Bochumer Verband old" plan also depend on a salary trend and pension trend. By contrast, the benefit obligation under the Bochumer Verband II plans does not.

From the Group's perspective, the pension plans of foreign subsidiaries are only of minor significance. They relate to the subsidiaries in India, Poland, the Philippines and Turkey. The benefit obligations vary depending on the legal and economic circumstances in the various countries in which the companies operate.

The table shows the weighted average assumptions used for the actuarial valuation of the obligations:

in %	2016	2015
Discount rate as of December 31	1.83	2.23
Future salary increases	2.07	2.56
Future pension increases	1.50	1.75

The pension provisions included on the balance sheet were as follows:

in € million	Dec. 31, 2016	Dec. 31, 2015
Present value of all defined benefit obligations as of Dec. 31	1,101.4	1,043.2
Less fair value of plan assets as of Dec. 31	7.6	6.9
<b>Pension provisions included in the balance sheet</b>	<b>1,093.8</b>	<b>1,036.3</b>

The present value of the defined benefit obligation changed as follows in the reporting period:

in €million	Present value of defined benefit obligations	Fair value of plan assets	Net benefit obligation
<b>As at January 1, 2016</b>	<b>1,043.2</b>	<b>-6.9</b>	<b>1,036.3</b>
Current service cost	26.2	-	26.2
Interest expense (+)/interest income (-)	22.9	-0.4	22.5
Employee contributions	3.1	-	3.1
Employer contributions	-	-0.5	-0.5
Remeasurement	38.7	0.0	38.7
thereof: return on plan assets excluding interest income	-	0.0	0.0
thereof: actuarial gains(-)/ losses (+) from changes in demographic assumptions	-0.2	-	-0.2
thereof: actuarial gains (-) / losses (+) from changes in financial assumptions	38.1	-	38.1
thereof: actuarial gains (-) / losses (+) from changes empirical adjustments	0.8	-	0.8
Past service cost	0.3	-	0.3
Benefits paid	-34.1	0.1	-34.0
Changes in the scope of consolidation/transfer of employees	0.2	-	0.2
Carried forward	1.1	-	1.1
Currency translation	-0.2	0.1	-0.1
<b>As at December 31, 2016</b>	<b>1,101.4</b>	<b>-7.6</b>	<b>1,093.8</b>

in €million	Present value of defined benefit obligations	Fair value of plan assets	Net benefit obligation
<b>As at January 1, 2015</b>	<b>1,091.7</b>	<b>-6.1</b>	<b>1,085.6</b>
Current service cost	28.5	-	28.5
Interest expense (+)/interest income (-)	22.9	-0.3	22.6
Employee contributions	3.0	-	3.0
Employer contributions	-	-0.5	-0.5
Remeasurement	-72.4	0.3	-72.1
thereof: return on plan assets excluding interest income	-	0.3	0.3
thereof: actuarial gains(-)/ losses (+) from changes in demographic assumptions	-23.3	-	-23.3
thereof: actuarial gains (-) / losses (+) from changes in financial assumptions	-46.2	-	-46.2
thereof: actuarial gains (-) / losses (+) from changes empirical adjustments	-2.9	-	-2.9
Past service cost	-0.1	-	-0.1
Benefits paid	-32.3	0.1	-32.2
Changes in the scope of consolidation/transfer of employees	-	-	-
Carried forward	1.6	-	1.6
Currency translation	0.3	-0.4	-0.1
<b>As at December 31, 2015</b>	<b>1,043.2</b>	<b>-6.9</b>	<b>1,036.3</b>

The composition of plan assets valued at fair value is as follows:

in € million	Dec. 31, 2016			Dec. 31, 2015		
	Quoted market price in an active market	Other	Total	Quoted market price in an active market	Other	Total
Investments	1.5	-	1.5	1.1	-	1.1
Bonds	3.0	0.1	3.1	4.1	-	4.1
Insurance contracts	-	0.3	0.3	-	0.3	0.3
Other investments	2.2	0.5	2.7	0.9	0.5	1.4
	<b>6.7</b>	<b>0.9</b>	<b>7.6</b>	<b>6.1</b>	<b>0.8</b>	<b>6.9</b>

As in the prior year, most of the plan assets relate to a subsidiary in the Philippines.

The sensitivity analysis that follows illustrates the effects of changes in the key valuation parameters on the benefit obligation.

The chosen range represents increments that, in the opinion of STEAG GmbH, are reasonable for the expected changes in the respective parameters up to the next reporting date. The effects were determined separately for each of the valuation parameters.

The actuarial method used to determine the expected changes is the same as the method used for the valuation as at the reporting date. The effects shown are therefore subject to the same reservations regarding their information value as the calculation of the benefit obligation as at the reporting date. Alongside possible deviations in the actuarial assumptions applied, this applies in particular to uncertainty with regard to the possible duration of the obligations. The statements should therefore only be regarded as a trend, not as changes that will occur with unrestricted certainty.

Change in € million	Dec. 31, 2016	Dec. 31, 2015
<b>Actuarial interest rate</b>		
+ 100 basis points	-170.4	-159.0
- 100 basis points	224.9	208.7
<b>Pension adjustment</b>		
+ 25 basis points	18.4	25.0
- 25 basis points	-32.9	-23.9
<b>Salary trend</b>		
+ 50 basis points	12.7	18.7
- 50 basis points	-11.9	-8.0

Employer contributions of €0.5 million to plan assets are expected for 2017.

The average weighted duration of the pension obligations for the STEAG Group is 18 years (prior year: 18 years).

The total expense for the defined benefit plans is broken down as follows:

in € million	2016	2015
Service cost	26.5	28.4
Net interest cost	22.5	22.6
<b>Net pension expense recognized in the income statement</b>	<b>49.0</b>	<b>51.0</b>

in € million	2016	2015
Actuarial gains and losses	38.7	-72.4
Return on plan assets excluding interest income	0.0	0.3
<b>Expense from the remeasurement of the net defined benefit obligation from defined benefit plans recognized in OCI</b>	<b>38.7</b>	<b>-72.1</b>

Interest cost is included in the interest result, see Note (5.8). Service cost is included in the personnel expenses, see Note (5.4).

€0.2 million (prior year: €0.2 million) was paid into defined contribution plans. This amount is also recorded in personnel expenses (pension expenses).

Further, €26.4 million (prior year: €25.9 million) was paid into defined contribution state plans (statutory pension insurance) in Germany and abroad. This is reported in personnel expense (expenses for social security contributions).

## (6.12) Other provisions

Other provisions comprise the following items:

in € million	Dec. 31, 2016		Dec. 31, 2015	
	Total	Thereof non-current	Total	Thereof non-current
Personnel-related	72.8	31.0	77.0	32.2
Recultivation and environmental protection	25.4	15.3	24.6	15.0
Restructuring	208.3	118.8	103.3	84.2
Dismantling obligations	115.5	113.0	144.8	142.2
Obligations to surrender emission allowances	88.9	-	109.9	-
Other obligations	159.6	67.9	242.2	12.6
	<b>670.5</b>	<b>346.0</b>	<b>701.8</b>	<b>286.2</b>

### (a) Personnel-related provisions

Personnel-related provisions are established for, among other things, bonuses and variable remuneration, statutory and other early retirement arrangements, redundancy plans, unused vacation entitlements, lifetime worktime arrangements and anniversary bonuses. Most of these provisions will be due for payment within one year.



(b) Provisions for recultivation and environmental protection

Provisions are established for recultivation and environmental protection on the basis of contracts, laws and regulatory requirements. They cover soil reclamation obligations, water protection, the recultivation of landfills and site decontamination obligations. The majority of the non-current portion of provisions will only result in payments after 2021. As a counter item to the provisions, other receivables contain claims for reimbursement amounting to € 13.2 million (prior year: € 12.7 million), see Note (6.7).

(c) Provisions for restructuring

Provisions for restructuring are based on defined restructuring measures. Such measures comprise programs which are planned and controlled by the company and will materially alter one of the company's areas of business activity or the way in which a business activity is carried out. Restructuring provisions may only be established for costs that are directly attributable to the restructuring program. They mainly include severance packages, redundancy and early retirement arrangements, and expenses for the termination of contracts in this context. The additions in the reporting period mainly relate to the Group-wide transformation program STEAG 2022, which was set up to counter the worsening situation caused by the rapid drop in electricity prices. The majority of the non-current portion of provisions will be utilized between 2018 and 2021. Other receivables include claims to reimbursement as a counter-item to restructuring provisions. This item totals € 15.0 million (prior year: none).

(d) Provisions for dismantling obligations

Provisions for dismantling obligations relate to dismantling that is not part of a restructuring program for which a provision for restructuring has been established. These provisions are almost all non-current. The majority of the payments will not be made until after 2021. Provisions for dismantling obligations were reversed in the reporting period, mainly due to altered cost assessments relating to the power plants in Saarland.

(e) Provisions for obligations to surrender emission allowances

Provisions for the obligation to surrender emission allowances are established on the basis of Section 7 Paragraph 1 of the German Greenhouse Gas Emissions Trading Act (TEHG). Under this law, companies are required to surrender allowances by April 30 of the following year equivalent to the emissions generated in reporting period (calendar year). These provisions will be utilized in the following year. Trade accounts receivable contain claims for reimbursement relating to the obligation to surrender emission allowances under agreements with electricity clients amounting to € 18.7 million (prior year: € 22.5 million), see Note (6.7).

(f) Provisions for other obligations

Provisions for other obligations relate to price discounts and the risk of price adjustments in sales and procurement, safeguarding the future of sites where power plants are scheduled for shutdown, obligations under the German Renewable Energies Act (EEG), provisions for goods and services purchased for which no invoice has yet been received, other taxes, litigation risks, legal and consultancy expenses, and audit fees. Most of these provisions will be utilized within one year and the remainder will mainly result in payments between 2018 and 2021. Provisions of € 59.4 million (prior year: none) were established for to safeguard the future of the Lünen and West power plant sites, see

Note (5.6). In the prior year, provisions of € 134.8 million were made in connection with the Walsum 10 project and a contract performance guarantee that had already been received. The arbitration award in the reporting period was mainly in favor of the joint project company STEAG-EVN Walsum 10 Kraftwerksgesellschaft mbH. A provision of €2.0 million remains for arbitration expenses. In the prior year, trade accounts receivable contained claims for reimbursement of €13.4 million as counter-items to provisions for other obligations, see Note (6.7).

Other provisions changed as follows in fiscal 2016:

in € million	Personnel -related	Recultiva- tion, environ- mental protection	Restruc- turing	Disman- tling obliga- tions	Obligations to surrender emission allowances	Other obliga- tions	Total
<b>As at January 1, 2016</b>	<b>77.0</b>	<b>24.6</b>	<b>103.3</b>	<b>144.8</b>	<b>109.9</b>	<b>242.2</b>	<b>701.8</b>
Additions	41.8	3.7	121.2	0.7	88.8	132.4	388.6
Utilization	-43.8	-2.5	-17.1	-	-110.1	-202.9	-376.4
Reversal	-3.4	-1.2	-0.6	-35.4	0.0	-13.2	-53.8
Addition of accrued interest/interest rate adjustments	1.1	0.8	2.7	5.3	0.0	0.1	10.0
Other	0.1	0.0	-1.2	0.1	0.3	1.0	0.3
<b>As at December 31, 2016</b>	<b>72.8</b>	<b>25.4</b>	<b>208.3</b>	<b>115.5</b>	<b>88.9</b>	<b>159.6</b>	<b>670.5</b>

### (6.13) Financial liabilities

in € million	Dec. 31, 2016		Dec. 31, 2015	
	Total	Thereof non-current	Total	Thereof non-current
Liabilities to banks	1,156.3	1,038.4	1,271.7	1,120.4
Loans from non-banks	90.9	88.4	48.0	47.1
Liabilities from finance leases	27.7	22.1	32.0	26.9
Liabilities from derivatives	987.4	157.7	388.4	156.2
Other financial liabilities	135.8	21.5	143.9	31.0
	<b>2,398.1</b>	<b>1,328.1</b>	<b>1,884.0</b>	<b>1,381.6</b>

#### (a) Liabilities to banks

The biggest item within liabilities to banks is financing of €381.0 million (prior year: €417.3 million) for the Walsum 10 power plant project. The creditors received security in the form of pro rata guarantees from sponsors in the construction phase and the start-up phase, which has not yet been completed. The proportion sponsored by STEAG GmbH totals 51.0 percent. These sponsor guarantees lapse when defined conditions occur. Since the start of the operating phase creditors' rights have been secured by land mortgages, liens on the Group's project shareholding and the assignment of rights to future receivables.

Further, in fiscal year 2014 STEAG GmbH took out bonded loans totaling €400.0 million, €366.0 million of this amount comprised liabilities to banks. At the end of fiscal 2016, financial liabilities to banks relating to the bonded loans amounted to €366.6 million (prior year: €366.2 million).

Power plant financing totaling €63.2 million (prior year: €68.7 million) for the Mindanao power plant and €15.8 million (prior year: €22.9 million) for the Termopaipa plant is in the advanced repayment phase. Project financing for the Iskenderun power plant was completely repaid in 2016 (prior year: €70.0 million).

Borrowing for these two foreign power plants is arranged exclusively via the respective companies as non-recourse financing.

Further power plant financing mainly comprises €99.3 million (prior year: €76.2 million) for the French wind farms, €59.5 million (prior year: €63.4 million) for Ullersdorf, and €56.7 million (prior year: €54.4 million) for Süloglu. Financing for Crucea Wind Farm S.A. in Romania was completely repaid in the reporting period (prior year: €82.6 million).

Power prepayment agreements with a financing character were concluded in the reporting period. At year end, liabilities to banks included €58.7 million relating to these agreements.

Liabilities with variable interest rates are exposed to an interest rate risk. This risk may affect future cash flows.

(b) Liabilities from finance leases

Liabilities from finance leases are recognized if the leased assets are capitalized under property, plant and equipment as economic assets belonging to the STEAG Group. All lease agreements are individually non-material.

The reconciliation of future minimum lease payments to their present values, along with their due dates, is shown below:

in €million	Dec. 31, 2016	Dec. 31, 2015
<b>Future minimum lease payments</b>	<b>36.3</b>	<b>43.3</b>
Due within 1 year	7.8	7.7
Due within 1-5 years	20.0	23.1
Due in more than 5 years	8.5	12.5
Interest included therein	-8.6	-11.3
<b>Present value of minimum lease payments (liabilities from finance leases)</b>	<b>27.7</b>	<b>32.0</b>
Due within 1 year	5.6	5.1
Due within 1-5 years	14.3	16.3
Due in more than 5 years	7.8	10.6

The liabilities from finance leases mainly comprise €22.5 million (prior year: €24.4 million) for the rental of heating power plants and €4.0 million (prior year: €6.0 million) for leased district heating lines.

(c) Liabilities from derivatives

The breakdown of liabilities from derivatives is as follows:

in €million	Dec. 31, 2016	Dec. 31, 2015
Liabilities from currency derivatives	27.8	30.7
Liabilities from interest rate derivatives	60.9	92.3
Liabilities from commodity derivatives	898.7	265.4
	<b>987.4</b>	<b>388.4</b>

In the prior year, negative fair values for options relating to energy contracts were included in other financial liabilities. At year-end 2016, there were no negative fair values relating to these options. In the future, any negative fair value will be recognized in liabilities from commodity derivatives.

(d) Other financial liabilities

Financial liabilities include margining of €44.5 million (prior year: none) for stock exchange forward contracts. In addition, in 2016 other financial liabilities included liabilities under the profit and loss transfer agreement, including the tax allocation to KSBG KG, amounting to €55.0 million (prior year: €80.2 million). In 2015, financial liabilities included the negative fair values of options relating to energy contracts amounting to €4.0 million.

Negative fair values from pending hedged transactions recognized as fair value hedges totaled €9.5 million (prior year: €30.9 million).

**(6.14) Trade accounts payable, other liabilities**

in € million	Dec. 31, 2016		Dec. 31, 2015	
	Total	Thereof non-current	Total	Thereof non-current
Trade accounts payable	482.0	-	333.6	-
Liabilities from construction contracts	4.6	3.0	7.2	6.9
Advance payments received from customers	102.7	30.2	125.9	56.6
Miscellaneous other liabilities	63.7	2.9	60.9	3.5
Deferred income	26.1	18.8	31.6	24.2
	<b>679.1</b>	<b>54.9</b>	<b>559.2</b>	<b>91.2</b>

Advance payments received from customers include advance payments of €73.3 million (prior year: €94.0 million) for future power deliveries.

Liabilities from construction contracts comprise advance payments on long-term contracts and are composed of the following items:

in € million	Dec. 31, 2016	Dec. 31, 2015
Costs incurred plus profits/less losses	-38.1	-31.5
Advance payments received for construction contracts	42.7	38.7
	<b>4.6</b>	<b>7.2</b>

#### (6.15) Deferred taxes, other income taxes

The breakdown of deferred taxes and other income taxes reported on the balance sheet by due date is shown in the table:

in €million	Dec. 31, 2016		Dec. 31, 2015	
	Total	Thereof non-current	Total	Thereof non-current
Deferred tax assets	45.9	31.7	86.2	49.3
Other income tax assets	17.2	-	19.2	3.6
Deferred tax liabilities	69.5	49.1	77.3	46.9
Other income tax liabilities	63.2	-	65.8	-

In accordance with IAS 1, the current elements of deferred taxes are reported on the balance sheet under non-current assets and liabilities.

In 2016, the impairment loss on deferred tax assets was increased by €40.4 million from €92.3 million to €132.7 million (thereof €10.2 million (prior year: €55.4 million) with no impact on profit or loss).

Deferred taxes related to the following balance sheet items:

in €million	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
<b>Assets</b>				
Intangible assets	0.5	0.5	22.1	16.4
Property, plant and equipment, investment property	75.4	114.9	33.5	27.3
Financial assets	10.6	4.1	259.8	196.3
Inventories	8.5	8.6	2.6	3.3
Receivables, other assets	5.5	5.7	6.0	2.3
<b>Liabilities</b>				
Provisions	153.8	125.1	4.0	2.0
Liabilities	179.9	91.3	5.0	5.3
Special tax allowance reserves (based on local law)	-	-	2.0	3.9
Loss carryforwards	10.6	7.8	-	-
Other	-	0.4	0.7	0.4
<b>Deferred taxes (gross)</b>	<b>444.8</b>	<b>358.4</b>	<b>335.7</b>	<b>257.2</b>
Impairment losses	-132.7	-92.3	-	-
Offsetting	-266.2	-179.9	-266.2	-179.9
<b>Deferred taxes (net)</b>	<b>45.9</b>	<b>86.2</b>	<b>69.5</b>	<b>77.3</b>

Deferred tax assets of €10.6 million (prior year: €7.8 million) were recognized for companies with tax loss carryforwards as they are expected to generate sufficient taxable income in the future.

In addition to tax loss carryforwards for which deferred taxes were recognized, there are tax loss carryforwards that are not utilizable and for which no deferred taxes are recognized. These are shown in the table below, together with their expiration dates:

in € million	Corporation taxes (Germany and foreign)		Local taxes (Germany and foreign)	
	2016	2015	2016	2015
Loss carryforwards with no expiration date	57.9	31.0	38.0	35.1
	<b>57.9</b>	<b>31.0</b>	<b>38.0</b>	<b>35.1</b>

No deferred tax liabilities were recognized for temporary differences of €84.9 million (prior year: €95.8 million) between net assets and the carrying amount of subsidiaries as determined for tax purposes (outside basis differences). 5 percent of gains from profit distributions or the divestment of shareholdings would be subject to German taxation; in some cases, foreign withholding taxes would also be applicable. In addition, in the event of profit distributions from a subsidiary to an intermediate holding company, further income tax effects would have to be taken into account. Consequently, profit distributions and divestments generally result in additional tax expense. Calculating deferred taxes on the taxable temporary differences would therefore involve an unreasonable amount of work.

## **(7) Notes to the cash flow statement**

The cash flow statement shows the changes in cash and cash equivalents of the STEAG Group in the reporting period. It is broken down into cash flows from operating, investing and financing activities. The impact of changes in the scope of consolidation has been eliminated.

Interest paid and interest and dividends received are included in operating activities while dividends paid and profit and loss transfers are assigned to financing activities.

### **(7.1) Cash flow from operating activities**

The cash flow from operating activities is calculated using the indirect method. Income before the financial result and income taxes from the continuing operations is adjusted for the effects of non-cash income and expenses and items that are allocated to investing or financing activities. Certain other changes in amounts shown on the balance sheet are calculated and added to the result.

The cash flow from operating activities was € 262.0 million, which was below the prior-year figure of € 325.4 million and mainly comprised the reduction in income before the financial result and income taxes, continuing operations, and changes in other assets and liabilities on the reporting date.

### **(7.2) Cash flow from investing activities**

The main inflows and outflows from which the cash flow for investing activities is derived comprise outflows of € 59.6 million for investment in large-scale battery storage systems and inflows of € 40.5 million from the sale of the investment in REG Raffinerie-Energie GmbH & Co. oHG.

The total purchase price for shares in subsidiaries consolidated for the first time in the financial statements for the STEAG Group in the reporting period was € 18.4 million (prior year: € 14.7 million). Of this amount, € 18.4 million (prior year: € 14.7 million) comprised cash outflows. The cash and cash equivalents acquired with subsidiaries consolidated for the first time in the reporting period amounted to € 3.7 million (prior year: € 6.8 million). There was an outflow of € 1.6 million from cash and cash equivalents in 2016 due to the transfer of STEAG Energy Services LLC into a joint venture.

No material fully consolidated subsidiaries were divested in the fiscal year.

### **(7.3) Cash flow from financing activities**

The cash flow from financing activities is influenced principally by project financing and repayment installments. Repayments exceeded borrowing by € 105.6 million (prior year: € 97.2 million).



Please refer to Note (6.13) in connection with the main repayments.

Further, 30 percent of the shares in STEAG Power Minerals GmbH were sold without loss of control.

## (8) Other disclosures

### (8.1) Additional information on financial instruments

#### Net result from financial instruments

The income and expenses, gains and losses from financial instruments reflected in the income statement are reported as the net result for each of the valuation categories defined in IAS 39.

in €million	Result by valuation category				2016
	Available-for-sale assets	Loans and receivables	Held for trading (derivatives only)	Liabilities at amortized cost	
Result from disposals	16.3	-0.2	-	-	16.1
Valuation result	-	-	-4.7	-	-4.7
Impairment losses/reversal of impairment losses	-1.7	-3.0	-	-	-4.7
Interest result	0.1	19.1	-3.0	-62.6	-46.4
Income from other investments	4.6	0.6	-	-	5.2
Result from current securities	-	0.1	-	-	0.1
	<b>19.3</b>	<b>16.6</b>	<b>-7.7</b>	<b>-62.6</b>	<b>-34.4</b>

in €million	Result by valuation category				2015
	Available-for-sale assets	Loans and receivables	Held for trading (derivatives only)	Liabilities at amortized cost	
Result from disposals	3.0	-0.8	-	-	2.2
Valuation result	-	-	8.1	-	8.1
Impairment losses/reversal of impairment losses	-1.6	0.9	-	-	-0.7
Interest result	0.0	10.4	-1.2	-56.2	-47.0
Income from other investments	4.7	-	-	-	4.7
Result from short-term securities	-	-0.2	-	-	-0.2
Other financial result	-	-	-4.1	-	-4.1
	<b>6.1</b>	<b>10.3</b>	<b>2.8</b>	<b>-56.2</b>	<b>-37.0</b>

In 2016, €0.3 million (prior year: €0.0 million) was recognized in OCI in connection with available-for-sale assets and therefore did not impact the income statement. No gains (prior year: €0.1 million) were reclassified from OCI to the income statement.

The valuation result comprises the valuation of foreign exchange and commodity derivatives and contains all valuation effects up to the expiration date.

Interest income of €19.2 million (prior year: €10.4 million) and interest expense of €63.9 million (prior year: €55.8 million) do not relate to financial instruments in the category "held for trading". Interest

expense includes interest expense for finance leases. The interest result does not include any interest income on the impaired portion of financial assets or trade accounts receivable.

**Carrying amounts and fair values of financial instruments**

In the following table, financial instruments are allocated to groups (classes) in accordance with their underlying characteristics. In the STEAG Group, the classification is based on the presentation on the balance sheet. The carrying amounts of each class have to be presented at fair value on the reporting date on the basis of the valuation categories defined in IAS 39. This includes receivables and liabilities from finance leases and derivatives for which hedge accounting is applied, which do not belong to any of the valuation categories defined in IAS 39. The carrying amount of financial assets is also the maximum default risk.

The following tables provide a reconciliation of the financial assets:

in €million	Valuation category				Dec. 31, 2016	
	Available-for-sale assets	Loans and receivables	Assets held for trading	Not allocated to any category	Carrying amount	Fair value
<b>Financial assets</b>	<b>77.6</b>	<b>339.2</b>	<b>938.3</b>	<b>438.2</b>	<b>1,793.3</b>	<b>2,802.9</b>
Other investments	57.6	-	-	-	57.6	-
Loans	-	182.9	-	-	182.9	250.3
Securities and similar rights	20.0	-	-	-	20.0	20.0
Receivables from finance leases	-	-	-	376.9	376.9	1,376.7
Receivables from derivatives	-	-	904.9	57.5	962.4	962.4
Other financial assets	-	156.3	33.4	3.8	193.5	193.5
<b>Trade accounts receivable</b>	-	<b>534.8</b>	-	-	<b>534.8</b>	<b>534.8</b>
<b>Cash and cash equivalents</b>	-	<b>536.9</b>	-	-	<b>536.9</b>	<b>536.9</b>
	<b>77.6</b>	<b>1,410.9</b>	<b>938.3</b>	<b>438.2</b>	<b>2,865.0</b>	<b>3,874.6</b>

in €million	Valuation category				Dec. 31, 2015	
	Available-for-sale assets	Loans and receivables	Assets held for trading	Not allocated to any category	Carrying amount	Fair value
<b>Financial assets</b>	<b>80.2</b>	<b>327.7</b>	<b>403.9</b>	<b>659.3</b>	<b>1,471.1</b>	<b>2,402.5</b>
Other investments	60.5	-	-	-	60.5	-
Loans	-	179.1	-	-	179.1	244.8
Securities and similar rights	19.7	-	-	-	19.7	19.7
Receivables from finance leases	-	-	-	496.7	496.7	1,422.9
Receivables from derivatives	-	-	211.6	162.6	374.2	374.2
Other financial assets	-	148.6	192.3	-	340.9	340.9
<b>Trade accounts receivable</b>	-	<b>403.4</b>	-	-	<b>403.4</b>	<b>403.4</b>
<b>Cash and cash equivalents</b>	-	<b>573.3</b>	-	-	<b>573.3</b>	<b>573.3</b>
	<b>80.2</b>	<b>1,304.4</b>	<b>403.9</b>	<b>659.3</b>	<b>2,447.8</b>	<b>3,379.2</b>

The following tables provide a reconciliation of the financial liabilities:

in €million	Valuation category				Dec. 31, 2016	
	At fair value through profit and loss		Liabilities at amortized cost	Not allocated to any category	Carrying amount	Fair value
	Liabilities held for trading	Other liabilities				
<b>Financial liabilities</b>	<b>916.7</b>	<b>16.3</b>	<b>1,312.7</b>	<b>152.4</b>	<b>2,398.1</b>	<b>2,534.6</b>
Liabilities to banks	-	-	1,156.3	-	1,156.3	1,265.9
Loans from non-banks	-	-	90.9	-	90.9	113.2
Liabilities from finance leases	-	-	-	27.7	27.7	32.3
Liabilities from derivatives	872.2	-	-	115.2	987.4	987.4
Other financial liabilities	44.5	16.3	65.5	9.5	135.8	135.8
<b>Trade accounts payable</b>	<b>-</b>	<b>-</b>	<b>482.0</b>	<b>-</b>	<b>482.0</b>	<b>482.0</b>
	<b>916.7</b>	<b>16.3</b>	<b>1,794.7</b>	<b>152.4</b>	<b>2,880.1</b>	<b>3,016.6</b>

in €million	Valuation category				Dec. 31, 2015	
	At fair value through profit and loss		Liabilities at amortized cost	Not allocated to any category	Carrying amount	Fair value
	Liabilities held for trading	Other liabilities				
<b>Financial liabilities</b>	<b>188.5</b>	<b>15.2</b>	<b>1,413.5</b>	<b>266.8</b>	<b>1,884.0</b>	<b>2,027.3</b>
Liabilities to banks	-	-	1,271.7	-	1,271.7	1,399.6
Loans from non-banks	-	-	48.0	-	48.0	60.3
Liabilities from finance leases	-	-	-	32.0	32.0	35.1
Liabilities from derivatives	184.5	-	-	203.9	388.4	388.4
Other financial liabilities	4.0	15.2	93.8	30.9	143.9	143.9
<b>Trade accounts payable</b>	<b>-</b>	<b>-</b>	<b>333.6</b>	<b>-</b>	<b>333.6</b>	<b>333.6</b>
	<b>188.5</b>	<b>15.2</b>	<b>1,747.1</b>	<b>266.8</b>	<b>2,217.6</b>	<b>2,360.9</b>

Wherever possible the fair value of a financial instrument is determined using observable market data. Based on the input parameters used in the valuation methods, the fair values are allocated to the following levels in the valuation hierarchy:

- Level 1: Quoted price in an active and accessible market for identical financial assets or liabilities.
- Level 2: Quoted price in an active market for similar financial instruments, or for identical or similar instruments in an inactive market, or input factors other than quoted market prices where the applied parameters are based on observable market data.
- Level 3: Valuation methods where the applied parameters are not based on observable market data.

There were no reclassifications between the various levels of the valuation hierarchy in the reporting period.

The following table shows the assignment of the financial instruments carried at fair value to the three levels of the hierarchy:

in €million	Fair value of financial instruments based on			Dec. 31, 2016
	Level 1	Level 2	Level 3	
<b>Financial assets</b>	<b>53.4</b>	<b>958.7</b>	<b>3.7</b>	<b>1,015.8</b>
Securities and similar rights	20.0	-	-	20.0
Receivables from derivatives	-	958.7	3.7	962.4
Other financial assets	33.4	-	-	33.4
<b>Financial liabilities</b>	<b>44.5</b>	<b>1,003.7</b>	<b>0.0</b>	<b>1,048.2</b>
Liabilities from derivatives	-	987.4	-	987.4
Other financial liabilities	44.5	16.3	-	60.8

in €million	Fair value of financial instruments based on			Dec. 31, 2015
	Level 1	Level 2	Level 3	
<b>Financial assets</b>	<b>204.9</b>	<b>374.2</b>	<b>7.1</b>	<b>586.2</b>
Securities and similar rights	19.7	-	-	19.7
Receivables from derivatives	-	374.2	-	374.2
Other financial assets	185.2	-	7.1	192.3
<b>Financial liabilities</b>	<b>-</b>	<b>403.6</b>	<b>4.0</b>	<b>407.6</b>
Liabilities from derivatives	-	388.4	-	388.4
Other financial liabilities	-	15.2	4.0	19.2

The fair values of options for energy contracts (especially virtual shares of power generated by power plants) are determined using valuation models based on mathematical methods, using market prices, especially the clean dark spread, which represents revenues from the sale of power after the cost of inputs and their volatility. They are assigned to Level 3 in the above table and, from 2016, they are recognized in receivables and liabilities from derivatives.

A hypothetical reduction in the Clean Dark Spread of €0.10 per MWh reduces the fair value by €0.1 million (prior year: €0.5 million). A hypothetical increase in the clean dark spread of €0.10 per MWh increases the fair value by €0.1 million (prior year: €0.5 million).

The following overview shows the financial assets and financial liabilities that are offset in accordance with IAS 32:

in € million	Recognized gross amount	Offsetting	Reported net amount	Corresponding non-offset amounts		Net amount  Dec. 31, 2016
				Financial instruments	Cash collateral received/ posted	
Derivatives (positive fair values)	962.4	-	962.4	-	-44.5	917.9
Derivatives (negative fair values)	987.4	-	987.4	-	-21.8	965.6

in € million	Recognized gross amount	Offsetting	Reported net amount	Corresponding non-offset amounts		Net amount  Dec. 31, 2015
				Financial instruments	Cash collateral received/ posted	
Derivatives (positive fair values)	374.2	-	374.2	-	-	374.2
Derivatives (negative fair values)	388.4	-	388.4	-	-115.9	272.5
Options (positive fair values)	7.1	-	7.1	-	-	7.1
Options (negative fair values)	4.0	-	4.0	-	-	4.0

The corresponding non-offset amounts comprise collateral required in advance in the form of margining for stock market transactions.

The following table shows the development of Level 3 financial instruments recognized at fair value:

in €million	Jan. 1, 2016	Changes			Dec. 31, 2016
		Recog- nized in the income statement	Recog- nized in OCI	Adjust- ments	
Other financial assets	7.1	-3.4	-	-	3.7
Other financial liabilities	4.0	-4.0	-	-	-

in €million	Jan. 1, 2015	Changes			Dec. 31, 2015
		Recog- nized in the income statement	Recog- nized in OCI	Adjust- ments	
Other financial assets	6.6	0.5	-	-	7.1
Other financial liabilities	0.0	4.0	-	-	4.0

Gains and losses assigned to Level 3 were recognized as follows in the income statement:

in €million	2016	Thereof attributable to financial instruments still held on the reporting date	2015	Thereof attributable to financial instruments still held on the reporting date
Gains and losses, level 3	0.6	1.5	-3.5	-3.5
Other operating income	4.5	1.5	0.8	0.8
Other operating expenses	-3.9	-	-0.1	-0.1
Other financial income	-	-	3.9	3.9
Other financial expenses	-	-	-8.1	-8.1

The other financial income and expenses in the prior year related to changes in the market value of energy contracts. In the reporting period, they are recognized as income and expenses for the valuation of derivatives in other operating income or other operating expenses.

Fair value measurement of financial instruments that are not included in the balance sheet at fair value is based on the following method:

Non-current receivables are valued using a variety of parameters. Impairment losses are recognized for any expected defaults on receivables. Accordingly, the net carrying amount of these receivables basically corresponds to their fair value. For receivables and liabilities relating to finance leases, the fair value is the country-specific weighted average cost of capital before taxes. For liabilities to banks, loans from non-banks and loans, the fair value is determined as the present value of future cash inflows or outflows on the assumption that they are valued using the appropriate interest rate for their term.



In view of their short maturity, in all other cases the carrying amounts of trade accounts receivable and payable, other financial assets, other financial liabilities, and cash and cash equivalents on the reporting date do not differ significantly from their fair values.

The following table shows the assignment of the fair values of financial instruments that are not recognized on the balance sheet at fair value. It does not contain information on financial assets and financial liabilities if their carrying amount is an appropriate approximation of their fair value.

in €million	Fair value of financial instruments based on			Dec. 31, 2016
	Level 1	Level 2	Level 3	
<b>Financial assets</b>	<b>86.6</b>	<b>254.1</b>	<b>1,376.7</b>	<b>1,717.4</b>
Loans	-	250.3	-	250.3
Receivables from finance leases	-	-	1,376.7	1,376.7
Other financial assets	86.6	3.8	-	90.4
<b>Financial liabilities</b>	<b>-</b>	<b>1,398.7</b>	<b>32.3</b>	<b>1,431.0</b>
Liabilities to banks	-	1,265.9	-	1,265.9
Loans from non-banks	-	113.2	-	113.2
Liabilities from finance leases	-	-	32.3	32.3
Other financial liabilities	-	19.6	-	19.6

in €million	Fair value of financial instruments based on			Dec. 31, 2015
	Level 1	Level 2	Level 3	
<b>Financial assets</b>	<b>148.2</b>	<b>244.8</b>	<b>1,422.9</b>	<b>1,815.9</b>
Loans	-	244.8	-	244.8
Receivables from finance leases	-	-	1,422.9	1,422.9
Other financial assets	148.2	-	-	148.2
<b>Financial liabilities</b>	<b>-</b>	<b>1,502.5</b>	<b>35.1</b>	<b>1,537.6</b>
Liabilities to banks	-	1,399.6	-	1,399.6
Loans from non-banks	-	60.3	-	60.3
Liabilities from finance leases	-	-	35.1	35.1
Other financial liabilities	-	42.6	-	42.6

The significant non-observable inputs used to determine the fair value of receivables and liabilities from finance leases are as follows:

Significant unobservable inputs	Spread (weighted average)
Country-specific weighted average cost of capital before taxes (WACC)	6-8%

A higher (lower) weighted average cost of capital (WACC) before taxes decreases (increases) the fair value of receivables or liabilities from finance leases. A hypothetical shift in the country-specific WACC of 100 basis points decreases the fair value of receivables from finance licenses by 8 percent (prior year: 6 percent) or increases it by 9 percent (prior year: 7 percent), while it decreases the fair value of liabilities from finance leases by 3 percent (prior year: 3 percent) or increases it by 3 percent (prior year: 3 percent).

### Notional value of derivatives

The notional value of currency derivatives is the foreign exchange amount converted into euros. The notional value of interest derivatives is the sum of the present nominal value of the hedged items, while the notional value of commodity derivatives is the hedged cost of acquisition translated into euros. The notional value of embedded derivatives corresponds to one of the above definitions of notional value, depending on the type of derivative. The changes in the absolute level of the notional value of financial derivatives cannot be transferred directly to the level of the net risk position as some risk positions offset each other. Consequently, there is not necessarily a direct correlation between the sensitivities derived from the net risk position and the development of notional value.

The notional value of derivatives comprises the following items:

in €million	Dec. 31, 2016		Dec. 31, 2015	
	Total	Thereof non-current	Total	Thereof non-current
Currency derivatives	1,083.1	183.5	1,060.3	286.2
Interest rate derivatives	753.5	705.1	863.2	806.2
Commodity derivatives	9,257.3	1,078.8	4,019.8	1,177.2
	<b>11,093.9</b>	<b>1,967.4</b>	<b>5,943.3</b>	<b>2,269.6</b>

Derivatives with a remaining term to maturity of more than one year are recognized as non-current, even if their notional value rises or declines over their term. The notional value does not include any options on energy contracts. These options have a volume of 400 MW and expiration dates up to 2018.

### Financial risk management

Since it operates internationally, the STEAG Group is exposed to financial risks in the normal course of business. A major objective of corporate policy is to minimize the impact of market, liquidity and default risks on the value of the company and on the profitability of the STEAG Group in order to check adverse fluctuations in cash flows and earnings without forgoing the opportunity to benefit from positive market trends. For this purpose, a systematic financial and risk management system has been established as a central element of the management of the company. This is geared specifically to securing present and future potential for success and avoiding, preventing, countering and minimizing risks. Due to the fields in which it operates, the STEAG Group is exposed to constantly changing political, societal, demographic, legal and economic operating conditions. The risks derived from this are addressed by monitoring and analyzing the entire operating environment and anticipating the associated market developments. The findings are used to systematically develop STEAG's portfolio in accordance with the strategy for the Group. That includes strategic and operational planning, preparations for investment decisions, monthly reporting and projections, and, from a certain level, immediate reporting of risks. The organizational units conduct an extensive annual inventory of opportunities and risks in connection with the mid-term planning process. All relevant factors are systematically identified and documented and the probability of the risks occurring and the potential damage are evaluated.

Interest rate and currency risks are managed centrally at STEAG GmbH. A large proportion of debt, especially relating to the foreign power plants, is structured in a manner that ensures that – apart from limited exceptions – liability is confined to the relevant foreign project company.

Financial derivatives are used to reduce financial risks. They are entered into in connection with an underlying transaction (hedged item) relating to normal operating business, which provides a risk profile directly opposite to that of the hedge. The instruments used to manage exchange rate and interest rate risks are customary products found on the market such as forward exchange contracts, interest rate and currency swaps and interest rate caps. To hedge commodity risks arising from power, coal, freight and emission allowances, forwards, futures, swaps and options are used.

An appropriate, documented and functioning risk management system monitors financial risks and the efficiency of measures taken to minimize risk. The scope, accountability and controls are defined in internal directives.

The parameters used to control commodity trading in the STEAG Group are the daily calculation of changes in market prices and their impact on the pending result, value at risk (VaR), and a sensitivity analysis. Limits are set centrally and monitored and reported daily, thus effectively limiting the risk of changes in market prices.

#### (a) Market risk

Market risk can basically be subdivided into exchange rate, interest rate and commodity risks.

Exchange rate risks arise from both the sourcing of raw materials and the sale of end-products in currencies other than the functional currency of the company concerned. The aim of currency management is to protect the company's operating business from negative fluctuations in earnings and cash flows resulting from changes in exchange rates. Account is taken of the opposite effects arising from procurement and sales activities. The remaining currency risks to the STEAG Group chiefly relate to changes in the exchange rate of the euro versus the US dollar and the Polish zloty.

The aim of interest rate management is to protect net income from the effects of fluctuations in market interest rates. Interest rate risk is managed through primary and derivative financial instruments, especially interest rate swaps and interest rate caps. The aim is to achieve an appropriate ratio of fixed rates (with interest rates fixed for more than one year) and variable rates (terms of less than one year), taking costs and risks into account. Almost 99 percent of floating rate loan liabilities (with an original term to maturity of more than one year) were hedged by interest rate swaps on December 31, 2016 (prior year: around 97 percent).

Several scenario analyses were carried out to measure exchange rate, interest rate and commodity risk as at December 31, 2016. The next table shows the impact on income before taxes and on OCI. The impact on equity, including the result for the period, is derived from the sum of the individual effects.

With regard to currency risk, the exchange rates for the most important exchange rates for the STEAG Group, the US dollar versus the euro, and the Polish zloty versus the euro, were altered by 5 percent, and 10 percent and price quotations were altered by 1 percent. In this way, the possible

loss of value of primary and derivative financial instruments is simulated. Due to the increase in trading volume, in addition to the US dollar, in the reporting period the Polish zloty was classified as an important currency.

The results are summarized in the table:

US dollar vs. euro in €million	Dec. 31, 2016		Dec. 31, 2015	
	Impact on result	OCI	Impact on result	OCI
+5%	-0.4	4.8	-3.5	12.5
-5%	0.4	-4.7	3.9	-12.1
+10%	-0.8	9.7	-6.8	25.1
-10%	0.7	-9.2	8.1	-23.7
+1%	-0.1	1.0	-0.7	2.5
-1%	0.1	-0.9	0.7	-2.4

Polish zloty vs. euro in €million	Dec. 31, 2016	
	Impact on result	OCI
+5%	-3.8	-
-5%	4.2	-
+10%	-7.2	-
-10%	8.8	-
+1%	-0.8	-
-1%	0.8	-

Several scenarios were also simulated for interest rates. These analyzed shifts of 50, 100 and 150 basis points in interest rates or the interest rate curve. The changes modeled relate to the interest rate curves for all foreign currencies and for the euro. In this way, the possible loss of value of primary and derivative financial instruments is simulated. The results are shown in the table:

in € million	Dec. 31, 2016		Dec. 31, 2015	
	Impact on result	OCI	Impact on result	OCI
+ 50 basis points	3.1	13.3	0.6	21.1
- 50 basis points	-3.3	-13.6	-4.7	-17.8
+ 100 basis points	6.1	26.0	1.1	41.3
- 100 basis points	-6.9	-27.6	-11.7	-34.4
+ 150 basis points	9.1	38.0	1.6	60.7
- 150 basis points	-15.6	-37.4	-22.1	-48.6

Commodity risks arise from changes in the market price of power, emission allowances and raw materials, including the sea freight required for logistics purposes. The market price risk resulting from the marketing of the power generated by the STEAG Group's power plants comprises a change in the clean dark spread as a combination of the market price (electricity price less currency-adjusted costs for the procurement of coal and CO<sub>2</sub> allowances). Raw materials are purchased both to meet in-house requirements and for resale on the external market. Other factors of importance for the STEAG Group's risk position are the physical availability of raw materials and dependence on their price. The STEAG Group uses broadly based, all-round portfolio management for the procurement of fuel to reduce price dependency and procurement risks on the sourcing market.

The price risks arising from procurement and resale are logged and effective measures to minimize the risks are defined. These include, for example, agreeing sliding price clauses and hedging via forward contracts. The principle is that the majority of financial derivatives must be connected with corresponding hedged transactions and the hedged items and hedging instruments must have opposite risk profiles.

To measure the market risk arising from commodity derivatives, the sensitivity of the fair value of these instruments to an increase or decrease of 1 percent in their market price was determined.

The following table shows the impact on income before taxes and on OCI:

in €million		Dec. 31, 2016		Dec. 31, 2015	
		Impact on result	OCI	Impact on result	OCI
<b>CDS trading</b>					
Power	+ 100 basis points	-0.2	-3.4	0.0	-6.2
	- 100 basis points	0.2	3.4	0.0	6.2
CO <sub>2</sub> allowances	+ 100 basis points	0.0	0.5	0.0	1.3
	- 100 basis points	0.0	-0.5	0.0	-1.3
Coal	+ 100 basis points	-0.2	1.9	-0.1	2.7
	- 100 basis points	0.2	-1.9	0.1	-2.7
<b>Other trading</b>					
Power	+ 100 basis points	0.1	0.0	0.0	0.0
	- 100 basis points	-0.1	0.0	0.0	0.0
CO <sub>2</sub> allowances	+ 100 basis points	0.0	0.0	0.0	0.0
	- 100 basis points	0.0	0.0	0.0	0.0
Coal	+ 100 basis points	0.1	0.0	0.0	0.0
	- 100 basis points	-0.1	0.0	0.0	0.0

The table shows the sensitivity of commodity derivatives. It does not show the opposite change in the value of the corresponding physical transactions.

Where the criteria for hedge accounting are fulfilled, commodity, currency and interest rate derivatives are accounted for as fair value hedges, cash flow hedges or hedges of a net investment.

### Hedge accounting

The use of hedge accounting for these derivative instruments underlines their role as hedges.

Depending on the type of transaction and the associated hedging strategy, the associated directives and procedures distinguish between the following types of commodity hedge:

- Clean dark spread (CDS) trading

In forward sales of power generated by the Group's power plants, the focus is on hedging the margin between the cost of power generation (cost of fuel and emission allowances) and the revenues from marketing the power. The forecast future cash flows are therefore hedged via standardized forward contracts. Wherever possible, these are accounted for as cash flow hedges. Individual transactions that are outside the marketing of the STEAG Group's own power plant capacity meet the own-use exemption criteria set out in IAS 39.6 and are therefore not recognized on the balance sheet.

- Fuel for own use:

There may be a discrepancy in the timing of the procurement of fuel for own use in the generation of power and its marketing. In addition, price risks may arise from the fact that the underlying pricing may be asynchronous. In such cases, prices are hedged via swaps. Depending on the physical hedged underlying transaction, these hedging instruments may be recognized as cash flow hedges or fair value hedges.

- Other trading:

The Group has long-term master agreements on the procurement and sale of imported coal, including the associated sea freight, and also utilizes short-time distribution opportunities. Where procurement and sale do not take place concurrently on the same price basis, price risks arise from the pending transactions. These risks are hedged using coal and freight swaps. Depending on the physical underlying transaction, they are accounted for either as cash flow hedges or as fair value hedges. In addition, to extend marketing activities, forward delivery of power, emission allowances and currency-adjusted fuels are bought and sold. The price risks are generally reduced by counter-transactions of the same volume and value.

As at the reporting date, the impact of the hedging transactions outlined above on the balance sheet was as follows:

(1) Cash flow hedge accounting

The option of hedge accounting provided for by IAS 39 prevents an accounting mismatch by ensuring that highly effective economic hedging relationships do not result in the recognition of income or loss. In hedge accounting, the change in the value of the derivatives used as hedging instruments is therefore recognized in equity, while the change in the value of the physical underlying is not recognized in the financial statements until the expiration date.

At the expiration date, the compensatory changes in the value of the hedged item and hedging instrument are shown in income or as part of the cost of acquisition in the carrying amount of the related non-financial asset. If a hedging relationship is highly effective, it has no or only little impact on income.

In the area of CDS trading, there were commodity derivatives with a negative net fair value of €10.8 million on the reporting date (prior year: net positive fair value of €7.5 million). Of these, derivatives with a negative net fair value of €7.1 million (prior year: negative net fair value of €0.9 million) will expire in 2017. Further, planned purchases of goods were hedged against exchange rate fluctuations via forward exchange contracts with a net value of €4.8 million (prior year: €21.0 million). Of these, derivatives with a fair value of €5.3 million (prior year: €20.6 million) will expire in 2017. All other hedging instruments used for CDS trading expire in 2018 and are classified as non-current.

To hedge fuel trading, derivatives with a negative fair value of €1.1 million as at the reporting date (prior year: negative fair value of €0.7 million) were concluded. Of these, derivatives with a negative fair value of €0.4 million will expire in 2017; all other hedging instruments expire in 2018 and 2019 and are classified as non-current.

The value of the physical hedged items had moved in the opposite direction as at the reporting date.

Interest payments relating to floating rate bonded loans to STEAG GmbH and the financing of power plant projects have been hedged up to 2031 via interest rate swaps and interest rate caps. Where floating rate loans have an interest rate floor that is not included in the associated hedging instrument, the resultant accounting impact is valued and recognized. Further, forward exchange contracts are used to hedge foreign power plant projects against exchange rate fluctuations.



The associated designated interest rate derivatives had a negative fair value of €54.1 million (prior year: negative fair value of €90.6 million), and the currency derivatives had a negative fair value of €1.1 million (prior year: negative fair value of €5.4 million).

For interest rate hedges where option-type instruments are used as the hedging instrument, evidence of effectiveness is provided using the intrinsic value method. A negative amount of €2.4 million (prior year: €0.3 million) of the valuation of cash flow hedges was recognized in income as the ineffective portion.

The effectiveness of the hedge relationships is proven at every reporting date using the hypothetical derivatives method. A regression analysis is used for this. Any ineffectiveness is determined using the dollar offset method.

A net hedging result of €30.9 million was reclassified from the reserve for changes in the fair value of hedging instruments to the income statement in 2016 (prior year: €33.9 million), as follows:

in € million	2016	2015
Sales	56.1	54.4
Cost of materials	-2.2	-2.7
Interest expense	-23.0	-17.8
	<b>30.9</b>	<b>33.9</b>

## (2) Fair value hedge accounting

Derivatives with a negative fair value of €3.1 million as at the reporting date were concluded to hedge fuel required for own use (prior year: €6.4 million). All of these expire in 2017. In the area of CDS trading, there were derivatives with a fair value of €9.0 million on the reporting date (prior year: €24.5 million). Of these, hedging instruments amounting to €3.8 million (prior year: €8.6 million) expire in 2017. All other hedging instruments have expiration dates up to 2018.

Evidence of effectiveness is provided analogously to the procedure for cash flow hedge accounting.

In the case of fair value hedges, both the derivative and the hedged underlying transaction are recognized in the income statement at fair value. A loss of €5.9 million was recorded for hedged underlying transactions in the reporting period (prior year: €30.9 million), while a gain of €5.9 million was recognized for the derivatives (prior year: gain of €30.9 million).

## (3) Hedge of a net investment

In the case of foreign power plant projects, the pro rata equity of the company is hedged against currency risks on a rolling basis using currency derivatives. As at December 31, 2016, the outstanding contracts had a notional value of US\$ 36.0 million and expiration dates up to April 2018 (prior year: US\$ 43.2 million and expiration dates up to May 2017). These hedging instruments had a negative fair value of €1.3 million (prior year: negative fair value of €4.1 million). The reserve for gains/losses on hedging instruments amounted to €50.0 million on the reporting date (prior year: €53.8 million).

(b) Liquidity risk

The liquidity risk comprises a risk that there might not be sufficient cash and cash equivalents to meet financial obligations. To ensure that it remains solvent, the STEAG Group has a flexible range of corporate financing instruments to meet capital requirements for day-to-day business, investments and the repayment of financial debt. A key focus is optimizing net working capital.

The bonded loans taken out in 2014 are another major aspect. Here, STEAG GmbH is required to meet certain covenants. There is a basic risk that it will not meet the financial indicators defined for these covenants. Under the agreements, failure to meet these covenants constitutes grounds for termination with the consequence that the outstanding loans would be repayable immediately. That would result in an immediate outflow of funds. The liquidity risk of STEAG GmbH is classified as low.

In connection with forward marketing, STEAG GmbH concludes trading agreements, some of which contain financial covenants that have to be fulfilled; if the indicators are below the level set, the contractual party has a right to additional collateral. In principle, there is a risk that this would have to be paid in the form of cash margin payments. Not all agreed covenants were met as of December 31, 2016. The amount of relevance for margining was €215.0 million on the reporting date. As a result of changes in market prices and the counter-effect of liquidity inflows from exchange trading, the risk is considerably lower as at the date of preparation of these financial statements. The total risk to STEAG GmbH of non-fulfillment of the financial covenants is therefore classified as low.

Liquidity risk is managed through business planning to ensure that the funds required to finance the current operating business and current and future investments at all Group companies are available at the right time and in the right currency at optimum cost. Liquidity requirements for business operations, investments and other financial activities are derived from rolling monthly liquidity planning based on suitable risk management. Liquidity is pooled in a central cash management pool at STEAG GmbH where this makes economic sense and is legally permissible. Central liquidity risk management facilitates low-cost borrowing and advantageous offsetting of financial requirements. These measures ensure that the Group has sufficient liquidity to cover payments at all times. The liquidity risk of STEAG GmbH is classified as low.

The table shows the remaining maturity of the primary financial instruments based on the agreed dates for payment as the sum of the expected interest and installment payments.

in €million	Payments due in				Dec. 31, 2016
	up to 1 year	more than 1 - 3 years	more than 3 - 5 years	more than 5 years	
<b>Financial liabilities</b>	<b>284.5</b>	<b>458.9</b>	<b>353.0</b>	<b>498.0</b>	<b>1,594.4</b>
Liabilities to banks	159.4	418.6	340.1	404.6	1,322.7
Loans from non-banks	7.3	28.6	4.4	68.3	108.6
Liabilities from finance leases	7.8	11.6	8.4	8.5	36.3
Other financial liabilities	110.0	0.1	0.1	16.6	126.8
<b>Trade accounts payable</b>	<b>482.0</b>	-	-	-	<b>482.0</b>

in €million	Payments due in				Dec. 31, 2015
	up to 1 year	more than 1 - 3 years	more than 3 - 5 years	more than 5 years	
<b>Financial liabilities</b>	<b>294.4</b>	<b>205.6</b>	<b>350.0</b>	<b>827.7</b>	<b>1,677.7</b>
Liabilities to banks	185.9	185.8	338.2	742.8	1,452.7
Loans from non-banks	13.3	5.1	3.1	43.5	65.0
Liabilities from finance leases	7.7	14.6	8.6	12.4	43.3
Other financial liabilities	87.5	0.1	0.1	29.0	116.7
<b>Trade accounts payable</b>	<b>333.6</b>	-	-	-	<b>333.6</b>

The STEAG Group has not infringed the payment terms agreed for its financial liabilities.

The breakdown of interest and installment payments by residual maturity in the following table relates to derivative financial instruments with positive and negative fair values. The table shows the net value of cash inflows and outflows. Since netting was not agreed for currency derivatives, they are presented as gross amounts:

in €million	Payments due in				Dec. 31, 2016
	up to 1 year	more than 1 - 3 years	more than 3 - 5 years	more than 5 years	
<b>Receivables from derivatives</b>	<b>3,831.7</b>	<b>493.3</b>	<b>0.2</b>	<b>1.5</b>	<b>4,326.7</b>
Currency derivatives	27.7	8.8	-	-	36.5
Cash inflows	498.6	98.7	-	-	597.3
Cash outflows	-470.9	-89.9	-	-	-560.8
Interest rate derivatives	-0.5	-0.5	0.2	1.5	0.7
Commodity derivatives	3,804.5	485.0	-	-	4,289.5
					-
<b>Liabilities from derivatives</b>	<b>-3,597.5</b>	<b>-417.8</b>	<b>-14.5</b>	<b>-15.6</b>	<b>-4,045.4</b>
Currency derivatives	-23.6	-9.4	-	-	-33.0
Cash inflows	431.4	93.4	-	-	524.8
Cash outflows	-455.0	-102.8	-	-	-557.8
Interest rate derivatives	-14.0	-23.1	-14.5	-15.6	-67.2
Commodity derivatives	-3,559.9	-385.3	-	-	-3,945.2

in €million	Payments due in				Dec. 31, 2015
	up to 1 year	more than 1 - 3 years	more than 3 - 5 years	more than 5 years	
<b>Receivables from derivatives</b>	<b>1,382.3</b>	<b>622.4</b>	-	-	<b>2,004.7</b>
Currency derivatives	51.5	9.4	-	-	60.9
Cash inflows	517.5	201.2	-	-	718.7
Cash outflows	-466.0	-191.8	-	-	-657.8
Commodity derivatives	1,330.8	613.0	-	-	1,943.8
<b>Liabilities from derivatives</b>	<b>-1,066.7</b>	<b>-422.3</b>	<b>-21.4</b>	<b>-23.0</b>	<b>-1,533.4</b>
Currency derivatives	-24.6	-7.6	-	-	-32.2
Cash inflows	339.3	96.9	-	-	436.2
Cash outflows	-363.9	-104.5	-	-	-468.4
Interest rate derivatives	-20.0	-34.6	-21.4	-23.0	-99.0
Commodity derivatives	-1,022.1	-380.1	-	-	-1,402.2

### (c) Default risk

Credit risk management divides default risk into three categories, which are analyzed separately on the basis of their specific features. The three categories are debtor and creditor risk, country risk and the risk of default by financial counterparties.

The debtor and creditor default risks are analyzed and monitored continuously with the aid of an internal limit system. The Group's biggest foreign customers include state-owned corporations whose

payment obligations are secured by state guarantees. Political risk (country risk) is also taken into account in foreign investment and export orders so that the overall risk assessment takes account of both political and economic risk factors.

Wherever it makes sense, equity and debt are insured against political risks (expropriation, transfer risks, etc.). On the basis of this analysis, a maximum risk exposure limit is set for the contracting party. The credit standing of contracting parties is updated constantly via ratings or scoring processes.

In addition, a specific limit is set for financial and trading counterparties for each type of risk (money market, capital market and derivatives). Maximum limits for each contracting party are set on the basis of the creditworthiness analyses. These are predominantly based on the rating issued by international rating agencies and our own internal credit analyses. In the case of investments with banks, the bank's liable capital and insurance limits in the deposit insurance system are also taken into account.

## (8.2) Related parties

In addition to the affiliated companies included in the consolidated financial statements, the STEAG Group maintains relationships with related parties.

Related parties within the meaning of IAS 24 are KSBG KG and its shareholder Dortmunder Stadtwerke AG, together with the companies under its control.

The transactions between the STEAG Group and these companies are shown in the table:

in €million	KSBG KG		STEAG affiliates		Joint ventures		Associates		Other related parties	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Goods and services:										
supplied	0.1	0.1	0.6	1.1	0.9	4.9	9.2	9.6	8.1	2.9
sourced	-	-	3.9	3.1	0.6	1.7	0.0	0.0	3.9	2.4
Other income	6.8	6.4	0.3	0.3	0.5	4.0	-	-	0.2	-
Other expense	1.1	1.3	0.4	0.8	0.0	0.1	0.0	0.0	0.0	0.0
Receivables as at Dec. 31	187.2	183.2	8.2	14.2	0.1	0.4	1.3	1.1	4.1	0.0
Liabilities as at Dec. 31	55.1	80.2	0.9	0.9	1.2	12.0	-	-	0.1	0.0

The receivables from KSBG KG mainly comprise the upstream loan granted to this company, including capitalized interest of €164.3 million (prior year: €157.9 million) and the attributable taxes. On the reporting date, the liabilities to KSBG KG mainly related to income tax allocations and the profit and loss transfer agreement.

In the reporting period, write-downs of €2.3 million were recognized for uncollectable and dubious financial receivables from companies classified as related parties. These all relate to STEAG investments.

In addition to the commitment in favor of Arenales Solar PS, S.L. (Spain) outlined above, refer to Note (6.4), on the reporting date there were other financial obligations of € 1.7 million in favor of two joint ventures outside Germany.

Related parties also include members of the management who are directly or indirectly responsible for corporate planning, management and oversight of the activities of the STEAG Group, and members of their families. Within the STEAG Group these are the Board of Management and Supervisory Board of STEAG GmbH, KSBG GmbH, which is the managing partner of KSBG KG, and other members of the management of the STEAG Group. The other management members comprise the directors of STEAG Fernwärme GmbH, STEAG Power Minerals GmbH, STEAG Energy Services GmbH, STEAG New Energies GmbH, STEAG Technischer Service GmbH and STEAG Power Saar GmbH.

The supervisory boards of the subsidiaries STEAG New Energies GmbH and STEAG Technischer Service GmbH are not able to exercise any material influence on the STEAG Group.

The remuneration paid to related parties is shown in the table:

in €million	Board of Management of STEAG GmbH		Other management members	
	2016	2015	2016	2015
Short-term remuneration	4.0	4.0	3.3	3.7
Current service cost for pensions and other post-employment benefits	0.8	0.9	0.4	0.6

Remuneration comprises both amounts not related to performance and performance-related components.

The present value of defined benefit obligations is € 12.5 million for the Board of Management (prior year: € 11.3 million) and € 10.1 million (prior year: € 13.3 million) for other management members.

The total remuneration of members of the Supervisory Board of STEAG GmbH was € 0.5 million (prior year: € 0.4 million).

Apart from the relationships stated above, the STEAG Group did not have any other significant business relationships with related parties.

### (8.3) Contingent liabilities and other financial commitments

Contingent liabilities were as follows on the reporting date:

in €million	Dec. 31, 2016	Dec. 31, 2015
Guarantee obligations	48.3	53.4
Obligations under warranties and indemnity agreements	153.1	227.5
	<b>201.4</b>	<b>280.9</b>

Obligations under warranties and indemnity agreements include letter of comfort, some of which were issued jointly with third parties.

There are legal liabilities in respect of investments in partnerships, collectively owned enterprises and as the general partner of limited liability partnerships.

The disclosure of uncertainties regarding the amounts and maturity dates of the reported guarantee obligations and obligations under warranties and indemnity agreements is omitted for reasons of practicality.

Other financial commitments are outlined below.

The table shows the nominal value of obligations from future minimum lease payments for assets leased under operating leases with the following payment terms:

in €million	Dec. 31, 2016	Dec. 31, 2015
Due within 1 year	17.5	15.1
Due within 1-5 years	31.6	39.1
Due in more than 5 years	39.9	46.1
	<b>89.0</b>	<b>100.3</b>

There were no contingent rental payments in 2016 or the prior year.

The nominal value of obligations for future minimum lease payments for assets leased under operating leases mainly comprised €27.9 million (prior year: €32.1 million) for leased land and buildings and €21.7 million (prior year: €23.8 million) for plants.

Income from subleases of €1.1 million was recorded in 2016 (prior year: €0.8 million). Future income from subleases totals €1.0 million (prior year: €1.8 million).

In July 2016, judgments were received on the appeals filed in 2015 against tax assessments resulting from a tax audit of Iskenderun Enerji Üretim ve Ticaret A.S. (Turkey). With respect to taxable withdrawals, which related to taxation of distributed profits that had previously been tax-free, the company was required to pay tax plus interest totaling €36.0 million. The company has paid this

amount to the fiscal authorities and filed an appeal against the decision. With respect to the additional fine of €37.6 million imposed by the authorities, the court ruled in favor of the company. The fiscal authorities have filed an appeal against the non-imposition of the fine. Based on careful examination of all documents, the management considers that the fine demanded by the fiscal authorities in Turkey is not justified and classifies the risk probability as low.

There are administrative, regulatory, court, and arbitration proceedings concerning STEAG GmbH and/or its affiliated companies. Their outcome could affect the future economic and financial situation of these companies. In some cases, out-of-court claims are also being pursued. However, these cases are not expected to have a material impact on the earnings, asset and financial position of the Group.



#### **(8.4) Events after the reporting date**

The following events affecting the situation of the STEAG Group occurred in fiscal 2017:

In a letter dated January 19, 2017, the transmission network operator Amprion GmbH classified the Bexbach and Weiher power plants in Saarland as systemically relevant and required STEAG GmbH, as the operator, to maintain them in operational readiness until November 2019. According to Amprion, shutdown of the Bexbach and Weiher power plants would constitute a not inconsiderable risk to or disruption of the security or reliability of the electricity supply system.

The two-year grid reserve operation period ensures the continued employment of some staff at these power plants during this period. The staff required to maintain the plants in operational readiness and the associated claims for reimbursement of the costs have not yet been agreed with the network operator. We mainly expect the outcome of the negotiations to impact the level and timing of utilization of the provisions established for these two power plant locations. At present, we do not anticipate any further material impact on the future assets, financial position and results of operation of the STEAG Group.

By contrast, the network operator does not regard the West 1/2 and Herne 3 power plants in the federal state of North Rhine-Westphalia, which are also registered for shutdown, as systemically relevant. Final shutdown of these plants will therefore take place on March 31, 2017 and June 30, 2017 respectively.

Essen, March 9, 2017

**STEAG GmbH**

**Board of Management**

Rumstadt

Baumgärtner

Dr.Cieslik

Geißler