ANNUAL REPORT 2018

PNE AG

FULL OF ENERGY

PNE

pure new energy

THE PNE GROUP AT A GLANCE

The PNE Group consists of the companies PNE AG and WKN GmbH and is a leading wind farm developer located in Northern Germany.

39.5
million EUR
AVERAGE EBITDA
OF THE YEARS 2013–2018

>2,800
MW
REALISED ONSHORE

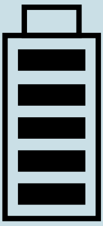
4,883
MW
IN THE PIPELINE INTERNATIONALLY

>1,500
MW
UNDER OPERATIONAL MANAGEMENT

PNE Group key figures

in million EUR	1.1. – 31.12. 2018	1.1. – 31.12. 2017	1.1. – 31.12. 2016
Total aggregate output	111.8	186.9	259.2
Revenues	91.4	114.1	248.6
Earnings before interest, taxes, depreciation and amortization (EBITDA)	16.5	28.6	109.9
Operating profit (EBIT)	7.8	23.1	97.0
Result before Taxes (EBT)	-2.0	14.1	81.6
Net income	-1.0	17.1	69.0
Basic earnings per share (euro)	-0.01	0.22	0.90
Average number of shares (million)	76.5	76.6	76.6

in million EUR	31.12.2018	31.12.2017	31.12.2016
Equity as at 31.12.	216.3	235.2	229.4
Equity ratio as at 31.12. (%)	47.8	47.7	53.1
Balance sheet total as at 31.12.	452.6	493.3	432.0



FULL OF ENERGY

As a developer of wind farms, we have already proven ourselves in Germany and internationally. From this strong position, we are drawing new energy for the future. We will use this energy for the strategic further development into a **Clean Energy Solution Provider.** In this way, we minimise market risks, open up new potentials and markets and, above all, increase and stabilise our earnings in the medium term.

f.l.t.r.
Jörg Klowat, CFO
Markus Lesser, CEO
Kurt Stürken, COO

FOREWORD OF THE BOARD OF MANAGEMENT

DEAR SHAREHOLDERS

2018 was a very successful year in operational terms. With 235.7 MW (prior year: 233.6 MW) of projects sold, commissioned or under construction, we are at the previous year's level and on schedule. With an expected investment volume of around euro 1.4 to 1.8 million per MW of installed nominal capacity, PNE has initiated investments of around euro 330 to 424 million (prior year: euro 327 to 420 million). Particular sales successes would have led to an over-fulfilment of the targets with EBIT of approx. euro 18.5 million and EBITDA of approx. euro 27.2 million. However, a reassessment of three out of five offshore projects involved in the constitutional complaint regarding the Offshore Wind Energy Act after the last hearing on the 2019 land development plan (version of October 26, 2018) in January 2019 has led to a revaluation of the balance sheet and, thus, to non-cash value adjustments of around euro 10.8 million. In view of the expected success of the constitutional complaint, the Company now assumes that it will have a claim for damages for these three projects. However, this claim cannot be recognised in the inventories. As a result of these value adjustments, the Group only achieved EBITDA of approx. euro 16.5 million and EBIT of approx. euro 7.8 million in the 2018 fiscal year. The guidance for Group EBITDA of euro 20 to 26 million and the guidance for Group EBIT of euro 10 to 16 million were not achieved in the 2018 fiscal year. In the event of a positive decision on the constitutional complaint concerning the three projects that have now been written down, we currently expect a claim for damages in the amount of the write-down and thus a considerable additional earnings potential.

At the level of PNE AG, the annual guidance, i.e. positive EBIT in the low single-digit million range, was also not achieved with EBIT of euro -7.0 million in the 2018 fiscal year due to the offshore value adjustments.

What has happened? In the past, we have already reported in great detail on the facts of the "cold expropriation" of PNE AG by the last Offshore Wind Energy Act. PNE AG has filed a constitutional complaint in this regard, which is currently still being dealt with by the Federal Constitutional Court.

Land development plans exist for the development of the North Sea and the Baltic Sea, including against the backdrop of the expansion of wind energy. The draft 2019 land development plan was last discussed on January 31, 2019. In zone 3, this plan provides for a future expansion by 2 GW in addition to the 15 GW of wind energy already included. Furthermore, the 2019

» THE EARLY INTERNATIONALISATION OF OUR BUSINESS IS PAYING OFF NOW. «

land development plan defines zone 3 as the priority zone for the further expansion of offshore wind energy beyond 17 GW. Therefore, it is likely that the "Atlantis" II and III projects will be realised.

Zone 4 has not yet been affected by the provisions of the 2019 land development plan. In accordance with the current regulatory requirements, it has become relatively less likely that the offshore projects "Jules Verne", "Nautilus" and "Nemo", which are located in zone 4, can be realised. This is the reason for the value adjustment we have made. In view of the expected success of the constitutional complaint, the Company now assumes that it will be granted a claim for damages. However, this claim cannot be recognised in the inventories. Irrespective of this, we still expect that the constitutional complaint will be successful for all five projects. In the event of success, according to current estimates, a claim for damages in the amount of euro 10.8 million would arise for the three projects "Jules Verne", "Nautilus" and "Nemo", which would, however, not have an effect on earnings before a legally binding decision has been made.

We are particularly pleased that our international business continued to grow and made a major contribution to earnings. We have also made progress in implementing our strategic expansion through our "Scale up" concept, which of course also involved investments in the future. Profits that we have generated as part of the expansion of our "wind farm portfolio 2020", but which will not be realised until the portfolio is sold in 2020, are not yet included in the results.

Internationalisation pays off – two-thirds of the project pipeline already located abroad

Depending on the market, the expansion of renewable energies takes place under very different framework conditions. Established markets are becoming more difficult. In Germany, for example, approval procedures are becoming increasingly lengthy and approvals granted are increasingly appealed against. We are also affected by this. However, the early internationalisation of our business is paying off now. In the 2018 fiscal year, we completed and commissioned, started construction or sold projects with a total of 235.7 MW. Of this figure, 152.1 MW was attributable to projects in France, Poland or Italy. In addition, with successful tenders in Germany and Poland, we have proven that we can also operate with success under new conditions. At the end of 2018, the companies of the PNE Group were working on onshore wind farm projects with more than 4,800 MW of nominal capacity. They are in different phases of the multi-year development process. This is the basis for further development.

Profitable despite increased investing activities

In economic terms, the past financial year developed positively. The Group has operated profitably, although we have also invested in the construction of our own wind power turbines, which will become part of the "wind farm portfolio 2020". All business divisions contributed to the result: national and international project development, power generation, operational management and the new service products. We received further milestone payments from the offshore wind farm projects sold in the past. Erection of the "wind farm portfolio 2020" has progressed as scheduled in 2018. The "Gerdau-Repowering" wind farm was commissioned at the end of 2018 and the beginning of 2019. This means that 71.3 MW – and thus more than one third of the target figure – are already in operation or under construction.

The Group achieved the "project pipeline" objective, since the pipeline, i.e. the existing portfolio of projects in the various development phases, was increased by the end of 2018 compared with the previous year (4,741 MW).

» WITH SCALE UP, WE ARE MEETING THE MAJOR ENERGY POLICY CHALLENGES.«

Based on these results, the Board of Management and the Supervisory Board will propose to the general meeting of shareholders on May 22, 2019 that a dividend of euro 0.04 per eligible share be distributed from PNE AG's retained earnings. In this way, we are continuing the dividend policy pursued over the last few years.

New orientation to become a Clean Energy Solution Provider

We are proud of these successes. But we cannot and will not rest on our laurels. Since the end of 2017, we have been working intensively on implementing our strategic expansion to become a Clean Energy Solution Provider through our "Scale up" concept. With this realignment, we are meeting the major energy policy challenges at both national and global level. While political changes, tender markets and price pressure pose major challenges for the industry, the global demand for energy is growing. Renewable energies are already competitive in many areas. In addition, technological developments ensure that the energy markets are becoming increasingly interlinked and offer new business opportunities. We want to profit from this.

With our “Scale up” programme, we also want to raise and stabilise our earnings. A significant increase in the service share and even greater diversification in the project business will sustainably improve our risk profile. In this way, we are making the PNE Group even more resistant and robust.

A lot has happened since the start of the “Scale up” programme in November 2017:

PNE WIND AG has become PNE AG – and that is more than just a change to the “doorplate”. The “pure new energy” claim underscores our new, broader positioning.

First, the financial and organisational prerequisites for a successful implementation had to be met. Financing was put on a new foundation. In 2018, we repaid our euro 100 million bond with an 8 percent coupon as scheduled and issued a euro 50 million bond with a 4 percent coupon. This alone reduces our annual interest expense by euro 6 million. We have also secured the credit lines to finance the expansion of our “wind farm portfolio 2020”. Finally, the remaining shares of WKN were acquired and the internal structure optimised.

The next step was to redefine our product range: wind energy, photovoltaics and hybrid solutions. As hybrid solutions, we see projects in which we interlock wind energy with photovoltaics or storage technologies. In addition, we have defined services that enable us to offer our extensive expertise to our customers. These include financial services, construction management, operational management, energy supply services as well as wind planning services and wind measurements. We can do that – and others can benefit from it.

» PNE WIND AG HAS BECOME PNE AG – AND THAT IS MORE THAN JUST A CHANGE TO THE “DOORPLATE”. «

This laid the foundation for the next step of standardising the organisation in the companies of the PNE Group and of optimally aligning it to these new challenges. The adaptation of the organisation is now almost complete, the processes have been optimised and the necessary tools – i.e. the working tools – have been introduced. This makes us more efficient and faster and enables us to increase productivity significantly and measurably.

Positive outlook

We are well positioned. This is shown by the positive developments in the financial year and is also reflected in our project pipeline, in which two thirds of the projects are already located abroad. This is the potential of the future.

And the course for the coming years is also clear: we will strengthen our core business and, at the same time, consistently push ahead with the expansion in services, technologies and markets defined in the "Scale up" programme. We are thus making progress in the industry. Further progress was made at the beginning of the current 2019 financial year with the entry into the Latin and South American markets.

In fiscal 2019, we will have further upfront expenditure in the low single-digit million range for the strategic expansion of the business model and the preparations for entry into new markets. Nevertheless, we anticipate clearly positive EBITDA in the range of euro 25 to 30 million and EBIT of euro 15 to 20 million at Group level. These results do not take account of the profits from projects to be built in 2019 for the "wind farm portfolio 2020", which is currently under construction. PNE AG expects a positive EBIT figure in the low single-digit million range for the 2019 fiscal year. The megawatt figures of the project pipeline are expected to remain at least constant throughout the Group in the 2019 fiscal year.

We are increasing the value of the enterprise

We want to increase earnings, make development more calculable and predictable and thus continuously raise the value of the Company on a sustained basis. A new segment reporting system will further increase transparency for you. All this shows that the PNE Group is seizing the opportunities in the market and is steering towards a future in which the shareholder value concept is even more strongly in focus. We invite you to accompany us on this journey.

Maintain your confidence in us!

Kind regards

The Board of Management

Markus Lesser	**Jörg Klowat**	**Kurt Stürken**
CEO	CFO	COO

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS

PNE AG ended the 2018 fiscal year with success in structural and operational terms. However, the resulting positive consolidated earnings (EBITDA and EBIT) were affected by unforeseen write-downs on three out of five onshore projects not yet completed. The reason is the draft of the 2019 land development plan, which was last discussed on January 31, 2019. Therefore, it is likely that the two projects "Atlantis" II and III will be realised. Because of the current regulatory requirements, the realisation of three offshore projects has become less likely, which is the reason for the reassessment of the balance sheet by the Board of Management. Irrespective of this, the Board of Management and the Supervisory Board continue to assume that the constitutional complaint submitted in 2017 will be admitted and successfully concluded for all five projects. Important operational successes were the contracts awarded for projects in tenders in Poland, the sale of projects in France and Poland and the completion of various wind farms both in Germany and abroad. We received milestone payments from the offshore wind farm projects sold in the past. Finally, we were able to achieve a new, improved foundation for corporate financing: The Company repaid a bond with a volume of euro 100 million and a coupon of 8 percent and issued a new bond with a volume of euro 50 million and a coupon of 4 percent.

With the change of name to PNE AG resolved by the general meeting of shareholders on June 6, 2018, which was implemented shortly thereafter, and our claim "pure new energy", we make it clear that the Company now has a significantly broader base and is pursuing an expanded strategic orientation.

The Board of Management with CEO Markus Lesser, CFO Jörg Klowat and COO Kurt Stürken not only pushed ahead with these developments, but also worked on the implementation of the Company's expanded strategy. This created the prerequisites for giving substance to this strategic orientation in 2019 through the "Scale up" programme. It includes the preparations for entering new markets, the expansion of the services offered by the Company as well as the development of combined wind/photovoltaic projects and power-to-gas solutions. Based on the successful development of wind farm projects, which remains the core business, PNE AG will thus further develop into a "Clean Energy Solution Provider".

During the 2018 fiscal year, the Supervisory Board met for a total of 12 ordinary meetings on January 19, February 21 (by phone), March 21, April 23 (by phone), May 24 (by phone), June 5, June 6, August 8 (by phone), August 14 (by phone), September 26, October 24 (by phone) and December 6, 2018. Except for Dr. Niklas and Dr. Kruse, who were unable to attend one meeting, the Supervisory Board members took part in all meetings.

In accordance with the recommendation of the German Corporate Governance Code (GCGC), the Supervisory Board has enough independent members. In the opinion of the Supervisory Board, all Supervisory Board members in office since May 31, 2017 are independent.

In May 2017, the Supervisory Board determined, in accordance with Section 111 (5) sentence 1 of the German Stock Corporation Act (AktG), that the target figure for the proportion of women on the Supervisory Board shall be one sixth (16.67 percent), which is to be achieved by the end of the general meeting of shareholders which resolves on the official approval of the Supervisory Board's actions for the 2021 fiscal year. The target of women representing one sixth of the Supervisory Board members was fulfilled with the composition of the Supervisory Board on December 31, 2018 and will be achieved again as of the 2019 general meeting of shareholders.

The former Supervisory Board member Dr. Isabella Niklas has resigned from her office on the Supervisory Board as of December 31, 2018 due to a career change. Since May 1, 2018, Dr. Niklas has held the position of management board spokeswoman at Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH (HGV). We want to thank her for her expert and dedicated work on the Supervisory Board.

The general meeting of shareholders held on June 6, 2018 resolved the official approval of the actions of the Supervisory Board members for the 2017 fiscal year. In order to ensure the efficient handling of its tasks, the Supervisory Board has set up a Personnel Committee, an Appointments Committee and an Audit Committee.

The Personnel Committee held its meetings jointly with the Appointments Committee. During the 2018 fiscal year, they met for eight meetings on March 20, April 13, May 31 (by phone), June 5, October 9, October 18, October 30 and December 5, 2018. The topics of the meetings included the target agreements for the members of the Board of Management, the organisational structure to support the strategic programme "Scale up", the development of suggestions for the elections to the Supervisory Board and the efficiency review by way of a self-evaluation.

The Audit Committee met for a total of five meetings on March 20, May 8 (by phone), August 8 (by phone), October 15 (by phone) and November 6, 2018. The topics of these meetings were the audit of the annual financial statements as at December 31, 2017, the discussion of the half-yearly financial report and the quarterly statements of 2018 as well as the related recommendations to the Supervisory Board for the adoption of relevant resolutions. In addition, the Audit Committee dealt with the selection procedure for appointing the future auditors for the 2019 fiscal year. It was responsible for this process from designing the selection procedure, organising the public tender, and making recommendations to the Supervisory Board.

The Supervisory Board undertook the tasks for which it is responsible in accordance with the law, the articles of association and the internal regulations. It regularly advised the Board of Management concerning the management of the Company and supervised its activities. The Supervisory Board was directly included in all decisions of major importance for the Company. The Supervisory Board was punctually and fully informed in writing and at its meetings through written and verbal reports from the Board of Management about the current business developments and the asset, earnings and financial situation of the Company as well as about the planned business policy and the additional key questions of corporate planning, especially regarding financial, investment and personnel planning. These various topics were discussed extensively by the Board of Management and the Supervisory Board. Furthermore, the Supervisory Board inspected and reviewed the books, documents and the schedules of assets. Particular emphasis was given to future liquidity planning and the financing structure of PNE AG and the Group. Moreover, the Supervisory Board was kept informed on a regular basis in the context of individual discussions with the Board of Management.

The Supervisory Board examined in detail all transactions and measures requiring its consent due to the legal provisions, the articles of association and the internal regulations of the Board of Management and adopted relevant resolutions.

The focus of the Supervisory Board's activities and topics during the 2018 fiscal year was on:

- the reports and discussions concerning the annual and the consolidated financial statements as at December 31, 2017
- the preparations for the general meeting of shareholders on June 6, 2018
- the selection procedure for appointing the future auditors for the 2019 fiscal year
- the medium-term corporate planning of the PNE Group
- the reports on the development of current and planned business transactions
- the discussions and resolutions regarding the share buyback programme
- the reports and discussions concerning the further strategic development of the Company and the analysis of the shareholder structure
- the discussions regarding the effects resulting from the changes in markets for renewable energies
- the resolution on the issuing of the declaration of compliance with the German Corporate Governance Code

The Supervisory Board dealt particularly intensively with the strategic direction of the enterprise and the future orientation of the business model.

No conflicts of interest regarding the Board of Management and Supervisory Board members were reported in the year under review, nor did such conflicts become apparent.

The Supervisory Board also adopted its declaration of compliance. Furthermore, the Supervisory Board passed resolutions on other matters of the Board of Management.

The annual financial statements of PNE AG, the consolidated financial statements as well as the management report of PNE AG and of the Group were drawn up on schedule by the Board of Management. The auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, appointed by the general meeting of shareholders on June 6, 2018, audited these statements and the accounting documents and issued an unqualified audit opinion on the annual financial statements and the consolidated financial statements as well as on the combined management and group management report.

The Supervisory Board issued the mandate for the audit of the 2018 financial statements on July 23, 2018. In accordance with the recommendations in no. 7.2.1 of the German Corporate Governance Code (GCGC), the Supervisory Board obtained, prior to issuing this mandate, a declaration of the auditors as to which professional, financial or other relationships exist between the auditors and the Company, which might give rise to concerns regarding their independence. The declaration also included the scope of other consulting services, which were provided to the Company during the past fiscal year. According to the declaration submitted by the auditors to the Supervisory Board, there are no doubts regarding their independence.

The Supervisory Board informed the auditors about the main topics for the audit of the annual financial statements of PNE AG and of the Group for the 2018 fiscal year.

The financial statements of PNE AG, the consolidated financial statements, the combined management and group management report of PNE AG for fiscal 2018 and the reports of the auditors were made available on schedule to all Supervisory Board members prior to the meeting on the financial statements on March 22, 2019. The documents were comprehensively examined and discussed by the members of the Supervisory Board at the meeting of the Audit Committee on March 19, 2019 and at the meeting on the financial statements. The Chairman of the Audit Committee gave a report on the treatment of the financial statements and the consolidated financial statements by the Audit Committee to the full Supervisory Board at the meeting on the financial statements. Representatives of the auditors participated in the Supervisory Board's meeting on the financial statements as well as in the previous meeting of the Audit Committee, where they reported about the significant results of the audits with a special focus on the key audit matters and the audit measures performed. There were no objections. All questions of the Supervisory Board were answered fully following the reports from the Board of Management and the auditors. The Supervisory Board, after its own comprehensive examination of the annual financial statements, the consolidated financial statements, the combined management and group management report and based on the recommendations of the Audit Committee, consented to the result of the audits by the auditors.

The Supervisory Board approved the annual financial statements as at December 31, 2018 of PNE AG and the consolidated financial statements as at December 31, 2018. The financial statements were thus adopted. The proposal of the Board of Management regarding the appropriation of profits was reviewed and approved by the Supervisory Board in accordance with the interests of the Company and the shareholders.

The regulations and obstacles which could impede the takeover of and exercise of control over the Company by third parties were reviewed and analysed by the Supervisory Board. The Supervisory Board does not consider any changes to be necessary in this respect.

The Supervisory Board wishes to thank the members of the Board of Management as well as all employees of PNE AG for their outstanding commitment and responsible and successful work during the 2018 fiscal year.

Cuxhaven, March 22, 2019

Per Hornung Pedersen
Chairman of the Supervisory Board

STRATEGIC DEVELOPMENT INTO A CLEAN ENERGY SOLUTION PROVIDER

WE WILL EXPAND OUR BUSINESS

The demand for clean energies and a secure power supply is growing worldwide. At the same time, the challenges of competition are increasing. We take account of these developments and want to exploit the opportunities arising from the transformation of the markets as a "Clean Energy Solution Provider". Based on the extensive experience gained from the successful development, project planning and realisation of wind farms on land and at sea, projects and solutions for the planning, construction and operation of power plants based on clean energies will also be developed and implemented in the future. We are thus broadening our focus to include photovoltaic projects and hybrid solutions as well as storage technologies.

This is how our products are defined: project development wind energy, project development photovoltaics and project development hybrid solutions. We are also involved in the development of power-to-gas solutions. In addition to these products, services for projects and the supply of clean electricity will increasingly be part of our offering in the future, which we will significantly expand to the benefit of our customers.

This is the core of the strategy presented in November 2017, which will be implemented by 2023 based on the "Scale up" concept. The aim is to increase the operating result (EBIT) by 30 to 50 percent by then compared with the average of the years 2011–2016 and, at the same time, to significantly reduce volatility in the annual results.

PROJECT DEVELOPMENT

- Wind energy
- Photovoltaics
- Hybrid solutions (wind, photovoltaics and/or batteries/ hydrogen storage)

SERVICES

- Financial services
- Construction management
- Operational management
- Energy Supply Services
- Wind planning services/ wind measurements

POWER GENERATION

- from the operation of our own plants

MARKETS

- Existing markets
- Emerging markets

WE ALSO USE OUR KNOW-HOW FOR PHOTO-VOLTAIC PROJECTS AND THE STORAGE OF ENERGY.

NEW FIELDS OF APPLICATION FOR OUR KNOW-HOW

PROJECT DEVELOPMENT

The challenges in the clean energy market are growing: Tenders are becoming the norm worldwide, larger and larger projects require higher pre-financing. The generation of energy is becoming increasingly decentralised – and thus more complex. At the same time, the demand of investors for projects remains high – good projects are currently the bottleneck. With our very well filled project pipeline, we are able to meet this demand.

In view of the changed market conditions, however, we no longer want to concentrate solely on wind farms, but also apply our expertise to photovoltaic projects and the storage of energy. We are also thinking of supplying clean electricity for the production of hydrogen. With this second step, we are also entering the market for mobility and heat from renewable energies. However, project development will remain the core business and basis for this expansion.

Project development for wind energy is our core business

We are internationally successful in the market for wind power turbines. We acquire locations, analyse the wind, select the suitable turbines from the range of well-known manufacturers and take care of the approval and financing. Our projects are characterised by a high degree of approval security. In addition, we provide reliable statements on the expected costs in the construction and operating phases and implement the projects reliably within the specified time frame and at an internationally financeable level. Because we have a good overview of the entire value chain by developing projects from the outset, we are also successful in tender markets.

What are the advantages of wind and sun compared to conventional modes of electricity generation?

Markus Lesser, CEO

"Wind and sun are infinitely available. Photovoltaic and wind energy projects can be realised quickly and cost-effectively in contrast to conventional and nuclear generation methods. The possibility of developing decentralised solutions without having to set up large energy production infrastructures is the answer to many urgent problems faced by fast-growing societies, particularly in Asia, Africa and Latin and South America. At the same time, this is the answer for many enterprises to protect themselves against rising electricity prices."

Once we have developed a project to the construction stage, we either sell the rights to the wind farm or build it ourselves and then sell it on a turnkey basis to an investor – for example to IPPs (independent power producers), utilities or infrastructure funds. Our services include providing the grid connection and the necessary infrastructure, monitoring the construction of the plants and putting them into operation. We own and operate some projects on our own account. We use them to generate clean electricity, which we feed into the public grid or supply directly to customers. After the start of operation, we offer technical and commercial operational management for our own wind power turbines, for those we have sold and for third-party installations. This secures us steady yields over the entire term of the wind farm – and that is 20 years after all. This is a period in which modernisation measures are often carried out (keyword: repowering). The relevant market is huge: In the years 2021–2024, more than 10 GW of wind power plants in Germany will no longer be covered by the EEG remuneration system. These plants represent the market potential for repowering or continued operation. And: We manage projects with a capacity of more than 1,500 MW and thus have good access to projects that can be repowered.

WE HAVE A SUCCESSFUL BUSINESS MODEL

1 | Development
- Acquisition of the site
- Wind analysis
- Selection of equipment
- Permits

2 | Financing
- Financial analysis
- Legal concept
- Sales/ marketing
- Project financing

3 | Construction
- Grid connection
- Infrastructure
- Assembly
- Start-up of operations

4 | Sale/IPP
- IPP
- Utility
- Infrastructure fund
- Insurance companies

5 | Service
- Technical and commercial management

Development, planning, construction and operation of wind farms onshore and offshore

Premium, bankable projects with high certainty of realisation

Covering the entire value chain – from a single source

SUCCESSFUL REPOWERING CONTINUED IN 2018

1 | LOOFT
Schleswig-Holstein

ORIGINAL COMMISSIONING
2001

TOTAL CAPACITY AFTER REPOWERING
16.5 MW

MEASURES
Replacement of six Vestas V66 by five Vestas V112

TECHNICAL WIND FARM MANAGEMENT
energy consult GmbH

REPOWERING COMPLETED
2018

2 | GERDAU-REPOWERING
Lower Saxony

ORIGINAL COMMISSIONING
2001

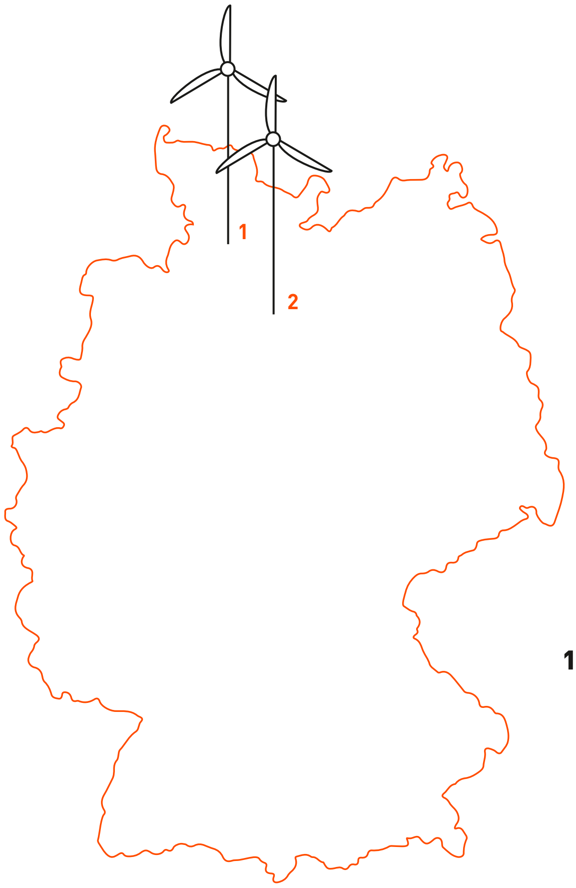
TOTAL CAPACITY AFTER REPOWERING
21.6 MW

MEASURES
Replacement of 13 DeWind D6 by six Nordex N131

TECHNICAL WIND FARM MANAGEMENT
energy consult GmbH

REPOWERING COMPLETED
2019

OUTCOME OF REPOWERING: POWER GENERATION DOUBLED



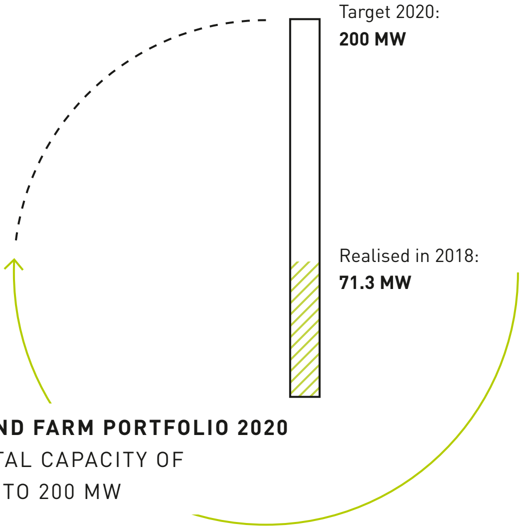
Growth factor repowering: making old wind farms fit for the future

Numerous wind farms are becoming obsolete and must be adapted to the latest technology after 15 to 20 years of operation: Old wind turbines are replaced by new ones. The repowered plants are more than twice as efficient and significantly quieter. Because they are bigger, they run quieter. And because the individual wind power turbines are more efficient, you often only need half the number for the same capacity, which relieves the landscape. Repowering is also good for the operators: The new approval procedure is often easier to complete, the site and infrastructure are available, and the wind turbines enjoy a high level of acceptance among residents. The new wind turbines require less maintenance, are more compatible with the power grid and are more reliable. In this way, the optimised and modernised wind farms will increase the yield.

In repowering, we perform all the necessary tasks – which are just as complex as the construction of a new plant: planning, approval, organisation of financing and the realisation on schedule and within budget at the repowering site until turnkey handover – such as the Gerdau-Repowering project (see illustration).

THE ESTABLISHMENT OF OUR "WIND FARM PORTFOLIO 2020" IS MAKING PROGRESS

Since 2017, we have been building up our strategic "wind farm portfolio 2020". It will include wind farms with a total capacity of 200 MW – mainly in Germany and in France. Of this, 71.3 MW are already in operation or under construction. The wind farms Kührstedt-Alfstedt (43.2 MW) and Gerdau-Repowering project (21.6 MW) are in operation, while the Schlenzer wind farm (6.5 MW) is under construction. The other plants are in different phases of development. The plan is to sell the entire portfolio in 2020. It will take longer to completely build up the "wind farm portfolio 2020" than to sell the wind farms individually after completion. However, our experience with the bundling of wind farms has shown that waiting can be worthwhile. Because every transaction causes costs. In addition, the bundling will result in economies of scale, for example, as regards the financing and insurance of the individual wind farms. Above all, the size of the portfolio makes it attractive for other investor groups.



WIND FARM PORTFOLIO 2020
TOTAL CAPACITY OF
UP TO 200 MW

Extensive experience in offshore wind farm projects

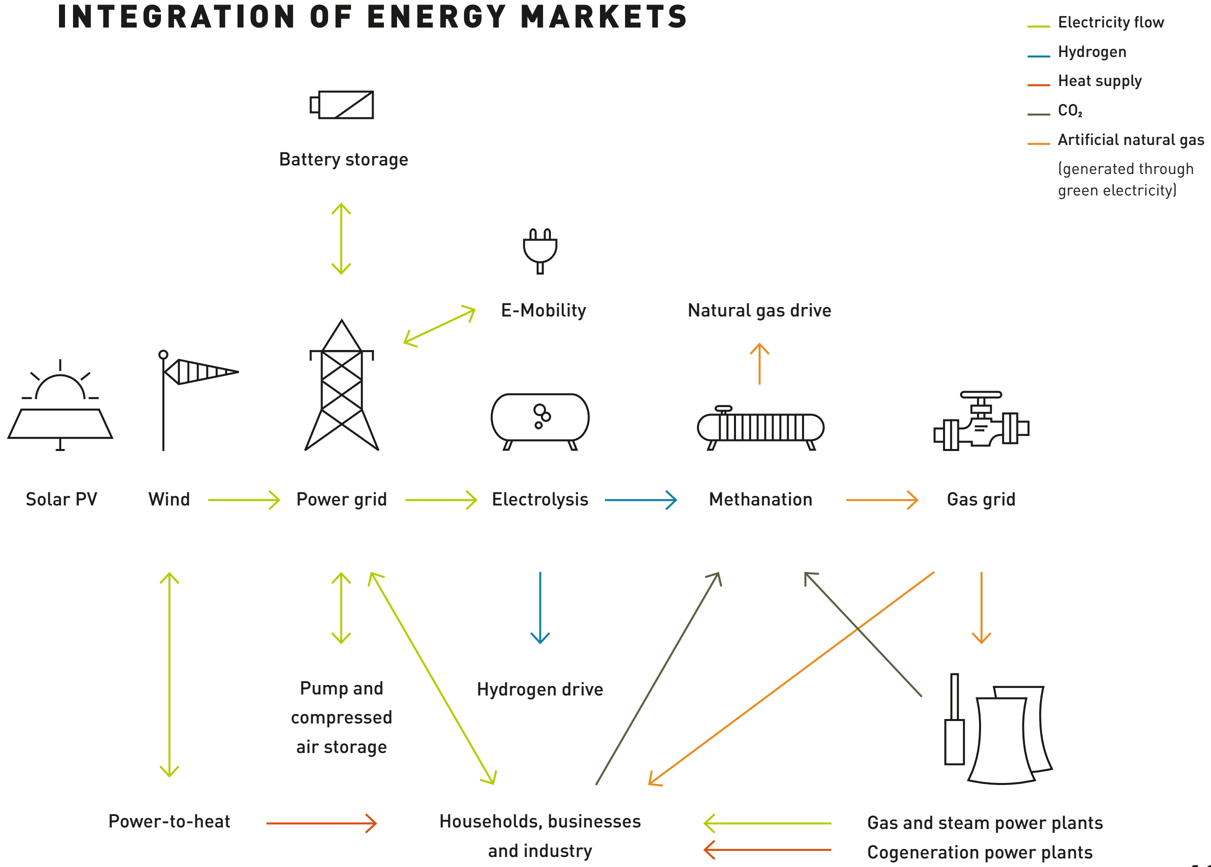
In our offshore project business, we generally develop wind farms up to construction maturity and sell the rights before they are actually built. Last year, the construction of the offshore Borkum Riffgrund 2 project developed by us was largely completed. Commissioning is scheduled for 2019. In addition, two projects developed by us were awarded contracts in tenders: Gode Wind 3 and Gode Wind 4.

Wind farms at sea are particularly demanding in technical and ecological terms. Marine environmental protection, water depth, shipping routes, tides and long distances from the coast make the planning a challenge. We are one of the industry leaders in this field. Therefore, after the sale of the offshore projects, we generally remain active as a service provider for the buyer and can thus generate steady income.

Over the past 20 years, we have developed wind farms in 13 countries on three continents. The capacity of all the wind farms we have developed on land and at sea is more than 2,800 MW each. And we will do more.

In the past year alone, projects with a volume of 235.7 MW were completed, under construction or sold. Project implementation is thus at the same level as in the previous year. The portfolio of projects that we are working on in various phases of development comprises significantly more than 4,800 MW. This is the potential of the future.

INTEGRATION OF ENERGY MARKETS



Source: e/m/w 2017, PNE AG

Increasing demand for project development for photovoltaic systems

Solar energy plays an increasingly important role alongside wind energy. This is because the costs for photovoltaic systems have fallen sharply. For this reason, we intend to use our expertise in the future to develop large photovoltaic systems. Our growth will be driven by international markets.

Even if the source of energy is different: We remain close to our core business. This is because there are no significant differences between wind and photovoltaic plants in terms of project development. We can therefore optimally use our expertise in the wind sector for photovoltaic projects.

Hybrid solutions for more efficiency

More and more often, different systems for generating regenerative energy are combined in an energy park – combinations of wind and photovoltaics are conceivable, whereby the free areas between the wind energy plants can be used for solar panels. This can be supplemented with storage solutions (batteries and/or hydrogen) for specific projects. Advantages: When the sun shines strongly, there is usually little wind and vice versa. This reduces land use, increases yield and compensates for some variations: When the wind turbines stand still on warm, windless days, the photovoltaic plant comes into play. Also, with this offer we can use our experience of many years.

AS EXPERIENCED PROJECT PLANNERS OF WIND FARMS, WE ALSO OFFER OUR EXPERTISE TO OUR CUSTOMERS.

700

OUR EXPERIENCED EMPLOYEES ARE CURRENTLY SERVICING MORE THAN 700 WIND TURBINES THROUGHOUT EUROPE.

OUR EXPERTISE AS A SERVICE TO OUR CUSTOMERS

SERVICES

Financial services reduce costs

A wind or solar park often costs a three-digit million sum. Each decimal place is clearly noticeable in the financing. Thanks to our many years of experience as project planners, we have a good overview of the financing options on the market. And our customers can benefit from this by being advised by us on the optimum financing conditions. Nice side effect for us: We can also achieve savings effects in this way if we are active as a minority shareholder in project companies.

Experienced construction management – everything according to plan, everything within the budget

As experienced project planners and builders of wind farms, we offer our expertise to our customers – from the granting of building permits to commissioning. We make sure that cable shafts and paths are finished when it comes to installing the wind turbines. We monitor their installation through to completion and acceptance in an intensive coordination process. We also control the commissioning. We ensure that the often tight time schedule and budget are adhered to.

Expansion of shareholdings in substations planned

Many wind and solar farms must be directly equipped with a substation, which ensures that the electricity generated can be fed into the high-voltage grid. We are building and operating an increasing number of such substations. This ensures stable earnings and long-term cooperation with the farm operator, which can subsequently result in repowering orders. In individual cases, wind farms from the surrounding area can also be connected to the substation.
In this way, existing capacities can be optimally utilised.

Is PNE financially well positioned to successfully implement the "Scale up" programme?

Jörg Klowat, CFO

"Clearly: yes! In 2018, we repaid our euro 100 million bond with an 8 coupon as scheduled and issued a euro 50 million bond with a 4 coupon. This alone reduces our annual interest expense by euro 6 million. We have also secured a loan of euro 25 million to finance the equity capital portion of our wind farms. Overall, we had available liquidity – including credit lines – of euro 157.8 million on the reporting date. This means that the implementation of "Scale up", our ongoing business operations and the development of the "wind farm portfolio 2020" are fully financed. Thanks to our high equity ratio, we also have good prerequisites for financing new projects."

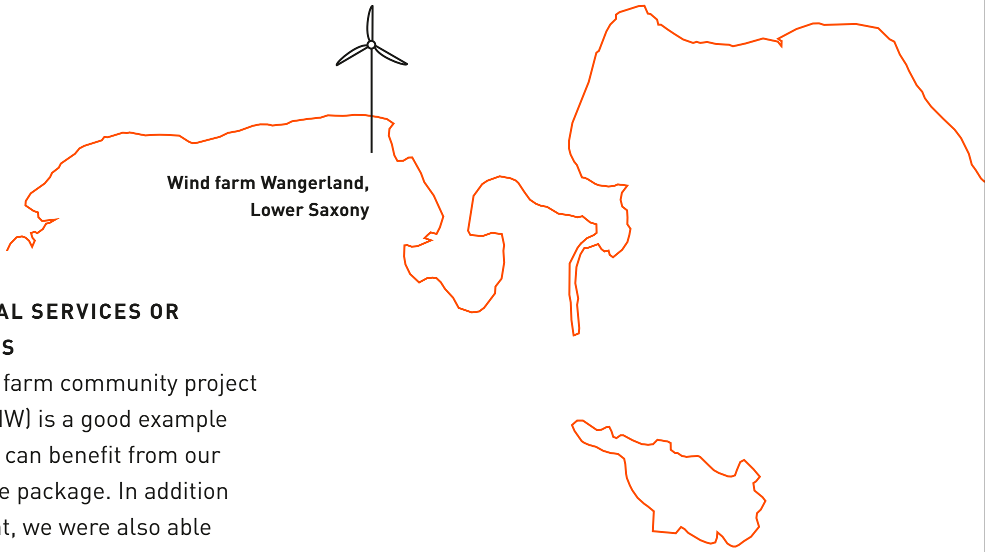
Operational management: We are one of the largest providers in Germany

We also manage wind and solar plants for third parties. In Germany, for example, we are responsible for operating plants with a capacity of over 1,500 MW. This makes us the second largest operational management company in Germany.

When operating wind and solar plants, it is particularly important for investors that investments are quickly amortised and permanently profitable through the sale of electricity. To achieve this, the plants must function perfectly around the clock, i.e. be highly available. This is what we ensure as technical plant managers. On the commercial side, we enforce the interests of investors: in the negotiation of contracts, in financial and tax planning and in communication with all relevant parties involved in the process, such as municipalities, land owners, legislators, politicians and environmental associations. As regards our operational management activities, we also integrate all legal regulations into our processes and keep an eye on all relevant market conditions for the customer. This means that we are prepared for future events at an early stage and are reliably positioned in our processes.

Expansion of the range of services by taking over companies with special know-how

The construction and operation of wind power turbines require working at great heights, for which special safety precautions are necessary. With the takeover of MEB Safety Services by our subsidiary “energy consult”, we have integrated a leading company in the field of safety technology for wind energy and industrial plants into our Group, thus expanding our expertise and our customer base. We now offer special services for platform access systems, cranes, ascending aids and service lifts as well as training courses on personal safety at work. In addition, we now also trade in safety technology components. Acquisitions like these are part of our strategy to build up additional expertise across all technologies.



WE OFFER INDIVIDUAL SERVICES OR COMPLETE PACKAGES

The Wangerland wind farm community project in Lower Saxony (34 MW) is a good example of how our customers can benefit from our comprehensive service package. In addition to project development, we were also able to support our customer in obtaining the best possible project financing. And in the implementation phase, we also took over the construction management for the wind farm.

NOMINAL CAPACITY
34 MW

COMMISSIONING
2018

SERVICES
Project development, construction management and project financing

Energy Supply Services – higher earnings for operators, lower costs for customers

Smart Energy Supply Management brings benefits for producers and consumers

The increasing networking between energy markets as well as the development of production costs and electricity prices are creating new business opportunities for the production and marketing of electricity. When government subsidies for more and more power plants are phased out soon, intelligent electricity marketing will become increasingly important. Storage solutions for industrial companies are also playing an increasingly important role. Excess electricity produced from solar or wind energy plants can be stored and then used specifically when production requires a particularly large amount of energy. In this way, storage solutions help companies to smooth out expensive electricity procurement peaks.

State subsidies for clean electricity are declining in many markets, such as the EEG feed-in tariff in Germany. In accordance with these new framework conditions, we determine how we can optimally organise electricity marketing for ourselves and our customers. This is what we specialise in in our Smart Energy Supply Management division. This ensures the optimal marketing of electricity via traders or power purchase agreements (PPAs) to large customers.

The basic principle: We bring producers and consumers together and create profits for both sides through intelligent electricity management. Producers can sell their electricity on good terms, and industrial companies, especially in energy-intensive sectors, can optimise their electricity purchases and secure them in the long term (see box on the right). To this end, we can negotiate good direct marketing conditions and long-term PPAs – for existing or new wind/solar farms.

Evaluation of old plants is increasingly becoming a service in demand

Another focus is the evaluation of wind power and solar plants. From 2021 onwards, more and more wind power turbines will reach the end of their EEG funding period. This raises the fundamental question of how to proceed: decommissioning, repowering or continued operation. Specifically, it must be examined which wind power turbines can still be operated economically after 20 years if the kilowatt hour of electricity is not remunerated according to the EEG, but only at the current stock exchange price.

Wind measurements for an accurate yield prognosis

Not every location with wind is also suitable for a wind power turbine. In the run-up to an approval procedure, we can carry out wind measurements over several months at a location. This gives all participants a good basis for planning and, above all, a realistic assessment of the expected returns.

WHY ARE LONG-TERM POWER PURCHASE AGREEMENTS A GOOD SOLUTION FOR PRODUCERS AND CONSUMERS

A Power Purchase Agreement (PPA) is a long-term electricity supply agreement between an electricity producer and an electricity consumer. In some countries, such as the USA, PPAs are already a widely used method of financing renewable energy plants. In Germany, there has been no incentive for concluding PPAs so far due to the EEG feed-in remuneration. If, however, from 2021 onwards, the first plants are no longer eligible for EEG funding, PPAs provide operators with an opportunity to secure follow-up financing – and thus continued safe and uncomplicated operation beyond the EEG funding period. Because PPAs at a fixed price ensure continuous income – even without EEG funding. With decreasing EEG support and increasing competitiveness of renewable energies, the financing of new plants with the help of PPAs is also conceivable in the future. For customers, PPAs have the advantage that the price fluctuations of primary energy are cushioned by the contract. Thus, PPAs offer opportunities to hedge against risks from rising commodity, CO_2 and electricity prices.

OUR OWN POWER GENERATION WITH PROFIT

POWER GENERATION

We also operate our own plants and use them to generate our own electricity – for example, during the period in which we are building up a wind farm portfolio (see box p. 19). If the last wind farm in a portfolio is not yet ready for sale, we use the power generation capacities of the completed plants. In Germany, we currently operate five wind farms in the states of Lower Saxony, Hesse and Baden-Württemberg with an output of 76.9 MW (as of January 2019).

Even if we see ourselves primarily as project developers and not as plant operators: The generation of electricity by our own plants fits well into our project cycle. This is because the income from the sale of electricity is highest in the periods in which no income is generated from the sale of a portfolio. This means that the sale of electricity from the operation of our own plants has a balancing effect on our earnings position and our cash flows.

WE ALSO OPERATE OUR OWN PLANTS AND GENERATE OUR OWN ELECTRICITY.

OUR OWN WIND FARMS IN GERMANY

1 | KÜHRSTEDT-ALFSTEDT
Lower Saxony

NOMINAL CAPACITY
43.2 MW

IN OPERATION SINCE
2017

2 | GERDAU-REPOWERING
Lower Saxony

NOMINAL CAPACITY
21.6 MW

IN OPERATION SINCE
2018/2019

3 | LAUBUSESCHBACH
Hesse

NOMINAL CAPACITY
3 MW

IN OPERATION SINCE
2002

4 | PÜLFRINGEN
Baden-Württemberg

NOMINAL CAPACITY
6.5 MW

IN OPERATION SINCE
2001/2002

5 | ERFELD
Baden-Württemberg

NOMINAL CAPACITY
2.6 MW

IN OPERATION SINCE
2002

76.9 MW

IN TOTAL 76.9 MW OF ELECTRICITY PRODUCED BY OUR OWN PLANTS

GROWTH IN GERMANY AND INTERNATIONALLY

MARKETS

WE WILL CONTINUE TO GROW BOTH IN OUR TRADITIONAL MARKETS AND IN NEW MARKETS.

What will the technology mix look like in 2030?

Kurt Stürken, COO

"By 2030, solar power could cover more than 13 percent of the world's electricity needs. In particular in Central and Latin America, strong growth can be expected in this field. Wind energy will be better utilised by the repowering of plants. In Europe, the EU initiative 'Clean energy for all Europeans' provides for 32 percent of energy to come from renewable sources by 2030. By then, 14 percent of the fuels for transport will also come from renewable energies and new technologies."

3 CONTINENTS
13 COUNTRIES

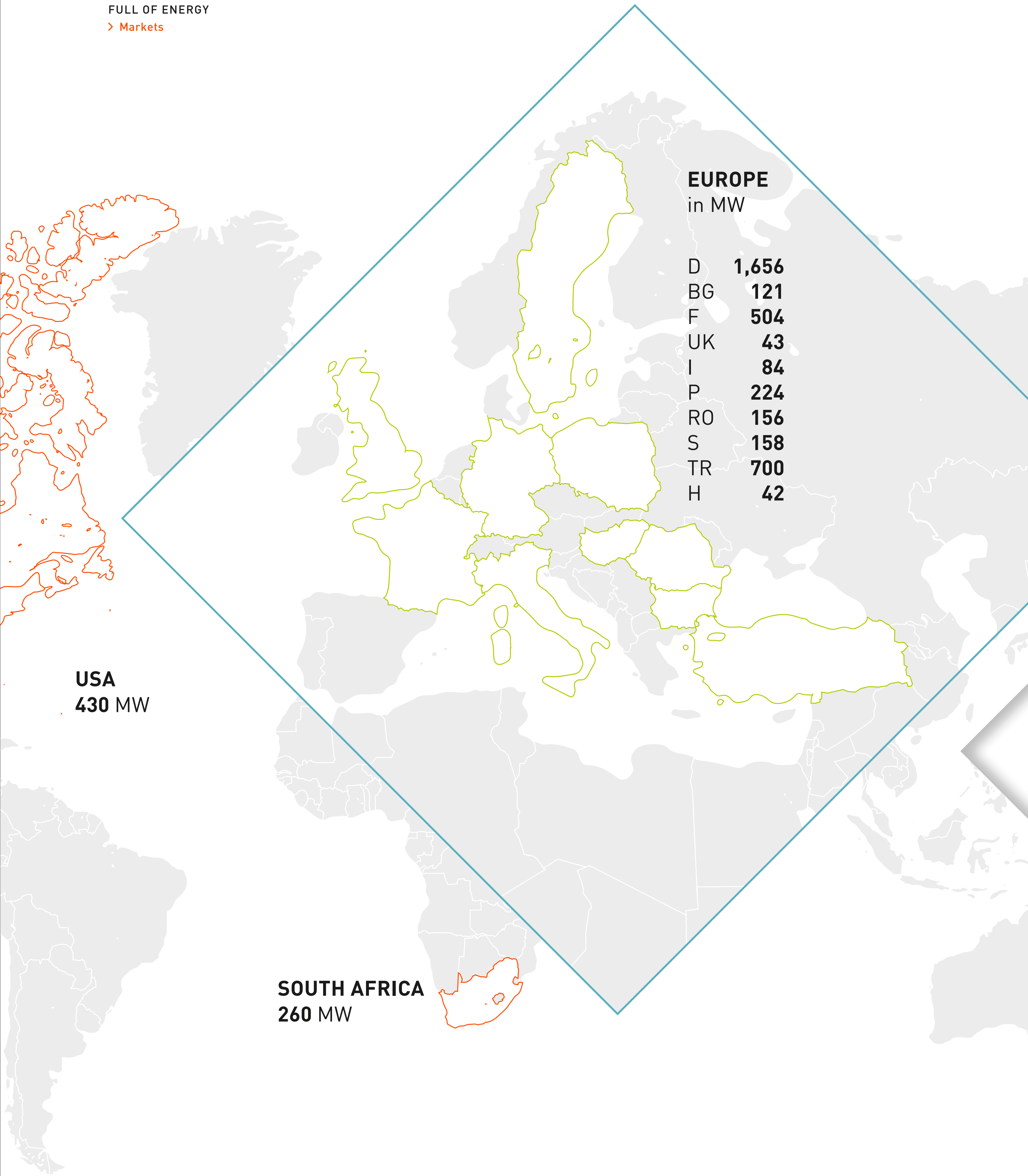
OUR PROJECTS IN THE PIPELINE WITH 4,883 MW IN TOTAL

We will further penetrate our existing markets

Our traditional markets are in Europe, North America and South Africa. Here we operate extremely successfully – also through our network of strong international partners – and we will continue to grow through the project planning of new plants.

Further internationalisation planned for the medium term

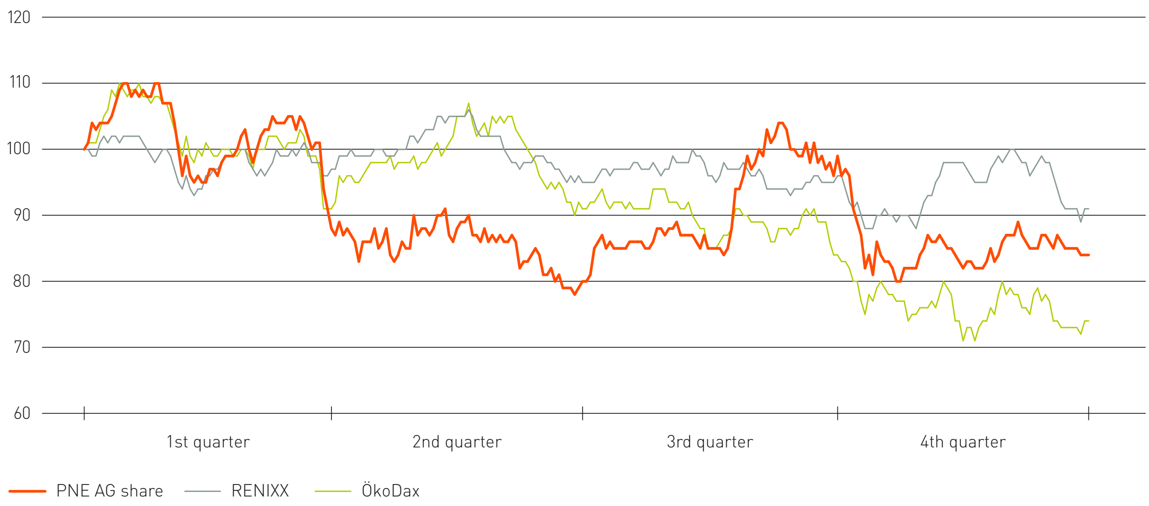
Our business activities are already international today. And this will continue to be the case in the future, because two thirds of all projects in our pipeline are located abroad. In the medium term, we intend to open up further markets. A very strong demand for electricity comes from the emerging markets, where the economy and



population are growing strongly. Over the next 20 years, power plants with a capacity of around 7,200 gigawatts (GW) will have to be built there to meet the rising demand for electricity and to balance planned power plant shutdowns. We see great potential in these countries, especially for solar, onshore and offshore wind energy. Nuclear energy, oil and coal will gradually become less important. By 2020, more than 40 countries could have installed wind power turbines with a capacity of 1 GW each. Power plants in various stages of development offer different risk and earnings opportunities in the individual countries. We see Latin America, Asia and Africa as particularly interesting markets.

CAPITAL MARKET INFORMATION

PNE SHARES VS. RENIXX VS. ÖKODAX indexed to 100%



SHARE

The PNE AG shares began the 2018 fiscal year with a price of euro 2.89, representing a 33.3 percent gain over the closing price on the first trading day of 2017. The share made a strong start to the year and reached its annual high of euro 3.23 on January 16, 2018. Despite good corporate news and the fact that the share price exceeded the annual forecast, it then fell – driven by negative news from the industry and in a difficult stock market environment – to an annual low of euro 2.18 by the end of June. Subsequently, the share stabilised within a corridor of between euro 2.40 and euro 2.60. In September, the share again reached prices of euro 3.06, but then lost ground again and has fluctuated in a price range between euro 2.30 and euro 2.50 since then. On December 28, 2018, the last trading day of the reporting period, the shares were traded at a final price of euro 2.43. This corresponds to an annual performance of -15.8 percent compared with the final price on the first trading day of 2018. Over the same period, the ÖkoDAX benchmark index lost 26.3 percent and the RENIXX 9.1 percent.

SHARE BUY-BACK

In November 2018, PNE AG acquired 2,189,853 treasury shares (approx. 2.86 percent of the Company's current share capital) at a purchase price of euro 2.65 per share or lower, depending on the terms on which the respective shareholder tendered shares to the Company. The acquisition was carried out in the context of a voluntary public share buy-back offer. The shares are intended, in particular, to fulfil PNE AG's obligations arising from the 2014/2019 convertible bonds, which expire in 2019 and bear interest of 3.75 percent p.a., and for the purpose of redemption.

BOND INFORMATION

The 2013/2018 corporate bond of PNE AG with a volume of euro 100 million and an interest rate of 8.0 percent p.a. was repaid as scheduled on June 1, 2018.

In April 2018, PNE AG successfully placed a new corporate bond with a volume of euro 50 million and an interest rate of 4.0 percent p.a. (corporate bond 2018/2023). Compared to the previous corporate bond 2013/2018, the interest rate of 8.0 percent p.a. was halved. The new 2018/2023 bonds were included in the over-the-counter market at the Frankfurt Stock Exchange on May 2, 2018.

The 2014/2019 convertible bond had a nominal value of approx. euro 6.6 million as at December 31, 2018. In the reporting period, 1,614 individual bonds were converted into 1,777 shares.

SHAREHOLDER STRUCTURE

On December 31, 2018, the total number of shares issued by PNE AG amounted to 76,557,803. Of the members of the Company's Board of Management, Mr. Jörg Klowat held 80,000 shares and Mr. Markus Lesser held 24,000 shares in the Company on December 31, 2018. Of the members of the Supervisory Board, Mr. Marcel Egger held 40,000 shares in the Company on December 31, 2018. On December 31, 2018, 3,885,383 shares were attributable to the Supervisory Board member, Mr. Florian Schuhbauer, via the Active Ownership Fund SICAV-FIS SCS.

According to published voting right notifications, International Investment Company with Limited Liability held 10.05 percent of the shares, Active Ownership Fund SCS 5.08 percent, Axxion S.A. 3.15 percent, Dimensional Holdings Inc. 3.02 percent and Mr. Wilhelm Zours 3.02 percent as of December 31, 2018. Accordingly, all other shareholdings were to be classified as free floating.

ANNUAL GENERAL MEETING 2018

The Annual General Meeting of PNE AG was held on June 6, 2018 in Cuxhaven.

The shareholders resolved that the Company shall operate in future under the name PNE AG. With this change in the corporate name, the shareholders followed the extended strategy of the Company. The shareholders also voted by a large majority in favour of the proposal of the Board of Management and Supervisory Board to pay a dividend of euro 0.04 per eligible share.

The shareholders also agreed to the proposed resolution to give formal approval of actions to the members of the Board of Management Markus Lesser (CEO), Jörg Klowat (CFO) and Kurt Stürken (COO). By a clear majority, the shareholders also resolved to give formal approval of actions to the Supervisory Board and to appoint Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hamburg, as the auditors.

KEY SHARE DATA (AS AT DECEMBER 31, 2018)

WKN	A0JBPG
ISIN	DE000A0JBPG2
Number of shares	76,557,803
Market capitalisation	euro 186.0 million
Market segment	Prime Standard
Indices	CDAX Technology, ÖkoDAX
Designated Sponsors	Commerzbank, ODDO Seydler Bank
Reuters	PNEGn
Bloomberg	PNE3

FINANCIAL CALENDAR

13.5.2019	Publication of Financial Report Q1
22.5.2019	Annual General Meeting, Cuxhaven
8.8.2019	Publication of Financial Report Q2
7.11.2019	Publication of Financial Report Q3
25.–27.11.2019	Analysts' conference/Frankfurt

ADDITIONAL INFORMATION

On the website www.pne-ag.com, you will find extensive information on PNE AG as well as current data concerning the share in the section "Investor Relations". Furthermore, financial and quarterly reports, press announcements and background information on PNE AG can be accessed and downloaded from there.

COMBINED MANAGEMENT AND GROUP MANAGEMENT REPORT

OF PNE AG (FORMERLY PNE WIND AG), CUXHAVEN, FOR THE 2018 FISCAL YEAR

CONTENTS

1. FUNDAMENTALS OF THE GROUP

During the 2018 fiscal year, the corporate structure changed versus December 31, 2017 due to the first-time consolidation of companies, the change of shareholdings in companies and the deconsolidation of companies sold. A key issue was the acquisition of the remaining shares in WKN AG and its change of form to a limited liability company (GmbH). For detailed information, please refer to the chapter "Scope of Consolidation" in the notes to the consolidated financial statements.

1.1 BUSINESS MODEL

The internationally operating PNE Group with its brands PNE and WKN is one of the most experienced project developers in the field of onshore and offshore wind farms. The PNE Group currently operates with this business model in 13 countries on three continents. On this successful basis, the Group has developed further into a "Clean Energy Solution Provider". In future, this will include not only wind energy but also the development of photovoltaic projects in Germany and abroad. From initial site exploration and implementation of approval procedures, financing and turnkey construction to operation and repowering, the range of services covers all phases of project planning and operation of clean power plants using the wind, the sun and storage technology. This is how our products are defined: project development wind energy, project development photovoltaics and project development hybrid solutions. We are also involved in the development of power-to-gas solutions. In addition to these products, services for projects and the supply of clean electricity will increasingly be part of our offering in the future, which we will significantly expand to the benefit of our customers. Our services include financial services, construction management, wind planning services/wind measurements, operational management and energy supply services. We are going to develop into a strong partner to our customers over the entire life cycle of wind and photovoltaic farms.

1.2 OBJECTIVES AND STRATEGY

Our main objective for the coming years is to implement the new strategic orientation of our business model, which provides for an expanded focus on technologies, markets and a significantly broader range of services. In this way, we aim to achieve both an improvement in and a stabilisation of the results, which are naturally very volatile in the project business. In future, this will be measured primarily by earnings before interest, taxes, depreciation and amortisation (EBITDA), as we will have more projects in our own operations than in the past due to the bundling of wind farms into large portfolios. The operating result (EBIT) of the Group and of PNE AG is still used as a key performance indicator. Another key indicator of the achievement of our objectives is the number of national and international projects in progress ("project pipeline"), which is to be consistently expanded. Success is also measured by how we succeed in entering new markets and new technologies for PNE, such as photovoltaics, and implementing our business model there. Finally, the expansion of the services we offer is another indicator of the achievement of our objectives. We expect an increase in efficiency as a result of the consistent organisation across the individual companies within the PNE Group.

1.3 CONTROLLING SYSTEM

The control of the PNE Group is based on regular discussions between the Board of Management and the corporate units. The internal controlling system covers all areas of the Company. As a result, short reaction times to changes in all areas and at all decision levels of the PNE Group can be guaranteed. Any changes with a significant effect on the results are reported immediately to the Board of Management. Meetings of the Board of Management take place regularly.

The starting point for controlling the overall Group and the corporate units are the targets set by the Board of Management, which are derived from the vision, mission and the overall strategy of the PNE Group. A key instrument for the implementation of the targets and objectives is the totality of the internal regulations of the PNE Group.

The corporate units report monthly on the current developments and deviations from the targets. Moreover, early operating indicators are continuously analysed.

A regular exchange takes place between the Board of Management and the business divisions, during which an overview is given of the corresponding market situation. Furthermore, during the course of the year, major topics are also discussed, such as the determination of the strategy and its systematic implementation within the context of the annual and medium-term planning as well as the target agreements and their achievement.

The activities of our operating units are controlled based on the stated control parameters; in this context, the earnings figures EBIT and, in the future, increasingly EBITDA are of particular importance against the backdrop of the portfolio establishment by 2020, since these are, in our view, the appropriate parameters for assessing the earnings power of the PNE Group. Furthermore, the project pipeline is used as a non-financial control parameter in the Group (see "Overview of the status of onshore project activities of the PNE Group in MW"). Using the Group-wide key performance indicators EBIT (earnings as per the consolidated statement of comprehensive income), EBITDA (Group EBIT plus depreciation and amortisation of intangible fixed assets and property, plant and equipment as well as goodwill) and the project pipeline and, at PNE AG, EBIT (earnings as per the profit and loss account), PNE AG and the PNE Group compare the actual course of business with the forecast course of business.

2. ECONOMIC REPORT

2.1 OVERALL STATEMENT OF THE BOARD OF MANAGEMENT

Business developed positively in 2018. Projects with a volume of 235.7 megawatts (MW) were completed, under construction or sold. Project implementation is thus at the same level as in the previous year.

With the change of name to PNE AG and the claim "pure new energy", we have also made it clear to the outside world that the Company is developing beyond wind energy into a more broadly positioned provider of solutions for clean energies. This involves both the development of photovoltaic projects and solutions in the power-to-gas field.

We have created the prerequisites for implementing this strategy through the "Scale up" process. On the one hand, the redemption of the corporate bond with a volume of euro 100 million and the issue of the new corporate bond totalling euro 50.0 million with a halved coupon of 4 percent significantly reduced the interest burden and raised the funds to implement the strategy. On the other hand, the acquisition of all shares in WKN AG and its change of form to WKN GmbH created the structural conditions to cooperate even more efficiently. In addition, we formed product groups in the service area, changed the organisation and developed the processes and tools in order to ensure comprehensive and targeted cooperation of all companies in the PNE Group.

PNE AG has made value adjustments to three out of five offshore companies, i.e. their inventories, involved in a constitutional complaint based on a balance-sheet reassessment amounting to approx. euro 10.8 million. In view of the expected success of the constitutional complaint, the Company is now assuming to be granted a claim for damages. However, this claim cannot be recognised in the inventories. This means that the guidance for Group EBITDA of euro 20 to 26 million and the guidance for Group EBIT of euro 10 to 16 million were not achieved in the 2018 fiscal year. At the Group level, PNE AG reported EBITDA of approx. euro 16.5 million and EBIT of approx. euro 7.8 million for the 2018 fiscal year, taking the impairments into account (see explanations in section 2.5 "Earnings, financial and asset position"). In operational terms, i.e. adjusted for this extraordinary item, PNE AG exceeded the upper end of its guidance for both EBITDA (approx. euro 27.2 million) and EBIT (approx. euro 18.5 million).

The Group achieved the "project pipeline" objective, since the pipeline, i.e. the existing portfolio of wind farm projects in the various development phases, was increased by the end of 2018 (4,883 MW) compared with the previous year (4,741 MW).

At the level of PNE AG, the annual guidance, i.e. positive EBIT in the low single-digit million range, was not achieved with EBIT of euro -7.0 million in the 2018 fiscal year due to extraordinary value adjustments on offshore projects (see explanations in section 2.5 "Earnings, financial and asset position").

2.2 GENERAL ECONOMIC AND INDUSTRY-SPECIFIC FRAMEWORK CONDITIONS

Renewable energies, especially wind energy and photovoltaics, have developed into an important pillar of electricity generation in recent years. In some of the world's major economies, annual capacity growth is higher than in any other type of power generation. Since 2000, cumulative installed capacity of renewable energies has grown continuously. This is demonstrated especially by the development of wind energy and photovoltaics. According to the International Renewable Energy Agency (IRENA)[1], total renewable energy capacity installed worldwide more than doubled between 2008 and 2017. In this decade, worldwide installed wind energy capacity increased from 114,799 MW to 513,939 MW and installed photovoltaic capacity from 14,630 MW to 385,674 MW. This increase has continued in 2018.

[1] Renewable Capacity Statistics 2018

In 2018, 51.3 gigawatts (GW) (prior year: 52.5 GW) of wind power capacity was added around the world, bringing total installed capacity to 591 GW (prior year: 539 GW)[2]. Annual investment volumes in this area amount to several tens of billions euro. Wind power capacity also rose at the level of the member states of the European Union (EU): According to data from the European Wind Energy Association (WindEurope), installed wind power capacity onshore and offshore increased to 178.8 GW (prior year: 169.3 GW). Of this capacity, 7.4 GW (prior year: 12.5 GW) were added onshore and 2.6 GW (prior year: 2.6 GW) offshore.[3]

In 2018, the German wind energy market recorded a weaker increase than in previous years: At the end of the year, wind power turbines with a total nominal capacity of approx. 59,313 MW (prior year: 56,164 MW) were in operation – of which 52,931 MW onshore and a further 6,382 MW offshore. 743 wind turbines (prior year: 1,792) with a nominal output of 2,402 MW (prior year: 5,333 MW) were commissioned onshore, a further 136 turbines (prior year: 222) with a nominal output of approx. 969 MW (prior year: 1,250 MW) offshore. At the same time, 205 old wind power turbines with a nominal capacity of 249 MW were dismantled.[4]

Improvements to the wind turbine technology have boosted energy yields in relation to the investment sum, and simultaneously reduced operation and maintenance (O&M) costs. These developments have lowered the cost of producing energy from wind and in some markets it is already competitive on a stand-alone basis compared to fossil fuels.

In addition, photovoltaics is already competitive with fossil fuels in some markets. This is also reflected in the ongoing global expansion of photovoltaics, which, in addition to expanding wind energy, contributes significantly to increasing renewable energy capacity.

These developments provide evidence of the opportunities ahead for PNE. In order to be in an optimum position in the global markets, the Group concentrates on the development and construction as well as the sale and operation of wind farms and photovoltaic parks in selected core markets.

2.3 GENERAL POLITICAL CONDITIONS

The markets in which PNE operates are currently developing differently. While some markets have continued to grow, others have experienced a slowdown, mainly because of uncertainties due to changing political conditions, such as the introduction of tendering systems. The technology for generating electricity from wind energy and photovoltaics has matured significantly in recent years and the costs of construction and operation of the plants have fallen. Nevertheless, many markets are still dependent on political guidelines – especially for secure market access, also in order to prevail against conventional, sometimes covertly subsidised energy generation. In contrast to renewable energies, the actual generation cost of conventional electricity, including the cost of environmental pollution or dismantling and the cost of final storage of nuclear waste, are only reflected to a small extent in the electricity sales prices. This means that it is still the task of policy-makers to ensure a level playing field for competition between the different forms of energy production.

A further stimulus to the expansion of clean energies worldwide has resulted from the World Climate Conferences, most recently held in Katowice in 2018. The target of limiting the rise in the global average temperature to a maximum of 2 degrees Celsius can only be achieved by stepping up the expansion of clean energies.

EU targets

The expansion of renewable energies is one of the central pillars of European climate and energy policy. In 2018, the European legislators, the European Parliament and the Member States agreed in the Council on a legislative package for the energy and climate policy framework by 2030, the so-called "Clean Energy for all Europeans" package. The aim is to increase the share of renewable energies in gross final energy consumption to at least 32 percent by 2030. With the "Clean Energy for All Europeans" package, the course can now be set for future supply with renewable energies and the expansion of Europe as an innovative and future-oriented industry region. The Member States are required to transpose the provisions of the Directive into national law by mid-2021 at the latest. The Member States are given some leeway depending on national circumstances.

Among other things, the Member States will in future be obliged to draw up national energy and climate plans (NECPs) every ten years and submit them to the Commission. They must indicate how they will contribute to the joint achievement of the EU target of 32 percent of renewable energies by 2030, i.e by way of national plans for reducing greenhouse gas emissions, expanding renewable energies, increasing energy efficiency, ensuring security

[2] Global Wind Energy Council (GWEC)
[3] WindEurope - Wind in Power 2018
[4] Deutsche WindGuard: Status of Land-based Wind Energy Development in Germany 2018/ Status of Offshore Wind Energy Development in Germany 2018

of supply, reforming and integrating energy markets as well as for research and innovation projects. These plans are intended to coordinate national and European energy and climate policy measures and political structures in order to achieve the Energy Union's objectives regarding decarbonisation, the internal energy market, energy supply security and efficiency as well as regarding innovation and competitiveness. By the end of 2019, Member States must submit their respective NECPs for the period up to 2030. In order to check whether the respective measures have been implemented to the planned extent, the EU Member States must submit reports to the Commission for evaluation every two years, starting on March 15, 2023.

As early as in 2014, a CO_2 emission target of -40 percent compared to 1990 for all sectors was politically agreed in the overarching 2030 climate and energy policy framework. The plans now to be prepared and submitted by the Member States must set out national objectives and targets, backed up by measures, assumptions and impact assessments, for achieving the European objectives.

Germany

Onshore wind energy

At the beginning of 2018, the CDU, CSU and SPD agreed on a draft coalition agreement and reaffirmed their commitment to the agreed climate targets for all sectors. In order to achieve these targets, a 65 percent share of renewable energies by 2030 has been set – also to cover the additional electricity required to achieve the climate protection targets in the transport, building and industry sectors. For the compliance with these climate targets, it was agreed that additional special volumes would be put out to tender in the tender rounds in order to save a total of eight to ten million tonnes (t) of CO_2 across all technologies.

With the so-called Energiesammelgesetz (energy law package), which came into force at the end of December 2018, the German government has begun to implement the energy policy agenda of its coalition agreement. In this law package, the legislators have significantly increased the tender volumes for onshore wind energy in 2019, 2020 and 2021 with a total of 4,000 MW. The implementation period for contracts awarded in the regular tender rounds in 2019 was shortened to 24 months. In the joint tenders for onshore wind energy and solar power plants, the tender volume in the years 2019 to 2021 is 400 MW per year each, and in the innovation tenders 250 MW in 2019, 400 MW in 2020 and 500 MW in 2021.

The Renewable Energy Sources Act (EEG) now provides for the mandatory use of on-demand night-time marking for all onshore wind turbines, i.e. new and existing turbines, with a total height of at least 100 metres (m) from July 1, 2020. The implementation of on-demand night-time marking is not subject to any technological limitations. The operators of wind power turbines are thus basically free to decide which technical solution to use. An exemption from the deployment of on-demand night-time marking can be applied for, in particular for small wind farms, if the use of on-demand night-time marking is economically unreasonable. The Federal Network Agency may also define deviating stipulations, including for the implementation period, if no technical solutions are offered in the market. If the obligation to deploy on-demand night-time marking is violated, the value to be applied and the relevant remuneration will be reduced to zero for the period of the violation.

The structure of the maximum price fixing will still be regulated as in the EEG 2017. This means that the Federal Network Agency (BNetzA) can set the maximum price for the following calendar year on December 1 of each year. For the year 2019, this was set at 6.2 cents per kilowatt-hour (kWh).

With an amendment to the EEG in the area of community energy, the German government responded to the threatening gap in the development of onshore wind energy projects in 2018, even before the new energy law package was adopted. For example, only projects that have been approved under the Federal Immission Control Act may take part in standard tenders. This regulation initially applies up to 2020 and is intended to bring about a competitive equality of the projects, for example, through identical implementation deadlines, and to ensure the continuous expansion of onshore wind power. As early as mid-2018, the German government reacted to the threatening gap in the expansion of onshore wind energy and suspended this community energy privilege with a moratorium scheduled for the short term.

In 2018, there were four tender rounds for onshore wind energy with a total volume of approx. 2,800 MW, with almost all eligible bids being met on the February, May and August bidding dates. Only in the fourth tender round in October, the quantity participating and awarded was only about half of the volume put out to tender in that round.

Wind energy offshore – Offshore Wind Energy Act (WindSeeG)

On January 1, 2017, the Offshore Wind Energy Act (WindSeeG) came into force. For offshore wind energy projects, the new WindSeeG adheres to the target of having 15 GW installed by 2030. In order to meet this target, 500 MW should be installed each year during 2021 and 2022 and 700 MW per year thereafter up to 2025.

Offshore wind farms which are commissioned by the end of 2020 are eligible to receive the feed-in tariff (transitional regulation of EEG 2014).

For offshore wind farms commissioned after 2020, the Act calls for the introduction of auctions, as for onshore wind farms. This takes place in two phases: Eligible offshore wind farms which are scheduled to be commissioned between 2021 and 2025 had the option of receiving state funds in the context of two tender rounds in 2017 and 2018 with volumes of 1,550 MW each. Wind farms which obtained a permit pursuant to the Offshore Installations Ordinance prior to August 1, 2016 or for which a plan approval has been issued and/or a public hearing pursuant to the Administrative Procedure Act was held were allowed to participate in this transitional system. The "Gode Wind 3" and "Gode Wind 4" projects developed by PNE were awarded a contract in 2017 and 2018, respectively.

As at January 1, 2017, all ongoing plan approval and authorisation procedures for the erection and operation of offshore wind power turbines ended, insofar as the projects were not covered by the aforementioned scope of auctions for existing projects. This legislative change affected, among others, the PNE projects "Atlantis" II and III, "Jules Verne", "Nemo", "Nautilus I" and "Nautilus II/HTOD5" where PNE was active as a service provider. On January 31, 2019, the draft of the 2019 land development plan (version of October 26, 2018) was published. Regarding the effects on the projects, we refer to the explanation in chapter 8 "Report on opportunities and risks".

After the end of these transitional regulations in 2025, available wind farm locations shall be examined and offered for tender in the future by the state as part of the conversion to the "centralised model". From 2021 onwards, an annual volume of 700 to 900 MW will be put out to tender for offshore wind farms to be commissioned between 2026 and 2030.

Bulgaria

In 2012, the government substantially reduced the payments for electricity produced from wind farms, and this has impaired the development of wind power projects since then. Another amendment to the law was adopted in 2015, which stipulates that newly erected wind power turbines now have to sell electricity exclusively on the open market.

France

With the Energy Transition for Green Growth Act promulgated in 2015, the French government and the parliament affirmed their ambitious goals beyond 2020. The concrete expansion targets for wind energy were readjusted in 2018 to 24.6 GW by 2023. To comply with the EU funding policy framework, the feed-in tariffs in France have been awarded through national tenders since 2017. However, given the French government's ambitious expansion targets, competition and corresponding price pressure are expected to remain limited. At present, many wind farms in France are still being realised with the old feed-in tariff, because this could be secured at an early stage.

In France, tenders are also planned for photovoltaic projects. This is intended to speed up the introduction and to reduce costs. The concrete proposal is a six-year tender programme for photovoltaics. The plans are to allocate 2.7 GW in 2019 and 2.9 GW per year in the next five years for roof and open-site systems. In the second quarter and fourth quarter of 2019, two invitations to tender for photovoltaic open-site systems, with a volume of 800 MW and one gigawatt, will be carried out. Over the next five years, tenders for 1 GW of open-site systems will be carried out twice a year.

United Kingdom

Since the Electricity Market Reform of 2014, wind energy has been marketed directly on the electricity exchange. Additional compensation payments are awarded by way of tender processes. Sites with particularly strong winds are already competitive without any subsidies as regards conventional electricity generation. The effects of the British decision to leave the EU (Brexit) on the wind energy market and energy policy cannot currently be assessed conclusively.

Italy

Since 2012, Italy has used an obligatory direct marketing system with additional incentives being awarded through a competitive auction system. The national energy strategy "SEN 2017" envisages increasing the share of clean energies in electricity generation to 55 percent by 2030. This strategy was also adopted by the current government in almost unchanged form. From 2019 to 2021, tenders for wind energy and photovoltaic projects with a nominal output of more than one MW are planned. Projects of up to 4.8 GW shall be put out to tender. In addition, direct power purchase agreements (PPAs) with companies at attractive conditions are also possible.

Canada

In Canada, the regulatory requirements for approval procedures regarding the erection of wind power turbines are manifold and regulated differently in the individual Canadian provinces. These approval procedures mainly relate to construction-site policy, environmental issues and grid connection. This means the market for clean energies in Canada is developing hesitantly.

Poland

The Polish Renewable Energies Act was revised in 2016, and a tender procedure was introduced. Two wind farm projects developed by PNE were awarded contracts in tenders in 2018. The EU targets for climate protection and the economic perspectives support a further expansion of clean renewable energies in Poland.

Romania

So far, the market for wind energy in Romania has been based on a system of "green certificates". There have been considerable political discussions in Romania as well as between Romania and the EU Commission about a positive change in the remuneration system for clean energy for some time now. A fixed-price system is currently being discussed, in which the difference between the fixed price and the market price for electricity from renewable sources could be offset. The government is also discussing to what extent the free conclusion of PPAs could be possible in the future. On the other hand, rising electricity prices and good economic growth lead us to expect an increasing demand for energy. This would mean considerable potential for renewable energies. It remains to be seen whether the government will introduce new legislation.

Sweden

For the support of wind energy, Sweden uses a quota system with green certificates, which are tradable in both Sweden and Norway, whereby the major part of revenues from wind farm investments stems from electricity market revenues. The current Swedish Government formulated the objective of generating 100 percent of Sweden's energy from clean energy sources in the long term.

South Africa

The government has introduced a competitive tender system under the Renewable Energy Independent Power Producer Programme (REIPPP), in which long-term power purchase agreements are auctioned.

Turkey

The wind energy market in Turkey is based on a system of state-guaranteed feed-in tariffs and tenders. Additionally, there was a licensing procedure for grid capacity introduced in 2013, whereby an auction system is used for access to the individual connection points.

In 2017, two tenders were held for wind energy with a volume of 3,000 MW (YEKDEM tender) and 1,000 MW (YEKA tender). PNE was awarded the contract for a 71 MW project in a regional tender with a total of 260 MW. Further tenders are planned, although the dates have not yet been officially confirmed.

PNE continues to see good reasons that Turkey will promote the rapid expansion of clean energies, especially wind energy. The preparations for further tenders for clean energies by the Turkish authorities support this assessment.

Hungary

The main policy support mechanism in Hungary is based on a feed-in tariff system. In spite of this programme, the development of wind power in Hungary has been limited for many years by insufficient electricity grid capacity.

USA

In the USA, the system of Production Tax Credits (PTC) dominates. At the end of 2015, this regulation was extended again until the end of 2020, i.e. for a further five years, but has been subject to an annual phase-down of 20 percent since 2016. Projects that qualify for the PTC, because they commenced construction or purchased PTC-eligible equipment prior to 2017, receive 100 percent of the tax credit amount if they commence commercial operations before the end of 2020 (within four years). This benefit is reduced by 20 percent for each year after 2016 in which the qualifying milestone has been or will be reached.

The 2017 tax reform did not change the PTC regulations, but the reduction in tax rates from 35 percent to 21 percent and the entry into force of other regulations such as the "Base Erosion and Anti-Abuse Tax" (BEAT) will reduce the tax benefits that can be derived from the PTC.

The United States Bureau of Ocean Energy Management (BOEM) is currently in the process of leasing sites for offshore wind farms in state-controlled coastal waters. For this purpose, a tender was launched in 2018 for three sites at sea off the US east coast (Massachusetts), which ended with the award of bids totalling 405 million US dollars. PNE took part in the tender.

Assessment of the market development

Overall, the international markets are still undergoing changes which require the PNE Group to adapt its activities accordingly in order to minimise the risks and develop new opportunities. While the general conditions for the expansion of wind energy remain difficult in Hungary, Bulgaria and Romania, they have improved in France, Sweden, Poland and the USA. The framework conditions in selected markets are in place for the economic expansion of photovoltaics. The Board of Management is confident that the expanded corporate strategy and further internationalisation, including in Europe and new markets in Latin America and South America, will advance the positive development of the Group.

2.4 DEVELOPMENT OF BUSINESS

Summary

The operational business of the PNE Group in the 2018 fiscal year was characterised by the development and realisation of onshore wind farms. Wind farm projects with 142.5 MW were put into operation, or the rights to them were sold. In total, rights to six wind farm projects were sold in France, Poland and Italy. Further projects with a total planned nominal capacity of 93.2 MW were under construction on December 31, 2018 in Germany, Sweden and France, including one project (25.2 MW) which the PNE Group manages as a service provider. The nominal capacity of projects that were completed, sold or started construction totals 235.7 MW (prior year: 233.6 MW). This also includes projects that were managed by PNE as a service provider. With an expected mean investment volume of around euro 1.4 to 1.8 million per MW of installed nominal capacity, PNE has initiated investments of approx. euro 330 to 424 million (prior year: euro 327 to 420 million).

In the operating business, the international project development markets are becoming increasingly important for PNE AG alongside the German market. In the 2018 tender for wind energy projects in Poland for approx. 1,000 MW, two projects with 174 MW developed by the PNE Group were awarded a contract.

There has also been progress in the development of projects at sea. In June 2018, PNE received a further milestone payment of euro 4.1 million as part the construction progress of the "Gode Wind 3" project, which successfully participated in the first German tender for offshore wind energy in April 2017. The "Gode Wind 4" project developed by PNE was also awarded a contract in the second German tender for offshore wind farms in 2018 as one of six projects.

For the "Borkum Riffgrund 2" project, also developed and sold by PNE, Ørsted (formerly DONG Energy) has almost completed construction work. In this connection, PNE received a milestone payment of approx. euro 4.1 million in September 2018.

Since 2017, we have also created values that are not readily apparent. These relate to the establishment of our "wind farm portfolio 2020", which is owned by the Company. The earnings before tax accrued in this portfolio to date – not yet realised at the Group level – amount to approx. euro 21.0 million since 2017 (of which approx. euro 8.7 million in 2018). With a portfolio of company-owned projects, complete or partial sales to third parties outside the Group are postponed, and thus also the Group's earnings from these sales.

The successful operating activities, excluding the postponed results from the development of the "wind farm portfolio 2020" and the offshore value adjustments (see explanations in section 2.5 "Earnings, financial and asset position"), led to Group EBIT of approx. euro 7.8 million and Group EBITDA of approx. euro 16.5 million. This means that the guidance for the Group EBIT (euro 10 to 16 million) and the guidance for the Group EBITDA (euro 20 to 26 million) for fiscal 2018 were not achieved (see explanations in section 2.5 "Earnings, financial and asset position").

At the level of PNE AG, the annual guidance, i.e. positive EBIT in the low single-digit million range, was not achieved with EBIT of approx. euro -7.0 million in the 2018 fiscal year due to the extraordinary value adjustments (see explanations in section 2.5 "Earnings, financial and asset position").

The development of the individual segments:

Segment: projecting of wind energy turbines

Wind energy onshore sub-division

During the 2018 fiscal year, the development and realisation of wind farm projects on land were carried out continuously both in Germany as well as in the foreign markets, in which PNE is active through subsidiaries or joint ventures.

Overview of the onshore project activities of the PNE Group as at December 31, 2018 in MW:

Country	Phase I-II	Phase III	Phase IV	Total MW
Germany	1,407	200	49	1,656
Bulgaria	121	0	0	121
France	355	149	0	504
United Kingdom	43	0	0	43
Italy	70	14	0	84
Canada	505	0	0	505
Poland	92	132	0	224
Romania	54	102	0	156
South Africa	230	30	0	260
Sweden	0	158	0	158
Turkey	629	71	0	700
Hungary	0	42	0	42
USA	232	198	0	430
Total	**3,738**	**1,096**	**49**	**4,883**

Phase I – II = Exploration & Development
Phase III = Planning
Phase IV = Implementation

Project development in Germany

In Germany, the PNE Group worked on onshore wind farms with a nominal output of approx. 1,656 MW in the various phases of project development as at December 31, 2018.

Three projects were completed in Germany in the 2018 fiscal year. These include the construction of the "Looft" repowering project (five wind power turbines with a total nominal output of 16.5 MW), where PNE was active as a service provider. The "Wangerland" wind farm project (10.7 MW), which was built in the form of a community wind farm, was also managed by PNE as a service provider. In this context, the PNE Group provided services in the areas of project development, construction management and financing. At the end of 2018, the "Groß Niendorf" wind energy project (7,7 MW) already sold was commissioned after a construction period of only three months.

As at December 31, 2018, three wind farm projects with a total nominal output of 48.8 MW, which had successfully taken part in tenders in 2018, were under construction in Germany. These were the "Gerdau-Repowering" project with 21.6 MW, the wind farm "Schlenzer" (Brandenburg) with 6.5 MW and the wind farm "Kittlitz" (Schleswig-Holstein) with 20.7 MW.

In the wind farm "Gerdau-Repowering" in Lower Saxony, 13 wind power turbines, which had been erected there by the PNE Group since 2001, were replaced. The complete start of operation took place in January 2019. PNE operates the wind farm as part of the "wind farm portfolio 2020", in which predominantly German and French wind farms with a capacity of up to 200 MW are brought together. Since the commissioning of "Gerdau-Repowering", wind farms with a nominal capacity of 64.8 MW are operated within the portfolio.

PNE maintains close relationships with various renowned manufacturers of wind energy systems in order to be able to promptly realise onshore wind farms in Germany after their approval. For projects which have already been constructed, maintenance contracts – some of them long term – were concluded with the manufacturers Vestas, Nordex, Siemens, Enercon, and Senvion (formerly Repower).

Project development – international activities

PNE also successfully continued its core business of project development abroad. In Sweden, France, Italy and Poland, the rights in wind farm projects were successfully marketed in the reporting period, and construction of some of the projects sold began.

Bulgaria

The general political and economic conditions in Bulgaria continue to make it difficult to profitably construct and operate wind farms there. For the wind farm projects in development, PNE continues to keep costs as low as possible to maintain the project rights obtained and therefore ensure the possibility to successfully market the projects.

France

The PNE Group is highly successful in the French market. In 2018, the Group sold the rights in four wind farm projects with a total nominal capacity of 39.2 MW in France.

Of these, three projects with 27.2 MW were sold to Quaero European Infrastructure Fund shortly before the end of the 2018 fiscal year. The "Daméraucourt" wind farm comprises six wind power turbines, and the "Dargies II" wind farm three wind power turbines. Both are located in the windy north of France. The third project sold "Maisonnais" consists of three wind power turbines and is located in the Nouvelle Aquitaine region in western France. In addition, the rights to the project "Riaucourt" (12 MW) were sold in the period under review.

The previously sold wind farm "St. Martin-L'Ars" (10.2 MW) with five wind power turbines was fully erected and commissioned. The "'Lapierre" wind farm, in which eight wind power turbines with a total nominal capacity of 19.2 MW will be erected, was under construction at the end of the reporting period. This project was sold at the end of 2018.

As at December 31, 2018, projects with a planned nominal capacity of approx. 504 MW were underway in France in various phases of project development. Thus, the portfolio of projects was increased again despite the sale and completion of projects.

United Kingdom

The shares in the former British subsidiary "PNE WIND UK Ltd." and thus the entire project pipeline developed by this company were sold to Brookfield in 2015. Further milestone payments were agreed upon depending on the project progress up to 2021. Brookfield is working on the further development of the wind farm projects. The extent to which milestone payments can still be achieved in the future and whether these will be influenced by current Brexit events is not foreseeable at present.

Since the sale of the subsidiary, PNE has only one wind farm in the United Kingdom. The Scottish "Sallachy" wind farm project was refused by the Energy Minister in 2015, despite broad support by communities and politicians. The Group is currently reviewing the options for continuing this project.

Italy

In Italy, the share in a wind farm project (16.2 MW) was sold shortly before the end of the 2018 fiscal year. In Italy, PNE had operating and environmental permits for four wind farms with a total nominal capacity of approx. 84 MW at the end of the reporting period.

Due to the slow progress of tenders in Italy, it can be expected that numerous wind farm projects will take part in the upcoming tenders and that the market will continue to be difficult.

Poland

The Polish market has picked up again. In the Polish tender for wind energy projects finalised in November 2018, two projects developed by the PNE Group were awarded a contract. PNE thus achieved a great success and secured about 17 percent of the subsidised volume. Wind power turbines with a total nominal capacity of 174 MW can be built in the wind farms "Barwice" (42 MW) and "Jasna" (132 MW). Both projects had already been developed to readiness for construction in the run-up to the tender.

The project rights in the "Barwice" wind farm were sold in the 2018 fiscal year. For the "Barwice" project, the PNE Group takes over the construction management on behalf of the investor. In addition, the PNE Group will be responsible for the technical management of the wind farm after its completion. Construction is scheduled to begin in 2019.

Romania

The development of wind farms in Romania was continued by PNE with minimised costs. Changes in the feed-in tariff system in 2013 and 2014 continue to create uncertainty. However, rising electricity prices and excellent wind conditions are good prerequisites for the realisation of wind farm projects. In Romania, PNE is currently working on wind farm projects with a nominal output of up to 156 MW at an advanced stage of development. The projects will be reorganised to include more efficient wind power turbines. The development of photovoltaic projects was also started. At present, however, the sale of the projects proves to be difficult due to regulatory uncertainty.

South Africa

In South Africa, projects with a nominal capacity of up to 260 MW are being processed in various phases of project development. The "Banna Ba Pifhu" project (30 MW) is particularly well-developed and will participate in the next tender for wind energy projects following the cancellation of earlier tenders.

Sweden

In Sweden, the "Laxaskogen" project (25.2 MW) developed by the PNE Group and sold in 2017 is under construction. The construction phase is supervised by PNE within the framework of a service contract. Start of operation is scheduled for the first quarter of 2019. With this project, PNE is also pursuing its strategy of further increasing the share of services. Further projects with a nominal capacity of approx. 158 MW are currently being developed in Sweden.

Turkey

At the end of 2017, the state-owned grid operator TEÌAŞ carried out the second part of a tender for 3,000 MW wind capacity. In the tender, PNE was awarded a contract for the "Köseler" project (71.4 MW). In August 2018, PNE received the pre-licence from the Energy Regulatory Authority EPDK. This secured feed-in capacity and the project area. In addition, the 36-month period for further development began for approving the project ready for construction and applying for the operating licence.

As before, the aim is to further develop the PNE project portfolio in preparation for participation in future tenders and to submit corresponding pre-license applications. In addition, the approval procedure for the "Köseler" project is being intensively pursued.

Hungary

The Hungarian government has been blocking the further expansion of wind energy for some time now. Accordingly, our Hungarian subsidiary has minimised its activities and is waiting for the framework conditions to improve again as a result of the EU regulations.

USA/Canada

In the USA, Windkraft Nord USA Inc., a subsidiary of WKN, which is also a member of the PNE Group, sold the project rights in "Vivaldi Springtime" to Pattern Energy Group 2 LP ("Pattern Development") in 2017. The project was built and commissioned in 2018.

The "Chilocco" wind farm project with a planned nominal capacity of approx. 200 MW was further developed and approved.

In addition, several wind farm projects in the USA are currently being prepared for the necessary permits for construction and operation.

In Canada, PNE is currently working on five wind farm projects, which are still at an early stage of development.

Projecting of onshore wind power turbines in total

As at December 31, 2018, the PNE Group, via its subsidiaries and joint ventures, was working on wind farm projects with approx. 4,883 MW of nominal output in Germany and abroad in various phases of a multiple-year development process.

Wind energy offshore sub-division

Germany

PNE's high level of competence in offshore project development is reflected by visible successes: In recent years, PNE has sold eight offshore wind farm projects after their development was completed. These include the projects "Atlantis I", "Borkum Riffgrund" and "Gode Wind". PNE will continue to operate as a service provider for the latter projects.

Three offshore wind farms, which were developed by PNE and sold after approval was granted, have already been erected and put into operation by the purchasers: "Borkum Riffgrund 1" as well as "Gode Wind 1" and "Gode Wind 2" with a total nominal output of 894 MW. For the "Borkum Riffgrund 2" project, also developed and sold by PNE, Ørsted (formerly DONG Energy) has almost completed construction work. The full start of operation is scheduled for 2019. In this connection, PNE received a milestone payment of approx. euro 4.1 million in the third quarter of 2018.

In the first German tender for offshore wind farms in 2017, the "Gode Wind 3" project developed by PNE was one of four projects that received an award. In the second quarter of 2018, PNE received a further milestone payment of euro 4.1 million as part of the project progress for the "Gode Wind 3" project. Furthermore, the "Gode Wind 4" project developed by PNE was also awarded a contract in the second German tender for offshore wind farms in 2018 as one of six projects.

Overview of the PNE references of the offshore wind energy division as at December 31, 2018:

Projects sold

Zone	Projekte	Phase	WPT	Total MW
1	Borkum Riffgrund 1	8	78	312
1	Borkum Riffgrund 2	6	56	448
1	Gode Wind 1 & 2	8/8	55 + 42	582
1	Gode Wind 3 & 4	5/5	30	242
2	Atlantis I	3	73	584
4	HTOD5 (Nautilus II)	2	68	476
	Total		**402**	**2,644**

Phase 1 = Project identification
Phase 2 = Application conference
Phase 3 = Hearing
Phase 4 = Approval granted
Phase 5 = Grid connection
Phase 6 = Investment decisions
Phase 7 = Under construction
Phase 8 = In Operation

Due to the EEG amendments adopted in 2016 and the new WindSeeG, the risks for other projects developed by PNE increased significantly at the end of 2016. On January 31, 2019, the last draft 2019 land development plan (version of October 26, 2018) was published. In zone 3, this plan provides for an expansion by 2 GW in addition to the 15 GW already included. In addition, the 2019 land development plan also defines zone 3 as a priority zone for the further expansion of offshore wind energy beyond 17 GW. Therefore, it is likely that the Atlantis II and III projects will be realised. Zone 4 has not yet been affected by the provisions of the 2019 land development plan. At the end of July 2017, PNE, Zweite Nordsee Offshore Holding GmbH (STRABAG Group) and International Mainstream Renewable Power Limited – via their respective project companies – submitted a joint constitutional complaint to the Federal Constitutional Court against some of the new legal regulations. For further information about the opportunities and risks, refer to the "Report on opportunities and risks".

In the offshore wind energy segment, PNE also examines opportunities of generating electricity from other energy carriers such as hydrogen at sea. Fundamental calculations and examinations are carried out for this purpose, which, if positive, can form the basis of further project activities in this respect.

Offshore wind energy – international

PNE continues to examine the possibility of starting the development of marine wind farms off the US coasts. The United States Bureau of Ocean Energy Management (BOEM) is currently in the process of leasing additional sites for offshore wind farms in state-controlled coastal waters. In 2018, a tender was launched for three sites off the US east coast (Massachusetts). In this context, contracts for a total volume of US dollar 405 million were awarded. This demonstrates the value of offshore wind projects off the US coast and shows that this market will continue to develop in the future. PNE was one of eleven companies to take part in the tender.

Project development photovoltaics

In recent years, photovoltaics has become increasingly cost-effective and thus more marketable in the area of power generation. In addition, the legal and economic framework conditions for the development of photovoltaic projects are in place in many countries. The development of photovoltaic projects is therefore part of the strategic expansion of the business model. Numerous markets are currently being examined in detail. Particular attention will initially be paid to Germany, France and Romania.

Electricity generation segment

The electricity generation segment combines all activities of the Group companies, which are engaged directly in the production of electricity from clean energies. This division includes primarily the wind farms "Laubuseschbach", "Gerdau-Repowering", "Pülfringen/Erfeld" and "Kührstedt-Alfstedt" with a total nominal capacity of approx. 76.9 MW, which are operated by PNE, and the Silbitz timber biomass power plant (HKW). Furthermore, the segment includes shares in limited partnerships, in which future onshore wind farms shall be realised.

Until the successful sale and the delivery of wind farms to the operators, the electricity generation segment will include the revenues of these wind farms as part of segment reporting.

In the 2018 fiscal year, the electricity generation segment achieved EBITDA of euro 13.2 million (prior year: euro 4.2 million) and EBIT of euro 7.4 million (prior year: euro 1.1 million). The main reason for the change in the results is that the number of wind turbines in the Group's own operation since January 1, 2018 was larger than in the previous year on January 1, 2017 and therefore a higher volume of electricity could be produced in 2018.

2.5 EARNINGS, FINANCIAL AND ASSET SITUATION

2.5.1 Earnings

The figures in the text and in the tables were rounded, and small rounding differences are possible.

Developments in the Group

In the 2018 fiscal year, the PNE Group achieved a total aggregate output of euro 111.8 million (prior year: euro 186.9 million). Of this, euro 91.4 million was attributable to revenues (prior year: euro 114.1 million), euro 15.1 million to changes in inventories (prior year: euro 63.3 million), and euro 5.3 million to other operating income (prior year: euro 9.5 million).

The decline in revenues versus the prior year is attributable mainly to the type of revenues in the project business. If the Group sells its projects on a turnkey basis, high revenues are achieved, also due to the purchase of wind power turbines. In the event of a sale of project rights, the Group generates lower revenues compared to "turnkey" revenues. Particularly in international markets, the sale of project rights is preferred for reasons of risk minimisation. But the operating results of both types of revenues are close together, as the main performance of the Group companies is project development. The "real" performance of the Group can be seen by looking at the nominal capacity of the projects that have been completed, sold or started to be built. In 2018, this capacity totalled 235.7 MW (prior year: 233.6 MW). With an expected mean investment volume of approx. euro 1.4 to 1.8 million per MW of installed nominal capacity, PNE has thus initiated investments of approx. euro 330 to 424 million (prior year: euro 327 to 420 million) and is within the range of the previous year.

In the 2018 financial year, as in the previous year, the work performed for projects owned by the Group was shown under changes in inventories.

Explanation: Since the company-owned wind farms were operated by the Company itself regardless of their current or future shareholder structure and used to generate electricity, the wind farms were classified as fixed assets from the date of sale within the Group in accordance with IAS 16. The reclassification from Group inventories to Group fixed assets was carried out without impacting the income statement and led to no reduction in the change of inventory position.

Other operating income includes, inter alia, the reversal of provisions and individual value adjustments, cost allocations, income from the private use of company cars and the reversal of the investment subsidy for the headquarters in Cuxhaven.

The activities of the Group in the area of project development in Germany and abroad, both onshore and offshore, are reflected in the expense items. The share of cost of materials in the consolidated aggregate output amounts to euro 36.7 million (prior year: euro 108.4 million). The Group's lower cost of materials ratio (cost of materials in relation to aggregate output) compared to the previous year is due to the way projects were sold in the fiscal year, either as "turnkey" projects (high cost of materials) or as project rights (low cost of materials) (see also the explanation on the decline in revenues). In the 2018 fiscal year, more project rights than turnkey projects were sold compared with the 2017 fiscal year, which is one reason for the lower cost of materials ratio. Furthermore, revenues (excluding Group revenues) from the "electricity generation" segment (PNE-owned wind farms and HKW "Silbitz") of euro 12.2 million in 2018 (prior year: euro 7.6 million) are, in part, not offset by cost of materials, but by expense items in the form of depreciation or other operating expenses (leases, etc.). Another reason for this ratio is the offshore milestone payments for "Gode Wind 3" (approx. euro 4.1 million) and for "Borkum Riffgrund 2" (approx. euro 4.1 million), since these revenues are offset by no or only minor other operating expenses.

The Group's personnel expenses amounted to euro 27.8 million in the 2018 fiscal year and thus increased by euro 2.0 million compared to the level of the prior year period (euro 25.8 million). The number of employees in the Group as at December 31, 2018 increased to 390 (as at December 31, 2017: 369 employees). These figures include the three members of the Board of Management. The increase in the number of employees is mainly due to organisational adjustments to the new strategy and business acquisitions, which led to higher personnel expenses compared to 2017. Other reasons for the higher personnel expenses is the rise in starting salaries and the variable remuneration for employees, which must be paid for qualified personnel in line with the market conditions.

The other operating expenses in the Group totalling euro 20.1 million (prior year: euro 24.1 million) are mainly divided into:

- » legal and consulting costs totalling euro 4.2 million (prior year: euro 5.4 million),
- » advertising and travel expenses totalling euro 2.1 million (prior year: euro 2.2 million),
- » insurance premiums and contributions totalling euro 1.0 million (prior year: euro 1.1 million),
- » vehicle costs totalling euro 1.2 million (prior year: euro 1.5 million),
- » repair and maintenance expenses mainly for the portfolio projects and HKW "Silbitz" of euro 2.0 million (prior year: euro 1.4 million)
- » rental and lease expenses, also mainly attributable to the portfolio projects, totalling euro 2.8 million (prior year: euro 1.5 million),
- » supervisory board costs totalling euro 0.6 million (prior year: euro 0.6 million),
- » IT costs totalling euro 0.5 million (prior year: euro 0.5 million),
- » accounting and auditing costs, including tax advice, totalling euro 1.0 million (prior year: euro 1.0 million),
- » expenses from impairments on receivables and other financial assets totalling euro 0.0 million (prior year: euro 1.5 million),
- » expenses for losses from asset disposals amounting to euro 0.3 million (prior year: euro 0.1 million).

With the continued construction and ongoing operation of the wind farms in the Group ("electricity generation" segment), other operating expenses increased in the items "repair and maintenance expenses" as well as "rental and lease expenses". Other cost items within the other operating expenses remained at the same level or were reduced compared to the previous year.

Amortisation of intangible fixed assets and depreciation of property, plant and equipment increased on a year-on-year basis to euro 8.7 million (prior year: euro 5.5 million), mainly due to the higher average number of wind power turbines in the Group ("electricity generation" segment).

In the 2018 fiscal year, value adjustments were made to three out of five offshore companies involved in a constitutional complaint, i.e. their inventories, on the basis of a reassessment in the balance sheet amounting to approx. euro 10.8 million (prior year: euro 0.0 million). The value adjustments are shown in the Group's statement of comprehensive income under the item "impairments of offshore inventories". The inventories affected by the write-downs belong to the projects "Jules Verne", "Nautilus" and "Nemo" in zone 4 of the Exclusive Economic Zone of the Federal Republic of Germany. The reason for the reassessment of project inventories in the Group is the draft 2019 land development plan (version of October 26, 2018), last discussed on January 31, 2019. In zone 3, this plan provides for an expansion by 2 GW in addition to the 15 GW already included. In addition, the 2019 land development plan defines zone 3 as a priority zone for the further expansion of offshore wind energy beyond 17 GW. Therefore, it is likely that the Atlantis II and III projects will be realised. Zone 4 has not yet been affected by the provisions of the 2019 land development plan. In accordance with the current regulatory requirements, it has become less likely that the offshore projects Jules Verne, Nautilus and Nemo, which are located in zone 4, will be realised, which is the reason for the current reassessment of the balance sheet. Irrespective of this, the Company still expects that the constitutional complaint will be successful for all five projects. In the event of success, according to current estimates, the three projects Jules Verne, Nautilus and Nemo concerned would then result in a claim for damages of euro 10.8 million with an effect on net income, which would not have an effect on net income prior to a legally binding decision.

Interest expenses in the Group changed only slightly from euro 10.7 million in the prior year to euro 10.6 million. Due to the repayment of the 2013/2018 bond (euro 100.0 million/8 percent interest) in May 2018 and the simultaneous refinancing of the Group via the 2018/2023 bond (euro 50.0 million/4 percent interest) in May 2018, the interest expense for corporate financing by bonds was reduced. An opposite effect versus the previous year had the interest expenses, which are due the higher number of the Group's own wind farms and their project financing ("electricity generation" segment).

Since 2017, we have created values that are not readily apparent. This relates to the establishment of our "wind farm portfolio 2020", which is owned by the Company. The earnings before tax accrued in this portfolio to date – not yet realised at the Group level – amount to approx. euro 21.0 million since 2017 (of which approx. euro 8.7 million in 2018). With a portfolio of company-owned projects, complete or partial sales to third parties outside the Group are postponed, and thus also the Group's earnings from these sales.

At Group level, the following results were achieved in the 2018 financial year, excluding the results from the build-up of the "wind farm portfolio 2020", which were postponed:

- earnings before interest, taxes, depreciation and amortisation (EBITDA = EBIT plus amortisation/depreciation of intangible assets and property, plant and equipment as well as goodwill) of euro 16.5 million (prior year: euro 28.6 million),
- operating profit (EBIT = corresponds to the value stated in line "Operating result" of the statement of comprehensive income) of euro 7.8 million (prior year: euro 23.1 million) and
- earnings before taxes (EBT = corresponds to the value shown in the Group's statement of total comprehensive income in the line "Income before taxes") of euro -2.0 million (prior year: euro 14.1 million).

The consolidated net income after the share in income attributable to non-controlling interests amounted to euro -1.0 million (prior year: euro 17.1 million). The basic earnings per share for the Group amounted to euro -0.01 (prior year: euro 0.22) and the diluted earnings per share for the Group amounted to euro -0.01 (prior year: euro 0.22).

Taking into account the business results, the dividend distribution and the disposal of non-controlling interests as part of the increase in the shareholding in WKN AG (now WKN GmbH), the Group's retained earnings changed to euro 77.5 million in the reporting period (prior year: euro 84.9 million). In fiscal 2018, a dividend of euro 3.1 million was distributed from the available retained earnings.

With regard to the subsidiaries consolidated in the Group, the major portion of revenues achieved in the 2018 fiscal year related to management remuneration and service payments in the amount of euro 7.9 million (prior year: euro 8.2 million), payments for the use of transformer stations in the amount of euro 3.4 million (prior year: euro 3.1 million) and proceeds from the sale of electricity in the electricity generation segment (excluding intra-group revenues) in the amount of euro 12.2 million (prior year: euro 7.6 million). The subgroup of WKN GmbH was included in the Group of PNE AG in accordance with IFRS with the following values (before consolidation effects):

WKN subgroup

in Mio. EUR	1.1. – 31.12. 2018	1.1. – 31.12. 2017
Revenues	60.0	59.7
Total aggregate output	60.5	61.0
Personnel expenses	10.7	9.3
Other operating expenses	8.2	11.0
EBIT	15.9	9.3
Employees on 31.12.	**143**	**141**

Developments in PNE AG (figures pursuant to the HGB separate financial statements)

Euro 34.6 million (prior year: euro 133.8) of the Group's total aggregate output was attributable to PNE AG. The total aggregate output of PNE AG consists of revenues totalling euro 19.8 million (prior year: euro 93.9 million), changes in inventories totalling euro 4.5 million (prior year: euro -0.4 million) and other operating income totalling euro 10.3 million (prior year: euro 40.3 million).

The decline in revenues compared with the previous year is due to the lower number of turnkey project implementations or sales in the 2018 financial year compared with 2017.

Other operating income of PNE AG consists primarily of milestone payments for the offshore projects "Gode Wind 3" and "Borkum Riffgrund 2" (approx. euro 8.2 million in total).

In the previous year, the major part of other operating income came from the income from the sale of the remaining shares (20 percent) and a subsequent purchase price payment received for the shares in PNE WIND Partners Deutschland GmbH already sold in 2016 (80 percent) as well as from the sale of the shares in the offshore wind farm project "Atlantis I".

Other operating income also includes the reversal of provisions as well as other income, such as credit notes, amounts charged on, reversal of the investment subsidy for the Cuxhaven headquarters and income from the private use of company cars.

In the separate financial statements of PNE AG, the cost of materials amounted to euro 12.2 million (prior year: euro 78.9 million). The cost of materials consists mainly of the costs for the wind power turbines and the construction costs for the infrastructure of the wind farm projects realised or under construction. The decline in the cost of materials is due to the lower level of implementation of turnkey projects compared with the previous year's figure.

In the separate financial statements of PNE AG, the personnel expenses totalled euro 11.9 million in the 2018 fiscal year (prior year: euro 11.7 million). The number of employees of PNE AG as at December 31, 2018 increased to 154 (December 31, 2017: 155 employees). These personnel figures include the three members of the Board of Management.

In the separate financial statements of PNE AG, write-downs of current assets were made, which exceed the customary depreciation of the Company, in the amount of euro 8.4 million (prior year: euro 0.0 million) (see also the explanations on the asset position of PNE AG).

In PNE AG's separate financial statements, the other operating expenses totalled euro 8.4 million in the 2018 fiscal year (prior year: euro 7.1 million). Other operating expenses increased primarily because of the capital increase expenses of approx. euro 1.7 million incurred in 2018 for the issue of the 2018/2023 bond. Part of these costs (euro 0.1 million) is reported in the financial result, as the pro rata early redemption of the 2013/2018 bond was recorded as interest expense.

In the 2018 fiscal year, PNE AG reported an operating profit (EBIT – corresponds to the value shown in the profit and loss account in line "Operating result") of euro -7.0 million (prior year: euro 35.5 million).

In PNE AG's separate financial statements, write-downs of financial assets of euro 3.5 million (prior year: euro 0.0 million) were made (see also the explanations on the asset position of PNE AG).

Interest expenses at PNE AG were euro 5.2 million (prior year: euro 8.5 million) lower than in the previous year and were mainly incurred for interest on the 2013/2018 bond and the 2018/2023 bond. The reduction in interest is due to the refinancing process in May 2018 through the repayment of the 2013/2018 bond (euro 100.0 million/8 percent interest) and the new issue of the 2018/2023 bond (euro 50.0 million/4 percent interest).

Income from profit transfer agreements fell compared to the previous year from euro 2.2 million to euro 1.7 million.

As at December 31, 2018, the retained earnings of PNE AG totalled euro 114.3 million (prior year: euro 130.9 million). The net deficit of PNE AG amounted to euro -9.9 million (prior year: net income of euro 32.6 million). The basic earnings per share of PNE AG amounted to euro -0.13 (prior year: euro 0.43) and the diluted earnings per share amounted to euro -0.12 (prior year: euro 0.42).

2.5.2 Financial situation

The figures in the text and in the tables were rounded, and small rounding differences are possible.

Developments in the Group

Finance management of PNE AG and of the PNE Group is concentrated on providing sufficient liquidity

- for financing the ongoing operations,
- to create the prerequisite for implementing the extended strategy, and to
- counteract the risks of project business.

This financing will be provided at the level of the relevant project companies by way of loans, and at the level of PNE AG by the way of emission of bonds. Derivative financial instruments such as interest swaps will only be used at the level of the project companies to secure interest risks of variable-interest loans. As at December 31, 2018, there were derivative financial instruments for the project financing of "Kührstedt", "Gerdau-Repowering" and "Kittlitz III".

The statement of cash flow provides information on the liquidity situation and the financial position of the Group. As at December 31, 2018, the Group companies had available liquidity of euro 157.8 million, including credit lines for interim project financing, of which euro 10.0 million is pledged to banks (prior year: euro 225.6 million, of which euro 1.1 million pledged).

The liquidity available is broken down as follows:

- cash and cash equivalents of euro 129.1 million,
- working capital facilities available of euro 10.0 million,
- interim project equity financing available of euro 16.4 million, and
- interim project debt financing available of euro 2.3 million.

As at December 31, 2018, PNE AG and WKN GmbH had working capital facilities totalling euro 10.0 million (as at December 31, 2017: euro 0.0 million) and facilities for guarantee and contract fulfilment obligations of euro 23.3 million (as at December 31, 2017: euro 0.0 million). As at December 31, 2018, the Group had used euro 0.0 million of the working capital facility and euro 3.9 million of the guarantee and contract fulfilment credit lines.

The cash flow from ordinary activities shown in the statement of cash flows amounts to euro -28.2 million (prior year: euro 22.6 million) and was primarily attributable to

- the consolidated results in the reporting year,
- the expenses for the further development of the project pipeline and the realisation of wind farm projects, which are reflected in the changes in the inventories, receivables and liabilities and were mainly financed by interim project funds (see Cash flow from financing activities).

The cash flow from investing activities in the reporting period included outgoing and incoming payments for investments/disinvestments relating to Group property, plant and equipment and intangible assets totalling euro -4.3 million (prior year: euro -69.6 million). The investments in property, plant and equipment in the 2018 fiscal year and the previous year related mainly to investments in the implementation of wind farms for the "wind farm portfolio 2020" being established and in transformer stations for these wind farm projects.

Outgoing and incoming payments relating to acquisitions and disposals of consolidated entities totalled euro -8.2 million (prior year: euro 10.6 million). In the 2018 fiscal year, this was attributable primarily to the purchase of the remaining shares in WKN GmbH (prior year: the purchase of shares in HKW Silbitz GmbH & Co. KG and the sale of shares in PNE WIND Atlantis I GmbH).

Incoming and outgoing payments for the sale and purchase of financial assets totalled euro 0.5 million (prior year: euro 32.7 million). In the prior year, this item mainly included the proceeds from the sale of the shares (20 percent) in PNE WIND Partners Deutschland GmbH, which had previously been held by the Group.

During the reporting period, the cash flow from financing activities of euro -32.6 million (prior year: euro 49.9 million) was influenced primarily by

- the repayment of the 2013/2018 bond of euro -100.0 million,
- the new issue of the 2018/2023 bond in the amount of euro 50.0 million,
- the capital increase costs in connection with the 2018/2023 bond, totalling euro -1.7 million,
- the repurchase of approx. 2.2 million treasury shares at a value of euro -5.8 million,
- the repayment of credit liabilities of euro -6.4 million,
- the payment of the dividend of euro -3.1 million,
- the taking of bank loans of euro 42.5 million – mainly used for the project financing of the wind farm projects for the wind farm portfolio being established,
- the acquisition of the remaining shares in WKN AG in amount of euro -8.2 million.

Bonds from the 2014/2019 convertible bond were converted into 1,777 shares in the reporting period. As at December 31, 2018, the share capital of PNE AG amounted to euro 76,557,803.00.

As at December 31, 2018, the Group had liquid funds of euro 129.1 million, of which euro 10.0 million is pledged to banks (prior year: euro 194.0 million, of which euro 1.1 million pledged).

Developments in PNE AG

As at December 31, 2018, PNE AG had liquidity of euro 83.7 million, of which euro 8.3 million is pledged to banks (prior year: euro 156.8 million, of which euro 0.5 million pledged).

The financial situation of PNE AG in fiscal 2018 was marked, in particular,

- by the negative cash flow from investing activities of euro -13.9 million (prior year: euro 33.9 million), mainly due to the acquisition of the remaining shares in WKN GmbH and the investments in the capital reserve of PNE WIND West Europe GmbH to take over the shares and the payment of equity by PNE WIND West Europe GmbH to the wind farm companies for internal operations (in the previous year, the positive cash flow was related to the sale of the remaining shares in PNE WIND Partners Deutschland GmbH),
- and the positive cash flow from operating activities of euro 5.0 million (prior year: euro 12.6 million) and
- the negative cash flow from financing activities of euro -64.2 million (prior year: euro -17.8 million), mainly resulting from the repayment of the 2013/2018 bond.

2.5.3 Statement of financial position

The figures in the text and in the tables were rounded, and small rounding differences are possible.

Developments in the Group

in Mio. EUR	31.12.2018	31.12.2017
Assets		
Total long term assets	**179.7**	**184.9**
Intangible assets	65.1	66.8
Property, plant and equipment	96.1	103.9
Long germ financial assets	2.0	2.5
Deferred taxes	16.5	11.7
Total short term assets	**272.9**	**308.4**
Inventories	117.3	86.4
Receivables and other assets	25.1	26.8
Tax receivables	1.4	1.2
Cash and cash equivalents	129.1	194.0
Total assets	**452.6**	**493.3**

On the reporting date, the consolidated total assets of PNE AG amounted to euro 452.6 million. This is a change of -8.3 percent in comparison with December 31, 2017.

Total long-term assets decreased from euro 184.9 million at the end of 2017 to euro 179.7 million on the reporting date.

As at December 31, 2018, intangible assets totalled euro 65.1 million and decreased by approx. euro 1.7 million compared to December 31, 2017. The most important element of this item are the goodwill items totalling euro 63.4 million (of which projecting of wind energy turbines PNE is valued at euro 23.0 million and projecting of wind energy turbines WKN is valued at euro 40.2 million).

In the same period, property, plant and equipment changed by euro -7.8 million to euro 96.1 million (December 31, 2017: euro 103.9 million). This item primarily includes

- land and buildings (euro 11.4 million, excluding the "Silbitz" land and buildings
- transformer stations owned or under construction (euro 13.2 million),
- technical equipment and machinery of HKW Silbitz (euro 3.2 million, including land and buildings of euro 2.7 million), of the "Pülfringen" wind farm (euro 1.1 million) as well as the three "Kührstedt" wind farms (euro 59.8 million).

The change in property, plant and equipment is mainly due to the project portfolio and the resulting write-downs of property, plant and equipment of the wind farms. Another reason is the financing of the "Kührstedt" wind farm projects, which was provided, in part, by public KfW loans at an interest rate below the market rate. The difference between the fair value and the nominal value of the loan in the amount of euro 4.2 million was set off against the acquisition or production costs of the corresponding assets (wind power turbines) and is recognised over the useful life of these assets (2018: depreciation of euro 0.2 million).

During the period under review, short-term assets changed from euro 308.4 million as at December 31, 2017 to euro 272.9 million on December 31, 2018. This change is mainly attributable to the increase in inventories (euro +30.9 million) and the decrease in cash and cash equivalents (euro -64.9 million). Inventories increased in connection with the expansion of the project pipeline and the advance payments for projects under construction, with simultaneous write-downs on offshore inventories of approx. euro -10.8 million. The decrease in cash and cash equivalents is due primarily to the redemption of the 2013/2018 bond (euro 100.0 million). Of the short-term assets, euro 6.4 million is attributable to trade receivables (December 31, 2017: euro 5.1 million).

The work in progress shown under the inventories increased from euro 83.4 million as at December 31, 2017 to euro 90.0 million December 31, 2018.

Work in progress is divided as follows:

- offshore projects (euro 15.1 million),
- onshore projects in Germany (euro 37.1 million),
- onshore projects abroad (euro 37.8 million).

The advance payments in connection with onshore projects under construction, which are included in the inventories item, increased by euro 24.3 million from euro 2.9 million to euro 27.2 million.

Cash and cash equivalents amounted to euro 129.1 million as at December 31, 2018, of which euro 10.0 million pledged to banks (as at December 31, 2017: euro 194.0 million, of which euro 1.1 million pledged).

in Mio. EUR	31.12.2018	31.12.2017
Liabilities		
Shareholders' equity	216.3	235.2
Deferred subsidies from public authorities	0.8	0.9
Provisions	9.2	5.9
Long term liabilities	140.1	77.0
Short term liabilities	67.7	156.4
Deferred revenues	18.5	17.9
Total liabilities and shareholders' equity	**452.6**	**493.3**

Group equity decreased to euro 216.3 million as at December 31, 2018 from euro 235.2 million (December 31, 2017). The reduction is attributable to the negative consolidated result (euro -2.4 million) for the financial year and the effects of the dividend distribution (euro -3.1 million), the repurchase of treasury shares (euro -5.8 million) and the changes in consolidated equity due to the increase in the shareholding in WKN GmbH (euro -8.2 million).

The acquisition of the remaining 17 percent of the shares in WKN represents an increase in the shareholding without a loss of control. According to IFRS 10.23, this transaction between owners only affects the allocation of residual claims of the owner groups, which results in a shift in value between majority shareholders and non-controlling interests in equity. The amounts of the assets and liabilities recorded in the balance sheet remain unchanged.

The Group's equity ratio was 48 percent as at December 31, 2018 (December 31, 2017: 48 percent).

The long-term liabilities increased from euro 77.0 million at the end of 2017 to euro 140.1 million in 2018. This item consists mainly of financial liabilities totalling euro 136.7 million (as at December 31, 2017: euro 72.8 million). The long-term financial liabilities include the bond issued in May 2018 (euro 50.0 million/ interest rate of 4 percent per year) with a carrying amount of euro 48.5 million. The difference of approx. euro 1.5 million (as at December 31, 2018) to the value of the bond issued is attributable to the transaction costs incurred for the bond. Pursuant to IFRS, the transaction costs are offset against the liabilities resulting from the bond and recognised as "interest expense" over the term of the bond. The item also includes long-term liabilities to banks in the amount of euro 86.1 million (as at December 31, 2017: euro 66.0 million).

On December 31, 2018, the total number of shares issued by PNE AG was 76,557,803, of which 2,189,853 shares (prior year: 0 shares) were held by PNE AG. The increase by 1,777 shares compared to the previous year is attributable to conversions under the partial bond.

In the 2018 fiscal year, the short-term liabilities changed from euro 156.4 million (December 31, 2017) to euro 67.7 million, predominantly due to the fact that the euro 100.0 million 2013/2018 bond was recognised in December 31, 2017 under the "Short-term liabilities" and was repaid in May 2018. The short-term financial liabilities also include the 2014/2019 convertible bond issued in the 2014 fiscal year in an amount of euro 6.5 million. The short-term liabilities to banks, included in this item, increased from euro 6.4 million (December 31, 2017) to euro 18.3 million due to borrowings for interim financing of the onshore wind farms under construction. In the reporting period, the trade liabilities decreased from euro 25.3 million (December 31, 2017) to euro 14.9 million.

The liabilities to banks (long-term and short-term) mainly include:

- » the financing of the building of PNE AG at the headquarters in Cuxhaven (value as at December 31, 2018: euro 2.3 million, of which long-term euro 2.2 million),
- » non-recourse project financing of the "Pülfringen" wind farm (value as at December 31, 2018: euro 1.8 million, of which long-term euro 1.4 million),
- » the non-recourse project financing of the "Gerdau-Repowering" wind farm (value as at December 31, 2018: euro 21.7 million, of which long-term euro 18.8 million),
- » the non-recourse project financing of the wind farms "Kührstedt-Alfstedt", "Kührstedt-Alfstedt A" and "Kührstedt-Alfstedt B" (value as at December 31, 2018: euro 61.5 million, of which long-term euro 56.9 million),
- » the proportionate equity bridge loan for the "Kührstedt-Alfstedt" wind farms (value as at December 31, 2018: euro 8.6 million, of which long-term euro 8.4 million), and
- » the non-recourse project bridge loan for the "Kittlitz III" wind farm (value as at December 31, 2018: euro 10.1 million, of which long-term euro 0.0 million).

Taking the liquid funds into account, the net debt (cash and cash equivalents less the short-term and long-term financial liabilities) as at December 31, 2018 amounted to euro -33.7 million (December 31, 2017: net liquidity of euro +14.1 million).

Developments in PNE AG

in Mio. EUR	31.12.2018	31.12.2017
Assets		
Intangible assets	0.1	0.1
Property, plant and equipment	11.0	11.5
Financial assets	107.9	91.2
Inventories	30.8	10.2
Receivables and other assets	109.6	140.0
Liquid funds	83.7	156.8
Total assets	**343.1**	**409.8**

The fixed assets consist of intangible assets of euro 0.1 million (prior year: euro 0.1 million), property, plant and equipment of euro 11.0 million (prior year: euro 11.5 million), and financial assets of euro 107.9 (prior year: euro 91.2 million). The changes in financial assets are mainly due to

- the acquisition of the remaining shares in WKN GmbH (euro 8.2 million),
- the contributions to the capital reserve of PNE WIND West Europe GmbH for the payment of equity into the "Kührstedt-Alfstedt" wind farm projects (euro 11.9 million) and
- the write-downs of the interest in three offshore companies (euro -3.5 million).

The current assets consist of inventories of euro 30.8 million (prior year: euro 10.2 million), of which work in progress totalling euro 14.6 million (prior year: euro 10.0 million) and prepayments made totalling euro 16.2 million (prior year: euro 0.1 million) and receivables and other assets of euro 109.6 million (prior year: euro 140.0 million). Of the receivables and other assets, euro 0.5 million is attributable to trade receivables (prior year: euro 1.2 million), euro 106.5 million to receivables from affiliated companies (prior year: euro 137.3 million), euro 2.5 million (prior year: euro 1.4 million) for other assets. The change in receivables from affiliated companies include depreciation of current assets of euro -8.4 million.

The liquid funds amounted to euro 83.7 million as at December 31, 2018 (prior year: euro 156.8 million) and fell compared to the previous year mainly due to the repayment of the 2013/2018 bond (euro 100.0 million).

in Mio. EUR	31.12.2018	31.12.2017
Liabilities		
Shareholder equity	247.1	265.9
Special item for investment grants	0.8	0.9
Provisions	7.8	12.8
Liabilities	87.3	130.1
Deferred income	0.1	0.1
Total liabilities and shareholder equity	**343.1**	**409.8**

The shareholders' equity of PNE AG amounted to euro 247.1 million as at December 31, 2018 (prior year: euro 265.9 million). The equity ratio of PNE AG was 72 percent as at December 31, 2018 (December 31, 2017: 65 percent). Equity was reduced mainly due to the net loss for the year (euro -9.9 million), which was significantly influenced by offshore depreciation, the repurchase of treasury shares (euro -5.8 million) and the dividend payment in the 2018 fiscal year (euro -3.1 million).

On December 31, 2018, the total number of shares issued by PNE AG was 76,557,803, of which 2,189,853 shares (prior year: 0 shares) were held by PNE AG. The year-on-year change in the shares issued by 1,777 is attributable to conversions under the partial bond.

The major items on the liability side are liabilities of euro 87.3 million (prior year: euro 130.1 million). These are attributable mainly to:

- the 2018 issue of the 2018/2023 bond in the amount of euro 50.0 million (prior year: euro 100.0 million/2013/2018 bond),
- the 2014 issue of the 2014/2019 bond in the amount of euro 6.6 million (prior year: euro 6.6 million),

- liabilities to banks of euro 4.0 million (prior year: euro 2.5 million),
- prepayments received on orders totalling euro 15.2 million (prior year: euro 0.0 million),
- trade liabilities of euro 1.1 million (prior year: euro 6.8 million) as well as
- liabilities to affiliated companies of euro 8.8 million (prior year: euro 7.7 million).

The main components of provisions relate to outstanding invoices in respect of wind farm projects totalling euro 4.1 million (as at December 31, 2017: euro 8.4 million) as well as provisions for variable remuneration of the members of the Board of Management and senior executives totalling euro 2.1 million (as at December 31, 2017: euro 1.9 million).

3. SALES AND MARKETING

The sale of onshore wind farm projects is based successfully on direct sales to large and individual investors. PNE has had positive experience with this direct sales model for many years and will continue to follow this proven sales channel for this reason. The strategy of bundling projects and developing them up to a stage of maximum value has already proven its worth. This allows for selling larger project portfolios if there is interest on the part of investors, such as

- the sale of the "Gode Wind" offshore portfolio in 2012,
- the sale of the "UK" onshore project pipeline in 2015, or
- the sale of the "YieldCo" onshore portfolio in 2016.

This successful path will also be pursued in the future.

4. DEVELOPMENT AND INNOVATION

There were no research and development activities outside the operative business purpose of project development in the PNE AG Group during the reporting period.

5. EMPLOYEES

During the 2018 fiscal year, there were 369 employees in the Group on an annual average basis, including members of the Board of Management (prior year: year: 362). The employees of the subsidiaries are included in this number. Of these employees (including the members of the Board of Management and trainees), an annual average of 151 employees (prior year: 152) were working at PNE AG.

As at December 31, 2018, the Group employed 390 persons, including the members of the Board of Management, (as at December 31, 2017: 369 persons). Of these, 236 employees (as at December 31, 2017: 214 persons) were employed by the subsidiaries of PNE AG; 178 of these (as at December 31, 2017: 159 persons) were employed by domestic subsidiaries and 58 (as at December 31, 2017: 55 persons) by foreign subsidiaries.

The existing number of staff is reviewed regularly in order to be prepared for the Group's future developments.

6. INTANGIBLE ASSETS/ SUSTAINABLE DEVELOPMENT

The successful development of wind farm projects on land and at sea is based primarily on the knowledge and experience of qualified employees of many years standing as well as trustful cooperation with all those involved in a project. This means a particular challenge for our employees: Their creative and individual approaches are frequently required to find solutions to complex problems which arise during the development of a wind farm. The value of a wind farm project, on which the commercial success of PNE AG and the Group depends, is created primarily in the planning phase until the approval is obtained. In this respect, we can rely on the competence and experience of our long-time employees, who not only have excellent expertise in the branch sector but also maintain very good professional networks. It is thus ensured that one can rely on a high degree of professional competence in all phases and areas of the development, realisation and marketing as well as the operation of wind farm projects.

Furthermore, we place great importance on ensuring that the potential of our employees can be utilised optimally through an effective internal organisational structure and a high degree of self-responsibility. Regular evaluations of the employees and their tasks enable us to constantly adjust in a performance-related manner specially tailored requirement profiles to the corresponding tasks. In this way high standards can be achieved and maintained in the most varied areas of tasks. Our expertise in the market will be strengthened further by ensuring the qualification and further training of our employees as well as the ongoing optimisation of procedures and processes.

Based on our practical work, we have transferred many years of experience in project development into processes that enable us to plan, implement and complete all phases of wind farm project planning successfully in a targeted and intensive manner, from site acquisition through turnkey construction and operation of wind farms to repowering, i.e. the replacement of old wind power turbines with modern systems.

We are also aware of the great importance of experienced partners in the context of both the international expansion and the strategic expansion of our business model by other renewable energies, storage technologies and power-to-gas solutions. Our policy is to only enter new markets if we can do this together with local partners who have good networks in their regions. Here, too, the principle of professional, qualified and trustworthy cooperation with the project partners and participants in a project applies.

It is also important to maintain the network of partners and supporters of our business, which we have built up over many years. Since wind farm projecting is based mainly on general regulatory conditions, we cooperate closely and intensely with industry associations and maintain constant dialogue. The project managers of PNE seek and maintain direct dialogue with all those involved in a project, from the landowners and local residents to municipal politicians and the authorities involved.

With the continuous training and qualification of young people, we ensure training places and we assume social responsibility. In general, the young employees remain with the Company after their training period.

We offer our employees ongoing internal and external training opportunities so that they can maintain and expand their qualifications. We also attach great importance to the exchange of experience and the strengthening of internal communication across our sites. The Board of Management therefore decided in 2018 to introduce a software tool for more efficient team communication and an employee APP.

We are making a substantial contribution, both nationally and internationally, to the reduction of damaging climatic gases with the wind farms planned and operated by us and our future projects for clean energies and to the protection of humanity, the environment and nature. Generation of electricity from clean energies such as wind power not only makes positive contributions to the environment, but it also contributes to saving the limited reserves of fossil fuels From an economic point of view, there is a positive effect in that the generation of electricity is decentralised and thus the import of expensive fuels is reduced and avoided. Value is added where electricity is generated from clean energies. As a result, the projects developed and operated by us are ensuring that the generation of electricity is done in an ecologically meaningful and economically correct manner.

7. SUPPLEMENTARY REPORT

The supplementary report regarding significant events after the end of the reporting period is included in the notes to the financial statements in "9. Events after the reporting date".

8. REPORT ON OPPORTUNITIES AND RISKS

DESCRIPTION OF THE KEY CHARACTERISTICS OF THE ICS/RMS OF THE PARENT COMPANY AND THE ENTIRE GROUP

Internal control system (ICS)

The goal of the methods and measures set up by us is to secure the assets of the Company and to increase operating efficiency. The reliability of the accounting and reporting systems as well as compliance with the internal guidelines and legal regulations should be guaranteed by the internal control system (ICS) in place.

Within the context of the implementation of the ICS, we have subjected the individual functional departments of the Company and of the Group to a detailed analysis and evaluated accordingly the probability and the possibility of the occurrence of any damage.

We have organised the structure of the individual units based on the knowledge gained and on the evaluations made. Moreover, we have adapted our work processes as a result of the findings obtained. For example, we pay attention to a consistent separation of incompatible activities and in addition we have introduced appropriate control ranges. Furthermore, we place a high value on the non-overlapping of responsibilities, with the stipulation that tasks, competence and responsibility are combined. Simultaneously, we have integrated controls into the work processes.

The above-mentioned key characteristics of the ICS are applied in all functional areas of the parent company and the total Group. The implementation of the organisational and procedural controls in the area of the ICS ensures the integrity of the data which are included in the financial reports during the accounting process.

Apart from the controls implemented in the system, the individual functional departments are also monitored by managers.

KEY CHARACTERISTICS OF THE ACCOUNTING RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The objective of the internal control and risk management system regarding the (Group) accounting process is to ensure that accounting is performed in a uniform manner and in compliance with the legal requirements, the principles of proper accounting and the International Financial Reporting Standards (IFRS) as well as internal (Group) guidelines and that the recipients of the consolidated and separate financial statements are provided with accurate and reliable information. To this end, PNE has set up an accounting-related internal control and risk management system comprising all relevant guidelines, procedures and measures.

The internal control system consists of the control and audit departments.

The Board of Management and the Supervisory Board (in this respect in particular the Audit Committee) are an integral part of the internal monitoring system with audit measures independent of the process.

The Group accounting department serves as the central contact point for special technical questions and complex reporting matters. If necessary, external experts (auditors, qualified actuaries, etc.) will be consulted.

Moreover, the accounting related controls are carried out by the Group controlling department. All items and key accounts of the statement of comprehensive income and the statement of financial position of the consolidated accounts and the companies included in the scope of consolidation are monitored at regular intervals with regard to their correctness and plausibility. The controls are carried out either on a monthly or quarterly basis, depending on how the accounting related data are drawn up by the accounting department.

The accounting related risk management system is an integral part of the risk management of the Group. The risks relevant for the correctness of the accounting related data are monitored by the person responsible for risks for the risk area of finance and are identified, documented and assessed quarterly by the risk management committee. Suitable measures have been set up by the risk management of the Group for the monitoring and risk optimisation of accounting related risks.

Risk management

The risk policy of the Group and of the Company forms part of the corporate strategy and is aimed at securing the substance of the Group as well as the Company and simultaneously at increasing their value systematically and continuously. The risk management system is integrated largely into the existing corporate organisation. This helps to avoid double activities and parallel organisational, decision-making and reporting structures. This also ensures that the central risks are dealt with on a regular basis at the management levels.

The risk strategy is based on a valuation of the risks as well as the opportunities related thereto. In the areas of key competence of the Group and of the Company we focus on appropriate, visible and controllable risks if they simultaneously lead to an appropriate income or are unavoidable. In certain cases, we transfer risks in supporting processes to other risk areas. Other risks, which have no connection with key and/or support processes, are on the other hand avoided insofar as this may be possible. In addition, the majority of the risks are project-specific and/or region-specific risks, which are predominantly dealt with on a decentralised basis in the respective departments and divisions. This has proved its worth.

The Group has formulated the general conditions for a qualified and future orientated risk management in the "Risk Management Handbook". This handbook regulates the specific processes in risk management. It aims for the systematic identification, evaluation, control and documentation of risks. In this respect and taking into consideration clearly defined categories, it identifies the risks of the divisions, the operating units, the important associated companies as well as the central departments and evaluates them with regard to the likelihood of their occurring and the possible level of damage. The reporting is controlled by value limits defined by the management.

The individual risks are classified as part of internal risk reporting within the Group on the basis of the likelihood and potential impact.

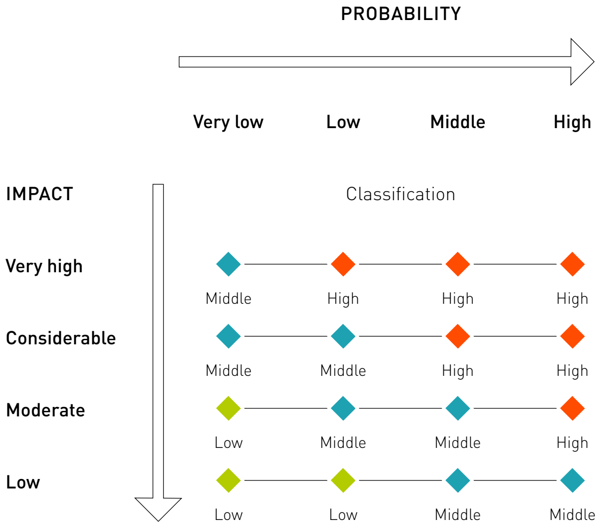
Classification of probability

Probability	Description
0% – 5%	Very low
6% – 20%	Low
21% – 50%	Middle
51% – 100%	High

Classification according to the degree of influence

Expected impact in TEUR	Degree of impact
TEUR 0 to TEUR 250	Low
>TEUR 250 to TEUR 1,000	Moderate
>TEUR 1,000 to TEUR 2,000	Considerable
>TEUR 2,000 to TEUR 40,000	Very high

Based on the combination of the expected probability of occurrence and the expected impact of the risk, risks are classified as "high", "middle" and "low" in accordance with the risk management definitions.



It is the task of the persons responsible to develop and possibly to initiate measures for the avoidance, reduction and securing of risks. The key risks as well as the counter-measures introduced are monitored at regular intervals. Central risk management reports regularly on the identified risks to the Board of Management and the Supervisory Board. In addition to regular reporting, there is also an obligation for spontaneous internal Group reporting for risks which arise unexpectedly. The risk management enables the Board of Management to recognise risks at an early stage and to introduce counter-measures.

Overall, risk management is integrated into the Company's routine processes. Reporting takes place from the employee level to the Board of Management level. Possible risks are thus identified at the working level and discussed and assessed promptly in the teams, departments and divisions. Where appropriate, measures to deal with the respective risks are already adopted at this level. If necessary, any issues regarding the handling of risks are submitted to the Board of Management or by the Board of Management to the Supervisory Board. In addition, in the case of fundamental and cross-divisional risks, working groups consisting of in-house experts are formed in order to work out solutions to such issues in regular consultations or as required.

The key characteristics of the risk management system described above are applied throughout the Group. With regard to the processes in the consolidated accounting this means that the identified risks are examined and evaluated in the corresponding financial reports especially in respect of their possible effects on the reporting. Through this, important information is generated at an early stage about potentially possible fair value changes of assets and liabilities, pending losses of value are identified and important information is gained for the assessment of the necessity for the setting up/release of provisions.

The appropriateness and the efficiency of the risk management as well as the control systems pertaining thereto are controlled and amended accordingly at the level of the Board of Management at regular intervals. Due to the particular importance of exemplary action in all business areas, executive employees are trained specifically with regard to questions of compliance.

Finally, it should be noted that neither the ICS nor the RMS can give absolute security with regard to the achievement of the corresponding objectives. Like all discretionary decisions, also those for the development of appropriate systems can in principle be wrong. Controls can be ineffectual as a result of simple mistakes or errors in individual cases or changes in environmental variables can be recognised at a late stage in spite of corresponding monitoring.

In particular, the following individual risks are currently being monitored intensively within the context of the risk management process:

- Possible risks which could arise from changes in laws and regulations for our operating business in the area of wind farm development.
- Possible risks that could arise from the Offshore Wind Energy Act.
- Possible risks which may arise from the lack of grid capacities in Germany and abroad.
- Possible technical risks which may arise from our own operation of wind farms and which could negatively influence the expected results.
- Particular importance is given to the compliance with the regulations of the German Corporate Governance Code as amended. Risks could also arise, however, from non-compliance with the regulations and the internal guidelines by individuals.

ASSESSMENT OF RISKS AND OPPORTUNITIES

In the opinion of the Board of Management, the scope and the potential of risks have not changed significantly versus December 31, 2017, except for the changes mentioned below. From the viewpoint of the Board of Management, the future perspectives for the development of the Group and PNE AG are good in light of the global development of climate protection and the expansion of wind energy as well as the milestone payments to be expected from the project sales concluded. A positive development of the Company can thus be expected in the coming fiscal years according to the estimates of the Board of Management. Based on the positive economic situation as at December 31, 2018, no individual risk represents a material threat to the Group, even if risks could have a financial impact in the upper single-digit million range (the risk from the tax audit at WKN GmbH) to the lower two-digit million range (the risk from the write-downs of offshore inventories). Thus, from the viewpoint of the Board of Management, there are no risks threatening the existence of the Company.

General factors

As a result of its business activities, the Group and the individual consolidated companies are exposed to risks which are inseparable from its entrepreneurial activities. Through our internal risk management system, we minimise the risks associated with our business activity and invest only if a corresponding added value can be created for the Company while maintaining a manageable risk. Risk management is a continuous process. Based on the analysis of the existing core processes, the identified risks are evaluated. A risk report is submitted regularly to the Board of Management and to the Supervisory Board. Unless otherwise indicated below, the assessment of the risks has not changed significantly compared to December 31, 2017. The implementation of the strategic expansion of the business model to include other clean energies and storage technologies may entail additional risks.

General explanations on the assessment of risks

Unless otherwise stated below, the relevant risk is classified with a very low to low probability and a low to moderate impact on the future net assets, financial position and results of operations of PNE AG and the Group. The occurrence of such a risk would have an impact of euro 0 to 1 million on the net assets, financial position and results of operations. These risks would have to be classified as low to middle according to the risk classification. The main risks are described at the beginning of each chapter.

Risks from operating activities

A typical risk is the approval risk of projects both in established and in new markets. In the event of time delays regarding permits, the negative outcome of tenders or significant shifts in the demand/supply relationship due to market-based support mechanisms, this can lead to postponements in the flow of liquidity, higher prepayment requirements as well as the loss of planned inflows of funds. Furthermore, projects can become uneconomical in such cases, which can lead to the write-off of work in progress which has already been capitalised. Apart from the inventories, this risk can also have an effect on the value of receivables. Risks may also arise regarding the balance sheet values of onshore and offshore projects in Germany and abroad, should wind farms be uneconomical or not possible to realise. The operative opportunities in the area of onshore and offshore wind farm development can, however, only be realised if such entrepreneurial risks are taken.

Delays in project implementation may arise, inter alia, due to the intensive environmental impact assessments required today, the uncertain timing of the granting of permits and grid connection commitments, possible appeals/complaints against permits already granted or collective actions, the timely availability of wind power turbines or the timely availability of other necessary preconditions and components required for the construction of a wind farm. Through comprehensive project controlling, the Company attempts to take these complex requirements into consideration at the right time.

The number of suitable sites in Germany for the construction of clean energy power plants is limited. In the future, this might result in increased competition for these sites and thus higher acquisition costs as well as higher operating costs, such as compensation for use of sites, which would reduce the achievable contribution margin accordingly.

Within the context of project realisation, the Company must rely on its ability to cover its capital requirements resulting from the liabilities arising in the future or which may become due in the future. Furthermore, additional capital requirements might arise if and to the extent that PNE AG should be required to honour guarantees granted by it indirectly or directly or to fulfil comparable commitments or if other risks described in this section materialise.

As with all enterprises that develop projects with clean energies, a risk for future development lies in the financing and sale of projects. In order to counter this risk, PNE has relied on the sales channel of "individual and large investors" for several years as well as on the erection and distribution of portfolios of already commissioned wind farms. However, negative effects from rising rates of interest on project marketing cannot be ruled out, since rising interest rates lead to higher project costs. In addition, rising capital market interest rates can simultaneously lead to declining sales prices, since the requirements of the individual and large investors for a return on the project may increase in this case. Risks in respect of project realisation could result from a financial crisis and the reluctance resulting therefrom on the part of the banks with regard to project financing.

Financing risks also exist on the part of our partner companies (Ørsted, formerly DONG Energy, Vattenfall) with regard to offshore wind farm projects. Depending on the progress of the project, payments will still be due to PNE AG for the "Atlantis I" and "Gode Wind 4" projects. The purchasers of the projects have not yet taken a decision to construct the projects. It is not certain that these projects will be realised and that PNE AG will still receive any payments in this context.

Risks for the further development and realisation of projects by partner companies will also arise from the project pipeline sale in Great Britain in 2015. Milestone payment might result from this sale. It is not certain that these milestone payments will be made, since they depend, inter alia, on market conditions (e.g. the Brexit effects) and buyer activity.

A supplier risk exists in the wind power turbine sector due to the worldwide demand in relation to the available capacities. Delivery bottlenecks cannot be excluded in the event of further increases in international demand. Such delivery bottlenecks could lead to delays in the realisation of wind farm projects. The Company therefore attaches great importance to concluding delivery contracts with renowned manufacturers of wind power turbines and sub-suppliers (e.g. of foundations) as early as possible and to agreeing on timely delivery.

There are joint venture companies within the PNE Group, which may represent risks, since they have already started or will start activities abroad in the future. There is the risk that cooperation with partners of existing joint ventures fails, for example, if a joint venture partner withdraws so that the relationships and skills of the joint venture partner regarding the relevant foreign market can no longer be leveraged or that foreign wind farm projects already commenced come to a halt or fail. Legal disputes might also arise with the joint venture partner, in particular if the projects managed by the joint venture company cannot be realised as scheduled. This may result in write-downs on the value of the shareholdings or on the inventories of the respective joint venture company in the balance sheet of the PNE Group. All of this may significantly complicate the activity of the Company in the relevant foreign market and, in the worst case, lead to a complete failure of the activity in this country.

The evaluation of projects for the use of clean energies depends, inter alia, on the assessment of the future development of electricity prices in target countries. Changes in the development of electricity prices can lead to changes in the market situation.

PNE publishes forecasts for its corporate goals. These forecasts are created on the basis of the Group's business plans. Should planning assumptions change over time, the published forecast may not be reached. This could have adverse consequences for the Company or its share price.

The goodwill included in the balance sheet must be reviewed for impairment losses at the end of each year by way of an impairment test. If an impairment should arise in the future, this would have an impact on the asset and earnings situation of the Company.

The credit rating for PNE AG issued by Creditreform was last renewed in March 2018. A project developer could be exposed to negative changes of the rating company's rating due to the long-term project development periods if unforeseen changes in the environment occur. This might have a negative impact on the refinancing costs of the Company in the future.

Interest rate, financing and currency risks

The Group is exposed to interest rate risks, since the Group companies borrow funds at fixed and variable interest rates. The Group manages the risk by maintaining an appropriate ratio between fixed and variable borrowings. This is done using interest rate swaps. The hedging measures are assessed regularly in order to match them to expected interest rates and the readiness to take risks. The hedging strategies are selected on this basis.

The Group grants short-term and long-term loans. All loans granted have a fixed interest rate. This also applies to loans granted to associated companies and joint ventures so that no material effects on the earnings situation of the Company are to be expected for the terms of the loans.

From the issue of the 2018/2023 bond and the covenants concerning the equity ratio included in the bond conditions, increased interest payments could arise prior to the scheduled maturity in the event of a breach of the covenant. The bond will be due for repayment at the beginning of May 2023.

The Group is exposed to a counterparty default risk from its operating business and certain financing activities. The default risk arising from financial assets is recognised through appropriate valuation adjustments, taking existing collateral into account. In order to reduce the default risk relating to non-derivative financial instruments, the Group takes various hedging measures, such as obtaining collateral and guarantees where it appears appropriate as a result of creditworthiness checks.

A part of the funds provided to the PNE Group is subject to variable interest rates which are primarily linked to the 3-month EURIBOR or the EONIA. The companies have only partially hedged against rising short-term interest rates.

In order to guarantee the Group's ability to pay its debts at any time and its financial flexibility, revolving liquidity plans are prepared, which show the inflow and outflow of liquidity both in the short term and in the medium and long terms. Liquidity risks for the financing of the operating business during the course of the year exist, in particular, if the closing of project sales through direct sales to external investors is delayed.

Foreign exchange risks in the financing area are attributable to financial liabilities in foreign currency and loans in foreign currency, which are granted to Group companies for financing purposes. At the end of the year, the Group had short-term trade liabilities denominated in foreign currencies, which do not result in a material risk from the viewpoint of the Company.

The projects in the international sector may entail medium- and long-term currency risks. In the operating field, foreign currency risks result primarily from the fact that planned transactions are undertaken in a currency other than the euro. With regard to investments, foreign currency risks may arise mainly from the acquisition or divestment of foreign companies. The Group companies aim to settle transactions in euro as far as possible. Otherwise, they intend to hedge, as far as feasible and economically sensible, major foreign currency transactions outside the Group by means of currency hedging transactions in good time before the date of the respective transactions.

Political risks/market risks

Due to the EEG amendments adopted in 2016 and the new WindSeeG, the risks for further offshore projects developed by PNE increased significantly at the end of 2016. As a result of the above-mentioned amendments to the law, the implementation of the projects can be significantly delayed or completely prevented. Pursuant to two legal opinions, parts of the WindSeeG are unconstitutional. The main reason is that this Act invalidates bona-fide investments which the Company had already made in the past, without any provisions concerning compensation payments, based on retrospective effect which is not admissible on the basis of German constitutional law. On the basis of this assessment, the Board of Management of PNE AG is of the opinion that these parts of the legislation are unconstitutional and will ultimately not last. At the end of July 2017, PNE AG, Zweite Nordsee Offshore Holding GmbH (STRABAG Group) and International Mainstream Renewable Power Limited – via their respective project companies – submitted a joint constitutional complaint to the Federal Constitutional Court against some of the new legal regulations. On January 31, 2019, the last draft 2019 land development plan (version of October 26, 2018) was published. In zone 3, this plan provides for an expansion by 2 GW in addition to the 15 GW already included. In addition, the 2019 land development plan also defines zone 3 as a priority zone for the further expansion of offshore wind energy beyond 17 GW. Therefore, it is likely that the Atlantis II and III projects will be realised. Zone 4 has not yet been affected by the provisions of the 2019 land development plan. In accordance with the current regulatory requirements, it has become less likely that the offshore projects "Jules Verne", "Nautilus" and "Nemo", which are located in zone 4, will be realised, which is the reason for the current reassessment of the balance sheet with a burden on earnings of euro 10.8 million as at December 31, 2018. No value adjustments were made to the inventories of the offshore projects "Atlantis II" and "Atlantis III" in accordance with the situation described above. In the consolidated balance sheet as at December 31, 2018, assets amounting to euro 14.3 million and provisions amounting to euro 1.1 million are recognised for the "Atlantis II" and "Atlantis III" offshore projects following the value adjustments of the assets of the "Jules Verne", "Nautilus" and "Nemo projects". The probability of such risks occurring regarding these project assets is considered to be low to middle, but the impact of occurrence to be very high. The occurrence of such a risk would have an impact of up to euro 13.2 million on the net assets, financial position and results of operations. The risk must therefore be classified as "high" in accordance with the risk management definition.

Incalculable risks can also affect the market from outside. These include, in particular, sudden changes in the general legal conditions in Germany or in PNE's foreign markets. The Board of Management of PNE AG is of the opinion that wind farms can be developed and operated economically based on fees that are currently applicable or achievable in tenders and based on the legal framework. The general conditions in the countries in which PNE is active or plans to become active in the future are reviewed regularly in order to be able to react promptly to possible changes and to minimise risks.

Political and market risks abroad could affect the planned realisation of projects during the next few years. PNE AG and its subsidiaries are intensively observing the current developments abroad in order to recognise changes in the market situation or the political landscape as early as possible and to introduce any measures at the right time. In the event of sudden changes in the remuneration systems and retrospective intervention by the legislator, risks for the PNE Group may arise due to the project development cycles of several years.

Legal risks

All recognisable risks are constantly reviewed and are taken into consideration in this report as well as in corporate planning. These also include risks from proceedings that have not yet been finally concluded.

Tax risks

There are tax risks from the corporate, trade and sales tax field audit at WKN GmbH for the years from 2010 to 2013. This audit has not yet been completed finally. Based on the discussions between the management of WKN GmbH and its tax advisors on the one hand and the tax authorities on the other, there are different views regarding the tax treatment of individual items. Possible findings of the tax audit might have an impact on the net assets, financial position and results of operations of WKN GmbH and the PNE Group in the single-digit million range. Based on the current state of knowledge, the Board of Management of PNE AG continues to assume that the tax-related presentation of the issues is accurate. Nonetheless, a provision of approx. euro 1.2 million was formed as a precautionary measure for individual selected issues addressed in the context of the tax audit. However, for the economically relevant part of the issues raised during the tax audit, the Board of Management still sees no reason to recognise a provision in the consolidated balance sheet as at December 31, 2018. Should the findings of the tax audit be negative, the Company would file a lawsuit against the decision concerning the economically relevant part of the issues. Even if a provision were formed covering all aspects of the tax audit, this would have no effect on the published guidance for 2018, as possible effects on earnings would be reported under interest expense and thus outside the EBIT. The probability of such risks occurring is considered to be low, but the impact of occurrence to be very high. The occurrence of such a risk would have an impact of up to a further euro 7 million, in addition to the provisions already made, on the net assets, financial position and results of operations. The risk must therefore be classified as "high" in accordance with the risk management definition.

PNE AG and its subsidiaries as well as other consolidated companies are currently active in 13 countries and are therefore subject to a variety of tax laws and regulations. Changes in these areas could lead to higher tax costs and to higher tax payments. Furthermore, changes in the tax laws and regulations could also have an influence on tax receivables and tax liabilities as well as on deferred tax assets and deferred tax liabilities. PNE operates in countries with complex tax regulations, which could be interpreted in different ways. Future interpretations and developments of tax laws and regulations could have an influence on tax liabilities, profitability and business operations. In order to minimise these risks, we are working continuously throughout the Group with specific tax consultants from the relevant countries and are analysing the current tax situation.

Opportunities

As at December 31, 2018, the Group recognised impairment losses of euro 10.8 million on offshore inventories for the "Jules Verne", "Nautilus" and "Nemo" projects. The Board of Management of PNE AG is still of the opinion that there is a high probability that the constitutional complaint filed by the companies can be won. In the event of success, according to current estimates, a claim for damages in the amount of euro 10.8 million would arise for the three projects "Jules Verne", "Nautilus" and "Nemo", which would, however, not have an effect on earnings before a legally binding decision has been made.

As a developer of onshore and offshore wind farms, PNE is active in an international growth market. Independent studies assume high rates of growth for wind energy during the next few years due to the finite availability of fossil fuels, the pressure to reduce dangerous climate emissions as well as the requirement for secure sources of energy. The successful conclusion of the World Climate Conferences 2015 in Paris and 2018 in Kattowitz has shown that the need for an energy revolution has been recognised worldwide. From their many years of activity in the market, the companies of the PNE Group have the prerequisites and experience needed to benefit over the long term from this development.

PNE AG has been continuing the constant further development of its business model with a subsidiary in which, following the successful realisation of the first wind farm portfolio in the years 2014-2016, completed and commissioned onshore wind farms with a total capacity of up to 200 MW will be bundled by 2020. For the time being, PNE will remain directly involved and will thus benefit from future earnings as well as operational plant management services. The previous portfolio has already shown that this approach can be successfully pursued.

Particular opportunities are offered by the Group's foreign activities and by potential new markets as well as the expansion of the business model to include additional clean energies and storage technologies as well as new markets. PNE is already active in a number of attractive growth markets. The focus of expansion will be primarily on countries with stable political conditions and reliable remuneration and promotion regulations or on countries with relatively high market potential. This also includes new markets with significantly rising electricity requirements. In order to sufficiently take into consideration the corresponding local conditions, the market introduction mostly takes place in cooperation with a local partner. This type of internationalisation has proved itself to be a cost-efficient and promising strategy. PNE will continue to pursue this proven policy of selective international expansion and will decisively exploit existing market opportunities.

PNE's core competence lies in the development, construction, operation and repowering of wind farm projects which meet the highest of international criteria. These skills can be leveraged in other foreign markets offering potential for expansion. These markets are therefore monitored continuously and opportunities for a possible market entry are carefully examined.

In addition to the opportunities of internationalisation, the established German market for wind energy, both onshore and offshore, offers a range of perspectives. The climate objectives of the Federal Government and the necessity of increasing the security of supply require the accelerated expansion of onshore and offshore wind farms. PNE is distinguished by the fact that it has already realised six offshore wind farm projects through the whole process up to approval by the Federal Office for Shipping and Hydrographics. Three of these wind farms have already been completely built and put into operation by the purchasers. Another wind farm was almost completed and is scheduled to be commissioned in 2019. We have developed a high level of competence in the area of offshore project development, which can also be transferred to our international markets. We are therefore examining the possibilities of developing offshore wind farms in the USA and in other countries.

The growth of the wind energy sector in Germany also offers increased prospects for the provision of services over the entire life cycle of wind farm assets. PNE considers itself to be a reliable partner for developers and operators of wind farms and, following the sale of the wind farms, it often provides technical and commercial plant management services. This area is being expanded continuously in a focused manner. For this reason, services have already been provided in project development, construction management and project financing.

The Group has gained a strong position in the field of technical and commercial plant management with energy consult GmbH, which serves wind power turbines with a nominal capacity of approx. 1,500 MW, a large number of transformer stations as well as photovoltaics systems. With its headquarters in Cuxhaven and its business establishment in Husum, energy consult GmbH offers technical plant management services in the German and international markets.

Optimised strategy

The long-standing success of our work in these business areas is a good basis for the strategic optimisation of the Group's activities. The demand for clean energies and a secure power supply is growing worldwide. PNE responds to these developments by expanding its operational business and wants to exploit the opportunities arising from the transformation of the markets as a "Clean Energy Solution Provider". The strategic further development encompasses almost the entire value chain of clean renewable energies. Based on the extensive experience gained from the successful development, project planning and realisation of wind farms on land and at sea, the Company will also develop and implement projects and solutions for the planning, construction and operation of clean energy power plants in the future. This is the core of the new, expanded strategic orientation.

Project development and portfolio

Project development continues to be the core business. This includes the development of quality projects, the establishment of a new European wind farm portfolio with a capacity of up to 200 MW by 2020 ("wind farm portfolio 2020") and cross-technology projects.

Technologies

In addition to wind energy, photovoltaics, storage solutions and power-to-gas will be key components of the corporate strategy in the future. This will be the first step into the segments of mobility and heating from clean energies. This includes the development of power-to-gas projects, including regarding hydrogen production. Based on the combination of wind farms, photovoltaic systems and storage solutions, PNE also wants to develop power plants and island solutions, i.e. self-sufficient clean energy systems that are independent of the electricity grid, in the future.

Markets

In addition to the established markets for wind energy in Europe and America such as Germany, France or the USA, PNE will in future also focus on new markets, for example, in Latin America, the Middle and Far East as well as in Africa, provided that they offer great potential for the development of clean energies. Such markets are characterised by growing energy requirements. Cooperation with experienced partners ensures secure market entries in these countries.

Services

Additional services such as plant management and other financing solutions for clean energy projects also represent an expansion of PNE's activities. Inorganic growth through cooperation agreements, investments or acquisitions of companies in the service, photovoltaic, battery and storage industry is also possible.

The agenda includes the optimisation of wind farms as well as services for offshore projects, the expansion of plant management for wind farms and transformer stations to include photovoltaic projects, and the development of cross-technology know-how.

Energy Supply Management

In addition, we want to tap further margin potential by optimising the sale of electricity and gas from clean energies.

Realisation/Smart Development

We have experienced and specialised staff to implement the strategy. With an integrated project approach, business opportunities with new products and in new markets are already being developed. The aim is to combine various clean energies and storage technologies, accelerate entry into and exit from new markets, shorten the time to project success and avoid high upfront expenditure in projects.

Risk minimisation and new potentials

With this new strategy, we can minimise market risks and open up new potentials and markets for PNE. After a transitional phase, in which investments will pave the way for the implementation of the strategy, this is expected to lead to an increase in average operating results by 2023 and to a stabilisation of the previously very volatile results. With our "scale-up" programme, we continue to focus on our core competencies and will open up further elements of the value chain.

9. FORECAST REPORT

As an internationally operating and one of the most experienced project planners of wind farms on land and at sea, the PNE Group combines economic success with ecological responsibility. It has offered services covering the entire value-added chain around wind farms, ranging from the development, planning, realisation, sales and operation of wind farms and transformer stations to repowering – i.e. the replacement of older wind power turbines by new modern equipment. We also offer our high level of competence acquired in this context as a service provider to third parties. This extended approach towards customers is also part of the strategic orientation to develop into a "Clean Energy Solution Provider".

We want to develop high quality projects which meet international standards and allow for secure project financing at the international level. Such a project quality can be achieved by ensuring compliance with the project schedule and the cost framework from the development to the start of operation.

After having successfully established and sold a first wind farm portfolio, we pursue the goal of realising a new European wind farm portfolio with a total output of up to 200 MW by 2020 ("wind farm portfolio 2020"). The portfolio will comprise primarily wind farms in Germany and France. The new portfolio can be realised through internally developed wind farm projects, the purchase of old wind farms for subsequent repowering and the increased acquisition of partially developed projects. The 2020 portfolio also includes the repowered wind farm "Gerdau-Repowering", which was fully erected and partially commissioned at the end of 2018. Since the commissioning of "Gerdau-Repowering", wind farms with a current nominal capacity of 64.8 MW are operated within the portfolio. Another project was under construction on the reporting date. Until the establishment of the new portfolio has been finalised, completed wind farms will be bundled in a subsidiary to generate income from the sale of electricity on an ongoing basis.

In addition, the combination of power plants with clean energies and storage technologies is an issue of the future. We have therefore expanded the strategic orientation of the Group as part of the implementation of our strategy via the "scale-up" programme. The operative business will be realigned and the activities will be placed on a significantly broader basis, both nationally and internationally. The objective is to develop PNE from a wind farm specialist to a broad-based provider of clean energy solutions. The fundamentals of this expanded strategy of a "Clean Energy Solution Provider" are the expansion of our range of services and the development of new markets and technologies. This expansion of the successful business model is intended to reduce the volatility of earnings and open up new margin potential.

With this new strategic orientation, we are responding to changes in the clean energy markets. While clean energies will grow dynamically worldwide in the coming years, countervailing trends can be observed in individual established markets. Subsidies for wind energy are reduced and remuneration systems converted to tenders or other market mechanisms, thereby limiting the expansion of wind energy in some countries. This increases competitive pressure. The optimisation of the costs associated with a project is therefore becoming increasingly important.

PNE responds to these developments by expanding its operational business and wants to exploit the opportunities arising from the transformation of the markets as a "Clean Energy Solution Provider". Based on the extensive experience gained from the successful development, project planning and implementation of wind farms, projects and solutions for the planning, construction and operation of clean energy power plants will also be developed and implemented in the future. We will also focus on photovoltaic projects and hybrid solutions as well as storage technologies. This is the core of the new strategic orientation.

In this way, we are minimising market risks, opening up new potentials and markets for PNE and, in the medium term, we will stabilise primarily the, to date, volatile results. After a transitional phase, in which investments will pave the way for the implementation of the "scale-up" programme, this is expected to lead to an increase in average operating results (EBIT) by 2023.

The following forecasts are based on the results derived

- from the implementation of operationally planned projects in Germany and abroad (onshore, offshore, photovoltaics),
- from the service business, and
- from the electricity generation business.

In fiscal 2019, we will have further upfront expenditure in the lower single-digit million range for the strategic expansion of the business model and the preparations for the entry into new markets, but we nevertheless expect a clearly positive Group EBITDA of euro 25 to 30 million and EBIT of euro 15 to 20 million. These results do not take account of the profits from projects to be built in 2019 for the "wind farm portfolio 2020", which is currently under construction.

The MW figures of the project pipeline are expected to remain, at least, constant throughout the Group in the 2019 fiscal year as compared to December 31, 2018 (4,900 MW).

PNE AG expects a positive EBIT figure in the low single-digit million range for the 2019 fiscal year.

10. OTHER DISCLOSURES

10.1 TRANSACTIONS WITH RELATED COMPANIES AND PERSONS

For information about transactions with related parties, see point 4 in chapter "X. Other disclosures" in the notes to the consolidated financial statements.

10.2 MANAGEMENT DECLARATION (SECTION 289f AND SECTION 315d OF THE GERMAN COMMERCIAL CODE (HGB))

The management declaration, summarised with the declaration pursuant to Section 289f HGB, in accordance with Section 315d HGB is published on our internet site www.pne-ag.com under "Investor Relations" in the Corporate Governance section and can be downloaded there.

10.3 SUPPLEMENTARY INFORMATION IN ACCORDANCE WITH SECTION 289a (1) AND SECTION 315a (1) OF THE GERMAN COMMERCIAL CODE (HGB) (TAKEOVER DIRECTIVE IMPLEMENTATION ACT)

Capital situation

As at December 31, 2018, PNE AG had 76,557,803 registered shares with a nominal value of euro 1.00 per share. As at December 31, 2018, free float shares (holdings of less than 3 percent of the share capital) amounted to approximately 75.7 percent. On

December 31, 2018, one shareholder held more than 10 percent of the voting rights.

Restrictions concerning the voting rights or the transfer of shares are not specified in the articles of association and exist only in legally determined cases. Shares with special rights giving a controlling function do not exist. There is no control of voting rights through the participation of employees in the capital.

Shareholders' rights and obligations

Shareholders have pecuniary and administrative rights.

The pecuniary rights include the right to participate in profits in accordance with Section 58 (4) AktG, to participate in liquidation proceeds in accordance with Section 271 AktG and the subscription rights on shares in the event of capital increases in accordance with Section 186 AktG.

Administrative rights include the right to attend the general meeting of shareholders and the right to speak there, to ask questions, to propose motions and to exercise voting rights.

Each share grants the holder one vote at the general meeting of shareholders.

Statutory regulations and provisions of the articles of association with regard to the appointment and removal of members of the Board of Management and amendments to the articles of association

The appointment and removal of members of the Board of Management are governed by Sections 84 and 85 AktG. The Company's articles of association do not contain any regulations that go beyond Section 84 AktG.

An amendment of the articles of association requires a resolution of the general meeting of shareholders in accordance with Section 179 AktG. Pursuant to Section 15 paragraph 2 of the articles of association, resolutions of the general meeting of shareholders are adopted with a simple majority of votes cast, unless otherwise stipulated by law, and in cases where a majority of capital is required by law in addition to a majority of votes, with a simple majority of the share capital represented during the vote. Thus, amendments to the articles of association pursuant to Section 179 AktG in conjunction with Section 15 (2) of the articles of association generally require a resolution of the general meeting of shareholders with a simple majority of votes; in certain cases, however, a majority of 75 percent is required for amendments to the articles of association.

In accordance with Section 10, paragraph 7 of the articles of association, the Supervisory Board is authorised to make amendments to the articles of association that relate solely to their wording.

Authorisation of the Board of Management, in particular in respect of the possibility of issuing or repurchasing shares

The annual meeting of shareholders of May 31, 2017 authorised the Company's Board of Management to purchase up to May 30, 2022 on one or several occasion treasury shares in a volume of up to 10 percent of the share capital existing at the time the relevant resolution becomes effective or – if this amount is lower – of the share capital existing at the time this authorisation is exercised, for one or more permissible purposes within the scope of the statutory restrictions in accordance with the following provisions. The shares acquired because of this authorisation, together with other treasury shares that the Company has already acquired and that are owned by or attributable to the Company, may not at any time account for more than 10 percent of the share capital. The acquisition may be carried out by the Company, by dependent companies or companies owned by the Company or by third parties acting for the account of such companies or of the Company if the legal requirements, in particular pursuant to Section 71 (2) of the German Stock Corporation Act (AktG), are met. Pursuant to the authorisation, the acquisition shall be effected at the discretion of the Board of Management via the stock exchange or by means of a public purchase offer addressed to all shareholders or by means of a public invitation to all shareholders to submit offers to sell or by granting rights to tender. In the event of an acquisition via the stock exchange, the purchase price per share (excluding incidental acquisition costs) may not be more than 10 percent higher or lower than the share price determined by the opening auction in the XETRA trading system (or in a successor system replacing the XETRA system) on the Frankfurt Stock Exchange on the day the obligation to purchase is entered into. In the event of an acquisition based on a public purchase offer, the purchase price per share (excluding incidental acquisition costs) may not be more than 10 percent higher or lower than the non-weighted average closing price of the share in the XETRA trading system (or in a successor system replacing the XETRA system) on the Frankfurt Stock Exchange during the last three trading days prior to the first publication of the offer. In the event of an acquisition based on an invitation to submit sales offers or acquisition by granting rights to tender, the purchase price per share (excluding incidental acquisition costs) may not be more than 10 percent higher or lower than the non-weighted average closing price of the share in the XETRA trading system (or in a successor system replacing the XETRA system) on the Frankfurt Stock Exchange during the last three trading days prior to the day of acceptance of the sales offers or the day of granting the rights to tender. If, after the publication of a public purchase offer or a public invitation to shareholders to submit sales offers or after the granting of rights to tender, there are significant deviations from the relevant share price, the offer, the invitation to submit sales offers or the rights to tender may be adjusted. In this case, the closing price in the XETRA trading system on the last trading day prior to the publication of the adjustment shall be decisive; the 10 percent limit is to be applied to this amount. The volume of a public purchase offer or a public invitation to submit sales offers (collectively "public purchase offer") can be limited. If the total number of shares tendered for a public purchase offer exceeds the volume of the shares, the acquisition may be effected in proportion to the number of shares tendered (tender quotas); in addition, a preferential acceptance of small numbers (up to 50 shares per shareholder) and rounding in accordance with commercial principles may be provided for in order to avoid fractional amounts of shares. Any further rights of shareholders to tender shares in accordance with the participation quotas are excluded. The total volume of tender rights may also be limited in the case of the granting of rights to tender. If shareholders are granted preemptive rights for the purpose of acquiring shares, these are allocated to the shareholders in proportion to their shareholdings in accordance with the relationship of the volume of shares to be repurchased by the Company to the outstanding share capital. Fractions of rights to tender do not have to be allocated; in this case, any partial rights to tender are excluded. The Board of Management determines the details of the respective acquisition, in particular, of a purchase offer or invitation to submit sales offers. This also applies to the details of any rights to tender, in particular in respect of the term and, if applicable, their tradability. In this context, capital market law and other legal restrictions and requirements must also be observed.

The Board of Management is also authorised to use the shares acquired on the basis of the aforementioned or previously granted authorisation for the following purposes: The shares may be sold via the stock exchange or, with the approval of the Supervisory Board, in accordance with the principle of equal treatment through a public offer to all shareholders pro-rata to their shareholding quota. In the event of a public offer to all shareholders, the subscription right for fractional amounts may be excluded. In addition, the shares may be sold, with the approval of the Supervisory Board, otherwise against payment of a cash purchase price per share which is not significantly lower than the stock price of listed shares of the same class and type at the time of sale. The proportionate amount of the share capital attributable to the total number of shares sold under this authorisation may not exceed 10 percent of the share capital existing at the time this authorisation becomes effective or – if this value is lower – of the share capital existing at the time this authorization is exercised. In addition, with the approval of the Supervisory Board, acquired treasury shares may also be offered and transferred in return for non-cash contributions, in particular as (partial) consideration for the acquisition of companies, parts of companies or participations in companies or of other assets, including rights and receivables – also against the Company – or of rights to the acquisition of assets, or in connection with business combinations. Furthermore, acquired treasury shares may be used to service purchase rights to shares of the Company from or in connection with bonds with conversion and/or option rights issued by the Company or a direct or indirect 100 percent holding company. Furthermore, acquired treasury shares may be redeemed, with the approval of the Supervisory Board, without the redemption or the implementation requiring a further resolution of the general meeting of shareholders. The redemption results in a capital reduction. However, in accordance with Section 237 (3) no. 3 AktG, the Board of Management may determine that the share capital shall not be reduced, but that the proportion of the remaining shares in the share capital shall be increased in accordance with Section 8 (3) AktG. In this case, the Board of Management is authorised in accordance with Section 237 (3) no. 3, second half-sentence, to adjust the number of shares specified in the articles of association. All the above-mentioned authorisations to sell or otherwise use or redeem acquired treasury shares may be exercised on one or more occasions, in whole or in part, individually or collectively.

In the period under review, the Company made use for the first time of the authorization to acquire treasury shares, which was granted by the resolution of the general meeting of shareholders on May 31, 2017. With the offer document dated November 8, 2018, it submitted a share buyback offer to all shareholders to acquire a total of up to 2,190,000 shares within a price range of euro 2.25 to euro 2.74. In the course of implementing the share buyback offer, the Company acquired a total of 2,189,853 treasury shares at a price of euro 2.65 per share or lower, depending on the terms on which the respective shareholder tendered shares to the Company.

Furthermore, the Board of Management is authorised by a resolution of the general meeting of shareholders of May 15, 2012 to issue up to May 14, 2017, with the approval of the Supervisory Board, convertible and/or option bonds on one or several occasions in a total nominal amount of up to euro 50,000,000.00 with a maximum term of 20 years. At the same time, the Company's share capital was increased conditionally by up to a further euro 7,750,000.00 (Conditional Capital II/2012). In 2014, the Board of Management made use of the authorisation granted in the context of Conditional Capital II/2012, which expired on May 14, 2017, by issuing the convertible bond 2014/2019.

The general meeting of shareholders of May 31, 2017 again authorised the Company's Board of Management to issue, with the approval of the Supervisory Board, bearer or registered convertible and/or option bonds (together the "bonds") on one or several occasions. Pursuant to this authorisation, the bonds can have a total nominal amount of up to euro 80,000,000.00 and a maximum term of 20 years. The holders or creditors of the bonds can be granted conversion and/or option rights for a total of up to 20,000,000 no-par value registered shares of the Company corresponding to a pro rata amount of euro 20,000,000.00 of the share capital. At the same time, the Company's share capital was increased conditionally by up to a further euro 20,000,000.00 (Conditional Capital 2017). In the period under review, the Board of Management made no use of the authorisation granted in the context of Conditional Capital 2017.

Furthermore, by a resolution of the general meeting of shareholders of May 31, 2017, the Board of Management was authorised to increase the Company's share capital, with the approval of the Supervisory Board, in the period up to May 30, 2022, on one or several occasions to a total of up to euro 38,250,000.00 (Authorised Capital 2017) by issuing new no-par value registered shares against contributions in cash or in kind. The Board of Management also made no use of this authorisation in the period under review.

As at December 31, 2018, the Authorised Capital 2017 therefore existed in its entirety in the amount of euro 38,250,000.00.

Key agreements prevailing under the condition of a change of control resulting from a takeover offer as well as compensation agreements of the Company, which have been concluded for the event of a takeover offer with the members of the Board of Management or employees

2014/2019 Convertible Bond

If there is a change of control, each creditor of a convertible bond has the right, in accordance with the bond terms and conditions, to demand early repayment of convertible bonds from PNE AG as the bond debtor, for which the conversion right was not exercised and which were not due for early redemption. In this connection, a change of control is deemed to occur if a person or a group of persons acting in concert gains control over the bond debtor, control meaning (i) the direct or indirect (in the sense of Section 34 of the German Securities Trading Act (WpHG), until January 2, 2018, Section 22) legal or beneficial ownership of more than 30 percent of the voting rights in the bond debtor or (ii) in the event of a public offer for shares of the bond debtor, a situation in which shares already in the control of the bidder and shares for which the offer has already been accepted together grant more than 30 percent of the voting rights of the bond debtor or (iii) the sale or the transfer of all or substantially all of the assets of the bond debtor by the latter to any other person or persons.

In the event of a change of control, the conversion price for exercising the conversion rights will be adjusted within a specific period in accordance with the bond terms and conditions.

Corporate bond 2018/2023

In case of a change of control, each bondholder has the right, in accordance with the bond terms and conditions, to demand early repayment of bonds from PNE AG as the issuer. In this connection, a change of control is deemed to have occurred if the issuer becomes aware that a person or a group of persons acting in concert in the sense of Section 2 (5) of the German Securities Acquisition and Takeover Act (WpÜG) has become the legal or beneficial owner of such a number of the issuer's shares, which represent 30 percent or more of the voting rights.

IKB loan agreement with PNE WIND West Europe GmbH

If a change of control occurs within the sense of the agreement, IKB Deutsche Industriebank AG as the lender is entitled to terminate the loan agreement for good cause without giving notice in accordance with the terms of the loan agreement. Under the agreement, a change of control means that PNE AG, as the guarantor of the loan agreement, no longer directly or indirectly holds the majority of the shares or voting rights in the borrower or that a natural person or legal entity holds at least 30.1 percent of the voting shares in PNE AG as guarantor.

Other agreements

Apart from that, neither PNE AG nor the companies included in the consolidated financial statements have concluded any other significant agreements which are subject to the condition of a change of control as a result of a takeover offer. In the event of a change of control at the Company, the members of the Board of Management have a special right of termination, which they can exercise during the two months following the occurrence of the change of control (excluding the month in which the change of control occurred), with a notice period of 14 days to the end of the relevant month. A change of control event granting a special right of termination occurs, if a third party notifies the Company in accordance with Section 33 WpHG (until January 2, 2018, Section 21) that it has reached or exceeded a participation of 50 percent in the voting shares of the Company. If the special right of termination is exercised, the Board of Management members are entitled to their fixed salary pursuant to the relevant employment contract for the remainder of the contract term; this is to be paid out at the end of the contract in one amount, which shall not be discounted. In the event that the change of control occurs in the context of a public offering, the members of the Board of Management, should they exercise their special right of termination, are also entitled to a special bonus of 50 percent of the management bonus which would have been expected up to the end of the contract. Depending in each case on the market capitalisation, the increase in value in this respect must be calculated based on the difference between the acquisition price first offered by the bidder and the possibly higher acquisition price decisive for the implementation of the offer; in total, however, the special bonus may not be higher than the fixed annual salary in accordance with § 5 (1) of the relevant employment contract.

10.4 REMUNERATION REPORT

The remuneration of the Board of Management and the Supervisory Board together amounted to TEUR 2,884 in fiscal 2018 (prior year: TEUR 2,668).

The fixed remuneration paid to the Supervisory Board during the 2018 fiscal year amounted to TEUR 530 (prior year: TEUR 530).

Pursuant to the articles of association, the Chairman receives TEUR 120, the Deputy Chairman TEUR 90 and the other members of the Supervisory Board TEUR 60 as fixed remuneration. In addition, each member of the Supervisory Board receives TEUR 1 per meeting. The Chairman of the Audit Committee receives fixed remuneration of TEUR 30 and each other member of the Audit Committee TEUR 15 as additional remuneration. The chairpersons of other Supervisory Board committees receive additional remuneration of TEUR 20. The total remuneration of the Supervisory Board in the 2018 fiscal year amounted to TEUR 630 (prior year: TEUR 622). In addition, the Company bears the cost of directors' and officers' liability insurance for all members of the Supervisory Board.

in TEUR	Fixed remuneration 2018	Attendance fee 2018	Total remuneration 2018
Mr. Pedersen	140.0	18.0	158.0
Mr. Kruse	105.0	16.0	121.0
Mr. Egger	90.0	16.0	106.0
Mrs. Niklas	75.0	15.0	90.0
Mr. Rohardt	60.0	18.0	78.0
Mr. Schuhbauer	60.0	17.0	77.0
	530.0	**100.0**	**630.0**

For their activity during the 2018 fiscal year, the members of the Board of Management received total remuneration (including accrued liabilities for bonuses) or corresponding provisions were formed in the amount of TEUR 2,254 (prior year: TEUR 2,046).

The values in the tables below under the heading "Benefits granted" reflect all benefits recognised as expenses in the fiscal year, which will, in part, have an effect on liquidity in the next year. The values under the heading "Allocation" impact liquidity in the relevant fiscal year and therefore relate, in part, to expenses from the previous year (e.g. provision for variable remuneration leading to payments in the next year).

	Benefits granted Total Management Board				Allocation Total Management Board	
in TEUR	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**
Fixed remuneration	885	885	885	885	885	885
Fringe benefits	76	79	79	79	76	79
Total	**961**	**964**	**964**	**964**	**961**	**964**
One-year variable remuneration	598	560	0	598	342	598
Multi-year variable compensation	487	730	0	730	357	487
for the 2016 – 2018 period	0	0	0	0	357	0
for the 2017 – 2019 period	487	0	0	0	0	487
for the 2018 – 2020 period	0	730	0	730	0	0
Service costs	0	0	0	0	0	0
Total	**1,085**	**1,290**	**0**	**1,328**	**699**	**1,085**
Pension payments	0	0	0	0	0	0
Total compensation	**2,046**	**2,254**	**964**	**2,292**	**1,660**	**2,049**

The remuneration of the members of the Board of Management is composed of a fixed and a variable salary portion. The fixed portion consists of the fixed salary and ancillary benefits (contributions to health insurance and pension fund contributions) as well as benefits in kind from the use of a company car. This portion is paid monthly. The variable portion of the salary of Board of Management members is divided into short-term and long-term parts. The short-term part is based on the attainment of certain targets in the current fiscal year, and the long-term part is based on the attainment of targets over several years. The long-term part of variable remuneration amounts to 55 percent and the short-term part to 45 percent of the possible variable salary. The Supervisory Board agrees the short- and long-term targets with the Board of Management. The current short-term target is the expected Group EBT for the next fiscal year. Should the short-term target not be achieved 100 percent, the share of this target is not paid out with regard to the short-term variable remuneration or only in part in relationship with the degree of attainment of such target. The long-term objectives refer to parameters that support the future economic development of the Company, such as the expected three-year EBT. The variable salary portion linked to the targets covering several years is paid out at the end of a fiscal year; however, it is subject to repayment in the event of the long-term target not being attained over several years or it will be offset against other claims due. The salaries of the members of the Board of Management are subject to a cap on the total remuneration per year. As regards the remuneration of the Board of Management members, fixed and variable remuneration from Group activities, e.g. Supervisory Board fees at subsidiaries, are included in the cap for the remuneration of the Board of Management. No stock options were granted to the members of the Board of Management.

In the event of a change of control at the Company, the members of the Board of Management have a special right of termination, which they can exercise during the two months following the occurrence of the change of control (excluding the month in which the change of control occurred), with a notice period of 14 days to the end of the relevant month. A change of control event granting a special right of termination occurs, if a third party notifies the Company in accordance with Section 33 WpHG (until January 2, 2018, Section 21 WpHG) that it has reached or exceeded a participation of 50 percent in the voting shares of the Company. If the special right of termination is exercised, the members of the Board of Management are entitled to their fixed salary for the remainder of the contract term, but limited to a maximum of two years' compensation. If the change of control occurs in the context of a public offering, the members of the Board of Management, should they exercise their special right of termination, are also entitled to a special bonus of 50 percent of an increase in goodwill resulting from the offer. Depending in each case on the market capitalisation, the increase in value in this respect must be calculated on the basis of the difference between the acquisition price first offered by the bidder and the possibly higher acquisition price decisive for the implementation of the offer; in total, however, the special bonus may not be higher than the fixed annual salary.

In addition, the Company bears the costs of Directors' and Officers' Liability Insurance for all members of the Board of Management.

The distribution of remuneration of the individual members of the Board of Management pursuant to the Corporate Governance Code is shown in the following tables.

	Benefits granted Markus Lesser Chief Executive Officer (CEO) Member of the Board since 1.4.2011				**Allocation** Markus Lesser Chief Executive Officer (CEO) Member of the Board since 1.4.2011	
in TEUR	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**
Fixed remuneration	350	350	350	350	350	350
Fringe benefits	24	24	24	24	24	24
Total	**374**	**374**	**374**	**374**	**374**	**374**
One-year variable remuneration	236	215	0	236	158	236
Multi-year variable compensation	193	289	0	289	192	193
for the 2016 – 2018 period	0	0	0	0	192	0
for the 2017 – 2019 period	193	0	0	0	0	193
for the 2018 – 2020 period	0	289	0	289	0	0
Service costs	0	0	0	0	0	0
Total	**429**	**504**	**0**	**525**	**350**	**429**
Pension payments	0	0	0	0	0	0
Total compensation	**803**	**878**	**374**	**899**	**724**	**803**

	Benefits granted Jörg Klowat Chief Financial Officer (CFO) Member of the Board since 1.4.2011				**Allocation** Jörg Klowat Chief Financial Officer (CFO) Member of the Board since 1.4.2011	
in TEUR	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**
Fixed remuneration	315	315	315	315	315	315
Fringe benefits	32	32	32	32	32	32
Total	**347**	**347**	**347**	**347**	**347**	**347**
One-year variable remuneration	213	196	0	213	135	213
Multi-year variable compensation	173	260	0	260	165	173
for the 2016 – 2018 period	0	0	0	0	165	0
for the 2017 – 2019 period	173	0	0	0	0	173
for the 2018 – 2020 period	0	260	0	260	0	0
Service costs	0	0	0	0	0	0
Total	**386**	**456**	**0**	**473**	**300**	**386**
Pension payments	0	0	0	0	0	0
Total compensation	**733**	**803**	**347**	**820**	**647**	**733**

	Benefits granted Kurt Stürken Chief Operating Officer (COO) Member of the Board since 16.9.2016				Allocation Kurt Stürken Chief Operating Officer (COO) Member of the Board since 16.9.2016	
in TEUR	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**
Fixed remuneration	220	220	220	220	220	220
Fringe benefits	20	23	23	23	20	23
Total	**240**	**243**	**243**	**243**	**240**	**243**
One-year variable remuneration	149	149	0	149	49	149
Multi-year variable compensation	121	181	0	181	0	121
for the 2016 – 2018 period	0	0	0	0	0	0
for the 2017 – 2019 period	121	0	0	0	0	121
for the 2018 – 2020 period	0	181	0	181	0	0
Service costs	0	0	0	0	0	0
Total	**270**	**330**	**0**	**330**	**49**	**270**
Pension payments	0	0	0	0	0	0
Total compensation	**510**	**573**	**243**	**573**	**289**	**513**

Cuxhaven, March 22, 2019

Board of Management

CONSOLIDATED FINANCIAL STATEMENTS

OF PNE AG (FORMERLY PNE WIND AG), CUXHAVEN, FOR THE 2018 FISCAL YEAR

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

OF PNE AG, CUXHAVEN, FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2018

in TEUR (differences due to rounding possible)	**Notes**	**2018**	**2017**
1. Revenues	VI.1.	91,379	114,076
2. Increase in finished goods and work in process	V.4.	15,056	63,331
3. Other operating income	VI.2.	5,348	9,483
4. Total aggregate output		**111,782**	**186,891**
5. Cost of materials		-36,696	-108,381
6. Personnel expenses	VI.3.	-27,780	-25,789
7. Amortisation of intangible assets and depreciation of property, plant and equipment	IV.3./V.1./V.2.	-8,680	-5,466
8. Impairment on offshore inventories	V.4.	-10,753	0
9. Other operating expenses	VI.4.	-20,056	-24,097
10. Impairment expense - goodwill	IV.3./V.1.	-28	-28
11. Operating result		**7,789**	**23,129**
12. Income from participations		107	147
13. Other interest and similar income	VI.5.	787	619
14. Income from assumption of profits of associates		0	1,002
15. Amortisation of financial assets and marketable securities		-26	-85
16. Expenses from assumption of losses of associates		-66	-42
17. Interest and similar expenses	VI.6.	-10,593	-10,709
18. Result before Taxes		**-2,002**	**14,061**
19. Taxes on income	VI.7.	50	330
20. Other taxes		-453	-156
21. Consolidated net loss / profit before non-controlling interests		**-2,405**	**14,235**
22. Non-controlling interests in the result	V.7.	-1,361	-2,840
23. Consolidated net loss / profit		**-1,044**	**17,075**

in TEUR (differences due to rounding possible)	**Notes**	**2018**	**2017**
Other comprehensive income / items that may be reclassified in the future in the profit and loss account			
24. Foreign currency translation differences		523	90
25. Others		0	0
26. Other comprehensive income for the period (net of tax)		**523**	**90**
27. Total comprehensive income for the period		**-1,882**	**14,325**
Consolidated profit/loss for the period attributable to:			
Owners of the parent company		-1,044	17,075
Non-controlling interests		-1,361	-2,840
		-2,405	**14,235**
Total comprehensive income for the period attributable to:			
Owners of the parent company		-521	17,165
Non-controlling interests		-1,361	-2,840
		-1,882	**14,325**
Weighted average of shares in circulation (undiluted) (in thousands)	VI.8.	76,454	76,556
Undiluted earnings per share from continuing operations in EUR		-0.01	0.22
Weighted average of shares in circulation (diluted) (in thousands)	VI.8.	78,640	78,709
Diluted earnings per share from continuing operations in EUR		-0.01	0.22

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

OF PNE AG, CUXHAVEN, AS AT DECEMBER 31, 2018

Assets

in TEUR (differences due to rounding possible)	**Notes**	**Status as at 31.12.18**	**Status as at 31.12.17**
A. Long term assets			
I. Intangible assets	IV.1./IV.3./V.1.		
1. Franchises, trademarks, licences and other similar rights as well as licences from such rights		1,699	3,444
2. Goodwill		63,353	63,381
		65,053	**66,825**
II. Property, plant and equipment	IV.2./IV.3./V.2.		
1. Land and buildings including buildings on third-party land		14,077	14,379
2. Technical equipment and machinery		79,190	87,142
3. Other plant and machinery, fixtures and fittings		2,434	2,330
4. Prepayments and plant under construction		428	21
		96,130	**103,872**
III. Long term financial assets	IV.5./V.3.		
1. Shares in affiliated companies		65	27
2. Shares in associates		456	475
3. Participations		1,266	1,785
4. Other loans		178	178
5. Other long term loan receivables		27	26
		1,991	**2,490**
IV. Deferred tax assets	IV.6./VI.7.	**16,549**	**11,718**
B. Current assets			
I. Inventories	IV.7./V.4.	**117,343**	**86,361**
II. Receivables and other assets	IV.9./V.6.		
1. Trade receivables		6,355	5,119
2. Other short term loan receivables		2,321	61
3. Receivables from affiliated companies		4,234	4,455
4. Receivables from associated companies and from other investments		156	642
5. Other assets		12,026	16,548
		25,092	**26,826**
III. Tax receivables		**1,376**	**1,208**
IV. Cash and cash equivalents	IV.10.	**129,071**	**193,984**
		452,606	**493,285**

Liabilities

in TEUR (differences due to rounding possible)	**Notes**	**Status as at 31.12.18**	**Status as at 31.12.17**
A. Shareholders' equity	V.6.		
I. Capital subscribed		**76,558**	**76,556**
II. Capital reserve		**82,292**	**82,288**
III. Treasury shares		**-5,803**	**0**
IV. Retained earnings			
1. Legal reserve		5	5
2. Other retained earnings		46	46
		51	**51**
V. Foreign exchange reserve		**-385**	**-908**
VI. Retained consolidated profit		**77,499**	**84,911**
VII. Non-controlling interests	V.7.	**-13,938**	**-7,679**
		216,273	**235,220**
B. Long term liabilities			
I. Other provisions	IV.12./V.10.	**1,060**	**1,060**
II. Deferred subsidies from public authorities	IV.14./V.8.	**808**	**855**
III. Long term financial liabilities	IV.13./V.11.		
1. Bonds		48,549	6,357
2. Liabilities to banks		86,148	65,965
3. Other financial liabilities		1,554	0
4. Liabilities from leasing contracts		404	429
		136,656	**72,751**
IV. Deferred tax liabilities	IV.6./VI.7.	**3,464**	**4,247**
C. Current liabilities			
I. Provisions for taxes	V.9.	**5,306**	**2,154**
II. Other provisions	IV.12./V.10.	**2,828**	**2,704**
III. Short term financial liabilities	IV.13./V.11.		
1. Bonds		6,460	99,459
2. Liabilities to banks		18,289	6,383
3. Other financial liabilities		1,133	1,087
4. Liabilities from leasing contracts		250	179
		26,131	**107,109**
IV. Other liabilities	IV.13./V.12.		
1. Trade payables		14,945	25,295
2. Liabilities to affiliated companies		242	490
3. Liabilities to associated companies and to other investments		613	1,347
4. Deferred revenues		18,521	17,894
5. Deferred liabilities		15,726	13,456
6. Other liabilities		8,108	8,701
		58,155	**67,183**
V. Tax liabilities		**1,924**	**2**
		452,606	**493,285**

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

OF PNE AG, CUXHAVEN, FOR THE FISCAL YEAR 2018

in TEUR (differences due to rounding possible)	**Notes**	**2018**	**2017**
Consolidated net result		**-2,405**	**14,235**
-/+ Income tax benefit and expense	VI.7.	-50	-330
-/+ Income tax received		-2,412	-1,360
-/+ Interest income and expense	VI.5./VI.6.	9,806	10,091
- Interest paid		-7,317	-9,506
+ Interest received		787	618
+/- Amortisation and depreciation of intangible assets, property, plant and equipment and long-term financial assets		8,734	5,579
+/- Increase / decrease in provisions	V.10.	3,276	2,584
+/- Impairments Offshore Inventories		10,753	0
-/+ Non-cash effective income/expenses		713	-5,273
- Profit from the disposal of fixed assets and from final consolidation	III.2.	-600	-5,999
+/- Increase of inventories and other assets	IV.7./V.4.	-43,766	-7,070
+/- Decrease / increase of trade receivables and stage of completion accounting	IV.7./IV.10./V.3./V.5.	1,499	9,759
+/- Increase / decrease of trade liabilities and other liabilities	IV.13./V.11./V.12.	-7,256	9,303
Cash flow from operating activities		**-28,237**	**22,630**
+ Inflow of funds from intangible assets		0	9
+ Inflow of funds from disposal of items of property, plant, equipment and intangible assets		179	445
- Outflow of funds for investments in property, plant, equipment and intangible assets	V.1./V.2.	-4,564	-70,015
+ Inflow of funds from disposal of financial assets		616	33,970
- Outflow of funds from disposal of financial assets		-39	-1,239
+ Inflow of funds from disposal of consolidated units	III.2.	0	18,115
- Outflow of funds for investments in consolidated units		0	-7,535
Cash flow from investing activities		**-3,808**	**-26,250**
+ Inflow of funds from the issue of bonds		50,000	0
+ Inflow of funds from financial loans	V.13.	42,500	61,240
- Outflow of funds from the buyback of own shares	V.7.	-5,803	0
- Outflow of funds from the redemption of bonds		-100,000	0
- Outflow of funds from bond transaction costs		-1,650	0
- Outflow of acquisition of non-controlling interests		-8.221	0
- Outflow of funds for the redemption of financial loans	V.13.	-6,359	-2,134
- Outflow of funds for dividend		-3,062	-9,187
Cash flow from financing activities		**-32,595**	**49,919**
Cash effective change in liquid funds		-64,640	46,299
+ Change in liquid funds due to changes in scope of consolidation		-274	-1
+ Liquid funds at the beginning of the period	IV.10./VII.1.	193,985	147,686
Liquid funds at the end of the period*	IV.10./VII.1.	**129,071**	**193,984**
* of which are pledged to a bank as security guaranteed credit lines	V.13.	9,980	1,054

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

OF PNE AG, CUXHAVEN, FOR THE FISCAL YEAR 2018

in TEUR (differences due to rounding possible)	Capital subscribed	Capital reserve	Treasury shares	Profit reserves	Foreign exchange reserve	Retained loss	shareholders equity before non-controlling interests	Non-controlling interests	Total shareholders equity
Status as at January 1, 2017	**76,556**	**82,288**	**0**	**51**	**-997**	**76,883**	**234,781**	**-5,393**	**229,388**
Consolidated net result 2017	0	0	0	0	0	17,075	17,075	-2,840	14,235
Other result	0	0	0	0	90	90	90	0	90
Total result 2017	**0**	**0**	**0**	**0**	**90**	**17,165**	**17,165**	**-2,840**	**14,325**
Dividend	0	0	0	0	0	-9,187	-9,187	0	-9,187
Other items	0	0	0	0	0	140	140	554	694
Status as at December 31, 2017	**76,556**	**82,288**	**0**	**51**	**-908**	**84,911**	**242,899**	**-7,679**	**235,220**
Consolidated net result 2018	0	0	0	0	0	-1,044	-1,044	-1,361	-2,405
Other result	0	0	0	0	523	0	523	0	523
Total result 2018	**0**	**0**	**0**	**0**	**523**	**-1,044**	**-521**	**-1,361**	**-1,882**
Dividend	0	0	0	0	0	-3,062	-3,062	0	-3,062
Purchase of treasury shares	0	0	-5,803	0	0	0	-5,803	0	-5,803
Conversion of convertible bond 2014/2019	2	4	0	0	0	0	5	0	5
Change in the context of the participation increase at WKN GmbH	0	0	0	0	0	-3,313	-3,313	-4,898	-8,211
Other items	0	0	0	0	0	7	7	0	7
Status as at December 31, 2018	**76,558**	**82,292**	**-5,803**	**51**	**-385**	**77,499**	**230,211**	**-13,938**	**216,273**

CONSOLIDATED SCHEDULE OF FIXED ASSETS (IFRS)

OF PNE AG, CUXHAVEN, FOR THE FISCAL YEAR 2018

	Acquisition and manufacturing cost					
in TEUR (differences due to rounding possible)	**Status as at 01.01.2018**	**Additions**	**Re-classifications**	**Disposals**	**Exchange Differences**	**Status as at 31.12.18**
I. Intangible assets						
1. Franchises, trademarks and similar rights as well as licences to such rights	9,531	332	0	382	-9	9,472
2. Goodwill	147,771	0	0	0	0	147,771
	157,302	**332**	**0**	**382**	**-9**	**157,243**
II. Property, plant and equipment						
1. Land and buildings including buildings on third party land	20,701	197	0	0	0	20,898
2. Technical equipment and machinery	118,358	2,344	33	5,123	-106	115,507
3. Other equipment, fixtures and furnishings	5,921	1,061	221	1,487	2	5,718
4. Prepayments and plant under construction	25	662	-254	0	0	432
	145,005	**4,264**	**0**	**6,610**	**-104**	**142,555**
III. Financial assets						
1. Shares in affiliated companies	6,709	94	0	30	0	6,773
2. Shares in associates	1,337	0	0	19	0	1,318
3. Participations	1,785	10	0	529	0	1,266
4. Other loans	216	0	0	0	0	216
	10,046	**104**	**0**	**577**	**0**	**9,573**
	312,353	**4,699**	**0**	**7,569**	**-113**	**309,370**

Accumulated amortisation and depreciation					Book values	
Status as at 1.1.2018	**Additions**	**Disposals**	**Exchange Differences**	**Status as at 31.12.18**	**Status as at 31.12.18**	**Status as at 31.12.17**
6,087	1,799	105	-8	7,773	1,699	3,444
84,390	28	0	0	84,418	63,353	63,381
90,477	**1,827**	**105**	**-8**	**92,191**	**65,053**	**66,825**
6,322	499	0	0	6,821	14,077	14,379
31,215	5,739	562	-76	36,316	79,190	87,142
3,591	644	954	2	3,284	2,434	2,330
4	0	0	0	4	428	21
41,133	**6,882**	**1,516**	**-74**	**46,425**	**96,130**	**103,872**
6,682	26	0	0	6,708	65	27
862	0	0	0	862	456	475
0	0	0	0	0	1,266	1,785
38	0	0	0	38	178	178
7,582	**26**	**0**	**0**	**7,608**	**1,965**	**2,464**
139,191	**8,734**	**1,621**	**-81**	**146,223**	**163,147**	**173,161**

CONSOLIDATED SCHEDULE OF FIXED ASSETS (IFRS)

OF PNE AG, CUXHAVEN, FOR THE FISCAL YEAR 2017

	Acquisition and manufacturing cost						
in TEUR (differences due to rounding possible)	**Status as at 01.01.2017**	**Changes in consolidated**	**Additions**	**Re-classifications**	**Disposals**	**Exchange Differences**	**Status as at 31.12.17**
I. Intangible assets							
1. Franchises, trademarks and similar rights as well as licences to such rights	9,337	23	251	0	77	-2	9,531
2. Goodwill	147,777	0	0	0	0	-6	147,771
	157,114	**23**	**251**	**0**	**77**	**-8**	**157,302**
II. Property, plant and equipment							
1. Land and buildings including buildings on third party land	20,668	0	33	0	0	-1	20,701
2. Technical equipment and machinery	49,058	202	68,991	341	86	-148	118,358
3. Other equipment, fixtures and furnishings	5,931	0	460	117	577	-10	5,921
4. Prepayments and plant under construction	163	0	338	-458	0	-18	25
	75,820	**202**	**69,822**	**0**	**663**	**-177**	**145,005**
III. Financial assets							
1. Shares in affiliated companies	6,623	0	88	0	2	0	6,709
2. Shares in associates	28,056	0	374	0	27,093	0	1,337
3. Participations	1,092	0	750	0	58	0	1,785
4. Other loans	153	0	104	0	41	0	216
	35,924	**0**	**1,316**	**0**	**27,194**	**0**	**10,046**
	268,858	**225**	**71,389**	**0**	**27,933**	**-185**	**312,353**

Accumulated amortisation and depreciation						Book values	
Status as at 1.1.2017	**Changes in consolidated**	**Additions**	**Disposals**	**Exchange Differences**	**Status as at 31.12.17**	**Status as at 31.12.17**	**Status as at 31.12.16**
5,345	22	789	69	0	6,087	3,444	3,991
84,368	0	28	0	-6	84,390	63,381	63,409
89,713	**22**	**817**	**69**	**-6**	**90,477**	**66,825**	**67,400**
5,813	0	508	0	0	6,322	14,379	14,855
27,387	184	3,783	28	-111	31,215	87,142	21,670
3,385	0	386	171	-9	3,591	2,330	2,545
4	0	0	0	0	4	21	159
36,590	**184**	**4,677**	**198**	**-120**	**41,133**	**103,872**	**39,230**
6,597	0	85	0	0	6,682	27	26
862	0	0	0	0	862	475	27,194
0	0	0	0	0	0	1,785	1,092
38	0	0	0	0	38	178	115
7,497	**0**	**85**	**0**	**0**	**7,582**	**2,464**	**28,427**
133,800	**206**	**5,579**	**267**	**-126**	**139,191**	**173,161**	**135,057**

CONSOLIDATED SEGMENT REPORTING (IFRS)

OF PNE AG, CUXHAVEN, FOR THE FISCAL YEAR 2018

	Projecting of wind power turbines		Electricity generation	
in TEUR (differences due to rounding possible)	**2018**	**2017**	**2018**	**2017**
External sales	79,196	106,526	12,183	7,550
Inter-segment sales	18,891	81,361	5,070	722
Change in inventories	7,804	-158	0	0
Other operating income	4,216	9,232	1,633	1,553
Total aggregate output	**110,107**	**196,961**	**18,886**	**9,826**
Depreciation and amortisation	-2,851	-2,368	-5,858	-3,126
Operating result	**9,113**	**31,012**	**7,386**	**1,111**
Other interest and similar income	6,112	5,816	136	5
Interest and similar expenses	-12,679	-15,367	-3,375	-545
Taxes on income	-2,119	-2,310	-444	-58
Investments	11,908	4,391	915	74,398
Segment assets	536,417	599,187	132,845	115,249
Segment liabilities[1]	367,066	401,001	118,706	116,670
Segment equity	169,351	198,186	14,139	-1,420

[1] The deferred subsidies from the public authorities were included under segment liabilities

Consolidation		PNE AG Group	
2018	**2017**	**2018**	**2017**
0	0	91,379	114,076
-23,960	-82,083	0	0
7,252	63,489	15,056	63,331
-502	-1,302	5,348	9,483
-17,210	**-19,896**	**111,782**	**186,891**
0	0	-8,708	-5,494
-8,710	**-8,993**	**7,789**	**23,129**
-5,461	-5,203	787	618
5,461	5,203	-10,593	-10,709
2,613	2,698	50	330
0	0	12,823	78,789
-216,657	-221,152	452,606	493,285
-249,439	-259,606	236,332	258,065
32,783	38,453	216,273	235,220

LIST OF THE COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AND LIST OF SHAREHOLDINGS

OF PNE AG (FORMERLY PNE WIND AG) , CUXHAVEN, AS AT DECEMBER 31, 2018

	Company	Headquarter	Participation previous year (%)	Participation (%)	Equity TEUR	Net income TEUR	Date of first consolidation
I. List of the companies included in the consolidated financial statements							
1	PNE WIND Betriebsführungs GmbH	Cuxhaven	100.00	100.00	834	-430[1]	31.12.98
2	PNE Biomasse GmbH	Cuxhaven	100.00	100.00	-117	-31[1]	23.04.00
3	PNE WIND Netzprojekt GmbH	Cuxhaven	100.00	100.00	866	0[6]	01.01.02
4	PNE WIND Laubuseschbach GmbH & Co. KG	Cuxhaven	100.00	100.00	-131	-15[1]	29.12.04
5	PNE WIND Grundstücks GmbH	Cuxhaven	100.00	100.00	144	13[1]	01.12.00
6	PNE WIND Jules Verne GmbH	Cuxhaven	100.00	100.00	997	-9[2]	30.06.10
7	PNE WIND Nemo GmbH	Cuxhaven	100.00	100.00	997	-9[2]	30.06.10
8	PNE WIND Nautilus GmbH	Cuxhaven	100.00	100.00	997	-9[2]	30.06.10
9	PNE Erneuerbare Energien Offshore I GmbH	Cuxhaven	100.00	100.00	57	-22[1]	24.11.16
10	PNE Erneuerbare Energien Offshore II GmbH	Cuxhaven	100.00	100.00	57	-22[1]	24.11.16
11	PNE WIND Atlantis II GmbH	Cuxhaven	100.00	100.00	2	-9[1]	18.06.13
12	PNE WIND Atlantis III GmbH	Cuxhaven	100.00	100.00	2	-9[1]	18.06.13
13	Wind Kapital Invest Verwaltungs GmbH	Cuxhaven	100.00	100.00	77	-3[1]	16.07.11
14	Wind Kapital Invest GmbH & Co. KG	Cuxhaven	100.00	100.00	-42	-5[1]	16.07.11
15	PNE WIND Verwaltungs GmbH	Cuxhaven	100.00	100.00	58	5[1]	21.11.12
16	energy consult GmbH	Cuxhaven	100.00	100.00	332	0[6]	11.12.13
17	energy consult Prüfgesellschaft GmbH	Husum	100.00	100.00	172	79[1]	11.08.17
18	PNE WIND Park Kührstedt-Alfstedt A GmbH & Co. KG	Cuxhaven	100.00	100.00	10,905	-326[1]	01.04.13
19	PNE WIND Park Kührstedt-Alfstedt B GmbH & Co. KG	Cuxhaven	100.00	100.00	1,509	-135[1]	01.04.13
20	PNE WIND Park Kührstedt Alfstedt GmbH & Co. KG	Cuxhaven	100.00	100.00	7,030	-294[1]	31.03.17
21	PNE WIND Park Schlenzer GmbH & Co. KG	Cuxhaven	0.00	100.00	-3	-6[1]	25.04.18
22	PNE WIND Park Wahlsdorf GmbH & Co. KG	Cuxhaven	0.00	100.00	-3	-5[1]	25.04.18
23	PNE WIND Park XIX GmbH & Co. KG	Cuxhaven	100.00	100.00	-40	-40[1]	01.04.18
24	PNE WIND Park Calau II B GmbH & Co. KG	Cuxhaven	100.00	100.00	-20	-6[2]	01.04.13
25	PNE WIND Ausland GmbH	Cuxhaven	100.00	100.00	-1,324	39[1]	16.11.07

	Company	Headquarter	Participation previous year (%)	Participation (%)	Equity TEUR	Net income TEUR	Date of first consolidation
26	PNE USA Inc. (formerly PNE WIND USA Inc.)	Chicago, USA	100.00	100.00	-10,632	-466[1]	27.10.08
27	PNE Development LLC (formerly PNE WIND Development LLC)	Chicago, USA	100.00	100.00	-1,697	1,387[1]	29.07.11
28	Chilocco WIND FARM LLC	Chicago, USA	100.00	100.00	-506	-22[1]	01.10.12
29	PNE WIND Central States LLC	Minnesota, USA	100.00	100.00	-1,254	-31[1]	01.10.09
30	Underwood Windfarm LLC	Minnesota, USA	100.00	100.00	-286	-3[1]	01.10.09
31	Butte Windfarm LLC	Minnesota, USA	100.00	100.00	-2,076	-5[1]	01.10.09
32	Burleigh Wind LLC	Chicago, USA	100.00	100.00	-1,972	-1,915[1]	01.01.18
33	PNE Canada Inc. (formerly PNE WIND Canada Inc.)	New Brunswick, Canada	100.00	100.00	-817	-125[1]	26.01.10
34	NH North Hungarian Windfarm Kft.	Budapest, Hungary	100.00	100.00	52	7[1]	07.08.08
35	PNE WIND Yenilenebilir Enerjiler Ltd.	Ankara, Turkey	100.00	100.00	1,356	122[1]	08.12.17
36	PNE WIND Elektrik Üretim Ltd.	Ankara, Turkey	100.00	100.00	-2,805	-1,043[1]	20.02.15
37	PNE WIND Bati Rüzgari Elektrik Üretim Ltd.	Ankara, Turkey	100.00	100.00	-147	-94[1]	16.09.15
38	PNE WIND Güney Rüzgari Elektrik Üretim Ltd.	Ankara, Turkey	100.00	100.00	-252	-140[1]	16.09.15
39	PNE WIND Kuzey Rüzgari Elektrik Üretim Ltd.	Ankara, Turkey	100.00	100.00	-159	-132[1]	10.10.16
40	S.C. PNE WIND Romania Energy Holding S.R.L	Bucharest, Romania	80.00	80.00	38	-63[1]	10.05.12
41	S.C. PNE WIND Romania S.R.L	Bucharest, Romania	100.00	100.00	149	-699[1]	27.11.08
42	S.C. PNE WIND MVI S.R.L	Bucharest, Romania	100.00	100.00	33	-52[1]	31.08.12
43	S.C. EVN WINDPOWER DEVELOPMENT & CONSTRUCTION S.R.L.	Bucharest, Romania	100.00	100.00	120	-149[1]	14.11.12
44	PNE WIND Bulgaria EOOD	Sofia, Bulgaria	100.00	100.00	-3,165	-117[1]	09.11.10
45	PNE Santa Cruz GmbH (formerly PNE Americas I GmbH)	Cuxhaven	0.00	100.00	96	-4[1]	09.08.18
46	PNE Central America I GmbH	Cuxhaven	0.00	100.00	97	-3[1]	04.07.18
47	HKW Silbitz GmbH & Co. KG	Silbitz	100.00	100.00	-1,595	932[1]	01.09.09
48	WKN GmbH (formerly WKN AG)	Husum	83.10	100.00	39,124	-4,579[1]	04.07.13
49	Windkraft Nord USA, Inc.	Chicago, USA	100.00	100.00	-219	1,340[1]	04.07.13
50	WKN Italia s.r.l.	Catania/ Sicily, Italy	100.00	100.00	-400	-2,755[1]	04.07.13
51	Aero Sol s.r.l	Catania/ Sicily, Italy	100.00	100.00	-253	-3,783[1]	04.07.13

Company		Headquarter	Participation previous year (%)	Participation (%)	Equity TEUR	Net income TEUR	Date of first consolidation
52	Aero-Tanna s.r.l.	Catania/ Sicily, Italy	100.00	100.00	356	-72[1]	04.07.13
53	ATS Energia s.r.l.	Torremaggiore/ Foggia, Italy	70.00	70.00	266	-161[1]	04.07.13
54	WKN France S.A.S.U.	Nantes, France	100.00	100.00	11,202	7,646[1]	04.07.13
55	Sevivon Sp. z o.o.	Koszalin, Poland	80.00	80.00	-18,254	-2,743[1]	04.07.13
56	VKS Vindkraft Sverige AB	Motala, Sweden	80.00	80.00	1,186	-440[1]	04.07.13
57	WKN Windcurrent SA (Pty) Ltd.	Wilderness, South Africa	80.00	80.00	-3,562	-839[1]	04.07.13
58	NordStrom New Energy GmbH	Husum	100.00	100.00	823	0[4]	04.07.13
59	NordStrom Solar GmbH	Husum	100.00	100.00	551	10[1]	04.07.13
60	NordStrom Bioenergie GmbH	Husum	100.00	100.00	-980	-6[1]	04.07.13
61	BGZ Fondsverwaltung GmbH	Husum	100.00	100.00	207	0[4]	04.07.13
62	WKN Sallachy Ltd.	Glasgow, United Kingdom	100.00	100.00	-1.073	-236[2]	01.07.15
63	Windpark Gerdau-Schwienau GmbH & Co. KG	Cuxhaven	89.79	91.03	-64	4,632[1]	01.10.16
64	Windpark Pülfringen GmbH & Co. KG	Cuxhaven	100.00	100.00	-3,725	-231[1]	01.10.16
65	PNE WIND Middle East GmbH	Cuxhaven	100.00	100.00	41	-38[1]	22.02.17
66	PNE WIND Middle East Verwaltungs GmbH	Cuxhaven	100.00	100.00	20	0[1]	06.07.17
67	PNE WIND West Europe GmbH	Husum	100.00	100.00	11,775	-635[1]	12.06.17
68	PNE WIND West Europe Verwaltungs GmbH	Husum	100.00	100.00	16	-5[1]	10.07.17
69	PNE WIND Türkei HoldCo I GmbH	Cuxhaven	100.00	100.00	3,356	-6[1]	30.05.17
70	Pavana GmbH	Husum	100.00	100.00	826	143[1]	30.09.17
71	MEB Safety Service GmbH	Bremen	0.00	100.00	-37	-137[1]	01.11.18
72	WKN WERTEWIND GmbH	Husum	100.00	100.00	-65	-29[1]	30.06.18
73	WKN Windpark Kittlitz III GmbH & Co. KG	Husum	100.00	100.00	-240	-241[1]	01.07.18
II. List of joint ventures and associated companies included in the consolidated financial statements							
1	PNE WIND Infrastruktur Calau II GmbH	Cuxhaven	25.00	25.00	19	0[2]	01.04.13
2	PNE WIND Park III GmbH & Co. KG	Cuxhaven	25.00	25.00	-23	-14[2]	01.04.13
3	Windpark Altenbruch GmbH	Cuxhaven	50.00	50.00	888	-34[2]	01.10.16
III. Non-consolidated companies due to minor significance							
1	Pilger Wind Farm Inc.	New Brunswick, Canada	100.00	100.00	0	0[2]	
2	Climax Wind Farm Inc.	New Brunswick, Canada	100.00	100.00	0	0[2]	
3	Watson Wind Farm Inc.	New Brunswick, Canada	100.00	100.00	0	0[2]	

Company		Headquarter	Participation previous year (%)	Participation (%)	Equity TEUR	Net income TEUR	Date of first consolidation
4	Wadena Wind Farm Inc.	New Brunswick, Canada	100.00	100.00	0	0[2]	
5	Eston Wind Farm Inc.	New Brunswick, Canada	100.00	100.00	0	0[2]	
6	Whiska Wind Farm Inc.	New Brunswick, Canada	100.00	100.00	0	0[2]	
7	PNE Solar USA LLC	Chicago, USA	0.00	100.00	k,A,	k,A,[5]	
8	Gladstone New Energy LLC	New Mexico, USA	0.00	100.00	k,A,	k,A,[5]	
9	Pure New Energy LATAM S.A.	Panama-City, Panama	0.00	100.00	k,A,	k,A,[5]	
10	Santa Cruz Wind S.A.	Panama-City, Panama	0.00	100.00	k,A,	k,A,[5]	
11	Altiplano Power S.A.	Panama-City, Panama	0.00	100.00	k,A,	k,A,[5]	
12	Los Pinos Power S.A.	Panama-City, Panama	0.00	100.00	k,A,	k,A,[5]	
13	Las Honduras S.A.	Panama-City, Panama	0.00	100.00	k,A,	k,A,[5]	
14	Los Manglares Power S.A.	Panama-City, Panama	0.00	100.00	k,A,	k,A,[5]	
15	Netzanschluss Genthin GbR	Nielebock	52.00	52.00	10	29[2]	
16	ATS Energia PE Sant´Agata s.r.l.	Torremaggiore/ Foggia, Italy	52.00	52.00	-3	-3[1]	
17	ATS Energia PE Fiorentino s.r.l.	Torremaggiore/ Foggia, Italy	52.00	52.00	3	-3[2]	
18	ATS Energia PE Florio s.r.l.	Torremaggiore/ Foggia, Italy	52.00	52.00	3	-3[2]	
19	ATS Energia PE Valle s.r.l.	Torremaggiore/ Foggia, Italy	52.00	52.00	3	-3[2]	
20	WKN PE Piombino s.r.l.	Catania/ Sicily, Italy	74.90	74.90	11	-4[2]	
21	WKN Basilicata Development PE1 s.r.l.	Catania/ Sicily, Italy	100.00	100.00	7	-3[2]	
22	WKN Basilicata Development PE2 s.r.l.	Catania/ Sicily, Italy	100.00	100.00	7	-3[2]	
23	WKN PE Polidon s.r.l.	Catania/ Sicily, Italy	100.00	100.00	7	-3[2]	
24	Parc Eolien des Grands Champs S.A.S.U.	Nantes, France	100.00	100.00	-65	-8[2]	
25	SAS la Haie Perron	Nantes, France	100.00	100.00	-61	-8[2]	
26	SAS Parc Eolien d´Ermenonville de la Grande	Nantes, France	100.00	100.00	-38	-7[2]	
27	SAS Parc Eolien de La Fosse Descroix	Nantes, France	100.00	100.00	k,A,	k,A,[5]	
28	SAS Parc Eolien de La Plaine de la Minée	Nantes, France	100.00	100.00	k,A,	k,A,[5]	

Company		Headquarter	Participation previous year (%)	Participation (%)	Equity TEUR	Net income TEUR	Date of first consolidation
29	SAS Parc Eolien de Pierre-Morains	Nantes, France	100.00	100.00	k.A.	k.A.[5]	
30	SAS Parc Eolien de Vill´Aire	Nantes, France	100.00	100.00	k.A.	k.A.[5]	
31	SAS Parc Eolien des Hauts Poiriers	Nantes, France	100.00	100.00	k.A.	k.A.[5]	
32	SAS Parc Eolien des Monts de Chalus	Nantes, France	100.00	100.00	k.A.	k.A.[5]	
33	SAS Parc Eolien de la Cote des Moulins	Nantes, France	100.00	100.00	-23	-6[2]	
34	SAS Parc Eolin de la Coutanciere	Nantes, France	100.00	100.00	-23	-6[2]	
35	AIRE PARC S.A.S.U.	Nantes, France	0.00	100.00	k.A.	k.A.[5]	
36	PARC EOLIEN DE CHABROL S.A.S.U.	Nantes, France	0.00	100.00	k.A.	k.A.[5]	
37	PARC EOLIEN DE LA VALLEE BLEUE S.A.S.U.	Nantes, France	0.00	100.00	k.A.	k.A.[5]	
38	PARC EOLIEN DE L'ARGONNE MEUSIENNE S.A.S.U.	Nantes, France	0.00	100.00	k.A.	k.A.[5]	
39	PARC EOLIEN DE SAINT-AUBIN-DU-PLAIN S.A.S.U.	Nantes, France	0.00	100.00	k.A.	k.A.[5]	
40	PARC EOLIEN DES CHAUMES CARREES S.A.S.U.	Nantes, France	0.00	100.00	k.A.	k.A.[5]	
41	Windfarm Polska III Sp. z o.o.	Koszalin, Poland	60.00	74.00	-2,022	-482[2]	
42	Windfarm Polska IV Sp. z o.o.	Koszalin, Poland	80.00	100.00	-306	-40[2]	
43	Windfarm Polska V Sp. z o.o.	Koszalin, Poland	58.00	74.00	-128	-17[2]	
44	Windfarm Zomar Sp. z o.o.	Koszalin, Poland	57.00	74.00	-73	-9[2]	
45	Vindpark Hultema i Motala AB	Motala, Sweden	80.00	80.00	5	0[2]	
46	Vindpark Målarberget i Norberg AB	Motala, Sweden	80.00	80.00	5	0[2]	
47	Vindpark Norrberget i Sala AB	Motala, Sweden	80.00	80.00	5	0[2]	
48	Vindpark Näshult i Högsby AB	Motala, Sweden	80.00	80.00	5	0[2]	
49	Banna Ba Pifhu Wind Farm (Pty) Ltd.	Wilderness, South Africa	80.00	80.00	-4	-1[1]	
50	Ubuntu Wind Farm (Pty) Ltd.	Wilderness, South Africa	80.00	80.00	0	0[1]	
51	Highlands North Wind Energy Facility (RF) (PTY) Ltd. (formerly Phemba PV (RF) (PTY) Ltd.)	Wilderness, South Africa	80.00	80.00	k.A.	k.A.[5]	
52	Broadlands Solar PV Park (Pty) Ltd.	Wilderness, South Africa	80.00	80.00	k.A.	k.A.[5]	
53	Highlands South Wind Energy Facility (RF) (PTY) Ltd. (formerly Windchills SPV (RF) (PTY) Ltd.)	Wilderness, South Africa	80.00	80.00	k.A.	k.A.[5]	
54	Haga Haga Wind Farm (RF) (Pty) Ltd	Wilderness, South Africa	80.00	80.00	k.A.	k.A.[5]	

	Company	Headquarter	Participation previous year (%)	Participation (%)	Equity TEUR	Net income TEUR	Date of first consolidation
55	Highlands Central Wind Energy Facility (RF) (PTY) Ltd.	Wilderness, South Africa	0.00	80.00	k.A.	k.A.[5]	
56	Paulputs Wind Energy Facility (RF) (PTY) Ltd.	Wilderness, South Africa	0.00	80.00	k.A.	k.A.[5]	
57	Putsonderwater Wind Energy Facility (RF) (PTY) Ltd.	Wilderness, South Africa	0.00	80.00	k.A.	k.A.[5]	
58	Pofadder Wind Energy Facility (RF) (PTY) Ltd.	Wilderness, South Africa	0.00	80.00	k.A.	k.A.[5]	
59	Aberdeen Wind Energy Facility (RF) (PTY) Ltd.	Wilderness, South Africa	0.00	80.00	k.A.	k.A.[5]	
60	WKN Turkey GmbH	Husum	100.00	100.00	-364	-3[2]	
61	WKN Windkraft Nord Beteiligungs-GmbH	Husum	100.00	100.00	29	37[2]	
62	Windpark Meerhof Verwaltungsgesellschaft mbH	Husum	100.00	100.00	19	-2[2]	
63	Zukunftsenergien Beteiligungs-GmbH	Husum	100.00	100.00	4	0[2]	
64	WKN Windkraft Nord GmbH & Co. Windpark Daberkow KG	Husum	100.00	100.00	k.A.	k.A.[5]	
65	WKN Windkraft Nord GmbH & Co. Windpark Steffenshagen KG	Husum	100.00	100.00	k.A.	k.A.[5]	
66	WKN Windkraft Nord GmbH & Co. Windpark Immenrode KG	Husum	100.00	100.00	k.A.	k.A.[5]	
67	WKN Windkraft Nord GmbH & Co. Windpark Oelsig II KG	Husum	100.00	100.00	k.A.	k.A.[5]	
68	WKN Windkraft Nord GmbH & Co. Windpark Weinstraße II KG	Husum	100.00	100.00	k.A.	k.A.[5]	
69	WKN Windpark Beerfelde GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
70	WKN Windpark Kirchheilingen GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
71	WKN Windpark Zinndorf II GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
72	WKN Windkraft Nord GmbH & Co. Windpark Bebensee KG	Husum	100.00	100.00	k.A.	k.A.[5]	
73	WKN Windkraft Nord GmbH & Co. Windpark Berkenthin KG	Husum	100.00	100.00	k.A.	k.A.[5]	
74	WKN Windkraft Nord GmbH & Co. Windpark Hamwarde KG	Husum	100.00	100.00	k.A.	k.A.[5]	
75	WKN Windkraft Nord GmbH & Co. Windpark Kuhs-Sarmstorf KG	Husum	100.00	100.00	k.A.	k.A.[5]	
76	WKN Windkraft Nord GmbH & Co. Windpark Kollow KG	Husum	100.00	100.00	k.A.	k.A.[5]	
77	WKN Windkraft Nord GmbH & Co. Windpark Kleinbüllesheim KG	Husum	100.00	100.00	k.A.	k.A.[5]	
78	Windpark Rositz GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
79	WKN Windkraft Nord GmbH & Co. Windpark Kannawurf KG	Husum	100.00	100.00	k.A.	k.A.[5]	
80	Windpark Brilon GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	

Company		Headquarter	Participation previous year (%)	Participation (%)	Equity TEUR	Net income TEUR	Date of first consolidation
81	WKN Windpark Groß Oesingen GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
82	WKN Windpark Großbrembach GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
83	WKN Windpark Hamwarde GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
84	WKN Windpark Lütau GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
85	WKN Windpark Großenehrich GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
86	WKN Windpark Christianshöhe GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
87	WKN Windpark Cornberg GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
88	WKN Windpark Wölsickendorf-Wollenberg GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
89	WKN Windpark Karstädt IV GmbH & Co. KG	Husum	100.00	100.00	k.A.	k.A.[5]	
90	WKN Windpark Parum Dümmer GmbH & Co. KG (formerly WKN Windpark 61 GmbH & Co. KG)	Husum	100.00	100.00	k.A.	k.A.[5]	
91	NordStrom Beteiligungs-gesellschaft mbH	Husum	100.00	100.00	47	2[2]	
92	NordStrom Bioenergie Beteiligungsgesellschaft mbH	Husum	100.00	100.00	19	-1[2]	
93	REE GmbH	Husum	100.00	100.00	62	3[7]	
94	GREENWIND GmbH	Husum	100.00	100.00	44	2[7]	
95	EWEG Europäische Windenergie-Entwicklungsgesellschaft mbH	Husum	100.00	100.00	19	-1[2]	
96	IWC Bulgaria Project EOOD	Dobrich, Bulgaria	100.00	100.00	-5,004	-5[2]	
97	IWC Bulgaria 4 EOOD	Dobrich, Bulgaria	100.00	100.00	4	1[2]	
98	Innovative Wind Concepts GmbH	Husum	100.00	100.00	96	-23[3]	
99	PNE WIND Park Nordleda A GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.[5]	
100	PNE WIND Park Nordleda B GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.[5]	
101	PNE WIND Park XIV GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.[5]	
102	PNE WIND Park XV GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.[5]	
103	PNE WIND Park XVI GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.[5]	
104	PNE WIND Park XVII GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.[5]	
105	PNE WIND Park XVIII GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.[5]	

Company		Headquarter	Participation previous year (%)	Participation (%)	Equity TEUR	Net income TEUR	Date of first consolidation
106	PNE WIND Park XX GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.[5]	
107	PNE WIND Park XXI GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.[5]	
108	PNE WIND Park XXII GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.[5]	
109	PNE WIND Park XXIII GmbH & Co. KG	Cuxhaven	100.00	100.00	k.A.	k.A.	
IV. Non-consolidated associated companies due to minor significance							
1	Windpark Köhlen GmbH	Oldenburg	50.00	50.00	1,457	-41[2]	
2	Elbe-Weser-Windkraft GmbH	Cuxhaven	50.00	50.00	17	-4[2]	
3	STEAG ve PNE WIND Rüzgar Enerjisi Üretim A.S.	Ankara, Turkey	50.00	50.00	-85	-45[2]	
4	WKN Windkraft Nord GmbH & Co. Windpark Milda KG	Husum	50.00	50.00	9	0[2]	
5	EVN Energieversorgung Nord GmbH & Co. KG	Husum	50.00	50.00	-284	-3[2]	
6	Windpark Gebstedt GmbH & Co. KG	Husum	50.00	50.00	k.A.	k.A.[5]	

[1] per the financial statements as at December 31, 2018
[2] per the provisional financial statements as at December 31, 2018
[3] per the financial statements as at September 30, 2018
[4] after profit transfer to WKN AG
[5] not have a recording of the operating business
[6] after profit transfer to PNE AG
[7] per the financial statements as at December 31, 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OF PNE AG (FORMERLY PNE WIND AG), CUXHAVEN, FOR THE 2018 FISCAL YEAR

I. COMMERCIAL REGISTER AND OBJECT OF THE COMPANY

PNE AG (hereinafter also referred to as the "Company") has its registered office at Peter-Henlein-Straße 2–4, Cuxhaven, Germany. The Company is entered under number HRB 110360 in the commercial register at the District Court of Tostedt. The fiscal year is the calendar year.

During the year under report, the business activities of the Company consisted primarily of the planning, construction and operation of wind farms and transformer stations for the generation of electricity and the servicing of wind power turbines.

II. GENERAL ACCOUNTING PRINCIPLES

1. GOING CONCERN

Accounting is carried out on a going concern basis. The Group management report of the Company specifies the risks that might endanger the continued existence of the Company.

2. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of PNE AG are prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as they are to be applied in the European Union. New standards adopted by the IASB are in principle applied as from the time of their becoming effective, as they are to be taken into consideration in the EU.

These consolidated financial statements are prepared in euro (EUR) unless otherwise stated and in principle are rounded to thousands of euro (euro thousand). Due to this rounding, it is possible that individual figures may not add up exactly to the stated sum in the presentations in these IFRS consolidated financial statements.

The consolidated financial statements correspond to the requirements of Section 315e as of the German Commercial Code (HGB).

The consolidated financial statements are based on uniform accounting and valuation principles. The consolidated financial statements were prepared on the basis of historical cost of acquisition or production. This does not include individual financial instruments that were valued at their fair value on the balance sheet date.

The consolidated financial statements and Group management report, prepared by the Board of Management as at December 31, 2018, were approved at the meeting of the Board of Management on March 11, 2019 for submission to the Supervisory Board.

The consolidated financial statements as at December 31, 2018 are filed with the operator of the Federal Gazette (Bundesanzeiger).

During the 2018 fiscal year, the Group applied the following amendments to IFRS standards for the first time: Unless indicated otherwise below the table, this has not resulted in any effect on the consolidated financial statements.

Standard/Interpretation	Date of EU endorsement	Application obligation in the EU
IFRS 9: New standard "Financial Instruments": Classification and Measurement of Financial Instruments	22.11.2016	1.1.2018
IFRS 15: New Standard: "Revenue from Contracts with Customers"	22.9.2016	1.1.2018

Standard/Interpretation	Date of EU endorsement	Application obligation in the EU
Clarification regarding IFRS 15 "Revenue from Contracts with Customers"	31.10.2017	1.1.2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	26.2.2018	1.1.2018
Amendments to IFRS 4: Application of IFRS 9 "Financial Instruments" in conjunction with IFRS 4	3.11.2017	1.1.2018
Amendments to IAS 40: Transfers of Investment Property	14.3.2018	1.1.2018
Annual improvements project "Improvements to IFRSs 2014–2016 Cycle"	7.2.2018	1.1.2017/ 1.1.2018
IFRIC 22: New interpretation "Foreign Currency Transactions and Advance Consideration"	28.3.2018	1.1.2018
IFRIC 23: New interpretation "Uncertainty over Income Tax Treatment"	23.10.2018	1.1.2019

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39, which concern the recognition, classification and measurement of financial assets and financial liabilities and the impairment of financial assets. In accordance with the transitional provisions of IFRS 9, comparative figures have not been adjusted retrospectively.

Classification and measurement

The Group classifies its financial assets in the following measurement categories as of January 1, 2018:

» Amortised cost (AC)
» Fair value through other comprehensive income (FVOCI)
» Fair value through profit or loss (FVPL)

The classification of debt instruments in accordance with IFRS 9 is based on the business model and the type of cash flows for the respective financial asset. Assets that are held to collect the contractual cash flows and for which these cash flows represent exclusively interest and principal payments are measured at amortised cost (AC). If the financial asset, for which the cash flows represent exclusively interest and principal payments, is held for collection of the contractual cash flows and for sale, it is measured at fair value through other comprehensive income (FVOCI). Changes in the carrying amount are recognised in other comprehensive income, except for impairment gains or losses.

Assets that do not meet the criteria of the categories "AC" or "FVOCI" are measured in the category "FVPL".

For shares in affiliated companies and shares in companies in which an investment is held, the Group exercises the option of designating these irrevocably at fair value (FVOCI) without affecting income. Changes in fair value recognised directly in equity are not reclassified to profit or loss at the time of the sale.

Financial liabilities are measured at fair value if they are held for trading or represent contingent consideration from a business acquisition within the meaning of IFRS 3. All other financial liabilities are measured at amortised cost in accordance with IAS 39. The application of IFRS 9 does not result in any reclassifications of financial liabilities.

The following tables show information on financial instruments at the time of first-time application (as of December 31, 2017 and January 1, 2018, respectively), including the categories, the carrying amounts and fair values of financial assets and financial liabilities. Financial assets are presented in accordance with IFRS 9:

in TEUR	Category acc. to IAS 39	Category acc. to IFRS 9	Total	Fair value
As per 31.12.2017/1.1.2018				
Short-term financial assets				
Cash and cash equivalents	LaR	AC	193,984	193,984
Trade receivables	LaR	AC	5,119	5,119
Other short-term loan receivables	LaR	AC	61	61
Receivables from affiliated companies	LaR	AC	4,455	4,455
Receivables from associated companies and those in which an investment is held	LaR	AC	642	642
Long-term financial assets				
Shares in affiliated companies	AfS	FVOCI	27	27
Shares in companies in which an investment is held	AfS	FVOCI	1,785	1,785
Other borrowings	LaR	AC	178	178
Other long-term loan receivables	LaR	AC	26	26
			206,277	**206,277**
Total AC			**204,466**	**204,466**
Total FVOCI			**1,812**	**1,812**

LaR = loans and receivables
AfS = available for sale
AC = measured at amortised cost
FVOCI = measured at fair value (changes in value in OCI)

in TEUR	Category acc. to IAS 39	Category acc. to IFRS 9	Total	up to 1 year	1 to 5 years	more than 5 years	Fair value
As per 31.12.2017/1.1.2018							
Trade liabilities	FLAC	AC	25,295	25,295	0	0	25,295
Fixed interest							
Bonds	FLAC	AC	105,816	99,459	6,357	0	107,933
Liabilities to banks	FLAC	AC	72,349	6,383	20,383	45,583	74,370
Other financial liabilities	FLAC	AC	1,087	1,087	0	0	1,087
Liabilities under leases	FLAC	AC	608	179	429	0	608
			205,155	**132,403**	**27,169**	**45,583**	**209,293**

FLAC = financial liabilities at amortised cost
AC = measured at amortised cost

Impairment losses

From January 1, 2018, the Group assesses – on a forward-looking basis – the expected credit losses associated with debt instruments measured at amortised cost or at fair value with no effect on income (expected loss model). The impairment method depends on whether there is a significant increase in credit risk. In this connection, the expected credit losses resulting from events of default within the next twelve months are determined. In the event of a significant increase in credit risk, the assessment is based on the credit losses expected over the term.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, according to which credit losses expected over the term are to be recognised as of the initial recognition of the receivables.

The application of the expected loss model has resulted in no changes in the amount of the impairment losses. This is due to the fact that, based on the historical default rates and future-oriented information, there is only an insignificantly higher default rate on financial assets measured at cost.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 18 and IAS 11 as well as all revenue-related interpretations and applies to almost all contracts with customers, except for leases, financial instruments and insurance contracts.

The Group has applied the modified retrospective transition method so that there is no adjustment of the figures of the previous year. The first-time adoption of this standard in the period under review did not result in adjustments to any items in the financial statements that might arise compared with the provisions of IAS 11, IAS 18 and related interpretations that were effective before the amendment.

Pursuant to IFRS 15, revenue must be recognised when performance obligations are satisfied, i.e. upon the transfer of promised goods or services to customers. Where a contract has multiple performance obligations, an entity must allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices. Since multiple performance obligations are sold each at their relative standalone selling price, this allocation has not led to any changes caused by IFRS 15.

The control over promised goods or services can pass either over time or at a point in time.

Revenue from the sale of goods and the provision of services is realised at the time of delivery or the provision of goods to the customer.

If the Group's performance creates an asset with no alternative use to the Group and the Group has an enforceable right to payment for performance completed, the transfer of control and, thus, revenue recognition takes place over time pursuant to the degree of completion. The degree of completion of the individual contracts is determined based on the work performed up to the reporting date, which is compared with the entire expected volume of work. Work provided by subcontractors is taken into account in the determination of the percentage of completion. The percentage of completion is determined for each individual project based on the work provided.

As a whole, the application of IFRS 15 had no impact as at January 1, 2018.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 was applied early in the 2018 fiscal year. Since it was a clarification, it had no effects.

In 2018 fiscal year, the following new or amended accounting standards, which have already been adopted by the IASB, but some of them not yet endorsed by the EU, were not taken into account, since there was no obligation to apply them:

Standard/Interpretation	Date of EU endorsement	(expected) Application obligation in the EU
IFRS 16: New standard "Leases"	31.10.2017	1.1.2019
IFRS 17: New standard "Insurance Contracts"	Not yet endorsed	1.1.2022
Amendments to IFRS 3: Definition of a business	Not yet endorsed	1.1.2020
Amendments to IFRS 9: Prepayment Features with Negative Compensation	22.3.2018	1.1.2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Open	Postponed[1]
Amendments to IAS 1 and IAS 8: Definition of materiality	Not yet endorsed	1.1.2020
Amendments to IAS 19: Plan amendment, curtailment or settlement	Not yet endorsed	1.1.2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	8.2.2019	1.1.2019
Annual improvements project "Improvements to IFRSs 2015–2017 Cycle"	Not yet endorsed	1.1.2019

[1] On December 13, 2015, the IASB postponed the effective date of initial application until further notice.

The application obligation in the EU shows the date on which the new accounting regulation is expected to be taken into account at PNE AG for the first time. No new standard, no new interpretation or amendment to a standard was applied early in 2018.

IFRS 16 Leases

IFRS 16 specifies how to recognise leases and replaces the previous standard IAS 17. The new standard requires the general recognition of rights and duties under leases by the lessee. In the future, a lessee has to recognise a right-of-use asset and a corresponding lease liability. The regulations of IFRS 16 are to be applied to each individual contract. However, under certain prerequisites, lessor and lessee may use portfolios, instead of an individual assessment, which are then subject to the regulations of IFRS 16. In addition, there are individual simplification options for lessees regarding short-term leases and lease agreements for low-value assets.

Pursuant to the new standard, a lessor continues to classify its leases as finance leases or operating leases.

Apart from the changes in measurement and recognition, IFRS 16 also provides for enhanced disclosure duties both for the lessor and the lessee.

The PNE Group will account for leases in accordance with IFRS 16 for the first time as of January 1, 2019 using the modified retrospective transition method. Due to the initial recognition of rights of use and leasing obligations to the same amount, the balance sheet total will increase by approx. euro 36.0 to 38.0 million according to current estimates. The increase in financial liabilities has a negative effect on the net liquidity of the PNE Group. A significant effect on equity is not expected. In contrast to the previous approach, under which expenses for operating leases were shown in full in the operating result, under IFRS 16 only the amortisation charges for rights of use are allocated to the operating result. Interest expenses incurred for interest accrued on lease liabilities are reported in the financial result. Based on the leases existing on January 1, 2019, the operating result (Group EBIT) is expected to improve in the range of euro 0.6 to 0.7 million. Earnings before taxes (EBT) are expected to decrease by euro -0.3 to -0.4 million.

We do not include any further details regarding new or amended standards or interpretations, since the effects of their initial application on the asset, financial and earnings situation of the Group are expected to be insignificant.

III. PRINCIPLES OF CONSOLIDATION

1. SCOPE OF CONSOLIDATION

All companies over which the Group parent company exercises control are included in the consolidated financial statements on the basis of full consolidation. Control of an investment company is achieved when an investor is exposed or has rights to fluctuating returns from its investment in the investment company and has the ability to influence those returns through its control of the investment company. The scope of consolidation also includes wind farm operating companies that are controlled by the parent company or its affiliated companies on the basis of these criteria.

During the reporting period, the following companies were included for the first time in the consolidated financial statements (in brackets: date of first consolidation, percentage holding and segment category):

1. PNE WIND Park Schlenzer GmbH & Co. KG, Cuxhaven (100 percent, first consolidation on April 25, 2018, segment "electricity generation") (purchased),
2. PNE WIND Park Wahlsdorf GmbH & Co. KG, Cuxhaven (100 percent, first consolidation on April 25, 2018, segment "electricity generation") (purchased),
3. PNE WIND Park XIX GmbH & Co. KG, Cuxhaven (100 percent, first consolidation on April 1, 2018, segment "electricity generation") (reclassified from "non-consolidated companies due to minor significance"),

4. Burleigh Wind LLC, Chicago, USA
   (100 percent, first consolidation on January 1, 2018, segment "projecting of wind power turbines") (reclassified from "non-consolidated companies due to minor significance"),
5. PNE Santa Cruz GmbH, Cuxhaven
   (100 percent, first consolidation on August 9, 2018, segment "projecting of wind power turbines") (established),
6. PNE Central America I GmbH, Cuxhaven
   (100 percent, first consolidation on July 4, 2018, segment "projecting of wind power turbines") (established),
7. MEB Safety Services GmbH, Bremen
   (100 percent, first consolidation on November 1, 2018, segment "projecting of wind power turbines") (established),
8. WKN WERTEWIND GmbH, Husum
   (100 percent, first consolidation on June 30, 2018, segment "projecting of wind power turbines") (reclassified from "non-consolidated companies due to minor significance"),
9. WKN Windpark Kittlitz III GmbH & Co. KG, Husum
   (100 percent, first consolidation on July 1, 2018, segment "projecting of wind power turbines") (reclassified from "non-consolidated companies due to minor significance").

The reclassification of subsidiaries from "non-consolidated companies due to minor significance" to full consolidation is generally made as soon as at it is clear that project planning phase will begin in the near future.

The object of companies no. 1–4 and no. 9 is the construction and operation of wind power turbines as part of wind farms and the sale of the electricity generated.

The object of companies no. 5 and no. 6 is the activity as a managing holding company, in particular the acquisition and management of companies and shareholdings and the acquisition and operation of plants for generating electricity from renewable energies in Germany and abroad.

The object of company no. 7 is the execution of tests, maintenance work and assessments regarding technical equipment and plants, in particular those used for renewable energy generation.

The object of company no. 8 is the development, implementation and operation of renewable energy projects, planning and operation of electricity supply facilities for use as well as the provision of consulting and other services in the field of renewable energies.

The carrying amounts and fair values of the identifiable assets and liabilities of companies no. 1–9 were insignificant for the asset, financial and earnings position on the date of first-time consolidation.

During the reporting period, the shareholdings in the following Group companies, which are or were included in the scope of consolidation in the previous year, have changed:

WKN GmbH (formerly WKN AG), Husum (from 83.1 percent to 100 percent, segment "projecting of wind power turbines")

The change in the shareholding has not resulted in a change in the consolidation method, but only in a change in non-controlling interests of approx. euro -4.9 million. The payment made for the acquisition of the shares was approx. euro 8.2 million. The difference was recognised directly in equity.

Windpark Gerdau-Schwienau GmbH & Co. KG, Cuxhaven (from 89.79 percent to 91.03 percent, segment "electricity generation").

The change in the shareholding has not resulted in a change in the consolidation method, but only in a change in non-controlling interests. The payment made for the acquisition of the shares amounted to approx. euro 6 thousand. The difference was recognised directly in equity.

In the 2018 fiscal year, 8 companies included in the Group were merged into consolidated companies.

The following companies have been merged into PNE WIND Middle East GmbH, Cuxhaven (segment "projecting of wind power turbines"):

1. PNE WIND Middle East Alpha I GmbH & Co. KG, Cuxhaven, (segment "projecting of wind power turbines"),
2. PNE WIND Middle East Alpha II GmbH & Co. KG, Cuxhaven, (segment "projecting of wind power turbines"),
3. PNE WIND Middle East Beta I GmbH & Co. KG, Cuxhaven, (segment "projecting of wind power turbines"),
4. PNE WIND Middle East Beta II GmbH & Co. KG, Cuxhaven, (segment "projecting of wind power turbines"),
5. PNE WIND Middle East RE One GmbH & Co. KG, Cuxhaven, (segment "projecting of wind power turbines"),

6. PNE WIND Middle East RE Two GmbH & Co. KG, Cuxhaven, (segment "projecting of wind power turbines"),
7. PNE WIND Middle East Service GmbH & Co. KG, Cuxhaven, (segment "projecting of wind power turbines").

In addition, PNE WIND PARK Dobrudzha, Sofia, (segment "projecting of wind power turbines") was merged into PNE WIND Bulgaria EOOD, Sofia, (segment "projecting of wind power turbines").

The mergers and the additions had no significant impact on the consolidated financial statements.

Accordingly, apart from PNE AG, the scope of consolidation as at December 31, 2018 comprised the other companies included under "list of the companies included in the consolidated financial statements" under Point I "list of companies included in the consolidated financial statements" and under Point II "list of associated companies included in the consolidated financial statements".

Companies that were not included in the scope of consolidation as at December 31, 2018 are shown in the "list of companies included in the consolidated financial statements and list of ownership shares" under Point III "non-consolidated companies due to minor significance" and under Point IV "non-consolidated associated companies due to minor significance".

2. DISPOSALS OF SHARES

In the reporting period, the following companies or shares in companies were sold:

1. 100 percent of the shares in WKN Windpark Groß Niendorf GmbH & Co. KG, Husum (disposal from the segment "projecting of wind power turbines"),
2. 100 percent of the shares in Parc Eolien de Haie de Useroles S.A.S.U., Nantes, France, (disposal from the segment "projecting of wind power turbines").

To 1. The selling price for 100 percent of the shares in WKN Windpark Groß Niendorf GmbH & Co. KG, including repayment of the shareholder loans, totalled approx. euro 5.7 million.

Due to the deconsolidation of WKN Windpark Groß Niendorf GmbH & Co. KG, assets totalling approx. euro 17.9 million, which primarily represent the technical equipment of the project, as well as debts and provisions amounting to approx. euro 12.6 million, plus the shareholder loans of approx. euro 5.3 million, were eliminated at the Group level. The deconsolidation of the entity resulted in income of approx. euro 0.0 million. The payment received for the sale of the entity amounted to approx. euro 0.4 million, plus the repayment of shareholder loans (in total approx. euro 5.7 million). The entity's funds eliminated from the balance sheet as a result of the transaction amounted to approx. euro 245 thousand. The gain on disposal is included in the Group's revenues.

To 2. The selling price for 100 percent of the shares in Parc Eolien de Haie de Useroles S.A.S.U. was euro 0.0 million.

Due to the deconsolidation of Parc Eolien de Haie de Useroles S.A.S.U., assets totalling approx. euro 40.2 million, which primarily represent the technical equipment of the project, as well as debts and provisions amounting to approx. euro 37.7 million, plus the shareholder loans of approx. euro 2.3 million, were eliminated at the Group level. The deconsolidation of the company resulted in income of approx. euro 0.2 million. The payment received for the sale of the company amounted to approx. euro 0.0 million, plus the repayment of the shareholder loans (in total, approx. euro 2.3 million). The entity's funds eliminated from the balance sheet as a result of the transaction amounted to approx. euro 29 thousand. The gain on disposal is included in the Group's revenues.

in TEUR	WKN Windpark Groß Niendorf GmbH & Co, KG	Parc Eolien de Haie de Useroles S.A.S.U.
1. Total consideration received*	**5,651**	**2,286**
2. Assets and liabilities disposed of*		
Short-term assets	1,369	5,922
Long-term assets	16,563	34,288
Short-term liabilities	-104	-4,125
Long-term liabilities	-17,823	-35,852
Net assets disposed of*	**5**	**233**
3. Gain/loss on disposal*		
Consideration received	5,651	2,286
Net assets divested	-5	-233
Gain/loss on disposal*	**5,646**	**2,053**
4. Net cash flow*		
Selling price paid in cash*	5,651	2,286
Net of cash and cash equivalents disposed of	-245	-29
Net cash flow from the disposal*	**5,406**	**2,257**

*Including repayment of intercompany loans (in part, not repaid fully)

In the context of the sale of project companies, existing project financing is part of the purchase agreement.

3. CONSOLIDATION METHODS

The basis of the consolidated financial statements is the separate financial statements of the companies included in the Group, prepared as at December 31, 2018 pursuant to uniform accounting and valuation principles and, in part, audited by the auditors.

The capital consolidation of subsidiaries is performed in accordance with the acquisition method of accounting by offsetting the acquisition costs of the business combination against the proportionate equity capital attributable to the parent company at the acquisition date. The equity capital is determined as the balance of the fair values of assets and liabilities at the acquisition date (full new valuation).

Non-controlling interests are measured at the acquisition date with their share in the identifiable net assets of the company acquired. If the ownership interest in already consolidated companies (without gain or loss of control) increases or decreases, this is effected with no impact on income through a credit or charge to the non-controlling interests within the shareholders' equity.

If the Group loses control over a subsidiary, the assets and liabilities of the subsidiary and all associated, non-controlling shares and other components in equity are eliminated. Any resulting gain or loss is recognised in the profit or loss. Any interest retained in the former subsidiary is measured at the fair value on the date of loss of control.

The Group's share in financial assets that are recognised "at equity" includes shares in associated companies and joint ventures.

Associated companies are entities in which the Group has significant influence, but not control or joint control, in respect of the financial and operating policy. The Group has significant influence over an associated company generally through a holding of between 20 percent and 50 percent. A joint venture refers to an arrangement in which the Group has joint control and has rights to the net assets of the arrangement, instead of having rights to the assets and obligations for the liabilities of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities are made jointly.

In the case of investments that are included "at equity" in the consolidated financial statements, the book value is increased or decreased annually by the changes in shareholders' equity corresponding to the Group's capital share. Upon the first-time inclusion of investments at equity, differences resulting from initial consolidation are treated in accordance with the principles of full consolidation. The changes in pro-rated equity which are recognised in profit or loss, including impairment losses on goodwill, are shown in the results from at equity investments. Intercompany profits and losses were insignificant in these companies.

Material intragroup sales, expenses and income as well as receivables and liabilities between the companies to be consolidated are eliminated. Intercompany results, provided that they are material, are eliminated and taken into account in deferred taxes.

IV. ACCOUNTING AND VALUATION PRINCIPLES

The accounting at all companies of the Group is performed exactly in accordance with national legal regulations as well as the complementary generally accepted accounting principles.

The financial statements of all consolidated companies are included on the basis of uniform accounting and valuation methods. The annual financial statements prepared in line with the applicable national regulations (HB I) are reconciled to annual financial statements in conformity with IFRS (HB II). The accounting and valuation regulations were applied in the same way as in the previous year.

The preparation of the consolidated financial statements in accordance with the pronouncements of the IASB requires that assumptions be made and estimates be used for certain items that affect the amounts and the presentation of assets and liabilities, income and expenses reported as well as of contingent liabilities. Assumptions and estimates relate, in particular, to the determination of the useful economic lives of property, plant and equipment (see chapter V. 2.), the measurement of inventories (see chapter V. 4), the accounting and measurement of provisions (see chapter V. 10), the possibility of realising future tax benefits (see chapter VI. 7.), and the determination of cash flows, growth rates and discounting factors in connection with impairment tests of goodwill (see chapter V. 1.).

The assumptions and estimates used are based on experience gained during the past business activity of the PNE Group and follow relevant expectations publicly available in the corresponding market. Consequently, the assumptions and estimates used, as a rule, cannot deviate from general market expectations and, for forward-looking values, from price developments recognisable in the market. The maximum risk of a full value deviation is represented by the book values of intangible and tangible as well as financial assets shown in the balance sheet. For a presentation of the historical development of asset values resulting from the assumptions and estimates used, please refer to the schedule of fixed assets.

However, the actual values and their development may differ from the assumptions and estimates made. Such changes will be recognised in profit or loss at the time when better knowledge becomes available.

1. INTANGIBLE ASSETS

Concessions, intellectual property rights and licences are stated at their cost of acquisition and incidental acquisition costs. Based on their definable useful life, they are amortised over the expected useful life using the straight line method. The useful life is usually two to four years. Special write-downs are charged where required, and these are subsequently reversed if the original grounds for the write-down no longer apply. No extraordinary value adjustments (decreases or increases) were required in the year under review.

Pursuant to IFRS 3, goodwill resulting from capital consolidation is not amortised over its expected useful life. Where necessary, extraordinary write-downs in accordance with IAS 36 ("impairment only approach") are made.

2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised at cost of acquisition or production, less scheduled straight-line depreciation, in accordance with IAS 16. No impairment losses pursuant to IAS 36 were to be recognised.

The items of property, plant and equipment are depreciated over their useful lives as follows:

	in years
Buildings, including buildings on third-party land	20 to 50
Technical plant and machinery	5 to 20
Other plant and machinery, fixtures and fittings	3 to 10

No material residual values were to be taken into consideration when calculating the depreciation amount.

Assets held under finance leases are depreciated over their expected useful lives in the same manner as assets that are owned by the Group. However, if there is no reasonable certainty that the lessee will obtain ownership at the end of the lease term, the assets are depreciated over the shorter of the lease term or their expected useful lives.

Borrowing costs are, as a rule, charged to the statement of comprehensive income. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised.

3. IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

At the end of each reporting period, the Group assesses whether there is any indication for a need to recognise an impairment loss on the assets shown in the statement of financial position. If any such indication exists or if an annual impairment test of an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to determine the recoverable amount of individual assets, assets used in combination are summarised to cash generating units for which the cash flows can be estimated. The recoverable amount is the higher of the fair value of an asset or a cash generating unit, less costs to sell and value in use. In assessing the value in use, the estimated future cash flows from the asset or the cash generating unit are discounted to their present value using a risk-adjusted pre-tax discount rate. Write-downs of goodwill, recognised in profit or loss, are stated separately in the statement of comprehensive income under the item "Impairment loss goodwill".

A reversal of an impairment loss recognised in profit or loss in prior years for an asset (except for goodwill) is made whenever there is any indication that the impairment no longer exists or might have decreased. The reversal amount is recognised as income in the statement of comprehensive income. The value increase or impairment decrease of an asset is recognised only to the extent that it does not exceed the carrying amount that would have been determined, subject to write-down effects, had no impairment loss been recognised for the asset in prior years. Any impairment loss recognised in the context of impairment tests of goodwill must not be reversed.

Goodwill is tested for impairment at least once a year on December 31 or more frequently when there is any indication that the carrying amount may be impaired. Any impairment loss is recognised directly in profit or loss as a part of write-downs.

To determine the need for impairment of goodwill and of intangible assets with indefinite useful life, the carrying amount of the cash generating unit to which the goodwill is allocated is compared with the recoverable amount of the cash generating unit.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4. LEASE AGREEMENTS

Leases are classified as finance leases if substantially all the risks and rewards incidental to ownership are transferred to the lessee under the lease agreement. All other leases are classified as operating leases. The Group only acts in the capacity of a lessee in the context of operating and finance leases.

Assets held as part of a finance lease are recognised by the lessee at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is shown as a liability under finance leases in the Group balance sheet.

The lease payments are apportioned between the interest expense and the reduction of the outstanding lease liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Interest expense is included directly in the statement of comprehensive income.

Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

5. LONG TERM FINANCIAL ASSETS

Long term financial assets are stated mainly at acquisition cost, if appropriate less extraordinary depreciation to the lower fair value, since they are investments in equity instruments for which no quoted market price exists.

Loans are measured at their amortised acquisition cost and non-interest bearing and low-interest loans are recognised at their present value.

Shares in associated companies and joint ventures are included at equity in the Group.

The associated companies resulted in expenses from the assumption of losses totalling euro 66 thousand (prior year: euro 42 thousand) and income of euro 0 thousand (prior year: euro 1,002 thousand).

6. DEFERRED TAXES

Deferred taxes are recognised pursuant to the "liability method" in accordance with IAS 12 on temporary differences between the balance sheet for tax purposes and the consolidated financial statements. No deferred tax liability is recognised for the non-tax-deductible amortisation of goodwill arising from capital consolidation.

Deferred tax assets and deferred tax liabilities are calculated on the basis of the laws and regulations applicable on the reporting date. Deferred taxes on valuation adjustments are determined generally at the national tax rates for the individual group companies.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available for offsetting.

Deferred tax assets and liabilities are netted in the consolidated statement of comprehensive income, provided that an enforceable right exists to offset the actual tax debt and that the deferred taxes relate to the same tax subject and the same tax authority.

7. INVENTORIES

Inventories are generally stated at the lower of cost of acquisition or production and net realisable value. The cost of production includes direct material costs, direct production costs and adequate portions of production-related overhead costs. In addition, borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are capitalised. The net realisable value is the estimated selling price that can be obtained in the ordinary course of business, less all estimated costs incurred up to completion and estimated costs necessary to make the sale.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents reported in the statement of financial position include cash on hand and in banks and short-term deposits with original maturities of less than three months.

9. FINANCIAL ASSETS

Financial assets consist of trade receivables, loan receivables, acquired equity instruments, cash and cash equivalents as well as derivatives with positive fair values.

Purchases or sales of financial assets are recognised using the trade date accounting method, i.e. on the date on which the entity assumed the obligation to purchase or to sell the asset.

Financial assets are classified and measured on the basis of the business model and the characteristics of the cash flows. The Group generally classifies its financial assets in the following measurement categories:

- Amortised cost (AC): Assets that are held to collect the contractual cash flows and for which these cash flows represent solely payments of interest and principal are measured at amortised cost.
- Fair value through other comprehensive income (FVOCI): Assets that are held to collect the contractual cash flows and to sell the financial assets and for which the cash flows represent solely payments of interest and principal are measured at fair value with no effect on income. Changes in the carrying amount are recognised in other comprehensive income, except for impairment gains or losses.
- Fair value through profit or loss (FVPL): Assets that do not meet the criteria of the categories measured at "amortised cost" or "FVOCI" are measured in the category "at fair value through profit or loss".

For shares in affiliated companies not held for trading purposes and shares in companies in which an investment is held, the Group exercises the option of measuring these irrevocably at fair value (FVOCI) without affecting income. These are primarily strategic financial investments, and the Group deems this classification for more informative. Changes in fair value recognised directly in equity are not reclassified to the statement of comprehensive income at the time of the sale.

Shares in affiliated companies classified as FVOCI and shares in companies in which an investment is held are valued at cost of acquisition, which represents a suitable estimate of fair value. On the reporting date, there was no intention of selling these.

For financial assets recognised at amortised cost, a provision for expected credit losses is recognised in the balance sheet.

The Group applies the simplified approach under IFRS 9 for **trade receivables** to determine the expected credit losses; accordingly, the credit losses expected over the term are used for all trade receivables. To measure expected credit losses, trade receivables were grouped together on the basis of common credit risk characteristics and days past due.

The expected default rates result from the payment profiles of the revenues over a period of 36 months prior to December 31, 2018 or January 1, 2018, respectively, and the corresponding historical default rates in these periods. The historical default rates are adjusted to reflect current and forward-looking information on macroeconomic factors that could affect the ability of customers to pay their receivables.

If, after a reasonable assessment, trade receivables can no longer be recovered, they are derecognised. Indicators for this assessment include, inter alia, a debtor's failure to commit to a repayment plan with the Group or to make contractual payments for more than 30 days past due.

The trade receivables relate primarily to the project planning business and to service companies. The receivables from the project planning business show loss ratios of zero, as a wind farm is only sold to investors with a secured equity or borrowed capital base over the entire term of the wind farm. The loss ratios for trade receivables attributable to service companies are very low.

Other financial assets that are measured at amortised cost are considered to be "low credit risk"; therefore the impairment recognised in the period is limited to the 12-month expected credit losses. Instruments are considered to be "low credit risk" if the risk of default is low and the issuer is able at all times to meet its contractual payment obligations at short notice.

For **other financial assets**, PNE considers the probability of a default occurring at the time of the initial recognition of assets and always assesses whether there is a significant increase in the credit risk. In order to assess whether the credit risk has increased significantly, the asset's credit risk on the reporting date is compared with its risk at the time of initial recognition. This comparison takes account of appropriate and reliable forward-looking information. In particular, internal (and, if applicable, external) credit assessments, actual or expected significant changes in the borrower's earnings position and significant increases in the credit risk of other financial instruments of the same borrower are used as indicators.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the financial assets have been transferred with substantially all risks and rewards.

Interest income is deferred in the corresponding period based on the effective interest method.

Financial liabilities consist of convertible bonds, bonds, liabilities to banks, trade liabilities, other financial liabilities as well as derivatives with negative fair values.

Financial liabilities are measured at amortised cost, unless they are recognised at fair value, such as derivatives with a negative fair value or liabilities for contingent consideration in connection with business combinations.

Financial liabilities are derecognised when the contractual obligations have been met, cancelled or expired.

Financial instruments measured at fair value can be classified based on the significance of the input factors and information relevant to their measurements and allocated to (measurement) levels. The allocation of a financial instrument to a level is based on the significance of its input factors for the entire measurement, i.e. the lowest level whose input is relevant for the measurement in its entirety. The measurement levels are divided hierarchically based on their input factors:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. in derivation from prices)

Level 3 – inputs that are not based on observable market data for the measurement of the asset or the liability (unobservable inputs)

The determination of fair values of all financial instruments recognised in the statement of financial position and explained in these notes is based on information and input factors of level 2. Through the use of observable market parameters, the valuation does not differ from general market assumptions. The fair values of level 2 instruments were determined in accordance with generally accepted valuation methods.

Other financial instruments recognised have neither prices quoted in markets nor comparable transactions that can be used for a reliable valuation so that they are shown at (historical) cost.

For details we refer to the explanations on the relevant items in the statement of financial position.

10. PROVISIONS

Provisions are formed for all external obligations, if it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the provision. Provisions for imminent losses for onerous contracts are formed in accordance with the regulations of IAS 37.

In measuring the provision, the most probable value and, with a range of varying values, its expected value is used. Determination and measurement are effected, where possible, using contractual agreements; otherwise the calculations are based on past experience and estimates of the Board of Management.

Long term provisions are recognised at their present values; discounting is effected at market interest rates that correspond to the risk and the period up to settlement.

Apart from legal pension obligations, the Group has a very low volume of defined contribution pension plans. Payments for defined contribution plans are recognised as an expense when they are due.

Provisions for expected dismantling obligations are components of the cost of acquisition or production of the associated assets. Upon its initial recognition, the provision is formed without an impact on income.

11. LIABILITIES

Liabilities are generally stated at amortised cost. Liabilities under finance leases are recognised at the inception of the lease at the present value of future leasing payments during the non-terminable basic lease term.

Liabilities with a remaining term of more than one year bear interest at market conditions.

Contingent liabilities are not shown in the statement of comprehensive income. Contingent liabilities comprise primarily guarantees; a list of contingent liabilities existing on the reporting date is provided in chapter X.2.

12. DEFERRED SUBSIDIES FROM PUBLIC AUTHORITIES

Government grants are recognised at their nominal amount in a separate item on the date they are received, without affecting profit or loss, and they are reversed through profit or loss based on the write-downs of the assets supported.

13. STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income is based on the expenditure type of presentation.

14. REVENUES

PNE recognises revenue when control of distinct goods or services is transferred to the customer, i.e. when the customer has the ability to direct the use of the transferred goods or services and obtains substantially all of the remaining benefits from them. A prerequisite for this is that a contract with enforceable rights and obligations exists and that it is probable that the consideration will be collected. The revenue corresponds to the transaction price to which PNE expects to be entitled.

Variable consideration is included in the transaction price if it is highly probable that its inclusion will not result in a significant reversal in the future when the uncertainty has been subsequently resolved. The amount of the variable consideration is determined either according to the expected value method or with the most probable amount, depending on which value estimates the variable consideration most accurately.

If the interval between the transfer of the goods or services and the payment date exceeds twelve months and a significant benefit results from the financing for the customer or PNE, the consideration is adjusted for the time value of money.

Where a contract has multiple performance obligations, these are sold at their standalone selling prices. For each performance obligation, revenue is recognised either at a point in time or over time. Upon the conclusion of a contract, it is determined whether revenue is to be recognised at a point in time or over time.

Revenues from the project planning of wind power turbines

PNE plans and erects wind power plants on land and at sea. Revenue from the erection of wind power turbines is recognised over time if one of the criteria of IFRS 15.35 is met. In these cases, revenue is recognised over time in accordance with the percentage-of-completion method. The percentage of completion is determined based on the work performed, which is compared with the entire expected volume of work. Work provided by subcontractors is taken into account in the determination of the percentage of completion. The percentage of completion is determined for each individual project based on the work provided. In applying the percentage-of-completion method, the assessment of the stage of completion is of particular importance. It may also include estimates of the scope of supplies and services required to meet contractual obligations, which means that changes in estimates may increase or decrease revenue.

If none of the criteria specified in IFRS 15.35 is met, revenue from the construction of wind farms is recognised when control of the wind farm is passed to the customer. Revenue from these sales is recognised at the price specified in the contract.

Payment of the transaction price is due immediately if the customer acquires the wind farm and accepts it upon delivery.

Revenue from services and transformer station fees

PNE provides management and other services for wind power turbines. Revenue from the provision of services is realised on a straight-line basis over a certain period. Advance payments received (max. 1 year) are reported in the item "deferred revenues" under liabilities and released on a straight-line basis. If a contract contains a fixed hourly rate, revenue is recognised to the extent that PNE is entitled to receive an invoice.

Revenues from transformer stations result from transformer station connection fees and transformer station usage fees.

Transformer station connection fees are paid in advance by the customer for a period of approx. 20–25 years, and the revenues are recognised on a straight-line basis over the term of the contract, taking into account a financing component. Revenues from transformer station usage fees are billed and generated monthly in the amount of the contractually agreed sums.

Invoicing and payment for transformer station connection fees are largely made in advance for the entire term of the contract. These prepayments are reported as deferred revenues under liabilities.

Invoices for transformer station usage fees and for other services are issued in accordance with the terms of the contract, with payment terms usually providing for standard market payment terms within 30 days of invoicing.

Revenues from electricity generation

The Group generates electricity from the ongoing operation of wind farms and a biomass power plant, feeds this electricity into power grids and receives revenues in return.

Revenue from electricity supply is recognised over the period using the output-based measurement method on an ongoing basis in line with the volume of supply. Since the amount invoiced is the same as the service provided, PNE applies the simplification rule of recording sales at the amount invoiced.

Invoices to customers are issued in accordance with the terms of the contract and usually provide for standard market payment terms within 30 days of invoicing.

15. FOREIGN CURRENCY CONVERSION

The items contained in the separate financial statements of the individual Group companies are valued using the relevant functional currency. The consolidated financial statements are prepared in euro, which is the reporting and the functional currency of the parent company.

Transactions in foreign currencies are converted into the relevant functional currency using the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted at the exchange rate valid on the reporting date. Exchange differences are recognised in profit or loss and stated in the statement of comprehensive income under "Other operating income" or "Other operating expenses". Non-monetary assets and liabilities that were measured at historical cost in a foreign currency are converted at the rate prevailing on the day of the transaction.

Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of a net investment in a foreign operation and which are recognised in the reserve for currency exchange differences, are recognised through profit or loss upon disposal of the net investment. Shareholders' equity is converted at historical rates.

For the purpose of preparing consolidated financial statements, the assets and liabilities of the Group's foreign operations are to be converted into euro (EUR) using exchange rates prevailing on the reporting date. Income and expense items are converted at the average exchange rate for the period. The resulting exchange differences are transferred to the reserve for currency conversion as part of the shareholders' equity. On the disposal of a foreign operation, these amounts are recognised through profit or loss. Shareholders' equity is converted at historical rates.

Goodwill arising from the acquisition of a foreign operation and fair value adjustments are treated as assets or liabilities of the foreign operation and converted at the rate of exchange prevailing on the reporting date.

V. STATEMENT OF FINANCIAL POSITION

With regard to the composition and development of the individual items of fixed assets, we refer to the consolidated schedule of fixed assets. With regard to disposal restrictions relating to items of fixed assets, we refer to chapter V. 2. "Property, plant and equipment".

1. INTANGIBLE ASSETS

Of the intangible assets, euro 63,353 thousand (prior year: euro 63,381 thousand) relate to goodwill from the initial consolidation of the subsidiaries included in the consolidated financial statements.

Impairment of goodwill

Items of goodwill acquired in the context of business combinations are allocated to the corresponding cash generating units for the purpose of impairment testing.

The future recoverable amount was defined as the fair value less costs to sell.

For the impairment test of goodwill of the cash generating unit "projecting of wind power turbines WKN", the future cash flows were derived from the detailed plans for the next 3 years (hierarchy level 3). No growth discount was taken into account for the period thereafter. The weighted average cost of capital before taxes used to discount the forecast cash flows was 9.86 percent for the detailed planning phase and for the subsequent period (prior year: 8.19 percent).

For the impairment test of goodwill of the cash generating unit "projecting of wind power turbines PNE", the future cash flows were derived from the detailed plans for the next 3 years (hierarchy level 3). No growth discount was taken into account for the period thereafter. The weighted average cost of capital before taxes used to discount the forecast cash flows was 9.54 percent for the detailed planning phase and for the subsequent period (prior year: 8.23 percent).

For the impairment test of goodwill of the cash generating unit "electricity generation", the future cash flows were derived from the detailed plans for the next 3 years (hierarchy level 3). For the period thereafter, a cumulative planning over the relevant expected remaining useful life up to 2026 was taken as the basis. The weighted average cost of capital before taxes used to discount the forecast cash flows was 4.47 percent for the detailed planning phase and for the subsequent period (prior year: 4.12 percent).

Key assumptions for the calculation of the fair values less cost to sell of the business units as at December 31, 2018 and December 31, 2017:

Projecting of wind power turbines WKN and PNE

Budgeted gross profit margins: The gross profit margins are determined based on the average gross profit margins achieved in prior fiscal years, increased for expected efficiency improvements. To establish future cash flows, the expected operating costs are deducted from the gross profits determined in this manner. Financing costs and taxes are not taken into account. The remaining amount forms the basis of discounting.

Weighted average cost of capital: The cost of equity is determined using the Capital Asset Pricing Model (CAPM). The borrowing costs before taxes were included at an interest rate of 2.17 percent (prior year: 2.07 percent).

Results of impairment tests and sensitivities

The recoverable amount of the CGU Laubuseschbach (electricity generation) was below the carrying amount of the CGU's assets so that an impairment loss of euro 28 thousand was recognised for this wind farm.

There were no impairment losses for the two CGUs "projecting of wind power turbines PNE and WKN". With regard to the CGU "projecting of wind power turbines WKN", the management is of the opinion that no reasonable change in the fundamental assumptions used to determine the recoverable amount will lead to impairment losses. With regard to the CGU "projecting of wind power turbines PNE", the management assumes that a 1 percent change in the interest rate would have the effect that the total of book values would exceed the recoverable amount of the CGU by euro 5,434 thousand.

Carrying amounts of goodwill allocated to the relevant cash-generating units:

	Projecting of wind power turbines PNE		**Projecting of wind power turbines WKN**		**Electricity generation**		**Total**	
in TEUR	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Carrying amount of goodwill	23,032	23,032	40,207	40,207	114	142	63,353	63,381

2. PROPERTY, PLANT AND EQUIPMENT

The item "Other equipment, fixtures and furnishings" includes LIDAR wind measurement devices, capitalised at net acquisition costs of euro 1,604 thousand (prior year: euro 928 thousand). These devices were leased under a sale and leaseback contract for a period of 60 months, and the title to them passes to the lessee at the end of the lease. The related minimum lease payments and the present values thereof are shown under financial liabilities. Any profit generated upon the disposal will be accrued over the term of the agreement.

In 2016, land and buildings were sold as part of a sale-and-leaseback agreement. For information about future lease payments, refer to chapter "X. Other disclosures".

During the 2017 and 2018 fiscal years, the Company constructed and commissioned company-owned wind farms/portfolio projects. Since these projects were operated by the Company itself regardless of their current or future shareholder structures and used to generate electricity, these wind farms were classified as fixed assets from the date of sale within the Group in accordance with IAS 16. Until a decision is made regarding the external sale or internal operation, they are recognised in the inventories pursuant to IAS 2. The reclassification from Group inventories to Group fixed assets was carried out without impacting the income statement and led to no reduction in the change of inventory position.

The wind farm projects were financed, in part, by public KfW loans. These loans were measured using the effective interest method upon acquisition. The difference between the fair value and the nominal value of loans of currently euro 3,647 thousand is recognised through profit or loss over the term of the loans.

As in the previous year, restrictions on disposal exist with regard to the headquarters in Cuxhaven, for which a land charge of euro 4,170 thousand is registered.

3. LONG TERM FINANCIAL ASSETS

In addition to the Company's investments in associated companies (including joint ventures) amounting to euro 456 thousand (prior year: euro 475 thousand), long-term financial assets include shares in affiliated companies that are not fully consolidated due to their minor significance in the consolidated financial statements amounting to euro 65 thousand (prior year: euro 27 thousand). The Company does not intend to sell the investments in the long term. In addition, the item includes loans of euro 178 thousand (prior year: euro 178 thousand) and other loan receivables of euro 27 thousand (prior year: euro 26 thousand).

In the 2018 fiscal year, write-downs of euro 26 thousand (prior year: euro 28 thousand) were made on long-term financial assets.

The change in the carrying amounts of investments mainly results from the disposal of the interest (euro 529 thousand) in Umspannwerksgesellschaft Stadorf GbR, which was sold upon termination of the operating activities of the Gerdau-Schwienau wind farm. The fair value of the interest corresponded to the carrying amount.

Please refer to chapter V. 6. for the categorisation and valuation of financial instruments.

Interests in **joint ventures** are accounted for using the equity method. It is a joint venture because there is joint control on the basis of contractual agreements.

Investments in **associated companies** are accounted for in the consolidated financial statements using the at-equity method.

The summarised information below represents amounts shown in the associated companies' financial statements prepared in accordance with IFRS (adjusted by the Group for equity accounting purposes).

Details regarding the Group's material associated companies are indicated in the following tables:

Associated companies	Core business	Seat	Shareholding and voting rights	
			31.12.2018	31.12.2017
Windpark Altenbruch GmbH	Electricity generation from wind energy	Cuxhaven	50%	50%

Reconciliation account of the above summarised financial information to the carrying amount of the interest in Windpark Altenbruch GmbH in the consolidated financial statements:

Windpark Altenbruch GmbH

in TEUR	31.12.2018	31.12.2017
Net assets of the joint venture	887	897
Shareholding of the Group	50%	50%
Goodwill	0	0
Dividend received	0	0
Book value of the shareholding	**444**	**449**

Windpark Altenbruch GmbH

in TEUR	31.12.2018	31.12.2017
Short-term assets	130	75
Long-term assets	772	829
Short-term debts	-15	-7
Long-term debts	0	0

Windpark Altenbruch GmbH

in TEUR	2018	2017
Revenues	26	46
Net income from continuing operations	-34	-8
Post-tax result from discontinued operations	0	0
Net income	-34	-8
Other result	0	0
Total result	-34	-8
Dividend received from the associated company	0	0

Summarised information about associated companies that are of minor significance:

in TEUR	31.12.2018	31.12.2017
Total of book values of the Group's shares in these companies	12	26

4. INVENTORIES

in TEUR	31.12.2018	31.12.2017
Raw materials, consumables and supplies	195	104
Work in progress	89,993	83,375
Finished goods and merchandise	2	2
Prepayments made	27,153	2,881
	117,343	**86,361**

During the 2017 and 2018 fiscal years, the Company constructed and commissioned company-owned wind farms/portfolio projects. Since these projects were operated by the Company itself regardless of their current or future shareholder structures and used to generate electricity, the wind farms were classified as fixed assets from the date of sale within the Group in accordance with IAS 16. The assets were reclassified from Group inventories to Group fixed assets.

The total impairment of inventories recognised in the 2018 fiscal year amounted to euro 13,770 thousand (prior year: euro 7,251 thousand).

In the 2018 fiscal year, an amount of euro 3,117 thousand (prior year: euro 7,251 thousand) in respect of write-downs of inventories to the net realisable value was recognised as an expense. euro 520 thousand of the write-downs are attributable to Germany (prior year: euro 2,698 thousand) and euro 2,597 thousand (prior year: euro 4,553 thousand) to foreign countries. The expense is included in the changes in inventories. The write-downs were made primarily, since, due to certain circumstances, several projects can no longer be realised profitably and the existing assets had to be written down.

In the 2018 fiscal year, unplanned impairment losses of euro 10,753 thousand (prior year: euro 0 thousand) were recognised on the inventories of offshore projects. The expense is included in the statement of comprehensive income under the item "Impairment of offshore inventories". The inventories affected by the write-downs relate to the Jules Verne, Nautilus and Nemo offshore projects in zone 4 of the Exclusive Economic Zone of the Federal Republic of Germany. The reason for the reassessment of the value of the Group's project inventories is the draft of the 2019 land development plan (version of October 26, 2018), which was last discussed on January 31, 2019. In zone 3, this plan provides for an expansion by 2 GW in addition to the 15 GW already included. In addition, the 2019 land development plan defines zone 3 as a priority zone for the further expansion of offshore wind energy beyond 17 GW. Therefore, it is likely that the Atlantis II and III projects will be realised. Zone 4 has not yet been affected by the provisions of the 2019 land development plan. In accordance with the current regulatory requirements, it has become less likely that the offshore projects Jules Verne, Nautilus and Nemo, which are located in zone 4, will be realised, which is the reason for the impairment.

The total cost of inventories recognised as an expense was euro 15,056 thousand (prior year: euro 63.331 thousand).

Work in progress includes assets in the amount of euro 47,544 thousand (prior year: euro 71,027 thousand) that are expected to be realised or fulfilled after more than twelve months.

Work in progress is divided as follows:

» offshore projects (euro 15.1 million),
» onshore projects in Germany (euro 37.1 million),
» onshore projects abroad (euro 37.8 million).

Work in progress increased from euro 83,375 thousand (December 31, 2017) to euro 89,993 thousand as a result of the further development of the pipeline and projects under construction at the end of the year.

5. RECEIVABLES AND OTHER ASSETS

Trade receivables

Trade receivables and impairment losses on these receivables relate exclusively to receivables from contracts with customers.

No loan-loss provisions were formed for non-impaired receivables (level 2), since the trade receivables mainly relate to fully financed wind farm operating companies (for receivables resulting from project development or general contracting) or wind farms in operation (receivables from services), which recognise current income.

Reservation of title was agreed to the customary extent for trade receivables; no other collateral was agreed upon.

Other financial assets

Other financial assets comprise other short-term loan receivables and receivables from affiliated companies, associated companies and companies in which an investment is held.

The other short term loan receivables include loans issued by PNE AG and WKN GmbH to wind farm project companies which have been sold.

Receivables from affiliated companies, associated companies and companies in which an investment is held include short-term other financial receivables, which consist primarily of loan receivables.

No loan-loss provisions were formed for non-impaired loans (levels 1 and 2), since these loans relate to non-consolidated, fully financed wind farm operating companies or wind farms with ongoing income. Existing impairment losses on loans (level 3) result from past changes in the legal framework of certain countries in which the borrowing companies operate, resulting in lower than expected income. All impairment losses were recognised in prior periods, and there are currently no indications that similar regulatory changes could occur that would result in an impairment of existing loans.

No collateral was agreed for the other financial assets.

Other information about financial assets pursuant to IFRS 7

Credit losses on trade receivables measured using the simplified approach and on other financial assets measured using the general approach developed as follows:

	General Approach				
in TEUR	**Level 1**	**Level 2**	**Level 3**	**Simplified Approach**	**Total**
Balance on 1.1.2018	**–**	**–**	**3,991**	**335**	**4,326**
Transfer to level 1	–	–	–	–	–
Transfer to level 2	–	–	–	–	–
Transfer to level 3	–	–	–	–	–
Financial assets derecognised in the reporting period	–	–	–	-75	-75
Financial assets issued or acquired	–	–	–	–	–
Write-downs	–	–	–	21	21
Reversals	–	–	-817	-260	-1,077
Exchange-rate-related changes and other changes	–	–	–	–	–
Balance on 31.12.2018	**–**	**–**	**3,174**	**21**	**3,195**

The following table shows the development of the gross carrying amounts of trade receivables and of the other financial assets in the year under review:

	General Approach				
in TEUR	**Level 1**	**Level 2**	**Level 3**	**Simplified Approach**	**Total**
Balance on 1.1.2018	**5,159**	**–**	**3,991**	**5,454**	**14,604**
Transfer to level 1	–	–	–	–	–
Transfer to level 2	–	–	–	–	–
Transfer to level 3	–	–	–	89	89
Financial assets issued or acquired and financial assets derecognised	1,552	–	-817	833	1,568
Exchange-rate-related changes and other changes	–	–	–	–	–
Balance on 31.12.2018	**6,711**	**–**	**3,174**	**6,376**	**16,261**

The gross carrying amounts of trade receivables and other financial assets by credit risk rating class are as follows:

	General Approach			
in TEUR	**Level 1**	**Level 2**	**Level 3**	**Simplified Approach**
Credit risk rating class 1	6,711	–	–	6,287
Credit risk rating class 2	–	–	–	–
Credit risk rating class 3	–	–	3,174	89
Total	**6,711**	**–**	**3,174**	**6,376**

Financial instruments with risk rating class 1 are not subject to any significant credit risk. Financial instruments with risk rating class 2 are subject to a higher credit risk. Financial instruments with risk rating class 3 comprise impaired financial instruments.

The following table shows the carrying amounts and fair values of all **financial assets** by category:

in TEUR	Category acc. to IFRS 9	Total	Fair value
As per 31.12.2018			
Short-term financial assets			
Cash and cash equivalents	AC	129,071	129,071
Trade receivables	AC	6,355	6,355
Other short-term loan receivables	AC	2,321	2,321
Trade receivables from affiliated companies	AC	4,234	4,234
Receivables from associated companies and those in which an investment is held	AC	156	156
Long-term financial assets			
Shares in affiliated companies	FVOCI	65	65
Shares in companies in which an investment is held	FVOCI	1,266	1,266
Other borrowings	AC	178	178
Other long-term loan receivables	AC	27	27
		143,672	**143,672**
Total AC		**142,342**	**142,342**
Total FVOCI		**1,331**	**1,331**
As per 31.12.2017/1.1.2018			
Short-term financial assets			
Cash and cash equivalents	AC	193,984	193,984
Trade receivables	AC	5,119	5,119
Other short-term loan receivables	AC	61	61
Trade receivables from affiliated companies	AC	4,455	4,455
Receivables from associated companies and those in which an investment is held	AC	642	642
Long-term financial assets			
Shares in affiliated companies	FVOCI	27	27
Shares in companies in which an investment is held	FVOCI	1,785	1,785
Other borrowings	AC	178	178
Other long-term loan receivables	AC	26	26
		206,277	**206,277**
Total AC		**204,466**	**204,466**
Total FVOCI		**1,812**	**1,812**

AC = measured at amortised cost
FVOCI = measured at fair value (changes in value in OCI)

Shares in affiliated companies classified as FVOCI and shares in companies in which an investment is held were valued at acquisition cost of euro 1,331 thousand (December 31, 2017: euro 1,812 thousand), which represents a suitable estimate of fair value. Currently, there are no net results and dividends attributable to the "FVOCI" category.

The carrying amounts of financial assets in the category "measured at amortised cost" (AC) approximate their fair values on the reporting date. Net income of euro 21 thousand (prior year: euro 1,450 thousand) relates to impairments reported under other operating expenses and net income of euro 731 thousand (prior year: euro 393 thousand) to interest income reported under the financial result.

Other assets

Other assets include primarily value added tax receivables.

6. EQUITY CAPITAL

Subscribed capital

As at January 1, 2018, the Company's share capital amounted to euro 76,556,026.00 (prior year: euro 76,556,026.00), divided into 76,556,026 (prior year: 76,556,026) no-par value registered shares with a notional value of euro 1.00 per share in the share capital.

In the reporting period, the Company's share capital increased as a result of conversions from the 2014/2019 Convertible Bond. The increase of the share capital resulted from the exercise of conversion rights under Conditional Capital II/2012. 1,777 new shares were created in the year under review through the exercise of partial bonds. The Company's share capital on the reporting date amounted to euro 76,557,803.00, divided into 76,557,803 no par value registered shares with a notional share of euro 1.00 per share in the share capital.

Authorised Capital 2017

The general meeting of shareholders of May 31, 2017 authorised the Board of Management to increase the Company's share capital, with the approval of the Supervisory Board, in the period up to May 30, 2022, on one or several occasions to a total of up to euro 38,250,000.00 (Authorised Capital 2017) by issuing new no par value registered shares against contributions in cash or in kind. The shareholders are to be granted a subscription right with the following restrictions, whereby the subscription right may also be granted indirectly to shareholders in accordance with Section 186 (5) AktG. In addition, the Board of Management was authorised to exclude, with the approval of the Supervisory Board, the shareholders' subscription rights for fractional amounts resulting from the subscription ratio. The Board of Management was also authorised to exclude, with the approval of the Supervisory Board, the shareholders' subscription right up to an amount not exceeding 10 percent of the share capital existing at the time this authorisation becomes effective or – if this value is lower – of the share capital existing at the time the authorisation is exercised in order to issue the new shares against cash contributions at an issue price which is not significantly below the stock market price of already listed shares of the Company of the same class and type at the time of final determination of the issue price (simplified exclusion of subscription rights in accordance with Section 186 (3) sentence 4 AktG). The aforementioned 10 percent threshold must include the pro rata amount of the share capital, which is attributable to new or repurchased shares that have been issued or sold during the term of the authorisation under the simplified exclusion of shareholders' subscription rights pursuant to or in accordance with Section 186 (3) sentence 4 AktG as well as the pro rata amount of the share capital, which is attributable to conversion and/or option rights under bonds which have been issued during the term of the authorisation by applying mutatis mutandis Section 186 (3) sentence 4 AktG.

In addition, the Board of Management was authorised to exclude, with the approval of the Supervisory Board, the subscription right for a partial amount of up to euro 15,300,000.00

- if the capital increase is effected against non-cash contributions, in particular, in the event of acquisition of companies, parts of companies or participations in companies or other assets, including rights and receivables – also against the Company – or of rights to the acquisition of assets, or in connection with business combinations, and
- in order to grant the holders and/or creditors of the bonds carrying conversion and/or option rights issued by the Company or its subsidiaries subscription rights for new shares in the scope to which they would have been entitled as shareholders following the exercise of their conversion and/or option rights.

The Board of Management may, subject to the approval of the Supervisory Board, exercise the afore-mentioned authorisations regarding exclusion of subscription rights, in aggregate, only to the extent that the share capital's pro rata amount which is attributable to the Company's shares issued or sold during the term of Authorised Capital 2017 under exclusion of subscription rights and/or to which the instruments or rights issued during the term of Authorised Capital 2017 under exclusion of subscription rights refer and enable the subscription for shares of the Company, including from conditional capital, does not exceed 20 percent of the share capital existing at the time the authorisation becomes effective or – if lower – at the time the authorisation is exercised.

Finally, the authorisation regarding Authorized Capital 2017 stipulates that the Board of Management, with the approval of the Supervisory Board, may determine the content of the rights embodied in the shares and the further conditions of the share issue, including the issue price.

The Authorised Capital 2017 was registered in the commercial register of the Company on August 17, 2017.

The Board of Management made no use of Authorised Capital 2017 in the period under review.

The Authorised Capital thus amounted to euro 38,250,000.00 on December 31, 2018.

Conditional Capital II/2012

The general meeting of shareholders of May 15, 2012 resolved a conditional increase of the Company's share capital by a further amount of up to euro 7,750,000.00.

The share capital is conditionally increased by a further amount of up to euro 7,750,000.00, divided into up to 7,750,000 no par value registered shares, each representing a pro-rata amount of euro 1.00 of the share capital (Conditional Capital II/2012). The conditional capital increase will only be implemented to the extent that the holders of option or conversion rights from option or convertible bonds which are issued or guaranteed by the Company or a wholly-owned indirect or direct investment company up to May 14, 2017 on the basis of the authorisation of the annual meeting of shareholders of May 15, 2012 will exercise their option or conversion rights. The new shares are entitled to a share in the profits from the beginning of the fiscal year in which they are created through the exercise of conversion or option rights. The Board of Management is authorised, with the approval of the Supervisory Board, to determine the further details of the execution of the capital increase.

The Board of Management made use of this authorisation with the resolution of September 11, 2014 and with the approval of the Supervisory Board of the same day and resolved to issue a convertible bond (the "2014/2019 Convertible Bond") at a volume of up to euro 25,575,000.00. The individual convertible bonds were issued at a price of 100 percent. The conversion price for each share acquired in the future through exercising the conversion right amounts to euro 3.30, subject to a subsequent adjustment. The convertible bond was subscribed in a volume of euro 6,565,132.20. This corresponds to subscription rights for up to 1,989,434 new shares with a pro-rata amount of euro 1.00 per share in the share capital. Taking the subscription rights granted under the 2014/2019 Convertible Bond into account, Conditional Capital II/2012 was partially used in the amount of up to euro 1,989,434.00. No use was made of the remaining amount of up to EUR 5,760,566.00. On May 14, 2017, the authorisation to use Conditional Capital II/2012 expired due to lapse of time, so that utilisation of the remaining amount of Conditional Capital II/2012 and the corresponding granting of subscription rights are no longer possible.

In the reporting period, conversion rights for 1,777 shares were exercised (prior year: 0) and 1,777 new shares (prior year: 0) were issued from Conditional Capital II/2012.

Conditional Capital 2017

The general meeting of shareholders of May 31, 2017 also resolved a conditional increase of the Company's share capital by a further amount of up to euro 20,000,000.00.

The share capital is conditionally increased by a further amount of up to euro 20,000,000.00, divided into up to 20,000,000 no par value registered shares, each representing a pro-rata amount of euro 1.00 of the share capital (Conditional Capital 2017). The conditional capital increase is implemented only to the extent that the holders or creditors of option or conversion rights resulting from convertible and/or option bonds, which are issued or guaranteed up to May 30, 2022 by the Company or an indirect or direct wholly-owned investment company of the Company on the basis of the authorisation resolution of the general meeting of shareholders of May 31, 2017, exercise their option or conversion rights. The conditional capital increase will not be implemented if a cash settlement has been granted or if treasury shares, shares from authorised capital or shares of another listed company are used for servicing purposes. The new shares will be issued at the conversion or option price to be determined in each case in accordance with the aforementioned authorisation resolution. The new shares shall participate in profits from the beginning of the fiscal year in which they are created; to the extent permitted by law, the Board of Management may, with the approval of the Supervisory Board, determine the profit participation of new shares in deviation from this and from Section 60 (2) AktG, including for a fiscal year that has already elapsed. The Board of Management is authorised, with the approval of the Supervisory Board, to determine the further details of the execution of the capital increase.

In the period under review, the Board of Management made no use of the authorisation in respect of Conditional Capital 2017.

Treasury shares

The general meeting of shareholders of May 31, 2017 authorised the Company's Board of Management to purchase up to May 30, 2022 on one or several occasion treasury shares in a volume of up to 10 percent of the share capital existing at the time the relevant resolution becomes effective or – if this amount is lower – of the share capital existing at the time this authorisation is exercised, for one or more permissible purposes within the scope of the statutory restrictions in accordance with the following provisions. The shares acquired because of this authorisation, together with other treasury shares that the Company has already acquired and that are owned by or attributable to the Company, may not at any time account for more than 10 percent of the share capital. The acquisition may be carried out by the Company, by dependent companies or companies owned by the Company or by third parties acting for the account of such companies or of the Company if the legal requirements, in particular pursuant to Section 71 (2) of the German Stock Corporation Act (AktG), are met. Pursuant to the authorisation, the acquisition shall be effected at the discretion of the Board of Management via the stock exchange or by means of a public purchase offer addressed to all shareholders or by means of a public invitation to all shareholders to submit offers to sell or by granting rights to tender. In the event of an acquisition via the stock exchange, the purchase price per share (excluding incidental acquisition costs) may not be more than 10 percent higher or lower than the share price determined by the opening auction in the XETRA trading system (or in a successor system replacing the XETRA system) on the Frankfurt Stock Exchange on the day the obligation to purchase is entered into. In the event of an acquisition based on a public purchase offer, the purchase price per share (excluding incidental acquisition costs) may not be more than 10 percent higher or lower than the non-weighted average closing price of the share in the XETRA trading system (or in a successor system replacing the XETRA system) on the Frankfurt Stock Exchange during the last three trading days prior to the first publication of the offer. In the event of an acquisition based on an invitation to submit sales offers or acquisition by granting rights to tender, the purchase price per share (excluding incidental acquisition costs) may not be more than 10 percent higher or lower than the non-weighted average closing price of the share in the XETRA trading system (or in a successor system replacing the XETRA system) on the Frankfurt Stock Exchange during the last three trading days prior to the day of acceptance of the sales offers or the day of granting the rights to tender. If, after the publication of a public purchase offer or a public invitation to shareholders to submit sales offers or after the granting of rights to tender, there are significant deviations from the relevant share price, the offer, the invitation to submit sales offers or the rights to tender may be adjusted. In this case, the closing price in the XETRA trading system on the last trading day prior to the publication of the adjustment shall be decisive; the 10 percent limit is to be applied to this amount. The volume of a public purchase offer or a public invitation to submit sales offers (collectively "public purchase offer") can be limited. If the total number of shares tendered for a public purchase offer exceeds the volume of the shares, the acquisition may be effected in proportion to the number of shares tendered (tender quotas); in addition, a preferential acceptance of small numbers (up to 50 shares per shareholder) and rounding in accordance with commercial principles may be provided for in order to avoid fractional amounts of shares. Any further rights of shareholders to tender shares in accordance with the participation quotas are excluded. The total volume of tender rights may also be limited in the case of the granting of rights to tender. If shareholders are granted rights to tender for the purpose of acquisition, these are allocated to the shareholders in proportion to their shareholdings in accordance with the relationship of the volume of shares to be repurchased by the Company to the outstanding share capital. Fractions of rights to tender do not have to be allocated; in this case, any partial rights to tender are excluded. The Board of Management determines the details of the respective acquisition, in particular, of a purchase offer or invitation to submit sales offers. This also applies to the details of any rights to tender, in particular in respect of the term and, if applicable, their tradability. In this context, capital market law and other legal restrictions and requirements must also be observed.

The Board of Management is also authorised to use the shares acquired on the basis of the aforementioned or previously granted authorisation for the following purposes: The shares may be sold via the stock exchange or, with the approval of the Supervisory Board, in accordance with the principle of equal treatment through a public offer to all shareholders pro-rata to their shareholding quota. In the event of a public offer to all shareholders, the subscription right for fractional amounts may be excluded. In addition, the shares may be sold, with the approval of the Supervisory Board, otherwise against payment of a cash purchase price per share which is not significantly lower than the stock price of listed shares of the same class and type at the time of sale. The proportionate amount of the share capital attributable to the total number of shares sold under this authorisation may not exceed 10 percent of the share capital existing at the time this authorisation becomes effective or – if this value is lower – of the share capital existing at the time this authorization is exercised. In addition, with the approval of the Supervisory Board, acquired treasury shares may also be offered and transferred in return for non-cash contributions, in particular as (partial) consideration for the acquisition of companies, parts of companies or participations in companies or of other assets, including rights and receivables – also against the Company – or of rights to the acquisition of assets, or in connection with business combinations. Furthermore, acquired treasury shares may be used to service purchase rights to shares of the Company from or in connection with bonds with conversion and/or option rights issued by the Company or a direct or indirect 100 percent holding company. Furthermore, acquired treasury shares may be redeemed, with the approval of the Supervisory Board, without the redemption or the implementation requiring a further resolution of the general meeting of shareholders. The redemption results in a capital reduction. However, in accordance with Section 237 (3) no. 3 AktG, the Board of Management may determine that the share capital shall not be reduced, but that the proportion of the remaining shares in the share capital shall be increased in accordance with Section 8 (3) AktG. In this case, the Board of Management is authorised in accordance with Section 237 (3) no. 3, second half-sentence, to adjust the number of shares specified in the articles of association. All the above-mentioned authorisations to sell or otherwise use or redeem acquired treasury shares may be exercised on one or more occasions, in whole or in part, individually or collectively.

In the period under review, the Company made use for the first time of the authorization to acquire treasury shares, which was granted by the resolution of the general meeting of shareholders on May 31, 2017. With the offer document dated November 8, 2018, it submitted a share buyback offer to all shareholders to acquire a total of up to 2,190,000 shares within a price range of euro 2.25 to euro 2.74. In the course of implementing the share buyback offer, the Company acquired a total of 2,189,853 treasury shares at a price of euro 2.65 per share or lower, depending on the terms on which the respective shareholder tendered shares to the Company.

On December 31, 2018, the Company held 2,189,853 treasury shares (prior year: 0), which were purchased for euro 5,803,110.45 in the year under review.

Capital reserve

The capital reserve includes the premium paid on the shares issued and the equity share of the convertible bond.

Foreign currency reserve

Exchange differences relating to the conversion of the functional currency of foreign operations into the Group's presentation currency are included in the foreign currency reserve.

Consolidated retained earnings

Profits and losses are accumulated in the consolidated retained earnings. In the context of the 2018 dividend payment, dividends totalling euro 3,062 thousand (euro 0.04 per share) were distributed to the shareholders from the retained earnings shown in the annual financial statements of PNE AG prepared pursuant to the German Commercial Code. The Board of Management and the Supervisory Board propose to pay a dividend of four percent (euro 0.04 per share) on the notional interest in the share capital of the eligible shares of the 2018 fiscal year from the retained earnings of PNE AG totalling euro 114,337,541.04 (prior year: euro 130,896,618.23). The remaining retained profits shall be brought forward to a new account.

7. NON-CONTROLLING INTERESTS

The capital consolidation of entities as well as the results from current and past fiscal years resulted in cumulative non-controlling interests totalling euro -13,938 thousand (prior year: euro -7,679 thousand).

The following table shows details of the Group's non-wholly owned subsidiaries in which significant non-controlling interests exist.

Name of subsidiary	**Seat**	**Shareholding and voting rights of non-controlling interests**		**Profit/loss attributable to non-controlling interests**		**Cumulative non-controlling interests**	
in TEUR		**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
WKN sub-group							
of which Sevivon s.p.z.o.o.	Poland	20.00%	20.00%	-644	-483	-3,911	-3,267
of which ATS Energia s.r.l.	Italy	22.21%	22.21%	-48	-32	-6,082	-6,034
of which VKS Vindkraft Sverige	Sweden	20.00%	20.00%	-74	337	-556	-482
of which WKN Windcurrent S.A.	South Africa	20.00%	20.00%	-246	-533	-1,402	-1,157
Others				-349	-2,129	-1,987	3,261
Total of non-controlling interests				**-1,361**	**-2,840**	**-13,938**	**-7,679**

Summarised financial information in respect to the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information represents amounts before intragroup eliminations.

WKN sub-group

in TEUR	31.12.2018	31.12.2017
Short term assets	103,503	84,696
Long term assets	20,661	21,477
Short term liabilities	73,217	68,096
Long term liabilities	2,494	1,070
Share in equity attributable to the shareholders of parent company	60,328	47,147
Non-controlling interests	-11,875	-10,140

WKN sub-group

in TEUR	2018	2017
Total aggregate output	62,872	63,514
Expenses	52,171	58,790
Net income	10,701	4,724
of which:		
Net income attributable to the shareholders of the parent company	11,713	7,904
Net income attributable to the non-controlling interests	-1,012	-3,179
Other result attributable to the shareholders of the parent company	0	0
Other result attributable to the non-controlling interests	0	0
Other result	**0**	**0**
Total result attributable to the shareholders of the parent company	11,713	7,904
Total result attributable to the non-controlling interests	-1,012	-3,179
Total result	**10,701**	**4,724**

WKN sub-group

in TEUR	31.12.2018	31.12.2017
Dividends paid to non-controlling interests	0	0
Net cash flows from operating activities	-1,852	13,898
Net cash flows from investing activities	-332	116
Net cash flows from financing activities	9,940	-640
Total net cash flows	**7,756**	**13,374**

8. DEFERRED SUBSIDIES FROM PUBLIC AUTHORITIES

Since 2000, the Company has received investment grants in the total amount of euro 1,746 thousand for the construction of an office building, the extension of the office building and for fixtures and fittings.

The reversal of the investment grants is based on the useful life of the underlying assets. During the reporting period, a total amount of euro 47 thousand (prior year: euro 47 thousand) was reversed.

9. TAX PROVISIONS

The tax provisions include current taxes on income, which were set up for past fiscal years and the 2018 fiscal year.

There are tax risks from the corporate, trade and sales tax field audit at WKN GmbH for the years from 2010 to 2013. This audit has not yet been completed finally. Based on the discussions between the management of WKN GmbH and its tax advisors on the one hand and the tax authorities on the other, there are different views regarding the tax treatment of individual items. Possible findings of the tax audit might have an impact on the net assets, financial position and results of operations of WKN GmbH and the PNE Group in the single-digit million range. Based on the current state of knowledge, the Board of Management of PNE AG continues to assume that the tax-related presentation of the issues is accurate. Nonetheless, a provision of approx. euro 1.2 million was formed as a precautionary measure for individual selected issues addressed in the context of the tax audit. However, for the economically relevant part of the issues raised during the tax audit, the Board of Management still sees no reason to recognise a provision in the consolidated balance sheet as at December 31, 2018. Should the tax audit lead to additional claims from the tax office, WKN GmbH would file a lawsuit against the decision concerning the economically relevant part of the issues. Even if a provision were formed covering all aspects of the tax audit, this would have no effect on the published guidance for 2018, as possible effects on earnings would be reported under tax expenses and thus outside EBIT. The probability of such risks occurring is considered to be low, but the impact of occurrence to be very high. The occurrence of such a risk would have an impact of up to a further euro 7 million, in addition to the provisions already made, on the net assets, financial position and results of operations. The risk must therefore be classified as "high" in accordance with the risk management definition.

10. OTHER PROVISIONS

The other provisions developed as follows:

in TEUR	1.1.2018	Consumption	Reversal	Addition	31.12.2018
Variable purchase price component Atlantis I–III	1,060	0	0	0	1,060
Legal costs	974	89	425	35	495
Other	1,729	0	673	1,277	2,333
	3,763	**89**	**1,098**	**1,312**	**3,888**

Other provisions of euro 2.3 million relate primarily to long-term dismantling obligations for the wind farms owned by the Company; the remaining amount is attributable to short-term provisions.

The amount of variable purchase price components from the acquisition of offshore projects is estimated upon initial recognition and recognised in inventories as well as provisions. Changes in the fair values of variable purchase price components, which represent no corrections during the valuation period, are to be accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group recognises the change in the variable purchase price components from the acquisition of offshore wind farms in the corresponding amount in the inventories. A discounted purchase price liability of approx. euro 1.1 million (prior year: euro 1.1 million) was recorded as at December 31, 2018.

11. FINANCIAL LIABILITIES

The financial liabilities are attributable to convertible bonds and corporate bonds issued, liabilities to banks, other financial liabilities, liabilities from leasing contracts as well as derivatives.

The book values of financial liabilities have the following remaining terms or the following fair values:

in TEUR	Category acc. to IFRS 9	Total	up to 1 year	1 to 5 years	more than 5 years	Fair value
As per 31.12.2018						
Trade liabilities	AC	14,945	14,945	0	0	14,945
Fixed interest						
Bonds	AC	55,009	6,460	48,549	0	56,983
Liabilities to banks	AC	94,352	8,204	27,510	58,638	95,826
Other financial liabilities	AC	1,478	1,057	275	146	1,478
Liabilities under leases	AC	654	250	404	0	654
Variable interest						
Liabilities to banks	AC	10,085	10,085	0	0	10,085
Derivatives						
Interest rate swaps	FVPL	1,209	76	302	831	1,209
		177,732	**41,077**	**77,040**	**59,615**	**181,180**
As per 31.12.2017/1.1.2018						
Trade liabilities	AC	25,295	25,295	0	0	25,295
Fixed interest						
Bonds	AC	105,816	99,459	6,357	0	107,933
Liabilities to banks	AC	72,349	6,383	20,383	45,583	74,370
Other financial liabilities	AC	1,087	1,087	0	0	1,087
Liabilities under leases	AC	608	179	429	0	608
		205,155	**132,403**	**27,169**	**45,583**	**209,293**

AC = measured at amortised cost
FVPL = measured at fair value through profit or loss

The **fair values** of financial instruments listed in the tables were derived from market information available on the reporting date and the methods and assumptions presented below. The fair value is determined in line with generally accepted pricing models based on discounted cash flow analyses and using observable current market prices for similar instruments (level 2). As in the previous year, there were no transfers between the hierarchy levels in the current fiscal year.

The fair values of liabilities to banks and other financial liabilities are determined using current interest rates at which similar loans with identical maturities could have been taken out on the reporting date.

The determination of the fair values of bonds is based on the observable price quotations as at the reporting date.

The fair values of interest rate swaps were calculated using forward interest rates (observable yield curves on the reporting date) and the estimated contractual interest rates, which were discounted on the reporting date using the yield curve.

The valuation of trade liabilities and other financial liabilities is based on the assumption that the fair values correspond to the carrying amounts of these financial instruments in view of their short remaining terms. The carrying amounts of liabilities under leases also roughly correspond to their fair values in view of their short-term maturities or overall insignificant amounts.

Net results from financial liabilities carried at amortised cost consist exclusively of interest totalling euro 7,934 thousand (prior year: euro 9,282 thousand), which is included in financial expenses.

The net result from financial liabilities measured at fair value is derived from the subsequent measurement at fair value in the amount of euro 1,209 thousand (prior year: euro 0 thousand). The figure is recognised in the statement of comprehensive income under "interest and similar expenses".

The following table analyses the financial liabilities of the Group by the relevant maturity bands:

in TEUR	Total contractual cash flows	up to 1 year	1 to 5 years	more than 5 years	Carrying amount
As per 31.12.2018					
Trade liabilities	14,945	14,945	0	0	14,945
Bonds	65,205	7,987	57,218	0	55,009
Liabilities to banks	124,202	20,143	33,388	70,671	104,437
Other financial liabilities	1,567	1,101	316	150	1,478
Liabilities under leases	704	270	434	0	654
Interest rate swaps	1,209	76	302	831	1,209
	207,832	**44,522**	**91,658**	**71,652**	**177,732**
As per 31.12.2017					
Trade liabilities	25,295	25,295	0	0	25,295
Bonds	109,578	103,025	6,553	0	105,816
Liabilities to banks	85,559	7,901	25,254	52,404	72,349
Other financial liabilities	1,120	1,120	0	0	1,087
Liabilities under leases	658	197	461	0	608
	222,210	**137,538**	**32,268**	**52,404**	**205,155**

The table analyses the financial liabilities of the Group by the relevant maturity bands, based on their **contractual terms** for:

(a) all non-derivative financial liabilities, and

(b) derivative financial instruments that are settled on a net basis and whose contractual maturities are material to an understanding of the timing of cash flows.

The amounts shown in the table are the contractual non-discounted cash flows. Balances due within 12 months correspond to their carrying amounts, as the effect of discounting is not significant. In the case of interest rate swaps, the cash flows were estimated using the forward interest rates applicable at the end of the reporting period.

Bonds

The bonds developed as follows:

in TEUR	31.12.2018	31.12.2017
Convertible bond 2014:		
Status on 1.1.	6,357	6,255
Converted	5	0
Interest accrued	108	102
Status on 31.12.	**6,460**	**6,357**
Bond 2013:		
Status on 1.1.	99,459	98,271
Interest accrued	541	1,188
Repaid	100,000	0
Status on 31.12.	**0**	**99,459**
Bond 2018:		
Status on 1.1.	0	0
Issued	48,350	0
Interest accrued	199	0
Status on 31.12.	**48,549**	**0**
Total	**55,009**	**105,816**

2014/2019 Convertible Bond

Based on the authorisation resolution of the general meeting of shareholders of May 15, 2012, the Board of Management resolved on September 11, 2014, with the approval of the Supervisory Board of the same day, to issue up to 7,750,000 individual pari passu convertible bonds at a nominal value of euro 3.30 each, corresponding to a total nominal value of up to euro 25,575,000.00. Thereafter, on the basis of the resolution of the Board of Management of October 1, 2014, the Company issued an aggregate of 1,989,434 individual pari passu convertible bonds at a nominal value of euro 3.30 each, corresponding to a total nominal amount of euro 6,565,132.20. The 2014/2019 convertible bond was included on October 9, 2014 in the regulated market of the Frankfurt Stock Exchange. The individual convertible bonds are evidenced for their entire term by a permanent global bearer certificate. The term of the convertible bond began on October 10, 2014 and ends on October 10, 2019. The nominal amount of the individual convertible bonds bears interest of 3.75 percent p.a. for the entire term of the bonds, unless they are redeemed early or unless the conversion right is exercised in a legally effective manner. Interest is due in arrears every quarter on January 10, April 10, June 10 and October 10 of each year, for the first time on January 10, 2015. In accordance with the bond terms and conditions, each bondholder has the irrevocable right to exchange the individual convertible bonds for no par value registered shares carrying voting rights of PNE AG. Subject to any adjustment of the conversion price, each individual convertible bond grants the right for exchange into one no par value registered share of the Company. The conversion rights were secured by Conditional Capital II/2012 (see above point 6.). The conversion right can be exercised at any time, but not within certain non-exercise periods specified in the bond terms and conditions. In addition, the bond terms and conditions contain rights of termination, provisions regarding an adjustment of the conversion price in the event of mergers and a change of control, anti-dilutive clauses and amendments to the bond terms and conditions by way of bondholder resolutions.

In the reporting period, conversion rights arising from convertible bonds for 1,777 shares (prior year: 0) were exercised, and 1,777 new shares issued from Conditional Capital II/2012 (prior year: 0).

The 2014/2019 Convertible Bond is fully convertible.

Corporate bond 2013/2018

In May 2013, PNE AG issued a corporate bond totalling euro 66,338,000.00 in order to finance measures for external and internal growth, in particular to finance the acquisition of the investment in WKN GmbH, Husum, and for general business purposes. In the context of a private placement, this corporate bond was increased in September 2013 to a volume of euro 100 million. The bonds from the 2013/2018 Corporate Bond were admitted to the regulated market of the Frankfurt Stock Exchange and included since September 2013 in the Prime Standard for corporate bonds.

The bonds carried interest of 8 percent p.a. In accordance with the bond terms, PNE AG repaid all outstanding bonds at nominal value on June 1, 2018. In addition, under a public exchange offer previously submitted by PNE AG, bondholders were given the opportunity, under certain conditions, to exchange their bonds from the 2013/2018 corporate bond for bonds from the 2018/2023 corporate bond. The Company's liabilities from the corporate bond 2013/2018 were thus fully repaid in June 2018.

Corporate bond 2018/2023

In May 2018, PNE AG issued a corporate bond with a volume of euro 50,000,000.00 for the further development of the business model and the establishment of a new European wind farm portfolio, for the financing of investments to expand the value chain and for general corporate financing. The bonds from the 2018/2023 corporate bond have been included in the over-the-counter market at the Frankfurt Stock Exchange since May 2, 2018.

The bonds bear interest of 4 percent p.a. as of May 2, 2018 (including) up to May 2, 2023 (excluding). Interest is payable in arrears on May 2 of each year. According to the bond terms and conditions, the interest rate may increase by up to 2.5 percentage points depending on the equity ratio resulting from the Company's consolidated balance sheet.

PNE AG is obliged to repay the bonds on May 2, 2023 at the nominal amount, insofar as they have not been fully or partially repaid or bought back and invalidated. According to the bond terms and conditions, PNE AG has the right, inter alia, to repay bonds with a total nominal value of at least euro 5,000,000.00 from May 2, 2021 at the earliest, in which case the repayment amount is higher than the nominal value.

In case of a change of control, each bondholder has the right, in accordance with the bond terms and conditions, to demand early repayment of bonds from PNE AG as the issuer. In this connection, a change of control is deemed to have occurred if the issuer becomes aware that a person or a group of persons acting in concert in the sense of Section 2 (5) of the German Securities Acquisition and Takeover Act (WpÜG) has become the legal or beneficial owner of such a number of the issuer's shares, which represent 30 percent or more of the voting rights.

Liabilities to banks

The interest rates for fixed interest liabilities to banks range between 1.35 percent and 5.34 percent. The Company is exposed to an interest rate risk in respect of its variable interest liabilities to banks. In 2018, the relevant interest rates ranged between 7.24 percent and 12.00 percent (overdraft interest rate). Variable interest rates are adjusted at intervals of less than one year. The liabilities to banks have terms to maturity up to 2032.

An amount of euro 107,643 thousand (prior year: euro 71,376 thousand) of the liabilities to banks is secured by:

1. Registered mortgage of euro 4,170 on the property Peter-Henlein-Str. 2–4, Cuxhaven (amount drawn down euro 4,045 thousand (prior year: euro 2,486 thousand))
2. Assignment of rental income from the property Peter-Henlein-Str. 2–4, Cuxhaven
3. Assignment as security of all rights under contracts in connection with the Pülfringen wind farm and assignment of all receivables of this wind farm (amount drawn down euro 1,761 thousand (prior year: euro 2,126 thousand))
4. Assignment as security of all rights under contracts in connection with the wind farms Kührstedt A, Kührstedt B and Kührstedt Bederkesa and assignment of all receivables of these wind farms (amount drawn down euro 61,458 thousand (prior year: euro 61,213 thousand))
5. Assignment as security of all rights under contracts in connection with the Gerdau-Repowering wind farm and assignment of all receivables of this wind farm (amount drawn down euro 21,686 thousand (prior year: euro 0 thousand))

6. Assignment as security of all rights under contracts in connection with the Kittlitz III wind farm and assignment of all receivables of this wind farm (amount drawn down euro 10,122 thousand (prior year: euro 0 thousand))
7. Assignment as security by pledging the shares in PNE WIND West Europe GmbH as part of the pro rata interim equity financing of the "wind farm portfolio 2020" (amount drawn down euro 8,570 thousand (prior year: euro 0 thousand)).

As at December 31, 2018 there were in addition

» an unused working capital facility of euro 10.0 million (prior year: euro 0.0 million)
» unused credit lines for interim project financing of euro 2.3 million (prior year: euro 6.6 million)
» a credit line of euro 16.4 million (prior year: euro 25.0 million) for equity capital financing of the wind farm portfolio, which is under construction.

In addition, the Group had credit lines for guarantee and contract fulfilment obligations of euro 23.3 million on December 31, 2018 (as at December 31, 2017: euro 0 million). As at December 31, 2018, the Group had used euro 3.9 million of the credit lines for guarantee and contract fulfilment obligations.

There were no defaults or other performance failures regarding interest or redemption on the reporting date and it is not expected that the securities will be used.

Other financial liabilities

The other financial liabilities include derivatives (interest rate swaps) totalling euro 1.2 million (prior year: euro 0.0 million).

There were no defaults or other performance failures regarding interest or redemption on the reporting date.

Lease liabilities

The Group concluded finance leases and lease purchase agreements for various items of equipment, fixtures and fittings. The agreements do not include renewal options, purchase options or price adjustment clauses.

The net book values of the assets under finance leases totalling euro 1,323 thousand (prior year: euro 665 thousand) are fully attributable to technical plant and machinery.

The future minimum lease payments under finance leases and lease purchase agreements can be reconciled to their present values as follows:

	Minimum lease payments		Present value of minimum lease payments	
in TEUR	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Liabilities from finance leases:				
With a remaining term of up to 1 year	265	200	250	179
With a remaining term of more than 1 year up to 5 years	416	466	404	429
With a remaining term of more than 5 years	0	0	0	0
	681	**666**	**654**	**608**
Less:				
Future financing costs	-27	-58		
Present value of leasing obligations	**654**	**608**		
Amount due for repayment within 12 months (shown under short-term debts)			250	179
Amount due for repayment after more than 12 months			404	429

Reconciliation of debts from financing activities

The following reconciliation shows the changes between the opening balance sheet value and the closing balance sheet value of liabilities from financing activities – both cash and non-cash changes.

			Non-cash changes				
in TEUR	**Opening balance on 1.1.2018**	**Cash flow (cash change)**	**Acquisition of companies**	**Changes in fair value**	**Interest-related changes**	**Other**	**Closing balance on 31.12.2018**
Bonds	105,816	-51,650	–	–	848	-5	55,009
Liabilities to banks	72,349	36,141	–	–	-4,164	111	104,437
Other financial liabilities	1,087	–	–	1,209	–	391	2,687
Liabilities from leasing contracts	608	–	–	–	–	46	654
Liabilities from financing activities	**179,860**	**-15,509**	**0**	**1,209**	**-3,316**	**543**	**162,787**

			Non-cash changes				
in TEUR	**Opening balance on 1.1.2017**	**Cash flow (cash change)**	**Acquisition of companies**	**Changes in fair value**	**Interest-related changes**	**Other**	**Closing balance on 31.12.2017**
Bonds	104,526	0	–	–	1,290	–	105,816
Liabilities to banks	13,496	59,106	–	–	–	-253	72,349
Other financial liabilities	9,254	–	-7,535	–	–	-632	1,087
Liabilities from leasing contracts	346	-179	–	–	–	441	608
Liabilities from financing activities	**127,622**	**58,927**	**-7,535**	**0**	**1,290**	**-444**	**179,860**

12. OTHER LIABILITIES

Deferred revenues

The item of euro 18,521 thousand (prior year: euro 17,894 thousand) is attributable primarily to prepayments from wind farm operating companies for the use of transformer stations. These deferred revenues correspond to contract liabilities in accordance with IFRS 15 and are released to income over the term of the usage contracts (20 to 25 years).

Other liabilities

The other liabilities include mainly value added tax liabilities of approx. euro 3.5 million (prior year: approx. euro 6.6 million).

13. FINANCIAL INSTRUMENTS AND PRINCIPLES OF RISK MANAGEMENT

Apart from default risks and liquidity risks, the Group's assets, liabilities and planned transactions are exposed to risks from changing exchange rates and interest rates. The objective of financial risk management is to limit these risks through ongoing activities at the operational and financial level.

In respect of the market price risks, the Group uses derivative financial instruments depending on the assessment of risk. Derivative financial instruments are used solely for hedging purposes, i.e. they are not used for trading or other speculative purposes. The Group does not make use of hedge accounting.

The main elements of financial policy are determined by the Board of Management and are monitored by the Supervisory Board. The Finance and Controlling department is responsible for implementing financial policy and ongoing risk management. Certain transactions require the prior approval of the Board of Management, which is kept informed at regular intervals about the scope and the amount of the current risk exposure. The principles of risk management have not changed compared to the previous year.

Risk categories within the meaning of IFRS 7

Credit risk

The Group is exposed to a counterparty default risk from its operating business and certain financing activities. The default risk arising from financial assets is recognised through appropriate valuation adjustments, taking existing collateral into account. In order to reduce the default risk relating to non-derivative financial instruments, the Group takes various precautionary measures, such as obtaining collateral or guarantees where it appears appropriate as a result of creditworthiness checks. The default risk is considered minimal for the financial assets which are neither past due nor impaired.

The maximum default risk is reflected primarily by the carrying amounts of the financial assets stated in the statement of financial position (including derivative financial instruments with a positive market value). On the reporting date, there were no material agreements reducing the maximum default risk (e.g. netting arrangements).

Liquidity risk

In order to guarantee the Group's ability to pay its debts at any time and its financial flexibility, revolving liquidity plans are prepared, which show the inflow and outflow of liquidity both in the short term and in the medium and long terms.

The analysis of maturities of financial liabilities with their contractual terms to maturity is shown in chapter V 11. "Financial liabilities".

Market risk

In the area of market price risks, the Group is exposed to currency risks, interest rate risks and other price risks.

Currency risks

The Group's currency risks result primarily from its operating activity and investments. Risks from foreign exchange rates are hedged insofar as they have a material influence on the cash flows of the Group.

In the operating area, the foreign exchange risks are attributable primarily to the fact that transactions recognised in the statement of financial position and planned transactions are processed in a currency other than the functional currency (euro).

Foreign exchange risks in the financing area are attributable to financial liabilities in foreign currency and loans in foreign currency, which are granted to Group companies for financing purposes. At the end of the year, the Group had short term trade liabilities denominated in foreign currencies, which do not result in a material risk from the viewpoint of the Company.

In the investment area, foreign currency risks arise mainly from the acquisition or disposal of investments in foreign companies.

To hedge against significant foreign exchange risks, the Group will use currency derivatives in the form of forward exchange transactions and foreign currency option contracts, if necessary. These currency derivatives secure the payments up to a maximum of one year in advance. On the reporting date, the Group was not exposed to significant foreign exchange risks in the operating area. For this reason, hedging transactions against foreign currency risks had not been concluded as at the reporting date.

In accordance with IFRS 7, the Group prepares sensitivity analyses in respect of market price risks in order to establish the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. The periodic effects are determined by relating the hypothetical changes in the risk variables to the volume of the financial instruments on the reporting date. It is assumed that the volume of the financial instruments on the reporting date is representative for the year as a whole.

Due to the low level of assets and liabilities in foreign currencies, the Group is not exposed to a material currency risk. On the reporting date, there were insignificant amounts of currencies other than the euro of relevance to the Group, i.e. the British pound and the US dollar.

Interest risks

The Group is exposed to interest risks mainly in the Euro zone. Taking the actual and the planned debt structure into account, the Group uses generally interest derivatives (interest swaps, interest caps) to counteract interest rate risks.

In the year under review, interest rate swaps were concluded in connection with new loans taken out because, from a business policy perspective, the time was right for the conclusion of the interest rate swaps.

In accordance with IFRS 7, interest rate risks are presented by means of sensitivity analyses. These show the effects of changes in market interest rates on interest payments, interest income and expense, other items included in the results and, if applicable, on the shareholders' equity. Interest rate sensitivity analyses are based on the following assumptions:

- Changes in the interest rate of non-derivative fixed interest bearing financial instruments affect profit or loss only if these instruments are measured at fair value. Accordingly, all fixed interest financial instruments carried at amortised cost are not exposed to interest rate risks within the meaning of IFRS 7.
- Changes in market interest rates have an effect on the interest result of non-derivative variable-interest financial instruments whose interest payments are not designated as underlying transactions in the context of cash flow hedges hedging against interest rate changes, and they are therefore taken into account in sensitivity analyses relating to the results.
- Changes in market interest rates of interest derivatives which are not integrated into a hedging relationship pursuant to IAS 39 have an effect on the interest result (valuation result from the adjustment of the financial assets to the fair value), and they are therefore taken into account in sensitivity calculations relating to the results.

If the market interest level on December 31, 2018 had been higher (lower) by 100 basis points, no effects would have occurred with regard to a revaluation reserve in the shareholders' equity. In addition, the interest result would have been euro 113 thousand lower/higher (prior year: euro 0 thousand).

Other price risks

In order to represent market risks, IFRS 7 also requires information on how hypothetical changes in other price risk variables can have an effect on the prices of financial instruments. In particular stock market prices or indices are relevant risk variables.

On December 31, 2018 and on December 31, 2017, the Company had no material financial instruments in its portfolio that were exposed to other price risks.

Risk concentration

Beyond the general (capital) market risks, there is no significant risk concentration from the management's point of view.

Fair values

The Group's financial instruments which are not carried at fair value include mainly cash equivalents, trade receivables, trade liabilities and other financial liabilities, overdrafts and long term loans.

The book value of cash equivalents and overdrafts is very close to their market value due to the short term of these financial instruments. As regards receivables and liabilities which are based on standard trade credit conditions, the book value based on historical cost is also very close to the market value.

The fair value of long term liabilities is based on the currently available interest rates for outside capital borrowed with the same maturity and credit rating profile.

Depending on the market value on the reporting date, derivative financial instruments are reported as other asset (with positive market value) or other liability (with negative market value).

Capital management

The objectives of the Company's capital management are

- ensuring the continued existence of the Company,
- guaranteeing adequate interest yield on shareholders' equity and
- maintaining an optimum capital structure that minimises capital costs as much as possible.

In order to maintain or to modify the capital structure, the Company issues new shares as required, assumes liabilities or disposes of assets to redeem liabilities.

The capital structure is monitored using the debt/equity ratio, which is calculated from the ratio of net borrowed capital to total capital. The net borrowed capital consists of short- and long-term financial liabilities (liabilities to banks, bonds, liabilities to leasing companies, other financial liabilities) less cash and cash equivalents. The total capital consists of shareholders' equity plus net borrowed capital.

Individual companies of the power generation segment are subject to liquidity reserve requirements from banks, which are taken into account in monitoring the capital structure, but which in total have no significant effects on the capital structure and its availability at the Group level.

The strategy of the Company is to maintain a debt/equity ratio of up to 70 percent in order to ensure continued access to borrowed capital at reasonable cost by maintaining a good credit rating.

Taking the liquid funds into account, the net debt (cash and cash equivalents less the short-term and long-term financial liabilities) as at December 31, 2018 amounted to euro -33.7 million (December 31, 2017: net liquidity of euro +14.1 million).

in TEUR	31.12.2018	31.12.2017
Financial liabilities	162,787	179,860
./. Cash and cash equivalents	129,071	193,984
= Net borrowed capital	**33,716**	**-14,124**
+ Shareholders' equity	216,273	235,220
= Total capital	**249,989**	**221,096**
Debt ratio	**13.49%**	**-6.39%**

The strategy, unchanged in comparison with the previous year, for monitoring the capital structure has again achieved its objectives insofar as both the debt/equity ratio has not been exceeded and as all external requirements for securing liquidity were met.

VI. NOTES ON THE STATEMENT OF COMPREHENSIVE INCOME

1. REVENUES

Revenues are broken down according to product and service areas within the Group. In the reporting period, revenues were generated primarily from the projecting of wind power turbines segment, management and servicing of wind power turbines as well as from transformer station usage fees. In the electricity generation segment, revenues related primarily to the sale of electricity from current operations of the wind farms and the Silbitz biomass power station.

in TEUR	2018	2017
Revenue from contracts with customers	83,209	90,011
Other sources of revenue	8,170	24,065
Total revenue	**91,379**	**114,076**

The Group generates revenues from the transfer of goods and the provision of services, both over a period of time and at a point in time, in the following key product and service areas and geographical regions:

in TEUR	2018			
	Project development			
	Germany	Abroad	Electricity generation	Total
Revenue from contracts with customers	41,649	29,377	12,183	83,209
Other revenue	8,170	0	0	8,170
Revenues	**49,819**	**29,377**	**12,183**	**91,379**
The revenue from contracts with customers is attributable to:				
Projecting of wind power turbines	30,338	29,377		
Management and services	7,944	0		
Transformer station usage fees	3,367	0		
Time of revenue recognition				
at a point in time	30,338	29,377	0	59,715
over time	11,311	0	12,183	23,494

Other sources of revenue relate, in particular, to gain on disposal, recognised pursuant to IFRS 10, from the sale of shares in entities that operate in the project business.

Contractually agreed revenue volumes from services, which were attributable to performance obligations unsatisfied as at December 31, 2018, are expected to be recognised as revenue, net of expected sales deductions, as follows:

in TEUR	
Outstanding transaction price as at 31.12.2018	**67,450**
of which recognised as revenue within 1 year	6,986
of which recognised as revenue after 1 year up to 5 years	20,364
of which recognised as revenue after more than 5 years	40,100

The changes in deferred revenues (contract liabilities) between January 1, 2018 and December 31, 2018 result from the following factors:

in TEUR	
Contract liabilities as at 1.1.2018	17,894
Addition	1,839
Revenue recognised in the reporting period that was included in contract liabilities as at 1.1.	-1,212
Contract liabilities as at 31.12.2018	**18,521**

Contract liabilities arise primarily from advance payments made by wind farm operating companies for the use of transformer stations and from advance payments for services.

2. OTHER OPERATING INCOME

Other operating income includes mainly the following one-off effects:

- The reversal of impairment losses on receivables amounted to euro 1,077 thousand (prior year: euro 112 thousand).
- In fiscal 2018, deferred liabilities of euro 1,697 thousand (prior year: euro 1,160 thousand) were reversed, since the reasons for their recognition as a liability no longer existed.
- Income from compensation payments for ongoing wind farm projects from plant manufacturers of euro 501 thousand (prior year: euro 0 thousand).
- In the previous year, the major part of other operating income was attributable to the revaluation of the enterprise value of PNE WIND Partners Deutschland GmbH (PNE AG's share at that time was 20 percent) from approx. euro 330 million to approx. euro 360 million. The increase in value was due to the optimised financing structure of the wind farms. In 2017, the Group recorded income of euro 5,362 thousand resulting from this transaction.

3. PERSONNEL EXPENSES

Personnel expenses are made up as follows:

in TEUR	**2018**	**2017**
Wages and salaries	24,008	22,417
Social security and pension expenses	3,772	3,372
	27,780	**25,789**
Average annual number of employees	366	362
Personnel expenses per employee	76	71

The expenses for defined contribution plans pursuant to IAS 19 amounted to euro 1,387 thousand in the 2018 fiscal year (prior year: euro 1,293 thousand).

4. OTHER OPERATING EXPENSES

Other operating expenses include mainly the following items:

- Legal and consulting costs euro 4,188 thousand (prior year: euro 5,438 thousand)
- Rental and lease costs euro 2,765 thousand (prior year: euro 1,497 thousand)
- Impairments on trade receivables and other financial assets of euro 21 thousand (prior year: euro 1,450 thousand)
- Losses from the disposal of assets of euro 286 thousand (prior year: euro 66 thousand)
- Advertising and travel expenses euro 2,136 thousand (prior year: euro 2,185 thousand)

- Repair/maintenance costs (mainly "Silbitz" and the wind farm projects in the Group) euro 1,962 thousand (prior year: euro 1,539 thousand)
- Vehicle costs euro 1,237 thousand (prior year: euro 1,506 thousand)
- Insurance and contributions euro 1,037 thousand (prior year: euro 1,142 thousand)
- Accounting and auditing costs, including tax advice, euro 987 thousand (prior year: euro 955 thousand)
- Supervisory Board fees euro 630 thousand (prior year: euro 622 thousand)
- IT costs euro 453 thousand (prior year: euro 475 thousand)

5. OTHER INTEREST AND SIMILAR INCOME

Interest income includes interest on loans and overdrafts of euro 731 thousand (prior year: euro 393 thousand).

6. INTEREST AND SIMILAR EXPENSES

Interest and similar expenses include primarily

- interest on the 2013/2018 bond of euro 3,286 thousand (prior year: euro 8,000 thousand),
- interest on the 2018/2023 bond of euro 1,336 thousand (prior year: euro 0 thousand),
- interest on the 2014/2019 convertible bond of euro 246 thousand (prior year: euro 246 thousand),
- interest on loans and overdrafts of euro 3,066 thousand (prior year: euro 1,036 thousand)
- interest accrued on the transaction costs for bonds and the convertible bond of euro 744 thousand (prior year: euro 1,290 thousand)
- Changes in value of derivative financial instruments of euro 1,209 thousand (prior year: euro 0 thousand).

In the 2018 fiscal year, borrowing costs of euro 21 thousand (prior year: euro 210 thousand) were capitalised at a capitalisation rate of 3.0 percent (prior year: 2.67 percent) and borrowing costs of euro 997 thousand (prior year: euro 910 thousand) at a capitalisation rate of 8.0 percent (prior year: 8.0 percent).

7. TAXES ON INCOME

Income tax income is made up as follows:

in TEUR	2018	2017
Current taxes	**5,584**	**2,482**
Deferred taxes		
from consolidation effects and HBII adjustments	-2,790	-3,149
from separate financial statements	-2,844	337
	-5,634	**-2,812**
	-50	**-330**

Current taxes include corporation tax plus solidarity surcharge and trade tax for the domestic companies and comparable taxes on income for the foreign companies.

For the domestic companies, the corporation tax amounted to 15 percent; the solidarity surcharge remained unchanged at 5.5 percent on corporation tax. Including the trade tax, the total tax liability of the domestic companies was approximately 30 percent.

The individual tax rates for the relevant countries provide the basis for the foreign companies.

There were no major changes in tax expense due to changes in the relevant national tax rates.

On the reporting date, the Group had estimated tax loss carry-forwards in Germany of approx. euro 96 million (prior year: approx. euro 91 million) and of approx. euro 60 million abroad (prior year: approx. euro 59 million), which can be offset against future profits. A deferred tax claim of euro 2,190 thousand (prior year: euro 2,588 thousand) was recognised for these losses and adjusted in the amount of euro 1,389 thousand. In view of the loss situation in the past (abroad) and the almost full tax exemption of disposals of shares in corporations in Germany, deferred tax assets on loss carry-forwards are only capitalised in the amount that can be reliably realised in the future through positive taxable profit differences. Domestic losses can be carried forward for an indefinite period. In respect of the substantial losses in the USA, the use of losses in the USA is limited to 12 or 20 years, respectively. No deferred taxes were recognised for loss carry-forwards in Germany of euro 91 million (prior year: euro 86 million) and abroad of euro 58 million (prior year: euro 59 million).

The following table shows the reconciliation from the calculated tax income to the income reported in the consolidated statement of comprehensive income:

in TEUR	2018	2017
Consolidated earnings before taxes on income	**-2,455**	**13,905**
Tax rate	30.0%	30.0%
Income tax expense – calculated	**-737**	**4,172**
Different tax rate	677	0
Additions/reductions (trade tax)	158	0
Tax refund from loss carryback	-170	-211
Unrecognised deferred taxes	7,300	2,716
Utilisation of loss carryforwards	-826	-972
Tax-free gain on disposal and other tax-free income	-6,405	-6,974
Tax expense/income unrelated to the period	247	40
Non-deductible expenses	-147	-105
Other consolidation effects	-147	1,005
Reported tax income/expense	**-50**	**-330**

Deferred taxes on valuation adjustments are determined generally on the basis of specific national tax rates. Since the significant items involving deferred taxes are domestic, an average tax rate of 30.0 percent (prior year: 30.0 percent) was applied.

Deferred taxes resulting from valuation differences arose in the following balance sheet items:

	31.12.2018		31.12.2017	
in TEUR	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Receivables and other assets	1,556	0	1,213	0
Inventories	4,885	2,462	962	1,378
Property, plant and equipment	8,145	305	8,152	2,510
Intangible assets	520	238	732	725
Liabilities	493	463	0	222
Other provisions	153	0	50	1
	15,752	**3,468**	**11,109**	**4,836**
Losses carried forward	2,190	0	2,588	0
Other consolidation effects incl. value adjustments	-1,389	0	-1,389	0
	16,553	**3,468**	**12,308**	**4,836**
Portion that cannot be offset	-4	-4	-590	-590
Deferred taxes	**16,549**	**3,464**	**11,718**	**4,246**

8. EARNINGS PER SHARE

Basic earnings per share

In 2018, the annual average number of registered shares amounted to 76,454 thousand (prior year: 76,556 thousand).

The basic earnings per share thus amounted to euro -0.01 per share (prior year: euro -0.22 per share).

	2018	2017
Consolidated net income (TEUR)	-1,044	17,075
Weighted average number of shares issued (thousands)	76,454	76,556
Earnings per share (EUR)	**-0.01**	**0.22**

Diluted earnings per share

The diluted earnings per share are calculated as follows:

in TEUR	2018	2017
Consolidated net income before elimination of dilution effects (TEUR)	-1,044	17,075
- Interest expense on convertible bond (TEUR)	246	246
Result after elimination (TEUR)	**-798**	**17,321**
Weighted average number of shares issued before dilution effects (thousands)	76,454	76,556
+ weighted average of convertible shares (thousands)	2,186	2,153
Weighted average number of shares issued after dilution effects (thousands)	**78,640**	**78,709**
Diluted earnings per share (EUR)	**-0.01**	**0.22**

VII. NOTES ON THE STATEMENT OF CASH FLOWS

The statement of cash flows was prepared using the indirect method of reporting cash flows.

1. LIQUID FUNDS

The liquid funds correspond to the item "cash and cash equivalents" in the statement of financial position.

2. RECONCILIATION BETWEEN AMOUNTS IN THE STATEMENT OF CASH FLOWS AND THE STATEMENT OF FINANCIAL POSITION

The statement of cash flows presents the change in cash and cash equivalents during the year under report due to the inflow and outflow of funds. In accordance with IAS 7, cash flows are classified as cash flows from operating activities, investing activities and financing activities. The effects of changes in the scope of consolidation have been eliminated.

3. NON-CASH EFFECTS

The statement of cash flows (net presentation) includes non-cash effects of euro 713 thousand (prior year: euro -5,273 thousand). This value consists primarily of

» currency differences totalling euro 523 thousand (prior year: euro -89 thousand).

In the previous year, the major part of non-cash effects was due to income of euro 5,362 thousand from the increase in the enterprise value of PNE WIND Partners Deutschland GmbH (PNE AG's share at that time was 20 percent) from approx. euro 330 million to approx. euro 360 million.

Another non-cash effect of euro 10,753 thousand in the 2018 fiscal year is shown as a separate item in the statement of comprehensive income under "Impairments of offshore inventories"

VIII. NOTES ON THE STATEMENT OF CHANGES IN EQUITY

TRANSACTION COSTS

As in the previous year, no significant transaction costs were incurred.

IX. SEGMENT REPORTING

During the year under report, the operating business activities of the Company consisted primarily of the project planning, construction and operation of wind farms and transformer stations for the generation of electricity, the servicing of wind power turbines as well as the raising of equity capital for wind farm operating companies. Another area of activity is the environmentally friendly production of electricity under economically sustainable conditions.

In the 2017 and 2018 fiscal years, the Company planned and constructed wind farms in Germany, which were initially held in its own portfolio. Since the company-owned wind farms are operated by the Company itself regardless of their current or future shareholder structure and are used to generate electricity, the wind farms have been included in the electricity generation segment from the date of sale within the Group.

The internal organisation and management structure as well as internal reporting to the Board of Management and the Supervisory Board form the foundation for determining the segment reporting format of PNE AG. As a result, a categorisation is made into the two areas of projecting of wind power turbines and electricity generation

As a matter of principle, the business relationships between the companies of the PNE AG Group are based on prices that are also agreed with third parties. Internal reporting, which is based on segment reporting, is based exclusively on the values of the Group's IFRS accounting explained in these consolidated financial statements. Both onshore and offshore wind power turbines are planned in accordance with a standardised process.

The revenues with external customers and the segment assets of the "projecting of wind power turbines" and "electricity generation" segments are attributable mainly to Germany and France. In the "projecting of wind power turbines" segment, revenues were realised with external customers, which amounted to more than 10 percent of total revenues. During the reporting year, sales of approx. euro 13.4 million, which can be assigned to the domestic area, were generated with one customer. Further sales with customers that can be assigned to the foreign area were generated with one customer, totalling approx. euro 9.6 million. No other single customer contributed 10 percent or more to consolidated sales. In the previous year, sales of approx. euro 22.9 million were generated with one customer, sales of approx. euro 13.3 million with another customer and sales of approx. euro 12.9 million with a third customer, which were allocated to the domestic segment. Further sales with customers that can be assigned to the foreign segment were generated with one customer, totalling approx. euro 11.7 million.

Long term assets are attributable to the following regions:

in TEUR	31.12.2018	31.12.2017
Germany	162,872	172,675
Other countries	302	512
	163,174	**173,187**

In the segment of projecting of wind power turbines, a major part of all external sales is attributable to customers with whom the Group has maintained long term and sustainable business relationships. The electricity produced in the electricity generation segment is fed into the public grid.

The share of associated companies accounted for using the at-equity method in the result for the period is included in the "projecting of wind turbines" segment with euro 20 thousand (prior year: euro -451 thousand) and in the "electricity generation" segment with euro 46 thousand (prior year: euro 1,411 thousand).

X. OTHER DISCLOSURES

1. OPERATING LEASES

There are other financial obligations from rental and leasing agreements amounting to euro 5,936 thousand (prior year: euro 6,001 thousand).

A significant component of these other financial obligations of euro 4,398 thousand (prior year: euro 4,374 thousand) is attributable to a rented office building, which was sold in 2016 under a sale and leaseback agreement. The lease has a term of fifteen years as of 2017 and includes two options of extending the lease by a further five years after the end of this initial period. In addition, the Company has a one-off unilateral special right of termination after ten years. The rent to be paid to the lessor will be adjusted regularly to the market rent based on a price index, and the Group has no share in the residual value of the land and buildings. Accordingly, it was determined that all risks and rewards of the land and buildings are attributable to the lessor. The Company has the right to sublet the object. Fourteen subtenants have rented 46 percent of the building's useable area. The sublease agreements of the years before 2017 each have a term of one year and are renewed automatically, unless they are terminated before the end of the period of notice. With the new subtenants, who have been admitted to the building as of 2017, open-ended tenancy agreements have been concluded, which provide for a period of notice of three months. The subtenants are two entities of the PNE AG Group, two of the WKN Group and ten companies outside the Group. The annual rental income amounts to euro 327 thousand.

Other obligations arise primarily from leasing contracts for vehicle and office equipment.

The maturities of rental and leasing obligations are structured as follows:

in TEUR	31.12.2018	31.12.2017
Rental and leasing obligations		
Remaining term of up to 1 year	1,243	1,203
Remaining term of 1 to 5 years	2,749	2,852
Remaining term of more than 5 years	1,944	1,946
	5,936	**6,001**

2. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

On the reporting date, there were contingent liabilities arising from the provision of guarantees for:

in TEUR	31.12.2018	31.12.2017
Various wind farm projects	44,021	20,518
Other	463	466
	44,484	**20,984**

WKN GmbH issued contract performance guarantees totalling euro 25,766 thousand (prior year: euro 14,010 thousand) for its own transactions and transactions of subsidiaries. These contract performance guarantees are based on contracts which WKN GmbH concluded for construction services as part of general contractor agreements or which oblige WKN GmbH to perform construction services in the future (e.g. dismantling of a wind measurement station) and which will be performed as scheduled. The guarantees serve to protect the contracting parties. At present, it is not expected that the guarantees will be used, since the underlying obligations have not yet occurred and no structural defects have occurred.

A claim from the other guarantees issued in the amount of euro 18,718 thousand (prior year: euro 6,974 thousand) is also not expected from today's perspective.

Moreover, there are obligations from order commitments for wind power turbines in the net amount of euro 16,695 thousand (prior year: euro 6,585 thousand). The obligations under order commitments are fully due within one year.

Other financial obligations of euro 115 thousand (prior year: euro 26 thousand) arise from cooperation in respect of project development abroad.

No material risks can be identified from these transactions.

3. ASSUMPTIONS OF THE MANAGEMENT CONCERNING FUTURE DEVELOPMENTS AND OTHER VALUATION UNCERTAINTIES

The companies of the PNE Group are active in the development, project planning and operation of onshore and offshore wind farms in 13 countries on three continents. The general conditions are continually subject to changes. On the one hand, the expansion of renewable energies will experience a worldwide upswing as a result of the Paris climate protection agreement (COP 21), which came into force in November 2016.

On the other hand, market changes due to various political developments and the ongoing banking crisis lead to regulatory uncertainties. For details regarding uncertain future developments and the strategic objectives of PNE AG, we also refer to the explanations in point 8 "Report on opportunities and risks" in the combined management report.

4. TRANSACTIONS WITH RELATED COMPANIES AND PERSONS

With regard to the financial statements of PNE AG and its subsidiaries included in the consolidated financial statements, please consult the list of shareholdings.

Until the change of form to WKN GmbH on September 3, 2018, the following persons were members of WKN AG's Supervisory Board:

- Markus Lesser, CEO of PNE AG,
- Jörg Klowat, CFO of PNE AG,
- Thorsten Fastenau, General Representative of PNE AG.

The Supervisory Board of WKN AG held a total of five meetings (previous year: nine meetings) in the 2018 financial year until the change of form and received attendance fees totalling euro 15 thousand net (prior year: euro 27 thousand) and fixed remuneration of euro 36 thousand (prior year: euro 54 thousand).

The remuneration and the shareholdings of the members of the Supervisory Board and the Board of Management are explained in chapter X. 5.

5. INFORMATION ON THE SUPERVISORY BOARD AND THE BOARD OF MANAGEMENT

Supervisory Board

- Mr. Per Hornung Pedersen, Hamburg, self-employed corporate consultant (Chairman)
- Dr. Jens Kruse, Hamburg, Head of Corporate Finance at M.M. Warburg & Co. (AG & Co.) KGaA, Hamburg, (Deputy Chairman)
- Mr. Marcel Egger, Apensen, member of the group management board of the EUROGATE Group
- Dr. Isabella Niklas, Hamburg, lawyer at the law firm Osborne Clarke, Hamburg (until April 30, 2018), spokeswoman of the management, Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement GmbH (HGV) (from May 1, 2018) (member of the Supervisory Board until December 31, 2018)
- Mr. Andreas M. Rohardt, Hermannsburg, managing shareholder of ARO Greenergy GmbH, Hermannsburg
- Mr. Florian Schuhbauer, Frankfurt am Main, managing director of Active Ownership Advisors GmbH, Frankfurt am Main

Mr. Per Hornung Pedersen is or was a member of the Supervisory Board or another controlling body of the following companies within the meaning of Section 125 (1) sentence 3 of the German Stock Corporation Act (AktG):

- Suzlon Energy Ltd., Mumbai, India
- Sea Tower AS, Oslo, Norway

Dr. Jens Kruse is or was a member of the Supervisory Board or another controlling body of the following companies within the meaning of Section 125 (1) sentence 3 of the German Stock Corporation Act (AktG):

- Biesterfeld AG, Hamburg
- MAX Automation SE (formerly MAX Automation AG), Düsseldorf, (Deputy Chairman of the Supervisory Board until January 29, 2019; Chairman of the Board of Directors since January 29, 2019)

Mr. Marcel Egger is or was a member of the Supervisory Board or another controlling body of the following companies within the meaning of Section 125 (1) sentence 3 of the German Stock Corporation Act (AktG):

- J.F. Müller & Sohn AG, Hamburg
- EUROGATE Tanger S.A., Tanger, Morocco (until December 22, 2018)
- Member of the Board of Directors (group-internal mandates of the EUROGATE Group) of:
  - NTB North Sea Terminal Bremerhaven GmbH & Co, Bremerhaven
  - MSC Gate Bremerhaven GmbH & Co. KG, Bremerhaven
  - LISCONT Operadores de Contentores S.A., Lisbon, Portugal
  - EUROGATE Container Terminal Limassol Limited, Limassol, Cyprus
  - OOO Ust-Luga Container Terminal, Ust-Luga, Russia

Mr. Florian Schuhbauer is or was a member of the Supervisory Board or another controlling body of the following companies within the meaning of Section 125 (1) sentence 3 of the German Stock Corporation Act (AktG):

- Active Ownership Capital S.à r.l., Luxembourg
- Active Ownership Fund SICAV-FIS SCS, Luxembourg
- exceet Group SE, Luxembourg

Mr. Andreas M. Rohardt is or was a member of the Supervisory Board or another controlling body of the following companies within the meaning of Section 125 (1) sentence 3 of the German Stock Corporation Act (AktG):

- SOEX GROUP, Ahrensburg, (Chairman of the Advisory Board)

Dr. Isabella Niklas is or was a member of the Supervisory Board or another controlling body of the following companies within the meaning of Section 125 (1) sentence 3 of the German Stock Corporation Act (AktG):

- GMH Gebäudemanagement Hamburg GmbH, Hamburg (since August 31, 2018)
- HADAG Seetouristik und Fährdienst AG, Hamburg (since July 19, 2018)
- HHLA 1. Speicherstadt Immobilien GmbH & Co. KG, Hamburg (Chairwoman) (June 12 to July 3, 2018)
- HHLA 2. Speicherstadt Immobilien GmbH & Co. KG, Hamburg (Chairwoman) (June 12 to July 3, 2018)
- HHLA Immobilien Speicherstadt GmbH, Hamburg (June 12 to August 6, 2018)
- SNH Stromnetz Hamburg GmbH, Hamburg (since August 9, 2018)
- VWH Vattenfall Wärme Hamburg, Hamburg (since September 1, 2018)
- SBH Schulbau Hamburg, Hamburg (Administrative Board, since August 23, 2018)
- HHLA Hamburger Hafen- und Logistik Aktiengesellschaft (Supervisory Board, since June 12, 2018)

The fixed remuneration paid to the Supervisory Board members during the 2018 fiscal year amounted to euro 530 thousand (prior year: euro 530 thousand). Pursuant to the articles of association, the Chairman receives euro 120 thousand, the Deputy Chairman euro 90 thousand and the other members of the Supervisory Board euro 60 thousand as fixed remuneration. In addition, each member of the Supervisory Board receives euro 1 thousand per meeting. The Chairman of the Audit Committee receives fixed remuneration of euro 30 thousand and each other member of the Audit Committee euro 15 thousand as additional remuneration. The chairpersons of other Supervisory Board committees receive additional remuneration of euro 20 thousand. The total remuneration of the Supervisory Board in the 2018 fiscal year amounted to euro 630 thousand (prior year: euro 622 thousand). In addition, the Company bears the cost of directors' and officers' liability insurance for all members of the Supervisory Board.

in TEUR	Fixed remuneration 2018	Attendance fees 2018	Total remuneration 2018
Mr. Pedersen	140.0	18.0	158.0
Mr. Kruse	105.0	16.0	121.0
Mr. Egger	90.0	16.0	106.0
Mrs. Niklas	75.0	15.0	90.0
Mr. Rohardt	60.0	18.0	78.0
Mr. Schuhbauer	60.0	17.0	77.0
	530.0	**100.0**	**630.0**

Of the members of the Supervisory Board, Mr. Marcel Egger held 40,000 shares in the Company on December 31, 2018. On December 31, 2018, 3,885,383 shares were attributable to the Supervisory Board member, Mr. Florian Schuhbauer, via the Active Ownership Fund SICAV-FIS SCS. This corresponds to a total of 3,925,383 shares of the Company.

Board of Management

- Mr. Markus Lesser, Korschenbroich, (Chairman) (CEO)
- Mr. Jörg Klowat, Cuxhaven, (CFO)
- Mr. Kurt Stürken, Hamburg, (COO)

Mr. Markus Lesser is or was a member of the Supervisory Board or another controlling body of the following companies within the meaning of Section 125 (1) sentence 3 of the German Stock Corporation Act (AktG):

- WKN AG (now WKN GmbH), Husum, (Chairman of the Supervisory Board) (until September 3, 2018)
- RenCon GmbH, Kaarst

Mr. Jörg Klowat is or was a member of the Supervisory Board or another controlling body of the following companies within the meaning of Section 125 (1) sentence 3 of the German Stock Corporation Act (AktG):

- WKN AG (now WKN GmbH), Husum, (Deputy Chairman of the Supervisory Board) (until September 3, 2018)

Mr. Kurt Stürken is or was a member of the Supervisory Board or another controlling body of the following companies within the meaning of Section 125 (1) sentence 3 of the German Stock Corporation Act (AktG):

- Vindstyrka i Trelleborg AB, Eslöv, Sweden
- Lejesta Kraft AB, Eslöv, Sweden
- Sturken GmbH, Salzhausen

For their activity during the 2018 fiscal year, the members of the Board of Management received total remuneration (including accrued liabilities for bonuses) of euro 2,254 thousand (prior year: euro 2,046 thousand) or corresponding provisions were formed.

In addition, the Company bears the costs of Directors' and Officers' Liability Insurance for all members of the Board of Management.

The distribution of remuneration of the individual members of the Board of Management pursuant to the German Corporate Governance Code is shown under point 10.4. "Remuneration report" in the combined management report.

The members of the Company's Board of Management held the following number of shares on December 31, 2018:

» Mr. Jörg Klowat, Cuxhaven
  80,000 shares (prior year: 100,000 shares)
» Mr. Markus Lesser, Korschenbroich
  24,000 shares (prior year: 24,000 shares)

ADDITIONAL DISCLOSURES FOR GERMAN PARENT COMPANIES IN THE IFRS CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH SECTION 315e OF THE GERMAN COMMERCIAL CODE (HGB)

6. GROUP AUDITORS' FEES

During the 2018 fiscal year, the following fees were charged by the group auditors:

in TEUR	
Audit of annual financial statements (separate and consolidated)	653[1]
Other attestation services	106
Other services	16
	775

[1] Of which for the prior fiscal year: euro 136 thousand

The fee for auditing services also includes fees for the review of the half-year financial report and fees for the performance of voluntary audits of group companies.

7. GERMAN CORPORATE GOVERNANCE CODE

The German Corporate Governance Code is a legal guideline for the monitoring and supervision of listed companies in Germany. It summarises the nationally and nationally recognised standards for responsible business management. The objective of the guideline is to support the confidence of investors, customers, employees and the general public in German business management. Once every year, the Board of Management and the Supervisory Board must issue a declaration, in which they declare to what extent they have complied with the German Corporate Governance Code.

The last declaration of compliance was issued in September 2018.

The declaration of compliance is published on our website www.pne-ag.com in the "Investor Relations" section under Corporate Governance and can be downloaded there.

8. INFORMATION ON EMPLOYEES

Average annual number of employees

in TEUR	2018	2017
Executives (excluding Board of Management of PNE AG)	60	59
Salaried employees	277	272
Wage earners	29	28
	366	**359**

9. EVENTS AFTER REPORTING DATE

No events have occurred since the end of the period under report which have significant effects on the earnings, financial and asset situation.

Cuxhaven, March 22, 2019

PNE AG

Markus Lesser	Jörg Klowat	Kurt Stürken
Chairman of the Board of Management	Board of Management	Board of Management

STATEMENT MADE BY THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

PNE AG. The Board of Management

Markus Lesser Jörg Klowat Kurt Stürken

INDEPENDENT AUDITOR'S REPORT

To PNE AG (formerly: PNE WIND AG), Cuxhaven/Germany

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of PNE AG (formerly: PNE WIND AG), Cuxhaven/Germany, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the group segment reporting for the financial year from 1 January to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report on the Parent and the Group of PNE AG, Cuxhaven/Germany, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the Group's statement on corporate governance pursuant to Section 315d German Commercial Code (HGB) combined with the statement on corporate governance pursuant to Section 289f German Commercial Code (HGB), which is referred to in the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- » the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- » the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the group's statement combined with the statement on corporate governance referred to above.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following, we present the key audit matters we have determined in the course of our audit:

1. Goodwill impairment test

2. Recoverability of the offshore project inventories

3. Recoverability of the foreign onshore project inventories

4. Recognition of revenue generated with the planning and construction as well as sale of onshore and offshore wind farm projects

5. Tax risks arising from income taxes

Our presentation of these key audit matters has been structured as follows:

a) description (including reference to corresponding information in the consolidated financial statements and in the combined management report)

b) auditor's response

1. Goodwill impairment test

a) The item "Intangible assets" in the consolidated statement of financial position includes goodwill in the amount of mEUR 63.4 (accounts for 14.0% of total assets). The goodwill is tested for impairment as at 31 December each financial year in accordance with IAS 36. During these impairment tests, the carrying values of the cash-generating units are compared with the realisable values. The impairment tests were conducted by an independent advisor consulted by the executive directors of PNE AG. This advisor prepared expert opinions pursuant to the requirements of the opinion on financial reporting of the Institute of Public Auditors in Germany (IDW RS HFA 40). Measurement was based on valuation techniques according to the discounted cash flow method. The result of the measurement highly depends on estimates of the future cash inflows made by the executive directors and of the discount rates used and, therefore, is subject to major uncertainties. In the light of the significance of the involved amount of goodwill and due to the complex underlying valuation techniques, we classified this matter as a key audit matter as part of our audit.

The Company's information on the goodwill is provided in sections "IV.1 Intangible assets", "IV.3 Impairment of intangible assets and property, plant and equipment" and "V.1 Intangible assets" in the notes to the consolidated financial statements.

b) As part of our audit of the audit matter, we used the knowledge and audit results gained in previous years. For the purpose of risk assessment, we obtained an understanding of the past adherence to the budget. We assessed the operational and organisational structure with respect to appropriateness and effectiveness of the implemented controls regarding the corporate budgeting process. This particularly relates to the periodical assessment of liquidity and of the appropriateness and realisability of the cash-generating units' corporate budget by the executive directors of PNE AG for the purpose of the goodwill impairment test.

As part of our audit, we used the work of the expert instructed by the executive directors of PNE AG. We assured ourselves of the competence, capabilities and objectivity of the expert. As regards the evaluation of the appropriateness of the assumptions, techniques and models of the measurement technique, we consulted internal experts of the Valuation Services function, who assisted us in assessing the approach used to conduct the impairment test and the parameters including weighted average cost of capital used to determine the applied discount rates as well as the calculation methods. Furthermore, in order to assess the future cash inflows applied to the calculation, we compared the future cash inflows with the current target values specified in the three-year budget adopted and approved by the executive directors and supervisory board, respectively, and examined them for plausibility. As we know that even relatively small changes of the discount rate used can have major effects on the amount of the realisable amount determined in this way for the cash-generating units, we also assessed the sensitivity analyses prepared by the Company. In addition, we inspected all minutes of the executive directors' meetings and supervisory board meetings and considered the discussions held and explanations made in such meetings about the business development of the individual cash-generating units for the purpose of plausibility.

2. Recoverability of the offshore project inventories

a) The item "Inventories" in the consolidated statement of financial position includes, after write-downs of mEUR 10.8, work in progress related to offshore wind farms under development in the amount of mEUR 15.0 (accounting for 3.3% of the consolidated total assets). The original acquisition and production cost of the wind farms amounted to mEUR 25.8.

Following the publication of the final draft of the site development plan issued in October 2018 based on the German Offshore Wind Energy Act (WindSeeG) and discussed in January 2019, the executive directors made a new estimate of the recoverability of the project inventories based on the site development plan. This new estimate has resulted in a complete write-down (mEUR 10.8) of the projects "Nemo", "Nautilus" and "Jules Verne" located in zone 4. On the other hand, the executive directors continue to consider the realisation of the projects "Atlantis II" and "Atlantis III" located in zone 3 to be likely. Accordingly, the inventories of these projects were not written down.

In the light of the significance of the involved amount of related work in progress and as the assessment of the recoverability highly depends on the estimates by the executive directors, this matter was classified as a key audit matter as part of our audit.

The information provided by the executive directors on the related work in progress is provided in sections "IV.7 Inventories" and "V.4 Inventories" as well as "X.3 Executive Directors' Estimates of Future Trends and Other Measurement Uncertainties" in the notes to the consolidated financial statements. In addition, the risks related to the recoverability of work in progress are specified in section "8. Report on Opportunities and Risks" in the combined management report.

b) We assessed the organisational and operational structure with respect to the appropriateness and effectiveness of the implemented controls regarding the assessment of the recoverability of the offshore project inventories. This particularly relates to the periodical impairment tests of the project inventories disclosed in the consolidated financial statements conducted by the executive directors.

First, our substantive procedures were based on the estimate made by the executive directors on how the final draft of the site development plan affects the probability of the implementation of the offshore projects. As part of our audit, we discussed the effects of the final draft of the site development plan on the probability of the realisation of the offshore projects in detail with the executive directors of PNE AG and the head of the Offshore department of PNE AG. We consulted a lawyer of Deloitte Legal for a legal analysis of the matters and of the estimates made by the executive directors.

In addition, we conducted audit procedures on the completeness and accuracy of the related disclosures made in the notes to the consolidated financial statements.

3. Recoverability of the foreign onshore project inventories

a) The item "Inventories" in the consolidated statement of financial position includes work in progress of mEUR 74.9 (accounting for 16.5% of the Group's total assets) related to onshore wind farm projects under development. Onshore project inventories of mEUR 37.8 relate to foreign projects.

The success of the onshore wind farm projects projected by PNE Group primarily depends on the corresponding feed-in tariffs, which considerably affects the projects' profitability in the individual countries. Amendments to the regulatory framework in countries, where PNE Group has operations (e.g. amendments to the legally guaranteed feed-in tariff), have a considerable effect on the measurement of work in progress stated in the consolidated statement of financial position. In addition, projects can become unprofitable and result in liquidity shortages and endanger the required cash flows due to the lack of approvals, unsuccessful participation in auctions generally required in foreign countries to secure feed-in tariffs and due to delays. Each of this affects the recoverability of the project inventories. The estimate of the recoverability of onshore wind farm projects by the executive directors of PNE AG is largely subject to the executive directors' judgement in the light of frequent regulatory changes and little experience in foreign projects.

In the light of the significance of the involved amount of the work in progress and the evaluation of the recoverability, which, to a great extent, is based on the executive directors' judgement, we classified this matter as a key audit matter as part of our audit.

The information provided by the executive directors on the related work in progress is provided in sections "IV.7 Inventories" and "V.4 Inventories" as well as "X.3 Executive Directors' Estimates of Future Trends and Other Measurement Uncertainties" in the notes to the consolidated financial statements. In addition, the risks related to the realisation of projects are specified in section "8. Report on Risks and Opportunities" in the combined management report.

b) As part of our audit of the audit matter, we used the knowledge and audit results gained in previous years. We assessed the organisational and operational structure of inventory measurement with respect to appropriateness and effectiveness of the implemented controls. This particularly relates to the periodical impairment tests of the project inventories disclosed in the consolidated financial statements conducted by the executive directors.

We classified the recoverability of foreign project inventories as a major risk. As part of our audit, we examined the audit processes of the foreign component auditors by inspecting selected onshore projects and based on discussions with the component auditors during phone calls or on site. In addition, we reviewed the reports prepared by the component auditors in a critical manner.

In addition, we discussed the recoverability of work in progress regarding foreign project inventories with the executive directors of PNE AG and with the corresponding group entities.

Moreover, we reviewed the information provided by the executive directors of PNE AG on the realisability of foreign onshore projects on a sample basis based on budgets and project calculations prepared by group entities.

Furthermore, we inspected all minutes of executive directors' meetings and supervisory board meetings as well as the minutes of the periodical meetings of the project leaders for any indication for need of impairment.

4. Realisation of revenue generated with the planning and construction as well as sale of onshore and offshore wind farm projects

a) The revenue disclosed in the consolidated statement of comprehensive income amounts to mEUR 91.4. Revenue of kEUR 79.1 relates to the planning and construction as well as the sale of onshore and offshore wind farm projects.

As the revenue generated with the planning and construction as well as the sale of onshore and offshore wind farm projects is subject in part to complex contract arrangements and since this revenue had to be reviewed again following the first-time adoption of IFRS 15, we classified this matter as a key audit matter as part of our audit.

The information provided by the executive directors on the revenue generated with the planning and construction as well as the sale of onshore and offshore wind farm projects is included in sections "IV.14 Revenue" and "VI.1 Revenue" in the notes to the consolidated financial statements.

b) As part of our audit of the revenue, we assessed at Group level the organisational and operational structure of the projection process for appropriateness and effectiveness of the implemented controls by using the knowledge gained during audits in previous years and based on the economic and legal environment of the Company.

In this context, we focused on the analysis of the contract principles and of contract terms taking into account compliance with the requirements for revenue recognition according to IFRS 15 concerning all material transactions. Moreover, we reviewed compliance with the requirements of revenue recognition. Our audit procedures, therefore, were particularly based on the underlying contracts, invoices and customer acceptance protocols and other proof of services rendered as well as records of payment. Moreover, we discussed the related audit results of the foreign component auditors with these component auditors within the scope of our audit. In addition, we assessed particularly complex matters in consultation with internal IFRS experts for the presentation in the consolidated financial statements in compliance with the requirements under IFRS. In addition, we conducted audit procedures on the completeness and accuracy of the related disclosures made in the notes to the consolidated financial statements.

5. Tax risks arising from income taxes

a) The current government tax audit at WKN GmbH concerning the assessment periods from 2010 until 2013 may result in risks for PNE Group in the light of potential findings and resulting additional tax payments and interest. A final meeting with the tax office was held in January 2019. According to the result of the final meeting between the executive directors of WKN GmbH plus their tax advisers and the tax office, both parties still have different opinions on the tax treatment of individual matters. Tax assessment notices concerning the related tax assessment periods had not been issued by the time we completed our audit.

For the majority of the matters reviewed as part of the government tax audit, the executive directors of PNE AG see no reason to set up a provision in the consolidated statement of financial position as at 31 December 2018. However, the executive directors have set up provisions totalling around mEUR 1.2 for individual transactions that had been considered in the government tax audit and were agreed on in the final meeting. In the light of the complex tax assessments of transactions and the possible effects on the assets, liabilities, financial position and financial performance of PNE Group in a medium one-digit million amount, we classified the recognition and measurement of these provisions as a key audit matter as part of our audit.

The executive directors' information on tax risks is included in sections "V.9 Provisions for Taxes" in the notes to the consolidated financial statements and "8. Report on Opportunities and Risks" in the combined management report.

b) We assessed the operational and organisational structure with respect to the appropriateness of the implemented controls regarding the transactions reviewed as part of the government tax audit. This particularly relates to the evaluation and estimation of risks by the executive directors of PNE AG and WKN GmbH, who consulted tax advisers in this regard.

As part of our audit, we used the results of the experts consulted by the executive directors of WKN GmbH for the preparation of the tax-related effects of the risks. For this reason, we assured ourselves of the competence, capabilities and objectivity of the experts. In addition, we reviewed and assessed the reports prepared by the experts and assessed the executive directors' estimate of the outcome of the government tax audit. For this reason, we have talked to the executive directors of the Parent and the executive directors of WKN GmbH and tax advisers of WKN GmbH. We consulted internal experts of our Tax department and internal IFRS experts for our audit procedures.

We assessed the disclosures in the notes to the consolidated financial statements for completeness and accuracy.

Other Information

The executive directors are responsible for the other information. The other information comprises:

- the Group's statement on corporate governance pursuant to Section 315d German Commercial Code (HGB) combined with the statement on corporate governance pursuant to Section 289f German Commercial Code (HGB) referred to in the combined management report,
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code,
- the executive directors' confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 German Commercial Code (HGB), respectively, and
- all the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

» identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
» obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
» evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
» conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
» evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS, as adopted by the EU, and with the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB).
» obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the shareholders' general meeting on 6 June 2018. We were orally engaged by the supervisory board on 6 June 2018. We have been the group auditor of PNE AG, Cuxhaven/Germany, without interruption since the financial year 2009.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to group entities the following services that are not disclosed in the consolidated financial statements or in the combined management report:

- Issuance of a comfort letter in connection with a corporate bond
- Participation in the shareholders' general meeting 2018
- Holding a workshop to present the general innovations as part of the introduction of the new IFRS 16 "Leases".

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Dr. Arno Probst.

Hamburg/Germany, 22 March 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Christian Dinter	Signed: Dr. Arno Probst
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

FINANCIAL STATEMENTS OF THE AG

CONTENTS

PROFIT AND LOSS ACCOUNT (HGB)

OF PNE AG, CUXHAVEN, FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2018

(differences from rounding off possible)	2018 in EUR	2017 in TEUR
1. Revenues	19,779,395.70	93,922
2. Increase / decrease in work in process	4,511,156.03	-436
3. Other operating income	10,280,328.99	40,322
4. Total aggregate output	**34,570,880.72**	**133,808**
5. Cost of purchased materials		
a) Cost of raw materials, supplies and purchased materials	-5,532,108.47	-54,751
b) Cost of purchased services	-6,690,117.12	-24,101
	-12,222,225.59	**-78,852**
6. Personnel expenses		
a) Wages and salaries	-10,616,893.42	-10,437
b) Social security contributions	-1,278,701.96	-1,230
	-11,895,595.38	**-11,667**
7. Amortisation and depreciation of intangible assets and items of property, plant and equipment	-566,087.61	-678
8. Impairment on Inventories	-8,438,056.09	0
9. Other operating expenses	-8,444,006.85	-7,070
10. Operating result	**-6,995,090.80**	**35,540**
11. Income from profit transfer agreements	1,736,270.29	2,192
12. Income from participations	24,000.00	10
13. Other interest and similar income	4,154,906.25	4,045
14. Amortisation of financial assets	-3,513,434.13	-28
15. Interest and similar expenses	-5,246,399.70	-8,526
16. Profit before Taxes	**-9,839,748.09**	**33,233**
17. Taxes on income (prior year: taxes on income reimbursed)	78,444.95	-563
18. Profit after Taxes	**-9,761,303.14**	**32,670**
19. Other taxes	-122,275.56	-58
20. Net income	**-9,883,578.70**	**32,612**
21. Profit carried forward	130,896,618.23	107,471
22. Dividend	-3,062,241.04	-9,187
23. Take out for repurchase of treasury shares	-3,613,257.45	0
24. Retained earnings	**114,337,541.04**	**130,897**
Earnings per share (undiluted)	-0.13 EUR	0.43 EUR
Average number of shares in circulation (undiluted) (in thousands)	76,454	76,556
Earnings per share (diluted)	-0.12 EUR	0.42 EUR
Average number of shares in circulation (diluted) (in thousands)	78,640	78,709

BALANCE SHEET (HGB)

OF PNE AG, CUXHAVEN, AS AT DECEMBER 31, 2018

Assets

(differences from rounding off possible)	Status as at 12/31/18 in EUR	Status as at 12/31/17 in TEUR
A. Fixed assets		
I. Intangible assets		
Acquire by purchase franchises, trademarks, licences and other similar rights as well as licences from such rights	100,497.12	135
	100,497.12	**135**
II. Property, plant and equipment		
1. Land and buildings including buildings on third-party land	10,215,070.37	10,545
2. Technical equipment and machinery	538,387.24	584
3. Other plant and machinery, fixtures and fittings	283,984.52	324
	11,037,442.13	**11,453**
III. Financial assets		
1. Participations in associated companies	105,644,905.79	88,969
2. Loans to associated companies	1,450,135.58	1,450
3. Participations	801,575.78	802
	107,896,617.15	**91,221**
Total fixed assets	**119,034,556.40**	**102,809**
B. Current assets		
I. Inventories		
1. Work in process	14,560,146.37	10,049
2. Finished goods	2,355.50	2
3. Prepayments	16,212,917.19	146
	30,775,419.06	**10,197**
II. Receivables and other assets		
1. Trade receivables	481,930.42	1,182
2. Receivables from associated companies	106,516,719.79	137,319
3. Receivables from participations	1.73	0
4. Other assets	2,459,758.81	1,356
	109,458,410.75	**139,857**
III. Cash on hand and cash in banks	**83,708,732.55**	**156,809**
Total current assets	**223,942,562.36**	**306,863**
C. Deferred charges	**158,718.46**	**149**
Total assets	**343,135,837.22**	**409,821**

Liabilities

(differences from rounding off possible)	Status as at 12/31/18 in EUR	Status as at 12/31/17 in TEUR
A. Shareholders' equity		
I. Capital issued / subscribed		
Capital issued / subscribed	76,557,803.00	76,556
Treasury shares	-2,189,853.00	0
Conditional capital EUR 20,000,000.00 (prior year: EUR 20,000,000.00)		
II. Capital reserves	**58,433,659.02**	**58,430**
III. Retained earnings	**114,337,541.04**	**130,897**
Total shareholders' equity	**247,139,150.06**	**265,883**
B. Special items for investment grants	**808,209.71**	**855**
C. Provisions		
1. Provision for taxes	37,667.00	306
2. Other taxes	7,730,854.01	12,476
	7,768,521.01	**12,783**
D. Liabilities		
1. Bonds	56,551,315.10	106,557
2. Liabilities to banks	4,045,356.26	2,486
3. Prepayments received on orders	15,211,800.00	0
4. Trade payables	1,112,825.32	6,808
5. Liabilities to associated companies	8,777,385.49	7,726
6. Liabilities to participations	0.00	0
7. Other liabilities	1,662,127.27	6,657
Total liabilities	**87,360,809.44**	**130,234**
E. Deferred income	**59,147.00**	**67**
Total liabilities and shareholders' equity	**343,135,837.22**	**409,821**

STATEMENT OF CASH FLOWS (HGB)

OF PNE AG, CUXHAVEN, FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2018

All figures in TEUR (differences from rounding off possible)		**2018**	**2017**
Net income		**-9,884**	**32,612**
+/-	Interest expense and income	1,091	4,480
-/+	Other income / losses from participations and profit (-) / losses from transfer agreements	-1,760	-2,202
+/-	Income tax expense and benefit	-78	563
-	Income tax payments	32	-813
+	Amortisation and depreciation of intangible assets and items of property, plant and equipment	566	678
+	Amortisation of financial assets	3,513	28
+/-	Amortisation of current assets	8,438	0
+/-	Decrease / Increase in provisions	-5,014	3,526
+/-	Other non-cash effective expenses and income	-47	-45
-	Gain from the disposal of fixed assets	0	-17,053
+/-	Decrease / increase of inventories and other assets	263	-22,960
-/+	Decrease / increase in trade receivables	700	9,367
-/+	Decrease / Increase in trade payables and other liabilities	7,214	4,445
Cash flow from operating activities		**5,034**	**12,626**
+	Inflow of funds from disposal of items of property, plant and equipment	3	9
-	Outlow of funds for investments in intangible assets and property, plant and equipment	-118	-419
+	Inflow of funds from the disposal of financial assets	0	37,508
-	Outflow of funds for investments in financial assets	-11,968	-8,885
-	Auszahlungen aus dem Erwerb von konsolidierten Unternehmen und sonstigen Geschäftseinheiten	-8,221	0
+	Interest received	4,155	4,045
+/-	Dividends received / profit transfer / assumption of losses	2,216	1,667
Cash flow from investing activities		**-13,933**	**33,925**
+	Inflow of funds from issue of bonds	50,000	0
+	Inflow of funds from financial loans	1,700	0
-	Payments to shareholder	-3,062	-9,187
-	Outflow of funds from the repayment of bonds	-100,000	0
-	Outflow of funds from the repurchase of treasury shares	-5,803	0
-	Outflow of funds from the repayment of financial loans	-140	-135
-	Interest paid	-5,246	-8,526
-	Payments for extraordinary items (capital increase costs)	-1,650	0
Cash flow from financing activities		**-64,201**	**-17,848**
Cash effective change in liquid funds (< = 3 months)		**-73,100**	**28,703**
+	**Liquid funds (< = 3 months) as at the beginning of the period**	**156,809**	**128,106**
Liquid funds as at the end of the period*		**83,709**	**156,809**
Supplementary note: the value of the liquid funds as at 31.12 corresponds to the balance sheet item "cash on hand and cash in banks, etc."			
* of which are pledged to a bank as security guaranteed credt lines		8,266	543

DEVELOPMENT OF SHAREHOLDERS' EQUITY (HGB)

OF PNE AG, CUXHAVEN, FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2018

	Capital subscribed			Reserve		
	Capital subscribed	Treasury shares		Capital reserve		
All figures in EUR	Ordinary shares	Ordinary shares	Total	according to § 272 (2) No. 1–3 HGB	Retained earnings / loss	Total shareholders equity
Status as at January 1, 2017	**76,556,026.00**	**0.00**	**76,556,026.00**	**58,430,110.17**	**107,471,103.89**	**242,457,240.06**
Dividend	0.00	0.00	0.00	0.00	-9,186,723.12	-9,186,723.12
Net income 2017	0.00	0.00	0.00	0.00	32,612,237.46	32,612,237.46
Status as at December 31, 2017 / January 1, 2018	**76,556,026.00**	**0.00**	**76,556,026.00**	**58,430,110.17**	**130.896.618,23**	**265.882.754,40**
Capital increase / decrease						
Purchase of treasury shares	0.00	-2,189,853.00	-2,189,853.00	0.00	-3,613,257.45	-5,803,110.45
Dividend	0.00	0.00	0.00	0.00	-3,062,241.04	-3,062,241.04
Convertible bond 2014/2019	1,777.00	0.00	1,777.00	3,548.85	0.00	5,325.85
Net income 2018	0.00	0.00	0.00	0.00	-9,883,578.70	-9,883,578.70
Status as at December 31, 2018	**76,557,803.00**	**-2,189,853.00**	**74,367,950.00**	**58,433,659.02**	**114,337,541.04**	**247,139,150.06**

SCHEDULE OF FIXED ASSETS (HGB)

OF PNE AG, CUXHAVEN, FOR THE FISCAL YEAR 2018

	Acquisition and manufacturing cost			
All figures in TEUR (differences from rounding off possible)	**Status as at 1.1.2018**	**Additions**	**Disposals**	**Status as at 31.12.18**
I. Intangible assets				
Acquire by purchase franchises, trademarks and similar rights as well as licences to such rights	645,609.54	6,060.45	20,654.55	631,015.44
	645,609.54	**6,060.45**	**20,654.55**	**631,015.44**
II. Property, plant and equipment				
1. Land and buildings including buildings on third party land	16,985,011.24	67,500.00	0.00	17,052,511.24
2. Technical equipment and machinery	823,354.84	0.00	0.00	823,354.84
3. Other plant and machinery, fixtures and fittings	2,122,588.68	44,915.23	229,666.45	1,937,837.46
	19,930,954.76	**112,415.23**	**229,666.45**	**19,813,703.54**
III. Financial assets				
1. Shares in associated companies	91,999,882.83	20,189,412.40	0.00	112,189,295.23
2. Loans to associated companies	1,450,075.58	60.00	0.00	1,450,135.58
3. Participations	801,575.78	0.00	0.00	801,575.78
	94,251,534.19	**20,189,472.40**	**0.00**	**114,441,006.59**
	114,828,098.49	**20,307,948.08**	**250,321.00**	**134,885,725.57**

Accumulated amortisation and depreciation				Book values	
Status as at 1.1.2018	Additions	Disposals	Status as at 31.12.18	Status as at 31.12.18	Status as at 31.12.17
510,333.37	40,839.50	20,654.55	530,518.32	100,497.12	135,276.17
510,333.37	**40,839.50**	**20,654.55**	**530,518.32**	**100,497.12**	**135,276.17**
6,439,863.31	397,577.56	0.00	6,837,440.87	10,215,070.37	10,545,147.93
238,936.60	46,031.00	0.00	284,967.60	538,387.24	584,418.24
1,799,116.13	81,639.55	226,902.74	1,653,852.94	283,984.52	323,472.55
8,477,916.04	**525,248.11**	**226,902.74**	**8,776,261.41**	**11,037,442.13**	**11,453,038.72**
3,030,955.31	3,513,434.13	0.00	6,544,389.44	105,644,905.79	88,968,927.52
0.00	0.00	0.00	0.00	1,450,135.58	1,450,075.58
0.00	0.00	0.00	0.00	801,575.78	801,575.78
3,030,955.31	**3,513,434.13**	**0.00**	**6,544,389.44**	**107,896,617.15**	**91,220,578.88**
12,019,204.72	**4,079,521.74**	**247,557.29**	**15,851,169.17**	**119,034,556.40**	**102,808,893.77**

SCHEDULE OF LIABILITIES (HGB)

OF PNE AG, CUXHAVEN, AS AT DECEMBER 31, 2018

	Maturities			
All figures in EUR (differences from rounding off possible) (Prior years in brackets)	**Up to one year**	**One to five years**	**More than five years**	**Total amount**
Type of liabilities				
1. Bonds	6,551,315.10	50,000,000.00	0.00	56,551,315.10
	(100,000,000.00)	(6,556,641.30)	(0.00)	(106,556,641.30)
2. Liabilities to banks	145,245.52	634,435.84	3,265,674.90	4,045,356.26
	(140,257.61)	(612,645.89)	(1,732,692.98)	(2,485,596.48)
3. Prepayments received on orders	15,211,800.00	0.00	0.00	15,211,800.00
	(0.00)	(0.00)	(0.00)	(0.00)
4. Trade liabilities	1,112,825.32	0.00	0.00	1,112,825.32
	(6,808,493.45)	(0.00)	(0.00)	(6,808,493.45)
5. Liabilities to participations	8,777,385.49	0.00	0.00	8,777,385.49
	(7,725,701.43)	(0.00)	(0.00)	(7,725,701.43)
6. Liabilities to associated companies	0.00	0.00	0.00	0.00
	(59.50)	(0.00)	(0.00)	(59.50)
7. Other liabilities	1,662,127.27	0.00	0.00	1,662,127.27
of which from taxes: EUR 260,600.36 (prior year: TEUR 5,910)	(6,657,482.19)	(0.00)	(0.00)	(6,657,482.19)
of which for social security EUR 0.00 (prior year: TEUR 0)				
Total	**33,460,698.70**	**50,634,435.84**	**3,265,674.90**	**87,360,809.44**
	(121,331,994.18)	**(7,169,287.19)**	**(1,732,692.98)**	**(130,233,974.35)**

Securities
None
1. Registered mortgage of TEUR 4,170 on the property at Peter-Henlein-Str. 2–4, Cuxhaven. As at 31.12.2018 TEUR 4,045 had been drawn down. 2. Assignment of the rental income from the property at Peter-Henlein-Str. 2–4, Cuxhaven.
None
As is usual in the branch, retention of title exists with regard to items delivered.
None
None
None

STATEMENT MADE BY THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of PNE AG, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

PNE AG, The Board of Management

Markus Lesser Jörg Klowat Kurt Stürken

INDEPENDENT AUDITOR'S REPORT

To PNE AG (formerly: PNE WIND AG), Cuxhaven/Germany

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of PNE AG (formerly: PNE WIND AG), Cuxhaven/Germany, which comprise the balance sheet as at 31 December 2018, and the statement of profit and loss for the financial year from 1 January 2018 to 31 December 2018, and the notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the combined management report on the Company and the Group of PNE AG, Cuxhaven/Germany, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Section 289f German Commercial Code (HGB) combined with the Group's statement on corporate governance pursuant to Section 315d German Commercial Code (HGB), which is referred to in the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

» the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018 in compliance with German Legally Required Accounting Principles, and

» the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the statement on corporate governance combined with the Group's statement on corporate governance referred to above.

Pursuant to Section 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the combined management report in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the combined management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following, we present the key audit matters we have determined in the course of our audit:

1. Recoverability of the shares in WKN GmbH, Husum/Germany
2. Recognition of revenue generated with the planning and construction as well as sale of onshore and offshore wind farm projects
3. Recoverability of the entire engagement at offshore wind farm project companies

Our presentation of these key audit matters has been structured as follows:

a) description (including reference to corresponding information in the annual financial statements)

b) auditor's response

1. Recoverability of the shares in WKN GmbH, Husum/Germany

a) The balance sheet item "Shares in affiliated companies" includes the shares in WKN GmbH in the amount of kEUR 84,423. This corresponds to the acquisition cost and accounts for 24.6% of the balance sheet total.

In periodical impairment tests conducted on major financial assets, the book values of the shares in WKN GmbH are compared with the fair value. The executive directors of PNE AG instructed an independent expert to determine the fair value of the shares in WKN GmbH. This expert prepared a report pursuant to the requirements of Standard 1 of the Institute of Public Auditors in Germany (IDW), as amended in 2008 (IDW S 1 i. d. F. 2008) and to the opinion on financial reporting of the Institute of Public Auditors in Germany (IDW RS HFA 10). As part of the report, the fair value was determined using the income approach, with the future cash inflows to be capitalised being derived from the budget of WKN GmbH prepared by the executive directors of WKN GmbH and approved by the shareholders' meeting and being adjusted based on assumptions about long-term growth rates. The cash flows were discounted based on the specific cost of equity.

The result of this valuation highly depends on the estimation on future cash inflows made by the executive directors of WKN GmbH and on the discount rate used and, therefore, is subject to major uncertainties. In the light of the significance of the involved amount of the shares and due to the complex underlying valuation techniques, we classified this matter as a key audit matter as part of our audit.

The information provided by the executive directors concerning the valuation of the financial assets is included in section "A. Accounting standards" in the notes to the financial statements.

b) As part of our audit of the audit matter, we used the knowledge and audit results gained in previous years. For the purpose of risk assessment, we obtained an understanding of the past adherence to the budget. We assessed the operational and organisational structure with respect to appropriateness and effectiveness of the implemented controls. This particularly relates to the periodical assessment of liquidity as well as the appropriateness and realisability of the corporate budget of WKN GmbH by the executive directors of PNE AG and the review of the recoverability of the shares.

As part of our audit, we used the report prepared by the expert instructed by the executive directors of PNE AG. We assured ourselves of the competence, capabilities and objectivity of the expert. As regards the evaluation of the appropriateness of the assumptions, techniques and models of the valuation technique, we consulted internal experts of the Valuation Services function, who assisted us in assessing the approach used to conduct the impairment test and determine the discount rate. Furthermore, in order to assess the future cash inflows, we compared the future cash inflows used in the evaluation with the current target values specified in the three-year budget of WKN GmbH adopted and approved by the executive directors and shareholders' meeting, respectively, and examined them for plausibility. Moreover, we inspected all minutes of meetings of the executive directors and of the shareholders.

2. Recognition of revenue generated with the planning and construction as well as sale of onshore and offshore wind farm projects

a) The revenue stated in the statement of profit and loss amounts to kEUR 19,779. Revenue of kEUR 18,698 relates to the planning and construction as well as the sale of onshore and offshore wind farm projects.

The revenue generated with the planning and construction as well as the sale of onshore and offshore wind farm projects results in part from complex contract arrangements. Consequently and due to the major effects on the annual financial statements, we classified the recognition of related revenue as a key audit matter.

The information provided by the Company on the revenue generated with the planning and construction as well as the sale of onshore and offshore wind farm projects is included in section "B.II.1 Revenue" in the notes to the financial statements. In addition, the risks related to the realisation of projects are specified in section "8. Report on Opportunities and Risks" in the combined management report.

b) As part of our audit, we assessed the organisational and operational structure of the projection process with regard to the appropriateness and effectiveness of the implemented controls by using the knowledge gained during audits in previous years and based on the economic and legal environment of the Company. In addition, we examined compliance with the requirements of revenue realisation with respect to all major transactions based on contracts, invoices and customer acceptance protocols and other proof of services rendered as well as records of payment.

3. Recoverability of the entire engagement at offshore wind farm project companies

a) The Company holds shares in offshore wind farm project companies and has granted loans to these entities to finance project development. Following the publication of the final draft of the site development plan issued in October 2018 based on the German Offshore Wind Energy Act (WindSeeG) and discussed in January 2019, the executive directors made a new estimate on the recoverability of the entire engagement in offshore wind farm project companies. This new estimate has resulted in a complete write-down of the projects "Nemo", "Nautilus" and "Jules Verne" located in zone 4. Subsequently, the related shares in affiliated companies and loan receivables from the concerned project companies were written down in full in the amount of mEUR 11.9 due to expected permanent impairment. Net of write-downs, the entire engagement in offshore wind farm project companies amounts to mEUR 11.2 as at 31 December 2018 (3.16% of the total balance sheet), mEUR 0.4 and mEUR 10.8 of which relating to shares and loans, respectively. In the light of the significance of the involved amount of the related shares and receivables and the evaluation of the recoverability of the entire engagement, which, to a great extent, depends on the estimates made by the executive directors, we classified this matter as a key audit matter as part of our audit.

The information given by the executive directors on the related shares and loans are referred to in section "B. II. 6 Write-downs of financial assets and current assets to the extent they exceed usual write-downs made in the business corporation" in the notes to the financial statements. In addition, the risks concerning the recoverability of the shares and receivables from the offshore engagement are specified in section "8. Report on Risks and Opportunities" in the combined management report.

b) We assessed the organisation and operational structure with regard to the appropriateness and effectiveness of the implemented controls with respect to the evaluation of the recoverability of the shares and loan receivables. This particularly relates to the frequent evaluation of the recoverability by the executive directors.

First, our substantive procedures were based on the estimate made by the executive directors on how the final draft of the site development plan affects the probability of the implementation of the offshore projects. As part of our audit, we discussed the effects of the final draft of the site development plan on the probability of the realisation of the offshore projects in detail with the executive directors of PNE AG and the head of the Offshore department of PNE AG. We consulted a lawyer of Deloitte Legal for a related legal analysis and of the estimates made by the executive directors. Based on this, we assessed the write-downs made to the entire engagement (shares and loan receivables) by the executive directors in the concerned project companies.

In addition, we conducted audit procedures on the completeness and accuracy of the disclosures made in the notes to the financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises:

- the statement on corporate governance pursuant to Section 289f German Commercial Code (HGB) combined with the group's statement on corporate governance in accordance with Section 315d German Commercial Code (HGB) referred to in the combined management report,
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code,
- the executive directors' confirmation regarding the annual financial statements and the combined management report pursuant to Section 264 (2) sentence 3 and Section 289 (1) sentence 5 German Commercial Code (HGB), respectively, and

- all the remaining parts of the annual report, with the exception of the audited annual financial statements and combined management report and our auditor's report.

Our audit opinions on the annual financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this combined management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- evaluate the consistency of the combined management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 6 June 2018. We were engaged by the supervisory board on 23 July 2018. We have been the auditor of PNE AG, Cuxhaven/Germany, without interruption since the financial year 2009.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to our audit, we provided the audited company and/or the entities controlled by that company with the following services, which were not disclosed in the annual financial statements or combined management report of the audited company:

» Issuance of a comfort letter in connection with a corporate bond
» Participation in the shareholders' general meeting 2018
» Holding a workshop to present the general revisions as part of the introduction of the new IFRS standard IFRS 16 "Leases".

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Dr Arno Probst.

Hamburg/Germany, 22 March 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Christian Dinter	Signed: Dr. Arno Probst
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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Financial calendar

13.5.2019	Publication of Financial Report Q1
22.5.2019	Annual General Meeting, Cuxhaven
8.8.2019	Publication of Financial Report Q2
7.11.2019	Publication of Financial Report Q3
25.–27.11.2019	Analysts' conference/Frankfurt

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