Report on the third quarter of 2018

EnergieKontor

SHORT PORTRAIT OF ENERGIEKONTOR AG

For the last 25 years, Energiekontor has stood for a sound approach to business and a wealth of experience in wind power. Formed in Bremerhaven in 1990, the company was one of the pioneers in the industry and is now one of the leading German project developers. Its core business covers planning, construction and operational management of wind farms in Germany and abroad, and was expanded to include solar power in 2010. Energiekontor also currently owns and operates 34 wind farms and one solar park with total rated power of around 270 megawatts. Now, Energiekontor AG intends to extend its pioneering role to commercial aspects and to realise wind farms and solar parks at market prices without state subsidies in all target markets as quickly as possible.

In addition to its headquarters in Bremen, Energiekontor also maintains offices in Bremerhaven, Hagen im Bremischen, Aachen, Bernau (near Berlin), Potsdam and Dortmund. The company also has branch offices in England (Leeds), Scotland (Glasgow), Portugal (Lisbon), the Netherlands (Nijmegen), the US (Austin/Texas) and France (Toulouse). The formation of an additional branch office in France (Rouen) is currently in the making.

Our track record speaks for itself: We have realised 120 wind farms with total rated power of 956 megawatts and three solar parks with total rated power of about 30 megawatts. This corresponds to an investment volume of more than EUR 1.6 billion.

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

INVESTOR INFORMATION (OVERVIEW)

Stock exchange listing:	Deutsche Börse, Frankfurt (traded on the Frankfurt Stock Exchange, Xetra and all other German trading venues)
Market segment:	General Standard
Class of shares:	Bearer shares
Sector:	Renewable Energy
Initial listing (IPO):	25 May 2000
WKN (German securities identification number):	531350
ISIN:	DE0005313506
Reuters:	EKT
Shareholder structure:	51.5% management and supervisory bodies; 48.5% free float
Research:	Dr Karsten von Blumenthal, First Berlin Arash Roshan Zamir/Marina Mañas Cháfer, Warburg Research
Designated Sponsor:	Oddo Seydler Bank AG
Financial calendar:	26./27.11.2018: Presentation at the German Equity Forum, Frankfurt a. M. 10.04.2019: Publication of 2018 Annual Report 15.05.2019: Publication of Q1/2019 Interim Report 22.05.2019: Annual General Meeting of Energiekontor AG 30.08.2019: Publication of H1/2019 Interim Report 15.11.2019: Publication of Q3/2019 Interim Report
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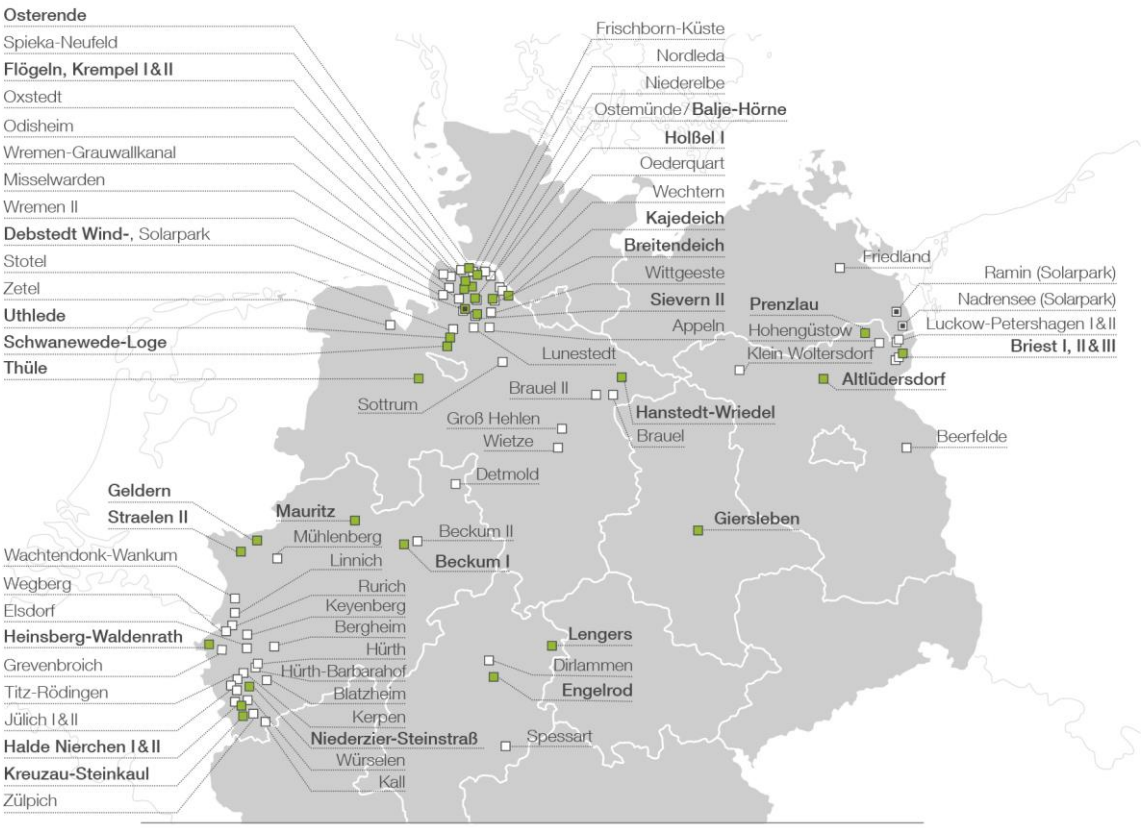
REALISED WIND FARMS AND SOLAR PARKS

Deutschland



Großbritannien

Portugal

■ Eigenbestand □ Verkauft ▣ Solar ▣ sowohl Eigen- als auch Fremdbestand

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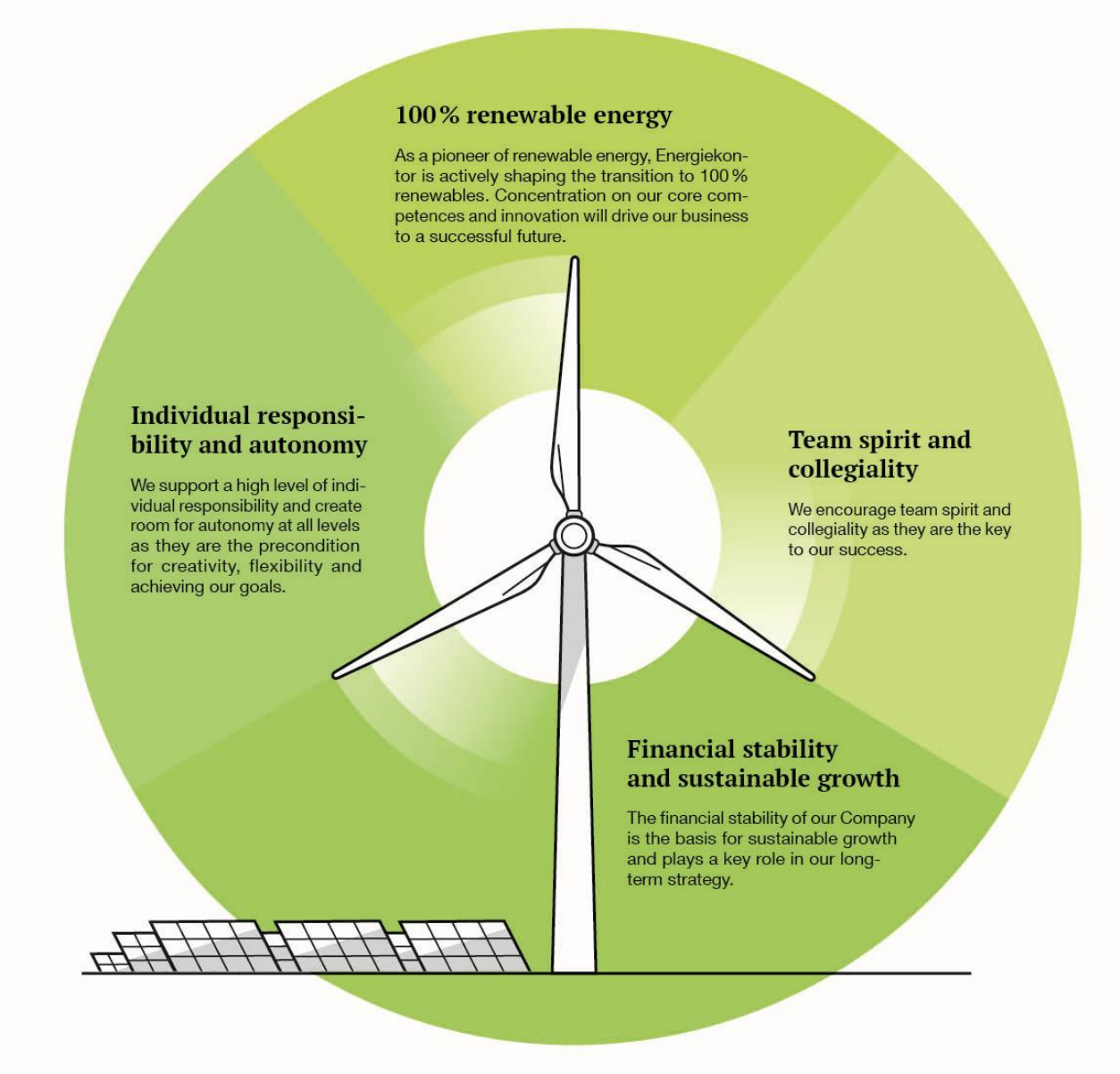
Our mission statement



SECTOR AND MARKET TREND

China continues to lead the growth of the renewable energy sector in terms of both wind and solar power, followed by the US. Together, the two countries cover significantly more than half of all annual new installations of wind farms and solar power plants. Cuts in the subsidy systems for renewable energy sources in some European industrial countries, in contrast, brought slight declines in the number of new installations, and uncertainty with regard to investments.

The international goals for environmental protection and sustainable energy production are still the main drivers for continued industry growth. The EU member states have committed themselves to mandatory expansion targets. In the summer of 2018, the member states agreed to increase the renewable energy share in total energy consumption to 32 percent. The international agreement resulting from the UN climate conference in Paris at the end of 2015 also showed that the need for climate protection and the corresponding containment of carbon emissions are meanwhile globally accepted. The Special Report by the Intergovernmental Panel on Climate Change (IPCC) issued in October 2018 emphasised once again how urgent the reduction of greenhouse gas emission is.

The expansion of renewable energy sources also lowers the levelized cost of electricity. In Europe, the price of electricity from renewable energy sources is increasingly determined in auction processes. This led to a significant reduction in the remuneration for electricity from wind farms and solar parks in 2017, particularly in Germany. In the course of 2018, the price level stabilised again. In general, the renewable energy market is to be converged with free market conditions. In some regions, the leading renewable technologies, wind energy and PV, are already competing directly with electricity from conventional energy sources.

Energiekontor AG's core markets and new markets for wind and solar, which have not seen any significant changes vis-à-vis the 2017 Annual Report, are examined in detail below.

Wind

Germany

Implementing the energy transition towards renewables, Germany is planning to cover 40–45 percent of its electricity needs with renewable energy by 2025, while the share of electricity generated from renewable energy sources in gross electricity consumption is even to be increased to a minimum of 80 percent by 2050.[1] In its coalition agreement concluded at the beginning of the year, the German federal government raised the interim target for 2030 to 65 percent.

The German Renewable Energy Sources Act (EEG) forms the framework for the expansion of renewable energies. Since the introduction of the EEG, the share of renewable energies has increased from six percent of gross electricity consumption in 2000 to more than one third in 2017.

The new EEG 2017 became effective at the beginning of 2017. It prescribes that subsidies for renewable energy sources are granted via a market-based auction scheme for new permissions from 1 January 2017 onwards.

The auction process will be based on a single-stage reference yield model. According to this, the subsidy rate will be constant for a period of 20 years. The bids will relate to a 100% reference site that is defined via the average expected wind speeds. Depending on the quality of the concrete project site (wind conditions), the actual remuneration amount is adjusted by means of several factors along the reference yield curve (a site with low wind levels receives higher remuneration than a location with strong wind). This makes locations with weaker winds more profitable, thereby accommodating the desire to expand wind energy all the way to southern Germany. For the first auction rounds in 2017, the highest bid price for the 100% reference site had been limited to 7 euro cent/kWh. Currently, this maximum bid price limit stands at 6.3 euro cent/kWh.

[1] Website of the Federal Ministry for Economic Affairs and Energy (BMWi)

Since the EEG was introduced in 2000, onshore wind power has been subsidised based on the two-stage reference yield model. The power generated in the wind farms was remunerated in two stages. A higher initial tariff reverted to the so-called basic subsidy after at least five years. The duration of the period in which the higher initial tariff is paid (max. 20 years) depended on the quality of the site; the weaker the wind at the site, the longer the period with a higher initial tariff. According to a transitional provisions of the EEG 2017, this rule still applies to all wind farms that obtained their permission before 31 December 2016 and will start operations before 31 December 2018.

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

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

According to the transitional provisions of the EEG 2017, all wind farms licensed until the end of 2016 and commissioned until the end of 2018 will still be remunerated on the basis of the old tariff, which varies depending on the date of completion. In 2017, for example, the subsidies (basic remuneration and increased initial remuneration) for wind farms approved before 31 December 2016 were gradually reduced by 1.05 percent per month from 1 March 2017 onwards over a period of six months. From 1 October 2017, the value to be used for the calculations will drop every quarter by 2.4 percent in accordance with the aforementioned flexible cap, depending on annual new onshore wind turbine installations. In 2017, the degression cascade corresponds to a reduction in remuneration from 8.38 euro cent/kWh as of 1 January 2017 to 7.68 euro cent/kWh as of 1 December 2017. The objective of this price degression over the course of the year is that projects that have already been given permission are rapidly commissioned and that the remuneration is adjusted towards the prices expected at the auctions.

The first three onshore wind auctions were held in 2017 in May (800 MW), August (1,000 MW) and November (1,000 MW). The amount of subsidised onshore wind power was thus capped at 2,800 MW p.a. This also applies to 2018 and 2019 (auctions for 700 MW each in February, May, August and October). From 2020, total capacity is to be increased to 2,900 MW. Moreover, this is to be complemented by special auctions as well as open-technology auctions (see below for further details).

All three auctions of the year 2017 were oversubscribed several times. The average weighted auction prices fell from 5.71 euro cent/kWh in the May auction to 4.28 euro cent/kWh in August and 3.82 euro cent/kWh in November. This means that the remuneration for electricity from onshore wind farms more than halved within only one year. 93 percent of the projects that came out successful in the May 2017 auction (65 out of 70) were citizens’ energy initiatives. In August, these initiatives were awarded 95 percent of the contracts and in November 99 percent. The reason for these sobering results from the point of view of a professional project developer was a special regulation (prequalification requirement) in the German Renewable Energy Sources Act (EEG): while project developers must provide a bid bond of EUR 30,000/MW and may only participate in the auctions with previously approved projects, citizens’ energy initiatives did not need prior approval and were only required to provide a 50 percent lower bid bond. The German Renewable Energy Sources Act (EEG) prescribes a 30-month deadline for realising the projects. Citizens’ energy initiatives that were awarded a contract in 2017 have another 24 months to implement the projects. In addition, citizens’ energy initiatives are not remunerated based on their bid price but based on the highest price awarded in the respective auction round, while project developers receive the price offered (pay as bid).

In the opinion of Energiekontor AG, industry associations and other leading project developers, the special regulation led to a significant distortion of competition in 2017. The legislator has recognised this and largely suspended the special regulation for the auctions in 2018 in order to restore the variety of

participants in the future. Thus, the same conditions apply to all market participants in 2018 insofar as each bidder must present a planning permission and the complete bid bond for the projects, and all participants have a total of 30 months in which to implement the project. In addition, the Federal Network Agency raised the maximum bid price for the 100% reference site, which would have been 5.0 euro cent/kWh based on the average of all mean, weighted auction prices in 2017, to 6.3 euro cent/kWh for 2018. Energiekontor AG welcomes both measures, as they prevent strategic bidding and ensure rapid and economically viable project implementation.

In the first auction round of February 2018, this led to the average price rising to 4.73 euro cent/kWh with only a slight oversubscription. Citizens' energy initiatives now only accounted for 19 out of 83 projects awarded in the auction. This trend was continued in the auction of May 2018: the average auction price was 5.73 euro cent/kWh, and only 15 of the 111 projects awarded were submitted by citizens' energy initiatives. In addition, this was the first time since the inception of the programme that an auction remained undersubscribed. In the third and fourth auction for onshore wind in August and October 2018, the average auction prices of 6.16 euro cent/kWh and 6.26 euro cent/kWh even came close to the price ceiling of 6.30 euro cent/kWh. Moreover, the October auction was heavily undersubscribed. Although 670 MW[2] were tendered, the total capacity of bids received amounted to merely 396 MW, 363 MW of which were awarded contracts.

Experts believe that this is mainly due to the fact that, given the strong drop in the price level, many projects have to be redesigned with optimised parameters and resubmitted in the permitting process and that the permitting process is taking longer due to a higher number of opposition proceedings and suits.

The total rated power of wind turbines approved before the end of 2016 and registered in good time in the installation register amounted to 9.1 GW. Out of this amount, 5.3 GW went into operation in 2017. Deducting the permits that were subsequently withdrawn (referring to projects with a capacity of approximately 0.5 GW), turbines with a total capacity of around 3.3 GW remain; these received permission under the transitional provisions and will go into operation in the course of 2018.[3]

Since the majority of the projects that were awarded contracts in the course of the 2017 auctioning procedure only have to be completed within five years, there is still a risk that not enough wind farms will be built in Germany in 2018 and 2019 to achieve the expansion targets. Therefore the cabinet received a proposal for conducting special auctions with increasing capacities up to a total capacity of 4 GW each for wind and PV until the year 2021 (2019: 1 GW, 2020; 1.4 GW, 2021: 1.6 GW). In addition, the proposal requires so-called innovation auctions, i.e. technology-open auctions, (2019: 250 MW, 2020: 400 MW and 2021: 500 MW) where the different technologies are to compete with each other. On 5 November 2018, the German federal cabinet adopted these energy legislation measures compiled in the so-called Energiesammelgesetz.

Technology-open auctions were already conducted in 2018. In the first mixed wind-solar auction of April 2018, all of the projects awarded were PV projects. The average, volume-weighted accepted bid price for 32 projects with total capacity of 210 MW was 4.67 euro cent/kWh. This was higher than in the individual auction for solar projects of February 2018 (4.33 euro cent/kWh). 54 bids were submitted, 18 for wind and 36 for solar projects with a total capacity of just under 400 MW. This means the auction was oversubscribed twice over. The volume-weighted bid prices were 4.82 euro cent/kWh for solar plants and 7.23 euro cent/kWh for onshore wind turbines. As a special feature of the mixed wind-solar auction and unlike the individual auctions, disadvantages because of less profitable onshore wind locations were not compensated for. Moreover, so-called distribution network expansion areas were introduced as a new instrument in this auctioning procedure. Bids in these areas, which already boast many renewable energy plants, were subject to a surcharge, reducing their chances of being awarded a contract. According to the Federal Network Agency, this is supposed to take into account an increased need to expand the distribution network in these areas. Without this modification, at least one bid for wind turbines should

[2] "Pursuant to Section 28 (1) No. 2 German Renewable Energy Sources Act (EEG), the bid volume on this date was 700 MW; however, the total capacity installed in pilot onshore wind turbines commissioned in the previous year, i.e. 89,516 kW, must be deducted from this sum. Evenly distributed between the next three auctions (1 May, 1 August and 1 October 2018) with equal auction volumes, this results in an amount of 29,839 kW to be deducted from each round.", website of the Federal Network Agency

[3] German WindGuard: "Status des Windenergieausbaus an Land in Deutschland, Jahr 2017"

have been successful.

A second mixed wind-solar auction was conducted in November 2018. The sum total of both auction volumes amounting to 400 MW is to be deducted from the 2019 auction volume.

Despite correction measures introduced by the German federal government, prices are very low at the moment, which presents the entire sector with major economic challenges in 2018 and thereafter at all value creation stages of project realisation. Therefore, Energiekontor AG also needs to redesign the parameters of some of the planned wind farms for them to remain economically viable, which can lead to delays in implementation. At the same time, however, such change processes also generate market opportunities for project developers like Energiekontor AG. These include, for example, possible cooperation with smaller developers whose financial capacities for a successful participation in auctions are limited.

Regardless of the further development of prices in connection with the auctioning procedure, Energiekontor has always pursued the goal of being a pioneer in the industry and realising the first projects in which the levelized cost of electricity is below the costs of conventional power plants in order to help renewable energy achieve a breakthrough. The current situation underlines that this goal is the right approach to remain competitive at the same time.

UK

In the UK, onshore wind is now classed as a “mature technology” by the British government. In the current auction period, onshore wind is therefore no longer part of the auctioning system for the promotion of renewable energies referred to as Contracts for Difference (CFD). However, it cannot be ruled out that the CFD system will be reintroduced for onshore wind and solar in the future.

Until then, all wind farms realised in the UK are based on pure market prices and can only be realised on the basis of long-term power purchase agreements (PPAs), which are usually concluded between operators and energy suppliers. In the case of Energiekontor’s projects, however, the PPAs are negotiated directly between the operator and an end user, mostly a large international company (so-called end-user PPAs). The PPA determines the basic remuneration for the electricity generated over a certain period of time. It usually includes an inflation of the agreed tariff over the term of the PPA. In addition, most of the wind farms still receive embedded benefits, which subsidise power plants that feed into the medium-voltage grid instead of the high-voltage grid.

With the Withernwick II project, which is currently under construction, Energiekontor proves that it is possible to build wind farms in the UK on the basis of a PPA alone, i.e. without state subsidies, which again underlines the pioneering role of the Company.

In general, the onshore wind industry in the UK has been trying to maintain project profitability through improved turbine parameters (such as more powerful turbines with higher hub heights) and cost reductions. While the Scottish authorities support the approval of high wind turbines, there are only few examples of higher turbines being granted permission in England. Scotland, which has its own independent planning law, shows a generally more positive attitude about the expansion of onshore wind power. Energiekontor has therefore been concentrating for years on securing suitable sites with excellent wind conditions in Scotland, where the Company intends to build large wind farms.

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

Portugal

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

Nonetheless, Portugal is in danger of missing its targets for 2020, as the development of renewable energy sources has been stagnating for years. There are still no new auctioning procedures that would provide grid licenses and thus promote new project developments. While grid connections for wind farms and solar parks can be applied for, the electricity produced would be remunerated at general market prices. Project executers can therefore only apply for licences at market price conditions (MIBEL). As in Germany, energy suppliers in Portugal are legally obliged to purchase wind energy. A further reduction in the levelized cost of electricity could open up new market opportunities, especially in the field of photovoltaics.

One hurdle here is posed by the increased environmental and nature conservation requirements in many places. A project developer wishing to connect to the grid therefore needs to meet two key requirements: sufficient grid connection capacity for the inclusion of an additional wind farm or solar park in the area, and a positive assessment of the environmental impact.

The Netherlands

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

State subsidies for renewable energy in the Netherlands are currently regulated by the “Stimulering Duurzame Energieproductie” (SDE+), which is based on an auctioning system, similar to the German EEG. Subsidies for onshore wind power have been differentiated according to wind speeds since 2015. Depending on the wind speed, the maximum remuneration (trading price of electricity + premium) ranges roughly between 5.4 euro cent/kWh and 7.3 euro cent/kWh. The subsidy period is 15 years, with an extension option of one year, depending on the extent to which the annual promotion fund for wind farms has been utilised.

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

France

With the new legislation “Loi relative à la transition énergétique pour la croissance verte” (in short LTE), the French law on energy transition that was passed in August 2015, France has set itself ambitious goals for the expansion of renewable energy. The share of renewable energy sources in final energy consumption is to be raised to 23 percent by 2020 and to 32 percent by 2030 (according to Eurostat, it

[4] Sara Stefanini: “Portugal’s clean-power problem”, article published on 5 September 2016

[5] Website of the Portuguese Renewable Energy Association, APREN (Associação Portuguesa de Energias Renováveis)

stood at 16.0 percent at the end of 2016)[6]. In addition, the share of nuclear energy in the electricity mix is to be reduced to 50 percent (expected target date 2030 or 2035).

Based on new installations of almost +1.7 GW that increased total capacity to about 13.5 GW in 2017[7], onshore wind power capacity in France is to be expanded to 14.3 GW by 2018 and to 21.8 to 26 GW by 2023.

In the course of 2016, the remuneration terms for onshore wind power were defined in more detail. Based on the German blueprint, France introduced a mandatory direct marketing scheme for onshore wind farms, which is to replace the previous tariff model. According to this scheme, the operator of a wind farm receives a floating market premium in addition to the respective market price, which corresponds to the delta between the technology-specific reference tariff plus a management premium of 0.28 euro cent/kWh and the average weighted market revenue per calendar month (based on the Epex Spot Day Ahead)[8].

The reference tariff system (Guichet Ouvert, GO) states two categories: the first category comprises all onshore wind projects for which a planning application was submitted between 1 January and 31 December 2016. The electricity generated by these wind farms is remunerated over a period of 15 years, in the first ten years at a reference tariff of 8.2 euro cent/kWh and in the following five years at 2.8 to 8.2 euro cent/kWh, depending on the yield.

The second category includes all new turbines which do not fall under the first category and which, according to the Te 2017 tariff decree of 6 May 2017, only apply to turbines up to 3 MW or to wind farms with a total capacity of up to 18 MW. The term is 20 years with a reference tariff of 7.2 (up to 80 meters rotor diameter) to 7.4 euro cent/kWh (from 100 meters rotor diameter) plus the management premium of 0.28 euro cent/kWh until an individually defined annual production cap is reached. After that, the reference tariff drops to 4.0 euro cent/kWh.

In part due to pressure exerted by the EU, France also introduced a parallel auctioning system (Appel d'Offre or AO). In the first auctioning round in December 2017 with a volume of 500 MW (900 MW were submitted), the average auction price was 6.54 euro cent/kWh. Approximately one third of these projects receive an additional citizen participation bonus of up to 0.3 euro cent/kWh. Whether or not the auctioning system will actually lead to increased competition is currently under review. Until this has been ascertained, France will maintain the two systems (GO and AO) for fear of otherwise failing to meet the expansion targets. According to an assessment of the French Ministry and representatives of the wind sector, however, this exception will not last longer than one to two years.

United States

Regulations concerning the expansion of renewable energy sources in the US vary across states. Like in Europe, expansion targets for renewable energy sources have been defined. However, they are not binding and their definition varies across states. These so-called Renewable Portfolio Standards (RPSs) either state the absolute expansion targets in megawatts, or a percentage share of renewable energy sources in the energy mix for each of the 29 states and Washington D.C. In California and New York, for instance, the RPSs are set to 50 percent, to be reached by 2030. Hawaii has set itself the most ambitious target with 100 percent by 2045. However, due to the sharp drop in prices, especially for PV modules, the relevance of RPS is increasingly fading into the background. In some states, the expansion of renewable energies is therefore driven by purely economic reasons, while the RPS targets have already been achieved there. This shows that an energy shift towards electricity supply from renewable energy sources is now also taking place in the US.

Like in the UK, power purchase agreements (PPAs), i.e. contracts between a project company and an industrial customer or an energy supplier, determine the profitability of the project. The PPAs are usually issued in privately organised tender procedures or negotiated directly. The US does not have a centralised subsidy system like a feed-in tariff either. However, there is an option to be registered as a "qualified

[6] Ministère de l'Environnement, de l'Énergie et de la Mer: "Chiffres clés des énergies renouvelables – Édition 2016", February 2017

[7] French-German Office for Renewable Energy: "Windenergie an Land – aktuelle Entwicklungen", March 2018

[8] French-German Office for Renewable Energy: "Neuordnung der Fördermechanismen für erneuerbare Energien in Frankreich" (version: February 2017), March 2017 and response to written enquiry

facility". In this case, the grid operator has to buy the electricity at cost ("avoided cost"). There are also subsidy systems at state, local and federal level. Local subsidy programmes do not play a major role for projects of energy supplier dimension.

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

PTC takes effect in the first ten years of operation, i.e. tax credit is given on profits from the sale of electricity generated with wind turbine systems. This typically involves an agreement with a tax equity investor (TEI) who is able to use the PTCs for tax purposes as a partner or operator of the facility. Depending on the construction start of the wind farm, the PTC will gradually be reduced in the coming years (by 40 percent in 2018 and 60 percent in 2019)[9].

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

Meeting the RPS is ensured via so-called Renewable Energy Credits (RECs). The RECs are tradable, similar to emission certificates in Europe. One REC is granted for 1 MWh. However, the price of an REC is currently only 1 USD/MWh (voluntary market), and as a result its impact is minimal at the moment.

After extensive grid integration studies, Energiekontor initially focused on the very windy and still relatively undeveloped region of the western part of South Dakota for the development of wind energy projects. The Southwest Power Pool (SPP), an umbrella organization of several electricity suppliers and grid operators, allows electricity from the region to be sold in several states in the Midwest as far as the Texas border. In South Dakota, project developers also need a planning permission to build wind farms, as they do in Europe.

Other than import duties on foreign steel, which could temporarily influence the prices of wind turbines, the Energiekontor Group does not currently expect any further political restrictions that could have a negative impact on the market for renewable energies in the US.

Energiekontor expects that after the expiry of tax credits the profitability of new projects in the USA – similar to the UK – will be based solely on the conclusion of PPAs. If these can be concluded at prices below those for electricity from conventional power plants, the expansion of renewable energies in the US can be expected to gain further momentum.

[9] Website of the US Department of Energy (DoE)

Solar

In Energiekontor's core markets, the geographic conditions in southern Portugal are very good for the use of solar power, but here the current restrictions described in the "Wind" section apply. Energiekontor will press ahead with the review of these framework conditions for possible future solar activities in the coming months. In the UK, the development of photovoltaic projects for Energiekontor is largely limited to potentially using the grid connection of a wind farm for a solar park on the same site. Other than that, the solar activities of the Energiekontor Group mainly focus on Germany, France and the US.

Germany

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

Since the EEG 2017 has entered into force, the subsidy amounts for all ground-mounted solar arrays with a size of over 750 kilowatt peak (kW_p) are determined in a tendering procedure. Since 2017, an annual total of 600 MW is set to be tendered in three auctions per year. In the auctions of February, June and October 2017, average remuneration dropped further from 6.58 euro cent/kWh at the beginning to 4.91 euro cent/kWh at the end of the year. Prices have therefore roughly halved over a period of two and a half years.

In the auction of February 2018, the average, volume-weighted accepted bid price dropped further to 4.33 euro cent/kWh. The submitted applications exceeded the available auctioning volume of 200 MW nearly three times.

In the first mixed wind-solar auction in April 2018, solar prevailed against wind: all contracts were awarded to photovoltaic projects. The average, volume-weighted bid price in the auction, which was oversubscribed twice, was 4.67 euro cent/kWh and thus higher than the average price awarded in the individual auction in February 2018. All further information with regard to this special auction is provided in the section "Wind/Germany".

In the auction of June 2018, the average, volume-weighted accepted bid price amounted to 4.59 euro cent/kWh. The lowest bid price that won a contract was 3.89 euro cent/kWh, while the highest bid price awarded a contract was 4.96 euro cent/kWh. The Federal Network Agency received 59 bids with a total volume of 360 MW in this auction round. The auction volume of around 183 MW was thus again significantly oversubscribed. The most recent auction in October 2018 was oversubscribed even more clearly with a bid volume of 182 MW. Bids were received for 76 projects with a total capacity of 551 MW, 37 projects of which (191 MW) were contracted. The average auction price amounted to 4.69 euro cent/kWh. Overall, the price level for PV projects thus stabilised at more than 4.50 euro cent/kWh over the course of the year.

Many bids were placed for solar plants to be set up on arable and grassland areas of inferior quality. These areas are located in Bavaria and Baden-Wuerttemberg and designated as disadvantaged. With 13 bids totalling 90 MW, this was almost half of all bids that were awarded a contract.

The areas to be utilised for PV parks are determined by the German Renewable Energy Sources Act (EEG). The potential locations are largely limited to conversion areas and strips of land (110 metre wide) alongside motorways and railway tracks. Another prerequisite for the acceptance of a bid in the auction is a decision to draw up a development plan and to furnish a bid bond of EUR 5,000 per MW when placing the bid. If the bid is accepted, another bid bond of EUR 45,000 per MW (EUR 20,000 if such resolution has been adopted) must be added, which is to ensure the bid is genuine; this process is comparable to wind power auctions.

Maintaining the profitability of the projects despite increasing margin pressure rests on efficiency enhancements and price reductions along the entire value chain. In this context, it is positive that the EU has currently decided to phase out punitive tariffs and the associated minimum prices for PV modules from China for the autumn of 2018.

France

Based on newly installed PV capacity of just under +0.9 GW to a total of 8.0 GW at the end of 2017, the capacity for PV power in France is to be expanded to 10.2 GW by 2018 and to 18.2 to 20.2 GW by 2023.

Since 2016, remuneration for power generated with ground-mounted solar arrays in the size of 500 kW_p to 17 MW_p is determined in auction processes in France. Six auction rounds with 500 MW each are planned for between 2017 to mid-2019. The auction volume has been divided into three plant categories: 300 MW for ground-mounted solar arrays with a capacity between 5 MW_p and (following an increase at the beginning of 2018) 30 MW_p (Category 1), 135 MW for ground-mounted solar arrays with a capacity between 500 kW_p and 5 MW_p (Category 2) and 65 MW for roof-mounted solar arrays with a capacity between 500 kW_p and 10 MW_p (Category 3).

In the three 2017 auctions, 79, 77 and again 77 projects were awarded a contract, most of them located in Southern France. The average auction prices fell from 6.25 euro cent/kWh in February to 5.53 euro cent/kWh in December and further to 5.20 euro cent/kWh in August 2018 for Category 1 and from 6.81 euro cent/kWh to 6.31 euro cent/kWh in Category 2. Of the projects that have been awarded a contract, 83 percent are projects with financial participation of citizens receiving a premium of 0.3 euro cent/kWh[10].

Direct marketing is also being introduced in the PV sector. Accordingly, each plant is granted a market premium in addition to the electricity exchange market price. A minimum and a maximum price is determined for each category.

United States

At the end of 2017, an accumulated total capacity of more than 50 GW of PV systems had been installed[11] in the US and thus only slightly more than in Germany, which is almost 28 times smaller in area.

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

ITCs allow investors to deduct 30 percent of the invested system costs from their tax load. Depending on when the construction of PV projects is started, the ITC will be reduced to 26 percent in 2020 and 22 percent in 2021. From 2022, the plan is for just 10 percent to be deductible. In order to use the ITC for a project, either an investor is needed who is able to activate the ITCs, or, as is the case with wind farms, a tax equity investor (TEI) must be integrated. Such TEIs must stay in the project company operating the PV park for at least five years.

For the development of solar projects, Energiekontor is focusing on the western and central region of Texas. In these regions, excellent irradiation conditions prevail with global radiation of sometimes well over 2,000 kWh/m^2 a (kilowatt hours per square meter and year), which is about twice as high as at very good German locations. The levelized cost of electricity of solar parks in Texas is therefore correspondingly lower. The electricity grid in West Texas is well developed and the demand for electricity is quite high due to several larger cities in the region.

[10] French-German Office for Renewable Energy: “Barometer Photovoltaik in Frankreich” (version: March 2018)

[11] Solar Energy Industry Association (SEIA): “U.S. Solar Market Notches Another Quarter of 2 GW Growth, But Uncertainty Holds Back Installations”, 14 December 2017

Like for wind turbine systems, power purchase agreements (PPAs), i.e. a contract between a project company and an industrial customer (end-user PPA), an energy supplier or a grid operator, form the basis for the profitability of a solar park in the US. Energiekontor sees considerable potential for end-user PPAs, especially for major local data centres that require large amounts of electricity due to their high computing power.

While, in contrast to other states, Texas does not require an independent official permit for the construction of solar parks, the rights of use for the surface (surface rights) and, through agreements with the owners, the rights for the subsoil (mineral rights) must be secured for a site, and a series of investigations and studies (environment, nature conservation, network, etc.) must be carried out to ensure that the project complies with the law. In addition, so-called tax abatements – exemptions from local taxes – must be agreed with the authorities. In contrast to the planned development of wind projects in South Dakota, for example, the marketing of electricity from solar parks is limited to the territory of the Texas grid operator ERCOT.

In early 2018, the Trump administration imposed punitive tariffs for the next four years on imports of cells and polycrystalline PV modules from several Asian countries. However, these import duties are to be reduced from 30 percent to 15 percent over a period of four years. In addition, they only apply to PV cells starting from a certain delivery volume. Overall, experts estimate that customs duties should account for less than 10 percent of the total investment. To minimise the economic impact of import duties, some Asian module manufacturers are already reacting by reducing prices and establishing their own production capacities in the US.

THE COMPANY

The Energiekontor AG business model

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

By the time of this report being prepared, the Energiekontor Group had planned and constructed 625 wind turbines with a total rated power of 956 MW distributed across 120 wind farms in Germany, the UK and Portugal, as well as three PV ground-mounted solar arrays with total capacity of around 30 MW in Germany. Total capital spending on these projects amounts to over EUR 1.6 billion.

Complementing the sale of turnkey projects, the Energiekontor Group also operates a portfolio of Group-owned wind farms and solar parks as an independent power producer. Owner-operated facilities currently amount to around 270 MW.

The Company is active in the national markets of Germany, UK, Portugal, the Netherlands, the US and France.

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

a) Project Development and Sales (Wind, Solar)

b) Power Generation in Group-owned Wind Farms and Solar Parks

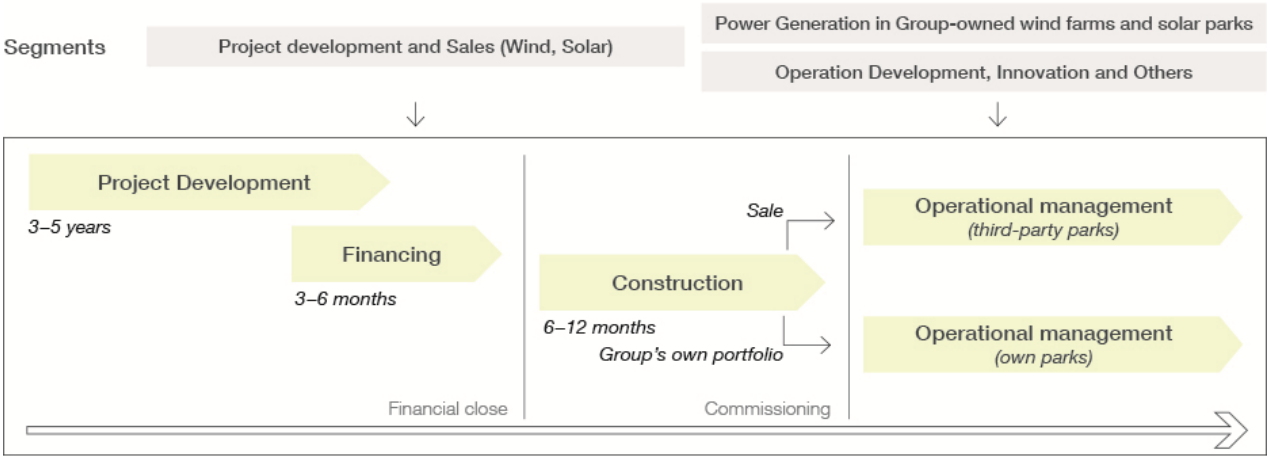
c) Operation Development, Innovation and Others

a) Project Development and Sales (Wind, Solar)

The Project Development and Sales (Wind, Solar) segment comprises project development for onshore wind farms and solar parks that are either to be included in the Company's own portfolio or for sale outside the Group. This division handles the entire value chain from business development, planning and financing through to construction and/or repowering and the final sale of the plants. Buyers for wind farms and solar parks include German and international institutional investors, private turnkey system buyers and members of local communities. An independent project company is formed for each wind farm or solar park project.

Repowering wind farms, i.e. replacing old turbines with new, more powerful ones, offers enormous potential for Energiekontor as, per year, several gigawatts of generation capacity will drop out of the EEG remuneration from 2020.

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



b) Power Generation in Group-owned Wind Farms and Solar Parks

This segment comprises the generation of power in Group-owned wind farms and solar parks. The expansion of the Group's own wind farm portfolio is the core component for the Company's organic growth. Moreover, operating its own wind farms and solar parks allows Energiekontor to cover ongoing corporate costs, e.g. in the event of delays in project implementation, as well as boosting its independence from policy decisions as well as interest rate and commodity price trends. By investing in its own portfolio, Energiekontor is also forming hidden reserves. If required, these plants could be sold, thus releasing the respective tied-up financial resources plus the associated hidden reserves. Additional potential lies in the possibility of upgrading Group-owned wind farms, for example through repowering or efficiency increasing measures such as the rotor blade extension allocated to the Operation Development, Innovation and Others segment described under item c).

The first addition to the Energiekontor Group's wind farm portfolio was made in 2002. Since then, the portfolio has seen regular expansion. At present, this refers first and foremost to the assumption of final ownership of projects that the Group has developed itself. Around half of the projects that we develop in a year are to be kept in Group ownership. In the past, the Group also bought financially promising operational wind farms. Such wind farms may either be projects that Energiekontor developed itself and sold at an earlier point in time or projects developed and operated by other companies. In the first quarter of 2018, Energiekontor also included Garzau-Garzin (10 MW) and thus the first solar park in its own portfolio. Total rated power of all wind farms and solar parks operated by Energiekontor in Germany, the UK and Portugal amounted to 269.2 MW at the end of the third quarter of 2018.

Group-owned wind farms/solar parks (30. September)

Name of the wind farm/solar park	**Total rated power/MW**
Debstedt	3.0
Breitendeich	6.0
Sievern (Tandem II)	2.0
Briest (Tandem II)	7.5
Briest II	1.5
Geldern	3.0
Mauritz-Wegberg (Energiekontor holds 88.52 percent)	7.5
Halde Nierchen I	5.0
Halde Nierchen II	4.0
Osterende	3.0
Nordleda (Energiekontor holds 51 percent)	6.0
Kajedeich	4.1
Engelrod	5.2
Krempel	14.3
Schwanewede	3.0
Giersleben	11.3
Beckum	1.3
Balje-Hörne	3.9
Hanstedt-Wriedel	16.5
Lengers	4.5
Krempel II	6.5
Prenzlau	1.5
Flögeln	9.0
Altlüdersdorf	13.5
Thüle	14.0
Kreuzau-Steinkaul	5.5
Niederzier-Steinstraß	8.3
Heinsberg-Waldenrath	7.2
Solar park Garzau-Garzin	10.0
Wind farms and solar parks in Germany	*188.1*
Marão	10.4
Montemuro	10.4
Penedo Ruivo	13.0
Mafomedes	4.2
Wind farms in Portugal	*38.0*
Hyndburn	24.6
Withernwick	18.5
Wind farms in the UK	*43.1*
Total	**269.2**

c) Operation Development, Innovation and Others

The Operation Development, Innovation and Others segment brings together all of the various activities aimed at improving the operating profit margin after commissioning of the wind farm or solar park. This includes in particular the technical and commercial management of wind farms including the direct marketing of the generated electricity as well as all measures to reduce costs, extend service life and increase yields to optimise the revenue generated by wind turbines, e.g. through:

- implementing rotor blade extensions and improving blade aerodynamics
- introducing system control updates or replacing old controls with new, state-of-the-art control systems
- refining yawing controls and increasing generator output
- reducing downtime rates based on preventive maintenance
- reducing downtimes through conversion of all wind farms to permanent real-time data monitoring with automated fault clearance workflow
- consistently reducing the levelized cost of electricity in Energiekontor's own portfolio

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

Among the core tasks in commercial management are a pro-active liquidity management, the settlement of invoices with the energy supplier, service and maintenance companies and lessors as well as the long-term optimisation of profitability. Other activities include communicating with banks, insurance companies, tax advisors and investors. Furthermore, the billing for the feed-in management is carried out, either via the flat-rate or peak load procedure.

Apart from wind turbine monitoring and data reporting and analysis, the technical management at Energiekontor mostly involves the coordination of repairs and servicing teams working on-site, as well as the planning and implementation of preventive maintenance work. This preventive maintenance work can substantially extend the service life of both individual turbines and the overall site, while simultaneously achieving considerable savings in costs for repairs of primary components. The primary objective is to maximise the availability and yield of the turbines and to guarantee safe operation throughout their entire life cycle. For this purpose, plant data is monitored around the clock using real-time data and automated workflows. In addition, we guarantee that wind farms operations comply with all legal requirements; we also assume full responsibility for the wind farm.

Technical innovations such as rotor blade extension also form part of the activities aimed at optimising performance, yield and cost savings. This extension process invented and patented by Energiekontor is a technique for lengthening the rotor diameter that has now been tested and implemented successfully in the field for some years. Installation is carried out with the blade attached, i.e. without dismantling the blade. This concept allows crane costs and downtimes to be kept at a minimum. Currently, manufacturing of the rotor blade extension for serial operation is being prepared. In the last three years, the improvement measures implemented at the Company's own wind farms have already had a positive impact on operating profit.

Goals and Strategy

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

New self-perception of the pioneering role

Energiekontor has always had a clear vision for the future: a world where energy needs are covered 100 percent by renewable energy sources. Our mission statement begins with this vision. It is the key principle underlying Energiekontor's business activities and the strongest motivating factor for our staff in their endeavours to progress towards this overall target each day by bringing forward creative ideas and taking pleasure in achieving joint success.

Renewable energies will be able to sustainably cover 100 percent of the energy market once the levelized cost of electricity from renewable energy falls below the cost of generating electricity from fossil and nuclear resources. Energiekontor not only wants to participate in the energy transition but, in order to push forward the breakthrough of renewable energy sources, it also wants to take on a leading role as the pioneer realising one of the first wind or solar parks with lower levelized cost of energy than conventional energy.

This step will do away with a number of barriers, such as the economic barrier: users will always opt for the cheaper provider as long as this does not entail further disadvantages, above all if the cheaper option is also the more environmentally friendly one. At the same time, a social barrier will fall: renewables are bound to receive stronger backing from politicians and society, especially when wind and solar energy cease to depend on state subsidies. All this will give the renewable energy sector a strong boost.

By taking on a pioneering role in realising wind farms and solar parks at actual market prices, Energiekontor is contributing significantly to promoting the breakthrough where renewable energy sources cover 100% of energy needs. By paving the way, Energiekontor simultaneously gains a competitive edge over other market participants and occupies a strong position within the industry. Having extensively prepared and enhanced efficiency measures for reducing costs along the value chain, Energiekontor gains a crucial competitive advantage. As an innovative forerunner, the Company promotes the ongoing expansion of renewable energy without state subsidies.

A solid foundation for sustainable growth

The growth model of Energiekontor AG is closely linked to the Company's mission statement. The Company aims to strengthen its organic growth by intensifying the regional approach and exploiting new foreign markets and by thus actively accelerating the expansion of renewable energy sources despite fiercer competition. The management believes in employee involvement and development and creates the organisational framework required for achieving this goal. Basis and foundation of Energiekontor's growth

strategy is its financial stability. This stability is predominately based on the steady surplus cash from Power Generation in Group-owned Wind Farms and Solar Parks and from commercial and technical operation management activities.

Intensifying the regional approach

Energiekontor has always emphasised the importance of the regional approach. This allows close collaboration with local authorities and regions as well as a bespoke regional approach with a high level of local acceptance. At the same time, it generates a competitive advantage in each region and accelerates project development. In terms of organisation, the regional approach is implemented by local Energiekontor teams with far-reaching discretionary powers. This principle shall be further intensified by increasing the number of regions, in which Energiekontor is present, both in Germany and abroad.

Tapping into new foreign markets

One major element of Energiekontor's growth strategy is the increased internationalisation by gradually expanding the existing portfolio of countries (Germany, UK, Portugal) in order to develop additional growth potential for the coming years. In line with this strategy, Energiekontor is currently further expanding its solar business, especially in countries with favourable irradiation conditions and correspondingly low levelized cost of electricity. Energiekontor is currently developing the following new foreign markets:

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

While onshore wind farms are being developed in the Netherlands, the focus in France and the US is primarily on the solar segment. However, there are also wind projects being driven forward in both countries. Following first successful acquisitions, Energiekontor has made significant progress in project development, particularly in the Netherlands and the US. Suitable sites have already been secured in both countries, and own offices were established, from where newly hired native speakers coordinate and promote the development of projects in independent local companies. This approach is also planned to be followed in France.

In the course of developing new markets, Energiekontor may decide to extend the selection of countries or, if the management believes that a more intensive involvement in one or several of these countries is not promising, it may decide to discontinue activities in one or more countries. In doing so, Energiekontor always follows the same basic strategy. The Company does not directly enter a market and initiates a cost-intensive process of setting up project development whenever a new national market is added; instead, Energiekontor carries out a systematic review, analysis and selection process, assessing and evaluating the specific conditions for wind and solar projects in the individual countries (legal, political, subsidy systems, grid connection regulations, authorisation etc.). Furthermore, Energiekontor identifies and, if suitable, takes under contract the first partners for site acquisitions and further market development in order to create the structural prerequisites for a possible market entry at an early stage. The aim of this gradual and inexpensive review process – which can mainly be carried out by existing employees – is to identify the foreign markets that are best suited for a new market entry. Setting up local branch offices, employing own local staff and local project development is only initiated once the final market entry decision has been made. This approach improves the chances of success for developing the market while reducing the risk of misallocating resources.

Innovation and efficiency measures

As a pioneer in its field, Energiekontor wants to make a contribution to the vision of meeting 100 percent of electricity demand with energy from renewable sources and is one of the first companies to realise wind farms and solar parks at pure market prices and in direct competition with the conventional energy industry. This will ensure the Company's competitive position in an increasingly market-oriented environment.

In line with this objective, Energiekontor has developed several measures in recent years to enhance economic efficiency when planning, building and operating wind farms and solar parks as well as measures to optimise the processes along the entire value chain. Examples include technical innovations, such as rotor blade extension, optimisation of the supplier chain, useful life and financing as well as constant improvements to internal processes and structures. There are three approaches:

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

These measures play an important role in broadening the decentralised organisation and project organisation led by employees.

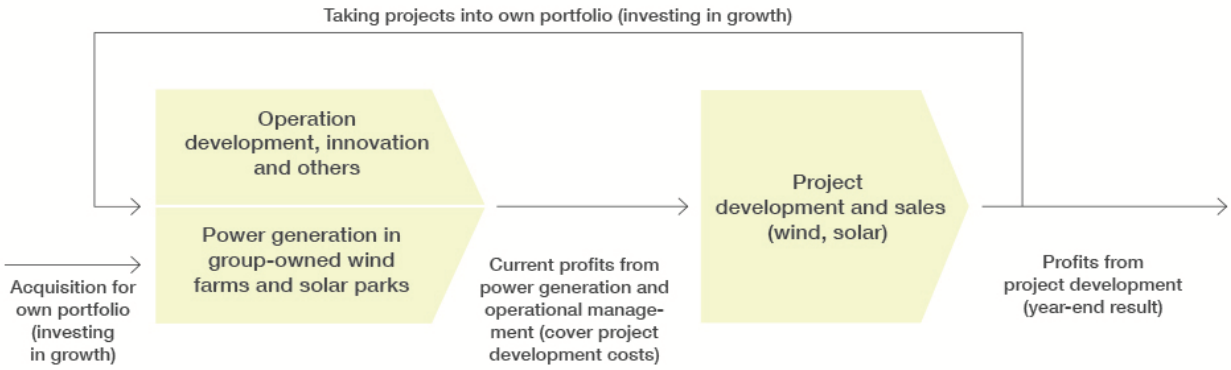
Room for initiative and organisational decentralisation

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

Owner-operated wind farms as a reliable growth driver

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

Growth model of Energiekontor AG



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

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

- retaining projects we have developed and completed within the Group,
- repowering Group-owned facilities, and
- optimising and increasing efficiency.

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

Varying growth dynamics

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

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

Business objectives

Energiekontor plans to use this strategy to increase project development EBT in a stable and sustainable manner to around EUR 30 million per year in the medium term. It has already been taken into account here that approximately half of the realised projects are to be transferred to the Company's own portfolio each year, whereby the construction profits from these wind farms and solar parks in the portfolio are eliminated through group consolidation and, as a result, do not affect Group profit.

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

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

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

BUSINESS DEVELOPMENT BY SEGMENT

a) Project Development and Sales (Wind, Solar)

In addition to inaugurating several wind farms, the Company completed and also sold some wind farms in Germany in the third quarter of 2018. Furthermore, Energiekontor AG managed to secure its project pipeline by concluding preliminary agreements with renowned turbine manufacturers. Important milestones were also reached in the UK.

The wind farms officially inaugurated in **Germany** in September and October include Luckow-Petershagen in Brandenburg, Heinsberg-Waldenrath and Niederzier-Steinstraß in North Rhine-Westphalia and Hammelwarder Moor in Lower Saxony. These wind farms had already been completed in 2017 and at the beginning of 2018.

Energiekontor further succeeded in signing the sale contract of the Hammelwarder Moor wind farm located in the key region of Lower Saxony (10.2 MW) with an investor headquartered in Konstanz. The wind farm near the city of Brake consists of three 176 metre tall Senvion 3.4M114 turbines, the last of which went into operation in February 2018. With total rated power of 10.2 MW, the expected annual output amounts to approximately 25 million kilowatt hours, which would cover the needs of more than 7,000 households.

Shortly before this report was published, another project was completed in Lower Saxony: the single turbine Debstedt II (4.5 MW). This turbine is an extension of the Debstedt repowering wind farm, which had already been sold and commissioned with three turbines in 2016.

Finally, the last wind farm that will still benefit from the old tariff system under the EEG 2017 transitional provisions, the Bremen-Hemelingen wind farm (12.8 MW), was commissioned at the beginning of the third quarter of 2018. The wind farm was sold to a German investment company in October. It is located in the direct vicinity of the Hansalinie business park on the A1 motor way. At the site, four Siemens wind turbines with a rotor diameter of 113 metres and total rated power of 12.8 megawatts generate an expected annual yield of around 30 million kilowatt hours. In theory, this would suffice to cover the needs of more than 8,000 households.

Energiekontor expects the bank's financing commitment (financial close) for another project at the post-approval stage in Lower Saxony still in November. The single turbine received the planning permission at the end of April 2018 and prevailed in the auction in May this year.

In order to secure the gradual implementation of its pipeline of projects planned in Germany in the next few years, Energiekontor AG has concluded contracts with two renowned turbine manufacturers to procure generation capacity in the total amount of 400 MW. This makes sure the Company has a solid economic basis for participating successfully in the upcoming auctions. For the turbine manufacturers, these agreements ensure purchases over several years at contractually agreed conditions. The first joint projects are scheduled to be commissioned in 2019. A contract with another manufacturer is being prepared.

In the **UK**, Energiekontor is implementing a number of projects, including one project that might still be subject to a legally stipulated feed-in tariff (FiT) in accordance with the old legislation. After subsidies for onshore wind have come to an end in the UK, however, the Company is now focusing on developing large-scale projects in windy regions, especially in Scotland, on the basis of Power Purchase Agreements (PPAs).

Following the conclusion of such a long-term PPA with a major international company from the consumer goods industry, Energiekontor achieved the financial close for the British wind farm project Withernwick II in May this year. The economic viability of this project rests solely on the conclusion of the PPA. According to Energiekontor's knowledge, Withernwick II is thus the first wind farm project in the UK to be realised without state subsidies. The project therefore represents a milestone in the history of Energiekontor AG and underlines the Company's pioneering role in its efforts to realise wind farms and solar parks with lower generation costs than in the conventional energy sector.

Withernwick II is an extension of the Withernwick I wind farm, which has been part of Energiekontor AG's portfolio for several years. The Withernwick II project, which had already been granted a planning permission at the end of 2016, is located near the east coast in the English county of Yorkshire. Four wind turbines with rated power of 2.05 MW each are to be built here. Construction is progressing according to plan. Commissioning is expected to take place in the first quarter of 2019.

Financial close was also reached in March 2018 for another project with a total capacity of just under 9 MW in the county of Kent southwest of London. To date, the construction of this wind farm is also on schedule, and it is to be commissioned before the end of the current 2018 financial year.

Overall, however, the Energiekontor Group will be concentrating on the development of its product pipeline in Scotland over the next few years. There, the Company obtained the first planning permission for a major wind project at the end of August 2018, thus reaching an important milestone in the realisation of its project pipeline. The permission was granted for 12 wind turbines with total heights of between 130 and 150 metres. The planned wind farm has a capacity of up to 48 MW and is scheduled for construction in 2019. Energiekontor is already in advanced negotiations with a major international company as a potential partner for a long-term PPA. Like the Withernwick II wind farm, which is already under construction in England, the new wind farm in Scotland is to be realised without state subsidies.

Including the secured sites (exclusivity/options), the total capacity of the Energiekontor Group's project pipeline in the UK rose to around 1,200 MW at the end of the third quarter. Most of these sites are located in Scotland.

Since there have been no new auctions for grid connections in **Portugal** for years, the activities of the Energiekontor Group there are mostly limited to the management of existing turbines as well as rotor blade extensions (for further information see Section c) "Operation Development, Innovation and Others"). Furthermore, Energiekontor is also reviewing opportunities for entering the solar sector in Portugal.

In the **Solar** segment, the Brandenburg solar park Garzau-Garzin was completed and commissioned in **Germany** in March 2018. The official inauguration ceremony was held at the beginning of June. In addition to representatives of the partner companies and banks, guests included representatives of the local authorities and municipality, property owners as well as members of the local communities. This is the first solar park that Energiekontor has included in its own portfolio, which underlines the continuation of the Group's growth strategy by expanding and diversifying its own portfolio.

The solar park has more than 35,000 polycrystalline photovoltaic (PV) modules and total rated power of about 10 MW_p. The expected annual output of more than 10 million kWh would suffice in theory to supply more than 3,000 households with electricity. Since the PV project had already been awarded in the auction round in April 2016, the electricity from the park will be remunerated at an attractive tariff under the German Renewable Energy Sources Act (EEG) for a period of 20 years.

In February 2017, Energiekontor was awarded the third contract for a photovoltaic project since the auctioning procedure was introduced in 2015. This contract is being used for the planned realisation of another 6.3 MW_p solar park in Mecklenburg-Western Pomerania. In the third quarter of 2018, the solar team of Energiekontor AG managed to obtain the bank's financing commitment for the project in less than a year after concluding the option agreements. The solar park is now under construction and is to be connected to the grid at the beginning of 2019.

In the auction held in June 2018, Energiekontor was also awarded a contract for a project in Bavaria with a capacity of 5 MW. Besides Bavaria, Baden-Wuerttemberg is also a new target region of Energiekontor. In both German federal states, the eligible areas were extended by the state governments to include arable and grassland areas of inferior quality. These areas are designated as disadvantaged. With two approvals for development plans at the beginning of the current financial year and a contract awarded in the June auction, Energiekontor has now entered the Bavarian market – an important step towards the Group's expansion of its solar activities in line with the corporate strategy.

In addition, Energiekontor is also currently reviewing opportunities in northern Germany to expand its coverage to already secured areas to be developed based on direct PPAs. The Company is already negotiating with a large industry partner regarding a first project.

In the **US**, Energiekontor is meanwhile planning six solar projects in western Texas. Each of these projects covers an area that allows for PV capacity of about 100 MW_p. The team in the Austin office was joined by an experienced project developer and now consists of three permanent employees. The grid screening studies and acquisition activities are also going according to plan, and the team is expecting to procure the land use rights for another two to three projects by the end of the year. The aim is to find PPA partners and, in this first stage, sell the project rights for the construction of large solar parks. Energiekontor's project sales team has already identified several potential buyers. While participating in the tenders of large energy suppliers (RFPs), the US team is also talking directly to smaller electricity buyers.

Progress was also made in the wind energy segment in 2018. In August 2018, Energiekontor opened an office in Rapid City, from where project development activities will be coordinated locally by an independent team that is currently still being set up. Here, too, the acquisition activities are progressing. The first agreements concerning the use of land for wind farm development are to be concluded before the end of this year. Wind speeds of 8 to 10 m/s at a height of 80 metres prevail in this region – conditions that are almost impossible to find onshore in Europe.

The other new markets are also making good progress. Project development in the **Netherlands**, in particular for a specific project in the south-east of the country continues to be on track. Up to eight turbines are to be constructed here in cooperation with a community cooperative. The community wants to be completely energy neutral by 2050, and the planned wind farm will play an important role in achieving this goal. Concrete option agreements are currently being negotiated for additional sites.

In **France**, the solar activities in the south of the country are being driven forward by a new office in Toulouse, supported by freelance consultants. The new office is already working on projects with a total capacity of several hundred megawatts. Talks with landowners about onshore wind power usage rights in north-western France are also making good progress. Several of the municipalities that have been approached over the past few months have expressed interest with regard to cooperating in the development of wind turbines in Normandy. Concrete contract negotiations are already underway for some sites, and first contracts have already been concluded. The regional office in Rouen will soon be opened to drive local project development.

Overall, three wind farms and one solar park with a total capacity of around 38 MW have been commissioned so far in the 2018 financial year. About 23 MW are currently under construction. Additional projects with a total capacity of approximately 150 MW have either achieved approval or have been submitted for approval or prepared for approval, respectively. And projects with a total capacity of approximately 1,200 MW are in upstream project development processes. Furthermore, sites for about 2,200 MW were secured. The total pipeline of the Energiekontor Group thus amounts to around 3,600 MW.

b) Power Generation in Group-owned Wind Farms and Solar Parks

The takeover of the Garzau-Garzin solar park (10 MW) has increased the total rated power of the Group's own portfolio to just under 270 MW at the beginning of the year.

The Company also continued to focus on optimisation measures in operational management to reduce costs and increase earnings such as:

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

Whereas the beginning of the 2018 wind year was rather positive, the yields at the end of the third quarter were below expectations after an exceptionally dry summer in Germany with little wind. The wind conditions in Portugal and the UK were somewhat better, but the yields at the end of the third quarter of 2018 are still slightly below the long-term average. The windy autumn and winter months will be decisive for the overall assessment of the year.

c) Operation Development, Innovation and Others

Because of the auctioning procedure and the resulting dramatic drop in prices for electricity from renewable energies, direct power purchase agreements (PPAs) between the producer and the end buyer are also becoming increasingly interesting in Germany. Energiekontor is currently talking to several potential major buyers about this option.

With regard to optimising wind farm operations, Energiekontor has developed and tested a number of new measures. These include measures to improve turbine management and yawing as well as measures to reduce downtimes through the conversion of all wind farms to permanent real-time data monitoring with automated fault clearance workflow. The measures also include more efficient maintenance and repair concepts with the aim of continuing to operate wind farms economically even after the EEG remuneration expires.

Technical innovations continue to focus on rotor blade extension. Following a successful test and optimisation phase, the first wind farm consisting of ten 1.3 MW turbines, Penedo Ruivo, was fully equipped with the rotor blade extension in the autumn of 2016. To date, rotor blade extensions have been installed in two further Portuguese Group-owned farms. Half the rotor blades in each of these wind farms with eight turbines have been completed. The remaining eight turbines are to be retrofitted as soon as the weather conditions allow.

In addition to rotor blade extensions, Energiekontor has been carrying out first tests since 2017 to improve blade aerodynamics using a so-called vortex generator. This technology is supposed to reduce flow separation and consequent friction losses on the rotor blade, thus leading to additional yields of 1.5 to 4 percent.

OUTLOOK

The forecast for the current financial year takes into account Energiekontor AG's growth plans based on a sound business model, with a view to the regulatory changes in the remuneration of electricity from renewable sources. It has not basically changed vis-à-vis our statements in the 2017 Annual Report and is summarised again below.

Given the general goal of covering 100 percent of energy demand with renewable energies, Energiekontor has set itself the objective of realising the first wind farms and solar parks with a lower levelized cost of electricity than in the conventional energy industry in order to help renewable energies achieve a higher market penetration overall. For years, the different departments of Energiekontor have been introducing various efficiency measures along the entire value chain in order to prepare for achieving this objective. At the same time, the cost reduction measures represent a competitive advantage and help the Company to position itself well within the industry in an increasingly fierce market environment with increased cost pressure.

Because of the new auction systems, the remuneration for electricity from renewable energies has dropped significantly in Germany; this started at the beginning of 2015 for solar and at the beginning of 2017 for onshore wind. Supported by the above-mentioned efficiency measures to reduce costs and the Group's experience gained in the auctioning procedures in Portugal as well as the four contracts won at auctions for solar projects in Germany since 2015, Energiekontor AG's management is very confident that it will also participate successfully in the future onshore wind auctions. This is also underlined by the delivery contracts with renowned turbine manufacturers covering a volume of more than 400 MW. As some projects may have to be redesigned and submitted for approval, however, their commissioning may be postponed until the following year. The clear undersubscription of the most recent auction for onshore wind demonstrates that the entire industry is affected.

In addition to participating in future auctions, Energiekontor concentrates primarily on concluding power purchase agreements with major industrial partners (PPAs). The Company has already successfully been gaining experiences and trust among its industrial partners in the UK with such PPAs for many years. Since the abolition of all subsidies due to the exclusion of wind power from the CFD system, the conclusion of PPAs is now the only way in the UK to ensure profitable planning of onshore wind farms. For this reason, the development of further projects now focuses on Scotland, where large-scale wind farms are to be run profitably without subsidies under excellent wind conditions. Currently, the Company has obtained two planning permission for two larger projects in Scotland; construction of these projects is scheduled to commence in 2019.

For the reasons mentioned above, Energiekontor's management still regards 2018 as a transitional year, believing that less capacity than in previous years will go into operation. About half of the wind farms and solar parks that go into operation is supposed to then be transferred to the Company's own portfolio. The margins that would be realised in the event of a sale are included in the asset portfolio as hidden reserves. This short-term effect will be offset, however, by the increased revenue from electricity sales over the coming years. With its strategy of consistently building up its own portfolio of wind farms and solar parks, Energiekontor is thus placing higher priority on the long-term security of its business than on being able to report short-term profits.

Therefore, the Power Generation in Group-owned Wind Farms and Solar Parks segment is of crucial importance for the further growth path of the Energiekontor Group. Despite wind-related fluctuations in income, revenue generated in this segment is easier to forecast than revenue generated in project development. Income from the sale of energy is a stable foundation for liquidity planning in the Group. Power Generation in Group-owned Wind Farms and Solar Parks is therefore the strategic core segment of the Energiekontor AG. Liquidity surpluses generated from the operation of own wind farms are to be increased in the coming years by continuously expanding the Group-owned wind farm portfolio as well as by consistently implementing the developed efficiency measures; the expansion will primarily be based on taking over turnkey wind farm projects from Energiekontor's own project development activities. The decision to take over wind farms into the Group's own portfolio always depends on the specific situation and project parameters.

The solar energy sector in Germany has seen drastic changes in recent years. The development and turnkey implementation of PV projects, which had stalled due to price erosion and punitive tariffs, has become more attractive again. On the one hand, the introduction of the auctioning procedure provides for new opportunities. On the other hand, the EU decided in the autumn of 2018 to phase out punitive tariffs and the associated minimum prices for PV modules from China. As such, Energiekontor is currently reviewing opportunities to expand PPA coverage to already secured areas. The Company is already negotiating with a large industry partner regarding a first project that could bring initial contributions to earnings as early as in 2019.

Moreover, the management intends to expand its scope for the future implementation of PV projects by tapping into the French and the US markets. The projects are taking shape, especially in the US, after Energiekontor and its own local team in West Texas have now secured sites for the construction of PV parks with a total capacity of over 600 MW. In addition to the option of concluding PPAs with an electricity supplier in a tendering procedure, Energiekontor is also talking to large industrial companies about end-user PPAs, based on the proven British blueprint. The Netherlands and France are not expected to make a contribution to earnings in 2018, as the project duration of the wind farms and solar parks developed here, from site acquisition to turnkey construction, will typically take three to five years.

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

In addition to regulatory uncertainty, project-specific or situation-specific issues may obviously lead to delays again in the future – as has been the case in the past – with regard to permissions, financing of already approved projects and commissioning. The main risks and critical external factors are delays in permitting processes and in project implementation (e.g. for weather reasons, delays in supply or insufficient availability of installation machinery).

The management's objective is to continue improving the basis for sustainable company growth by gradually and sustainably increasing total output and Group EBT in the coming years. The planned measures include, in particular, the expansion of solar activities in Germany and abroad, continuous realisation of the Scottish project pipeline, successful project development on the new markets, establishment of a PPA market in Germany and the optimisation of power generation by means of innovation and efficiency enhancement. This is to be supplemented by a gradual and controlled increase in the headcount in the key growth areas. It cannot be ruled out that the growth process in the coming years will not always be linear in all relevant target markets due to policy changes and the further reduction of subsidies for renewable energies, which may lead to fluctuations in earnings.

In summary, the Management Board believes that the 2018 financial year will be a year of transition in which the reported Group EBT will be below the EBT of 2017. The main reason for this is the auctioning procedure for onshore wind introduced in Germany in 2017, which has led to a certain distortion of competition and undesirable effects and forces not only Energiekontor but also many other project developers to re-design existing projects or, if necessary, to have them completely re-approved in order to make a profitable implementation possible despite the extreme drop in feed-in prices. This leads to an unscheduled delay in the implementation of numerous projects planned for 2018. However, due to the overall well-filled and resilient project pipelines in Germany and abroad, the great progress made in realising projects on a purely PPA basis (excluding government subsidies) and the expected initial earnings contributions from the new foreign markets, the Management Board currently assumes that the growth course of previous years can be successfully continued in 2019.

THE ENERGIEKONTOR SHARES

Share capital

The Company's subscribed capital (share capital) as entered in the commercial register amounts to EUR 14,578,160 as of 30 September 2018 and is divided into 14,578,160 bearer ordinary shares.

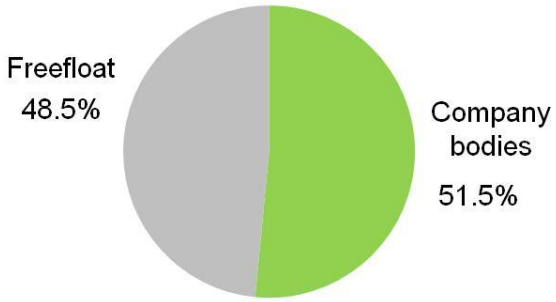
Shareholder structure

The Management Board is not aware of any direct or indirect shareholdings (Sec. 315 (4) No. 3 German Commercial Code (HGB)) in excess of ten percent, with the exception of the shareholdings stated below:

Dr Bodo Wilkens (Chairman of the Supervisory Board)	3,759,835 shares
Günter Lammers (Deputy Chairman of the Supervisory Board)	3,752,474 shares

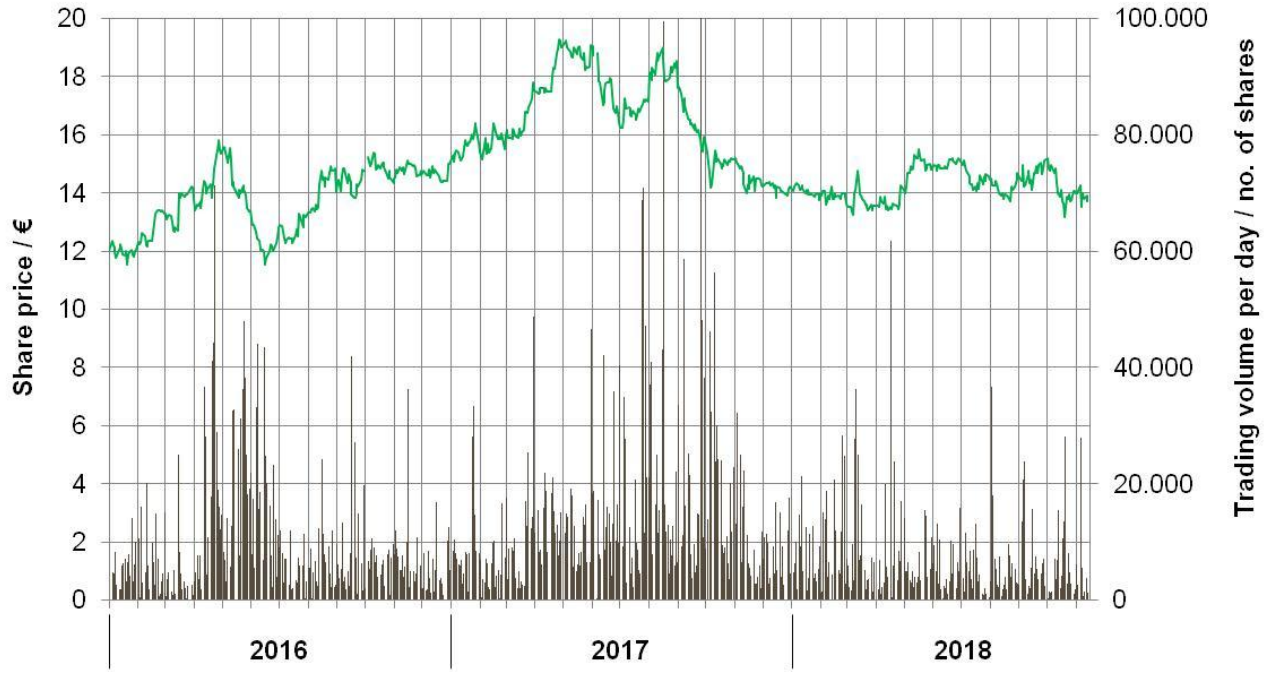
Energiekontor AG therefore had the following shareholder structure as at 30 September 2018:

Shareholder structure as of 30 September 2018:



Share price development and trading volume of Energiekontor AG since January 2016

The following chart shows the development of the closing price of the shares in Frankfurt (green) as well as the total daily stock trading volume of Energiekontor AG at all German exchanges (grey) from 1 January 2016 until 13 November 2018.



Source: Oddo Seydler

OTHER DISCLOSURES

Risk management

The statements made in the risk and opportunity section of the 2017 annual report continue to apply to the current situation. The annual financial statements and other financial reports of Energiekontor are available on our website www.energiekontor.de under “Investor Relations - Finanzberichte”.

Corporate Governance Statement

The Corporate Governance statement pursuant to the German Accounting Law Modernisation Act (BilMoG) is available on the www.energiekontor.de website under “Investor Relations”.

LEGAL INFORMATION

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Picture credits

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Forward-looking statements

This report contains forward-looking statements. These statements, including information regarding the expectations and views of the management of Energiekontor AG, do not constitute historical facts. They are based on current plans, assessments and forecasts of the Company management. Investors should not place unqualified trust in these statements. Forward-looking statements must be interpreted in connection with the time and the environment in which they were made. The Company does not assume any obligation to update the forward-looking statements in this report to account for new information or future events. This does not affect the Company's obligation to comply with its legal disclosure and reporting duties. Forward-looking statements always carry a certain degree of risk and uncertainty. Numerous factors may cause actual or future events to differ significantly from the forward-looking statements in this report.

Disclaimer

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