EnBW AG

The financial statements of EnBW AG have been prepared in accordance with the regulations in the German Commercial Code (HGB), the German Stock Corporation Act (AktG) and the law governing the electricity and gas industries in Germany (Energy Industry Act – EnWG). The regulations for large corporations apply.

The financial statements as audited by the KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as well as the management report of EnBW AG contained in the Group management report, will be published in the German Federal Gazette (Bundesanzeiger).

For statements that are necessary to understand the position of EnBW AG and which are not explicitly described in the following sections, especially those relating to the strategy of the company and economic and political conditions, please refer to the information provided for the EnBW Group (p. 48 ff. and 72 ff.). The full financial statements of EnBW AG are available for download at (www.enbw.com/report2018-downloads).

The annual net profit which indicates the company's ability to pay a dividend is an important performance indicator for EnBW AG.

Results of operations of EnBW AG

Condensed income statement of EnBW AG

in € million [1]	2018	2017	Change in %
Revenue	24,883.1	16,734.6	48.7
Cost of materials	-24,364.2	-15,969.4	52.6
Amortisation and depreciation	-458.1	-436.4	5.0
Other operating result	-502.6	1,228.7	-140.9
Earnings before interest and taxes	**-441.8**	**1,557.5**	**-128.4**
Financial result	-73.0	673.9	-111.4
Tax	-285.9	-241.7	18.3
Annual net loss/profit	**-800.7**	**1,989.7**	**-140.4**

1 In accordance with German commercial law.

EnBW AG reports an annual net loss of €800.7 million. The substantial decrease in comparison to the previous year was mainly influenced by €1,999.3 million lower earnings before interest and taxes and the decrease in the financial result of €746.9 million.

The operating result of EnBW AG is primarily determined by the revenues generated from electricity and gas sales, as well as by the associated cost of materials.

In the earnings before interest and taxes, the increase in revenue of €8,148.5 million was offset by an increase in the cost of materials of €8,394.8 million.

The revenue (after the deduction of electricity and energy taxes) of €24,883.1 million primarily includes revenue from electricity sales of €11,904.0 million and from gas sales of €11,771.5 million. Electricity and gas sales comprise both the trading business, involving deliveries to trading partners and stock exchanges, and sales activities in the form of the direct delivery of energy to end customers.

As a result of the significant expansion in trading activities in 2018, the trading business recorded an increase in revenue of €8,042.6 million to €21,780.3 million. This effect was further strengthened by increasing prices on the energy markets. However, the increase in revenue was also offset by the increase in the cost of materials of €8,177.5 million to €21,207.5 million.

Revenues from sales activities were split into €1,746.0 million for electricity and €189.6 million for gas, which represented an overall drop of €128.5 million.

In the retail and end customer sector (B2C), electricity sales were below the level in the previous year, decreasing by 0.3 billion kWh to 6.9 billion kWh, which was also reflected in the fall in revenue. This was due to, amongst other things, increasing energy efficiency and a slight fall in the contract portfolio. Gas sales of 3.9 billion kWh in the same period were 0.1 billion kWh higher than in the previous year due to the increasing number of contracts. Revenue was thus at around the same level as in the previous year.

Due to the closure of the commodity sales business at a subsidiary, the reserve supply held for B2B customers and the internal supply contracts held within the Group were transferred to EnBW AG. The sales to business customers (B2B) in the electricity business stood at 0.8 billion kWh as a result and were 0.7 billion kWh above the figure in the previous year. Gas sales in the B2B sector increased in the same period by 0.1 billion kWh to 0.3 billion kWh.

The cost of materials includes costs for electricity procurement of €10,507.8 million and costs for gas procurement of €11,600.4 million.

Alongside scheduled amortisation and depreciation, the amortisation and depreciation item includes impairment losses of €90.4 million.

The considerable decrease in the other operating result was primarily attributable to the positive extraordinary effect in the previous year of the reimbursement of the nuclear fuel rod tax. The share attributable to EnBW AG was €1,340.0 million. Other important effects in the 2018 financial year were lower earnings from reversals of impairments of €132.5 million and lower earnings from the disposal of assets of €192.6 million in comparison to the previous year.

The negative development of the financial result was mainly influenced by special dividend payments received from funds in the previous year of €364.0 million, higher impairment losses on financial assets of €98.8 million and higher interest expenses for pension provisions of €219.2 million. This mainly includes higher accretion of the provisions of €59.1 million and lower valuation effects within the Contractual Trust Arrangement (CTA) of €144.0 million in comparison to the previous year.

The tax expense in the 2018 financial year was €285.9 million, which represents an increase of €44.2 million. The taxes mainly comprise allocations to the provisions for tax audit risks. The option of recognising a surplus of deferred tax assets was not exercised.

Net assets of EnBW AG

Balance sheet of EnBW AG

in € million[1]	31/12/2018	31/12/2017	Change in %
Assets			
Non-current assets			
Intangible assets	635.4	762.2	-16.6
Property, plant and equipment	1,248.4	1,385.3	-9.9
Financial assets	20,130.5	19,558.1	2.9
	22,014.3	**21,705.6**	**1.4**
Current assets			
Inventories	446.7	594.9	-24.9
Receivables and other assets	3,336.4	3,123.1	6.8
Securities	119.2	114.3	4.3
Cash and cash equivalents	628.1	1,655.7	-62.1
	4,530.4	**5,488.0**	**-17.4**
Prepaid expenses	**1,226.3**	**545.0**	**125.0**
Surplus from offsetting	**268.1**	**266.1**	**0.8**
	28,039.1	**28,004.7**	**0.1**
Equity and liabilities			
Equity			
Subscribed capital	708.1	708.1	0.0
Treasury shares	-14.7	-14.7	0.0
Issued capital	(693.4)	(693.4)	(0.0)
Capital reserve	776.0	776.0	0.0
Revenue reserves	1,872.5	2,124.5	-11.9
Retained earnings	279.1	963.2	-71.4
	3,621.0	**4,557.1**	**-20.6**
Extraordinary items	**24.0**	**23.6**	**1.7**
Provisions	**11,032.4**	**10,965.9**	**0.6**
Liabilities	**12,414.7**	**12,044.4**	**3.1**
Deferred income	**947.0**	**413.7**	**128.9**
	28,039.1	**28,004.7**	**0.1**

1 In accordance with German commercial law.

The net assets of EnBW AG as of 31 December 2018 are significantly influenced by the non-current assets (particularly the financial assets), the receivables and other assets, as well as by cash and cash equivalents. These are primarily offset by non-current liabilities and provisions relating to nuclear power and for pensions and similar obligations.

Financial assets primarily consist of shares in affiliated entities to the amount of €13,463.3 million, securities in non-current assets to the amount of €2,751.7 million and equity investments to the amount of €1,914.0 million. The increase in financial assets of €572.4 million includes, on the one hand, shares in affiliated entities primarily as a result of payments into the capital reserve of EnBW Offshore 3 GmbH of €258.0 million and EnBW Renewables International GmbH of €82.7 million. In addition, loans to affiliated entities increased by €134.7 million in comparison to the previous year.

Trade receivables to the amount of €784.2 million mainly comprise receivables for trading activities and consumption accruals for electricity and gas deliveries not yet invoiced and were €587.2 million below the figure in the previous year.

The cash and cash equivalents of EnBW AG totalling €628.1 million mainly consist of bank deposits, which are invested as time deposits to the amount of €492.7 million. More details on the development of this item can be found under "Financial position of EnBW AG".

The provisions for pensions and similar obligations held by EnBW AG to the amount of €4,768.5 million combine obligations from the company pension scheme and other company agreements made by major subsidiaries and EnBW AG. The resulting annual expenses for retirement benefits are paid by the subsidiaries concerned in each case. The increase in the provisions for pensions and similar obligations of €504.5 million was mainly due to the effect of the further decrease in the discount rate as in the previous year. In addition, provisions relating to nuclear power of €3,921.3 million are disclosed, which arise due to public law obligations and requirements in the operating licences.

Of the liabilities totalling €12,414.7 million, €6,470.4 million have a residual term of more than one year. Overall, there are liabilities of €8,233.3 million to affiliated entities, which primarily result from intercompany settlement transactions within the framework of the centralised financial and liquidity management, as well as from loan agreements.

The increase in liabilities by €370.3 million was mainly due to the increase in other liabilities from margin payments of €362.9 million and to option premiums received of €70.9 million. This was offset by the repayment of a bank loan with a volume of €70.5 million.

Non-current liabilities exist to the amount of €2,622.0 million to EnBW International Finance B.V. as part of the Debt Issuance Programme (DIP) (Glossary, p. 152), to the amount of €1,992.6 million from the issuing of three hybrid bonds and to the amount of €668.2 million from loan agreements with credit institutions.

The aim is to cover the non-current pension and nuclear provisions with appropriate financial assets within an economically feasible time period. Overall, financial assets of €20,130.5 million are offset by long-term debt of €14,758.3 million.

The liquidity of EnBW AG on the reporting date guarantees the solvency of the company for the payment of current liabilities from the operating business.

Financial position of EnBW AG

In comparison to the reporting date in the previous year, the liquidity of EnBW AG decreased from €1,655.7 million by €1,027.6 million to €628.1 million.

The cash flows of EnBW AG fundamentally arise from both its own operating business and also those of its subsidiaries which balance payments received and made via the bank accounts of EnBW AG as part of the intercompany cash pooling system (Glossary, p. 152) within the framework of the central financing and liquidity management.

Important business transactions that had an effect on the financial position of EnBW AG in the financial year are summarised below:

An important liquidity-related business transaction in the reporting year was an investment in the area of renewable energies to the amount of €305.9 million.

Bonds issued by EnBW International Finance B.V. as part of the DIP with a total volume of €835.8 million were repaid on time by the company. This was offset by the issuing of a bond with a volume of €500.0 million and a commercial paper (Glossary, p. 152) with a volume of €250.0 million. The associated liability to EnBW International Finance B.V. changed accordingly.

Cash and cash equivalents of €219.1 million were used as collateral for trading transactions.

A total of €135.4 million was distributed to the shareholders of EnBW AG in dividends.

In the 2018 financial year, EnBW AG paid tax arrears for income tax from previous years (including the associated interest) in the amount of €131.3 million.

Overall assessment of the economic situation of EnBW AG and the development of EnBW AG

In our judgement, the development of the results of operations, financial position and net assets of EnBW AG as of 31 December 2018 is satisfactory after taking into account the effects described below that are not relevant to the ongoing management of the company. In the previous year, an annual net loss of €400 million was expected in 2018. The annual net loss for 2018 stands at €800.7 million and was significantly influenced by effects not relevant to the ongoing management of the company, which arose both at EnBW AG itself and also at its subsidiaries which had an impact on EnBW AG due to profit and loss transfer agreements.

The main effects not relevant to the ongoing management of the company were higher interest expenses for pension provisions and provisions relating to nuclear power totalling €571.5 million (€518.0 million of which is reported under interest expense of EnBW AG) resulting from the drop in the discount rate and were thus €33.5 million higher than expected. Furthermore, the allocations to the provisions relating to nuclear power, mainly due to the higher rate of increase of costs, of €284.0 million (of which €208.8 million was reported under the cost of materials of EnBW AG) had a negative effect and were €160.0 million higher than expected. Other negative effects arose from income taxes relating to other periods (mainly from tax audit risks) of €319.9 million, as well as impairment losses on financial assets of €104.3 million and on intangible assets and property, plant and equipment of €90.4 million. Further negative effects on earnings were the extension to the inspection of Block 2 of the Neckarwestheim nuclear power plant (GKN II) and the lower electricity generation from the run-of-river power plants as a result of low water levels caused by the unfavourable weather conditions.

These were mainly offset by the reversal of provisions for onerous contracts of €278.0 million and the reversal of impairment losses on property, plant and equipment and financial assets of €190.2 million.

Based on an annual net loss of €800.7 million and taking account of the profit carried forward of €827.8 million and the withdrawals from other revenue reserves of €252.0 million, retained earnings amounted to €279.1 million.

We anticipate an annual net profit of around €200 million in 2019. The net result for the year will be negatively influenced by high interest expenses for non-current provisions. As a result of the low-interest phase, the average interest rate will fall further in the future. In 2019, we expect a negative impact on earnings due to effects not relevant to the ongoing management of the company of between €500 million and €600 million overall. These negative impacts on earnings will be offset by expected positive effects on earnings that are not relevant to the ongoing management of the company of €500 million. Adjusted for these effects, the annual net profit will be between €200 million and €300 million. The amount from the valuation of the provisions for pension obligations and the valuation of the dedicated financial assets (Glossary, p. 152) in the CTA that is ineligible for distribution as dividends will stand at around €850 million by 31 December 2019. In 2020 and 2021, we expect the negative impacts on earnings due to the falling average interest rate to lessen.

Opportunities and risks

As the business performance, economic situation and opportunities and risks relating to the future development of EnBW AG do not deviate from the business performance, economic situation and opportunities and risks relating to the future development of the EnBW Group, the management report of EnBW AG is combined with that of the EnBW Group (p. 114 ff.).

Comments on reporting

The consolidated financial statements of EnBW AG are prepared in accordance with section 315 e (1) HGB using the International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB), the adoption of which is mandatory in the EU as of the reporting date. As a vertically integrated energy company in the sense of EnWG, EnBW AG engages in other activities within the electricity sector, other activities within the gas sector and other activities outside of the electricity and gas sectors in accordance with section 6 b (3) sentence 3 and sentence 4 EnWG.

EnBW share and dividend policy

As a result of the small proportion of EnBW shares in free float (www.enbw.com/shareholder-structure), events on the financial markets and the development of the DAX generally only have a very minor influence on the development of the EnBW share price. The price of EnBW shares was €28.80 at the start of 2018 and stood at €29.20 by the end of the year (www.enbw.com/stock-chart).

The trust placed in EnBW by capital market participants is based on the value generated by the company. Against this background, EnBW pursues the aim of disclosing a positive internal financing capability and refraining from building up any additional net financial debt. The size of the dividend is thus also based on the amount of net investment and the retained cash flow, whereby EnBW strives to generally pay out between 40% and 60% of adjusted Group net profit. Based on the annual net loss of EnBW AG of €800.7 million and taking account of the profit carried forward of €827.8 million and the withdrawals from other revenue reserves of €252.0 million, there are retained earnings of €279.1 million for the financial year and thus dividends will be paid for the 2018 financial year. If approved by the Annual General Meeting, the dividend to be distributed for the 2018 financial year will be €0.65 per share.