

Overall assessment of the economic situation of the Group

The energy sector in Germany has been experiencing profound change since 2012 due to the Energiewende. The share of electricity generation accounted for by renewable energies is increasing, driven by regulatory funding mechanisms, the trend towards decentralisation and technological advances. Nuclear electricity generation will cease by 2022. The use of fossil fuels, above all brown coal and hard coal, is currently the subject of intense political debate. Another driver of change in the energy sector are new patterns of demand amongst customers due to an increasing desire for autonomy and sustainability, as well as falling energy consumption due to improved energy efficiency. The energy landscape is becoming increasingly interconnected with other economic sectors, such as in the area of electromobility. As a consequence, energy supply companies require new business models and the revitalisation of their corporate cultures.

EnBW is well on track in its EnBW 2020 strategy to once again achieve the same level of earnings in 2020 as in 2012 – although on the basis of a realigned business portfolio. EnBW confirmed in 2018 that it had turned the corner in terms of earnings and achieved other important steps along the way to achieving the targets in the 2020 strategy.

The operating business of the EnBW Group generally developed in 2018 as expected and forecast at the start of the year. The adjusted EBITDA of the EnBW Group increased by 2.1% in comparison to the previous year. An important positive effect was the full consolidation of VNG in the second quarter of 2017, which had an impact on almost all of the segments. Adjusted for the effects of changes in the consolidated companies, the adjusted EBITDA of the EnBW Group would have stood at almost the same level as in the previous year (-0.4%). The result in the Sales segment developed negatively in the reporting year. The improved result in the Grids segment was mainly attributable to the full consolidation of VNG. In addition, there were higher earnings from the use of the electricity grids. The lower result in the Renewable Energies segment in comparison to the previous year was mainly due to the unfavourable weather conditions. The result in the Generation and Trading segment developed better than expected. This was primarily attributable to positive out-of-period earnings due to the clarification of open issues relating to electricity procurement agreements. In total, the Grids and Renewable Energies segments contributed around two thirds of the adjusted EBITDA of EnBW.

The non-operating result, which includes effects not relevant to the ongoing management of the company, decreased considerably in 2018 in comparison to the previous year. The reason for this development was a series of positive extraordinary items, such as the reimbursement of the nuclear fuel rod tax, in 2017.

In total, these developments – together with the changes in the investment result, financial result and income taxes – resulted in a Group net profit attributable to EnBW shareholders for the 2018 financial year of €334.2 million. In the previous year, the Group net profit attributable to EnBW shareholders was €2,054.1 million. Earnings per share thus fell from €7.58 in the previous year to €1.23 in 2018.

The financial position of the company remains sound. The solvency of the EnBW Group was ensured at all times throughout the 2018 financial year thanks to the company's available liquidity and the external sources available for financing. In October 2018, EnBW issued its first green bond (Glossary, p. 153) with a volume of €500 million that was very well received on the market. The key performance indicator internal financing capability stood at 93.2% in 2018 and was slightly below the target value of $\geq 100\%$ due to a decrease in adjusted retained cash flow. The fall in the key performance indicator ROCE was mainly due to the increase in the average capital employed.

In the customers and society goal dimension, the Reputation Index of EnBW fell slightly in 2018 in comparison to the previous year, which was partly due to the reduced media presence of the themes relevant to EnBW. The satisfaction of the customers of EnBW and Yello remained at a good level but fell in 2018 due to the general trend in the sector, as well as to specific measures such as a price adjustment and a system migration. Supply reliability also remained at a similarly high level in 2018. In the employees goal dimension, the Employee Commitment Index rose due to the improved perception of the current competitiveness of EnBW and employees having greater trust in the future viability of the Group. Occupational safety noticeably improved once again at EnBW in 2018, which was demonstrated by a fall in the LTIF. In the environment goal dimension, the expansion of renewable energies is continuing according to plan. However, the CO₂ intensity (Glossary, p. 152) of own generation of electricity only fell slightly because the generation from renewable energies was impacted by the unfavourable weather conditions.

In the estimation of the Board of Management, the operating business of the EnBW Group developed satisfactorily in 2018. Overall, the operating results increased as expected, although there were deviations from the forecast in individual segments. EnBW is also generally on course in the non-financial goal dimensions. The goals being pursued by EnBW in the 2020 strategy will be achieved with a very high degree of probability.