Energie Baden-Württemberg AG Annual Report 1998





Cover: Brigitte Franz, 37, key account manager at EnBW Energie-Vertriebsgesellschaft mbH.

At a Glance

EnBW Group		1998	1997
External sales revenues			
Energy	DM mill.	7,700	7,901
Disposal	DM mill.	393	414
Industry and Services	DM mill.	57	12
	DM mill.	8,150	8,327
Profit for the year	DM mill.	718	298
Cash flow	DM mill.	2,309	2,768
Investments Tangible and			
intangible assets	DM mill.	1,326	1,323
Financial assets	DM mill.	2,612	1,074
	DM mill.	3,938	2,397
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Fixed assets	DM mill.	14,199	12,596
Current assets	DM mill.	7,277	7,428
Shareholders' equity	DM mill.	3,367	3,088
No. of employees on an annual average	Number	12,605	12,769
Earnings per share*	DM	3.72	3.59
EnBW AG			
Subscribed capital	DM mill.	1,250	1,250
Investment income	DM mill.	1,640	1,024
Interest income	DM mill.	105	145
Profit for the year	DM mill.	762	323
Distribution	DM mill.	217	225
Dividend per share	DM	0.90	0.90
Tax credit per share	DM	0.39	0.39

^{*} Determined in accordance with the new DVFA/SG regulations, issued 1998; the previous year's figure has been adjusted accordingly.

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Supervisory Board and Board of Management

Supervisory Board

Dr. Guntram Blaser, Ravensburg Land Commissioner Chairman

Ernst Vetter, Erbach-Dellmensingen Central Works Council Chairman of Energie-Versorgung Schwaben AG (EVS AG) Vice Chairman

Manfred Autenrieth, Zimmern o. R. Land Commissioner

Volker Bauknecht, Forbach Deputy Central Works Council Chairman of Badenwerk AG (until 25 August 1998)

Gisela Beller, Karlsruhe Deputy Works Council Chairman of Badenwerk AG (from 25 August 1998)

Gottwalt Brückner, Karlsruhe Head of the Kurpfalz Regional Services of Badenwerk AG (until 25 August 1998)

Adolf Dinkel, Karlsruhe Central Works Council Chairman of Badenwerk AG

Manfred Eichkorn, Bad Dürrheim Section Manager, Supply and Disposal, District Administration of ÖTV (Public Services and Transport Workers' Union), Baden-Württemberg

Dr. Karl Epple, Stuttgart Head of Department, Baden-Württemberg Ministry of the Economy

Franz Fischer, Berg Manager of District Administration of ÖTV, Oberschwaben (from 25 August 1998)

Günter Gerhardt, Karlsruhe Master electrician, Badenwerk AG (until 25 August 1998)

Gisela Gräber, Weinsberg Head of Regional Federation of DAG (Salaried Employee Union), Baden-Württemberg (from 25 August 1998) Rolf Koch, Maselheim Vice-Chairman of Works Council, EVS AG, Biberach

Jonny Lüth, Esslingen Vice-Chairman of Central Works Council, EVS AG (until 25 August 1998)

Gerhard Mayer-Vorfelder, Stuttgart Baden-Württemberg Minister of Finance (retd.)

Peter Neubrand, Winnenden Chairman of Works Council, EVS AG, Stuttgart (until 25 August 1998)

Wolfgang Rückert, Leonberg Undersecretary of State in the Baden-Württemberg Ministry of Finance

Günter Scheck, Steinenbronn Vice-Chairman of the Board of Management of Neckarwerke Stuttgart AG

Dr. Wolfgang Schürle, Ulm-Söflingen Land Commissioner

Ernst Spadinger, Deißlingen Mayor

Ulrich Stückle, Schwäbisch Hall Land Commissioner

Günther Vogelbacher, Stutensee Chairman of Central Works Council of EnBW Kraftwerke AG (from 25 August 1998)

Viktor Volk, Neuburg Commercial employee, EnBW AG (from 25 August 1998)

Klaus-Michael Weber, Ludwigsburg Head of Legal Department, EVS AG (from 25 August 1998)

Gerhard Widder, Mannheim Lord Mayor

Harri Wollny, Dresden Chairman of Central Works Council of Energieversorgung Sachsen Ost AG (from 25 August 1998)

Board of Management

Gerhard Goll, Karlsruhe

Chairman of the Board of Management

Hans-Jürgen Arndt, Gerlingen

Dr. Hartmut Bilger, Ettlingen

Dr. Karlheinz Bozem, Stuttgart (until 31 March 1999)

Dr. Klaus J. Kasper, Stuttgart (from 1 May 1999)

Foreword from the Board of Management

In 1998, EnBW established its position in the European electricity market, and set standards in an industry new to competition. Most of our existing customers, and a sizeable number of new ones, have understood our policies and rewarded us with continued loyalty or new accounts. For this we are grateful.

In our sector, too, the ability to innovate, and to quickly implement innovations, has become a hallmark of success. This is something only motivated employees can achieve, and we are working towards it.

The new government coalition has decided that the Federal Republic of Germany should withdraw from nuclear energy. Our company is directly involved in the necessary talks. Starting from basic convictions that are diametrically opposed, all participants have an interest in finding acceptable solutions. Towards this we are also working.

Our company has everything it needs to build a successful future. Making that happen for our customers, shareholders and employees is our responsibility.

The Board of Management

Status Report

Successful debut on the deregulated electricity market

The first year of the deregulated electricity market was an overall success for EnBW. Although sales were markedly higher, revenue was down because we offered our customers significantly lower prices. EnBW made a net profit of DM 225 million. As in the year before, the Board of Management and the Supervisory Board recommend distributing a dividend of DM 0.90 per share (total DM 217 million).

Continued reversals in economic activity and primary energy consumption

1998 saw continued reversals in economic activity and primary energy consumption. In the Federal Republic of Germany, primary energy consumption dropped in 1998 by 1.2 % to 488.6 million tonnes of coal equivalent, although the German economy, after a short-lived stagnation in the spring, expanded in the second half of the year. According to initial estimates from the Statistisches Bundesamt (Federal Statistical Office), the gross domestic product rose by 2.8 % in comparison with the previous year.

However, the picture was clouded in the fourth guarter of 1998 by an appreciable slowdown in foreign trade, which had played a leading role the previous year. The manufacturing sector was particularly affected. Domestically, economic development has been dampened by uncertainty about future burdens in the form of price increases and taxation measures.

Group sales of DM 8.2 billion

Nevertheless, EnBW was able to increase electricity sales to 51.3 billion kWh, up by 2.7 billion kWh from the previous year. Because of pricing pressures on the market, however, total Group sales declined slightly, from DM 8.3 billion to DM 8.2 billion. This includes sales revenue of DM 91 million from newly consolidated companies.

Sales revenues in the individual business segments developed as follows:

1000

EnBW Group sales (in DM million)

to previous year

Change compared

Total	8,150	8,327	-177	- 2.1
Industry and Services	57	12	+ 45	_
Disposal	393	414	- 21	- 5.1
Energy	7,700	7,901	- 201	- 2.5
	1998	1997	DIVI MIIIION	

In the business segment Energy, which at 94.5 % makes by far the largest contribution to Group sales, the electricity division accounted for DM 7.5 billion, the gas division for DM 120 million and the sale of district heat for DM 92 million.

Group earnings rise to DM 718 million

Group earnings for the year rose from DM 298 million to DM 718 million. Among the reasons for this are the improved operating result, which reflects the first successes of cost-trimming measures, as well as a better financial result compared with the previous year. But above all it is the result of special influences exerted by independent auditing and, in connection with this, a reduction in funds set aside for reserves.

Adjusted according to the new DVFA/SG guidelines, Group earnings for 1998 were roughly DM 1 million higher than comparable results from the year before. Earnings per share came to DM 3.72, compared to DM 3.59 in 1997, an increase of 3.6 %.

Of the Group earnings, DM 17 million is accounted for by other share-holders. After allocating DM 476 million to capital reserves, the remaining Group earnings amount to DM 225 million, corresponding to the net profits of EnBW AG.

Development of EnBW AG

Earnings increased by means of profit transfers

Earnings of EnBW AG for 1998 rose to DM 762 million, compared with DM 323 million the previous year. The improved results are attributable above all to a rise in investment income of DM 616 million, largely owing to first-time profit transfers from our newly established subsidiaries. In contrast to this, interest income fell by DM 40 million, in particular owing to consistent interest payments on the funds made available to EnBW AG by subsidiaries participating in the cash pooling system. Because of regulations affecting early retirement and the new mortality tables, short-term expenditures for retirement pensions rose more sharply than expected. This resulted in a rise in personnel costs of DM 84 million.

8.7 million own shares acquired

In December we acquired roughly 8.7 million own shares with a nominal value of DM 43,672,175 at an average purchase price of DM 70.41 per share. This corresponds to 3.5 % of capital stock. This buyback gives us the option of securing planned cooperative ventures with both domestic and foreign partners by means of reciprocal shareholding. The book value of the shares on the balance sheet date was DM 615 million. In order to create the reserves necessary for the share buyback, we used DM 537 million from earnings, in addition to which we took DM 78 million from other capital reserves. This leaves a net profit for the year of DM 225 million.

Dividends at last year's level

At the Shareholders' Annual Meeting on 14 July 1999, we will recommend a dividend of DM 0.90 per share. Shareholders entitled to imputation credit and subject to unlimited tax liability shall receive a gross dividend of DM 1.29 per share, including tax credit. The total distribution thus comes to DM 217.1 million (1997: DM 225 million). The decrease in the total distribution results from the number of shares now held by the company. The remainder of DM 7.9 million shall be carried forward on new account.

Positive developments in other business segments

Disposal and Thermal Waste Treatment

Developments in the other business segments of the EnBW Group were just as positive. The U-plus Group, which accounts for most of our disposal capacity, achieved positive results, generating earnings of DM 7.1 million. The concurrent decline in sales by DM 22.1 million, to DM 395.3 million, resulted from dispensing with sales that were not sufficiently profitable. Following the restructuring of the past years, the disposal division now rests on a solid foundation. We expect further impetus from a newly developed technique and from the Thermoselect process. The Thermoselect facility in Karlsruhe began operating in early 1999.

Telecommunications

tesion Communikationsnetze Südwest GmbH & Co. KG, of which Swisscom and we each control 50 %, made successful acquisitions in 1998 as part of the planned expansion of its activities. Beginning in 1999, the governmental authorities of Baden-Württemberg joined the ranks of its customers.

Industry and Services, Transport

1998 saw further expansion of activities in the Industry and Services division. DEG-Verkehrs-GmbH (DEGV) made several successful tenders and achieved group sales totalling DM 83.5 million.

Group investments at approximately DM 3.9 billion

At DM 3.9 billion, the EnBW Group invested DM 1.5 billion more in the 1998 business year than the year before; this represents a rate of increase of 64 %.

Whereas the amount invested in tangible and intangible assets remained virtually constant compared to the previous year, investments in financial assets rose from DM 1.1 billion to DM 2.6 billion.

Investments in tangible assets in the area of power station facilities affected in particular our new power station in Lippendorf, as well as residual payments towards the gas and steam turbine plant in Karlsruhe. Another investment priority was the Thermoselect plant in Karlsruhe. In addition, we made capital maintenance investments in our transport and distribution facilities.

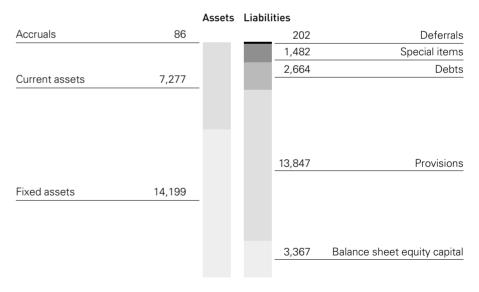
Investments in financial assets were largely directed towards additions to associated companies and equity holdings (approximately DM 1.8 billion), as well as towards additions to the securities in our fixed assets (DM 650 million). Of particular note in this regard are the acquisition of 24.6 % in Watt AG, Zurich, 25.1 % in Salamander AG, Kornwestheim, and 24.9 % in Deutsche Industriewartung AG, Stuttgart. We built up our shareholding in Rheinmetall Elektronik AG, Düsseldorf, to 32,9 %, while selling off our investment in STN Atlas Holding GmbH, Bremen. We purchased additional shares in Neckarwerke AG, Stuttgart.

Additions to the securities in our fixed assets in 1998 were largely in regard to newly floated special funds.

Solid balance sheet figures

The Group's balance sheet total increased by DM 1.5 billion to DM 21.6 billion. The capital-to-asset ratio is 15.6 % (compared to 15.4 % in 1997). The proportion of fixed assets in the balance sheet total rose – largely owing to higher investments in the past year – from 62.8 % to 65.8 %.

Balance sheet structure of the EnBW Group (in DM million)



Balance sheet total: 21,562

Promising research and development projects

In 1998 we created the framework for successful research and development activities within EnBW: a coordinating group was established to promote new projects, with an annual budget of up to DM 15 million. The focus – as previously with Badenwerk and EVS – is on research and development projects to improve our own facilities and processes in the Energy division, as well as developments in the Telecommunications and Environmental Technology divisions.

We created an in-house process for the regeneration of flue gas scrubbers that is now ready for marketing; together with the Fraunhofer Institute for Solar Energy Systems, we developed a new type of compact electric heat pump that can be used to heat super-low-energy houses and houses with passive heating systems in an environmentally friendly manner. A portion of the research budget goes to nuclear energy, for example participation in the development of the European Pressurized-Water Reactor (EPR).

In the Telecommunications division, our subsidiary tesion (of which we own 50 %) is investigating Internet connections via power lines under the name Digital PowerLine. In the field of Environmental Technology, our subsidiary U-plus has come up with the innovative ISKA process, a special treatment for turning household waste into valuable fuel for power stations.

Because of the enormous acceleration of developments in our time, the ability to innovate is one key to a company's success. For this reason we attach even more importance to research and development than before.

Further developments in risk management

To seize hold of competitive opportunities one must also take risks. Only thus will we be able to achieve a lasting competitive advantage in the interests of our employees as well as our shareholders. Because these risks must be calculable, risk management is already an inherent part of our managerial efforts.

The Law on Governance and Transparency in Corporations (KonTraG), which came into effect on 1 May 1998, places greater demands on the evaluation of the Group's overall risk position. It obliges us to institute an early warning system for risks that would jeopardize continued operations, and to expand reporting.

We have used these recent legislative requirements as an opportunity for further development and supplementation of our existing risk management apparatus. In so doing, we set objectives for monitoring risks that go beyond the legal requirements. In keeping with its corporate culture of responsibility, the EnBW Group plans to institute an early warning system (risk control system) that is functionally and organizationally independent and separate from operative tasks, both at the decentralized and at the centralized level. Thus, for example, risk management for the electricity segment is handled by EnBW Gesellschaft für Stromhandel mbH.

Measures for the implementation of this system have already been introduced. The EnBW Group is not currently subject to any risks that would jeopardize continued operations.

Outlook

Market situation complicates prognosis

Because of the special situation in our core business, it is hardly possible to present a reliable business prognosis for 1999, the second year of competition. We shall continue in our attempts to ensure the success of our enterprise, both by further improvements in our market position and by taking steps to increase efficiency and lower costs.

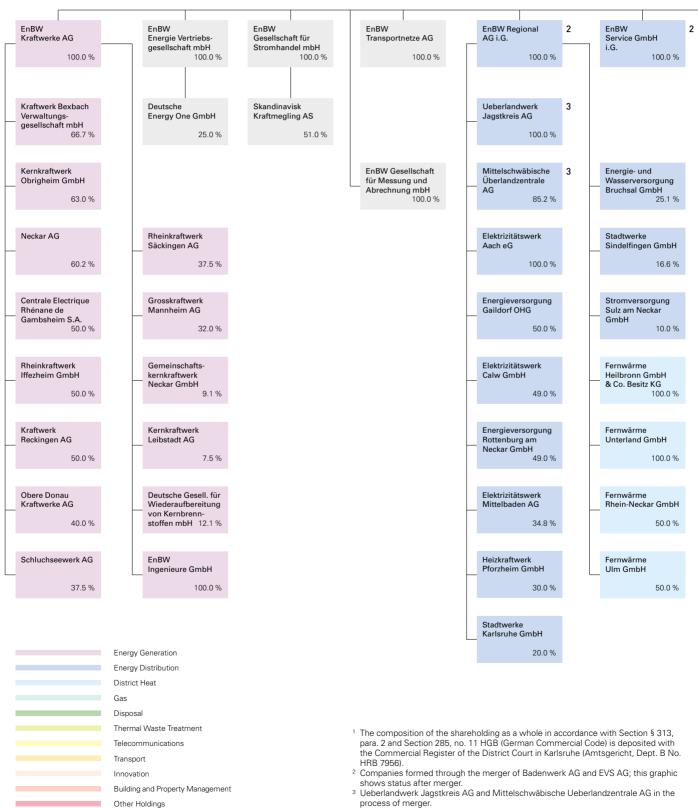
The greatest challenges on the market will come from increased pricing pressures and from the area of tariff and household customers. If transmission agreements are simplified after the lapse of the Association Agreement in the autumn of 1999, competition for these customers will increase significantly. We will counter this development with market-oriented prices and an innovative line of products.

The keys to increasing efficiency within the enterprise are the merger of Badenwerk AG and Energie-Versorgung Schwaben AG into a regional company, as voted by the supervisory board of EnBW AG, and the consolidation of essential functions in a service corporation.

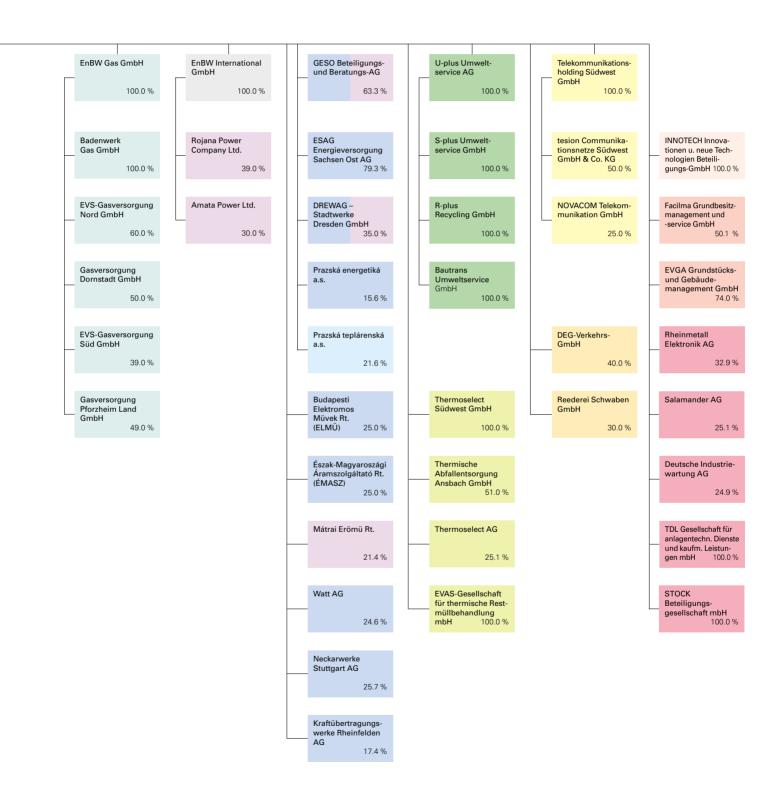
Effects of the new tax legislation

Owing to the "Tax Relief Act 1999/2000/2002", the EnBW Group faces serious new tax liabilities in 1999 and the following years. Precise evaluation of the consequences of this legislation will not be possible until ongoing negotiations with the tax administration have been concluded.

Main Participations of Energie Baden-Württemberg AG1



process of merger.



Energy

Electricity sales up by 5.5 %

We made good use of the opportunities provided by the deregulated market last year. Reaching beyond our home market, we were able to make contracts with well-known companies. Overall sales of electricity by the EnBW Group for 1998 were 51.3 billion kWh, or 5.5 % more than in 1997. Of this, 25.5 % went to industrial clients, 36.0 % to downline electricity supply companies, 22.2 % to private customers, and 16.3 % to interconnected power companies.

The greater part of the electricity supplied, 45.8 billion kWh, came from our own power stations, the rest being obtained from partner plants. Strong demand for electricity led to high demands on our power station blocks. Block 7 of the Heilbronn district heating power station and Block 7 of the Rheinhafen steam power station in Karlsruhe – both fuelled by hard coal – produced more electricity in 1998 than in any other year since coming on stream (over 3.8 billion kWh and 2.95 billion kWh, respectively). The nuclear power stations also made significant contributions to the Group's own production. At 94 %, Block 1 of the Philippsburg nuclear power station was online more than in any previous year, producing 6.9 billion kWh (net). Block 2 produced 10.7 billion kWh, turning in an excellent overall performance.

Of the electricity we supplied, 52.6 % came from nuclear energy, 32.3 % from coal, oil and gas and 8.9 % from water power. For 6.2 % no primary energy source could be determined.

Energy sales of the EnBW Group in 1998

District heat	1.8	billion kWh _{th}
Gas	2.5	billion kWh
Electricity	51.3	billion kWh



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Private customers	22.2 %		
Industrial clients	25.5 %		
Interconnected power companies	16.3 %		
Downline electricity supply companies	36.0 %		

Positive developments in gas and district heating

Despite the mild temperatures in 1998, the Gas division continued to develop well. Gas deliveries rose by roughly 13 % to 2.5 billion kWh. We gained approximately 3,000 new household and commercial natural gas customers; of these, a significant number converted to natural gas from other forms of energy.

Our district heating sales came to 1.8 billion kWhth.

Successful start of electricity brokerage activities

In addition to positive sales developments, 1998 was marked by expansion of distribution and brokerage activities in the Energy division as well as measures for lowering costs and increasing efficiency.

Developments in the still-young Electricity Brokerage division were particularly pleasing. Because of its growing importance on the deregulated energy market, in late 1997 we were one of the first German energy suppliers to establish our own brokerage company, EnBW Gesellschaft für Stromhandel mbH. It began trading in 1998 and was immediately an extraordinary success: the company sold roughly 4.2 billion kWh in trade with external partners. It achieved total sales of DM 3.5 billion.

Good starting conditions created

In achieving this success, EnBW Gesellschaft für Stromhandel mbH made good use of favourable structural circumstances. With an efficient organization both internally and as regards cooperation with other Group companies, it created an excellent point of departure from which to meet the challenges of the electricity market. EnBW's tradition of good commercial relations with partners in Germany and Europe, as well as the central location of its production facilities in Europe, offer favourable physical conditions for electricity brokerage beyond German borders. The production capacities of EnBW Kraftwerke AG, in particular those of the pumped storage stations, represent an essential source of the electricity purchases by the brokerage company, thus guaranteeing the enterprise a strategic competitive advantage in a market increasingly subject to price fluctuations.

Electricity procurement by the EnBW Group in 1998 by primary energy source Coal, oil, gas 32.3 % Nuclear energy 52.6 % Water 8.9 % Primary energy unknown 6.2 %

On this basis the company supplemented its already existing expertise in the energy sector with know-how in the areas of brokerage and risk management. Furthermore, EnBW Gesellschaft für Stromhandel mbH has acquired a line-of-business software product successfully used on the Scandinavian market, customized it for the German market together with the software company, and adapted it to meet the specific requirements of EnBW.

With an equity interest in one of the most successful electricity brokers on the Scandinavian energy market, Skandinavisk Kraftmegling, EnBW Gesellschaft für Stromhandel mbH has also acquired a valuable strategic position in the cross-border European electricity trade.

Working toward a leading position in the financial electricity market In addition to the electricity market as it has existed to date – primarily oriented to physical delivery – the financial market, e.g. futures trading, will gain more and more significance in years to come. For this EnBW Gesellschaft für Stromhandel mbH is well prepared. The company will therefore strive to attain a leading position in the financial electricity market.

Increased efficiency and lower costs in the production division

Distributors and electricity brokers can only then be successful on the market if they are able to offer energy at competitive prices. For this reason – as in other divisions of the Group – we have also initiated measures for reducing the cost of electricity production by mothballing existing power station blocks and modernizing our production facilities.

RDK 4S at Rheinhafen in Karlsruhe goes on stream
At the Rheinhafen steam power station, the new gas and steam
turbine plant came on stream in 1998 with a net output of approximately 360 MW and an efficiency rating of 56 %. During the startup
phase of this facility, with its new type of gas turbine GT 26, there
were some initial difficulties and delays due to unforeseen downtime
and damages to the gas turbine; however, we were able to correct
this in cooperation with the supplier. Stadtwerke Karlsruhe GmbH
owns a 25 % interest in Block RDK 4S.

Experience gained in converting the old hard coal Block 4 into Block 4S has meanwhile led to an external contract: on commission from Singapore Power Holding, the newly established EnBW Ingenieure GmbH, a wholly-owned subsidiary of EnBW Kraftwerke AG, is currently fitting out a power station in which three existing steam turbine blocks will be converted into a combination gas and steam turbine facility.

EnBW Ingenieure GmbH combines the engineering know-how of Badenwerk and EVS, bringing together their accumulated experience in planning and construction of facilities for energy production, energy supply and thermal waste treatment.

Block 3 in Marbach mothballed

In February 1998 we mothballed Block 3 at the Marbach thermal power station. The employees there were either given new jobs within the Group or else offered early retirement.

The Würth Solar company, in which EnBW has a 20 % interest, will begin bench-scale production of a new type of thin-layer solar cell in the power house of decommissioned Block 1. We will endeavour to make the site attractive for subsequent mass production by means of good infrastructure.

Savings from new technologies

We are also lowering costs with the help of new technologies. We have developed a technique for cleaning so-called DENOX scrubbers without first dismantling them. At the Heilbronn thermal power station alone this is already saving roughly DM 8 million annually. Since fewer scrubbers are required, the environment also benefits by this new process. Should the occasion arise, it too may be marketed in cooperation with partners.

Mains to be optimized

In regard to electricity transmission, we are working towards the most transparent and cost-effective structures in the interests of our customers and our competitive edge. The new energy law fundamentally regulates access to the power grid. Calculation of transmission fees on the deregulated market was regulated by energy suppliers and industry associations in the so-called Association Agreement of 1998. This agreement is currently being revised in the light of experiences with transmission gathered since then, and will be modified in the autumn of 1999.

EnBW has taken an aggressive approach to the subject, and was the first German energy supply company to publish its transmission prices on the Internet. What is more, EnBW Transportnetze AG was responsible for carrying out a study in 1998 with the aim of comparing its grid costs with those of German and European mains operators. Optimal mains structures will be developed within the framework of a further analysis. On this basis, we will be able to lower long-term costs for providing the mains infrastructure and with them our transmission fees.

New transport concept developed for fuel elements

In reaction to contamination of fuel element transport containers, the energy supply companies have developed measures aimed at improving transport, taking as their guide a ten-point programme by former Federal Minister of the Environment Angela Merkel. The proposals involve improvements to reporting and standardized measuring systems, a better internal organizational structure, a new organizational concept for the transport system, and, finally, technological measures to prevent, as far as possible, future contamination of transport containers.

In consultation with the other energy suppliers, EnBW Kraftwerke AG agreed to carry out a test transport of spent fuel elements in order to demonstrate the technology. Accordingly, on 23 December 1998 the preliminary step of installing a supplementary contamination guard in a factory-new fuel element transport container from Cogema was tested. Whether or not this demonstration process is continued depends, among other things, on the course and the results of the consensus-building talks on the nuclear energy situation being held with the new Federal Government.

Gas activities reorganized

Success on the deregulated energy market will go to those who are competent in both the electricity and gas markets and are able to harness the increasing interdependence of the two. At EnBW, we were quick to create the conditions necessary for future developments in the Gas division. In early 1999 EnBW consolidated the operative gas activities of Badenwerk and EVS under the aegis of a new whollyowned subsidiary, EnBW Gas GmbH. This concentrates the knowhow of EnBW in the Gas division. At the same time, the new structure enables us to seek flexible solutions through new partnerships.

Foreign investments increased

In regard to our foreign equity investments, we further reinforced our interests in Hungary. EnBW now holds 25 % interest in both Budapest Electricity Works (ELMÜ) and North Hungarian Electrical Supply (ÉMASZ), as well as 21.4 % in Matra Kraftwerks GmbH.

Within the framework of the incipient deregulation of the electricity market, ÉMASZ will take part as the largest investor in the construction of the first private energy production plant in Hungary: a power station with an electrical output of 50 MW at BorsodChem, the biggest chemicals company in Hungary.

Non-European equity investments – Amata Power Ltd. in Thailand and the newly-acquired interest in Rojana Power Company Ltd., also in Thailand – have been consolidated under a new EnBW subsidiary, EnBW International GmbH.

Our goal: to be one of the "Top 3"

This is why we are constantly developing new products tailored to the needs of our customers. At the same time, to strengthen our close ties to customers in Germany and abroad, we shall be opening offices in 1999 in Düsseldorf, Frankfurt, Berlin and Vienna.

Competition in the area of tariff customers is still hampered by various technical issues as well as the existing regulations affecting transmission. We are pushing for simplification, and are already making preparations for retaining existing and winning new tariff customers with attractive products and services.

With good customer relations, a comprehensive range of products and services, and the new organization of our gas activities, we are confident that we will soon be among the "Top 3" German energy supply companies.

Disposal and Thermal Waste Treatment

Business segment shows positive development

The Disposal and Thermal Waste Treatment business segment developed favourably in 1998. U-plus Umweltservice AG, a wholly-owned subsidiary of EnBW, achieved a positive year-end result, maintaining its position as the market leader in the field of commercial waste disposal in Baden-Württemberg. Thermoselect Südwest GmbH in Karlsruhe is currently beginning operations at the first Thermoselect facility in Germany.

The situation on the disposal market in 1998 was nonetheless difficult, as it continued to be affected by divergent interpretations of the Life Cycle Management Law (Kreislaufwirtschaftsgesetz) on the question of the kinds of refuse to be classified as waste to be reused versus those that are to be disposed of. In the face of declining supplies from the commercial sector, numerous municipal subdivisions have taken to a restrictive reading of the legal regulations. What is more, the differing environmental standards in the various Lands continue to result in price differentials in waste disposal.

U-plus closes with positive results

In 1998 U-plus Umweltservice AG completed the turnaround, closing with a positive year-end result. With overall performance of DM 419.1 million, it generated a net profit of DM 7.1 million, after posting a shortfall of DM 8 million the previous year. Total sales came to 5.3 % less than in 1997. This can be attributed to the sale of strategically unnecessary equity interests. Moreover, U-plus sector companies declined to make sales that did not appear to be profitable. In raising capital by DM 100 million, we made a lasting contribution to the strength of U-plus Umweltservice AG.

Regional presence strengthened

By further streamlining the company structure and strengthening regional presence, the regional disposal companies in 1998 created optimum conditions for further successful activities.

The main organizational thrust was the amalgamation of the three disposal companies in Stuttgart into S-plus Umweltservice GmbH. In addition, Bautransport GmbH, Karlsruhe, was split: the demolition division was concentrated in Bautrans Gebäude- und Flächenrecycling, with branches in Karlsruhe and Stuttgart, while Bautrans Umweltservice is now the market leader in the Karlsruhe region in the field of disposal logistics. All of the regional companies finished the year with positive results.

With the acquisition of Koch Entsorgung GmbH & Co. KG, U-plus will have a strong regional base in the districts of Reutlingen and Tübingen.

Uneven developments in the sector companies
The sector companies of the U-plus corporation showed uneven development; in particular, the low prices for landfill disposal and incineration placed the entire Recycling division under heavy cost and profit pressures.

In the Vehicle Recycling division, the acquisition of PRG Preussag Recycling GmbH in the past year gives the company an even stronger market position. PRG is the market leader in terms of the software needed for market-oriented recycling.

Results in the Metals and Electronics recycling division were affected by considerable price declines in the metals markets and a concomitant drop in earnings. However, conditions for a sustained improvement in the earnings situation have already been created with the merger on 1 January 1999 of Telwest Recycling GmbH and Kamet Recycling GmbH, two firms active in these areas, as R-plus Recycling GmbH.

Good future prospects

In 1998 U-plus developed a new process for mechanical-biological waste treatment (MBA = "mechanisch-biologische Abfallbehandlung"). This will allow us to meet the needs of municipal subdivisions for low-cost, environmentally friendly waste recovery techniques resulting from the regulations of the Technical Instructions for Municipal Solid Waste and the prohibition, effective at the beginning of 2005, on landfill disposal of untreated waste. The new processing technique and the contractually secured options for recovery of the secondary raw materials it generates lead to expectations for medium-term improvements in sales and earnings.

For 1999, despite the continuing difficulties of the market situation, U-plus is counting on further increases in sales and profits.

Thermoselect plant begins operations in Karlsruhe

After completion of construction and installation work, the startup programme for the Karlsruhe Thermoselect plant was initiated. The plant will dispose of 225,000 tonnes annually of residual waste from the city and district of Karlsruhe, the district of Rastatt and the Baden-Baden metropolitan area. This exemplary regional cooperation in the field of waste management was confirmed with the signing of the disposal contract in June 1998, which ensures environmentally viable and economically sound disposal of residual waste for almost a million people.

The lawsuit filed by a citizen of Karlsruhe against the approval of the Karlsruhe Thermoselect plant was dismissed by the Higher Administrative Court in the summer of 1998. The judgement has now become final. This judicial decision, which confirmed the legality of the pollution control authorities' approval of the Karlsruhe Thermoselect plant and determined that health risks from the operation of the plant are nonexistent, represents not just another important step for the Karlsruhe Thermoselect project, but also for the final establishment of the Thermoselect process on the market.

Further Thermoselect projects

The Thermoselect process is also in demand outside Germany. A Thermoselect plant that will dispose of 100,000 tonnes annually has been under construction in Chiba (Japan) since May 1998. The government of Canton Tessin (Switzerland) has commissioned the construction and operation of a 150,000 tonne plant.

The projects in Ansbach and Hanau are proceeding as planned. Construction in Ansbach began in March 1998; also in 1998 the pollution control authorities began the approval procedure in Hanau.

EVAS-Thermik finalizes disposal contracts

Our second subsidiary in the area of thermal waste treatment, EVAS Gesellschaft für thermische Restmüllbehandlung mbH (EVAS-Thermik), plans, builds and operates facilities for the thermal treatment of residual waste for regions and municipalities subject to disposal regulations beginning in 2005.

The project that has progressed the furthest is Thermische Abfallbehandlung Unterland (TAU) at the Heilbronn power station site. Disposal contracts were signed in 1998 with the Zollernalb district as well as the association representing the districts of Reutlingen and Tübingen. Acting as a consortium, EVAS-Thermik and Thermoselect Südwest GmbH tendered bids in other districts in Baden-Württemberg. Decisions are expected in the second and third quarters of 1999. In 1998 the company also made preparations for the future development of projects outside Baden-Württemberg.

Telecommunications

First year of full competition successfully completed

Two million talk-minutes connected daily, over 25,000 registered customers as well as countless call-by-call users: tesion Communikationsnetze Südwest GmbH & Co. KG, in which we and Swisscom (via Telekommunikationsholding Südwest GmbH) each hold a 50 % interest, successfully mastered the first year of full competition. By means of attractive price structures, customer-oriented services and innovative solutions, it was able to make a convincing appeal as a strong partner in the German southwest for cross-border telecommunications with Switzerland, France, Italy and Austria as well. Increasingly, tesion competes with industry-specific products and services for the target group of small and medium-sized companies in Baden-Württemberg. For example its offerings include basic service packages such as voice, data and Internet, valued added services like special telephone numbers, voice and fax mail, call centres and e-commerce solutions. The company can also report successes in tenders to major customers: the government agencies of Baden-Württemberg place their calls via tesion.

Innovative projects: Internet from the wall socket

In order to offer its customers expanded services, tesion is testing innovative technologies that will improve the convenience, quality and range of its offerings.

In 1998, together with EnBW, the company started the Digital PowerLine project to provide Internet access over the power cables. With the right technical equipment, this means that no telephone connection is needed, obviating the time-consuming process of logging on via modem. Transmission capacity is outstanding: data transfer is more than ten times faster than by ISDN access. The first test customers began trying out this innovative Internet access service in 1998.

Retaining customers with customer satisfaction

Quality and availability, skill in consulting and finding solutions, these are among the essential factors upon which success is built – especially when dealing with business customers. tesion meets these essential requirements for winning new customers and retaining existing ones. Keeping in mind the crucial role played by long-term customer satisfaction, the company has opened business offices at various sites within its catchment area in order to be even closer to its customers.

Over the next three years, tesion will invest a total of more than DM 250 million. In the course of 1999 the number of employees will increase from 200 to 300.

Industry and Services

Activities expanded

The companies of the Industry and Services division also performed successfully in 1998. Still in their infancy, the companies in both the Innovation and the Building and Property Management divisions continued to expand their activities.

Innotech expands investment spectrum

Innotech Innovationen und neue Technologien Beteiligungs-GmbH, our venture capital company, expanded its activities and continued to build its company organization. Whereas until now it concentrated on providing new technology companies in the fields of energy and environmental technologies with capital and active collaboration, its focus has now shifted to include the fields of information technology and communications. More and more companies are seeking the involvement of Innotech. Several interesting projects will result in new investments in the first half of 1999.

Since 1998, a full-time management has guided Innotech's activities. In terms of organization, too, the company is currently undergoing further development in order to be prepared for new tasks and growing demands.

Facilma reinforces market activities

Facilma Grundbesitzmanagement und -service GmbH, founded in late 1996 as a facility management company, was able to obtain several contracts for technical building maintenance of properties in the Karlsruhe area. Besides the District Administration building in Karlsruhe, since January 1998 Facilma Grundbesitzmanagement und -service GmbH has also maintained the central services building of Badenwerk. Further contracts are in preparation.

Intensive talks with potential partners are currently underway that will significantly expand the range of services and the effective radius of the company in the field of building management.

The focus of Facilma's future activities will be in the municipal area: promising contacts with municipalities in Baden-Württemberg have already been made. The company's goal as a reliable adviser and service provider is to keep pace with the gradual opening up of the facility management market.

Transport

DEG-Verkehrs-GmbH gives Deutsche Bahn AG strong regional competition During the 1998 business year, the cautious opening of the market for public transport continued. By tendering bids for regional rail contracts, DEG Group established itself as the strongest supplier on this new market after Deutsche Bahn AG. It increased sales from roughly DM 75 million in 1997 to DM 83.5 million in the past business year.

In 1999, Norddeutsche Bahngesellschaft mbH, a subsidiary of DEGV, will begin operations in passenger rail transport in the area around Osnabrück. Other startups are in the planning stages. As the deregulation process is expected to continue, DEGV Group looks forward to another positive result in 1999.

Other Holdings

Services expand with participation in DIW/Salamander

One element of success in the deregulated energy market is an attractive range of services. For this reason, and in order to secure jobs, in early 1998 we acquired an interest together with Salamander AG and the mechanical engineering company J.M. Voith in Deutsche Industriewartung AG (DIW). Salamander and Voith brought a comprehensive range of services to the new company. We hold a 24.9 % interest in DIW. Our equity is further secured by holdings in the majority shareholder, Salamander, which we expanded into a blocking minority (25.1%) in 1998.

In years past the DIW Group has developed into one of the most important companies in the area of technical maintenance services. In 1998 its staff of 5,400 achieved sales of DM 490 million.

Its services range from maintenance, inspection and repairs, dismantling and reinstalling machines and facilities, technical cleaning and building maintenance, to power station service and environmental technologies. The Group offers these services throughout the whole of Germany and Austria.

In the past business year we investigated opportunities for collaboration with our new partner. In the future we shall make use of possible price advantages by giving contracts to DIW and using job opportunities for available personnel.

Holdings in Electronics division reorganized

During 1998 we continued to reorganize our holdings in the Electronics division. In late 1998 we sold off our shares in the STN Atlas Elektronik Group. At the same time, we increased our interest in Rheinmetall Elektronik AG to approximately 33 % by exercising an option for 12.5 % and by a capital increase. In this way we also underwrote the company's planned growth on the domestic and international markets.

Further shares acquired in Neckarwerke Stuttgart AG

In the past year we increased our holdings in Neckarwerke Stuttgart AG in several steps. Since early 1999 we have holdings of 25.7% of capital stock. On 31 December 1997 the figure was 19.1%.

EnBW share buyback from Kraftübertragungswerke Rheinfelden AG

During the 1998 business year we repurchased shares in EnBW in the amount of 2.87 % from Kraftübertragungswerke Rheinfelden (KWR). In KWR we have direct holdings of 17.4 % and indirect holdings via Watt AG of 16.9 %. The reciprocal interest first arose in 1991, at that time between KWR and Badenwerk.

Employees

Important milestones

More than ever before, market-oriented, flexible Group and company structures are among the key competitive factors on the energy market. This requires qualified staff as well as functioning internal organization and communications. That is why in the past year we took fundamental steps in personnel development and the optimization of work processes.

Systematic development of human resources ensures company success

In 1998 we created an overarching concept for promoting continuing education among all Group companies. In 1999 it will be expanded to include a broad range of on-demand offerings. The essential building blocks include continuing education for management, manager development and the trainee programme.

Group-wide continuing education for managers planned Managers and employees with personnel responsibilities in the individual companies will find support in carrying out their specialized work and management functions in workshops of all kinds – from management basics, project and stress management, rhetoric and team training for selected groups of employees, to seminars on labour law and questions of collective bargaining. For the period beginning in 1999 a Group-wide continuing education programme for executives and managers was designed to include both already existing, proven training events as well as new projects such as regular discussion groups and supervision seminars.

One special feature is the continuing education concept begun in February 1998 for both managers and employees of the EnBW companies. The aim is to transfer important knowledge throughout all organizational levels of the individual EnBW companies and, wherever possible, between companies as well. The focus is on the competitiveness of the EnBW Group as a whole as well as that of the individual companies and their various divisions. By means of intensive exchange among managers and employees from different companies, these educational seminars also serve the purpose of Group integration.

Future managers promoted internally

The programmes already carried out at Badenwerk and EVS to promote future managers have once again proved successful: the overwhelming majority of vacant executive positions within the Group have been filled by employees trained internally. In the interim, we have developed a unified concept for management training within the Group that allows us to recognize and promote both future managers and executives as well as those with potential for further development. This also permits a more objective selection process in filling management positions.

Group-wide trainee programme initiated

1998 saw the announcement of the first Group trainee programme. As with trainee programmes in years past, we are counting on the proven collaboration with the Management Academy of the Land of Baden-Württemberg. Participating in the programme, which began in January 1999, are eight external university graduates and two internal employees.

In addition a trainee programme was designed with the special needs of distribution and marketing in mind.

Optimizing work processes through employee/manager dialogue

An atmosphere of trust and open communication between employees and managers is an essential condition for achieving Group objectives and for continual promotion of individual staff members. For this reason, the annual employee/manager discussions already carried out in some areas of the Group were modified and expanded in 1998 into an instrument available for use throughout EnBW. In this process, managers and employees agree on goals oriented to the objectives of the Group and/or individual divisions. At the same time, such talks serve to implement the Group-wide principles of delegation with which we intend to promote motivation, personal initiative and responsibility among staff.

Personnel costs lowered again

There were 12,543 employees working for the EnBW Group at the end of 1998. After adjusting for expansion of the consolidated group, we were able to reduce expenditures for wages and salaries by DM 16 million. This represents a cost reduction of 1.5 % compared with 1997, and is largely the result of staff reductions from early retirement. The Board of Management and the Central Works Council unanimously lowered the age of eligibility for early retirement from 55 to 54 years of age. On the basis of the corresponding legislative mandates and labour-law regulations, they also concluded an Employer/Works Council Agreement on partial retirement supplementary to the Collective Labour Agreement, to be in effect for one year.

The compensation for employees and trainees in the companies of the Energy business sector rose by 2.0 % on 1 June 1998.

New training initiative begun

Aware of our social and political responsibilities towards the younger generation as well, the Group's Energy division once again began a training initiative in 1999 that over the course of three years will create a total of 75 new training positions. This brings us an important step closer to our declared goal of increasing the percentage of apprentices in the Energy companies of EnBW to approximately 10 % of the overall labour force.

Employees working for Group progress

Over the course of the past business year, our staff successfully met the challenges of the open market while making fundamental contributions to the Group's expansion. We thank them for their willingness to shoulder the work and responsibility required of them. The Works Councils, the representative committees of the senior staff, and the youth representatives in the individual EnBW companies all deserve our thanks for their faithful and constructive work and their willingness to share in the structural and organizational changes at EnBW.

Energy is when...

"Enterprise with energy."

With this motto, EnBW entered the world of free competition last year and took up a combative position in the market.

For EnBW, "enterprise with energy" is not just a catchy slogan, but first and foremost a commitment to action. This is how it was understood from the word go – by our customers and prospective customers, by our competitors and in the media. But above all the call was heard in every business unit of EnBW.

It is our employees, with their dedication and know-how as energy experts, who are the power behind this common enterprise, who give their all, day in day out, for their company and its success.

In the following pages, EnBW employees, representing the entire workforce, say what energy means to them.

"Energy is when ideas are translated into action."

Ina De Pasquale, 32, secretary at EnBW Energie-Vertriebsgesellschaft mbH.



"Energy is when a connection is made."

Dr. Jürgen Unfried, 36, project manager for PowerLine from EnBW and tesion Communikationsnetze Südwest GmbH & Co. KG.



"Energy is when everybody pulls together."

Dr. Bernd Hüvel, 51, works manager at Thermoselect Südwest GmbH.



"Energy is when you take something in hand."

Ulrike Haupt, 29, trainee at EnBW Energie Baden-Württemberg AG.



"Energy is when ability matches ambition."

Silke Heyde, 31, personnel development specialist at EnBW Energie Baden-Württemberg AG.



"Energy is when your heart leaps.

Hans Haller, 53, district supervisor at EnBW Energie-Versorgung Schwaben AG.



"Energy is when things are running well."

Elfriede Hager, 53, clerk at EnBW Energie Baden-Württemberg AG.



"Energy is when the figures add up." Roland Helmenstein, 43, project manager at EnBW International GmbH.



"Energy is when a customer says 'well done'."

Gisela Parton, 51, energy consultant at EnBW Badenwerk AG.



"Energy is when I get steamed up." Antonio Giuditta, 37, block supervisor at EnBW Kraftwerke AG, Rheinhafen-Dampfkraftwerk Karlsruhe.



"Energy is when the counter is ticking over."

Bruno Albinger, 56, departmental manager at EnBW Gesellschaft für Messung und Abrechnung mbH.



"Energy is when everybody is charged up." Abdullahi Abukar, 41, head of working methods section at EnBW Kraftwerke AG, Heilbronn power station.



"Energy is when everything is turned upside down."

Dagmar Lehmeyer, 32, marketing and distribution project manager at Facilma Grundbesitzmanagement und -service GmbH.



"Energy is when you feel the edge."

Marianna Puzzo, 29, technical officer at EnBW Transportnetze AG.



"Energy is when you work up an appetite."

Gudrun Hanke, 36, catering specialist at EnBW Energie-Versorgung Schwaben AG.

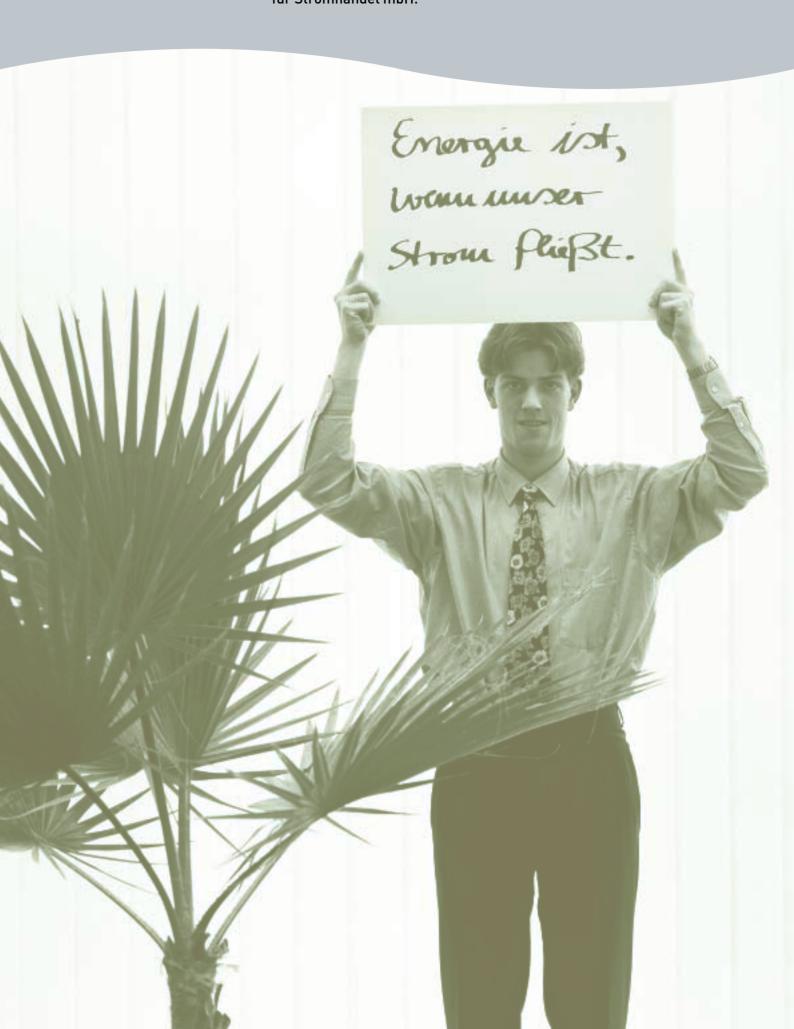


"Energy is when everything that has to go is gone." Markus Pflüger, 33, truck driver at U-plus Gruppe, S-plus Umweltservice GmbH.



"Energy is when our electricity flows."

Fabian Spalthoff, 27, electricity broker at EnBW Gesellschaft für Stromhandel mbH.



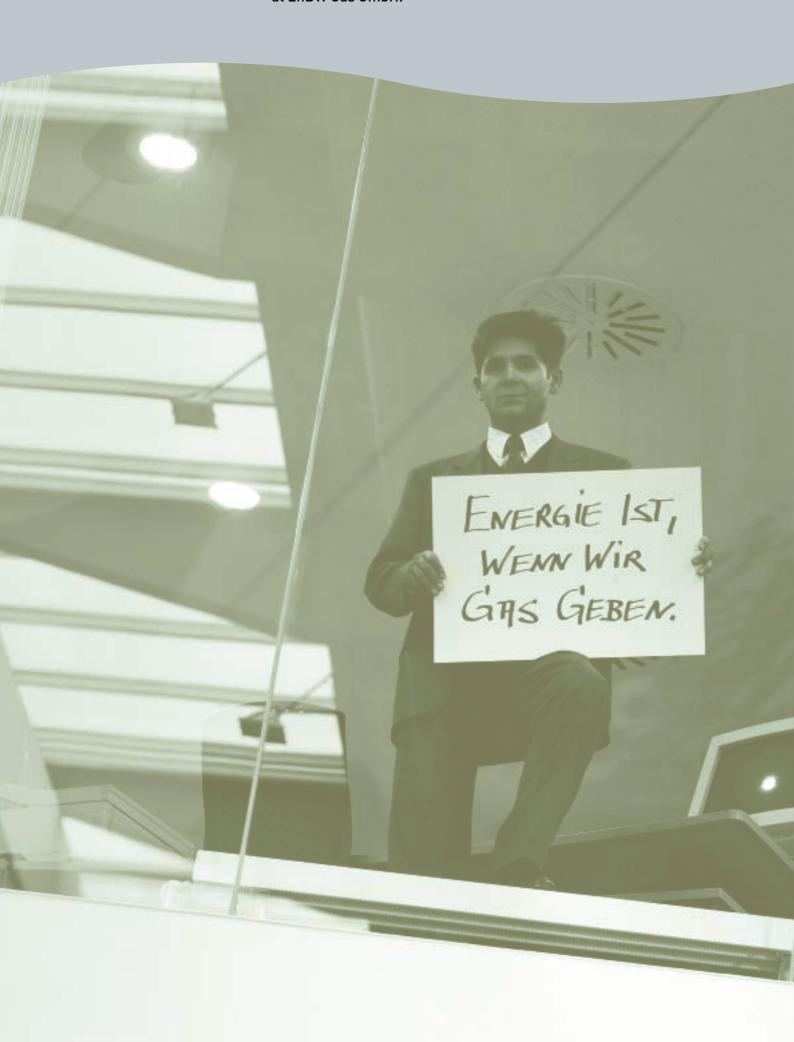
"Energy is when the spark jumps across."

Oliver Eberle, 24, apprentice at EnBW Badenwerk AG.



"Energy is when we step on the gas."

Srdan Jeremić, 34, commercial manager at EnBW Gas GmbH.



Annual Statement of the EnBW Group and EnBW AG as at 31 December 1998

EnBW Group Balance Sheet as at 31 December 1998

	Annex		
		31/12/1998 DM mill.	31/12/1997 DM mill.
Fixed assets	(1)		
Intangible assets		196.7	161.3
Tangible assets		6,236.0	6,175.6
Financial assets		7,766.7	6,258.9
		14,199.4	12,595.8
Current assets			
Inventories	(2)	656.8	716.8
Accounts receivable and other assets	(3)	3,034.4	3,565.1
Securities	(4)	2,197.5	1,726.5
Liquid funds	(5)	1,388.2	1,419.1
Prepayments and		7,276.9	7,427.5
accrued income	(6)	86.1	21.1
		21,562.4	20,044.4
Capital stock	(7)		
Subscribed capital		1,250.0	1,250.0
Capital reserves		1,241.7	1,230.5
Revenue reserves		321.8	67.7
Shares of other shareholders		328.0	314.6
Group income		225.0	225.0
		3,366.5	3,087.8
Special items	(8)	1,482.2	1,504.2
Accrued liabilities	(9)	13,847.3	12,991.6
Liabilities	(10)	2,664.1	2,319.5
Deferred income		202.3	141.3
		21,562.4	20,044.4

ASSETS

LIABILITIES

EnBW Group Income Statement from 1 January to 31 December 1998

	Annex	1998 DM mill.	1997 DM mill.
Sales revenues	(11)	8,149.7	8,327.2
Changes in inventories		5.0	-2.7
Capitalized cost of self-constructed assets		30.4	38.1
Other operating income	(12)	832.2	709.4
Material costs	(13)	-3,744.5	-4,082.8
Personnel costs	(14)	- 1,645.7	- 1,533.0
Depreciations	(15)	- 1,116.3	- 1,303.6
Other operating expenses	(16)	- 1,219.9	- 1,259.4
Financial result	(17)	362.8	287.7
Result of ordinary business		1,653.7	1,180.9
Taxes	(18)	- 935.8	- 883.1
Net income for the year	(19)	717.9	297.8
Shares of other shareholders	(20)	- 16.7	- 22.4
Transfer to revenue reserves		- 476.2	- 50.4
Group net income for the year		225.0	225.0

Annex EnBW Group Development of Fixed Assets (in DM million)

Procurement and	production	costs
i i o o di o i i o i i c di i d	production	00010

	1/1/1998	Changes in scope of consolidation	Addi- tions	Retire- ments	Repost- ings	31/12/1998	
Intangible assets							
Concessions, industrial property rights and similar rights and values	372.1	5.3	42.6	36.5	22.5	406.0	
Goodwill	64.8	0.3	45.9	40.8	16.9	87.1	
Payments on account	15.1	0.0	1.2	4.8	- 10.6	0.9	
	452.0	5.6	89.7	82.1	28.8	494.0	
Tangible assets							
Land and leasehold rights and buildings, including buildings on third-party land	3,137.3	44.0	116.9	26.8	48.9	3,320.3	
Plant and machinery	124.3	71.7	76.3	17.0	6.1	261.4	
Generation plants/	124.0	71.7	70.5	17.0	0.1	201.4	
Gas transfer stations	9,494.6	67.3	138.1	7.0	4.6	9,697.6	
Distribution plants	11,734.0	48.8	291.2	322.9	48.0	11,799.1	
Other fixtures and fittings, tools and equipment	1,563.6	9.7	127.4	127.4	16.7	1,590.0	
Payments on account and tangible assets in course of construction	876.0	1.2	363.4	0.0	- 136.2	1,104.4	
	26,929.8	242.7	1,113.3	501.1	- 11.9	27,772.8	
Financial assets							
Shares in affiliated companies	20.2	0.0	66.8	27.2	1.8	61.6	
Participations in affiliated companies	1,082.1	- 44.0	1,433.4	493.7	302.2	2,280.0	
Other participations	1,091.8	5.8	369.5	29.7	- 320.9	1,116.5	
Loans to companies with which the company is linked by virtue of participations	9.1	0.2	4.2	1.3	- 0.1	12.1	
Investments held as fixed assets	3,239.2	0.0	649.7	296.3	0.0	3,592.6	
Other loans	986.1	0.2	130.7	187.9	0.1	929.2	
	6,428.5	- 37.8	2,654.3	1,036.1	- 16.9	7,992.0	

Cumulative depreciations/discountings					Book	value		
1/1/1998	Changes in scope of consolidation	Addi- tions	Retire- ments	Repost- ings	Reinstated depre- ciations	31/12/1998	31/12/1998	31/12/1997
253.7	0.8	27.7	35.0	0.0	0.1	247.1	158.9	118.4
37.0 0.0	0.0	20.6	7.4 0.0	0.0	0.0	50.2 0.0	36.9 0.9	27.8 15.1
290.7	0.8	48.3	42.4	0.0	0.0	297.3	196.7	161.3
1,450.0	17.8	120.4	16.4	2.8	0.0	1,574.6	1,745.7	1,687.3
83.4	49.7	23.0	12.9	0.3	0.0	143.5	117.9	40.9
8,489.9	33.4	209.8	6.2	0.3	0.0	8,727.2	970.4	1,004.7
9,200.2	16.6	471.4	262.2	- 0.3	0.1	9,425.6	2,373.5	2,533.8
1,294.9	7.0	128.5	119.2	3.8	0.1	1,314.9	275.1	268.7
235.8	0.0	122.2	0.0	- 6.9	0.1	351.0	753.4	640.2
20,754.2	124.5	1,075.3	416.9	0.0	0.3	21,536.8	6,236.0	6,175.6
2.4	0.0	0.0	2.4	0.3	0.0	0.3	61.3	17.8
43.9	-4.2	79.3	0.3	0.0	0.0	118.7	2,161.3	1,038.2
39.5	0.0	4.9	16.2	- 0.3	0.0	27.9	1,088.6	1,052.3
0.4	0.0	0.9	0.0	0.0	0.1	1.2	10.9	8.7
47.7	0.0	0.0	0.3	0.0	0.0	47.4	3,545.2	3,191.5
35.7	0.0	0.3	3.0	0.0	3.2	29.8	899.4	950.4
169.6	- 4.2	85.4	22.2	0.0	3.3	225.3	7,766.7	6,258.9
21,214.5	121.1	1,209.0	481.5	0.0	3.7	22,059.4	14,199.4	12,595.8

Annex EnBW Group Funds Statement

1. Operative sector

	1998 DM mill.	1997 DM mill.
Net income for the year	717.9	297.8
Depreciation/Write-up of fixed assets	1,127.3	1,335.2
Changes in long-term provisions	413.8	1,069.7
Other expenses/earnings	50.4	65.7
Cash-flow acc. to DVFA/SG	2,309.4	2,768.4
Result from fixed assets retirements	- 62.0	- 81.9
Changes in inventories	60.0	8.6
Changes in receivables and other assets	528.6	- 393.1
Changes in short-term provisions	442.7	105.5
Changes in accounts payable and other liabilities	- 190.5	- 347.8
Funds from current business operations	3,088.2	2,059.7
Investments in tangible and intangible assets	- 1,326.0	- 1,322.5
Investments in financial assets	- 2,611.5	- 1,074.1
Revenue from fixed assets retirements	956.4	767.9
Outflow of funds from	2 001 1	1 620 7
investment activity	<i>–</i> 2,981.1	- 1,628.7

2. Investments

3. Financing			1998	1997
3. Financing			DM mill.	DM mill.
	Dividends paid out		- 236.9	- 170.0
	Payment into capital r	reserves	11.2	0.0
	Shares of other share in capital increase	holders	10.8	_
	Other inflow of funds investment activity	from	12.8	_
	Net payment arising f distribute-and-recaptu EVS Holding AG (prior	ire process at	-	- 112.9
	Cash adjustment paid shareholders as part o (prior year)		_	- 16.4
	Issue of a loan (prior y	/ear)	-	123.3
	Changes in other final	ncial liabilities	535.1	351.8
	Inflow of funds from investment activity	ı	333.0	175.8
	Changes in financial (intermediate sums		440.1	606.8
Development of financial resources		31/12/1998 DM mill.	31/12/1997 DM mill.	Change DM mill.
10001000		DIVITIIII.	DIVITIMI.	
	Investments held as current assets	2,197.5	1,726.5	471.0
	Liquid funds	1,388.2	1,419.1	- 30.9

3,585.7

3,145.6

440.1

Annex EnBW Group General Principles and Notes on the Scope of Consolidation

General principles

The Group Statement of Energie Baden-Württemberg AG (EnBW) is compiled in line with the accounting regulations stipulated by commercial law, as well as the complementary provisions of the German Law On Stock Corporations, and listed in millions of DM.

To provide the reader with a better overview, the items grouped in the Balance Sheet and the Income Statement are listed separately and explained in the annex.

The Income Statement is compiled using the type of expenditure format.

Scope of consolidation

In addition to EnBW AG, the scope of consolidation comprises 87 (1997: 76) subsidiaries at home and abroad, 24 (1997: 0) joint ventures as well as 53 (1997: 50) affiliated companies.

As a result of new foundings, acquisition or restructuring, 18 subsidiaries were included in the scope of the Group Statement for the first time. The new Group companies include the Norwegian electricity brokerage company Skandinavisk Kraftmegling AS and its eight subsidiaries, five companies founded in conjunction with leased assets, and two companies in the Disposal Division and one in the Electricity Division. One company previously classified as an affiliated company was fully consolidated for the first time.

One subsidiary left the consolidated group as a result of divestment; six further subsidiaries were merged with other Group companies.

DEG-Verkehrs-Gruppe (22 companies) – a partner of Vivendi S.A. in the rail transport segment – as well as Industriekraftwerk Baienfurt OHG and Fernwärme Ulm GmbH, previously incorporated using the equity method, are consolidated in the 1998 business year on a quota basis using the share of capital method.

As far as the affiliated companies were concerned, 1998 saw ten additions through purchase of holdings or restructuring. Significant holdings purchased in the 1998 report year were Watt AG, Deutsche Industriewartung AG, Salamander AG and Rheinmetall Elektronik AG.

Three affiliated companies left the consolidated group.

38 (1997: 13) subsidiaries and 32 (1997: 28) affiliated companies, which are listed as shares in associated companies or other equity holdings, whose influence on the asset, financial and earnings situation of the group is of secondary overall significance, were not included. In the case of one company, a significant influence on the business and financial policy of the Group was refuted.

The full scope of consolidation of EnBW is detailed in the list of share-holdings in accordance with Section 313 HGB (German Commercial Code) which is deposited with the Commercial Register of the District Court in Karlsruhe (Amtsgericht, Dept. B No. HRB 7956).

These changes to the scope of consolidation did not affect comparability with the prior year.

Consolidation principles

The closing statements of German and foreign subsidiaries and joint ventures included in the consolidation were drawn up, as stipulated by the law, uniformly in accordance with EnBW's balance sheet preparation and valuation methods. Any differences in valuation in the statements of affiliated companies were retained.

Capital consolidation is effected using the book value method by netting the procurement costs against the pro rata capital stock of the subsidiaries at the time of their acquisition or their first-time inclusion. The differing amounts on the asset side are assigned to the corresponding Group Balance Sheet items and depreciated wherever possible; any remaining amounts are capitalized as goodwill and written off according to schedule. Where the differing amounts on the liabilities side are realized profits, these are assigned to the revenue reserves, otherwise they are listed as provisions. The differing amounts on the asset side in the business year total DM 40.4 million, while the differing amounts on the liabilities side total DM 1.9 million.

Of the differing amounts on the asset side, DM 11.4 million are accounted for by goodwill arising from balances paid on acquisitions; these are netted against the revenue reserves.

Receivables, liabilities and provisions between consolidated companies are offset against one another. Internal group income is netted against the corresponding expenses.

Tax accruals and deferrals from result-effective adjustments to uniform Group balance sheet preparation and valuation methods as well as consolidation transactions have been effected.

Joint ventures are consolidated according to the same principles. In the business year, differing amounts on the asset side totalled DM 5.5 million.

Inclusion according to the equity method and treatment of occurring differing amounts are effected using the same principles as those used for capital consolidation, whereby the value of the business is netted in the valuation of the equity holding and the depreciation correspondingly in the result of the holding. Differing amounts on the liabilities side arising from acquisitions are recorded and followed up statistically. In the business year, differing amounts on the asset side from equity valuation totalled DM 845.0 million, while differing amounts on the liabilities side totalled DM 13.6 million. Of the differing amounts on the assets side, DM 156.8 million are accounted for by goodwill arising from the restructuring of the Group; these are netted against the revenue reserves.

Annex EnBW Group General Principles and Notes on the Scope of Consolidation

The non-included affiliated companies are listed under other equity holdings.

For currency conversion in the individual company statements, business transactions in foreign currency are valued at the exchange rate valid at the time of occurrence, or at the lower reporting-date rate in the case of receivables or the higher reporting-date rate in the case of liabilities.

In the Group Statement, the middle rate on the reporting date is used for conversion of balance-sheet items for all foreign companies, as well as conversion of equity revaluation in the case of foreign affiliated companies valued using the equity method. Any differences from the previous year's conversion are netted against the revenue reserves without impact on income. Items in the Income Statement, including annual result are converted using the annual average rate.

Balance Sheet preparation and valuation

Intangible assets are listed at procurement cost and written off using the straight-line method of depreciation, commensurate with their estimated effective life.

Wherever it is the result of group expansion, goodwill from the capital consolidation is always written off over a period of between four and twenty years, and, insofar as it arises in the context of Group restructuring, netted against the revenue reserves.

Tangible assets are capitalized at procurement or production costs, including appropriate production overheads, and generally written off using the declining balance method.

Use is made of the option to change over to straight-line depreciation as soon as even distribution of the remaining book value over the residual effective life results in higher depreciation amounts. Use is made of the options for special depreciations in line with the tax laws.

The official tax depreciation table for the sector of energy and water supply is used as a basis for calculation of the standard effective life, particularly in the energy sector.

In the case of movable additions, the full annual rate for depreciation is used for acquisition in the second half of the year.

Minor assets are written off immediately.

Non-scheduled depreciations are effected where listing at a lower documented value is necessary.

The equity holdings and other financial assets are listed at procurement cost or at lower current values.

Low-interest or non-interest-bearing loans are listed at present value or using a computational interest rate of 6 %.

Equity holdings in affiliated companies are listed at equity in line with the book value method.

Inventories are valued at procurement cost or lower current prices. Due to the principle that the commercial accounts should be identical with the tax accounts, the Lifo method is used for valuation of the fuel inventories, taking the principle of the lower of cost or market into account.

In the case of receivables and other assets, appropriate valuation adjustments have been made for loss risks. An assumed interest rate of 6 % is generally used for non-interest-bearing debts. A general bad-debt provision of 1 % has been formed for the general credit risk.

Investments held as current assets are valued at procurement cost or lower current prices.

The investment cost subsidies and investment grants are retransferred in line with the depreciation schedule. With the investment cost subsidies, the retransfer amount is netted against the depreciations.

Retransfer of the construction cost subsidies taken by the customers is effected in equal yearly instalments of 5 %.

The provisions for pensions and similar obligations are calculated in line with actuarial principles using the going-concern value method and an assumed rate of interest of 6 %. The effects of the new mortality tables from Heubeck – "Guide Tables, 1998" – were prorated at 25 %.

Provisions for tax and other obligations are determined using reasonable commercial principles.

Liabilities are listed at the repayment amount.

Annex EnBW Group Notes on the Balance Sheet

(1) Fixed assets

The breakdown of fixed assets summarized in the balance sheet and their development during the report year are shown on pages 54 and 55. Goodwill from the capital consolidation and the individual statements of the included subsidiaries and joint ventures is listed in the goodwill line.

The investments in tangible assets (DM 1,231.5 million) and intangible assets (DM 94.5 million) break down as follows:

	1998
	DM mill.
Faces	000.7
Energy	830.7
Disposal	196.7
Industry and Services	298.6
Total	1,326.0

Additional investments in financial assets of DM 2,611.5 million were accounted for in particular by acquisitions at affiliated companies and other equity holdings of DM 1,808.7 million, as well as additions to securities in the fixed assets of DM 649.7 million.

The following increases in holdings or share purchases were of particular significance:

- Watt AG,
- Neckarwerke Stuttgart AG,
- Deutsche Industriewartung AG,
- Salamander AG,
- Rheinmetall Elektronik AG.

The securities in the fixed assets comprise mainly special funds and long-term, fixed-interest securities.

(2) Inventories

	31/12/1998 DM mill.	31/12/1997 DM mill.
Raw and auxiliary materials and supplies	183.5	218.1
Fuel elements (incl. advances for same)	429.7	457.1
Work in progress	34.4	29.3
Finished goods and products	4.2	4.8
Advances	5.0	7.5
Total	656.8	716.8

Breakdown of nuclear fuel elements:

Total	429.7	457.1
Advances	22.9	78.2
Stocks of fuel elements	309.4	285.8
Fuel elements in reactors	97.4	93.1
	31/12/1998 DM mill.	31/12/1997 DM mill.

(3) Accounts receivable and other assets

3	1/12/1998 DM mill.	of which, re- maining term over 1 year DM mill.	31/12/1997 DM mill.
Accounts receivable	796.8	0.3	781.4
Due from affiliated	700.0	0.0	701.4
companies	26.1	_	5.3
Due from untertakings in which the company is linked by virtue of			
participating interests	125.4	36.6	80.0
Advances for electricity			
procurement agreements	102.4	82.5	89.6
Other assets	1,983.7	255.8	2,608.8
Total	3,034.4	375.2	3,565.1

Other assets comprise mainly accounts receivable from loans against promissory notes (DM 1,453.2 million), deferred interest (DM 106.6 million), as well as tax refund claims (DM 56.7 million).

(4) Securities

Total	2,197.5	1,726.5
Other securities	1,582.5	1,726.5
Own shares	615.0	0.0
	31/12/1998 DM mill.	31/12/1997 DM mill.

By decision of the Shareholders' Meeting on 25 August 1998, EnBW was authorized to acquire up to ten percent of own shares of capital stock.

On 28 and 29 December 1998, 8,734,435 own shares with a par value of DM 43,672,175 were acquired with value date of 30 December 1998 at an average purchase price of DM 70.41 per share (3.49 % of the share capital). This purchase was made with a view to planned cooperation with German and foreign energy suppliers and with industrial clients which will be secured with reciprocal capital interests.

The other securities mainly comprise shares (DM 13.1 million), participating certificates (DM 43.8 million), mortgage bonds (DM 936.6 million), bearer debentures (DM 247.1 million) and municipal bonds (DM 37.8 million) as well as bonds (DM 287.9 million).

(5) Liquid funds

The liquid funds are made up almost exclusively of credit balances with banks, largely invested as fixed-term deposits and call money.

(6) Accruals and deferrals

Accruals and deferrals contain active contingent taxes from results-effective consolidation transactions totalling DM 17.5 million.

(7) Capital stock

Capital stock development DM mill.	Total on 1/1/1998	Contri- bution to capital	Dividend payments	Currency adjust- ments	Annual net profit	Other changes	Total on 31/12/1998
Subscribed capital	1,250.0	_	_	_	_	_	1,250.0
Capital reserves	1,230.5	11.2	-	_	_	-	1,241.7
Revenue reserves	67.7	-	-	7.0	476.2	- 229.1	321.8
Group profit	225.0	-	- 225.0	_	225.0	-	225.0
Shares of other shareholders	314.6	10.8	- 11.9	_	16.7	- 2.2	328.0
Total	3,087.8	22.0	- 236.9	7.0	717.9	- 231.3	3,366.5

Subscribed capital

The subscribed capital of DM 1,250.0 million remains unchanged from 1997 and refers to EnBW AG.

By decision of the Shareholders' Annual Meeting on 25 August 1998, the capital stock was divided into 250,006,200 individual share certificates (shares with no par value). Each share with a par value of DM 5.00 is replaced by one individual share certificate.

Also by decision of the Shareholders' Annual Meeting on 25 August 1998, the nonvoting bearer preference shares (1,730,800 preference shares), representing DM 8,654,000 of capital stock, were converted into ordinary voting bearer shares.

Accordingly, the capital stock is made up as follows:

	DM
141,088,383 registered shares	705,441,915.00
108,917,817 bearer shares	544,589,085.00
250,006,200 total shares	1,250,031,000.00

In its capacity as the special-purpose association of Oberschwäbischen Elektrizitätswerke, OEW holds 34.50 % of the voting capital of EnBW.

Landesbeteiligung Baden-Württemberg GmbH holds 25.01 % of the voting capital of EnBW.

With the approval of the Supervisory Board, the Board of Management has the right to increase the capital stock by 22 October 2002:

- by DM 125 million through the issue of new shares in return for cash investment (authorized capital I),
- by DM 125 million through the issue of new shares in return for cash investment or investment in kind (authorized capital II).

Capital reserves

The capital reserves contain the reserves required by law. The increase of DM 11.2 million results from deposits in connection with the conversion of preference shares into ordinary bearer shares. The capital reserves refer to EnBW AG.

Revenue reserves

The revenue reserves contain the reserves for our own shares totalling DM 615.0 million and the pro rata revenue reserves of the included companies used to offset the cumulative effects arising from consolidated transactions.

Shares of other shareholders

The outside shares of capital stock mainly refer to shares of non-group shareholders at the GESO sub-group in the amount of DM 221.6 million.

Group profit

Group profit is equivalent to the Balance Sheet profit of EnBW AG.

(8) Special items

	31/12/1998 DM mill.	31/12/1997 DM mill.
Special items for investment contributions to fixed assets		
Investment grants	30.3	39.8
Investment cost subsidies	17.3	20.7
Special items with accrual character	48.5	47.7
Construction cost subsidies	1,386.1	1,396.0
Total	1,482.2	1,504.2

The investment grants are allowed under Section 4a InvZuIG (German Investment Grant Law). The special items with accrual character mainly concern sales profits in line with Section 6b EStG (German Income Tax Law).

(9) Provisions

	31/12/1998 DM mill.	31/12/1997 DM mill.
Provisions for pensions and similar obligations	2,648.5	2,442.7
Tax provisions	1,082.0	683.0
Provisions in the area of nuclear energy less advances made	8,699.6 - 478.7	8,578.4 - 527.7
	8,220.9	8,050.7
Other provisions	1,895.9	1,815.2
Total	13,847.3	12,991.6

The provisions for pensions and similar obligations are made in accordance with existing pension commitments for retirement expectancies and ongoing payments to eligible current and former employees and their surviving dependants.

The provisions in the area of nuclear energy are based on requirements under public law as well as operating licenses; they have been formed for the reprocessing and disposal of spent fuel elements and radioactive waste and for decommissioning nuclear power stations.

The other provisions are for fuel procurement, personnel, outstanding invoices for supplies and services, necessary restructuring measures and other contingent liabilities.

(10) Liabilities

			f which, rem	J	
	31/12/1998 DM mill.	up to 1 year DM mill.	1 to 5 years DM mill.	over 5 years DM mill.	31/12/1997 DM mill.
Loan	123.4	-	-	123.4	123.4
Due to banks of which, secured by	1,223.4	426.3	257.3	539.8	688.3
real estate mortgage	(76.1)				(63.3)
Advances from customers	300.7	300.2	0.5	_	325.3
Accounts payable	404.0	403.9	0.1	_	463.1
Due to affiliated companies	27.1	27.1	_	_	38.0
Due to companies in which the Group					
holds an interest	191.2	184.7	0.9	5.6	233.5
Other liabilities	394.3	357.5	25.5	11.3	447.9
of which, taxes	(127.9)	(127.9)			(170.6)
of which, social security	(19.9)	(19.9)			(19.6)
Total	2,664.1	1,699.7	284.3	680.1	2,319.5

The loan refers to a loan in Swiss Francs. Barring premature notice, the term ends on 11 April 2005.

Annex EnBW Group Notes on the Income Statement

(11) Sales revenues

	1998 DM mill.	1998 DM mill.	1997 DM mill.	1997 DM mill.
Energy				
Electricity	7,488.3		7,741.1	
Gas	119.8		107.8	
District heat	91.5	7,699.6	52.6	7,901.5
Disposal		393.0		413.7
Industry and Services		57.1		12.0
Total		8,149.7		8,327.2

Of the sales revenues in the year under review, DM 90.7 million concern newly consolidated companies.

The sales revenues were effected almost exclusively in Germany.

(12) Other operating income

The other operating income is primarily composed of income from the retirement of fixed assets (in particular from the sale of local grids), retransfer of provisions, and from rental income. DM 485.5 million of the other operating income refers to other business years.

(13) Material costs

Total	3,744.5	4,082.8
Expenditures for procured services	609.5	687.2
Expenditures for raw and auxiliary materials and supplies and for procured goods	3,135.0	3,395.6
	1998 DM mill.	1997 DM mill.

The expenditures for raw and auxiliary materials and supplies and for procured goods comprise, among other things, electricity procurement costs, the necessary transfers to provisions for decommissioning nuclear power stations, disposal costs for spent fuel elements and radioactive waste, depreciation of nuclear fuel elements, as well as fuels for conventional power stations.

The expenditures for procured services mainly involve external services for the operation and maintenance of the plants, as well as expenditures for waste disposal.

(14) Personnel costs		1998 DM mill.	1997 DM mill.
	Remuneration	1,085.2	1,078.0
	Social insurance contributions and expenditures for old age pensions	500 F	455.0
	and assistance	560.5	455.0
	of which, for old age pensions	(355.4)	(249.3)
	Total	1,645.7	1,533.0
	Employees (annual average)	1998	1997
	White-collar	6,931	7,088
	Blue-collar	4,928	4,978
	Apprentices	746	703
	Total	12,605	12,769
(15) Depreciations		1998 DM mill.	1997 DM mill.
	On intangible and tangible assets	1,119.8	1,307.9
	of which, on goodwill from capital consolidation	(12.8)	(7.4)
	Retransfer of investment cost subsidies	-4.7	-4.3
	On current assets	1.2	_
	Total	1,116.3	1,303.6

Depreciations taken in line with tax regulations total DM 184.2 million, and non-scheduled depreciations total DM 0.5 million.

(16) Other operating expenses

The other operating expenses refer mainly to fiscal charges, outside services for administration and marketing, transfers to provisions, and rental and leasing expenditures. Transfers to special items with accrual character total DM 26.3 million. A total of DM 20.9 million refers to other business years.

(17) Financial result

	1998 DM mill.	1997 DM mill.
Income from equity holdings	35.2	27.3
of which, from affiliated companies	(0.0)	(1.1)
Results from companies listed at equity	- 26.8	- 28.8
Income from retirement from affiliated companies and equity holdings	22.4	22.0
Income from profit and loss transfer agreements	0.0	0.6
Expenses from profit and loss transfer agreements	-8.0	- 0.2
Depreciations on shares in affiliated companies and equity holdings	-	- 25.2
Losses from retirement from affiliated companies and equity holdings	- 11.0	- 16.2
Other	- 1.9	- 1.9
Result from equity holdings	9.9	- 22.4
Income from other securities and long-term financial investments	229.0	165.2
Other interest and similar earnings	213.2	211.8
of which, from affiliated companies	(0.7)	(0.4)
Income from retirement from fixed-asset and marketable securities	61.0	21.8
Other interest and similar expenses	-138.6	- 78.3
of which, from affiliated companies	(-0.3)	(-0.2)
Depreciations on fixed-asset and marketable securities	- 6.6	- 8.8
Losses from retirement from fixed-asset and marketable securities	- 5.1	- 1.6
Net interest income	352.9	310.1
Financial result	362.8	287.7

The results from companies listed at equity are netted against depreciations on goodwill from the equity valuation of DM 79.3 million (1997: DM 38.1 million).

(18) Taxes

	1998	1997
	DM mill.	DM mill.
Current taxes on income and earnings	942.5	862.9
Deferred taxes (earnings)	- 10.3	- 4.5
Taxes on earnings	932.2	858.4
Other taxes	3.6	24.7
Total	935.8	883.1

(19) Group net income for the year

Owing to changes in the special items with accrual character, tax depreciations on fixed and current assets, in particular under Section 4 FördGG (German Promotion Law) and Section 6b EStG (German Income Tax Law), and the resulting effect on tax expenditures, the group net income for the year is 11.4 % lower than the amount that would otherwise have been posted.

(20) Shares of other shareholders

This item contains profit shares totalling DM 24.3 million and loss shares totalling DM 7.6 million.

(21) Segment reports

Group division	Energy	Disposal	Industry and Services	Holding/ Consolidation	Total
DM mill.	1998	1998	1998	1998	1998
External sales	7,700	393	57	0	8,150
Internal sales	10	5	246	– 261	0
Total sales	7,710	398	303	– 261	8,150
Operating result	1,477	3	50	- 239	1,291
Financial result	287	- 9	6	79	363
Investments					
Tangible and					
intangible assets	831	197	298	_	1,326
Financial assets	872	75	247	1,418	2,612
Depreciations	856	48	206	6	1,116
Assets	14,010	713	2,458	4,381	21,562
Cash-flow acc. to DVFA/SG	1,421	41	305	542	2,309
Employees as of 31/12/98 (number)	10,236	1,707	554	46	12,543

Annex EnBW Group Notes on the Funds Statement

In keeping with the 1/1995 statement of the Hauptfachausschuss des Instituts der Wirtschaftsprüfer (Central Committee of the Institute of Auditors) and with international principles (IAS 7), the Funds Statement structures payments according to business, investment and financing activities.

Within the context of the inflow of funds from current business activities, the cash flow is additionally posted according to DVFA/SG. The balance is the change in financial resources for the business year. The financial resources consist of securities held as current assets as well as liquid funds.

In the business year 1998, there was an inflow of funds from current business activities totalling DM 3,088.2 million. This inflow of funds was mainly the result of the cash flow of DM 2,309.4 million.

DM 2,981.1 million were spent within the context of investment activities. The inflow of funds from financing activities came to DM 333.0 million. The balance of the inflow of funds from current business activities and the outflow of funds within the context of investment and financing activities resulted in an increase in financial resources of DM 440.1 million.

Annex EnBW Group Other Details

Contingencies

Guarantee obligations total DM 212.5 million.

EnBW or one of its subsidiaries assumes joint and several liability with regard to equity holdings in companies under German Civil Law (BGB) and commercial partnerships.

Contingencies totalling DM 121.9 million exist owing to limited partners' contributions that have not been fully paid in.

There are guaranty obligations in the amount of DM 43.8 million. These refer in particular to the financing of the Thermoselect plant in Ansbach.

Other financial obligations

The other financial obligations from rental and leasing agreements come to DM 178.8 million. Of this, DM 79.0 million stems from a rental agreement for an office building with a remaining term of 20.5 years. Another DM 32 million concerns leasing obligations for Block 7 of the Rheinhafen steam power station rented by EnBW. There are additional payment obligations in connection with an electricity purchase-option leasing agreement up to the year 2015. In the year under review, the leasing instalments totalled DM 217.2 million.

Ordering obligations totalling DM 377.5 million exist from various construction projects; moreover, a subsidiary has entered into an obligation to invest DM 500 million (net) in new equipment and investments within a period of 3 years from 25 February 1996.

There is an obligation totalling DM 148.1 million from a conditionally repayable loan for the financing of a waterway.

From the acquisition of shares in an equity holding in three stages, there remains an obligation to pay the third tranche in 1999.

The members of the Supervisory Board and the Board of Management are listed on pages 4, 5 and 6.

The remuneration of the Board of Management for the business year came to DM 3,192,799.18.

Former members of the Board of Management and their surviving dependants received DM 4,974,869.44.

EnBW has set aside DM 35,487,581.00 for pension obligations to former members of the Board of Management and their surviving dependants.

The members of the Supervisory Board of EnBW received DM 1,068,814.72 in remuneration.

Other details

EnBW Group Audit Certificate

On the basis of our audit, it is hereby confirmed that the Group Statement as at 31 December 1998 complies with the legal regulations. In line with the principles of correct and proper accounting, the Group Statement provides a true picture of the financial and earnings situation of the group. The Management Report summarized in the Group Management Report is in line with the Group Statement.

Mannheim/Stuttgart, 15 April 1999

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

Dr. Schellein Walter Auditor Auditor Schitag Ernst & Young Deutsche Allgemeine Treuhand AG Wirtschaftsprüfungsgesellschaft

Dörner Ossig Auditor Auditor

Annual Statement of EnBW AG

EnBW AG Balance Sheet as at 31 December 1998

Current assets Accounts receivable from affiliated companies 1,023.7 Other accounts receivable and other assets 1,448.6 Securities 1,920.1 Liquid funds 1,086.3 Prepayments and and accrued income 58.0	36.7 154.1 8,995.7
Intangible assets 2.0 Financial assets 10,784.4 Current assets Accounts receivable from affiliated companies 1,023.7 Other accounts receivable and other assets 1,448.6 Securities 1,920.1 Liquid funds 1,086.3 Prepayments and and accrued income 58.0	154.1
Tangible assets 2.0 Financial assets 10,784.4 Current assets Accounts receivable from affiliated companies 1,023.7 Other accounts receivable and other assets 1,448.6 Securities 1,920.1 Liquid funds 1,086.3 Prepayments and and accrued income 58.0	154.1
Financial assets 10,784.4 10,786.4 Current assets Accounts receivable from affiliated companies 1,023.7 Other accounts receivable and other assets 1,448.6 Securities 1,920.1 Liquid funds 1,086.3 Frepayments and and accrued income 58.0	
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Accounts receivable from affiliated companies 1,023.7 Other accounts receivable and other assets 1,448.6 Securities 1,920.1 Liquid funds 1,086.3 Frepayments and and accrued income 58.0	9,186.5
affiliated companies 1,023.7 Other accounts receivable and other assets 1,448.6 Securities 1,920.1 Liquid funds 1,086.3 5,478.7 Prepayments and and accrued income 58.0	
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Liquid funds 1,086.3 5,478.7 Prepayments and and accrued income 58.0	2,324.5
5,478.7 Prepayments and and accrued income 58.0	1,414.5
Prepayments and and accrued income 58.0	792.6
and accrued income 58.0	4,832.5
16,323.1 1	9.9
	4,028.9
LIABILITIES Capital stock	
Subscribed capital 1,250.0	1,250.0
Capital reserves 1,241.7	1,230.5
Revenue reserves 635.0	98.0
Balance sheet profit 225.0	225.0
3,351.7	2,803.5
Special items 34.0	34.4
Provisions 7,627.5	6,860.1
Liabilities	
Liabilities to affiliated companies 4,337.1	3,663.6
Other liabilities 895.4	580.5
Deferred income 77.4	
16,323.1 1	86.8

EnBW AG Income Statement from 1 January to 31 December 1998

	1998 DM mill.	1997 DM mill.
	1 000 0	1 000 0
Income from equity holdings	1,639.8	1,023.8
Interest income	104.7	145.1
Other operating income	96.8	252.5
Personnel costs	- 168.2	- 84.5
Depreciations on		
tangible assets	- 0.2	– 11.9
Other operating expenses	- 125.5	- 266.5
Result of ordinary business	1,547.4	1,058.5
Taxes	- 785.4	- 735.5
Net income for the year	762.0	323.0
Profit brought forward from previous year	*	_
Transfer from other revenue reserves	78.0	-
Transfer to the reserves for own shares	- 615.0	_
Transfer to other revenue reserves	-	- 98.0
Balance Sheet profit	225.0	225.0

^{*} Less than DM 50,000

Having received the unqualified audit certificate from KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Mannheim, and Schitag Ernst & Young Deutsche Allgemeine Treuhand AG, Wirtschaftsprüfungsgesellschaft, Stuttgart, the detailed Annual Statement of EnBW AG will be published in the Bundesanzeiger (German Federal Gazette) and deposited with the Handelsregister (Commercial Register) of the Amtsgericht (District Court) in Karlsruhe, HRB 7956.

EnBW AG Proposal for the Appropriation of Profits

The Annual Statement of EnBW AG as at 31 December 1998 shows a Balance Sheet profit of DM 225,039,468.31. At the Shareholders' Annual Meeting, it shall be proposed that this amount be appropriated as follows:

DVI

	DIVI
Distribution of dividend of DM 0.90 DM per dividend-bearing share (241,264,385 shares)	217,137,946.50
Profit brought forward	7,901,521.81
Balance sheet profit	225,039,468.31

Karlsruhe, 31 March 1999

Energie Baden-Württemberg Aktiengesellschaft The Board of Management

EnBW AG Audit Certificate

On the basis of our audit, it is hereby confirmed that the accounting and the Annual Statement comply with the legal regulations. In line with the principles of correct and proper accounting, the Annual Statement provides a true picture of the financial and earnings situation of Energie Baden-Württemberg Aktiengesellschaft, Karlsruhe. The Management Report summarized in the Group Management Report is in line with the Annual Statement.

Mannheim/Stuttgart, 15 April 1999

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

Wirtschaftsprüfungsgesellschaft

Treuhand AG

Schitag Ernst & Young

Deutsche Allgemeine

Dr. Schellein V Auditor

Walter Auditor Dörner Auditor Ossig Auditor

Report of the Supervisory Board

During the 1998 business year the Supervisory Board performed the tasks prescribed by law and the articles of association, obtained written and oral reports on current activities and fundamental questions of business policy, and discussed these with the Board of Management.

A total of eight Supervisory Board sessions took place during the 1998 business year: five sessions prior to the election of the new Supervisory Board at the shareholders' annual meeting on 25 August 1998, and three sessions of the newly-elected Supervisory Board.

The Staff Committee on Management Affairs met seven times during the 1998 business year; the Committee constituted under the Co-Determination Act (§ 27 Abs. 3 MitbestG) did not meet.

In its October session, the Supervisory Board approved the appointment of a Financial Policy and Audit Committee of the Supervisory Board, whose purpose will be to prepare in an advisory capacity for the Supervisory Board sessions on annual planning and/or the annual financial statements.

The focus of the Supervisory Board sessions was the oral reports of Management on the business outlook, as well as on company strategy, optimization of the power generation systems and the concomitant rationalization of the workforce, and on investment plans and internationalization strategy.

Other important subjects were the terms of control and profit transfer agreements with various subsidiaries, the conversion of the capital stock of EnBW to individual share certificates and the corresponding changes to the articles of association, the possibility of the company purchasing own shares and the waste disposal business.

The Supervisory Board also commissioned the Board of Management to develop a plan for the merger of Badenwerk AG and Energie-Versorgung Schwaben AG into a regional company and for the concentration of central functions in a service company.

In addition, the Supervisory Board heard reports on current topics such as the Castor transports, the nuclear energy policy of the new Federal Government and the progress of the consensus-building talks.

The expanded responsibilities of all parties resulting from the introduction of the Law on Governance and Transparency in Corporations (KonTraG) was discussed in detail. The Supervisory Board concurs with the Board of Management that the Group needs to intensify its risk management procedures in order to ensure early recognition of risks and better assure that they can be controlled.

The Supervisory Board paid special attention to the development of the competitive market. The opening of the European electricity market made it necessary to create an entirely new distribution and marketing concept, with an independent marketing company and our own electricity brokerage firm.

The Supervisory Board has approved the economic plan for 1999 and taken note of the medium-term planning for 1999 through 2003.

The Board of Management submitted to the Supervisory Board the annual financial statement, the consolidated financial statements, the summarized status report and the consolidated status report as well as its recommendation for the disposition of the net profit for 1998. The joint audit reports of KPMG Deutsche Treuhand-Gesell-schaft Aktiengesellschaft, auditors, Mannheim, and Schitag Ernst & Young Deutsche Allgemeine Treuhand AG, auditors, Stuttgart, on the annual financial statements and consolidated financial statements were provided to the Supervisory Board by the auditors. The auditors each gave their unqualified certification to the reports and explained them in detail to the Supervisory Board during its meeting to approve the balance sheet, and to the Financial Policy and Audit Committee at a prior meeting.

After performing its own audit of the annual financial statements and consolidated statements, and of the summarized status report and consolidated status report, the Supervisory Board concurs with the results of the audit performed by the auditing companies and endorses the annual financial statements, thereby establishing them as final. After examining the suggestion for proposal for the appropriation of profits, the Supervisory Board approves it.

The terms of office of all members of the first Supervisory Board of Energie Baden-Württemberg AG ended at the close of the 1998 shareholders' annual meeting.

At the 1998 annual shareholders' meeting the outgoing shareholders' representatives were reelected.

Volker Bauknecht, Gottwalt Brückner, Günther Gerhardt, Jonny Lüth, Peter Neubrand and Viktor Volk retired as representatives of the employees.

The following employee representatives were elected to the Supervisory Board by the employees in accordance with the Co-Determination Act (MitbestG): Gisela Beller, Franz Fischer, Gisela Gräber, Günther Vogelbacher, Klaus-Michael Weber and Harri Wollny.

In the constituent session following the shareholders' annual meeting, Dr. Blaser was elected chairman and Mr. Vetter was elected vice-chairman.

The Supervisory Board would like to thank the retiring officers for their faithful service and for their active support in the completion of important tasks.

Effective 31 March 1999, the vice-chairman of the board, Dr. Karlheinz Bozem, retired from the Board of Management of Energie Baden-Württemberg AG with the approval of the Supervisory Board.

Effective 1 May 1999, the Supervisory Board appointed Dr. Klaus J. Kasper to a term of office of five years as a member of the Board of Management of Energie Baden-Württemberg AG.

The Supervisory Board thanks the Board of Management, the Works Council and all employees for the particularly demanding work performed in 1998.

Karlsruhe, 6 May 1999 The Supervisory Board

Dr. Blaser Chairman

Information on the Executive Bodies

Other Offices Held by Members of the Supervisory Board*

Dr. Guntram Blaser

Chairman

Kreissparkasse Ravensburg (Chairman) Landesbank Baden-Württemberg (previously: SüdwestLB) Oberschwaben-Klinik GmbH (Chairman) Zweckverband Oberschwäbische Elektrizitätswerke (Chairman)

Ernst Vetter

Vice Chairman

EnBW Transportnetze AG Energie-Versorgung Schwaben AG

Manfred Autenrieth

Arbeitsamt Rottweil

Badenwerk AG (until July 1998)

Badischer Gemeinde-Unfallversicherungs-Verband Karlsruhe

Deutscher Landkreistag

Gesundheitszentren Landkreis Rottweil GmbH (Chairman)

Kreisbaugenossenschaft Rottweil (Chairman)

Kreissparkasse Rottweil (Chairman)

Landesbausparkasse Württemberg

Landeswohlfahrtsverband Baden

Landkreistag Baden-Württemberg

Regionales Rechenzentrum Reutlingen Regionalverband Schwarzwald-Baar-Heuberg

Sparkassen- und Giroverband

Zweckverband Oberschwäbische Elektrizitätswerke

Volker Bauknecht

EnBW Kraftwerke AG (until 26 June 1998)

Gisela Beller

Badenwerk AG (from 20 February 1998)

Gottwalt Brückner

Badenwerk AG (until 23 July 1998)

Adolf Dinkel

Badenwerk AG

Elektrizitätswerk Mittelbaden AG (from 16 December 1998)

EnBW Kraftwerke AG (until 26 March 1998)

EnBW Transportnetze AG

TDL Gesellschaft für anlagentechnische Dienste und kaufmännische Leistungen mbH

^{*} Supervisory board offices acc. to Section 100, par. 2 AktG, and nicht anrechnungspflichtige Mandate acc. to Section 125 par. 1 AktG; correct as of 31 December 1998

Manfred Eichkorn

Badischer Gemeinde-Unfallversicherungs-Verband Karlsruhe EnBW Kraftwerke AG (from March 1998) Energie-Versorgung Schwaben AG U-plus Umweltservice AG

Dr. Karl Epple

Badenwerk AG Gasversorgung Süddeutschland GmbH Messe Friedrichshafen GmbH Spielbank Stuttgart GmbH Staatliche Toto-Lotto GmbH

Franz Fischer

Energie-Versorgung Schwaben AG

Günther Gerhardt

Badenwerk AG

Gisela Gräber

Badenwerk AG Bausparkasse Schwäbisch Hall Sparkassenversicherungs-Holding

Rolf Koch

Energie-Versorgung Schwaben AG TDL Gesellschaft für anlagentechnische Dienste und kaufmännische Leistungen mbH

Jonny Lüth

Energie-Versorgung Schwaben AG (until 26 August 1998)

Gerhard Mayer-Vorfelder

Badenwerk AG (Chairman)
Baden-Württembergische Bank AG (Chairman)
Landeskreditbank Baden-Württemberg (Chairman)
(until 11 November 1998)
Landesgirokasse

Peter Neubrand

Energie-Versorgung Schwaben AG

Wolfgang Rückert

Bäder- und Kurverwaltung Baden-Württemberg, Anstalt des öffentlichen Rechts, Baden-Baden (Chairman) Bäderbetriebsgesellschaft Badenweiler mbH (Chairman) (until 31 March 1999) Energie-Versorgung Schwaben AG FBW – Fernwärmegesellschaft Baden-Württemberg (Chairman) (until 13 January 1999) Flughafen Stuttgart GmbH Gesellschaft für internationale Zusammenarbeit
Baden-Württemberg mbH (until 18 February 1999)
Hafenverwaltung Kehl, Anstalt des öffentlichen Rechts (Chairman)
Landesbank Baden-Württemberg (from 7 December 1998)
Landsiedlung Baden-Württemberg GmbH (Chairman)
Projektgesellschaft Neue Messe GmbH & Co. KG (from 19 June 1998)
Projektgesellschaft Neue Messe Verwaltungs-GmbH
(from 19 June 1998)
Staatliche Rhein-Neckar-Hafengesellschaft Mannheim mbH (Chairman)
Staatliche Toto-Lotto GmbH (Chairman)
Staatsbad Wildbad - Bäder und Kurbetriebsgesellschaft mbH
(until 17 March 1999)
Südwestdeutsche Salzwerke AG (Chairman)

Günter Scheck

Energie Wohnungsbaugenossenschaft kommunaler Versorgungsbetriebe und ihrer Arbeitnehmer eG (Chairman) Gasversorgung Süddeutschland GmbH (GVS) Gemeinschaftskernkraftwerk Neckar AG Heizkraftwerk Stuttgart GmbH Südwestdeutsche Ferngas GmbH (SWG) Thermogas Gas- und Gerätevertriebsgesellschaft mbH

Dr. Wolfgang Schürle

Donau-Iller-Nahverkehrsgesellschaft (Chairman) Energie-Versorgung Schwaben AG (Chairman) Fernwärme Ulm GmbH Kreisbau-GmbH Ulm (Chairman) Krankenhaus-GmbH Alb-Donau-Kreis(Chairman)

Ernst Spadinger

Energie-Versorgung Schwaben AG Kreisbaugenossenschaft Rottweil e.G.

Ulrich Stückle

Energie-Versorgung Schwaben AG UJAG Ueberlandwerk Jagstkreis AG VSH Verkehrsgemeinschaft Schwäbisch Hall GmbH (Chairman)

Günther Vogelbacher

EnBW Kraftwerke AG Landesversicherungsanstalt Baden TDL Gesellschaft für anlagentechnische Dienste und kaufmännische Leistungen mbH

Viktor Volk

Badenwerk AG (until 23 July 1998) KORONA AG

Klaus-Michael Weber

– none –

Gerhard Widder

Energie- und Wasserwerk Rhein-Neckar AG (Chairman)

MVV Verkehr AG (Chairman)

MVV Energie AG (Chairman)

Mannheimer Versorgungs- und Verkehrsgesellschaft mbH

(Chairman)

Oberrheinische Eisenbahn-Gesellschaft AG (Chairman)

Grosskraftwerk Mannheim AG (Chairman)

Klinikum Mannheim gGmbH Universitätsklinikum (Chairman)

EnBW Kraftwerke AG (from 21 October 1998)

Badenwerk AG (until 23 July 1998)

Harri Wollny

Energieversorgung Sachsen Ost AG

Offices Held by Members of the Board of Management*

Gerhard Goll

Chairman

Badenwerk AG

Elektrizitätsgesellschaft Laufenburg

EnBW Kraftwerke AG

EnBW Transportnetze AG

Energie-Versorgung Schwaben AG

Karlsruher Lebensversicherungen AG

KIH Kommunikations-Industrie Holding AG

Kraftübertragungswerke Rheinfelden AG

Neckarwerke Stuttgart AG

Rheinmetall AG

Rheinmetall Elektronik AG

Salamander AG

Stadtwerke Karlsruhe GmbH

U-plus Umweltservice AG

Watt AG

Dr. Karlheinz Bozem

Vice Chairman

(until 31 march 1999)

AGIV AG für Industrie und Verkehrswesen

Budapesti Elektromos Müvek Rt.

DREWAG Stadtwerke Dresden GmbH

EnBW Kraftwerke AG

EnBW Transportnetze AG

ESAG Energieversorgung Sachsen Ost AG (Chairman)

GESO Beteiligungs- und Beratungs AG (Chairman)

MÜAG Mittelschwäbische Überlandzentrale AG

Rojana Power Company Ltd.

U-plus Umweltservice AG

Watt AG

^{*} Board of Management offices acc. to Section 100, par. 2 AktG, and nicht anrechnungspflichtige Mandate acc. to Section 125 par. 1 AktG; correct as of 31 December 1998

Hans-Jürgen Arndt

Centrale Electrique Rhénane de Gambsheim SA
Deutsche Industriewartung AG
EnBW Transportnetze AG
ESAG Energieversorgung Sachsen Ost AG
Elektrizitätswerk Mittelbaden AG
GESO Beteiligungs- und Beratungs AG
Grosskraftwerk Mannheim AG
Kraftwerk Reckingen AG (Chairman)
Kraftwerk Ryburg-Schwörstadt AG
Neckar AG
Rheinkraftwerk Albruck-Dogern AG
Rheinkraftwerk Säckingen AG (Chairman)
Schluchseewerk AG
U-plus Umweltservice AG

Dr. Hartmut Bilger

Amata Power Ltd.
EnBW Kraftwerke AG (Chairman)
EnBW Transportnetze AG (Chairman)
ESAG Energieversorgung Sachsen Ost AG
Észag Magyaroszági Áramszolgáltató Rt.
Mátrai Erömü Rt.
Neckar AG
NOVACOM Telekommunikation GmbH
Rhein-Main-Donaugesellschaft AG
Schluchseewerk Freiburg AG (Chairman)
U-plus Umweltservice AG (Chairman)

Financial Calendar

1999 Shareholders' Meeting	14 July 1999
Interim Report January-June 1999	August 1999
Interim Report January-December 1999	March 2000
2000 Balance Sheet Press Conference	May 2000
2000 Shareholders' Meeting	July 2000

"Energy is when EnBW powers to success."

Back cover: Viktor Volk, 55, clerk at EnBW Energie Baden-Württember AG.

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