EnBW AG

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

The financial statements as audited by the Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, as well as the management report of EnBW AG contained in the Group management report, will be published in the German Federal Gazette (Bundesanzeiger).

For statements that are necessary to understand the position of EnBW AG and which are not explicitly described in the following sections, especially those relating to the strategy of the company and economic and political conditions, please refer to the information provided for the EnBW Group (p. 41 ff. and 62 ff.). The full financial statements of EnBW AG are available for download at (www.enbw.com/report2019-downloads).

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

Results of operations of EnBW AG

Condensed income statement of EnBW AG

in € million[1]	2019	2018	Change in %
Revenue	38,220.6	24,883.1	53.6
Cost of materials	-37,385.9	-24,364.2	-53.5
Amortisation and depreciation	-569.3	-458.1	-24.3
Other operating result	-39.6	-502.6	92.1
Earnings before interest and taxes	**225.8**	**-441.8**	**–**
Financial result	-29.3	-73.0	59.9
Tax	84.1	-285.9	–
Annual net profit/loss	**280.6**	**-800.7**	**–**

1 In accordance with German commercial law.

EnBW AG reported an annual net profit of €280.6 million. The substantial increase in comparison to the previous year was mainly influenced by €667.6 million higher earnings before interest and taxes and the increase in the tax result of €370.0 million.

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

In the earnings before interest and taxes, the increase in revenue of €13,337.5 million was offset by an increase in the cost of materials of €13,021.7 million.

The revenue (after the deduction of electricity and energy taxes) of €38,220.6 million primarily includes revenue from electricity sales of €17,345.5 million and gas sales of €19,592.5 million. Electricity and gas sales comprise both the trading business, involving deliveries to trading partners and stock exchanges, and sales activities in the form of the direct delivery of energy to end customers.

As a result of the further expansion in trading activities in 2019, the trading business recorded an increase in revenue of €13,630.5 million to €35,415.2 million. In the gas trading business, the increase in trading volume more than offset lower market prices. In the electricity trading business, the higher trading volume was also positively influenced by increasing prices on the energy markets. The increase in revenue was also offset by the increase in the cost of materials of €13,515.3 million to €34,727.2 million.

Revenues from sales activities were split into €1,668.6 million for electricity and €200.6 million for gas, which represented an overall drop of €35.8 million.

In the retail and end customer sector (B2C), electricity sales of 6.9 billion kWh were at the same level as in the previous year. Gas sales increased in the same period by 0.2 billion kWh to 4.1 billion kWh due to the growing contract portfolio and were thus higher than the previous year. The increase in energy sector costs was passed on to customers in both business segments, which resulted in higher revenues.

The sales to business customers (B2B) includes supplying customers within the Group and redistributing and holding reserve supplies for B2B customers. Sales in the B2B electricity business fell by 0.3 billion kWh to 0.5 billion kWh due primarily to the decrease in sales to redistribution customers. Gas sales to business customers fell in the same period by 0.1 billion kWh to 0.2 billion kWh, which was mainly due to lower demand from customers within the Group.

The cost of materials includes costs for electricity procurement of €15,986.9 million and costs for gas procurement of €19,607.7 million.

Alongside scheduled amortisation and depreciation, the amortisation and depreciation item includes impairment losses of €236.5 million.

The significant improvement in the other operating result was primarily attributable to higher income from the disposal of assets of €848.2 million in comparison to the previous year. This was offset primarily by lower income from reversals of impairment losses of €189.7 million and lower income from the reversals of provisions of €153.9 million in comparison to the previous year.

The positive development of the financial result was mainly influenced by lower impairment losses on financial assets of €13.2 million, the fall in the interest expenses for nuclear provisions of €44.7 million, a fall in the interest expenses for affiliated entities of €60.7 million and the accrual of tax provisions of €24.0 million. This was offset to some extent by the decrease of €109.9 million in investment income.

There was a positive tax result in the financial year of €84.1 million. The taxes mainly comprise the reversal of provisions for tax audit risks of €107.0 million. In the previous year, there was an allocation to the provisions for tax audit risks of €133.8 million and lower out-of-period tax expenses of €159.0 million. The option of recognising a surplus of deferred tax assets was not exercised.

Net assets of EnBW AG

Balance sheet of EnBW AG

in € million[1]	31/12/2019	31/12/2018	Change in %
Assets			
Non-current assets			
Intangible assets	519.6	635.4	-18.2
Property, plant and equipment	933.7	1,248.4	-25.2
Financial assets	22,125.6	20,130.5	9.9
	23,578.9	**22,014.3**	**7.1**
Current assets			
Inventories	494.5	446.7	10.7
Receivables and other assets	2,530.5	3,336.4	-24.2
Securities	45.8	119.2	-61.6
Cash and cash equivalents	169.5	628.1	-73.0
	3,240.3	**4,530.4**	**-28.5**
Prepaid expenses	**366.5**	**1,226.3**	**-70.1**
Surplus from offsetting	**315.8**	**268.1**	**17.8**
	27,501.5	**28,039.1**	**-1.9**
Equity and liabilities			
Equity			
Subscribed capital	708.1	708.1	–
Treasury shares	-14.7	-14.7	–
Issued capital	(693.4)	(693.4)	–
Capital reserve	776.0	776.0	–
Revenue reserves	1,872.5	1,872.5	–
Retained earnings	383.6	279.1	37.4
	3,725.5	**3,621.0**	**2.9**
Extraordinary items for investment cost subsidies and grants	**23.4**	**24.0**	**-2.5**
Provisions	**11,204.4**	**11,032.4**	**1.6**
Liabilities	**12,094.2**	**12,414.7**	**-2.6**
Deferred income	**454.0**	**947.0**	**-52.1**
	27,501.5	**28,039.1**	**-1.9**

1 In accordance with German commercial law.

The net assets of EnBW AG as of 31 December 2019 are significantly influenced by the non-current assets (particularly the financial assets), the receivables and other assets, as well as by cash and cash equivalents. These are primarily offset by non-current liabilities and provisions relating to nuclear power and for pensions and similar obligations.

Financial assets primarily consist of shares in affiliated entities to the amount of €15,437.0 million, securities held as non-current assets to the amount of €2,726.6 million and investments to the amount of €1,607.0 million. The increase in financial assets of €1,995.1 million includes, on the one hand, shares in affiliated entities primarily as a result of restructuring within the Group and payments into the capital reserve of subsidiaries. In addition, loans to affiliated entities increased by €353.5 million in comparison to the previous year.

Trade receivables to the amount of €715.6 million mainly comprise receivables from trading activities and consumption accruals for electricity and gas deliveries not yet invoiced and were €68.6 million below the figure in the previous year. Receivables from affiliated entities fell by €505.4 million in comparison to the previous year. This was primarily due to the reclassification of loans to affiliated entities.

The cash and cash equivalents of EnBW AG totalling €169.5 million mainly consist of bank deposits, which are invested as time deposits to the amount of €50.0 million. More details on the development of this item can be found in the section "Financial position of EnBW AG".

The provisions for pensions and similar obligations held by EnBW AG to the amount of €5,285.8 million combine obligations from the company pension scheme and other company agreements made by major subsidiaries and EnBW AG. The resulting annual expenses for retirement benefits are paid by the subsidiaries concerned in each case. The increase in the provisions for pensions and similar obligations of €517.3 million was mainly due to the effect of the further decrease in the discount rate as in the previous year. In addition, provisions relating to nuclear power of €3,939.7 million are disclosed, which arise due to public law obligations and requirements in the operating licences.

Of the liabilities totalling €12,094.2 million, €6,635.6 million have a residual term of more than one year. Overall, there are liabilities of €7,347.5 million to affiliated entities, which primarily result from intercompany settlement transactions within the framework of the centralised financial and liquidity management, as well as from loan agreements.

The decrease in liabilities by €320.5 million was mainly due to the reduction in other liabilities from margin payments of €308.9 million and to the decrease of €70.9 million in option premiums received. In addition, there were repayments totalling €70.5 million to bank loans.

Non-current liabilities exist to the amount of €2,700.4 million to EnBW International Finance B.V. as part of the Debt Issuance Programme (DIP) (Glossary, from p. 139), to the amount of €2,992.6 million from the issuing of five hybrid bonds and to the amount of €597.7 million from loan agreements with credit institutions. The main changes in comparison to the previous year were the issuing of two green hybrid bonds with a total volume of €1,000.0 million.

The aim is to cover the non-current pension and nuclear provisions with appropriate financial assets within an economically feasible time period. Overall, financial assets of €22,125.6 million are offset by long-term debt of €15,339.4 million.

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

Financial position of EnBW AG

In comparison to the reporting date in the previous year, the liquidity of EnBW AG decreased from €628.1 million by €458.6 million to €169.5 million.

The cash flows of EnBW AG fundamentally arise from both its own operating business and also the operating business of the subsidiaries which balance payments received and made via the bank accounts of EnBW AG as part of the intercompany cash pooling system (Glossary, from p. 139) within the framework of the central financing and liquidity management.

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

Material liquidity-related business transactions in the reporting year were investments in the area of renewable energies and telecommunications totalling €1,189.9 million. These were offset by the sale of an investment resulting in a cash inflow of €342.8 million.

Other significant events were the issuing of two green hybrid bonds with a total volume of €996.5 million and the issuing of a bond with a volume of €74.8 million via EnBW International Finance B.V. This was offset by repayments to bank loans of €70.5 million.

There was a cash outflow of €561.5 million in connection with the utilisation of the nuclear power and pension provisions.

A total of €176.1 million was distributed to the shareholders of EnBW AG in dividends.

This was offset by the receipt of dividends with an impact on liquidity of €271.6 million.

In the 2019 financial year, EnBW AG paid tax arrears for income tax from previous years (including the associated interest) and prepayments for the following year totalling €208.0 million.

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

In our judgement, the development of the results of operations, financial position and net assets of EnBW AG as of 31 December 2019 is satisfactory after taking into account the effects described below that are not relevant to the ongoing management of the company. In the previous year, an annual net profit of €200 million was expected in 2019. The annual net profit for 2019 stands at €280.6 million and was significantly influenced by effects not relevant to the ongoing management of the company, which arose both at EnBW AG itself and also at its subsidiaries which had an impact on EnBW AG due to profit and loss transfer agreements.

The main effects not relevant to the ongoing management of the company were higher interest expenses for pension provisions and provisions relating to nuclear power totalling €611.6 million (€566.3 million of which is reported under interest expense of EnBW AG) resulting from the drop in the discount rate and were thus €194.6 million higher than expected. Furthermore, allocations to the provisions relating to nuclear power, mainly due to adjustments in cost estimates, of €122.1 million (of which €71.2 million was reported under the cost of materials of EnBW AG) had a negative effect. Other negative effects arose from impairment losses on intangible assets and property, plant and equipment totalling €236.5 million, impairment losses on financial assets of €91.1 million and allocations to provisions for onerous contracts of €60.9 million.

This was primarily offset by income from the disposal of assets of €858.9 million, the reversal of other provisions of €182.4 million and tax provisions of €129.0 million, as well as adjustments to the provisions for onerous contracts of €81.7 million.

Based on the annual net profit of €280.6 million and taking into account the profit carried forward of €103.0 million, there are retained earnings of €383.6 million.

We anticipate an annual net loss of around €250 million in 2020. The net result for the year will be negatively influenced by high interest expenses for non-current provisions. As a result of the low-interest phase, the average interest rate will fall further in the future. We anticipate that this will have a negative impact on earnings of €600 million in 2020. After it has been adjusted for this effect, the annual net profit will be around €350 million. The amount from the valuation of the provisions for pension obligations and the valuation of the dedicated financial assets (Glossary, from p. 139) in the CTA that is ineligible for distribution as dividends will stand at around €900 million by 31 December 2020. Due to a fall in the average interest rate, we expect a negative impact on earnings of a similar magnitude in 2021. We anticipate that this negative impact on earnings will decrease in 2022.

Opportunities and risks

As the business performance, economic situation and opportunities and risks relating to the future development of EnBW AG do not deviate from the business performance, economic situation and opportunities and risks relating to the future development of the EnBW Group, the management report of EnBW AG is combined with that of the EnBW Group (p. 100 ff.).

Comments on reporting

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

EnBW share and dividend policy

As a result of the small proportion of EnBW shares in free float (www.enbw.com/shareholder-structure), events on the financial markets and the development of the DAX generally only have a minor influence on the development of the EnBW share price. The price of EnBW shares was €29.20 at the start of 2019 and stood at €50.50 by the end of the year (www.enbw.com/stock-chart).

The trust placed in EnBW by capital market participants is based on the value generated by the company. Against this background, EnBW manages the development of value using ROCE and its creditworthiness using the key performance indicators internal financing capability (up to 2020) and debt repayment potential (from 2021). EnBW strives to generally pay a dividend payout ratio of between 40% and 60% of adjusted Group net profit. Based on the annual net profit of EnBW AG of €280.6 million and taking into account the profit carried forward of €103.0 million, there is retained earnings of €383.6 million for the financial year and thus dividends will be paid for the 2019 financial year. If approved by the Annual General Meeting, the dividend to be distributed for the 2019 financial year will be €0.70 per share. Adjusted for IFRS 9 valuation effects, this corresponds to a payout ratio of 40%.