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 that 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. 34 ff. and 57 ff.). The full financial statements of EnBW AG are available for download at (www.enbw.com/report2020-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]	2020	2019	Change in %
Revenue	37,943.8	38,220.6	-0.7
Cost of materials	-36,959.1	-37,385.9	-1.1
Amortization and depreciation	-300.9	-569.3	-47.1
Other operating result	-804.3	-39.6	–
Earnings before interest and taxes	**-120.5**	**225.8**	**–**
Financial result	315.2	-29.3	–
Tax	-36.8	84.1	–
Net profit	**157.9**	**280.6**	**-43.7**

1 In accordance with German commercial law.

EnBW AG reported an annual net profit of €157.9 million. The decrease in comparison to the previous year was mainly influenced by €346.3 million lower earnings before interest and taxes, the increase in the financial result of €344.5 million and the decrease in tax of €120.9 million.

Earnings before interest and taxes of EnBW AG is primarily determined by the revenues generated from electricity and gas sales, as well as by the associated cost of materials. The decrease in revenue of €276.8 million was offset by a decrease in the cost of materials of €426.8 million.

Revenue (after the deduction of electricity and energy taxes) of €37,943.8 million primarily includes revenue from electricity sales of €14,134.8 million and gas sales of €22,239.6 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.

The trading business recorded a slight decrease in revenue in 2020 of €223.4 million to €35,651.3 million. The higher trading volume in the gas sector could not fully compensate for the drop in market prices in the gas sector. The decrease in revenue was also offset by the decrease in the cost of materials of €111.8 million to €34,603.1 million.

Revenues from sales activities were split into €1,669.3 million for electricity and €195.4 million for gas, which represented an overall drop of €4.4 million.

In the retail and end customer sector (B2C), electricity sales of 6.5 billion kWh were 0.4 billion kWh lower than the level in the previous year due to the slight decrease in the contract portfolio. The increase in energy sector costs was passed on to customers in the electricity business segment, which resulted in higher revenues. Gas sales decreased in the same period to 3.8 billion kWh due to the temperature and the slight decrease in the contract portfolio, and were 0.3 billion kWh lower than the previous year. Due to the developments in sales described above, revenue in the gas business fell.

Sales to business customers (B2B) includes supplying customers within the Group and redistributors and holding reserve supplies for B2B customers. Sales in the B2B electricity business fell by 0.3 billion kWh to 0.2 billion kWh due primarily to the decrease in sales to redistributors. Gas sales to business customers remained constant at 0.2 billion kWh in the same period.

The cost of materials includes costs for electricity procurement of €12,762.5 million and costs for gas procurement of €22,219.3 million.

Alongside scheduled amortization and depreciation, the amortization and depreciation item includes impairment losses of €64.3 million, which mainly relate to customer bases.

The significant decrease in the other operating result in comparison to the previous year was primarily due to a drop in income from the disposal of assets of €719.6 million, which was mainly attributable to restructuring within the Group in the previous year, and a fall in income from reversals of provisions of €23.2 million. This was offset to some extent by an increase in income from reversals of impairment losses of €43.1 million.

The positive development in the financial result was mainly influenced by a rise in investment income of €274.4 million, a decrease in impairment losses on financial assets of €83.6 million, the fall in the interest expenses for nuclear provisions of €23.8 million, a fall in the interest expenses for affiliated entities of €23.0 million and an increase in income from loans of €15.4 million. This was offset to some extent by an increase in interest expenses for back taxes of €35.7 million, the accrual of tax provisions of €24.0 million in the previous year and an increase in interest expenses for subordinated bonds of €11.9 million.

The tax expense in the financial year was €36.8 million, while there was a positive tax result of €84.1 million in the previous year. The taxes mainly comprise allocations to the provisions for tax audit risks of €46.0 million. In the previous year, there was a reversal of provisions for tax audit risks of €107.0 million and positive effects from out-of-period taxes of €29.2 million. The option of recognizing a surplus of deferred tax assets was not exercised.

Net assets of EnBW AG

Balance sheet of EnBW AG

in € million[1]	31/12/2020	31/12/2019	Change in %
Assets			
Non-current assets			
Intangible assets	448.5	519.6	-13.7
Property, plant and equipment	902.8	933.7	-3.3
Financial assets	22,687.3	22,125.6	2.5
	24,038.6	**23,578.9**	**1.9**
Current assets			
Inventories	471.9	494.5	-4.6
Receivables and other assets	2,551.9	2,530.5	0.8
Securities	250.0	45.8	–
Cash and cash equivalents	413.7	169.5	144.1
	3,687.5	**3,240.3**	**13.8**
Prepaid expenses	**668.7**	**366.5**	**82.5**
Surplus from offsetting	**363.6**	**315.8**	**15.1**
	28,758.4	**27,501.5**	**4.6**
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	351.9	383.6	-8.3
	3,693.8	**3,725.5**	**-0.9**
Extraordinary items for investment cost subsidies and grants	**27.2**	**23.4**	**16.2**
Provisions	**12,005.0**	**11,204.4**	**7.1**
Liabilities	**12,483.0**	**12,094.2**	**3.2**
Deferred income	**549.4**	**454.0**	**21.0**
	28,758.4	**27,501.5**	**4.6**

1 In accordance with German commercial law.

The net assets of EnBW AG as of 31 December 2020 are significantly influenced by the non-current assets (particularly the financial assets), the receivables and other assets. These are primarily offset by non-current liabilities, current liabilities to affiliated entities, current liabilities for a subordinated bond and provisions relating to nuclear power and for pensions and similar obligations.

Financial assets primarily consist of shares in affiliated entities of €14,839.7 million, securities held as non-current assets of €2,720.5 million and investments of €1,346.1 million. The increase in financial assets of €561.7 million mainly comprises additions to loans to affiliated entities. In addition, shares in affiliated entities included payments into the capital reserve, capital repatriation at subsidiaries and reversals to impairment losses, primarily at EnBW Holding A.S.

Trade receivables to the amount of €819.9 million mainly comprise receivables from trading activities and consumption accruals for electricity and gas deliveries not yet invoiced, and were €104.2 million above the figure in the previous year.

Cash and cash equivalents of EnBW AG totaling €413.7 million largely 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 increase in prepaid expenses of €302.2 million was primarily due to earnings components from futures as a result of the increased trading volumes.

The provisions for pensions and similar obligations held by EnBW AG to the amount of €5,800.4 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 €514.6 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 €3,844.1 million are disclosed, which are formed to fulfill public law obligations and requirements in the operating licenses.

Of the liabilities totaling €12,483.0 million, €7,090.7 million have a residual term of more than one year. Overall, there are liabilities of €7,532.3 million to affiliated entities, which primarily result from intercompany settlement transactions within the framework of centralized financial and liquidity management, as well as from loan agreements.

The total increase in liabilities of €388.8 million was mainly attributable to the increase in liabilities to affiliated entities and to investments of €189.1 million. This was offset to some extent by repayments totaling €310.5 million to bank loans.

Non-current liabilities exist to the amount of €3,700.9 million to EnBW International Finance B.V. as part of the Debt Issuance Program (DIP) (Glossary, from p. 138), of which €2,492.6 million is from the issuing of six subordinated bonds and €527.3 million from loan agreements with credit institutions. The main changes in comparison to the previous year were the issuing of one green subordinated bond with a total volume of €500.0 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 €22,687.3 million are offset by long-term debt of €16,233.0 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 increased from €169.5 million by €244.2 million to €413.7 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. 138) within the framework of central financing and liquidity management.

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

In the financial year, there was investment of €346.1 million, mainly in the area of renewable energies. In contrast, there were cash inflows from financial assets of €740.1 million.

In addition, a green subordinated bond with a volume of €494.8 million and two new bonds with a volume of €994.4 million were issued via EnBW International Finance B.V. This was offset to some extent by repayments totaling €310.5 million to bank loans.

There was a cash outflow of €608.5 million in connection with the utilization of the nuclear power and pension provisions.

Another business transaction with a material impact on liquidity was the settling of the EEG credit line of €656.0 million.

A total of €189.6 million was distributed to the shareholders of EnBW AG in dividends.

This was offset to some extent with an impact on liquidity by the receipt of dividends of €171.8 million.

Overall assessment of the economic situation and development of EnBW AG

In our judgment, the development of the results of operations, financial position and net assets of EnBW AG as of 31 December 2020 is satisfactory after taking into account the effects described below that are not relevant to the ongoing management of the company. In the previous year, an annual net loss of €250 million was expected in 2020. The annual net profit for 2020 stands at €157.9 million and was significantly influenced by effects not relevant to the ongoing management of the company, which arose both at EnBW AG itself and 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 totaling €566.2 million (€523.7 million of which is reported as interest expenses of EnBW AG) resulting from the drop in the discount rate, and which were €33.8 million lower than expected. Furthermore, additions to the provisions relating to nuclear power of €112.1 million (of which €87.4 million was reported as 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 totaling €64.3 million.

This was offset to some extent by income from the disposal of assets and the sale of investments of €378.2 million, reversals of impairment losses on financial assets of €43.6 million and tax effects of €37.6 million.

Based on the annual net profit of €157.9 million and taking into account the profit carried forward of €194.0 million, there are retained earnings of €351.9 million.

We expect a break-even annual net result in 2021. The result will be negatively influenced by high interest expenses for non-current provisions. As a result of the low-interest phase, the average interest rate will fall further in the future. In the 2021 financial year, we expect that effects not relevant to the ongoing management of the company will in total negatively impact earnings by around €650 million. We also expect these negative effects on earnings to be offset to some extent by positive effects not relevant to the ongoing management of the company of around €50 million. Adjusted for these effects, the annual net profit will be around €600 million.

We anticipate that the negative impact on earnings caused by the fall in the average interest rate will be smaller in 2022. Based on the assumption that the average interest rate will fall to a lesser extent, we expect a negative impact on earnings of around €400 million.

The amount that is ineligible for distribution as dividends, which primarily comprises the valuation of the provisions for pension obligations, is expected to be around €650 million as of 31 December 2021.

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 supply company in the sense of EnWG, EnBW AG engages in activities in electricity distribution, activities in gas distribution, 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 €52.00 at the start of 2020 and stood at €56.00 by the end of the year (www.enbw.com/stock-chart).

The transformation of the portfolio up to the end of 2020 and the strategic further development of the company as an infrastructure partner by the end of 2025 create the foundations for the future viability of EnBW. The trust placed in EnBW by shareholders is based on this value generated by the company. EnBW manages the development of value using ROCE. The financial profile will be maintained using the debt repayment potential from the 2021 financial year onwards. 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 €157.9 million and taking into account the profit carried forward of €194.0 million, there are retained earnings of €351.9 million for the financial year and thus dividends will be paid for the 2020 financial year. If approved by the Annual General Meeting, the dividend to be distributed for the 2020 financial year will be €1.00 per share. This corresponds to a dividend payout ratio of 40%.