Combined management report as at December 31, 2022

This management report is a combined report on STEAG GmbH and the STEAG Group (STEAG GmbH and its subsidiaries). Business development at STEAG GmbH is reported in a separate chapter. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU, while the individual financial statements have been drawn up in accordance with the provisions of the German Commercial Code (HGB) and the German legislation on limited liability companies (GmbH-Gesetz).

(1) Basic information on the STEAG Group

(1.1) Business model

Business activities

The STEAG Group operates in Germany and internationally. Based on its integrated business model, it offers customers solutions and services in key areas of the energy value chain.

Its core competencies include the planning, construction and operation of energy generating, renewable energy and distributed facilities, trading in electricity and fuels, and technical services related to energy generation. Alongside fossil fuels, energy is generated from solar power, wind energy, substitute fuels and special fuels.

Ownership structure

As at December 31, 2022, STEAG GmbH was wholly owned by KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG (KSBG KG), Essen (Germany), a consortium of six German municipal utilities in the Rhine-Ruhr region.

Organizational structure of the STEAG Group

STEAG GmbH, which is headquartered in Essen (Germany), is the lead company in the STEAG Group. It holds the shares in the Group's subsidiaries, either directly or indirectly. STEAG GmbH is responsible for strategic and operational management of the STEAG Group, which comprises two divisions: **Green Power & Energy Solutions** and **Coal Power**. The first of these divisions, **Green Power & Energy Solutions**, comprises the strategic business units **Renewables** (renewable energy), **Energy Solutions** (services and energy solutions) and **Asset Management Green Power** (facilities and equity investments), plus the **Trading** and **Digital** support units. The second division, **Coal Power**, comprises the strategic business units **STEAG Verbundkraftwerke** (exit route from coal-fired power generation at the power plants in Germany) and **Asset Management Coal Power** (international coal-fired power plants). The strategic business units are supplemented by management and support functions (internal processes and administrative functions).

Products and services

Technology-independent energy generation

As a consequence of the entry into force of the German Substitute Power Plant Availability Act (“EKBG”), as at December 31, 2022 the STEAG Group operated large power plants at six locations in Germany. Under the German Coal-Fired Power Generation Termination Act (KVBG), STEAG had already registered four power plant blocks for decommissioning through the auction process, but these can temporarily be returned to the market, provided that have not yet been dismantled. Following expiry of the EKBG, STEAG will resume the plan to remove further power plants in Germany from the grid, followed by final decommissioning.

STEAG Beteiligungsgesellschaft mbH and Siemens Project Ventures GmbH successively completed the project for turnkey construction, operation and long-term maintenance of a state-of-the-art combined gas and steam power plant at the established site in Herne (Germany) (Herne 6) as planned in 2022. The new power plant came into service commercially in September 2022.

Internationally, the STEAG Group operates its own large power plants in Turkey, the Philippines and Colombia, based on close and long-term partnerships. The investment in the Colombian company was sold to the long-standing joint venture partner at the end of 2022. An agreement to sell 35.4 percent of the Philippine company was signed with one of the joint venture partners in this company in summer 2022. Closing of this transaction is planned for the second quarter of 2023 and is contingent upon the approval of the authorities in the Philipinnes.

In Germany, the STEAG Group has 196 facilities to generate energy from renewable resources, distributed facilities serving industry and local authorities, and heating plants.

In addition, the STEAG Group generates electricity and heat from mine gas and the incineration of domestic refuse. It is also active in the generation of heat from geothermal energy. Furthermore, it is a major supplier of district heating and a contractor and operator of biomass plants in Germany.

A competent trading partner

Based on many years of experience in the power, coal and CO_2 business, the STEAG Group has a broad portfolio of products and services, and extensive expertise in trading. This includes the procurement and marketing of electricity, fuel and CO_2 emission allowances, along with marketing of capacity and of heat and steam energy. In addition, the STEAG Group is one of Germany's leaders in the import and marketing of hard coal.

A professional service provider

Offering energy services is becoming more and more important for the STEAG Group. Over the years the STEAG Group has accrued expertise in modernizing and optimizing energy generating plants and now has a reputation as a provider of all-round solutions for customized energy supply that is both environment-friendly and profitable.

The STEAG Group's competencies include engineering and operating solutions for every type of power generation. The experts at its subsidiary Iqony Solutions GmbH (formerly STEAG Energy Services

GmbH) work internationally through its companies in Brazil, Botswana, Spain, Turkey, Switzerland, the USA and India. They are engaged in projects involving technologies from the areas of renewable energies, conventional energy, nuclear power and energy storage systems.

Organizational changes

The Sunrise project pursued the legal and operational division of the STEAG Group into two separate subgroups. The STEAG Group's coal activities have been bundled at **STEAG Power GmbH** (formerly STEAG 1. Beteiligungs-GmbH) since December 1, 2022 (with economic effect from July 1, 2022). This entity operates hard coal-fired power plants at six locations in Germany. They account for about 5 percent of total electricity generation in Germany. In addition, STEAG Power still operates large power plants in Turkey and Colombia. Going forward, the strategy is still to exit hard coal-fired power generation. The division of the STEAG Group into two subgroups was completed on January 1, 2023 following the transfer of the growth businesses to **Iqony GmbH** (formerly STEAG 2. Beteiligungs-GmbH). This company operates independently in the areas of photovoltaic and wind energy, hydrogen, energy solutions for the decarbonization of industry and municipalities, climate-friendly district heating, energy storage for electricity and heat, and digitalization. This gives Iqony scope for more targeted marketing of common services, which should further boost the positive development of these areas of business in the coming years. Separating the growth businesses from the coal activities supports management of the different business models and the refinancability of the growth businesses from an ESG (environmental, social and governance) perspective.

On September 15, 2022, STEAG GmbH and Aboitiz Power Corporation signed an agreement on the sale of STEAG's 35.4 percent interest in the Philippine power plant company STEAG State Power Inc. (SPI). Closing of this transaction is scheduled for the second quarter of 2023 and is contingent on the approval of various authorities in the Philippines (e.g., antitrust authority, energy authority).

On December 23, 2022, STEAG Power GmbH and Crasodel Spain S.L.U., a subsidiary of ContourGlobal, signed an agreement on the sale of STEAG's shares in Compañia Electrica de Sochagota S.A. E.S.P. (CES). This transaction was closed on December 30, 2022.

On December 23, 2022, Iqony GmbH (formerly STEAG 2. Beteiligungsgesellschaft mbH) and Remondis Energy & Services sp. z o.o., a subsidiary of Remondis SE & Co. KG, signed an agreement on the sale of the Polish district heating company SFW Energia sp. z o.o. and its subsidiaries. This transaction was closed on April 20, 2023.

On September 22, 2022, Gerhard Jochum resigned as Chairman of the Supervisory Board of STEAG GmbH and left the board at his own request. On December 8, 2022, Ewald Woste was unanimously elected as his successor as Chairman of the Supervisory Board. A 62 year-old business administration graduate, he took over this office in a decisive phase for STEAG: Following the division of the STEAG Group into a coal business and a green growth business, which was completed at the end of 2022, the process for the sale of the company as a whole started at the beginning of 2023.

In 2022, STEAG's indirect owners decided to initiate a process to prepare for the sale of STEAG. The intention to sell the Group was officially announced in a public notice in the Financial Times on December 28, 2022. The preparations for the sale process are currently under way. Indicative offers are expected by the end of May 2023.

(1.2) Strategy

In the Sunrise project, STEAG critically reviewed its strategy and adjusted it to the different requirements of the growth business and the coal activities.

Thanks to STEAG's business model, which is backed up by more than eight decades of experience in solving complex problems in the energy sector, the Board of Management is convinced that the Group's **growth business** (Iqony GmbH) will continue to create significant value for its customers in the future and gain access to promising growth areas. The focus is on three aspects of the energy sector: services, digitalization and decarbonization.

The **PV** (photovoltaic) sub-business unit is continuing the expansion of its EPC (engineering, procurement and construction) projects and selective project development in the field of photovoltaics as well as serving international markets. Its services are complemented by the marketing of PV facilities by **Trading** via green PPAs (long-term "green" power purchase agreements).

The **Wind** sub-business unit focuses on the development of wind power projects in France and the management of the established installations in Germany and Poland. Here too, the Trading function provides marketing support.

Energy Services focuses on engineering and IT services, nuclear and air filter solutions and market-oriented plant operation in the field of renewable energies. Energy-related expertise plays a key role in the initiation, development and realization of projects, so this is undertaken in collaboration with the **Trading, Business Development, Distribution** and **Digital** functions. By utilizing its full expertise and experience to date, STEAG is continuing to position itself as a planning specialist in the growing market for energy projects of all types. The future focus will also include hydrogen and energy storage projects.

The **New Energies** sub-business unit mainly addresses the expansion and ongoing development of smart, end-to-end energy solutions for customers that harness the trends to decarbonization, digitalization and decentralization. In this way, STEAG is positioning itself as an all-round solution provider and investment partner for industrial and municipal decarbonization projects.

Asset Management ensures a holistic approach to the investments in large power plants and partnerships and is responsible for administration, valuation and optimization as well as for the procurement of asset services. This sub-business unit pools the technical and business competencies required for STEAG's own investments and major plants and is developing a new understanding of asset management. Through the **Operational Excellence** function, STEAG's expertise in the operation and optimization of the large power plants will be utilized across its entire portfolio in the future. Decarbonization of the portfolio of facilities will also play an important role.

The **Trading** function is realigning the trading activities with a high degree of standardization and automation. The focus is on developing new marketing solutions for distributed facilities, flexibility and green PPAs (green power purchase agreements), also for third parties.

Among other things, the **Digital** function is supporting the development of a digital service platform that will bundle services and tools, primarily for performance monitoring, to ensure transparency on the status and economic feasibility of energy facilities, and optimized management of energy systems. This platform will be offered to a broad international customer base, both independently and through partnerships. In addition, STEAG is driving forward further initiatives for the digitalization of business models.

The strategic focus of **STEAG Power GmbH** in the area of the **German coal activities** is on safeguarding the reliability of supply by the remaining coal-fired power plants in Germany and marketing the output of its power plants. When the EKBG expires in April 2024, this company will continue to implement the scheduled exit from coal-fired generation in Germany. The intention is to further reduce the **international coal-based activities**.

(1.3) Research and development

In 2022, as in previous years, the STEAG Group continued to focus on application-related research and development rather than basic research. The special significance of digitalization was driven forward by building up new digital business models. This applies to both central research and development at STEAG GmbH and research and development at its subsidiaries.

In 2019, the Federal Ministry for Economic Affairs and Energy invited entries for a competition called “Real labs for the energy turnaround". In July 2019, the Federal Ministry for Economic Affairs and Energy announced that the HydroHub Fenne project outline for the erection of an electrolyzer at the Fenne site was one of 20 winners of this ideas-based competition. This project was continued with Siemens in 2021 with the aim of building up a cross-border hydrogen economy in the Saarland region, France and Luxembourg. Together with the project components contributed by Creos and Stahl-Holding-Saar, HydroHub was chosen in a national pre-selection process as an Important Project of Common European Interest (IPCEI). In 2022, it was still in the pre-registration phase of the European Commission's funding approval process.

Digital business models will be key elements of the portfolio of tomorrow's companies. In close collaboration with a service provider (Hitachi Solutions), in 2022 STEAG therefore continue to implement the concept for the realization of a digital platform developed in previous years and supported by a proof of concept. A cloud-based platform known as Sensaia has been created. This offers a scalable solution using AI to provide efficient support for maintenance processes, focusing on on distributed energy generation from renewables (e.g., photovoltaics, wind). Sensaia is currently being tested extensively at PV installations operated by STEAG. The associated development project “CloudEnergyControl” was recognized as eligible for funding under the tax-deductible research allowance. Market entry is planned for early 2023.

Realization of the digital platform is being supported by establishing know-how in the use of artificial intelligence, especially in the context of renewable energies: In 2021, the “Digital Service Center” research project, which started in 2020, received further public funding as part of the “leading industrial innovation cluster” in the federal state of NRW. In this project, Mitsubishi Hitachi Power Systems, the STEAG Group and the Fraunhofer Institute for Intelligent Analysis and Information Systems are working on potential industrial applications of machine learning to make these methods usable for intelligent monitoring of relatively small distributed facilities in the future energy landscape. The project is scheduled to run until mid-2023. To complement this project, the STEAG Group is an associated partner in the ADWENTURE project of the Fraunhofer Institute for Energy Economics and Energy System Technology, which aims to develop an early warning system for malfunctions at wind energy installations.

(2) Economic report

(2.1) Economic background

General economic development[1]

The German economy was able to grow despite energy supply bottlenecks and problems with the supply of raw materials and starting products, which only subsided as the year progressed. Export growth was modest, partly due to the weakness of the global economy. By contrast, capital spending by companies benefited from the reducition in supply bottlenecks as it was possible to reduce the order backlogs resulting from the supply problems. The labor market situation improved slightly during the year, mainly due to the rise in employment in jobs subject to social security contributions. The number of people on short-time working dropped significantly during 2022. That had a positive effect in increasing average working hours, even though the rise in working hours was held back by high sickness rates throughout the year. Inflation increased appreciably in Germany, driven by a sharp rise in the price of energy and food. Overall, inflation increased significantly to 7.9 percent in 2022 (2021: 3.1 percent). In all, the gross domestic product grew by 1.8 percent in 2022, following growth of 2.8 percent in the previous year.

Energy consumption and energy generation[2]

In 2022, primary energy consumption in Germany was 4.7 percent lower than in 2021. Although the economic development resulted in positive effects for energy consumption, the sharp rise in energy prices led to behavior-related savings. Another factor that reduced energy consumption was the mild weather compared with both the previous year and the long-term average. Following the easing of the Covid-related restrictions, demand for individual mobility increased, leading to a rise in consumption of mineral oil. Consumption of hard coal and lignite increased significantly, by 4.8 percent and 5.1 percent respectively, while consumption of natural gas dropped by almost 15 percent due to the high price level. Use of nuclear power also decreased significantly, by around 50 percent. The sharp drop is attributable to the decommissioning of the Grohnde, Brokdorf and Gundremmingen C power plant blocks as scheduled effective December 31, 2021. By contrast, the contribution made by renewables to primary energy consumption increased by 4.4 percent. In 2022, renewables accounted for 17.2 percent of energy consumption in Germany (2021: 16.1 percent).

Power consumption

In 2022, overall consumption of electricity was 549.8 TWh, around 15.5 TWh lower than in 2021. Gross power generated fell by 1.3 percent (2022: 576.6 TWh vs. 2021: 583.9 TWh). The export surplus was 26.8 TWh (2021: 18.6 TWh).

1 The comments in this section are based mainly on the economic reports published by the Kiel Institute for the World Economy (IFW) Kiel (Germany), no. 98 (2022/Q4) on the German economy, the economic forecast of the Institute for Economic Research (IWH), Halle(Germany)[Konjuntur aktuell JG 10 (4) 2022], economic report no. 73 (2022) vol. 4, fall 2022, Joint Economic Forecast Group of the Leibniz Institute for Economic Research (RWI), Essen (Germany).

2 All data on energy generation and consumption and power consumption are provisional data from AG Energiebilanzen e.V. (as at December 2022).

Development of energy prices

The significant increase in prices on the international commodity markets, which had already been observed in 2021, continued in 2022 in the wake of the war in Ukraine.

The average price of natural gas in the Trading Hub Europe market area rose by around 166 percent year-on-year to an annual average of € 124.0 per MWh in 2022 (2021: € 46.6 per MWh). The sharp rise in the price of natural gas in 2022 was due to low storage levels following the winter of 2021/2022. Moreover, gas storage levels only increased slowly in the summer. Reasons included the fact that the Nord-Stream 2 gas pipeline did not come into service and the steady reduction in the supply of gas from Russia to Western Europe. The resulting price rises led to increased imports of LNG into Europe. The spot price for natural gas temporarily rose to a new record of around € 315 per MWh in August.

Compared with the previous year, the API#2, the price index for hard coal that is relevant for Europe, rose by around 140 percent as a result of the significant hike in gas prices and the related increase in demand for coal, reaching historic highs of almost USD 440 per tonne. The average price of hard coal was USD 122.2 per tonne in 2021. In 2022, it rose to USD 289.7 per tonne.

While European emissions trading was dominated by the start of the fourth trading period and the UK's exit from the European trading system in 2021, in 2022 it was dominated by the war in Ukraine. Consequently, prices for European emission allowances continued to rise. Even more significant, however, was the volatility of prices, driven by reports of possible energy bottlenecks and economic risks and the associated demand for emission allowances. As a result, prices ranged between € 57.9 per tonne in March and € 97.7 per tonne in August 2022. All in all, the average price in 2022 was € 81.0 per tonne, which was considerably higher than the previous year's level (€ 53.2 per tonne).

Following the downward trend in electricity prices in the previous years, a clear rise was recorded in 2022. The average spot price on the European electricity exchange EPEX rose by more than 140 percent year-on-year to € 235.3 per MWh (2021: € 96.9 per MWh). The peak contract also rose considerably, by around 127 percent to an average of € 239.3 per MWh (2021: € 105.2 per MWh). The price rises were mainly due to the sharp hike in generating costs because both gas and coal prices more than doubled as a consequence of the war in Ukraine.

(2.2) Business performance

Business performance in 2022 was dominated by a significant rise in the total output and a significant rise in earnings compared with the previous year. The rise in the total output was mainly due to the higher price of electricity as a result of the sharp rise in gas and coal prices from 2021, which continued throughout 2022 as a result of the threat of a gas shortage due to the reduction in deliveries via Nord Stream 1. That mainly affected Trading and Asset Management Coal Power. A positive deviation from the budget was also recorded for Asset Management Green Power, mainly at the WTE facilities as a result of high electricity prices. The improvement in earnings was driven principally by Trading, Asset Management Coal Power and Asset Management Green Power. Positive earnings variances in the Trading unit resulted from short-term optimization and long-term marketing of power plant output. At Asset Management Coal Power, the Walsum 10 power plant in Germany and the power plant in

Iskenderun (Turkey), in particular, exceeded the budgeted level. The WTE facilities benefited from the high price of electricity.

Marketing of power plant output in Germany resulted in extraordinary income of € 1,122.2 million from the valuation of unrealized derivatives and financial instruments as at the reporting date (December 31, 2022).

(2.3) Business situation

(a) Earnings position

Performance in 2022

EBITDA and EBIT are used for internal management purposes and as indicators of the sustained earning power of the Group. EBITDA (earnings before interest, taxes, depreciation and amortization) and EBIT (earnings before interest and taxes) are both earnings parameters after adjustment for exceptional items (extraordinary result).

The earnings from ordinary activities stated in the income statement are adjusted for extraordinary effects that are material for an assessment of the earnings position but not an indicator of the company's operational value added, in order to calculate and disclose the underlying operating performance. These effects include, in particular, earnings due to changes in accounting policies, restructuring expenses, impairment losses/reversal of impairment losses, the results of other extraordinary business transactions, and unrealized effects resulting from the valuation of derivatives.

In the 2022 fiscal year, the STEAG Group's sales, EBITDA and EBIT developed as follows:

STEAG Group: EBITDA* and EBIT*

in € million	**2022**	2021	Change in %
Sales	5,714.0	2,766.5	106.5
EBITDA	1,195.5	376.8	217.3
EBIT	1,044.8	234.0	346.5
EBITDA margin in %	**20.9%**	**13.6%**	
EBIT margin in %	**18.3%**	**8.5%**	

* Using the STEAG definition, adjusted for extraordinary effects

Sales increased by 106.5 percent to € 5.7 billion and therefore clearly exceeded the previous year's expectation that sales would rise to € 2.1 billion.

EBIT was € 1,044.8 million, which was € 157.0 million higher than budgeted and well above the figure of € 234.0 million reported for 2021 fiscal year. The EBIT margin (EBIT/sales) declined from 8.5 percent to 18.3 percent.

EBITDA was € 1,195.5 million, which was € 275.3 million higher than budgeted and above the 2021 figure of € 376.8 million. The EBITDA margin (EBITDA/sales) was 20.9 percent, which was above the prior-year margin of 13.6 percent.

The following reconciliation from earnings before the financial result and income taxes to EBIT and EBITDA adjusted for extraordinary effects shows that in 2022 exceptional items again had a high impact on these earnings parameters.

Reconciliation of EBIT* and EBITDA* for the STEAG Group

in € million	2022	2021
Income before the financial result and income taxes	**2,174.6**	**349.9**
Extraordinary effects from the KVBG	-	-105.0
Extraordinary restructuring KVBG and FUTURE	-11.9	22.3
Extraordinary effects from termination of the agreements with EnBW / EVN	-100.0	-213.0
Extraordinary effects from the Sunrise and FUTURE transformation programs	60.6	41.6
Other extraordinary impairment losses/reversals of impairment losses	-	-2.4
Extraordinary effects from the valuation of derivatives	-1,122.2	179.0
Extraordinary effects from portfolio adjustments	41.6	-27.8
Other effects	2.1	-10.6
EBIT	**1,044.8**	**234.0**
Depreciation/amortization and impairment losses as in the income statement	200.9	386.8
Reversals of impairment losses as in the income statement	-4.2	-5.1
Impairment losses on investments recognized at equity	-	-
Reversal of impairment losses on investments recognized at equity	-	-
Plus extraordinary impairment losses/reversals of impairment losses	-46.0	-238.9
EBITDA	**1,195.5**	**376.8**

* Using the STEAG definition, adjusted for extraordinary effects

As at December 31, 2022, there were unrealized gains from derivatives of € 1,122.2 million. These mainly resulted from forward agreements to sell electricity which were concluded at high prices and the reduction in market prices as at the reporting date.

The extraordinary effects from the termination of the agreements with EnBW / EVN comprise income from the compensation payments for termination of the energy supply agreements and, in the prior year, the resulting extraordinary impairment losses on the Walsum 10 power plant.

The extraordinary effects relating to the KVBG mainly comprise impairment losses on property, plant and equipment and inventories at the German power plants, adjustments to provisions and revenue from decommissioning auctions.

Income statement for the STEAG Group

in € million	**2022**	2021
Sales	5,714.0	2,766.5
Change in inventories of finished goods	18.3	8.8
Other own work capitalized	0.2	1.4
Other operating income	1,646.2	1,197.5
Cost of materials	-4,091.2	-1,964.7
Personnel expenses	-342.8	-387.9
Depreciation/amortization and impairment losses	-200.9	-386.8
Other operating expenses	-569.2	-884.9
Income before the financial result and income taxes	**2,174.6**	**349.9**
Interest income	39.1	15.3
Interest expense	-113.5	-85.5
Result from investments recognized at equity	17.7	2.2
Other financial income	0.1	0.1
Financial result	**-56.6**	**-67.9**
Income before income taxes	**2,118.0**	**282.0**
Income taxes	-209.1	25.6
Income after taxes	**1,908.9**	**307.6**
Thereof attributable to		
Non-controlling interests	107.5	52.5
Shareholders of STEAG GmbH (net income)	1,801.4	255.1

External sales by division

in € million	**2022**	2021	Change in %
Coal Power	1,705.6	772.5	120.8
Green Power & Energy Solutions	4,008.4	1,994.0	101.0
STEAG Group	**5,714.0**	**2,766.5**	**106.5**

Sales increased by 106.5 percent to € 5,714.0 million (prior year: € 2,766.5 million). The increase in revenues from the sale of goods was mainly due to a rise in electricity production in Germany and higher market prices. Revenues from services and revenues from construction contracts also increased.

In the Coal Power division, total volume sales of energy from the Group's own facilities and those operated on behalf of its customers increased by 24.3 percent year-on-year to 18,548 GWh_e[3] (prior year: 14,919 GWh_e). The higher volume of energy sold was mainly due to the increase in power plant output marketed in Germany to 9,483 GWh_e (prior year: 6,285 GWh_e). The power plant output marketed outside Germany increased to 9,065 GWh_e (prior year: 8,634 GWh_e).

Volume sales of heat by Green Power & Energy Solutions decreased by 21.7 percent to 1,784 GWh_{th} (prior year: 2,277 GWh_{th}), while the volume of power sold by this division dropped by 13.3 percent to 1,805 GWh_{el} (prior year: 2,082 GWh_{el}).

The 101.0 percent rise in sales in the Green Power & Energy Solutions division was mainly fattributable to the rise in sales from Trading to € 3.6 billion.

The change in inventories of finished goods was € 18.3 million (prior year: € 8.8 million), which was € 9.5 million higher than the prior-year change; other own work capitalized was lower than in the prior year at € 0.2 million (prior year: € 1.4 million).

3 Energy sales in GWh_e comprise both electric and thermal energy; thermal energy has been converted into the equivalent amount of electric power.

The other operating income increased by € 448.7 million, from € 1,197.5 million in 2021 to € 1,646.2 million in the reporting period. The year-on-year increase was mainly due to a € 902.3 million rise in income from the valuation of derivatives (excluding interest rate derivatives) to € 1,302.3 million (prior year: € 400.0 million). This increase was mainly due to forward sales concluded on higher terms and lower electricity prices at year-end. The income from the reversal of provisions was € 13.6 million, a year-on-year rise of € 7.1 million (prior year: € 6.5 million). Income from the disposal of assets declined by € 24.7 million year-on-year to € 40.6 million. The miscellaneous income of € 201.2 million comprised the income from the termination of the long-term electricity supply agreement with EnBW and a wide range of operating income. In the prior year, it amounted to € 649.5 million. Among other things, it included the compensation payment for termination of the energy supply agreement with the Austrian utility EVN and revenues from the third decommissioning auction.

The increase of € 2,126.5 million in the cost of materials is connected to the rise in expenses for CO_2 emission allowances and higher capacity utilization, especially at the power plants in Germany.

Personnel expenses declined by € 45.1 million to € 342.8 million (prior year: € 387.9 million). The average number of employees in the STEAG Group decreased from 5,754 to 5,536. The reduction in personnel expenses was mainly due to lower additions to provisions for restructuring expenses in connection with the FUTURE transformation project and the shutdown of power plants, which amounted to € 1.2 million in the reporting period (prior year: € 22.3 million).

Depreciation, amortization and impairment losses totaled € 200.9 million (prior year: € 386.8 million) and included depreciation and amortization of property, plant and equipment, intangible assets and investment property amounting to € 136.3 million (prior year: € 135.8 million). The impairment losses of € 64.6 million comprised impairment losses of € 17.1 million on discontinued operations (prior year: € 224.7 million) and € 47.5 million on assets held for sale (prior year: € 26.3 million).

The other operating expenses decreased by € 315.7 million from € 884.9 million in the prior year to € 569.2 million in the reporting period. The year-on-year reduction was mainly due to lower expenses for the valuation of derivatives (excluding interest rate derivatives), which amounted to € 200.2 million (prior year: € 601.7 million). By contrast, consulting expenses increased by € 19.9 million to € 64.7 million, mainly due to the Sunrise project. The expense for additions to other provisions increased by € 14.2 million to € 31.8 million.

Income before the financial result and income taxes improved by € 1,824.7 million year-on-year to € 2,174.6 million, mainly due the income from the marketing of electricity.

The interest income contained in the financial result increased by € 23.8 million in 2022. Interest expense rose by € 28.0 million in 2022, mainly due to higher expenses resulting from a loan from KfW.

The € 15.5 million rise in the result from investments recognized at equity had a positive impact on the financial result. The increase in income from investments recognized at equity was principally due to the income from the combined gas and steam power plant in Herne (GuD Herne), which came into service commercially in September 2022. In the prior year, the impairment loss on a joint venture in the USA had a negative effect.

Due to the above effects, income before income taxes increased from € 282.0 million to € 2,118.0 million.

Income tax expense increased by € 234.7 million to € 209.1 million, compared with income of € 25.6 million in the prior year. The change in income tax expense was mainly due to the reversal of the impairment loss on deferred tax assets in the previous year in connection with the positive future earnings expectations and to the considerably higher taxable income in the reporting period.

(b) Financial position

Financial risk management

The central objectives of financial management are to coordinate financing and liquidity requirements within the Group, guarantee financial independence, ensure sufficient liquidity at all times, and limit the refinancing risks for the STEAG Group.

STEAG GmbH manages borrowing, guarantees, sureties and guarantee facilities for Group companies centrally. It has sufficient means of meeting capital requirements for day-to-day business, investment and the repayment of financial debt.

Another important objective of financial management is ensuring that the covenants relating to STEAG GmbH's financing agreements and E-FET contracts (contracts that comply with the standards of the European Federation of Energy Traders) are met. The main covenants set out in the agreements comprise financial indicators to be calculated on the basis of the consolidated financial statements of STEAG GmbH. These comprise the economic net debt ratio, which is the ratio of economic net debt to economic EBITDA, and covenants in the E-FET contracts on tangible net worth and/or the equity ratio.

Debt restructuring agreement

In light of the earnings performance in recent years and the tougher market and competitive situation resulting from the energy transition, STEAG GmbH has been addressing the altered market conditions through the FUTURE transformation project since 2019. As a consequence of the German Coal-Fired Power Generation Termination Act (KVBG), which was adopted in 2020, and the more intensive transformation process resulting from this, an extensive restructuring and recovery concept was developed in 2021 to safeguard liquidity and financing requirements during the restructuring period to the end of December 2023. On this basis, STEAG GmbH concluded a debt restructuring agreement with its financing partners. This runs until December 31, 2023. This agreement sets out the contribution of the various creditor groups to the restructuring concept, the collateral to be provided by STEAG GmbH and various companies in the STEAG Group, and general obligations as well as the obligation to provide information.

The collateral includes, in particular, the assignment of shares in businesses, the assignment of security, pledging of bank accounts and real estate liens.

A master credit guarantee agreement concluded at the same time set out the terms for the old and new guarantees, which run until December 31, 2023. Use is based in each case on the bilateral credit guarantee agreements between STEAG GmbH and the relevant guarantee provider. The debt restructuring agreement provides for cash margining for the guarantee providers. The cash margining rises over time.

The maturity of the restructured bonded loans and the money market loan due during the duration of the debt restructuring agreement was extended to December 31, 2023 as part of the agreement.

In view of the increasing importance of environment, social and governance (ESG) criteria in connection with financing instruments, conventional refinancing via the capital market seems to be becoming increasingly challenging for a company with a strong involvement in coal-based activities. Consequently, it was decided to divide the STEAG Group into a green unit focused on renewables and a black unit focused on coal, after which it would be sold to repay the outstanding liabilities.

Based on a revised restructuring concept, the debt restructuring agreement concluded with the financial creditors was amended in November 2022 to reflect, in particular, the aforementioned division of the Group, the proposed sale of STEAG as a whole and the loan from KfW.

Financing policy

STEAG GmbH provides funding for the companies in the STEAG Group and manages surplus liquidity on their behalf on market terms. To a certain extent, non-project companies also borrow funds directly from banks and invest surplus liquidity with banks. In these cases, borrowing may be secured by STEAG GmbH. The projects companies' liability is secured through their cash flows and assets, and financing is generally non-recourse. In these cases, no recourse to the parent company STEAG GmbH is possible.

In Germany, cash pooling is managed by STEAG GmbH. To minimize external borrowing, surplus liquidity in Germany is placed in a cash pool at Group level which is used to optimize overall financing requirements in the Group.

Financing structure

The financial assets of the STEAG Group amounted to € 2,364 million as at December 31, 2022 (prior year: € 1,157.7 million). € 282.3 million of this amount comprised non-current receivables (prior year: €343.0 million). The main components of financial assets are loans of € 257.0 million (prior year: € 206.1 million), receivables from derivatives of € 1,248.4 million (prior year: € 487.0 million) and receivables from finance leases of € 34.4 million (prior year: € 39.5 million). In addition, there were other financial assets totaling € 824.2 million (prior year: € 424.7 million). These mainly comprised margining for exchange-traded forward agreements and cash security for guarantee facilities. In addition, € 10.3 million (prior year: € 10.2 million) were held in short-term deposits.

Cash and cash equivalents amounted to € 678.8 million on the reporting date (prior year: € 340.9 million).

Total financial liabilities amounted to € 1,957.2 million as at December 31. 2022 (prior year: € 1,727.8 million) and included non-current financial liabilities of € 549.4 million (prior year: € 759.6 million). A significant component of the financial liabilities comprises liabilities to banks amounting to € 333.4 million (prior year: € 447.6 million) for project companies in Germany and abroad and, above all, STEAG GmbH's bonded loans. The change is mainly due to the regular and extraordinary repayments of principal. The liabilities from loans from non-banks dropped from € 186.9 million in the prior year to € 172.2 million. Liabilities from derivatives amounted to € 358.8 million on the reporting date (prior year: € 597.0 million) and lease liabilities amounted to € 133.1 million (prior year: € 157.5 million). Furthermore, the financial liabilities contain other financial liabilities of € 959.7 million (prior year: € 338.8 million), mainly from the liability of € 676.8 million for profit transfer to the parent company (prior year: € 134.9 million) and the margining liability of € 148.7 million (prior year: € 168.4 million).

As at December 31, 2022, the STEAG Group had no material off-balance-sheet financing instruments that could have a material impact on its present or future assets, financial position and results of operations.

The financing and liquidity of the STEAG Group were safeguarded at all times in the reporting period.

Capital expenditure

The STEAG Group uses selective investment projects to maintain its good competitive position and expand into business activities and markets where it sees potential for sustained profitable growth and opportunities to generate appropriate returns. Every project undergoes detailed strategic and economic analyses, including sensitivity analyses and scenario analyses to reflect major risks. Projects have to meet business-specific and risk-adjusted minimum return requirements.

Capital expenditure and financial investments

in € million	**2022**	2021	Change in %
Coal Power	34.6	240.1	-85.6
Green Power & Energy Solutions	67.0	54.3	23.4
Administration & Group Issues	8.5	1.4	507.1
STEAG Group	**110.1**	**295.8**	**-62.8**

Capital expenditure totaled € 110.1 million (prior year: € 295.8 million). That was below depreciation, which amounted to € 136.3 million (prior year: € 135.8 million). In 2022 capital expenditure for property, plant and equipment decreased by 9.3 percent to € 100.6 million (prior year: € 110.9 million).

30.8 percent of capital expenditure for property, plant and equipment was allocated to Coal Power (€ 31.0 million; prior year: € 55.3 million). € 22.8 million of this amount was for the Iskenderun power plant in Turkey. Green Power & Energy Solutions accounted for 63.6 percent of capital expenditure (€ 64.0 million; prior year: € 64.0 million), with € 41.9 million of this amount allocated to Energy Solutions and € 12.7 million to District Heating.

The Group has commitments of € 34.8 million (prior year: € 28.8 million) to purchase property, plant and equipment.

Financial investments amounted to € 9.4 million in the reporting period (prior year: € 184.9 million). The capital expenditure in the prior year mainly resulted from the acquisition of the 49 percent minority interest in the Walsum 10 power plant project.

Cash flow

Cash flow statement for the STEAG Group (condensed version)

in € million	2022	2021
Cash flow from operating activities	709.8	322.9
Cash flow from investing activities	-110.6	180.7
Cash flow from financing activities	-236.9	-642.2
Changes in exchange rates and other changes in the value of cash and cash equivalents	-24.4	13.5
Cash and cash equivalents as at December 31	**678.8**	**340.9**

The cash flow from operating activities was € 709.8 million, which was above the prior-year level of € 322.9 million. It mainly comprised the income before the financial result and income taxes of € 2,174.6 million. Further positive factors were depreciation, amortization and impairments of € 183.8 million, which do not affect cash flows, and the increase of € 439.9 million in other provisions and € 100.5 million in trade accounts payable. However, these effects were more than offset by the € 474.9 million increase in inventories, the increase of € 381.5 million in trade accounts receivable and the change of minus € 1,122.2 million in other assets and liabilities. The net outflow of cash and cash equivalents for interest income and payments increased by € 12.7 million year-on-year to € 78.8 million. Outflows for income taxes were € 66.6 million in 2022, which was € 13.7 million more than in the prior year (€ 52.9 million).

The cash outflow for investing activities was € 110.6 million, which was lower than the outflow of € 180.7 million in the previous year. Cash outflows for investing activities were € 98.8 million and thus almost unchanged from the prior year (€ 97.4 million). At the same time, cash inflows from the divestment of intangible assets, property, plant and equipment and shareholdings in companies due to portfolio adjustments amounted to € 18.7 million, which was substantially below the prior-year level of € 198.2 million. Moreover, the balance of cash inflows and outflows for securities, deposits and loans decreased by € 110.4 million, resulting in a net outflow € 30.5 million. As at the reporting date, cash and cash equivalents held in current fixed-term deposits were slightly higher at € 10.3 million (prior year: € 10.2 million).

The cash outflow for financing activities was € 236.9 million, which was far lower than the outflow of € 642.2 million in the previous year. The cash outflows for dividend payments to non-controlling interests declined from € 51.8 million to € 48.3 million. In the prior year, there were cash inflows/outflows relating to the divestment of shareholdings without loss of control of minus €155.1 million. No such cash inflows/outflows were recorded in the reporting period. The net balance of borrowing and repayment of financial debt was minus € 53.7 million in 2022, compared with net repayments of € 419.5 million in the prior year. The transfer of the prior-year profit resulted in a cash outflow of € 134.9 million, which was offset by the granting of a loan for the comparable amount by the shareholder.

In all, cash and cash equivalents increased by € 337.9 million year-on-year. In addition, cash and cash equivalents of € 43.4 million were included in assets held for sale (prior year: € 29.3 million).

The carrying amount of cash and cash equivalents pledged as collateral amounted to € 487.5 million (prior year: € 225.6 million).

(c) Asset structure

Structure of the balance sheet

Assets in € million	Dec. 31, 2022	%	Dec. 31, 2021	%	Difference
Non-current assets	1,855.4	27.6%	1,912.5	42.6%	-57.1
Current assets	4,874.1	72.4%	2,578.4	57.4%	2,295.7
Total assets	**6,729.5**	**100.0%**	**4,490.9**	**100.0%**	**2,238.6**

Equity and liabilities in € million	Dec. 31, 2022	%	Dec. 31, 2021	%	Difference
Equity	1,481.0	22.0%	0.6	0.0%	1,480.4
Non-current liabilities	1,868.1	27.8%	2,255.5	50.2%	-387.4
Current liabilities	3,380.4	50.2%	2,234.8	49.8%	1,145.6
Total equity and liabilities	**6,729.5**	**100.0%**	**4,490.9**	**100.0%**	**2,238.6**

Total assets increased by € 2,238.6 million from € 4,490.9 million as at December 31, 2021 to € 6,729.5 million as at December 31, 2022.

Non-current assets decreased by € 57.1 million (prior year: € 1,912.5 million). The decline mainly resulted from amortization of intangible assets, depreciation of property, plant and equipment, and the sale of the Colombian power plant. Furthermore, non-current receivables from derivatives declined by € 93.0 million to € 10.9 million. Conversely, investments recognized at equity increased by € 19.9 million and other non-current receivables were € 55.1 million higher.

Capital expenditure was € 110.1 million (prior year: € 295.8 million), while depreciation and amortization of intangible assets, property, plant and equipment and investment property totaled € 136.3 million (prior year: € 135.8 million) and impairment losses were € 51.5 million (prior year: € 245.9 million).

Non-current assets accounted for 27.5 percent of total assets (prior year: 42.6 percent). Coverage of non-current assets by non-current capital was 180.5 percent (prior year: 118.0 percent).

Current assets totaled € 4,874.1 million (prior year: € 2,578.4 million), an increase of € 2,295.7 million compared with year-end 2021. The change mainly resulted from the increase in financial assets to € 2,082.1 million (prior year: € 814.7 million) due to the rise of € 854.1 million in receivables from derivatives and the increase of € 399.3 million in miscellaneous other financial assets as a result of the rise in margining for exchange-traded forward contracts and cash security for guarantee facilities.

Trade accounts receivable increased by € 291.9 million to € 879.7 million (prior year: € 587.8 million), mainly due to a rise in the amounts invoiced.

The increase of € 460.8 million in inventories from € 260.2 million to € 721.0 million was mainly attributable to higher inventories of coal and higher coal prices. In addition, finished goods and merchandise increased by € 33.4 million to € 81.2 million due to higher inventories of merchandise.

Current assets exceeded current liabilities by 44.7 percent (prior year: 14.1 percent).

Equity increased by € 1,480.4 million to € 1,481.0 million (prior year: € 0.6 million). € 1,188.1 million of this amount (prior year: minus € 235.8 million) comprised the equity attributable to shareholders of

STEAG GmbH and € 292.9 million (prior year: € 236.4 million) comprised equity attributable to non-controlling interests. The equity ratio rose from 0.0 percent to 22.2 percent.

Non-current liabilities decreased by € 387.4 million or 17.2 percent to € 1,868.1 million (prior year: € 2,255.5 million). The reduction was mainly due to the reduction of € 338.5 million in pension provisions as a result of the rise in the discount rate from 1.2 percent to 3.7 percent. Liabilities to banks also dropped by € 77.1 million and liabilities from derivatives were € 98.7 million lower. By contrast, deferred tax liabilities increased by € 156.0 million, while non-current other liabilities rose by € 19.3 million.

Current liabilities increased by € 1,145.6 million to € 3,380.4 million (prior year: € 2,234.8 million). Other provisions rose by € 430.7 million to € 1,115.4 million (prior year: € 684.7 million), mainly due to the rise of € 299.5 million in the provision for obligations to surrender CO_2 emission allowances and the increase of € 139.0 million in provisions for sales and procurement. At the same time, financial liabilities increased by € 439.6 million to € 1,407.8 million (prior year: € 968.2 million). The liability for the profit transfer to the shareholder increased by € 542.0 million to € 676.9 million while the liabilities from derivatives declined by € 129.4 million to € 324.7 million. Trade accounts payable were € 112.7 million higher than in the prior year at € 377.1 million and contract liabilities increased by € 138.7 million to € 207.2 million.

(2.4) Performance of STEAG GmbH

STEAG GmbH, which is headquartered in Essen (Germany), is the parent company of the STEAG Group. It holds the shares in the Group's subsidiaries, either directly or indirectly. STEAG GmbH is responsible for strategic and operational management of the Group's business activities. In addition, until the separation of the business activities, it was the largest single company in the Group with sales of € 2,196.5 million and total assets of € 3,192.1 million. The main subsidiaries in Germany are linked to it through control and profit and loss transfer agreements.

The annual financial statements of STEAG GmbH have been prepared in accordance with the accounting principles set out in the German Commercial Code (HGB), in the version applicable for these financial statements.

Separation of the coal and growth businesses

In the reporting period, the coal activities and growth businesses were separated within the STEAG Group. This comprised bundling the conventional power generation activities at STEAG Power GmbH (formerly STEAG 1. Beteiligungs-GmbH) and energy generation from renewable resources and distributed facilities at Iqony GmbH (formerly STEAG 2. Beteiligungs-GmbH).

The following information outlines the main measures and their impact on the financial statements of STEAG GmbH.

The stakes in STEAG Walsum 10 Kraftwerksbeteiligungsgesellschaft mbH and STEAG Beteiligungsgesellschaft mbH were merged in STEAG Power GmbH with economic effect from January 1, 2022.

The coal activities of STEAG GmbH (and of STEAG Technischer Service GmbH) were transferred to STEAG Power GmbH with economic effect from July 1, 2022. As part of the division of STEAG GmbH, the shares in STEAG Kraftwerks-Grundstücksgesellschaft mbH, Netzleitung Lünen GmbH, WiN Emscher-Lippe Gesellschaft zur Strukturverbesserung mbH , GbR Gemeinschaftskraftwerk West, and Gemeinschaftskraftwerk Bergkamen A beschränkt haftende OHG were also transferred. In this way, assets of € 1,082.9 million and liabilities of € 1,553.1 million were transferred to STEAG Power GmbH. Consequently, the carrying amount of the investment in STEAG Power GmbH was reduced by € 436.3 outside of profit or loss.

The technical management agreement with GuD Herne GmbH was transferred from STEAG GmbH to Iqony GmbH effective December 1, 2022 (00.00 hours).

The growth business of STEAG GmbH, including the stake in STEAG Technischer Service GmbH, was transferred to Iqony GmbH as a contribution in kind on December 31, 2022 (00.00 hours). The contribution in kind comprised the transfer to Iqony GmbH of assets totaling € 1,097.1 million and liabilities of € 934.6 million). The difference of € 162.2 million was recognized as the cost of acquisition of the stake in Iqony GmbH.

Income statement for STEAG GmbH

in € million	2022	2021
Sales	2,196.5	1,734.1
Change in inventories, own work capitalized	68.7	82.9
Other operating income	402.8	487.9
Cost of materials	-2,014.3	-1,727.2
Personnel expenses	-101.3	-172.3
Depreciation/amortization and impairment losses	-34.2	-12.8
Other operating expenses	-464.4	-390.9
Financial result	631.7	140.7
Income taxes	-5.1	-5.7
Income after taxes	**680.4**	**136.7**
Other taxes	-3.5	-1.9
Profit and loss transfer	-676.9	-134.8
Net income	**-**	**-**

Comparability with the prior year is restricted due to the division of STEAG GmbH. The coal business was transferred to STEAG Power GmbH with economic effect from July 1, 2022. Mainly as a consequence of the absorption of the coal activities of STEAG GmbH, STEAG Power GmbH reported sales of € 3,144.6 million in 2022 (prior year: € 0.0 million) and generated a profit of € 302.2 million (prior year: loss of € 1.3 million), which was transferred to STEAG GmbH.

STEAG GmbH grew sales grew by € 462.4 million year-on-year to € 2,196.5 million (prior year: € 1,734.1 million). The rise was mainly due to increased marketing of power plant output in Germany, higher market prices and higher sales from coal trading.

In the reporting period sales mainly comprised € 1,654.5 million (prior year: € 1,193.8 million) from the supply of energy and other media, € 404.4 million (prior year: € 351.2 million) from the supply of coal, € 2.4 million (prior year: € 3.1 million) from the gas business, and € 112.5 million (prior year: € 149.9 million) from operating and management fees.

The change in inventories mainly resulted from project progress relating to a long-term customer order, which was allocated to the growth business as at the reporting date and was transferred to Iqony GmbH.

The other operating income decreased by € 85.1 million year-on-year to € 402.8 million (prior year: € 487.9 million). This item mainly contains income from the realized fair values of derivatives that have been settled, which amounted to € 185.4 million (prior year: € 86.7 million). Other operating income also contains reversals of provisions amounting to € 75.6 million (prior year: € 48.4 million), principally due the reversal of provisions to cover future power marketing losses (€ 64.9 million; prior year: € 42.0 million). Furthermore, in the reporting period this item included income of € 39.7 million from disposals of non-current assets (prior year: € 13.3 million). The miscellaneous other income comprises a large number of operating items. In the prior year, this item included revenues from the third decommissioning auction.

The year-on-year increase in the cost of materials basically mirrored the rise in sales revenues.

The decline in personnel expenses to € 101.3 million (prior year: € 172.3 million) mainly resulted from the transfer of the coal business to STEAG Power GmbH effective July 1, 2022, as a result of which the employees of this business unit were transferred to the company through a transfer of undertaking.

The increase in depreciation, amortization and impairment losses to € 34.2 million (prior year: € 12.8 million) is attributable to the impairment loss of € 26.7 million on current loans to affiliated companies as part of a planned sale.

The increase in other operating expenses to € 464.4 million (prior year: € 390.9 million) was mainly due to the increase of €43.7 million in realized expenses from derivatives that have been settled to € 290.5 million. Similarly, legal and consulting expenses were €18.6 million higher at € 55.7 million, mainly due to the Sunrise and FUTURE projects, and currency translation losses increased by € 13.4 million to € 17.4 million.

Furthermore, the other operating expenses comprise other selling and administrative expenses, currency losses on foreign exchange transactions, lease and rental payments, insurance premiums, transportation costs for trade transactions and expenses for the establishment of provisions for risks relating to pending transactions.

The company's financial result was positive at € 631.7 million in the reporting period (prior year: € 140.7 million). This was mainly due to profit transferred under profit and loss transfer agreements amounting to € 682.1 million (prior year: € 209.3 million), especially the profit transfers of € 302.2 million from STEAG Power GmbH and € 266.0 million from STEAG Walsum 10 Kraftwerksgesellschaft mbH. Furthermore, income from investments of € 11.3 million was recorded (prior year: € 31.2 million). Interest income increased to €14.9 million (prior year: € 3.3 million), principally due to the rise in the benchmark rate. Conversely, interest expense was reduced by a total of € 5.0 million; interest and similar expense increased by € 40.5 million to € 61.0 million, mainly due to a loan from KfW, while interest expense for accrued interest on other provisions fell by € 52.6 million to € 7.8 million.

The income tax result of minus € 5.1 million (prior year: minus € 5.7 million) mainly resulted from non-deductible taxes and foreign withholding taxes.

Income after income taxes and other taxes of € 676.9 million for the reporting period will be transferred to KSBG KG under the profit and loss transfer agreement.

Balance sheet for STEAG GmbH

Assets

in € million	**Dec. 31, 2022**	Dec. 31, 2021
Intangible assets	-	8.7
Property, plant and equipment	0.1	67.9
Financial assets	1,067.1	1,502.5
Non-current assets	**1,067.2**	**1,579.1**
Inventories	-	361.4
Receivables and other assets	1,721.2	1,625.3
Cash and cash equivalents	403.3	161.4
Current assets	**2,124.5**	**2,148.1**
Deferred items	**0.4**	**2.9**
Total assets	**3,192.1**	**3,730.1**

Equity and liabilities

in € million	**Dec. 31, 2022**	Dec. 31, 2021
Issued capital	128.0	128.0
Capital reserve	84.5	77.5
Profit reserves	272.8	272.8
Equity	**485.3**	**478.3**
Special items	-	-
Provisions	**266.7**	**1,492.4**
Liabilities	**2,440.1**	**1,757.4**
Deferred items	**-**	**2.0**
Total equity and liabilities	**3,192.1**	**3,730.1**

Comparability with the prior year is restricted due to the division of STEAG GmbH. The following information therefore refers principally to the assets still held by STEAG GmbH as at December 31, 2022.

Total assets of STEAG GmbH contracted by € 538.0 million to € 3,192.1 million. Non-current assets declined by a total of € 511.9 million to € 1,067.2 million. Impairment losses totaling €2.9 million were recognized on intangible assets and property, plant and equipment in the reporting period (prior year: € 1.4 million). The changes in shares in affiliated companies in 2022 mainly resulted from transfers in connection with the division of STEAG GmbH. Shares are still held in STEAG Power GmbH, Iqony GmbH and STEAG State Power Inc., which is classed as held for sale. Due to the transfer of the negative assets of the Coal business, the carrying amount of the investment in STEAG Power GmbH was reduced by € 463.2 million outside of profit or loss. By contrast, as a result of the transfer of the growth businesses, € 162.6 million was added to the carrying amount of the stake in Iqony GmbH outside of profit and loss.

The decline in loans to affiliated companies was also due to the separation from STEAG GmbH. As at the reporting date, there was still a loan to the shareholder KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG.

Current assets contracted by € 23.6 million to € 2,124.5 million (prior year: € 2,148.1 million). Receivables and other assets were € 95.9 million higher than in the previous year. Trade accounts receivable decreased by € 209.2 million to € 78.9 million as a result of the split (prior year: € 288.1 million). Receivables from affiliated companies increased by € 487.1 million to € 1,203.4 million (prior year: € 716.3 million) and contain receivables from financial relationships and profit and loss transfer agreements. Other assets decreased by € 180.9 million year-on-year to € 438.9 million (prior year: € 619.8 million).

As in the past, they mainly contain collateral from the marketing of electricity (€ 208.3 million) and security for guarantee facilities (€ 181.1 million).

Cash and cash equipments increased by € 241.9 million year-on-year to € 403.3 million.

The deferred items on the asset side declined to € 0.4 million as a result of the hive-downs (prior year: € 2.9 million).

Equity was € 7.0 million higher, bringing the equity ratio to 15.2 percent (prior year: 12.8 percent). Equity coverage of non-current assets is 45.5 percent (prior year: 30.3 percent).

Provisions dropped by € 1,225.7 million to € 257.5 million (prior year: € 1,492.4 million), mainly due to the hive-down. As at December 31, 2022, there were still pension provisions of € 3.2 million (prior year: € 738.5 million), tax provisions of € 6.0 million (prior year: € 3.0 million) and other provisions of € 257.5 million (prior year: € 750.9 million). The company indemnified STEAG Power GmbH from certain provisions through the assumption of joint and several liability. The provisions include, among others, residual liabilities at the Lünen site, the shutdown of facilities at the sites in Weiher, Bexbach and Fenne, defined redundancy arrangements anddecommissioning obligations at the sites in Herne, Bergkamen and Walsum. The provisions of STEAG GmbH relating to the assumption of joint and several liability amount to € 176.0 million.

Liabilities increased by a total of € 682.7 million to € 2,440.1 million (prior year: € 1,757.4 million). The change was mainly due to the increase in liabilities to affiliated companies, which rose by € 1,379.8 million to € 2,165.8 million (prior year: € 786.0 million). This included the liability of € 676.9 million (prior year: € 134.9 million) under the profit and loss transfer agreement with KSBG KG. The profit transfer to the shareholder for the previous year was converted into a loan in the fiscal year. As at year-end, this loan amounted to € 104.7 million. As well as trade accounts payable, the liabilities to affiliated companies mainly comprise financial liabilities and cash pooling activities amounting to € 1,028.5 million (prior year: € 442.4 million). The liabilities to banks decreased by € 113.9 million, advance payments received declined by € 213.7 million and trade accounts payable were € 183.1 million lower. The other liabilities declined by € 186.4 million to € 147.8 million (prior year: € 334.2 million). They mainly comprised security received in connection with the hedging of energy products, liabilities from loans from non-banks and value-added tax and other tax liabilities.

(2.5) Non-financial performance indicators

Employees

Headcount

At the end of December 2022, the STEAG Group had 6,077 employees. Worldwide, the proportion of female employees was 12 percent and the average age of the workforce was 43. 52 percent of the workforce was employed outside Germany.

The number of employees in the Group increased by 388 year-on-year. This was mainly caused by changes at Green Power & Energy Solutions (plus 479 employees): in the Energy Solutions business unit, the increase was mainly outside Germany (SES India plus 390 employees, SES do Brasil plus 88 employees).

The headcount reduction at Coal Power (minus 35 employees) was slower than originally planned due to extension of the operating period. Most of the staff reductions were outside Germany (Iskenderun: minus 27 employees).

The headcount in Administration was reduced by 27 in line with the FUTURE transformation program. The decline at Group Issues was attributable to a lower proportion of apprentices than in the previous year (22 fewer apprentices), partly due to transfers to Green Power & Energy Solutions.

Employees by division	**Dec. 31, 2022**	Dec. 31, 2021
Coal Power	1,207	1,242
Green Power & Energy Solutions	4,566	4,087
Administration & Group Issues	304	360
STEAG Group	**6,077**	**5,689**
thereof in Germany	2,908	2,995
thereof in other countries	3,169	2,694

Headcount reductions in connection with the decommissioning of power plants and the FUTURE transformation program started in 2021 and were again carried out in a socially acceptable manner, i.e. without dismissals for business-related reasons, on the basis of the agreed redundancy plan for the Group and the framework for the reconciliation of interests. The FUTURE transformation project was largely completed in 2022.

Occupational health and safety and environmental protection

Preventing accidents at work and avoiding environmental and health risks are corporate goals. Safety in the STEAG Group improved further thanks to our systematic policy of occupational health and safety and the related targets and measures. A certified workplace health and safety management system supports the health and safety goals. There were no fatal accidents. As at December 2022, the lost time injury frequency (LTIF) indicator was 2.7 accidents per 1 million working hours, in line with the trend in recent years.

The coronavirus pandemic did not result in any significant operational restrictions. The crisis management team for the Group – which includes management members and experts – and the local crisis management teams are continuing to monitor infection patterns closely and define suitable protective measures.

Declaration on corporate governance with regard to gender quotas at STEAG GmbH in compliance with Section 289f Paragraph 4 HGB

The German law on equal participation of men and women in management positions in the public and private sectors came into effect on May 1, 2015. Based on the provisions of this law, the Supervisory Board and Board of Management have defined the following objectives:

The target for the percentage of women on the Supervisory Board of STEAG GmbH was set at a minimum of 10 percent by spring 2022 at the latest. This target was met in 2022 with the new elections to the Supervisory Board of STEAG GmbH. In 2022, a target of at least 15 percent female members was set for the term of office until spring 2027, with separate targets for the shareholder representatives and employee representatives (separate target fulfillment).

The target for the percentage of women on the Board of Management of STEAG GmbH was set at 0 percent as at December 31, 2023. The present situation at STEAG is dominated by the strategically important process of dividing it into the Power and Iqony entities, the upcoming sale process and the prospective dissolution of STEAG GmbH. In view of this, changing the Board of Management is not considered to be expedient. It should also be noted that the resolution adopted on April 20, 2021 is only valid until the end of 2023 and that the altered situation will be taken into account after this date. Furthermore, the duration of the contracts with the members of the Board of Management has to be taken into consideration.

For the first management level below the Board of Management at STEAG GmbH, the target is 22.7 percent women by April 6, 2027 at the latest, while the target for the second management level is 12.5 percent women.

(3) Events after the reporting period

STEAG has been preparing a sale process since autumn 2022. The shareholder of STEAG GmbH publicly announced at the end of December that it intended to sell 100 percent of the shares in STEAG GmbH as a whole. In the first months of 2023, various sales documents were prepared (including vendor due diligence reports, an information memorandum, etc.). In the meantime, various potential investors have registered for the envisaged sale process. The confidential information memorandum was distributed at the end of April 2023 on the basis of a signed confidentiality agreement. Based on this information memorandum, the potential investors are to submit indicative valuations by the end of May 2023. This will be followed by a due diligence process with selected parties. The overall objective is to sign a share purchase agreement in the summer of 2023 and to complete the transaction by the turn of 2023/2024.

The sale of the Polish district heating company SFW Energia sp. z o.o. and its subsidiaries to Remondis Energy & Services sp. z o.o., a subsidiary of Remondis SE & Co. KG, was concluded on April 20, 2023.

(4) Opportunity and risk report and forecast

(4.1) Risk report

Risk strategy

Opportunities and risks constantly arise for the STEAG Group through its diverse business activities. Risk management is therefore a central element in the management of the company and is geared specifically to securing present and future potential for success, especially by avoiding and reducing risks and their consequences. Early identification and utilization of opportunities can heighten the success of the Group.

Due to its fields of activity, the STEAG Group is exposed to constantly changing political, social, demographic, legal and economic operating conditions. The resultant risks are addressed by monitoring and analyzing the entire operating environment and anticipating market developments. The findings are used to systematically develop STEAG's portfolio in accordance with the strategy for the Group.

Structure and organization of risk management

The basis of operational risk management in the STEAG Group is an internal, Group-wide management system that focuses equally on risks arising from potentially negative deviations from objectives and on positive deviations by highlighting opportunities.

The structure of the risk management is decentralized. The organizational units bear prime responsibility for the early identification of risks, estimating their implications, introducing suitable preventive and control measures and for the related internal communication of opportunities and risks. Risk officers in the organizational units are responsible for coordinating the relevant risk management activities. The Corporate Controlling department coordinates and oversees the processes and systems in the STEAG Group. It is the contact for all risk officers and is responsible for information, documentation and coordination at Group level. Further responsibilities include ongoing development of the methodology used by the risk management system. Alongside organizational measures and an internal control system, risk management is supported by the Audit department as a process-unrelated controlling body.

Risk management is a central element in controlling processes at all levels of the STEAG Group. That includes strategic and operational planning, preparations for investment decisions, monthly reporting and projections, and, from a certain level, immediate reporting of risks. The organizational units conduct an extensive annual inventory of opportunities and risks. The items are analyzed for a short-term period of one year and a mid-term period of at least five years. All relevant factors are systematically identified and documented and the probability of the risks occurring and the potential damage are evaluated. All organizational units are required to provide early warning indicators for the opportunities and risks identified in the risk inventory and these are monitored. A monthly opportunity and risk report is derived from the inventory. This documents changes in the items identified and any new items in the current year.

Overall risk assessment

Based on all identified risks (divided into strategic, operational, financial and other risks), as of the present date no risks to the position of either the STEAG Group or STEAG GmbH as a going concern could be identified – either on a stand-alone basis or taking into account interdependencies between risks and measures that are planned or have already been initiated.

Strategic risks

Changes in the present regulatory framework could have a significant impact on planned investments and the earnings position of the STEAG Group. Moreover, the STEAG Group's business activities are exposed to strong and dynamic competition which causes volume and price risks. Since the Russian invasion of Ukraine in February 2022, there has also been considerable distortion of the European energy market, resulting in additional price risks and risks of state intervention.

The withdrawal of coal-fired power plants from the market is not driven solely by the development of fuel prices (gas, coal and CO_2 allowances) and the demand-unrelated subsidization and prioritization of renewables; above all, it is due to the regulatory intervention of the German Coal-Fired Generation Termination Act (KVBG), which came into effect on August 14, 2020.

This legislation stipulates the complete withdrawal from coal-fired power generation in Germany by 2038 at the latest and sets an earlier deadline for the exit from hard-coal generation. The proposed order in which plants are to be decommissioned between 2020 and 2027 is determined by an auction process with declining maximum prices.

The STEAG Group has participated in auctions under the KVBG. In the first auction, STEAG’s bid for the decommissioning of the Walsum 9 power plant was accepted and the plant was taken out of service at the end of 2020. The review of the systemic relevance of this power plant by the Federal Network Agency was negative, so the ban on coal-fired generation at the Walsum 9 power plant took effect at the start of July 2021. In the third auction, STEAG received approval to shut down the Bergkamen power plant, the Völkingen-Fenne model power plant and the Völkingen-Fenne heating plant. With effect from the end of October 2022, there was therefore a ban on the use of coal at these plants under the KVBG. In the meantime, the transmission network operator Amprion has classified these power plants as systemically relevant so they have to be kept available for operation until the end of October 2024.

Since the start of Russia’s war in Ukraine, there has been a risk of gas shortages. The German government therefore took steps to squeeze gas-fired power plants out of the electricity market. Under the German Substitute Power Plant Availability Act (EKBG), which came into effect on July 12, 2022, and a corresponding decree, coal-fired power plants that have been mothballed and those classified as reserve capacity can temporarily participate in the electricity market (from November 2022 until March 2024). Once the gas shortages end, operation of the power plants under the provisions of the EKBG will end at the end of the following quarter. In the meantime, the German government has enacted decrees permitting operation of the power plants in the entire period up to March 2024.

Despite the extension of the operating lifetime of the German power plants under the EKBG, a fundamental reversal of the exit from coal-fired power generation in Germany cannot be assumed. The closure of the German power plants has had an extensive impact on the STEAG Group and is expected to have further far-reaching effects. These have already been taken into account to some extent in provisions. Positive effects come from the revenues from the auctions, the reduction in operating costs for these plants and scope for alternative use or sale of the power plant sites. The main countereffects are costs for the mandatory dismantling of certain power plants and for personnel reductions, which will be mitigated by government-funded adjustment benefits.

As well as extending the operating lifetime of power plants and returning power plants that had been mothballed or classified as systemically relevant to the market, there has been further state intervention as a result of the gas shortage, which could affect the future development of the STEAG Group. The earnings situation could be affected by the caps on the price of electricity, gas and heat and by the skimming off of windfall revenues, especially in the Distributed Facilities, District Heating, Waste-to-Energy, and Wind Energy sub-business units. Such regulatory intervention and the development of fuel prices have to be taken into account, especially in investment decisions. At present, there are no plans to skim off windfall revenues from hard coal-fired generation. However, the Federal Ministry of Economic Affairs has apparently reserved the right to include hard coal plants in consultation with the Federal Finance Ministry, which could result in further risks.

In the countries where STEAG operates its foreign power plants – in Iskenderun (Turkey), Mindanao (Philippines) and Termopaipa (Colombia) – political risks are secured through investment guarantees from the Federal Republic of Germany. For the Iskenderun power plant in Turkey, there is a guarantee issued by the Federal Republic of Germany, which runs to 2025. This means that loss of STEAG GmbH's capital investment is essentially excluded. For the power plant in Mindanao (Philippines), in which which STEAG has a 51 percent stake, an agreement has been signed with the joint venture partner Aboitiz Power Corp. (APC) on the sale of a 35.4 percent stake. The sale of these shares to APC is still contingent on the approval of the state authorities. They are not expected to withhold their approval. The intention is to sell the remaining non-controlling interest of 15.6 percent. At the end of 2021, a process was initiated to sell the Termopaipa power plant in Colombia. At the end of 2022, commercial agreement was reached with the co-owner ContourGlobal L.P. (CG) on the acquisition of all shares in this plant by CG. This transaction was closed on December 30, 2022.

Operational risks

In the operation of large central power plants and distributed power and heating plants, preventive risk management is particularly important on commercial, societal, political, technological and environmental grounds. In view of the high capital intensity and long-term nature of the business, risks must be mitigated before undertaking such investments by careful analysis of the market conditions and general framework, the selection of high-quality technology, and ensuring acceptance of the facility by the local community. Open and transparent communication with customers, suppliers and partners also contributes to early identification and avoidance of risks in the erection of such facilities.

During the operation of central and distributed power and heating plants, the main risks to successful operation come from constantly changing market conditions. On the one hand, facilities are dependent on the development of prices on the electricity and commodity markets, which are also influenced by the global market. On the other hand, there are constantly rising statutory and technical requirements and costs relating to CO_2 emissions. The yields at the wind power installations in Germany, France and Poland are determined to a large extent by how windy it is. At the large central power plants in Germany, in particular, there is an economic risk arising from low utilization due to the shift to increasing use of renewables and gas-fired power plants. Furthermore, the German Coal-Fired Power Generation Termination Act (KVBG), which came into effect in August 2020, and regulatory changes relating to environmental and safety requirements have a significant influence on the success and ongoing operation of power and heating plants. The STEAG Group constantly monitors market changes and new and amended regulations to enable it to respond quickly and mitigate any risks. Other risks in the operation of energy generating facilities, apart from the risk of technical outages and fuel supply risks, are, in particular, societal risks such as the risk of IT hacker attacks, the risk of demonstrators gaining illegal access to technical facilities and the risk of vandalism.

Since the start of Russia's war on Ukraine in February 2022 and the threat of a gas shortage as a result of reduced deliveries via the Nord Stream 1 gas pipeline, electricity, gas and coal prices reached an all-time high. In response, the German government passed the Substitute Power Plant Availability Act (EKBG) to enable coal-fired power plants that had been taken out of service or were being held in reserve as systemically relevant to be returned to the electricity market. STEAG is participating in market operation within the framework of the EKBG at the power plants in Bexbach and Weiher, the heating and model power plants in Fenne and the Bergkamen power plant. This has resulted in risks for the operation of the power plants, mainly due to the tight personnel situation and the supply of fuel – mainly due to limited logistics capacity in Germany. However, STEAG has been able able to reduce the domestic logistics risks significantly by concluding master agreements. In addition, on December 15, 2022, the German parliament approved a cap on electricity and gas prices. This could have a significant negative impact on the earnings and liquidity situation of the STEAG Group.

With the exception of the German legislation on phasing out coal-fired power generation, the same risks apply to the operation of the foreign power plants. In most cases, however, economic policy developments are a further risk. The main focus here is on Turkey in view of its political situation and because it is the STEAG Group's most important foreign investment. The STEAG Group continuously monitors economic policy developments in Turkey. The depreciation of the Turkish lira has not had any direct impact on the STEAG Group's business activities because the power plant's functional currency is the US dollar and the US dollar is also used for trading on the commodity markets. Only the time lag between the depreciation of the lira and adjustment of the electricity price in US dollars could have an effect. In view of the sharp rise in energy prices, at the beginning of March 2022, the Turkish Energy Ministry announced a range of measures to stabilize energy prices for end-consumers. Effective April 1, 2022, the Turkish energy market regulator EMRA implemented a new regulation for the electricity market. This was initially valid for six months and guaranteed essentially stable margins for the power plant in Iskenderun in the past fiscal year. The regulation was subsequently extended until March 2023. Moreover, in July the payment deadlines for spot revenues on the energy market were extended in July. This adversely affected the liquidity situation of the power plant. This measure has now been largely withdrawn. Nevertheless, we anticipate that the Turkish government will intervene further on the electricity market in the coming fiscal year.

Policies that are agreed internally provide a framework for managing financial risks relating to trading prices (commodity prices, exchange rates) and the related counterparty default and liquidity risks. Corresponding indicators such as position limits, loss limits and value-at-risk thresholds are used to remain within the limits set. While price risks relating to the use of derivatives can be managed with the aid of appropriate financial models, with regard to counterparty default risk the focus is on examining the creditworthiness of contractual partners, the appropriateness of the underlying master agreements, and continuous monitoring of the associated credit lines. In the trading business, all relevant indicators are monitored by the trading back office. The risk framework for trading activities is reviewed regularly and adjusted if necessary.

In connection with forward marketing, STEAG GmbH concludes trading agreements that include the obligation to provide collateral for credit, but which are contingent on fulfilling certain financial covenants. Some financial covenants agreed in E-FET contracts could not be met. In these cases, there is a risk that the contractual partner could require a cash margin as security. The related information obligations were met and the necessary collateral was provided. The high electricity prices in 2022 offered STEAG high earnings potential because the rise in electricity prices brought a significant rise in the clean dark spread. At the same time, the high volatility of power prices on the EEX exchange greatly increased the margining to be provided by STEAG, which had a massive impact on the liquidity situation of the STEAG

Group. In order to be able to provide the margining, STEAG obtained a special purpose credit line of € 400 million from KfW; this has now been increased to € 800 million.

In view of their long-term nature and the large amount of capital involved, investment decisions involve multidimensional risks. In the early project phase, new projects are exposed to considerable uncertainty with regard to the estimates of future opportunities and risks. At the same time, commercialization may depend on uncertain future events that can currently only be estimated on the basis of a sound opportunity/risk assessment. The STEAG Group has therefore defined structured responsibilities and approval procedures for the preparation and implementation of such decisions.

The STEAG Group's business processes are supported by data processing systems. Security is ensured by high standards and regular software and hardware updates. As well as active vulnerability management and active monitoring of possible cyberattacks, this includes regular update management for software and hardware. There has been an increase in the number attempted cyberattacks on STEAG as an operator of critical infrastructure, especially since Russia invaded Ukraine. So far, STEAG has successfully repelled such attacks. In principle, cyberattacks could adversely affect the STEAG Group's business processes.

Financial risks

To remain solvent and guarantee its financial flexibility at all times, the STEAG Group draws up a multi-year financial plan, rolling monthly liquidity plans for a period of 24 months and a 13-week rolling liquidity plan. These form the basis for long-term credit facilities and other financing measures. Cash pooling and external financing are concentrated primarily at STEAG GmbH and special project companies. Cash pooling channels funds internally to companies in the Group as needed.

The STEAG Group has defined the minimum level of liquidity required for operational purposes to enable it to meet margining requirements. Margins are returned to the STEAG Group when the related hedge is realized. Margining requirements arise from hedging of trading based on forward prices and therefore determine future earnings and liquidity flows. As a result of the rise in commodity and electricity prices, which has been exacerbated by the war in Ukraine, prices have been very volatile and further price volatility is to be expected. The STEAG Group has therefore adjusted its marketing portfolio; wherever possible, it now gives priority to bilateral hedges with no margining requirements.

For existing and unavoidable hedges with margining requirements, STEAG GmbH was able to obtain additional liquidity through KfW. In April 2022, a credit line was concluded with KfW until October 2022. This could be used for margining. In view of the high volatility of electricity prices, the credit facility agreed with KfW was increased at the end of August 2022 and extended until March 2023.

In connection with the EKBG, since November 2022 STEAG has been making a contribution to safeguarding energy supply by continuing to operate five power plants that had been designated as reserve capacity. Continued operation of these power plants led to higher financing requirements, especially to fund fuels. In parallel with the margining line outlined above, an additional financing facility was concluded with KfW for the period to end-March 2023.

In light of the favorable business conditions for the STEAG Group and the good business performance in 2022, based on the current 24-month liquidity planning, the STEAG Group expects to have adequate liquidity exceeding the defined minimum level. Any deviations from the revised restructuring plan defined in the amended restructuring concept are validated quarterly and on an ad-hoc basis by the responsible restructuring reviewer, Roland Berger.

The STEAG Group has various financial liabilities for financing purposes. In particular, the debt restructuring agreement concluded in 2021, which was revised in 2022, requires the Group to meet specific covenants. So far, all covenants defined in financing agreements have been met and no breach of the agreed covenants is expected to occur in the liquidity planning period.

The STEAG Group's earnings may be affected by fluctuations in interest rates and exchange rates.

Market interest rates affect refinancing costs and the assessment of the credit standing of the STEAG Group. This is also determined in part by the market situation for conventional power plants. The result could be a deterioration in the assessment of creditworthiness, making borrowing more difficult or more expensive. Banks and insurance companies increasingly use the EU Taxonomy. This is reflected, for example, in revised environmental standards. Companies that no longer meet these standards will increasingly notice the impact in the future, e.g. with regard to the granting of loans.

The assessment of provisions is also affected by market interest rates. Declining interest rates increase the level of provisions and vice versa.

Foreign currency risks mainly relate to the procurement and pricing of fuel requirements. They are hedged using suitable financial instruments. For details of risk reporting on the use of financial instruments, please refer to the relevant section in the notes to the consolidated financial statements.

Planned dividend payments by the Group's foreign companies outside the euro zone are hedged in a structured manner against fluctuations in exchange rates.

Other risks

The STEAG Group is exposed to normal business risks arising from contractual relationships with customers and business partners, and technical risks relating to the operation of plants, especially large-scale plants. Adequate provisions are recognized for these risks where the relevant conditions are satisfied.

Risks relating to STEAG GmbH

As the parent company of the STEAG Group, STEAG GmbH, which is based in Essen (Germany), has control and profit and loss transfer agreements with most subsidiaries in Germany. It therefore manages the Group's principal risks in Germany. The risk situation for the STEAG Group outlined above therefore essentially applies to STEAG GmbH as well.

(4.2) Opportunity report

The STEAG Group is currently positioned nationally and internationally in conventional energy facilities, renewables, distributed energy generation and related services. In view of the massive change in market conditions and Germany's aim of phasing out coal-fired power generation through state regulation, the new strategic objective for the STEAG Group is to develop innovative energy solutions with a focus on industrial customers, renewables and distributed energy facilities.

In 2019, the FUTURE project initiated the entire transformation process to realize this strategic objective. As part of this project, new business models have been developed and existing structures realigned.

To meet further changes in requirements, especially on the capital market, and support the planned transformation process in the STEAG Group, following successful implementation of the FUTURE project, the STEAG Group was divided into two separate companies through the Sunrise project.

The coal activities and the growth business were separated from each other under the umbrella of STEAG GmbH in order to better meet the differing requirements of these two different businesses. In the coal business, the focus is still on ensuring the reliability of supply, including through commercial operation of power plants within the framework of the German Substitute Power Plant Availability Act (EKBG), and the success of the energy transition by organizing the necessary phasing out of the hard-coal power plants in Germany. The aim of the growth business is to strengthen its market position and make a contribution to decarbonization by offering smart end-to-end solutions for heat and power for industry and the public supply network. On December 1, 2022,the coal business wias transferred to STEAG Power GmbH (formerly STEAG 1. Beteiligungsgesellschaft mbH) with economic and tax effect from the end of June 30, 2022. The growth business was transferred to Iqony GmbH (formerly: STEAG 2. Beteiligungsgesellschaft GmbH) as at the end of December 31, 2022.

The business models defined as part of the FUTURE project still offer opportunities arising from the present trends to decarbonization, digitalization and decentralization. The STEAG Group is becoming a provider of end-to-end energy solutions, especially for decarbonization projects in industry. Here, the STEAG Group is providing all-round support for its customers in the design, planning and realization of energy facilities, up to and including operation and marketing of the energy output. Technically, the focus is on the use of renewable resources, distributed facilities and innovative supply solutions as well as, for example, the use of hydrogen. Using existing energy trading capacities and energy trading experience opens up the opportunity to drive forward new marketing solutions with a focus on green PPA.

Alongside the operation of facilities for third parties, the STEAG Group continues to operate its own power plants and other energy facilities. Through STEAG Power GmbH and its subsidiaries it is possible to uphold and extend technical and commercial expertise in the operation of commercial generating facilities and to participate in the continued opportunities for power generation on foreign markets. Moreover, through Iqony GmbH the STEAG Group will be extending its portfolio of photovoltaic and wind power installations and offering services for the erection and operation of photovoltaic installations. In addition, a digital service platform is being developed to bundle services and tools, especially for performance monitoring, to ensure transparency with regard to the status and economic viability of energy facilities and the optimization of energy systems. This platform will be offered to a broad international customer base. Market launch is scheduled for 2023.

In this way, the STEAG Group is striving to utilize market opportunities and global trends in all areas of business, both in Germany and in an international context. In addition, the aim of structuring the management and support functions more efficiently is to increase flexibility and speed up the response to market trends.

STEAG hopes that the separation of the coal business and the growth business will make the new strategic alignment more resilient. At the same time, it should make the growth business more attractive to the capital market.

Opportunities for STEAG GmbH

As the parent company of the STEAG Group, STEAG GmbH, which is based in Essen (Germany), has control and profit and loss transfer agreements with most subsidiaries in Germany. Therefore, STEAG GmbH has a significant role in identifying, evaluating and realizing material potential opportunities for the Group. The above presentation of the opportunities in the STEAG Group therefore also covers the main opportunities for STEAG GmbH.

(4.3) Outlook

General economic development[4]

The Russian war of aggression against Ukraine is continuing to cloud the outlook for the global economy and creating great political uncertainty. According to the current monthly report published by the German Bundesbank, economic growth will weaken considerably, especially in the European Union. For Germany, it projects a decline in economic output in 2023. The uncertainty regarding energy supply, especially following the discontinuation of the supply of gas from Russia, weighs heavily on the sentiment of companies and private households.

The German economy grew considerably in the summer half-year 2022, despite the outbreak of the war. Private consumption remained the most important driver of the macroeconomic recovery, posting growth despite high inflation and the increasing consumer uncertainty. This was probably due to pent-up demand following the end of the majority of the pandemic-related restrictions and additional state support. By contrast, capital expenditure was lower than expected. Increased construction costs and higher interest rates had a negative impact, especially on housing construction. While the Bundesbank predicted that the German economy would contract during the present winter half-year, it did not expect it to experience a severe downturn. So far, the cessation of gas deliveries from Russia has been offset by deliveries from other countries and the reduction in gas consumption. In addition, extensive support measures were introduced by the German government.

The Bundesbank expects German GDP to contract by 0.5 percent in 2023 but to grow by 1.7 percent in 2024. For the euro area, the ECB projects growth of 0.5 percent in 2023 and 1.9 percent in 2024. Its forecast for inflation rates in Germany are 7.2 percent in 2023 and 4.1 percent in 2024, while for the euro zone it is forecasting inflation rates of 6.3 percent in 2023 and 3.4 percent in 2024. These forecasts are based, in particular, on the assumption that it is possible to avoid a gas shortage and the resulting rationing, and that the supply bottlenecks for starting products will gradually be eliminated.

4 Cf. the December 2022 monthly report of the German Bundesbank (“Outlook for the German economy for 2023 to 2025") and the European Central Bank’s macroeconomic projection of December 15, 2022.

Development of the energy sector

The business performance of the STEAG Group is still dominated by energy policy and the economic framework, which affect both the German business and international business operations.

The transformation of the energy industry resulting from the socially and politically driven energy transition in Germany is continuing under the new coalition government of the SPD, BÜNDNIS 90/DIE GRÜNEN and the FDP. The coalition agreement contains a clear acceptance of the 1.5 °C target and an exit from fossil fuels. “Ideally”,[5] coal-fired power generation should be halted by 2030. At the same time, the new government remains committed to phasing out nuclear power[6] and promises to speed up the expansion of renewables and the necessary networks. Solar power is given great significance. The aim is that all “suitable roof areas”[7] should be used for solar power in the future. Expansion of wind energy will also be accelerated. There are indications that electricity demand will outstrip supply in the coming years. The plan is to expand renewables and the network infrastructure to plug this gap. Moreover, the KVBG legislation, which came into force in 2020, will continue to have a strong impact on the development of the energy sector in the coming years.

Following the Russian invasion of Ukraine in February 2022, Germany introduced state measures to reduce dependence on the supply of energy from Russia. These include the adoption of the EKBG, which allows commercial operation of coal-fired power plants which had been taken out of service or defined as systemically relevant reserve capacity to be returned to commercial operation in the period from November 2022 to March 2024, as well as the continued operation of the remaining German nuclear power plants. At the same time, there has been a massive acceleration in the creation of infrastructure for the sourcing of liquid gas, and the expansion of renewables is also being driven forward. Therefore, it cannot be assumed that the present developments will result in a reversal of the decision to end coal-fired power generation and to exit nuclear power generation in Germany.

Internationally, the impact of the Paris Climate Agreement on the expansion and restructuring of the global energy system needs to be monitored. This will depend on the extent to which the agreement is translated into national energy policy, especially in the G20 states, and on the extent to which the promises made about financing and technology transfer – especially for the energy-hungry developing countries and emerging markets – are kept. At the UN Climate Conference in Glasgow in 2021 the participating countries gave a far greater commitment to the goal of limiting global warming to a maximum of 1.5 °C compared with the pre-industrial era. The Glasgow Climate Pact calls on them to revise their climate targets by 2030. For the first time, the 197 parties at the climate conference signed a document setting out specific action to protect the climate. The community of nations aims to achieve a considerable reduction in the use of coal. These targets were confirmed at the World Climate Change Conference in Sharm el-Sheikh (Egypt) in November 2022. No further agreements were made, for example, with regard to fossil fuels such as oil and gas.

On April 29, 2021, Germany's Federal Constitutional Court ruled that parts of the government’s Climate Protection Act were unconstitutional, making it necessary to revise the 2019 Climate Protection Act; the measures to reduce emissions from 2031 were declared inadequate. With the amendment of the legislation, the German government has tightened its climate protection requirements and set out the goal

[5] See the coalition agreement between the SPD, Bündnis 90/ DIE GRÜNEN and FDP: “Mehr Fortschritt wagen, Bündnis für Freiheit, Gerechtigkeit und Nachhaltigkeit” (*Dare more progress - an alliance for freedom, justice and sustainability*), p. 58.
[6] Ibid. p. 55.
[7] Ibid. p. 56.

of achieving greenhouse gas neutrality by 2045. By 2030, emissions should be cut by 65 percent compared with 1990. The amended law came into effect on August 31, 2021.

Strategic and operational challenges

The German energy market continues to be dominated by massive upheaval as a result of the need to reduce the heavy reliance on Russian energy supply, the Coal-Fired Power Generation Termination Act (KVBG) and the Substitute Power Plant Availability Act (EKBG), expansion of capacity for renewable energy and the adjustment of capacity at thermal power plants. The STEAG Group will support this change process to the best of its ability through its asset portfolio and energy expertise.

In view of the massive and continuing changes in market conditions, at the end of 2019 the STEAG Group introduced a far-reaching transformation process through the FUTURE project and, in 2022, it initiated the Sunrise project to divide the STEAG Group into two separate companies to ensure a new organizational and strategic focus for the sale process.

Alongside the phasing-out of coal in Germany, the Sunrise project implemented a new corporate structure to speed up the transformation of the STEAG Group and secure its competitiveness. While the “green business” is being transformed into an integrated service provider for end-to-end energy solutions, including the planning and operation of energy facilities and the marketing of energy products, with a focus on industrial customers, renewables and distributed energy solutions, the “black business” concentrates on the coal-based activities in Germany and abroad. To provide optimal support for the new business processes, the administrative and support functions were also aligned to the new requirements. At the same time, the Group organized the continued operation of its hard-coal power plants under the EKBG legislation in order to make a significant contribution to securing supply in Germany until 2024.

Furthermore, the STEAG Group continues to operate its own energy facilities and is active in renewables and the supply of heating in order to support the reliability of supply, utilize market opportunities and maintain and expand its expertise in plant operation. Therefore, it is also expanding the Photovoltaic and Wind sub-business units, which focus on the development, construction and operation of photovoltaic installations and wind farms.

Operating performance

In the past fiscal year, sales amounted to € 5.7 billion. That was above the budgeted level (€ 2.1 billion). The significant rise in wholesale electricity prices had a particularly positive effect. Alongside the large power plants in Germany, this benefited the distributed facilities and refuse incineration plants. Moreover, there was a significant improvement in margins at the Turkish power plant in Iskenderun so the STEAG Group’s EBIT was € 1,044.8 million, well above the budgeted level of € 157.0 million. Systematic implementation of the measures developed in the FUTURE project also contributed to this.

Sales of € 5.4 billion are forecast for fiscal 2023, mainly as a result of higher electricity prices, which the STEAG Group expects to participate in through the marketing of power plant output in Germany under the EKBG. From the present perspective, however, the current market level is unlikely to be sustainable. Despite lower sales than in 2022, EBIT of € 1.3 billion is projected, mainly due to the assumed margins.

Capital expenditure of up to € 226 million is planned for 2023. Growth investments are focused on district heating, large-scale battery storage systems and distributed facilities. Heat storage facilities are to be built for district heating in the Ruhr region to increase flexibility. In addition, selective investment in maintenance will be undertaken at various sites, taking into account the Coal-Fired Power Generation Termination Act (KVBG) and the Substitute Power Plant Availability Act (EKBG), in order to safeguard and increase the already high availability and efficiency of plants at all (power plant) sites.

General information on expected developments

As a result of Russia's invasion of Ukraine, STEAG GmbH is affected by market-induced factors, especially in respect of the supply of raw materials and market volatility. With regard to the procurement of raw materials, STEAG GmbH purchased only a low proportion of coal from Russia so the embargo on coal from Russia did not have a material impact on the STEAG Group's business activities. The volumes can be offset by procurement from other countries. Based on the present assessment, for the STEAG Group the risk is still not the supply of coal but rather the development of the price of coal on the world market. Moreover, there could be bottlenecks in domestic logistics, in other words, the transportation of coal from ocean ports to power plants. This risk to the STEAG Group has been greatly reduced by concluding long-term master agreements and by the legally enshrined prioritization of trains with coal freight on the network of German rail operator Deutsche Bahn AG. For 2023, most of the gas required for the combined gas and steam power plant in Herne has been secured via the futures market. STEAG's business activities could be affected by the fallout from further sanctions or restrictions on the commodity markets, but this cannot be quantified at present. The developments on the commodity markets are being monitored so that further countermeasures can be taken in good time. In addition, the availability of other supplies such as hydrochloric acid could affect the availability of individual plants. In this context, the STEAG Group’s Procurement function maintains constant contact with suppliers to ensure timely mitigation of supply bottlenecks.

It is currently very difficult to forecast the price of energy inputs and electricity prices for the coming year as they are exposed to considerable volatility. On the financial side, the main risks relate to margining (collateral for forward transactions) as a consequence of increased market volatility, especially as a result of the Russian war of aggression. To limit future earnings and liquidity volatility, for some power plant output alternative hedging transactions have been concluded with trading partners that do not impose any margining requirements on the STEAG Group. Moreover, a credit line has been concluded with KfW for a limited period of time. This can be used for margining.

The STEAG Group assumes that the opportunities arising from its new strategic focus and, in particular, the planned investment in growth areas and the new market image of the growth areas as Iqony GmbH iin the future will help position the STEAG Group successfully in the altered energy market. In addition, the planned transaction process could affect the development of the STEAG Group. In parallel with this, the risks associated with the Group’s business environment and activities are systematically identified, managed and monitored through its risk strategy.

Expected development of STEAG GmbH

STEAG GmbH posted clearly positive income after taxes in the reporting period, mainly because of the developments on the energy market, where the STEAG Group responded by deciding to refrain from seasonal operation of the Bergkamen power plant and the district heating/model power plants in Fenne and to participate in commercial operation under the EKBG to support the reliability of supply in Germany.

Following the transfer of the business operations to STEAG Power GmbH and Iqony GmbH, STEAG GmbH no longer has any operating business. Future earnings will therefore come principally from profit transfers from subsidiaries. We still assume that the higher electricity prices will result in a considerable improvement in earnings in 2023. In view of the profit and loss transfer agreement, the earnings will be transferred to the sole shareholder, KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG.

Essen, May 12, 2023
STEAG GmbH
Board of Management

Dr. Reichel   Dr. Schiele   Schmitz

This report contains forward-looking statements based on the present expectations, assumptions and forecasts made by the Board of Management and the information available to it. These forward-looking statements do not constitute a guarantee of future developments and earnings expectations. Future performance and developments depend on a wide variety of factors which contain a number of risks and unforeseeable factors and are based on assumptions that may prove incorrect.