Combined management report as at December 31, 2020

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, its 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, 2020, 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’s organizational units, which previously comprised the Power division (comprising the Generation, Trading & Optimization (T&O), District Heating, Power Minerals (divested effective May 31, 2021), Energy Services and Technical Service business units), and the Renewable Energies and Distributed Facilities division (New Energies, Waste to Energy and CHP Poland business units).

In light of changing market conditions and Germany’s withdrawal from coal-fired power generation, STEAG is driving forward the necessary transformation process through the “FUTURE” project, which includes reorganizing its structure into the strategic business units “Renewables” (renewable energy), “Energy Solutions” (energy solutions and services), “Asset Management” (facilities and equity investments”) and “STEAG Verbundkraftwerke” (exit route from coal-fired power generation at the power plants in Germany).

The new strategic business units are supplemented by the “Trading” and “Digital” units and the management and support functions (internal processes and administrative functions).

Products and services

Technology-independent energy generation

As at December 31, 2020, the STEAG Group still operated large power plants at seven sites in Germany. As a consequence of the German Coal-Fired Power Generation Termination Act (KVBG), STEAG will be successively taking its coal-fired power plants in Germany out of service, followed by final decommissioning.

STEAG Beteiligungsgesellschaft mbH and Siemens Project Ventures GmbH have commenced a 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 Herne (Germany) (Herne 6).

Internationally, the STEAG Group operates its own large power plants in Turkey, the Philippines and Colombia, based on close and long-term partnerships.

In Germany, the STEAG Group has around 193 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 also active in the generation of heat from thermal 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 the 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 solutions for customized energy supply that is both environmentally friendly and profitable.

The STEAG Group's competencies include engineering and operating solutions for every type of power generation. The experts at its subsidiary STEAG Energy Services GmbH work internationally through its companies in Brazil, Botswana, Spain, Turkey, Switzerland, the USA and India. This company is engaged in projects involving technologies from the areas of renewable energies, conventional energy, nuclear power and energy storage systems.

Organizational changes

In addition to restructuring the business units, the FUTURE project includes optimizing the STEAG Group's legal entity structures. The organizational realignment supports both planned administrative cost savings and improvements in the management of the operational business.

At the first decommissioning auction for hard-coal power plants on December 1, 2020, the Walsum 9 bid was accepted. For the STEAG Group, this decision means that the Walsum 9 unit may no longer participate in the electricity market from January 2021. Final removal from the the grid took place on July 1, 2021 since the Federal Network Agency did not accept the application from the transmission network operator Amprion that Walsum 9 should still be classified as systemically relevant. The success of the Walsum 9 tender ensures that the employees affected by the shutdown have a legal claim to adjustment benefits (APG) for early retirement. STEAG also participated in the second decommissioning auction on January 4, 2021, but was not successful.

On February 3, 2020, 26.01 percent of the shares in Arenales Solar PS, S.L., were sold by STEAG 1. Beteiligungs GmbH as seller to Fronterasol B.V. as purchaser.

On December 23, 2020, STEAG and Societatea de Producere a Energiei Electrice în Hidrocentrale Hidroelectrica S.A. (Hidroelectrica) signed an agreement on the sale of STEAG's shares in its Romanian subsidiary Crucea Wind Farm S.A. (Crucea Wind Farm) and STEAG Energie Romania S.R.L. (STEAG Energie Romania). This transaction was closed on March 11, 2021.

On December 17, 2020, an agreement was signed on the sale of all shares in the Turkish wind farm STEAG Rüzgar Süloğlu Enerji Uretim ve Ticaret A.S. and the operating company STEAG Turkey Enerji Yatirimlari ve Hizmetleri. This transaction was closed on August 4, 2021.

On March 10, 2021 STEAG and EP Power Europe, a.s. (EPPE), a subsidiary of Energetický a průmyslový holding, a.s. (EPH), signed an agreement on the divestment of STEAG's shares in STEAG Power Minerals GmbH and its subsidiaries. This transaction was closed on May 31, 2021.

In December 2020, the shares in the Turkish company Iskenderun Enerji Uretim Ve Ticaret Anonim Sirketi were transferred from STEAG GmbH to Steag 1. Beteiligungs-GmbH as a contribution in kind to a capital increase in return for the granting of new shareholder rights.

(1.2) Strategy

With a business model based on more than eight decades of experience in solving complex problems in the energy sector, the STEAG Group will continue to create significant value for its customers in the future and gain access to promising growth areas for its business. The focus is on three aspects of the energy sector: services, digitalization and decarbonization.

The Renewables business unit will continue to expand the use of renewable energy sources through EPC projects and selective project development. To this end, STEAG will also invest in selected photovoltaic (PV) and wind power projects. While it will flexibly serve international markets in the PV sector, the development of wind power projects is concentrated on France. The operation of PV facilities and wind farms will be complemented by marketing by Trading via green PPAs (long-term "green" power purchase agreements).

The Energy Solutions 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, together with market-oriented plant operation. In this way, STEAG is positioning itself as a solution provider and investment partner for industrial decarbonization projects. Energy-related expertise plays a key role in the initiation, development and realization of projects, so this will be undertaken in collaboration with Trading. 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 projects. In addition, STEAG is building on its strong market position as an energy service-provider and plant operator in emerging markets.

Asset Management ensures a holistic approach to the large international power plants and national and international equity investments and is responsible for administration, valuation and optimization as well as for the procurement of asset services. This 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.

STEAG Verbundkraftwerke is responsible for the operation and maintenance of the German power plants and for preparing and implementing the decommissioning of the hard-coal power plants in the Ruhr and Saarland regions.

Trading is realigning the trading activities with a high degree of standardization and automation. The focus is shifting from managing the company's hard-coal power plants in Germany to developing new marketing solutions for distributed facilities, flexibility and green PPAs (long-term green power purchase agreements), also for third parties.

Digital is repositioning STEAG for the development and commercialization of digital business models. The focus is on developing 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.

(1.3) Research and development

In 2020, as in previous years, the STEAG Group continued to focus on application-related research and development rather than basic research. Building up new digital business models has increased the focus on digitalization. This applies to both central research and development at STEAG GmbH and research and development at its subsidiaries.

The “Designnetz” project launched at the start of 2017 with a total of 46 partners was extended until March 2022. This project is part of the SINTEG initiative for smart digital energy applications established by the Federal Ministry for Economic Affairs and Energy to support the new energy policy. The SINTEG initiative is developing and demonstrating sample solutions for reliable, economical and environmentally compatible energy supply, in some cases with 100 percent power generation from renewables, which can be upscaled for large-scale model regions. Along with other pilot projects, the electrode boiler erected at the Fenne site as part of this project and the district heating storage solution of Fernwärme-Verbund Saar GmbH have been connected to an overarching “system cockpit” via modern methods of data interchange (“Internet of Things”). Due to delays in the overall project caused by the coronavirus pandemic, pilot operation to explore scenarios for the future electricity market, which was originally planned for 2020, was postponed until 2021.

Two new publicly funded research projects with partners from industry and science started in 2020 as part of the “leading industrial innovation cluster”. In the “Digital Service Center” 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 “P2X Platform Herne” project is building an open test platform to develop Power-2-X technologies on the site of the Herne power plant. Alongside the STEAG Group, the participants in this project are Mitsubishi Hitachi Power Systems, Evonik Industries, Duisburg-Essen University and the Fraunhofer Institute for Environmental, Safety and Energy Technology (UMSICHT). The partners want to use this platform to drive forward the development of various processes to produce synthesis gases for the manufacture of synthetic fuels or basic materials for the chemical industry.

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 Minister for Economic Affairs and Energy announced that the HydroHub Fenne project outline for the erection of a 17.5 MW electrolyzer was one of 20 winners of this ideas-based competition. Detailed planning for this project was undertaken with project partner Siemens Energy in 2020 and possible funding scenarios, including scenarios in a European context, were evaluated.

Digital business models will be key elements of the portfolio of tomorrow's companies. In 2020, STEAG therefore drew up a detailed concept to realize and commercialize a digital platform and embarked on the search for suitable implementation partners. This platform is designed as an operating system for the energy sector worldwide, as a single source of affordable and scalable software and services for the distributed renewable energy systems of the future. For the start of 2021, there are plans to sign a letter intent with partners on further collaboration and to start work on the development of the platform through a joint proof of concept.

(2) Economic report

(2.1) Economic background

General economic development[1]

In 2020, the German economy plunged into its deepest recession in the post-war era as a consequence of the coronavirus pandemic and measures to combat it. In the second quarter, which was dominated by the lockdown, economic output fell by nearly 10 percent. In particular, there was a sharp drop in consumer spending and in capital spending in the corporate sector. The situation was stabilized only by government consumption and construction spending. The strong recovery that started in the late summer was temporarily halted by the renewed flare-up of the rate of infection in Germany in the fall. The massive economic downturn resulted in a significant deterioration of the previously favorable labor market situation. Nevertheless, the rise in unemployment was held back principally by the scope to use short-time working. There was a further marked reduction in inflation to 0.5 percent (2019: 1.4 percent). Overall, the gross domestic product shrank by 5.0 percent in 2020. In the previous year, the economy grew by 0.6 percent.

Energy consumption and energy generation[2]

Primary energy consumption in Germany declined by 8.7 percent in 2020 compared with 2019. The sharp drop was mainly due to the macroeconomic impact of the coronavirus pandemic. Long-term trends such as a further increase in energy efficiency, substitution of renewables in the energy mix and comparatively mild weather compared with the previous year also had an effect. All fossil fuels were affected by the decline in energy consumption. For example, consumption of hard coal fell by 18.3 percent, while consumption of lignite dropped by 18.2 percent. The 3.4 percent reduction in consumption of natural gas mainly resulted from lower demand from industry and from the commerce, trade and service sectors as a result of the coronavirus pandemic. By contrast, more natural gas was used in the generation of electricity and heat. Consumption of mineral oil was 12.1 percent lower than in 2019. This was mainly due to a reduction in the use of mineral oil as fuel. Use of nuclear power also fell significantly, by 14.4 percent. In total, renewables increased by 3.0 percent compared with the prior-year period. In 2020, renewables accounted for 16.8 percent of energy consumption in Germany.

Power consumption

In 2020, overall consumption of electricity was 557.5 TWh, around 19.2 TWh lower than in 2019. Gross power generated decreased by 5.9 percent (2020: 573.6 TWh vs. 2019: 609.4 TWh). The export surplus was 16.1 TWh (2019: 32.7 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, no. 71 (2020/Q3) on the German economy, the weekly report by the German Institute for Economic Research (DIW) Berlin, no. 50/2020, and the REI economic report no. 71 (2020) vol. 3, joint economic forecast fall 2020, 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 2020).

Development of energy prices

In some cases, a significant drop in prices on the international commodity markets was observed in 2020 due to the coronavirus pandemic.

The average price of natural gas in the Net Connect Germany market area fell by around 32 percent year-on-year to € 9.50 per MWh in 2020. The sharp drop in the price of natural gas in 2020 was once again due to high storage levels following a mild winter in 2019/2020. The outbreak of the coronavirus pandemic and the related decline in economic output also pushed down demand for gas and gas prices. The spot price for natural gas dropped to below € 4 per MWh in May and June 2020. In late summer 2020, there were initial signs of a recovery in the global gas market and an upturn in the gas price in Western Europe in response to rising demand for LNG in Asia and disruption to LNG exports from the USA as a result of hurricanes.

Compared with the previous year, the API#2, the price index for hard coal that is relevant for Europe, fell by around 17 percent as a result of weaker demand. The average price of hard coal was US$ 60.9 per tonne in 2019. In 2020, the average price for the year dropped to US$ 50.4 per tonne.

In European emissions trading, the coronavirus pandemic led to short-term but at times significant price volatility. The maximum price was over € 33 per tonne in the final months of the year, supported above all by news of imminent approval of several Covid-19 vaccines and the announcement of tougher climate targets for the EU for the period to 2030. The aim now is to reduce emissions by 55 percent compared with 1990, rather than the original target of a 40 percent reduction. The lowest price was € 15 per tonne in the spring. All in all, the average price in 2020 was € 24.8 per tonne, which was comparable to the previous year's level (€ 24.9 per tonne).

The decline in power prices registered in 2019 continued in 2020. EPEX spot, the average spot price on the electricity exchange, was € 30.5 per MWh (2019: € 37.8 per MWh), a significant year-on-year drop of more than 19 percent. The peak contract fell by around 19 percent to an annual average of € 32 per MWh (2019: € 40.5 per MWh). The price drop was mainly due to weaker demand for power and lower generating costs as a result of the coronavirus pandemic.

(2.2) Business performance

Business performance in 2020 was mainly dominated by the coronavirus pandemic, the adoption of the German Coal-Fired Power Generation Termination Act (KVBG) and the FUTURE transformation project.

The coronavirus pandemic led to considerable changes. The handling of the pandemic impacted the financial and business development of the STEAG Group in the 2020 fiscal year. From the start of the second quarter, it had a negative effect on the development of earnings and liquidity. The first wave of the pandemic in spring 2020 resulted in volatility on the commodity markets, which adversely affected liquidity as a result of high margin calls. The implementation of borrowing plans was delayed. Market development declined, especially in Turkey, and low prices and lower demand for power put pressure on margins. In our service business, ongoing projects and the acquisition of projects were either halted or delayed. The pandemic also had a detrimental effect on capacity utilization in some of the STEAG Group's business units. Short-time working was introduced for employees in Technical Service, at STEAG Power Minerals and in the materials management unit. At the peak,166 employees were affected by short-time working.

The phasing out of hard-coal power generation in Germany started on August 14, 2020, when the Coal-Fired Power Generation Termination Act (KVBG) took effect. This legislation prescribes a complete exit from coal-fired power generation in Germany by 2038 at the latest, with an earlier date for the closure of all hard-coal power plants. The order in which plants are to be decommissioned between 2020 and 2027 is determined by an auction process with declining maximum prices. After 2027, operators of hard-coal power plants will not receive any further financial compensation for the shutdown of their plants. The only exception is for the most recent hard-coal power plants which came into service after 2010. At STEAG GmbH this only applies to the Walsum 10 power plant. The recoverable amounts calculated on the basis of the shorter operating periods were below the carrying amounts. Therefore, impairment losses of € 156.2 million were recognized on property, plant and equipment and impairment losses of € 14.3 million were recognized on stocks of spare parts and materials held as inventories. As a counter item, obligations of € 16.8 million were reversed, as they will no longer be incurred due to the shorter useful life of the power plants. The adjustment of provisions for the decommissioning of the power plant sites resulted in a net reversal of € 7.2 million for the sites in the Saarland region and of € 4.2 million for the sites in the Ruhr region. In the first auction, revenue was realized from the tender for the Walsum 9 power plant.

In connection with the FUTURE transformation project and the shutdown of power plants under the German Coal-Fired Power Generation Termination Act (KVBG), STEAG has announced that it will be shedding around 1,000 jobs in Germany by 2024. In view of this, as at December 31, 2020, provisions of € 68.6 million were recognized for restructuring expenses.

(2.3) Business situation

(a) Earnings position

Performance in 2020

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 adjusted for exceptional items (non-operating earnings).

The earnings from ordinary activities stated in the income statement are adjusted for non-operating 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 2020 fiscal year, the STEAG Group's sales, EBITDA and EBIT developed as follows:

STEAG Group: EBITDA* and EBIT*

in € million	2020	2019	Change in %
Sales	2,018.4	2,087.3	-3.3
EBITDA	368.0	372.5	-1.2
EBIT	200.1	210.2	-4.8
EBITDA margin in %	**18.2%**	**17.8%**	
EBIT margin in %	**9.9%**	**10.1%**	

* Using the STEAG definition, adjusted for non-operating effects

Sales declined by 3.3 percent to € 2.0 billion and therefore failed to meet the previous year's expectation of an increase to € 2.4 billion.

EBIT was € 200.1 million. Although that was € 12.6 million above the budget, as expected it was well below the figure of € 210.2 million reported for 2019. The EBIT margin (EBIT/sales) was 9.9 percent, which was almost on the prior-year level.

EBITDA was € 368.0 million, which was € 3.0 million higher than budgeted and just below the 2019 figure of € 372.5 million. The EBITDA margin (EBITDA/sales) was 18.2 percent, which was above the prior-year margin of 17.8 percent.

The following reconciliation from earnings before the financial result and income taxes to EBIT and EBITDA adjusted for non-operating effects shows that in 2020 exceptional items had a higher impact on these earnings parameters than in the prior year.

Reconciliation of EBIT* and EBITDA* for the STEAG Group

in € million	2020	2019
Income before the financial result and income taxes	**-56.3**	**280.0**
Non-operating effects from the KVBG	158.7	-
Non-operating restructuring provisions for KVBG and FUTURE	68.7	-
Non-operating effects from the STEAG 2022 transformation program	-3.8	-23.4
Other non-operating impairment losses/reversals of impairment losses	57.1	-22.9
Non-operating effects from commodity hedging	6.0	-27.1
Other effects	-30.3	3.6
EBIT	**200.1**	**210.2**
Depreciation/amortization and impairment losses as in the income statement	393.9	175.7
Reversals of impairment losses as in the income statement	-19.7	-44.7
Impairment losses/reversals of impairment losses on investments recognized using the equity method	12.0	8.4
plus non-operating impairment losses/reversals of impairment losses	-218.3	22.9
EBITDA	**368.0**	**372.5**

* Using the STEAG definition, adjusted for non-operating effects

The non-operating effects from the KVBG mainly comprise impairment losses on property, plant and equipment and inventories at the German power plants, adjustments to provisions and revenue from the first decommissioning auction.

The other non-operating impairment losses/reversals of impairment losses mainly comprise impairment losses on the geothermal project in Indonesia, the district heating activities, a joint venture in the USA and the loans granted to KSBG as well as reversals of impairment losses on a wind farm in Romania and a solar power plant in Spain.

Income statement for the STEAG Group

in € million	2020	2019
Sales	2,018.4	2,087.3
Change in inventories of finished goods	2.2	-5.5
Other own work capitalized	1.2	1.2
Other operating income	298.8	411.1
Cost of materials	-1,241.3	-1,329.9
Personnel expenses	-441.2	-371.3
Depreciation/amortization and impairment losses	-393.9	-175.7
Other operating expenses	-300.5	-337.2
Income before the financial result and income taxes	**-56.3**	**280.0**
Interest income	12.8	12.6
Interest expense	-71.2	-92.8
Result from investments recognized using the equity method	-2.8	-0.2
Other financial income	0.1	0.9
Financial result	**-61.1**	**-79.5**
Income before income taxes	**-117.4**	**200.5**
Income taxes	-52.9	-68.6
Income after taxes	**-170.3**	**131.9**
Thereof attributable to		
Non-controlling interests	60.8	48.4
Shareholders of STEAG GmbH (net income)	-231.1	83.5

External sales by division

in € million	2020	2019	Change in %
Power	1,662.8	1,744.5	-4.7
Renewable Energies and Distributed Facilities	355.6	342.8	3.7
STEAG Group	**2,018.4**	**2,087.3**	**-3.3**

Sales declined by 3.3 percent to € 2,018.4 million (prior year: € 2,087.3 million). The drop in revenues from the sale of goods was mainly due to a reduction in electricity production in Germany. This was offset by an increase in revenues from services, construction contracts and foreign power generation.

Total volume sales of energy from the Group's own facilities and those operated on behalf of its customers declined by 1.9 percent year-on-year to 15,355 GWh_e[3] (prior year: 15,657 GWh_e). The clear decline in the volume of energy sold was mainly due to the reduction in power plant output marketed in Germany to 5,005 GWh_e[4] (prior year: 7,057 GWh_e).

Volume sales of heat by the Renewable Energies and Distributed Facilities division decreased by 2.1 percent to 2,127 GWh_{th} (prior year: 2,173 GWh_{th}), while the volume of power sold rose by 3.5 percent to 2,603 GWh_e (prior year: 2,516 GWh_e).

Overall, sales in the Renewable Energies and Distributed Facilities division were around the prior-year level.

The change in inventories of finished goods was € 2.2 million (prior year: minus € 5.5 million), which was € 7.7 million higher than the prior-year change; other own work capitalized was unchanged year-on-year at € 1.2 million (prior year: € 1.2 million).

The other operating income decreased by € 112.3 million, from € 411.1 million in 2019 to € 298.8 million in 2020. The year-on-year decline was mainly due to a € 65.5 million drop in income from the valuation of derivatives (excluding interest rate derivatives) to € 129.8 million (prior year: € 195.3 million). The income from the reversal of provisions was € 47.1 million, which was € 5.1 million more than in the prior year (prior year: € 42.0 million). This was mainly due to the reversal of provisions in connection with the reduction in the obligation to maintain the Voerde power plant site (€ 28.2 million; prior year: € 21.9 million in connection with the Lünen site). The income of € 19.7 million from the reversal of impairment losses mainly related to the wind farm in Romania. In the prior year, € 36.2 million was realized from the reversal of impairment losses on the wind farms in Romania, Turkey and Poland. In addition, in 2019 the other operating income contained one-off effects totaling € 57.4 million resulting from the initial consolidation of Gemeinschaftskraftwerk Bergkamen A beschränkt haftende OHG.

The € 88.6 million decline in the cost of materials was due to lower power generation in Germany.

Personnel expenses increased by € 69.9 million to € 441.2 million (prior year: € 371.3 million). The average number of employees in the STEAG Group decreased slightly from 6,295 to 6,148. The increase in personnel expenses was mainly due to the establishment of restructuring provisions of € 68.6 million in connection with the German Coal-Fired Power Generation Termination Act (KVBG) and the FUTURE project.

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

Taking this one-off effect into account, personnel expenses in the reporting period were on the same level as in the prior year.

Depreciation/amortization and impairment losses totaled € 393.9 million (prior year: € 175.7 million) and included depreciation and amortization of property, plant and equipment, intangible assets and investment property amounting to € 161.6 million (prior year: € 164.9 million). The impairment losses of € 232.3 million comprise impairment losses of € 156.2 million in connection with the coal exit legislation (KVBG) and € 46.7 million for the complete impairment of the assets of the geothermal project in Indonesia (prior year: € 6.6 million).

The other operating expenses decreased by € 36.7 million from € 337.2 million in the prior year to € 300.5 million in the reporting period. The year-on-year reduction was mainly due to lower losses on the valuation of derivatives (excluding interest rate derivatives), which amounted to € 76.3 million (prior year: € 139.8 million). Consulting expenses increased by € 8.3 million to € 23.2 million due to the FUTURE project.

Income before the financial result and income taxes dropped by € 336.3 million year-on-year to minus € 56.3 million, mainly due the above one-off effects.

The interest income contained in the financial result increased by € 0.2 million in 2020. The interest expense contained in the financial result dropped by € 21.6 million in 2020, mainly due to lower interest expense on provisions.

The € 2.6 million reduction in the result from investments recognized using the equity methodhad a negative impact on the financial result. The main negative effect was the impairment loss on a joint venture in the USA.

Income before income taxes decreased from € 200.5 million to minus € 117.4 million, mainly due to the one-off effects already mentioned.

Income tax expense decreased by € 15.7 million, from € 68.6 million in 2019 to € 52.9 million in 2020. The reduction in income tax expense mainly resulted from a change of € 29.6 million in deferred taxes.

(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. For further details, please refer to the comments in “(3) Events after the reporting date”.

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 net debt ratio, which is the ratio of net debt to adjusted EBITDA, and covenants in the E-FET contracts on tangible net worth and/or the equity ratio.

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 is secured by STEAG GmbH. The project 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 main components of financial assets are loans of € 180.0 million (prior year: € 186.9 million), receivables from finance leases of € 185.2 million (prior year: € 212.2 million) and receivables from derivatives of € 70.6 million (prior year: € 228.1 million). Of this amount, € 13.2 million and € 64.4 million (prior year: € 17.5 million and € 214.9 million) are current receivables.

As at December 31, 2020, STEAG had financial liabilities of € 1,371.8 million (prior year: € 1,550.5 million) and cash and cash equivalents of € 466.0 million (prior year: € 413.9 million). In addition, € 29.3 million (prior year: € 10.0 million) were held in short-term deposits.

A major component of non-current financial liabilities amounting to € 1,006.3 million (prior year: € 1,097.2 million) comprises liabilities to banks, especially for the Walsum 10 power plant (fully repaid by the date of preparation of these financial statements) and power plant companies in Germany and abroad. In addition, liabilities include the bonded loan amounting to € 400.0 million taken out by STEAG GmbH in 2014. At the reporting date, financial liabilities to banks relating to the bonded loan amounted to € 241.1 million (prior year: € 272.1 million). The change is mainly due to the transfer of € 30.0 million from a creditor to a pension institution.

The liabilities arising from loans from non-banks increased in the reporting period, mainly due to a € 70.0 million registered bond issued by a Group company. At the reporting date, the non-current portion of these liabilities amounted to € 140.3 million (prior year: € 79.1 million).

€ 19.8 million (prior year: € 189.2 million) of the € 365.5 million (prior year: € 453.3 million) current financial liabilities relate to liabilities from derivatives.

As at December 31, 2020, the STEAG Group has no material off-balance-sheet financing instruments that could have a material impact on its present or future earnings, assets and financial position.

The financing and liquidity of the STEAG Group were always secure 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	2020	2019	Change in %
Power	74.1	106.9	-30.7
Renewable Energies and Distributed Facilities	44.5	26.7	66.7
Other	36.5	3.3	1,006.1
STEAG Group	**155.1**	**136.9**	**13.3**

Capital expenditure totaled € 155.1 million (prior year: € 136.9 million), which was below depreciation, which amounted to € 161.6 million (prior year: € 164.9 million). In 2020 capital expenditure for property, plant and equipment increased by 8.1 percent to € 100.4 million (prior year: € 92.9 million).

50.7 percent of capital expenditure for property, plant and equipment was allocated to the Power division (€ 50.9 million; prior year: € 67.2 million). € 16.3 million of this amount was for the Iskenderun power plant in Turkey, € 9.6 million for STEAG Fernwärme and € 5.5 million for Krantz. A further 44.2 percent of capital expenditure for property, plant and equipment was allocated to the Renewable Energies and Distributed Facilities division (€ 44.4 million; prior year: € 22.5 million). € 31.9 million of this amount was allocated to STEAG New Energies.

The Group has commitments of € 30.6 million (prior year: € 7.3 million) to purchase property, plant and equipment.

Financial investments totaled € 54.7 million in the reporting period (prior year: € 44.0 million). € 29.3 million of this amount was for the acquisition of the 30 percent non-controlling interest in STEAG Power Minerals GmbH.

Cash flow

Cash flow statement for the STEAG Group (condensed version)

in € million	2020	2019
Cash flow from operating activities	288.4	225.8
Cash flow from investing activities	-92.9	-7.3
Cash flow from financing activities	-114.6	-301.5
Changes in exchange rates and other changes in the value of cash and cash equivalents	-28.8	1.5
Cash and cash equivalents as at December 31	466.0	413.9

The cash flow from operating activities was € 288.4 million, which was above the prior-year level of € 225.8 million. The change of € 254.8 million (prior year: € 92.2 million) in inventories and trade accounts receivable was offset to a large extent by the reduction of € 234.5 million (prior year: reduction of € 65.3 million in trade accounts payable and other assets and liabilities. The outflow of cash and cash equivalents for interest payments declined by € 7.4 million year-on-year to € 45.0 million. Outflows for income taxes were € 39.3 million in 2020, which was € 38.5 million less than in the prior year (€ 77.8 million).

The cash outflow for investing activities was € 92.9 million, which was greater than the outflow of € 7.3 million in the previous year. Cash outflows for investing activities amounted to € 78.6 million, which was € 10.0 million lower than in the prior year, while cash inflows from disposals were € 4.5 million higher. However, the balance of cash inflows and outflows for securities, deposits and loans was € 100.1 million lower. This was mainly due to the disposal of current fixed-term deposits totaling € 60.1 million in 2019. As at the reporting date, cash and cash equivalents totaling € 29.2 million were held in current fixed-term deposits (prior year: € 10.0 million).

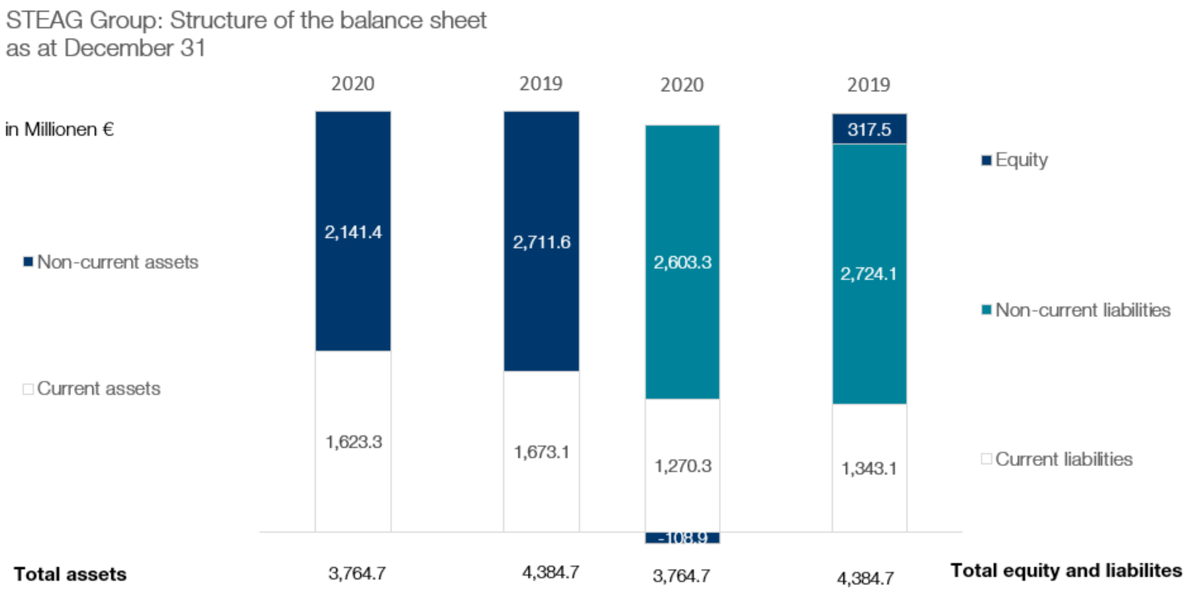
The cash outflow for financing activities was € 114.6 million, which was lower than the outflow of € 301.5 million in the previous year. The cash outflows for dividend payments to non-controlling interests increased from € 37.3 million to € 79.0 million. In the reporting period, cash inflows/outflows relating to the divestment of shareholdings without loss of control were € 20.0 million lower than in the previous year. The net balance of borrowing and repayment of financial debt was € 43.8 million, which was well above the prior-year net balance of minus € 206.6 million. In 2019, the net balance was dominated by changes in the bonded loan. Tranches totaling € 140.5 million were repaid and new tranches totaling € 84.0 million were issued.

In all, cash and cash equivalents were € 52.1 million higher than in the prior year. In addition, cash and cash equivalents of € 12.4 million are included in assets held for sale.

The carrying amount of cash and cash equivalents pledged as collateral amounted to € 98.4 million (prior year: € 70.3 million).

(c) Asset structure

Structure of the balance sheet



Total assets decreased by € 620.0 million from € 4,384.7 million as at December 31, 2019 to € 3,764.7 million as at December 31, 2020.

Non-current assets decreased by € 570.2 million to € 2,141.4 million (prior year: € 2,711.6 million). The decline is mainly due to impairment losses on intangible assets, property, plant and equipment and to the divestment-driven reclassification of non-current assets of the wind farms in Romania and Turkey and STEAG Power Minerals companies to assets held for sale.

Capital expenditure was € 155.1 million (prior year: € 136.9 million), while depreciation and amortization of intangible assets, property, plant and equipment and investment property totaled € 161.6 million (prior year: € 164.9 million) and impairment losses were € 204.0 million (prior year: € 7.4 million).

Non-current assets accounted for 56.9 percent of total assets (prior year: 61.8 percent). Coverage of non-current assets by non-current capital was 116.5 percent (prior year: 112.2 percent).

Current assets totaled € 1,623.3 million (prior year: € 1,673.1 million), a drop of € 49.8 million compared with year-end 2019. The change was mainly due to the rise in assets held for sale to € 336.3 million (prior year: € 18.3 million). By contrast, there was a decrease in inventories, trade accounts receivable and financial assets. The € 124.9 million decrease in financial assets to € 169.3 million (prior year: € 249.2 million) is mainly due to the reduction in receivables from derivatives as a result of price changes and a reduction in the volume of hedging.

Trade accounts receivable fell by € 202.2 million to € 357.9 million (prior year: € 560.1 million), mainly due to the reduction in the amounts invoiced.

The reduction of € 87.7 million in inventories from € 239.9 million to € 152.2 million was mainly due to lower inventories of coal and CO_2 emission allowances, as well as to impairment losses on stocks of spare parts and materials in connection with the German Coal-Fired Power Generation Termination Act (KVBG). In addition, finished goods and merchandise were € 27.4 million lower due to lower inventories of merchandise and reclassification to assets held for sale.

Current assets exceeded current liabilities by 27.8 percent (prior year: 24.6 percent).

Equity contracted by € 426.4 million to minus € 108.9 million (prior year: € 317.5 million). Minus € 469.2 million of this amount (prior year: minus € 88.6 million) comprised the equity attributable to shareholders of STEAG GmbH and € 360.3 million (prior year: € 406.1 million) comprised equity attributable to non-controlling interests. The equity ratio fell from 7.2 percent to minus 2.9 percent.

Non-current liabilities decreased by € 120.8 million (4.4 percent) to € 2,603.3 million (prior year: € 2,724.1 million). The € 140.4 million reduction in liabilities to banks was partly offset by the increase of € 61.2 million in loans from non-banks. Deferred tax liabilities decreased by € 25.5 million, while non-current provisions declined by a total of € 7.1 million.

Current liabilities decreased by € 72.8 million to € 1,270.3 million (prior year: € 1,343.1 million). Financial liabilities decreased by € 87.8 million to € 365.5 million (prior year: € 453.3 million) due to the price- and volume-driven drop of € 141.9 million in liabilities from derivatives. At the same time, other provisions rose by € 69.8 million to € 402.0 million (prior year: € 332.2 million), mainly due to the establishment of provisions for restructuring and for purchase obligations. Trade accounts payable were € 189.0 million lower than in the prior year at € 206.2 million, and liabilities associated with assets held for sale increased by € 134.3 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, it is the largest single company in the Group with sales of € 693.3 million and total assets of € 3,116.3 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.

Income statement for STEAG GmbH

in € million	2020	2019
Sales	693.3	909.3
Change in inventories, own work capitalized	65.1	48.7
Other operating income	240.6	245.4
Cost of materials	-689.4	-889.3
Personnel expenses	-161.4	-134.5
Depreciation/amortization and impairment losses	-71.6	-11.1
Other operating expenses	-237.3	-223.7
Financial result	169.2	100.2
Income taxes	-4.7	1.5
Income after taxes	**3.8**	**46.5**
Other taxes	-3.8	-1.5
Profit and loss transfer	-	-45.0
Net income	**-**	**-**

In 2020, STEAG GmbH's sales decreased by € 216.0 million year-on-year to € 693.3 million (prior year: € 909.3 million). The reduction was mainly due to the drop in the marketing of power output in Germany and to lower sales from coal trading.

In the reporting period sales mainly comprised € 369.0 million (prior year: € 535.0 million) from the supply of energy and other media, € 174.7 million (prior year: € 204.9 million) from the supply of coal, revenues of € 5.1 million (prior year: € 7.3 million) from the gas business, and € 106.6 million (prior year: € 106.5 million) from operating and management fees. The revenues were from customers in Germany, other European countries and North and South America.

The change in inventories increased by € 16.7 million to € 65.1 million (prior year: € 48.4 million) due to project progress relating to a long-term customer order.

The other operating income decreased by € 4.8 million year-on-year to € 240.6 million (prior year: € 245.4 million). This item mainly contains income from the realized fair values of derivatives that have been settled, which amounted to € 122.0 million (prior year: € 130.7 million). In addition, other operating income contains reversals of provisions totaling € 65.2 million (prior year: € 71.2 million), mainly due to the reversal of provisions for public safety measures (€ 27.8 million) and for risks relating to pending transactions (€ 23.0 million), obligations from an earn-out clause in a purchase agreement that are no longer applicable (€ 7.4 million) and reversals of personnel-related provisions (€ 4.3 million). Furthermore, in the reporting period this item included a write-up of € 12.8 million on the investment in Crucea Wind Farm S.A. and € 12.3 million from the reimbursement of expenses for redispatch measures in previous years.

The year-on-year drop in the cost of materials basically mirrored the reduction in sales revenues.

Personnel expenses rose to € 161.4 million (prior year: € 134.5 million), mainly due planned restructuring.

The considerable rise in depreciation/amortization and impairment losses to € 71.6 million (prior year: € 11.1 million) is attributable to one-off effects relating to the phasing out of hard-coal power generation under the German Coal-Fired Power Generation Termination Act (KVBG).

The increase in other operating expenses to € 237.3 million (prior year: € 223.7 million) is mainly due to the increase in provisions for impending losses from power marketing in connection with the Walsum 10 project (€ 24.3 million), additions to provisions for measures to safeguard the future of sites and decommissioning of power plant sites (€ 17.6 million), and a € 10.7 million increase in legal and consultancy expenses, mainly in connection with the FUTURE project. By contrast, realized expenses from derivatives that have been settled declined by € 37.3 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 and pending losses in connection with financial derivatives.

The company's financial result was positive at € 169.2 million in the reporting period (prior year: € 100.2 million). This was mainly due to income from investments of € 431.8 million (prior year: € 153.7 million) and, as a counter item, net transfers under profit and loss transfer agreements of € 195.2 million (prior year: € 21.4 million), which were mainly attributable to the absorption of losses at STEAG Beteiligungsgesellschaft mbH (loss of € 106.3 million) and STEAG 2. Beteiligungs-GmbH (loss € 67.8 million). Income from investments in the reporting period mainly comprised profit transfers resulting from withdrawals from capital reserves at STEAG 1. Beteiligungs-GmbH and STEAG 2. Beteiligungs-GmbH totaling € 358.4 million, which were recognized in profit or loss at STEAG GmbH. Further, the financial result was reduced by the negative interest result of minus € 66.1 million (prior year: minus € 71.3 million) – mainly due to interest on pension obligations and other non-current provisions, and interest expense for non-current loans.

The income tax result of minus € 4.7 million (prior year: € 1.5 million) mainly resulted from non-deductible taxes and foreign withholding taxes.

In the reporting period, STEAG GmbH broke even after income taxes and other taxes. In the prior year, a profit of € 45.0 million was transferred to KSBG KG under the profit and loss transfer agreement.

Balance sheet for STEAG GmbH

Assets

in € million	Dec. 31, 2020	Dec. 31, 2019
Intangible assets	12.1	6.7
Property, plant and equipment	72.0	130.3
Financial assets	1,767.7	1,734.6
Non-current assets	**1,851.8**	**1,871.6**
Inventories	161.7	161.2
Receivables and other assets	862.9	787.2
Cash and cash equivalents	237.2	170.7
Current assets	**1,261.8**	**1,119.1**
Deferred items	**2.7**	**11.8**
Total assets	**3,116.3**	**3,002.5**

Equity and liabilities

in € million	Dec. 31, 2020	Dec. 31, 2019
Issued capital	128.0	128.0
Capital reserve	77.5	77.5
Profit reserves	272.8	272.8
Equity	**478.3**	**478.3**
Special items	-	0.0
Provisions	**1,161.6**	**1,122.4**
Liabilities	**1,473.7**	**1,364.2**
Deferred items	**2.7**	**37.6**
Total equity and liabilities	**3,116.3**	**3,002.5**

Total assets of STEAG GmbH increased by € 113.8 million to € 3,116.3 million. Non-current assets declined by a total of € 19.8 million to € 1,851.8 million (prior year: € 1,871.6 million). Capital expenditure for intangible assets reported as non-current assets and for property, plant and equipment was € 5.0 million in the reporting period (prior year: € 7.8 million). Capital expenditure was below depreciation and amortization, which was € 8.8 million. In addition, write-downs of € 47.9 million were recorded, mainly as a result of the exit from coal-fired power generation mandated by the German Coal-Fired Power Generation Termination Act (KVBG). The ratio of depreciation and amortization on property, plant and equipment and intangible assets reported in non-current assets (cumulative depreciation and amortization relative to the historical cost of acquisition or production) was 95.2 percent (prior year: 92.2 percent).

Financial assets increased by € 33.1 million to € 1,767.7 million (prior year: € 1,734.6 million). The change in shares in affiliated companies was mainly due to a capital increase at Crucea Wind Farm S.A., which took the form of the conversion of parts of a long-term shareholder loan granted by STEAG GmbH with a new carrying amount of € 35.4 million. In addition, the shares in Crucea Wind Farm S.A. were written up by € 12.8 million. Further capital measures were undertaken at the subsidiaries STEAG Beteiligungsgesellschaft mbH, STEAG 2. Beteiligungs-GmbH and STEAG Walsum 10 Kraftwerksbeteiligungsgesellschaft mbH in the reporting period. As a result, shares in affiliated companies were reduced by € 6.8 million. In addition, there was a net decline of € 8.2 million in loans to affiliated companies. Alongside the conversion of the shareholder loan at Crucea Wind Farm S.A. outlined above, this was due to repayment of credit lines at STEAG Waste to Energy GmbH and, on the other hand, drawings on credit lines by STEAG Beteiligungsgesellschaft mbH and STEAG Power Minerals GmbH, plus the interest on the upstream loan granted by STEAG GmbH to its shareholder KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG.

Current assets increased by € 142.7 million to € 1,261.8 million (prior year: € 1,119.1 million), with inventories remaining almost unchanged at € 161.7 million (prior year: € 161.2 million). In addition to the price- and volume-driven changes in both emission allowances and inventories of coal and merchandise, the main factors behind the net reduction of € 64.6 million were impairment losses on stocks as a result of the phasing out of hard-coal power generation mandated by the German Coal-Fired Power Generation Termination Act (KVBG). This was countered by an increase of € 65.1 million in work in progress to € 118.3 million (prior year: € 53.2 million) in connection with a long-term customer order.

Receivables and other assets were € 75.7 million higher than in the previous year. The change was mainly due to the rise in receivables from affiliated companies, which increased by € 231.0 million to € 608.3 million (prior year: € 377.3 million). As well as receivables from financing relationships and profit and loss transfer agreements, they include, in particular, receivables of € 107.5 million from STEAG 1. Beteiligungs-GmbH and € 205.9 million from STEAG 2. Beteiligungs-GmbH relating to resolutions to reduce the capital reserves in order to distribute profits and the associated receipts recognized in the income statement of STEAG GmbH. By contrast, trade accounts receivable declined by € 177.1 million to € 166.9 million (prior year: € 344.0 million) due to reporting-date effects. The other assets increased by € 24.7 million to € 87.5 million (prior year: € 62.8 million) and mainly comprised security for power marketing and receivables from tax authorities.

Deferred items decreased by € 9.1 million to € 2.7 million in the reporting period (prior year: € 11.8 million), mainly due to the reversal of accruals recognized in the previous year for advance payments relating to a change in the clearing partner.

There was no change in equity compared with the prior year. As a consequence of the change in total liabilities, the equity ratio is now 15.3 percent (prior year: 15.9 percent). Equity coverage of non-current assets is 25.8 percent (prior year: 25.6 percent).

Provisions rose by € 39.2 million to € 1,161.6 million (prior year: € 1,122.4 million). Provisions for pensions and other post-employment obligations increased by € 32.9 million to € 675.7 million (prior year: € 642.8 million), mainly because of higher interest accruals. Pension provisions accounted for 58.2 percent and thus the largest share of provisions (prior year: 57.3 percent). The other provisions increased by € 6.7 million compared with the prior year to € 482.2 million (prior year: € 475.5 million). This was due, among other things, to an increase of € 19.2 million in personnel-related provisions, mainly due to the rise of € 16.1 million in provisions for restructuring. Furthermore, provisions for outstanding invoices rose by € 24.6 million and provisions to cover impending losses from power marketing relating to the Walsum 10 project increased by € 17.8 million. The main countereffect was a reduction in provisions for the surrender of emission allowances for captive use totaling € 31.0 million.

Liabilities increased by a total of € 109.5 million to € 1,473.7 million (prior year: € 1,364.2 million). The change was mainly due to the rise in liabilities to affiliated companies, which increased by € 257.2 million to € 771.9 million (prior year: € 514.7 million). This was mainly due to the rise in liabilities from financing relationships relating to loans and cash pooling activities. Liabilities for the profit and loss transfer agreement with KSBG KG were € 0.0 million (prior year: € 45.0 million). The increase in advances received for orders (€ 150.4 million; prior year: € 95.7 million) related primarily to a long-term customer order. This was countered by a reduction in trade accounts payable (€ 142.4 million; prior year: € 330.4 million) due to reporting-date effects.

The € 34.9 million reduction in deferred income to € 2.7 million in the reporting period (prior year: € 37.6 million) was mainly attributable to the reversal of accruals recognized in the previous year for compensation payments in connection with a change in the clearing partner.

(2.5) Non-financial performance indicators

Employees

Headcount

At the end of December 2020, the STEAG Group had 6,258 employees. Worldwide, the proportion of female employees was 13 percent and the average age of the workforce was 43. 47 percent of the workforce was employed outside Germany.

The number of employees in the Group was 120 lower than in the previous year, mainly due to changes in the Power division (minus 55 employees): In the Trading & Optimization business unit, the headcount decreased by a total of 20, while the Asset Management business unit had 12 fewer employees and the headcount in the Generation business unit declined by 30. This was countered by an increase of 14 in the number employees at the Energy Services business unit. The headcount in the Renewable Energies and Distributed Facilities division decreased by 28.

Employees by division	**Dec. 31, 2020**	Dec. 31, 2019
Power	4,849	4,904
Renewable Energies and Distributed Facilities	998	1,026
Administration	411	448
STEAG Group	**6,258**	**6,378**
thereof in Germany	3,307	3,371
thereof in other countries	2,951	3,007

In 2020, the headcount reductions resulting from the decommissioning of power plants and from the STEAG 2022 transformation process 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.

Occupational health and safety and environmental protection

Preventing accidents at work and avoiding environmental and health risks are corporate goals. Occupational health and 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 occupational health and safety management system supports these goals. There were no fatal accidents. The lost time injury frequency (LTIF) indicator dropped from 2.5 accidents per 1 million working hours in 2019 to 1.9 accidents per 1 million working hours as at December 2020. That was a reduction of 24 percent. As a result, this accident indicator dropped to a record low level. The reduction in occupational accidents was due, among other things, to heightened awareness among employees, the implementation of modern working practices and, to some extent, to short-time working.

Twelve companies and sites did not report any accidents. They include the Mindanao power plant in the Philippines, where there has not been an accident for 14 years, and Compania Electrica de Sochagota S.A.E.S.P - C.E.S, which has been accident-free for five years.

The coronavirus pandemic did not result in any significant operational restrictions. A crisis management team for the Group and local crisis management teams were set up early on – with the involvement of management members and specialists – to define suitable protective measures.

Declaration on corporate governance with regard to gender quotas

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 has been set at a minimum of 10 percent by spring 2022 at the latest.

The target for the percentage of women on the Board of Management of STEAG GmbH as at June 30, 2020 was set at zero. The target was achieved as at June 30, 2020. At its meeting on April 20, 2021, the Supervisory Board resolved to extend the target of 0 percent to December 31, 2023.

For the first management level below the Board of Management at STEAG GmbH, the target is 19-22 percent women by June 30, 2022 at the latest, while the target set for the second management level is 18-21 percent women.

(3) Events after the reporting date

On February 2, 2021, STEAG notified the Federal Network Agency that it planned to permanently shut down its Weiher 3 and Bexbach power plant units in the Saarland region, which have been kept available as grid reserve plants since 2017. In response, Amprion applied to extend the systemic relevance of the plants beyond 2022, until March 31, 2025. The Federal Network Agency has already approved this application in a preliminary decision. Final shutdown of the two units is only permitted when they are no longer classed as systemically relevant.

On February 12, 2021,Carsten König was appointed to the Board of Management of STEAG GmbH as Chief Transformation Officer (CTO). Following many rounds of negotiation on the overall financing concept of STEAG and KSBG and the improvement in company's economic situation, STEAG embarked on a new transformation phase with different priorities. As a consequence, there was also a change on the Board of Management at the start of August. Ralf Schmitz was appointed to the Board of Management of STEAG GmbH effective July 30, 2021 and Carsten König left the Board of Management. Dr. Heiko Sanders left the Board of Management of STEAG GmbH on September 15, 2021.

On March 10, 2021, STEAG and EP Power Europe, a.s. signed an agreement on the sale of 100 percent of the shares in STEAG Power Minerals GmbH and its subsidiaries. This transaction was closed on May 31, 2021.

On April 20, 2021, STEAG signed an agreement on the sale and transfer of the shares in the Indonesian project company PT Sejahtera Alam Energy and the loan extended to this company. The transaction took effect on April 22, 2022.

On May 4, 2021, STEAG registered the Völklingen-Fenne heating plant and the Bergkamen power plant with the Federal Network Agency for provisional closure. On July 14, 2021, the Federal Network Agency announced that in the third decommissioning auction STEAG's bid for decommissioning payments for the shutdown of the Bergkamen power plant, and the heating plant and the model power plant in Völkingen had been accepted. This means that these three STEAG power plants may no longer operate with coal from October 31, 2022, assuming that the Federal Network Agency, in consultation with the transmission network operator Amprion, does not class the plants as systemically relevant in the multi-month review process.

In accordance with the strategy for the FUTURE project, in July 2021 STEAG offered its shares in the project company STEAG State Power Inc., including the power plant in the Philippines, for sale via a tender process. In August, the shares in SFW Energie Sp. z.o.o, together with the subsidiary for conventional heat generation in Poland, were offered for sale via a tender process. Through these divestments, STEAG is driving forward its transformation and the concentration on its future business focuses: renewable energies, including hydrogen, and decarbonization solutions for industrial customers. Alongside the realignment of business operations, the transformation process includes geographic concentration on selected focus markets.

At its meeting in late July 2021, the Board of Management of STEAG GmbH approved the sale of the site of the West power plant in Voerde. All existing pollution and safety obligations will be transferred to the buyer of this land. The shorter operating period was taken into account when calculating the provision for public safety obligations in the financial statements as at December 31, 2020.

In connection with the former investment in the Arenales solar park in Spain, on August 17, 2021 the ICSID tribunal in Washington awarded STEAG compensation of € 27.6 million plus 1.5 percent p.a. interest (from the investment date, compounded quarterly) plus the reimbursement of costs of around € 1.4 million. STEAG is in promising negotiations on the sale of this claim on the Kingdom of Spain.

On September 24, 2021, STEAG Walsum 10 Kraftwerksbeteiligungsgesellschaft and EVN Kraftwerks- und Beteiligungsgesellschaft mbH (EVN) concluded a contract on the purchase and transfer of shares. Under this agreement, STEAG will assume EVN's 49 percent shareholding in the Walsum 10 power plant project, becoming the sole shareholder. The power supply agreement with EVN will be terminated early in return for payment of compensation. The amounts received will mainly be used to repay the project financing for the power plant.

The price of gas, coal and electricity rose significantly in the third quarter of 2021. This improved the margins at the German coal-fired power plants. Following the price rises, to limit the liquidity risks relating to clearing & margining under the Trading business unit's risk concept, it was necessary to undertake counter-transactions to previously concluded forward agreements. As a consequence, the German power plants are marketed principally via the spot market, with the corresponding market opportunities and risks.

Debt restructuring agreement

Given the earnings performance in recent years and the tougher market and competitive situation resulting from the energy transition, a restructuring and recovery concept has been developed since 2019 within the framework of the FUTURE transformation project. This contains a variety of measures. The debt restructuring agreement presented below is a key element in this concept. At the end of September 2021, the guarantee providers, creditors of the bonded loan, the creditor of a money market loan and the other financial creditors concluded a debt restructuring agreement with STEAG. This runs until December 31, 2023. It sets out the principal aspects of the contribution of the various creditor groups to the debt restructuring concept and the collateral, payments and restructuring contributions to be made by the companies in the STEAG Group.

A master credit guarantee agreement concluded at the same time sets out the terms for the old and new guarantees. All facilities now run until December 31, 2023. Use will be based in each case on the bilateral credit guarantee agreements between STEAG GmbH (or Group companies) and the relevant guarantee provider.

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

The debt restructuring agreement provides for cash margining on senior pledged and frozen accounts for the benefit of the guarantee providers as collateral for the guarantee facilities. The cash margining rises over time. In addition, further collateral, e.g., the assignment of shares in businesses, assignment of security, pledging of bank accounts, real estate liens and the assignment of revenue due from the Federal Republic of Germany as a result of decommissioning auctions, has been established as a collateral pool to secure the liabilities to the guarantee providers, creditors of the bonded loan and creditors of the money market loan and other financing creditors.

The debt restructuring agreement was contingent on various conditions, which were fulfilled on September 24, 2021. The corresponding confirmation has been provided. Therefore, the debt restructuring agreement took effect on September 24, 2021.

Finally, the appointment of a trustee for KSBG's shares has been agreed on terms that are satisfactory to the guarantee providers and creditors of the bonded loans.

On the basis of the debt restructuring agreement, terms have been concluded on the financing conditions for STEAG until December 31, 2023 and the complete repayment of the restructured bonded loans and the money market loan.

On September 24, 2021, it was confirmed that the debt restructuring agreement with STEAG's creditors could take effect. On the basis of this debt restructuring agreement, it can be assumed that in all probability the company can continue its business activities. Nevertheless, there is naturally some uncertainty with regard to the success of this agreement. The underlying restructuring measures are based on specific premises and planning assumptions. If there should be material deviations from these assumptions and premises in the forecasting period, STEAG or the STEAG Group might not be able to realize its assets or meet its obligations on time as planned.

Moreover, the debt restructuring agreement contains specific grounds for termination. As of now, the Board of Management does not expect that the grounds for termination set out in the agreement, some of which are beyond STEAG's control, will come into effect.

In view of the above, there is material uncertainty regarding continued operation of its business activities. Therefore, the Board of Management has put monitoring measures in place to support achievement of the restructuring objectives. Accordingly, it assumes that the measures will be implemented successfully.

(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 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 threshold, 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. For details of the present uncertainties and measures taken by the management, please refer to the information in “(3) Events after the reporting date”.

Strategic risks

Changes in the present regulatory framework could have a significant impact on planned investments and the earnings position of the STEAG Group. In addition, the STEAG Group's business activities are exposed to strong and dynamic competition which causes volume and price risks.

Therefore, 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 prescribes a complete exit from coal-fired power generation in Germany by 2038 at the latest, with an earlier date for the closure of all hard-coal power plants. The 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 participated in the first three auctions. In the light of economic factors and the impending compulsory shutdowns from 2027, participation in upcoming auctions is also being examined. Assuming successful participation in the auctions, STEAG will decommission its remaining power plant capacity in Germany in the coming years.

The closure of the German power plants is expected to have an extensive impact on the STEAG Group. Where necessary, this has 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.

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.

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. 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 or the risk of demonstrators gaining illegal access.

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. In 2020, the situation in this country was further exacerbated by the coronavirus pandemic. The STEAG Group’s engagement in Turkey mainly comprises the Iskenderun hard-coal power plant, whose output is sold on the open market. The merchant phase expectations were exceeded in the first quarter of 2020. From the start of the second quarter, however, the macroeconomic development in Turkey resulting from the coronavirus pandemic had a negative impact on demand and electricity prices. For the coming year, there are risks resulting in particular from the ongoing development of the coronavirus pandemic.

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. All covenants in financing agreements were met as at December 31, 2020. 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 resulting information obligations were met and the necessary collateral was provided. Some market participants took a critical view of the more difficult financing situation that arose at least temporarily in 2020. In the future, the conclusion of forward agreements will therefore depend on a stable financing situation at STEAG.

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.

An impairment loss was recognized in 2020 for all capitalized project costs for the geothermal project in Indonesia, which comprises investment in the exploration of a geothermal system, due to the limited progress with this project. The shares in the project company were sold in April 2021.

Financial risks

To remain solvent and guarantee its financial flexibility at all times, the STEAG Group draws up a multi-year financial plan and rolling monthly liquidity plans for a period of 24 months. 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. Margining requirements from daily revaluation can trigger significant short-term fluctuations in liquidity. Hedging transactions on the forward market result in positive cash inflows over the total period. Since such transactions are used to hedge earnings, an adequate minimum level of liquidity is needed for margining. Without an adequate minimum liquidity level, the STEAG Group would have to reduce its hedging transactions, which would increase the risk of significant fluctuations in EBIT.

The present coronavirus situation has led to higher volatility on the commodity markets. This has increased the margining requirements of trading partners until fulfillment of the hedged transactions.

To supplement the existing risk limits, further measures have been developed to protect liquidity. These can be used to counter any unexpected changes in liquidity. In 2021, the liquidity management measures comprise, for example, portfolio adjustments and changes in investments; these form part of the present restructuring concept. Based on the present liquidity planning and taking the measures outlined above and the restructuring agreement into account, the STEAG Group is fully financed over the entire 24-month planning period. For details of the present uncertainties and measures taken by the management, please refer to the information in “(3) Events after the reporting date”.

The STEAG Group has various financial liabilities for financing purposes. In particular, STEAG GmbH’s bonded loans require the fulfillment of specific covenants. All covenants set out in the financing agreements were met as at December 31, 2020.

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's ESG 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 coronavirus pandemic had a considerable influence on the operational and financial development of the STEAG Group in the reporting period, which had an impact on earnings and liquidity (pricing and employment risks, margin losses at German power plants, risk of default on receivables, etc.). In addition, the pandemic affected the financial and transaction markets, which restricted refinancing options and delayed planned M&A transactions or made them more difficult. Despite the adverse effects of the coronavirus pandemic and the German Coal-Fired Power Generation Termination Act (KVBG) compared with the mid-term planning as at January 2020, based on the present liquidity planning the STEAG Group is fully financed.

Generally, the capital market has been cautious during the coronavirus pandemic. In view of this, the STEAG Group has postponed financing plans.

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.

The STEAG Group's present liquidity planning shows that the Group has full financing above the planned minimum liquidity level up to December 2023, assuming that the financing and M&A transactions are realized in this period. This also takes into account the repayment of bonded loans in September 2021.

The amount and timing of the realization of most of these financing and M&A transactions are classed as highly probable. Nevertheless, due to the present coronavirus-related market conditions, there is heightened uncertainty, which cannot be fully estimated in the same way as in normal circumstances.

In a letter dated June 23, 2020, the German Bundesbank classified STEAG GmbH as meeting the central bank eligibility criteria. Based on an an updated evaluation using updated findings and information, on November 18, 2020, the German Bundesbank reclassified it as “eligible ACC”. This classification was revised again on March 2, 2021 on the basis of a further update. As a result, STEAG GmbH is no longer classified as meeting the central bank eligibility requirements.

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 were 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. For details of the present uncertainties and measures taken by the management, please refer to the information in “(3) Events after the reporting date”.

(4.2) Opportunity report

The STEAG Group is currently positioned nationally and internationally in conventional power generation, 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.

The FUTURE project has 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. This gives the STEAG Group the opportunity to reposition itself through its own efforts and to secure and improve the economic viability of the Group.

The business models defined as part of the FUTURE project utilize 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 an 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 gain a foothold in the development of 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. That enables it to maintain and expand its technical and commercial competence in plant operation and to continue to participate in the opportunities for power generation on foreign markets or in the areas of district heating and the incineration of refuse. In this context, 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.

Another business model defined by the FUTURE project is the development of a digital service platform that will 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.

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, structuring the management and support functions more efficiently will increase flexibility and speed up the response to market trends.

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[5]

According to the latest macroeconomic assessments and forecasts by the German Bundesbank, following the impact of the coronavirus pandemic in 2020, it is expected that the recovery that started in spring 2021 will continue to stabilize. Current developments and future estimates are, however, predominantly affected by the ongoing development of the coronavirus pandemic. In view of the widespread availability of vaccines, the measures to contain the pandemic were scaled back. The service sector, in particular, benefited from this. However, the German economy's return to strong growth is also dependent on the availability of starting products and here relevant supply bottlenecks occurred in the first two quarters of 2021, especially in the supply of semiconductors and construction materials. The drop in growth in 2020 was initially due to the impact of the protective measures related to the coronavirus pandemic on the contact-intensive service sector, which was subject to severe restrictions. The impact on manufacturing industry was relatively low thanks to extensive support from monetary, fiscal and labor market policies and, in particular, the stabilization of export demand. Due to supply bottlenecks, exports only picked up slightly in the first half of 2021, with the macroeconomic recovery in the spring supported principally by consumer spending. The recovery of the German economy that started in the spring continued with higher momentum in summer 2021. Real gross domestic product is expected to post strong growth of between nearly 4 percent and 5 percent p.a. in 2021 and 2022.

The 2020 annual report of the German Council of Economic Experts also supports this assessment of the macroeconomic outlook. Furthermore, it notes that it is important not to lose sight of long-term challenges such as the technological transformation and, in particular, digitalization and the associated far-reaching changes in economic structures and on the labor market. This is particularly important given that productivity gains in Germany have been slowing for decades. Furthermore, the report points out that the opportunities from the planned reduction in greenhouse gas emissions and the related transformation to a climate-neutral economy must be utilized to maintain and increase the productivity of the German economy.

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 activities.

The transformation of the energy industry resulting from the socially and politically driven turnaround in energy policy in Germany is continuing. On the one hand, financial support for power generation from renewables and the related overcapacity at conventional generating facilities, which comprises many hours per year, are continuing to squeeze out hard-coal power plants. The high gas prices improved the market position of the hard-coal power plants from the third quarter of 2021, even though the price of hard coal also rose.

On the other hand, the KVBG legislation, which came into force in 2020, will have a strong impact on the development of the energy sector in the coming years.

5 See the German Bundesbank’s monthly reports of December 2020, June 2021 and August 2021, and the 2020 annual report of the German Council of Economic Experts on the general economic development (“Overcoming the Coronavirus Crisis Together; Strengthening Resilience and Growth”).

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. Since the UN Climate Conference 2020 was canceled due to the coronavirus pandemic, only a few countries published more stringent new climate targets in 2020 as required by the Paris Climate Agreement. The USA withdrew from the agreement effective November 4, 2020 but the new US Administration rejoined in February 2021.

On April 29, 2021, Germany's Federal Constitutional Court ruled that parts of the government's Climate Protection Act were unconstitutional. The 2019 Climate Protection Act there has to be revised; 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 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. With the exception of the Walsum 10 power plant, by the end of 2022 STEAG GmbH will not be marketing power from any German hard-coal power plants on the free market, which greatly reduces the possible impact of the amendments to the Climate Protection Act.

Strategic and operational challenges

The German energy market continues to be dominated by massive upheaval as a result of the Coal-Fired Power Generation Termination Act (KVBG), expansion of capacity for renewable energy and the adjustment of capacity at thermal power plants. As a result of these challenging market conditions, the STEAG Group has been confronted by a significant drop in earnings, especially from conventional energy generation in Germany. This has been compounded by the effect of the coronavirus pandemic on the financial and economic development of the STEAG Group as lower demand for energy had an additional impact on capacity utilization at the power plants.

In view of the massive and ongoing change in market conditions, the STEAG Group launched a far-reaching transformation process, known as the FUTURE project, at the end of 2019. This has initiated extensive measures for a strategic refocusing followed by an organizational realignment of the entire Group.

In parallel with the phasing out of coal in Germany, the FUTURE project has driven forward new business models. The STEAG Group is speeding up its transformation to an integrated service-provider for end-to-end energy solutions, including the planning and operation of energy facilities and the marketing of energy output. The focus is on industrial customers, renewables and distributed energy solutions. In this context, it is also developing a digital service platform to provide bundled services and monitor and optimize energy facilities. To provide optimal support for the new business processes, the existing administrative and support functions are also being aligned to the new requirements.

In addition, the STEAG Group is continuing to operate its own energy facilities, especially outside Germany and in the areas of renewables and the supply of heating, in order to utilize market opportunities and maintain and expand its expertise in plant operation. In the future, it will therefore be expanding the Renewables business unit, which focuses on the development, construction and operation of photovoltaic installations and wind farms.

Operating performance

In the past fiscal year, sales amounted to € 2.0 billion. In addition to the continuing lower utilization of domestic power plants due to the fuel switch and the high level of renewable energy fed into the grid, business was adversely affected by the coronavirus pandemic. Thanks to timely countermeasures, the STEAG Group's EBIT was in line with expectations.

In 2021, sales are expected to come in at € 2.2 billion, which would be above the 2020 level. The price- and volume-driven increase in sales from the operation and marketing of the portfolio German and foreign power plants will be countered by a reduction in sales as a result of the divestment of the wind farms in Romania and Turkey (Crucea and Süloglu) and of STEAG Power Minerals.

In 2021, the STEAG Group's EBIT is expected to be around 25 percent below the prior-year level. This is mainly due to the sale of investments and the effects of the German Coal-Fired Power Generation Termination Act (KVBG).

Capital expenditure of up to € 125 million is planned for 2021. Around € 45 million of this amount is earmarked for growth projects. The capital expenditure will be driven mainly by the modernization of gas motors and the construction of an additional district heating pipeline to secure the existing supply of district heating in the Saarland region. The main individual investments in existing infrastructure planned for the coming fiscal year comprise the overhaul of a turbine and expansion of the landfill for residues from the Iskenderun power plant, conversion of a boiler at the Herne site, and conversion of a district heating plant from coal to gas. Further, shareholder loans are planned for the Herne 6 gas and steam turbine project, which is accounted for using the equity method. In addition, selective investment in maintenance will be undertaken at various sites, taking into account the German legislation on phasing out coal-fired power generation, in order to ensure the already high availability and efficiency of plants at all (power plant) sites.

In connection with the FUTURE transformation project and the shutdown of power plants under the German Coal-Fired Power Generation Termination Act (KVBG), STEAG has announced that it will be shedding around 1,000 jobs in Germany by 2024.

General information on expected developments

The STEAG Group assumes that the opportunities arising from its new strategic focus and, in particular, the planned investment in growth areas will help it position itself successfully in the altered energy market. 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.

Based on the present assumptions, the liquidity required to meet the requirements of the German Coal-Fired Power Generation Termination Act (KVBG) and to service STEAG's capital cannot be funded internally by the Group. This assumption is supported by the plans for extensive divestment of investments in 2021 and 2022.

The implementation of the transformation process is partly dependent on successful conclusion of refinancing negotiations by both STEAG GmbH and KSBG. For details of the present uncertainties and measures taken by the management, please refer to the information in “(3) Events after the reporting date”.

Expected development of STEAG GmbH

In 2021, STEAG GmbH is expected to report a profit after taxes, mainly because of one-time effects in the fiscal year such as revenue from the third decommissioning auction and the compensation payment from EVN for cancellation of the power supply agreement. 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, October 25, 2021
STEAG GmbH
Board of Management

Rumstadt	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.