



**LEVERAGING VERSATILITY.  
SEIZING OPPORTUNITIES.**

**ANNUAL REPORT 2019**





# VNG IN PROFILE

VNG, headquartered in Leipzig, Germany, is a corporate group comprising more than 20 companies that offers a broad range of gas and infrastructure services and has more than 60 years of experience in the energy market. The group has established its gas expertise with German and European companies and holdings along nearly the entire value chain. With around 1,200 employees, VNG is also one of the region’s major employers.

VNG organises its business activities in four business areas: Trading & Sales, Transport, Storage and Biogas. On the basis of these core competencies, VNG is increasingly focusing on new fields of business such as “green gases”, digital infrastructures and neighbourhood solutions in line with the “VNG 2030+” strategy and “Green. Digital. With Gas.” vision.



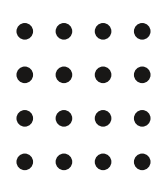
## TRADING & SALES BUSINESS AREA

Trading natural gas is one of the company’s core activities. In addition, VNG offers gas, electricity and energy-related services. Our portfolio ranges from full supply to individual and highly flexible supply concepts. Through VNG Handel & Vertrieb GmbH and its trading companies and holdings, VNG reliably supplies natural gas to regional utilities, industrial companies and commercial and household customers in Germany and abroad.



## TRANSPORT BUSINESS AREA

Through the distribution of gas and the provision of pipeline-related services, the Transport business area guarantees supply security in Germany. As an independent transmission system operator, ONTRAS Gastransport GmbH guarantees non-discriminatory access to the network and, together with its subsidiaries, contributes to a functioning European gas market. ONTRAS is also leading the push for the use of green energy in the German gas network. In this context, one focus is on developing future options for the sustainable use of gas infrastructure in the new world of energy.



# OUR LOCATIONS

BALANCE ERNEUERBARE ENERGIEN GMBH  
GDMCOM GMBH  
GEOMAGIC GMBH  
INFRACON INFRASTRUKTUR SERVICE GMBH & CO. KG  
MGMTREE GMBH  
MOVIATEC GMBH  
ONTRAS GASTRANSPORT GMBH  
VNG AG  
VNG GASSPEICHER GMBH  
VNG HANDEL & VERTRIEB GMBH  
VNG INNOVATION GMBH  
VNG VIERTELENERGIE GMBH



## STORAGE BUSINESS AREA

Underground gas storage facilities represent a central component of the gas infrastructure and play an essential role in shaping the energy system of tomorrow. As the third-largest storage operator in Germany, VNG provides reliable, safe and efficient gas storage through VNG Gasspeicher GmbH and has extensive expertise in the operation, maintenance and commercialisation of storage capacities. The company's range of services also includes intelligent and flexible storage products and special engineering services.

## BIOGAS BUSINESS AREA

VNG has concentrated its activities related to biogas and biomethane in the Biogas business area since 2020. In this context, biogas is one of the most important growth segments. BALANCE Erneuerbare Energien GmbH currently operates 27 biogas plants in eastern and northern Germany. The focus of its activities is on plant optimisation and successively expanding its level of vertical integration as a plant operator. In future, VNG will thus have additional opportunities to increase the share of renewable energy sources in the gas network.



# VNG AT A GLANCE

## Key figures

in € million	2019	2018
Billed revenue	10,550	10,043
EBIT	172	196
Adj. EBIT*	133	159
Net income	117	142
FFO**	120	188
Net cash investments	215	-62
Non-current net liabilities***	737	301
Equity ratio (%)	20	22

\* EBIT adjusted for extraordinary and non-recurring income items

\*\* Funds from operations, i.e. consolidated earnings adjusted for non-cash income and expenses as well as gains/losses from the disposal of fixed assets

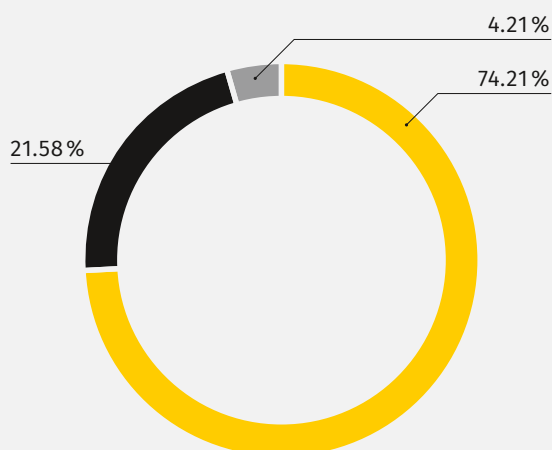
\*\*\* Net financial liabilities plus provisions for pensions and decommissioning less inventories that can be liquidated at short notice

## Key performance data

	2019	2018
Number of employees at year end*	1,155	1,101
Group companies and holdings	65	62
Number of European countries with VNG holdings	5	6
Gas send-out in billion kWh	516	463
High pressure pipeline system in km	7,500	7,000
Storage capacity in billion m <sup>3</sup>	2.2	2.2

\* Total employees of all fully consolidated companies; as at 31 December 2019

## Shareholders of VNG AG



- EnBW Energie Baden-Württemberg AG, Karlsruhe
- VNG Verbundnetz Gas Verwaltungs- und Beteiligungsgesellschaft mbH, Leipzig\*
- OEW Energie-Beteiligungs GmbH, Ravensburg

\* Trustee for eight municipal utilities and municipal companies (Annaberg-Buchholz, Chemnitz, Dresden, Hoyerswerda, Leipzig, Lutherstadt Wittenberg, Neubrandenburg, Rostock); as at 31 December 2019



# LEVERAGING VERSATILITY. SEIZING OPPORTUNITIES.

Perfectly compatible, seamless solutions are needed in order to create the carbon-neutral, secure energy supply system of the future. Gases that can be used in a flexible manner and the associated infrastructure are the ideal partners for energy from the wind and sun. By means of a company-wide transformation in line with the “Green. Digital. With Gas.” vision set out in the “VNG 2030+” strategy, VNG is systematically positioning itself to seize the opportunities offered by an environment shaped by decarbonisation.

In 2019, the company created the conditions necessary to replace natural gas with carbon-neutral gases such as biogas and hydrogen over the medium and long term and to further digitise its business. In addition, VNG worked with policymakers, industrial companies and the scientific community to set the energy policy agenda for a successful energy revolution. ►





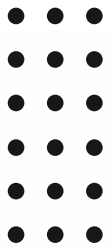




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# VNG



## FOREWORD BY **THE EXECUTIVE BOARD**





*Dear Shareholders and  
business partners,  
dear friends of the company,*

While preparing this annual report, the world – and thus also Germany and Europe – was struck by the novel coronavirus (SARS-CoV-2) in a way previously unimaginable. Today, the focus is quite rightly on containing the spread of the virus and thus protecting the health and lives of our fellow human beings. However, massive economic consequences are already foreseeable, although it is not yet possible to realistically assess the scale and true impact on VNG's business activities. From today's perspective, we stand on a solid foundation and believe we are well prepared for future challenges. We implemented measures throughout the Group at a very early stage to protect the health of all our employees and ensure that business operations continue to run smoothly. On a positive note, this pandemic has shown that our gas supplies are always secure, even in times of such crises. We continue to monitor current developments very closely and analyse them on an ongoing basis. In light of this situation, we cannot rule out the possibility that certain assumptions and statements regarding the future of our business will not hold true for the current 2020 financial year.

Now to the prior financial year. 2019 was an exciting and eventful year. This not only refers to even stronger efforts to bring mitigating the effects of climate change into the focus of politics and society, but also to the role

The Executive Board (f.l.t.r.):  
Ulf Heitmüller, Chief Executive Officer  
Hans-Joachim Polk, Chief Infrastructure & Technology Officer  
Bodo Rodestock, Chief Financial & HR Officer



of natural gas in implementing the energy revolution, which has recently gained considerable momentum. In light of these welcome developments for our core business, we can look back on a very successful year.

This result is primarily due to the improvement in our operating performance. In this context, we are pleased to report that we closed out the year with positive results across all of our business areas. At the same time, we have made substantial progress in transforming our company on the basis of the “VNG 2030+” strategy, while continuing to operate in a cost-oriented and efficient manner. All things considered, these results have once again exceeded our expectations, despite the ambitious targets we set ourselves. Our adjusted EBIT came to € 133 million. Consolidated net income was also strong, reaching € 117 million. As such, these figures have declined compared to the previous year, but this is indeed primarily due to positive one-off effects from abandoning the Exploration & Production business area in 2018.

We are convinced that leveraging the synergies between the business areas was once again the key to VNG’s success in 2019. In this context, we are particularly proud of the significant improvement in the results of the Storage business area. This was mainly the result of increased cost discipline and our seizing of opportunities offered by a significantly improved market environment for storage capacities in the past year. However, the Transport and Trading & Sales business areas also visibly improved their performance in a persistently challenging environment, thus making an important contribution to the encouraging results. By establishing an independent Biogas business area, we are also reaffirming our commitment to transforming VNG into a decarbonised green gas business. The targeted focus on biogas and biomethane by our subsidiary BALANCE Erneuerbare Energien GmbH, which is primarily responsible for our activities in this business area, is in line with our strategy and is consequential in that we made significant acquisitions at the end of 2019 and the beginning of 2020. Following key successes in the integration of the plants and plant portfolios, our objective is now to transition the new business area, together with the expanded portfolio, to stable growth with regard to profit contributions.

Sustainable and environmentally friendly business practices are becoming increasingly relevant. We are convinced that natural gas is not only of central importance in the short term as a bridge technology, but that in its greener form – for example as carbon-neutral biogas, biomethane or hydrogen – it will make an important long-term contribution to creating the decarbonised world we are striving to achieve. There is much to suggest that the important role that gases play in rapid and affordable environmental protection is now more adequately reflected in strategy papers issued by political and economic players. We view this development at both the national and European level as a positive sign for the coming years. We also expressly welcome the increased focus on hydrogen – we are already involved in pioneering activities for the concrete use and development of this alternative energy source through our subsidiary ONTRAS, and have also set up a company-wide “Green Gases” department at VNG AG that focuses on this topic in detail. Nevertheless, action is still required from an energy policy perspective in order to create more effective incentives and greater investment security in the field of renewable and decarbonised gases.

As VNG, we are also seeing success in the area of sustainability. But we also know that this is only the beginning of our path towards holistically sustainable approaches and activities. That is why we are currently working on a programme that will put many of our company’s internal activities to the test. But the fact that sustainable operations are already part of our DNA can be seen most clearly in the heartbeat of our company – our employees.

In 2019, we once again worked intensively on further enhancing our corporate and management culture while simultaneously restructuring our activities. We know from our employees and applicants that VNG is already perceived as a reliable and attractive employer. Since this insight is not a foregone conclusion, however, we will not waver in our commitment to creating the underlying conditions needed for secure and productive jobs in the future. To this end, we are systematically opening ourselves up to new ways of working – better development opportunities, more freedom for agility and environmental awareness as well as the right work-life balance are central themes in this context. As operators of critical infrastructure, we always keep process reliability top of mind. In this respect, we have also committed ourselves to increasing the attractiveness of traditional areas of activity as part of the upcoming transition to a new generation.

Digital transformation is another important topic for the future to which we are devoting a great deal of energy. In 2019, we succeeded as planned in making many of our processes more agile and efficient. Or, to put it another way, we picked up our pace across all business areas. To this end, fields of action were defined in advance and methods developed with which we can assess the success of our measures. This intense commitment was even recognised externally, with the company receiving the HR Energy Award in the category “Leadership & Culture”. At the beginning of 2020, we reached the fourth stage of our “digital journey” – since then, we have been working on enhancing our operational activities and business models using digital methods and skills. The progress we have achieved so far makes us confident that we will soon be able to report on further digital milestones.

Last but not least, as a partner and major employer in the region, we will continue to support education and research, arts and culture and charitable projects. Most recently, for example, we have intensified our cooperation with universities and increased the visibility of these activities. By doing so, we reaffirm that VNG has strong roots in central and eastern Germany and is committed to regional partnerships. This, too, is part of our self-image.

As you can see, there was a lot going on at VNG last year. Today we are an extremely well-positioned group of companies. Over the past year, we have built a strong foundation upon which to conduct our operations. We know our strengths and are actively searching for new opportunities, fields and technologies in order to maintain and expand our position in a decentralised world driven by megatrends. In doing so, we benefit from our versatility that has developed over the course of many years. This is a value that we continue to uphold 30 years after the Peaceful Revolution – and which enables us to tackle the challenges ahead with the right attitude. As a solidly financed, highly profitable and financially sound company, we will be able to further expand our business under our own steam and continue to systematically implement our “VNG 2030+” strategy. In so doing, we are sparing no effort – while maintaining the same level of performance, we expect to invest around € 200 million annually in the continuous restructuring of our company over the coming years.

We strongly believe that it will take a collective effort on the part of all relevant stakeholders and decision-makers in politics, business and civil society to make the energy revolution a success and meet the climate targets. In this

sense, we very much welcome the initiatives, strategic decisions and dialogue and communication platforms that have been launched in recent months – and we will get involved wherever we can contribute our expertise around natural gas and renewable (green) gases. For this reason, in this report we are using the “2030 Natural Gas Dialogue Process” initiated by Germany’s Federal Ministry for Economic Affairs and Energy as a starting point from which to provide deeper insights into our positioning, the diversity of the new world of natural gas and our digital transformation process.

In conclusion, we would like to thank our shareholders, partners, our customers and the Supervisory Board for their constructive and trusting cooperation, and our employees for their outstanding performance during the prior financial year.

The Executive Board



**Ulf Heitmüller**  
Chief Executive Officer



**Hans-Joachim Polk**  
Chief Infrastructure & Technology Officer



**Bodo Rodestock**  
Chief Financial & HR Officer

Read more about the 2019 financial year’s most important topics:

- ▶ PAGE 10: 2030 natural gas dialogue process
- ▶ PAGE 16: VNG’s “green gases” roadmap
- ▶ PAGE 24: Digital transformation



# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board was comprehensively informed at regular intervals and in a timely manner by the Executive Board of the development and situation of the Company and its significant transactions in writing and in verbal presentations. On the basis of these reports and the information provided to us, the Supervisory Board monitored the management and addressed the development of the divisions, the financial position of the Company, questions related to financial planning, investment planning and human resources planning as well as all measures that require approval of the Supervisory Board pursuant to the Articles of Association and discussed these at length.

The Supervisory Board convened four times in financial year 2019. The main points on the agenda included:

- ▶ the separate and consolidated financial statements for 2018,
- ▶ the mid-range planning 2020–2022,
- ▶ a review of the “VNG 2030+” Strategy with an overview of the strategy and focus on foreign operations and “green gases”,
- ▶ sale of shares in EMB Energie Mark Brandenburg GmbH,
- ▶ reporting on the development of the Biogas division and the resolutions to acquire portfolios of biogas plants,
- ▶ regular reporting on new fields of business, “green gases” in particular.

The Supervisory Board addressed the earnings situation and the strategic realignment of the Company based on the status report of the Executive Board.

Within the framework of its advisory and oversight function, the Supervisory Board addressed the activities of the Company in the Gas Trading division, developments in the Gas Storage division and projects in the Transport division. In addition, it looked closely at other investments held by the Company.

Based on these consultations and the reports submitted by the Executive Board, the Supervisory Board is satisfied that management has complied with the requirements.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited the financial statements of VNG AG as at 31 December 2019 and the management report for financial year 2019, including the underlying bookkeeping, and compliance with the requirements of Section 6b (3) of the German Energy Industry Act [Energie-wirtschaftsgesetz, EnWG] and rendered an unqualified audit opinion. In addition, it audited the consolidated financial statements pursuant to IFRS for the year ending 31 December 2019 and the group management report. Here too, the independent auditor rendered an unqualified opinion. The auditor’s reports were issued to all members of the Supervisory Board. The Supervisory Board acknowledged the findings of the audit.

The Supervisory Board reviewed the separate financial statements of VNG AG and the management report as well as the consolidated financial statements and group management report. Based on the final conclusions of this review, the Board has no objections. The independent auditor attended the meeting of the Supervisory Board to discuss the financial statements and reported on the key findings of the audit. The Supervisory Board approved the financial statements for the year ended 31 December 2019 compiled by the Executive Board. The financial statements are therewith ratified. In addition, the Supervisory Board approved the consolidated financial statements of VNG AG for the year ended 31 December 2019 and the group management report.

The Supervisory Board concurs with the proposal for the appropriation of retained earnings submitted by the Executive Board.

The Dependent Company Report of VNG AG pursuant to Section 312 of the German Stock Corporation Act [Aktien gesetz, AktG] that the Executive Board is required to prepare was submitted to us. The auditor has reviewed this report and rendered the following unqualified opinion pursuant to Section 313 (3) of the AktG.



“Based on our audit performed in accordance with professional standards and our professional judgment, we confirm that

1. the factual statements made in the report are correct
2. the consideration paid by the Company for the legal transactions stated in the report was not excessively high.”

Based on its review, the Supervisory Board agrees with the assessment made by the independent auditor.

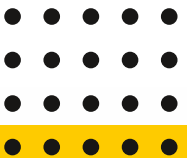
In light of the final conclusions of its review, the Supervisory Board does not have any objections to the Declaration made by the Executive Board that concludes the Dependent Company Report.

At the end-of-day on 10 June 2019, Dr. Jörg Reichert stepped down from his position as Chairman of the Finance and Audit Committee and also from his position on the Supervisory Board of VNG AG. By resolution of the Annual General Meeting on 27 June 2019, Sascha Enderle was elected onto the Supervisory Board. At its meeting on 27 June 2019, the Supervisory Board of VNG AG elected Sascha Enderle onto the Finance and Audit Committee of VNG AG, which, at an extraordinary meeting, then elected Sascha Enderle as its Chairman.

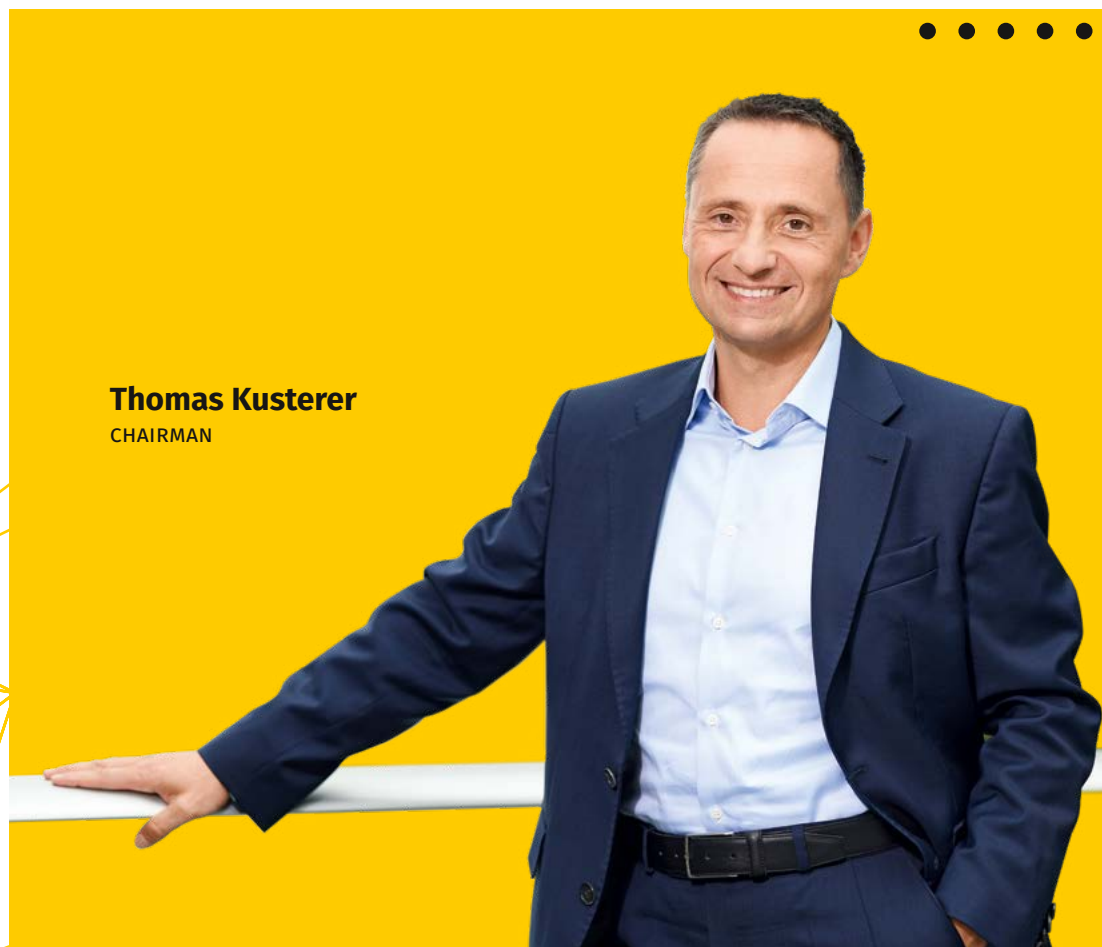
The Supervisory Board would like to take this opportunity to express its gratitude to the Executive Board and all employees as well as its acknowledgment of their performance in financial year 2019.

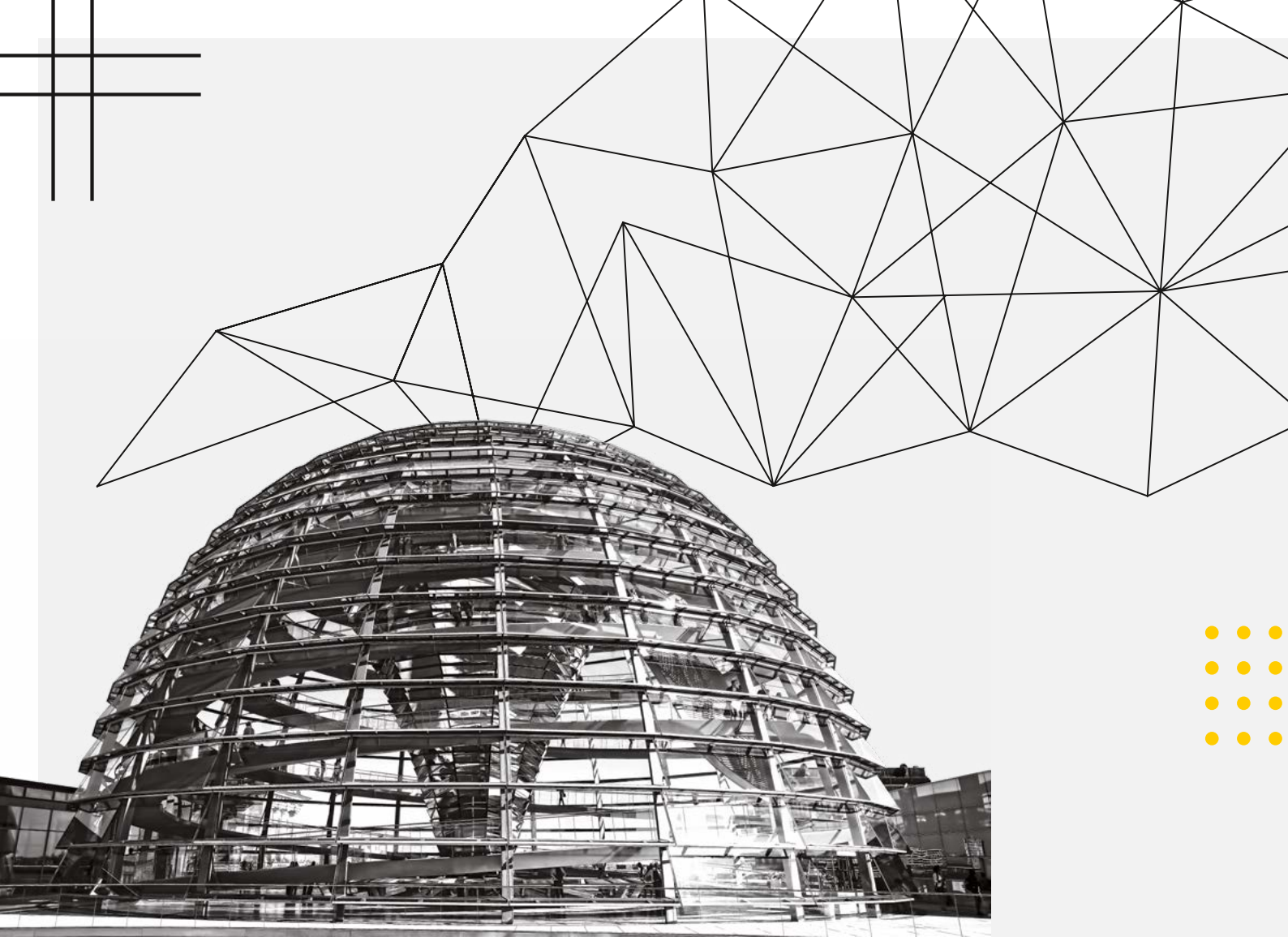
Leipzig, 1 April 2020  
The Supervisory Board

**Thomas Kusterer**  
Chairman



**Thomas Kusterer**  
CHAIRMAN





## GREEN. DIGITAL. WITH GAS.: VNG'S STRATEGY AT A GLANCE

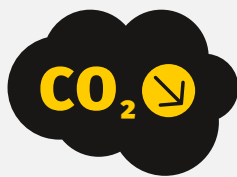
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## "A voice for natural gas":

### An interview with CEO Ulf Heitmüller

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# 2030 NATURAL GAS DIALOGUE PROCESS



**The decarbonisation  
potential of the molecules**

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## EXCELLENT PROSPECTS FOR NATURAL GAS

No matter where you looked in 2019, the will to set the course for a carbon-neutral future in energy and climate policy was evident at both the national and European level. Many of the decisions made and announced underline the importance of natural gas

solutions in a “two-energy world”, consisting of power and natural gas, and therefore affect VNG’s activities. This section provides an overview of the dialogue formats that the company has primarily been involved in and what the initial results mean for VNG’s activities.

**“NATURAL GAS IS AN  
ENERGY SOURCE THAT IS  
ESSENTIAL TODAY AND WILL  
REMAIN SO IN THE FUTURE –  
WE FULLY STAND BEHIND  
THIS CONVICTION.”**

**Ulf Heitmüller,**  
CHIEF EXECUTIVE OFFICER





## Industry dialogue on the future of the energy system

The close and continuous dialogue with stakeholders from the worlds of politics, business, academia and civil society is part of VNG's daily routine as a group of companies that covers a large part of the natural gas industry's value chain. But the past year was particularly eventful in this respect. One important driver was the "2030 Natural Gas Dialogue Process" initiated by the Federal Ministry for Economic Affairs and Energy (BMWi) in 2018 and intensified in 2019. A key finding from the process in which VNG was involved is that natural gas is a central pillar of the energy system today and will remain so over the medium term. In addition, over the long term, the diversity of gaseous energy sources should be an essential part of a renewable and carbon-free energy supply.

In line with the findings of the dialogue process, VNG is convinced that gas can be green. This is because it is indispensable both as a bridge technology that reduces CO<sub>2</sub> as well as in renewable and decarbonised form for a rapid, cost-efficient and secure energy revolution.

## The climate movement continues to grow

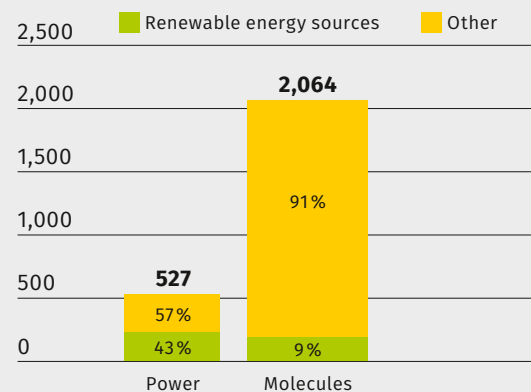
Against this background, VNG also participated in the negotiations on the German government's Climate protection programme 2030. In the German government's view, natural gas technologies – especially in combination with renewable energy – play an important role in meeting the government's CO<sub>2</sub> reduction targets quickly and cost-effectively. Developments at the European level were also highly relevant to VNG – the EU hopes to set a new course in its energy policy with its "Green Deal". The package of measures presented at the end of 2019 underscores the EU's climate policy ambitions with the goal of achieving a carbon-neutral European Union by 2050. Renewable and decarbonised gases are also slated to play an important role in this ambitious project.

Hydrogen also recently benefited from an important strategic decision – the German government's "national hydrogen strategy" emphasises the flexibility of the energy source, thus underlining its importance for the country as an industrial location and its innovative capacity. Since VNG has recognised the long-term potential of this energy source of the future, the company has been involved for many years in various projects for the production, storage, transport and use of hydrogen as part of the East German research cluster HYPOS.

## THE IMPORTANCE OF MOLECULES: ENERGY CONSUMPTION IN 2019

Molecules will play an important role in the required reduction in CO<sub>2</sub> emissions in the future. This is evident when looking at final energy consumption in Germany, where molecules accounted for around 2,000 TWh, just under 200 TWh of which were renewable – meaning there is considerable potential for decarbonisation as a result of transitioning from fossil natural gas to "green gases".

### Energy supply of final energy consumption in TWh\*



\* Source: German Federal Environmental Agency based on AG Energiebilanzen data from 07/2018

## Setting the course for a world of molecules

Despite the positive developments in 2019, VNG sees a need for further energy policy action to bring the world of molecules, i.e. gases and synthetic fuels, into focus alongside the world of electrons. In addition to many sector-specific issues related to power generation, transport and the building sector, the main task is to adapt the overarching regulatory framework to the new requirements. In this context, VNG has made it its mission to highlight how the benefits of natural gas and the gas infrastructure can be best exploited to mitigate climate change. In this spirit, VNG will remain an important voice and dialogue partner for natural gas in the future.

## AN INTERVIEW WITH ULF HEITMÜLLER

*The energy system is changing. We spoke with VNG CEO Ulf Heitmüller about how the business environment changed in 2019 – and about what remains to be done to ensure that gaseous energy sources can do their part to help the energy revolution succeed.*

**Mr. Heitmüller, the business environment in which VNG operates has changed for the better over the past year. What is your verdict?**

**Ulf Heitmüller:** My impression is that thanks to the ongoing commitment of political, economic and civil society stakeholders, the general public has now become firmly convinced of the importance of natural gas as the energy source of the future. However, it should be noted that many of the papers published in 2019 initially only offer recommendations on how to proceed. The task now is to develop a clear roadmap that creates more incentives and reduces investment risk.

**In this same interview one year ago, we discussed the “2030 Natural Gas Dialogue Process” initiated by Germany’s Federal Ministry for Economic Affairs. How has it progressed?**

**Mr. Heitmüller:** We are very pleased with the outcome of the 2030 natural gas dialogue process initiated by the BMWi. In contrast to its position in 2010, the German

government now states that natural gas can play a significant role in the decarbonisation of the energy system and thus in mitigating the effects of climate change. Overall, we have succeeded in firmly establishing natural gas and the associated infrastructure as essential components of a future-proof energy supply. If the regulatory framework, especially for renewable gases, becomes more transparent now, companies in the sector will also be able to invest extensively in business models for renewable gases.

**Why is natural gas so crucial for meeting climate targets and for the course of the energy revolution?**

**Mr. Heitmüller:** We must not forget that all of the debates are ultimately about reconciling supply security, the competitiveness of Germany as an industrial location and mitigating the effects of climate change. One insight from the first stage of the energy revolution, however, is that widespread electrification is not the answer to all the challenges. But it is definitely not about playing renewable and conventional forms of energy off against each other. In fact, just the opposite is true – each energy source should make its contribution in the energy mix exactly where it is needed in the future. Within the framework of integrated energy, we therefore view natural gas and renewable energy as partners.

**Here and there you still hear that natural gas – as a fossil fuel – is part of the problem.**

**Mr. Heitmüller:** This understanding falls short in several respects. First of all, natural gas, as a comparatively climate-friendly substitute for carbon-intensive energy sources, is necessary in order to meet climate targets in the short term. Secondly, we have been exploring the many ways to make natural gas more green for some time now. In fact, biogas and certain forms of hydrogen are already carbon-neutral today. The wide variety of “green gases” can play a key role in decarbonisation – provided that politicians initiate this change together with the gas sector and other partners from industry, the building sector and the automotive sector. Another good argument is that natural gas suppliers, with our pipelines and storage facilities, possess an infrastructure that is ideally suited to collaborative energy system planning. Driven by this conviction, we will continue to advocate as “a voice for natural gas” within the scope of different initiatives and bodies in Brussels and Berlin.

“NATURAL GAS PLAYS A SIGNIFICANT ROLE IN THE DECARBONISATION OF THE ENERGY SYSTEM AND THUS IN MITIGATING THE EFFECTS OF CLIMATE CHANGE.”

## Has the climate movement increased the public's expectations of policymakers and businesses?

**Mr. Heitmüller:** Yes, and Germany must now do quite a bit if it still wants to meet its climate targets for 2030. Another lesson we learned in 2019 is that credibility is playing an increasingly important role. This means, for example, that here at VNG we are not only helping decarbonise the energy system with our product, but

that we also operate sustainably within the company. We are intensifying our efforts in this area. The courage to be judged on the basis of your goals must be coupled with a healthy dose of reality in both cases. This means it's important to take both the long-term and short-term aspects into account. By this I mean that a carbon-free world is a goal that can only be achieved with determined but well conceived steps taken in the here and now and in close collaboration with all those involved.

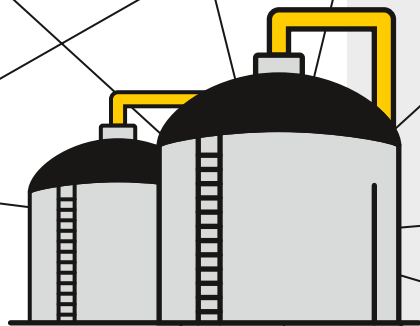


In a dialogue with stakeholders from the worlds of politics, business and academia, VNG is committed to integrating the wide variety of gases into the process of shaping the energy future.

### “VNG 2030+”

#### – GREEN. DIGITAL. WITH GAS.

VNG wants to help shape the fundamental change in the energy industry. As such, since 2017 the Group has been positioning itself for the economic, energy policy and social challenges of tomorrow and the day after tomorrow in a Group-wide transformation process under the umbrella of the “VNG 2030+” strategy. In this context, one particular focus is on improving operating performance in the established business areas of Trading & Sales, Transport, Storage and Biogas, as well as on developing new business areas such as “green gases”, digital infrastructure and neighbourhood solutions.



# 27 BALANCE Biogas plants

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## VNG'S "GREEN GASES" ROADMAP

REAL-WORLD LABORATORY  
IN BAD LAUCHSTÄDT:  
AN IMPORTANT STEP FOR  
THE FUTURE

▶ PAGE 20

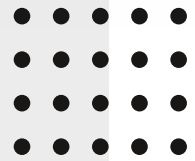






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**ONTRAS: NETWORK  
WITH LOCATIONAL  
ADVANTAGES**



Storage for  
**50 million m<sup>3</sup>**  
of green hydrogen

▶ PAGE 20

**“HERE AT VNG, WE ARE  
DOING EVERYTHING IN  
OUR POWER TO DEVELOP  
NATURAL GAS SOLUTIONS  
FOR A CARBON-NEUTRAL  
FUTURE.”**

**Hans-Joachim Polk,**  
BOARD MEMBER, CHIEF INFRASTRUCTURE  
& TECHNOLOGY OFFICER



## PAVING THE WAY FOR “GREEN GASES”

Gaseous energy sources are a vital part of a modern energy landscape and have many different features. In the wake of the progressive phase-out of nuclear power and coal, they not only increase supply security but also offer significant climate change mitigation potential. In future, renewable gases will be able to provide the same performance where natural gas currently flows today – a key requirement for meeting our medium-term and long-term climate targets. VNG is preparing for this future with a roadmap that aims to systematically leverage the decarbonisation and value creation potential of biogas, biomethane and hydrogen.

### The “green gas” strategy is taking shape

Energy policy efforts in Germany and Europe are predicated on an increased demand for natural gas in the coming years and decades – and on a growing share of climate-friendly gases. There are good reasons for this – green gas can be used in all consumption sectors and can often only be replaced by power at great expense or not at all. Based on these findings, VNG has developed a roadmap for renewable and decarbonised gases.

The company’s extensive investments in an energy source that is already green today – biogas – were both an important step on the way to realising this strategy and a growth driver in 2019. It offers numerous benefits

in one – like all “green gases”, it is carbon-neutral, versatile, storable and capable of being used for the base load. The successful integration of the new biogas plants into the network often also has a social component – the biogas plants operated by BALANCE are primarily located in rural areas. In these mostly economically underdeveloped regions, biogas plants represent an important value-creating factor for local farmers and service providers. BALANCE optimizes the plants it acquires and thus ensures that they can continue to be operated over the long term.

**BALANCE possessed more than**

**95 MW**  
of thermal firing capacity in  
January 2020.

**This is roughly equal to the amount of energy needed to supply 20,000 households with energy for an entire year.**

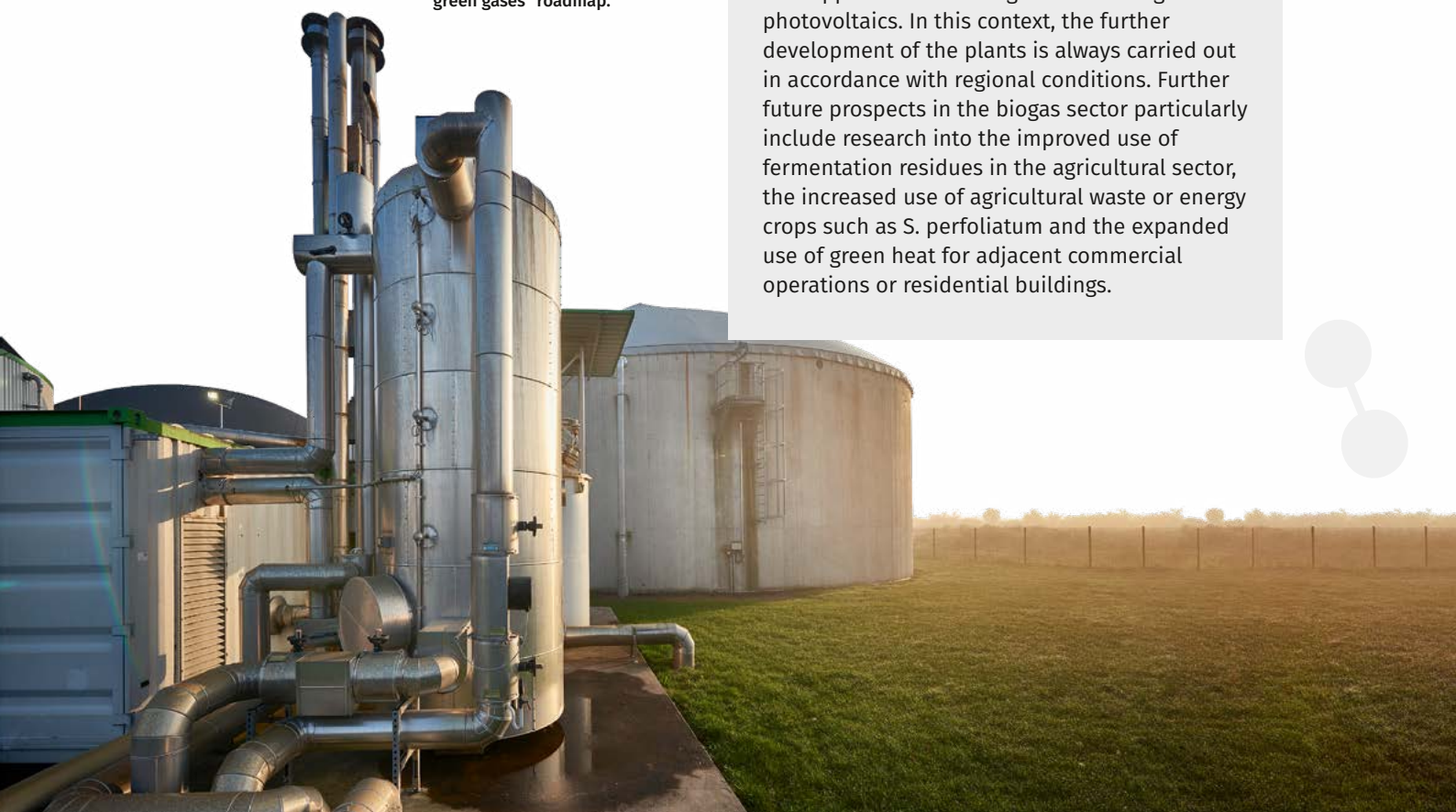
Biogas and biomethane are important components of the Group's own “2025 green gases” roadmap.

## BALANCE TRIPLES OUTPUT IN THE BIOGAS SECTOR

Biogas and biomethane are an important growth area for VNG as part of the “VNG 2030+” strategy. They are not only an important part of our commitment to renewable gases, but also offer numerous opportunities for expanding our own value chain in the future.

BALANCE Erneuerbare Energien GmbH has been developing a versatile portfolio for the production of biogas, biomethane, renewable heat and renewable power since 2006 and contributed significantly to VNG's growth in this business area in 2019 – thanks to forward-looking acquisitions, BALANCE held a portfolio of 27 plants at the beginning of 2020. This more than tripled plant output compared to the previous year. In this way, BALANCE is also playing an important role in the heating revolution and the production of green power.

In addition to acquisition and integration, BALANCE is also committed to modernising and optimising its portfolio by investing in state-of-the-art technology, improving processes and making power generation more flexible. In addition, the company is taking advantage of new opportunities arising from the integration of photovoltaics. In this context, the further development of the plants is always carried out in accordance with regional conditions. Further future prospects in the biogas sector particularly include research into the improved use of fermentation residues in the agricultural sector, the increased use of agricultural waste or energy crops such as *S. perfoliatum* and the expanded use of green heat for adjacent commercial operations or residential buildings.





### Ideas for a hydrogen economy

Hydrogen will play an important role in the forthcoming decisions on energy policy for the energy revolution. Using it as a building block of a sustainable energy supply has many advantages – in combination with power-to-gas technologies, it can be used to significantly reduce CO<sub>2</sub> emissions across all sectors, for example. Hydrogen is thus ideally suited to compensate for the seasonal fluctuations in renewable energy fed into the

grid and to integrate the power sector with other energy and resource-intensive sectors. Moreover, it can be mixed with natural gas, which can reduce CO<sub>2</sub> emissions, for example in the heating sector. It is also a key raw material for many industries and can be used as a climate-friendly fuel throughout the entire transport sector, including aviation and shipping.

Up to **50 million m<sup>3</sup>**  
of green hydrogen

can be stored in the salt cavern in Bad Lauchstädt. It would be the first of its kind in continental Europe.

Production, transport and storage of green hydrogen: the power-to-gas concept could be tested on an industrial scale at the Bad Lauchstädt energy park beginning in 2020.





In a world that is increasingly relying on renewable energy, a well-developed gas infrastructure is essential.



Under the right conditions, hydrogen is a key to the success of the energy revolution – and it is already an important part of VNG's future strategy, which envisages, among other things, being able to produce, transport, store and sell carbon-neutral hydrogen in the future. Against this background, VNG is systematically analysing promising new technologies related to the fuel in order to develop attractive business models in the hydrogen economy at an early stage.

### **A future workshop for integrated energy**

In future, VNG intends to carry out pioneering work with the Bad Lauchstädt Energy Park as part of the “real-world energy revolution laboratories” programme led by the BMWi. Together with the partners involved, the intention is to gradually test the market ramp-up of green power-to-gas technology in the H2 model region of the central German chemical triangle under real-world conditions and on an industrial scale, using the existing infrastructure.

Within the scope of this major project, renewable electricity from a nearby wind farm will be converted into green hydrogen using a large electrolysis plant. Under suitable framework conditions, this could then be temporarily stored in a converted underground storage facility operated by VNG subsidiary VNG Gasspeicher and transported to users via a converted pipeline operated by VNG subsidiary ONTRAS. There, the carbon-neutral hydrogen can finally be used for industrial, mobility and urban energy solutions. In this way, VNG and the project participants hope to prove, in future, that linking renewable energy and “green gases” is a viable model for the future. In order to make this innovative real-world laboratory a reality, the company continues to discuss how to create the corresponding political framework – and thus the basis for an investment decision.



### Infrastructure for the energy world of tomorrow

Trendsetting green gas projects such as the major project in Bad Lauchstädt have two things in common: on the one hand, they enable integrated energy and thus contribute to the efficient exploitation of renewable energy's potential. Furthermore, they are built on the existing gas infrastructure. Upgrading the existing natural gas pipelines to hydrogen can cut the cost of transporting hydrogen considerably compared with the cost of building an entirely new distribution infrastructure. With the high-pressure pipeline system of its

independent subsidiary ONTRAS and the natural gas storage facilities of VNG Gasspeicher, VNG is perfectly positioned to convert initial pipelines and build hydrogen clusters. In addition, this expertise has grown out of VNG's history – the "city gas" transported during the GDR era already contained up to 50% hydrogen and was transported using pipelines which, in many cases, are still intact today.

With a technology-agnostic approach and a natural gas infrastructure that integrates the sectors ever more efficiently, VNG wants to help shape the path to a decarbonised energy system of the future.



Through ONTRAS Gastransport GmbH, VNG operates Germany's second largest gas pipeline network.

**~7,500 km:**  
the length of the ONTRAS  
pipeline network



## THE HYDROGEN COLOUR SYSTEM

Various processes can be used to produce hydrogen. Depending on the method of generation and production-related CO<sub>2</sub> emissions, a distinction is made between green, blue, turquoise and grey hydrogen.

- **Green:** Hydrogen produced in a carbon-neutral process via electrolysis using renewable electricity. Alternatively, green hydrogen can also be produced from climate-friendly biogas or biomethane, for example via steam reforming (see glossary).
- **Blue:** Hydrogen produced from natural gas via steam reforming. The resulting CO<sub>2</sub> is stored in suitable geological structures via the carbon capture and storage process (CCS, see glossary).
- **Turquoise:** Hydrogen obtained via methane cracking (i.e. pyrolysis, see glossary). Instead of CO<sub>2</sub>, this process produces solid carbon, which can be stored and used in various industries.
- **Grey:** Hydrogen obtained from fossil energy sources, emitting CO<sub>2</sub> during the production process. A common method is steam reforming from natural gas.

## 3 QUESTIONS FOR HANS-JOACHIM POLK

**Mr. Polk, how satisfied are you with VNG's performance in the Biogas business area?**

**Hans-Joachim Polk:** We have achieved our strategic target for 2019 in the Biogas business area and are confident that we will continue on this path. In addition, we remain committed to ensuring that biomethane remains part of the renewable energy mix over the long term. An ever increasing number of stakeholders share our belief that biomethane must also be part of the solution, especially in the heating market.

**What other progress has VNG made with respect to "green gases"?**

**Mr. Polk:** We are convinced that the path we have chosen is the right one. In order to plan and implement our green gas strategy, we have assembled a young, dedicated team that has managed to bring structure to this complex subject in a short period of time. Based on the initial findings, we will make further decisions during the current year and flesh out the next steps in our transformation. In this context, a major focus is on the future of hydrogen.

**Will gas networks and gas storage facilities perform a similar function in a decarbonised world as they do today?**

**Mr. Polk:** Yes, we are confident that they will – despite still having a long way to go, it is worth thinking ahead. After all, it's also a matter of achieving a breakthrough in the important question of how to store large quantities of renewable energy. Our storage facilities can play an important role in this. Gas networks will also be able to play an essential role in the transport of hydrogen in an energy system that has recognised the advantages of hydrogen. That is why we are already developing suitable concepts and scenarios today. However, we will still have to continue our advocacy work in order to create a better overall environment, as we currently plan to do, for example, by converting one of our caverns into a green hydrogen storage facility. In this context, the national hydrogen strategy announced by the German government naturally encourages us to systematically continue along the path we have taken.



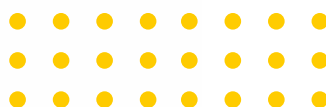
# DIGITAL TRANSFORMATION

#digital

151

ideas were submitted via  
VNG SEED in 2019

▶ PAGE 29





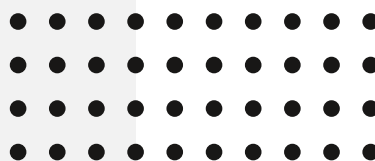


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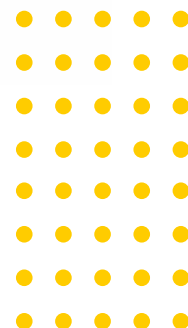
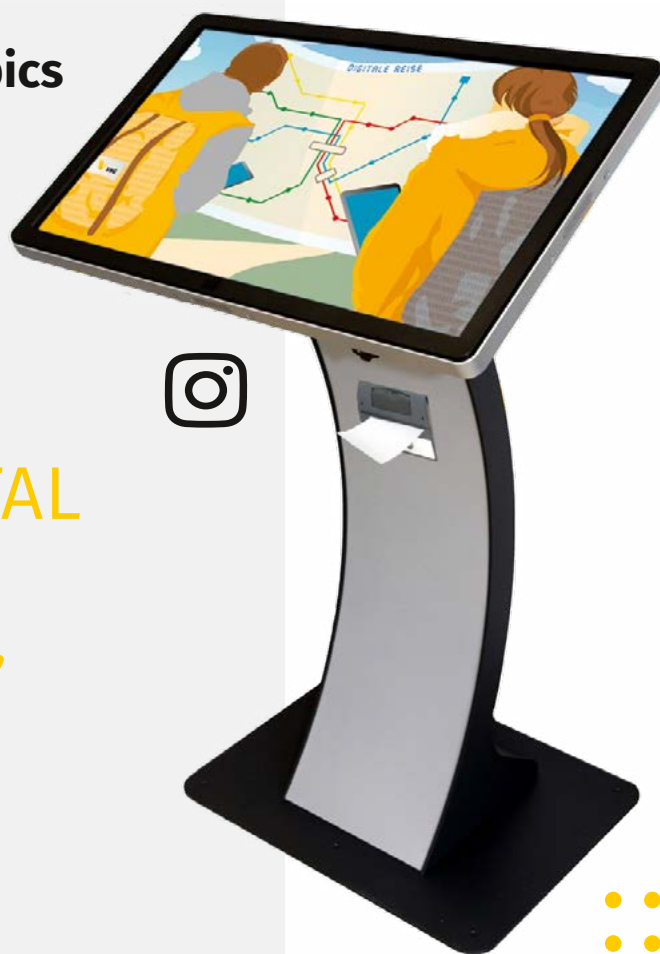
## Stages

– numerous topics

▶ PAGE 27-28



“NOW WE ARE EXPLOITING THE DIGITAL OPPORTUNITIES OF OUR BUSINESS.”



**HRFORENERGY**

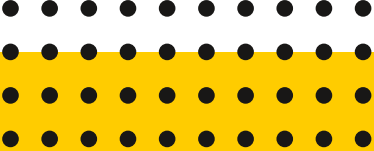
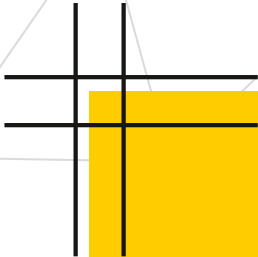
**“A DIGITAL JOURNEY WITH  
THE VNG LEADERSHIP COMPASS”**

▶ PAGE 28

# DIGITAL TRANSFORMATION AT VNG

Digitisation is one of the energy industry's defining issues. VNG has therefore been consolidating its numerous transformation projects in a digital roadmap since 2018. The aim is to make the Group fit for the future with efficient processes and the right skills as part of our implementation of the "VNG 2030+" strategy.

But what shape is the megatrend taking at VNG? How are new knowledge and skills shared across a large group of companies? And what happens when employees systematically utilise the freedom to develop their own ideas? This section provides insights into VNG's digital transformation – and reveals that the transformation of the company is not just about IT.



**"IN 2019, WE  
SYSTEMATICALLY  
POSITIONED OURSELVES  
TO BE MORE AGILE AND  
EFFICIENT. NOW WE ARE  
EXPLOITING THE DIGITAL  
OPPORTUNITIES OF OUR  
BUSINESS."**

**Bodo Rodestock,**  
CHIEF FINANCIAL & HR OFFICER



## Checking in: a common understanding

If you want to learn more about the digital transformation at VNG, it's best to speak with Dr. Anna Walter and Dr. Stephan Sachse. Together they have been coordinating the company's transformation process since 2018. "We wanted to do more than just delegate tasks. We also wanted to communicate the purpose of our project," says Dr. Walter, describing the approach. "The first step was to create an awareness of why we are embarking on a digital journey and what the specific implications of the digital component are for VNG."

Dr. Walter emphasizes that the support from the Executive Board was critical during the initial phase. This is because everyone at VNG agrees that digitisation cannot be regarded as a stand-alone process. Instead, it will accompany the company's strategic repositioning across all areas and along the entire organisational structure.



DR. SACHSE

"We successfully used the initial stages of our digital journey to create a foundation for our further development. From 2020 onwards, we will now be leading numerous digitisation projects onto the home straight and intensifying knowledge sharing across the company."

## Setting out: laying the foundation

Only after reaching a common understanding could the actual journey begin. Dr. Walter and her team identified areas of focus and divided them into four agile stages as the common theme and foundation of the long-term transformation process. In addition, a group-wide core team comprising members from all areas of the company was set up to monitor progress and provide ongoing inspiration. The "digis", as Dr. Walter and Dr. Sachse are known internally, are satisfied with the progress of the digital transformation so far. Important conditions for the company's further transformation were created during the first three stages.

## Continuing on: same as it never was

For VNG, the fourth stage of the digital transformation began at the end of 2019. This means that the foundations created in the relevant areas are now increasingly being put into practice – and although many projects

are still in the testing phase, VNG already recorded initial successes last year in adapting and automating numerous processes, such as the digitisation of

DR. WALTER



"We believe in relying upon the active participation of all employees. They have considerable influence on determining how VNG implements its digital transformation. This approach has worked extremely well for us."

documents, internal signature policies and workflows. Projects like these are the engine driving VNG's transformation, and they are often built on the employees' own initiative and provide tangible increases in speed and value.

A further focus will be on deepening digital skills. The new training programme consists of two components: firstly, online training courses in the form of basic modules that provide all VNG employees with the knowledge required for agile and efficient work. The second component comprises thematic communities that the company has been launching since the end of 2019. Here colleagues from all of the Group's companies can connect with each other and acquire special digital skills internally. The Groups "Project Management", "Social Collaboration", "Corporate Intranet", "Innovation Management" and "Processes and Digital Workflows" were already established or in the process of being established at the beginning of 2020.



## DRIVING DIGITAL TRANSFORMATION

MGMTTree GmbH is a young process and project management consultancy from Leipzig. The VNG subsidiary acts as an enabler and guide, supporting clients in their digital transformation.



At the presentation of the HR Energy Awards 2019: Dr. Anna Walter, managing director of MGMTree GmbH and Manager Digital Transformation at VNG, joins Lydia Schuster-Scholz, head of personnel support, in accepting the award in the "Leadership & Culture" category.

### An extremely well-planned journey

The digital transformation of VNG is a journey that was undertaken out of conviction. And this is not only evident within the company – VNG was honoured by the 2019 HR Energy Award's expert jury for the best entry in the "Leadership & Culture" category with its "Digital journey with the VNG leadership compass". To Dr. Walter, Dr. Sachse and their digital team, this sends a clear message: "We are heading in the right direction."

### On the path to a Group fit for the future

VNG views digital transformation as a driving force that makes many positive changes possible. Since the goal is to bring about holistic cultural change to become a company fit for the future, the corporate Group has undertaken to bring together the various perspectives from the various business areas within the Group. Getting as many employees as possible on board is, of course, a major challenge – but also represents a tremendous opportunity for VNG and the implementation of the "VNG 2030+" strategy.

## FOCAL POINTS AND STAGES

The transformation projects at VNG were divided into four agile stages. The objective of these projects was to help organise the variety of digital topics in a structured manner and on the basis of defined milestones – ultimately laying the foundation for long-term change.

### STAGE 1

**September 2018 – January 2019:**

Updating the digital toolbox

### STAGE 2

**February 2019 – May 2019:**

Concept for developing digital skills and workflows; secure handling of data and IT

### STAGE 3

**June 2019 – October 2019:**

Skills development, process digitalisation, user centricity, setting the strategic direction for IT

### STAGE 4

**November 2019 – February 2020:**

Mainstreaming topics that have already been started and preparing for new strategic challenges





# 151

**ideas were submitted via  
VNG SEED in 2019**

## 8

**ideas and innovation  
campaigns were  
implemented**

## 13

**ideas are currently  
being implemented or  
developed further**

At VNG, we also know that creative minds particularly benefit from new technologies and workflows. To systematically promote innovation processes, the company has therefore created the digital platform [VNG SEED](#). Here employees can submit their own ideas, which are then discussed and evaluated within the community – a format that was met with great interest in 2019.



## 3 QUESTIONS FOR BODO RODESTOCK

**Mr. Rodestock, how satisfied are you with VNG's performance in 2019?**

**Bodo Rodestock:** Overall, I am extremely satisfied. Strong operating performance across all business areas enabled us to exceed our ambitious financial targets. We also made progress in terms of implementing our strategy and operated in an extremely cost-efficient manner. In addition, we were able to further increase our investment volume on the basis of an amount in the mid triple-digit million euros, with the focus primarily on the Transport and Biogas business areas. We intend to maintain this level in the coming years and continue to invest in the future-orientated restructuring of the company. In the field of human resources, we pressed ahead with the ongoing development of our management and corporate culture – which in turn enhances our attractiveness as an employer. I am also particularly pleased that the first positive effects of our digital transformation have now been felt across all business areas – which shows that we have reached a new level of development. And last but not least, as an organisation we increasingly focused on the issue of

social and environmental sustainability. We intend to systematically continue our work in this field in 2020 and gradually improve.

**What has been the impact of company's digital transformation?**

**Mr. Rodestock:** We have recently developed important skills enabling more agile operations and introduced more efficient processes. Thanks to this increased speed and digital expertise, we are now aligning our business model with the needs of the future. But digital transformation at VNG is not just about IT. It extends to all areas, affects the entire organisation and our working methods. In short, it is about achieving digitally driven, holistic cultural change in line with the VNG's Group strategy. At the same time, we are of course remaining true to our corporate values.

**Such as the company's commitment to the region?**

**Mr. Rodestock:** Exactly, for example the 30th anniversary of the Peaceful Revolution had special significance to us as a company with strong regional roots. We have not only underscored this fact through numerous activities. We also see important parallels in this regard – both then and now we have proven our ability to adapt and set the right course for change. This gives us courage and energy to face the challenges and tasks that lie ahead.

Commercial success, strong ties to the region, and at the same time, a high degree of adaptability – these are the values that VNG will continue to uphold in the future.

**Partnership, entrepreneurship, responsibility and transparency**





## FROM THE REGION, FOR THE REGION: 30<sup>TH</sup> ANNIVERSARY OF THE PEACEFUL REVOLUTION

The company's strong ties to central and eastern Germany and its responsibility as a major employer are both extremely important to VNG. The company has always emphasised this through close cooperation with economic initiatives, associations, universities and through its voluntary activities.

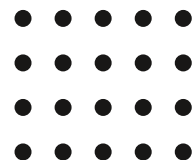
The 30th anniversary of the Peaceful Revolution in 2019 was an excellent occasion to reaffirm our role as a strong partner to the region. At the anniversary events, the company not only looked to the past,

but also to the future. With its decades of experience in transformation – from a nationally-owned enterprise to a modern group of companies – VNG is now adapting its business to the profound changes taking place against the backdrop of decarbonisation and digitisation.



The Peaceful Revolution 30 years ago was also the beginning of a new chapter in VNG's history – with far-reaching changes that still shape the company's values today.



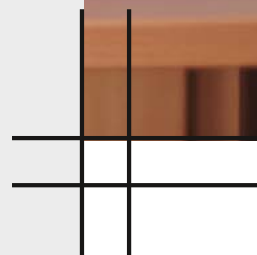
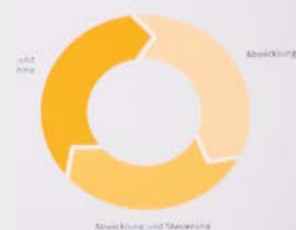




# GROUP MANAGEMENT REPORT

for the financial year 2019

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# GROUP MANAGEMENT REPORT

for the financial year 2019

## A. ON TRACK FOR SUCCESS WITH GAS

Public attention was drawn even more to the specifics of energy and climate policy in 2019. Subjects such as climate protection and sustainability have become mainstream. It is reasonable to assume that natural gas and the prospect of renewable and decarbonised gases, as well as the exceptionally well-developed gas infrastructure, will provide key elements of an energy supply solution that is viable in the long term and focused on sustainability.

Consequently, the VNG Group (VNG) spent the financial year 2019 consistently and intensively implementing the goals of its “VNG 2030+” strategy, which puts gas at the core of its business activities. In the past financial year, VNG has made further progress on the ongoing diversification of its business, and transforming the Group into a green, digital corporation with a strong foundation in the gas business. This is reflected, for example, in the Group’s acquisitions and expansion in the biogas sector. Against this backdrop, VNG can look back at a successful financial year 2019, and with adjusted EBIT of € 133 million and consolidated net income of € 117 million, it was able to continue its very good performance from the prior year. Although the earnings figures for 2019 were lower than those for the prior year, which was influenced by extraordinary effects with adjusted EBIT of € 159 million and consolidated profit of € 142 million, they exceeded expectations on the whole and in almost every business area.

The Gas Transport business area is still a mainstay of VNG’s business with a significant contribution to consolidated net profit, despite a year-on-year fall in earnings. In the Trading & Sales business area, the domestic wholesale business with large customers in particular achieved another improvement in its operating result. The retail consumer business and activities in foreign markets also contributed to the segment’s success. The Gas Storage business area benefited from a significant improvement in the market conditions for storage capacity and improved its results. In the Biogas business area, the successful acquisitions of biogas facilities and a year-on-year increase in the contribution to earnings are visible results of the implementation of the “VNG 2030+” strategy.

Given the importance of protecting the climate and sustainability, and also the performance of its business, VNG considers its group strategy to have been confirmed, and sees itself as being on the right track.

## B. VNG AT A GLANCE

### 1. BUSINESS MODEL AND IMPLEMENTATION OF THE “VNG 2030+” STRATEGY

VNG is a group of companies active in the European energy industry with a broad, future-oriented portfolio of products and services in gas and infrastructure, and many years of experience in the energy market. The “VNG 2030+” strategy describes the Group’s goals up to the year 2030 and beyond, and these were consistently pursued in financial year 2019. The strategy’s aim is to transform the Group into a creative force for a green, digital and gas-based future on the basis of its own strengths and capabilities relating to gas as a fuel. The intention is for the established business areas to be developed in a way that is both profitable and sustainable. There are also plans to substantially build up new business areas such as digital infrastructure, biogas and district solutions in order to broaden the Group’s portfolio. Throughout the value chain, VNG is focusing on the following business areas and segments:

**Gas Transport:** ONTRAS Gastransport GmbH (ONTRAS) operates Germany's second-largest gas transmission network, with more than 7,000 kilometres of pipes and approximately 450 network interconnection points with downstream network operators, and therefore ensures non-discriminatory access to its network. This means that the infrastructure forms an integral part of Europe's gas transmission network. ONTRAS has expanded its gas infrastructure further still by investing in the European Gas Pipeline Link (EUGAL). In addition to the transport business, the subsidiaries of ONTRAS provide a large number of network-related services in the non-regulated sector. There are currently 22 biogas facilities connected to the ONTRAS network. This means that ONTRAS still transports the largest volume of bio-methane of all the German transmission network operators. Power-to-gas facilities also feed hydrogen and synthetic methane into the network.

**Gas Storage:** As Germany's third-largest storage provider, VNG Gasspeicher GmbH (VGS) operates storage facilities in central and northern Germany, and markets around 2.2 billion m<sup>3</sup> of process gas throughout Europe. VGS also functions as a technical plant manager for third-party storage facilities, and provides engineering services in the fields of plant engineering and measurement technology. Furthermore, VGS holds an investment in Erdgasspeicher Peissen GmbH (EPG), which operates and is expanding the "Katharina" underground storage facility in Bernburg, Saxony-Anhalt. VGS is also working with ONTRAS and other partners on the large-scale power-to-gas project "Bad Lauchstädt Energy Park".

**Trading & Sales:** VNG Handel & Vertrieb GmbH (VNG H&V) supplies domestic and foreign trading companies, re-distributors, municipal utilities and other large customers with natural gas, and also offers services relating to natural gas as a product. In addition to the German market, VNG H&V and its international trading entities also serve customers in Italy, Austria, Poland and the Czech Republic. ENERGIEUNION GmbH complements the Group's activities in Germany with access to the German electricity trading market and its range of portfolio management and invoicing services. Retail trading of gas and electricity in Germany and other countries is handled by other subsidiaries, such as goldgas GmbH (goldgas) in Germany. In the 2019 reporting year, VNG H&V focused

on its main sales territories in Italy, Luxembourg, Austria, the Czech Republic and Poland. Accordingly, it withdrew from the Slovak market at the end of 2019 by selling VNG Slovakia, spol. s r.o. (VNG Slovakia). VNG AG also sold its investment of EMB Energie Mark Brandenburg GmbH (EMB) following a review of its non-controlling interests.

**Biogas / "green gases":** The Group's strategy envisages ambitious growth in the biogas segment. BALANCE Erneuerbare Energien GmbH (BALANCE) bundles VNG's activities in the field of power generation from biogas, and focuses on the acquisition, operation and development of biogas and renewable natural gas facilities. At the end of 2019, BALANCE acquired a portfolio of ten biogas facilities at locations in the German states of Saxony-Anhalt, Brandenburg and Mecklenburg-Western Pomerania. The new facilities increase BALANCE's portfolio to 26 facilities, and its installed firing thermal capacity to around 95 MW. The Company is aiming and working purposefully to expand its portfolio.

In a department established especially for this purpose in mid-2019, VNG also deals with other renewable and decarbonised gases in addition to biogas, such as green hydrogen. As part of its internal "Green Gases 2025" road map, the Group plans to develop its core capabilities in the main value creation areas of production, transport, storage and marketing, and to differentiate them based on where the opportunities are.

**Digital infrastructure:** VNG's core expertise in the reliable operation of critical infrastructure can also be applied to the transportation and storage of data. VNG invests in the expansion and operation of digital infrastructure through various different investments and subsidiaries. GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. KG, for example, is expanding its approximately 12,500 km fibre optic network. GDMcom GmbH offers services in the fields of documentation, telecommunications and software. GEOMAGIC GmbH focuses on modern IT solutions and energy consulting services. caplog-x GmbH specialises in IT services, cloud services, and application and data management for the energy sector, as well as data processing centres for critical infrastructure.

**Innovation:** VNG Innovation GmbH is now a strategic partner for five start-up companies in the energy sector. Its main areas of investment, which it is also focusing on in 2020, are energy-efficiency, energy storage, energy conversion, digitisation, mobility and sustainability. VNG Innovation Consult GmbH provides consulting services in the fields of innovation and start-ups, and is expanding its partnership with SpinLab – The HHL Accelerator in Leipzig. In order to continue supporting this, VNG Innovation GmbH has invested in the SpinLab's "Smart Infrastructure Ventures" venture capital fund, which focuses on supporting start-ups during their seed phase.

**District solutions:** In 2019, VNG ViertelEnergie GmbH established itself in the market as an implementing unit for the "district solutions" strategic development field. In addition to holding talks with numerous municipal authorities, projects were also implemented with housing construction companies and new build developers. One project with a new build development company, which involved the establishment of a dedicated infrastructure company with a partner company in Leipzig, was implemented at the end of 2019 with the completion of the first stage of construction. Vertical integration in the lighting segment was also increased by means of the acquisition of a 51 percent share in a street and industrial lighting specialist.

## 2. FINANCIAL PERFORMANCE INDICATORS AND TARGETS

VNG's strategic direction is based on economic performance indicators, and matches its financial strategy. This strategy is aimed at profitable business activity, creates transparent financial guidelines, and assesses the viability of the strategic direction. The syndicated loan agreement with a volume of € 700 million, which is supplemented by promissory note and shareholder loans, provides the main capital base for the Group's diversified financing portfolio, and gives it a solid financial foundation.

VNG's financial strategy is based on the following core objectives: avoiding risks to the Group's ability to continue as a going concern, generating positive cash flows, and a suitable, risk-adjusted return. The Group is mainly managed on the basis of adjusted EBIT. Non-recurring effects on earnings that cannot be planned for are not taken into consideration. Other financial targets relate to the cash flow indicator "funds from operations" (FFO), as well as the levels of long-term net debt, the equity ratio and investment. The focus is placed on information about the Group when it comes to steering the operation, monitoring forecast quality and reporting to executive management, the Supervisory Board and shareholders. These figures are arrived at in accordance with International Financial Reporting Standards (IFRS).

## 3. NON-FINANCIAL PERFORMANCE INDICATORS

**Employees:** In addition to complying with safety, environmental and quality standards, and maintaining the trust of its customers and business partners, the happiness of the Group's employees is a key foundation for its economic success. This is promoted and regularly assessed by means of measures aimed at improving the work environment, working hours, the system of compensation, health and safety, and work / life balance. The employee commitment index (MCI) is an important tool for VNG to measure how strongly its employees identify with the Company. The results of the employee survey carried out in 2019 revealed a further increase in employees' satisfaction and sense of connection with VNG in that year. As before, this connection is above all driven by VNG's substantial appeal as an employer, identification with the Company, and an atmosphere of motivation that is more positive than most.

Safety at work is another important indicator. The Group did not register any accidents at the workplace that were classed as Lost Time Incidents (LTIs) in financial year 2019. This motivates the Group to continue its efforts to constantly improve its health and safety measures. That is why VNG's health management function includes a range of activities as well as enhanced preventive measures as part of its occupational healthcare package, such as a partnership with the specialist medical centre in Leipzig.



In 2019, acceptance of and participation in the internal ideas management system as a tool for promoting employee involvement was developed by means of the introduction of the digital “VNG SEED” ideas and innovation platform. In addition to its existing product development processes, VNG’s ideas management system promotes a workplace atmosphere that supports initiative and responsibility on the part of employees. The ideas management system mainly focuses on ideas for improving internal procedures and processes, and is aimed at cutting costs and improving efficiency. At the same time, a Group-wide innovation campaign and VNG’s first ever Innovation Day contributed to the promotion of innovation and a culture of entrepreneurship during the past year. The purpose of the “Heureka!” (“Eureka!”) innovation campaign was to generate and develop new business ideas. Three concrete project ideas that arose from the innovation process are being developed by the originators of those ideas, with methodological and specialist support.

**Corporate affairs:** VNG has strong roots in the region. The Group therefore considers itself responsible for promoting important aspects of social cohesion through education and research, art and culture, and charitable work, in addition to its own business activities. To this end, in 2009, VNG established the VNG Foundation to support numerous social and societal projects and initiatives, primarily in central and eastern Germany.

The VNG Foundation is also the patron of the “Verbundnetz der Wärme” initiative. “Verbundnetz der Wärme” actively helps its more than 200 members to help themselves, fosters an active dialogue, and generates recognition and publicity for volunteering as an important cornerstone of society. Through targeted public relations and numerous events, “Verbundnetz der Wärme” deliberately encourages others to emulate it and personally assume responsibility toward society.

In the field of education and research, VNG has also been working for many years with colleges in the region to offer practical lectures, part-time courses of study and financial support for student excursions or workshops. The VNG Foundation also sponsors young students at Leipzig University and Leipzig University of Applied Sciences with a “Deutschlandstipendium” scholarship.

**Environmental issues:** As part of the Group’s “VNG 2030+” strategy, VNG has set itself the target of contributing to the energy revolution through gas as an environmentally friendly fuel. In addition to the ongoing expansion of the biogas portfolio in the past year, various different projects were initiated in this context in the field of “green gases”, such as biogas, synthetic gases and hydrogen.

The focus of the “ONTRAS, going green” sustainability programme in 2019 was once again on action in the fields of climate and energy, and in particular on reducing CO<sub>2</sub> emissions, and therefore activities aimed at achieving a 100 percent climate neutral gas supply by 2050. During the reporting period, expulsion losses were reduced again considerably (by roughly 60 percent) by reducing pressure in connection with planned maintenance measures, and also by using mobile compressors. The digitisation of energy data recording and calculating performance indicators also brought about a significant improvement in the quality of data, as well as improved opportunities for analysis in the interest of the more targeted reduction of energy consumption. In 2019, with the aim of helping make energy technology environmentally friendly, VNG increased the number of its vehicles with alternative propulsion systems to 176.

An employee-driven environmental ideas campaign generated a wide range of proposals for the cost-effective and economical use of resources at work. The fact that this campaign was launched shows that VNG's employees are thinking about how to protect the environment and sustainability. The employees are now developing these proposals through to implementation in dedicated teams.

In 2019, VNG also organised the 12th German-Russian Raw Materials Conference, which focused on planning a forward-looking sustainability partnership between Russian and German stakeholders, the climate-friendly transformation of energy systems, and the creation of a circular economy.

## 4. PERSONNEL AND ORGANISATION DEVELOPMENT

**VNG is an important and popular employer:** VNG had 1,155 employees in total as at 31 December 2019, which is a slight increase in the headcount in relation to the prior year (prior year: 1,101 employees). This means that VNG is still an important employer for central Germany. Among other things, VNG's appeal as an employer is reflected in its seals of approval from the evaluation platform kununu, and its "Leading Employer Germany 2019" certificate from the Institute of Research & Data Aggregation in recognition of its corporate culture.

**Digital transformation:** The topic of digitisation is dominating the energy sector. In 2019, VNG once again looked closely at the opportunities presented by the Group's digital transformation. VNG's digital journey comprises a range of different projects that are planned jointly in agile stages, across the boundaries between units and levels of the hierarchy. The "Führungskompass" project launched in prior years is a Group-wide link for multi-disciplinary personnel and organisation development. In the past financial year it dealt with the digital learning journey as a priority area for all of VNG's managers and staff. The theme for VNG's management conference this year, which was even more well-attended than in the prior year after it was opened up to all employees, was "agile collaboration". The fact that VNG is on the right track with its digital journey is also reflected by its receipt of the HR Energy Award in the reporting year. VNG won the award with its submission in the "Leadership & Culture" category.

**Sustainability of human resources policy:** Against the backdrop of changes in the energy sector and demographic trends, VNG is pursuing a sustainable human resources policy that focuses on strategic personnel planning in addition to developing the specialist and interpersonal skills of individual employees. Employees' flexibility and willingness to take on new, changed tasks, and the active use of the Group's internal job market, are just as important as the needs-based selection of qualified junior employees. In this context, VNG works closely with the region's colleges and other scientific institutions. In 2019, for example, VNG hired two students who were starting their cooperative Economics courses at Saxony University of Cooperative Education.

## C. REPORT ON ECONOMIC POSITION

### 1. CONDITIONS ON THE MARKET

**Macroeconomic developments:** Germany's economic growth slowed again in 2019. Gross domestic product rose by just 0.6 percent in comparison to the prior year. The German government expects the economy to pick up slightly in 2020.

**Trend for energy consumption:** Energy consumption fell by about 2 percent in 2019. This was mainly due to a sharp drop in coal consumption, as well as a fall in the energy consumed by energy-hungry industry due to economic factors, and also efficiency measures. While an even greater share of the total demand for energy was covered by renewable energy sources, demand for coal and crude oil fell.

**Position of natural gas in the energy market:** Consumption of natural gas, however, rose by around 4 percent. In addition to the strong demand for heating in the spring, this was mainly driven by the increased use of natural gas in power stations. In households, natural gas is in competition with other fuels, chief among them heating oil, (wood) pellets and electric heat pumps.

**Price trends:** VNG is influenced by a variety of market-related factors such as changes in the prices for raw materials, exchange rates, and interest rates. These can influence both the performance of business and the valuation of key assets. Storage levels in Europe were at record highs at the end of winter 2019, partly due to the mild weather conditions. These high storage fill levels and a surplus supply of LNG in Europe caused gas prices to fall over the course of the year, dipping below € 10 / MWh at times. **Gas prices** on the Dutch trading point TTF averaged € 13.50 / MWh in 2019, which was much lower than the figure of € 23 / MWh recorded in the prior year. The average **Brent price** for 2019 of USD 64 / barrel was also below the average of USD 72 / barrel for 2018.

As a result of changes in the price of gas, the seasonal **summer-winter spread**, which is important for the management and evaluation of storage capacities, climbed

to a very high level over the course of the year. While a spread between summer and winter of less than € 2 / MWh was observed at the start of the year, the difference coming out of winter at the end of March 2019 in the Gaspool market area stood at € 3.50 / MWh. In the months that followed, through to the end of the year, the spread increased again at times, and in the fourth quarter in particular. **Interest rates** remained very low. The **euro** lost value against the **US dollar**. The average exchange rate for 2019 was USD 1.12 / € (prior year: USD 1.18 / €).

### 2. ENERGY POLICY

The negotiation of the Paris Climate Agreement in 2015, and its ratification by Germany and the European Union in 2016, raised awareness among both the executive and legislative arms of government, and also ramped up the pressure to enact a more climate-friendly energy policy. From that point on, the climate and energy policy objectives and associated legislation at the European and national levels were aligned more closely with the Paris targets.

In 2019, the energy policy agenda was heavily influenced by fundamental decisions such as the abandonment of generating electricity from coal in Germany, as well as various strategy developments relating to the medium-term and long-term direction of energy and climate policy at the European and national levels.

At the **national level**, significant progress was made on the ongoing development of energy and climate protection policy with the ratification of the Climate Action Programme 2030 in 2019. The programme centres around CO<sub>2</sub> pricing in the heating and transport sectors. Natural gas technologies can help meet CO<sub>2</sub> reduction targets quickly and cost-effectively, including in combination with renewable energy sources. With respect to the energy sector, the climate protection programme envisages the phasing out of coal by expanding the use of renewable energy sources and using more gas. Through its own activities to promote its interests and its active involvement in associations representing the energy sector, VNG was heavily involved in the negotiations surrounding the Climate Action Programme 2030, and has stressed the importance of natural gas as a fuel as well as renewable and decarbonised gases in order to make the energy revolution fast and cost-effective,



while also ensuring the security of supply. The German Federal Ministry of Economics and Technology (BMWi) has also recognised this, and underscored the future role of the many gas-based solutions available with the “Gas 2030” dialogue process, among other things. The German government is also currently working on a strategy that is explicitly aimed at the production and use of renewable, decarbonised hydrogen.

By introducing “living laboratories for the energy revolution”, the government has also created a tool to allow innovative technologies such as power-to-gas or green hydrogen to be applied on an industrial scale. Of the 20 project ideas that were positively received by the German government this year, three were developed with the involvement of VNG companies. The aim is for the “living laboratories” to establish innovative technologies in coal-producing regions in particular, and in so doing to provide additional mitigation for the economic fallout of phasing out coal.

At the **European level**, in 2019 a new course was set for energy policy with the publication of the European “Green Deal”. With greater ambition for climate policy and the core of a proposal for the EU to be climate-neutral by 2050, the Green Deal is viewed both publicly and by the EU itself as the narrative for Ursula von der Leyen’s new Commission. As a priority field for preparing industry for the future, both gas and hydrogen played an important role in the Commission’s deliberations regarding the Green Deal. With the EU’s “sustainable finance” package of legislation, the Commission has also introduced the first, important measures for defining ecologically sustainable economic activities, and presented a single EU standard in the form of the “taxonomy”.

## D. PERFORMANCE OF VNG’S BUSINESS AREAS

### 1. GAS TRANSPORT

**Economic development:** In 2019, ONTRAS and its subsidiaries once again made a significant, positive contribution to consolidated income in the low hundreds of millions of euros. Compared to the prior year, results were impacted by lower surplus revenue and increased maintenance expenses. As an independent transmission network operator, ONTRAS has been subject to incentive regulations since 2010. In the prior year, the German Federal Network Agency specified a return on equity of 6.91 percent for new investments and a general sectoral productivity factor (Xgen) of 0.49 percent p.a. for the current, third regulation period (2018–2022). The financial year 2019 was influenced by a number of regulatory developments. These included the amendment of the Incentive Regulation Ordinance [Anreizregulierungsverordnung, ARegV] in June 2019, which reduced the operating expense allowances for compressors and gas pressure regulation measurement systems, and the Federal Network Agency’s decision to impose a standard levy (“postage stamp”) throughout the market area from the 2020 tariff year. The acquisition of Schneider GmbH by GDMcom GmbH – a subsidiary of ONTRAS – has increased the Gas Transport segment’s vertical integration, and involved it in the ongoing rollout of broadband in Germany. With its investment in EUGAL, which will be operational from 1 January 2020 as planned, ONTRAS is planning to market additional capacities in the future.

**Projects for a climate-friendly gas supply:** In addition to research and development work aimed at modernising its technical facilities, ONTRAS is working on future options for the sustainable, green use of gas infrastructure involving renewable gases. In financial year 2019, ONTRAS was active in the field of smart sector coupling using innovative power-to-gas technology with the existing gas infrastructure. As well as participating in the “Bad Lauchstädt Energy Park” and “Lausitz Reference Power Plant” projects, in 2019 ONTRAS started conducting research with other European partners into how hydrogen can be separated from a mixture of hydrogen and methane using membranes. With the “Commit to

Connect 2050" project, which was already initiated in the prior year, ONTRAS continued contributing to the energy policy debate surrounding decarbonisation strategies and identifying the importance of gas and gas infrastructure in this context in the past financial year.

## 2. GAS STORAGE

**Economic development:** The seasonal difference between summer and winter prices for natural gas is crucial to the Gas Storage business area as a key indicator of the prices for storage capacities. The relatively mild temperatures at the start of 2019 meant that storage levels were very high at the end of the winter. In the first quarter of 2019, combined with the high LNG rates and unfavourable CO<sub>2</sub> and coal prices, this caused the summer-winter spread in the Gaspool market area to increase to € 3.50 / MWh for the 2019 / 2020 storage year, which VGS was able to use for a capacity of 2 TWh. This allowed VGS to market the capacity of the Jemgum storage facility (1.7 TWh) at the end of April for a very good price in comparison to the prior year's figure. This capacity was first made available to VGS in April 2019 because the arbitration proceedings relating to the Jemgum UGS facility were concluded in the first quarter of 2019. Following on from the high storage fill levels at the end of the winter, levels remained high throughout the rest of the calendar year, and were at a record-breaking 98 percent at the end of the 2019 calendar year. VGS worked towards its goal of generating income from the expansion of its services business in addition to its operating business by acquiring P<sup>2</sup> Plant & Pipeline Engineering GmbH in 2019. The Gas Storage business area was able to take advantage of the favourable conditions on the market, and generated adjusted EBIT in the low double-digit millions of euros.

**Development of storage capacities:** VGS has a marketable process gas volume of 2.2 billion m<sup>3</sup>. Its investment activities still mainly consist of capital expenditure on its existing assets, as well as the completion of contractually agreed expansion projects. In doing so, VGS focuses on its core economic and productive portfolio at its four sites in central and northern Germany. All of its sites are subjected to regular profitability analyses that take current developments in the situation on the market into consideration, and are a crucial factor in VGS's strategic decisions.

The demolition and decommissioning process at the Buchholz site is still ongoing. The contract award process for the custodianship of underground facilities was completed in 2019. Invitations to tender for the first surface demolition services started for the Kirchheilingen site. Once all mining law permits have been submitted, the demolition of all surface and underground facilities is scheduled to be completed by 2023. The possibility of facilities being taken over by third parties is being assessed in order to optimise the restoration costs. In 2019, operations began in additional chambers at EPG's underground "Katharina" facility. The underground development activities are expected to last until 2024.

**Projects for a climate-friendly energy supply:** As part of its wide range of research and development work, VGS looked at the ongoing development of gas storage technology and the facilities that requires, and also the development of new energy storage technologies, particularly in the field of underground gas storage. Led by VGS and ONTRAS, VNG got involved in the "Bad Lauchstädt Energy Park" large-scale power-to-gas project in the reporting year. The living laboratory investigates and tests various different aspects relating to the smart and economically ideal integration of hydrogen as a fuel, and therefore a large-scale demonstration of sector coupling. The aim is to develop a model region for a green hydrogen economy in central Germany with a successful combination of the generation, storage and use of green hydrogen.

### 3. TRADING & SALES

**Economic development:** The operating result of the Trading & Sales business area is influenced to a significant extent by its **wholesale** activities. As part of its portfolio optimisation activities, the Group was once again able to take advantage of volatile market prices to generate additional contributions to earnings from its trading business. As before, the focus of this was on the management of flexibilities in procurement and sales contracts as well as storage and transport capacities, hedging to safeguard sales margins, and exploiting short-term potential for arbitrage transactions. Every possible form of collaboration between trading and sales was used in order to make a profit in the persistently low-margin traditional sales business. Central management of risk positions and centralised risk management was made possible by bundling all procurement, sales and capacity agreements into a single portfolio. With earnings in the mid-range tens of millions of euros, the Trading & Sales business area contributed to the positive growth of VNG's business.

In addition to the wholesale business, the **business with retail consumers** is another important source of earnings. In addition to the foreign trading entities, the main player in this section of the business area is goldgas, which currently supplies around 83,200 gas and around 66,600 electricity customers in Germany. In a challenging competitive environment, and with customers who are potentially willing to switch provider, the end supplier achieved a positive result in the past financial year in the low tens of millions of euros that can be attributed in part to the ongoing improvement of efficiency, and greater transparency and therefore manageability. In a ranking published by Focus Money in 2019, goldgas was once again named as one of Germany's fairest gas suppliers. The contribution of the Austrian and Italian entities in the retail consumer business was in the low single-digit millions of euros.

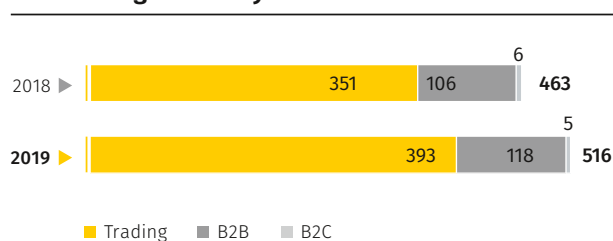
VNG continued to operate in its main foreign sales territories of Italy, Luxembourg, Austria, the Czech Republic and Poland in 2019. VNG was able to repeat its performance in its core markets, but fell short of its planned, ambitious targets. A temperature-related fall in the volume of sales mainly resulted in reduced income in Poland. The results of the business with large customers

in the Czech Republic and Austria were impacted by additional trading risks. Earnings from the supply of gas to households, however, were maintained in Italy and significantly improved in Austria.

#### Development of unit sales and procurement volumes:

In the past financial year 2019, the **volume of gas sold** by VNG (516 billion kWh) increased again in comparison to the prior year (around 463 billion kWh). This increase can mainly be attributed to an increase in the volume sold in the B2B sector. Unit sales were above all increased by gaining new customers in industry, and by tapping into new sales channels in Germany. Mild temperatures and tariff changes resulted in a slightly reduced gas output in the retail consumer segment (B2C).

**Volume of gas sold by VNG** billion kWh\*



\* Excluding short-term arbitrage transactions

Long-term relationships on the procurement side were built up, and flexibilities in supply agreements were exploited. For example, VNG's Trading & Sales segment concluded a gas procurement agreement in June 2019 with Gazprom export LLC., which underscored the partners' willingness to expand their partnership in the European gas sector.

VNG **procured** around 519 billion kWh of gas (prior year: 469 billion kWh). The volumes procured from Russian partners in connection with long-term supply agreements fell year-on-year to around 59 billion kWh (prior year: around 67 billion kWh). The volumes procured from Norway remained stable at around 10 billion kWh (prior year: 11 billion kWh). The remaining volumes of gas were procured either via short-term and medium-term supply agreements, or in the course of trading activities on the European spot and futures markets. Medium-term and long-term procurement is mainly used to cover demand for the sales customer portfolio.



## 4. BIOGAS

**Expansion of the portfolio:** The Biogas business area underwent substantial expansion in 2019 thanks to BALANCE and its subsidiaries. With the completion of the integration of the Enovos portfolio in the first half of the year, the acquisition of individual facilities and the purchase of the Nordstrom portfolio at the end of the financial year 2019, BALANCE pursued its strategy of growth and in so doing contributed to the consistent implementation of the Group's "VNG 2030+" strategy.

The total number of biogas facilities operated by BALANCE rose sharply during the reporting year, from eight with 28 MW<sub>FTC</sub> to 26 with 95 MW<sub>FTC</sub>. At the same time, the organisation required to operate the facilities in Leipzig and in the regional clusters in eastern and northern Germany continued to be expanded. The integration of the acquired biogas facilities has gone according to plan thus far.

**Economic development:** The revenue of the Biogas segment is largely generated from the EEG-based compensation paid for converting the biogas generated into electricity, and from feeding processed biomethane into the natural gas network. In operating terms, 2019 was influenced by the consequences of periods of drought in the prior year and the associated impact on harvests. The resulting shortage of substrate was offset for the most part using stocks, as well as portfolio effects between individual sites. Only certain facilities were forced to also make additional purchases of spot volumes. The acquired and already integrated biogas facilities made a positive contribution to earnings in 2019 on account of their high capacity utilisation. The Biogas business area achieved adjusted EBIT in the low single-digit millions, which was slightly below the approved budget. However, this can be attributed entirely to delays in the acquisition processes. BALANCE also continued its efforts to convert and optimise individual facilities, with delays in some cases due to the need to coordinate with authorities as well as longer delivery lead times.

**Priorities for research and development:** The focus of BALANCE's research and development activities in the past year was on the optimisation of procedures for the production of biogenic fertiliser from fermentation substrates. The aim of this is to reduce costs by reducing the pressure on storage capacities. The refinement of nutrient matter and therefore better regional marketing in agricultural areas allow additional potential income to be realised. Various research and development activities are also planned for the Biogas segment in the interest of the technical and economical evaluation of different ways to produce hydrogen.

## E. FINANCIAL POSITION, FINANCIAL PERFORMANCE AND CASH FLOWS

### 1. OVERALL ASSESSMENT

In financial year 2019, VNG worked hard to implement its “VNG 2030+” strategy and came several steps closer to making its business sustainable and diversified. The first positive results of this are already reflected in the figures for 2019. As a result, VNG can look back at a successful financial year in which it generated **adjusted EBIT** of € 133 million (prior year: € 159 million) and a consolidated net income of € 117 million (prior year: € 142 million). These results are slightly better than anticipated and also exceed the figures for the prior year, which was influenced by extraordinary effects.

The non-adjusted EBIT of € 172 million for 2019 (prior year: € 196 million) was once again much more positive than the adjusted EBIT. This was due to non-recurring effects from the sale of shares in EMB and VNG Slovakia. However, the valuation of a conditional purchase price payment from the sale of the E&P business had a counteracting effect. The EBIT for the prior year was boosted by the sale of the E&P business.

**FFO** fell year-on-year due to extraordinary effects. The total cash outflow rose in comparison to the prior year as a result of investment in the Gas Transport and Biogas segments. The figure for the prior year was influenced to a significant extent by the sale of the E&P business. VNG's equity has been further reinforced by the positive result for the period, despite the fact that the increase in net debt also increased the Group's balance sheet total, and therefore reduced the **equity ratio**. VNG's financial position and cash flows are still stable, which provides a foundation for the ongoing implementation of the Group's strategy.

VNG's individual **performance indicators** changed as follows:

€ million	2019	2018
Billed revenue	10,550	10,043
Adj. EBIT*	133	159
Consolidated net income	117	142
FFO**	120	188
Gross investment	345	296
Net cash investment	215	-62
Net non-current debt***	737	301
Equity ratio (%)	20	22

\* EBIT, adjusted for extraordinary and non-recurring effects on income

\*\* Funds from operations, i.e., consolidated net income adjusted for non-cash expenses and income as well as gains / losses from the disposal of fixed assets

\*\*\* Net financial liabilities plus pension and demolition provisions, less readily marketable inventories

### 2. FINANCIAL PERFORMANCE

The volume of gas sold by VNG rose by 53 billion kWh in the reporting year, to a total of 516 billion kWh. Combined with the fall in sales prices over the course of the year, this volume growth resulted in billed **revenue** of around € 10.5 billion (€ 10.0 billion). Much of this still stems from sales of gas and electricity in the Trading & Sales segment. On the basis of a decision of the IFRS Interpretations Committee (IFRIC) regarding the “Physical Settlement of Contracts to Buy or Sell a Non-financial Item” (IFRS 9), the statement of profit or loss also includes revenue and expenses for materials from contracts recognised at fair value in profit or loss as a derivative, based on their current spot price. Because the spot price fell sharply in the course of financial year 2019, and was listed well below the agreed prices on the Dutch trading point TTF, for example, with an average price of € 13.5 / MWh, billed revenue was reduced by € 2.3 billion to € 8.2 billion. Billed expenses for materials amounted to € 8.0 billion, taking the decision of IFRIC

into consideration. Disregarding the decision, they would have totalled € 10.3 billion for financial year 2019. The application of this decision meant that the revenue and cost of materials for the prior year had to be revised upwards by around € 1.3 billion each on account of a spot price that was higher than the prices billed. These changes have no effect on earnings. The amounts of the adjustments are booked on a net basis against other operating profit. Income and expenses from short-term arbitrage transactions were netted against each other.

**Other operating income** (€ 275 million) rose significantly in comparison to the prior year (€ 146 million) due to effects from the valuation of derivative financial instruments and the implementation of the IFRS 9 Agenda Decision.

**Personnel expenses** (€ 90 million) were up slightly on the prior year (€ 86 million) due to an increase in the headcount.

**Amortisation and depreciation** (€ 74 million, prior year: € 64 million) mainly related to fixed assets in the Gas Transport and Gas Storage segments. The increase in relation to the prior year is due to the application of IFRS 16 for the first time in the 2019 reporting year. This meant that additional depreciation of right-of-use assets amounting to € 10 million was incurred in comparison to the prior year.

**Other operating expenses** (€ 130 million) were lower than in the prior year (€ 134 million), due in part to reduced costs and lower lease expenses on account of the application of IFRS 16. This was offset by increased expenses from derivative financial instruments. The decision of IFRIC regarding the “Physical Settlement of Contracts to Buy or Sell a Non-financial Item” (IFRS 9) had no effect on other operating expenses.

**Net investment income** (€ 68 million) rose sharply in comparison to the prior year. In addition to lower write-downs of investments, the gain from the sale of shares in EMB and VNG Slovakia in particular had a positive impact on earnings, and more than offset a fall in net income from entities measured using the equity method.

The lower **financial result** (€ -16 million, prior year: € -9 million) largely stems from increased expenses in connection with unwinding the discount on non-current provisions. Ongoing borrowing costs, on the other hand, fell slightly despite an increase in financial liabilities. Borrowing costs in connection with the construction of the EUGAL pipeline needed to be capitalised, and VNG also benefited from the favourable general market interest rates. Interest income from the discontinued E&P business had a positive impact on the financial result in the prior year.

**Tax expenses** (€ 41 million, prior year: € 31 million) consist of current tax expenses amounting to € 29 million and deferred tax expenses amounting to € 12 million. The change in total tax expenses in comparison to the prior year stems largely from increased expenses for corporate income tax and trade tax.

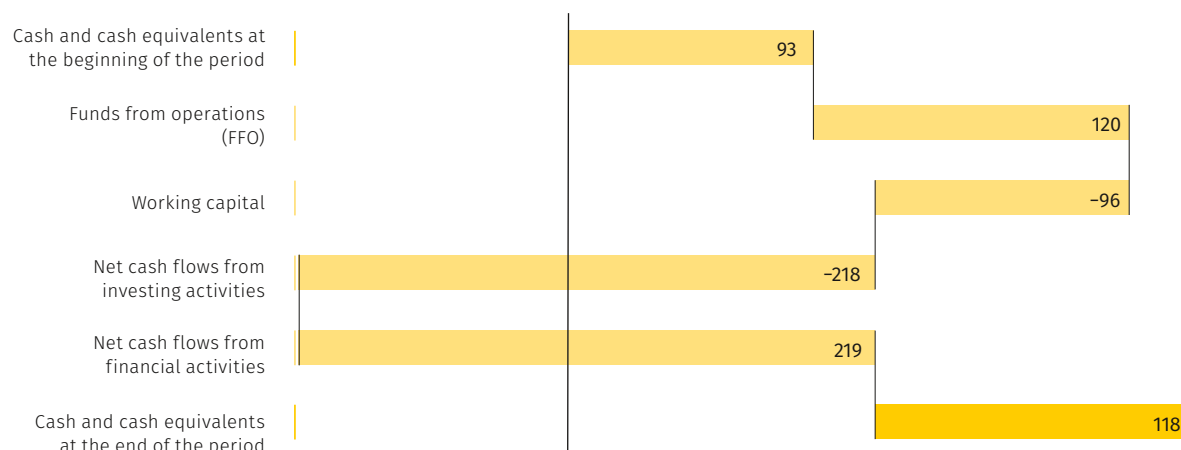
The **result of the discontinued business area E&P** is disclosed separately in the statement of profit or loss. In the reporting year, this result (€ -19 million) stems from the fair value measurement of an agreed contingent purchase price instalment, for which the volume and timing-related development of two exploration fields is important. The valuation also took changes in the oil price into account.



### 3. CASH FLOWS

#### Development of cash flows of VNG in 2019

€ million



**FFO** (€ 120 million) were down in relation to the prior year (€ 188 million), due in particular to lower dividend payments from equity investments and higher income tax payments. The **changes in working capital** (€ -96 million) as at the reporting date impacted operating cash flow.

Net cash outflows in connection with **investing activities** amounted to € 218 million. Spending on investment (€ 379 million) consisted in particular of investments in biogas facilities in the Biogas business area, as well as in the expansion of gas infrastructure in the Gas Transport business area. The divestitures carried out in the financial year, on the other hand, generated cash inflows of around € 130 million. In the prior year, the sale of the E&P business had an extraordinarily positive influence on cash flow from investing activities (prior year: € 63 million), and more than offset the amount spent on investment. The reported cash flow from investing activities includes received dividends (€ 25 million, prior year: € 35 million) and interest (€ 6 million, prior year: € 6 million).

Cash flow from **financing activities** amounted to a net cash inflow of € 219 million in financial year 2019 (prior year: € -120 million). VNG received net cash and cash equivalents amounting to € 285 million from borrowing from external financing partners. This was offset by the repayment of € 12 million of lease liabilities. Interest payments amounting to around € 14 million (prior year: € 21 million) were made. A dividend of € 40 million was paid out to VNG AG's shareholders for financial year 2018.

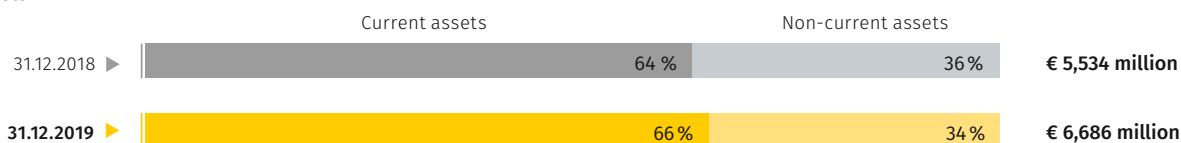
Taking changes due to exchange rates into account, **cash and cash equivalents** increased from € 93 million to € 118 million. VNG was solvent at all times. Lines of credit amounting to € 634 million (prior year: € 990 million) had not been utilised as at 31 December 2019.

## 4. FINANCIAL POSITION

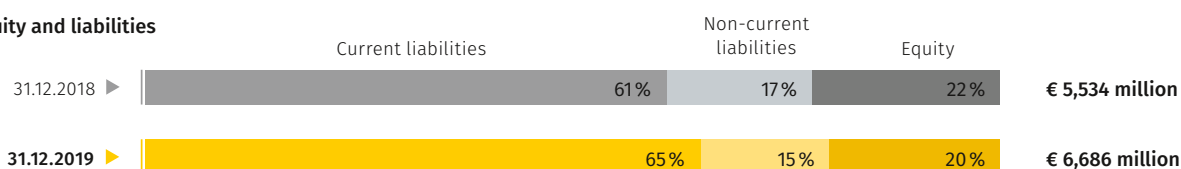
VNG's **financial ratios** changed as follows in comparison to the prior year:

### Financial ratios

#### Assets



#### Equity and liabilities



**Total assets** increased by € 1,152 million or 21 percent in relation to the prior year, to € 6,686 million. The increase in **non-current assets** can be partly attributed to the capitalisation of rights of use on the basis of leases due to the application of IFRS 16 for the first time. The investments made in biogas facilities and gas infrastructure in 2019 also increased property, plant and equipment. **Current assets** and **liabilities** rose due to higher market values for purchase and sale agreements on account of the unusually low prices on the reporting date, which meant that they accounted for a greater share of the Group's total assets than in the prior year. This was offset on the assets side by the price-related decline in trade receivables and lower inventories. Inventories fell as the result of a very low spot price, combined with increased volumes as at the reporting date. On the equity and liabilities side, new loans for financing purposes also caused **current liabilities** to increase. In this case as well, higher market values of the derivative financial instruments were offset to some extent by reduced trade payables.

**Non-current liabilities** rose in the reporting year because the renewed fall in market interest rates led to an increase in restoration obligations for storage facilities and the pipe network. The application of IFRS 16 for the first time also resulted in an increase in other liabilities.

The increase in **current and non-current liabilities** led to a significant increase in total assets and a change in the Group's capital structure. The equity ratio fell two percentage points to 20 percent in the reporting year. The absolute volume of equity was reinforced by the consolidated net profit.

## F. OPPORTUNITIES AND RISK REPORT

### 1. RISK MANAGEMENT SYSTEM

VNG operates a comprehensive risk management system that incorporates all of the Group's business areas and Group entities. The purpose of this system is to ensure that a suitable balance of opportunities and risks is maintained at all times. In addition to constantly measuring and monitoring risks, an annual risk inventory is carried out in which the risks and opportunities of all Group entities are systematically recorded and assessed as deviations from the corresponding forecasts. Significant opportunities and risks are also updated every year. In addition to the regular risk assessment methods, an ad hoc risk reporting system based on defined thresholds is in place that identifies significant deviations from plans at an early stage and in so doing highlights changes in the opportunity / risk portfolio.

### 2. OPERATING OPPORTUNITIES AND RISKS

VNG has put itself on a broad footing with its core business areas relating to natural gas as a product, and is also exploiting new potential unrelated to natural gas as part of its "VNG 2030+" strategy. This positioning diversifies the Group's risks, and also allows it take advantage of opportunities in a dynamic market. Based on the forecast results, the opportunity / risk profile for 2020 is slightly risk-heavy.

The main opportunities and risks are primarily driven by market prices. This mainly concerns changes in the summer-winter spread and price fluctuations in the commodities markets in the Trading segment. Opportunities and risks also arise in the medium term and long term from the regulatory environment.

Apart from the general risks of business, there are currently no apparent risks with the potential to lastingly and significantly impact VNG's financial position, performance and cash flows.

**Gas Transport business area:** The economic performance of ONTRAS depends to a significant extent on the regulatory framework and the permissible income caps associated with it. In the past year, for example, the BNetzA set the equity return for new facilities for the third regulation period (2018 to 2022). Compared to the rest of Europe, this will significantly affect the incentives to invest in German electricity and gas networks. Falling interest rates in the regulated business of ONTRAS will reduce the Company's contribution to EBIT in the future.

ONTRAS also continues to take advantage of the opportunities presented by the regulated transportation market. Investing in EUGAL allows ONTRAS to diversify the marketing of its capacities and rejuvenate its own asset structure. ONTRAS also faces typical project-related risks such as potential delays to construction or a budget increase. As a result, ONTRAS has implemented measures to mitigate these risks as much as possible. ONTRAS is also paying close attention to the current sanctions policy of the US as it relates to infrastructure projects in the European energy sector. ONTRAS does not currently consider the level of risk to be raised, however.

ONTRAS also takes advantage of opportunities to provide services in the non-regulated energy infrastructure sector. With respect to the energy policy challenge of a CO<sub>2</sub>-neutral future for energy, there is also an opportunity for the continued use of Germany's gas infrastructure as part of a gradual transition from natural gas to renewable gases. The coupling of the electricity, heating market, mobility and industrial sectors makes it possible to develop an economically viable and cost-effective solution that involves the gas infrastructure. "ONTRAS, going green" bundles all of the Company's activities aimed at achieving a CO<sub>2</sub>-neutral gas supply by 2050. ONTRAS is constantly carrying out necessary renovation and modernisation work on its technical facilities in order to ensure that the network is as reliable as possible, and in so doing safeguard the contractually agreed supply of gas to downstream networks and retail consumers. The technical safety and availability of the transmission network and its corresponding facilities were once again ensured at all times in financial year 2019. The risks for 2020 are mainly limited to the operation of technical facilities.



**Gas Storage business area:** The intensity of competition means that the proportion of storage bookings at short notice remains high. Substantial demand for storage capacity is anticipated in connection with the challenge of a CO<sub>2</sub>-neutral future for energy. Under certain circumstances, the existing infrastructure may also be used to store renewable energy in the form of “green gases”. This is currently to be investigated and tested with project partners for green hydrogen as part of the “Bad Lauchstädt Energy Park” living laboratory.

The volatility of market prices creates uncertainty for the future marketing of storage capacity and the income that can be generated from it. Opportunities are above all presented by further increases in market prices, although the bulk of the available storage capacity has already been marketed. VGS also aims to tackle the competition with innovative products, targeted investment decisions, the decommissioning of inefficient and unprofitable storage facilities such as those in Buchholz and Kirchheilingen, and measures to improve efficiency. Cost structures have already been optimised, the organisation has been aligned more closely with the market, and additional income has been generated from the services business in response to the situation to date with respect to demand. Ongoing maintenance and the monitoring of underground gas storage facilities on the basis of technical regulations and internal provisions, and regular assessment of the condition of all surface and underground facilities, ensure that high standards of safety are maintained from a technical perspective and in accordance with mining law. High standards of quality are also ensured by annual training plans for the ongoing qualification of VGS’s employees and service providers, as well as regular internal and external audits.

**Trading & Sales business area:** The main opportunities and risks associated with the trading business of VNG’s Trading & Sales segment relate to price fluctuations in the commodities markets. In addition to changes in market prices, price differences between European gas trading points and price spreads between seasonal futures products represent important risk factors. Trading performance can also be affected by temperatures, particularly in the winter period. The positions in purchase and sale agreements are combined to form an overall portfolio, and constantly monitored and managed. In addition to the portfolio’s natural hedging effects, specific hedging strategies are used to limit the effects of negative changes in earnings that take the relevant risk factors into consideration and may also include derivative financial instruments. Trading activities are carried out in accordance with specific risk and loss limits for the operating business. Based on the forecast results, opportunities and risks should be almost balanced in 2020. The maximum total deviation in earnings as a result of the risk factors already mentioned is in the low tens of millions of euros.

VNG H&V has a structurally diversified procurement portfolio that is aligned with the market. The existing contracts mainly serve to cover the sales position. With respect to unit sales, VNG H&V is constantly developing new products and exploiting additional sales channels in the traditional wholesale business. It also takes the opportunities presented by the market and by spot and futures trading to optimise its overall portfolio.

The main credit risks stem from natural gas supply and trading agreements with national and international business partners. There are also credit risks associated with financial instruments that are entered into in order to hedge currency and commodity price risk positions. The credit ratings of business partners (customers, suppliers, trading partners and financial institutions) are evaluated and continuously monitored on the basis of the information available as well as procedures that are customary for the market as part of the Group’s established credit risk management system. The usual hedging instruments (such as guarantees) are used to manage credit risks. The customer portfolio is also covered by loan default insurance.

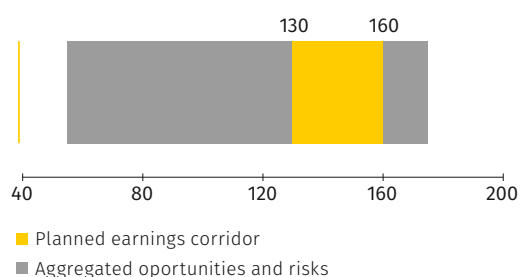
VNG is subject to energy and financial market regulation. Suitable IT systems have been installed in order to meet the requirements of MiFiD II (Markets in Financial Instruments Directive), MAR (Market Abuse Regulation) and REMIT (Regulation on Energy Market Integrity and Transparency).

The retail consumer supplier goldgas operates in a challenging competitive environment with low margins and customers who are potentially willing to switch providers. This could have a negative impact on the customer base and unit sales. goldgas also sees opportunities in connection with new distribution channels, the ongoing optimisation of processes and services relating to the energy sector. The Company is therefore pursuing the creation of an innovation management system, as well as systematic product development.

VNG's performance indicators may be influenced by opportunities and risks. The figure below shows the effects on adjusted EBIT for financial year 2020.

#### Adjusted EBIT 2020

€ million



**Ongoing development of IT systems:** The Group's operating business and the constantly changing framework conditions place significant demands on the stability, reliability and adaptability of business processes. By constantly monitoring its processes and developing its business IT systems, the Group ensures a high degree of process reliability and is constantly working on additional improvements.

### 3. COMPLIANCE MANAGEMENT SYSTEM

The Group's entities are integrated into the Group-wide compliance management system (CMS). The purpose of this system is to ensure that all employees act in accordance with the law in order to avoid jeopardising the confidence of customers, business partners, shareholders and the general public. In addition to organisational precautions and policies, there is an extensive reporting system in place and general, subject-specific training is provided to employees. The efficacy and adequacy of the CMS has been assessed and certified by auditors. This means that the principles and measures of the CMS are suitable both for promptly identifying risks of material violations of the law and internal rules in the fields of preventing corruption, anti-trust law and the regulation of trade, and for preventing such violations, with sufficient certainty.

## 4. FINANCIAL RISK MANAGEMENT

VNG is above all exposed to risks relating to changes in the prices of raw materials, exchange rates and interest rates, as well as credit risks. The Group's fundamentally conservative orientation is reflected in its systematic financial risk management. Front-office and back-office functions, and financial risk management, are kept organisationally separate from each other.

The derivative standard financial instruments used for financial risk management are only used to hedge the existing risks associated with the underlying transactions. Commodity future transactions conducted by the trading entities are used to manage price risks relating to gas purchase and sale agreements. Statistical risk parameters are used to measure and monitor these risks every day, and the potential changes in the present value of the trading portfolio are limited. All of the Group's currency exposures are concentrated with the parent company and hedged in full, if possible. Contracts with Group entities based outside the euro zone are only ever concluded in the domestic currencies of those entities. Forward exchange transactions and natural portfolio hedging effects are primarily considered as hedging instruments. VNG practices active interest risk management involving the regular evaluation of all interest rate risks, which are also managed using derivative financial instruments. Solvency is guaranteed at all times by maintaining sufficient reserves of cash and cash equivalents in the form of guaranteed lines of credit, and also by optimising the allocation of liquidity within the Group. The core elements of the Group's financing are solid lines of credit and promissory note loans with various financing partners. The rolling liquidity planning over periods of several years regularly determines the peak financing requirements in future. As at the reporting date, these were always covered by sufficient sources of financing, even in the risk scenarios.

## G. OUTLOOK

**Increasing relevance of sustainable, ecologically sound business:** In 2019, natural gas, renewable and decarbonised gases, and gas infrastructure were successfully incorporated as important elements of a viable energy supply for the future in a political context. This is reflected by the status attributed to natural gas and, prospectively, “green gases” in the many political and economic initiatives and plans for planning the energy revolution and the future of energy supplies. 2020 will now mainly be characterised by the implementation of various different political strategy papers such as the report on the outcome of the “Gas 2030” dialogue process, the national hydrogen strategy and the European “Green Deal”.

In 2019 we also saw stakeholders in civil society and social movements creating increasing space in the public consciousness for the topics of climate protection and sustainability. In some cases they were even able to (in) directly influence political and economic discussions and decisions. It is reasonable to assume that the interpretations applied will be maintained in the years ahead, and therefore also have an impact on natural gas as a fuel. VNG continues to see an important role for itself in the German / European gas and energy sector’s process of transformation. Following on from this, however, for some time VNG has reflected on the wider context regarding the exact added value that the Group provides its customers, the environment and other stakeholders with its current business activities and its strategic direction. In addition to the planned “greening” of natural gas, it is the infrastructure aspects of the networks and storage facilities in particular that will play a significant role in maintaining a stable and secure supply of energy in the electricity and heating market, now and in the future. In times when the generation of electricity is increasingly volatile, and society is turning its back on coal and nuclear energy, it is the infrastructure that provides a reliable foundation and backbone in the transformation processes of the energy revolution.

As part of this, it remains important to consistently pursue the course set out in the “VNG 2030+” strategy of consistently optimising the established business areas while also setting up and expanding new ones. The achievements made in 2019, particularly in the Biogas segment, and the more in-depth treatment of the topics of renewable and decarbonised gases, not only offer business opportunities but also lay an important foundation for lower-emissions and therefore a sustainable energy supply in the future. It is also essential to keep the daily operating business in the established business and trading areas stable and successful.

**Reinforcement and improvement of operating performance as the basis for the ongoing implementation of the Group’s strategy:** Good operating performance, combined with a slight improvement in market conditions (particularly the volatility of gas prices), provides a good basis for the ongoing, consistent implementation of the strategy. VNG is planning to achieve a higher adjusted EBIT of between € 130 million and € 160 million in 2020, as well as consolidated net income of between € 85 million and € 103 million. The Gas Transport business area can once again be expected to achieve steady results in 2020. In the Gas Storage segment, the slightly higher summer-winter spreads at present are reinforcing the improved financial performance. These wholesale markets, which are currently volatile, also offer opportunities for the integrated approach of the Trading & Sales segment, although these need to be exploited anew every year and depend on market conditions. Competition in the sales market also remains strong. The retail consumer business is still an important source of income in the German, Polish, Austrian and Italian target markets. With the implementation of the Group’s “VNG 2030+” strategy, the Biogas segment is expected to increase its adjusted EBIT in comparison to the current financial year.



Due to increasing investment, the Gas Transport and Biogas segments in particular are expected to see a reasonable increase in debt levels in 2020. As in the past, changes in working capital in the trading business and its measurement on the reporting date may be subject to severe fluctuation, and also have a significant impact on Group debt, total assets and therefore also the equity ratio. FFO, on the other hand, will increase in comparison to 2019, in line with earnings.

**Non-financial performance indicators:** In order to achieve a good operating performance, it will also be necessary in the future to address employees' needs and concerns. Further measures are planned for the next financial year in order to be able to report on employee satisfaction. Based on the results of the survey in the past financial year, we expect the strong identification of VNG's employees to be confirmed. The aim is to constantly improve workplace safety within the Group for employees and external contractors. To this end, VNG implements numerous accident prevention measures, and intends to keep its LTI at the same level as the prior year in financial year 2020.

In the interest of the sustainability of its own business activities, VNG is planning to focus more on its ongoing activities in 2020, and to successively add new measures. With its efforts to increasingly establish gas in a more environmentally friendly form by continuing to expand its biogas portfolio and through its research activities in the "Bad Lauchstädt Energy Park" living laboratory, the Group is above all aiming to reduce its own CO<sub>2</sub> footprint. To this end, it will need to lay corresponding foundations in financial year 2020.

Over the next year, VNG is also planning to work closer with colleges and research institutions through institutional sponsorships, joint projects and the ongoing awarding of scholarships to young students. The VNG Foundation's "Verbundnetz der Wärme" initiative, with its internal and external communications activities and events will also continue to draw attention to the importance of volunteering to society, in order to promote appreciation and to work with the network's members to improve the framework conditions for volunteering. As before, these activities are focused on the regions in which VNG mainly operates.

**Regional roots still important for VNG:** Following the celebrations of "30 years since the Peaceful Revolution" and "30 years since the fall of the wall", in the autumn of 2020, the Federal Republic of Germany will mark the 30th anniversary of German reunification. With its own history of transformation, VNG sees itself as a positive example of post-1990 (eastern) German economic history. The Group's regional and communal roots in eastern Germany and Leipzig are a key aspect of the way it sees itself, and also an incentive and motivation to continue working within society and politics towards the ongoing development of eastern Germany as a place to do business. It is important to keep stressing the positive achievements that have been made, 30 years following reunification, while also actively addressing the structural problems that remain. VNG will continue to contribute to public discussions in this regard, and use it as a basis for its own actions.

# CONSOLIDATED FINANCIAL STATEMENTS

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The annual report contains the following excerpt from the complete consolidated financial statements of VNG, which have been submitted electronically to the operator of the German Federal Gazette and can be accessed via the company register ([www.unternehmensregister.de](http://www.unternehmensregister.de)).

# STATEMENT OF PROFIT OR LOSS OF VNG

for the period from 1 January to 31 December 2019

€ million	1.1. to 31.12.2019	Restated: 1.1. to 31.12.2018	Reported: 1.1. to 31.12.2018
<b>Revenue billed</b>	<b>10,549.8</b>	<b>10,043.3</b>	<b>11,219.1</b>
Restatement due to IFRIC Agenda Decision on IFRS 9	-2,382.0	1,320.8	0.0
<b>Revenue pursuant to IFRS</b>	<b>8,167.8</b>	<b>11,364.1</b>	<b>11,219.1</b>
Changes in inventories	-0.2	1.3	1.3
Other own work capitalised	2.7	2.5	2.5
Other operating income	275.1	146.3	110.4
<b>Cost of materials billed</b>	<b>-10,350.3</b>	<b>-9,765.9</b>	<b>-10,941.7</b>
Restatement due to IFRIC Agenda Decision on IFRS 9	2,324.1	-1,356.7	0.0
<b>Cost of materials pursuant to IFRS 9</b>	<b>-8,026.2</b>	<b>-11,122.6</b>	<b>-10,941.7</b>
Personnel expenses	-90.0	-85.5	-85.5
Depreciation and amortisation	-73.6	-63.6	-63.6
Other operating expenses	-130.3	-133.9	-133.9
Investment result	67.5	15.0	15.0
Financial result	-15.5	-8.9	-8.9
Income taxes	-40.9	-30.9	-30.9
<b>Profit after tax from continuing operations</b>	<b>136.4</b>	<b>83.8</b>	<b>83.8</b>
<b>Profit / loss after tax of the discontinued operation</b>	<b>-19.2</b>	<b>58.5</b>	<b>58.5</b>
<b>Consolidated profit for the year</b>	<b>117.2</b>	<b>142.3</b>	<b>142.3</b>
a) attributable to non-controlling interests	0.1	0.3	0.3
b) attributable to shareholders of VNG AG	117.1	142.0	142.0

# CONSOLIDATED BALANCE SHEET OF VNG

as at 31 December 2019

## Assets

€ million	31.12.2019	31.12.2018
<b>Non-current assets</b>	<b>2,292.9</b>	<b>1,978.1</b>
Intangible assets	9.1	9.5
Property, plant and equipment	1,699.2	1,362.1
Entities accounted for using the equity method	116.8	188.5
Other financial assets	216.6	190.8
Derivative financial instruments	229.5	182.6
Other non-current assets	19.0	37.0
Deferred taxes	2.7	7.6
<b>Current assets</b>	<b>4,392.7</b>	<b>3,556.0</b>
Inventories	299.1	423.0
Financial assets	0.5	0.5
Trade receivables	1,518.1	2,100.2
Derivative financial instruments	2,346.6	850.0
Other current assets	110.4	89.0
Cash and cash equivalents	118.0	93.3
<b>Total assets</b>	<b>6,685.6</b>	<b>5,534.1</b>



**Equity and liabilities**

€ million	31.12.2019	31.12.2018
<b>Equity</b>	<b>1,305.2</b>	<b>1,223.2</b>
Issued capital	328.0	328.0
Retained earnings	856.3	753.6
Consolidated profit for the year after non-controlling interests	117.1	142.0
Cumulative changes in other comprehensive income	-3.6	-6.0
Non-controlling interests	7.4	5.6
<b>Non-current liabilities</b>	<b>980.1</b>	<b>940.6</b>
Provisions	453.4	454.2
Deferred taxes	41.9	33.5
Financial liabilities	264.2	216.5
Trade payables	0.1	0.3
Derivative financial instruments	212.9	221.7
Other liabilities and subsidies	7.6	14.4
<b>Current liabilities</b>	<b>4,400.3</b>	<b>3,370.3</b>
Provisions	83.7	89.4
Financial liabilities	392.3	88.9
Trade payables	1,562.8	2,164.3
Derivative financial instruments	2,250.3	869.3
Other liabilities and subsidies	111.2	158.4
<b>Total equity and liabilities</b>	<b>6,685.6</b>	<b>5,534.1</b>

## OTHER DISCLOSURES

### COMPOSITION OF VNG AG'S EXECUTIVE BOARD

Ulf Heitmüller	Chief Executive Officer
Hans-Joachim Polk	Chief Infrastructure & Technology Officer
Bodo Rodestock	Chief Financial & Human Resources Officer

### COMPOSITION OF VNG AG'S SUPERVISORY BOARD

Thomas Kusterer	<b>Chairperson</b> Member of the Executive Board of EnBW Energie Baden-Württemberg AG
Hans-Joachim Herrmann	<b>1<sup>st</sup> Vice Chairperson</b> Managing Director of Stadtwerke Lutherstadt Wittenberg GmbH
Christina Ledong	<b>2<sup>nd</sup> Vice Chairperson</b> Chairperson of the Works Council of VNG AG, ONTRAS Gastransport GmbH, VNG Gasspeicher GmbH and VNG Handel & Vertrieb GmbH
Markus Baumgärtner	Head of Value Chain Natural Gas of EnBW Energie Baden-Württemberg AG
Josefine Bormann	Main Consultant of Business Regulation of ONTRAS Gastransport GmbH
Dr. Frank Brinkmann	Managing Director of DREWAG – Stadtwerke Dresden GmbH
Sascha Enderle	<b>(from 27 June 2019)</b> Head of Digital Finance & Transformation at EnBW Energy Baden-Württemberg AG
Barbara Endriss	Managing Director of OEW Energie-Beteiligungs GmbH

Christina Fenin	Head of Cooperations of VNG Gasspeicher GmbH
Dr. Martin Fleckenstein	Independent Consultant
Hans-Peter Floren	Entrepreneur
Monty Heßler	System Technology Office of GDMcom GmbH
Dr. Martin Konermann	Managing Director Technology of Netze BW GmbH
Peter Leisebein	Deputy Chairperson of the Works Council of VNG AG, ONTRAS Gastransport GmbH, VNG Gasspeicher GmbH and VNG Handel & Vertrieb GmbH
Michael Raida	Management Consultant
Gunda Röstel	Managing Director of Stadtentwässerung Dresden GmbH
Dr. Benno Seebach	Head of Capacity Planning at ONTRAS Gastransport GmbH
Michael M. Theis	Chairperson of the Managing Directors of LVV Leipziger Versorgungs- und Verkehrsgesellschaft mbH
Stefanie Thiele	Project Manager at ONTRAS Gastransport GmbH
Dr. Jochen Weise	Senior Advisor of Allianz Capital Partners GmbH
Dr. Bernd-Michael Zinow	Head of Function Unit Legal, Audit, Compliance and Regulatory of EnBW Energie Baden-Württemberg AG

### Former members of the Supervisory Board

Dr. Jörg Reichert	<b>(until 10 June 2019)</b> Member of Management of Energiedienst Holding AG
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## OVERVIEW OF THE FULLY CONSOLIDATED COMPANIES

Shareholding in %	Name and registered office of the company
<b>Holding</b>	
100.00	VNG AG, Leipzig, Germany
<b>Transport</b>	
100.00	ONTRAS Gastransport GmbH, Leipzig, Germany
<b>Storage</b>	
100.00	VNG Gasspeicher GmbH, Leipzig, Germany
<b>Trade</b>	
100.00	VNG Handel & Vertrieb GmbH, Leipzig, Germany
100.00	ENERGIEUNION GmbH, Schwerin, Germany
100.00	G.EN. Gaz Energia Sp. z o.o., Tarnowo Podgórne, Republic of Poland
100.00	goldgas GmbH, Eschborn, Germany
100.00	goldgas GmbH, Vienna, Austria
100.00	HANDEN Sp. z o.o., Warsaw, Republic of Poland
80.00	SPIGAS S.r.l., Milan, Italy
100.00	VNG Austria GmbH, Gleisdorf, Austria
100.00	VNG Energie Czech s.r.o., Prague, Czech Republic
100.00	VNG-Erdgascommerz GmbH, Leipzig, Germany
100.00	VNG Italia S.r.l., Bologna, Italy
<b>Biogas</b>	
100.00	BALANCE Erneuerbare Energien GmbH, Leipzig, Germany
100.00	Leipziger Biogasgesellschaft mbH, Leipzig, Germany



# AUDITOR'S REPORT

We issued the following auditor's report on the consolidated financial statements and the complete group management report according with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, which comprise the consolidated balance sheet as at 31 December 2019, the consolidated income statement, the consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the fiscal year from 1 January 2019 to 31 December 2019, and notes to the financial statements, including a summary of significant accounting policies.

To VNG AG

## OPINIONS ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

### Opinions

We have audited the consolidated financial statements of VNG AG, Leipzig, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019, the consolidated income statement, the consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the fiscal year from 1 January 2019 to 31 December 2019, and notes to the financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of VNG AG for the fiscal year from 1 January 2019 to 31 December 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

- ▶ the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019 and of its financial performance for the fiscal year from 1 January 2019 to 31 December 2019, and
- ▶ the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

## BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

## RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- ▶ Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- ▶ Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- ▶ Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- ▶ Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Leipzig, 26 February 2020

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Wirtschaftsprüfungsgesellschaft

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Wirtschaftsprüfer  
[German Public Auditor]

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Wirtschaftsprüfer  
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## GLOSSARY

**Biogas:** Gas resulting from the fermentation of biomass. It can be used in CHP plants for on-site power generation or can be upgraded to natural gas quality. The resulting biomethane can then be fed into the natural gas grid.

**Biomethane, also known as renewable natural gas (RNG):** Renewable biogas with a methane content high enough that it is suitable to be fed into the natural gas grid.

**Blue hydrogen:** Hydrogen, whose production from methane does not release CO<sub>2</sub> into the atmosphere. The CO<sub>2</sub> emitted during the reforming of conventional natural gas can be captured and stored in geological structures (so-called CO<sub>2</sub> storage) or in turn used to produce synthetic methane.

**Erneuerbare-Energien-Gesetz (abbreviated EEG):** Germany's Renewable Energy Sources Act, which governs the preferential feeding of power from renewable sources into the country's electrical grid.

**EUGAL:** The European Gas Link (EUGAL) is a pipeline project carried out by GASCADE Gastransport GmbH. VNG's subsidiary ONTRAS is one of the company's minority shareholders. EUGAL has been operational as planned since 01 January 2020.

**Green hydrogen:** Carbon-neutral gas produced via power-to-gas technology or the electrolysis process. This gas is produced by splitting hydrogen and oxygen using electricity. The hydrogen produced in this way is referred to as green depending on the percentage of renewable electricity used.

**Grey hydrogen:** Hydrogen obtained from natural gas via methane reforming, the production of which emits CO<sub>2</sub> into the atmosphere.

**Integrated energy:** The term used to describe the goal of interconnecting the energy and industrial sectors within the scope of the energy revolution.

**LNG, liquefied natural gas:** Natural gas cooled down to liquid form so that it can be used as fuel, e.g. for shipping and heavy goods vehicles.

**LTI, lost time injury:** An occupational accident resulting in the injured employee needing to take time off work.

**Portfolio management:** Systematic planning, management and control of a strategic business area in line with corporate objectives.

**Power-to-gas:** An innovative technology that uses electricity to produce gas by means of water electrolysis and, if necessary, downstream methanisation.

**Pyrolysis** refers to a thermochemical conversion process in which methane is split into (turquoise) hydrogen and solid carbon at high temperatures.

**Spot and futures markets:** The spot market is the international financial market in which commodities are traded for immediate payment and prompt delivery. On a futures market, futures contracts are traded that will be fulfilled at some point in the future.

**Steam reforming:** Short version: Steam reforming is a cost-effective and energy-efficient method of producing hydrogen from carbon-based energy sources such as natural gas, light gasoline, methanol, biogas, or biomass through the addition of steam.

**Summer-winter spread:** The difference between the price of natural gas in the summer compared to the price in the winter.

**Synthetic methane:** Synthetic methane is a gaseous form of power storage that is produced via the power-to-gas process. After hydrogen has been produced through electrolysis, it is converted into synthetic methane by adding carbon dioxide through methanisation.

**Thermal firing capacity:** The thermal firing capacity is the maximum fuel energy that can be delivered simultaneously to a combustion unit, based on the lower heating value. The type of fuel used is irrelevant.

**Turquoise hydrogen:** Hydrogen produced from natural gas via methane pyrolysis. Instead of CO<sub>2</sub>, the production process generates solid carbon, which can be used in various industries.





# IMPRINT

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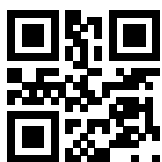
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