

PRESS RELEASE

VNG / Financial year results 2019

Annual results 2019: VNG reports strong performance across all business areas – Heitmüller: “Gas supplies secured despite coronavirus crisis”

Earnings higher than expected, investments once again increased – strong growth in the Biogas business area

Leipzig, 2 April 2020. In view of its strong performance in the 2019 financial year, Leipzig-based VNG AG considers itself well equipped for the future. “For 2019, we can look back on quite the successful year in which our hard work across all of our business areas was reflected in extremely positive operating results. We closed out the year in the black across all of our business areas,” announced CEO Ulf Heitmüller on Thursday, 2 April 2020, when the company published its annual report for the 2019 financial year.

The positive year-end result is currently only clouded by the outlook on the as yet unforeseeable consequences of the coronavirus epidemic: “The events of recent weeks and months will have an impact on the entire global economy. This is why we also have to assume that we, too, will encounter unpredictable and possibly more difficult conditions in many cases. In this respect, we are also facing certain challenges. Yet despite all the challenges that lie ahead, there is one positive thing that we can take away from this situation – the knowledge that the supply of gas and power in this country is not at risk, even in times of such a crisis,” said Heitmüller.

The group of companies, which is active throughout Europe and had a total of 1,155 employees at the end of 2019 (2018: 1,101), generated earnings of €117 million and adjusted EBIT of €133 million in the 2019 financial year (2018 earnings: €142 million/2018 adjusted EBIT: €159 million). As such, both figures stood slightly below the prior year’s numbers – last year’s result was heavily influenced by the company’s sale of the exploration and production business (E&P). At €10.5 billion, sales revenues in 2019 slightly exceeded the previous year’s level (€10.0 billion). “We set ambitious goals for ourselves and were even able to exceed them in terms of operating performance. That’s why I’m very satisfied with the results and the positive overall performance of the group. All of our employees deserve special thanks,” said Heitmüller, who has been CEO of the corporation since 2016.

At €345 million (gross), the company further increased the value of its investments in 2019 (2018: €296 million). The focus was primarily on the Transport and Biogas business areas. “In line with our ‘VNG 2030+’ strategy, we are strengthening our established business segments and at the same time pushing ahead with the development of new areas of business. A prime example is our Biogas segment, which we have expanded significantly and have been operating as a separate business area since the beginning of this year. And we are already seeing initial positive results here.”

“We are also quite pleased with the changes in energy policy over the past year, which have seen the German government further strengthen the role of natural gas. Now we will have to see the extent of the economic impact of the coronavirus epidemic on our industry and our business. In light of the dramatic developments worldwide, we cannot rule out the possibility that VNG may also experience isolated negative effects on its business.”

VNG AG

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With regard to the general economic environment during the previous year, Heitmüller pointed out that the use of natural gas as a major energy source is growing and that it plays a leading role in nearly every sector in Germany – a fact also reflected in the company’s own figures. The sale of VNG Slovakia, spol. s r. o. and the corporation’s 25.1% interest in the regional energy utility EMB Energie Mark Brandenburg GmbH had a one-off, positive effect on consolidated earnings. The company intends to use the income from these transactions to press ahead with the strategic expansion of new business segments and the development of future technologies.

Solid performance in established business areas – size of biogas facility portfolio more than tripled

“We have once again succeeded in significantly shaping the future of the entire group while simultaneously operating more cost-consciously and efficiently. As a result, we also strengthened our capital base, thus enabling us to continue to grow our business under our own steam,” said Bodo Rodestock, Chief Financial & Human Resources Officer. He cited three main reasons for the company’s solid results: improved operating performance, progress in implementing the group’s ‘VNG 2030+’ strategy and increased cost consciousness.

Rodestock was particularly pleased that all three established business areas – Transport, Storage and Trading & Sales – turned a profit in the 2019 financial year, with the subsidiaries ONTRAS Gastransport GmbH (ONTRAS), VNG Gasspeicher GmbH (VGS) and VNG Handel & Vertrieb GmbH (VNG H&V) each making a significant contribution to the company’s consolidated earnings. “Despite difficult market environments in some cases, we can truly speak of success stories,” emphasised Rodestock.

The company also performed extremely well in the biogas segment, more than tripling the number of biogas facilities it owns through its subsidiary BALANCE Erneuerbare Energien GmbH (BALANCE) from eight to 26. With total rated thermal input of 95 megawatts, the company is now one of the largest facility operators in Germany. “This would theoretically enable us to supply around 45,000 households with renewable power and around 20,000 households with gas for an entire year,” said Hans-Joachim Polk, Chief Infrastructure & Technology Officer. “Biogas is a valuable energy source that today is already being used to safely and reliably produce renewable power or is being fed into the gas network as biomethane. Our goal is to continue growing profitably throughout this entire segment and further optimise our business processes.”

Transport: ONTRAS once again contributes significantly to positive results

In the Transport business area, ONTRAS and its subsidiaries once again made a strong contribution to the group’s overall result. “As an independent transmission system operator in a regulated environment, ONTRAS continuously invests in the expansion and modernisation of its 7,500-kilometre high-pressure network. In this context, one of the main considerations is to make the existing infrastructure available for the transport of hydrogen in future. ONTRAS is laying important groundwork in this regard,” said Polk. Through its participation in the European Gas Pipeline Link (EUGAL), the first section of which came online on 1 January 2020 after approximately one and a half years of construction, ONTRAS will also be able to commercialise additional capacities in the future.

Storage: VGS uses positive market environment to its advantage

In the storage sector, VGS was able to take advantage of the favourable market environment, with comparatively low temperatures at the beginning of the year and increased summer-winter spreads over the course of the year, and for the first time in a long while, ended the financial year on a positive note. “Thanks to the consistent improvement in cost structures and savings over the years, we have succeeded in putting the storage sector back on a sound financial footing and generating a profit in 2019,” said Polk. “The unusually high summer-winter spreads have of course played into our hands, but at the same time, the team has also proved to be extremely good at generating sales. Well done!”

The fact that the company was, for the first time, able to commercialise the capacities of the natural gas storage facility in Jemgum in the German state of Lower Saxony (1.7 TWh) from April 2019 onwards also contributed to this success. In 2019, VGS acquired P² Plant & Pipeline Engineering GmbH, a highly specialised company active in the field of pipeline and gas systems engineering based in Essen, in the German state of North Rhine-Westphalia. By so doing, the company took a further step toward achieving its goal of generating revenue above and beyond its operative activities through the expansion of its services business.

Trading & Sales records increase in sales volume

VNG’s Trading & Sales business area sold 516 billion kilowatt hours of natural gas in the 2019 financial year, once again improving on the previous year’s figure (463 billion kWh). All told, the entire Trading & Sales business area also closed out the financial year with a profit. “Despite adverse circumstances, we succeeded in building on the prior year’s already excellent results,” Heitmüller remarked. In addition to its wholesale business, this success was also based on increased B2B sales volumes.

At 519 billion kilowatt hours, VNG, on the other hand, purchased a much larger quantity of natural gas than in the previous year (469 billion kWh). The bulk of this amount was supplied by business partners in the EU, followed by Russian and Norwegian suppliers. In addition, the company concluded its first direct supply contract with the Russian company Gazprom export LLC in June 2019. This will enter into force on 1 January 2021 and encompasses a contractually stipulated quantity of 3.5 billion cubic metres of natural gas per year.

Focus on sustainability and hydrogen

According to Heitmüller, in future the company will place an even greater emphasis on sustainability and environmental aspects: “Environmentally and socially sustainable aspects as well as our regional ties have always been extremely important to us, but they now play an even greater role in our strategy, corporate culture and financing.” Examples he cited included efforts to expand the biogas business and establish hydrogen as the energy source of the future.

With regard to hydrogen, VNG, through its subsidiaries VGS and ONTRAS, is actively involved in the Bad Lauchstädt Energy Park, a large-scale power-to-gas project in the ‘chemical and energy triangle’ in southern Saxony-Anhalt that is conducting research into the industrial-scale production, transport, economical use and in future, storage of green hydrogen. “In the context of the energy transition, we set great store by hydrogen,” Polk emphasised. “We strongly believe that hydrogen will become an integral part of the energy mix as a carbon-neutral and efficient energy source. Despite the fact that there is still a great deal of preparatory work ahead of us in

this regard, the future belongs to hydrogen. We will not be able to reach our climate targets in the heating, transport and industrial sectors with electricity alone. This makes a technology-agnostic approach all the more necessary, which in addition to green hydrogen, also takes the use of decarbonised hydrogen into account. Furthermore, in order for hydrogen to take its permanent place in the energy mix, it must be both competitive and economically viable.”

Looking ahead to 2020: Strengthening established business segments, tapping new potential

Looking ahead to the current 2020 financial year and beyond, positioning natural gas as an ideal partner for renewable energy remains VNG’s primary objective. In this context, green gases will continue to gain in importance over the medium to long term. In addition to biogas, VNG is increasingly focusing on topics that will play a major role in the future, such as power-to-gas, green hydrogen and integrated energy. In 2020, VNG will continue to systematically pursue its ‘VNG 2030+’ strategy. “Tapping new potential even beyond our traditional business areas serves to diversify risk and at the same time creates opportunities,” said Heitmüller. “At the same time, we want to continue to play a major role in the German and European gas and energy industry’s transformation process. In light of Germany’s decision to phase out nuclear power and coal, we want to lay a solid foundation in times of increasingly volatile power generation. Gas has tremendous opportunities to establish itself permanently as the principal energy source in the energy system of the future, alongside renewable energy in the electricity sector. First and foremost, however, we will all need to overcome the coronavirus crisis and mitigate the resulting economic impact as best we can.”

In future, Heitmüller will continue to ensure that the corporation conducts further CSR activities while not neglecting its regional roots: “Although we are internationally active, central Germany will always be our home. We are determined to continue playing a positive role shaping the region in future. There are countless highly dedicated people, fantastic initiatives and wonderful ideas that are worthy of support here. We want to continue to do our bit, for example through our voluntary *Verbundnetz der Wärme* (integrated heat network) initiative or through partnerships with universities in the region, which we actively cultivate.”

VNG is a group of over 20 companies active in the European energy industry with a broad, future-oriented portfolio of products and services in gas and infrastructure, and more than 60 years of experience in the energy market. Headquartered in Leipzig, the Group has a workforce of some 1,200 and generated billed revenue of approximately EUR 10.5 billion in the 2019 financial year.

VNG concentrates on four links in the gas value chain: Trading & Sales, Transport, Storage and Biogas. Building on its core expertise in the gas business, the Group’s ‘VNG 2030+’ strategy places a growing focus on new business fields. These include green gases, digital infrastructure and local solutions. More at www.vng.de.

Key information about VNG’s 2019 annual results can be found at: www.vng.de/bilanz2019