Hessian Ministry of Finance

HESSEN

# IPSAS financial statements

# Federal State of Hesse

## as at 31 December 2019

## Introduction

### Purpose of the IPSAS financial statements

Article 16 (3) of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States dated 8 November 2011[1] instructed the European Commission (EU-Commission) to assess the suitability of the International Public Sector Accounting Standards (IPSAS) for the Member States. The IPSAS are accounting standards used by governments and other government-related entities in accordance with the recommendations of the IPSAS Board. They are based on the accounting standards for the private sector (IAS/IFRS)[2] but also take into account the specific characteristics of the public sector.

As part of the assessment set out in Article 16 (3) of Directive 2011/85/EU, the EU Commission's report "Towards implementing harmonised public sector accounting standards in Member States" dated 6 March 2013[3] advocated introducing European Public Sector Accounting Standards (EPSAS) as a new, harmonised style of public sector accounting to ensure heterogeneous public sector accounting in Europe. At the same time, the EU Commission conceded that IPSAS cannot be introduced in EU member states in their current form but added that they provide an initial framework for potential harmonised public sector accounting in the EU.

In this context, the federal state of Hesse prepared the following 2019 IPSAS financial statements as part of a trial project. By preparing these financial statements, the state intends to assess what practical differences this makes for a government public authority in comparison to consolidated financial statements subject to an unqualified audit under section 322 of the German Commercial Code (HGB) and what conclusions can be drawn from this for the development of the EPSAS. This project focuses on practical empirical data, through which the state can make a vital contribution to current discussions at German and European level.

[1] OJ L 306, 23 November 2011, p. 41.

[2] International Accounting Standards/International Financial Reporting Standards.

[3] EU Commission dated 6 March 2013, COM(2013) 114 final, report from the Commission to the Council and the European Parliament, Brussels 2013, https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1410447825715&uri=CELEX:52013DC0114

# IPSAS financial statements

# Federal State of Hesse

## as at 31 December 2019

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## Statement of profit or loss for the financial year 1 January to 31 December 2019

| | | Note | 2019 |
|---|---|---|---|
| | | | in € million |
| 1. | **Income from non-exchange transactions** | 1 | **30,972.3** |
| | 1a Taxes and parafiscal income | | 25,262.8 |
| | 1b Income from finance equalisation | | 345.5 |
| | 1c Income from allocations and subsidies | | 5,152.7 |
| | 1d Income from financial penalties, fines, warning fines and penalty payments | | 211.3 |
| 2. | **Revenue from exchange transactions** | 2 | **2,695.2** |
| | 2a Income from fees and contributions | | 1,227.9 |
| | 2b Revenue | | 1,131.3 |
| | 2c Finance income | | 336.0 |
| 3. | **Reversal of provisions** | 3 | **442.8** |
| 4. | **Other income** | 3 | **1,234.6** |
| 5. | Total income | | 35,344.9 |
| 6. | **Personnel expenses** | 5 | **-14,105.9** |
| 7. | **Expenses from finance equalisation** | 1 | **-7,263.3** |
| 8. | **Expenses for allocations and subsidies** | 1 | **-7,470.4** |
| 9. | **Administrative expenses** | 3 | **-3,668.6** |
| 10. | **Depreciation and amortisation** | 3 | **-1,020.7** |
| | 10a Depreciation and amortisation | | -955.9 |
| | 10b Impairment of property, plant and equipment | | -51.5 |
| | 10c Other depreciation, amortisation and impairment losses | | -13.4 |
| 11. | **Finance costs** | 4 | **-3,130.3** |
| 12. | **Other expenses** | 3 | **-521.3** |
| 13. | Total expenses | | -37,180.5 |
| 14. | **Share of profit of equity-accounted investees** | 8 | **164.9** |
| 15. | Profit/loss for the period | | -1,670.7 |
| | of which attributable to non-controlling interests | | 14.4 |
| | of which attributable to the federal state of Hesse | | -1,685.1 |

## Statement of financial position as at 31 December 2019

| | Note | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|---|
| | | in € million | in € million |
| **ASSETS** | | | |
| **A. Non-current assets** | | | |
| Intangible assets | 6 | 82.5 | 89.1 |
| Property, plant and equipment | 7 | 20,987.5 | 21,014.0 |
| Investments accounted for using the equity method | 8 | 1,611.5 | 1,710.6 |
| Other investments | 9 | 4,091.3 | 3,918.7 |
| Non-current receivables | | 2,954.2 | 3,105.2 |
| Receivables from non-exchange transactions | 10 | 2,427.3 | 2,378.6 |
| Receivables from exchange transactions | 11 | 526.9 | 726.7 |
| **B. Current assets** | | | |
| Inventories | 12 | 522.2 | 464.3 |
| Current investments | 9 | 20.1 | 18.2 |
| Current receivables | | 13,330.8 | 14,838.6 |
| Receivables from non-exchange transactions | 10 | 8,490.6 | 8,728.5 |
| Receivables from exchange transactions | 11 | 4,840.3 | 6,110.1 |
| Cash and cash equivalents | 13 | 641.0 | 806.2 |
| Other current assets | | 7.5 | 7.4 |
| Total assets | | 44,248.6 | 45,972.4 |

| | Note | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|---|
| | | in € million | in € million |
| **EQUITY & LIABILITIES** | | | |
| **A. Net assets** | 14 | **-186,665.7** | **-206,282.0** |
| **B. Non-current provisions and liabilities** | | | |
| Pension and benefit obligations | 16 | 146,895.0 | 164,343.6 |
| Provisions for other employee benefits | 17 | 2,605.3 | 3,025.9 |
| Other non-current provisions | 18 | 3,822.4 | 3,648.1 |
| Non-current loans | 19 | 37,864.5 | 37,430.4 |
| Taxes and transfer liabilities | 20 | 8,610.4 | 8,471.0 |
| Liabilities from exchange transactions | 21 | 11.4 | 14.1 |
| Other liabilities | 22 | 6,024.0 | 8,785.5 |
| **C. Current provisions and liabilities** | | | |
| Pension and benefit obligations | 16 | 3,375.3 | 3,504.3 |
| Provisions for other employee benefits | 17 | 156.4 | 133.7 |
| Other current provisions | 18 | 3,301.3 | 3,936.0 |
| Current loans | 19 | 2,520.0 | 1,580.0 |
| Current portion of non-current loans | 20 | 3,398.4 | 4,368.6 |
| Taxes and transfer liabilities | 21 | 8,686.8 | 9,014.0 |
| Liabilities from exchange transactions | 22 | 660.6 | 655.5 |
| Other liabilities | 22 | 2,982.3 | 3,343.6 |
| Total equity and liabilities | | 44,248.6 | 45,972.4 |

**Cash flow statement for the financial year 1 January to 31 December 2019**

| | | | in € million |
|---|---|---|---|
| **1.** | **Net profit/loss** | | **-1,670.7** |
| 2. | +/- | Depreciation/amortisation and reversals of impairments on non-current assets | 1,018.5 |
| 3. | +/- | Increase/decrease in provisions | 539.5 |
| 4. | +/- | Other non-cash expenses and income | 8.8 |
| 5. | -/+ | Losses/gains on the disposal of non-current assets | 1.0 |
| 6. | -/+ | Increase/decrease in inventories, receivables and other assets not related to investing or financing activities | -1,488.2 |
| 7. | +/- | Increase/decrease in liabilities not related to investing or financing activities | 3,300.5 |
| 8. | +/- | Interest expense/interest income related to investing or financing activities | 932.8 |
| 9. | Other income from equity investments | | -137.6 |
| 10. | +/- | Expenses and income from extraordinary items | 24.6 |
| 11. | + | Cash receipts and payments from extraordinary items | 20.2 |
| 12. | +/- | Income tax expense/income | 25.5 |
| 13. | -/+ | Income tax payments excluding taxes on interest and dividends related to investing or financing activities” | -9.8 |
| **14.** | **Cash flow from ongoing administrative activities** | | 2,565.0 |
| 15. | + | Proceeds from disposals of property, plant and equipment | 30.8 |
| 16. | - | Payments for investments in property, plant and equipment | -1,027.3 |
| 17. | - | Payments for investments in intangible assets | -29.0 |
| 18. | + | Proceeds from disposals of financial assets | 261.3 |
| 19. | - | Payments for investments in financial assets | -149.2 |
| 20. | + | Interest received | 0.5 |
| 21. | + | Dividends received | 38.4 |
| 22. | +/- | Taxes on interest and dividends | -15.7 |
| **23.** | **Cash flow from investing activities** | | -890.3 |
| 24. | + | Proceeds from additions to equity by other shareholders | 2.3 |
| 25. | + | Receipts from bond issuance and (financial) loans | 6,556.8 |
| 26. | - | Redemptions of bonds and repayments of loans | -6,081.3 |
| 27. | - | Payments for finance lease liabilities | -40.0 |
| 28. | - | Interest paid | -1,005.3 |
| 29. | - | Dividends paid to other shareholders | -2.0 |
| **30.** | **Cash flow from financing activities** | | -569.6 |
| **31.** | **Change in cash and cash equivalents (Total of 14, 23 and 30)** | | **1,105.1** |
| 32. | + | Cash and cash equivalents as at beginning of period | -1,879.0 |
| **33.** | **Cash and cash equivalents as at the end of period** | | **-773.8** |

**Statement of changes in equity for the year ended 31 December 2019**

| | Attributable to the federal state of Hesse | | | | | | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| in € million | Net positions | Retained earnings | Cash flow hedge reserve | Actuarial gains/losses | Accumulated Surplus/ (Deficit) | Total | | |
| **Balance on 1 Jan. 2019** | -57,879.2 | 33.8 | -3,852.8 | 0.0 | -125,202.7 | **-186,900.9** | **235.3** | **-186,665.7** |
| Changes in net assets/equity for 2019 | | | | | | | | |
| Remeasurement of defined benefit pension plans | - | - | - | 15,904.7 | - | -15,904.7 | - | -15,904.7 |
| Market valuation of derivatives | - | - | -2,041.3 | - | - | -2,041.3 | - | -2,041.3 |
| Net revenue recognised directly in net assets/equity | - | - | - | - | - | **-17,946.0** | - | **-17,946.0** |
| Transactions with non-controlling interests – additions to equity | - | - | - | - | - | **0.0** | 2.3 | **2.3** |
| Transactions with non-controlling interests – dividends | - | - | - | - | - | **0.0** | -2.0 | **-2.0** |
| Transfers from profit/loss carried forward | - | 3.5 | - | - | -3.5 | **0.0** | - | **0.0** |
| Profit/loss for the period | - | - | - | - | -1,685.1 | **-1,685.1** | 14.4 | **-1,670.7** |
| **Balance on 31 Dec. 2019** | -57,879.2 | 37.3 | -5,894.1 | -15,904.7 | -126,891.3 | **-206,532.0** | **250.0** | **-206,282.0** |

# IPSAS Notes

## to the financial statements for the federal state of Hesse

2019

# Contents

# A. Basis of preparation of the financial statements

## I. Reporting entity

Hesse is one of the 16 federal states of the Federal Republic of Germany and has its own state constitution under the federal system.

As a regional administrative authority, the federal state of Hesse is a corporation under public law. Its duties are set out under constitutional law in the Hessian constitution. The constitution for the federal state of Hesse defines the form of government as a democratic, parliamentary republic. The basic principle of the political-democratic organisation of state power is the separation of powers, which is reflected in the distribution of power between the legislative, executive and judiciary branches.

Eight departments, each with a ministry, are established as highest state authorities responsible for performing duties related to various policy areas. Intermediate state authorities and state authorities are usually subordinate to the ministries. The Hesse State Parliament, the State Court and the Court of Auditors are also the highest state authorities.

## II. Accounting principles

The financial statements for the federal state of Hesse were prepared in accordance with the International Public Sector Accounting Standards (IPSAS), issued by the International Public Sector Accounting Standards Board (IP-SASB). The IPSAS are based on the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) and have been adapted to take account of the distinctive features of the public sector.

As well as the statement of profit or loss, the statement of financial position, the cash flow statement and the statement of changes in equity for the federal state of Hesse are presented separately. The statement of profit or loss is prepared using the nature of expense method. Figures in financial reports are rounded and stated in € millions. However, sums (additions) are based on unrounded figures. This can result in rounding differences.

## III. IPSAS standards applied

The IPSAS standards applied when preparing the 2019 financial statements are listed below:

| No. | Content | IAS/IFRS | Application |
|---|---|---|---|
| IPSAS 1 | Presentation of Financial Statements | IAS 1 | implemented |
| IPSAS 2 | Cash Flow Statements | IAS 7 | implemented |
| IPSAS 3 | Accounting Policies, Changes in Accounting Estimates and Errors | IAS 8 | implemented |
| IPSAS 4 | The Effects of Changes in Foreign Exchange Rates | IAS 21 | implemented |
| IPSAS 5 | Borrowing Costs | IAS 23 | implemented |
| IPSAS 9 | Revenue from exchange transactions | IAS 18 | implemented |
| IPSAS 10 | Financial Reporting in Hyperinflationary Economies | IAS 29 | implemented |
| IPSAS 11 | Construction contracts | IAS 11 | implemented |
| IPSAS 12 | Inventories | IAS 2 | implemented |
| IPSAS 13 | Leases | IAS 17 | implemented |

| No. | Content | IAS/IFRS | Application |
| --- | --- | --- | --- |
| IPSAS 14 | Events after the Reporting Period | IAS 10 | implemented |
| IPSAS 16 | Investment Property | IAS 40 | implemented |
| IPSAS 17 | Property, plant and equipment | IAS 16 | implemented |
| IPSAS 18 | Segment Reporting | IAS 14 | implemented[4] |
| IPSAS 19 | Provisions, Contingent Liabilities and Contingent Assets | IAS 37 | implemented |
| IPSAS 20 | Related Party Disclosures | IAS 24 | implemented |
| IPSAS 21 | Impairment of Non-Cash-Generating Assets | n/a | implemented |
| IPSAS 22 | Disclosure of Financial Information about the General Government Sector | n/a | implemented[5] |
| IPSAS 23 | Revenue from Non-Exchange Transactions (Taxes and Transfers) | n/a | implemented |
| IPSAS 24 | Presentation of Budget Information in Financial Statements | n/a | implemented |
| IPSAS 26 | Impairment of Cash-Generating Assets | IAS 36 | implemented |
| IPSAS 27 | Agriculture | IAS 41 | implemented |
| IPSAS 28 | Financial Instruments: Presentation | IAS 32 | implemented |
| IPSAS 30 | Financial Instruments: Disclosures | IFRS 7 | implemented |
| IPSAS 31 | Intangible assets | IAS 38 | implemented |
| IPSAS 32 | Service Concession Arrangements: Grantor | IFRIC 12 | implemented |
| IPSAS 33 | First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) | IFRS 1 | implemented |
| IPSAS 34 | Separate Financial Statements | IAS 27 | implemented |
| IPSAS 35 | Consolidated Financial Statements | IFRS 10 | implemented |
| IPSAS 36 | Investments in Associates and Joint Ventures | IAS 28 | implemented |
| IPSAS 37 | Joint Arrangements | IFRS 11 | implemented |
| IPSAS 38 | Disclosure of Interests in Other Entities | IFRS 12 | implemented |
| IPSAS 39 | Employee benefits | IAS 19 | implemented |
| IPSAS 40 | Public Sector Combinations | n/a | implemented |

[4] Option exercised not to apply under IPSAS 33.97

[5] Option exercised not to apply under IPSAS 22.2.

The federal state of Hesse exercised its option to apply the following IPSAS, which had not yet come into effect as at 1 January 2019, early:

| No. | Content | IAS/IFRS | Application |
|---|---|---|---|
| IPSAS 41 | Financial Instruments | IFRS 9 | implemented |
| IPSAS 42 | Social Benefits | n/a | implemented |

With regard to recognising expenses from transfer payments, these financial statements also already take into account the Exposure Draft 72[6], which is currently still undergoing consultation, because the IPSAS that have already been published contain regulatory gaps regarding this issue.

**Only limited use of transitional relief**

The IPSAS 33 standard for the first-time adoption of accrual basis international public sector accounting standards grants optional exemptions during a transition period (usually three years) to provide relief when preparing the IPSAS financial statements. IPSAS 33 makes a division in **two categories** to differentiate between relief that affects the presentation of an entity's actual results and financial position and relief that does not affect the presentation of an entity's actual results and financial position. **Category A**[7] relief that affects the presentation of an entity's actual results and financial position and thus results in IPSAS transitional financial statements is **not applied** by the federal state of Hesse. This includes transitional relief under IPSAS 33.33 – 33.40, e.g. for inventories, investment property, property, plant and equipment, financial instruments or defined benefit plans or other long-term employee benefits, that allows assets or liabilities that have not yet been recognised or measured to remain so for a transitional period of three years or means it is not necessary to adjust the measurement.

By contrast, **category B**[8] relief – such as the recognition of deemed costs in accordance with IPSAS 33.64 -33.70 for property, plant and equipment or the option not to present segment information as per IPSAS 33.97 – which does not restrict or have a subsequent impact on results and the financial position, was applied in some cases.

In accordance with IPSAS 33.77, the state does not – with the exception of figures from the opening balance as at 1 January 2019 – disclose prior-year information.

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[6] Exposure Draft (ED) 72 dated 21 February 2020

[7] IPSAS 33.33 – 33.62

[8] IPSAS 33.63 – 33,134

## IV. Functional and presentation currency

The financial statements are prepared in euro (€), the state's functional currency.

## V. Material judgements with significant influence

Preparing the financial statements requires those responsible to make judgements and estimates that may affect the use of accounting methods and the amounts of assets, liabilities, income and expenses disclosed. The actual results may differ from these estimates.

Estimates and their underlying assumptions are examined on an ongoing basis. Revisions of estimates are recognised prospectively.

Information about **judgements** in connection with the use of accounting methods that have a material impact on the figures in the annual financial statements can be found in the notes below:

— Investments accounted for using the equity method: Assessment of whether the federal state of Hesse has significant influence over the investments (see note 8).

— Consolidation: Evaluation of control (see note 28).

— Leasing: Classification of leases (see note 7, 22 and 25).

Information about **assumptions and estimation uncertainties** as at 31 December 2019 that may result in a considerable risk that significant adjustments will have to be made during the next financial year with respect to the carrying amounts of assets and liabilities is provided in the notes below:

— Measurement of defined benefit obligations: material actuarial assumptions (see note 16).

— Recognition and measurement of provisions and contingent assets and liabilities: material assumptions regarding the probability and extent of inflow or outflow of benefits (see note 17, 18, 24).

— Calculation of impairment due to expected credit losses for receivables and contract assets: key assumptions when calculating the weighted average loss rate (see note 23).

— Use of component approach for property, plant and equipment (see note B.IV.).

A number of accounting policies and disclosures require the state to determine the **fair value** of financial and non-financial assets and liabilities.

As far as possible, the state uses observable market data to determine the fair value of an asset or liability. Based on the inputs used in the measurement methods, the fair values are assigned to different levels of the fair value hierarchy:

— **Level 1:** Quoted (unadjusted) prices on active markets for identical assets or liabilities.

— **Level 2:** Measurement parameters other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

— **Level 3:** Measurement parameters for assets or liabilities not based on observable market data.

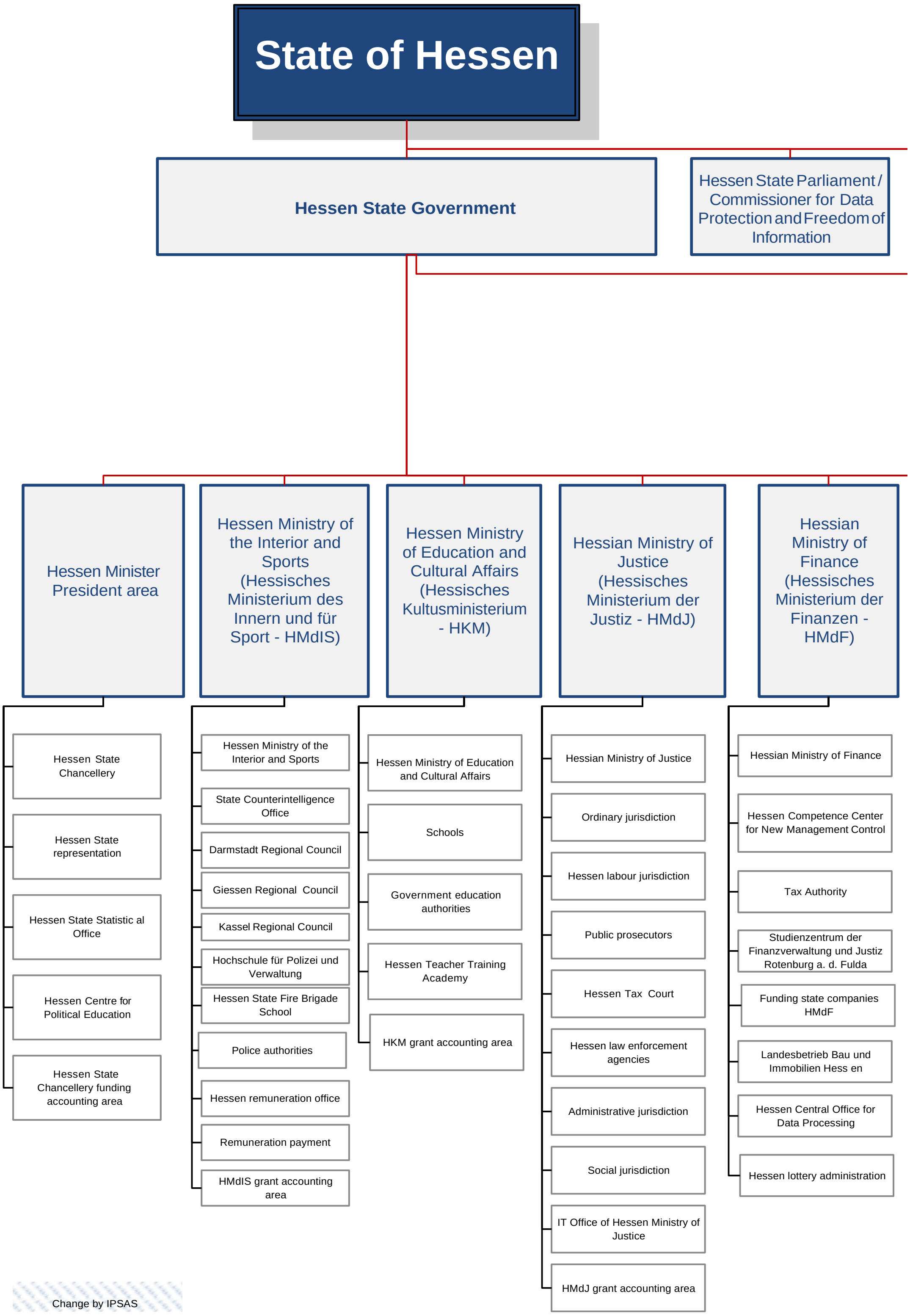
If the inputs used to determine the fair value of an asset or liability can be classified into different levels of the fair value hierarchy, the fair value measurement in its entirety is assigned to the level of the fair value hierarchy based on the lowest input factor that is material overall for measurement of fair value.

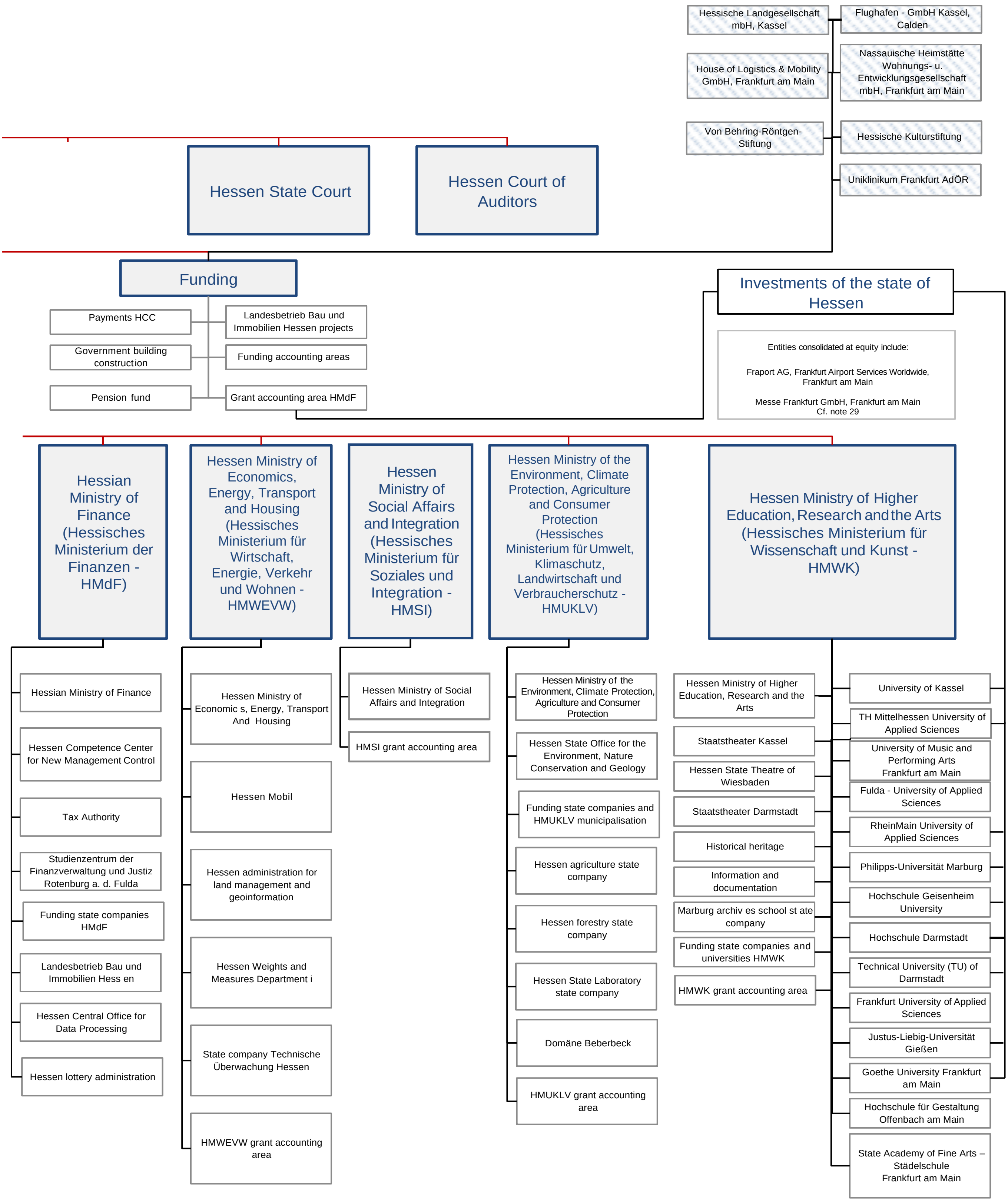
The state recognises reclassifications between different levels of the fair value hierarchy at the end of the reporting period in which the change occurred.

Further information on the assumptions in determining fair values can be found in the notes on financial instruments (see note 23).

## VI. First-time application of the accounting principles

The diagram below shows the structure of the federal state of Hesse's scope of consolidation as at 31 December 2019. The transition from accounting in accordance with the German Commercial Code to IPSAS expands the scope of consolidation as shown in the diagram.




Hessische Landgesellschaft mbH, Kassel
Flughafen - GmbH Kassel, Calden
House of Logistics & Mobility GmbH, Frankfurt am Main
Nassauische Heimstätte Wohnungs- u. Entwicklungsgesellschaft mbH, Frankfurt am Main
Von Behring-Röntgen-Stiftung
Hessische Kulturstiftung
Uniklinikum Frankfurt AdÖR
Hessen State Court
Hessen Court of Auditors
Funding
Payments HCC
Landesbetrieb Bau und Immobilien Hessen projects
Government building construction
Funding accounting areas
Pension fund
Grant accounting area HMdF
Investments of the state of Hessen
Entities consolidated at equity include:
Fraport AG, Frankfurt Airport Services Worldwide, Frankfurt am Main
Messe Frankfurt GmbH, Frankfurt am Main
Cf. note 29
Hessian Ministry of Finance (Hessisches Ministerium der Finanzen - HMdF)
Hessian Ministry of Finance
Hessen Competence Center for New Management Control
Tax Authority
Studienzentrum der Finanzverwaltung und Justiz Rotenburg a. d. Fulda
Funding state companies HMdF
Landesbetrieb Bau und Immobilien Hess en
Hessen Central Office for Data Processing
Hessen lottery administration
Hessen Ministry of Economics, Energy, Transport and Housing (Hessisches Ministerium für Wirtschaft, Energie, Verkehr und Wohnen - HMWEVW)
Hessen Ministry of Economic s, Energy, Transport And Housing
Hessen Mobil
Hessen administration for land management and geoinformation
Hessen Weights and Measures Department i
State company Technische Überwachung Hessen
HMWEVW grant accounting area
Hessen Ministry of Social Affairs and Integration (Hessisches Ministerium für Soziales und Integration - HMSI)
Hessen Ministry of Social Affairs and Integration
HMSI grant accounting area
Hessen Ministry of the Environment, Climate Protection, Agriculture and Consumer Protection (Hessisches Ministerium für Umwelt, Klimaschutz, Landwirtschaft und Verbraucherschutz - HMUKLV)
Hessen Ministry of the Environment, Climate Protection, Agriculture and Consumer Protection
Hessen State Office for the Environment, Nature Conservation and Geology
Funding state companies and HMUKLV municipalisation
Hessen agriculture state company
Hessen forestry state company
Hessen State Laboratory state company
Domäne Beberbeck
HMUKLV grant accounting area
Hessen Ministry of Higher Education, Research and the Arts (Hessisches Ministerium für Wissenschaft und Kunst - HMWK)
Hessen Ministry of Higher Education, Research and the Arts
Staatstheater Kassel
Hessen State Theatre of Wiesbaden
Staatstheater Darmstadt
Historical heritage
Information and documentation
Marburg archiv es school st ate company
Funding state companies and universities HMWK
HMWK grant accounting area
University of Kassel
TH Mittelhessen University of Applied Sciences
University of Music and Performing Arts Frankfurt am Main
Fulda - University of Applied Sciences
RheinMain University of Applied Sciences
Philipps-Universität Marburg
Hochschule Geisenheim University
Hochschule Darmstadt
Technical University (TU) of Darmstadt
Frankfurt University of Applied Sciences
Justus-Liebig-Universität Gießen
Goethe University Frankfurt am Main
Hochschule für Gestaltung Offenbach am Main
State Academy of Fine Arts – Städelschule Frankfurt am Main

The effects on equity as at 1 January as a result of including additional entities in the state's scope of consolidation and due to the use of different accounting policies under IPSAS are depicted below.

As well as the effects of recognition and measurement differences between HGB and IPSAS, the transition effects also include the effects of changes to presentation under "further adjustments". In particular, this relates to the requirement under IPSAS to allocate receivables, liabilities and provisions to current and non-current components.

| Statement of financial position | | | | 1 Jan. 2019 |
|---|---|---|---|---|
| | HGB | Transition effect | | IPSAS |
| In € Mio. | Consolidated financial statements for federal state of Hesse | Inclusion of additional entities | Further adjustments | |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Intangible assets | 73.7 | 8.6 | 0.2 | 82.5 |
| Property, plant and equipment | 19,251.1 | 2,739.9 | -1,003.5 | 20,987.5 |
| Investments accounted for using the equity method | 1,616.4 | 0.0 | -5.0 | 1,611.5 |
| Other investments | 7,636.7 | 188.0 | -3,733.4 | 4,091.3 |
| Non-current receivables | 2,520.1 | 2.1 | 432.0 | 2,954.2 |
| Receivables from non-exchange transactions | 2,427.3 | 0.0 | 0.0 | 2,427.3 |
| Receivables from exchange transactions | 92.8 | 2.1 | 432.0 | 526.9 |
| **Current assets** | | | | |
| Inventories | 174.1 | 445.9 | -97.8 | 522.2 |
| Current investments | 20.1 | 0.0 | 0.0 | 20.1 |
| Current receivables | 13,131.0 | 128.6 | 71.2 | 13,330.8 |
| Receivables from non-exchange transactions | 8,395.2 | 15.8 | 79.6 | 8,490.6 |
| Receivables from exchange transactions | 4,735.8 | 112.8 | -108.4 | 4,740.2 |
| Cash and cash equivalents | 444.0 | 197.0 | 0.0 | 641.0 |
| Other current assets | 0.2 | 0.0 | 7.2 | 7.5 |
| **Total** | **44,867.6** | **3,710.1** | **-4,329.1** | **44,248.6** |

## Statement of financial position

| | HGB | Transition effect | | IPSAS |
|---|---|---|---|---|
| | | | | 1 Jan. 2019 |
| | **Consolidated financial statements for federal state of Hesse** | **Inclusion of additional entities** | **Further adjustments** | |
| **EQUITY & LIABILITIES** | | | | |
| **Net assets** | -120,143.3 | 737.7 | -67,260.1 | -186,665.7 |
| **Non-current provisions and liabilities** | | | | |
| Pension and benefit obligations | 92,325.9 | 7.5 | 54,561.7 | 146,895.0 |
| Provisions for other employee benefits | 0.0 | 0.0 | 2,605.3 | 2,605.3 |
| Other non-current provisions | 0.0 | 0.0 | 3,822.4 | 3,822.4 |
| Non-current loans | 36,375.7 | 1,408.2 | 80.6 | 37,864.5 |
| Taxes and transfer liabilities | 8,679.0 | 16.4 | -85.0 | 8,610.4 |
| Liabilities from exchange transactions | 11.4 | 0.0 | 0.0 | 11.4 |
| Other liabilities | 793.4 | 858.7 | 4,372.0 | 6,024.0 |
| **Current provisions and liabilities** | | | | |
| Pension and benefit obligations | 0.0 | 0.0 | 3,375.3 | 3,375.3 |
| Provisions for other employee benefits | 2,350.9 | 29.5 | -2,224.1 | 156.4 |
| Other current provisions | 7,527.6 | 101.5 | -4,327.8 | 3,301.3 |
| Current loans | 2,270.0 | 0.0 | 250.0 | 2,520.0 |
| Current portion of non-current loans | 3,708.5 | 210.7 | -520.9 | 3,398.4 |
| Taxes and transfer liabilities | 8,471.2 | 106.6 | 109.0 | 8,686.8 |
| Liabilities from exchange transactions | 375.8 | 44.8 | 239.9 | 660.6 |
| Other liabilities | 2,121.2 | 188.5 | 672.6 | 2,982.3 |
| **Total** | **44,867.6** | **3,710.1** | **-4,329.1** | **44,248.6** |

The €67,260.1 million decrease in equity is a result of the following:

— The rise in pension and benefit obligation provisions as at 1 January 2019 due to discounting at the matched-term interest rate at the reporting date reduces equity by €61,374.0 million.

— Accounting for interest and currency derivatives in full decreases equity by €3,730.1 million.

— Equity falls by €1,694.8 million due to the retrospective application of the component approach for property, plant and equipment.

— Reversing the special items increases equity by €1,577.2 million.

— The adjustment of the interest rate when measuring provisions for other employee benefits and other provisions reduces equity by €1,352.0 million.

— Recognising finance leases retrospectively results in a €596.3 million decline in equity.

— Changing plan assets to fair value improves equity by €210.0 million.

— The use of the percentage-of-completion method increases equity by €69.1 million.

In addition, the adjustment to equity includes effects from the capital consolidation of the additional entities in the amount of €369.5 million.

# B. Accounting policies

The federal state of Hesse applied the following accounting methods consistently in the periods presented in these consolidated financial statements.

The overview below summarises the accounting methods by balance sheet items.

| Items of the statement of financial position | Measure |
|---|---|
| **Assets** | |
| Intangible assets | Amortised cost |
| Property, plant and equipment | Amortised cost |
| Investments | Fair value (listed equity investments/securities) or amortised cost (all other investments) |
| Receivables from non-exchange transactions | Amortised cost |
| Receivables from exchange transactions | Amortised cost |
| Inventories | Lower of cost and net realisable value |
| Cash and cash equivalents | Nominal value |
| Other assets | Amortised cost |
| Derivative financial instruments | Fair value |
| **Equity and liabilities** | |
| Pension and benefit obligations | Projected unit credit method taking account of fair value |
| Other provisions | Settlement amount |
| Loans | Amortised cost |
| Taxes and transfer liabilities | Amortised cost |
| Liabilities from exchange transactions | Amortised cost |
| Other liabilities | Amortised cost |

## I. Consolidation principles

### Controlled entities

Controlled entities are entities over which the federal state of Hesse has control. The federal state of Hesse controls an entity when its interest in the other entity or involvement (e.g. for a foundation) allows it to benefit from variable advantages and/or exposes it to risks or means that it can influence the nature or amount of these advantages and/or risks due to its control over the other entity. Financial statements of controlled entities are included in the consolidated financial statements from the time at which control is first obtained and until the control ends. Immaterial affiliates are recognised at cost under “Other investments”.

### Non-controlling interests

Non-controlling interests are initially measured as at the purchase date at the proportionate share of the acquirer’s identifiable net assets.

Changes to the federal state of Hesse’s interest in a controlled entity that do not result in a loss of control are reported as equity transactions.

### Loss of control

If the federal state of Hesse loses control over a controlled entity, it derecognises the assets and liabilities of the controlled entity and all related non-controlling interests and other components of equity. Any profit or loss resulting from this is recognised in the statement of profit or loss. The remaining share of the previously controlled entity is measured at fair value at the time control is lost.

### Associates

Associates are entities where the federal state of Hesse has significant influence over financial and operating policies but does not exercise control or joint control. The state does not invest in associates primarily to generate profits, but instead to pursue objectives in individual areas of policy – e.g. to stimulate the economy or promote culture or environmental protection – that are important to the state in the long term (section 65 Hesse State Budget Regulation (*Landeshaushaltsordnung*).

Investments in associates are accounted for using the equity method. Entities accounted for using the equity method are initially recognised at cost, which also includes transaction costs. After initial recognition, the financial statements include the entity’s share of surplus/deficit for the investments accounted for using the equity method until the date the significant influence ceases. Changes are recognised through profit or loss. Immaterial associates are recognised at cost under “Other investments”. The generally prevailing priority of thematic objectives and the applicability of IPSAS 21 for non-cash-generating assets are to be considered in the context of impairment testing.

### Transactions eliminated on consolidation

Assets, liabilities, income and expenses resulting from intragroup transactions are eliminated. Capital is consolidated within the scope of consolidation identified for preparing these financial statements. Intercompany profits/losses are not eliminated for reasons of materiality.

### Application of uniform accounting policies

Uniform accounting policies are used for fully consolidated equity investments and for entities included in the state’s consolidated financial statements under the equity method.

## II. Foreign currencies

Transactions in foreign currencies are translated into the state's functional currency at the average Bundesbank exchange rate in the month of the transaction.

Monetary assets and liabilities denominated in a foreign currency at the end of the reporting period are translated into the functional currency at the closing rate.

Foreign exchange differences are recognised in surplus or deficit for the period and reported under Other Income and Other expenses.

## III. Intangible assets

**Recognition and measurement**

### Goodwill

Goodwill from business combinations is measured at cost less accumulated impairment losses.

### Research and development

Expenditure on research activities is recognised in profit and loss as incurred.

Development expenditure is capitalised only if the development costs can be reliably calculated, the product or process is technically and commercially sound, future economic benefits are likely and the state intends to and has sufficient resources to complete the development work and to use or sell the asset. Other development expenditure is recognised in profit and loss as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses.

### Other purchased intangible assets

Other intangible assets that are acquired by the state and that have finite useful lives are subsequently measured at cost less accumulated amortisation and impairment losses.

**Subsequent expenditure**

Subsequent expenditure is capitalised if it increases the future economic benefits of the asset to which it relates. All other expenditure is recognised as an expense in profit or loss when it is incurred.

**Amortisation**

Intangible assets are amortised on a straight-line basis over their estimated useful lives. Amortisation is recognised as an expense in the statement of profit or loss. Goodwill is not amortised.

Estimated useful lives are:

- Software licenses: 3 years
- Internally generated software: 10 years

The amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted as necessary.

## IV. Property, plant and equipment

**Recognition and measurement**

Property, plant and equipment is measured at cost less any accumulated depreciation and impairment losses. Borrowing costs are not capitalised as part of cost. The option to use the revaluation method is not applied.

The option to account for cultural assets is exercised in favour of full recognition. They are reported in the sub-item "Infrastructure assets, natural assets, cultural assets" in property, plant and equipment.

If parts of an item of property, plant and equipment have different useful lives, they are depreciated as separate items (main components) of property, plant and equipment (component approach). The following assumptions were made with regard to breaking these down into the main components:

— **Buildings:** buildings are divided into substance components (including building shell, roof) and replacement components (including windows, heating, installations). The ratio of substance to replacement components is assumed at 60:40. Substance components have an estimated useful life of 50 years and replacement components of 32.5 years.

— **Infrastructure assets:** Roads and bridges are divided into the components surface layer and base layer. The ratio of surface layer to base layer is 20:80 for roads and 10:90 for bridges. The surface layer has an estimated useful life of 10 years for both roads and bridges. The estimated useful life of the base layer is 30 years for roads and 50 years for bridges.

Any gains or losses from disposal of an item of property, plant and equipment are recognised as a surplus or deficit. Costs of maintenance and repair as part of normal (business) operations are expensed.

When preparing these financial statements, the initial measurement as at 1 January 2019 was based on the previous valuations under the German Commercial Code (book value). An explanation of these is provided below:

**a. Land, land rights and buildings including buildings on third-party land**

The federal state of Hesse's property is recognised at amortised cost. Since 1 January 2007, acquisitions have been recognised at actual cost. For the remaining property portfolio, the carrying amounts as at 1 January 2007 are based on fair values determined according to the German Commercial Code (*Handelsgesetzbuch* - HGB), which are deemed as cost. The fair value measurement under HGB was essentially characterised by the following aspects:

— Land was remeasured using comparative values, generally based on surrounding standard land values.

— Buildings of great high relevance (property that represented a total of at least 50% of the state's building value as at 31 December 2006) were recognised by way of individual expert valuations in accordance with the income capitalisation approach or the asset value method.

— The measurement of other buildings (with the exception of university buildings) was adjusted based on the values determined as part of the simplified process as at 1 January 1999 in accordance with the income capitalisation approach or the asset value method as at 1 January 2007.

— The remaining university buildings, the valuations for which were already revised on 1 January 2002 due to a plausibility check, were adjusted in accordance with the net asset value method as at 1 January 2007.

Depreciation for the buildings is based on the individual remaining useful life determined as part of the valuation as at 1 January 2007, or in accordance with the expected useful life based on the federal state of Hesse's depreciation table.

### b. Infrastructure assets, natural assets, works of art

Additions to road infrastructure assets have been recognised at cost since 1 January 2007. Road infrastructure assets that already existed before this reporting date were updated based on fair values calculated under HGB as at 1 January 2007. HGB fair values for roadways are based on average land values determined by experts. For roads, these are based on an asset value method based on replacement costs and, for bridges, on a case-by-case determination of asset value based on empirical values. Other civil engineering structures and road furniture were measured as a group. This also applies to additions to road infrastructure assets as a result of reclassifying federal or municipal roads as state roads.

The measurement of forest assets accounts for various forest-specific factors (e.g. age, tree species make-up and earning power) and is split into existing, ancillary and conservation areas. Forest assets are essentially recognised at a value based on the stock and land value as at 1 January 2004:

— The land value is based on data from the valuation committees and is recognised at a conservative €0.25/square metre, taking into account further reductions.

— The value, which was calculated in approximation to a market value based on individual values with an age value factor process based on the state forest's forestry management database, is reported at €0.51/square metre.

— Ancillary areas without forest planting and conservation areas are recognised only at the land value of €0.25/square metre.

Land access has been recognised at cost since 1 January 2004.

Measurement methods for forest assets follow the forestry sustainability principle, i.e. logging and reforestation offset each other, and they are not profit-oriented[9]. Forest assets are thus not subject to wear and tear. The valuation thus changes only for additions to or reductions of space or for impairment losses and reversals of impairment losses.

With regard to old collections (acquired before 1 January 1999), works of art and collection items are recognised at the prudently estimated HGB fair value at the date of the included entities' initial accounting, and otherwise at cost. To calculate the HGB fair value of works of art and collection items not subject to wear and tear, the items were divided into the following three groups:

— Items with a high individual value were recognised individually at the HGB fair value calculated by art experts working for the federal state of Hesse.

— The collective valuation approach was used for items with a medium individual value. This involved creating suitable subgroups to refine the valuation and calculating average HGB value values for items in the individual subgroups.

— Low-value items are all assigned a memo value of €1.00.

### c. Advance payments and assets under construction

Assets under construction reflect the costs of ongoing construction projects incurred until the end of the reporting period. Advance payments are measured at cost, which is frequently equal to the nominal amount of the payments.

[9] As forestry is not profit-oriented, IPSAS 27, Agriculture, is not relevant for the state of Hesse's forest assets.

### Subsequent costs

Subsequent expenditure is capitalised only if it is probable that future economic benefits associated with the expenditure will flow to the state.

### Depreciation

Depreciation is calculated to depreciate the cost of property, plant and equipment less its estimated residual value linear on a straight-line basis over its estimated useful life. Depreciation is recognised in the statement of profit or loss. The land of properties is not depreciated.

The estimated useful lives for the current year and for comparative years for significant property, plant and equipment are, as a general rule:

— Buildings (replacement/substance components): 32.5/50 years

— Roads (surface/base layer): 10/30 years

— Bridges (surface/base layer): 10/50 years

The depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if necessary.

## V. Leases

A lease is classified as a finance lease if all risks and rewards incidental to ownership are transferred to the lessee.

All other leases are classified as operating leases.

### Federal state of Hesse as lessee

#### Finance leases

If the criteria for a finance lease as lessee are met, it is capitalised at the time of entering into the contract at the present value of minimum lease payments plus any ancillary costs or at the lower of the fair value of the lease asset. Payment obligations resulting from future lease payments are discounted and recognised as liabilities.

If the leased asset is not expected to be acquired at the end of the lease term, the leased assets are depreciated over the shorter of useful life or the term of the lease. Otherwise, it is depreciated over the useful life. Any impairment losses are recognised to the carrying amount of the leased asset.

#### Operating leases

Where beneficial ownership of the leased assets remains with the lessor, the leased assets are recognised at the lessor. Payments made under operating leases are recognised as expenses in the statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are also recognised as a component of total lease expenses over the term of the lease.

#### Sale and leaseback transactions

A sale and leaseback transaction involves the sale and subsequent leasing back of an asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The following distinction is to be made between finance and operating leases when accounting for sale and leaseback transactions:

**a) Sale and leaseback transaction results in finance lease**

In this case, any excess of sales proceeds over the carrying amount may not be immediately recognised as income by the seller/lessee. Instead, this is deferred and amortised over the lease term.

**b) Sale and leaseback transaction results in an operating lease**

If a sale and leaseback transaction results in an operating lease and the transaction is established at fair value, any profit or loss must be recognised immediately. If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if losses are compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the expected period of utilisation. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and actual figure shall be recognised immediately.

**Federal state of Hesse as lessor**

### Finance leases

Where the federal state of Hesse is the lessor and the lease is classified as a finance lease, the asset must be derecognised and a receivable is recognised equal to the amount of the net investment (present value of the minimum lease payments plus an unguaranteed residual value). The lease payments received are also allocated into capital repayments and finance income.

### Operating leases

If the state is the lessor and the lease is classified as an operating lease, the leased assets are capitalised at cost and depreciated on a straight-line basis. Rental income is recognised on a straight-line basis over the term of the lease.

## VI. Impairment of non-financial assets

To assess potential impairment, assets are classified as cash-generating or non-cash-generating.

Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Non-cash-generating assets are assets other than cash-generating assets.

The definition of a cash-generating asset is not met for any of the state's assets in the financial statements with the exception of goodwill. Accordingly, the regulations regarding impairments of non-cash-generating assets are considered for the state.

The carrying amounts of the state's non-financial assets – with the exception of assets related to long-term construction contracts, inventories and deferred tax assets – are reviewed at the end of each reporting period to determine whether there are indications of impairment. If there are, the recoverable amount of the asset is estimated. Goodwill and intangible assets with an indefinite useful life and those that are not yet ready for use are subject to annual impairment testing.

To assess whether there is any impairment in connection with non-cash-generating assets, the assets are reviewed individually.

A non-cash-generating asset is impaired if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the actual (sales) value less costs to sell and the current value in use as the present value to remaining potential benefits.

Impairment losses are recognised as an expense in the statement of profit or loss. Impairment losses on goodwill are not reversed. For other assets, impairment losses are reversed only where the carrying amount of the asset does not exceed the carrying amount that would have been determined (less amortisation or depreciation) if no impairment loss had been recognised.

## V. Financial instruments

**Recognition and initial measurement**

Receivables and debt instruments issued are recognised from the time at which they are incurred. All other financial assets and liabilities are recognised for the first time on the trading day when the state becomes the contracting party under the instrument's contractual terms.

With the exception of a receivable without a significant financing component, a financial asset or financial liability is measured at fair value on initial recognition. For items not measured at fair value in surplus or deficit, the transaction costs directly attributable to the acquisition or issue of the item are added or subtracted. Trade receivables that do not contain a significant financing component are measured at the transaction price on initial recognition.

**Classification and subsequent measurement**

### Financial assets

Depending on the contractual cash flow characteristics and the business model for holding the asset, financial assets are classified as follows on initial recognition:

- at amortised cost
- at fair value through net earnings (FVtNE),
- at fair value through surplus or deficit (FVtSD).

| | | |
|---|---|---|
| — Business model criterion: **Hold**<br>— Interest and principle payments scheduled at specified times. | — Business model criterion: **Hold and Sell**<br>— Interest and principle payments scheduled at specified times. | All other financial assets held primarily for short-term realization of capital gains (trading). |
| **Amortised cost** | **At fair value through net assets/ equity (FVtNE)** | **At fair value through surplus or deficit (FVtSD)** |
| **FVtSD option:**<br>Condition: Designation eliminates or significantly reduces an accounting or valuation inconsistency. | | **FVtNE option:**<br>Only for equity instruments which are neither held for trading nor represent contingent consideration for a public sector combination. |

The allocation to the categories stated above must be observed for the subsequent measurement of financial assets. Different measurement rules apply to each category.

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Subsequent measurement takes into account the effective interest method. Amortised costs are reduced by impairment losses. Interest income, foreign currency translation gains and losses and impairment losses are recognised in surplus or deficit. Gains or losses from derecognition are recognised in surplus or deficit.

The category financial assets measured at fair value through net earnings relates to financial assets held within the framework of a business model whose objective is both the recognition of contractual cash flows and the sale of financial assets. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange rate gains and losses and impairment losses are recognised in surplus or deficit. Other net gains or losses are reported in net assets/equity. On derecognition, cumulative net assets/equity are reclassified to the statement of profit or loss. There were no assets in this category in the reporting year.

All financial assets not measured at amortised cost or at fair value through net earnings are measured at fair value through surplus or deficit. This also applies to all investments in equity instruments. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in surplus or deficit. For derivatives designated as hedging instruments, see note 23.

Financial assets are not reclassified after initial recognition unless the state changes its business model for managing financial assets. In this case, all financial assets affected are reclassified on the first day of the reporting period following the change to the business model.

### Financial assets – assessment of business model

The information taken into account by the state when assessing the objectives of the business model covers the stipulated guidelines and objectives for the portfolio and the use of these guidelines in practice. This includes whether the state's strategy is designed to

- collect contractual interest income,
- retain a certain interest rate profile,
- match the term of a financial asset either with the term of the related liability or the expected cash outflows, or
- generate cash flows by selling the assets.

### Financial assets – assessment as to whether the contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, the "principal amount" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks, costs (e.g. liquidity risk and administrative costs) and a profit margin.

When assessing whether the contractual cash flows are solely payments of principal and interest on the principal amount, the state takes into account the instrument's contractual agreements. This involves assessing whether the financial asset includes a contractual agreement that could change the timing or amount of contractual cash flows if the asset no longer meets these conditions. During this assessment, the state considers:

— certain events that would change the amount or timing of the cash flows

— conditions that would change the interest rate, including variable interest rates

— early repayment and renewal options

— conditions that restrict the state's entitlement to cash flows of a special asset (e.g. no right of recourse).

An early repayment option is consistent with the criterion of solely payments of principal and interest if the amount of the early repayment essentially represents unpaid payments of principal and interest on the outstanding principal amount. This may also include reasonable compensation for the early termination of the contract.

In addition, a condition for a financial asset that was acquired at a premium or discount to contractual nominal amount that allows or requires it to make an early repayment for an amount that essentially represents the contractual nominal amount plus accrued contractual interest, is considered to be consistent with the criterion as long as the fair value of the early repayment option at the beginning is not significant.

### Financial liabilities – classification, subsequent measurement and gains and losses

Financial liabilities are classified at amortised cost or at fair value through surplus or deficit. A financial liability is allocated to FVtSD if it is held for trading or is a stand-alone derivative.

Financial liabilities at FVtSD are measured at fair value and net gains or losses, including interest expense, are recognised in surplus or deficit.

| | | | |
|---|---|---|---|
| All financial liabilities which do not belong to one of the following categories. | — Liabilities measured at fair value<br>— Contingent consideration for public sector combinations in accordance with IPSAS 40. | Liabilities<br>— From transferred but not derecognised financial assets<br>— From an ongoing exposure | — Financial guarantees<br>— Obligations to provide low-interest loans |
| **Amortised cost** | **At fair value through surplus or deficit (FVtSD)** | **Consideration / net carrying value basis** | **In accordance with IPSAS 41.73-.93 and IPSAS 9** |
| **FVtSD option:**<br>Condition: Material reduction of an accounting or valuation inconsistency or in the case of internal group valuation on a fair-value basis. | | | |

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign currency translation differences are recognised in surplus or deficit. Gains or losses from derecognition are also recognised in surplus or deficit.

## Derecognition

### Financial assets

Financial assets are derecognised once the contractual rights to the cash flows from the asset expire or the rights to receipt of the cash flows in a transaction are transferred, where substantially all the risks and opportunities associated with ownership of such financial asset are transferred as well.

They are also derecognised if the state neither transfers nor retains substantially all the risks and rewards incidental to ownership and does not have control over the transferred asset.

If the state carries out transactions by transferring recognised assets but retains either all or all substantial risks and rewards from the transferred asset, the transferred assets are not derecognised.

### Financial liabilities

The state derecognises a financial liability if the obligations specified in the contract are discharged, cancelled or expired. The state also derecognises a financial liability if the terms of the contract are amended and the cash flows for the amended liability change significantly. In this case, a new financial liability is recognised at fair value based on the amended conditions.

When derecognising a financial liability, the difference between the carrying amount of a liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in surplus or deficit.

## Derivative financial instruments and hedge accounting

### Hedging currency and interest rate risks

The state holds derivative financial instruments to hedge currency and interest rate risks.

The state designates derivatives as hedging instruments to hedge fluctuations in cash flows in connection with highly probable expected transactions that result from changes to foreign currency exchange rates and interest rates. At the start of the designated hedging relationships, the state documents its risk management objectives with regard to the hedge. The state also documents the economic relationship between the hedged item and the hedging instrument and whether changes in the cash flows of the hedged item and the hedging instrument are expected to offset each other.

Other derivatives are measured at fair value, both on initial recognition and during subsequent measurement. Changes resulting from this are recognised in surplus or deficit.

### Cash flow hedges

If a derivative is designated as a cash flow hedge, the effective portion of the changes to fair value are recognised in net assets/equity. The effective portion of the changes to fair value recognised in net assets/equity is limited to the cumulative change in the fair value of the hedged item (calculated based on the present value) since the start of the hedge. The cumulative amount recognised in net assets/equity is reclassified to the statement of profit or loss in the period or periods in which the hedged forecast cash flows affect the surplus or deficit. The ineffective portion of the changes to the derivative's fair value is recognised directly in surplus or deficit.

Hedge accounting is discontinued prospectively if the hedge no longer meets the criteria for the accounting of hedge transactions or if the hedging instrument expires or is sold, terminated or exercised. If hedge accounting for cash flow hedges is ended, the amount posted to net assets/equity remains in equity until this amount is reclassified to the statement of profit or loss in the period or periods in which the hedged forecast cash flows affect the surplus or deficit.

If the hedged future cash flows are no longer expected to occur, the amounts classified to the hedging reserve are directly reclassified to the statement of profit or loss.

## VI. Impairment of financial assets

The state recognises impairment losses for expected credit losses (ECL) for all financial assets not measured at fair value and draws a distinction between the approaches described below.

**General approach**

Expected credit losses are essentially determined based on a three-stage impairment model (IPSAS 41). Under this, in the first stage risk provisions equal to 12-month expected credit losses are recognised for all financial assets that were not already impaired upon origination. If the credit risk increases significantly, lifetime expected credit losses are used in the second stage. This also applies to the third stage. However, this stage is reserved for financial assets that were already impaired on acquisition.

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of a financial instrument. The maximum period to be taken into account when estimating expected credit losses is the maximum contract term in which the state is exposed to credit risk. 12-month credit losses are the portion of expected credit losses that result from all possible default events within 12 months of the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the state considers reasonable and supportable information that is relevant and available without unreasonable delay or expense.

The state assumes that the credit risk of a financial asset has increased significantly if it is more than 30 days past due.

Generally, however, the exemptions and simplifications outlined below apply.

**Exemption for financial assets determined to have low credit risk at the reporting date (low credit risk exemption)**

Financial assets with a low credit risk at the end of the reporting period are exempt from the general approach. For these assets, the expected credit losses are measured under the first stage of the impairment model at the amount of the 12-month credit loss.

**Simplified approach for certain receivables**

In addition, a simplified approach is used for certain receivables. Here, impairment losses for the receivables affected are measured at an amount equal to lifetime expected credit losses. There is therefore no need to monitor changes to the credit risk.

### Measurement of expected credit losses

Expected credit losses are probability-weighted estimates of credit losses. Expected credit losses are measured based on supportable information about past events, current conditions and forecasts for future conditions that is reasonably available at the reporting date without undue cost or effort.

### Credit-impaired financial assets

At the end of each reporting period, the state assesses whether financial assets not measured at fair value in surplus or deficit are credit-impaired. A financial asset is credit-impaired if one or more events occur that have a detrimental impact on estimated future cash flows of the financial asset.

Indications that a financial asset is credit-impaired comprise the following observable data:

— significant financial difficulty of the debtor

— a breach of contract, such as a default or past due event

— it is probable that the debtor will enter bankruptcy or other financial reorganisation.

#### Presentation of impairment for expected credit losses in the statement of financial position

Impairment on financial assets measured at amortised cost is deducted from the assets' gross carrying amount. No debt instruments were measured at FVtNE in the reporting year.

**Amortisation**

The gross carrying amount of a financial asset is written down if the state has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

## VII. Inventories

Inventories are measured at the lower of cost and net realisable value. They are measured using the first-in-first-out method. For manufactured products, cost includes an appropriate share of production overheads based on normal operating capacity.

## VIII. Provisions

Provisions are recognised when the federal state of Hesse has a present legal or constructive obligation as a result of a past event that will likely result in an outflow of resources and that can be reliably estimated. The amount and the maturity date of the obligation are uncertain. The amount recognised as a provision represents the best estimate of the outflows required to settle the obligation at the end of the reporting period. In addition, future cost and price increases after the end of the reporting period are also taken into account to calculate the necessary settlement amount.

Non-current provisions are recognised at present value where the time value of money is material. The amount of the non-current provisions is determined by discounting estimated future cash flows at a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the liability. The compounding is recognised as a finance cost.

Provisions for tax refunds (essentially income tax and corporate tax) are reported for obligations resulting from tax assets of taxpayers. They are determined based on empirical values from the revenue statistics for the last three years in the amount of the respective state portion.

The provision for the allotment and finance equalisation is based on the assumption that the same finance equalisation mechanisms were used when measuring the outstanding items from tax receivables and liabilities at the end of the reporting period as for revenue from these tax operations. They are calculated using the allotment/allocation formula based on tax receivables and liabilities recognised as at 31 December 2019.

Provisions for the "protective umbrella" (*Schutzschirm*) for local authorities and provisions for investment programmes were recognised for obligations resulting from laws or state programmes. These are generally obligations arising from interest assistance or allocations and subsidies for support measures that have not yet been conclusively approved.

Provisions for litigation expenses and litigation risks are recognised if a third party is expected to claim damages or similar due to pending legal disputes and this litigation is expected to incur costs/losses. The calculation of provisions accounts for expenses that the federal state of Hesse must bear itself. It includes all costs for preparing for and conducting litigation. The provision is based on the amount in dispute. For litigation where the state is the defendant, the calculation also incorporates damages and interest relating to the legal proceedings.

Provisions for grants chiefly account for obligations regarding statutory benefits that have been applied for at the reporting date but have not yet been approved.

## IX. Employee benefits

**Short-term employee benefits**

Obligations from short-term employee benefits are recognised as an expense once the related work is performed. A liability is to be recognised for the expected payable amount if the state currently has a legal or constructive obligation to pay this amount as a result of work performed by the employee and a reliable estimate of the obligation can be made.

**Defined contribution plans**

Obligations for contributions to defined contribution plans are recognised as an expense once the related work is performed. Amounts paid in advance are recognised as an asset where there is a right to reimbursement or a reduction in future payments.

**Defined benefit plans**

### Pension obligations

In the case of pension obligations, the defined benefit plan's benefit formula determines the formation of pension obligations.

The legal basis for calculating the retirement pension is the Hesse Civil Service Benefits Act (*Hessisches Beamtenversorgungsgesetz* - HBeamtVG), which defines the plan's benefit formula. The retirement pension is calculated based on pensionable periods of service, from which an individual pension rate is determined, and pensionable remuneration, which are multiplied by the pension rate calculated previously.

The pension rate depends on the pensionable periods of service and is equal to 1.79% of the pensionable remuneration for each year of pensionable service. Under current law, however, this is capped at 71.75% ("highest pension rate"). This puts the maximum number of pensionable service years that can be taken into account in the plan's benefit formula at 40.

***Old-age benefits (Altersgeld) as a special base of pension obligations***

Old-age benefits are regulated under sections 76 and 77 HBeamtVG and allow civil servants to take acquired pension entitlements with them when voluntarily leaving the civil service, as opposed to then being insured under a statutory pension scheme.

Lifetime and temporary civil servants are entitled to old-age benefits if their work as a civil servant ends following a request for dismissal and if they worked for a pensionable period of service of at least five years (vesting period).

***Risks***

The federal state of Hesse is exposed to various risks in connection with defined benefit pension plans. As well as general actuarial risks such as the longevity risk and the interest rate risk, the federal state of Hesse is also exposed to capital market and investment risk.

***PUC method for measuring pension obligations***

Under the projected unit credit (PUC) method, the pension obligation is defined as the present value of the defined benefit obligation (DBO). The DBO is the present value of the pension claims earned at the end of the reporting period.

***Financial assumptions***

To best address the "time value of money" and structure of funding when calculating the actuarial interest rate, the pension obligation's funding must be considered.

Part of obligation not covered by plan assets:

If no plan assets are established, it is funded at borrowing conditions – thus in line with the terms for government bonds, taking into account the duration.

Part of obligation covered by plan assets:

If plan assets are established, they are funded by the return on the plan assets.

The expected return on plan assets is to be determined at the beginning of the reporting period based on the long-term expected return for the plan assets for the term of the obligations. The long-term expected return is 3%. The expected return is calculated using the same weighted cost of capital as for discounting the DBO.

| a) Opening balance 1 Jan. 2019 | Partial interest rate | Weighting | Weighted interest rate |
|---|---|---|---|
| Borrowing rate at medium duration for qualifying beneficiaries and beneficiaries | 0.55% | 90.00% | 0.50% |
| Actual return 2018 – plan assets | -2.16% | 10.00% | -0.22% |
| Weighted actuarial interest rate | | | 0.28% |

| b) Prospective valuation run at the beginning of the year | Partial interest rate | Weighting | Weighted interest rate |
|---|---|---|---|
| Borrowing rate at medium duration for qualifying beneficiaries and beneficiaries | 0.55% | 90.00% | 0.50% |
| planned return – plan assets | 3.00% | 10.00% | 0.30% |
| Weighted actuarial interest rate | | | 0.80% |

| c) Reporting date 31 Dec. 2019 | Partial interest rate | Weighting | Weighted interest rate |
|---|---|---|---|
| Borrowing rate at medium duration for qualifying beneficiaries and beneficiaries | -0.31% | 90.00% | -0.28% |
| Actual return 2019 – limited to long-term expected return of max. 3% | 3.00% | 10.00% | 0.30% |
| Weighted actuarial interest rate | | | 0.02% |

***Salary trend***

The long-term salary trend is assumed at 2%.

### *Demographic assumptions*

**Mortality**

The best available estimates of biometric probabilities for disability, mortality and survivors' benefits are used. Changes to life expectancy expected in the future until the time of entitlement to benefits are calculated based on the "2018 G mortality tables" generation tables by Dr. Klaus Heubeck.

**Retirement probabilities**

The expected future pension start date was calculated based on retirement probabilities.

### *Investment strategy for the plan assets to fund the pension obligations*

Asset-liability matching strategies aim to reduce the risk of non-matching obligations and the assets that cover them at the reporting entity.

The federal state of Hesse has set up special funds as plan assets to finance future pension expenditure in the form of a pension reserve. This is based on the Hessen Pension Reserve Act (*Hessisches Versorgungsrücklagengesetz* - HVersRücklG) with the corresponding investment guidelines. Capital accumulated through the special funds is held chiefly as fixed-income securities, equities, money market instruments and property funds of funds.

The Act Revising Special Funds for Securing Retirement Benefits (*Gesetz zur Neuregelung von Sondervermögen zur Sicherung der Versorgungsleistungen*) dated 12 September 2018 represented a step towards creating a permanent capital stock for the special fund "pension reserve of the federal state of Hesse". The earliest possible time at which the return on the actuarial reserve can be withdrawn is linked to achieving minimum capital cover of 10% of pension provisions (establishing a coverage ratio). The amount of annual withdrawals is then limited to income from the special funds.

The statutory addition to the "special fund, pension reserve of the state" rose from €127.0 million to €167.0 million in 2019. It is intended to increase this by 2.0% p.a. in future years. A total of €334.0 million was added to plan assets in the 2019 reporting year.

The remaining pension obligations to be funded without being covered by plan assets are funded from current cash flows.

## Benefit obligation provisions

Benefit obligation provisions for qualifying beneficiaries relate to financial support benefits that they receive from the start of retirement in the case of illness, birth, care or death. As with pension obligations, the provisions are measured using the PUC method. The following section looks only at differing characteristics for benefit obligation provisions.

### *Benefit obligations base amount*

The amount of individual benefit obligation benefits is calculated as the best-possible estimate of the average benefit paid to the beneficiaries in the last 12 months, taking account of any additional contributions received for the optional benefits with regard to the average number of beneficiaries in the last 12 months. The benefit obligations base amount for 2019 is €5,710.

### *Additional contributions*

The measurement of benefit obligation provisions includes additional contributions for optional benefits that are paid by employees to reduce costs and that come to a total of €13.7 million for 2019.

***Trend***

Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. As part of this, future healthcare costs are calculated based on historical data, provided these allow conclusions to be drawn about the future. The trend assumption for future healthcare cost increases calculated based on this is 2.9%.

***Interest***

As no plan assets are intended for future benefit obligation benefits, the actuarial interest rate is determined exclusively based on government bond interest rates, which account for the duration of obligations under benefit obligations law.

| a) Opening balance 1 Jan. 2019 | Interest rate |
|---|---|
| Borrowing rate at medium duration for qualifying beneficiaries and beneficiaries | 0.55% |

| b) Prospective valuation run at the beginning of the year | |
|---|---|
| Borrowing rate at medium duration for qualifying beneficiaries and beneficiaries | 0.55% |

| c) Reporting date 31 Dec. 2019 | |
|---|---|
| Borrowing rate at medium duration for qualifying beneficiaries and beneficiaries | -0.31% |

***Retrospective remeasurement of actuarial gains/losses***

Discrepancies between actual and expected changes in pension and benefit obligations and the effects of changes to measurement parameters (chiefly interest rate and trend) result in actuarial gains and losses. Actuarial losses as part of the remeasurement resulted chiefly from the decrease in the actuarial interest rate in the reporting year.

### Other long-term employee benefits

The state’s net obligation regarding long-term employee benefits relates to future benefits that employees have earned in return for their service in the current and prior periods. These benefits are discounted to determine their present value. Remeasurements are recognised in surplus or deficit in the period in which they occur.

### Termination benefits

Termination benefits are recognised as an expense at the earlier of the following dates: when the state can no longer withdraw the offer of these benefits or when the state recognises costs for a restructuring. Benefits are discounted if they are not expected to be settled wholly before twelve months after the end of the reporting period.

## X. Income and assets from non-exchange transactions

An asset acquired by way of a transaction without attributable consideration is measured at fair value at the time of acquisition.

**Tax income and parafiscal income**

Taxes are economic benefits or potential that must be paid to public entities by law. The state's tax claims arise in connection with a taxable event. If this occurs, it triggers a legal tax claim for the state.

Tax receivables are recognised once it is probable that the economic benefit will flow to the state and the asset can be reliably measured.

— For assessment taxes (e.g. income tax, corporation tax), this is when the tax assessment notice is finalised and approved for issue.

— For upfront payments (e.g. for income tax or corporation tax), this happens in stages at the individual due dates.

— For payable registration taxes (e.g. wage tax, value-added tax, capital gains tax), this is when the registration is received.

The following information is taken into account for the measurement at the end of the reporting period:

— for wage tax, value-added tax and capital gains tax returns that relate to registration periods up to December 2019 and that were received up to 31 January 2020,

— for settlements of other regional administrative authorities that manage taxes for which the federal state of Hesse has (partial) tax sovereignty, provided this information was available until 27 February 2020, and

— for settlements of clearing transactions (allotment, finance equalisation), provided this information was available until 27 February 2020.

Impairment losses are recognised for tax receivables in accordance with IPSAS 41 (see note 23).

**Transfer payments**

Transfer payments are inflows that result in a future economic benefit or performance potential from non-exchange transactions, provided these are not taxes (e.g. allocations and subsidies, finance equalisation). Transfer payments are differentiated based on whether or not they are associated with a performance obligation. They may be cash or non-cash inflows.

**Income from financial penalties**

Income from financial penalties comprises warning fines, fines, penalty payments and late surcharges.

## XII. Collective and individual state services

**Collective services**

Collective services are services provided by a public body simultaneously for everyone. They are intended for members of society, in particular for citizens as residents of the regional authority. The benefits help expand, maintain and improve public welfare. The benefits should address the needs of society as a whole.

The public body draws on resources to provide the collective services and incurs costs for doing so. Examples of this include remuneration and salaries paid for providing the services, the supply of electricity for street lighting, the purchase of non-current assets to render these services and the purchase of collective services by a third-party provider. Collective services are recognised in the statement of profit or loss as ongoing activities of the public authority providing the services. No provision is recognised for planned collective services.

#### Individual services

Individual services are goods and services provided to individuals and/or households by a public-sector body and that are intended to address the needs of society as a whole. No provisions are recognised for individual services before individuals or households access these.

## XIII. Social Benefits

Social benefits are money transfers that

— are intended for certain persons and/or households that meet the eligibility criteria

— help reduce the impact of social risks

— address the needs of society as a whole

Social risks are events or circumstances that

— relate to characteristics of individuals and/or households, e.g. age, health, poverty and employment status

— may harm the welfare of individuals and/or households by putting additional demands on their resources or reducing their income

Applying the general approach, the federal state of Hesse recognises a liability for a social benefit only once the criteria for receiving the next social benefit have already been met. The past event that gives rise to a liability is the beneficiary fulfilling all eligibility criteria for the provision of the next social benefit.

## XIV. Revenue from exchange transactions

#### Sale of goods

Revenue is recognised once the significant risks and rewards of ownership have been transferred to the buyer, receipt of consideration is probable, the associated costs and potential return of goods can be reliably estimated, there is no continuing managerial involvement with the goods and the amount of revenue can be reliably estimated. Revenue is recognised less returns, discounts and volume rebates.

#### Rendering of services

Revenue from providing services is accounted for using the percentage of completion method. If the percentage of completion method cannot be used because the stage of completion cannot be reliably estimated and/or it is not probable that the costs incurred will be recovered, revenue is recognised at the time the service is concluded.

#### Construction contracts

Income under long-term construction contracts is recognised using the percentage of completion method. This can be reliably calculated because contracts are awarded on an annual basis (in annual tranches), resulting in defined part performance at the end of the financial year. For construction-related project management work, in accordance with the German Federal Construction Agreement (*Bundesbauvereinbarung*) services are settled throughout the year and at the end of the year using defined part performance, and income is recognised on this basis in accordance with progress made.

**Income from fees**

Only income for those services/activities directly related to the administration is reported under Income from fees. It must be obtained as a result of a main service of the administration that is in the course of its ordinary activities. In particular, this covers income from administrative activities under public law (laws or regulations enacted by the federal government or the state) and fees from judicial business (e.g. under the German Court Fees Act (*Gerichtskostengesetz*)).

Fees and service charges from administrative activities recognised are mostly fees and expenses that are generally regulated in fees regulations, administrative cost regulations or costs regulations established by the federal or state government. Fees under private law are found in administrative provisions that are mostly comparable to the fees regulations.

Fees and service charges also include income from court activities attributable to the judicial administration (e.g. fees under the Hesse Judicial Costs Act (*Justizkostengesetz*)).

## XV. Finance income and finance costs

The state’s finance income and finance costs include:

— Interest income and expenses (recognised using the effective interest method),

— Dividends (recognised when the right is established),

— Net gains or losses from financial assets measured at FvtSD,

— Foreign currency gains and losses from financial assets and financial liabilities,

— Impairment losses (and reversals) on investments in debt instruments measured at amortised cost.

# C. Notes to the statement of profit or loss

## 1. Income and expenses from non-exchange transactions

| in € million | 2019 |
|---|---:|
| a) Taxes and parafiscal income | 25,262.8 |
| b) Income from finance equalisation | 345.5 |
| c) Income from allocations and subsidies | 5,152.7 |
| d) Income from financial penalties, fines, warning fines and penalty payments | 211.3 |
| **Total income from non-exchange transactions** | **30,972.3** |
| e) Expenses from finance equalisation | 7,263.3 |
| f) Expenses for allocations and subsidies | 7,470.4 |
| **Total expenses from non-exchange transactions** | **14,733.7** |

**Taxes and parafiscal income**

Income from taxes and parafiscal income for the 2019 year comprises the state share of combined federal and state taxes and state government taxes.

| in € million | 2019 |
|---|---:|
| Wage tax | 9,979.4 |
| Value-added tax | 5,242.8 |
| Other transaction and property taxes | 3,217.9 |
| Import sales tax | 2,155.7 |
| Assessed income tax | 1,812.2 |
| Corporation tax | 1,413.2 |
| Income taxes not yet assessed without withholding tax | 1,063.9 |
| Withholding tax on interest and disposal income (previously interest income tax) | 286.0 |
| Tax-related penalty payments, late surcharges and late payment fees | 91.7 |
| **Total** | **25,262.8** |

Tax sovereignty for the individual types of taxation lies with the federal government for federal taxes, with the federal states for state taxes and with the local authorities for local authority taxes. An exception to this is trade tax, where the federal government and the states both participate in revenue through the trade tax allocation system. The federal government and the states are jointly entitled to revenue from combined federal and state taxes. Local authorities participate in the state share.

Tax sovereignty breaks down as follows:

| Type of tax | | Tax sovereignty | | |
|---|---|---|---|---|
| | | German federation | German state | Municipalities |
| **Shared taxes** | **Income tax** | | | |
| | **Wage tax** | 42.5% | 42.5% | 15.0% |
| | **Corporation tax** | 50.0% | 50.0% | |
| | **Value-added tax** (depending on year e.g. 2016) | 49.5% | 48.3% | 2.2% |
| **Federal taxes** | **Excise taxes** | 100.0% | | |
| | **Vehicle taxes** | 100.0% | | |
| | **Customs** | 100.0% | | |
| | **Insurance tax** | 100.0% | | |
| | **Road transportation tax** | 100.0% | | |
| | **Solidarity surcharge** | 100.0% | | |
| **State taxes** | **Inheritance and gift tax** | | 100.0% | |
| | **Real estate transfer tax** | | 100.0% | |
| | **Beer tax** | | 100.0% | |
| | **Racing / lottery tax** | | 100.0% | |
| **Municipal taxes** | **Trade tax** | Allocation | Allocation | 100.0% |
| | **Property tax** | | | 100.0% |
| | **Entertainment tax** | | | 100.0% |
| | **Liquor license tax** | | | 100.0% |
| | **Hunting tax** | | | 100.0% |
| | **Dog tax** | | | 100.0% |
| | **Second home tax** | | | 100.0% |

### Income from finance equalisation

Income is attributable chiefly to the hospital levy (€130.0 million) to be paid by urban districts (*kreisfreie Städte*) and administrative districts (*Landkreise*) under local authority finance equalisation. €78.2 million is attributable to the local authority finance equalisation allocation.

### Income and expenses from allocations and subsidies

Income from allocations and subsidies relates mostly to allocations and subsidies from the EU, the federal government and other regional administrative authorities (funds).

The material items relate to the following grants:

| in € million | 2019 |
|---|---|
| Federal government share of expenses for jobseekers (Hartz IV) and social security | 1,183.2 |
| Cost reimbursements | 700.6 |
| Motor vehicle tax compensation | 691.1 |
| Federal funding for public transport infrastructure | 626.4 |
| Third-party funds for project funding | 463.8 |
| Local authority investment programme “KIP macht Schule!” | 125.5 |
| Higher Education Pact 2020 (*Hochschulpakt*) | 133.0 |
| Federal share of German Federal Training Assistance Act (BAföG) and Upgrading Training Assistance Act (AFBG) | 128.0 |
| Federal share for the improvement of traffic infrastructure in local authorities (GVFG funding) | 89.5 |
| Social housing promotion | 96.8 |
| Federal payment of BAföG student loans | 75.0 |
| Federal-state funding of Leipzig community of practice | 38.0 |
| Federal investment programme childcare funding 2017-2020 | 74.1 |
| Maintenance Advance Act (*Unterhaltsvorschussgesetz*) | 69.0 |
| Urban development | 58.3 |
| Housing allowance | 33.4 |
| Services for unaccompanied children and young people under SGB VIII | 3.2 |
| **Total** | **4,588.9** |

**Income from financial penalties, fines, warning fines and penalty payments**

Income from financial penalties, fines, warning fines and penalty payments comes mostly from financial penalties (€123.4 million) and fines (€81.0 million).

**Expenses from finance equalisation**

Expenses from finance equalisation includes expenses for state finance equalisation (€1,718.5 million), expenses for local authority finance equalisation (€5,319.8 million) and expenses for compensation to local authorities from the family tax relief package (€225.0 million).

### Expenses for allocations and subsidies

Expenses for allocations and subsidies include the state's funding programme, which breaks down as follows by the level of funding for the most significant programmes:

| Destination of funding | Expenses 2019 | of which cofinanced |
|---|---|---|
| in € million | | |
| Minimum income in old age and for jobseekers | 1,177.2 | 1,183.2 |
| Local public transportation funding | 655.4 | 624.1 |
| Joint federal/state task: federal/state research funding | 326.5 | 0.0 |
| Services for refugees | 307.9 | 4.6 |
| Allocations under the Local Authority Transport Funding Act (*Gemeindeverkehrsfinanzierungsgesetz*) | 298.2 | 89.5 |
| Early childhood education and care | 283.8 | 0.1 |
| HESSENKASSE | 231.8 | 0.0 |
| Services for unaccompanied children and young people under SGB VIII | 211.3 | 3.1 |
| Training funding | 209.1 | 75.1 |
| Hessen agri-environmental and maintenance schemes (HALM) | 208.7 | 104.3 |
| "KIP macht Schule!" | 127.3 | 124.9 |
| Improving quality at childcare facilities | 117.5 | 0.0 |
| Reimbursement of administrative costs for hospital treatment orders | 109.9 | 0.0 |
| Maintenance Advance Act (*Unterhaltsvorschussgesetz*) | 108.2 | 71.4 |
| Urban development | 104.6 | 58.3 |
| Childcare funding 2017-2020 | 74.6 | 74.6 |
| Housing allowance | 70.1 | 35.1 |
| Funding for religious communities | 60.3 | 0.0 |
| Training and qualification budget | 52.5 | 7.0 |
| Victim compensation | 37.2 | 4.5 |
| **Total** | **4,772.1** | **2,459.8** |

Expenses for tax subsidies (e.g. child benefit, retirement allowance) of €1,484.6 million are also presented under expenses for allocations and subsidies.

Remaining expenses from transfer payments are divided among approximately 200 other funding programmes.

The state's "expenses for allocations and subsidies" are offset by "income from allocations and subsidies" (co-financing) by the federal government and other regional administrative authorities (funds) totalling €4,082.7 million.

## 2. Revenue from exchange transactions

| in € million | 2019 |
|---|---|
| a) Income from fees and contributions | 1,227.9 |
| b) Revenue | 1,131.3 |
| c) Finance income | 336.0 |
| **Total income from exchange transactions** | **2,695.2** |

Income from exchange transactions is categorised as follows:

| Category | 2019 |
|---|---|
| in € million | |
| Sale of goods<br>(Revenue) | 329.0 |
| Rendering of services<br>(Income from fees and contributions and revenue) | 1,969.4 |
| Interest<br>(Finance income) | 299.8 |
| Dividends or similar distributions<br>(Finance income) | 36.2 |
| Construction contracts<br>(Revenue) | 60.8 |
| **Total** | **2,695.2** |

Revenue from the sale of goods includes revenue from the sale of timber (€106.6 million) and from sales of land (€169.5 million).

Revenue from providing services includes income from fees and contributions. These include all fees based on an exchange of services with legally defined (e.g. by law or regulation) consideration. In particular, this income includes lottery income and lottery ticket fees from the Hessen lottery administration (€ 648.4 million) and from court proceedings (€440.5 million). Revenue from providing services also includes revenue from hospital services provided by the Frankfurt am Main University Hospital (€487.0 million).

Finance income includes income from interest and currency derivatives of €131.1 million, interest income (including income from tax-related interest) of €126.6 million and other interest income of €42.1 million, as well as dividends or similar distributions of €36.2 million.

Revenue from long-term production in 2019 relates chiefly to support provided as part of the Federation Executive Administration to build federal motorways, bridges and tunnels for the federal government in the amount of €45.4 million. There were no contracts in progress as at the end of the reporting period because contracts and settlements are handled on an annual basis. In addition, approximately €10.3 million of the income from construction contracts is also attributable to construction-related project management work, most of which is also carried out for the federal government. Some of these are contracts in progress but that do not generate any profits on account of the legal/contractual basis. Instead, the actual costs are reimbursed.

## 3. Other income and expenses

| in € million | 31 Dec. 2019 |
|---|---|
| a) Reversal of provisions | 442.8 |
| b) Other income | 1,234.6 |
| **Total income** | **1,677.4** |
| (c) Depreciation and amortisation | 955.9 |
| d) Impairment of property, plant and equipment | 51.5 |
| e) Other depreciation, amortisation and impairment losses | 13.4 |
| f) Administrative expenses | 3,668.6 |
| g) Other expenses | 521.3 |
| **Total expenses** | **5,210.7** |

### Reversal of provisions

Reversals of provisions are shown in the provisions schedule (note 18). They essentially relate to provisions for local authority finance equalisation (€198.8 million) and taxation provisions (€137.5 million), as the reason for these provisions no longer applies.

### Other income

Other income essentially includes miscellaneous other income (€474.7 million), rental income from property rented under operating leases (€278.4 million), revenue from facility management for these properties (€108.7 million) and income from the disposal of current assets (€163.8 million).

### Depreciation and amortisation expense

Depreciation and amortisation relate to intangible assets (€23.9 million) and property, plant and equipment, including assets held under finance leases (€931.9 million).

### Impairment of property, plant and equipment

Impairment in the financial year results primarily from forest assets recognised under property, plant and equipment (€50.0 million). Considerable open spaces are included due to storms, drought and pests and so these spaces were written down to land value.

**Administrative expenses**

| in € million | 2019 |
|---|---|
| Cost of purchased services and for the use of rights and services | 3,134.3 |
| Expenses for materials, energy and purchased goods | 352.7 |
| Expenses for communication, documentation information, travel, advertising | 181.7 |
| **Total** | **3,668.6** |

The cost of purchased services relates to **expenses for external maintenance** (€252.2 million) and to **other expenses for services** (€1,342.3 million). In particular, these include the costs of the Hessen lottery administration (€558.5 million), the cost of purchased services related to construction and maintenance of the state's buildings (€149.2 million), the costs of maintaining or operating roads (€106.6 million) and costs related to forestry administration (€92.1 million). They also include the cost of purchased services by Hessen universities (€154.4 million).

The material items reported under **expenses for the use of rights and services** (€925.3 million) are rents for buildings and spaces (€210.6 million) and cleaning services (€33.8 million), as well as expenses for IT services (€37.3 million) and for building surveillance (€48.4 million). €175.0 million is attributable to property management services and €120.6 million to Hessen universities.

Expenses for materials, energy and purchased goods cover expenses for **raw materials, consumables and supplies** that are either used directly for products or are otherwise necessary for production. Expenses predominantly relate to universities. The cost of energy and water in the financial year came to €166.7 million.

**Expenses for communication, documentation information, travel and advertising** include user charges for data cables, travel expenses, expenses for technical literature and ongoing telephone and postage costs.

**Other expenses**

| in € million | 2019 |
|---|---|
| Expenses for contributions, other and value adjustments | 424.9 |
| Other personnel expenses | 96.4 |
| **Total** | **521.3** |

**Expenses for contributions, other and value adjustments** include court proceedings costs of €292.0 million and losses from the disposal of fixed assets of €15.8 million.

The items also include expenses for taxes. These are primarily withheld capital gains tax and the solidarity surcharge payable on this for income from the federal state of Hesse's investments (€24.9 million).

**Other personnel expenses** comprise all expenses for employees that are not attributable to salaries/wages and remuneration or social security and post-employment expenses and employee benefits. In particular, these include expenses in connection with education, training and professional development, expenses for job advertisements, travel and relocation costs and severance pay.

## 4. Finance costs

Finance costs include interest in connection with finance leases of €60.0 million. Finance costs also contain interest and similar expenses of €1,025.5 million for non-current loans (including state financing paper and promissory note loans) and expenses from compounding and discounting non-current provisions of €1,200.6 million. The finance income of included entities accounts for €35.0 million.

Expenses were also incurred in connection with derivatives to be measured individually, the present values of which have deteriorated due to low interest rates (€719.3 million), and for ineffective hedge accounting (€0.1 million).

## 5. Personnel expenses

Personnel expenses break down as follows:

| in € million | 2019 |
|---|---|
| Salaries/wages | 3,273.4 |
| Remuneration | 5,330.3 |
| Social security and post-employment expenses and employee benefits | 5,502.2 |
| **Total** | **14,105.9** |

Remuneration included in personnel expenses includes remuneration paid to civil servants, judges, civil servant and judicial assistants (including civil servants and judges on probation and those with temporary civil servant status in their preparatory period) and to Minister-Presidents, ministers and the state secretaries. Salaries/wages include wages for employees covered by collective bargaining schemes.

**Social security and post-employment expenses and employee benefits** are essentially expenses for the addition to pension and benefit obligation provisions of €4,531.4 million for active civil servants and beneficiaries. €543.5 million is attributable to social securities and €284.0 million to expenses for employee benefits.

The following table shows the average number of employees in the 2019 financial year:

| | 1 Jan. 2019 | 31 Dec. 2019 | Change vs. previous year |
|---|---|---|---|
| Civil servants and judges | 91,576 | 91,946 | 370 |
| *of which part-time* | *24,232* | *24,385* | *153* |
| Other employees[a] | 58,986 | 61,083 | 2,097 |
| *of which part-time* | *25,353* | *26,651* | *1,298* |
| Civil servant candidates and other trainees | 12,099 | 12,650 | 551 |
| Federal state of Hesse area | 162,661 | 165,679[a] | 3,018 |
| **Employees at fully consolidated equity investments** | **1,117** | **1,140** | **23** |
| **Number of employees** | **163,778** | **166,819** | **3,041** |

Note: (a) excluding 9,963 external substitute staff as part of the “Verlässliche Schule” programme.

| Federal state of Hesse areas | Subordinate area | Employees[a] | | |
|---|---|---|---|---|
| | | | | Change vs. previous year |
| Minister-Presidents area | State Chancellery, Federal and European Affairs, Digital Strategy and Development, State Statistical Office, Hessen Centre for Political Education | 689 | 719 | 30 |
| Ministry of the Interior and Sports | Regional councils, State Office of Criminal Investigation, police department | 26,498 | 26,926 | 428 |
| Ministry of Education and Cultural Affairs | Schools, vocational schools, adult education schools, government education authorities | 64,774 | 66,309 | 1,535 |
| Ministry of Justice | Public prosecutors and district attorneys, courts, penal institutions, IT offices | 14,668 | 14,863 | 195 |
| Ministry of Finance | Frankfurt regional tax office, taxation authorities, "Landesbetrieb Bau und Immobilien Hessen”, Hessen Centre for Data Processing | 14,424 | 14,811 | 387 |
| Ministry of Economics, Energy, Transport and Housing | Hessen Mobil (road and traffic management), Metrology Department, land management agencies | 5,746 | 5,719 | -27 |
| Ministry of Social Affairs and Integration | | 419 | 420 | 1 |

| Federal state of Hesse areas | Subordinate area | Employees[a] | | |
|---|---|---|---|---|
| | | | | Change vs. previous year |
| Ministry of the Environment, Climate Protection, Agriculture and Consumer Protection | State Office for the Environment, Nature Conservation and Geology, Landesbetrieb Hessen-Forst, forestry commission offices | 3,717 | 3,678 | -39 |
| Ministry of Higher Education, Research and the Arts | Universities, state museums, state theatres | 31,260 | 31,742 | 482 |
| State Parliament/Commissioner for Data Protection and Freedom of Information, State Court, Accounting Office | | 466 | 492 | 26 |
| | | **162,661** | **165,679** | **3,018** |

Note: (a) Annual average of employees.

The following table shows the number of beneficiaries as at 31 December 2019:

| | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| Former Minister-Presidents/ministers | 44 | 38 |
| Former state secretaries | 55 | 51 |
| Former civil servants, judges and members of parliament | 63,564 | 65,098 |
| Surviving dependants | 14,996 | 15,170 |
| **Beneficiaries** | **78,659** | **80,357** |

# D. Main services of the federal state of Hesse (top 10)

The following overview shows the federal state of Hesse's 10 largest products according to the Integrated Product Framework (*Integrierter Produktrahmen* - IPR), which is standard across Germany. For this purpose, the products shown in the performance plans of the budget chapters were approximately combined across departments in the IPR system.

Under the IPSAS, the services performed by the federal state of Hesse, primarily for its residents, are divided into the following case groups:

— **Collective and individual services** (ED 67/Amendments to IPSAS 19)

— **Transfer payments – expenses from non-exchange transactions:** transfer expenses (ED 72)

— **Social benefits** (IPSAS 42)

Providing **collective services** so that the federal state of Hesse can improve public welfare requires spending chiefly in the areas of personnel and administrative expenses (including materials, energy for street lighting). The most important collective service products include general emergency response (police) and road building.

Like collective services, **individual services** provided by the state to individuals and/or households to address the needs of society as a whole also require personnel and administrative expenses. Examples of individual service products include the provision of general education in schools and vocational training.

**Transfer expenses** are incurred for transactions in which the federal state of Hesse provides allocations and subsidies.

— **Allocations** are cash payments within the public sector. Earmarked allocations serve as participation in joint federal/state tasks and as funding for the individual areas' core tasks. Non-earmarked allocations are allocations that are made without being tied to a specific area of activity. One of the main transfer payments in the form of allocations is guaranteeing local self-government.

— **Subsidies** are cash payments to non-public-sector bodies for social purposes in which the state has a considerable interest. Subsidies serve to fulfil a wide range of public interest objectives such as education, training, environmental protection and business development. Transferring earmarked cash payments is associated with the recipient meeting the purpose of the subsidy.

**Social benefits** are cash transfers intended for specific persons that serve to reduce the impact of social risks and address the needs of society as a whole. Providing social benefits primarily affects the expense item "Allocations and subsidies". The most significant social benefit products are support for children and young people and social welfare. **Factors** including chiefly labour market performance, demographic change and migration trends are relevant for the development of social benefits. The **main features** of social security benefits are based on the relevant German Social Codes (*Sozialgesetzbücher*), as listed in the table below.

The presentation of the 10 largest IPR products provided by the federal state of Hesse compares the total expense incurred for the respective product against the specific funding from corresponding income. The funding of the product follows the **specific funding arrangement** required for carrying out the government function.

— Sources of funding include predominantly **funding by the** federal **state of Hesse itself** – through **tax income** under its tax sovereignty.

— Funding **joint federal/state tasks** or **delegated tasks** performed by the federal state of Hesse requires corresponding transfer income as allocations by the **federal government**.

— Performing certain EU-funded tasks is also done in connection with corresponding transfer income as **third-party funds from the EU**.

— In certain cases, products are also co-funded by **own income**, e.g. using income from fee setting.

## Main services

| | Brief description | IPR no. | Case group | Expense | State funding | Own income | Transfer income from federal government | Transfer income from EU/other |
|---|---|---|---|---|---|---|---|---|
| | in € million | | | | | | | |
| 1 | General education in schools | 311 | Individual services | 4,257.0 | 4,230.0 | 27.7 | - | - |
| 2 | Guaranteeing local self-government | 031 | Transfer payments | 3,844.4 | 3,735.0 | 109.4 | - | - |
| 3 | University research and teaching | 323 | Individual services | 3,106.6 | 2,010.8 | | | 1,095.8[10] |
| 4 | General emergency response | 111 | Collective services | 1,705.8 | 1,671.5 | 34.2 | - | - |
| 5 | Social support | 511 | Social benefits/transfer payments | 1,655.4 | 410.2 | 24.0 | 1,221.2 | - |
| 6 | Children and young people | 531 | Social benefits/transfer payments | 1,610.5 | 1,032.4 | 500.3 | 80.9 | - |
| 7 | Public transport and light rail transport | 415 | Transfer payments | 1,208.8 | 298.7 | 0.1 | 910.1 | - |
| 8 | Vocational training | 312 | Individual services/transfer payments | 862.8 | 821.8 | 19.2 | 1.6 | 20.1 |
| 9 | Roads | 412 | Collective service | 636.1 | 429.3 | 67.9 | 138.8 | - |
| 10 | Environmental planning, country planning, rural development, urban development | 421 | Transfer payments | 467.2 | 148.9 | 256.6 | 254.3 | 9.0 |

[10] The amount includes both income and transfer income.

# E. Notes on the statement of financial position

## 6. Intangible assets

| in € million | Intangible assets (total) | Purchased concessions, licenses etc. | Advance payments on intangible assets |
|---|---|---|---|
| **Cost before 1 Jan. 2019** | **402.2** | **400.6** | **1.6** |
| Additions | 31.9 | 31.2 | 0.6 |
| Subsequent additions to carrying amount | 0.0 | 0.0 | 0.0 |
| Disposals | -4.3 | -4.3 | 0.0 |
| Reclassifications/revaluations | 0.5 | 0.7 | -0.2 |
| **Closing cost as at 31 Dec. 2019** | **430.3** | **428.3** | **2.0** |
| **Accumulated amortisation before 1 Jan. 2019** | **-319.7** | **-319.7** | **0.0** |
| Additions | -23.9 | -23.9 | 0.0 |
| Subsequent additions to carrying amount | 0.0 | 0.0 | 0.0 |
| Disposals | 2.5 | 2.5 | 0.0 |
| Reversals of impairments | 0.0 | 0.0 | 0.0 |
| Reclassifications/revaluations | 0.0 | 0.0 | 0.0 |
| **Closing amortisation as at 31 Dec. 2019** | **-341.1** | **-341.1** | **0.0** |
| **Carrying amount 1 Jan. 2019** | **82.5** | **81.0** | **1.6** |
| **Carrying amount 31 Dec. 2019** | **89.1** | **87.1** | **2.0** |

Purchased licenses are especially software licenses.

The intangible assets include the internally generated IT tool "§ 2b UStG" created as part of the state's Tax Compliance Management System and that was in ready for use in 2019 (€0.3 million). This IT tool provides a technical solution to assess whether the state's economic activities are relevant to value-added tax law. The IT tool meets the requirements under EU law for public authorities to impose value-added tax[11], which Germany has transposed into national law in Article 12 of the German Tax Reform Act 2015 (*Steueränderungsgesetz*) dated 2 November 2015[12]. The change to the law takes effect in Hessen on 1 January 2023.

[11] Council Directive 2006/112/EC of 28 November 2006 OJ. EU L347/1

[12] Federal Law Gazette I 2015, 1834

## 7. Property, plant and equipment

| in € million | Property, plant and equipment (total) | Land, land rights and buildings including buildings on third-party land | Infrastructure assets, natural assets, cultural assets | Technical equipment and machinery | Other equipment, operating and office equipment | Advance payments |
|---|---|---|---|---|---|---|
| **Cost before 1 Jan. 2019** | **33,538.3** | **14,429.6** | **14,360.6** | **1,397.2** | **2,458.0** | **892.9** |
| Additions | 1,047.6 | 183.8 | 150.8 | 78.4 | 185.5 | 449.3 |
| Subsequent additions to carrying amount | 4.4 | 1.3 | 0.6 | 1.0 | 0.5 | 1.0 |
| Disposals | -206.4 | -48.1 | -35.1 | -19.4 | -85.6 | -18.3 |
| Reclassifications/revaluations | -0.1 | 175.0 | 36.2 | 11.2 | 16.5 | -239.2 |
| **Closing cost as at 31 Dec. 2019** | **34,383.8** | **14,741.7** | **14,513.0** | **1,468.4** | **2,574.9** | **1,085.8** |
| **Accumulated depreciation before 1 Jan. 2019** | **-12,550.8** | **-5,924.6** | **-3,834.7** | **-942.9** | **-1,848.0** | **-0.6** |
| Additions | -931.9 | -363.0 | -301.7 | -94.4 | -172.9 | 0.0 |
| Impairment within the meaning of IPSAS 21/26 | -51.5 | -1.0 | -50.0 | 0.0 | -0.5 | 0.0 |
| Subsequent additions to carrying amount | -0.8 | -0.2 | 0.0 | -0.3 | -0.2 | 0.0 |
| Disposals | 165.0 | 30.9 | 33.8 | 18.1 | 82.3 | 0.0 |
| Reversals of impairments | 0.4 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 |
| Reclassifications/revaluations | -0.4 | -0.1 | 0.0 | -0.2 | -0.2 | 0.1 |
| **Closing depreciation as at 31 Dec. 2019** | **-13,369.8** | **-6,258.0** | **-4,152.2** | **-1,019.6** | **-1,939.5** | **-0.6** |
| **Carrying amount 1 Jan. 2019** | **20,987.5** | **8,505.0** | **10,525.9** | **454.3** | **610.0** | **892.3** |
| **Carrying amount 31 Dec. 2019** | **21,014.0** | **8,483.6** | **10,360.8** | **448.9** | **635.4** | **1,085.3** |

**Infrastructure assets** comprise the state road network, including its roads, cycle paths, bridges, other civil engineering structures and road furniture. Depreciation for the current financial year amounts to €264.9 million.

**Heritage assets and collections** chiefly comprise museum collections (works of art and historical objects) and collections at universities and academic libraries.

The item **natural assets** includes mostly forest assets (€2,515.2 million). Impairments of €50.0 million were recognised in the 2019 financial year on account of accidents caused by storms, drought and pests. These are reported in the statement of profit or loss under depreciation, amortisation and impairment losses. The asset's recoverable value in use is equal to its current value in use.

Additions in 2019 relate primarily to additions for assets under construction (€449.3 million), in particular due to construction activity as part of the Higher Education Pact, and investments in Hessen's road infrastructure assets (€105.8 million).

No property, plant and equipment was pledged as collateral.

### Leased property and plant, factory and office equipment

The federal state of Hesse primarily leases properties under finance leases. This includes properties sold and leased back in the period from 2004 to 2006 under sale and leaseback transactions, properties built under PPP projects and administrative buildings rented by third parties. The federal state of Hesse also leases IT assets, chiefly the "Hessen PC", under finance leases.

Property, plant and equipment recognised as at 31 December 2019 includes assets used under finance leases in the amount of €653.5 million for property and €0.8 million for IT systems.

Property leases are generally concluded for a non-terminable period not exceeding 30 years. Annual lease payments are indexed to a consumer price index. Subsequent renewals are renegotiated with the lessor and require a new lease, unless renewal options were agreed. There is not usually an option to buy properties let under finance leases. Only in the case of one PPP project carried out under the purchaser model "*Erwerbermodell*" (Melsungen police station) are there provisions in place for a transfer of ownership after the end of the lease.

Leases for IT systems are generally concluded for one to four years. These do not include contingent rents or purchase options.

## 8. Investments accounted for using the equity method

Equity investments by the federal state of Hesse are not held for the main purpose of creating scope for economic activity by the state. Instead, they are a way of accomplishing various political objectives in the areas of economic policy, infrastructure, art, culture, research, science and technology. Economic policy tasks cover structural policy goals and stimulating the Hessen economy. The Hessian Ministry of Finance reviews economic, structural and location policy aspects to assess whether government involvement is necessary. The last available annual financial statements are used when including companies. With the exception of the consolidated financial statements for Fraport AG Frankfurt Airport Services Worldwide (Fraport AG), these are the prior year financial statements (31 December 2018).

### Associates

The federal state of Hesse holds interests in various private-sector and public-sector companies. The portfolio of associates is dominated by the state's equity investments in Fraport AG and Messe Frankfurt GmbH (Messe Frankfurt).

Fraport AG, based in Frankfurt am Main, is the listed company that operates the airport in Frankfurt am Main. As a majority state-owned company, Fraport AG is a public enterprise. Fraport AG holds interests in additional airports in Germany and abroad. The Fraport AG share is listed on the MDAX. The federal state of Hesse's equity investment as at 31 December 2019 was 31.31%. The following table summarises the financial information in Fraport's IFRS consolidated financial statements as at 31 December 2019 and 31 December 2018. The table also shows a reconciliation of the summarised financial information[13] to the amount calculated using the equity method.

| Fraport AG - statement of financial position | 31 Dec. 2018 | 3 Dec. 2019 |
|---|---|---|
| in € million | | |
| Non-current assets | 10,089.9 | 11,062.5 |
| Current assets | 1,325.5 | 1,244.1 |
| Cash and cash equivalents | 801.3 | 788.9 |
| Non-current liabilities | 5,656.9 | 6,247.2 |
| Non-current financial liabilities | 45.5 | 41.4 |
| Current liabilities | 1,415.4 | 1,455.2 |
| Current financial liabilities | 286.5 | 297.3 |
| Net assets (100%) | 4,351.5 | 4,604.2 |
| Fraport shareholders' net assets (100%) | 4,165.0 | 4,420.1 |
| Carrying amount of interest in associate | 1,296.3 | 1,375.5 |

| Fraport AG – statement of profit or loss | 2018 | 2019 |
|---|---|---|
| in € million | | |
| Revenue | 3,478.3 | 3,705.8 |
| Depreciation and amortisation | -398.5 | -430.7 |
| Interest income | 33.2 | 32.0 |
| Interest expense | -201.7 | -232.5 |
| Income tax expenses | -164.7 | -135.7 |
| Consolidated net income | 489.7 | 435.3 |
| Total comprehensive income | 469.7 | 470.0 |
| of which attributable to Fraport shareholders (100%) | 435.4 | 437.9 |
| Federal state of Hesse's share of total comprehensive income | 136.3 | 137.1 |
| Dividend received | 43.4 | 57.9 |

[13] The figures in Fraport AG's IFRS financial statements have been adjusted to ensure uniform accounting policies with regard to material differences between IFRS and IPSAS. The adjustments include a direct recognition of borrowing costs as an expense in 2018 and 2019 and elimination of the effects of applying IFRS 16 "Leases" in 2019.

The fair value (stock exchange value) of the equity investment in Fraport AG as at 31 December 2019 was €2,198.6 million.

Messe Frankfurt is the world's largest trade fair, convention and event organiser with its own exhibition grounds. The group includes a network of 30 subsidiaries and over 60 sales partners responsible for 188 countries. Messe Frankfurt organised 148 trade fairs and exhibitions in 2018, 101 of which were held outside Germany. Services range from site leasing to trade fair construction and marketing to personnel services and catering. The company is based in Frankfurt am Main. Its shareholders are the city of Frankfurt (60%) and the federal state of Hesse (40%). The federal state of Hesse has been a shareholder of Messe Frankfurt since 1951. The following table summarises the financial information of Messe Frankfurt's consolidated financial statements prepared in line with the German Commercial Code (*Handesgesetzbuch* - HGB)[14].

| Messe Frankfurt - statement of financial position | 31 Dec. 2018[15] | 31 Dec. 2019[16] |
|---|---|---|
| in € million | | |
| Non-current assets | 708.6 | 751.5 |
| Current assets | 305.3 | 365.1 |
| Cash and cash equivalents | 186.8 | 203.4 |
| Non-current liabilities | 90.5 | 116.2 |
| Non-current financial liabilities | 79.2 | 104.7 |
| Current liabilities | 378.9 | 427.2 |
| Current financial liabilities | 10.8 | 16.3 |
| Net assets (100%) | 526.7 | 558.0 |
| of which attributable to Messe Frankfurt shareholders (100%) | 518.0 | 550.4 |
| Federal state of Hesse's share of net assets | 207.2 | 220.2 |
| Carrying amount of interest in associate | 202.0 | 215.0 |

| Messe Frankfurt – statement of profit or loss | 2018 | 2019 |
|---|---|---|
| in € million | | |
| Revenue | 669.1 | 718.1 |
| Depreciation and amortisation | 50.6 | 57.7 |
| Interest income | 1.3 | 2.2 |
| Interest expense | 3.3 | 4.9 |
| Income tax expenses | 15.1 | 20.9 |
| Profit and total comprehensive income (100%) | 40.5 | 57 |
| of which attributable to Messe Frankfurt shareholders (100%) | 36.6 | 46.2 |
| Federal state of Hesse's share of total comprehensive income | 14.6 | 18.5 |
| Dividend received | 5.2 | 5.2 |

[14] No issues were identified for Messe Frankfurt that would have required a material adjustment to HGB figures in order to ensure uniform accounting policies in line with IPSAS.

[15] Based on the financial statements of Messe Frankfurt GmbH as at 31 December 2017.

[16] Based on the financial statements of Messe Frankfurt GmbH as at 31 December 2018.

There is no fair value as at 31 December 2019 for the equity investment in Messe Frankfurt as the company is not listed on a market.

The federal state of Hesse also holds interests in entities accounted for using the equity method that are not material in their own right. These include associates in which the state has an interest and affiliates that are not fully consolidated.

The table below breaks down, in aggregate, the carrying amount and the state's share in the result of the additional entities accounted for using the equity method:

| in € million | 2018 | 2019 |
|---|---|---|
| Carrying amount of interests in associates | 22.9 | 26.1 |
| Carrying amount of affiliates reported using the equity method | 89.2 | 94.1 |
| Share in associates' profit | 2.9 | 2.9 |
| Share in profit of affiliates reported using the equity method | 3.8 | 3.9 |

The federal state of Hesse did not report losses of €0.7 million in relation to its investments in associates as it is not obliged to offset these losses.

## 9. Other investments

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| Housing and future investments capital contribution | 1,300.0 | 1,300.0 |
| Fixed deposit | 895.2 | 694.6 |
| Hessen investment fund capital contribution | 620.0 | 620.0 |
| Equity investments | 400.8 | 397.5 |
| Securities in fixed assets | 328.8 | 326.4 |
| Miscellaneous other investments | 566.6 | 598.4 |
| **Total** | **4,111.4** | **3,936.9** |
| Non-current | 4,091.3 | 3,918.7 |
| Current | 20.1 | 18.2 |

### Housing and future investments capital contribution

Under an agreement dated 23/30 December 1998, the federal state of Hesse transferred the special fund "Housing and future investments" (€1,300.0 million) as a silent partnership contribution to Landesbank Hessen-Thüringen Girozentrale as permanent liable equity (Tier 1) for an indefinite period. An agreement dated 6 December 2011 amended this, in coordination with all of the bank's owners, so that the contribution meets banking regulatory requirements for recognition as the bank's Common Equity Tier 1 capital. The federal state of Hesse receives performance-based remuneration on the basis of a resolution on the appropriation of profit. This totalled €19.2 million in 2019.

**Hessen investment fund capital contribution**

Under an agreement dated 30 September 2005, the special fund “Hessen investment fund” (€ 620.0 million) was transferred to Landesbank Hessen-Thüringen Girozentrale as permanent liable equity for an indefinite period. The federal state of Hesse also receives performance-based remuneration under a resolution on the appropriation of profit for the capital contribution recognised as Tier 1 capital under the agreement dated 6 December 2011. This totalled €9.2 million in 2019.

For reasons of materiality, **equity investments** do not include the state’s affiliates or associates that are consolidated or accounted for using the equity method, or equity interests in stock corporations with an interest of up to 20%. Material investments are Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main/Erfurt (€206.8 million) and the development bank KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main (€70.4 million).

**Securities in fixed assets** are funds, bonds and equity securities.

## 10. Receivables from non-exchange transactions

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| Tax receivables | 6,748.7 | 6,700.0 |
| Receivables from tax distribution and finance equalisation | 1,043.2 | 1,127.6 |
| Receivables from other income without attributable consideration | 3,110.7 | 3,261.8 |
| Receivables from related parties | 15.2 | 17.7 |
| **Total** | **10,917.9** | **11,107.1** |
| Non-current | 2,427.3 | 2,378.6 |
| Current | 8,490.6 | 8,728.5 |

**Tax receivables** includes receivables from taxes and incidental tax charges due from natural persons and legal entities as at the end of the reporting period. Where taxes are due to the federal government or the local authorities on a pro rata basis, this share is recognised under taxes and transfer liabilities (note 20).

Tax receivables break down as follows:

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
| --- | --- | --- |
| Wage tax | 1,785.0 | 1,790.5 |
| Income tax | 707.3 | 730.6 |
| Corporation tax | 432.8 | 295.7 |
| Value-added tax | 2,842.3 | 2,748.9 |
| Income taxes not yet assessed | 224.9 | 274.8 |
| Withholding tax | 244.6 | 344.9 |
| Real estate transfer tax | 190.8 | 195.0 |
| Inheritance tax | 104.5 | 93.1 |
| Federal taxes excluding motor vehicle tax | 90.9 | 96.1 |
| Church tax | 53.2 | 55.3 |
| Other taxes and incidental tax charges | 72.5 | 75.1 |
| **Total** | **6,748.7** | **6,700.0** |
| Non-current | 260.4 | 261.4 |
| Current | 6,488.3 | 6,438.6 |

Impairment losses of €5,227.6 million were recognised. Abated taxes of €123.7 million were derecognised.

**Receivables from tax distribution and finance equalisation**, all of which are non-current, are essentially receivables from the federal government (€945.2 million) and local authorities (€164.6 million) from tax transactions (primarily minority interests in liabilities to taxpayers as a result of combined federal and state taxes, tax allotment, state finance equalisation and other finance equalisation).

**Receivables from other income without attributable consideration** include receivables from allocations and subsidies of €3,157.1 million. In particular, €1,985.2 million in receivables from additional contributions against the local authorities participating in the HESSENKASSE debt relief programme are reported under this item. The receivables result from section 2 (3) Act on the Hessenkasse (*Hessenkassegesetz*) on the basis of the assessments received in 2018. Starting in the 2019 calendar year and until 2048 at the latest, the local authorities will transfer a standard financing share of €25 per resident each year to the HESSENKASSE special fund to help fund the debt relief. The item also includes receivables from the federal government from the federal funding for the local authority investment programme in the amount of €204.4 million and for the “KIP macht Schule!” programme in the amount of €204.1 million, which are offset by a corresponding “liability from allocations and subsidies” recognised under transfer liabilities. Other receivables from allocations and subsidies mainly include receivables from other regional administrative authorities and the European Union.

## 11. Receivables from exchange transactions

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| Trade receivables | 469.8 | 562.8 |
| Other receivables | 4,897.3 | 6,274.0 |
| **Total** | **5,367.2** | **6,836.8** |
| Non-current | 526.9 | 726.7 |
| Current | 4,840.3 | 6,110.1 |

**Trade receivables** include receivables from court costs of €158.4 million and receivables from the federal government of €62.2 million, as well as receivables from operating costs of €99.2 million.

Other receivables include cash collateral deposited at banks as part of collateral management in the amount of €4,451.1 million. Cash collateral received as part of collateral management is recognised under loans.

The sharp rise in other receivables is essentially a result of the increase in negative present values of derivatives. Credit and market risks are explained under note 23.

## 12. Inventories

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| Raw materials, consumables and supplies | 44.8 | 45.5 |
| Unfinished goods and work in progress | 315.6 | 305.2 |
| Finished goods and merchandise | 158.2 | 105.5 |
| Advance payments on inventories | 3.6 | 8.2 |
| **Total** | **522.2** | **464.3** |

**Unfinished goods and work in progress** are predominantly land that is undeveloped or still under development (€220.1 million) and ongoing projects as part of commissioned research by universities (€57.7 million).

**Finished goods and services** chiefly comprise land available for sale, land rights without buildings (€44.4 million) and logged but not yet sold stocks of timber (€41.0 million).

In 2019, €597.4 million was recognised in expenses for inventories (materials, raw materials, consumables and supplies and purchased goods). These relate primarily to the universities and the Frankfurt am Main university hospital.

## 13. Cash and cash equivalents

Cash and cash equivalents are essentially balances with the German Bundesbank and other banks, as well as cash in hand and petty cash holdings (cash advances, payment offices).

Cash funds at the end of the period presented in the cash flow statement include all cash and cash equivalents and comprise cash funds of €806.2 million and short-term cash loans of €-1,580.0 million

## 14. Net assets

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| General reserves | -57,879.2 | -57,879.2 |
| Retained earnings | 33.8 | 37.3 |
| Cash flow hedge reserve | -3,852.8 | -5,894.1 |
| Actuarial gains/losses | 0.0 | -15,904.7 |
| Surplus/deficit carried forward | -125,202.7 | -126,891.3 |
| Non-controlling interest | 235.3 | 250.0 |
| **Total** | **-186,665.7** | **-206,282.0** |

**Net positions** are the effects of the federal state of Hesse switching to double-entry accounting for the first time. These are unchanged over time.

**Retained earnings** result from fully consolidated entities. They are amounts transferred to the companies' reserves for the first time since initial consolidation that were not eliminated as part of capital consolidation.

The **cash flow hedge reserve** comprises the effective portion of the cumulative net changes in the fair value of the hedging instrument used to hedge cash flows until the hedged cash flow or items are later recognised in profit or loss.

Actuarial gains and losses recognised directly in equity, income from plan assets in connection with pension and benefit obligations and other provisions for employee benefits (€-15,904.7 million) are recognised under **actuarial gains/losses**.

The **change in surplus/deficit carried forward** reflects the net loss for the year of €1,685.1 million and allocations to retained earnings of €3.5 million.

**Non-controlling interests** in net assets are attributable to minority shareholders of the fully consolidated entities (see note 29).

## 15. Capital management

The tasks carried out by the federal state of Hesse intended to serve public interest objectives, not profit motives. In line with budgetary and financial policy that is committed to sustainability and intergenerational justice, charges are presented in the period in which they are incurred on the basis of double-entry accounting – at the same time as a payments-based budget management system.

The state's equity development, which has been in deficit and not covered by equity since initial accounting as at 1 January 2009, is dominated by the actuarial presentation of pension and benefit obligations. Assistance programmes needed, e.g. for local authorities and during emergency situations such as the current COVID 19 pandemic, also represent a use of resources in capital development that is essential to maintaining economic, social and cultural infrastructure in Hessen.

## 16. Employee benefits – pension and benefit obligations

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| Provisions for pension obligations | 129,049.6 | 142,395.5 |
| Provisions for benefit obligations | 21,220.7 | 25,452.4 |
| **Total** | **150,270.3** | **167,847.9** |
| Non-current | 146,895.0 | 164,343.6 |
| Current | 3,375.3 | 3,504.3 |

**Pension obligations**

The following table shows the reconciliation from the opening balance to the closing balance for the material net defined benefit liability[17]:

| in € million | Defined benefit obligation (DBO) | Fair value of plan assets | Net defined benefit liability |
|---|---|---|---|
| As at 1 Jan. 2019 | 132,479.2 | -3,437.1 | 129,042.1 |
| **Service cost** | | | |
| Current service cost | 3,712.6 | 0 | 3,712.6 |
| Past service cost | 0 | 0 | 0 |
| Gains/losses on settlement | 0 | 0 | 0 |
| **Total service cost** | **3,712.6** | **0** | **3,712.6** |
| **Net interest expense/income** | | | |
| Interest income and expenses | 967.2 | -27.3 | 939.9 |
| **Remeasurement** | | | |
| Income from plan assets, excluding expected income | 0 | -377.6 | -377.6 |
| Actuarial gains and losses | 12,324.1 | 0 | 12,324.1 |
| **Total remeasurements** | **12,324.1** | **-377.6** | **11,946.5** |
| Employer contributions to pension plan | 0 | -334.0 | -334.0 |
| Payments from pension plan | -2,919.3 | 0 | -2,919.3 |
| **As at 31 Dec. 2019** | **146,563.8** | **-4,176.0** | **142,387.7** |

Discrepancies between actual and expected changes in pension obligations and plan assets and the effects of changes to measurement parameters (chiefly interest rate and trend) result in actuarial gains and losses.

There are two causes of actuarial gains and losses over the course of the financial year that must be considered:

— Experience adjustments:

Actual development over the financial year deviates from the assumptions made at the start of the financial year. Remuneration for civil servants in Hessen was increased by 3.2% on 1 March 2019. As actual development from 1 March 2019 was 1.2% higher than the long-term planning assumption of a 2% change in remuneration, the actual change in remuneration results in an adjustment of pension obligations and corresponding actuarial losses.

— Effects of changes in actuarial assumptions:

This takes account of the effects resulting if the measurement parameters at the end of the financial year deviate to the estimate made at the start of the year.

[17] The reconciliation relates exclusively to the pension obligations of the state of Hessen. Entities fully consolidated under IPSAS as opposed to HGB are not included in the reconciliation for reasons of materiality.

Actuarial gains/losses in 2019 were affected chiefly by the change to the discount rate due to ongoing low interest rates. The deviation in the measurement of the present value of the DBO, which resulted in considerable actuarial losses in the reporting year, is recognised through other comprehensive income in equity.

Plan assets comprise:

| Plan assets (measured at fair value) | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| in € million | | |
| Fixed-income securities | 2,178.8 | 2,576.0 |
| Shares | 852.2 | 1,151.8 |
| Property funds | 215.3 | 274.5 |
| Cash in hand | 190.7 | 173.7 |
| **Total** | **3,437.1** | **4,176.0** |

Net interest expense and pension expense:

Compounding expenses are reduced by the expected return and represent net interest expense. The sum of net interest expense and service cost results in the pension expense for the 2019 period:

| Year | 2019 |
|---|---|
| in € million | |
| Service cost | 3,712.6 |
| *Compounding expenses* | *967.2* |
| *Planned return* | *27.3* |
| Net interest expense | 939.9 |
| **Total pension expense** | **4,652.5** |

Allocation of total obligation between qualifying beneficiaries and beneficiaries at the end of the reporting period[18]:

| Distribution | Defined benefit obligation from pensions as at 31 Dec. 2019 | Percentage distribution |
|---|---|---|
| | in € million | in % |
| Qualifying beneficiaries | 85,491.4 | 58.33 |
| Beneficiaries | 61,072.3 | 41.67 |
| **Total** | **146,563.7** | **100.00** |

Influence of pension plans on future cash flows:

Sensitivity statements must be made regarding the influence of pension plans on future cash flows at the reporting entity.

Sensitivity analysis – impact of a change in the interest rate on the net liability:

The following overview illustrates the impact of the actuarial interest rate rising by 0.1% from 0.02% or reducing to 0.00% in 2019:

| Interest rate | 0.00% | 0.12% |
|---|---|---|
| in € million | | |
| Defined benefit obligation pensions | 147,226.9 | 143,238.9 |
| Plan assets | -4,176.0 | -4,176.0 |
| Balance sheet recognition net liability | 143,050.9 | 139,062.9 |

Sensitivity analysis – impact of a change in the salary trend on the net liability:

The following overview illustrates the impact of the salary trend decreasing by 0.1% from 2.0% or increasing by 0.1% in 2019:

| Trend | 1.90% | 2.10% |
|---|---|---|
| in € million | | |
| Defined benefit obligation pensions | 143,299.2 | 149,893.2 |
| Plan assets | -4,176.0 | -4,176.0 |
| Balance sheet recognition net liability | 139,123.2 | 145,717.2 |

Sensitivity analysis – impact of a higher life expectancy on the net liability:

Experience indicates that a one-year increase in average life expectancy in comparison to life expectancy probabilities according to Heubeck increases pension provisions by an average of approx. 1.5%.

Multi-employer plans – in particular *Versorgungsanstalt des Bundes und der Länder*

[18] The table relates exclusively to the pension obligations of the state of Hessen. Entities fully consolidated under IPSAS as opposed to HGB are not included for reasons of materiality.

To provide retirement benefits to its employees, the federal state of Hesse essentially uses the *Versorgungsanstalt des Bundes und der Länder* (Federal and Länder Government-Service Supplementary Pension Agency - VBL), Karlsruhe. In terms of retirement benefits, this is a pension commitment with a contribution-based pension fund. If the pension fund can no longer meet its obligations to employees, the federal state of Hesse is obliged to assume these. The VBL's retirement benefits are funded via a modified partial reserve pay-as-you-go system (adjustable contribution system). The contribution rate is measured so that the contribution payable for the duration of the coverage period, together with the other expected income and available assets, is sufficient to meet the expenditure during the coverage period and the following six months.

A multi-employer plan features a multi-employer investment. The amount of benefits and contributions are not dependent on individual employers.

A multi-employer plan is categorised as a defined contribution or a defined benefit obligation according to general rules. As the plan is calculated jointly, the required actuarial parameters needed to measure a defined benefit obligation are not available. Given this, the plan is accounted for as a defined contribution obligation.

The state contributed €155.4 million in the reporting year.

## Benefit obligations

The following overview shows the changes in the defined benefit obligation for benefit obligations throughout 2019:

| in € million | |
|---|---|
| **Defined benefit obligation from benefit obligations 1 Jan. 2019** | **21,220.7** |
| Service cost | 818.8 |
| Interest cost | 120.1 |
| Benefit obligation payments | -455.4 |
| Actuarial gains and losses | 3,748.2 |
| **Defined benefit obligation from benefit obligations 31 Dec. 2019** | **25,452.4** |

Actuarial gains and losses break down as follows:

— Experience adjustments:

At 3.6%, the actual change in the benefit obligations base amount differs from the planned 2.9% change in remuneration. This experience adjustment thus results in actuarial losses.

— Effects of changes in actuarial assumptions:

Actuarial losses of €3,748.2 million as part of the remeasurement at the end of the reporting period were due chiefly to the lower interest rate (down from 0.55% to -0.31%/0.00%).

Allocation of total obligation to qualifying beneficiaries and beneficiaries:

| Distribution | Defined benefit obligation from benefit obligations as at 31 Dec. 2019 | Percentage distribution |
|---|---|---|
| | in € million | in % |
| Qualifying beneficiaries | 15,937.4 | 62.62 |
| Beneficiaries | 9,515.1 | 37.38 |
| **Total** | **25,452.4** | **100.00** |

Planned pension expenditure for 2020 – 2024:

Planned pension expenditure for 2020 – 2024 set out in the federal state of Hesse's medium-term financial planning is expected to develop as follows:

| Year | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| in € million | | | | | |
| Pension expenditure | 3,130.0 | 3,260.0 | 3,391.0 | 3,478.0 | 3,554.0 |

Changes in pension expenditure are determined primarily by changes in the number of beneficiaries. This is expected to rise from around 80,400 at the start of 2020 to approximately 88,200 by the beginning of 2024.

Influence of benefit obligation plans on future cash flows:

No sensitivity analysis showing the effect of changing interest rates is carried out as the benefit obligation provision has already been calculated at an interest rate is 0%.

Sensitivity analysis – impact of a change in the benefit obligations trend on the provision for benefit obligations:

The following overview illustrates the impact of the salary trend decreasing by 0.1% from 2.0% or increasing by 0.1% in 2019:

| Trend | 2.80% | 3.00% |
|---|---|---|
| in € million | | |
| Defined benefit obligation benefits | 24,800.7 | 26,022.7 |

Sensitivity analysis – impact of a higher life expectancy on the provision for benefit obligations:

Experience indicates that a one-year increase in average life expectancy in comparison to life expectancy probabilities according to Heubeck increases benefit obligation provisions by an average of approx. 1.5%.

## 17. Provisions for other employee benefits

| in € million | Provisions for other employee benefits | Provisions for lifelong working-time account | Provisions for additional insurance and other pension costs | Provisions for long-time service awards and partial-retirement |
|---|---|---|---|---|
| **Amount of provision as at 1 Jan. 2019** | **2,761.7** | **2,203.7** | **489.0** | **69.1** |
| Use | -145.9 | -29.5 | -109.3 | -7.3 |
| Reversal | -1.0 | 0.0 | -1.0 | 0.0 |
| Addition | 319.7 | 231.2 | 84.3 | 4.3 |
| Interest | 15.0 | 12.0 | 2.7 | 0.4 |
| Actuarial gain/loss | 210.0 | 210.0 | -5.6 | 5.7 |
| **Amount of provision as at 31 Dec. 2019** | **3,159.6** | **2,627.4** | **460.1** | **72.1** |

Other employee benefits include working time accounts, anniversary payments, partial retirement payments and long-term disability benefits.

Provisions for lifelong working-time account (€2,627.4 million) are regulated under section 60 (1) and 4 of the Hessen Civil Service Act (*Beamtengesetz*) for civil servants in Hessen. For civil servants with an average regular working week of 41 hours, one working hour per calendar week is automatically credited to a lifelong working-time account. The time credit saved can be used at a later time in the form of paid leave. Part-time civil servants save working hours on a pro rata basis in line with their approved weekly working hours. They accumulate until the age of 60.

Provisions for lifelong working-time accounts are calculated using the PUC method. The development of provisions for lifelong working-time accounts is reported separately by service cost, net interest expense and remeasurements:

| | in € million |
|---|---|
| **DBO lifelong working-time account 1 Jan. 2019** | **2,203.7** |
| Service cost | 231.2 |
| Interest cost | 12.0 |
| Use | -29.3 |
| Actuarial gains and losses | 209.8 |
| **DBO lifelong working-time account 31 Dec. 2019** | **2,627.4** |

The item **Provision for potential additional insurance requirement/pension costs** includes **provisions for additional insurance** for civil servants under a statutory pension scheme, obligations arising under the Treaty on the Sharing of Pension Charges (*Versorgungslastenteilungs-Staatsvertrag*), and obligations for outstanding benefit obligation notices.

The item **long-time service awards obligation** includes obligations of the federal state of Hesse under statutory and labour law regulations payable to its employees after certain periods of service (25 years, 40 years and 50 years). Anniversary benefits comprise a bonus and an additional holiday day.

Long-time service awards obligations are measured using the PUC method, taking into account expected changes in the future such as pay rises. The funding period begins at the beginning of the period of service relevant to the anniversary and ends on the anniversary day. Holiday days are generally calculated on the basis of the average number of days worked each year and annual earnings are used to calculate the “value” of a holiday day.

The development of the long-time service awards provision is reported separately by service cost, net interest expense and remeasurements:

| | in € million |
|---|---:|
| **DBO anniversary 1 Jan. 2019** | **66.0** |
| Service cost | 4.3 |
| Interest cost | 0.3 |
| Use | -4.4 |
| Actuarial losses | 5.7 |
| **DBO anniversary 31 Dec. 2019** | **71.9** |

## 18. Other provisions

Other provisions developed as follows:

| in € million | Tax refunds, allotment, finance equalisation | Local authority support programme | Litigation expenses and risks | Grants | Anticipated losses | Other | Total | of which non-current | of which current |
|---|---:|---:|---:|---:|---:|---:|---:|---:|---:|
| **1 Jan. 2019** | **4,042.1** | **924.1** | **82.0** | **635.2** | **20.8** | **1,419.5** | **7,123.7** | **3,822.4** | **3,301.3** |
| Use | -1,739.5 | -139.1 | -16.6 | -43.1 | -1.6 | -129.1 | -2,069.0 | | |
| Reversal | -336.3 | -32.1 | -12.9 | -30.8 | -14.0 | -16.8 | -442.8 | | |
| Addition | 2,349.3 | 46.0 | 129.4 | 141.0 | 0.2 | 209.0 | 2,874.9 | | |
| Interest effect | 0 | 31.6 | 0.8 | 0 | 0 | 65.1 | 97.5 | | |
| **31 Dec. 2019** | **4,315.6** | **830.5** | **182.7** | **702.4** | **5.5** | **1,547.6** | **7,584.1** | **3,648.1** | **3,936.0** |

As at the end of the reporting period, provisions were recognised for tax refunds for the next four years from income tax (€1,987.9 million) and corporation tax (€1,437.1 million), for local authority finance equalisation (€612.0 million), for allotment (€239.4 million) and for compensation for the family tax relief package (€39.2 million).

Provisions for local authority support programmes comprise obligations under the Hessen local authority "Protective Umbrella Act" (*Schutzschirmgesetz*) (€462.3 million), interest obligations from the Hessen local authority investment programme (KIP) (€227.8 million) and from the local authority investment programme "KIP macht Schule" (€99.0 million) and obligations from the investment programme of the Hessenkasse special fund (department III) (€41.4 million). These are mostly allocations and subsidies for support measures that have not yet been conclusively approved.

The provisions for litigation expenses and litigation risks were recognised on the basis of pending litigation. In addition, provisions were also made for damages and costs of legal proceedings in relation to litigation arising as part of construction projects or in connection with retirement benefits.

Items reported under provisions for grants include continuous service obligations for future periods under the German Victims' Compensation Act (*Opferentschädigungsgesetz*), the German Infectious Diseases Protection Act (*Infektionsschutzgesetz*), the German Federal Indemnification Law (*Bundesentschädigungsgesetz*) and the German Rehabilitation Act (*Rehabilitierungsgesetz*) in the amount of €631.0 million. Provisions for grants also include funding obligations for the transport tickets for school students on public transport in Hessen (€30.0 million), claims for reimbursement of travel expenses (€9.5 million) and obligations arising from invoices from Hessen youth welfare office for expenses relating to services for unaccompanied minors from abroad whose cases have not yet been decided (€30.0 million).

Other provisions also include obligations from the HESSENKASSE investment programme and interest obligations due to supporting local authorities through the debt relief scheme under the Act on the Hessenkasse (€888.2 million), as well as payment obligations based on the German Act on Establishing a Special Fund "Aufbauhilfe" (*Aufbauhilfefonds-Errichtungsgesetz* – AufbhG) (€210.7 million) and obligations from the wastewater levy in accordance with the German Waste Water Charges Act (*Abwasserabgabengesetz* - AbwAG), compensation payments under nature conservation legislation in accordance with the Federal Nature Conservation Act (*Bundesnaturschutzgesetz* - BNatSchG) in conjunction with the Hessen Act Implementing the Federal Nature Conservation Act (HAG-BNatSchG) and from the forest conservation levy in accordance with the Hessen Forest Act (*Waldgesetz* - HWaldG) (€58.3 million).

Cases where the requirements for recognising provisions are not met are assessed for disclosure as a contingent liability and, where applicable, are listed in section E: Other disclosures.

## 19. Loans

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| Other bonds | 30,645.6 | 31,205.1 |
| Liabilities from promissory note loans | 9,000.3 | 8,971.1 |
| Liabilities from other loans | 1,617.0 | 1,622.8 |
| Cash loans | 2,520.0 | 1,580.0 |
| **Total** | **43,782.9** | **43,379.0** |
| Non-current | 37,864.5 | 37,430.4 |
| Current | 5,918.4 | 5,948.6 |

**Other bonds** relate to state financing paper. Only bonds denominated in euro were issued in 2019. All interest rates agreed were fixed rates between 0.000% p.a. and 0.450% p. a. In the reporting year, state financing paper of €3,510.0 million (nominal) was issued and repayments of €3,000.0 million were made.

**Liabilities from promissory note loans** are essentially non-current loans of the federal state of Hesse from banks (€4,700.7 million) and German insurance undertakings (€4,269.7 million).

€1,390.3 million of liabilities from other loans relates to non-current liabilities to banks.

The **cash loans** of €250.0 million taken out with banks in the previous year to strengthen liquidity in the short-term were repaid. Other cash loans with the German Finance Agency and insurance undertakings totalled €1,580.0 million.

## 20. Taxes and transfer liabilities

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| **Taxes and transfer liabilities** | | |
| Liabilities from taxes | 1,266.7 | 1,267.3 |
| Liabilities from taxes and finance equalisation | 5,763.6 | 5,667.7 |
| Transfer liabilities | 10,191.0 | 10,510.1 |
| Liabilities to affiliates and associates | 75.9 | 39.8 |
| **Total** | **17,297.2** | **17,485.0** |
| Non-current | 8,610.4 | 8,471.0 |
| Current | 8,686.8 | 9,014.0 |

Liabilities to taxpayers are reported under the item **liabilities from taxes**. As the federal state of Hesse is the sole regional authority for taxpayers as part of its administrative sovereignty, all tax liabilities are also recognised here for combined federal and state taxes, federal and church taxes. Where these taxes relate to the federal government, local authorities or churches, they are recognised under "Receivables from tax distribution and finance equalisation note 10". This includes liabilities from value-added tax (€748.4 million), income tax (€171.7 million) and corporation tax (€210.9 million).

Tax receivables from taxpayers result in **liabilities from tax distribution and finance equalisation** – primarily minority interests in receivables from taxpayers from combined federal and state taxes, tax allotment, state finance equalisation and other finance equalisation. They are essentially liabilities to the federal government (€3,831.7 million), local authorities (€952.6 million), other federal states (€425.5 million) and to the remaining public sector and other beneficiaries (€457.9 million), including churches (€112.0 million).

**Transfer liabilities** include liabilities from allocations and subsidies (€10,495.5 million). These result from grants that will not be paid until after the end of the reporting period.

Liabilities from allocations and subsidies include the obligations from the HESSENKASSE assistance programme of €4,955.4 million, under which the federal state of Hesse helped local authorities in Hessen reduce their cash loans that had accumulated up to the reporting date of 1 July 2018. These are essentially obligations resulting from repayment of the local authority cash loans, the release from the WIBank loans, the change of debtor for cash loans and the assumption of interest assistance.

In addition, the federal state of Hesse's obligations to WIBank under the Hessen Special Investment Programme Act (*Sonderinvestitionsprogrammgesetz*) dated 9 March 2009 and the federal government's Future Investments

Act (*Zukunftsinvestitionsgesetz*) ("*Konjunkturpaket* II") come to €736.0 million. There are also obligations to WIBank and the local authorities under the local authority investment programme of €387.9 million and the "KIP macht Schule!" programme of €204.8 million. These are predominantly non-current repayment obligations by the federal state of Hesse resulting from loans under the state and federal programme. Federal funds are offset by corresponding receivables from allocations and subsidies.

€2,261.4 million is attributable to obligations to WIBank under the Hessen local authority "Protective Umbrella Act" dated 14 May 2012 and the Regulation to Implement the Protective Umbrella Act dated 21 June 2012 arising from local authority amounts repaid by WIBank from 2013 to 2018.

Other liabilities represent €312.8 million in grants issued to develop transport infrastructure from federal government financial assistance aimed at improving traffic infrastructure in local authorities.

## 21. Liabilities from exchange transactions

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| **Liabilities from exchange transactions** | **672.0** | **669.6** |
| Non-current | 11.4 | 14.1 |
| Current | 660.6 | 655.5 |

Liabilities from exchange transactions essentially encompass trade payables to German suppliers. Disclosures on the group's currency and liquidity risks as regards trade payables and other liabilities can be found in the notes on financial instruments in note 23.

## 22. Other liabilities

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| **Other liabilities** | | |
| Interest rate derivatives | 4,830.2 | 7,698.2 |
| Liabilities from finance leases | 972.4 | 938.2 |
| Overtime/holiday | 619.2 | 652.8 |
| Guarantees | 38.7 | 61.1 |
| Miscellaneous liabilities | 2,545.9 | 2,778.8 |
| **Total** | **9,006.4** | **12,129.1** |
| Non-current | 6,024.1 | 8,785.5 |
| Current | 2,982.3 | 3,343.6 |

**Interest rate derivatives** comprise interest rate swaps and swaptions reported at negative fair value at the end of the reporting period. Please see note 23 for additional information on derivative financial instruments.

Liabilities from **overtime and holiday** relate to personnel expenses arising from unused holiday or overtime accrued by employees of the federal state of Hesse and the entities included in the consolidated financial statements.

Other financial liabilities include liabilities from **finance leases** of €938.2 million. The current portion totals €42.5 million. Lease payments due in the future are shown at their present values in the following table:

**As at 1 January 2019:**

| in € million | Up to 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| **Lease payments** | **100.0** | **499.3** | **1,054.4** | **1,653.7** |
| of which property | 99.7 | 498.4 | 1,054.4 | 1,652.5 |
| of which IT | 0.3 | 0.9 | 0.0 | 1.2 |
| **Interest portion** | **60.0** | **260.3** | **324.0** | **644.3** |
| of which property | 59.9 | 260.2 | 324.0 | 644.1 |
| of which IT | 0.1 | 0.1 | 0.0 | 0.1 |
| **Present value** | **40.0** | **239.0** | **693.4** | **972.4** |
| of which property | 39.7 | 238.2 | 693.4 | 971.3 |
| of which IT | 0.3 | 0.8 | 0.0 | 1.1 |

**As at 31 December 2019**

| in € million | Up to 1 year | 1 to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| **Lease payments** | **100.0** | **498.9** | **954.7** | **1,553.7** |
| of which property | 99.7 | 498.4 | 954.7 | 1,552.8 |
| of which IT | 0.3 | 0.5 | 0.0 | 0.9 |
| **Interest portion** | **57.5** | **245.6** | **275.3** | **578.4** |
| of which property | 57.5 | 245.5 | 275.3 | 578.3 |
| of which IT | 0.0 | 0.1 | 0.0 | 0.1 |
| **Present value** | **42.5** | **253.3** | **642.5** | **938.2** |
| of which property | 42.2 | 252.9 | 642.5 | 937.5 |
| of which IT | 0.3 | 0.4 | 0.0 | 0.7 |

**Guarantees** included in other financial liabilities relate primarily to the commercial sector (€33.3 million), hospital financing (€22.8 million) and housing construction (€1.5 million).

The miscellaneous liabilities include deferrals of income for sale-and-leaseback transactions (€294.2 million).

## 23. Financial Instruments

### Classifications and fair value

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not contain information on the fair value for financial assets and financial liabilities not measured at fair value when the carrying amount is a reasonable approximation of fair value.

| 31 Dec. 2019 | Measurement category | Carrying amount | | | Fair value | | |
|---|---|---|---|---|---|---|---|
| in € million | | Carrying amount | Measured at amortised cost | Measured at FVtSD | Level 1 | Level 2 | Level 3 |
| **Financial assets at fair value** | | | | | | | |
| **Interest rate derivatives** | | | | | | | |
| Interest-rate swaps | | | | | | | |
| *of which in a hedge*[(a)] | | -6,549.6 | | -6,549.6 | | -6,549.6 | |
| *of which stand-alone* | FVtSD | -89.2 | | -89.2 | | -89.2 | |
| Swaptions (stand-alone) | FVtSD | -572.2 | | -572.2 | | -572.2 | |
| **Interest and currency derivatives** | | | | | | | |
| Currency swaps | | | | | | | |
| *of which in a hedge*[(a)] | | 22.5 | | 22.5 | | 22.5 | |
| *of which stand-alone* | FVtSD | 94.2 | | 94.2 | | 94.2 | |
| Equity investments[(b)] | FVtSD | 2,351.4 | | 2,351.4 | 2,351.4 | | |
| Funds[(b)] | FVtSD | 203.9 | | 203.9 | 203.9 | | |
| **Financial assets not measured at fair value** | | | | | | | |
| Corporate bonds[(b)] | Amortised cost | 94.5 | 94.5 | | | | |
| Receivables from non-exchange transactions[(c)] | | 11,107.1 | | | | | |
| Receivables from exchange transactions[(d) (f)] | Amortised cost | 5,754.7 | 5,754.7 | | | | |
| Cash and cash equivalents[(f)] | Amortised cost | 806.2 | 806.2 | | | | |
| Other assets[(b) (f)] | Amortised cost | 1,287.2 | 1,287.2 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | |
| Loans | Amortised cost | -43,379.0 | -43,379.0 | | | -32,269.8 | |
| Taxes and transfer liabilities[(c)] | | -17,485.0 | | | | | |
| Liabilities from exchange transactions[(f)] | Amortised cost | -669.6 | -669.6 | | | | |
| Other financial liabilities[(e) (f)] | Amortised cost | -3,112.1 | -3,112.1 | | | | |

| 31 Dec. 2018 | Measurement category | Carrying amount | | | Fair value | | |
|---|---|---|---|---|---|---|---|
| in € million | | Carrying amount | Measured at amortised cost | Measured at FVtSD | Level 1 | Level 2 | Level 3 |
| **Financial assets at fair value** | | | | | | | |
| **Interest rate derivatives** | | | | | | | |
| Interest-rate swaps | | | | | | | |
| *of which in a hedge*[a] | | -4,209.7 | | -4,209.7 | | -4,209.7 | |
| *of which stand-alone* | FVtSD | -60.7 | | -60.7 | | -60.7 | |
| Swaptions (stand-alone) | FVtSD | -225.8 | | -225.8 | | -225.8 | |
| **Interest and currency derivatives** | | | | | | | |
| Currency swaps | | | | | | | |
| *of which in a hedge*[a] | | 20.0 | | 20.0 | | 20.0 | |
| *of which stand-alone* | FVtSD | 85.2 | | 85.2 | | 85.2 | |
| Equity investments[b] | FVtSD | 2,352.6 | | 2,352.6 | 2,352.6 | | |
| Funds[b] | FVtSD | 197.7 | | 197.7 | 197.7 | | |
| **Financial assets not measured at fair value** | | | | | | | |
| Corporate bonds[b] | Amortised cost | 104.8 | 104.8 | | | | |
| Receivables from non-exchange transactions[c] | | 10,917.9 | | | | | |
| Receivables from exchange transactions[d] [f] | Amortised cost | 4,495.7 | 4,495.7 | | | | |
| Cash and cash equivalents[f] | Amortised cost | 641.0 | 641.0 | | | | |
| Other assets[b] [f] | Amortised cost | 1,456.3 | 1,456.3 | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | |
| Loans | Amortised cost | -43,782.9 | -43,782.9 | | | -31,587.3 | |
| Taxes and transfer liabilities[c] | | -17,297.2 | | | | | |
| Liabilities from exchange transactions[f] | Amortised cost | -672.0 | -672.0 | | | | |
| Other financial liabilities[e] [f] | Amortised cost | -2,849.3 | -2,849.3 | | | | |

Note: (a) Hedge accounting regulations apply to derivatives in a hedge and so they are not assigned a category.

(b) The sum of equity investments, funds, corporate bonds and other assets is the value of other investments in the amount of €3,936.9 million.

(c) Receivables from non-exchange transactions and tax and transfer liabilities are initially measured in accordance with IPSAS 23. Receivables from non-exchange transactions and tax and transfer liabilities are subsequently measured in accordance with IPSAS 41, and so these are shown in the overview.

(d) Receivables from exchange transactions comprise financial and non-financial assets. The figures shown relate only to financial assets.

(e) Other financial liabilities comprise financial and non-financial liabilities. The figures shown relate only to financial liabilities.

(f) The fair value is not presented as the carrying amount is an appropriate proxy for fair value.

### Calculation of fair value

The following tables show the measurement methods used to assess fair values for financial instruments.

Financial instruments measured at fair value

| Type | Fair value hierarchy | Measurement method |
|---|---|---|
| **Equity investments and funds** | Level 1 | Calculation of fair value based on quoted price on an active market |
| **Interest-rate swaps** | Level 2 | Calculation of fair value based on the discounted cash flow model, taking account of interest rates derived from the market with matching risks and maturities |
| **Swaptions** | Level 2 | Calculation of fair value as present value of estimated future cash flows, taking account of probability of being exercised as simulated using Markov chains |
| **Currency swaps** | Level 2 | Calculation of fair value based on the discounted cash flow model, taking account of interest rates derived from the market with matching risks and maturities |

Financial instruments not measured at fair value

| Type | Fair value hierarchy | Measurement method |
|---|---|---|
| **Corporate or government bonds, loans (state financing paper)** | Level 1 | Calculation of fair value based on quoted price on an active market |
| **Loans (bank loans, promissory note loans)** | Level 2 | Calculation of fair value based on the discounted cash flow model Cash outflow for fixed rates of interest and repayments is discounted over the term of the respective contracts using the market interest rates at the end of the reporting period. |

The federal state of Hesse does not use any unobservable inputs (level 3) when measuring the fair value of financial assets and financial liabilities.

Disclosures on the fair values of hedged derivatives are based on measurements at the reporting date. Negative or positive fair values for the stand do not constitute losses or gains; they are merely actuarial measurements at a reporting date.

**Financial risk management**

The federal state of Hesse is exposed to the following risks as a result of using financial instruments:

- Credit risk
- Liquidity risk
- Market risk

**Credit risk**

The credit risk is the risk of financial loss from a taxpayer or a party to a financial instrument failing to fulfil its statutory or contractual obligations. The credit risk for the federal state of Hesse is due chiefly to the state's debt instruments held as investments, and to receivables and cash.

The table below shows the carrying amounts of the financial assets in question and the expected credit losses. The carrying amounts essentially represent the maximum credit risk for the respective financial asset.

31 Dec. 2019

| in € million | Unimpaired gross carrying amount | Expected credit loss 2019 | Impaired gross carrying amount 31 Dec. 2019 | Impairment recognised in surplus or deficit |
|---|---|---|---|---|
| Other investments[(a)] | 1,436.2 | 5.6 | 1,430.6 | -0.6 |
| Tax receivables[(b)] | 11,927.6 | 5,227.6 | 6,700.0 | -113.1 |
| Receivables from other non-exchange transactions[(b)] | 4,421.6 | 14.5 | 4,407.1 | -4.1 |
| Trade receivables | 793.8 | 330.3 | 463.5 | -80.8 |
| Other receivables | 6,362.28 | 88.28 | 6,274.0 | -0.003 |
| Cash and cash equivalents | 806.22 | 0.02 | 806.2 | 0.002 |

Note (a) The item includes other investments measured at amortised cost.

(b) Tax receivables and receivables from other non-exchange transactions are initially measured in accordance with IPSAS 23. The IPSAS 41 impairment model is to be used for subsequent measurement.

The measurement of credit risks depends on the approach used to calculate expected credit losses.

**Simplified approach**

The most important factor for the state when calculating expected credit losses is financial assets that are subject to the simplified approach and where, therefore, expected credit loss is measured at the amount of the lifetime expected credit losses. This affects both tax receivables and trade receivables.

**Tax receivables**

Tax receivables are set and monitored by the tax administration authorities. Outstanding receivables are observed through close, automated monitoring. As part of this, the outstanding receivables are subject to dunning and recovery proceedings by tax administration authorities' enforcement departments, which constitute a separate debt collection agency with government powers. The state has priority for specific tax types to ensure that tax receivables are received in the case of a bankruptcy. However, receivables from taxpayers against whom insolvency proceedings have been instigated are considered to be in default and are written off in full.

The credit risk for the tax receivables is influenced mostly by the taxpayer's credit quality, and thus their ability to pay, as well as the form of collection for the type of tax. Withholding and registration taxes are deducted directly at the source of income and taxpayers are obliged to pay on time, and so collecting these is less risky than taxes that are collected subsequently. Tax receivables are thus monitored and measured according to the type of tax.

The credit risk of tax receivables is taken into account on the basis of the tax types by way of a suitable flat-rate specific valuation allowance. In this context, the expected credit risks are taken into account on the basis of empirical data on the collectability of taxes using statistical values (statistics on arrears, enforcement and dunning) in connection with the tax debtor's credit quality and depending on the age and the processing status of the tax amounts payable (on average assessed over a 5-year period). Changes in the macroeconomic environment are included in the assessment of whether an adjustment to the statistical data model is required at the end of the reporting period.

In the case of federal taxes, combined federal and state taxes and church taxes, the total amount receivable from taxpayers is recognised as a receivable because the state exercises administrative sovereignty. The corresponding tax receivables thus also include receivables for the federal government, local authorities and churches. The state bears the credit risk for the respective tax type only in the amount for which is covered by its tax sovereignty.

The table below shows the loss rates depending on the processing status of the tax receivables. In addition, the table also divides the state share of total expected credit loss.

| 31 Dec. 2019<br>in € million | Loss rate (weighted average) | Unimpaired gross carrying amount | Impaired gross carrying amount | Expected credit loss (total) | Expected credit loss (state share) |
|---|---|---|---|---|---|
| Tax receivables not yet dunned | 0.7% | 5,827.9 | No | 37.7 | 17.4 |
| Dunned tax receivables | 21.5% | 252.9 | No | 54.3 | 25.6 |
| Tax receivables with notice of arrears | 35.0% | 261.9 | No | 91.6 | 45.3 |
| Suspended tax receivables | 80.1% | 1,239.4 | No | 993.4 | 488.6 |
| Tax receivables temporarily written off | 90.4% | 3,088.6 | No | 2,793.6 | 1,356.7 |
| Insolvencies and tax receivables written off indefinitely | 100.0% | 1,256.9 | Yes | 1,256.9 | 598.7 |
| **Total** | | **11,927.6** | | **5,227.6** | **2,532.4** |

**Trade receivables**

Trade receivables include receivables from judicial costs resulting from court proceedings (€158.4 million), receivables from the federal government (€62.2 million) and receivables from on-the-spot fines (€12.8 million). Other trade receivables encompass a range of smaller items.

**Receivables from judicial costs resulting from court proceedings** comprise receivables from court costs and administrative expenses claims. Receivables are invoiced, managed and monitored on an IT basis. Receivables management includes regularly processing outstanding items. The dunning procedure at all local courts in Hessen is carried out centrally by way of an automated process.

The credit risk for receivables from judicial costs resulting from court proceedings is impacted primarily by the individual characteristics of the debtor, in particular the debtor's credit quality. The credit risk of receivables from judicial costs resulting from court proceedings is taken into account by way of a suitable flat-rate specific valuation allowance. This considers the debtor's credit quality and the age and the processing status of the amount payable. In addition, a flat-rate valuation allowance of 1% is recognised on all receivables less receivables from judicial costs resulting from court proceedings for which specific valuation allowances have already been recognised (on a flat-rate basis).

The expected credit loss from receivables from judicial costs resulting from court proceedings is €307.0 million.

Low credit risk exemptions for financial assets determined to have low credit risk at the reporting date apply to **receivables from the federal government**.

**Receivables from on-the-spot fines** include fee income for offences. Specific valuation allowances of approx. 45% were recognised for receivables from on-the-spot fines. The expected credit loss is €10.5 million.

Overall, the federal state of Hesse limits the credit risk of trade receivables by setting a maximum period of credit. The state does not require collateral for trade receivables. As a result, there are no trade receivables for which no impairment losses were recognised on account of collateral.

### General approach

The federal state of Hesse uses the general approach to calculate expected credit losses for all financial assets for which the simplified approach does not apply. The exemption for financial assets determined to have a low credit risk at the end of the reporting period applies here.

**Exemption for financial assets determined to have low credit risk at the reporting date (low credit risk exemption):**

Financial assets with a low credit risk are exempt from the general approach if their credit risk rating meets the global definition of “investment grade”. The state defines investment grade as a rating of BBB- or higher at ratings agency Standard & Poor’s.

Cash and cash equivalents and other liquid funds of the federal state of Hesse are deposited at banks and financial institutions that are rated BBB- or higher by the ratings agency Standard & Poor’s. The exemption thus applies to all **cash and cash equivalents** of €806.2 million and other liquid funds held by the state. These comprise mainly time deposits of €741.0 million reported under **other investments**, as well as cash collateral from collateral management of €4,451.1 million reported under **other receivables**.

Estimated impairment losses on cash and cash equivalents and other liquid funds were calculated on the basis of expected losses within 12 months. The calculation took into consideration the probability of default at the banks where the corresponding assets are held as well as the contractual term of the financial assets.

The exemption from the general approach also applies in connection with receivables from the federal government, other regional administrative authorities and local authorities that are recognised under receivables from other non-exchange transactions, trade receivables and other receivables. No impairment loss is recognised for these because of the debtor’s low probability of default. Receivables from regional administrative authorities totalled €4,233.5 million.

### Liquidity risk

The liquidity risk is the risk that the federal state of Hesse will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The state’s liquidity management is intended to ensure that sufficient liquid funds are available at all times to allow the state to meet all payment obligations when due, under both normal and strained conditions.

The federal state of Hesse’s short-term liquidity is secured on an ongoing basis by daily money market trading and sound borrowing over the year. The state relies on daily money market trading to remain solvent. Trading is supported by a cascading cash pooling process. To ensure short-term liquidity creation, there are also limits at banks and the German Finance Agency. The federal state of Hesse does not continuously exhaust the limits. Access to financial markets to issue bonds and promissory notes is an essential aspect of sound borrowing throughout the year. A wide range of banks and trading partners, in addition to avoiding short-term, large-scale borrowing needs, is very important here. The timing of borrowing is based on the liquidity and budget situation as well as prevailing market conditions. On account of negative interest rates, the federal state of Hesse is aiming to avoid cash investments where possible.

The counterparty default risk in derivatives business is hedged by cash collateral as part of collateral management in accordance with banking standards. In accordance with standard bank and state contracts, the framework agreement must be terminated, and the derivatives are due at present value if a contracting partner files for bankruptcy. In this case, the state will transfer replacement transactions to other contracting partners at identical conditions for the individual transactions that have been terminated. This largely avoid financial risks as a result of a bank failing.

The federal state of Hesse’s key cash inflows are distinctly seasonal in nature and reflect on tax deadlines. Liquidity is planned on a daily basis for the following year with reference to the previous year (rolling planning). The borrowing and repayment of loans, proceeds from tax revenue and month-end payments to state officials are coordinated.

The state's financing requirements in the budget plan are also calculated on an annual basis, primarily by accounting for estimated tax revenue and estimated expenditure for the planning year. Long-term planning forms part of the state's medium-term financial planning (five-year period).

Considerable uncertainties in the liquidity forecast reflect mainly the actual development of tax revenue and the change in interest rates. In the federal state of Hesse, higher interest rates essentially lead to an improvement in the present values of the derivative portfolio in connection with a corresponding return of cash collateral from collateral management. Conversely, lower interest rates generally result in additional cash collateral being deposited. Cash management is thus monitored on a daily business. This is required in order to assess liquidity flows in the current budget year and thus to identify circumstances that require liquidity intervention or remeasurement. The management of long-term borrowing is also monitored so that loans can be taken out promptly in the event of liquidity bottlenecks.

**Importance of liquidity risk**

The remaining contractual terms of financial liabilities from loans payable (state financing paper, promissory note loans, federal loans and cash loans) and derivative financial instruments (excluding potential swap contracts from banks exercising options) at the end of the reporting period, including estimated interest payments, are shown below. These are undiscounted gross amounts including contractual interest payments, but do not show the impact of offsetting. Forecasts as at 31 December 2019 are essentially based on estimates from November 2019.

| 31 Dec. 2019 | Contractual cash flows | | | | |
|---|---|---|---|---|---|
| in € million | Carrying amount | Total amount | Up to 1 year | 1 – 5 years | More than 5 years |
| **Loans** | **43,379.0** | **48,140.3** | **6,657.8** | **21,962.1** | **19,520.3** |
| **Derivative financial liabilities (carrying amount < 0)** | **7,698.2** | 8,039.0 | 277.1 | 1,250.4 | 6,511.5 |

There are no reliable forecast figures for the reporting date 31 December 2018.

**Market risk**

Market value is the risk of changes in market prices, e.g. interest rates, exchange rates or share prices, that affect the federal state of Hesse's income or the value of financial instruments held. The aim of market risk management is to manage and control market risk within an acceptable range. The federal state of Hesse uses interest and currency derivatives to manage the market risk from borrowing. These are intended to reduce interest charges from borrowing, monitor interest rate risks on an ongoing basis and avoid currency risks. Furthermore, the use of derivatives to optimise borrowing conditions as part of loan financing is permitted (section 13 (4) budget 2018/2019). Since 2015, interest rate derivatives have been used only to ensure the desired (variable) interest rate to cover long-term payer swaps and to avoid the negative interest risk in the underlying transaction.

The Hessian Ministry of Finance develops a strategy for the loan and derivatives portfolio at the start of a budget year. This is amended to take account of the market situation when needed or at least twice a year. The following regulations apply to borrowing and the use of derivatives:

- Agreement of an up-to-date interest rate forecast to act as the basis of strategy for the current budget year
- Presentation and determination of capital market strategy
- Strategic distribution of borrowing
- Presentation of the use of derivatives

The organisational structure ensures a strict separation of trading, settlement and control in connection with loans, derivatives and agreements as part of daily money market trading. Limits apply to derivatives trading. In addition, offers must be compared against other available offers in order to ensure that the conditions of the contract are in line with standard market practice.

**Market risk – interest rate risk**

The federal state of Hesse aims to stabilise interest payments in the long term. It does this chiefly by reducing the cash flow risk by agreeing predominantly fixed-interest payment obligations with longer terms. There is no requirement here for a certain hedge ratio.

Interest rate derivatives are used exclusively to hedge interest rate risks with a term of up to 41 years. Permitted interest rate derivatives – individually or in combination – are forward rate agreements, interest rate swaps, forward swaps, agreements to limit interest rates (e.g. caps, floors and collars) and swap options.

The federal state of Hesse determines the existence of an economic relationship between the hedging instrument and the hedged item on the basis of the critical terms match method. Under this, the critical parameters, i.e. benchmark interest rates, terms, repricing dates, maturities and nominal or notional amounts in the hedging instrument and the hedged item are matched. The hypothetical derivative method is used to assess whether the derivative designated in a hedge is likely to be effective in offsetting changes to the hedged item's cash flows. There is only limited ineffectiveness in the context of hedge accounting. To simplify this process, the ineffectiveness calculated under HGB, which is recognised as an expense under "Other expenses", was used.

#### Importance of interest rate risk

The interest rate profile of the federal state of Hesse's interest-bearing financial instruments is as follows:

| | Nominal amount | |
|---|---|---|
| in € million | 2018 | 2019 |
| **Variable-rate instruments** | | |
| Non-current and current loans | 9,518.5 | 8,818.5 |
| Effects of interest rate swaps | 0.0 | 0.0 |
| | **9,518.5** | **8,818.5** |

Non-current and current loans are mostly synthetic variable loans, i.e. a combination of a fixed-rate loan and a receiver swap.

As the federal state of Hesse goes not use fair value hedge accounting, fixed-rate instruments are not exposed to any interest rate risk.

#### Sensitivity analysis of cash flows for variable-rate instruments

A reasonably possible change in the interest rate of 100 basis points (bp) as at the end of the reporting period would have increased or reduced equity and profit or loss by the amounts stated below. This analysis assumes that all other factors, in particular exchange rates, remain constant. The impact on profit or loss is calculated only for transactions that have not been allocated any payer swaps.

| | Profit or loss | |
|---|---|---|
| in € million | 100 bp increase | 100 bp decrease |
| 31 Dec. 2019 | | |
| Variable-rate loans | -2.7 | 2.7 |
| Interest-rate swaps | 0.0 | 0.0 |
| **Cash flow sensitivity** | **-2.7** | **2.7** |
| 31 Dec. 2018 | | |
| Variable-rate loans | -3.2 | 3.2 |
| Interest-rate swaps | 0.0 | 0.0 |
| **Cash flow sensitivity** | **-3.2** | **3.2** |

#### Market risk – currency risk

The federal state of Hesse is exposed to currency risks when taking out loans.

In accordance with section 13 of the 2018/19 Budget Act (*Haushaltsgesetz*), the federal state of Hesse borrows primarily in euro. Borrowing in other currencies is permitted only in connection with a currency hedge (full hedge).

The state's hedged items are a foreign currency loan of CHF 100.0 million, which was designated in a hedge. It is hedged over 20 years until 2030. The other hedged item is a currency issue of JPY 15.8 billion, hedged by a currency swap and an interest rate currency swap. It is hedged over 30 years until 2038. The counterparty has an annual right of termination and so the related transaction is not designated in a hedge.

The federal state of Hesse determines the existence of an economic relationship between the hedging instrument and the hedged item on the basis of the critical terms match method. The hypothetical derivative method is used to assess whether the derivative designated in a hedge is likely to be effective in offsetting changes to the hedged item's cash flows. There is no ineffectiveness in the context of hedge accounting.

**Impact of currency risk**

The following table summarises the quantitative information on the federal state of Hesse's currency risks:

| | 31 Dec. 2018 | | 31 Dec. 2019 | |
|---|---|---|---|---|
| in million | CHF | JPY | CHF | JPY |
| Hedged loans | 100.0 | 15,800.0 | 100.0 | 15,800.0 |

The following key exchange rates were applied:

| | Average rate | | Closing rate at end of the reporting period | |
|---|---|---|---|---|
| EUR | 2018 | 2019 | 2018 | 2019 |
| CHF | 1.15497 | 1.11245 | 1.12553 | 1.08559 |
| JPY | 130.37 | 122.06 | 125.83 | 121.77 |

As borrowing in other currencies is permitted only in connection with a currency hedge (full hedge), the federal state of Hesse is not exposed to any currency risks or, accordingly, fluctuations in risk.

Other than this there are no significant assets held in foreign currency.

**Other market price risks**

The federal state of Hesse's investments in equity instruments subject to a market price risk comprise shares and fund units. The state's primary objective is to hold its investments in equity instruments for the long term for strategic reasons. As part of this strategy, certain investments are designated as fair value through profit or loss as their performance is actively monitored and they are managed on a fair value basis.

### Sensitivity analysis

In the case of investments in equity instruments of the state, changes in prices would result in the following effects in surplus or deficit.

| Equity investments | Net assets equity | |
|---|---|---|
| Effect in € million | Increase | Decrease |
| 31 Dec. 2019 | | |
| Adjusted market multiplier (5% change) | 128 | -128 |

### Cash flow hedges

As at 31 December 2019, the federal state of Hesse held the following instruments to hedge exchange rate fluctuations:

| **Cash flow hedges** | Less than one year | More than one year |
|---|---|---|
| **Exchange rate risk** | | |
| Nominal (in CHF million) | 0.0 | 100.0 |
| Average EUR:CHF forward rate | - | 1.45100 |
| Nominal (in JPY million) | 0.0 | 15,800.0 |
| Average EUR:JPY forward rate | - | 157.44 |

As at 1 January 2019, the federal state of Hesse held the following instruments to hedge exchange rate fluctuations:

| | Less than one year | More than one year |
|---|---|---|
| **Exchange rate risk** | | |
| Nominal (in CHF million) | 0.0 | 100.0 |
| Average EUR:CHF forward rate | - | 1.45100 |
| Nominal (in JPY million) | 0.0 | 15,800.0 |
| Average EUR:JPY forward rate | - | 157.44 |

As at 31 December 2019, the federal state of Hesse held the following instruments to hedge interest rate risks:

| Interest rate risk | | Due | | | | | |
|---|---|---|---|---|---|---|---|
| | | < 1 year | 1 – 5 years | 6 – 10 years | 11 – 20 years | 21 – 30 years | 31 – 41 years |
| EUR interest rate swaps | Nominal (in € million) | 675.0 | 400.0 | 875.6 | 900.0 | 200.0 | 6,500.0 |
| | Average interest rate | 3.68% | 2.60% | 0.86% | 2.99% | 2.48% | 3.33% |

If the bank has a unilateral right of termination, only the hedged maturity period is taken into account. The instruments include 40-year forward payer swaps of €1,000.0 million, which do not begin until 2020.

As at 31 December 2018, the federal state of Hesse held the following instruments to hedge interest rate risks:

| Interest rate risk | | Due | | | | | |
|---|---|---|---|---|---|---|---|
| | | < 1 year | 1 – 5 years | 6 – 10 years | 11 – 20 years | 21 – 30 years | 21 – 42 years |
| EUR interest rate swaps | Nominal (in € million) | 1,125.0 | 1,050.0 | 575.6 | 950.0 | 300.0 | 6,500.0 |
| | Average interest rate | 1.88% | 3.26% | 1.18% | 2.15% | 3.09% | 3.33% |

If the bank has a unilateral right of termination, only the hedged maturity period is taken into account. The instruments include 40-year forward payer swaps of €1,300.0 million, which do not begin until 2019 and 2020.

Amounts relating to items designated as hedged items were as follows as at the end of the reporting period:

| 31 Dec. 2019 | Cash flow hedge reserve |
|---|---|
| in € million | |
| **Interest rate risk** | **-5,916.6** |
| Floating rate instruments | -5,916.6 |
| **Exchange rate risk** | **22.5** |
| Foreign currency loan | 22.5 |

Amounts relating to items designated as hedging instruments are as follows:

| | | 2019 | | In financial year – 2019 | |
|---|---|---|---|---|---|
| | | Carrying amount | | | |
| in € million | Nominal value | Assets | Liabilities | Items in the statement of financial position that includes the hedging instrument | Changes in the value of the hedging instrument recognised in net assets/equity |
| **Exchange rate risk** | | | | | |
| Currency swaps | 68.9 | 22.5 | 0.0 | Receivables from exchange transactions | 2.5 |
| **Interest rate risk** | | | | | |
| Interest-rate swaps | 18,128.5 | 414.0 | 6,963.5 | Receivables from exchange transactions/Other financial liabilities | -2,043.8 |

| | | 2018 | | In financial year – 2018 | |
|---|---|---|---|---|---|
| | | Carrying amount | | | |
| in € million | Nominal value | Assets | Liabilities | Items in the statement of financial position that includes the hedging instrument | Changes in the value of the hedging instrument recognised in net assets/equity |
| **Exchange rate risk** | | | | | |
| Currency swaps | 68.9 | 20.0 | 0.0 | Receivables from exchange transactions | n/a |
| **Interest rate risk** | | | | | |
| Interest-rate swaps | 18,786.5 | 294.2 | 4,504.0 | Receivables from exchange transactions/Other financial liabilities | n/a |

The following table shows a reconciliation of the risk categories of equity components and the analysis of the items in net assets/equity after taxes resulting from accounting to hedge cash flows:

| | 2019 |
|---|---|
| in € million | Cash flow hedge reserve |
| As at 1 Jan. 2019 | -3,852.8 |
| **Cash flow hedges** | |
| Fair value changes: | |
| Exchange rate risk – other items | 2.5 |
| Interest rate risk | -2,043.8 |
| **As at 31 Dec. 2019** | **-5,894.1** |

**Master netting agreements or similar agreements**

The state enters into transactions in the form of derivative financial instruments on the basis of the German Master Agreement for Financial Derivatives Transactions (*Rahmenvertrag für Finanztermingeschäfte*). Under agreements within this master agreement, each counterparty can also, on the same day, combine amounts owed in the same currency into one net amount payable by one party to the other.

The German Master Agreement does not satisfy the criteria for offsetting. This is because the state does not currently have any right to offset the amounts recognised. Under the provisions of the German Master Agreement, the right to offset is enforceable only if future events occur such as a default in payment or other credit events such as a bankruptcy.

The table below sets out the carrying amounts of the financial instruments recognised that are subject to the agreements described and indicates potential for offsetting.

31 Dec. 2019

| in € million | Gross amount of financial instruments in the statement of financial position | Potential offsetting volume | Net amount |
|---|---|---|---|
| **Financial assets** | | | |
| **Derivative financial instruments** | | | |
| Interest swaps designated in hedging relationships | 414.0 | 397.0 | 17.0 |
| Currency swaps designated in hedging relationships | 22.5 | 0 | 22.5 |
| Other interest and currency derivatives | 167.5 | 73.2 | 94.2 |
| **Financial liabilities** | | | |
| **Derivative financial instruments** | | | |
| Interest swaps designated in hedging relationships | -6,963.5 | -397.0 | -6,566.6 |
| Currency swaps designated in hedging relationships | 0.0 | 0.0 | 0.0 |
| Other interest and currency derivatives | -734.7 | -73.2 | -661.4 |

31 Dec. 2018

| in € million | Gross amount of financial instruments in the statement of financial position | Potential offsetting volume | Net amount |
|---|---|---|---|
| **Financial assets** | | | |
| **Derivative financial instruments** | | | |
| Interest swaps designated in hedging relationships | 294.2 | 288.3 | 6.0 |
| Currency swaps designated in hedging relationships | 20.0 | 0 | 20.0 |
| Other interest and currency derivatives | 125.0 | 37.6 | 87.4 |
| **Financial liabilities** | | | |
| **Derivative financial instruments** | | | |
| Interest swaps designated in hedging relationships | -4,504.0 | -288.3 | -4,215.7 |
| Currency swaps designated in hedging relationships | 0.0 | 0.0 | 0.0 |
| Other interest and currency derivatives | -326.3 | -37.6 | -288.7 |

### Special rate loans

In the federal state of Hesse, special rate loans are usually granted not by the federal state of Hesse itself but by its development bank, “Wirtschafts- und Infrastrukturbank Hessen” (WIBank). WIBank is the central point of contact regarding all development matters for individuals, the commercial sector, freelancers, local authorities and administrative districts and is an organisationally and economically independent entity. Legally, it is a dependent entity of Helaba, Landesbank Hessen-Thüringen, under public law.

The federal state of Hesse generally contributes to WIBank’s low-interest loans by granting interest or repayment subsidies. These are to be assessed as per IPSAS 23 and are shown in the statement of profit or loss as expenses from non-exchange transactions.

Current examples within expenses from non-exchange transactions are the local authority investment programme (KIP I) and the investment programme “KIP macht Schule”.

# F. Other disclosures

## 24. Contingent liabilities

Contingent and other obligations on the part of the state are essentially potential future payment obligations that may result, for example, from contingencies and guarantees, as well as other financial obligations on the basis of continuous obligations and other commitments.

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| Grandfathered bonds Landesbank Hessen-Thüringen | 728.6 | 457.7 |
| State guarantees for loans of works of art | 271.7 | 108.8 |
| Guarantees for housing construction | 338.3 | 344.5 |
| Guarantees for commercial sector | 630.7 | 698.4 |
| Guarantees for damages obligations | 20.8 | 20.8 |
| Guarantees for loans issued by WIBank from the regional fund | 0.8 | 0.7 |
| Guarantees for hospitals | 124.3 | 185.5 |
| Guarantees for hospitals under the Act on Local Authority Investment Programmes (*Kommunalinvestitionsprogrammgesetz*) | 25.6 | 7.7 |
| Guarantees for housing space under the Act on Local Authority Investment Programmes | 58.4 | 75.2 |
| Guarantees and equipment guarantee for Orthopaedic University Hospital | 130.8 | 10.8 |
| Warranty bond for supplementary pension fund | 25.0 | 25. |
| Letter of subordination for DSL | 6.6 | 6.6 |
| Letter of comfort | 2.9 | 2.9 |
| **Total guarantees** | **2,364.5** | **1,944.6** |

The Financial Market Stabilisation Fund (FMS) set up following the financial crisis and managed by the German Federal Agency for Financial Market Stabilisation (FMSA) is intended to help banks overcome liquidity shortfalls and strengthen their equity base. The FMSA also established bad banks until 31 December 2015. The *Erste Abwicklungsanstalt* (EAA) bad bank was used to acquire portfolios from the former West LB AG (now Portikon AG) and FMS Werbemanagement to acquire portfolios from the Hypo Real Estate Group. The Act on the Establishment of a Financial Market Stabilisation Fund (*Gesetz zur Errichtung eines Finanzmarktstabilisierungsfonds*) stipulates that, after the fund has been liquidated, the remaining final result is shared between the federation and the federal states at a ratio of 65:35. The participation of the states is limited to a maximum amount of €7,700 million. However, it must be noted that joint and several liability does not apply for all of the fund operations. The application deadline for new operations ended on 31 December 2015. There have so far been no indications that a liquidation with a corresponding sharing of the result is imminent. Details on liquidating and winding up the fund are still to be determined by the German federal government by means of a legal regulation, which requires the approval of the Bundestag and the Bundesrat. The potential obligation thus cannot be estimated and so is not included in the table above.

As owner of Landesbank Hessen-Thüringen (Helaba), the federal state of Hesse is liable for the liabilities existing as at 18 July 2005 in accordance with section 32 of the Hessen Savings Bank Act (*Sparkassengesetz*) dated 10

November 1954 in the version dated 24 February 1991. This liability is unlimited for liabilities that existed on 18 July 2001. The federal state of Hesse is liable for obligations resulting from **Helaba's grandfathered bonds,** which are reduced in stages through repayments. The remaining balance of these bonds as at 31 December 2019 was €457.7 million. Changes in foreign exchange rates and partial repayments resulted in a lower liability risk as at 31 December 2019 than in the original planning. The planned reduction and repayment of the guarantee obligation (*Gewährträgerhaftung*) until the end of the loan term in 2031 is still assumed.

Based on past experience, a default rate of 0.43% of the total liabilities under guarantee is expected for **guarantees for housing construction**. Guarantees related to housing construction are assessed on a case-by-case basis by WIBank (where necessary in consultation with the state) or by Bürgschaftsbank Hessen. The credit risk was taken into account by corresponding Other financial liabilities. There are not currently any indications of further utilisation of the guarantees.

WIBank is generally responsible for managing **guarantees for the commercial sector** in its capacity as an agent of federal state of Hesse and usually acts as the lender. Where there are indications of risks to a guarantee, various courses of action to avoid or minimise defaults are examined, e.g. refinancing, repayment deferral or suspension and even settlement/partial waivers. The default rate in 2019 was approximately 0.78%. In the consolidated financial statements, other financial liabilities are recognised for defaulted and at-risk guarantees, taking account of any collateral proceeds and interest. Risks relating to investment funds are discussed with the management company and, in the case of letters of comfort for companies in which the state holds an interest, with the investment management company. In total, €33.3 million in other financial liabilities was determined as at 31 December 2019. There are no other indications of further utilisation by the federal state of Hesse. This also applies to the letters of comfort to FIZ GmbH, the funding of which is guaranteed in part under the federal state of Hesse's ongoing financing arrangements.

The risk of utilisation regarding **guarantees for hospitals, guarantees for housing space and hospitals under the Act on Local Authority Investment Programmes and guarantees for damages obligations** is deemed to be low as there are no known indications of utilisation, the guarantees have in some cases already been assumed for several years and they have not yet been utilised.

In accordance with section 6 (1) on Article 2 of the Act to Restructure Monetary Funding in Hessen (*Gesetz zur Neuordnung der monetären Förderung in Hessen*) dated 16 July 2009, the state is the **guarantor of "Wirtschafts- und Infrastrukturbank Hessen"**. The state bears unlimited liability for the liabilities of WIBank if its assets cannot satisfy these. No guarantor risk is disclosed in the notes on the guaranty obligation in Wirtschafts- und Infrastrukturbank Hessen's risk report as at 31 December 2019, as the assets of Wirtschafts- und Infrastrukturbank Hessen as at 31 December 2019 identified under these conditions exceed its obligations.

As at the end of the reporting period, there were **state guarantees for loans of works of art** of €108.8 million. The obligation is based on the state's undertaking to provide appropriate compensation in the event of a loss.

The Frankfurt am Main University Hospital has issued an absolute **guarantee for Orthopädische** Universitätsklinik Friedrichsheim gGmbH to secure three loans and an overdraft facility with an original total volume of €10.479 million. The University Hospital issued a letter of comfort to AXA Versicherung AG, Cologne, up to a maximum of €1.4 million to secure claims from the subsidiary's partial retirement agreements. Two maximum absolute guarantees totalling €0.365 million were issued to secure certain receivables at Philips Medical Capital GmbH. Based on the authorisation in section 15 (7) of the Hessen Budget Act 2018/2019 dated 2 February 2018, the Frankfurt University Hospital provides Orthopädische Universitätsklinik Friedrichsheim gGmbH with up to €65.0 million in loan funding in order to secure liquidity. In accordance with the grant award notification dated 12 December 2017, the Frankfurt University Hospital can provide this grant in the form of a repayable loan at reduced interest conditions for a period not exceeding eight years until 31 December 2024 by way of institutional funding to cover future liquidity requirements in the area of healthcare provision. The loan agreement was signed on 19 March 2018.

There is also a **warranty bond** for the supplementary pension fund of €5.0 million for pension obligations. Based on the loan granted to Orthopädische Universitätsklinik Friedrichsheim GmbH, no further utilisation from the letter of comfort and the other collateral pledged is expected.

LOTTO Hessen GmbH has contingent liabilities resulting from letters of subordination of €6.6 million, a letter of comfort limited to €0.5 million, a guarantee to financially support Deutsche Sportlotterie gemeinnützige GmbH, Krefeld (DSL) so that it can transfer 14% of stakes from 2018 and 25% of stakes from 2019 as net income and a letter of comfort agreement of €1.0 million for a scenario in which income is not sufficient to cover winnings.

The **letter of comfort** and letter of subordination concluded between LOTTO Hessen and DSL obliges LOTTO Hessen to protect DSL against insolvency and/or over-indebtedness. LOTTO Hessen undertakes to ensure that DSL's liabilities are settled as soon as they fall due by providing sufficient funding as required to eliminate over-indebtedness or avoid insolvency. The obligation under the letter of comfort is capped at €0.5 million.

To avoid DSL becoming overindebted, LOTTO Hessen - together with the other DSL shareholders - signed a **letter of subordination** for the €0.5 million shareholder loan and the €0.4 million loan acquired from the formal shareholder Gerald Wagener. In addition, LOTTO Hessen's claims for repayment, interest, and reimbursement of costs of €2.0 million (plus interest) at the time were subordinated to the receivables of all current and future creditors of the shareholders in such a way that LOTTO Hessen cannot demand satisfaction of its claims until all the entity's creditors have been satisfied. LOTTO Hessen's claims against DSL currently come to €6.6 million.

The letter of subordination also covers all future loans granted by LOTTO Hessen to DSL or receivables from legal action (in particular trade receivables under agreements concluded regarding the provision of service and license agreements).

DSL organises a nationwide lottery in the Federal Republic of Germany with weekly payouts on the basis of a permit granted by the federal state of Rhineland-Palatinate, which is based on the German State Treaty on Gambling (*Glücksspielstaatsvertrag*). There is a very low, but theoretically not impossible, risk that DSL's income from selling lottery tickets will not be sufficient to cover all winnings from a draw. To hedge this risk, a letter of comfort for this scenario was concluded between LOTTO Hessen and DSL. This letter of comfort obliges LOTTO Hessen to financially protect DSL against insolvency and/or over-indebtedness in the event that income does not cover all winnings from a draw.

In the event that a liability claim occurs, LOTTO Hessen undertakes to satisfy all payment obligations on behalf of DSL arising from the performance and, where applicable, rescission of contracts entered into with lottery players in connection with lottery draws.

In addition to the operating lease liabilities detailed under note 25, on the basis of continuous obligations and other commitments of the state, the state also had the following **other obligations** as at the end of the reporting period:

| in € million | 1 Jan. 2019 | 31 Dec. 2019 |
|---|---|---|
| Local public transport financing arrangements | 2,410.2 | 1,754.8 |
| Executory contracts, master agreements, purchase commitments | 47.0 | 1,065.2 |
| Funds for future allocations and subsidies | 44.4 | 386.1 |
| HESSENKASSE | 593.2 | 361.2 |
| Data processing/maintenance agreements | 101.8 | 107.5 |
| Local authority "protective umbrella" | 27.3 | 27.3 |
| Ground rent obligations | 0.0 | 18.1 |
| Other financial obligations | 1,681.4 | 1,294.8 |
| **Total** | **4,905.3** | **5,015.0** |

Other financial obligations relate to the funds and arise as a result of local authority support programmes. Under the financing arrangements to fund local public transport in the Rhein-Main-Verkehrsverbund (RMV), Nordhessischen VerkehrsVerbund (NVV) and Verkehrsverbund Rhein-Neckar (VRN) transport network areas, the contracting parties RMV, NVV and VRN receive annual allocations from the federal state of Hesse. At the end of the reporting period, other financial obligations came to €1,754.8 million.

Other financial obligations result in part from other service agreements of the Hessen Centre for Data Processing (€789.7 million), contracts related to the Hessen Ministry of the Environment, Climate Protection, Agriculture and Consumer Protection (€133.6 million) and the universities of Marburg (€85.8 million) and Gießen (€233.3 million) that result from the cooperation agreement with the University Hospital Gießen-Marburg for the period until 2025. As at 31 December 2019, there were also obligations from executory contracts, ground rent obligations, master agreements and purchase commitments.

## 25. Operating leases

### Federal state of Hesse as lessee

Operating leases with a non-cancellable remaining term of between one and a maximum of 30 years are mostly for leased vehicles, leased IT systems and rented property that are not covered by finance leases.

Leases of service vehicles generally have a term not exceeding one year, after which time there is an option to extend the lease. Leases are put out to tender again and renegotiated each year.

The federal state of Hesse also leases IT systems under operating leases. These leases have a term not exceeding three to four years and cannot be extended after this time. Leases are predominantly agreed on the basis of a master agreement. The lease instalments paid to the lessor are in line with standard market practice.

Property classified as operating leases include business and administration buildings that – as for properties classified as finance leases – were sold and leased back under sale and leaseback transactions, built under PPP projects or rented by third parties in the period from 2004 to 2006, but that are not classed as financing leases because of shorter lease terms and/or instalments. A small number of the operating leases include price adjustment clauses based on the consumer price index and extension options.

There is not usually an option to buy property, plant and equipment leased under operating leases.

As at the end of the reporting period, the state had outstanding obligations from non-cancellable operating leases that are due as follows:

**As at 31 December 2019**

| in € million | Up to 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Minimum lease payments under operating leases | 54.6 | 293.2 | 661.0 | 1,008.8 |

**As at 1 January 2019:**

| in € million | Up to 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Minimum lease payments under operating leases | 50.5 | 273.1 | 625.1 | 948.7 |

Lease expenses of €50.5 million were recognised under note 4 “Income and expenses” in the period.

### Federal state of Hesse as lessor

The federal state of Hesse’s primary activity is providing housing, chiefly as a lessor through a fully consolidated equity investment. The corresponding leases (statutory notice period: three months) were classified as operating leases. Rental income of €257.1 million was generated in the financial year and is included in other income.

## 26. Related party disclosures

**Related party disclosures**

Disclosures about related party transactions in accordance with IPSAS 20 are to be made in the context of the federal state of Hesse’s activities. The disclosure requirements relate to the federal state of Hesse’s transactions with unconsolidated affiliates, associates and interests in joint ventures, including their equity investments. An overview of related parties can be taken from the list of equity investments.

**Disclosures on transactions with related parties**

There are no material transactions with related parties that were not conducted on an arm’s length basis.

Transactions with related associates entered into at arm’s length were as follows as at 31 December 2019:

| in € million | Current | Non-current |
| --- | --- | --- |
| Receivables from related parties | 19.3 | 2.5 |
| Liabilities to related parties | 61.2 | 14.2 |

**Remuneration of key management personnel**

Key management personnel of the federal state of Hesse are:

| Key management personnel | Description |
|---|---|
| Hessen Minister-President | The Minister-President appoints ministers, sets the direction of government policy and represents the federal state of Hesse. (Article 101 et seqq. Hessen constitution) |
| Ministers | Within the guidelines of the department, each minister is in charge of his/her department independently and is fully accountable for it to the State Parliament. (Article 101,102 Hessen constitution) |
| State secretaries | State secretaries represent the minister within the ministry in the minister’s role as department head and help him/her carry out his/her government functions. |
| Presidents of the State Parliament, the State Court, the Accounting Office and the universities | The President is the external representative of the institution and employs and manages the staff. |
| Directors of the State Parliament and state companies (*Landesbetriebe*) | The directors are jointly responsible for managing their respective institutions and represent them externally. |
| Hessen Data Protection Commissioner | The Hessen Officer for Data Protection and Freedom of Information monitors compliance with the terms of the Hessen Data Protection Act and other data protection regulations at the state's government entities, local authorities and administrative districts, as well as other legal persons under public law subject to state supervision and their associations within the federal state of Hesse. |

Total remuneration paid to members of the governing body and the number of full-time members that receive remuneration within this category:

| | |
|---|---|
| Total remuneration | €4.0 million |
| Number of people | 29 |

Information on the individual remuneration for the key management personnel listed above can be found in the latest versions of the Act on Remuneration of Members of the State Government (*Gesetz über die Bezüge der Mitglieder der Landesregierung*), the Appendixes to the Hessen Remuneration Act (*Besoldungsgesetz*), the Act on the Legal Position of Members of the Hessen State Parliament (*Gesetz über die Rechtsverhältnisse der Abgeordneten des Hessischen Landtags*), the State Court Act (*Gesetz über den Staatsgerichtshof*) and the Data Protection and Freedom of Information Act (*Datenschutz- und Informationsfreiheitsgesetz*).

Remuneration of €7.2 million was also paid to former key management personnel and their surviving dependants in the reporting year. Pension and benefit obligations for this group of persons came to €148.2 million.

| Group of persons | Number | Total remuneration in € million | Pension provisions in € million | Provisions for benefit obligations in € million |
|---|---|---|---|---|
| Minister-Presidents, the Minister, President of the Accounting Office, Director of the Hessen State Parliament and the state secretaries as heads of the highest state authorities | 29 | 4.0 | 41.1 | 3.8 |
| Former members of the above group of persons | 108 | 6.0 | 130.2 | 14.0 |
| Their surviving dependants | 23 | 1.2 | 12.4 | 1.7 |
| **Total** | **160** | **11.2** | **183.7** | **19.4** |

**Other remuneration to key management personnel and remuneration to family members**

No other remuneration was paid to key management personnel or their family members at non-market-standard conditions in the reporting period.

**Loans and advances granted**

There are no material receivables from key management personnel on account of loans and advances granted.

There are no receivables from the close members of key management personnel on account of loans and advances granted at non-market-standard conditions.

## 27. Events after the reporting period

As a result of the coronavirus pandemic and the measures taken in Germany and in Hessen from mid-March 2020 onwards, the Hessen state government established a “protective umbrella”, which initially comprised a first supplementary budget of around €2 billion, an increase in the framework for providing guarantees from €1.5 billion to €5 billion and emergency tax relief in the amount of €1.5 billion. This was resolved by the Hessen State Parliament on 24 March 2020.

The special fund “Hessens gute Zukunft sichern” (“Safeguard Hessen’s good future”) was established by resolution of the State Parliament on 4 July 2020[19]. The special fund pools funding for all of the state’s pandemic-related measures until the end of 2023. These include costs already expended, for example on health and safety, mandatory statutory payments, e.g. for loss of earnings, and economic stimulus policies for the Hessen economy. Other German states such as Saxony, North Rhine-Westphalia, Mecklenburg-Vorpommern and Bavaria also opted for a special fund to tackle the financial impact of the coronavirus pandemic. Pooling funds in a special fund ensures that the state’s measures to manage the pandemic are presented transparently and comprehensibly to parliament and to the public.

The special fund money is used only for the purposes expressly set out in the law. It is also subject to parliamentary legitimacy, as spending is subject to approval by the budget committee. A business plan and an annual financial statement are prepared for the special fund each year, with reports on execution drawn up on a quarterly basis. These are submitted to the State Parliament.

[19] Official Gazette I 2020, page 482

## 28. Group composition

The consolidated financial statements of the federal state of Hesse include the entities shown in the diagram in section A.VI. The table below lists the equity investments fully consolidated in the consolidated financial statements that operate primarily in Germany. These entities are included on the basis of the time at which their financial statements were prepared with a one-year delay (inclusion as at 31 December 2019 on the basis of financial statements as at 31 December 2018).

| Name | Registered office | Equity interest in % | |
|---|---|---|---|
| | | 2019 | 2018 |
| Flughafen - GmbH Kassel | Calden | 68.00 | 68.00 |
| Hessische Landgesellschaft mbH, Staatl. Treuhandstelle für ländl. Bodenordnung | Kassel | 61.92 | 61.92 |
| House of Logistics & Mobility (HOLM) GmbH | Frankfurt am Main | 86.50 | 86.50 |
| Nassauische Heimstätte Wohnungs- u. Entwicklungsgesellschaft mbH[20] | Frankfurt am Main | 59.03 | 59.03 |
| Universitätsklinikum Frankfurt AöR | Frankfurt am Main | 100.00 | 100.00 |
| Hessische Kulturstiftung | Wiesbaden | 100.00 | 100.00 |
| Emil von Behring und Wilhelm Conrad Röntgen-Stiftung | Marburg | 100.00 | 100.00 |

[20] Including the company’s subsidiaries

## 29. Non-controlling interests

The following table provides information on each fully consolidated entity with material non-controlling interests.

| in € million | Flughafen – GmbH Kassel, Calden | Hessische Landgesellschaft mbH, Staatl. Treuhandstelle für ländl. Bodenordnung, Kassel | House of Logistics & Mobility (HOLM) GmbH, Frankfurt am Main | Nassauische Heimstätte Wohnungs- u. Entwicklungsgesellschaft mbH, Frankfurt am Main |
|---|---|---|---|---|
| **Percentage of non-controlling interests** | **32.00%** | **38.08%** | **13.75%** | **40.97%** |
| Non-current assets | 201.1 | 2.5 | 77.6 | 1,616.1 |
| Current assets | 3.6 | 251.1 | 2.3 | 332.0 |
| Non-current liabilities | 13.8 | 92.1 | 74.2 | 1,223.3 |
| Current liabilities | 4.6 | 80.9 | 3.4 | 257.9 |
| **Net assets** | **186.4** | **80.6** | **2.4** | **466.9** |
| Net assets of non-controlling interests | 59.6 | 30.7 | 0.3 | 191.3 |
| Revenue | 8.6 | 92.1 | 6.3 | 447.8 |
| **Net income** | **-17.7** | **4.1** | **-2.3** | **64.0** |
| Income attributable to non-controlling interests | -5.7 | 1.5 | -0.3 | 26.2 |
| Cash flow from administrative activities | -6.2 | 1.1 | 74.9 | 69.4 |
| Cash flow from investing activities | -2.1 | -0.4 | -77.8 | -110.5 |
| Cash flow from financing activities | 6.0 | 0.0 | 2.6 | 45.3 |
| **Net increase/reduction in cash and cash equivalents** | **-2.2** | **0.7** | **-0.2** | **4.2** |

Dividends of €2.0 million were paid to non-controlling interests in the financial year.

# G. Presentation of budget information

Public authorities in Germany traditionally use cash based **accounting methods**. This system is known as "cameralism" and dates back as far back as the middle ages. It is still the dominant budgeting and book-keeping system used by German regional administrative authorities today[21]. The federal state of Hesse, however, pioneered the introduction of **accrual accounting** at state level when it modernised its administration and switched to this new system in 2009, creating the basis for an accrual-accounting-based product budget, as well as a reliable statement of financial position at Group level[22].

The federal state of Hesse follows a **dual approach**. For the 2019 reporting year, the federal state of Hesse's budget plan thus includes both estimated budget revenue and expenditure for the next budget year (cameralism) and all income and expenses (accrual accounting), which are structured by product as part of a product budget. The single-entry budget (cameralism) sets out the use of funds for the current year. The product budget also presents the use of funds from an economic perspective by pooling administration services into products.

Featuring a **budget comparison and reconciliation to** the data in the annual financial statements, the presentation of budget information in the notes to the federal state of Hesse's IPSAS financial statements thus takes into account both cash based and the accrual-based budget considerations.

## I. Cash based budget

**Presentation of budget comparison 2019**

The table below gives a general overview of the **cash based financial statements**, which are presented as a **2019 budget comparison** showing the budgeted and actual amounts:

| 2019 budget comparison | Target 2019 | Actual 2019 | Deviation |
|---|---|---|---|
| in € million | | | |
| **Expenditure** | **36,532.0** | **39,597.0** | **+ 3,065.0** |
| Expenditure (excluding allocation to reserves) | 36,242.1 | 38,125.6 | + 1,883.5 |
| Allocation to reserves | 289.9 | 1,471.4 | + 1,181.5 |
| **Revenue** | **36,532.0** | **39,597.0** | **+ 3,065.0** |
| Tax revenue | 24,097.3 | 24,449.5 | + 352.1 |
| Administrative revenue | 1,062.6 | 1,190.1 | + 127.5 |
| Allocations and subsidies (with exception for investments) | 3,537.0 | 3,654.4 | + 117.4 |
| Borrowing, from allocations and subsidies for investments, special financing income | 7,835.0 | 10,303.0 | + 2,468.0 |

Rounding may result in discrepancies in the totals

Exact changes in revenue and expenditure by section and by revenue and expenditure group are shown in the notes to the overall statements "Composition: Comparison of accounting result and accounting target".

The **grouping overview** shows the 2019 single-entry budget comparison as follows:

[21] Worms/Tegeler: Die Eröffnungsbilanz des Landes Hessen, DÖV 2010, page 542.

[22] Bott/Rüdiger: Doppik auf staatlicher Ebene: Bundesländer im Vergleich, DÖV 2021, page 32.

| Type of revenue/expenditure | Budget Act | Actual revenue/expenditure | Residual budget from previous year | Accounting result | Original budget amount | Change due to supplement | Supplement budget amount | Residual budget from previous year | Accounting target | Difference between accounting result and target |
|---|---|---|---|---|---|---|---|---|---|---|
| in € million | | | | (Total Col. 2 and 3) | | | | | (Total col. 7 and 8) | |
| ***Column*** | ***1*** | ***2*** | ***3*** | ***4*** | ***5*** | ***6*** | ***7*** | ***8*** | ***9*** | ***10*** |
| Revenue from taxes and parafiscal charges and EU own funds | 0 | 24,449.5 | 0.0 | 24,449.5 | 24,068.1 | 29.2 | 24,097.3 | 0.0 | 24,097.3 | 352.1 |
| Administrative revenue, revenue from debt servicing and similar | 1 | 1,190.1 | 0.0 | 1,190.1 | 1,051.6 | 11.0 | 1,062.6 | 0.0 | 1,062.6 | 127.5 |
| Revenue from allocations and subsidies with exception for investments | 2 | 3,654.4 | 0.0 | 3,654.4 | 3,559.2 | -22.2 | 3,537.0 | 0.0 | 3,537.0 | 117.4 |
| Revenue from borrowing, from allocations and subsidies for investments, special financing income | 3 | 10,303.0 | 0.0 | 10,303.0 | 7,706.1 | 128.9 | 7,835.0 | 0.0 | 7,835.0 | 2,468.0 |
| **Total revenue** | | **39,597.0** | **0.0** | **39,597.0** | **36,385.1** | **146.9** | **36,532.0** | **0.0** | **36,532.0** | **3,065.0** |
| Personnel expenditure | 4 | 10,036.7 | 0.0 | 10,036.7 | 10,202.8 | 74.8 | 10,277.6 | 0.0 | 10,277.6 | -240.9 |
| Administrative costs, costs of debt servicing | 5 | 8,789.5 | 15.7 | 8,805.2 | 6,136.6 | -38.2 | 6,098.5 | 15.3 | 6,113.8 | 2,691.4 |
| Expenditure for allocations and subsidies with exception for investments | 6 | 13,536.5 | 257.2 | 13,793.7 | 13,857.8 | -84.5 | 13,773.3 | 245.3 | 14,018.6 | -224.9 |
| Construction work | 7 | 508.6 | 0.2 | 508.9 | 520.3 | 12.5 | 532.8 | 4.3 | 537.2 | -28.3 |

| Type of revenue/expenditure | Budget Act | Actual revenue/expenditure | Residual budget from previous year | Accounting result | Original budget amount | Change due to supplement | Supplement budget amount | Residual budget from previous year | Accounting target | Difference between accounting result and target |
|---|---|---|---|---|---|---|---|---|---|---|
| in € million | | | | (Total Col. 2 and 3) | | | | | (Total col. 7 and 8) | |
| Other expenditure on investment and investment support schemes | 8 | 1,504.5 | 548.1 | 2,052.6 | 1,688.8 | 107.7 | 1,796.5 | 556.8 | 2,353.3 | -300.7 |
| Special financing expenditure | 9 | 5,221.2 | 0.0 | 5,221.2 | 3,978.7 | 74.5 | 4,053.3 | 0.0 | 4,053.3 | 1,167.9 |
| **Total expenditure** | | **39,597.0** | **821.2** | **40,418.2** | **36,385.1** | **146.9** | **36,532.0** | **821.7** | **37,353.7** | **3,065.0** |

**Additional disclosures on the cash based budget**

The federal state of Hesse's budget was approved based on a **statement of revenue and expenditure**, **categorised by group and function**. The approved budget relates to the **accounting period from 1 January 2019 to 31 December 2019** and comprises **all entities within the core budget** of the federal state of Hesse.

The **original budget** for the 2019 budget year was determined in revenue and expenditure terms at €36.4 billion for the 2018 budget year under the Act Establishing the Budget (*Gesetz über die Feststellung des Haushaltsplans*) for the federal state of Hesse for the budget years 2018 and 2019 (Budget Act 2018/2019) dated 2 February 2018. The Act to Amend the Budget Act 2018/2019 (*Gesetz zur Änderung des Haushaltsgesetzes*) dated 19 June 2019 adjusted the authorisation framework and put the **final budget** for the 2019 budget year at €36.5 billion (€36,532,018,800). The objectives and speciality of the original budget and subsequent amendments are explained in more detail in the federal state of Hesse's 2019 budget statement published in June 2020. The budget statement closes with actual **revenue and expenditure** of around €39.6 billion. €1,883.5 million of **deviations** in actual expenditure totalling €3,065.0 million is attributable to additional expenditure, and €1,181.5 million is a result of an addition to budgetary reserves in the area of general financial management (section 17). Additional expenditure is financed by additional tax revenue of €352.1 million, additional administrative revenue of €127.5 million, additional amounts of allocations and subsidies (consumption) of €117.4 million and borrowing/allocations and subsidies related to investing activities of €2,468.0.

The budget and accounting are prepared **using different principles**. Financial statements for the federal state of Hesse are prepared using the accrual basis of accounting, classified by the type of expense in profit or loss. The financial statements are **consolidated financial statements** and include all controlled entities, including public enterprises and institutions, for the reporting period from 1 January 2019 to 31 December 2019. The financial statements differ from the budget approved based on a statement of revenue and expenditure, which looks only at the **core budget** of the federal state of Hesse and excludes other companies and non-market entities and activities.

Cash-related amounts in the **cash flow statement** of the annual financial statements are shown with the changes in (a) ongoing administrative activities, (b) investing activities and (c) financing activities. For the purposes of budgetary comparison, the revenue and expenditure figures in the (single-entry) budget statement are classified and structured differently according to budgetary groupings.

A **reconciliation** of the actual amounts on a comparable basis as presented in the comparison of budgeted and actual amounts, and the actual amounts in the cash flow statement for the financial year ended 31 December 2019 is shown below. The financial statements and the budget documents are prepared for the same period. There is a deviation between the entities: the budget was prepared for the federal state of Hesse's core budget and the financial statements consolidate all entities controlled by the federal state of Hesse. They are also prepared on different bases: the budget is prepared based on a statement of revenue and expenditure and the financial statements are drawn up in accordance with the accrual basis of accounting.

**Reconciliation**

The single-entry revenue and expenditure for 2019 reconcile to the **structure of the cash flow statement** (cash flow I to III) of the federal state of Hesse at the level of the consolidated financial statements (HGB) or the IPSAS financial statements as follows:

**Reconciliation of grouping to cash flow – areas of the** federal **state of Hesse's core budget**

| Grouping overview | Budget Act | Single-entry comprehensive income | For information only: non-cash | Change in cash and cash equivalents | CF I Ongoing administrative activities | CF II Investing activities | CF III Financing activities |
|---|---|---|---|---|---|---|---|
| in € million | | | | | | | |
| Revenue | 0 | 24,449.5 | | 24,449.5 | 24,449.5 | | |
| | 1 | 1,190.1 | | 1,190.1 | 1,135.3 | 54.9 | |
| | 2 | 3,654.4 | | 3,654.4 | 3,654.4 | | |
| | 3 | 10,303.0 | *88.0* | 10,215.0 | 3,733.9 | 695.6 | 5,785.5 |
| **Total** | | **39,597.0** | ***88.0*** | **39,509.0** | **32,973.0** | **750.5** | **5,785.5** |
| Expenditure | 4 | 10,036.7 | | 10,036.7 | 10,036.7 | | |
| | 5 | 8,789.5 | | 8,789.5 | 2,803.8 | | 5,985.8 |
| | 6 | 13,536.5 | | 13,536.5 | 13,536.5 | | |
| | 7 | 508.6 | | 508.6 | | 508.6 | |
| | 8 | 1,504.5 | | 1,504.5 | | 1,504.5 | |
| | 9 | 5,221.2 | *1,137.4* | 4,083.7 | 3,749.7 | 334.0 | |
| **Total** | | **39,597.0** | ***1,137.4*** | **38,459.6** | **30,126.7** | **2,347.1** | **5,985.8** |
| **Total comprehensive income** | | **0.0** | ***-1,049.4*** | **1,049.4** | **2,846.3** | **-1,596.6** | **-200.3** |

**Addition and reconciliation to cash flow – areas of the** federal **state of Hesse's consolidated financial statements (consolidated financial statements HGB)**

| Name | Grouping overview | Other cash postings | CF Federal state of Hessen core budget | CF State companies and universities | Allocation of consolidation (GAS 21) | CF Consolidated financial statements (HGB) | IPSAS adjustment | CF IPSAS financial statements |
|---|---|---|---|---|---|---|---|---|
| in € million | | | | | | | | |
| CF I – Ongoing administrative activities | 2,846.3 | -823.0 | 2,023.2 | 58.8 | 312.6 | 2,394.7 | 169.8 | 2,565.0 |
| CF II – Investing activities | - 1,596.6 | 200.0 | -1,396.6 | -65.9 | 582.6 | -879.9 | -10.4 | -890.3 |
| CF III – Financing activities | -200.3 | 680.5 | 480.2 | -0.0 | -895.2 | -415.0 | -154.1 | -569.6 |
| Change in cash and cash equivalents | 1,049.4 | 57.5 | 1,106.9 | -7.1 | 0 | 1,099.8 | 5.3 | 1,105.1 |

## II. Accrual basis product budget

**Budget comparison 2019 product budget**

As part of its budget management on a cash basis (section 1 Budget Act) and, additionally, in accordance with the principles of an accrual based product budget (section 2 Budget Act), the state is accountable for the **core budget**. This comprises the state's individual business areas but does not extend to state companies or special funds within the meaning of section 26 BHO/LHO that are outsourced under budgetary law, which – like the legally separate universities – are budgeted only with allocations and deductions and are managed as special budgets in addition to the core budget.

The product budget is **accounted for** as part of the budget statement by means of target/actual comparisons of the business and performance plans, including evidence of the additional costs incurred at product level and the quantity corridor (section 2 (2) to 7 Budget Act).

By including state companies and universities in financial reporting for the product budget (see note 3.3.1), the state provides information in the budget statement that also extends to areas outside the core budget – in this respect comparable to a **group perspective**.

**Target/actual comparison of performance plan for the 2019 financial year**

Federal **state of Hesse allocation**[23]

| in € million | Actual total costs | Budget total costs | Actual revenue | Budget revenue | Actual allocated budget funds for products | Budget allocated budget funds for products | Actual net income | Budget net income | Target-actual net income |
|---|---|---|---|---|---|---|---|---|---|
| | *1* | *2* | *3* | *4* | *5* | *6* | *7=3+5-1* | *8=4+6-2* | *9=7-8* |
| **State core budget** | **33,772.2** | **31,757.0** | **14,102.4** | **8,982.6** | **22,660.6** | **22,772.1** | **2,990.7** | **-2.3** | **2,993.0** |
| **State companies** | **1,490.5** | **1,241.1** | **1,267.2** | **1,034.7** | **208.1** | **208.7** | **-15.2** | **2.3** | **-17.5** |
| *HMdF* | *1,100.2* | *931.6* | *1,042.4* | *860.7* | *72.6* | *73.3* | *14.8* | *2.3* | *12.5* |
| *HMWEVW* | *4.8* | *5.6* | *4.8* | *5.6* | *0.0* | *0.0* | *0.0* | *0.0* | *0.0* |
| *HMUKLV* | *383.9* | *302.5* | *218.9* | *167.5* | *135.0* | *135.0* | *-30.1* | *0.0* | *-30.1* |
| *HMWK* | *1.7* | *1.5* | *1.2* | *1.0* | *0.5* | *0.5* | *0.0* | *0.0* | *0.0* |
| **Universities** | **3,282.6** | **3,241.3** | **1,499.5** | **1,516.8** | **1,720.5** | **1,724.5** | **-62.7** | **0.0** | **-62.7** |
| **Federal state of Hesse** | **38,545.4** | **36,239.4** | **16,869.1** | **11,534.1** | **24,589.1** | **24,705.3** | **2,912.8** | **0.0** | **2,912.8** |

Looking across departments, the **performance result** in the 2019 reporting year was €2.9 billion better than planned in the budget. In particular taking into account the central financing transactions from section 17, the annual net profit/loss reported in the statement of profit or loss is -€0.2 billion, representing a €2.3 billion improvement on

[23] Including net gains/losses from special fund and silent partnership contributions of Helaba (HIF, WUZ) and pension reserve

budget planning. This improved net profit/loss is chiefly due to a change in measurement methods for measuring pension and benefit obligation provisions. The transition from the entry-age normal method to the projected unit credit method (PUC), which is used as standard internationally, results in a non-recurring effect through profit or loss of + €2.4 billion. Without this positive non-recurring effect, net losses for the year would have come to approximately -€2.6 billion.

Net product profit/loss reported in the budget statement (Appendix 5) totalled €2,912.8 million in the 2019 budget year – taking account of allocated budget funds for products.

The development of individual product areas is shown with the target/actual comparisons of the performance plans for each accounting area in Appendix 5 to the budget statement, broken down to the **sections** of the budget as follows.

**Target/actual comparison of federal state of Hesse's performance plan by section**

| | Section | Actual total costs | Budget total costs | Actual revenue | Budget revenue | Actual allo-cated budget funds for prod-ucts | Budget allo-cated budget funds for products | Actual net in-come | Budget net in-come |
|---|---|---|---|---|---|---|---|---|---|
| | in € million | | | | | | | | |
| | | *1* | *2* | *3* | *4* | *5* | *6* | *7=3+5-1* | *8=4+6-2* |
| 1 | Hessen State Parliament | 79.1 | 85.5 | 13.8 | 4.8 | 80.6 | 80.6 | 15.4 | |
| 2 | Minister-Presi-dent | 114.8 | 284.0 | 14.6 | 14.6 | 269.7 | 269.3 | 169.5 | |
| 3 | HMdIuS | 2,742.1 | 2,785.3 | 839.7 | 805.3 | 1,995.4 | 1,979.0 | 92.9 | -1.0 |
| 4 | HKM | 5,561.8 | 5,514.9 | 232.3 | 212.4 | 5,306.8 | 5,302.4 | -22.7 | |
| 5 | HMdJ | 1,542.5 | 1,507.1 | 729.4 | 625.5 | 820.7 | 881.6 | 7.6 | |
| 6 | HMdF | 2,062.8 | 1,884.1 | 1,163.7 | 961.7 | 921.9 | 923.4 | 22.8 | 1.0 |
| 7 | HMWEVW | 2,125.9 | 2,037.6 | 1,544.5 | 1,090.5 | 923.2 | 947.1 | 341.8 | |
| 8 | HMSI | 1,869.1 | 1,959.6 | 264.3 | 144.9 | 1,814.1 | 1,814.8 | 209.4 | |
| 9 | HMUKLV | 1,189.8 | 1,037.8 | 460.9 | 427.3 | 610.2 | 610.5 | -118.7 | |
| 10 | Hessen State Court | 9.6 | 1.0 | 0.0 | | 1.0 | 1.0 | 0.0 | |
| 11 | Hessen Ac-counting Office | 23.5 | 24.7 | 0.1 | 0.0 | 24.7 | 24.7 | 1.3 | |
| 15 | HMWK | 4,954.3 | 4,970.1 | 2,024.2 | 2,082.2 | 2,888.0 | 2,887.9 | -42.1 | |
| 17 | General financial authorities | 16,204.0 | 14,037.9 | 9,565.8 | 5,164.1 | 8,873.9 | 8,873.9 | 2,235.7 | |
| 18 | Government building con-struction | 74.7 | 109.9 | 15.6 | 0.8 | 59.1 | 109.2 | | |
| | **Federal state of Hesse** | **38,545.4** | **36,239.4** | **16,869.1** | **11,534.1** | **24,589.1** | **24,705.3** | **2,912.8** | **0.0** |

The target/actual comparison at state level (including state companies, special fund and universities) of the **profit plan**, which is central to the product budget alongside the performance plan, is as follows:

**Federal state of Hesse profit plan – target/actual comparison 2019**

| | Income/expenses | Actual | Target | Deviation |
|---|---|---|---|---|
| | | € million | € million | € million |
| 1 | Tax income and parafiscal income | 25,275.7 | 25,764.4 | *-488.7* |
| 2 | Income from finance equalisation | 317.1 | 211.3 | *105.8* |
| 3 | Income from allocations and subsidies | 4,943.6 | 4,710.2 | *233.4* |
| 4 | Income from administrative activities/revenue | 31,177.1 | 30,972.0 | *205.1* |
| 5 | Changes in inventories/own work capitalised | 35.5 | 4.5 | *31.0* |
| 6 | Other income | 6,218.7 | 1,230.2 | *4,988.5* |
| **7** | **Total income** | **67,967.7** | **62,892.6** | *5,075.1* |
| 8 | Administrative expenses | 29,366.8 | 29,456.5 | *-89.7* |
| 9 | Personnel expenses | 17,420.5 | 15,625.7 | *1,794.8* |
| 10 | Depreciation and amortisation | 691.7 | 640.8 | *50.9* |
| 11 | Expenses from finance equalisation | 7,264.6 | 7,511.8 | *-247.2* |
| 12 | Expenses for allocations and subsidies | 8,747.2 | 8,517.4 | *229.8* |
| 13 | Other expenses | 1,563.2 | 654.8 | *908.4* |
| **14** | **Total expenses** | **65,054.1** | **62,407.1** | *2,647.0* |
| **15** | **Administrative result (balance of 7 and 14)** | **2,913.6** | **485.5** | *2,428.1* |
| 16 | Income from equity investments | 3,690.4 | 395.4 | *3,295.0* |
| 17 | Income from other securities and loans held as financial assets | 258.4 | 101.4 | *157.0* |
| 18 | Other interest receivable and similar income | 238.5 | 29.8 | *208.7* |
| 19 | Impairments on investments and securities classified as current assets | 27.0 | 0.6 | *26.4* |
| 20 | Expenses from loss absorption | 162.8 | 7.8 | *154.9* |
| 21 | Interest and similar expenses | 4,023.4 | 3,419.2 | *604.2* |
| **22** | **Financial result (balance of 16 to 21)** | **-25.8** | **-2,901.0** | *2,875.2* |
| 23 | Surplus/deficit from standard administrative activities (balance of 15 and 22) | 2,887.8 | -2,415.5 | *5,303.3* |
| 24 | Taxes | 24.9 | 16.5 | *8.4* |
| 25 | Income from loss absorption/expenses from profit transfer | -3,196.6 | -171.8 | *-3,024.8* |
| | Income from loss absorption | | 12.1 | *-12.1* |
| | Expenses from profit transfer | 3,196.6 | 183.9 | *3,012.7* |
| **26** | **Net deficit for the year before formation of reserves** | **-333.7** | **-2,603.8** | *2,270.1* |

| | Income/expenses | Actual | Target | Deviation |
|---|---|---|---|---|
| | | € million | € million | € million |
| 27 | Income from reversal of reserves | 317.0 | 211.5 | *105.5* |
| 28 | Expenses from allocation of reserves | 190.6 | 100.8 | *89.8* |
| **29** | **Net deficit for the year** | **-207.3** | **-2,493.1** | *2,285.8* |

The budget statement has also included an **aggregated profit plan** and an aggregated statement of profit or loss since the 2019 reporting year. Allocated budget funds for products are treated both as income, as internal financing of accounting areas, and as an expense, from the perspective of the financing accounting area.

Unlike the aggregated performance plan, which closes with an actual surplus of €2,912.8 million, the aggregated profit plan features a deficit of €207.3 million and includes items of profit or loss incurred outside the products (e.g. profit transfers/loss absorption), and additional consolidated entities not included in the product budget and thus in the presentation of the performance plan (e.g. central financing accounting area).

The aggregated statement of profit or loss (profit plan) in actual terms breaks down into **core budget, universities and state companies**.

| No. | Income/expenses | Core budget | Universities | State companies | Federal state of Hesse |
|---|---|---|---|---|---|
| | in € million | | | | |
| 1 | Tax income and parafiscal income | 25,275.7 | - | - | **25,275.7** |
| 2 | Income from finance equalisation | 317.1 | - | - | **317.1** |
| 3 | Income from allocations and subsidies | 4,587.1 | 354.8 | 1.7 | **4,943.6** |
| 4 | Income from administrative activities Revenue | 26,626.6 | 2,640.0 | 1,910.4 | **31,177.1** |
| 5 | Changes in inventories/own work capitalised | 22.3 | 7.5 | 5.8 | **35.5** |
| 6 | Other income | 5,794.1 | 214.3 | 210.3 | **6,218.7** |
| **7** | **Total income** | **62,622.8** | **3,216.6** | **2,128.2** | **67,967.7** |
| 8 | Administrative expenses | 27,377.8 | 624.8 | 1,364.2 | **29,366.8** |
| 9 | Personnel expenses | 15,008.7 | 2,049.2 | 362.6 | **17,420.5** |
| 10 | Depreciation and amortisation | 351.6 | 238.1 | 102.0 | **691.7** |
| 11 | Expenses from finance equalisation | 7,264.6 | - | - | **7,264.6** |
| 12 | Expenses for allocations and subsidies | 8,684.0 | 57.8 | 5.4 | **8,747.2** |
| 13 | Other expenses | 1,064.5 | 305.4 | 193.4 | **1,563.2** |
| 14 | Total expenses | **59,751.3** | **3,275.2** | **2,027.6** | **65,054.1** |
| **15** | **Administrative result (balance of 7 and 14)** | **2,871.5** | **-58.6** | **100.6** | **2,913.6** |
| 16 | Income from equity investments | 3,690.3 | 0.1 | - | **3,690.4** |
| 17 | Income from other securities and loans held as financial assets | 255.7 | 2.7 | 0.0 | **258.4** |
| 18 | Other interest receivable and similar income | 237.5 | 0.6 | 0.4 | **238.5** |

| No. | Income/expenses | Core budget | Universities | State companies | Federal state of Hesse |
|---|---|---|---|---|---|
| 19 | Impairments on investments and securities classified as current assets | 26.6 | 0.4 | - | **27.0** |
| 20 | Expenses from loss absorption | 162.8 | - | - | **162.8** |
| 21 | Interest and similar expenses | 3,991.2 | 5.8 | 26.4 | **4,023.4** |
| **22** | **Financial result (balance of 16 to 21)** | 2.9 | -2.8 | -26.0 | **-25.8** |
| **23** | **Surplus/deficit from standard administrative activities (balance of 15 and 22)** | **2,874.5** | **-61.4** | **74.7** | **2,887.8** |
| 24 | Taxes | 22.0 | 1.3 | 1.6 | **24.9** |
| 25 | Income from loss absorption/expenses from profit transfer | -3,107.7 | - | -88.9 | **-3,196.6** |
| | Income from loss absorption | - | - | - | **-** |
| | Expenses from profit transfer | 3,107.7 | - | 88.9 | **3,196.6** |
| 26 | Net deficit for the year (balance of 23, 24 and 25) before formation of reserves | **-255.3** | **-62.7** | **-15.8** | **-333.7** |
| 27 | Income from reversal of reserves | 77.2 | 231.0 | 8.8 | **317.0** |
| 28 | Expenses from allocation of reserves | 5.6 | 168.4 | 16.6 | **190.6** |
| **29** | **Net deficit for the year** | **-183.7** | **0.0** | **-23.6** | **-207.3** |

**Reconciliation**

The reconciliation of the performance result to consolidated net profit/loss for the year at the level of the federal state of Hesse’s consolidated financial statements (HGB) takes account of consolidation-related adjustments as part of consolidated accounting under HGB of €208.1 million and closes the reporting year with a surplus of €0.8 million.

| in € million | Actual 2019 |
|---|---|
| Net surplus/deficit budget statement | -207.3 |
| Consolidation-related and other adjustments | 208.1 |
| **Consolidated financial statements (HGB)** | **0.8** |
| Net profit/loss from full consolidation of additional entities for IPSAS financial statements | 38.2 |
| Other adjustment IPSAS (measurement) | -1,709.7 |
| **IPSAS financial statements** | **-1,670.7** |

Full consolidation for an expanded scope of consolidation in accordance with IPSAS is estimated to increase surplus/deficit by €38.2 million. The other measurement adjustments under IPSAS result in a €1,709.7 million decline in consolidated net income.

## Overview

| | Net surplus/deficit | | | Net cash flows | | | |
|---|---|---|---|---|---|---|---|
| in € million | Income | Expenses | Total | Adminis-trative activities | Investing activities | Financing activities | Total |
| **Core budget** | **66,883.5** | **67,067.2** | **-183.7** | **2,846.3** | **-1,596.6** | **-200.3** | **1,049.4** |
| Deposit, advance, residual borrowing | - | - | - | -823.0 | 200.0 | 680.5 | 57.5 |
| State companies/universities | 5,588.5 | 5,612.1 | -23.6 | 58.8 | -65.8 | -18.8 | -7.1 |
| **Net profit/loss budget statement** | **72,472.0** | **72,679.3** | **-207.3** | **2,023.2** | **-1,462.4** | **480.2** | **1,099.8** |
| Consolidation | -37,977.6 | -38,185.7 | 208.1 | 312.6 | 582.6 | -895.2 | 0 |
| **Consolidated financial statements (HGB)** | **34,494.4** | **34,493.6** | **0.8** | **2,394.7** | **-879.9** | **-415.0** | **1,099.8** |
| Full consolidation of additional entities | 1,217.0 | 1,178.8 | 38.2 | 213.5 | -209.0 | 0.8 | 5.3 |
| Adjustments IPSAS | -201.6 | 1,508.1 | -1,709.7 | -43.2 | 198.6 | -155.4 | - |
| **IPSAS financial statements** | **35,509.8** | **37,180.5** | **-1,670.7** | **2,565.0** | **-890.3** | **-569.6** | **1,105.1** |

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www.bilanz.hessen.de

https://finanzen.hessen.de/haushalt/geschäftsbericht/themenseite-epsas.

**NOTE**

For the sake of comprehension and clarity the text may not use both the male and female forms; the personal nouns and pronouns used in this text therefore also apply in their female or male form.

Rounding differences within the IPSAS Financial Statements are possible due to presentation of amounts in € Mio.