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STEAG Annual Results Press Conference, March 28, 2012

Joachim Rumstadt,

Chairman of the Management Board

- Check against delivery -

Ladies and Gentlemen,

On behalf of STEAG I would like to warmly welcome you to our annual results press conference. Today we aim to fill you in on our figures for the 2011 financial year. However, it is every bit as important to paint a picture for you of how STEAG is positioning itself for the future.

For us the move of our company headquarters to the Ruettenscheider Strasse premises was on the one hand a return to the building which had been our former company headquarters for more than two decades. On the other hand the move also represented the dawn of a new era in our nearly 75-year company history: with the Stadtwerkekonsortium Rhein-Ruhr (Rhine-Ruhr Consortium of Municipal Utilities) as our new majority shareholder, but also faced with a difficult energy policy regulatory framework.

To start with, let us first note that STEAG has achieved a successful relaunch! We have laid strong foundations for the construction of a new STEAG. A little later, I will tell you more about STEAG's strategy and about how we at STEAG intend to position ourselves for the future both at home and abroad.

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<u>Good 2011 Trading Figures</u>

Before I discuss the trading figures, I would like to make a few comments about organizational changes. The most noteworthy change is well-known: about a year ago, on 2 March 2011 the closing of the purchase contract occurred, whereby the Rhine-

Ruhr Consortium of Municipal Utilities acquired a 51 percent shareholding in STEAG through the Kommunale Verwaltungsgesellschaft GmbH KSBG. Evonik Industries AG is retaining a 49 percent share.
By entry in the Register of Companies on 7 June 2011, the company name was changed from Evonik Steag GmbH to STEAG GmbH as part of the process of bringing about the greatest possible disengagement of STEAG from the organizational framework of the Evonik Industries AG group.
In June 2011 KSBG and STEAG signed a profit and loss transfer agreement which came into force on 1 July 2011, the first day of the company's financial year.
On 1 May 2011 there was a change in the management team:
Dr. Ralf Gilgen joined the management team, becoming Karl Schnadt's successor as Management Board Member responsible for technology.

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Let us now turn to some of the key items in the STEAG Group's 2011 trading figures. For further details please consult our annual report.

2011 was a good financial year for STEAG. We succeeded in increasing our **sales** by 9.2 percent, from €2.8 billion to €3.1 billion. We generated 33 percent of our sales abroad and 67 percent in Germany. The main reason for the increase in overall sales in the Power division, which grew by 8.9 percent to €2.8 billion, was higher hard coal prices both as a component of the electricity price and in coal trading.

In the Renewable Energies and Distributed Facilities division we achieved above-average sales growth of 11.8 percent, to €276.8 million.

In comparative terms the rise was even more noteworthy given that the 2010 figures included proceeds of €239.3 million from two companies sold at the end of 2010, to wit RVG GmbH and WSA GmbH, as well as sales of €55.4 million which had been generated in the coke business which was divested in 2010.

Next we turn to the **consolidated result**.

We were unable to match the high overall result of the STEAG Group achieved in 2010. This is chiefly due to one-off effects in previous years, such as contractual adjustments. In particular, impairments led to a significant fall in earnings before interest and taxes (EBIT) by €257.4 million to €75.7 million. However, after adjusting for these special effects the **EBIT** increased by 14.9 percent to €405.3 million.

Again after correcting for special effects totalling €316.5 million, we achieved an **EBITDA** increase of 12.5 percent, to €491.4 million.

In line with the **profit transfer agreement**, STEAG transferred €109.3 million to KSBG for the short financial year from July 1 to December 31, 2011, a figure that includes tax levies.

The **depreciation and impairment** of €378.0 million included €290.5 million in impairments on property, plant and equipment, in particular on the new build power plant Walsum10 and biomass plants.

Nevertheless: When our new power plant joins the grid in September 2013 we shall have one of the most modern power plants in Europe. Walsum 10 will be a success. I'm proud of our Walsum10 team who, despite all the reverses which can never be ruled out in a major project like this, remained committed and kept their eyes on the ball at all times, came up with alternative plans under high pressure and have been pushing ahead with the plant modifications since the end of last year. The team has demonstrated how persistent we are at STEAG, a trait that is particularly important in our industry.

At this point I'd like to give you a few facts and figures about our **personnel**. During the reporting period the number of people employed by the STEAG Group rose from about 4,800 to about 5,800. The main reason for this is the initial consolidation of STEAG Energy Services in India – where we now have 700 employees – and of the Polish company Energetyka Cieplna. Furthermore, we succeeded in expanding business activities of STEAG Energy Services LLC, (USA) and STEAG Energy Services do Brasil Ltda. In Germany, which accounts for about 70 percent of our workforce, the number of people employed rose by 171 to some 3,800. The main reason for this was employees moving from service and corporate functions at Evonik to STEAG.

Total **energy sales** by the Power division from our own generating capacity and capacity operated on behalf of customers fell by 4.7 percent as compared with 2010, to 35,301 GWh_e. The main reason for this development is the grid feed-in preference given to energy from renewable sources. Heat sales recorded by the Renewable Energies and Distributed Facilities division fell 6.6 percent, to 2,041 GWh_{th}), electricity sales were down 3.9 percent to 1,558 GWh_{el}.

Outlook

For the 2012 financial year we are expecting sales of €3.1 billion, with EBIT (Earnings before Interest and Tax) well down on the 2011 figure. This fall is due in the first instance to the fact that the 2011 result was significantly affected by one-off events such as contract adjustments as well as recurrent events of an unusual nature. Secondly, the result for 2012 will be affected by start-up costs for growth projects, higher inspection expenditure at the Voerde / West, Lünen and Herne plants, as well as the impact of falling income from the financial leasing of major projects. In the case of the power plant project in the Philippines, a contractual electricity price adjustment mechanism agreed many years ago will have a depressing effect on the result. The Renewable Energies and Distributed Facilities division is recording a marked fall in margins due to the fact that proceeds from direct marketing have largely come to an end.

For 2013 we expect a slight improvement in sales as compared with previous years. The commissioning of the Walsum 10 power plant, scheduled for September 2013, will have a positive impact.

The new income streams from the commissioning of the Walsum 10 power plant and from new build projects on a renewable energy basis will also have a positive effect on the 2013 result, as will the planned cost cuts on domestic power plant operations and in the administrative setup, plus falling maintenance costs due to the absence of major inspections in 2013. However, discontinuation of the free allocation of CO_2 certificates plus lower electricity marketing margins will have a negative effect on the 2013 result. The Group’s medium-term performance will largely be shaped by the planned **investments**. I’ll be giving you more details on this later, but here is a foretaste: over the next three years we are planning investments totaling about one billion euros, the bulk of them on renewable energies. In our existing business we intend to take targeted action to boost the efficiency of our power plant operations thus safeguarding their futures.

<u>Laying Strong Foundations for the Future</u>

Was 2011 a good year for STEAG, then? Yes, but at least as important for us here at STEAG was that in 2011 we were able to lay strong foundations for the future of our enterprise. And that was despite the fact that both employees and management faced a considerable additional workload as a consequence of the change of ownership and consequent reorganization.

Looking back, we can be proud that we achieved a swift and successful transition to the new ownership structure. That in itself is no mean feat, and it is not for nothing that, when I use the word ‘we’, I mean not only the STEAG team but also our owners, and above all our new majority shareholders. The working relationship between all those concerned has run smoothly at all times, and it was this that enabled us last year to successfully bring about the realignment of STEAG and define our strategy for the coming decade.

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What is STEAG made of, what are the **foundations** on which we can build the new STEAG? Integrated solutions in the field of electricity and heat generation plus technical services in Germany and abroad are our business. Our core expertise includes the planning, implementation and operation of both large power stations and distributed facilities, as well as asset-based electricity trading. The basis of our energy production is both fossil fuels and, for over a decade now, renewable energy. As one of Germany’s largest electricity producers, STEAG operates 11 power plants plus over 200 distributed facilities producing energy from renewable sources, as well as distributed installations for industry, designed to boost energy efficiency and supply heat. Founded on our many years of experience in the electricity, coal and CO_2 business, we have built up a high level of energy trading expertise and established an extensive portfolio of products and services.

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STEAG pursues a long-term strategy involving three elements:

- Firstly, we aim to **establish STEAG as the leading municipal generation, trading and service platform in Germany**. STEAG and the municipal utility companies complement each other on the generation and marketing sides of the energy industry.
- Secondly, **STEAG aims to continue the diversification of its energy generation base, through investments, both at home and abroad**. To this end our long-term goal is a 25 percent contribution of renewables to our energy base, but we also intend to continue applying our special expertise in the field of fossil fuel power plants.

- Thirdly, at STEAG we also intend to build on our existing product portfolio and reference projects in over 40 countries, **to intensify our international activities and become a market leader in the provision of services all along the energy generation value chain**.

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I would now like to discuss each of these three points in greater detail.

1.) Establishing STEAG in Germany as a municipal generation, trading and service platform

Thanks to our new ownership structure, with the municipal utilities consortium (KSBG) as our majority shareholder, we can strengthen our position in the German energy market. Right from the start KSBG has regarded STEAG as the right partner, not only for the seven municipal utility companies making up the consortium, but also for the entire German municipal utilities market. Accordingly, we want to establish ourselves in Germany as the service provider and project developer for municipal utilities, including in new segments such as offshore wind power. Very few enterprises are as well positioned as STEAG to operate as project developers.

We have reference projects with 100 municipal partners, from Munich to Flensburg, from Duisburg to Dresden. Take, for instance, our activities in the town of Erding, in Upper Bavaria: under contract to the municipal and district authorities of Erding, STEAG has been operating for many years two geothermal heating plants with the associated district heating system, supplying geothermal heat to public buildings, family homes, commercial facilities, and to the Erding spa. Last week we announced construction of a packaged CHP unit in the town of Rochlitz in the federal state of Saxony; this unit will be operated by Energieversorgung Rochlitz GmbH (EVR), a company jointly owned by the municipal authorities of Rochlitz (51 percent) and STEAG New Energies GmbH (49 percent). This successful cooperation has existed for more than fifteen years now.

The trend towards distributed generation offers opportunities to build up our business with municipal utilities and municipal partners. We are working on models of what this kind of partnership could look like, particularly in the field of energy from renewable sources.

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At this point I'd like to take a look at our existing power plant activities in the fossil fuel sector – and at **how our Five Point Program is doing.**

Ladies and Gentlemen,

STEAG has some great sites in Germany, with extremely well-trained, experienced personnel. This fact is not least reflected in a new record of more than 4,000 suggestions for improvement submitted by employees during the last year. Last year alone we invested some €117 million in our German sites, principally on our new build project in Duisburg-Walsum.

In Germany we enjoy a strong and flexible position, with our own sites which are already licensed. As part of our activities in the municipal sector we prepare, in collaboration with other enterprises, to invest in new power plant projects, for instance in combined cycle power plants. However, we always act prudently and always on the principle of never taking any shortcuts in our operational evaluation.

In the German federal state of North Rhine-Westphalia (NRW) the interlinking of the district heating networks in the Rhine/Ruhr region could bring about new opportunities to even better use the huge potential of cogeneration of heat and power. We therefore collaborate on a feasibility study commissioned by the NRW state government. Apart from other players, also five municipal utilities from our shareholder consortium – Stadtwerke Dinslaken through its subsidiary Fernwärme Niederrhein GmbH, Stadtwerke Duisburg, Energieversorgung Oberhausen, Stadtwerke Bochum and DEW 21 Dortmund – are involved in this effort.

As for the energy turnaround, we want to play an active and constructive part in shaping it. We also see great opportunities for STEAG in the field of renewables and distributed facilities. However, we have been struggling and will continue to struggle against massive problems stemming from reduced hard coal power plant capacity utilization due to the preferential grid feed-in status given to renewables and major customers not extending capacity provision contracts.

Against this background, last October we launched our Five Point Program which embraces both cost-cutting measures and the development of new business activities. At the time we also announced that we will trim our payroll by around 200 by the end of 2013. However, before the end of 2011 we had negotiated a framework agreement on the reconciliation of interests and a corporate severance package with the works council which has enabled us to rule out until 2016 any redundancies for operational reasons. This STEAG solidarity agreement involves cuts in personnel costs in which all STEAG employees are participating, with pay scale employees, non-pay scale employees and executives experiencing cuts of 2 percent, 3 percent and 4 percent, respectively, brought about by reducing the variable remuneration, while STEAG's management has cut its own remuneration by 10 percent.

Last October we also announced that a decision would be taken in 2012 about running down operations on individual generating units, which could involve cutting up to 400 jobs. We shall be keeping to this timetable. During the first half of 2012 we shall continue to monitor the market and engage in detailed analysis in order to gather the knowledge required to arrive at a well-founded decision. As regards developing new business activities, we are focusing on the field of technical services.

2.) Investing in further diversification of STEAG's generation base

For investments today and in the future we can draw on our current earnings or attract funds from investors. Currently there is great interest from institutional investors, who are moving away from government bonds towards infrastructure projects. For these investors STEAG is an attractive partner thanks to its decades-long track record in complex major projects.

On the investment front we will have a lot on our plates over the coming three years, as we are planning to invest around one billion euros, the bulk of it in renewables but also with some conventional energy investments. Investments coming to almost €400 million are planned for 2012, followed by around €500 million in 2013 and about €190 million in 2014.

Here we can rely on our strengths in planning new capacity in a wide range of forms - large, small, conventional with coal and gas, or with renewables. A key factor for us is and will continue to be the prudent use of the resources entrusted to us. Accordingly, both the partner models and stringent operational standards will play a key role here.

An examination of other sectors which are involved in major projects on an internationally-networked scale shows that **partner models** are the way forward, including in the energy industry. And we are ready to meet the challenge, both in smaller projects with distributed facilities and in major projects, whether they involve fossil fuels or renewable energy, in Germany or abroad. Furthermore, we also view this approach as a contributing to minimizing the risk from our own commitments and as an efficient deployment of resources.

Deployment of resources is the key here: We are only interested in projects which will deliver results within a foreseeable timeframe. In short, we consciously take risks but limit their extent. That also means being willing to withdraw from projects if the underlying situation deteriorates in unpredictable fashion. Our decision not to go ahead with our prospective involvement in a project in the Moroccan city of Ouarzazate for the building of a large solar thermal power plant is a case in point. However, Ouarzazate was just one of the solar thermal projects we were involved in. In South Africa too we are considering investing in various solar thermal and wind power projects.

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However, to return to our investments over the coming years in renewable energy, we’ve been active in this field for over ten years, and over this period we have, through endogenous growth alone, raised this division’s contribution to total sales to 9.0 percent. Our long-term aim is to increase the share of renewables in our energy generation portfolio to 25 percent.

In Germany STEAG already enjoys a leading position in the generation of electricity and heat from mine gas and biomass. We are also one of the market leaders in the development of district heating based on geothermal energy. We also have a presence in the field of biogas and will be redoubling our activities there.

In the past financial year we reassigned responsibilities in the field of renewables. Our Saarbruecken-based subsidiary STEAG New Energies will continue to concentrate on distributed projects, chiefly in Germany but also in Poland and France. In Poland

STEAG New Energies now employs some 400 people, by the way. Meanwhile, a project development team at STEAG GmbH in Essen will be working, mostly in close collaboration with our engineering subsidiary STEAG Energy Services, on major projects, chiefly in wind energy but also in solar thermal generation. For instance, we have recently decided to invest around €200 million on a 108 MW wind farm in Romania.

Ladies and Gentlemen, the third element in our strategy is internationalization.

3.) Intensifying STEAG's international business

We also want to grow internationally and become a leading provider of services along the energy generation value chain. Our shareholders support us in this aim. After all, further internationalization of our business will not only open up good growth opportunities, it will also contribute to risk minimization through regional diversification. On the one hand we want to participate in the growing worldwide renewable energy industry, while on the other hand profiting from the enduringly strong demand for highly-efficient coal-fired power plants.

STEAG can point to energy production reference projects in over 40 countries worldwide and has decades of engineering and operation and maintenance management experience. And our most important asset is that we benefit from the great trust that we have been able to build up over the decades.

Here are two examples:

- In Turkey we have been active for some 30 years now. At the time when our Iskenderun coal-fired power plant went online in 2003, this was the largest foreign direct investment in the country by a German company. Last year we commenced the final planning stages for three wind parks, and we have also acquired a majority holding in the Turkish engineering firm Ensida.
- In India we have increased our workforce almost six-fold over the past five years, from 120 to more than 700 employees. We are a successful thermal power plant operator in India and have also expanded our engineering activities. In March we decided to acquire a 5 percent interest in the Hinduja group's Vishakhapatnam hard-coal-fired power plant located on India's east coast.

On the future worldwide energy market, we will continue to have a mix of fossil fuels and renewables. According to the World Energy Outlook (WEO 2011), the predominance of fossil fuels is on the decline but the age of fossil fuels is far from over. The situation in power generation from hard coal is totally different on the international markets from that in Germany. Internationally, coal has long been the most important electricity-generating fuel and looks set to remain so for the foreseeable future.

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Ladies and Gentlemen,

I would now like to make a few comments on the subject of the energy turnaround, which for a year now has preoccupied not just our company but the whole of society.

To guarantee supply security on affordable terms, the fossil energy sources coal and natural gas will continue for many years to form the basis of dependable energy supplies in Germany. Even if the proportion of renewable energy rises disproportionately within the context of the energy turnaround, coal- and gas-fired power plants will remain indispensible for a long time, because we need them for meeting base load and intermediate load requirements – and we need to maintain the system stability in the grid! Coal- and gas-fired power plants form a vital bridge to meeting the federal government’s targets for 2050. Accordingly energy production based on fossil energy sources such as coal and natural gas should not become the subject of vilification.

However, setting national targets aside I’d like to highlight the European dimension here. Our industry, that is energy generation companies, is endeavoring to bring about the expansion of renewable energy not just at national level but also Europe-wide. As a company which is playing a constructive part in shaping the energy turnaround, we will also put in a word of warning about factors which could jeopardize the success of the energy turnaround. At STEAG we too would like to see a European internal energy market become a reality by 2014. However, currently it appears, and not only in Germany, that the focus is far more on national programs, and that a rigorous policy of Europe-wide integration is conspicuous by its absence.

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We have to create the preconditions for Europe-wide, cross-border approaches, and we increasingly need these when it comes to renewable energy in Europe. I'd like to touch on three points here:

- We need **free market-based, uniform pan-European market and subsidy conditions.** It makes no sense, for instance, that in the UK renewable obligation certificates (ROCS) are issued for each MWh of green energy, whereas Romania has tradable green certificates, but the two cannot be exchanged for each other! And meanwhile, other countries even have fixed feed-in remuneration …

- **Europe must benefit from its diversity.** To this end the expansion of renewable energy must be combined intelligently not only with an efficient Europe-wide transmission grid but also newer conventional power plants at regional level. Incidentally, the Institute of Energy Economics at the University of Cologne has calculated that, through competition between regions and different technologies alone, cost savings throughout Europe of €174 billion could be achieved by 2020.

- **We must ensure the public acceptance of major projects**. Here politics and industry will have to work together. At STEAG we can contribute our own experience: we know that one cannot expect to gain acceptance overnight, rather one has to build up trust over a period of years or even decades.

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To conclude, I would like to summarize as follows:

- STEAG can look back on a good 2011 financial year. We have presented strong trading figures and laid important foundations for the years to come. For 2012 we are expecting sales to remain stable at €3.1 billion, followed by a slight improvement in 2013. The 2012 profit will be down, while for 2013 we are expecting to see the positive effects of new income sources from new build projects. Over the next three years we aim to invest around one billion euros on pushing ahead with projects for the future.

- In Germany we are implementing our Five Point Program step by step, on both the cost-cutting front and regarding the expansion of new business activities. The objective is to boost the competitiveness of our power plants, a process that will also involve increasing our flexibility.

- STEAG has put in place a strategy founded on the following three key elements:
  → Establishing STEAG in Germany as a municipal generation, trading and service platform
  → Investing in the increased diversification of STEAG's energy generating base
  → Intensifying STEAG's international business activities

- Only an energy mix of fossil and renewable sources of energy, only intelligently coordinated national activities within the framework of a pan-European energy policy, and only greater public acceptance of major new projects can lead to the successful implementation of the energy turnaround.

  Our integrated knowledge and reference projects in over 40 countries all around the world mean that the energy turnaround can also open up good business opportunities for STEAG.

So much for what I have to say. And now we look forward to hearing your questions!