

STEAG: Strategic repositioning progressing well

- Group profit significantly increased
- 45 million euros profit transfer to shareholder
- Green rating achieved
- CO₂ emissions further reduced

Essen. STEAG is looking back on a satisfactory business year 2019. In a difficult market environment, the Essen-based energy company has successfully maintained its position, achieved its earnings targets and increased its profitability. This creates a sound basis for mastering the major challenges of the current year.

The German Parliament is expected to pass the Act on the Reduction and Termination of Coal-fired Power Generation (KVBG) in the summer. As things stand at present, this will probably mean that operators of hard coal fired power plants will have to shut down their plants quickly by 2030 at the latest and not, as in the case of lignite, by 2038. Hard coal is also at a disadvantage in terms of compensation payments compared with lignite. "This is a clear departure from the recommendations of the Commission on Growth, Structural Change and Employment," criticizes Joachim Rumstadt, Chairman of the Board of Management of STEAG GmbH.

If the Federal Government does not take account of the objections, which are shared not only by STEAG and other operators of hard coal fired power plants, but also by the Upper House of Parliament, STEAG reserves the right to take legal action against the Act. "We accept the will of the people and the political decision to abandon coal-fired power generation in Germany," Joachim Rumstadt clarifies. "But we cannot agree with the currently planned legal implementation."

COVID-19 burdens economy

The COVID-19 coronavirus pandemic is a further exacerbating factor. The Ifo business climate index, an important early indicator of economic developments in Germany, recently plummeted to its lowest level ever. The damage caused by the standstill in public life and large parts of the economy around the

Page 1 of 5

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Board of Management

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Dr.-Ing. Wolfgang Cieslik
Alfred Geißler

globe is considerable. Even if the restrictions are slowly eased and a gradual return to normality is initiated, economic researchers expect a severe recession in 2020, not only in Germany and Europe, but almost everywhere in the world.

STEAG, one of the major electricity and heat producers in Germany and an international operator of power generation plants, is also clearly feeling the effects of the pandemic. Large energy consumers, especially from industry, are cutting back or shutting down their production. As a result, demand for electricity is falling and electricity prices are dropping. “The start of 2020 was quite encouraging, because in the first three months we were well ahead of our plans,” says Joachim Rumstadt. “But now there is a clear reversal.” That applies in particular to Turkey, an important electricity market for STEAG. In addition, 140 employees of the German subsidiary STEAG Technischer Service are currently on short-time work. This is due to the fact that maintenance measures at the company’s own power plants or at plants of external customers have been postponed or reduced to a minimum. The introduction of short time is also being examined in other business units. At the same time, STEAG has taken consistent protective measures for its own employees to ensure that a secure supply of electricity and heat is guaranteed by the company at all times.

Important milestones reached

Moreover, the increasingly deteriorating economic conditions are making the transformation process, which has been successful to date and in which STEAG – like all energy companies with a comparable business model – finds itself because of the energy transition, more difficult. Further milestones were reached in 2019 in the company’s transformation, which began in 2016 with the “STEAG 2022” project. Here are four examples:

Example I: Strategic acquisition in the photovoltaic sector

STEAG has succeeded in making a strategically important acquisition in the renewables sector. Thanks to the extensive know-how and the international network of the youngest group subsidiary STEAG Solar Energy Solutions, or SENS for short, STEAG has taken a major step forward in the growth market of photovoltaics. SENS’s core competencies include the development and turnkey installation of large ground-mounted photovoltaic (PV) plants. In Sicily, SENS is developing around 440 megawatts of ground-mounted PV capacity together with a financial investor. In terms of figures, the systems cover the electricity needs of around 350,000 households with CO₂-free energy.

Example II: Hydrogen project on the Saar

With the “Fenne HydroHub” project supported by the Federal Ministry for Economic Affairs and Energy as part of the “Living Labs for the Energy Transition” program, STEAG is helping to develop Saarland further as a traditional location for the energy industry. The focus is on hydrogen, the combustion of which avoids climate-damaging emissions. At the site of the STEAG Fenne power plant in Völklingen, large quantities of green hydrogen are to be produced with the aid of an electrolyzer when there is a surplus of wind and solar energy. This can then be used in a variety of ways. For example, in Saarland-based steel companies which need it for their industrial processes. However, it can also be fed into the regional gas network and additionally supplies public hydrogen filling stations in Saarland. In addition, hydrogen can be used to generate electricity again. Furthermore, the heat generated during the production of hydrogen can be fed into the Fernwärmeverbund Saar (FVS) district heating network.

Example III: New combined cycle power plant in the heart of the Ruhr area

At the Herne site, STEAG and its partner Siemens are building a new and highly efficient combined cycle power plant. The plant, which is scheduled to go into regular operation in mid-2022, operates on the principle of combined heat and power (CHP) and will provide an environmentally friendly district heating supply to a calculated 300,000 households in the heart of the Ruhr area. By investing a sum in the mid hundreds of million euros, which the project partners are sharing equally, STEAG and Siemens are actively contributing to the success of the energy transition. In the period of transition to climate-neutral power generation, low-CO₂ natural gas power generation will be indispensable as a bridging technology. Combined cycle gas turbine plants will form the backbone of a secure energy supply in Germany after the phase-out of nuclear power and the end of coal-fired power generation. In the long term, green hydrogen has the potential to replace fossil fuels in power generation and could also be used in the Herne CCGT plant.

Example IV: Efficient industrial solution for BP

STEAG is constructing a new process steam supply system for the BP petroleum company on the site of the BP refinery in the Scholven district of Gelsenkirchen. Refinery gases which have been flared and therefore unused to date are burned and thus made available for energy production. This protects the environment and conserves resources. And in the event that less process steam is drawn from the refinery than is available from burning the refinery gases, electricity is produced with the excess steam by means of a condensing turbine. The "Steam" project ensures the best possible energy recovery from the previously unused refinery gases.

Respectable carbon footprint

These four examples alone show that STEAG takes the resolutions of the Paris Climate Protection Agreement and the CO₂ reduction targets of the European Union into account in its business activities. Our carbon footprint is very respectable: Compared to 1990, STEAG reduced its CO₂ emissions by 79 percent by the end of 2019. Long before the coal phase-out law is passed, STEAG has already decommissioned a large part of its hard coal fired power plants in Germany, using its own financial resources.

For STEAG, the year 2020 is also marked by the strategic repositioning of the company. Teams of experts from the Group's various divisions have been working for months on the further development of the corporate strategy. "Thanks to the technical and energy management expertise that STEAG has acquired in its more than 80 years of corporate history, we will successfully position ourselves on the energy markets of the future," Joachim Rumstadt is convinced.

Only a few days ago, the Supervisory Board ensured that the successful path taken so far can be continued seamlessly. In addition to Alfred Geißler, 63, Human Resources Director, and Dr. Wolfgang Cieslik, 68, Market and Generation Director, who will retire at the end of July and the end of September, respectively, the current CFO, Michael Baumgärtner, will leave the management board by mutual agreement on 30 April. He will take on a new professional challenge. "With the rapid appointment of Dr. Heiko Sanders as the new CFO and the succession arrangements now also being made for Dr. Wolfgang Cieslik and Alfred Geißler, the STEAG management team is excellently equipped to handle the impending tasks," as Guntram Pehlke, the chairman of the supervisory board of STEAG

GmbH summarizes the current position. (See also the ► [STEAG press release on the reorganization of the management team](#) dated April 22, 2020.)

STEAG receives green rating

The consistently pursued Group restructuring is also paying off in terms of the expanded opportunities for financing the company. The process for a green ESG rating was successfully completed at the beginning of the year. This rating, which assesses environmental issues in particular, is becoming increasingly important as a selection criterion for institutional investors. On this basis, STEAG aims to offer green financing instruments for the first time. “Energy from renewables and distributed generation are already an important business area for STEAG. Decentralization, digitalization and decarbonization are the central trend topics in the energy markets. STEAG is taking this development into account,” confirms CFO-designate Dr. Heiko Sanders, who will take up office at the beginning of May.

The 2019 business year in figures

Owing to the overall lower level of capacity utilization at STEAG’s domestic hard coal-fired power plants and the resulting, now netted out presentation of trading transactions, consolidated sales fell in 2019 from 2.9 billion euros in the previous year to 2.1 billion euros. However, Group earnings improved significantly compared with 2018. Earnings before interest and taxes (EBIT) rose from 160.6 million euros in 2018 to 210.2 million euros. Positive one-off effects also contributed to this.

Consolidated earnings after taxes amounted to 131.9 million euros, a multiple of the previous year’s figure of 12.7 million euros. As in the previous year, 45 million euros will be transferred to the shareholder Kommunale Beteiligungsgesellschaft KSBG.

Total liquidity in the Group amounted to 432.9 million euros at the end of the business year, compared with 565.5 million euros in the previous year. The increase in free cash flow from € 100.5 million in 2018 to € 218.5 million is positive. “In 2019, we have achieved key corporate goals,” as Joachim Rumstadt emphasizes.

Outlook for 2020

At the beginning of the year, STEAG’s management had forecast an increase in sales to 2.4 billion euros for the current business year. In the absence of favorable one-off effects of a similar magnitude to those reported for 2019, earnings before interest and taxes (EBIT) were initially expected to fall by around ten percent. Due to the negative effects of the COVID-19 crisis on the economy, STEAG’s management now assumes that the original plans can no longer be achieved despite the measures already introduced to increase earnings.

Investments of up to 212 million euros are planned for 2020. Around 120 million euros of this will be spent on growth projects. STEAG invested 136.9 million euros in 2019.

STEAG's results in figures

Consolidated figures to IFRS			
in millions of euros	2019	2018	Change in %
Sales	2,087.3	2,901.0	-28.0
EBITDA	372.5	307.1	21.3
EBIT	210.2	160.6	30.9
Group earnings after taxes	131.9	12.7	938.6
Profit transfer to KSBG	45.0	45.0	0
Investments	136.9	173.7	-21.2
Cash and cash equivalents	423.9	565.5	-25.0
Number of employees	6,378.0	6,575.0	-3.0
EBIT margin (in %)	10.0	5.5	-

About STEAG

With an installed power plant capacity of currently 7,200 megawatts, 5,000 of which are in Germany, STEAG is one of Germany's largest energy producers. Decentralized power generation from renewable energies is becoming increasingly important. In Germany and countries of the European Union as well as Turkey, STEAG operates more than 400 decentralized generation plants alone or with partners; the majority of these are based on renewable energies.

In addition, STEAG operates nine large thermal power plants in the Ruhr area, Saarland and at foreign locations in Colombia, the Philippines and Turkey, as well as a refinery power plant in Leuna. In addition, the Essen-based company has been commissioned by a customer to take over the operation of power plants based on thermal and renewable energies with a total output of 7,334 megawatts; STEAG technicians provide operational management support for other power plants with a total output of 3,765 megawatts. In addition, STEAG has supplied more than 2,000 IT systems for planning and optimizing power generation plants.

At the end of 2019, STEAG had a total of 6,378 employees throughout the Group, almost half of whom were based outside Germany.