Combined management report as at December 31, 2015

This management report is a combined report on STEAG GmbH and the STEAG Group (STEAG GmbH and its subsidiaries). Business development at STEAG GmbH is reported in a separate chapter. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU, while the individual financial statements have been drawn up in accordance with the provisions of the German Commercial Code (HGB).

Basic information on the STEAG Group

Business activities and corporate structure

Business activities

The STEAG Group operates internationally, providing integrated solutions for its customers in the areas of power and heat generation, and technical services. Its core competencies include the planning, construction and operation of large power plants and distributed facilities, and asset-based power trading. The Group's power and heat generating capacities are based on special fuels, fossil fuels and, increasingly, renewable energy sources.

Conventional energy generation

As one of Germany's largest electricity producers, the STEAG Group has total installed capacity of 10,350 megawatts (MW) electric, including 8,300 MW in Germany.

In Germany, the STEAG Group operates power plants at ten sites and has more than 200 distributed facilities to generate energy from renewable resources and to serve industry and supply heat.

Outside of Germany, the Group has its own power plants and also works closely with local partners. The STEAG Group operates its own power plants in Colombia, the Philippines and Turkey. The power plant in Iskenderun (Turkey) is the Group's largest foreign investment with installed capacity of 1,320 MW.

Renewable energies

Renewable energy sources are increasingly important in the STEAG Group's portfolio. The Group increased its commitment to renewables further in 2015. The Süloglu wind farm in Turkey went on line on schedule in the fall with installed capacity of 60 MW. In addition, the Group paved the way for further growth in renewables by acquiring several project companies to build wind farms in France. Through systematic expansion in recent years, the STEAG Group now has total installed capacity of around 750 MW based on renewables and distributed generation.

A competent trading partner

Based on many years of experience in the trading of power, coal and CO_2, the STEAG Group has a broad portfolio of products and services, and extensive expertise in trading. Today, the STEAG Group is one of Germany's leaders in the import and marketing of hard coal. It imports hard coal from the major producing nations for supply to STEAG power plants and third parties.

A wide range of services

Over the years the STEAG Group has accrued great expertise in modernizing power plants and is now regarded as one of the leading providers of solutions for customized energy supply that is both environment-friendly and profitable.

As well as being a pioneer in efficient technologies for power generation from hard coal, which contribute to the conservation of resources, it is a specialist in optimization of the entire value chain associated with power plants. In Europe the STEAG Group also has a strong position in the re-use and marketing of waste materials from hard coal power plants.

In Germany the STEAG Group is a leader in the generation of electricity and heat from mine gas and heat from geothermal energy. It is also one of the largest suppliers of district heating and a contractor and operator of biomass heating plants in Germany.

Its competencies include professional engineering and operating solutions for every type of power generation. The engineers at the subsidiary STEAG Energy Services GmbH operate internationally, for example, in Brazil, Botswana, Romania, Turkey, Switzerland, the USA, and India. STEAG Energy Services (India) Pvt. Ltd. has around 1,000 employees, making it the foreign subsidiary with the largest workforce.

A partner for Germany's new energy policy

The STEAG Group is a partner for Germany's new energy policy and stands for a holistic view of the transformation of the energy sector. Energy storage and enhanced flexibility are key elements in the realization of the new energy policy. In view of this, in November 2015 STEAG GmbH took a decision to invest in six large-scale battery systems. This investment gives the STEAG Group a pioneering role in Germany in the establishment of battery storage technology and the marketing of the power stored in this way. The lithium-ion-based battery systems, each of which will have capacity of 15 MW, will be taken into service at the Group's six German power plant locations between mid-2016 and early 2017.

Efficient pooling and marketing of distributed facilities is one of the major challenges of the new energy policy. One possible solution is virtual power plants, which the STEAG Group has been actively using for many years. Last year a new concept for virtual power plants was developed and implemented. Distributed generating facilities and facilities based on renewable energy resources are now connected to conventional heat generating facilities and new technologies such as battery storage systems and managed jointly. Joint marketing with the STEAG's conventional power plants enables the utilization of synergies with mutual back-up.

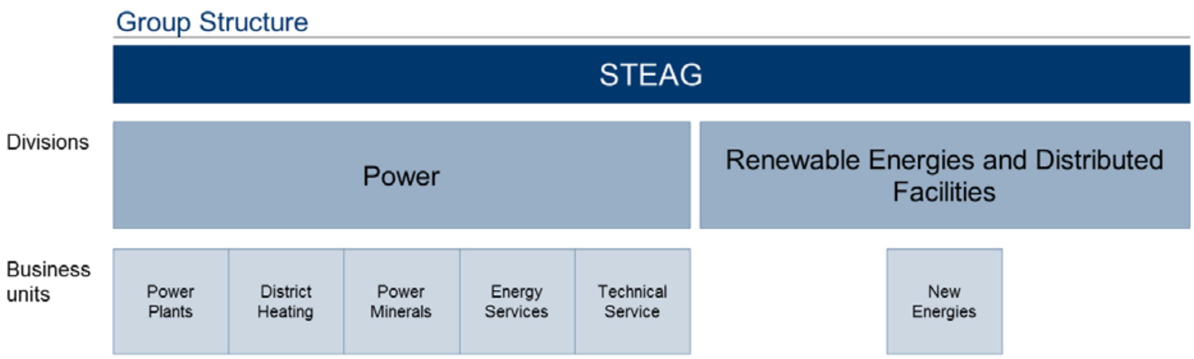
Including the market for heat is very important for the success of the new energy policy. Together with its partners Fernwärmerversorgung Niederrhein GmbH (25.1 percent) and Energieversorgung Oberhausen AG (18.3 percent), the STEAG Group is driving forward the Rhine-Ruhr district heating project to connect the existing district heating lines between Bottrop and Duisburg. Key milestones in 2015 were the establishment of the project company and an assurance of support from the regional government. This project has qualified for inclusion in KlimaExpo.NRW initiative and is a central reference project in the climate protection plan adopted by the federal state of North Rhine-Westphalia on April 14, 2015.

Ownership structure

As at December 31, 2015, STEAG GmbH was wholly owned by KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG (KSBG KG).

Integrated business model

STEAG GmbH, which is headquartered in Essen (Germany), is the parent company of the STEAG Group. It holds the shares in the Group's subsidiaries, either directly or indirectly. STEAG GmbH is responsible for strategic and operational management of the Group's divisions, i.e. the Power division (comprising the Power Plant, District Heating, Power Minerals, Energy Services and Technical Service business units), and the Renewable Energies and Distributed Facilities division (New Energies business unit). This structure reflects the STEAG Group's integrated business model.



In the Power division, national and international projects are the basis for high-quality technical solutions for power plants. In the Power Plants business unit, the Trading & Optimization (T&O) department is responsible for marketing electricity, while the Generation department is responsible for operating power plants.

In Germany, power generation is complemented by the activities of the District Heating business unit, which successfully markets the heat produced by co-generation plants.

The Power Minerals business unit markets waste materials from the generating activities, primarily to the construction industry.

For decades, the engineers in STEAG's Energy Services business unit have been developing concepts for plants for conventional and renewable fuels. They design and build the plants and offer international services and IT solutions to optimize power plants.

The Technical Service business unit pools the service expertise gained over decades, especially in power plant maintenance and services for electricity grids.

The second division, Renewable Energies and Distributed Facilities, will become more important in the future. Activities associated with distributed energy generation (based on renewable energy sources and industrial and/or municipal supply concepts) are bundled in this division.

Organizational changes

In 2015 all of the STEAG Group's large power plants in Germany, apart from Walsum 10, were bundled in a single legal entity. Prior to that, STEAG Power Saar GmbH operated the Bexbach, Fenne and Weiher power plants in the Saar region. As part of the restructuring, the power plants and associated personnel of STEAG Power Saar GmbH and STEAG GmbH were combined. This resulted in more efficient structuring of workflows and simplified management processes, leading to an improvement in the competitive position of the power plants.

Further progress was made with the strategic goal of internationalizing the trading business in 2015. Following start-up of the Crucea Nord wind farm in Romania in 2014 and the Süloglu wind farm in Turkey in 2015, the STEAG Group has stepped up expansion of trading in these two countries. As a logical step, the Procurement & Optimization trading unit was renamed Trading & Optimization (T&O). The new name highlights its international focus and ensures uniform presentation of the unit in Germany and abroad.

In addition, the STEAG Group continuously examines its administrative workflows and processes.

Significant contracts

The STEAG Group operates the Voerde and West hard-coal power plants at the Voerde site. The West power plant is managed by the STEAG Group, which markets all the power generated. The STEAG Group holds 75 percent of the Voerde A and B power plant blocks, and 25 percent is held by the RWE Group. The RWE Group is fully responsible for marketing the power generated and thus for commercial use. In 2015 the RWE Group demanded that the Voerde power plant should be shut down effective October 1, 2016. The STEAG Group considers this to be unlawful on antitrust grounds. The STEAG Group has applied to the Federal Cartel Office to initiate an antitrust administration procedure and to issue an injunction.

STEAG Power Minerals GmbH and the HAWAR Group of Doha (Qatar) held constructive talks leading to an agreement on a long-term strategic alliance. So far, business relations with the HAWAR Group mainly comprised the disposal of fly ash from power plants in India and international marketing of the fly ash in the Gulf region. The potential of this business relationship was systematically extended in 2015. In view of this, a long-term partnership was initiated in which the HAWAR Group will have a non-controlling interest in STEAG Power Minerals GmbH.

In 2015 Stadtwerke Solingen, Stadtwerke Neuss, Wirtschaftsbetriebe Meerbusch, ELE and Stadtwerke Düren acquired shares in the Ullersdorf wind farm in Brandenburg, which went online in 2014. STEAG New Energies GmbH remains the majority shareholder. The acquisition of these stakes marked the start of a long-term alliance which aims to initiate further joint projects in the area of renewable energies. In addition, in 2015 STEAG New Energies GmbH further extended its strong position in the use of geothermal energy in Germany. Long-term contracts for the Erding geothermal project were extended ahead of schedule.

STEAG Energy Services GmbH signed a cooperation agreement with Energy Capital Partners (ECP) on the regeneration of power plant catalysts. The partners aim to leverage synergies to establish a successful environmental technology company.

Strategy

Strategic development

The STEAG Group stands for safe and efficient energy generation - nationally and internationally. Based on this, the strategy of the STEAG Group has three main objectives:

1. Place the business in Germany on a basis that is viable for the future
2. Realize profitable growth outside Germany
3. Significantly increase the proportion of renewable energies.

The STEAG Group's operating units and subsidiaries drive forward these objectives through five focal areas.

The first focal area, "optimizing existing power plants", principally aims to meet the objective of placing the business in Germany on a viable basis for the future. To achieve this, the STEAG Group focuses on continuous optimization of power plant processes and on increasing the technical and organizational flexibility of power plants to make its sites more profitable and extend their service life. In recent years, the Group has leveraged considerable technical scope for optimization, for example by reducing minimum loads, optimizing start-up and extending coal handling installations. In parallel with the technical optimization, STEAG Technischer Service GmbH was set up to bundle maintenance expertise for internal and, increasingly, external customers.

To supplement the goal of maintaining existing business in Germany, the STEAG Group plans "selective growth in Germany". The trend to distributed energy generating facilities offers opportunities to expand business with municipal utilities and local authority partners, which have a strong local presence. This also involves stepping up the use of renewable energy sources, especially onshore wind energy. Further development of co-generation and district heating, especially through the Rhine-Ruhr district heating line that is currently under development, is a very important part of this initiative. In addition, the STEAG Group is examining opportunities in the area of conventional power generation, so that these can be used for selective development of its domestic business if the overall assessment is positive.

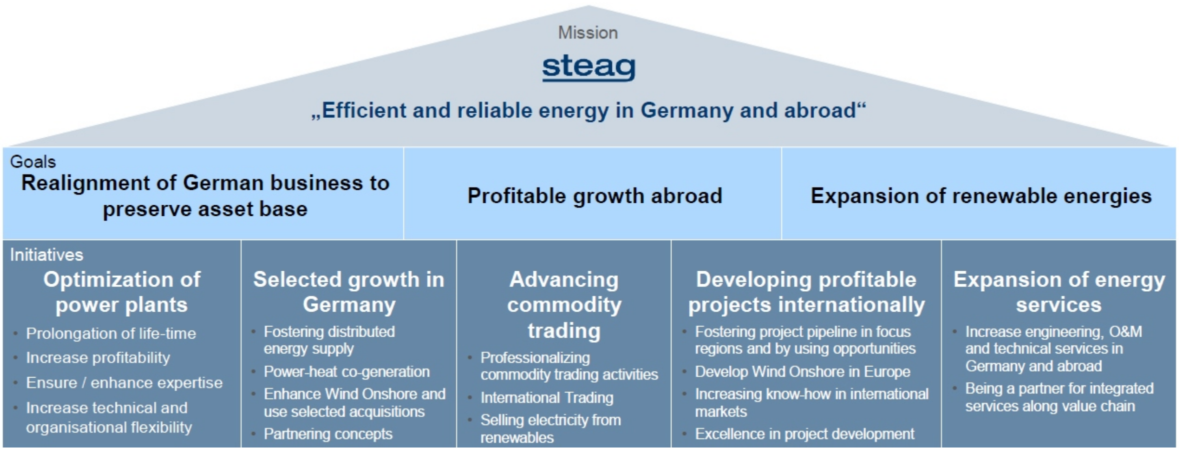
The third focal area is "ongoing development of trading". The aims here are on the one hand to stabilize and drive forward business in Germany, and on the other to make progress in international growth. To achieve this, T&O will be stepping up marketing of renewable energies and distributed facilities. In this context, the STEAG Group's virtual power plant is an important milestone in ongoing development of the business in Germany. Further, internationalization of this unit should be successively extended, for example through cross-border trading. In this way, expertise in international energy markets can be strengthened and can provide key support for the development of international growth projects.

"Realizing profitable foreign projects as an independent power producer (IPP)" is a major focal area geared to foreign growth. This involves developing and realizing projects in countries such as Turkey and Indonesia and utilizing opportunities in other emerging markets. These countries have undergone substantial economic growth in recent years, accompanied by a significant rise in living standards. Both factors together increase demand for energy. However, in emerging markets energy supply infrastructure is often still inadequate. Smart, efficient and reliable energy supply concepts are therefore required. In the past, the STEAG Group has repeatedly proven that it is able to successfully implement this type of solution (examples being the projects in Colombia, Turkey and the Philippines). As well as developing conventional power plants, the STEAG Group is systematically extending its onshore wind portfolio in Europe, so international growth is accompanied by further diversification of its generating portfolio.

The STEAG Group understands "extending services" as extending its services in Germany and abroad, mainly through STEAG Energy Services GmbH, STEAG Technischer Service GmbH and STEAG Power Minerals GmbH. Other elements are extending municipal and industrial services through STEAG New Energies GmbH and strengthening internal services within the Group.

The STEAG Strategy House provides a clear and compact overview of the Group's strategy and focus.

The STEAG Strategy House



Research and development

Focus of research

The STEAG Group does not engage in basic research. Its research and development activities focus on technologies that it can use directly in its business. Research and development is shaped principally by the conditions set by the turnaround in German energy policy.

Extending power storage technology is an important basis for the success of Germany's new energy policy. Various research projects have looked into storing surplus power. Special attention is being paid to all aspects of Power-to-X. For example, the project to generate methanol at the Lünen site has gained profile. Research and development activities on battery technology have paved the way for the next steps, resulting in a decision to invest in six 15 MW storage systems (lithium-ion technology) at a total cost of around € 100 million. This project is being implemented without subsidies.

Storing surplus power as thermal energy offers far-reaching possibilities as a mass storage technology and a dynamic power plant process. Here, the STEAG Group is involved in the High Performance Molten Salt (HPMS) Tower Receiver System. This solar-powered heating project is examining issues relating to the use of salt as a thermal storage medium.

An important step in research and development is the STEAG Group's involvement in the "Designetz" project, which is part of the SINTEG initiative of the Federal Ministry of Economic Affairs. "Designetz" is the most extensive project to date to demonstrate the technical integration of renewable energy sources into the energy supply system. The project is investigating intelligent coupling of a large number of distributed energy generators and consumers in rural and urban areas and highly industrialized conurbations. The STEAG Group is planning to undertake two demonstration projects as part of this initiative.

The "Partner Steam Power Plant" research project was successfully completed in 2015. The STEAG Group played a key role in the dynamic simulation step. Flexibilization was also the focus of a research project at the Weiher site. The aim was to optimize hot starts without auxiliary steam.

Increasing efficiency at the administrative premises in Essen is a matter of principle for the STEAG Group. Electro-mobility was integrated into this in 2015. The aim is to build up smart charging structures for electric vehicles and gain experience with structures for their use as service vehicles.

Power Mindeals GmbH drove forward Photoment®, i.e. catalytic building materials which, when applied to large areas, reduce pollutants through direct contact with their surface. Photoment® can also be used to improve air quality in polluted cities and ensure that surfaces remain clean and maintain their color for longer.

The increasing mechanical strain on power plant facilities resulting from highly flexible use has generated a need for predictions on the impact on their service life. STEAG Energy Services GmbH has developed concept based on a damage tolerance analysis.

STEAG New Energies GmbH is involved in a wide range of innovation projects. These include aspects such as the use of bioenergy in north-west Europe, the use of heat storage in heat generating facilities and electric steelworks, knowledge management in the field of energy, and process technology optimization of biomass firing and wind power facilities.

Economic report

Economic background

General economic development

The global economy grew more slowly in 2015 and stabilized at a lower pace of growth than in previous years. Global gross domestic product (GDP) increased by 3.0 percent (2014: 3.4 percent). The advanced economies grew moderately, with almost all of them benefiting from the development of the commodity markets. However, economic momentum varied considerably between countries. While the USA posted strong growth and the upswing in the UK remained intact, only moderate growth was registered in the eurozone and in Japan. Economic development in the emerging economies was weak, held back by low raw material prices and structural problems. Following a pronounced deterioration in the first half of 2015, there were recently signs of stabilization.

The economic development of China is a major factor influencing the global economy. The Chinese economy grew by 6.8 percent in 2015, compared with 7.3 percent in 2014. The trend to slower economic growth therefore continued. The declining growth rates are due to the country's structural transition to the domestic economy and consumption. During the year there was concern that the Chinese economy could be caught up in a crisis-ridden adjustment process as many indicators pointed to a significant slowdown in the pace of expansion and the Chinese equity markets registered dramatic price declines. However, the bottom did not fall out of the Chinese economy in 2015 and key indicators steadied towards the end of the year. Nevertheless, looking forward the development appears less stable.

Although the overall growth rate in the emerging markets has dropped (2015: 3.6 percent vs. 2014: 4.6 percent), it is still far higher than in the industrialized countries. However, there is no sign of a return to the growth rates seen in recent years. In the industrialized countries growth was relatively strong (2015: 1.9 percent vs. 2014: 1.7 percent).

The economic upswing in Germany continued. At present, growth is mainly driven by consumer spending. This development is based on the favorable labor market trend, with low unemployment and private households benefiting from rising real wages. A further drop in the price of crude oil brought an additional increase in purchasing power and boosted the macro-economic trend. In addition, demand was stimulated by state spending in connection with the influx of refugees. Interim doubts about the economic trend mainly related to weak demand from emerging markets. Static foreign business dampened industrial activity, resulting in a drop in capital spending. Overall, the driving forces shifted from foreign trade towards domestic demand. Compared with the prior year, a continuation of the positive economic trend can be assumed (2015: 1.7 percent vs. 2014: 1.6 percent).

Energy consumption and energy generation[1]

In 2015 energy consumption in Germany was 1.3 percent higher than in 2014, mainly due to colder weather than in the previous year and the resultant increase in heating. Consumption of renewable energies rose by around 11 percent, bringing the proportion of renewables in the primary energy mix to 12.6 percent (prior year: 11.5 percent). Renewables accounted for 32.5 percent of power consumption, a year-on-year rise of 5.1 percentage points. Primary energy consumption of natural gas also increased (by 5 percent). While consumption of mineral oil was practically unchanged, consumption of hard coal and lignite was slightly above the prior-year level. By contrast, there was a considerable decline in the proportion of nuclear power (down 6 percent). As a consequence of the increase in total energy consumption, total CO_2 emissions were slightly higher than in the previous year, even though a large proportion of the increased consumption was CO_2-neutral due to a rise in renewables. Adjusted for temperature, emissions were around 2 percent lower than in the previous year.

Power consumption

Overall consumption of electricity was 0.8 percent higher in 2015 than in 2014. Gross power generated increased significantly (2015: 647.1 TWh vs. 2014: 627.8 TWh). By contrast, the export surplus was far higher than in the prior year at 50.1 TWh (2014: 35.6 TWh). This was mainly due to the increase in renewable energies, which accounted for around 194 Twh of total power generation in Germany in 2015. That was 30.0 percent of power generated. Therefore, there was another strong rise in the proportion of renewable energies compared with the previous year (up 4.1 percent). As in the prior year, compared with other energy sources renewables accounted for the highest proportion of total energy generated. There was a further drop in the use of natural gas to generate power (2015: 57.0 TWh vs 2014: 61.1 TWh). Reasons for this were the increasing use of renewable energy sources and the continued discrepancy between coal and gas prices. Power generation from hard coal remained relatively constant at around 118 TWh. As a result, the proportion of total energy generated from hard coal was around 18 percent. Lignite accounted for 24.0 percent in 2015. It therefore remained the second largest source of energy and was steady year-on-year at 155 TWh (down 0.8 TWh). Nuclear power generation dropped considerably to 91.5 TWh (down 5.6 TWh), and accounted for just 14.1 percent of gross power generation.

[1] All data on energy generation and consumption are provisional data from AG Energiebilanzen e.V. and the German water and energy industry association (BDEW).

Development of energy prices

The continued weakness of the global economy pushed down prices on the international commodity markets due to soft demand. The weaker development of the Chinese economy compared with previous years was a key factor in this as well.

The price of crude oil declined in 2015, especially in the second half of the year. North Sea Brent crude peaked at US$ 68.23 per barrel (bbl) on May 5, 2015. By December 31, 2015, the price of crude oil had almost halved. It posted a low of US$ 36.2 per bbl on December 22, 2015. That was the lowest price per barrel of Brant crude since 2004. The average price of Brent crude was US$ 53.91 per bbl in 2015, a substantial drop of around US$ 45 per bbl compared with the average for 2014. The price per barrel therefore dropped to an eleven-year low. This trend was due to structural oversupply. On the supply side, the OPEC countries did not reduce output and placed unchanged volumes on the market. Output increased in other oil-producing countries as well, and also remained high in the USA. While output of shale oil declined slightly, production in the Gulf of Mexico increased.

The downward trend in the price of hard coal observed in the previous year continued in 2015. The API#2, which is the relevant spot price index for hard coal in Europe, registered an annual average of US$ 56.77 per metric ton (prior year: US$ 75.25 per metric ton), and dropped to a low for the year in December, when the monthly average was US$ 48.18 per metric ton. Overall, there is an oversupply of coal on the global market. The production of oil and gas from unconventional sources in the USA and slower growth in China are also holding back demand.

Following intervention in trading in CO_2 allowances through the introduction of backloading in 2014, the next step in the reform of European trading in allowances was adopted in 2015. The aim of the market stability reserve is to reduce the number of allowances traded and thus stabilize the price of CO_2 allowances. There are currently 2.1 billion surplus allowances on the market. The market stability reserve is scheduled to come into effect in 2019. Overall, the price of CO_2 allowances consolidated during the year. There was a strong relative rise in the average price of around 29 percent in 2015. However, the absolute price was still relatively low at € 7.68 per metric ton (prior year: € 5.96 per metric ton).

The previous year's downward trend in power prices continued in 2015. The base price on the EEX power exchange was € 31.62 per MWh in 2015, around 4 percent lower than in 2014 (€ 32.76 per MWh). The peak contract dropped by around 5 percent (average € 39.10 per MWh in 2015 vs. € 41.00 per MWh in 2014). As in the prior year, the continued expansion of renewable energies was responsible for the decline in electricity prices in 2015. Low prices for commodities and CO_2 allowances also had an impact.

Earnings position

Performance in 2015

Income before income taxes increased in the reporting period despite the tough market situation for the marketing of power in Germany. In addition, the earnings situation was mainly influenced by the effects outlined below.

Income statement for the STEAG Group

in € million	2015	2014
Sales	3,568.2	3,129.0
Change in inventories of finished goods	3.2	2.9
Other own work capitalized	1.7	1.6
Other operating income	378.6	302.8
Cost of materials	-2,672.6	-2,242.9
Personnel expenses	-404.3	-405.6
Depreciation, amortization and impairment losses	-201.9	-204.1
Other operating expenses	-472.3	-408.2
Income before the financial result and income taxes	**200.6**	**175.5**
Interest income	13.0	10.4
Interest expenses	-94.7	-102.9
Result from investments recognized at equity	22.3	-8.7
Other financial income	0.4	14.2
Financial result	**-59.0**	**-87.0**
Income before income taxes	**141.6**	**88.5**
Income taxes	-104.7	-55.0
Income after taxes	**36.9**	**33.5**
thereof attributable to		
Non-controlling interests	54.3	61.4
Shareholders of STEAG GmbH (net income)	-17.4	-27.9

External sales by division

in € million	2015	2014	Change in %
Power	3,325.2	2,914.6	14.1
Renewable Energies and Distributed Facilities	243.0	214.4	13.3
STEAG Group	**3,568.2**	**3,129.0**	**14.0**

Sales rose by 14.0 percent to € 3,568.2 million (prior year: € 3,129.0 million), mainly due to the increase in gas and electricity trading volumes in the Power division.

Total volume sales of energy from the Group's own facilities and those operated on behalf of its customers rose by 24.2 percent year-on-year to 72,588 GWh_e[2] (prior year: 58,464 GWh_e). Volume sales of heat by the Renewable Energies and Distributed Facilities division increased by 2.1 percent to 2,004 GWh_{th} (prior year: 1,962 GWh_{th}), while the volume of power rose by 18.2 percent to 2,179 GWh_{el} (prior year: 1,843 GWh_{el}).

The change in inventories of finished goods was € 3.2 million (prior year: € 2.9 million) and other own work capitalized was € 1.7 million (prior year: € 1.6 million), so the change was only slight.

The other operating income increased by € 75.8 million from € 302.8 million in 2014 to € 378.6 million in 2015.

The year-on-year improvement was mainly due to the increase in income from the valuation of derivatives (excluding interest rate derivatives) to € 265.1 million (prior year: € 181.5 million). This was countered by lower write-ups on property, plant and equipment totaling € 25.7 million (prior year: € 46.7 million) in connection with the Walsum 10 power plant.

The € 429.7 million rise in the cost of materials was mainly due to an increase in inputs of goods and materials compared with the previous year as a result of higher volume sales of energy.

Personnel expenses were almost unchanged, dropping only slightly to € 404.3 million (prior year: € 405.6 million). The decline in headcount was countered by a rise in personnel-related costs.

Depreciation, amortization and impairment losses totaled € 201.9 million (prior year: € 204.1 million) and included depreciation and amortization of property, plant and equipment,

[2] Energy sales in GWh_e comprise both electric and thermal energy; thermal energy has been converted into the equivalent amount of electric power.

intangible assets and investment property amounting to € 160.9 million (prior year: € 139.1 million). Impairment losses of € 36.0 million were recognized as a result of the reorganization of power plants in Germany into those that are clearly expected to be shut down and those with a strategy of continued operation.

The other operating expenses increased by € 64.1 million from € 408.2 million in the prior year to € 472.3 million.

The year-on-year increase was principally due to higher expenses for the valuation of derivatives (excluding interest rate derivatives), which totaled € 257.0 million (prior year: € 161.1 million). This was offset in particular by a reduction in selling expenses to € 5.3 million (prior year: € 28.4 million) as a result of the ending of some trading activities.

Income before the financial result and income taxes increased by € 25.1 million to € 200.6 million (prior year: € 175.5 million).

An increase of € 2.6 million in interest income and a decrease of € 8.2 million in interest expense resulted in a net rise in the financial result in 2015.

A further improvement in the financial result came from the increase in income from investments recognized at equity. In 2015, there was a considerable improvement, mainly due to profits from joint ventures in Germany (€ 17.6 million). This was countered by a decline of € 13.8 million in other financial income, mainly as a result of the valuation of options on energy contracts.

Income before income taxes increased from € 88.5 million to € 141.6 million.

Income tax expenses increased by € 49.7 million from € 55.0 million in 2014 to € 104.7 million in 2015. The change was due to higher current taxes than in the prior year and an impairment loss for deferred tax assets, which impacted income.

STEAG Group: EBITDA and EBIT

in € million	2015	2014	Change in %
Sales	3,568.2	3,129.0	14.0
EBITDA	399.2	390.3	2.3
EBIT	237.3	244.2	-2.8
EBITDA margin in %	**11.2%**	**12.5%**	
EBIT margin in %	**6.7%**	**7.8%**	

EBITDA and EBIT are used for internal management purposes and as indicators of the sustained earning power of the Group. EBITDA (earnings before interest, taxes, depreciation and amortization) and EBIT (earnings before interest and taxes) are both earnings parameters after adjustment for extraordinary effects.

The 2.3 percent year-on-year improvement in EBITDA was principally attributable to improved earnings from the Power division. The EBITDA margin was slightly lower than in the prior year at 11.2 percent compared with 12.5 percent.

EBIT was slightly above budget in 2015 at € 237.3 million, just below the prior-year figure of € 244.2 million. There was a slight drop of 1.1 percentage points in the EBIT margin to 6.7 percent.

Financial position

Financial risk management

The central objectives of STEAG's financial management are to safeguard the financial independence of the STEAG Group and limit refinancing risks.

STEAG GmbH manages borrowing, guarantees and sureties for Group companies centrally. It has flexible means of meeting capital requirements for day-to-day business, investment and the repayment of financial debt.

Another important objective is ensuring that the covenants relating to STEAG GmbH's bonded loans and EFET contracts are met. The main covenants set out in the agreements comprise financial indicators to be calculated on the basis of the consolidated financial statements of STEAG GmbH. These comprise the net debt ratio, which is the ratio of net debt to adjusted EBITDA[3], and covenants in the EFET contracts on tangible net worth and/or the equity ratio.

Financing policy

STEAG GmbH provides funding for the companies in the STEAG Group and manages surplus liquidity on their behalf on market terms. To a limited extent, companies in the STEAG Group, especially outside Germany, also borrow funds directly from banks and invest surplus liquidity with banks. In these cases, borrowing is secured by STEAG GmbH. The project companies' liability is secured through their cash flows and assets. No recourse to the parent company STEAG GmbH is possible. For example, non-recourse project financing has been agreed for the three foreign power plants in Iskenderun, Mindanao and Termopaipa.

In Germany, cash pooling is managed by STEAG GmbH. To minimize external borrowing, surplus liquidity in Germany is placed in a cash pool at Group level which is used to optimize overall financing requirements in the Group.

Financing structure

As at December 31, 2015, STEAG had financial liabilities of € 1,884.0 million (prior year: € 1,875.0 million) and cash and cash equivalents of € 573.3 million (prior year: € 686.9 million).

The main components of non-current financial liabilities are liabilities to banks, principally for the bonded loans, the Walsum 10 power plant and the foreign power plant companies.

€ 80.2 million of the € 502.4 million (prior year: € 86.0 million of the € 501.5 million) in current financial liabilities relate to the liability to KSBG KG under the profit and loss transfer agreement, including the corresponding share of taxes.

The main components of financial assets are receivables from finance leases totaling € 496.7 million (prior year: € 599.7 million), including current receivables of € 136.7 million (prior year: € 150.8 million).

The STEAG Group has no further, off-balance-sheet financing instruments that could have a material impact on its present or future earnings, assets and financial position.

[3] As defined in the bonded loan agreements and EFET contracts.

Liabilities are dominated by the bonded loans amounting to € 400.0 million taken out by STEAG GmbH in 2014. The terms reflect the company's good credit standing. STEAG GmbH has also arranged other credit facilities with banks to increase the available liquidity. These currently exceed needs. Here too, positive creditworthiness ratings by the banks enabled the Group to obtain corresponding terms.

The STEAG Group’s liquidity is secure.

Capital expenditure

The STEAG Group uses selective investment projects to maintain its good competitive position and expand into business activities and markets where it sees potential for sustained profitable growth and opportunities to generate appropriate returns. Every project undergoes detailed strategic and economic analyses, including sensitivity analyses and scenario analyses to reflect major risks. Projects have to meet business-specific and risk-adjusted minimum return requirements.

Capital expenditure and financial investments

in € million	**2015**	2014	Change in %
Power	68.8	60.8	13.2
Renewable Energies and Distributed Facilities	149.5	263.9	-43.3
Other	1.0	156.1	-99.4
STEAG Group	**219.3**	**480.8**	**-54.4**

Capital expenditure totaled € 219.3 million (prior year: € 480.8 million), well above depreciation, which amounted to € 160.9 million (prior year: € 139.1 million). In 2015 capital expenditure for property, plant and equipment declined by 44.9 percent to € 173.2 million (prior year: € 314.1 million).

The lion's share of capital expenditure for property, plant and equipment (65.7 percent) was allocated to the Renewable Energies and Distributed Facilities division (€ 113.8 million; prior year: € 250.7 million). Capital expenditure was mainly for wind farms in Turkey and France. The biggest individual project in 2015 was the erection of the Süloglu wind farm in Turkey. A further 33.8 percent of capital expenditure for property, plant and equipment was allocated to the Power division (€ 58.5 million; prior year: € 58.3 million).

Regionally, capital expenditure in the STEAG Group was focused on Turkey, which accounted for 40.8 percent of the total (€ 70.7 million; prior year: € 24.2 million), Germany, which accounted for 36.2 percent (€ 62.7 million; prior year: € 131.0 million) and France, which accounted for 11.7 percent (€ 20.3 million; prior year: € 20.1 million).

The Group has commitments of € 93.0 million (prior year: € 53.8 million) to purchase property, plant and equipment. € 55.4 million of this relates to battery storage systems.

In 2015 a financial investment was made in a geothermal project. This comprised the purchase of shares in PT Sejahtera Alam Energy (Indonesia).

Other major financial investments in subsidiaries which were consolidated for the first time in 2015 comprised the acquisition of shares in Ferme Eolienne de La Madeleine SAS (France) and Ferme Eolienne des Onze Muids SAS (France). The main financial investment in 2014 was the € 150.0 million upstream loan to KSBG KG to finance the purchase price for the 49.0 percent stake in STEAG GmbH.

Cash flow

Cash flow statement for the STEAG Group (condensed version)

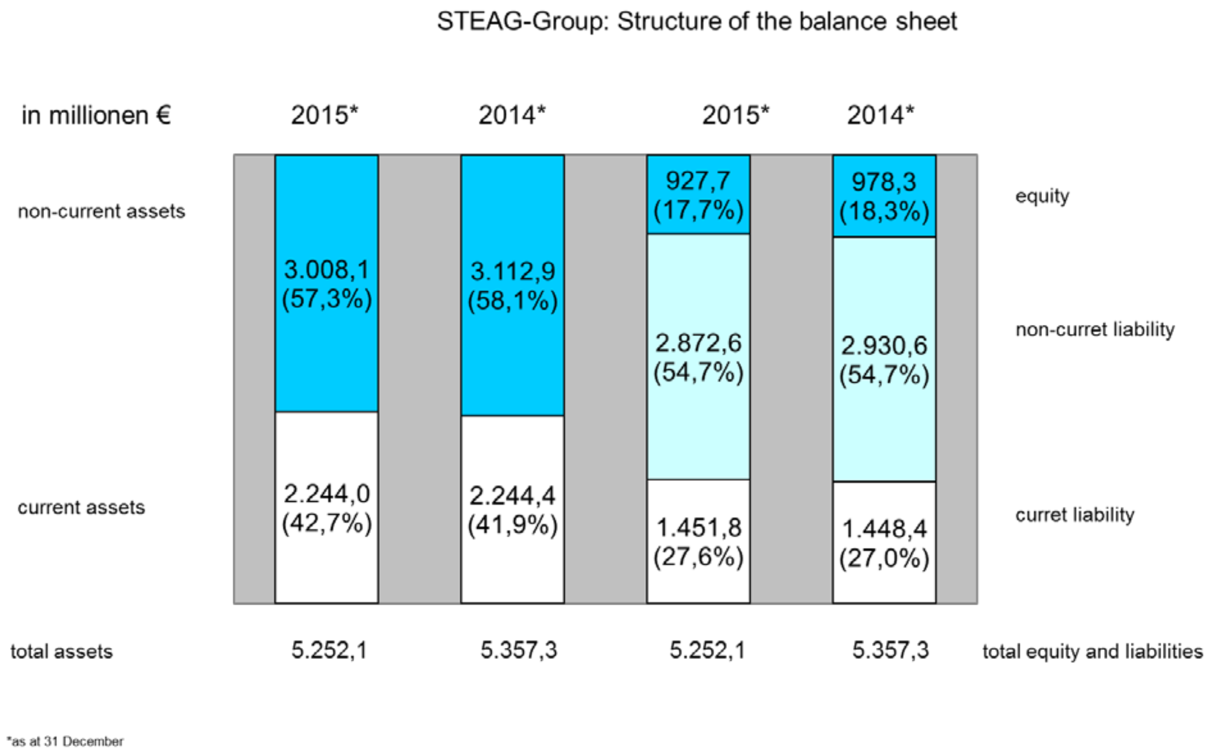
in € million	**2015**	2014
Cash flow from operating activities	325.4	392.7
Cash flow from investing activities	-194.3	-579.1
Cash flow from financing activities	-269.6	272.2
Changes in exchange rates and other changes in the value of cash and cash equivalents	24.9	24.7
Cash and cash equivalents as of December 31	573.3	686.9

The cash flow from operating activities was € 325.4 million, down from the prior-year level of € 392.7 million, and was mainly influenced by the change in net working capital and changes in other assets/liabilities as at the reporting date.

The cash outflow for investing activities was € 194.3 million, which was lower than prior-year outflow of € 579.1 million. The lower outflow in the reporting period is mainly due to lower outflows for property, plant and equipment and the upstream loan granted to KSBG KG in the previous year. There was a cash inflow from financing activities of € 269.6 million, which was below the outflow of € 272.2 million in the prior year. This was principally due to higher borrowing 2014, especially the bonded loans totaling € 400.0 million taken out by STEAG GmbH.

Asset structure

Structure of the balance sheet



Total assets decreased by € 105.2 million from € 5,357.3 million as at December 31, 2014 to € 5,252.1 million as at December 31, 2015. Non-current assets decreased by € 104.8 million to € 3,008.1 million (prior year: € 3,112.9 million). This mainly resulted from lower capital expenditure for property, plant and equipment amounting to € 173.2 million (prior year: € 314.1 million) and write-ups of € 25.8 million (prior year: € 46.7 million). This compared to depreciation and amortization of intangible assets, property, plant and equipment and investment property totaling € 160.9 million (prior year: € 139.1 million) and impairment losses of € 35.6 million (prior year: € 1.5 million). Non-current assets accounted for 57.3 percent of total assets (prior year: 58.1 percent). Coverage of non-current assets by non-current capital is 126.3 percent (prior year: 125.6 percent).

Current assets totaled € 2,244.0 million (prior year: € 2,244.4 million), a drop of € 0.4 million compared with year-end 2014. Current assets exceeded current liabilities by 54.6 percent (prior year: 55.0 percent).

Equity contracted by € 50.6 million to € 927.7 million (prior year: € 978.3 million). The equity ratio declined from 18.3 percent to 17.7 percent, partly due to the valuation effects resulting from the reduction in equity.

Non-current liabilities declined by € 58.0 million or 2.0 percent to € 2,872.6 million (prior year: € 2,930.6 million). This was attributable to a drop of € 25.2 million in liabilities to banks to € 1,120.4 million (prior year: € 1,145.6 million) and to lower utilization of provisions. Provisions for pensions dropped by € 49.3 million to € 1,036.3 million (prior year: € 1,085.6 million), mainly as a result of adjustments to the parameters used to value pension obligations. The principal factors here were the increase in the interest rate from 2.1 percent in the prior year to 2.2 percent in the reporting period, and the reduction in expected pension increases from 2.0 percent to 1.8 percent. Other non-current provisions declined slightly, by € 0.6 million, to € 286.2 million (prior year: € 286.8 million) and were thus essentially steady at the prior-year level. Current liabilities increased by € 3.4 million to € 1,451.8 million (prior year: € 1,448.4 million). Further, current liabilities from derivatives rose by € 52.0 million to € 232.2 million (prior year: € 180.2 million). By contrast, liabilities to banks declined by € 49.3 million to € 151.3 million (prior year: € 200.6 million).

Despite the one-off effects outlined above, the STEAG Group posted a clearly positive performance. Selective investments have strengthened the Group's future earnings power, and financing and liquidity will remain on a stable basis in fiscal 2016.

Performance of STEAG GmbH

STEAG GmbH, which is headquartered in Essen (Germany), is the parent company of the STEAG Group. It holds the shares in the Group's subsidiaries, either directly or indirectly. STEAG GmbH is responsible for strategic and operational management of the Group's business activities. In addition, it is the largest single company in the Group with sales of € 2,647.2 million and total assets of € 3,244.9 million. The main subsidiaries in Germany are linked to it through control and profit and loss transfer agreements.

The annual financial statements of STEAG GmbH have been prepared in accordance with the accounting principles set out in the German Commercial Code (HGB), in the version applicable for these financial statements. As a consequence of the transfer of the "Power" and "Human Resources and Administration" units of STEAG Power Saar GmbH through a spin-off followed by absorption with economic effect from July 1, 2015, and the transfer of the entire assets of Kraftwerk Bexbach Verwaltungsgesellschaft mbH through a merger effective January 1, 2015, certain items on the balance sheet and income statement as at December 31, 2015 are not fully comparable with those of the prior year.

Income statement for STEAG GmbH

in € million	2015	2014
Sales	2.647,2	2.241,9
Change in inventories, own work capitalized	1,6	-28,8
Other operating income	89,9	47,6
Cost of materials	-2.442,9	-1.986,4
Personnel expenses	-145,7	-147,7
Depreciation, amortization and impairment losses	-32,5	-18,1
Other operating expenses	-123,4	-143,6
Financial result	79,5	106,0
Result of ordinary business activities	**73,7**	**70,9**
Extraordinary result	**10,0**	**19,5**
Taxes	-10,8	-12,5
Profit transfer	-72,9	-77,9
Net income	**0,0**	**0,0**

In 2015, STEAG GmbH's sales increased by € 405.3 million year-on-year to € 2,647.2 million (prior year: € 2,241.9 million). This was mainly due to a rise in the supply of energy and other media and higher sales revenues from the gas business. By contrast, sales from coal trading declined.

In the reporting period sales mainly comprised € 2,097.4 million (prior year: € 1,461.9 million) from the supply of energy, € 298.7 million (prior year: € 573.8 million) from the supply of coal, revenues of € 144.2 million (prior year: € 55.7 million) from the gas business, and € 89.3 million (prior year: € 93.6 million) from operating and management fees. Revenues were generated with customers in Germany, other European countries, North America and Latin America.

Other operating income of € 89.9 million (prior year: € 47.6 million) mainly comprised income from the allocation of charges in the Group and reimbursement of costs amounting to € 27.2 million (prior year: € 27.3 million), and income from the reversal of provisions totaling € 44.6 million (prior year: € 6.1 million), mainly due to changes in the parameters used to value provisions for pensions and for dismantling obligations.

The cost of materials increased year-on-year, in line with the rise in sales revenues and the volume- and price-driven rise in the use of emission allowances.

Personnel expenses were around the prior-year level at € 145.7 million (prior year: € 147.7 million). The increase in wages and salaries resulting from the transfer of undertaking at STEAG Power GmbH through a spin-off in accordance with German law on corporation reorganization was offset by a drop in restructuring expenses to € 2.2 million (prior year: € 17.8 million).

Other operating expenses were € 123.4 million (prior year: € 143.6 million) and mainly comprised transport costs relating to trading and other administrative and selling expenses. Further, they contained legal and consultancy fees, rental and lease payments and insurance premiums.

The financial result was € 79.5 million in the reporting period (prior year: € 106.0 million). This was mainly a result of income of € 90.8 million (prior year: € 120.5 million) from investments and income from profit transfers of € 72.8 million (prior year: € 32.4 million). This was countered by net interest expense of € 95.9 million (prior year: net expense of € 54.4 million), mainly due to the interest on pension obligations and other non-current provisions and interest expense for non-current loans.

The extraordinary result in the reporting period was due to the € 23.7 million write-up of the investment in STEAG Power Saar GmbH. By contrast, there was net expense of € 10.0

million in connection with the Walsum 10 project, comprising income from the reversal of a provision for impending losses from power marketing and, on the other side, expenses caused by the change in the valuation of the financial investment. Further, expenses for the adjustment of pension provisions included € 3.7 million relating to revaluations in connection with the German Accounting Law Modernization Act (BilMoG). The remaining difference will be added to pension provisions in annual installments up to December 31, 2024 at the latest.

Tax expenses mainly comprised income taxes of € 10.7 million (prior year: € 11.6 million).

Income after taxes of € 72.9 million for the reporting period will be transferred to KSBG KG under the profit and loss transfer agreement.

Balance sheet for STEAG GmbH

Assets

in € million	Dec. 31, 2015	Dec. 31, 2014
Intangible assets	8,6	9,6
Property, plant and equipment	198,5	156,3
Financial assets	1.631,2	1.562,7
Non-current assets	**1.838,3**	**1.728,6**
Inventories	189,4	143,2
Receivables and other assets	744,6	742,1
Securities	19,7	19,9
Cash and cash equivalents	419,7	504,1
Current assets	**1.373,4**	**1.409,3**
Deferred items	**33,2**	**5,0**
Total assets	**3.244,9**	**3.142,9**

Equity and liabilities

in € million	Dec. 31, 2015	Dec. 31, 2014
Issued capital	128,0	128,0
Capital reserve	77,5	77,5
Profit reserves	272,8	272,8
Equity	**478,3**	**478,3**
Special iems with reserve allowance	9,5	10,9
Special items for investment subsidies for property, plant and equipment	0,4	0,6
Provisions	**1.009,8**	**796,7**
Liabilities	**1.738,2**	**1.849,7**
Deferred items	**8,7**	**6,7**
Total equity and liabilities	**3.244,9**	**3.142,9**

Total assets of STEAG GmbH increased by € 102.0 million to € 3,244.9 million. Non-current assets increased by € 109.7 million to € 1,838.3 million (prior year: € 1,728.6 million). Capital expenditure for intangible assets, property, plant and equipment was € 63.5 million in the reporting period (prior year: € 19.9 million). Capital expenditure thus exceeded depreciation and amortization by € 22.4 million. Alongside the transfer of the assets of STEAG Power Saar GmbH totaling € 82 million, additions to property, plant and equipment in 2015 mainly comprised the acquisition of the assets of Kraftwerk Bexbach Verwaltungsgesellschaft mbH of € 34.9 million. Further, € 18.5 million was invested in advance payments for work in progress in connection with the "battery storage" project. The ratio of depreciation and amortization on property, plant and equipment and intangible assets (cumulative depreciation and amortization relative to the historical cost of acquisition or production) was 91.9 percent (prior year: 90.8 percent).

The increase in financial assets was dominated by additions of € 68.6 million to loans to affiliated companies. Shares in affiliated companies increased mainly as a result of a write-up of the carrying amount of the investment in STEAG Power Saar GmbH as the reason for the impairment loss no longer applied. This was countered by further write-downs of € 15.5 million on the stake in STEAG Walsum 10 Kraftwerksbeteiligungsgesellschaft mbH in 2015.

Working capital contracted by € 35.9 million to € 1,373.4 million (prior year: € 1,409.3 million). Provisions rose by € 46.2 million to € 189.4 million (prior year: € 143.2 million), mainly due to the price- and volume-driven increase of € 31.2 million in emission allowances. In addition, the spin-off of the "Power" unit of STEAG Power Saar GmbH and the acquisition of the assets of Kraftwerk Bexbach Verwaltungsgesellschaft mbH, increased inventories by € 21.3 million. As a result, inventories accounted for 5.8 percent of total assets (prior year: 4.6 percent).

While receivables and other assets were almost unchanged year-on-year (€ 744.6 million; prior year: € 742.1 million), cash and cash equivalents declined by € 84.4 million. On the asset side of the balance sheet deferred items increased by a net € 28.2 million year-on-year to € 33.2 million, mainly due to an addition in connection with the restructuring of hedging transactions.

There was no change in equity compared with the prior year. The equity ratio (excluding special items with a reserve allowance) is now 14.7 percent (prior year: 15.2 percent). Equity coverage of non-current assets is 26.0 percent (prior year: 27.7 percent).

Provisions rose by € 213.1 million to € 1,009.8 million (prior year: € 796.7 million). Provisions for pensions and other post-employment benefits increased by a total of € 86.9 million to € 544.7 million (prior year: € 457.8 million) due to the transfer of pension obligations through the spin-off of STEAG Power Saar GmbH (€ 56.5 million) and higher interest (€ 71.1 million; prior year: € 43.8 million), with counter-effects coming from reversals of € 20.8 million in connection with the adjustment of actuarial assumptions. Pension provisions accounted for 53.9 percent and thus the largest share of provisions (prior year: 57.5 percent).

The other provisions increased by € 125.5 million compared with the prior year to € 457.5 million. The reasons for this were, on the one hand, the transfer of provisions for dismantling and recultivation (€ 55.3 million) from STEAG Power Saar GmbH in connection with the spin-off, and on the other, the earnings-neutral assumption of dismantling obligations (€ 23.7 million) in connection with the acquisition of the co-shareholding in Kraftwerk Bexbach. In addition, through the transfer of undertaking, personnel provisions and restructuring provisions totaling €30.5 million were transferred from STEAG Power Saar GmbH to STEAG GmbH on July 1, 2015.

Liabilities fell by a total of € 111.5 million to € 1,738.2 million (prior year: € 1,849.7). The decline resulted mainly from the repayment of liabilities to banks (€ 382.7 million; prior year: € 404.6 million), and a reduction in advance payments received under power prepayment contracts (€ 94.0 million; prior year: € 115.0 million). Liabilities to affiliated companies increased by € 58.3 million to € 1,005.0 million (prior year: € 1,063.3 million). The main reasons for this were payments for the assumption of losses at companies in the tax entity in 2014 and offsetting of financial liabilities to STEAG Power Saar GmbH in connection with the spin-off under German corporate reorganization legislation. In accordance with the profit and loss transfer agreement, a liability to KSBG KG of € 80.2 million (including tax allocations) to KSBG KG was recognized (prior year: € 86.0 million).

Non-financial performance indicators

Employees

Headcount

At the end of 2015, the STEAG Group had 5,920 employees, 12 percent of whom were female. The average age of the members of the worldwide workforce was 43. Almost 39 percent were employed outside Germany. The number of employees fell by around 500 year-on-year due to the following changes: The headcount in the Power division declined by 578. This was mainly attributable to a reduction of 439 in personnel in the Energy Services business unit. The principal reasons for this were the termination of the Vedanta business management agreement at the Indian subsidiary of STEAG Energy Services GmbH (-472) and the contractual increase in personnel for the Morupule plant management project at STEAG Energy Services' subsidiary in Botswana (+35). The headcount in the Generation unit declined by 70 in the same period. This was mainly due to implementation of the "Reorganization of Generation/Power Plant Excellence" project. The Technical Service and Grid unit raised its headcount by 22. As a result of the consolidation of STEAG Turkey Enerji as at end-December 2015 the headcount of the Power division increased by 12. The remaining change (-103) and the increase in employees in Administration (+91) were mainly attributable to a change in reporting structures. In 2014 the administrative unit at the Saarbrücken site was still reported as part of the Power division. Since 2015 this unit has been allocated to Administration.

Employees by division	Dec. 31, 2015	Dec. 31, 2014
Power	4,599	5,177
Renewable Energies and Distributed Facilities	808	820
Administration	513	422
STEAG Group	5,920	6,419

Apprenticeships

Apprenticeships at STEAG remain popular, as the constantly high number of applicants demonstrates. In December 2015, 216 apprentices were being trained in various occupations, giving a training ratio of 3.8 percent for the STEAG Group and 9.5 percent for STEAG GmbH. For years, the STEAG Group has attached great importance to attractive and high-quality training programs. In this way it assumes social responsibility and also secures skilled employees for the future.

Personnel development

In 2015, the focus was on the personnel development programs for upcoming managers in the STEAG Group. New offerings were created for potentials and high potentials, while existing programs were extended to new groups of employees.

The "Executive Development Group" (EDG) offers high potentials an opportunity to extend their networks, deepen their knowledge of the STEAG Group, and address the demands of a potential future management role in the Group. High potentials are employees with a number of years work experience who have already gained some disciplinary or functional management experience.

A further group – potentials – comprises employees who normally have between three and five years experience since completion of their vocational training or studies. The company enables them to broaden their competencies and networks within the Group through a "General Management Program" (GMP). They are supported by experienced Group managers who act as mentors.

Alongside building and strengthening competencies, networking is also a focus for participants on the "Energy Development Program" (EDP). In 2015, 16 employees from various departments in the STEAG Group completed the EDP. A further 16 embarked on this in-house development program for youngsters and new STEAG employees in September 2015.

In the Procurement unit, employees successfully participated in SEEPRO, an in-house development program for procurement staff. This one-year program uses special training modules to develop their skills as strategic procurement staff.

At STEAG Energy Services GmbH, the second international group successfully embarked on the "EMotion" in-house development program in summer 2015. EMotion stands for "Energy in Motion" and has been a central element of employee development at STEAG Energy Services GmbH since 2006. Central aspects of this program include a focus on internationalization of project structures and networking across all companies at STEAG Energy Services GmbH.

To support and drive forward the personal development of our employees, individual development advice and support through specific in-house events was stepped up. These in-house events foster joint learning within STEAG through central topics from various competency areas. The basis is the STEAG competency model, which uses specific topics and competency areas to highlight the personal abilities, attributes and conduct required to work successfully in the STEAG Group. In the reporting period, seminars were held on communication and collaboration, along with introductory and advanced courses on management competencies and activities in the areas of “project management” and “markets and customers”. The present offering covers employee's central needs and enables learning in based on common experience.

Occupational health and safety and environmental protection

The number of accidents in the workplace fell by 10.2 percent from 49 to 44, while the number of commuting accidents increased by 9.1 percent from 11 to 12. Special mention should be made of the Mindanao power plant, where there has not been an accident for nine years. Other locations/companies that have also operated without an accident for more than a year include KW Weiher, ISKEN, STEAG Fernwärme and the refinery power plant in Leuna.

The introduction of certified occupational health and safety management systems that comply with the OHSAS 18001:2007 standard in Germany starting in 2008 has brought an improvement in all units. Successful recertification of all sites and companies by the employer's liability insurance association in the past few years reflects our very high standard of occupational health and safety. To improve occupational safety, the improvement in workplace safety measures at STEAG Technischer Service GmbH was driven forward systematically in 2015 under the motto "Vision ZERO”. The absolute number of accidents at STEAG Technischer Service GmbH halved. The companies that run our coal-fired power plants outside Germany also assured the same high, certified standard of occupational health and safety in 2015 and are audited regularly.

Our environmental protection management system and observance of the associated regulations were audited by the authorities in eleven site inspections in accordance with the Industrial Emissions Directive (IED). No material shortcomings were identified at the power plants and heating power plants inspected.

Workplace health management

In light of demographic trends, workplace health management is a strategic basis for human resources work in the STEAG Group and will be a keystone of the upcoming change processes in the Group.

Various action areas for the sites have been identified on the basis of analyses and the results of a health survey. The findings will be used in systematic and targeted site-specific activities to secure the employability of staff at individual sites.

In future, health issues will form an integral part of management development. First steps towards this were taken in 2015 and will be continued and intensified in 2016. As well as benefiting the health of the individual, this should avoid risks and secure the quality of work in the company.

Company suggestion program

In 2015, the STEAG Group was again honored by the German Association for Business Administration. First place in the energy and energy supply sector went to the company suggestion program at STEAG GmbH. The STEAG Group has therefore been positioned among the leaders in this area for years, highlighting the fact that it is a learning organization.

The suggestions implemented in 2015 brought a measurable net benefit of € 4.4 million for the STEAG Group. Employees received bonuses totaling € 0.7 billion for their suggestions.

Declaration on corporate governance with regard to gender quotas

The German law on equal participation of men and women in management positions in the public and private sectors came into effect on May 1, 2015. In accordance with this law, the Supervisory Board and Board of Management have adopted the following targets:

The target for the percentage of women on the Supervisory Board of STEAG GmbH has been set at a minimum of 5 percent by June 30, 2017.

The target number of women members on the Board of Management of STEAG GmbH has been set at 0 percent as at June 30, 2017.

For the first management level of STEAG GmbH, the target is 12-16 percent women by June 30, 2017 at the latest, while the target set for the second management level is 18-20 percent women.

Corporate governance

Corporate governance comprises the principles that should be used to run a company and the rules and measures that are used to structure these principles and put them into practice. The principles are set out in the German Corporate Governance Code, which forms the basis for the conduct of the Board of Management and Supervisory Board of STEAG GmbH and is an integral part of STEAG's corporate culture.

For the STEAG Group, good corporate governance does not simply mean acting lawfully in all respects in compliance with statutory obligations; it also means acting in a responsible and value-oriented manner, which includes voluntary measures. Good and transparent corporate governance paves the way for lasting success.

To implement these principles, employees are guided by STEAG's Code of Conduct, more detailed guidelines and Group-wide compliance management system, which are continuously driven forward.

In 2015, the principal focus of compliance was once again on avoiding possible risks and identifying potential new sources of risk. To be able to identify these as accurately as possible in the various areas of the Group and define preventive measures, the Compliance department conducted risk analyses in the area of corruption and antitrust law with Group companies and the relevant departments at STEAG. A questionnaire accompanied by a joint discussion were used to discuss scenarios with the management of the companies and business areas and agree future preventive measures. These analytical discussions are ongoing in some areas.

The content and presentation of routine and target group-specific face-to-face training sessions on fighting corruption were completely revised and interactive elements were added. Participants can take part actively by answering questions on their assessment of the situation, and through group work on case studies and discussions. Around 900 employees throughout the Group received personal training in 2015. In addition to the face-to-face training in fighting corruption, face-to-face training on antitrust law was held for the first time.

The corporate governance principles are also consistently included in the STEAG Group's contracts, voluntary commitments and other agreements with its business partners.

To deal with the large number of questions and inquires relating to the new regulation requiring business partners to comply with the statutory minimum wage, at the start of the year a working group was established by the Compliance department with employees from other departments such as Law, Human Resources and Procurement, to draft a Group-wide procedure and practice-based voluntary commitment.

The STEAG Group is still an active member of the UN Global Compact and supports compliance with its ten principles in the areas of human rights, labor standards, environmental protection and fighting corruption. In addition to these principles, STEAG applies the International Labor Standards of the International Labour Organisation (ILO) and acts in accordance with the OECD Guidelines for Multinational Enterprises.

These principles are integrated into agreements with business partners, both individually and through the General Business Conditions, and are receiving increasing attention and acceptance throughout the world. In this context, the STEAG Group is continuing to concentrate on implementing sustainable supply chains. The results of the self-assessment for focus suppliers developed with the Procurement department on governance and sustainability issues are still very satisfactory and document the fact that suppliers and service-providers are taking these principles on board. Further, the STEAG Group continuously reports on its corporate responsibility activities in Germany and abroad, most of which strengthen local site-related infrastructure and support social objectives. The foreign companies' activities in this respect are especially significant. In Turkey, the Philippines and Colombia and at other foreign locations, the STEAG Group is a reliable partner to strengthen and supplement social and state structures, for example in the fields of education, social welfare and environmental protection.

Events after the reporting period

There have not been any significant changes in conditions in the sector since the start of 2016, nor have there been any significant developments that could have a material impact on the situation of the STEAG Group.

In connection with STEAG GmbH and its affiliated companies, there are administrative and regulatory proceedings, court proceedings and arbitration proceedings, the outcome of which could influence the future business and financial situation of the companies. In some cases, out-of-court claims are also being pursued. Based on present knowledge, these will not have a material impact on the earnings, assets and financial position of the Group.

Opportunity and risk report and forecast

Risk report

Risk strategy

Opportunities and risks constantly arise for the STEAG Group through its diverse business activities. Risk management is therefore a central element in the management of the company and is geared specifically to securing present and future potential for success, especially by avoiding and reducing risks and their consequences. Early identification and utilization of opportunities can heighten the success of the Group.

Due its fields of activity, the STEAG Group is exposed to constantly changing political, social, demographic, legal and economic operating conditions. The resultant risks are addressed by monitoring and analyzing the entire operating environment and anticipating the associated market developments. The findings are used to systematically develop STEAG's portfolio in accordance with the strategy for the Group.

Structure and organization of risk management

STEAG has a Group-wide internal risk management system. Alongside organizational measures and internal control systems, risk management is supported by the Audit department as a process-unrelated controlling and consulting body.

The risk management system is organized on a decentralized basis in line with STEAG's organizational structure. The organizational units bear prime responsibility for the early identification of risks, estimating their implications, introducing suitable preventive and control measures and for the related internal communication of opportunities and risks. Risk officers in the organizational units are responsible for coordinating the relevant risk management activities. The Corporate Controlling department coordinates and oversees the processes and systems in the STEAG Group. It is the contact for all risk officers and is responsible for information, documentation and coordination at Group level. Further responsibilities include ongoing development of the methodology used by the risk management system.

Risk management is a central element in STEAG's controlling processes at all levels, and covers strategic and operational planning, preparations for investment decisions, monthly reporting and projections, and, from a certain level, immediate reporting of risks. The organizational units conduct an extensive annual inventory of opportunities and risks in connection with the mid-term planning process. All relevant factors are systematically identified and documented and the probability of the risks occurring and the potential damage are evaluated. All organizational units are required to provide details of action to be taken with regard to the opportunities and risks identified in the risk inventory and their implementation is monitored. The inventory, which looks at opportunities and risks over a short-term period of one year and a mid-term period of at least five years, is supplemented by monthly reports on changes in opportunities and risk factors previously identified and newly identified opportunities and risks relating to the current year.

Overall risk assessment

Taking into account measures that are planned and have been implemented, no risks have been identified that — either individually or in aggregate — could undermine the position of the STEAG Group as a going concern.

Risks are subdivided into strategic, operational, financial and other risks.

Strategic risks

Changes in the present regulatory framework could have a significant impact on planned investments and the earnings position of the STEAG Group. The Group's business activities are exposed to strong and dynamic competition which increases volume and price risks.

At present, it seems that the altered market conditions in Germany could result in a decline in conventional power generating capacity on economic grounds. This would be driven first and foremost by the promotion of renewable energies, which is unrelated to demand, and the priority given to feeding such power into the grid. This preferential treatment is likely to drive out highly efficient co-generation plants as well as lignite and hard coal power plants. Further, the present subsidy regime is hampering market and systems integration of renewable energies. This situation is compounded by the increasingly significant political debate about a fixed, government-imposed date for ending power generation from fossil fuels in Germany as a contribution to countering global climate change. The final outcome of this debate cannot be predicted at present.

Without structural changes to the present energy policy framework, STEAG will be forced to scale back its present power plant capacity in Germany in the medium term. Moreover, it will not be able to invest in conventional central energy generating facilities in Germany as the present market model does not give it any incentive to do so and there is no longer a reliable basis for investment.

Political risks in the countries where STEAG operates its foreign power plants are secured through investment guarantees from the Federal Republic of Germany and credit insurance from the states that have granted export credits. This means that loss of the STEAG Group's capital investment is essentially excluded.

Operational risks

Preventive risk management is particularly important in the power plant business on commercial, societal, political, technological and environmental grounds. In view of the high capital intensity and long-term nature of the business, careful analysis of market conditions and the general framework, astute management of the relevant risks through a balanced and systematic risk policy, the use of high-quality technology and acceptance of the facilities by the local community are central elements in proactive and sustained efforts to ensure that the company remains a going concern. Trustful, i.e. open and transparent, communication with customers, suppliers and neighbors, and operation of the plants in conformance with the highest environmental and safety standards are self-evident for the STEAG Group and form the basis for long-term success.

Policies that are agreed internally provide a framework for managing financial risks relating to trading prices (commodity prices, exchange rates) and the related counterparty default and liquidity risks. Corresponding indicators such as position limits, loss limits and value-at-risk are used to remain within the limits set. While price risks relating to the use of derivatives can be managed with the aid of appropriate financial models, with regard to counterparty default risk the focus is on careful examination of the creditworthiness of contractual partners, the appropriateness of the underlying master agreements, and continuous monitoring of the associated credit lines. In the trading business, compliance with all relevant indicators is monitored by the trading back office.

Risk factors for the STEAG Group arise from the regulatory framework for the operation of power plants. The environmental protection requirements for the operation of power plants are met in full. Further risks arise from the energy policy framework, which could affect the Group's business performance. These include, in particular, future regulatory measures to further reduce CO_2 emissions. The STEAG Group therefore has a clear focus on work geared to reducing the specific CO_2 emissions of its power plants by increasing efficiency further and using innovative technologies.

In view of their long-term nature and the large amount of capital involved, investment decisions involve complex and wide-ranging risks. The STEAG Group has defined structured responsibilities and approval procedures for the preparation and implementation of such decisions.

Regulatory intervention in the market for renewable energy certificates by the Romanian government and the related oversupply of such certificates indicate a risk of reduced revenues from the Romanian wind farms. Oversupply and the associated negative implications for their marketability could mean that not all certificates can be sold.

Financial risks

Foreign currency risks mainly relate to the procurement and pricing of fuel requirements. They are hedged using suitable financial instruments.

For details of risk reporting on the use of financial instruments, please refer to the relevant section in the notes to the consolidated financial statements.

Planned dividend payments by the Group's foreign companies outside the eurozone are hedged in a structured manner against fluctuations in exchange rates. In addition, at Compania Electrica de Sochagota S.A.E.S.P. (Colombia), costs in Colombian pesos are hedged against fluctuations in the exchange rate of the US dollar. By contrast, the “translation risks” arising from translation of the annual financial statements of foreign subsidiaries into euros at actual exchange rates compared with budgeted exchange rates cannot be hedged.

Other risks

The STEAG Group is exposed to normal legal risks arising in the course of business from contractual relationships with customers and business partners, and technical risks relating to the operation of plants, especially large-scale plants. Adequate provisions are recognized in the event of legal disputes with contractual partners, in consultation with the relevant specialist departments.

During construction of the Walsum 10 power plant, it was necessary, for example, to replace boiler components, which put construction work behind the original schedule. This led to risks in the form of additional expenditures, delayed earnings resulting from late start-up and the need for bridge financing. Since the annual financial statements for 2011, these have been taken into account through a thorough valuation. Commercial operation started in December 2013. The legal dispute with the consortium of general contractors (Hitachi), comprising Hitachi Ltd. and Hitachi Power Europe GmbH, started with the initiation of arbitration proceedings, together with a counterclaim by Hitachi. In addition, the consortium has filed a regression claim against STEAG GmbH with the regional court in Essen. In view of the failure to meet contractually agreed performance indicators in the operation of the power plant, at the end of 2015 STEAG-EVN Walsum 10 Kraftwerksgesellschaft mbH initiated further arbitration proceedings against the general contractor consortium.

The STEAG Group operates the Voerde and West hard-coal power plants at the Voerde site. The West power plant is managed by the STEAG Group, which markets all the generated. The STEAG Group holds 75 percent of the Voerde A and B power plant blocks, and 25 percent is held by the RWE Group. The RWE Group is fully responsible for the marketing of the power generated and thus derives the economic benefit. In 2015, the RWE Group demanded that the Voerde power plant should be shut down effective October 1, 2016. The STEAG Group considers this to be unlawful on antitrust grounds. The STEAG Group has applied to the Federal Cartel Office to initiate an antitrust administration procedure and to issue an injunction. The outcome of these proceedings is currently open. Irrespective of this, the STEAG Group and the RWE Group are engaged in talks and negotiations on continuing the present contractual relationship or a takeover of the company.

Risks relating to STEAG GmbH

As the parent company and head of the STEAG Group, STEAG GmbH, which is based in Essen (Germany), has control and profit and loss transfer agreements with most subsidiaries in Germany. It therefore manages most of the Group's risks in Germany. At the same time, it is the largest single company in the Group. The risks outlined for the STEAG Group therefore essentially apply to STEAG GmbH as well.

Opportunity report

Pursuit of the strategic targets of relevance to the STEAG Group opens up good opportunities for the successful ongoing development of present business activities, and to generate growth and at the same time achieve a sustained improvement in our earnings position. In Germany, the STEAG Group has a significant position in conventional power generation and has now also positioned itself in renewables, distributed energy generation and related services. The aim now is to extend these activities. Further, the STEAG Group's international focus is to be driven forward in the next few years. For this, the Group can make harness the expertise gained in recent years in high-growth markets and attractive regions.

Optimizing existing power plants increases their technical and organizational flexibility with the goal of making them more profitable and increasing their service life.

Further selective growth in Germany, especially in distributed energy generation (for example, by extending business with municipal utilities and local authority partners, which have a strong local presence) and expansion of renewable energies (especially onshore wind power) give the Group access to additional sources of income. Other opportunities are seen in the ongoing development of heat and power cogeneration plants and district heading (especially the Rhine-Ruhr district heating line that is currently under development) and, to some extent, in conventional energy generation in Germany (assuming a positive overall assessment, although that seems doubtful at present given the energy policy framework).

The ongoing development and expansion of trading activities should stabilize the domestic business and at the same time drive forward international growth (through cross-border trading and marketing of distributed facilities outside Germany).

Based on its long-standing expertise of projects in, e.g. Colombia, Turkey and the Philippines, the STEAG Group sees realization of high-earning foreign projects (especially in emerging markets) as a further opportunity to stabilize and improve its earnings position. Alongside the development of conventional power plants, it is consistently focusing on expansion of renewable energy sources (for example, its onshore wind power portfolio in Europe) to further diversify its generating portfolio (technologically and geographically).

The Group's portfolio of material future opportunities also includes potential to increase services (in Germany and abroad, especially through STEAG Energy Services GmbH, STEAG Technischer Service GmbH and STEAG Power Minerals GmbH).

The above (market-related) initiatives will be accompanied by Group-wide optimization programs focusing on internal structures, processes and systems. Similarly, earnings should be improved through ongoing projects to reduce costs, optimize process and structures, broaden the marketing and development of new business activities and the rapid and successful implementation of the measures resulting from these projects.

Opportunities for STEAG GmbH

As the parent company of the STEAG Group, STEAG GmbH manages all of the Group's material opportunities. These correspond to the opportunities outlined for the Group.

Outlook

General economic development

Germany's central bank, the Bundesbank, forecasts that German GDP will grow by 1.8 percent in 2016 and 1.7 percent in 2017. According to the forecast, growth in the German economy is mainly due to buoyant domestic demand. The driving forces behind rising consumer spending are low employment and perceptible real wage growth benefiting private households. In addition, state spending for integration and housing for refugees is stimulating demand. However, the influx of refugees is likely to bring a rise in the unemployment rate, even if the underlying rise in employment continues. Alongside the positive development of the domestic economy, the German economy could receive an additional boost from rising exports in 2016. Companies' foreign business is still held back by weak demand from emerging markets. However, markets outside the European Union are expected to recover and this should strengthen growth in the eurozone. Exports to markets outside the eurozone will still be supported by the depreciation of the euro. The recent decline in the oil price could continue to have a positive impact on economic growth trends through the associated rise in purchasing power. However, the factors holding back consumer price inflation are coming to an end so prices are expected to rise faster in the coming years.

One risk factor for economic development is that the upturn in demand in key markets could fail to materialize. The weak global economy remains vulnerable to shocks, and the impact of the interest rate reversal in the USA is not yet foreseeable. The present trend in China is exacerbating the uncertainty. In Germany there is uncertainty about the expected influx of refugees and its macro-economic and fiscal impact.

Development of the energy sector

Continued rapid expansion of energy generation from renewable resources will result in a further reduction in conventional power generation in Germany and continue to have a perceptible impact on electricity prices. Analysts and traders assume that the prices on the electricity exchanges will be low in the mid term. At the same time, the prices charged to consumers will rise as they also include costs for distribution, expansion of the grid, taxes and levies. In view of the German government's goal of reducing primary energy consumption, the Federal Ministry for the Economic Affairs and Energy (BMWi) assumes that, despite the good economic outlook, gross electricity consumption in Germany will stagnate or decline slightly in the next few years.

Strategic and operational challenges

The STEAG Group faces special challenges in the coming years. The shift in German energy policy has significantly altered the framework for power plant operators. The preferential treatment of renewable energies under the Renewable Energies Act (EEG) is putting pressure on the earnings of operators of fossil fuel power plants. In view of the altered operating conditions for hard coal-fired power plants in Germany, the STEAG Group is optimizing cost and revenue structures at its power plants. In addition, it is continuing to review and where necessary adjust administrative structures and processes. These measures should bring considerable savings in the coming years.

The STEAG Group also aims to adapt to the rising requirements in the marketing of generating capacity and power. Here, it is taking action so that it can respond flexibly to changing market conditions. That includes expanding its service portfolio and preparations for the shutdown of power plants, which appears to be necessary from the present viewpoint. The Group is therefore concentrating on ensuring that its present power plant capacity can be operated for as long as possible. The aim is to take decisions on the timing of shutdowns as late as possible.

The STEAG Group is an established partner for the operation of power plants for third parties in Germany and abroad. It also provides external partners with operatives with a wide range of qualifications, either for the operation of power stations or for assignments in related sectors.

Following the successful commissioning of the Walsum 10 power plant, providing support for the arbitration proceedings initiated against the consortium of general contractors (Hitachi), comprising Hitachi Ltd. and Hitachi Power Europe GmbH, remains an important task. The claims filed relate to the delay in completion of the Walsum 10 power plant, for which the consortium of general contracts was responsible, and the defense against the considerable claims filed by Hitachi. Further arbitration proceedings were initiated against this consortium in December 2015 to prevent possible contractual claims falling under the statute of limitations.

In addition, the STEAG Group has filed an arbitration case against the Spanish state with the International Centre for Settlement of Investment Disputes (ICSID) in connection with the Arenales solar heating project. At the end of 2012, the Spanish state adopted a royal decree which has brought various changes to the remuneration system for renewable energies, including solar heating. This has led to a sustained impairment of the cost-effectiveness of this project. In STEAG's view, the statutory changes infringe the principle of fair and equitable treatment set out in the energy charter and also constitute intervention comparable with expropriation.

Turning to the STEAG Group's strategic alignment, one focal area of planned growth will be renewable energies in order to further diversify the generating portfolio. Growth should be both national and international. A stable financial basis is vital for this. To implement this growth strategy, the STEAG Group is focusing in particular on realizing onshore wind power projects. A further milestone was achieved in 2015 with the commissioning of the Söloglu wind farm in Turkey. In addition, the foreign activities in the area of geothermal energy are to be stepped up. This could also be opportunities in conventional energy generation.

Operating performance

Sales were € 3.57 billion in the reporting period, about 14 percent higher than in the prior year, mainly due to the expansion of trading activities. Building on this, earnings before interest and taxes (EBIT) were around the prior-year level – despite declining margins in the German power business and delays and failure to realize planned renewable energy projects. One major positive effect in this context was the increase in earnings from energy-related services.

In fiscal 2016, the Group expects to grow sales to € 4.8 billion, mainly as a result of further expansion of trading and higher sourcing volumes. By contrast, EBIT is expected to be significantly lower than in 2015. This is principally due to declining earnings from power plants in Germany, which as it stands at present will not be fully offset by planned earnings contributions from other activities (in Germany and abroad) and new projects (especially in the area of renewables).

The future development of the Group will be influenced principally by the planned investments. Investment of nearly € 340 million is scheduled for 2016 and will focus on building up new business activities. Around € 260 million has been earmarked for investment in new construction projects. Within the established business, selective investments will be channeled to raising the operating efficiency of power plants that already ensure high availability.

General information on expected developments

The STEAG Group assumes that the opportunities arising from its strategic focus and, in particular, the planned investment in growth areas will help it maintain its good position in the energy market and expand into key segments in the future. In parallel with this, the risks associated with the Group's business environment and activities are systematically identified, managed and monitored through its risk strategy.

Expected development of STEAG GmbH

In fiscal 2015 the operating result is likely to be lower than in 2015, partly due to lower margins on domestic power plants as a result of the challenging market environment.

Essen, March 14, 2016
STEAG GmbH
Board of Management

Rumstadt   Baumgärtner   Dr. Cieslik   Geißler

This report contains forward-looking statements based on the present expectations, assumptions and forecasts made by the Board of Management and the information available to it. These forward-looking statements do not constitute a guarantee of future developments and earnings expectations. Future performance and developments depend on a wide variety of factors which contain a number of risks and unforeseeable factors and are based on assumptions that may prove incorrect.