

Fall in electricity price places a burden on STEAG

Future program produces first successes

- Market development causes significant drop in EBIT
- Company positions itself confidently for the future
- 55 million euros in dividends for local authority shareholder KSBG

As a result of expanding its electricity trading operations, the STEAG Group achieved sales of 3.9 billion euros in 2016, representing a plus of eight percent. The company's operating profit (EBIT), at 123 million euros, was just under 50 percent lower than the previous year's level. At 281 million euros, the EBITDA is around 118 million euros lower than in 2015. The Group had expected this decline, and had announced it at an early stage. The reasons are the market changes brought about politically in Germany in the form of the energy transition, which caused a further dramatic deterioration of electricity prices in the past year. This led to falling or negative margins at conventional power plants throughout the industry.

"In 2016, we responded consistently to the exacerbated market changes, especially in Germany," said Joachim Rumstadt, Chairman of STEAG's Executive Board at the presentation of the consolidated financial statement for 2016. "In the context of our future program STEAG 2022, we have continued to exploit our efficiency and savings potential significantly, are currently reorienting our portfolio, and have already successfully grasped initial opportunities for growth."

STEAG was able for a long time to keep its power plant portfolio safely on the market by optimizing the cost and revenue structure at an early stage. But the further persistent decline in wholesale electricity prices forced the Group to take decisive action. In order to increase cost-effectiveness and avoid losses, STEAG decided in November 2016 to take several power plant units, making up around 40 percent of its power plant capacity in Germany (of approx. 8,000 MW) off the grid in the course of 2017. The closures and further changes in the Group resulting from STEAG 2022 affect 800 to 1,000 jobs in the STEAG Group in Germany. Provision for this has been made in the 2016 consolidated financial statement in the amount of around 150 million euros for staff and dismantling of the plants. Two of the units registered for (provisional) closure have in the meantime been classified as relevant to the system by the transition system operator.

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Supervisory Board

Guntram Pehlke, Chairman

Executive Board

Joachim Rumstadt, Vorsitzender
Michael Baumgärtner
Dr.-Ing. Wolfgang Cieslik
Alfred Geißler

Foreign business and operational units successful

The operating profit of the Group – with an EBIT amounting to 123 million euros – was essentially earned outside Germany and by the subsidiaries. **STEAG Energy Services GmbH** was appointed in 2016 to provide operation and maintenance services for a further 2,500 MW of power plant capacity. The subsidiary **STEAG New Energies GmbH** was able to complete and commission three large distributed generation facilities, one unit-type combined heat and power plant and two energy centers, for customers Ford, Karlsberg Brewery and the Technical University of Darmstadt. In France, STEAG New Energies GmbH put two new wind farms of its own on the grid, and three further facilities were acquired in Germany. With the takeover of two waste to energy plants with an incineration capacity of 475,000 metric tons per annum, and the foundation of a new subsidiary, **STEAG Waste to Energy GmbH**, the strategic entry into the globally growing waste to energy market was accomplished. **STEAG Power Minerals GmbH** entered into a long-term cooperation with the Hawar Group, a business from Qatar, in 2016, with a view to increasing its trade in and sales of power plant by-products such as fly ash and gypsum in the Near East and India. In South-East Asia, STEAG has founded a joint Asia platform with the Australian financial services provider Macquarie Corporate Holdings, which will press ahead as a development company with the construction and operation of gas, coal, wind, solar and hydro plants in the region.

“What we see here are first successes of our STEAG 2022 transformation program, and they show that we’ve got our strategic focus right,” Joachim Rumstadt explained. “By effective management, we will be able to increase our annual EBIT by about 120 million euros from 2021 on.” However, for the three coming years – that is, during the transformation of the Group – the outlook remains cautious and STEAG expects a significant improvement in profits only from 2020 on.

Local authority shareholder KSBG receives 55 million euros

For 2016, STEAG will pay out dividends (profit transfer including taxes) of 55 million euros to its shareholder, KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG, (2015: 80 million euros), so that the local authority shareholder will once again this year be able to service the debts it incurred for the purchase of STEAG (interest and redemption) in full. “That is a formidable achievement by STEAG – especially under these extremely difficult market conditions,” says Guntram Pehlke, Chairman of STEAG’s Supervisory Board and also Chairman of the Board of the municipal utility Dortmunder Stadtwerke AG (DSW21), which holds shares in STEAG through KSBG. “We know that the company is still facing three to four hard years. But the shareholders are confident of the favorable prospects offered by the process of transformation which has now been initiated.”

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Open to all types of technology, innovative and future-oriented

To help the energy transition to succeed, the STEAG Group commissioned six large-scale storage battery systems in 2016, making an essential contribution with their total of 90 MW primary control power to compensating for fluctuations in the German grid caused by the uneven production of electricity from renewable energy sources. STEAG is a pioneer in this technology, and is planning to deploy it in other countries in future.

The STEAG Group is systematically pursuing its strategic alignment as a technologically neutral producer of electricity and heat, and as a service provider. With an installed capacity of 10,130 MW in 2016 – 8,000 MW of which is located in the domestic market – STEAG is one of Germany's largest power generation companies. In Germany, STEAG operates power plants at eight locations. In the course of the closure of five power plant units in Voerde and Herne, a total of 2,500 MW capacity will be removed from the grid in Germany in 2017. Overseas, STEAG operates three of its own hard coal fired power plants, in Colombia, the Philippines and Turkey. Over and above this, the service company STEAG Energy Services GmbH is responsible as a service provider, among other functions, for the operation of over 6,500 MW capacity in India, Brazil, Botswana, Spain, Georgia and Saudi Arabia. In 2016, STEAG had a total of 6,104 employees, 43 percent of whom were based outside Germany.

As a result of the systematic expansion of the past few years, the STEAG Group already has a total of over 800 MW installed capacity from renewable energy sources and distributed generation facilities. STEAG operates a total of 200 distributed facilities such as wind farms, unit-type combined heat and power plants, biomass and biogas facilities in Germany, Romania, Turkey and Poland, partly as an investor and partly as a service provider.

In the joint project on the Rhine Ruhr District Heating Trunk Line in cooperation with Fernwärmeversorgung Niederrhein GmbH and Energieversorgung Oberhausen AG, an important milestone in the planning permission proceedings was reached in 2016 with the submission of all documents. The aim is to secure heat supplies in the long term on an ecologically sound basis for the region as a whole.

At 223 million euros, STEAG invested around the same amount in 2016 as in the previous year (219 million euros). The greatest part of capital investment was attributable to the six large-scale battery systems. In Indonesia, STEAG invested together with a partner in the preparation for initial exploratory bore holes for a geothermal power plant, in France the company invested in wind turbines, and in Poland the boom in the thermal energy market was exploited by participation in a district heating company.

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About STEAG

STEAG GmbH has been active in power generation for almost 80 years now. As a business with international operations, STEAG offers its customers integrated solutions in the fields of electricity and heat production and engineering services. Our core competencies include design, construction and operation of both major power plants and distributed facilities, and the marketing of electricity from generating plants. Power generation is based on both fossil fuels and – for over a decade now – renewable energy sources.

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