



2015

Key figures at a glance

		2014	2015	Change
Hot metal purchase	kt	2,365	2,369	0.17 %
Crude steel production	kt	2,727	2,779	1.91 %
Sales revenues per region				
Germany	million €	1,426	1,269	
Rest of the EU	million €	582	547	
Third party countries	million €	353	343	
Total turnover	million €	2,361	2,159	
Workforce (not incl. trainees)				
	31.12.	6,498	6,591	
Personnel costs	million €	420	426	
Balance sheet total				
	million €	3,485	3,400	
Fixed assets				
	million €	2,055	1,982	
Investments	million €	38	90	
Equity				
	million €	2,608	2,573	
EBITDA	million €	233	138	
EBIT	million €	80	2	
Result from ordinary business activities	million €	66	-22	
Net income for the year	million €	44	-9	
Operating cash flow according to DRS 21				
	million €	148	193	

Key figures at a glance	2
Members of the Supervisory Board	4
Members of the Board of Directors	5
Report of the Board of Directors (Abridged Report)	6
Consolidated financial statements for the year ending 31 December 2015	40
Consolidated Balance Sheet	40
Consolidated Profit and Loss Account	42
Consolidated Cash Flow Statement	43
Statement of the Group's Shareholdings	46

Members of the Supervisory Board

Dr. Michael H. Müller, Saarbrücken Chairman	Chairman of the Management Board of the Curatorship for the Montan-Stiftung-Saar trust
Armin Schild, Biebertal First Deputy Chairman Until 31 December 2015	District Manager of IG Metall Hesse, Rhineland Palatinate, Thuringia and Saarland
Jörg Köhlinger, Frankfurt First Deputy Chairman From 05 March 2016	District Manager of IG Metall Hesse, Rhineland Palatinate, Thuringia and Saarland
Henner Wittling, Ottweiler Second Deputy Chairman	Member of the Management Board of the Curatorship for the Montan-Stiftung-Saar trust
Stephan Ahr, Wadgassen	Chairman of the Central Works Council of Saarstahl AG and Chairman of the Works Council of the Völklingen Plant of Saarstahl AG
Aribert Becker	Member of the Management Board of the Curatorship for the Montan-Stiftung-Saar trust
Prof. Dr. Heinz Bierbaum, Saarbrücken	Director of the INFO-Institute Saarbrücken
Elke Hannack, Berlin	Trade Union Secretary / Deputy Chairwoman of the German Confederation of Trade Unions
Robert Hiry, Rehlingen-Siersburg	Primary Authorized Representative of IG Metall Administrative Unit Völklingen
Michel Maulvault, Paris	Chairman of the Board of Management of Dillinger Hüttenwerke, Dillingen / Saar, retired
Markus Menges, Waldbrunn	Managing Director Baustahlgewebe GmbH
Eleonore Neumann, Ottweiler	Member of the Central Works Council of Saarstahl AG and Chairwoman of the Neunkirchen Works Council of Saarstahl AG
Angelo Stagno, Saarbrücken	Member of the Central Works Council of Saarstahl AG and Chairman of the Works Council of the Burbach Plant of Saarstahl AG
Reinhard Störmer, Völklingen	Managing Director of re:cas GmbH
Erich Wilke, Königstein (Taunus)	Bank Manager, retired

Members of the Board of Directors

Dr. Karlheinz Blessing
Until 31 December 2015

Chairman

Fred Metzken

Spokesperson for the Board of Directors (as of 18 March 2016) and
Chief Financial Officer

Martin Baues

Chief Technology Officer

Dr. Klaus Richter

Chief Sales & Marketing Officer

Peter Schweda

Chief Human Resources Officer / Labour Director



Management Report

Overall economic and sector-related conditions

World economy: growth remains weak

Worldwide economic growth in 2015 remained below expectations, with the lowest growth in global gross domestic product since the crisis year of 2009: the International Monetary Fund (IMF)¹ anticipates growth in world production of 3.1% (2014: 3.4%). China's falling rate of growth is seen as the central cause for the slowing of the global economy (only 6.9% in 2015, after 7.3% in 2014 and 7.7% in 2013). Recessions in major emerging markets such as Brazil (-3.8%) and Russia (-3.7%) strained the world economy. In contrast, advanced economies as a whole expanded moderately overall once again in 2015. Economic activity in the USA (+2.5%) continued to display relatively vigorous growth, but in contrast was weaker in Japan (0.6%).

Europe as a whole stable

Due in part to the weaker euro exchange rate, the euro area was able to improve economic performance in 2015 (1.5%, after 0.9% in 2014). Germany in particular showed stable development here (+1.5%). With a 1.1% growth rate, France's economic performance remained below average, whereas Spain, with 3.2%, posted the highest growth rate in the euro area. The revival appears intact in the United Kingdom as well (+2.2%). Countries in Central and Eastern Europe posted a growth rate of 3.4%.

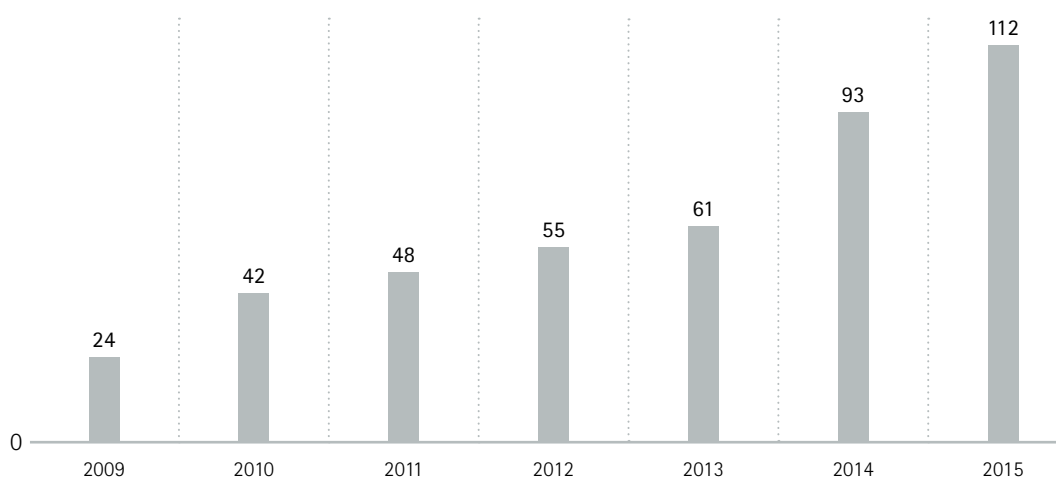
¹ IMF, World Economic Outlook, January 2016

Worldwide steel market in crisis mode

For the first time since 2009, crude steel production fell in 2015 by -2.8% to 1.62 billion tons.² With the exception of India (+2.6% to 90 million tons), all of the major steel-producing countries were affected. Even China, with around 804 million tons still the undisputed top-producing country, was unable to elude the drop in demand and for the first time produced around 20 million tons less crude steel in 2015 than in the previous year (-2.3%). At the same time, apparent steel consumption declined worldwide in 2015 by 2.6%. The slump in China was especially sharp (-5.3%, to 673 million tons). Similar to the drop in demand, the rate of utilization of capacities collapsed during the year and achieved an average of just 70% for the year.

The flood of Chinese steel exports at record-low prices led to substantial downward pressure on the overall price level for steel: from November 2014 to November 2015, world steel prices fell by 28% – a development that triggered a flood of commercial litigation worldwide in 2015.

² Measured against Eurofer's Steel Weighted Industrial Production Index (SWIP)



Chinese steel exports (in millions of tons)

Source: official foreign trade statistics, German Steel Federation (WV Stahl)

European steel market strongly impacted by imports

In Europe, the most important sales market for Saarstahl, the steel processing sectors grew by 2.0% compared to the previous year. Apparent steel consumption in the EU 28 meanwhile increased by around 2.3% to 150 million tons (2014: 3.9%); the entire increase in consumption was however covered by imports from third countries, which were also able to gain additional market share. As a consequence, European crude steel production sank by 1.8%. In the first eleven months, steel imports in the EU rose by 25%. The three biggest import countries are in particular China, followed by Russia and the Ukraine. Imports of rolled steel to Europe have increased by 50% since 2012.

Course of business

The course of business of the Saarstahl group is essentially shaped by the companies Saarstahl AG and Saarschmiede GmbH Freiformschmiede.

Saarstahl AG

In 2015, the market for long products was characterized by over-capacities and a massive increase in imports. This increased the existing pressure on volumes and prices. In spite of economic difficulties and the difficult market environment, Saarstahl was able to close the year with a positive result. Thanks to the large demand for wire rod and bar steel, there was good utilization of facility capacity and it was possible to keep the shipping volumes on the same level as in the previous year.

By positioning itself in the high quality range, Saarstahl AG benefited from the robust development of the automotive industry in Germany and in the EU in 2015. In particular, German premium automotive manufacturers with a high degree of export-orientation ensured growth at Saarstahl.

Saarschmiede GmbH Freiformschmiede

Saarschmiede GmbH Freiformschmiede (Saarschmiede) specializes in the manufacture of high-quality forged products for power generation machinery, mechanical engineering and for fields of application requiring high-alloy special steels. As a consequence of the political focus in favour of renewable energy as well as geo-political crises and the decline in oil prices, the global energy system remained in a state of imbalance also in 2015. There continues to be little investment in new power stations fired with fossil fuel. Global market consolidation, both with regard to Saarschmiede's regular customers as well as in their peer group, led to further aggravation of the situation.

The positive currency effect meant that Saarschmiede had an increase in the number of incoming orders, in particular from the American market along with the Asian and African developing and threshold countries, in the field of high-performance gas turbines, super-critical coal power stations and so-called retrofit projects for increasing the efficiency of power stations already in operation. Within the context of energy generation with low CO₂ emissions, there was also an increase in the number of incoming orders for hydro-power turbines and steam turbines for nuclear power stations in China. In Europe, the market continued to be very weak. In total, Saarschmiede contributed to the financial result for the group with a significant loss.

Earnings position

Sales continue to be at record level with continued massive pressure on earnings

In the Sairstahl group, in 2015, the positive development in sales of the previous years was strengthened; shipping volumes only decreased by 1.1% to 2,336 kt and so just fell short of the record level of the previous year. The more decisive factor for the decrease in turnover from 2,361 million euros to 2,159 million euros along with the overall performance from 2,374 million euros to 2,194 million euros was the decline in sales revenues. The decrease in turnover in 2015 essentially results from the constant enormous pressure on pricing specific to the industry and the fact that the situation on the market for high-quality forgings continues to be difficult generally, but it is also a result of the dramatic reduction in the prices of raw materials.

The geographic distribution of the sales revenues for the year 2015 shows that the Sairstahl group maintained its position within the European Union and third-party countries. Contrary to the previous year, the decrease in sales was now more on the core market in Germany. The turnover generated in Germany is now lower than 60% for the first time since 2011.

The decline in overall performance in 2015 amounting to 180 million euros, was at the same time accompanied by lower expenses for raw materials – above all a reduction in the price of hot metal – of 132 million euros. The personnel costs for the Sairstahl group were higher than those of the previous year (+6 million euros), in particular as a result of tariff adjustments as well as to an overall increase in the workforce.

Above all, lower gains from currency exchanges and revenue from earnings from currency valuation on the balance sheet date meant that other operating income fell by 16 million euros from 62 million euros to 46 million euros. Taking one-off effects from value adjustments in the current assets into account, the Sairstahl group closed the business year 2015, as expected, with a lower EBIT of 2 million euros (previous year: 80 million euros) and an EBITDA of 138 million euros (previous year: 233 million euros).

As a result of the investment trend and extraordinary depreciation in the previous year amounting to 8 million euros, as expected, amortization and depreciation are below the level of the previous year at 136 million euros. In the other operating expenses, there was an increase primarily in shipping expenses with sales volumes remaining around the same, administration expenses as well as other operating expenses largely remained constant and, in total, other operating expenses increased to 187 million euros (previous year: 180 million euros).

The financial result made up of participations and the interest result was -36 million euros in 2015 (previous year: -10 million euros). Besides the almost identical interest result of -17.8 million euros (previous year: -17.5 million euros), the result from participations changed from +7 million euros in 2014 to -18 million euros in 2015. Contrary to the previous year, in 2015, it was not possible to record a positive effect of the result of extrapolation of the equity valuation rate on the participation in the DHS Dillinger-Hütte-Saarstahl AG, and this led to expenses amounting to 19 million euros in 2015. The result of ordinary business activities therefore shifted to -22 million euros (previous year 66 million euros).

The debt waiver of one of Saarschmiede's strategic partners led to extraordinary income amounting to 30 million euros in 2015.

Taking tax expenses amounting to 17 million euros into account, the Saarstahl group closed the year with an annual deficit of 9 million euros (previous year: annual surplus 44 million euros).

Financial Situation

Increase in liquid assets from current operating activities

The cash inflow from current operating activities amounting to 193 million euros exceeds the value for the previous year by more than 30 million euros. The renewed increase – in spite of significant deterioration – is essentially due to an even higher cash inflow from changed working capital. The cash flow from current operating activities is contrasted with a considerably lower requirement for funds for investments of -65 million euros (previous year: -15 million euros). The free cash flow amounts to 127 million euros (previous year: 146 million euros). Taking the cash flow from financing activities of -101 million euros into account (previous year: -105 million euros), largely caused by the repayment of short and long-term loans including their interest payments as well as a dividend payment to the shareholders of Saarstahl AG, the financial resources increased by 26 million euros to 269 million euros. Liquid assets changed largely to the same degree and amount to 343 million euros at the end of 2015.

The Saarstahl group increased its investment programme significantly in 2015. The investments in intangible assets and tangible assets for the group amounted to 90 million euros in the business year (previous year: 37 million euros). A substantial part of this was for the rolling mills in Neunkirchen, Nauweiler and Burbach, the steel plant in Völklingen and the production facilities of ROGESA and ZKS.

Furthermore, on the balance sheet date, there were obligations from purchase commitments, investments and projects for repairs amounting to 113 million euros (previous year: 81 million euros).

Investments

For Saarstahl AG itself, the investment volume amounted to 63 million euros (previous year: 14 million euros). For the two joint enterprises ROGESA and ZKS, the investment expenditure totalled 34 million euros of which Saarstahl AG bears half in accordance with its share in these companies.

Rolling mill Burbach

In order to take some of the pressure off the 4-stand roughing mill of rolling train no. 11 permission was given in 2014 for extension by two additional stands N5 and N6 and renewal of the drive technology of the existing stands N1 to N4 amounting to a total of 16 million euros. Preliminary commissioning of the new drive technology for the roughing mill stands N1 to N4 commenced at the end of November 2015 parallel to rolling operations so that, during the winter shut-down, the existing DC drives could be replaced by new three-phase current drives and put into operation at the turn of the year 2015/2016.

The construction work for extending the roughing mill by the two further stands N5 and N6 was largely completed in the course of the year 2015. The new equipment is to be installed and commissioned in the summer shutdown of 2016.

Rolling mill Völklingen

In June 2014, the Supervisory Board granted permission to invest 30 million euros in the rolling mill in Nauweiler for a 7-stand continuous roughing line to replace the existing blooming stand. In the summer shutdown of 2015, a circumvention of the construction site for the continuous roughing line was successfully put into operation for the hot billets, so that it was possible to complete the work on the foundations for the new roughing mill while rolling operations were ongoing. The assembly of the new continuous roughing mill started at the end of October 2015. The first functional tests on the complete system took place at the turn of the year 2015/2016.

Rolling mills Neunkirchen

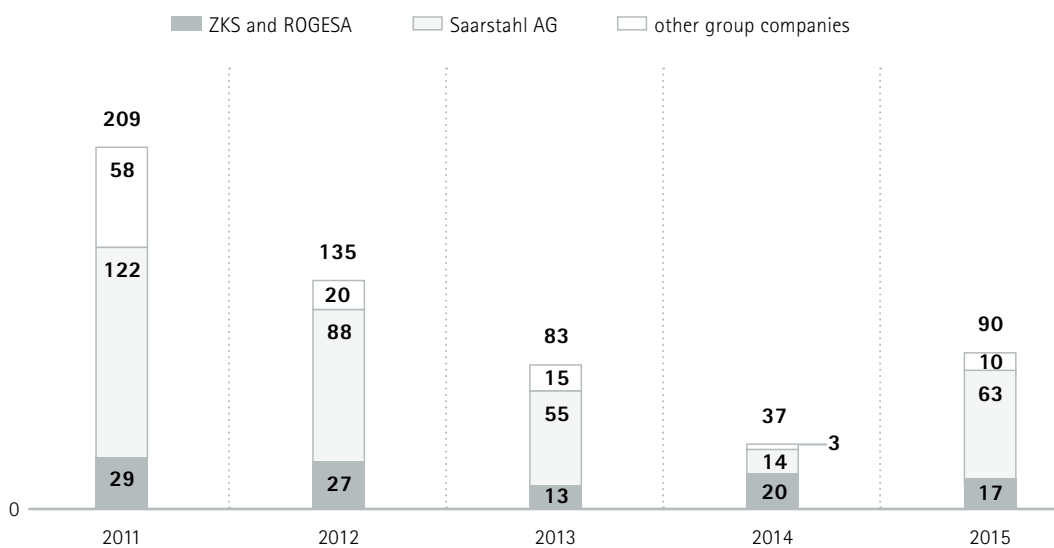
In September 2014, the decision for a new wire rod outlet for rolling train 32 in Neunkirchen to the amount of 30 million euros was taken by the Supervisory Board. Work on the foundations of the new wire rod outlet was largely concluded by the end of 2015. In November 2015, assembly of the machinery for the first phase of construction commenced as scheduled parallel to ongoing production. From the beginning of January 2016, the first phase of construction (new loop cooling line) was commissioned. The new wire rod outlet for greater thicknesses of wire rod after starting up and ensuring operating safety will be put into operation in the summer of 2016 (construction phase 2). In order to obtain all thicknesses of wire rod the existing finishing block will be moved in a final phase during the winter shutdown of 2016 (construction phase 3).

Extension of the hall, which was necessary as part of the expansion of the existing hood-type annealing furnace, was completed in autumn 2015. Assembly of the new hood-type annealing furnace started as planned in October 2015. As a result of this investment, additional annealing capacity of around 2,000 tonnes per month has been created.

LD-steel plant

For the LD-steel plant in Völklingen, the Supervisory Board approved investment amounting to 8 million euros to purchase 23 new steel pouring ladles. The new type of ladle has an improved ratio of filling capacity and own weight so that the holding capacity of the ladles could be increased by 8 tonnes. A large number of the steel pouring ladles could already be delivered before the end of 2015.

In September 2015, purchase of a replacement crane for 8.3 million euros was approved for the transfer hall of the LD-steel plant. The new crane which is to achieve a load carrying capacity of 300 tonnes will convey steel pouring ladles. This investment increases production security and lowers maintenance costs.



Investment volume Saarstahl group (in millions of euros)

Financial key figures

		2011	2012	2013	2014	2015
Equity intensity						
Equity	million €	2,788	2,768	2,577	2,608	2,573
Balance sheet total	million €	3,989	3,834	3,614	3,485	3,400
	in %	69.9	72.2	71.3	74.8	75.7
Fixed Assets						
Coverage Ratio						
Equity	million €	2,788	2,768	2,577	2,608	2,573
Fixed assets	million €	2,319	2,336	2,170	2,055	1,982
	in %	120.2	118.5	118.8	126.9	129.8
Debt						
long-term						
liabilities to banks	million €	540	469	447	404	362
Equity	million €	2,788	2,768	2,577	2,608	2,573
	in %	19.4	16.9	17.3	15.5	14.1
EBIT Margin						
EBIT	million €	210	9	-131	80	2
Product sales	million €	2,673	2,492	2,280	2,361	2,159
	in %	7.9	0.4	-5.7	3.4	0.1
EBITDA Margin						
EBITDA	million €	354	147	19	233	138
Product sales	million €	2,673	2,492	2,280	2,361	2,159
	in %	13.2	5.9	0.8	9.9	6.4
Return On Capital Employed (ROCE)						
EBIT	million €	210	9	-131	80	2
Equity, provisions for taxation, Liabilities subject to interest (average)	million €	3,369	3,424	3,244	3,130	3,086
	in %	6.2	0.3	-4.0	2.6	0.1
Internal financing capability						
Operating cash flow	million €	1	277	46	148	192
Net investments in tangible assets	million €	207	131	78	34	89
	in %	0.5	211.5	58.7	431.5	215.7
Expense structure in % of the overall performance						
Material intensity	in %	72.0	74.6	72.2	67.7	67.3
Personnel intensity	in %	14.9	17.2	17.2	17.7	19.4



Financial Position

Equity ratio over 75 %

The balance sheet total fell by 85 million euros to 3,400 million euros compared to the previous year. The financial situation was characterized above all in the use of funds, by the reduction in the fixed assets and net current assets amounting to 73 million euros and 48 million euros, respectively, with simultaneously higher liquid assets available amounting to 30 million euros.

Equity decreased, essentially due to the payment of dividends to the shareholders of Saarstahl AG (33 million euros) and the deficit for the year under review (9 million euros) by a total of 35 million euros to 2,573 million euros. In the case of outside funds, obligations towards credit institutions, in particular, (-42 million euros) were returned according to plan, and other liabilities (-37 million euros) were reduced. There was a slight increase in the liabilities from deliveries and services (11 million euros).

Key Figures for the Saarstahl Group

The course of business of the Saarstahl group in 2015 is also reflected in the most important key figures of the asset and capital structure as well as in the development regarding returns. An overall unsatisfactory performance by the Saarstahl group with various effects on the asset position, financial position and earning position meant that the equity intensity increased from 74.8% in 2014 to 75.7% in 2015. Tangible assets decreased as a result of scheduled depreciation, and financial assets decreased largely as a result of updating of equity, at the same time with lower equity. Thus, the volume of fixed assets financed with equity increased once again in comparison with the previous year.

The development of the result of the Saarstahl group for the business year 2015 is reflected in all of the earnings figures for 2015; with a deficit for the year under review amounting to 9 million euros, the result before interest and tax (EBIT) and the result before interest, tax, depreciation and amortisation (EBITDA) fell by more than 75 million euros and 95 million euros, respectively, compared with the values for the previous year. ROCE (Return on Capital Employed) amounted to 0.1% in the year under review, the returns on sales (EBIT margin: 0.1% and EBITDA margin 6.4% respectively).

Non-financial performance indicators

Sustainability

The efficiency and success of the Saarstahl group are determined by its sustainable and responsible behavior toward employees, the environment, the public and the region. Responsible and sustainable practices are a key element of corporate policy.

Key areas include:

- Human resources that are geared to continuity and high social standards,
- Company internal improvement processes that bring the principles of sustainable and reliable conduct to each workplace and each employee,
- Pooling expertise and service for the sustained success of the customers in the economic implementation of unusual and innovative projects,
- Safeguarding and expanding our technological capabilities by investing in new facilities and modernizing of existing facilities and by developing innovative products and processes,
- A procurement system that is based on procurement reliability and environment friendly means of transport,
- Economical and resource saving conduct using numerous environmental protection measures for the efficient use of energy, such as the introduction of a certified energy management system and
- Long-term partnerships with universities, research institutions and customers in the development and improvement of materials

Steel, the material itself, and the product of the Saarstahl Group, correspond more clearly than any other material with the principle of sustainability:

Through numerous applications and uses, steel provides a valuable contribution to environmental and climate protection. No other material is produced in such an environment friendly manner than steel. When it has fulfilled its purpose after a few decades or generations of use it has become scrap and is therefore a valuable raw material which can be fully recycled over and over again without any loss of quality and returned completely to the economic cycle.

Innovative products made of steel, such as wind turbines and power plant turbines save six times more CO₂ than is used in their production, according to a study by Boston Consulting Group. In automotive engineering, high-strength steels reduce vehicle weight to ensure significant fuel and emissions savings. The use of advanced steels in structures that are subject to high stress loads can in many cases reduce the amount of materials used by up to 50%, thus helping to conserve valuable resources and boost environmental protection.

Employees

With their skills and commitment, the employees make a decisive contribution to the success and development of the Saargestahl group. For this reason, we are continuing to make specific investments in the fields of occupational safety, sustainable promotion of health and in the provision of support for junior staff.

	31.12.2014	31.12.2015
Wage earners	5,047	5,120
Salary earners	1,451	1,471
Total	6,498	6,591

Training and further training

In 2015, too, the focus at Saargestahl lay on state-of-the-art and practice-oriented initial and there was a further increase in the quality of training through the implementation of a new training centre at the Völklingen location. The trend regarding the number of trainees in the year under review was as follows:

	31.12.2014	31.12.2015
Trainees	263	259

Strategy

For strategic further development, the company introduced a business field organisation with a matrix structure. Interdisciplinary teams made up of Sales, Marketing, Quality, Production, Innovation and Controlling have the task of developing a medium or long-term strategy for sales, quality, innovation and investment for the particular individual business field. Besides developing a strategy, the teams are to draw up the relevant measures required and to ensure that they are implemented.

Within the context of the cost reduction programme, in 2015, too, possible savings potentials were consistently identified and corresponding action plans implemented. As a result, it was again possible to achieve further cost savings in 2015 in comparison with the previous years. The Cost Management department ensures that there is suitable sensitivity to costs in all technical fields as well as precise control of expenditure depending on the current revenue situation in each case. The SixSigma method is used to create areas of focus for optimising the process and for achieving quality improvements. The "Production System" optimization approach is directed at implementing continuous improvement processes in all areas. The method was introduced in 2015 in further units in the rolling mills and in the departments for further processing.

Since the year 2013, Saargestahl has significantly increased its delivery reliability OTIF (OnTimeInFull). This success is also reflected in positive feedback from customers. To achieve this, projects to improve processes were carried out with different areas of focus. Intensive work is currently being carried out to create a system of key figures to improve the possibilities for analysis with which deviations are evaluated. The aim is to be able to introduce measures for improvement in future that are even more precisely targeted.

Innovation and Quality

In the central area Innovation, all activities from the fields of R&D and product and process innovation are bundled.

In 2015, in cooperation with a customer, it was possible to modify 33MnCrB5-2 so that it achieved the required notch impact strength with certainty, even for dimensions greater than 50mm (up to 72mm). This means that the range of dimensions for screws for the construction of wind power plants can be extended, without having to resort to using considerably more expensive types of steel.

In cooperation with further processing companies it has been possible, for the first time, to successfully obtain approval for SiCr spring steel from direct continuous casting 150 mm square for use as an engine valve spring in a trial engine. Corresponding trials have commenced at an original equipment manufacturer (OEM). So far, such highly demanding applications have only been carried out using thick primary rolled formats.

Saarstahl is the first steel manufacturer worldwide to use mechanical soft reduction (MSR) technology for continuous casting of billets in casting formats of 150 mm x 150 mm and 180 mm x 180 mm. In 2015, around 59,000 tonnes were produced in the format 150 x 150 mm² using MSR – an increase in volume of 24% compared with the previous year. Of the total tonnage, 54% are tyre cord grades with a carbon content of between 0.7 and 0.9%. The further development of MSR is also successful for grades with 1% carbon content for highest-strength applications in the fields of tyre cord manufacturing and offshore technology. According to a customer statement, we achieve Japanese levels here as far as segregation is concerned. In cooperation with a forge and a German automotive manufacturer, primary material was manufactured in bloom-format 265 x 340 mm² using MSR technology, better at the core than the standard with regard to its segregation structure. Crank shafts forged from this material are currently being tested in trial engines.

Quality: Data analysis with QlikView

The data analysis system QlikView offers the possibility to interlink data from very different sources and to present it in a state-of-the-art manner. Due to the type of data storage, QlikView is suitable for processing large volumes of data and utilizes dynamic applications to provide the users with fast results on their data.

The field of Quality Statistics is responsible for the evaluation system and takes a holistic approach that covers software and hardware administration, dashboard development as well as training and coaching employees. Today, there are 285 department and management dashboards available to provide support in decision-making processes such as, for example, analysis of the company-wide energy consumptions and the development of stock and quality processes. As the year under review ends, the system supports 500 users with data evaluations and offers a sound data base for decision-making. There is increased focus on the development of systems of key figures in order to map important issues such as OTIF or OEE (Overall Effectiveness of Equipment) throughout the whole process chain. The use of Qlikview, which offers complete coverage as a data analysis system, has a unique standing within the German steel industry.

Technical Laboratories

In December 2014, the accreditation of the technical laboratories (TL), which has existed for 20 years, was confirmed by a two-day audit carried out by the German auditing agency (DAkKS).

Within the context of the new accreditation for multiple locations, the testing site in Burbach was included in the monitoring. The existing high quality standard is also to be ensured sustainably in the external locations of the TL and to be regularly tested by an independent body.

The successful participation in ring tests and qualifying examinations as well as the high standard of training of testing personnel are a central component of the accreditation. The TL were successful in passing all 15 ring tests/qualifying examinations carried out in 2015 in the fields of sample production, mechanical material testing and metallography. In the period under review, the TL have carried out more than 250,000 metallographic examinations of more than 100,000 samples and carried out over 45,000 tensile tests.

Raw material procurement and transport

Raw materials markets were characterized in 2015 by increasing oversupply of raw materials along with stagnating demand. This development led to a massive price slump and to intensified predatory competition. In order to survive, the remaining producers reduced their costs. Ineffective mines were closed, mines with low costs were further expanded or put into operation. Multiple smaller producers had to partially or completely halt mine operation. As a result, supply bottlenecks occurred for certain grades despite a generally good supply situation, which at times required response at short notice.

In 2015, the EU summit at Elmau resolved to "decarbonize the world" by 2100. Further strategic decisions as part of the Paris World Climate Summit led to a general trend of major investors turning away from fossil fuels. Even though they are primarily aimed at energy generation, the formulation of such overarching objectives is not without impact on the medium- to long-term availability of coals for steel production.

Ore prices at a low level

Despite the already existing oversupply of the market with iron ore, leading iron ore producers – particularly in Australia – dramatically increased their production. Demand, on the other hand, stagnated. As a result, seagoing ore imports to China remained nearly constant compared to the previous year, at around 900 million tons. Ore prices are at a very low level.

The strategy pursued by ROGESA of diversification and continuous optimization of the blast furnace charge allowed for optimal supply of the blast furnaces at all times in terms of quality and costs, even under these difficult conditions.



Fuel prices still depressed

Producers and prices of fuels also continue to be under pressure. Prices for coking coals and injection coals reached a new low. The oversupplied market was characterized in 2015 by supplier insolvencies, capacity reductions and mine closings. Along with additional cost reductions, priorities for ROGESA and ZKS included intensive analysis of diversification opportunities and increasing procurement flexibility.

Maritime shipping: volatile cargo rates

The cargo market displayed high volatility again in 2015. The average price level fell further and reached historically low rates in November. The combination of long-term stocks of favorably priced cargo along with the simultaneous use of opportunities on the spot market proved fruitful for ROGESA and ZKS once again this year.

Successful supply strategy

Intensified oligopolization of raw material markets represents a growing challenge. Progressing predatory competition has already led to a loss of multiple types of ore and coal. This development is managed by ROGESA and ZKS with their risk minimization strategy through concluding contracts with varying durations and conditions while at the same time diversifying and developing new sources of supply. Supply bottlenecks as well as negative impacts on quality and cost of coke, sinter and hot metal could be avoided. The supply of ROGESA and ZKS with ore, fuels and aggregate materials was ensured at all times and at good conditions.

Saar Rail extends its range of services

Due to the strike by the German train drivers union at Deutsche Bahn in the summer of 2015, shipping had to be partially reorganized. Some quantities were moved to destinations of Saar Rail and delivery could be carried out without any problems.

Within the context of an internal audit and then, subsequently in an external audit by TÜV CERT, Saar Rail successfully achieved certification according to ISO 9001. The introduction of an energy management system as is required by law was also implemented after the successful audit by TÜV CERT. Saar Rail created contacts with further business partners in 2015 and could therefore offer new destinations at low cost.

Environment and energy

In 2015, Saarstahl AG, with its locations Völklingen, Burbach, Neunkirchen and Kalksteingrube Auersmacher and Saarschmiede GmbH Freiformschmiede, was successfully re-certified according to the international environmental standard ISO 14001:2004. This certification documents the continued efforts to reduce the consumption of resources, dust and noise emissions as well as waste production to a minimum.

Monitoring by the authorities

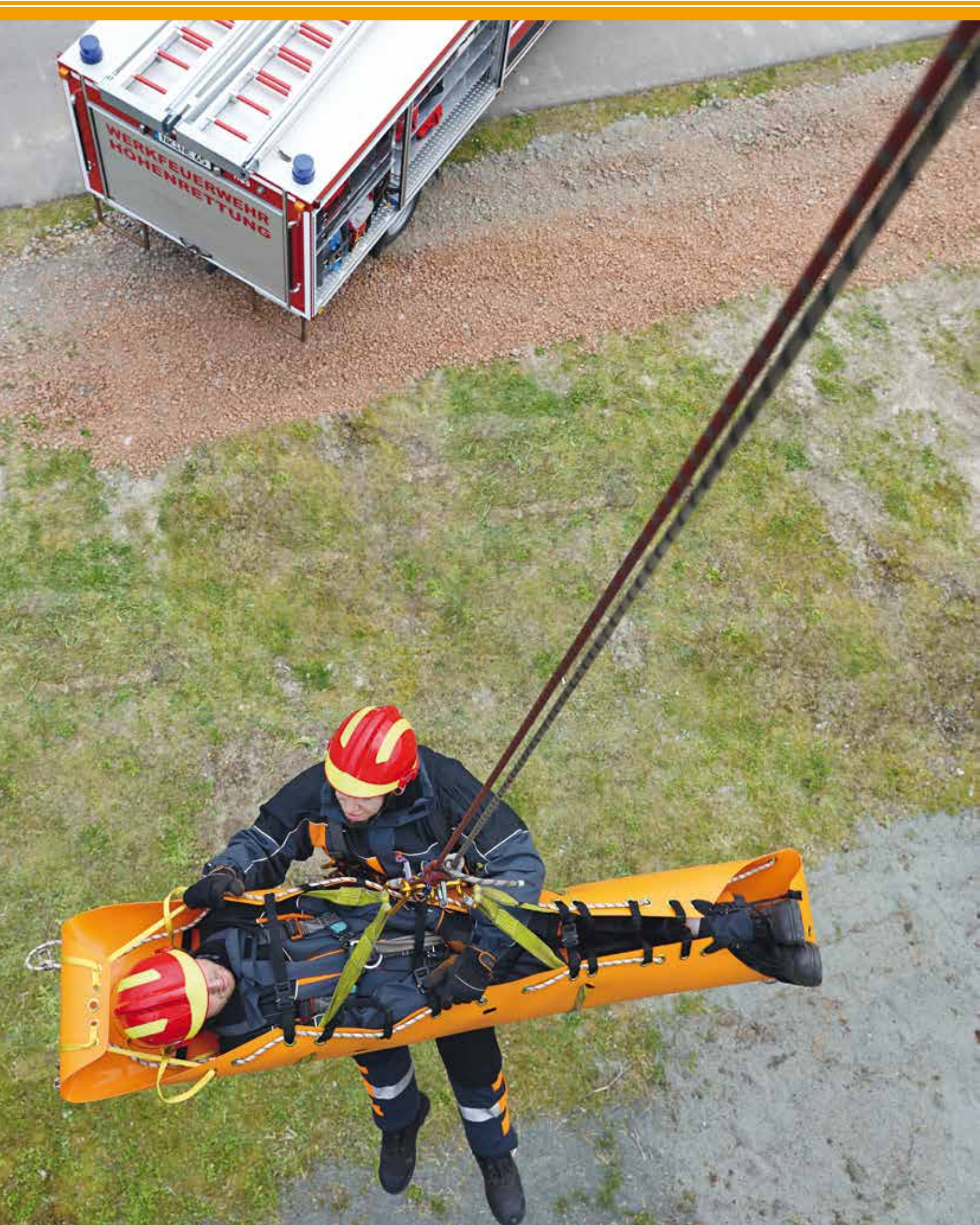
In 2015, for the first time, the facilities of Saarschmiede GmbH Freiformschmiede, the Burbach plant and Neunkirchen plant were tested by the monitoring agency according to the IE directive with regard to the environmental aspects of avoidance of air pollution, noise, closed loop recycling management, waste water as well as soil protection and water protection. The corresponding reports were published on the internet by the regional authority for environmental protection and occupational health and safety.

Field of work "CO₂ emission trading"

In the field of work "CO₂ emission trading of Saarland's steelworks", also in 2015, a cross-location workgroup was responsible, in particular, for creating more precise monitoring plans for facilities subject to mandatory emission trading. The requirements here are characterized by ever more complex statutory rules and regulations. The scope of reporting to the German authority for emission trading, DEHSt, (activity rate reports, improvement reports, emission reports, reports on carbon leakage status etc.) is constantly increasing. This development is leading to cost increases due to the fact that reports require verification and this entails expenditure for external auditors. The political discussions on plans for reform of the European emission trading system from the year 2020 (4th period of trade from 2021 to 2030) are still being observed with concern.

Energy management system

In 2015, the companies Saar Blankstahl with its locations in Homburg/Saar and Burbach/Siegen and Stahlguss Saar were integrated into the energy management system of Saarstahl AG and certified. Within Dillinger Hütte, the companies Mineralstoffgesellschaft Saar (MSG), Steelwind Nordenham GmbH and Jebens GmbH were certified. This means that all energy-relevant companies within the SHS group now have an energy management system in accordance with DIN EN ISO 50001.



Parent Company Saarstahl AG

Personnel

Improvement in the level of occupational health and safety

For Saarstahl AG, it is a matter of course to create a safe and healthy working environment for its workforce as an integral part of personnel policy.

The level of safety achieved in the past could once again be improved in 2015. The number of accidents with days of absence decreased by 10 accidents to 37. The frequency of internal accidents has therefore fallen to 5.6 per 1 million working hours (previous year: 7.1) and remained below the target value of 6.0. The focus was on creating company-wide safety standards in cooperation with Dillinger Hütte. When consistently implemented and applied, these standards should result in a reduction, in particular, of serious accidents.

Number of employees constant

At the end of the year under review, 4,031 employees were employed at Saarstahl AG (previous year: 4,026).

State-of-the art and practice-orientated initial training

Even in times of new economic challenges, it remains important to invest in training and providing support for junior employees. In total, Saarstahl took on 75 new trainees in 15 occupations requiring training and thus employs a total of 243 trainees. In addition, there were 11 interns from technical college and 12 pupils in their year of initial occupational training. In the year under review, three trainees completed their training courses as Best in the Region, one of those even as Best in the Country. In 2015, a large amount was invested in technical equipment for the training centre with investments of 195,000 euros.

Production

LD-steel plant

The record result of the quantity of blown hot metal of 2014 was increased by a further 4.3 kt to 2.37 million tonnes. At the same time, the proportion of heated melts could be increased by 10% to 39% in 2015. From this, 2.71 million tonnes of semi-finished products were produced in 2015 thus representing an increase of 42.4 kt. The proportion of vacuum-treated steel in 2015 remained on the level of the previous year at 34%.

In the continuous casting plants, there was a marked shift towards the production of larger formats of billets. In particular the quantity of the 180 mm square format increased eight-fold compared with the previous year. The reason for this increase is the demand from the rolling mills for greater coil weights and increased output.

Rolling mill Völklingen

The rolling mill in Völklingen produces high quality bar steel in round, square, hexagonal and flat dimensions on a semi-open line.

In 2015, the overall production at 555,942 tonnes including primary rolled products was slightly below the level of the previous year of 567,646 tonnes. The shift output at 761 tonnes/shift was correspondingly lower than the level for the previous year of 768 tonnes/shift. The hot-rolled output at 93.9% was slightly higher than the level of the previous year of 93.8%.

For bright steel, the volume of waste from the peeling process could be minimized once again in 2015. As a result of the continuous improvement of the process in 2015 in operation 468, an increase in efficiency of up to 5% could be achieved on the equipment. Thanks to various initiatives for improving the process, the internal OTIF (On Time In Full) value could be increased by 3% to 80%.

Rolling mill Burbach

With its wide range of products, the rolling mill in Burbach is one of the leading producers worldwide of drawing grades and, with its four strand wire rod mill for dimensions of between 5 mm and 20 mm, it is one of the highest performing facilities of this type.

The high production performance of the previous year (1,092,020 tonnes) could not quite be maintained but rather, at 1,017,681 tonnes, it decreased slightly due to reduced volumes of constructional steel and job-rolling quantities. As in the previous year, with 1,519 tonnes, the shift performance was on a high level along with the output at 97.82%. At the end of December 2015, the direct current drives of the four stands on the single-strand roughing mill were changed over to more powerful three-phase current drives and commissioned. As a result of this measure, higher performance is to be expected.

Rolling mill Neunkirchen

On the two rolling trains of the Neunkirchen plant, a total of about 859,000 tonnes of rolled products (hot rolled) were produced in 2015. Of this amount, approx. 439,000 tonnes on the combined wire rod / bar mill were bar steel and wire rod in round, square, hexagonal and flat dimensions. In the wire rod mill, approx. 420,000 tonnes of wire rod was produced – a new annual record – exclusively in round dimensions.

One focus of further developments in process technology for the combined wire rod and bar mill in 2015 was on the rolling process for flat and square sections. In the wire rod mill, with regard to new investments in 2016 and the resulting new technological possibilities, the process of thermo-mechanical rolling (TM rolling) was further developed. The process parameters for TM rolling of spring steels were continuously optimized, and possible potential for development with renowned manufacturers of suspension springs for the automotive industry was agreed. But other steel grades were also rolled over the loop in trials with corresponding temperature control in order to work out potentials for this process with selected customers.



Most significant shareholdings

Zentralkokerei Saar GmbH, Dillingen

Saarstahl AG and Aktien-Gesellschaft der Dillinger Hüttenwerke each hold an indirect 50% interest in Zentralkokerei Saar GmbH. ZKS produces coke intended exclusively for use in ROGESA's blast furnaces. Total coke production in 2015, at 1 314 kt, was slightly above the previous year's production (1 309 kt). ZKS is a company without employees. Personnel required for operation of the coking plant are provided by Dillinger Hütte.

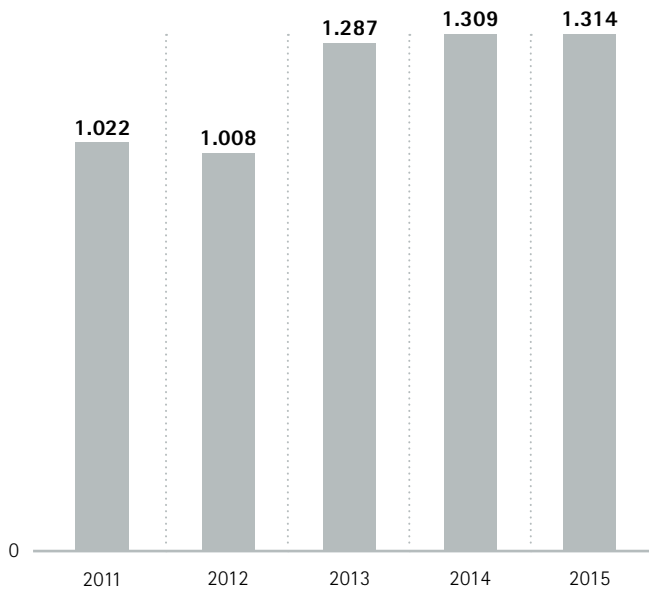
Investments at ZKS in 2015 amounted to € 5 million (2014: € 6 million). Following the start of operation for the new stamping, charging and pushing machine (SBA 3) during the previous year, key investments in 2015 included a new coke sampling station as well as soil sealing on the "white side". These investments contribute significantly to ensuring the quality of the coke as well as to protecting the environment at the site.

ROGESA Roheisengesellschaft Saar mbH, Dillingen

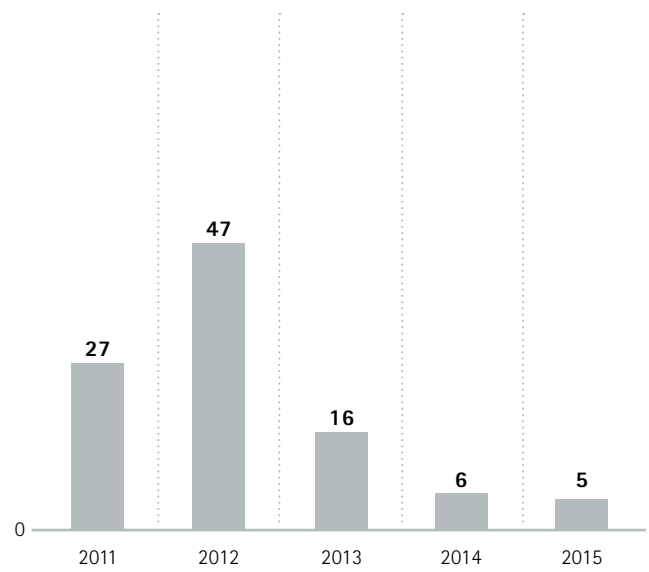
ROGESA Roheisengesellschaft Saar mbH, in which Saarstahl holds a 50% interest (indirect and direct), produces hot metal exclusively for its shareholders, Aktien-Gesellschaft der Dillinger Hüttenwerke and Saarstahl AG. Operational management of ROGESA, as a company without employees, lies in the hands of Dillinger Hütte.

Hot metal production in 2015 proceeded according to plan with the blast furnaces 4 and 5, and annual production, at 4 429 kt, was 1.1% higher than the previous year (4 383 kt). During the year under review, 2 060 kt (previous year: 2 018 kt) was supplied to Dillinger Hütte and 2 369 kt (previous year: 2 365 kt) went to Saarstahl.

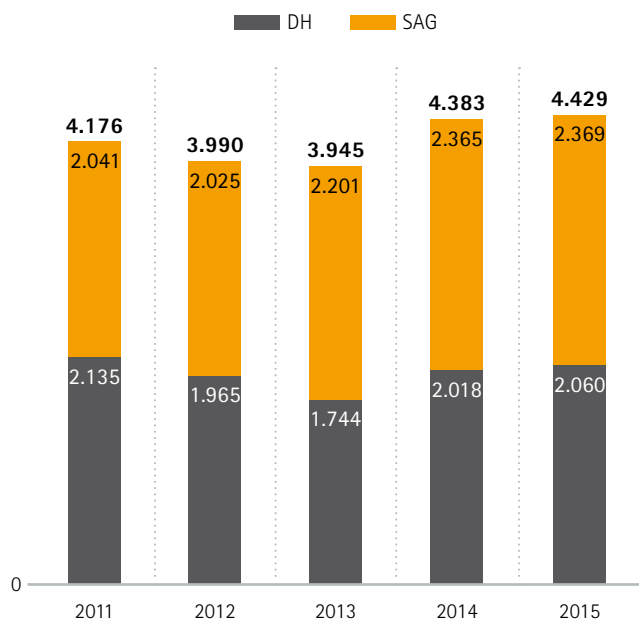
Investments at ROGESA in 2015 amounted to € 28.6 million (2014: € 13 million). As in the previous year, additional procurements were arranged to avoid supply bottlenecks during relining of blast furnace 4, planned for the third quarter of 2016. In addition, modernization of blast furnace blower D1 was continued with a complete replacement of the electrical and control equipment, which ensures availability of the wind supply. Along with STEAG New Energies GmbH (49.9%) and VSE AG (25.2%), ROGESA holds a 24.9% stake in Gichtgaskraftwerk Dillingen GmbH & Co. KG, which leases a 90 MW power plant at the Dillingen plant to the operators of Gichtgaskraftwerk, Dillinger Hütte, ROGESA and ZKS, for the generation of electricity.



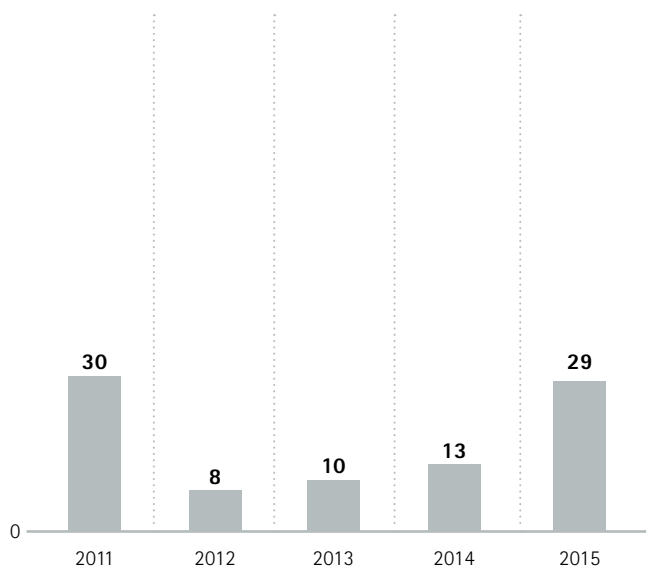
ZKS coke production (in kt)



Investments in plant, property and equipment at ZKS (in million €)



Hot metal production by ROGESA for SAG and DH (in kt)



Investments in plant, property and equipment at ROGESA (in million €)

Subsidiaries in the field of Further Processing

In 2015, the sales level at approx. 372 kt of wire rod and bar steel products was more or less on the level of 2014 and thus slightly below the average of many years.

There were product-specific differences here within the subsidiaries. The field of wire rod with the subsidiaries Drahtwerk St. Ingbert, Drahtwerk Köln, Conflandey Industries and Schweißdraht Luisenthal as well as the cold rolled strip steels from Saar-Bandstahl were largely able to exceed the sales level of the previous year. On the other hand, the field of bright steel with the companies Saar-Blankstahl and Secosar Etirage experienced a slight decline. Furthermore, overall, in spite of falling starting prices for steel in the course of the year, it was not possible to avoid a decrease in the margin for this stage of production.

The focus of investment was on the development of new products for the fields of onshore wind energy and medical applications as well as for automotive applications and the construction of agricultural machinery. Together with the large projects already concluded in the previous years, the basis has been created for sustainable production of high-quality wire rod products. In addition, investments were carried out in order to maintain asset value and to eliminate bottlenecks.

With shipping volumes of 380 kt (previous year: 367 thousand tonnes), the independent companies for further processing in Saarstahl AG achieved sales revenues of 371 million euros (previous year: 378 million euros). The EBT of all of the subsidiaries for further processing amounts to approx. 7.4 million euros (previous year: 1.3 million euros).

For 2016, the companies for further processing are planning to further increase their sales volumes and to stabilize the positive result for the year.

Sales Companies

Sales of Saarstahl products in Germany are carried out through direct marketing with the company's own sales organisation and, in other European countries, with sales companies at locations in France, Italy, Belgium, Switzerland, the Czech Republic and Turkey. Worldwide, Saarstahl is represented by its own companies in Detroit, Shanghai, Mumbai and Malaysia. Customer service in other European countries and in third party countries which do not have their own offices is carried out by Saarstahl-Export GmbH, which relocated from Düsseldorf to Saarstahl's main office in Völklingen in 2015.

The international sales organisation distributes mostly products of Saarstahl AG and its further processing companies. To a limited extent, commercial transactions are carried out. The sales companies achieved a result of 1 million euros in 2015 (previous year: 3 million euros).

Saarschmiede GmbH Freiformschmiede

General situation on the market

The market environment in which Saarschmiede is active is very volatile and subject to intense competition. Due to the orientation of climate policy to renewable energy, the geopolitical crises in the Middle East, the Ukraine and North Africa as well as the fall in oil prices, the global energy system has become unbalanced. In addition, the company is faced with strong competition. There continues to be little investment in new power stations powered with fossil fuel because, also in developing and threshold countries with strong growth, reforms are only making slow progress and programmes to boost the economy do not bring about change in the short term. Due to global consolidation on the market both in the sector of regular customers of Saarschmiede as well as in their peer group, the situation with regard to competition has become even more intense.

The weak euro and increase in value of the US dollar and the Chinese Yuan strengthened Saarschmiede's market position since the currency effect meant that its products became less expensive for export customers. In particular on the American market and as a result of growth potential in Asian and African developing and threshold countries, Saarschmiede recorded an increase in incoming orders in the field of high performance gas turbines, supercritical coal-fired power stations and for so-called retrofit projects to increase the efficiency of power plants already in operation. Within the context of energy generation with low CO₂ levels there was also an increase in incoming orders for hydropower turbines and steam turbines for nuclear power stations in China which form an important pillar of Chinese energy policy. In Europe, the market remained on a very weak level.

Course of business 2015

Due to the difficult market and competitive situation, the turnover in 2015 declined steeply to 178 million euros (previous year: 219 million euros). Compared with this, due to the conclusion of longer-term general contracts with strategically important large customers and significant, lucrative major projects in all fields of business, development of the volume of incoming orders

was thoroughly positive with an increase of 30%. There was a significant increase in the demand for products made of high-alloy materials, in particular. The increased number of orders will have a positive effect on returns on sale only in 2016. The increase in orders meant that it was necessary to have additional production and personnel capacity. The number of employees increased to 930 (previous year: 897).

Aktien-Gesellschaft der Dillinger Hüttenwerke

Aktien-Gesellschaft der Dillinger Hüttenwerke (Dillinger Hütte) is the most important subsidiary of DHS – Dillinger Hütte Saarstahl AG, of which Saarstahl holds 33.75% of the shares. Dillinger Hütte specialises in the manufacture of high quality heavy plate and, together with its subsidiary Dillinger France S.A. in Dunkerque, it is a world leader in this segment.

Strong competition on the heavy plate market. Insufficient capacity utilization, falling prices for raw materials and the extreme increase in imports were the factors that characterised the market for heavy plates in 2015 and which ensured a strong negative trend in price development over the course of the whole year. Thus, the capacity utilization of the Eurofer plants was, on average, only about 60%.

Positive result – significantly lower, however, than the level of the previous year

In the persistently difficult steel market for heavy plate, Dillinger Hütte was nonetheless able to achieve a slight increase in the production and sales volumes compared with the previous year and thus to have a similarly high level of capacity utilization of production facilities as in the previous year. It was possible to close the business year overall with a profit which, however – due to a dramatic decline in earnings and a change in the expenditure and income structure – was significantly below the level of the previous year. A positive contribution was made by the internal cost-reduction programmes that were consistently continued in 2015 within the context of the strategy programme PRIMUS 16. The strategic investments and the optimisation and modernisation of the technical facilities were also continued according to plan.

The steel production and production in the two rolling mills, i.e. at Dillinger Hütte itself and at its wholly owned subsidiary Dillinger France, were on the same level as the previous year. There was a rise of 2.1% compared with the previous year in the purchase of hot metal to 2,060 kt (2014: 2,018 kt) and of 2.4% in the production of crude steel at 2,401 kt (2014: 2,345 kt). The production of the rolling mills (1,856 kt) increased by a total of 2.0% in comparison with the previous year whereby 1,296 kt of heavy plates (2014: 1,258 kt) were produced in Dillingen and 560 kt (2014: 562 kt) in Dunkerque.

In spite of higher sales volumes, sales revenues (1,732 billion euros) were lower in 2015 than in the previous year (1,872 billion euros) and were therefore lower than the level targeted. Worldwide over-capacities coupled with a considerable increase in imports from China and a continuous decline in the prices for raw materials over the course of the year led to another sharp decrease in sales revenues in the whole heavy plate segment. Overall, shipping of heavy plates increased by 76 kt (+4.3%) to 1,843 kt whereby the decline in the tube plate segment was accompanied by a significant increase in normal plates, by comparison.

EBIT (Earnings before Interest and Tax) amounted to 57 million euros (2014: 183 million euros) and EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) amounted to 110 million euros (2014: 237 million euros). ROCE amounted to 2.9% in the year under review (previous year: 9.3%)

Number of employees remains largely unchanged

At the end of the year under review, there were 5,081 employees (31.12.2014: 5,048) working at the location in Dillingen. In 2015, 62 employees were recruited. Furthermore, 58 trainees were taken on into permanent employment.

With 46 accidents with more than one day of absence a year (2014: 60) and an accident frequency of 5.7 (number of accidents with more than one day of absence per 1,000,000 working hours; previous year: 7.4), it was possible for the first time in six years to achieve both a reduction in the absolute figures for accidents as well as in the frequency of accidents.

Investments on a high level

Investments in the company were still on a high level at 114 million euros (2014: 140 million euros). The central focus of investment was, once again, the continuous casting plant CC 6 – a major project with which Dillinger Hütte is underlining its leading position in technology for the manufacture of high-grade continuous cast slabs to fulfill heavy plate specifications with the highest demands. Together with the first casting process carried out in the autumn of 2015, heat adjustment trials commenced and the first slabs were produced in a trial run on the newly constructed facility. Besides the major project CC 6, investments were also made, in particular, in the rolling mill segment but also in further processing and in the laboratory of the steel plant.

Risks and opportunities report

For the Saarstahl group as a global player in the manufacture of wire rod, bar steel and semi-finished products in different grades as well as forge products, the structured and constructive handling of business opportunities and risks is of key importance. This applies to a particular degree in the face of the challenging economic framework conditions which are to be expected as shown in the forecasting report. Against this background, the Saarstahl group already some years ago introduced a group-wide risk management system that is embedded in the risk management system of the SHS group. The methods and tools of risk management are continuously being further developed.

Organisation of risk management

Risk management in the Saarstahl group consists, on the one hand, of risk coordinators and responsible employees in the special fields and in the subsidiaries. They are responsible for the operative risk control tasks integrated into the processes of the individual departments and subsidiaries as well as for providing risk reports for their own areas of responsibility to SHS Risk Management within a set time limit. On the other hand, SHS Risk Management carries out coordination, support and consolidation tasks for Saarstahl. Risk coordinators and SHS Risk Management thereby work together as partners.

Mode of function of risk management

The risk management system of the Saarstahl group comprises all measures that ensure systematic dealing with risks and focuses on risk transparency, risk control and risk communication.

- Risk transparency: The objective of risk management is to identify and indicate the risks involved in the business activity at the earliest possible stage. To achieve this, systematic and consistent methodology for analysis and assessment is applied.
- Risk control: A further objective of risk management is to avoid, reduce or transfer the risks identified through the use of risk control instruments that have either already been implemented or which require setting up. Transfer of risk is carried out by the central service provider SHS Versicherungskontor GmbH, which is responsible for ensuring a suitable scope of insurance coverage.

- Risk communication: The Management Board is informed about the current risk situation at regular intervals. In addition, essential issues with regard to risk management are discussed with the Supervisory Board.

A regular risk management process forms the basis of the risk management system of the Saarstahl group. As well as risk identification, this process includes risk assessment and risk control. Besides the risk management process, a further component in the risk management system is risk analyses. Risk analyses are carried out by SHS Risk Management for Saarstahl by order and according to specific topics. The content, structure and results of the risk management system are documented so as to be auditable in accordance with the German Corporate Sector Supervision and Transparency Act (KonTraG).

The Internal Auditing Service is part of Risk Management in accordance with the German Corporate Sector Supervision and Transparency Act as part of the management's holistic approach to setting up an internal management and supervision system. In this function, it is responsible for the systematic and targeted auditing and monitoring of the risk management system.

Industry, environmental and market risks

The Saarstahl group is a global player. In addition, its customer structure is characterized by companies with global activities, especially from the automotive and mechanical engineering industries. This implies a dependency both on future overall global economic development as well as on the development of individual customer industries. Due to steel over-capacities worldwide, increased pressure from imports, a decline in growth rates in threshold countries, the not-yet fully resolved debt crisis in the Euro-zone and the geopolitical crises in Eastern Europe and the Middle East, there are economic risks that are linked to a heightening of competition and which Saarstahl is unable to escape completely. The external risks mentioned can lead to restrictions regarding perspectives on the market for Saarstahl. In order to counteract these risks, the company constantly monitors the general economic situation and the sales markets for specific countries. Moreover, by manufacturing wire rod, bar steel and semi-finished products made of high-grade steels, the Saarstahl group has reduced its dependency on the mass market.



Furthermore, the Saarstahl group has continuously extended its range of products through its own further processing companies. Strategic decisions taken in this regard have the effect of reducing risk in terms of risk diversification.

The impact of the VW emissions scandal on sales at Saarstahl is currently considered to be only slight. The publicly announced cost-reduction programmes represent a risk, however, since these could result in increased pressure on prices.

Procurement risks

To manufacture high quality products, the Saarstahl group requires raw materials, energy and logistic capacities in sufficient quantities and qualities. Specific areas of procurement and logistics are therefore bundled under the single umbrella of SHS Services GmbH and SHS Logistics GmbH. Irrespective of this, the current geopolitical crises can have a negative effect on the procurement situation since individual raw materials are procured from affected regions. The further development in the crisis areas is therefore being precisely monitored and any related risks are discussed with the suppliers and reduced to a minimum in cooperation with the suppliers. However; there can be great fluctuation in purchasing prices, thus placing a burden on the cost structure of the Saarstahl group. Furthermore, there can be a loss of suppliers which can have a negative effect on the production and the supply-related obligations to deliver. For this reason, long-term framework contracts are used in procurement. Moreover, options for achieving basic flexibility of the supply of raw materials are used, above all in the affiliated companies ROGESA Roheisengesellschaft Saar mbH and Zentralkokerei Saar GmbH. Furthermore, through corresponding storage policies, a buffer of supplies is maintained and new sources of supply are sought systematically and consistently. In this context, alternative possibilities to the use of raw materials are tested and evaluated. Besides ensuring the supply, the measures implemented also make a contribution to lowering price risks. With regard to the energy supply and cost security, the 90 MW blast furnace gas power plant in Dillingen makes an important contribution to minimizing risk. All in all, the medium-term supply security for raw materials, energy and logistic capacities in the required amounts and qualities is to be seen as guaranteed.

Risks of the operating activities

In the production facilities of the Saarstahl group, interruptions, material damage and/or quality risks can occur. These may be caused by the complexity of the products manufactured, the complexity of the manufacturing processes and technical operating facilities or by force majeure. To counteract the former of these causes, besides having innovative diagnostic systems for preventive, future-orientated maintenance and the consistent further development of the quality assurance system, which is certified according to international standards, above all, the company also makes continuous investments in modern facilities.

Risks caused by force majeure, such as explosions or major fires which have a large potential for damage but where the risk of occurrence can be seen as only slight, are dealt with by Saarstahl by using fire protection facilities, emergency plans and the plant's own fire brigade. Furthermore, insurance contracts with the appropriate scope of coverage have been concluded.

Financial risks

It is of central importance for the Saarstahl group to ensure the financial independence of the company by coordinating its financial requirements. To achieve this, active control and limitation of financial risks are carried out. This is supported by integrating the financial departments under the umbrella of SHS.

Saarstahl concludes deals regarding financial instruments exclusively with counterparties who have an excellent credit standing. Outstanding payments for deliveries and services are continuously monitored. In most cases, transactions are safeguarded by credit insurance. The resulting risk of default can therefore be seen as low. Continuous financial and liquidity planning reduces liquidity risk that is currently to be seen as low. All essential subsidiaries are involved in the short and medium-term financial planning according to uniform standards. Within the context of regular analyses both the status quo and planning are included in the risk management system. As a consequence, the necessary financial flexibility of the company is safeguarded. Independent of this, market risks can be influenced by fluctuations in fair values or future cash flows from financial instruments. The company actively deals with these risks by using currency and interest rate

hedges. These instruments significantly limit the market price risks or eliminate these completely. It generally applies that hedging instruments are not used uncoupled from the basic performance-related business. They are regularly monitored and, for control purposes, analyses are created whose result flows into the risk management system. Any residual risks remaining are to be considered as slight. The hedging instruments stated are presented in detail in the notes on the balance sheet.

Legal risks and compliance risks

Legal risks are currently to be seen as slight. There is, however, a fundamental danger that, due to increasing internationalisation and the expansion of the business activities of the Saarstahl group, legal uncertainties could arise as a result of the multitude of legal fields and legal systems which are touched upon. In the case of questions that go beyond the scope of German jurisdiction, the Saarstahl group calls on the services of well-respected legal experts.

Irrespective of this, deliberate individual misconduct by individual persons cannot be completely ruled out. However, through preventive compliance commitment, potential misconduct is counteracted. The Saarstahl group is committed to the Code of Ethics of the SHS group. This commitment manifests itself both in the values and actions in dealings with each other as well as in the behaviour towards customers and third parties from external companies. The compliance commitment of the SHS group and therefore of the Saarstahl group was further extended by the Compliance Committee in the past financial year. With informational events and compliance publications on specific topics, work is being carried out to promote correct and compliant behaviour through preventive measures.

Regulatory risks

New laws or changed regulatory framework conditions on national and international level can imply risks for the Saarstahl group. This applies, in particular, to cases where reforms or changes lead to higher costs than those of the company's competitors. For this reason, Saarstahl supports regulatory efforts directly and through working relationships with trade associations.

The group is committed to targeted environmental protection. However, regulatory developments

with regard to environmental protection also represent risks. There is, for example, a considerable risk of costs for the Saarstahl group through the necessity to purchase emission allowances if there is a significant increase in the costs for CO₂ certificates in the fourth period of trading (as of 2021). Even if the final structure of the regulations is not yet available from the EU Commission, current proposals in this respect lead to the assumption that a significant burden is to be expected. There is a further significant potential of threat as a result of the revision planned for 2017 of the exemption from the reform of the EU emission trading of own power generation from existing installations.

In December 2015, the UN Climate Conference took place in Paris. Although the world community agreed on a climate contract during this event, no binding targets or comparable targets were set. Concrete European and national objectives are still to be formulated. There is a risk that aims could be formulated which place an additional burden on the Saarstahl group or that lead to distortion of international competition.

IT risks

The complex technical production processes as well as the administration processes of the Saarstahl group are supported by modern IT systems. The availability of flows of data and information is therefore of key importance. Specific areas relating to information technology are therefore bundled under the umbrella of SHS Services.

As a result of human error, organisational or technical processes and / or security loopholes can therefore cause risks which endanger the secrecy, availability and integrity of IT-supported information and systems. In addition to failure of important production and administrative systems within the value chain, in particular, risks pertaining to system access by unauthorized third parties, such as industrial spying or sabotage are to be mentioned. For this reason, the software used is constantly monitored by the Saarstahl group and SHS Services GmbH, and the systems are updated as required. In addition, hardware components such as servers or networks are continuously being expanded and adapted to technological innovation. Moreover, as a preventive measure, publications are issued in order to make employees aware of the risks and to promote sensitivity in their behaviour with regard to IT security.

Close cooperation between the specialized areas and the data security engineers ensures that processing of information relating to personnel data is carried out in accordance with the regulations in the German Data Protection Act.

Personnel risks

For the Saarstahl group as a manufacturer of products that are technologically and qualitatively of high-value, qualified, skilled and managerial staff as well as a high degree of commitment are of primary importance for the company's success. Against this background, the company attaches great importance to being an attractive employer. There is a fundamental risk of losing competent employees. The reasons for this are manifold such as leaving the company because of reaching retirement age or due to personal re-orientation. The company counteracts this by providing training in various professions. The company engages in a wide range of recruiting activities in order to come into contact with suitable people. This commitment also actively works towards preventing the anticipated lack of skilled employees. In addition, the Saarstahl group offers a wide range of possibilities for further training and target-group orientated consultation. Furthermore, Saarstahl promotes cooperation across the generations in order to ensure that there is systematic transfer of expertise from retiring skilled employees and managers to their successors. This process is supported by specially trained coaches who help to systematically record the knowledge critical for success and to pass this on to the successors of the employees leaving the company using a transfer plan.

Environmental risks

In the production processes in the manufacture of hot metal and steel as well as in further processing, environmental risks linked to the processes such as air and water pollution are immanent. The Saarstahl group therefore makes every effort through intensive quality management and environmental management to preclude damage that could occur as a result of the product or its manufacture. Therefore, the group has an integrated management system, in which quality management, occupational health and safety, environmental protection and incident management are combined. In addition, Saarstahl continuously invests in measures that increase the efficiency of environmental protection. However, there are additional risks posed by the tightening of environmental specifications where requirements cannot be fulfilled economically with the current status of technology. Furthermore, on land belonging to the company that is no longer used or only partially still in use, there could be environmental pollution from the past resulting from former business activities. The Saarstahl group counteracts these risks by continuous monitoring and carrying out scheduled clean-up operations.

Organisation of opportunity management

Opportunity management consists of the systematic handling of opportunities and potentials. It is directly embedded into the work of the Management Board of Saarstahl. The Management Board identifies and discusses opportunities and potentials and, where appropriate, conducts a strategic dialogue regarding trends on the market and in technology with the departments and subsidiaries affected. In this strategic work, the Management Board orientates itself towards current global and industry-specific growth-drivers and continuously develops the company further taking global trends into account.

Strategic opportunities

The demand for individual mobility is increasing worldwide and this demand is largely fulfilled by the automotive industry. For the Saarstahl group as a direct supplier in the automotive industry, this presents opportunities for growth. This applies to the domestic market as well as to the Asian and American markets. Against this background, the Saarstahl group understands the internationalisation of its business activities as presenting a challenge and an opportunity at the same time. A large number of customers from the key customer sectors of the automotive industries and mechanical engineering have become international in the past or are driving the process of becoming international forward. The Saarstahl group therefore sees the opportunity to ensure further ties with existing customers through internationalisation. In this regard, strategic partnerships and alliances can also be expedient. Corresponding possibilities are being explored and evaluated.

Additionally, gaining new customers which have not been contacted so far can be seen as an opportunity. The company is therefore strengthening its global presence by expanding its sales network and is increasing potentials in particular in new and upcoming markets without leaving its market position in the core markets.

A further opportunity for future business commitment lies in the engineering competence of the employees. Through the new and further development of products, the company has the chance to penetrate market niches. Furthermore, optimized processes and facilities can lead to competitive advantages in quality and cost. The Saarstahl group is therefore striving to continuously extend this engineering competence further.

An important element in the business model of Saarstahl is formed by further processing companies. These are managed as independent companies within the shareholding portfolio of the Saarstahl group. Saarstahl sees the basis of future growth in the continuous strengthening and further expansion of these further processing companies. For this purpose, the group is not only in a position to offer its customers a broad portfolio of high quality steel products but, also, individual further processing companies offer the possibility to penetrate economically attractive niches.

By intensifying customer loyalty, the Saarstahl group also sees the opportunity to further develop

itself as well as its product portfolio. By working closely together with customers and striving to find the optimum solutions, Saarstahl is able to identify potentials in the product range and, at the same time, potentials for investment. Furthermore, the further development of various services is also seen as an opportunity.

Operative opportunities

The operating activity of the Saarstahl group consists of numerous processes that are sometimes partially connected with each other through interdependencies or interfaces. The company sees operative opportunities in the optimization of these internal processes. Optimised processes result in an accelerated and more efficient work process and allow cost savings.

Targeted investments in the production facilities provide the opportunity to create a further distinction to the competition and to secure and improve earning power by lowering costs. Furthermore, in the coming business year, there is still the possibility to benefit from the low price level of selected raw materials.

In further processing, the extension of cross-operation coordination of the further processing operations offers an opportunity for the future. Regular exchange, mutual support and ultimately also learning from each other are important elements in the further development of further processing areas and subsidiaries.

In the continuous and binding use of methods for cash management and cost control, the Saarstahl group sees the opportunity to increase sensitivity to costs among all the employees and ultimately to improve cost structures.

In addition, opportunities are provided by the continued merging and bundling of the functions and activities of the Saarstahl-group and the Aktiengesellschaft der Dillinger Hüttenwerke in SHS – Stahl-Holding-Saar GmbH & Co. KGaA and its service companies. These can lead to synergies occurring through harmonisation and improvement of processes and work procedures.

Overall assessment of the risk situation

All in all, no risks can currently be recognized that could endanger the continued existence of the company nor are there signs of any developments that could have a sustainable significant effect on the asset, financial or earnings position.

Forecast

Growth of world economy remains moderate

Growth of the world economy will remain at a moderate 3.4% during the coming year as well, according to the latest IMF forecasts. This is not least because the emerging markets, which had pushed world trade until the outbreak of the economic and financial crisis, will also grow only at a moderate 4.3% in 2016. The western markets in the euro area (+1.7%) and the USA (+2.6%) will presumably continue to develop positively. While Russia and Brazil remain in recession, Ukraine is expected to be able to escape recession and again find its way on the path toward growth. For Germany, which as an export country especially profits from the low euro exchange rate, the forecast rate of economic growth in 2016 is 1.7% – with this, domestic growth should continue to remain stable compared to the previous year.

These forecasts are however accompanied by a range of uncertainties and risks that can have a sharply negative impact on the worldwide consumption and investment climate. In addition to general geopolitical factors and the collapse of raw material prices, these include in particular tensions within the EU created by the refugee crisis, and not least the difficult situation in Syria and in the entire Middle East, with the resulting terror risks.

Global steel market: another difficult year expected

The global steel market will continue to experience imbalance in 2016 with a marginal growth rate of 0.2%. There will be no significant increase in steel consumption as long as there is no fundamental increase in demand in especially steel-intensive industries like the energy sector, or as long as the weak capital investment phase remains unresolved. On the supply side, on the other hand, the problem of overcapacities remains. Experts do not rule out the possibility that Chinese steel exports, which reached a new record in 2015, could continue to rise in 2016 due to the weaker Chinese yuan. Plans announced by the Chinese government to gain control of overcapacities through consolidation remain to be implemented. It must also be feared that competition in the international markets will continue to be waged in 2016 with unfair methods.

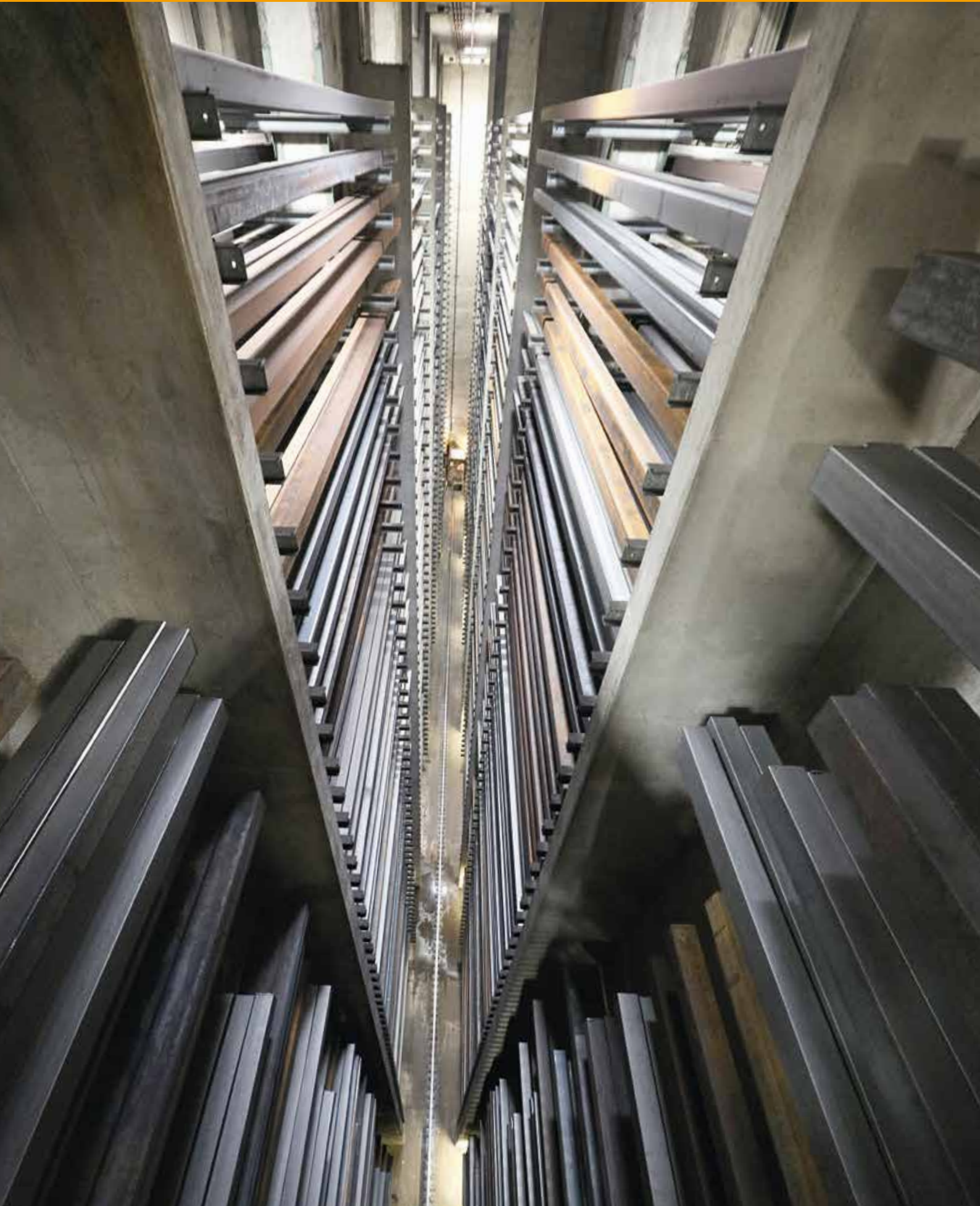
Development of the Saarstahl Group

In the important customer segments for Saarstahl AG, an overall positive picture is emerging for 2016: the automotive industry expects that there will be a slight increase, the mechanical engineering industry anticipates stabilization and the underlying trend in the construction industry is also orientated in an upward direction. Against this background, it can be expected that there will be a sideways movement in the demand for steel in the product segments of wire rod and bar steel that are relevant for Saarstahl. The company nonetheless expects an overall stable development in volumes and good utilization of facility capacities in spite of the fact that the blast furnace will be relined in the summer of 2016.

At Saarschmiede GmbH Freiformschmiede, in 2016, it is to be expected that the tense situation on the markets due to insecure economic and political framework conditions, continued weak growth in threshold countries and the risk of a recurring crisis on the capital and currency markets will continue to be challenging. By optimising the planning and manufacturing control processes, Saarschmiede will be able to sustainably improve its competitiveness.

In the field of power generation machinery, it can be assumed that the level will remain about the same as in the previous year. Within the context of its diversification strategy, Saarschmiede will continue to extend its acquisition activities in the areas of special steels and mechanical engineering. However, the greatly increased volume of incoming orders in 2015 will have a positive effect on the sales revenues and result situation in 2016. Nonetheless, great effort will still have to be made to continue to drive the general stabilisation forward.

The Saarstahl group will continue its strict cost management in 2016 and undertake further efforts to increase its earning power. Current investments as well as those already implemented are directed towards process optimisation and to further improving the quality of the products and service for the customers. Nevertheless, in 2016, the Saarstahl group expects a turnover that will, at maximum, be on the same level as the previous year and an operating result that will be significantly below the level of the previous year. The development of the key figures EBITDA, return on sales and ROCE will develop correspondingly.



Consolidated financial statements for the year ending 31 December 2015

Consolidated Balance Sheet

	31 December 2015		31 December 2014	
	million €	million €	million €	million €
Assets				
A. Fixed Assets				
I. Intangible assets	3.3		3.8	
II. Tangible assets	1,041.2		1,088.0	
III. Financial assets	937.3		962.9	
		1,981.8		2,054.7
B. Current Assets				
I. Inventories				
1. Raw, auxiliary and operating materials	161.0		198.3	
2. Unfinished products, unfinished services and finished products	486.7		456.3	
3. Advance payments for inventories	0.1		0.1	
4. Downpayments received on orders	-1.8		-0.1	
		646.0		654.6
II. Accounts receivable and other assets				
1. Trade accounts receivable	268.3		285.6	
2. Accounts receivable from affiliated companies	18.3		32.2	
3. Accounts receivable from companies where a participatory interest exists	9.3		10.1	
4. Other assets	125.4		132.7	
		421.3		460.6
III. Cash balance and credit with financial institutions		342.9		313.0
		1,410.2		1,428.2
C. Accruals and deferrals		0.2		0.4
D. Deferred taxes on the assets side		1.7		1.6
E. Debit difference in assets in the calculation of assets		5.6		0.1
		3,399.5		3,485.0

Liabilities	31 December 2015		31 December 2014	
	million €	million €	million €	million €
A. Equity				
I. Subscribed capital	200.0		200.0	
II. Capital reserve	44.0		44.0	
III. Other retained profit	1,196.3		1,189.2	
IV. Balance sheet profit	1,132.8		1,174.8	
		2,573.1		2,608.0
B. Reserves				
1. Reserves for pensions	15.9		15.0	
2. Reserves for taxes	18.5		13.7	
3. Other reserves	152.6		151.4	
		187.0		180.1
C. Liabilities				
1. Liabilities towards financial institutions	362.0		403.8	
2. Trade liabilities	124.6		113.3	
3. Liabilities towards affiliated companies	13.5		4.2	
4. Liabilities towards companies where a participatory interest exists	33.1		32.6	
5. Other liabilities	105.7		142.3	
		638.9		696.2
D. Accruals and deferrals		0.5		0.7
		3,399.5		3,485.0

Consolidated Profit and Loss Account 2015

	2015 million €	2014 million €
1. Sales revenues	2,159.0	2,361.4
2. Changes in inventory and internally produced and activated assets	35.0	12.8
3. Other operating income	45.7	62.1
	2,239.7	2,436.3
4. Material costs	1,477.0	1,608.5
5. Personnel costs	425.6	419.9
6. Depreciation and amortisation on intangible assets of fixed assets and tangible assets	136.2	152.6
7. Other operating expenses	186.5	179.5
	14.4	75.8
8. Income from participations	-18.3	7.4
9. Interest income	-17.8	-17.5
10. Result from ordinary activities	-21.7	65.7
11. Extraordinary Income	30.0	-
12. Taxes on income and earnings	13.9	19.0
13. Other taxes	3.4	3.0
14. Net result for the year	-9.0	43.7

Consolidated Cash Flow Statement

	2015 million €	2014 *) million €
Period result	-9.0	43.7
Write-downs on fixed assets	136.9	154.7
Increase/decrease of provisions	-2.2	-36.7
Other non-cash expenses /(income)	-30.1	-0.6
Decrease/(Increase) in inventories, trade accounts receivable as well as other assets not allocated to investment or financing activities	38.4	60.4
Decrease in trade accounts payable as well as other liabilities not allocated to investment or financing activities	14.3	-85.8
Profit from the disposal of fixed assets	-0.4	0.4
Interest expenses incl. interest expenses and (interest income) not allocated to investment or finance activities	18.0	17.5
Other income from shareholdings	17.6	-9.5
Income tax	14.0	19.6
Income tax payments	-5.0	-2.2
Operating cash flow	192.5	161.5
Payments for investments in intangible assets	-0.6	-0.5
Proceeds from disposals of tangible fixed assets	1.4	2.2
Payments for investments in tangible fixed assets	-89.3	-36.8
Proceeds from disposals of financial assets	9.5	10.7
Payments for investments in financial assets	-0.4	-0.9
Interest received	8.8	9.3
Dividends received	5.3	0.9
Cash flow from investment activities	-65.3	-15.1
Free cash flow	127.2	146.4

	2015 million €	2014 ^{*)} million €
Proceeds from loans	17.5	0.0
Payments from the amortization of bonds and loans	-63.1	-62.9
Interest paid	-22.8	-23.9
Dividends paid to shareholders	-33.0	-18.0
Cash flow from financing activities	-101.4	-104.8
Net change in cash and cash equivalents	25.8	41.6
Cash and cash equivalents at the start of the period	242.9	201.3
Cash and cash equivalents at the end of the period	268.7	242.9

Offsetting and reconciliation of cash and cash equivalents

	31.12.15 million €	31.12.14 ^{*)} million €	01.01.14 ^{*)} million €
Cash and bank balances	342.9	313.0	251.9
Liabilities to financial institutions due at any time	-74.2	-70.1	-50.6
Cash and cash equivalents	268.7	242.9	201.3
Change in cash and cash equivalents	25.8	41.6	

^{*)} For easier comparison, the cash flow statement and cash and cash equivalents for the 2014 financial year are presented using the German Accounting Standard (Deutsche Rechnungslegungs Standards, DRS) 21.



Statement of the Group's Shareholdings

	Capital share		Equity 31.12.2015 million €	Result for the BY 2015 million €	Ref.
	direct %	indirect %			
1. Affiliated Companies					
a) Inland					
Saar-Blankstahl GmbH, Homburg	100.00		42.0		1)
Saar-Bandstahl GmbH, Völklingen	100.00		8.7		1)
Saarstahl-Export GmbH, Düsseldorf	100.00		1.6		1)
Metallurgische Gesellschaft Saar GmbH, Völklingen	100.00		5.1		1)
Saarschmiede GmbH Freiformschmiede, Völklingen	99.95	0.05	161.6	-11.8	
Saarstahl Finanzanlagen GmbH, Völklingen	100.00		23.5	0.1	
Drahtwerk St. Ingbert GmbH, St. Ingbert	2.49	97.51	28.5	4.5	
DWK Drahtwerk Köln GmbH, Köln	3.62	96.38	10.5	-3.4	
Schweißdraht Luisenthal GmbH, Völklingen		100.00	2.6	0.4	
Stahlguss Saar GmbH, St. Ingbert	100.00		1.8	-2.5	
Saar Stahlbau GmbH, Völklingen	100.00		8.1	-0.1	
Saar Rail GmbH, Völklingen	100.00		10.0		1)
Saarstahl Beteiligungsgesellschaft mbH, Völklingen	100.00		4.3	0.0	
FORGE Saar GmbH, Dillingen	100.00		0.1	0.0	
FORGE Saar Besitzgesellschaft mbH & Co KG, Dillingen		100.00	224.4	0.1	
Saarstahl-Vermögensverwaltung GmbH, Völklingen	100.00		7.9	0.3	
SAG Medienversorgungs-GmbH, Völklingen	100.00		16.3	0.1	1)
SIB-Immobilien-gesellschaft mbH, Völklingen		100.00	0.1	0.0	
Neunkircher Eisenwerk Wohnungs-gesellschaft mbH, Völklingen	100.00		9.6	0.1	
Gewerbe- und Wohnpark Heubügel GmbH, Völklingen		89.00	0.0	0.0	
44. Vermögensverwaltungs- und Beteiligungs-GmbH, Völklingen		100.00	0.0	0.0	
45. Saarstahl-Beteiligungsgesellschaft mbH, Völklingen	100.00		0.1	0.0	
b) Abroad					
Secosar S.A.S., Bussy-Saint-Georges / Frankreich	99.99	0.01	13.8	-0.4	
Conflandey Industries S.A.S., Port-sur-Saône / Frankreich	80.00	20.00	1.2	-0.7	
S.P.M. Participation S.A.S., Bussy-Saint-Georges / Frankreich	100.00		-11.1	-0.1	
Saarsteel Inc., New York / USA	100.00		0.6	0.0	2) 3)
Sodetal S.A.S., Tronville-en-Barois / Frankreich		100.00	-	-	4)
Saarstahl Shanghai Limited, Shanghai		100.00	0.1	0.0	2) 3)
Saarstahl (S.E.A.), Petaling Jaya / Malaysia		100.00	0.1	0.0	2) 3)
EUROFIL Polska, Warsaw / Polen		100.00	-0.1	0.0	2) 3)
Saarstahl Export India Pvt Ltd, Mumbai / Indien	1.00	99.00	0.2	0.0	2) 5)
Saarstahl Demir Celik Sanayi Ltd., Istanbul / Türkei		100.00	0.1	0.0	2) 3)
Saarstahl s.r.o. Ostrava / Tschechien		100.00	0.4	0.1	2) 3)
Secosar Etirage S.A.S., Bussy-Saint-Georges / Frankreich		100.00	-0.1	-0.8	
Quinofer S.A.S., Bussy-Saint-Georges / Frankreich		100.00	1.1	0.0	
Saarstahl AG, Zürich / Schweiz	98.13		3.3	-0.8	2)
Les Aciers Fins de la Sarre S.A., Liège / Belgien	95.83	4.17	4.0	0.3	
Acciai della Saar S.r.l., Milano / Italien	100.00		1.9	0.2	

	Capital share		Equity 31.12.2015 million €	Result for the BY 2015 million €	Ref.
	direct %	indirect %			
Tréfileries du Beuchot S.A.S., Saint-Loup-sur-Semouse / Frankreich		100.00	-0.4	-0.5	³⁾
Metafil S.A., Granollers Barcelona / Spanien		100.00	0.5	0.0	³⁾
FILMETAL S.A., Bussy-Saint-Georges / Frankreich		99.17	1.8	0.1	
2. Proportionately Consolidated Companies					
Dillinger Hütte und Saarstahl Vermögens- verwaltungs- und Beteiligungs-OHG, Dillingen	50.00		265.4	0.0	
ROGESA Roheisengesellschaft Saar mbH, Dillingen	24.50	25.50	253.6	18.0	¹⁾
Zentralkokerei Saar GmbH, Dillingen		50.00	137.2		¹⁾
DHS – Dillinger Hütte Saarstahl AG, Dillingen	33.75		2,742.1	-51.1	⁶⁾
ROGESA Beteiligungsgesellschaft mbH, Dillingen		50.00	3.0	0.0	
GAL Zentralkokerei Saar Besitzgesellschaft mbH & Co. KG, Dillingen		24.50	18.8	1.0	
Kraftwerk Wehrden GmbH, Völklingen	33.33		0.0	0.0	

References:

¹⁾ A profit and loss transfer agreement exists.

²⁾ Currency of the country converted into €.

³⁾ Data refers to the previous year as no final result was available when the financial result was drawn up. The figures are preliminary.

⁴⁾ The company has been in liquidation.

⁵⁾ Data refers to the previous year as no final result was available when the financial result was drawn up. The figures relate to the previous year.

⁶⁾ Consolidated financial statements.

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