



EXECUTIVE SUMMARY OF THE FINANCIAL STATEMENT

2018

KEY FIGURES AT A GLANCE

	2017	2018	Veränderung
Hot metal purchase ROGESA in kt	2,408	2,377	- 1,29 %
Hot metal purchase SSF in kt	0	2	
Hot metal purchase total in kt	2,408	2,379	- 1,20 %
Crude steel production in kt	2,785	2,782	- 0,11 %
Sales revenues per region in million €			
Germany	1,430	1,424	
Rest of EU	633	706	
Third party countries	377	398	
Total turnover	2,440	2,528	
Workforce (without trainees)* 31.12.	6,366	6,384	
Personnel costs in million €	448	457	
Balance sheet total in million €	3,264	3,189	
Fixed assets in million €	1,818	1,735	
Investments in million €	56	68	
Equity in million €	2,394	2,429	
EBITDA in Mio. €	230	205	
EBIT in Mio. €	110	93	
Net income for the year in million €	85	58	
Operating cash flow in million €	- 23	97	

* Workforce of the fully consolidated companies of the SAG group

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MEMBERS OF THE SUPERVISORY BOARD

Dr. MICHAEL H. MÜLLER, Saarbrücken

Chairman, died 21 February 2019
Chairman of the Management Board of the Curatorship for the Montan-Stiftung-Saar

JÖRG KÖHLINGER, Frankfurt

1st Deputy Chairman
Trade Union Secretary/District Manager of IG Metall, central regional management

REINHARD STÖRMER, Völklingen

2nd Deputy Chairman
Chairman of the Management Board of the Curatorship for the Montan-Stiftung-Saar

STEPHAN AHR, Wadgassen

Chairman of the Group Works Council of Saarstahl AG and Chairman of the Works Council of the Völklingen Plant of Saarstahl AG

ARIBERT BECKER, Rehlingen

Former Sales Director of Saarstahl AG, ret.

Prof. Dr. HEINZ BIERBAUM, Saarbrücken

(until 30 April 2018)
Director of INFO-Institut, Saarbrücken

JOACHIM BRAUN, Le Ban St. Martin

(as of 4 April 2018)
Engineer, Joachim Braun Consulting

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

DANIELA KLIEBHAN, Illingen

(as of 1 May 2018)
Senior Manager of INFO-Institut, Saarbrücken

MARKUS MENGES, Waldbrunn

Managing Director Südweststahl AG

ANTJE OTTO, St. Ingbert

Managing Director of the Association of Steelworks in Saarland, Saarbrücken

JÖRG PIRO, St. Wendel

(as of 4 April 2018)
Chairman of the Works Council of the Neunkirchen Plant of Saarstahl AG

ANGELO STAGNO, Saarbrücken

Deputy Chairman of the Group Works Council and Chairman of the Works Council of the Burbach Plant of Saarstahl AG

KATJA WEBER, Eberbach

Entrepreneur, Südweststahl AG

ERICH WILKE, Königstein (Taunus)

Bank Manager, ret.

MEMBERS OF THE BOARD OF DIRECTORS

FRED METZKEN

(until 31 August 2018)

Spokesman of the Board of Directors and Chief Financial Officer

TIM HARTMANN

(as of 1 September 2018)

Chairman of the Board of Directors and Chief Financial Officer

MARTIN BAUES

Chief Technology Officer

DR. KLAUS RICHTER

Chief Sales & Marketing Officer

PETER SCHWEDA

Chief Human Resources Officer and Labour Director

CONSOLIDATED MANAGEMENT REPORT

The company's fundamentals

BUSINESS MODEL

The core business of the Saarstahl group includes the manufacture and sale of wire rod, bar steel and semi-finished products in various qualities and for a wide range of technical applications. High-quality open-die forged components are also part of the product range. The most important customers include automobile manufacturers and their suppliers, companies that produce power generation machinery, from the fields of general mechanical engineering, aerospace, construction and other steel processing industries. In addition to an LD steel plant, a rolling mill and a forge in Völklingen, a substantial part of the production of the Saarstahl group primarily occurs in the rolling mills in Neunkirchen and Burbach. The upstream coke and hot metal production is carried out with Aktien-Gesellschaft der Dillinger Hüttenwerke (Dillinger Hütte) through the joint subsidiaries Zentralkokerei Saar GmbH (ZKS) and RO-GESA Roheisengesellschaft Saar mbH (ROGESA). In the area of further processing, Saarstahl subsidiaries of the trade and distribution sector offer additional services and customized solutions, with locations in Germany and abroad.

LEGAL PARAMETERS

Saarstahl AG, the parent company of the Saarstahl group, and its majority shareholder, SHS - Stahl-Holding-Saar GmbH &

Co KGaA (SHS), have concluded a control agreement in accordance with Section 291 of the German Stock Corporations Act (AktG).

The majority shareholder of Saarstahl AG and of DHS - Dillinger Hütte Saarstahl AG with the most important subsidiary Aktien-Gesellschaft der Dillinger Hüttenwerke is SHS - Stahl-Holding-Saar GmbH & Co KGaA, a wholly owned subsidiary of Montan-Stiftung-Saar, under whose umbrella the two companies work closely together.

Financial report

OVERALL ECONOMIC AND SECTOR-RELATED CONDITIONS

Weakening of economic growth

The global economy lost momentum during the second half of 2018 and growth in advanced economies was significantly lower than forecast.¹ World GDP grew again by 3.7 % in 2018.

After a dynamic year in 2017, economic expansion (+ 2.4 %) in the euro zone continued at a slower pace (+ 1.8 %) in 2018. The United States experienced surprising GDP growth of just under 3 %. The pace of growth in China is currently experiencing a slowdown. After 6.9 % in 2017, economic output rose by "only" 6.6 % in 2018.

After years of exceptional boom activity, economic growth in

Germany (+ 1.5 %) slowed significantly in 2018 compared to the previous year. In contrast to this development, economic performance in most other EU member states continued to improve.

Worldwide steel market and steel processors

The recovery in demand for steel in 2018 continued at a slower pace than in 2017, driven in particular by growth in the capital goods and construction sectors.² In the year under review, global demand for steel increased again by 4.4 % compared with 2017 to around 1.7 billion tonnes (provisional – see WV Stahl). World crude steel production increased by 4.5 % to around 1.8 billion tonnes. At 52 %, slightly more than half of that quantity was produced in China (+ 3 %). The European Union was the second largest crude steel producer, with growth of 9 %.

Due to the sustained economic recovery, demand for steel grew for the fifth consecutive year within the EU, up by 2.2 % in 2018 compared with 2017, but it is still well below pre-crisis levels. According to Worldsteel, growth in China was on the order of 6 % year-on-year. Market supply rose moderately in the United States by 2.3 % compared with 2017. Steel imports have fallen by 10 % as a result of the levying of 25 % tariffs on imports since 1 June 2018.

Steel processors in Germany experienced varying development in 2018. While the VDA-reported production in the automotive industry fell by 3 %, mainly due to declining registrations of

¹ Sources: Monthly Report of the German Central Bank for December 2018, EUROFER, Eurostat, World Steel Association, WV Stahl

² Sources: Dow Jones, EUROFER, World Steel Association, WV Stahl

diesel-powered vehicles, the VDMA reported that production in the mechanical engineering industries increased by 3 % in 2018 (2017: 4 %). The business climate in the construction industry improved again in 2018, resulting in a solid 3 % growth rate for 2018.

BUSINESS PERFORMANCE

The business performance of the Saarstahl group is primarily defined by the companies Saarstahl AG (Saarstahl) and Saarschmiede GmbH Freiformschmiede (Saarschmiede).

Saarstahl AG

The steel market for wire rod and bar steel products, which is relevant for Saarstahl, continues to be characterized by over-capacities with the result that pressure on volumes and prices remains high. As a supplier of steel grades in the premium quality segment, Saarstahl was once again able to benefit from the robust development in the automotive industry and in other steel processing companies. Thanks to high demand, sales volumes in the bar steel and wire rod segment, at 2.43 million tonnes, were relatively high. As in the previous year, the utilization of capacities at Saarstahl plants was therefore good.

Sales volume and price developments in 2018 led Saarstahl AG to conclude 2018 with good sales and earnings figures despite the difficult market conditions.

Saarschmiede GmbH Freiformschmiede

Following the restructuring carried out at the end of 2017, the year 2018 was dominated by the realignment of Saarschmiede. First, following elimination of one production area – the „New Forge“ – large parts (primarily for fossil power plant construction) were cut from the product range, and second, new business areas were defined in order to compensate for the loss of incoming orders, especially in power generation machinery. The number of employees decreased in the year under review from 736 to 431.

Given the severe upheaval, incoming orders were restrained, especially in the first half of the year; however, they stabilized in the further course of the year at an improved but still not entirely satisfactory level.

EARNINGS POSITION

Wire rod and bar steel sales revenues again at record level

Into the third quarter of 2018, sales in the most important companies of the Saarstahl group were at the level of the record year 2017. Reduced economic demand in the last months then led to a slight decline in unit sales for the year as a whole (- 4 %) and a shipment volume of 2,431 thousand tonnes. Sales revenues were nevertheless significantly higher than in the previous year, as expected. The increase from 2,440 million euros to 2,528 million euros was primarily again due to significantly higher average sales revenues, which were mostly attributable to the further increase in raw material prices, as well as to a change in the product mix. The market for high-quality forged products continued to be difficult in 2018,

and the range of forged products available in other business segments was expanded accordingly.

The geographical distribution of sales revenues in 2018 showed that Germany remained the Saarstahl group's most important sales market, accounting for 56.3 % of total turnover; sales growth – taking into account declining sales revenues for forged and other by-products – was increasingly achieved in the other EU states (+ 11.5 %) and third countries (+ 5.6 %).

The increase in overall performance in 2018 of 107 million euros was offset by higher procurement costs for input materials – above all, the significantly higher hot metal costs – of 47 million euros in the same period. The personnel costs of the Saarstahl group, at 9 million euros, were higher than in the previous year despite a concurrent lower average workforce of almost 70 employees, mainly due to collective bargaining adjustments and changes in works agreements.

Other operating income decreased by 59 million euros from 109 million euros in 2017 to 50 million euros in 2018. In the previous year, Saarstahl AG acquired a liability of a subsidiary below its nominal value, which led to consolidated income of 45 million euros; at the same time, out-of-period income in 2017 – particularly from the release of provisions – was around 31 million euros higher. In 2018, this lower other operating income was offset by higher income from insurance policies (+ 13 million euros), mainly in connection with the reimbursement of fire damage.

At 120 million euros, amortization of intangible assets and depreciation of property, plant and equipment remained overall at the previous year's level despite lower scheduled depreciation. This includes unscheduled depreciation of 8 million euros due to fire damage. The decline in scheduled depreciation followed the investment trend.

Other operating expenses in the Saarstahl group, at 208 million euros, remained unchanged from the previous year. Lower exchange losses from a more stable US dollar exchange rate were mostly offset by higher shipping expenses as a result of sales growth in countries outside Germany as well as higher deliveries to consignment warehouses and higher administrative expenses.

As a consequence, the Saarstahl group closed the 2018 fiscal year slightly below expectations with EBIT of 93 million euros (2017: 110 million euros) and EBITDA of 205 million euros (2017: 230 million euros).

The financial result, comprising net investment income and net interest income, amounted to - 7 million euros in 2018 (2017: - 4 million euros). While net interest income improved to - 5 million euros (2017: - 13 million euros), investment income turned from 9 million euros in 2017 to - 2 million euros in 2018. The positive earnings effect from continuation of the equity valuation on the participation in DHS - Dillinger Hütte Saarstahl AG from the previous year could not be posted again in 2018; instead, a loss from this of around 6 million euros was recorded. This was somewhat mitigated by income from other shareholdings.

Taking into account taxes on income and earnings (30 million euros) and other taxes (4 million euros), the Saarstahl group closed the year with a result after tax of 62 million euros (2017: 89 million euros) and net income of 58 million euros (2017: 85 million euros), respectively.

FINANCIAL POSITION

Positive cash flow

In 2018, the consolidated result adjusted for depreciation and amortization of 178 million euros was offset primarily by cash outflows from changes in working capital (71 million euros) and taxes on income and earnings (11 million euros). Cash inflows provided by operating activities totalled 97 million euros in 2018, about 120 million euros higher than in the previous year, which ended the year with cash flow from operations of -23 million euros.

The cash flow from operations activities largely covered the cash requirements for investments of -41 million euros (2017: -36 million euros) and for financing activities. Repayments of short- and long-term loans, including interest payments and the dividend payment to the shareholders of Saarstahl AG, represent the cash outflow from financing activities of 85 million euros (2017: 102 million euros). Taking into account a cash inflow from the merger of a subsidiary into Saarstahl AG (+ 12 million euros), cash and cash equivalents decreased by only around 18 million euros to 132 million euros.

With a concurrent reduction in liabilities owed to banks and due at any time, this resulted in cash and cash equivalents at the end of 2018 at 137 million euros, being 39 million euros below the previous year's figure (176 million euros).

Investments in intangible assets and in property, plant and equipment amounted to 68 million euros in the consolidated fiscal year (2017: 56 million euros). A major part of this was allocated to the construction work on the new S1 continuous casting line. In addition, as of the balance sheet date, there were obligations due to order commitments from investment and repair projects amounting to 85 million euros (2017: 44 million euros).

Investments

For Saarstahl AG itself, the investment volume amounted to 46 million euros (2017: 41 million euros). Investment spending at the two indirect subsidiaries ROGESA and ZKS totalled 9 million euros, of which Saarstahl AG bears half, in proportion to its share in the companies.

Völklingen LD steel plant

Construction work on the S1 continuous casting line, which was approved in September 2017 with an investment sum of almost 100 million euros, was completed on schedule in November 2018. Assembly of the line started as scheduled at the end of 2018. With the new S1, Saarstahl AG is further extending its technological competitive edge: The new line will be the world's first with mechanical soft reduction in the casting size 180 mm x 180 mm. It is scheduled to begin operation at the end of 2019.

Burbach rolling mill

In December 2018, the Supervisory Board approved the procurement of three new cranes for the preparation of semi-finished products. This investment of around 12 million euros

will ensure production reliability in the future and also takes account of the increased rolling tonnage.

Construction of an additional warehouse for semi-finished products, approved in summer 2018 with an investment sum of around 3 million euros, includes, among others, the construction of a new rail siding and installation of a new crane. The work will be completed by the end of 2019.

Neunkirchen rolling mill

In December 2018, the Supervisory Board approved the measure "Integration of the US plant behind straightening machine 2" in the finishing shop for rolling mill train 31 with a total of approx. 5 million euros. The modernization and merging of the testing and straightening line will increase safety and improve material handling. The plant is scheduled to begin operation in spring 2020. During the 2018 summer and winter shutdown, further optimizations were carried out on the systems technology for the new wire rod outlet of rolling mill train 32.

ASSET POSITION

Increase in equity

The balance sheet total fell again compared to the previous year by around 75 million euros to 3,189 million euros. The asset position in the use of funds was mainly characterized by the reduction in fixed assets amounting to 83 million euros, 38 million euros lower cash and cash equivalents, and 35 million euros lower receivables from operating activities, while inventories increased by 79 million euros.

Equity increased mainly due to the positive consolidated annual result of 58 million euros, which was offset by the dividend payment of 25 million euros to the shareholders of Saarstahl AG. Total equity increased by 35 million euros to 2,429 million euros. The level of borrowed funds was almost consistently lower than in the previous year; in particular, other provisions and liabilities to banks were reduced by 57 million euros and 68 million euros respectively. Tax provisions increased by 28 million euros.

KEY FIGURES FOR THE SAARSTAHL GROUP

The business performance of the Saarstahl group in 2018 is also reflected in the most important key figures for the asset and capital structure as well as the development of returns. An overall very positive development of the Saarstahl group with differing effects on the asset, financial and earnings position resulted in capital intensity increasing from 73.3 % in 2017 to 76.2 % in 2018. A reduction in property, plant and equipment, largely due to scheduled depreciation, and changes in financial assets combined with higher equity led to a significant increase in the amount of fixed assets financed by equity compared with the previous year.

The earnings performance of the Saarstahl group in the 2018 fiscal year is reflected in all key earnings indicators; based on net income for the year of 58 million euros (2017: 85 million euros), both EBIT and EBITDA were, respectively, some 17 million euros and 25 million euros below the previous year's figures but overall were clearly positive. The return on capital employed (ROCE) amounted to 3.4 % in the year under review,

while the return on sales amounted to 3.7 % (EBIT margin) and 8.1 % (EBITDA margin), respectively.

FINANCIAL KEY FIGURES

			2014	2015	2016	2017	2018
Equity intensity	Equity	million €	2,608	2,573	2,337	2,394	2,429
	Balance sheet total	million €	3,485	3,400	3,325	3,264	3,189
		in %	74.8	75.7	70.3	73.3	76.2
Fixed assets coverage ratio	Equity	million €	2,608	2,573	2,337	2,394	2,429
	Fixed assets	million €	2,055	1,982	1,887	1,818	1,735
		in %	126.9	129.8	123.8	131.7	140.0
Debt	Liabilities to banks	million €	404	362	373	328	260
	Equity	million €	2,608	2,573	2,337	2,394	2,429
		in %	15.5	14.1	16.0	13.7	10.7
EBIT margin	EBIT	million €	80	2	-155	110	93
	Umsatz Produkte	million €	2,361	2,159	2,028	2,440	2,528
		in %	3.4	0.1	-7.6	4.5	3.7
EBITDA margin	EBITDA	million €	233	138	-26	230	205
	Product sales	million €	2,361	2,159	2,028	2,440	2,528
		in %	9.9	6.4	-1.3	9.4	8.1
Return on capital employed (ROCE)	EBIT	million €	80	2	-155	110	93
	Equity, provisions for taxation, liabilities subject to interest	million €	3,109	3,063	2,899	2,750	2,696
		in %	2.6	0.1	-5.3	4.0	3.4
Internal financing capability	Cash flow from operations as of 2014 in accordance with German Accounting Standard 21	million €	162	193	92	-23	97
	Net investment in tangible assets	million €	34	89	99	55	66
		in %	476.5	216.9	92.9	-41.8	147.0
Expense structure in % of overall performance	Material intensity	in %	67.7	67.3	64.7	68.8	67.8
	Personnel intensity	in %	17.7	19.4	22.6	18.1	17.7

Non-financial performance indicators

EMPLOYEES

With their skills, performance and commitment, our employees make a decisive contribution to the success and development of the Saarstahl group. For this reason, we continue to make targeted investments in the areas of occupational health and safety, sustainable promotion of health and fostering young employees.

As at 31 December 2018, the workforce of the Saarstahl group consisted of 4,340 employees of Saarstahl AG, 431 employees of Saarschmiede GmbH Freiformschmiede and 1,613 employees of other group companies.

Despite the difficult economic situation, the group continues to invest in its own fostering of young employees and is thus also living up to its social responsibility as one of the state's largest employers. As of 31 December 2018, the group employed 287 trainees across all years of training (31 December 2017: 289).

INNOVATION AND QUALITY

Completion of the major investment in the new wire outlet at rolling mill train 32 makes two-stage thermomechanical rolling (TM rolling) possible. The first stage takes place in the Morgan block after the loop, the second stage during final forming in the new SMS MEERdrive®. As part of a master's

thesis, the first studies were carried out in 2018 into the effect of two-stage TM rolling on the properties of the wire rod. The results demonstrated the considerable potential of this investment. Simulation of the cooling behavior of the wires on the Stelmor conveyor of rolling mill train 11 in conjunction with reference rolls on train 11 and train 32 also showed that by increasing the blower output combined with a change in the nozzle arrangement, the cooling rate of the wire can be increased so that strength increases of 40-60 MPa can be achieved with hard wires. This allows alloying elements such as vanadium, which are currently subject to considerable price fluctuations, to be conserved.

Integrated management system

The integrated management system was comprehensively revised in 2017 and 2018 on the basis of the new edition of the DIN EN ISO 9001 and 14001 standards and the transition of TS 16949 to IATF 16949. The transition audit conducted by TÜV was completed in 2018 with excellent results, so that Saarstahl verifiably continues to meet the high requirements of the automotive industry.

RAW MATERIAL PROCUREMENT AND TRANSPORT

China continued to be the main driver on the ore market. Ore prices were largely stable, but prices for high-quality fine ores and ore pellets rose. The supply situation for ore pellets remains strained as the Brazilian producer Samarco, with an

original market share of 25 % on the seagoing world market, still had not resumed production in 2018 following a serious accident.

The coal market was defined by increasing volatility. The primary reasons for this included a combination of the oligopolistic supplier structure, the increasing number of political crises – often combined with sanctions – increasing price speculation and bad weather.

Volatility in cargo rates continued in 2018. The combination of cargo rates that are secured long-term and the simultaneous use of opportunities on the spot market has continued to prove fruitful for ROGESA and ZKS. With regard to bulk cargo handling companies, competition has been intensified by generating new opportunities and routes. The conditions have been improved.

The strategy pursued by ROGESA and ZKS of intensive market research, further technical and commercial flexibility combined with the possibility of rapid geographical diversification was continued in the fiscal year. Cost advantages were generated in the course of the year through early and extensive procurement of raw materials. ROGESA and ZKS continue to work continuously to supply the blast furnaces and the coking plant with the optimum quality and cost.

High shipping volume continues

A very high shipment volume of 2.43 million tonnes was again achieved in the 2018 fiscal year. Of this total, 1.95 million tonnes (80 %) were primarily transported directly by rail and 0.48 million tonnes by truck. The challenge, due to the lack of performance by the contractual rail transport partner, was to provide suitable empty wagons. This was accomplished in cooperation with Saar Rail, however, through a series of measures including rental of additional freight wagons by SHS Logistics and the commencement of fast shuttle transport in Saarland. In addition, block train shuttles were formed in certain target regions.

SAP dispatch processing was successfully implemented organizationally in late 2017, and additional warehouses in Germany and Europe were connected to data technology. The United States warehouses will also follow in early 2019.

ENVIRONMENT AND ENERGY

The Saarstahl group gives high priority to environmental and climate protection and continuously invests in measures that serve these goals.

Environmental management

During the year under review, Saarstahl AG with its three locations were successfully certified in accordance with the

revised ISO 14001:2015, as were Kalksteingrube Auersmacher GmbH, Saarschmiede GmbH Freiformschmiede, Schweißdraht Luisenthal GmbH and Saar-Bandstahl GmbH.

Climate protection

Saarstahl participated for the first time in 2018 in the reporting of the Carbon Disclosure Project (CDP). Once each year, this international non-profit organization collects and analyzes environmental data voluntarily reported by companies and municipalities, including greenhouse gas emissions and water consumption as well as their handling and strategies for opportunities and risks arising from climate change. Saarstahl was given a "C" grade by the CDP and is thus above average for the international steel industry in the "Climate Change 2018" ratings.

Carbon emissions trading

As part of the ongoing process of annual emissions reporting to the German Emissions Trading Authority (DEHSt), the monitoring plans for plants subject to emissions trading were updated in 2018.

PARENT COMPANY SAARSTAHL AG

Human Resources

With their skills, performance and commitment, our employees make a decisive contribution to the success and develop-

ment of Saarstahl AG. For this reason, we continue to make targeted investments in the areas of occupational health and safety, sustainable promotion of health and fostering young employees.

Further improvements to occupational safety

With regard to safety, 2018 marked a further improvement on the best-ever performance achieved during the previous year, thus continuing the positive trend of the last few years. The number of accidents with days of absence fell to 18 (2017: 19). The rate of internal accidents thus decreased to 2.7 accidents per 1 million working hours (2017: 2.8). This also means that the previous year's result was improved upon for the fifth consecutive year.

Fostering young talent and number of employees

Saarstahl continues to invest in its own programmes to foster young employees. In the year under review, 82 (2017: 73) trainees were newly hired, bringing the total number of trainees over all years of training to 272 (2017: 273). In addition, there were 78 school interns, 26 interns from technical secondary schools and 19 working students throughout the year. The instrument of employing working students in particular ensures the strategic fostering of young university-level talent.

Saarstahl AG employed 4,340 people at the end of the year under review (2017: 4,040). One focus of operational human resources work in 2018 continued to be implementing the restructuring of the subsidiary Saarschmiede GmbH Freiformschmiede as agreed in 2017 and the associated socially responsible placement of personnel to fill vacancies at the parent company.

PRODUCTION

The production division of Saarstahl AG includes the LD steel plant in Völklingen as well as three rolling mills located at Völklingen (Nauweiler), Burbach and Neunkirchen. The preliminary stages of production, i.e. the production of coke and hot metal, take place at the Dillingen location with the two companies Zentralkokerei Saar GmbH (ZKS) and ROGESA Roheisengesellschaft Saar mbH (ROGESA) (Saarstahl AG share 50 % each).

Rolling mills

In 2018, the three rolling mills together produced approx. 2,563 thousand tonnes of rolled products. The distribution in detail was as follows: The Burbach rolling mill produced a total of approx. 1,043 thousand tonnes of rolled products. The average production was 1,527 tonnes per shift; the output was 97.9 %. In September 2018, a new record maximum daily output of 6,127 tonnes was achieved.

For the second consecutive time, more than 600 thousand tonnes of rolled products were produced in the Völklingen rolling mill on trains 14 and 15; a total of approx. 611 thou-

sand tonnes of rolled products were produced. Of this amount, approx. 42 thousand tonnes was accounted for by primary rolled products and approx. 569 thousand tonnes by bar steel and customer semi-finished products. The average shift output was 791 tonnes per shift. In June 2018, a new shift output record of 818 t was achieved on rolling mill trains 14/15. Average output was 93.7 %.

At the Neunkirchen rolling mill, a total of approx. 909 thousand tonnes (hot rolled) of rolled products were produced in 2018 on the two rolling mill trains 31 and 32 and in the downstream processing plants. A new shift output record was reached in September on rolling mill train 31 with an average of 762 tonnes. Rolling was performed in 65.3 shifts with a hot-rolled production of approx. 50 thousand tonnes. A new shift record was also achieved in September on rolling mill train 32 with a hot-rolled production of 1,130 tonnes. The average output on rolling mill train 31 was 95.6 % and on rolling mill train 32 94.4 %.

MOST SIGNIFICANT SHAREHOLDINGS

Zentralkokerei Saar GmbH

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 2018, at 1,302 thousand tonnes, was slightly below the previous year's production level (1,315 thousand tonnes). ZKS is a company without employees. Personnel required for operation of the coking plant are provided by Dillinger. Investments at ZKS in

2018 amounted to 4 million euros (2017: 3 million euros).

ROGESA Roheisengesellschaft Saar mbH

ROGESA Roheisengesellschaft Saar mbH, in which Saarstahl holds a 50 % interest (indirect and direct), produces hot metal exclusively for its shareholders, Saarstahl and Dillinger. Management of ROGESA, as a company without employees, is handled by Dillinger.

Hot metal production in blast furnaces 4 and 5, at 4,389 thousand tonnes, was 4.5 % lower in 2018 than in the previous year (4,596 thousand tonnes) due to the disruptions to operation and the temporarily poor operation of blast furnace 4 in the period from August to October. In the year under review, 2,012 thousand tonnes (previous year: 2,188 thousand tonnes) were delivered to Dillinger and 2,377 thousand tonnes (previous year: 2,408 thousand tonnes) to Saarstahl.

Investments at ROGESA amounted to 5 million euros in 2018 (2017: 11 million euros). 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 the off-gas power plant, Dillinger, ROGESA and ZKS, for the generation of electricity.

Saarschmiede GmbH Freiformschmiede

Saarschmiede GmbH Freiformschmiede (Saarschmiede) specializes in the manufacture of high-quality open-die forged components with a focus on power generation machinery,

general mechanical engineering, tool steel, and primary materials as well as special alloys. Its most important customers include manufacturers of power plants who purchase forged parts for use in turbines and generators. In addition, components for heavy-duty machines and special alloys made from nickel-based alloys are produced for corresponding applications, as are, increasingly, tool steels.

General market situation

The market situation continues to be strained in the segments in which Saarschmiede is active. As in previous years, the entire forged parts market is suffering from extreme competitive pressure, but the problem of global overcapacity has not worsened further; in fact, the first signs of a cautious market shakeout have emerged. Nevertheless, prices remained at a consistently low level.

The American market continued to be very successful for Saarschmiede in 2018, particularly in the area of special alloys. The Chinese market in the fossil-fueled power plant sector is challenging, and the tool steel market has deteriorated due to major import restrictions imposed by the United States.

Saarschmiede business performance

Following the restructuring carried out at the end of 2017, the year 2018 was dominated by the realignment of Saarschmiede. First, following elimination of one production area – the „New Forge“ – large parts (primarily for fossil power plant construction) were cut from the product range, and second, new business areas were defined in order to compensate for the loss of incoming orders, especially in power generation machinery.

Given the severe upheaval, incoming orders were restrained, especially in the first half of the year; however, they stabilized in the further course of the year at an improved but still not entirely satisfactory level. Sales in the 2018 fiscal year fell again to approximately 110 million euros (2017: 148 million euros), and the result amounted to approximately – 10 million euros (2017: – 8 million euros). The number of employees decreased in the year under review from 736 to 431.

Outlook

There are still modest but quite credible glimmers of hope to be seen for the year 2019. For one, the ground threshold has long been reached in machinery for power generation that will allow reliable planning from this low level. For another, the first signs of consolidation can be seen under this high market and competitive pressure, but this development is not benefitting the price level: Prices have remained at a consistent, unsatisfactory level – however, no further price reductions are expected.

Overall, 2019 will also be marked by global overcapacity and the ongoing trend towards renewable energy sources. In addition, the global economy is expected to deteriorate, which may have less impact on power generation machinery than on general mechanical engineering, special alloys and tool steel.

Aktien-Gesellschaft der Dillinger Hüttenwerke

Aktien-Gesellschaft der Dillinger Hüttenwerke (Dillinger), in which Saarstahl holds a 33.75 % stake, is the most important subsidiary of DHS – Dillinger Hütte Saarstahl AG. Dillinger

specializes in the production of high-quality heavy plate and, together with its subsidiary Dillinger France S.A. in Dunkerque, France, is the world leader in this market segment.

The heavy plate market in Europe continued to be fiercely competitive in 2018. Project postponements caused a significant decline in employment in the EU steel pipe sector – especially the large-diameter pipe industry, due to a lack of pipeline projects – and in the offshore wind sector. While exports to third countries declined, imports to the EU remained at a high level. The EU safeguard measures introduced have had little effect on the heavy plate market in the current market situation.

Under these circumstances, Dillinger's cautious outlook for 2018 has been confirmed: Although the decline in demand on the large-diameter pipe market and in offshore wind power was partially compensated by higher sales of normal plate in a wide range of segments, production and shipment volumes were unable to match the high level of the previous year. As expected, Dillinger concluded the financial year with a slightly negative operating result, somewhat weaker than in the previous year.

Purchases of hot metal, at 2,012 thousand tonnes (2017: 2,188 thousand tonnes), fell by 8.0 %, and crude steel production fell by 8.5 % compared with the record volumes in 2017 to 2,334 thousand tonnes (2017: 2,550 thousand tonnes). Production at both rolling mills together (1,910 thousand tonnes) fell by a total of 6.5 % compared with the previous year (2017: 2,043 thousand tonnes), with 1,248 thousand tonnes of heavy plate (2017: 1,391 thousand tonnes) being produced in Dillin-

gen and 662 thousand tonnes (2017: 652 thousand tonnes) in Dunkerque.

Sales revenue increased by 3.1 % from 1,958 million euros in the previous year to 2,019 million euros. EBIT amounted to - 6 million euros (2017: - 3 million euros) and EBITDA was 66 million euros (2017: - 70 million euros). Return on capital employed (ROCE) during the year under review amounted to - 0.3 % (2017: - 0.2 %).

The investments amounted to 36 million euros in 2018 (2017: 35 million euros) and included the recommissioning of the CC 3 continuous casting line following an accident involving liquid steel and the further development of the CC 6 continuous casting line, which underscores Dillinger's leading role in technology for production of premium continuously cast slabs for the most advanced heavy plate specifications. Further investments were made in the rolling mill, further processing, central workshops and final inspection areas. In addition, the new "Center for Hazard Prevention" at the Dillingen steel plant was put into operation.

At the end of the reporting year, 4,919 people were employed at the Dillingen site (31 December 2017: 4,932). They worked at Dillinger itself as well as – in the context of plant management – at ZKS and ROGESA. In 2018, 75 young people (2017: 66) started their careers in the company.

Risks and opportunities report

For the Saarstahl group, as a globally operating manufacturer of wire rod, bar steel and semi-finished products in various grades, it is of central importance to deal with entrepreneurial opportunities and risks in a structured and responsible manner. This applies in particular in light of the anticipated challenging economic conditions outlined in the forecast report. Within this context, Saarstahl already introduced a group-wide risk management system years ago, which is embedded into the risk management system of the SHS group. The methods and tools of risk management are continuously developed further.

Organization of risk management

Risk management at Saarstahl AG consists in part of the risk coordinators and officers in the departments and subsidiaries. They are responsible for the operational risk control tasks that are integrated into the processes of the individual divisions and subsidiaries as well as for providing regular and ad hoc risk reports to the corporate Risk Management of SHS. In addition, corporate Risk Management handles coordination, support and consolidation duties for Saarstahl AG. Risk coordinators and SHS Risk Management collaborate as partners in the process.

Methods and structure of risk management

The risk management system of Saarstahl AG includes all measures aimed at ensuring systematic handling of risk and it focusses on risk transparency, risk controllability and risk communication.

- Risk transparency: Risk management aims to identify and highlight significant risks connected to business activities at the earliest possible stage. A systematic and consistent method of analysis and evaluation is used for this purpose.
- Risk manageability: Another objective of risk management is to avoid, minimize or transfer identified risks through new or existing risk control instruments. The transfer of risk is handled by the corporate service provider SHS Versicherungskontor GmbH, which is responsible for arranging a suitable scope of insurance coverage.
- Risk communication: The management is informed about the current risk situation at regular intervals as well with regard to specific events. Moreover, key risk management issues are discussed with the Supervisory Board.

A regular risk management process forms the basis of the risk management system of Saarstahl AG. A worldwide network of risk coordinators has been established to carry out the operational risk management process. This operational risk management process includes risk control along with risk identification and risk assessment. In addition to this, ad hoc risk reporting was introduced in 2016. It is a component of the risk management system and makes it possible to generate a current overview of the risk situation at all times. In addition

to the risk management process, risks analysis is an important component of the risk management system of Saarstahl AG. SHS Risk Management conducts risk analyses for Saarstahl for specific orders and issues. The content, structure and results of the risk management system are documented in auditable form according to the German Corporate Sector Supervision and Transparency Act (KonTraG).

In 2017, the compliance management system of the SHS group was organizationally linked to the risk management system, and a compliance module was integrated into the existing risk management process. This module was developed as part of the compliance management system and on the basis of the group-wide compliance risk analysis. The module collects information about implementation of compliance culture, organization and communication as well as about compliance risk areas identified during risk analysis. The queries and subsequent analysis of the processed modules provide a basis for preventive risk analysis. The aim is early identification of compliance risks and, following from this, the derivation of measures (compliance programme).

The compliance module was included in the SHS risk management reporting process for the first time on 30 June 2017. Risk coordinators handle the process.

Corporate Auditing, as part of the comprehensive corporate management approach to establish an internal management and monitoring system, is a component of risk management as defined by the German Corporate Sector Supervision and

Transparency Act (KonTraG). In this capacity, it is also responsible for the systematic and effective internal auditing of the risk management system.

External, market and sector risks

The Saarstahl group is an internationally active company with a customer structure characterized by companies with global operations, particularly in the automotive and mechanical engineering sectors. This implies a dependence on both overall future economic development as well as the development of individual customer segments. The global economy has weakened slightly after several years of continuous resurgence. In addition, there is very fierce global competition in the steel industry, which is characterized by large steel overcapacities and thus increased import pressure.

Indicators of a slowdown in world trade and economic risks are multiplying. The number of trade disputes increased further in 2018. As a consequence of the punitive tariffs imposed on steel imports by the United States and the resulting counter-tariffs imposed by individual countries as well as by the European Union, the threshold to a trade war has been reached. The diversionary effects following from this have negative consequences for the EU steel sector as a whole. Geopolitical developments have increased the likelihood of additional sanctions. The imminent withdrawal of Great Britain from the European Union is still bound up with uncertainties regarding the economic effects, even after a draft treaty for the withdrawal has been drawn up. A hard, unregulated Brexit has unforeseeable consequences for the economy in the euro area.

Furthermore, the punitive tariffs threatened by the United States on automotive imports would burden the German automotive industry in particular. As a steel producer with a very high proportion of deliveries to the automotive industry, punitive tariffs would have a considerable impact on Saarstahl's business.

From a global perspective, automotive production will grow. However, we are at the beginning of a transformation process in drive technology. In light of climate targets, the electric car will increase its global market share. A shift is expected in market share away from combustion engines and toward electric and hybrid vehicles.

The mentioned external risks may lead to a reduction in sales for Saarstahl AG. To counter these risks, the overall economy, the automotive industry and the country-specific sales markets are continuously monitored. In addition, Saarstahl has reduced its dependence on the mass market by manufacturing wire rod, bar steel and semi-finished products from high-quality steels and has continuously expanded its product portfolio through its own processing companies. In the context of risk diversification, strategic decisions in this regard reduce risk.

Procurement risks

To produce high-quality products, Saarstahl requires raw materials, energy and logistical capacities of sufficient quality and quantity. For this reason, in addition to the already established procurement department of ROGESA and ZKS for the procurement of raw materials, ores, reducing agents and ag-

gregate materials, specific procurement and logistics departments have been bundled under the umbrella of SHS Services GmbH and SHS Logistics GmbH, respectively.

To ensure supply, procurement of bulk goods required to produce hot metal is based primarily on long-term framework agreements. Nonetheless, the many current geopolitical crises can have a negative impact on the procurement situation because individual raw materials are procured from the corresponding regions. The increasing political pressure in Europe to "decarbonize" also increases the risks for coal procurement and coal logistics (for further details see the "Regulatory risks" section).

A continuous diversification process with regard to sources and properties has been implemented for the procurement of raw materials. The construction of our own coke pilot oven for carrying out coking tests combines the requirements for quality and plant safety with the faster response time required today due to increasing price volatility.

Raw materials for iron and steel production are increasingly the object of speculation. This is leading to increased volatility in commodity prices. For this reason, options are also used to ensure basic flexibility in the supply of raw materials, especially at ROGESA and ZKS. An adequate stock policy ensures that a supply buffer is consistently maintained (in the transshipment ports and at the Dillingen plant). In addition to safeguarding the supply, the measures implemented to diversify supply sources and the raw materials used also help reduce price risks.

Overall, the medium-term security of the supply of raw materials, energy and logistical capacities in the required quantities and quality can be considered ensured.

Risks from operating activities

Stoppages, property damage and/or quality risks may occur in the production plants of the company. These could be due to the complexity of the manufactured products, to the complexity of the manufacturing processes and technical operating facilities, or to human error as well as to force majeure. There were two major incidents in the year under review at ROGESA blast furnace operations. The considerable and widely visible emissions resulting from this also had a negative impact on the company's image. Professional measures have been taken to rectify the disruption. The implemented crisis and emergency management system proved valuable here. A systematic analysis of the causes followed the incidents, and the necessary sustainable measures were derived to avoid the same cases of damage in the future. A major contribution to operational safety is made by our employees, who are being prepared for operational requirements with the appropriate qualification measures and training.

Saarstahl AG counters risks associated with force majeure, such as explosions or major fires that have potential to cause great damage but can be considered unlikely to occur, with fire-protection systems, emergency plans, and its own fire department. In addition, an adequate amount of insurance coverage has been procured.

Financial risks

It is of central importance for Saarstahl to ensure the financi-

al independence of the company by coordinating its financial requirements. To do so, the financial risks are actively controlled and limited. This is supported by integrating the financial departments under the umbrella of SHS.

Saarstahl AG concludes financial instruments only with partners who have a very good credit rating. Receivables in the area of deliveries and services are continuously monitored. Transactions are secured by means of credit insurance. The resulting risk of default can therefore be considered low. Ongoing financial and liquidity planning and a far-reaching cash management approach ensure the company's liquidity at all times. In addition, all major subsidiaries are incorporated in the short- and medium-term financial plan according to uniform standards. As part of regular analyses, both the current status and planning are incorporated into the risk management system. This ensures the financial flexibility that Saarstahl AG requires. Independent of this, market risks can influence fluctuations of current market values or future cash flows from financial instruments. The company actively counters these risks through the use of currency and interest rate hedging transactions. These instruments considerably limit or completely eliminate market price risks. In general, hedging instruments are not used uncoupled from the underlying performance-related hedged item. They are regularly monitored and analysis is generated for management purposes. The results are incorporated into the risk management system. Any residual risk is to be seen as low. The financial reporting of the hedging instruments mentioned is presented in detail in the notes to the balance sheet.

Legal risks and compliance risks

Legal risks are to be assessed as moderate. The company is currently involved in various proceedings the outcome of which is open. A major case was concluded in 2018. It is likely that further proceedings will follow this. In another proceeding, a leading decision by the Federal Supreme Court has resulted in a general worsening for the legal position. Saarstahl and a subsidiary are affected here. A general risk exists for Saarstahl that, due to the increasing internationalization and expansion of business activities, it could face legal uncertainties as a consequence of contact with numerous fields of law and legal systems. For very specific issues that reach beyond German and French jurisdictions, Saarstahl also procures the expertise of prominent external legal practitioners. This is also true for issues that carry a high risk of uncertainty. Independent of this, misconduct on the part of individuals – whether intentional or unintentional – cannot be completely excluded. The general compliance risks can be classified as high. However, potential misconduct is counteracted with preventative compliance efforts. The compliance programme of the SHS group and thus of Saarstahl was continued during the past fiscal year by the Compliance Committee. Information events, particularly at Saarstahl's subsidiaries, and compliance publications on specific topics are used to promote compliance and integrity as a preventive measure. The digital training programme was launched at the end of 2018. Use of the e-learning tool now makes it possible to access the training content worldwide and in different languages. The initial focus will be on the important areas of antitrust and competition law as well as corruption. At a later stage, the contents of the Code of Ethics will also be

trained. An external law firm was appointed in the financial year as an additional external data protection officer for the further practical implementation of the basic data protection regulation that came into force in May 2018 and to support the activities of the Group Data Protection Officer.

Regulatory risks

New laws or changes to the basic legal framework on national and international level can imply risks for Saarstahl. This applies, in particular, in cases where new laws or amendments are connected with higher costs than for competitors. The company therefore follows regulatory efforts closely and through working contacts with trade associations. Saarstahl is committed to targeted climate protection. However, regulatory developments regarding climate protection also entail risks for Saarstahl.

Consistent implementation of the Climate Action Plan 2050 adopted for Germany in 2016 will require the industry to reduce greenhouse gases based on legal requirements. There is therefore a risk that the formulated targets will increase the burden on the Saarstahl group or lead to distortion of international competition. The current European climate target has been further tightened with the long-term strategy for a climate-neutral economy presented by the European Commission. Complete climate neutrality of the economy is to be achieved by 2050. This is associated with enormous risks for energy-intensive industries.

The Emissions Trading Directive for the 4th trading period form

2021–2030 is now in force. The rules for the free allocation of allowances have also been published. The allocation of free certificates will be well below the physical and process capability of today's steel production. As a result, this under-allocation cannot be offset by technical measures to reduce emissions on the current steelmaking process route with a coking plant, blast furnace and converter steel mill. The introduction of the market stability reserve will result in substantial quantities of allowances being withdrawn from the market from 2019 onwards, so that further price increases are to be expected. For Saarstahl, this means that a considerable additional financial burden can be expected in the 4th trading period from 2021 on as a result of the emission allowances that will necessarily have to be acquired. Due to the great importance of this issue, it will be dealt with at SHS level by a special expert in carbon emissions trading.

IT risks

Both the complex technical production processes and the administrative processes of Saarstahl AG are supported by modern IT systems. The availability of data and information flows is therefore of central importance for the company. Specific information technology segments are consolidated under the umbrella of SHS Infrastruktur. Risks that endanger the confidentiality, availability, integrity and reliability of IT-supported information and systems can result from human error, organizational or technical procedures and/or security gaps. In addition to failures of important systems for production and administration within the value chain, risks due to systems being accessed by unauthorized third parties, such as in the

case of industrial espionage or sabotage, should be noted in this regard. The software used is therefore permanently monitored by Saarstahl and SHS Infrastruktur, and the systems are updated as required.

An information security representative was appointed in 2017 to protect data and systems from damaging attacks from the internet. Furthermore, hardware components such as servers or networks are continuously being extended and adapted in line with technological advances. To counter the dangers of the ever-increasing cyber attacks, SHS acquired a stake in Rhebo GmbH in 2018. By signaling unauthorized interventions or even sabotage, Rhebo significantly increases security and optimizes plant availability with continuous real-time monitoring. Moreover, publications proactively make employees aware of the risks and motivate them to be sensitive in their dealings with IT security. In addition to the previously mentioned efforts to achieve IT security, modern technologies are used to identify and defend against threats, including new ones, at an early stage. Close cooperation between the departments and the data security representative ensures that processing of personal data is carried out only in accordance with the provisions of German laws on data protection.

Personnel risks

For Saarstahl as a manufacturer of technologically and qualitatively high value products, qualified specialists and executives and their high degree of commitment to the success of the company are of primary importance. In view of this, Saarstahl places great importance on being an attractive employer.

There is a basic risk of losing skilled employees, and with them, expertise. The company counters this by providing training in various vocational fields. To come into contact with suitable people, Saarstahl AG engages in a wide range of recruiting efforts. The company also promotes collaboration across generations to ensure systematic knowledge transfer to the successors of retiring experts and managers. This is supported by specially trained coaches who help to systematically record the knowledge critical to success and transfer it by means of a transfer plan to the successors of employees leaving the company.

Employment risks caused by the situation on the world market can be countered by labour market policy instruments as well as by internal flexibility instruments.

Environmental risks

The production processes in hot metal and steel production as well as in further processing involve innate process-related environmental risks such as contamination of air and water. Saarstahl AG therefore makes every effort to exclude damage that could ensue from the product or its manufacture with intensive quality and environmental management. For example, Saarstahl operates an integrated management system that combines quality management, industrial safety, environmental protection and incident management. In addition, the company is monitored (at regular intervals and in close cooperation) by authorities. Saarstahl continuously invests in measures that increase the effectiveness of environmental protection and fulfill environmental requirements. Beyond

this, however, there are still risks due to the tightening of environmental constraints with requirements that may not be economically feasible with current technology. Furthermore, risks may be incurred as a result of contaminated sites of former business activities on land owned by the company that today is no longer or only partially in use. Saarstahl counters these risks through continuous monitoring and scheduled remediation efforts.

Organization of opportunity management

Opportunity management involves the systematic handling of opportunity and potential. It is directly embedded into the work carried out by the Board of Directors of Saarstahl AG. The Board of Directors identifies and discusses opportunity and potential. When needed, it conducts a strategic dialogue with the affected departments and subsidiaries about market and technology trends. The Board of Directors focusses in these strategic efforts on the current global drivers of growth as well as those for specific sectors, and continuously develops the company while taking global trends into account.

Strategic opportunities

Because the demand for individual mobility is growing worldwide, Saarstahl will have growth opportunities as a direct and indirect supplier to the automotive industry. This is particularly the case for the domestic market (EU) and for the markets in Asia and the NAFTA region. Saarstahl AG therefore sees internationalization and the expansion of value creation as its primary goal and thus as both a challenge and an opportunity. Many of the customers from the main sales sectors

of the automotive and mechanical engineering industries have already internationalized or are continuing to push ahead with internationalization efforts. Saarstahl AG therefore sees the opportunity to strengthen loyalty among existing customers and also to acquire new customers through an increased international presence.

In addition, the acquisition of new customers who have not previously been reached can be seen as an opportunity. The company is therefore strengthening its worldwide presence through expanding its sales network and is leveraging potential especially in new and emerging markets (e.g. the newly opened sales offices in Mexico and Russia), without giving up its market position in traditional markets. In addition to expanding its international sales network, Saarstahl is focussing on intensifying technical customer support worldwide in order to strengthen customer retention.

By developing new products and further developing existing ones, the company has the opportunity to meet the exacting requirements of its customers. Furthermore, optimized processes and plants lead to a quality and cost advantage over competitors. Saarstahl AG therefore strives to continuously expand its technical competence.

An important component of the business model is the further processing of the rod and wire products. This not only enables the company to offer its customers a broad portfolio of high-quality steel products but with own processing companies economically attractive niches can also be penetrated.

Notable in this context is the investment in 2018 of 17 million euros at Saar Blankstahl GmbH, a subsidiary of Saarstahl AG, which is based on an expected increase in demand for heat-treated bright steel for the automotive industry.

By working closely with customers and striving to find optimum solutions, Saarstahl is able to simultaneously identify potential in the product segment as well as investment potential. In addition to stable product quality, the further expansion of various services (in particular customer service and logistics services) is seen as an opportunity to differentiate the company from its competition.

Saarstahl sees opportunities in the forecast overall growth and also in the imminent transformation of the automotive market, even if the drive technologies and thus the volume structure shifts between the business segments. Saarstahl will benefit proportionately. For one thing, the current products of Saarstahl AG will continue to be required in a number of segments, irrespective of the type of drive system. And new products will also be necessary in the future to successfully accompany new technologies that the market requires. The company already has extensive research in place for this, with the aim of finding out how Saarstahl AG can participate in this development in the global automotive markets.

Operational opportunities

Saarstahl sees continuous optimization of internal processes as an opportunity for accelerated and more efficient workflows and thus for reducing costs. Targeted investments in

production facilities offer the opportunity to further differentiate the company from its competition and to secure and improve profitability through cost reductions. Construction work on the new S1 continuous casting line has been underway at the Saarstahl steel plant since mid-November 2017. It is scheduled to begin operation in late 2019. The new 5-strand plant S1 will be equipped with state-of-the-art automation and communication technology. Even at the draft development stage, the concepts of Industry 4.0 were consistently followed. This will make it possible to optimize integration of the new line into the highly complex production processes of the LD steel plant.

In the year under review, Saarstahl also completed the modernisation of rolling mill train 32 at the Neunkirchen location. With this investment, the latest rolling and cooling technologies have been implemented, further improving the performance of the equipment in terms of productivity, rolling speed and quality. Regular sharing of information, mutual assistance and, ultimately, learning from each other are important building blocks for continued development of the processing areas and subsidiaries.

Saarstahl sees the continuous and mandatory application of cost management and cost controlling methods as an opportunity to increase the cost sensitivity of all employees and ultimately to improve cost structures.

The consolidation of the functions and activities of Saarstahl AG and Aktien-Gesellschaft der Dillinger Hüttenwerke into

SHS - Stahl-Holding-Saar GmbH & Co. KGaA as well as its service companies is seen as an opportunity. This was also underscored by the appointment in personal union of the Chairman of the Management Board of SHS - Stahl-Holding-Saar and the Chairman of the Board of Directors of Dillinger and Saarstahl as of 1 September 2018.

There are also a number of areas in which Saarstahl works directly with Dillinger. The convergence of Saarstahl and Dillinger offers great potential for leveraging synergies and thus for the future of Saarland's steel-producing sites. Duplicate structures are to be phased out.

Overall assessment of the risk situation

Overall, there are currently no discernible risks that could endanger the continued existence of the company, nor are there any indications of developments that could have a significant long-term impact on its asset, financial and earnings position.

Forecast report

GENERAL ECONOMIC CONDITIONS

Slowdown in economic growth

Economic growth is expected to slow in 2019.³ The OECD expects global economic output to grow by 3.3 % compared with 2018. GDP growth for 2019 in emerging China is expected to be the lowest in almost three decades. At 6.2 %, it is likely to be 0.4 % lower than in 2018. According to the OECD forecast, the euro area will grow by only around 1.0 %. As in the euro area, the OECD expects the German economy to grow in 2019 at a much weaker rate of around 0.7 %. The reasons given for the rather weak growth forecast are the risks of a disorderly Brexit, a renewed crisis in the euro area and a worsening of the worldwide trade conflict.

On the basis of a slight increase in worldwide economic output, global demand for steel will also grow only slightly positively in 2019. Worldsteel is forecasting growth of a maximum of 1.0 % for 2019, which means that the recovery on the global steel market will continue at a much slower pace. In the EU, demand for steel will decline significantly in 2019. The economic cycle is already well advanced for most steel processors in Europe, so that a weakening of steel demand is to be expected. A rather declining market supply can be assumed for Germany in 2019 as well. There is also a significant risk for the EU steel industry in the growing trade diversions triggered by the US measures under Section 232.

³ Sources: IMF, OECD, World Steel Association, WV Stahl

DEVELOPMENT OF THE SAARSTAHL GROUP

The Saarstahl group expects a challenging fiscal year 2019. In light of the potential risks and the associated current economic situation, stagnating demand for wire rod and bar steel products is generally to be expected in the automotive and mechanical engineering industries, which are important steel processing sectors for the company.

For Saarschmiede, the first signs of consolidation can be seen in 2019 with persistently high market and competitive pressure that is nonetheless not positively impacting the price level: Prices have remained at a consistently unsatisfactory level – however, no further price reductions are expected.

The Saarstahl group expects both a slight decline in sales volumes and somewhat lower sales revenues compared with 2018. Apart from the decline in sales, the decline in sales revenue is also due to a change in the product mix and – in line with the situation in the most important sales markets – only moderately possible increases in revenue. At the same time, the group is exposed to significantly higher pressure on the cost/margin side. In view of this, earnings will be noticeably weaker than in the previous year. The Saarstahl group nonetheless expects EBIT to be positive.

Dillingen, 28.03.2019



HARTMANN



DR. RICHTER



BAUES



SCHWEDA

Consolidated Balance Sheet

Assets		
in million €	31.12.2018	31.12.2017
A. Fixed assets		
I. Intangible assets	1,9	1,4
II. Tangible assets	855,6	905,2
III. Financial assets	877,5	911,5
	1.735,0	1.818,1
B. Current assets		
I. Inventories		
1. Raw, auxiliary and operating materials	291,1	275,0
2. Unfinished products, unfinished services and finished products	500,4	448,2
3. Advance payments for inventories	0,3	0,3
4. Downpayments received on orders	5,9	16,7
	785,9	706,8
II. Accounts receivable and other assets		
1. Trade accounts receivable	376,1	364,6
2. Accounts receivable from affiliated companies	19,5	18,8
3. Accounts receivable from companies participatory interest exists	27,7	41,7
4. Other assets	104,0	137,4
	527,3	562,5
III. Cash balance and credit with financial institutions	137,3	175,5
	1.450,5	1.444,8
C. Accruals and deferrals	0,1	0,1
D. Deferred tax assets	2,5	0,0
E. Debit differences in assets in the calculation of assets	1,1	1,0
	3.189,2	3.264,0

Liabilities		
in million €	31.12.2018	31.12.2017
A. Equity		
I. Subscribed capital	200,0	200,0
II. Capital reserve	41,3	41,3
III. Other retained profit	1.197,9	1.196,1
IV. Equity difference from currency conversion	5,4	3,5
V. Balance sheet profit	984,1	952,8
	2.428,7	2.393,7
B. Reserves		
1. Reserves for pensions	13,6	14,2
2. Reserves for taxes	46,6	19,0
3. Other reserves	183,5	240,1
	243,7	273,3
C. Liabilities		
1. Liabilities to banks	259,8	328,1
2. Trade liabilities	158,6	169,9
3. Liabilities towards affiliated companies	15,4	13,1
4. Liabilities towards companies where a participatory interest exists	42,9	35,1
5. Other liabilities	39,5	47,0
	516,2	593,2
D. Accruals and deferrals	0,6	0,5
E. Deferred tax liabilities	0,0	3,3
	3.189,2	3.264,0

Consolidated Profit and Loss Account

in million €	31.12.2018	31.12.2017
1. Sales revenues	2.527,7	2.440,3
2. Changes in inventory and internally produced and activated assets	55,9	36,5
3. Other operating income	49,8	108,3
	2.633,4	2.585,1
4. Material costs	1.750,6	1.703,9
5. Personnel costs	456,6	447,9
6. Depreciation and amortization on intangible asset of fixed assets and tangible assets	119,6	120,3
7. Other operating expenses	208,1	208,4
	98,5	104,6
8. Income from participations	-2,0	9,0
9. Interest income	-4,9	-13,3
10. Taxes on income and earnings	29,6	10,9
11. Result after tax	62,0	89,4
12. Other taxes	3,6	4,0
13. Net result for the year	58,4	85,4

Consolidated Cash Flow Statement

in million €	31.12.2018	31.12.2017
1. Period result	58,4	85,4
2. Write-downs on fixed assets	119,7	120,5
3. (Decrease) / Increase of provisions	-57,1	-29,5
4. Other non-cash expenses / (income)	-6,1	3,1
5. (Increase) in inventories, trade accounts receivable as well as other assets not allocated to investment or financing activities	-9,9	-146,7
6. (Decrease) / Increase in trade accounts payable as well as other liabilities not allocated to investment or financing activities	-3,5	-49,6
7. (Profit) from the disposal of fixed assets	-0,5	-0,2
8. Interest expenses incl. interest expenses and (interest income) not allocated to investment or finance activities	5,0	13,3
9. Other income from shareholdings / (loss)	1,9	-9,2
10. Income tax	35,4	10,9
11. Income tax payments	-46,7	-20,5
12. Operating cash flow	96,6	-22,5
13. Payments for investments in intangible assets	-0,9	-0,1
14. Proceeds from disposals of tangible fixed assets	2,0	0,9
15. Payments for investments in tangible fixed assets	-66,8	-55,9
16. Proceeds from disposals of financial assets	16,0	9,5
17. Payments for investments in financial assets	-6,3	0,0
18. Interest received	7,2	8,9
19. Dividends received	7,5	0,3
20. Cash flow from investment activities	-41,3	-36,4
21. Free Cashflow	55,3	-58,9
22. Proceeds from loans	0,0	40,0
23. Payments from the amortization of bonds and loans	-47,7	-97,3
24. Interest paid	-12,6	-19,7

Consolidated Cash Flow Statement

in million €	31.12.2018	31.12.2017
25. Dividends paid to shareholders	-25,0	-25,0
26. Cash flow from financing activities	-85,3	-102,0
27. Net change in cash and cash equivalents	-30,0	-160,9
28. Consolidation-related changes in cash and cash equivalents	12,4	0,0
29. Cash and cash equivalents at the start of the period	149,1	310,0
30. Cash and cash equivalents at the end of the period	131,5	149,1

Offsetting and reconciliation of cash and cash equivalents	31.12.2018	31.12.2017	01.01.2017
Cash and bank balances	137,3	175,5	324,0
Liabilities to financial institutions, due at any time	-5,8	-26,4	-14,0
Cash and cash equivalents	131,5	149,1	310,0
Change in cash and cash equivalents	-17,6	-160,9	

List of Group Shareholdings

	Capital share in %		Equity 31.12.2018	Result for the FY 2018
	direct	indirect	million €	million €
1. AFFILIATED COMPANIES				
a) Inland				
Saar-Blankstahl GmbH, Homburg	100,000		42,0	¹⁾
Saar-Bandstahl GmbH, Völklingen	100,000		10,9	¹⁾³⁾
Saarstahl-Export GmbH, Völklingen	100,000		1,6	¹⁾
Metallurgische Gesellschaft Saar GmbH, Völklingen	100,000		5,1	¹⁾
Saarschmiede GmbH Freiformschmiede, Völklingen	99,948	0,052	80,3	-10,3
Saarstahl Finanzanlagen GmbH, Völklingen	100,000		23,5	0,0
Drahtwerk St. Ingbert GmbH, St. Ingbert	2,490	97,510	23,0	-0,7
DWK Drahtwerk Köln GmbH, Köln	3,618	96,382	4,7	-4,7
Schweißdraht Luisenthal GmbH, Völklingen		100,000	1,0	-1,1
Stahlguss Saar GmbH, St. Ingbert	100,000		-6,6	0,0
Saar Stahlbau GmbH, Völklingen	100,000		5,2	-0,5
Saar Rail GmbH, Völklingen	100,000		10,0	¹⁾
Saarstahl Beteiligungsgesellschaft mbH, Völklingen	100,000		4,3	0,0
FORGE Saar GmbH, Dillingen	100,000		0,1	0,0
FORGE Saar Besitzgesellschaft mbH & Co. KG, Dillingen	99,999	0,001	178,8	0,0
Saarstahl-Vermögensverwaltung GmbH, Völklingen	100,000		8,7	0,2
SIB-Immobilien-gesellschaft mbH, Völklingen		100,000	0,1	0,0
Neunkircher Eisenwerk Wohnungsgesellschaft mbH, Völklingen	100,000		9,5	-0,1
Gewerbe- und Wohnpark Heubügel GmbH, Völklingen		89,000	0,0	0,0
45. Saarstahl Beteiligungsgesellschaft mbH, Völklingen	100,000		0,1	0,0

¹⁾ A profit and loss transfer agreement exists.

²⁾ Currency of the country converted into €

³⁾ Earnings for the year were transferred to earnings reserve and not transferred to SAB.

⁴⁾ Consolidated financial statement – DHS holds 100% of own shares

⁵⁾ No final result was available when the annual financial statement was compiled. The figures are preliminary.

⁶⁾ Last annual financial statement on 31 March 2018.

⁷⁾ Short fiscal year of nine months from 1 April 2018 to 31 December 2018.

	Capital share in %		Equity 31.12.2018	Result for the FY 2018
	direct	indirect	million €	million €
b) Abroad				2)
Secosar S.A.S., Bussy-Saint-Georges / Frankreich	99,990	0,010	16,0	0,4
Conflandey Industries S.A.S., Port-sur-Saône / Frankreich	80,000	20,000	5,1	-0,1
S.P.M. Participation S.A.S., Bussy-Saint-Georges / Frankreich	100,000		-11,4	-0,1 5)
Saarsteel Inc., New York / USA	100,000		0,3	0,0 2)5)
Saarstahl Shanghai Limited, Shanghai / China		100,000	0,5	0,1 2)5)
Saarstahl (S.E.A.), Petaling Jaya / Malaysia		100,000	0,1	0,0 2)5)
EUROFIL Polska sp. z.o.o., Warsaw / Polen		100,000	-0,1	0,0 2)
Saarstahl Export India Pvt Ltd, Mumbai / Indien	1,000	99,000	0,1	0,0 2)6)
Saarstahl Demir Celik , Istanbul / Türkei		100,000	0,1	0,0 2)5)
Saarstahl s.r.o. Ostrava / Tschechien		100,000	0,3	0,0 2)5)
Secosar-Etirage S.A.S., Bussy- Saint-Georges / Frankreich		100,000	-6,0	-1,7 5)
Quinofer S.A.S., Bussy-Saint-Georges / Frankreich		100,000	1,2	0,0 5)
Saarstahl AG, Zürich / Schweiz	98,125		2,6	-0,1 2)5)
Les Aciers Fins de la Sarre S.A., Liège / Belgien	95,833	4,167	4,0	0,3 5)
Acciai della Saar S.r.l., Milano / Italien	100,000		0,6	0,0 5)
Saarstahl Iberica S.A., Sant Just Desvern Barcelona / Spanien		100,000	0,7	0,0 5)
FILMETAL S.A., Bussy-Saint-Georges / Frankreich		99,170	1,8	-0,1 5)
Saarstahl UK Limited, Scunthorpe / United Kingdom	100,000		0,2	0,0 2)5)7)

1) A profit and loss transfer agreement exists.

2) Currency of the country converted into €

3) Earnings for the year were transferred to earnings reserve and not transferred to SAB.

4) Consolidated financial statement – DHS holds 100% of own shares

5) No final result was available when the annual financial statement was compiled. The figures are preliminary.

6) Last annual financial statement on 31 March 2018.

7) Short fiscal year of nine months from 1 April 2018 to 31 December 2018.

	Capital share in %		Equity 31.12.2018	Result for the FY 2018
	direct	indirect	million €	million €
2. PROPORTIONATELY CONSOLIDATED COMPANIES				
Dillinger Hütte und Saarstahl Vermögensverwaltungs- und Beteiligungs-OHG, Dillingen	50,000		265,5	1,8
ROGESA Roheisengesellschaft Saar mbH, Dillingen	24,500	25,500	301,6	¹⁾
Zentralkokerei Saar GmbH, Dillingen		50,000	137,2	¹⁾
DHS - Dillinger Hütte Saarstahl AG, Dillingen	33,750		2.665,6	0,1 ⁴⁾
ROGESA Beteiligungsgesellschaft mbH, Dillingen		50,000	3,0	0,0
GAL Zentralkokerei Saar Besitzgesellschaft mbH & Co. KG, Dillingen		24,500	9,7	1,0
Kraftwerk Wehrden GmbH, Völklingen	33,333		0,1	0,0

¹⁾ A profit and loss transfer agreement exists.

²⁾ Currency of the country converted into €

³⁾ Earnings for the year were transferred to earnings reserve and not transferred to SAB.

⁴⁾ Consolidated financial statement – DHS holds 10% of own shares

⁵⁾ No final result was available when the annual financial statement was compiled. The figures are preliminary.

⁶⁾ Last annual financial statement on 31 March 2018.

⁷⁾ Short fiscal year of nine months from 1 April 2018 to 31 December 2018.

IMPRESSUM

Publisher:

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Print:

GBQ, Völklingen