



EXECUTIVE SUMMARY  
OF THE FINANCIAL STATEMENT

2019



## KEY FIGURES AT A GLANCE

		2018	2019	Change
Hot metal purchase ROGESA	kt	2,377	1,955	-17.76 %
Hot metal purchase SSF	kt	2	0	-
<b>Total hot metal purchase</b>	kt	2,379	1,955	-17.83 %
Crude steel production	kt	2,782	2,281	-18.01 %
Rolled steel production	kt	2,446	2,023	-17.30 %
of which Völklingen	kt	536	405	-24.44 %
of which Burbach	kt	1,030	953	-7.48 %
of which Neunkirchen	kt	880	665	-24.44 %
Shipping of steel products	kt	2,431	2,130	-12.39 %
<b>Sales revenues by region</b>				
Germany	€ million	1,096	964	-12.05 %
Rest of EU	€ million	558	465	-16.67 %
Export	€ million	303	233	-23.11 %
<b>Total turnover</b>	€ million	1,957	1,662	-15.08 %
<b>Workforce (excluding trainees), as at 12/31</b>				
Personnel costs	€ million	318	307	
<b>Balance sheet total</b>				
Fixed assets	€ million	1,320	1,276	
Investments	€ million	46	66	
<b>Equity</b>				
EBITDA	€ million	153	-40	
EBIT	€ million	107	-86	
Net income/loss for the year	€ million	73	-130	
Operating cash flow	€ million	-13	84	

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This abridged English-language financial statement is an excerpt from the annual report of Saarstahl AG for the 2019 financial year. This publication does not constitute the complete form required by law (for this, please see the 2019 Annual Report of Saarstahl AG in German.)

## MEMBERS OF THE SUPERVISORY BOARD

**REINHARD STÖRMER, Völklingen**

Chairman (as of 23 May 2019)  
*Chairman of the Curatorship for the  
Montan-Stiftung-Saar Trust*

**Dr. MICHAEL H. MÜLLER, Saarbrücken**

Chairman, died 21 February 2019  
*Chairman of the Curatorship for the  
Montan-Stiftung-Saar Trust*

**JÖRG KÖHLINGER, Frankfurt**

1st Deputy Chairman  
*Trade Union Secretary/District Manager  
of IG Metall Central Region Directorate*

**ARIBERT BECKER, Rehlingen**

2nd Deputy Chairman (as of 26 September 2019)  
*Sales Director of Saarstahl AG, ret.*

**STEPHAN AHR, Wadgassen**

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

**JOACHIM BRAUN, Le Ban St. Martin**

*Member of the Board of the Montan-Stiftung-Saar*

**LARS DESGRANGES, Beckingen**

(as of 8 July 2019)  
*Primary Authorized Representative for IG Metall, Völklingen*

**ELKE HANNACK, Berlin**

*Trade Union Secretary/Deputy Chairwoman the German  
Confederation of Trade Unions*

**ROBERT HIRY, Rehlingen-Siersburg**

(until 8 July 2019)  
*Primary Authorized Representative of IG Metall, Völklingen  
Administrative Unit*

**DANIELA KLIEBHAN, Illingen**

*Senior Manager of INFO-Institut Beratungs-GmbH*

**Prof. Dr. WOLFGANG LEESE, Lindberg**

(as of 4 April 2019)  
*Managing Director/Partner,  
WGL Verwaltung und Beratung GmbH*

**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**

*Chairman of the Works Council  
of the Saarstahl AG Neunkirchen Plant*

**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

**TIM HARTMANN**

*Chairman of the Board of Directors and Chief Financial Officer*

**MARTIN BAUES**

*Chief Technical Officer*

**DR. KLAUS JÜRGEN RICHTER**

*Chief Sales & Marketing Officer*

**PETER SCHWEDA**

*Chief Human Resources Officer and Labour Director*

# MANAGEMENT REPORT

## The company's fundamentals

Specialties of Saarstahl AG (Saarstahl) include the production of wire rod, bar steel and semi-finished products in various qualities and for a wide range of technical applications. Our most important customers include automobile manufacturers and their suppliers, general mechanical engineering companies, the construction industry and other steel processing industries. In addition to an LD steel plant in Völklingen, a considerable part of the production takes place in the rolling mills in Völklingen, Neunkirchen and Burbach. Upstream coke and hot metal production is carried out with Aktien-Gesellschaft der Dillinger Hüttenwerke (Dillinger) through the joint subsidiaries Zentralkokerei Saar GmbH (ZKS) and ROGESA Roheisen-gesellschaft Saar mbH (ROGESA).

### LEGAL PARAMETERS

A control agreement in accordance with Section 291 of the German Stock Corporations Act (AktG) has been concluded between Saarstahl AG, as the controlled company, and its majority shareholder, SHS - Stahl-Holding-Saar GmbH & Co KGaA (SHS), as the controlling company.

## Financial report

### OVERALL ECONOMIC AND SECTOR-RELATED CONDITIONS

#### Weak growth in the world economy

Growth of the world economy slowed synchronously in 2019: Both the advanced economies (1.7 % in 2019 after 2.3 % in 2018) and the emerging and developing countries (3.9 % in 2019 after 4.5 % in 2018) recorded declining growth rates. Global growth in 2019 reached 3 %, the lowest growth rate since the financial and economic crisis of 2008/2009. In addition to the weaker economic performance in China (GDP growth of 6.1 % following 6.6 % in the previous year), the trade dispute between the USA and China, and the increasing conflicts among the oil countries of the Middle East, the long exit negotiations between the United Kingdom and the EU also took their toll. The United States also recorded a slight decline in growth momentum to 2.4 % after 2.9 % in the previous year.

GDP growth in the eurozone also weakened to 1.2 % (2018: 1.9 %). In Germany, the weak phase for the industrial sector continues; weak growth of 0.5 % was mainly supported by private consumption.<sup>1</sup>

#### Weakening growth of demand in the steel market

Economic conditions were challenging worldwide, with global overcapacities remaining the most pressing problem for the steel industry. Although demand for steel continues to rise in 2019, the growth curve is noticeably flattening out: worldsteel notes an increase in worldwide production for 2019 of 3.4 % to 1.869 billion tons. China is a key driver of the growth with an increase of 8.3 %, it represents around 996.3 million tons of produced steel, which is more than half (53.3 %) of worldwide steel production.

In addition to weakening economic conditions, the structural circumstances continue to pose a major challenge for the entire European steel industry increasing protectionism and associated tariffs are making the products of European steel producers more expensive, and the EU steel market continues to suffer from high imports despite introduced safeguard measures aimed at curbing trade diversion in many products. Eurofer estimates a - 3.1 % decrease in apparent steel consumption, and steel production in the European Union in 2019 accordingly fell sharply by 4.9% to around 159 million tons. In the year under review, German production declined by 6.5 % to around 40 million tons of crude steel from 2018.

Customer segments in the manufacturing sector, which are important for Saarstahl, showed broad-based declines that were particularly noticeable in Europe. In general, willingness

<sup>1</sup>Sources: RWI-Konjunkturbericht No. 3, IMF Forecast, OECD.

to invest was subdued. These effects were particularly noticeable in Germany, where steel processors are on the cusp of a recession.

Worldwide automobile production, which is relevant for Saarstahl, was driven by the weakened economic growth in 2019 and recorded a decline in car production compared to 2018 of about 6 % and a decline in worldwide first-time registrations of about 4.5 %. It has therefore been experiencing a considerable slump since the euro crisis. In addition, in view of current climate targets, the automotive industry is at the beginning of a far-reaching transformation process in drive technology. Alternative drive systems such as the electric car will increase their global market share, which will have an impact on steel demand.

The mechanical engineering industry, an important supplier to the automotive industry, is particularly affected by this. Looking at the global machinery industry excluding China, the industry is in recession, with price-adjusted turnover in 2019 down 2 % compared to the previous year. The only growth driver was the construction industry, which expects a solid year-on-year growth rate in Germany of over 3 % in 2019 due to favorable financing conditions.<sup>2</sup>

## **BUSINESS PERFORMANCE OF SAARSTAHL AG**

The steel market for wire and rod products, which is relevant for Saarstahl AG, continues to be characterized by overcapa-

cities, so that high pressure on volumes and prices remains. The year under review saw a sharp drop in demand due to the economic slowdown in the automotive sector and in mechanical engineering and the increase in the volume of imports into the EU from third countries. Sales volume, at 2,130 kt, is declining, which means that the plants are not working to capacity. As a result, the company introduced short-time work schedules from 1 September 2019.

The sales and price development in 2019 led to a significant decline in sales and earnings figures.

## **EARNINGS POSITION**

### **Decline in turnover**

Revenues fell more sharply than expected due to the drastic decline in demand. In the forecast for 2019, slightly lower sales revenues were expected.

Shipments decreased in the 2019 financial year from 2,431 kt to 2,130 kt (- 12 %). Sales revenues fell from € 1,957 million to € 1,662 million (- 15 %), primarily due to a decline in the core business of wire rod and bar.

The percentage in geographical distribution of sales revenues decreased by 1 % in the other EU countries and exports. The share in Germany rose by 2 % to 58 %.

### **Earnings performance**

Given the extremely difficult conditions, the earnings situation deteriorated significantly compared to the previous year. The

key financial performance indicators include turnover and net income for the year. Saarstahl AG recorded an EBIT of - € 86 million in 2019 (2018: € 107 million) and an EBITDA of - € 40 million (2018: € 153 million). Turnover changed by - 15 % (- € 295 million) compared with the previous year due to lower sales volumes and average revenues for steel products. Accordingly, total performance also fell by 20 % from € 2,017 million to € 1,609 million. The result for the year was thus significantly below expectations. This is due to negative effects from the massive pressure on revenues and margins and significantly higher raw material procurement prices. In addition, the first expenses amounting to € 29 million were incurred from the program for the future announced in September 2019 as part of the ongoing strategy process. Sales revenues were planned to remain at the previous year's level.

Despite the higher procurement prices for ores and coke at ROGESA (for hot metal deliveries) and the increased input costs for scrap and alloying elements, the cost of materials fell by 16 % to 1,172 million (2018: € 1,392 million) as a result of the decline in production volumes.

Other operating income mainly includes the release of provisions, and income from currency conversion.

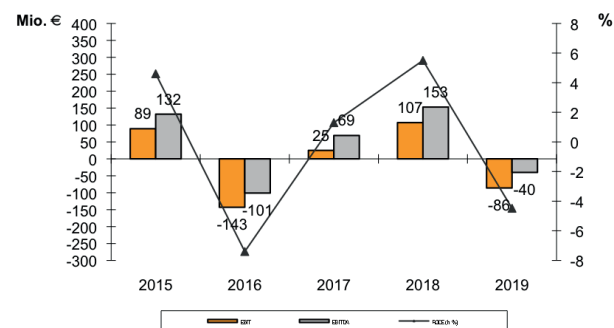
At € 307 million, personnel costs were 3.3 % below the previous year's level despite an increase in personnel-related provisions of € 13 million, which is attributable to an average reduction in personnel of around 110 people. Depreciation and amortization remain unchanged at € 46 million (2018: € 46

<sup>2</sup> Sources: World Steel Association, Eurofer, IHS, VDMA Maschinenbau Konjunktur International, WV Stahl / construction industry.



million). Other operating expenses increased by € 5 million to € 187 million. This is mainly due to the formation of provisions for risks from pending purchase transactions and for anticipated losses from sales transactions as well as from lower shipping expenses.

The net loss for the year was € 130 million (2018: net income for the year of € 73 million). At - € 38 million, the financial result was € 46 million lower than in the previous year. The primary factor was the write-down of the shareholding in Saarschmiede GmbH Freiformschmiede to the fair value of € 37 million. The difficult course of business in 2019 is also reflected in the key figures of the asset and capital structure and the development of returns. ROCE (return on capital employed) in the year under review was - 4.5 % (2018: 5.5 %), the return on sales (EBIT margin) was - 5.2 % (2018: 5.5 %).



Development of EBIT, EBITDA, ROCE

## FINANCIAL AND ASSET POSITION

### Decrease in equity

Due to the net loss for the year and the reduction of the balance sheet total, the equity ratio fell by 4 percentage points to 71 % (2018: 75 %) and remained at a very high level.

### Liquidity

Cash inflows from operations, due to the reduction in inventories and receivables, amounted to € 84 million (2018: - € 13 million).

Net cash outflows from investing activities amounted to € 31 million due to disposals of financial assets, to investments in property, plant and equipment and to dividend payments. The cash inflows for investing activities in the previous year amounted to € 7 million. After accounting for cash flow from financing activities of € 20 million

(2018: - € 64 million) – due for one thing to new bank loans of € 76 million and dividend payments as well as to repayment and interest payments to banks on long-term liabilities – cash and cash equivalents increased by € 73 million to € 126 million.

## INVESTMENTS

Saarstahl AG continued its investment program in 2019. The focus was on the LD steel plant and the rolling mills in Burbach and Neunkirchen. The investment volume for Saarstahl itself amounted to € 66 million (2018: € 46 million).

Investment spending at the two indirect subsidiaries ROGESA and ZKS totaled € 32 million (2018: € 9 million), of which Saarstahl bears half, in proportion to its share in the companies. One focus was on investments in environmental and climate protection (see the section on sustainability).

### Völklingen LD steel plant

The first casting of the new S1 continuous caster was successfully carried out in November 2019. With the S1, Saarstahl is further extending its technological competitive edge. The new plant, with an investment volume of almost € 100 million, is the first plant worldwide with mechanical soft reduction in the casting format 180 mm x 180 mm.

At the Supervisory Board meeting in March 2019, an investment of around € 14 million was approved for a new hot metal crane at the LD steel plant.

#### **Burbach rolling mill**

In December 2018, the Supervisory Board approved the procurement of three new cranes for the preparation of semi-finished products with a total cost of around € 12 million.

#### **Neunkirchen rolling mill**

Preparatory work has been completed for the measure "Integration of the US plant behind straightening machine 2" in the finishing shop of rolling mill train 31, which was approved in December 2018 with a sum of around € 5 million. The plant is scheduled to begin operation in spring 2020.

In March 2019, the Supervisory Board approved the investment to convert the walking beam furnaces at rolling mill trains 31 and 32 to pure natural gas operation in order to reduce specific gas consumption. A storage replacement for the gasometer will be installed and commissioned in summer 2020.

**FINANCIAL KEY FIGURES**

			2015	2016	2017	2018	2019
Equity intensity	Equity	€ million	1.834	1.667	1.661	1.709	1.563
	Balance sheet total	€ million	2.180	2.355	2.317	2.282	2.189
		in %	84.1	70.8	71.7	74.9	71.4
Liquidation ratio for fixed assets	Equity	€ million	1.834	1.667	1.661	1.709	1.563
	Fixed assets	€ million	1.136	1.348	1.349	1.320	1.276
		in %	161.4	123.7	123.1	129.5	122.5
Debt	Long-term bank liabilities	€ million	114	214	234	200	241
	Equity	€ million	1.834	1.667	1.661	1.709	1.563
		in %	6.2	12.8	14.1	11.7	15.4
EBIT margin	EBIT	€ million	89	-143	25	107	-86
	Product sales	€ million	1.635	1.499	1.830	1.957	1.662
		in %	5.4	-9.6	1.3	5.5	-5.2
EBITDA margin	EBITDA	€ million	132	-101	69	153	-40
	Product sales	€ million	1.635	1.499	1.830	1.957	1.662
		in %	8.1	-6.7	3.8	7.8	-2.4
Return on capital employed (ROCE)	EBIT	€ million	89	-143	25	107	-86
	Equity, tax provisions, liabilities subject to interest (average)	€ million	1.942	1.924	1.906	1.955	1.919
		in %	4.6	-7.4	1.3	5.5	-4.5
Internal financing capability	Operating cash flow in accordance with German Accounting Standard 21	€ million	111	177	-56	-13	84
	Net investment in tangible assets	€ million	63	58	41	45	66
		in %	176.2	305.2	-136.6	-28.9	127.3
Expense structure in % of overall performance	Material intensity	in %	68.0	72.3	72.1	69.0	72.9
	Personnel intensity	in %	16.1	19.2	15.3	15.7	19.1

## Changes in important non-financial performance factors

### SUSTAINABILITY

The success and productivity of Saarstahl are reflected not only in economic indicators but also in the sustainability of its business activities. Sustainable and responsible operation is a central component of our corporate policy.

In 2019 Saarstahl published the first joint sustainability report with SHS – Stahl-Holding-Saar and Dillinger. With this voluntary report, the companies document their responsibility to economic, environmental and societal interests. The report is based on the GRI standards of the Global Reporting Initiative (GRI).

In the report, the SHS Group for the first time jointly formulates a commitment to sustainability and assumes responsibility for the generations of tomorrow:

“We accept our responsibility to current and future generations of employees and stakeholders and we want to manufacture steel products in the most state-of-the-art and sustainable way. We are committed to the Paris Climate Agreement and want to do our part for low-carbon steel production.”

Sustainability is an important part of the strategy process launched in 2019. The carbon strategy and its associated opportunities and risks are key points of the process. These include significant reduction of carbon emissions and com-

pliance with environmental and social standards in the supply chain.

The material steel fulfills the principle of sustainability better than virtually any other material. Steel is the most commonly used base material. Its use contributes significantly to environmental and climate protection and is fundamental to climate reversal. Sustainable production of renewable energy from wind, water and the sun is not possible without steel. The companies of the SHS Group recognized these megatrends early on and produce precisely the steels that are in demand for the climate reversal and mobility revolution.

At the end of their useful lifetimes, products made from steel can be completely recycled as often as desired and then reintroduced into the economic cycle with virtually no waste or loss of quality. In addition, the production of steel in Germany meets high standards in terms of environmental and climate protection.

Saarstahl and Dillinger invest sustainably and continuously in measures for environmental and climate protection. These include the construction of a coke gas injection plant worth € 14 million, in which carbon as a reducing agent is partially replaced by hydrogen, resulting in a significant reduction in carbon emissions, and the new dust collection system for the circular coolers at the sinter plant of the joint subsidiary RO-

GESA for € 28 million. In the energy sector, the establishment of ESTA (Energy Efficiency with Steel), a federal initiative, is a core project for the two companies.

Saarstahl has been honored with a gold award for 2020 by the EcoVadis rating agency for its activities in corporate social responsibility, after winning silver in 2018.

EcoVadis rates the following areas:

- A human resources policy based on continuity and high social standards.
- Internal improvement processes that bring the principles of sustainability and safe conduct to each workplace and each employee.
- Consolidation of competence and service for the continuous success of the customers in the economic realization of new products and systems.
- Continued enhancement of technological competence by investing in new plants and modernizing existing ones and by developing innovative products and processes.
- Securing of know-how through knowledge transfer and strong training and professional development.
- Ongoing investment in research and development to enable efficient and resource-conserving manufacture of innovative products.
- Procurement with a focus on secure supply and environmentally compatible modes of transport.

- Economically efficient and resource-saving operation through numerous environmental protection measures for the efficient use of energy.
- Long-standing cooperation with universities, research institutes and customers for the development and improvement of materials.

## EMPLOYEES

In September 2019, Saarstahl, Dillinger and SHS - Stahl-Holding-Saar announced the joint "proactive, carbon-free, efficient" program for the future. The aim of the program is to develop in Saarland the most state-of-the-art steel industry. The planned concept for the strategy process also includes personnel measures such as the reduction of 1,500 jobs and the outsourcing of 1,000 jobs. These are to be implemented in a socially responsible manner without compulsory redundancies by means of partial retirement, flexible work schedules, transfers within Group companies in Saarland and a volunteer program. These measures are currently being coordinated. For the first time in Germany, a transfer company was created for employees with temporary employment contracts. The first effects of these measures already began making themselves felt at the end of 2019. For example, at the end of the year under review, 4,130 people were employed (2018: 4,340).

The introduction of short-time work schedules starting 1 September 2019, due to a drastic decline in demand, required flexibility on the part of employees in the organization of their working hours and shifts.

## Further improvements to occupational safety

Occupational safety was significantly improved in the year under review, achieving the best safety result ever recorded. The number of accidents with days of absence was significantly reduced from 18 to 12 accidents with days of absence. As a result, the internal accident rate has now fallen to 2.0 accidents per 1 million working hours (2018: 2.7). The target set for 2019 was thus achieved for the first time. The focus of safety efforts was also on adapting the systems to the new DIN ISO 45001 certification, which was confirmed by TÜV in April 2019.

## Fostering young talent

Saarstahl continues to invest in its own programs to foster young employees. In the year under review, 76 (2018: 82) new trainees were recruited, bringing the total number across all training years to 270 (2018: 272). In addition, there were 55 school interns, 23 interns from technical secondary schools and 10 working students throughout the year. The instrument of employing working students in particular ensures the strategic fostering of young talent in the field of academics.

## PERCENTAGE OF WOMEN

Within the framework of the law passed on 24 April 2015 regarding equal participation by women and men in management positions in the private and public sector, corresponding quotas for the development of the percentage of women were set by the Supervisory Board - for the Supervisory Board and the Board of Directors - and by the Board of Directors for the first and second management levels.

Overall, the percentage of women in the total workforce at Saarstahl averaged 5.7 % in 2019. When considering this proportion, industry-specific, historical and socio-cultural circumstances must be taken into account. Saarstahl is taking measures at various levels to continuously increase the percentage of women: for example, by continuously increasing the percentage of female trainees, a wide range of part-time employment and the possibility of child care in the company's own daycare center. Women occupy leadership positions above all in the administrative area. As part of the assumption of operational tasks by the majority-holding company SHS - Stahl-Holding-Saar, such as in the area of central staff functions, a considerable percentage of female employees and managers are represented in the holding company. Consequently, the percentage of female employees in the total workforce, at 45.0 %, is significantly higher than at Saarstahl.

Within the framework of Section 111 (5) of the German Stock Corporations Act (AktG), the target quota of 30 % for the percentage of women on the Supervisory Board committees was set for all companies in Saarland's steel industry (SHS - Stahl-Holding-Saar, Dillinger and Saarstahl). The Supervisory Board of Saarstahl will deal with the issue in the case of new appointments at the Board of Directors level in accordance with German law regarding the equal participation of women and men in executive positions (FührposGleichberG).

Within the framework of Section 76 (4) of the German Stock Corporation Act (AktG), the Saarstahl Board of Directors has set a target quota of 12 % for the percentage of women in

management functions. The analysis relates to senior executives and includes the first and second levels of the hierarchy as well as the functions that are equivalent to the two top levels of management in terms of their importance for the company.

## PRODUCTION

As the core facilities, the production division of Saarstahl AG includes the LD steel plant in Völklingen as well as four rolling mills located at the Völklingen (Nauweiler), Burbach and Neunkirchen sites. The pre-liminary stages of production, i.e. the production of coke and hot metal, take place at the Dillingen plant with the two companies Zentralkokerei Saar GmbH (ZKS) and ROGESA Roheisengesellschaft Saar mbH (ROGESA) (Saarstahl share 50 % each). Saarstahl introduced short-time work starting 1 September 2019 due to a drastic drop in demand and correspondingly low utilization of plant capacity.

## ROLLING MILLS

In 2019, the four rolling mills produced a total of approx. 2,109 kilotons of rolled products. The distribution in detail was as follows: The Burbach rolling mill produced a total of 961,104 tons of rolled products in the year under review. The average production per shift was 1,592 tons; the average output was 98.08 %. Both key performance indicators represent the highest annual averages since data recording began.

In 2019, the Nauweiler rolling mill produced 462,837 tons, of which 434,457 tons were bar steel and 28,380 tons were primary rolled products. The average shift performance was 775 tons/shift, the average output was 94.01 %.

In 2019, the Neunkirchen plant produced approx. 685,000 tons of rolled products on the two rolling mill trains 31 and 32. A new shift output record was achieved in March on rolling mill train 31 with an average of 772 tons. A new daily record was also achieved in April on rolling mill train 32 with a hot-rolled production of 2,678 tons. The production volumes were 358,658 tons on rolling mill train 31 and 326,126 tons on rolling mill train 32; the average output was 95.7 % on rolling mill train 31 and 95.3 % on rolling mill train 32.

## INNOVATION AND QUALITY

In the area of materials development, a new steel for fork arms was developed in collaboration with a customer. In addition to improved mechanical properties, savings in heat treatment were also achieved.

Homologation for the supply of valve spring wire to a well-known German automobile manufacturer was successfully completed in the year under review.

Metallurgical soft reduction was used to improve the core density of free cutting steel in square 240 mm format. This enabled a significant reduction of the US failure rate for square and flat dimensions made from this primary material. For rolling bearing steels in the same casting format, soft re-

duction was used to optimize the microstructure in the cast state so that expensive homogenization annealing is no longer required for further processing.

In the forge, a large forging made of MARBN steel for application temperatures up to 650°C was produced for the first time in a cooperative project.

## Raw material procurement and transport

Iron ore prices developed unevenly in 2019. A dam burst at the world's largest iron ore producer, Vale in Brazil, initially led to a shortage and to significantly rising prices, especially for fine ores. In the course of the economic slowdown that began in the middle of the year, iron ore prices fell back to a level below 100 US dollars per ton. With an import volume of around 1 billion tons, China remained by far the most important sales market for seaborne iron ore, far ahead of the Western industrial nations.<sup>3</sup>

Due to good demand in Asia, coal prices remained at a high level for a long time and did not drop significantly until the second half of the year.

The completion of a coke oven pilot plant at ZKS will enhance procurement flexibility. The resulting shorter response times give us more options for geographical diversification. The already high price volatility is further exacerbated by a growing number of long-running trade conflicts, combined with the resulting concrete government measures such as import tariffs and import quotas for certain product groups.

<sup>3</sup> Source: S&P Global Platts.

Volatility in freight rates also remained a challenge. Prices rose significantly in the second half of the year. The combination of cargo rates that are secured medium to long-term and the simultaneous use of opportunities on the spot market has continued to prove fruitful for ROGESA and ZKS.

The issue of "sustainability in procurement" is becoming increasingly important. The SHS Group has adopted a code of conduct concerning this matter and has involved all suppliers accordingly. This created the basis for a supplier evaluation with regard to CSR topics as part of supplier management. ROGESA and ZKS are maintaining their continuous efforts to optimize the quality and cost of the supply for the blast furnaces and the coking plant.

#### **Reduced shipping volume**

A total of 2.12 million tons were shipped in the 2019 financial year, a reduced quantity compared with 2018. The reduction is due to lower demand from customers.

As in previous years, the bulk of the shipment volume was sent by rail. Trucks are used as a means of transport only where necessary due to a lack of transport connections or where the volumes are too small. Provisioning of the required freight cars has also eased considerably because of the lower demand for transportation due to the slowdown in economic growth in Germany.

## **ENVIRONMENT AND ENERGY**

Saarstahl 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 and environmental protection**

Saarstahl invests sustainably in measures for climate and environmental protection. Approximately 10 million was invested in environmental protection measures during the year under review in the construction of the new S1 continuous caster, of which around € 5 million was spent on noise protection for a floating-type cooling bed that enables billets to be set down in a targeted way and thus avoids the noise emissions typical of a conventional cooling bed.

Saarstahl has been working in the ESTA network, an initiative of the German government, since its founding in 2017. The goal of ESTA is to reduce carbon emissions by more than 30,000 tons within three years. Dillinger, Saarstahl and the subsidiaries Saarschmiede, ROGESA and ZKS are also involved in the energy efficiency network.

### **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 2019.

## **MOST SIGNIFICANT SHAREHOLDINGS**

### **Zentralkokerei Saar GmbH**

Saarstahl 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 2019, at 1,281 kilotons, was slightly below the previous year's production level (1,302 kilotons). ZKS is a company without employees. Personnel required for operation of the coking plant are provided by Dillinger. Investments at ZKS in 2019 amounted to € 14 million (2018: € 4 million).

### **ROGESA Roheisengesellschaft Saar mbH**

ROGESA Roheisengesellschaft Saar mbH, in which Saarstahl AG 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.

Due to a poor order situation for both shareholders in the fourth quarter of 2019, hot metal production in 2019 by blast furnaces 4 and 5, at 3,867 kilotons, was 11.9 % below the pre-

vious year's output (4,389 kilotons). In the year under review, 1,911 kilotons were delivered to Dillinger (2018: 2,012 kilotons) and 1,956 kilotons to Saarstahl (2018: 2,377 kilotons). Investments at ROGESA in 2019 amounted to € 18 million (2018: € 5 million). 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 blast furnace 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.

#### **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 suffered from extreme competitive pressure. In individual market segments such as tool steel and heavy mechanical engineering, the additional decline in demand in the automotive industry and higher import tariffs in

some countries led to a further reduction in price levels. In contrast, positive demand trends were seen in the course of 2019 in the power generation machinery sector and for products and input materials made of special materials. In power generation machinery manufacturing, this led to a slight improvement in the low price level while at the same time reducing overcapacities for large forged products.

#### **Saarschmiede business performance**

Following the restructuring carried out at the end of 2017, the realignment of Saarschmiede continued to be rigorously pursued in 2019. In addition to the expansion of new business segments, this involved securing market shares in the power generation machinery sector and implementing various internal improvement projects. In the export markets of the United States, China and Japan, Saarschmiede was successful in 2019 despite increasing trade disputes and was able to further expand business with existing and new customers.

Order intake was restrained in the first half of the year but already above the previous year's level and increased to a satisfactory level as the year progressed. Sales decreased to 94 million (2018: € 110 million) due to a weak incoming order level in the previous year and the result was approximately - € 20 million (2018: - € 10 million). The number of employees grew in the year under review from 431 to 449.

#### **Outlook**

The starting position for Saarschmiede in 2020 is more positive due to a significantly higher order backlog. The latter is benefiting from the currently good demand trend in the power

generation machinery sector. In addition, major projects for 2020 have been secured in the field of special nickel-base alloy materials, which will lead to an improvement in the average margin level. Nevertheless, high market and competitive pressure continues in the other market segments and prices remain at a consistently problematic level. For this reason, the strategic realignment will continue to be the focus of attention in 2020. Saarschmiede is all in all expecting a significant increase in sales revenue in the coming financial year.

#### **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 European heavy plate market remained fiercely competitive in 2019: in addition to persistently weak demand for pipe plate, the market is being impacted by the decline in demand from almost all other customer segments. Imports into the EU from third countries have fallen compared to the previous year but remain very high, accounting for around 20 % of market supply. The capacity utilization situation of European producers has therefore deteriorated further compared to 2018, resulting in what is probably the lowest level since the crisis year 2009. In addition, the slab surplus resulting from the weaker strip market is increasing the pressure on prices. By increasing deliveries to non-EU countries by around 5 %, European pro-



ducers are successfully regaining at least a small portion of the export market shares lost in recent years.<sup>4</sup>

Under these circumstances, Dillinger's cautious outlook for 2019 has been confirmed: the negative trend in production and shipment volumes also continued in 2019. Dillinger closed the business year with a clearly negative operating result.

Purchases of hot metal, at 1,911 kilotons (2018: 2,012 kilotons), fell by 5 %, and crude steel production fell by 4.1 % compared with the previous year to 2,238 kilotons (2018: 2,334 kilotons).

Production at both rolling mills together (1,847 kilotons) fell by a total of 3.3 % compared with the previous year (2018: 1,910 kilotons), with 1,291 kilotons of heavy plate (2018: 1,248 kilotons) being produced in Dillingen and 556 kilotons (2018: 662 kilotons) in Dunkerque.

Sales revenue sank by 1.4 % from € 2,019 million in the previous year to € 1,990 million. Earnings before interest and taxes (EBIT) amounted to - € 91 million (2018: - € 6 million) and earnings before interest, taxes, depreciation and amortization (EBITDA) was - € 20 million (2018: € 66 million). Return on capital employed (ROCE) during the year under review amounted to - 0.3 % (2018: - 0.2 %).

Investments in 2019 amounted to € 27 million (2018: € 36 million). Investments in the 2019 reporting year also included preparation of the construction site for the construction of a new training workshop. The company is investing in the

training of qualified employees so that Dillinger can continue to expand its leading role in the manufacture of heavy plate. Further investments were made in the rolling mill, further processing, central workshops and final inspection areas.

In addition, Dillinger and Saarstahl are investing large sums in environmental protection measures and the reduction of carbon emissions from their plants (see also the section on sustainability).

At the end of the reporting year, 4,871 people were employed at the Dillingen site (31 December 2018: 4,919). They worked at Dillinger itself as well as – in the context of plant management – at ZKS and ROGESA. In 2019, 83 young people (2018: 75) started their careers in the company.

<sup>4</sup> Sources: World Steel Association, Eurofer, IHS database, VDMA Maschinenbau Konjunktur International, WV Stahl/construction industry.

## Risks and opportunities report

Saarstahl already introduced its company-wide risk management system years ago. The methods and tools of risk management are continuously developed further.

### Organization of risk management

Risk management at Saarstahl consists in part of the risk coordinators and officers in the departments and subsidiaries on the one hand. On the other, the corporate risk management of SHS handles coordination, support and consolidation duties for Saarstahl.

### Methods and structure of risk management

The risk management system of Saarstahl includes all measures aimed at ensuring systematic handling of risk and is focused 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: We define this as avoiding, minimizing or transferring identified risks through already existing or to be nearly implemented risk control instruments. Transfer of risk is handled through the corporate service provider SHS Versicherungskontor GmbH, which is responsible for arranging adequate insurance coverage.

- Risk communication: The Board of Directors 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 worldwide network of risk coordinators has been established to carry out the operational risk management process. In addition to this, adhoc risk reporting was already introduced in 2016. It makes it possible to generate a current overview of the risk situation at all times.

As part of the integrated governance, risk and compliance approach, the risk coordinators collect additional information for early identification of compliance risks (preventive risk analysis). Deriving measures is part of the compliance program. 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.

### Sector, External and market risks

The trade conflict between the United States and China continued to have a negative impact on almost the entire global economy in 2019. The spiral of tariffs and counter-tariffs, as well as the disregard to some extent of applicable WTO regulations, have led to uncertainty among market participants and have damaged global trade and economic relations. The current economic downturns and upheavals in core

consumer segments, such as the automotive industry and mechanical engineering, have also added to the structural problems. The market environment is defined by growing worldwide protectionism accompanied by tariffs, as well as by high imports into the EU resulting in overcapacities that continuously depress selling prices. Please refer to the section on human resource risks for information on the associated employment risks and measures.

Due to the customer structure of companies with global operations – especially in the automotive and mechanical engineering industries – Saarstahl is highly dependent on the worldwide development of the automotive market. If the punitive tariffs on automobile imports threatened on several occasions by the United States were actually levied, this would especially burden the German automotive industry and would thus have a considerable additional impact on Saarstahl's business. In addition, the automotive industry is on the cusp of a transformation process in drive technology. In light of climate targets, the electric car will increase its market share globally. Saarstahl is countering this with a diversification and further development of the product and customer portfolio.

Because Saarstahl produces steel using the carbon-intensive blast furnace route, high charges must be expected due to the pricing of carbon emissions, if the support promised by politicians is not made available. Customers are also expecting low-carbon steel production, which is required for sustainable procurement. As part of the strategy process, alternative courses of action are being developed to convert the produc-

tion process to lower carbon emissions. However, implementation depends heavily on the policy framework.

In sum, the impact of these externally driven risks must be considered highly significant.

#### **Procurement risks**

The raw materials for the bulk goods required for hot metal production are procured worldwide. The many current geopolitical crises can therefore have a negative impact on the procurement situation. To minimize risk, an ongoing diversification process with respect to sources and properties has been implemented in the procurement of raw materials. Long-term supply contracts are also concluded to secure supplies.

In order to minimize price risks caused by volatile markets, contractual hedging of quantities and prices is used with the respective supplier or dealer (natural hedge) or with derivatives, depending on the market situation. In addition to the measures previously mentioned, alternative possibilities for making the use of raw materials more flexible are constantly being tested and evaluated.

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

#### **Risks from operating activities**

Stoppages, property damage and/or quality risks may occur in the production facilities of Saarstahl. These may be due to the complexity of the manufactured products, to the complexity

of the manufacturing processes and technical operating facilities, to human error, or to force majeure. In the year under review, there was a major disruption of operations at one of ROGESA's blast furnaces. The repairs were carried out quickly and in a coordinated manner. A systematic analysis of the causes followed the incident and the necessary sustainable measures were derived to avoid the same cases of damage in the future.

#### **Financial risks**

It is of central importance for Saarstahl to ensure the financial 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. The introduction of a new treasury system will simplify control and map processes more efficiently.

The company concludes financial instruments only with counterparts that have an excellent 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 plans and a far-reaching cash management concept ensure the company's liquidity at all times. A steel producer's financing of capital-intensive investments in fixed assets is always made at matching maturities, taking into account the expected capital returns and the necessary backing with equity capital. In addition, all major sub-

siaries are incorporated in the short- and medium-term financial plans according to uniform standards. During regularly occurring analysis, both the current status and planning are incorporated into the risk management system. This ensures the necessary financial flexibility for Saarstahl.

Independent of this, market risks can influence fluctuations of current market values or future cash flows from financial instruments. Saarstahl 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 employed separately from the underlying performance-related hedged item. They are regularly monitored and analysis is generated for control purposes. The results are incorporated into the risk management system. Any residual risk is considered 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 are open. A major case was concluded in 2018. It is likely that various proceedings will follow this. In another proceeding, a leading decision by the Federal Supreme Court has resulted in a general worsening of 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, Saarstahl AG 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 external legal practitioners. This is also true for issues that carry a high risk of uncertainty.

The compliance program of the SHS Group and thus of Saarstahl was continued with greater intensity during the past fiscal year by the Compliance Committee. The focus continues to be on the important areas of antitrust and competition law as well as corruption. Informational events and publications are used preventively to encourage conduct that is compliant and that exhibits integrity. Use of an eLearning tool has now made it possible to access the training content worldwide and in various languages. An additional data protection officer (eDSB) was appointed in the 2019 financial year for continued practical implementation of the General Data Protection Regulation that came into force in May 2018 and to support the activities of the Group Data Protection Officer.

#### **Regulatory risks**

Saarstahl is committed to targeted climate protection measures and actively supports climate reversal, such as through technological approaches to reducing carbon emissions. However, regulatory developments regarding climate protection also entail risks for Saarstahl. The European Commission's long-term strategy for a climate-neutral economy carries enormous risks for energy-intensive industries. For the steel industry, consistent implementation of the current green-house

gas reduction targets means making extensive adjustments to proven production processes. The investments required for this cannot be implemented by the companies without a fair competitive framework and significant funding and support.

The Emissions Trading Directive for the 4th trading period from 2021-2030 is now in force. The introduction of the market stability reserve has resulted in substantial quantities of allowances being with-drawn from the market since 2019. For Saarstahl, this means that a considerable additional financial burden due to emission allowances that must be acquired is already being noted at present and is also to be expected in the 4th trading period. Due to its high importance, the issue is being handled by a separate carbon strategy team at the SHS level.

#### **IT risks**

The availability of data and information flows is of central importance for Saarstahl. Specific information technology segments are consolidated under the umbrella of SHS Infrastruktur. 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. The software used is therefore continuously monitored and updated by Saarstahl and SHS Infrastruktur.

The existing information security management system is continuously being expanded. In addition, an information security officer was appointed back in 2017. Along with various internal and external efforts to achieve IT security, modern

technologies and adapted IT operating processes are used to identify and defend against threats, including new ones, at an early stage. Emergency plans and exercises are part of the IT security concept. Close cooperation between the departments and the data protection officer ensures that processing of personal data is carried out only in accordance with the provisions of German laws on data protection.

#### **Human resource risks**

For Saarstahl as a manufacturer of products with high technological standards and quality, qualified specialists and executives and their strong 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 general risk of losing skilled employees, and with them, expertise. The company counters this risk 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 multiple generations of employees to ensure systematic knowledge transfer to those who will succeed retiring experts and managers. These efforts are 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 are countered by labor market policy instruments (such as the short-time work scheme introduced in all areas of Saarstahl in

September 2019), as well as by internal flexibility instruments. The current situation in the steel industry reduces the company's attractiveness as an employer. Similarly, a massive reduction in jobs leads to know-how risks, which are countered as described above.

### **Environmental risks**

The production processes in hot metal and steel production as well as in further processing involve innate process-related environmental risks including contamination of air and water. Saarstahl AG therefore makes every effort to exclude damage that could result 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 by authorities (at regular intervals and in close consultation). Saarstahl AG 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 from contamination due to previous business activities may arise on properties owned by Saarstahl AG that are no longer or are only partially in use. Saarstahl AG counters these risks through continuous monitoring and systematic remediation efforts.

### **Organization of opportunity management**

Opportunity management at Saarstahl involves the systematic handling of opportunities and potentials. It is directly embedded into the work carried out by the Board of Directors of Saarstahl. The strategy process initiated in 2019 is making an important contribution. Further details are provided in the following section.

### **Strategic opportunities**

In autumn 2019, Saarstahl and Dillinger launched a joint future program to safeguard and realign the company under the umbrella of SHS - Stahl-Holding-Saar. Over the next three years, a program consisting of various key points and objectives aims to make the participating companies future-proof. The initial aim is to increase profitability to such an extent that the necessary investments in the future can be made.

Options for future carbon-free steel production routes and for new technologies are being developed within a separate carbon strategy.

Extensive job-related measures are to be implemented by changing processes and structures, increasing our productivity, eliminating duplicate structures and closing or outsourcing areas. Saarstahl has at the same time started a comprehensive sales initiative. Individual measures include expanding the product portfolio, additional service concepts and the continued push to internationalize.

The upheaval emerging in the automotive market due to the trend toward more environmentally friendly mobility also of-

fers opportunities for Saarstahl. Regardless of the type of drive system, the current products of Saarstahl AG will continue to be in demand in a number of segments. In addition, products that meet the new technological requirements will also be required in the future to successfully participate in the market. Saarstahl is taking the necessary measures to be able to participate in this development in worldwide automotive markets.

### **Operational opportunities**

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.

The first casting was successfully carried out on the new S1 continuous caster in Saarstahl's steel plant in November 2019. The subsequent hot commissioning with further castings was also successful. This format marks the beginning of a new era for Saarstahl in the highest quality segment.

Saarland's steel industry is realigning. This will take place in a completely integrated process of Dillinger and Saarstahl. The joint strategic program for the future will also lead to Dillinger and Saarstahl working even more closely together.

### **Overall assessment of the risk situation**

The World Health Organization (WHO) declared COVID-19 a pandemic on 11 March 2020. The effects on the financial and economic markets associated with the spread of the coronavirus will also influence Saarstahl's business activities in 2020. It is however not yet possible to reliably quantify the potential

negative consequences for the net assets, financial position, and earnings position, such as declines in demand and sales, employee absences and production risks. Overall, there are no discernible risks that could endanger the company's continued existence.

## Forecast report

### GENERAL ECONOMIC CONDITIONS

#### Uncertainties slowing growth

Global economic output is expected to weaken in 2020. A similar trend is expected for the eurozone.<sup>5</sup>

#### Steel market stable at a low level

The global economic outlook remains bleak in 2020 and the growth forecast of 1.7% for global demand for steel is correspondingly low. Worldsteel forecasts low growth for Chinese steel demand at 1.0%, while demand in the rest of the world – driven by emergings and developing countries – is expected to grow by 2.5%. Production in steel-consuming sectors in the EU is expected to stabilize at a low level. Continuing import pressure coupled with general uncertainty, including the unpredictable future framework conditions for emission reduction policy, continues to pose a serious challenge to EU steel producers.

This will also be reflected in the steel market for wire and rod products, which is still in crisis mode. The main customer industries in Europe – especially in Germany – will face a difficult financial year in 2020. The automotive industry in the EU is not expected to increase production in 2020 due to presumed low exports – caused by high market saturation in many industrialized countries – and to trade risks. The mechanical engineering industry is still in a cyclical downturn. Incoming orders remain under pressure, which is why no pro-

duction growth is expected: worldwide machine sales, excluding China, are expected to fall by 1%. The only exception remains the construction industry in Europe, which for the third year in a row expects robust growth of 1.2 % in 2020 due to a favorable order situation, although a slight slowdown is expected.

There is a high degree of uncertainty among customers and end consumers with regard to changes in drive technologies and alternative mobility concepts, which may have led to investment decisions being postponed in 2019. It can be assumed that the uncertainty will continue in 2020.<sup>6</sup>

#### Development of Saarstahl AG

The steel market for wire and rod products continues to be defined by overcapacities due to the sharp percentage increase in the volume of imports from third countries into the EU. Added to this are trade policy uncertainties including the threat of automobile tariffs, which could place a considerable additional burden on the main automotive customer sector and will therefore be a decisive factor for up-coming business performance in 2020. In view of these circumstances, Saarstahl AG is facing a difficult financial year.

The company started the year with weak demand and continued the short-time work schedules introduced in September in the first months of 2020. The external market conditions described above – overcapacities, import pressure, economic downturn and pressure on revenues – will make it difficult to achieve sufficient capacity utilization in 2020 and simulta-

<sup>5</sup>Source: OECD.

<sup>6</sup>Sources: German Steel Federation (WV Stahl), IHS database, worldsteel, Eurofer

neously implement significant price increases. Added to this is the continuing rapid worldwide spread of the coronavirus. The associated effects on the world economy will also have a noticeable influence on the business development of Saarstahl in 2020. However, the possible consequences for Saarstahl, such as declines in demand and sales, employee absences and production risks, cannot be quantified at present.

Within the group, this topic is coordinated by an interdisciplinary crisis management team. This team is formed from the full Board of Directors and key functions and is supported by a working group for pandemic planning that is primarily responsible for personnel issues, health and safety. The aim is to limit the risks and the impact on the company and its employees.

Due to these general conditions, Saarstahl is expecting business performance to face serious challenges in 2020. It is anticipated that the first positive effects of the strategy process will begin to be felt in 2020 but will only become fully effective in the medium term. Saarstahl is expecting a decline in incoming orders for 2020, which will lead to production and sales volumes below those of the previous year. Depending on the duration of production interruptions in the main customer sector – the automotive industry – and the extent of an impending recession, the changes compared with the previous year may be more far-reaching and lead to a further reduction in the operating result (EBIT) and EBITDA.

Völklingen, 27 March 2020



HARTMANN



BAUES



Dr. Richter



SCHWEDA

## BALANCE SHEET FOR THE YEAR ENDING

<b>Assets</b>			
€ thousand	Notes	31/12/2019	31/12/2018
<b>A. Fixed assets</b>			
<b>I. Intangible assets</b>	(1)	642	769
<b>II. Tangible assets</b>	(2)	483,807	463,474
<b>III. Financial assets</b>	(3)	791,106	855,991
		<b>1,275,555</b>	<b>1,320,234</b>
<b>B. Current assets</b>			
<b>I. Inventories</b>			
1. Raw, auxiliary and operating materials		64,919	71,170
2. Unfinished products and finished goods		296,901	350,236
		<b>361,820</b>	<b>421,406</b>
<b>II. Accounts receivable and other assets</b>			
1. Trade accounts receivable		173,849	306,580
2. Accounts receivable from affiliated companies	(4)	138,606	112,387
3. Accounts receivable from companies where a participatory interest exists		1,163	12
4. Other assets		108,506	68,435
		<b>422,124</b>	<b>487,414</b>
<b>III. Cash balance and credit with financial institutions</b>		126,025	52,810
		<b>909,969</b>	<b>961,630</b>
<b>C. Accruals and deferrals</b>		504	52
<b>D. Debit differences in assets in the calculation of assets</b>	(5)	3,249	–
		<b>2,189,277</b>	<b>2,281,916</b>



<b>Liabilities</b>			
€ thousand	Notes	31/12/2019	31/12/2018
<b>A. Equity</b>	(6)		
<b>I. Subscribed capital</b>		<b>200,000</b>	200,000
<b>II. Capital reserve</b>		<b>41,313</b>	41,313
<b>III. Other retained profit</b>		<b>917,730</b>	917,730
<b>IV. Balance sheet profit</b>		<b>403,945</b>	550,071
		<b>1,562,988</b>	1,709,114
<b>B. Reserves</b>			
1. Reserves for taxes	(7)	<b>39,711</b>	42,539
2. Other reserves	(8)	<b>199,985</b>	170,641
		<b>239,696</b>	213,180
<b>C. Liabilities</b>			
1. Liabilities to banks	(9)	<b>241,453</b>	200,464
2. Advanced payments received on account of orders		<b>472</b>	268
3. Trade liabilities	(10)	<b>46,025</b>	64,654
4. Liabilities toward affiliated companies	(11)	<b>32,926</b>	21,076
5. Liabilities towards companies where a participatory interest exists	(12)	<b>46,721</b>	53,030
6. Other liabilities	(13)	<b>18,288</b>	19,648
		<b>385,885</b>	359,140
<b>D. Accruals and deferrals</b>		<b>708</b>	482
		<b>2,189,277</b>	2,281,916

## Profit and loss account

€ thousand	Notes	FY 2019	FY 2018
1. Sales revenues	(14)	1,661,579	1,956,763
2. Changes in inventory and internally produced and activated assets	(15)	-52,273	59,841
3. Other operating income	(16)	17,454	22,499
		<b>1,626,760</b>	2,039,103
4. Material costs	(17)	1,172,442	1,392,365
5. Personnel costs	(18)	307,110	317,551
6. Depreciation and amortization of intangible and tangible fixed assets	(19)	46,054	45,964
7. Other operating expenses	(20)	187,075	181,785
		<b>-85,921</b>	101,438
8. Income from participations	(21)	-36,747	7,463
9. Interest income	(22)	-857	743
10. Taxes on income and earnings	(23)	2,859	34,716
11. Result after tax		<b>-126,384</b>	74,928
12. Other taxes	(24)	3,168	1,942
13. Net loss /net income for the year		<b>-129,552</b>	72,986
14. Profit brought forward from the previous year		<b>533,497</b>	477,085
15. Balance sheet profit		<b>403,945</b>	550,071

## STATEMENT OF THE GROUP'S SHAREHOLDINGS

	Capital share %	Equity 31 December 2019 thousand €	Result for the FY 2019 thousand €
<b>1. Affiliated companies</b>			
<b>a) In Germany</b>			
Saar-Blankstahl GmbH, Homburg	100.000	42,022	0 <sup>1)</sup>
Saar-Bandstahl GmbH, Völklingen	100.000	10,897	0 <sup>1)3)</sup>
Saarstahl-Export GmbH, Völklingen	100.000	1,585	0 <sup>1)</sup>
Metallurgische Gesellschaft Saar GmbH, Völklingen	100.000	5,123	0 <sup>1)</sup>
Saarstahl-Vermögensverwaltung GmbH, Völklingen	100.000	8,932	266
Saarschmiede GmbH Freiformschmiede, Völklingen	100.000	60,331	-20,014
Saarstahl Finanzanlagen GmbH, Völklingen	100.000	23,513	-3
Drahtwerk St. Ingbert GmbH, St. Ingbert	100.000	22,684	-306
Saarstahl Beteiligungsgesellschaft mbH, Völklingen	100.000	6,507	-2,810
DWK Drahtwerk Köln GmbH, Köln	100.000	6,571	-3,299
SIB-Immobilien-gesellschaft mbH, Völklingen	100.000	67	2
Neunkircher Eisenwerk Wohnungsgesellschaft mbH, Völklingen	100.000	9,265	-200
Gewerbe- und Wohnpark Heubügel GmbH, Völklingen	89.000	27	20
FORGE Saar GmbH, Dillingen	100.000	140	13
FORGE Saar Besitzgesellschaft mbH & Co. KG, Dillingen	100.000	160,959	124
Schweißdraht Luisenthal GmbH, Völklingen	100.000	1,643	635
45. Saarstahl Beteiligungsgesellschaft mbH, Völklingen	100.000	56	-5
Stahlguss Saar GmbH, St. Ingbert	100.000	-6,626	-20
Saar Stahlbau GmbH, Völklingen	100.000	3,658	-1,558
Saar Rail GmbH, Völklingen	100.000	9,963	0 <sup>1)</sup>

<sup>1)</sup> A profit and loss transfer agreement exists.

<sup>2)</sup> Currency of the country converted into €.

<sup>3)</sup> Profit of the year was transferred to retained earnings and not transferred under a profit and loss transfer agreement.

<sup>4)</sup> Consolidated financial statement - DHS holds 10 % of own shares

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

<sup>6)</sup> Last annual financial statement on 31 March 2019.

<sup>7)</sup> Short financial year of 9 months from 1 April 2018 to 31 December 2018.

	Capital share %	Equity 31 December 2019 thousand €	Result for the FY 2019 thousand €
<b>b) Ausland <sup>(2)</sup></b>			
Secosar S.A.S., Bussy-Saint-Georges	100.000	18,943	3,175 <sup>5)</sup>
Secosar Etirage S.A.S., Bussy-Saint-Georges	100.000	-6,150	-226 <sup>5)</sup>
Quinofer S.A.S., Bussy-Saint-Georges	100.000	1,240	26 <sup>5)</sup>
Saarstahl AG, Zürich	100.000	673	-12 <sup>2)5)</sup>
Les Aciers Fins de la Sarre S.A., Liège	100.000	4,359	11 <sup>5)</sup>
Acciai della Saar S.r.l., Milano	100.000	536	56
Saarsteel Inc., New York	100.000	366	37 <sup>2)5)</sup>
Saarstahl (S.E.A.), Petaling Jaya / Malaysia	100.000	45	2 <sup>2)5)</sup>
Conflandey Industries S.A.S., Port-sur-Saône	100.000	5,363	285
Saarstahl Iberica S.A., Sant Just Desvern Barcelona	100.000	727	6 <sup>5)</sup>
FILMETAL S.A., Bussy-Saint-Georges	99.270	1,682	-87
EUROFIL Polska sp. z.o.o., Warsaw	98.000	-76	-3 <sup>2)</sup>
S.P.M. Participation S.A.S., Bussy-Saint-Georges	100.000	-11,511	-107 <sup>5)</sup>
Saarstahl Shanghai Limited, Shanghai	100.000	3,808	291 <sup>2)5)</sup>
Saarstahl Export India Pvt Ltd, Mumbai	100.000	1,424	7 <sup>2)6)</sup>
Saarstahl Demir Celik , Istanbul	100.000	177	16 <sup>2)5)</sup>
Saarstahl s.r.o. Ostrava	100.000	1,086	54 <sup>2)5)</sup>
Saarstahl UK Limited, Scunthorpe	100.000	117	-52 <sup>2)5)</sup>

<sup>1)</sup> A profit and loss transfer agreement exists.

<sup>2)</sup> Currency of the country converted into €.

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	Capital share %	Equity 31 December 2019 thousand €	Result for the FY 2019 thousand €
<b>2. Participating interests</b>			
DHS - Dillinger Hütte Saarstahl AG. Dillingen	33.750	2,451,425	<b>-216,377</b> <sup>4)</sup>
Dillinger Hütte und Saarstahl Vermögensverwaltungs- und Beteiligungs-OHG. Dillingen	50.000	265,491	<b>1,929</b>
ROGESA Roheisengesellschaft Saar mbH. Dillingen	50.000	301,636	<b>2,243</b> <sup>1)</sup>
Kraftwerk Wehrden GmbH. Völklingen	33.333	94	<b>-9</b>

<sup>1)</sup> A profit and loss transfer agreement exists.

<sup>2)</sup> Currency of the country converted into €.

<sup>3)</sup> Profit of the year was transferred to retained earnings and not transferred under a profit and loss transfer agreement.

<sup>4)</sup> Consolidated financial statement - DHS holds 10 % of own shares

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

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