



2011

Key figures at a glance

		2010	2011	Change
Hot metal purchase	kt	1,726	2,043	18.37%
Crude steel production	kt	2,021	2,362	16.87%
Sales	€ million	2,296	2,673	16.42%
Cost of materials	€ million	1,525	2,000	31.15%
Workforce (excluding trainees)	31 Dec.	7,176	7,036	
Personnel expenses	€ million	392	413	
Total assets	€ million	3,884	3,989	
Equity	€ million	2,639	2,788	
Fixed assets	€ million	2,220	2,319	
Total operating revenue	€ million	2,369	2,777	
EBITDA	€ million	553	354	
Earnings from ordinary activities	€ million	409	193	
Net income for the year	€ million	396	188	

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One goal, one team – the motto for hundreds of Saarländische Stahlwerke employees participating each year in the Dillinger Hütte run.



Members of the Supervisory Board

Dr. Michael H. Müller, Saarbrücken Chairman	Chairman of the Management Board of the Curatorship for the Montan-Stiftung-Saar trust
Armin Schild, Biebertal First deputy chairman	District Manager of IG Metall Hesse, Rhineland Palatinate, Thuringia and Saarland
Henner Wittling, Ottweiler Second Deputy Chairman	Member of the Management Board of the Curatorship for the Montan-Stiftung-Saar trust
Stephan Ahr, Wadgassen	Chairman of the Central Works Council of Saarstahl AG and Chairman of the Works Council of the Völklingen Plant of Saarstahl AG
Bettina Altesleben, Saarbrücken until 7 July 2011	Trade Union Secretary/Political advisor of the German Confederation of Trade Unions (DGB) for West DGB Saar region
Dr. Bernd Bergmann, Wallerfangen	Member of the Management Board of the Curatorship for the Montan-Stiftung-Saar trust
Prof. Dr. Heinz Bierbaum, Saarbrücken	Director of the INFO-Institute, Saarbrücken
Eric Ehlen, Völklingen until 7 July 2011	Member of the Central Works Council of Saarstahl AG Deputy Chairman of the Works Council of the Völklingen plant of Saarstahl AG
Jürgen Grünert, St. Ingbert until 7 July 2011	Judge of the Local Court St. Ingbert
Albert Hettrich, Saarbrücken until 7 July 2011	Chief Representative of the SHS – Stahl-Holding-Saar GmbH & Co. KGaA
Robert Hiry, Rehlingen-Siersburg	Primary Authorized Representative of IG Metall Administrative Unit Völklingen
Michel Maulvault, Paris	Chairman of the Board of Management of Dillinger Hüttenwerke, Dillingen/Saar, retired
Markus Menges, Waldbrunn	Managing Director Baustahlgewebe GmbH
Dr. Axel Nawrath, Frankfurt since 7 July 2011	Member of the Board of Management of the KfW Banking Group
Eleonore Neumann, Ottweiler	Member of the Central Works Council of Saarstahl AG and Chairwoman of the Neunkirchen Works Council of Saarstahl AG
Prof. Dr. Georg Ress, Saarbrücken until 7 July 2011	University Professor
Ingrid Sehrbrock, Bergfelde	Trade Union Secretary/Deputy Chairwoman of the German Confederation of Trade Unions
Dr. Nikolaus Simon, Düsseldorf until 7 July 2011	Spokesperson of the Board of Directors of the Hans-Böckler Foundation
Angelo Stagno, Saarbrücken since 7 July 2011	Member of the Central Works Council of Saarstahl AG and Chairman of the Works Council of the Burbach Plant
Reinhard Störmer, Bonn	Managing Director of re:cas GmbH
Erich Wilke, Königstein (Taunus)	Bank Manager (retired)
Waltraud Wolff, Frankfurt a. M. until 7 July 2011	Authorized Signatory and Special Representative of the German Steel Industry of the KfW Banking Group (retired)

Members of the Board of Management

Dr. Karlheinz Blessing	Chairman since 10 February 2010 Director of Saarschmiede Unit, Chief Human Resources Officer/Labour Director until 11 April 2011
Dr. Klaus Harste	Chairman and Chief Technology Officer until 10 February 2012
Martin Baues	Chief Technology Officer since 10 February 2012
Fred Metzken	Chief Financial Officer
Dr. Peter Schäfer	Chief Sales & Marketing Officer
Peter Schweda	Chief Human Resources Officer/Labour Director since 11 April 2011



General economic situation

Modest world economic growth

The recovery in the global economy slowed down markedly in 2011 as a continued after-effect of the crisis year 2009. Following the very strong growth of 4.1% ¹⁾ in the preceding year, the global gross domestic product (GDP) 2011 will probably show a 3% gain.

The modest increase in the world's gross domestic product is the result of widely diverging speeds of growth in various regions of the world and in individual countries. Whereas growth in the industrialised countries has been slowed by the debt and financial crisis, emerging markets have recorded relatively high growth rates. Furthermore, temporary factors such as the strong increase in commodity prices and the earthquake in Japan have had a negative impact on economic development.

The rate of economic growth in 2011 was rather subdued in 2011, with a growth rate of + 1.7% in the eurozone (2010: + 1.8%). Although the pace of growth was still quite appreciable at the beginning of the year, this slowed considerably throughout the course of the year. Growth in some areas of Europe was noted to vary greatly from that in other areas. While Germany, Austria and Poland showed strong growth, the economic situation, especially in southern Europe (Greece and Portugal), was becoming increasingly precarious due to the deepening of the debt crisis.

The German economy is expected to record good growth figures again in 2011, probably in the region of 2.7%. The continuation of the economic recovery in Germany into the second year after the economic crisis is attributable mainly to the country's strong competitiveness of the export-based industry, and to the increase in growth impetus in the domestic market driven by the labour market trend. However, Germany too, saw a significant downturn in the rate of growth from + 3.6% in the first quarter to a slight fall in GDP of probably - 0.6% in the fourth quarter.

Steel market

Constant rise in demand for steel

The constant increase in the global demand for steel has continued despite the slackening growth momentum in the year under review and has led to an increase in global raw steel production. Overall, production for all of 2011 rose by 7% (2010: + 16%) and reached a new record level of 1.53 billion tons ²⁾. However, global capacities also showed strong expansion, almost reaching the 1.9 billion ton mark. As a result, the 80% level of capacity utilization of the global crude steel capacity in 2011 was significantly below the previous year's average of over 85%.

The Chinese steel industry again significantly increased its production by 9% to 695 million tons and thus had an almost 50% share of world raw steel production. All the major steel producing countries contributed to the growth in 2011. South Korea, the ASEAN countries, as well as Brazil and Turkey expanded their production especially strongly. On the other hand, traditionally strong steel producers such as the EU, NAFTA and the FIS, recorded moderate growth rates. Japanese crude steel is an exception; production there could not be expanded because of the Tsunami disaster.

In Germany, steel production increased only slightly in 2011. The modest growth rate in crude steel production of one percent compared to 2010, to 44.3 million tons, also reflects the deterioration of the steel production situation in the fourth quarter of 2011. In response to the deepening national debt crisis in Europe the steel manufacturing industry cut back its inventories more than usual toward the end of the year. However, the actual steel requirement among the key buyer groups continued to remain at an almost unchanged level.

1) All figures on the economic situation and the steel market are based on currently available statistics, some of which are interim official statistics and some non-official.

2) These and all following production figures are based on production statistics of the countries recorded by the Worldsteel Association (as of: February 2012).

Overall, the steel manufacturing industries recorded significant growth rates. Automotive engineering, in particular, expanded strongly and reached a new record level. Moreover, positive impulses also came from the mechanical engineering and construction industries. In the long products sector (wire rod and bar steel), quality steels and high grade steels profited mainly in the first half of the year.

A highly differentiated picture of the resurgent growth becomes apparent when we view in detail the markets and industries that are relevant for Saarschmiede GmbH Freiformschmiede (Saarschmiede), in particular the areas of energy engineering, special materials and general engineering.

Business development

The business development of the Saarstahl Group is shaped primarily by two companies, Saarstahl AG and Saarschmiede GmbH Freiformschmiede.

Saarstahl AG

For Saarstahl AG, financial 2011 was a mixed year, but the overall turnover and income figures were good. A strong first half was followed by a noticeable loss of momentum in the second half of the year.

Incoming orders, especially in the first quarter of 2011, reflected the generally good demand situation at the start of the year. In the further course of the year, the increasing adjustment of inventories for pre- and semi-finished products along the industrial value chain led to a notable fall in incoming orders.

Sales were at a high level, especially in the first quarter, mirroring the overall economic situation. Throughout the entire year Saarstahl was able to profit from the high level of activity among the main customers, automotive and mechanical engineering. Despite increasing economic risks, actual demand from these sectors remained largely stable. As of the second quarter, however, sales figures were below the market opportunities due to the limited availability of semi-finished products.

The price quotations for quality steels, in particular, benefited from strong demand from automotive and mechanical engineering. Following the increase in prices to compensate for rising raw material costs in the second quarter, the price level flagged, as expected, at the beginning of the third quarter and finished the year at roughly the same level as the first months of 2011.

Saarschmiede GmbH Freiformschmiede

Marketing and sales at Saarschmiede GmbH Freiformschmiede are divided into three industry segments: energy engineering, mechanical engineering, and special materials. This division allows the company to meet the market requirements and in particular the different product cycles. Despite this organizational structure, it was not possible in 2011 to offset the loss in business that resulted from the investment stop triggered by

the financial crisis and the Fukushima disaster and the associated decline in demand for nuclear steam turbines for new construction, and for the refurbishment business.

Additional market opportunities were thus investigated early on and new product developments initiated. The areas of water power, wind power and nuclear waste containers are examples of this investigation. Initial orders were booked and the course set for a positive medium-term development.

Legal framework

With effect from 22 March 2010, a control agreement in accordance with Section 291 of the German Stock Corporation Act (AktG) was signed between Sairstahl AG and the SHS – Struktur-Holding-Stahl GmbH & Co. KGaA (current SHS – Stahl-Holding-Saar GmbH & Co. KGaA).

Increase in sales

The previous year's positive development has been continued in financial year 2011. Shipments rose by 7% to 1,960 thousand tons and sales increased from € 2,296 million to € 2,673 million. The growth in sales is based on both quantities and prices.

The geographical distribution of sales for the year 2011 shows that the Sairstahl Group has further consolidated its position in its core market of Germany, while losing a slight share of the market in other EU countries. In the third region (NAFTA, Asia and Rest of World), long-product sales were increased; in the Sairstahl Group as a whole, long-product sales were down slightly.

Earnings performance

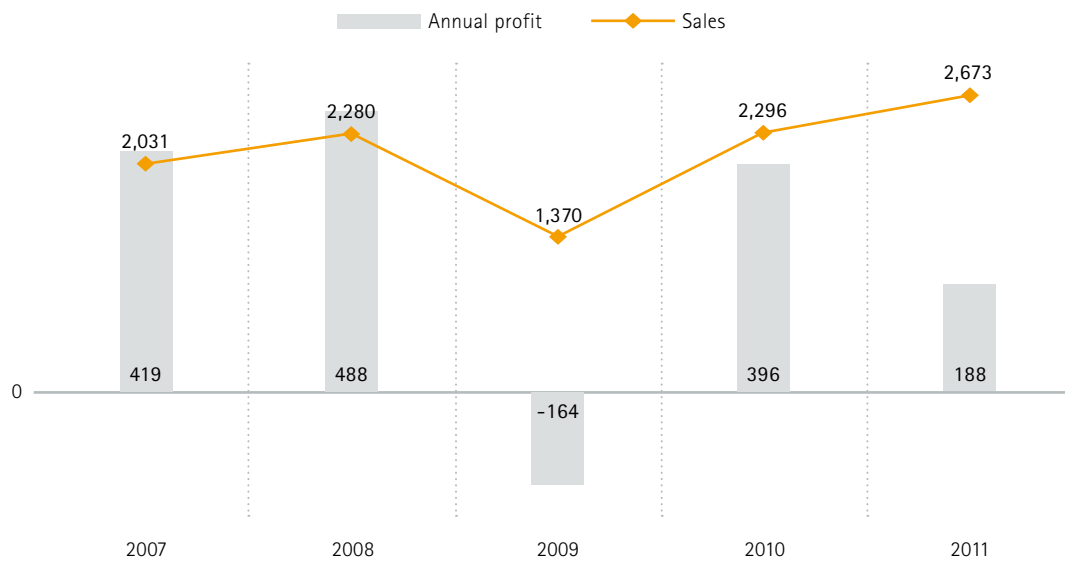
In 2011, the Sairstahl Group generated an EBIT of € 210 million (previous year: € 442 million) and an EBITDA of € 354 million (previous year: € 553 million). The 17.2% increase in total operating revenue from € 2,369 million to € 2,777 million was decisive for the result. At the same time, material costs increased year on year by 31.2% to € 2,000 million due to higher production and higher prices for hot metal, alloys, and energy.

Personnel costs increased in the financial year by 5% to € 413 million. Depreciation and amortization increased by € 33 million to € 144 million. Other operating expenses declined by € 13 million to € 158 million.

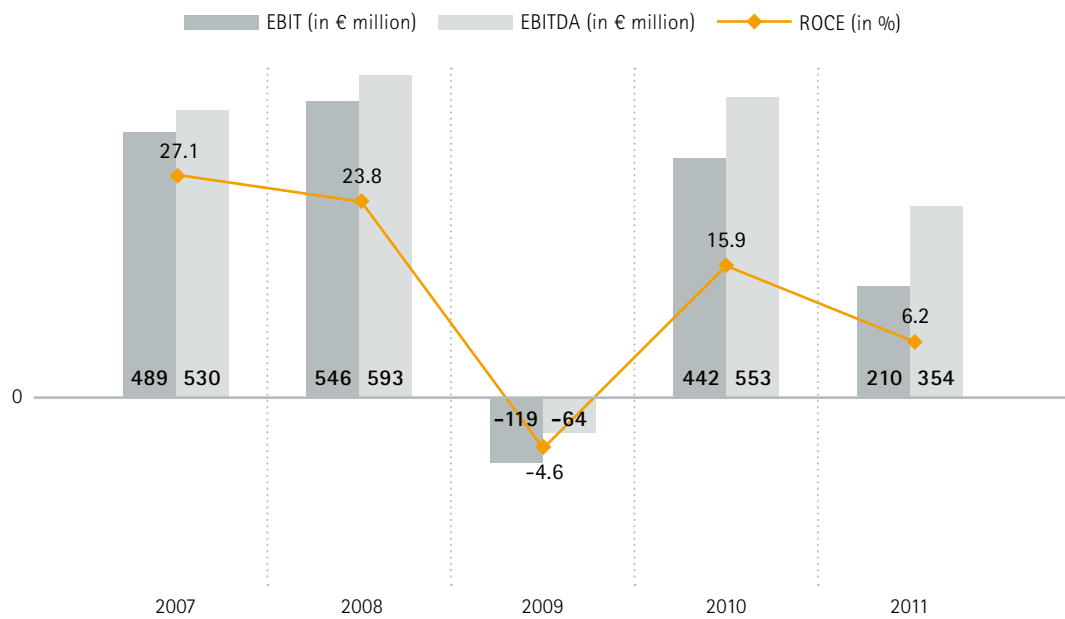
The € 56 million deterioration in investment and interest income to € 39 million was primarily due to lower income from dividend payments as well as lower income from the equity write-up from the participation in the DHS – Dillinger Hütte Sairstahl AG. Profit from ordinary activities thus amounted to € 193 million (previous year: € 409 million).

Taking into account taxes totalling € 6.2 million, net profit for the year amounted to € 188 million (previous year: € 396 million).

The positive business trend in 2011 was reflected in the key asset and capital structure indicators and in the return on development. ROCE (Return On Capital Employed) in the year under review amounted to 6.2%, return on sales (EBIT margin) margin to 7.9%.



Sales and profit performance (in € million)



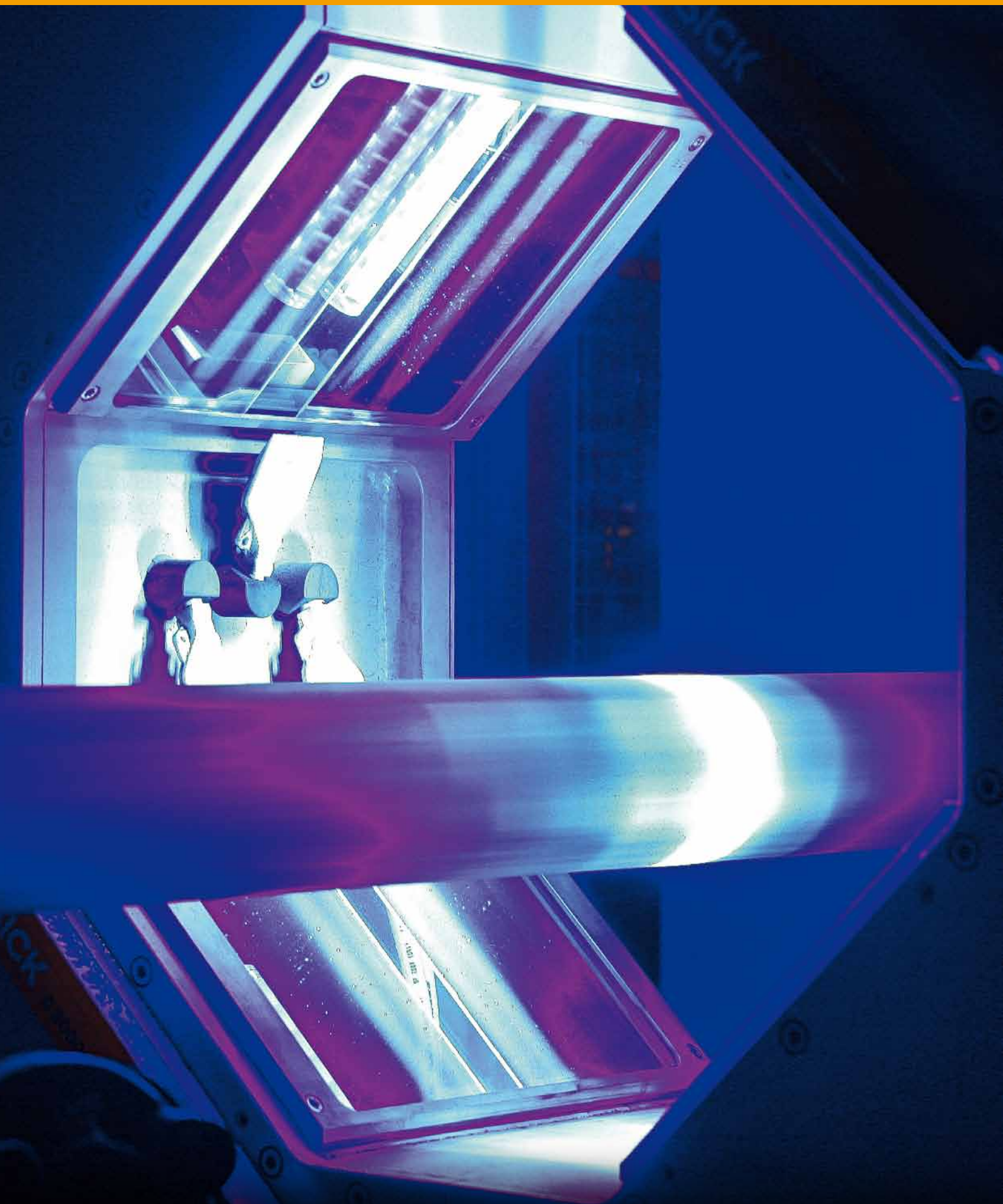
Development of EBIT, EBITDA and ROCE

Increase in equity

Total assets increased from € 105 million last year to € 3,989 million this year. The assets situation was decisively impacted by the expansion of the net current assets of € 122 million. The € 150 million increase in equity to € 2,788 million resulted from the net profit for the period of € 188 million, the allocation of € 6 million to retained earnings (previous year € 4 million) from consolidation measures, and the dividend payment of € 44 million in the financial year. With 70%, the equity ratio remained at a very high level (previous year: 68%). The funds required for investments amounted to € 212 million (previous year: € 408 million). After consideration of the cash flow from financing activities totalling € 100 million (previous year: € 276 million), mainly due to loans taken out, and the dividend payment, cash and cash equivalents decreased by € 111 million to € 268 million.

Financial key figures for 2011

		2007	2008	2009	2010	2011
Equity ratio						
Equity	€ million	1,840	2,278	1,995	2,639	2,788
Total Assets	€ million	2,718	3,185	2,986	3,884	3,989
	in %	67.7	71.5	66.8	67.9	69.9
Degree of coverage for fixed assets						
Equity	€ million	1,840	2,278	1,995	2,639	2,788
Fixed Assets	€ million	915	1,542	1,779	2,220	2,319
	in %	201.1	147.7	112.1	118.9	120.2
Debt						
Long-term bank liabilities	€ million	138	155	159	401	540
Equity	€ million	1,840	2,278	1,995	2,639	2,788
	in %	7.5	6.8	8.0	15.2	19.4
EBIT margin						
EBIT	€ million	489	546	-119	442	210
Product sales	€ million	2,031	2,280	1,370	2,296	2,673
	in %	24.1	23.9	-8.7	19.3	7.9
EBITDA margin						
EBITDA	€ million	530	593	-64	553	354
Product sales	€ million	2,031	2,280	1,370	2,296	2,673
	in %	26.1	26.0	-4.7	24.1	13.2
Return On Capital Employed (ROCE)						
EBIT	€ million	489	546	-119	442	210
Equity, provisions for taxes, interest-bearing liabilities (average)	€ million	1,803	2,293	2,612	2,788	3,369
	in %	27.1	23.8	-4.6	15.9	6.2
Internal financing power						
Cash flow from operating activities	€ million	297	140	191	17	1
Net investments in tangible fixed assets	€ million	102	239	316	309	207
	in %	291.2	58.6	60.4	5.5	0.5
Expense structure in % of total operating revenue						
Material intensity	in %	63.6	65.6	73.4	64.4	72.0
Personnel intensity	in %	17.7	15.9	27.3	16.5	14.9



Thanks to the modern Mecana testing-facility, only high-quality, immaculate products will leave the bar steel centre.

Sustainability as an integral part of corporate policy

The success and efficiency of the Sairstahl Group are also reflected in the sustainability of its economic management. Responsible and sustainable practices are a key element of corporate policy.

Key areas include:

- Human resources that are geared to continuity and high social standards,
- Company internal improvement processes within the framework of Six Sigma and "Course 2012" that bring the principles of sustainable and reliable conduct to each workplace and each employee,
- Pooling expertise and service for the sustained success of the customers in the economic implementation of extraordinary and innovative projects,
- Safeguarding and expanding our technological capabilities by investing in new facilities and modernizing of existing facilities and by developing innovative products and processes,
- A procurement system that is based on procurement reliability and environment friendly means of transport,
- Economical and resource saving conduct using numerous environmental protection measures for the efficient use of energy, such as the introduction of a certified energy management system and
- Long-term partnerships with universities, research institutions and customers in the development and improvement of materials.

It is not least the Sairstahl Group's product itself – the material steel – which corresponds more clearly than any other material with the principle of sustainability: Through numerous applications and uses, steel provides a valuable contribution to environmental and climate protection. No other material is produced in such an environment friendly manner than steel. When it has fulfilled its purpose after a few decades or generations of use it has become scrap and is therefore a valuable raw material which can be fully recycled over and over again without any loss of quality and returned completely to the economic cycle.

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

Focus on sustainable human resources

An organizational change was prepared in 2011 to gear human resources for the challenges of the future. Internet platforms and staff recruitment fairs were used increasingly, alongside conventional recruiting instruments, to recruit personnel. In questions relating to workplace safety, a reorientation toward behaviour-based workplace safety has been initiated. The requirements for a health management were created. Lifelong learning and professional knowledge management are to be pursued sustainably within the scope of a successful human resources system.

Active workforce

Strengthening the awareness of all aspects of workplace safety is an integral part of corporate strategy. The low number of accidents at Sairstahl AG for the year 2011 reflects the improvement achieved. The internal accident rate fell again and now stands at 6.3 (previous year: 10.4). On 31 December 2011, the workforce of the Sairstahl Group comprised 3,905 employees of the Sairstahl AG, 1,153 employees of Saarschmiede and 1,977 employees of other companies belonging to the Group.

	31 Dec. 2010	31 Dec. 2011
Wage earners	5,493	5,437
Salaried employees	1,683	1,599
Total	7,176	7,036

Education and further training

Saarstahl continues to attach great importance to a future oriented initial training. Key milestones included the continued construction work on the new education and further training centre. The number of apprentices and trainees remained almost constant, and developed in 2011 as follows:

	31 Dec. 2010	31 Dec. 2011
	448	429

Of the 429 apprentices and trainees, 408 were trained at locations in Saarland. The Saarstahl Group is therefore one of the companies with the largest number of apprentices and trainees in the Saar region.

Personnel expenses

Personnel costs increased in the financial year by 5% to € 413 million (2010: € 392 million).

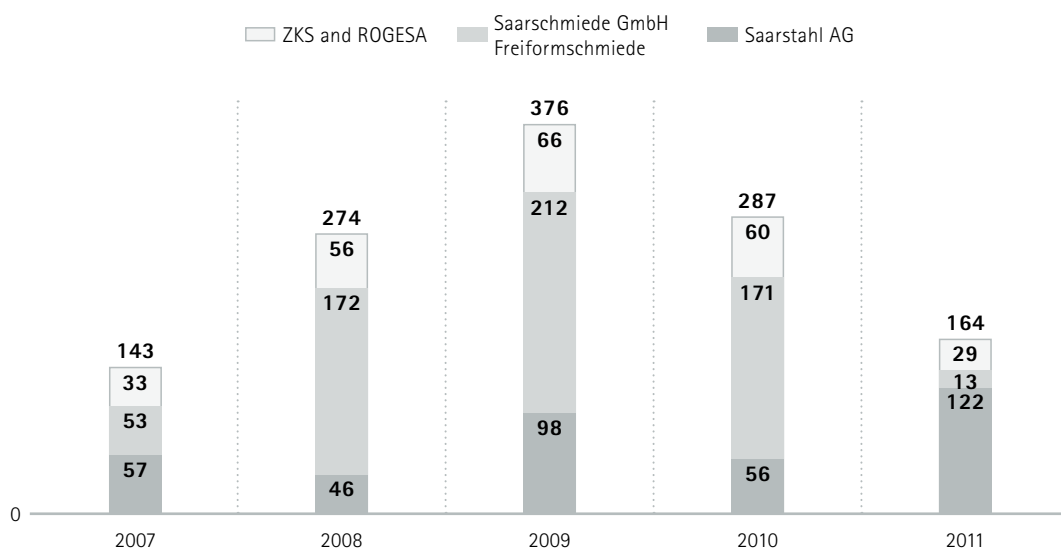
Constant level of investment

Also in 2011, the Saarstahl Group pushed ahead with a comprehensive investment program that has brought, or will bring in 2012, state-of-the-art plant technology to numerous production areas. Focus in 2011 was on the area of the LD steel plant and in the Völklingen and Neunkirchen rolling mills.

At Saarstahl AG itself, the investment volume amounted to € 122 million (previous year: € 56 million). With the two indirectly owned companies, ROGESA and ZKS, investment expenditures totalled € 57 million, of which Saarstahl AG bore half in proportion to its share in the companies. Saarschmiede GmbH Freiformschmiede recorded investments of € 13 Million. More information on these investment projects is provided in the "Investments" section.

LD steel plant

At the LD steel plant, the main effort in 2011 was devoted to the construction of a new secondary metallurgy system. As a preparatory measure for this a new washing room was built at Gatehouse 11, which can be used by more than 1,000 employees. The washing room is designed according to the principle of the black-and-white bathroom and there is also a training room for the steel plant on the ground floor.



Development of investments 2007 – 2011 (in € million)*

* Additions to tangible assets without minor goods

When the new washing room was put into service the demolition of the old washing room paved the way for construction work on the new secondary metallurgy halls. The steel construction works for this were completed on schedule by the end of the year, creating the conditions for the assembly of the machinery starting from April 2012.

A new maintenance and repair shop with office section was constructed on the east side of the steel plant at the same time, also in order to create space for the new secondary metallurgy. This workshop area was also completed on schedule in 2011 and put into service by the end of the year.

Rolling mills

At the Völklingen rolling mill, the main focus was on the new 130 m long high-performance cooling bed with fully automated downstream finishing line. Put into service in the first quarter of 2011, the entire plant was then commissioned according to the scheduled ramp-up curve, so that the planned targets were reached by autumn 2011. The construction and commissioning of the entire plant for € 50 million were controlled in a way that the rolling mill's ongoing production was only slightly interrupted by the construction work.

The Burbach rolling mill is being brought consistently into line with the requirements of the future. The results of the measurements taken in 2011 to investigate the cooling conditions on the Stelmor line are currently being implemented. The replacement of the cropping and scrapping shears behind stand 7 was planned in 2011 and the requisite components manufactured. These are to be installed during the 2012 summer standstill.

The Neunkirchen rolling mill availed of the summer standstill of line 32 to modernise the roughing train. Using the new combined calibration system and the additional rolling stand, it is now possible to use beam blank formats and lengths with square cross-sections ranging from (sq.) 150 to (sq.) 180. A new large-coil pressing circuit with associated finishing unit and new upstream coil-tilting stations were installed at line 31. Consequently, the wire finishing shop is now able to handle ring weights of up to 3.3 tons. In addition, a new millet grinding machine was installed in semi-finished product processing. Thus, for all millet cross-sections up to sq. 180, the required surface specifications for downstream, fully automated semi-finished product surface testing are now met.



Paving the way: Construction of the new secondary metallurgy facility in the steel plant.

Saarschmiede GmbH Freiformschmiede

Investment activity in 2011 was moderate following the total investment of € 450 million in the new high-performance forge at the Völklingen site, which was put into service in 2010.

To expand the cap ring product, construction was commenced on a small cap ring straightening unit and on a second large cap ring straightening unit. A fourth, new, lathe was put into service in the stainless steel finishing shop at the end of June.

However, most investment went into the existing plant and equipment. In summer 2011, the 85MN press was completely dismantled and refurbished after nine years of three-shift production. The press was put back into operation on schedule in early August.

Innovation is the basis for success

Innovative, high quality products are the basis for the competitiveness of the Saarstahl Group and its sustainable success as a business. The continuous improvement of products and processes, always oriented to the customer requirements, has therefore been an integral part of the corporate strategy for years.

Coordinated development work

The central task of the development departments – materials development, converter metallurgy, secondary metallurgy, continuous casting, process technology, process development and surface technology – is the optimisation of the existing processes and products and the development of new processes and steel concepts. This is accomplished in close cooperation with the Saarstahl Group's production sites, as well as with Sales, Marketing, Quality Assurance and, of course, our customers. Basis for these activities are development projects that are defined annually and subject to regular internal audits.

Cooperation with universities, colleges of advanced technology and research institutions, as well as regular participation in funded national and international research projects supplement this work.

R&D activities focus on creating new steel grades for customer-specific applications, improving steel properties, ensuring an excellent degree of purity, minimizing core segregation and achieving

faultless billet surfaces. Special attention was paid to activities using soft reduction technology to generate continuous cast blooms with the least possible core segregation.

Saarstahl is the first steel manufacturer worldwide to use this technology, previously used only in slab and bloom continuous casting, for the casting of continuous blooms in the format 150 mm x 150 mm. Industrial-scale production of bearing steels and hard wire grades for very demanding applications is currently underway.

The Saarstahl Group has very successfully continued its development of a steel grade for use as sawing wire – one of the thinnest dimensions of drawn wire rod, which is used for separating semiconductor crystals and is supplied by only a select few steel producers worldwide because of the high purity requirements. The Saarstahl Group has established a good reputation for itself in this area and will be able to increase quantities.

State-of-the-art facilities for chemical analysis, for metallographic tests and for destructive and non-destructive material testing are available to ensure standards compliant with outgoing goods inspections and materials testing for internal and external research projects. Two scanning electron microscopes and one microprobe are constantly in use. It is also planned to expand laboratory capacities parallel to the expansion of secondary metallurgy. The chemical and technical laboratories are certified in accordance with DIN EN ISO/IEC 17025.

These laboratories are responsible for organizing improvements and additions to the quality management system and the system of internal audits. The success of this work is reflected in the establishment over several years of an integrated management system (quality, environmental protection, workplace safety and energy efficiency), and in the certification in accordance with DIN EN ISO 9001, ISO 14001 and DIN EN 16001 for Saarstahl AG and Saarschmiede GmbH Freiformschmiede as well as according to ISO/TS 16949 (Saarstahl AG) and DIN EN 9100 (Saarschmiede GmbH Freiformschmiede).

Activities relating to emission trading

The Saarstahl Group is obligated to participate with its plants in emission trading. A working team with the AG der Dillinger Hüttenwerke, which is coordinated by the central division Innovation, has been in place since 2003 to manage

these tasks. This team is responsible for implementing legal regulations, tracking of and providing technical assistance on current lawmaking procedures at national and international level, as well as identifying and implementing options and obligations for action.

Continuous improvements in environmental protection

The Environmental Protection Division is an advisor to the operating divisions. In addition, Environmental Protection operates as a controlling body and manages the fields of immissions and water protection, waste, hazardous materials, environmental and safety management. With targeted training courses for employees the Saarstahl Group is making each individual employee aware of how their actions can have a decisive impact on the environment. An informed and open communication with the municipal authorities and the public will be ensured on this basis.

Successful coordination of all environmental protection activities

Environmental Protection's administrative tasks include coordinating all environmental protection activities and dealing with external bodies such as

municipal authorities, associations and public interest groups. The Environmental Protection Division is also responsible for ensuring compliance with the legal requirements relating to protection against air pollution, recycling and waste management, water protection, hazardous materials and incidents. The Environment Management officer coordinates the implementation of the requirements of the environment management system and the completing of the annually recurring external certification in accordance with ISO 14001.

Focus on recycling economy and reduction of dust emissions

In 2011, the handling of the slag and its transport was reorganized at the electric furnace. The elimination of the transfer process and the new direct method of transporting slag will eliminate diffuse emissions in the area of the electric furnace. Besides improving workplace safety, this measure also contributes to a significant reduction of the potential risk of accident for the workers in this area.

The grit that occurs at the LD steel plant is an interesting aspect of cement production. Saarstahl has developed a solution jointly with Heidelberg Cement in which the grit from the converter steel plant supplies the necessary iron content and can



Accredited chemical and technical laboratories allow for comprehensive metallographic analysis.

be used to manufacture cement. This is another example of a successful utilization of materials for recycling purposes and for saving resources.

Tests to increase the spatial stability of the converter slag were successfully completed during the course of the year, allowing the product to be more easily marketed.

Saarstahl carried out an extensive series of measures to reduce the dust and fine dust emissions, in the area of the forges, and during the construction of the new secondary metallurgy. The total volume amounts to around € 17 million. A continuous measuring station to record diffuse dust emission was commissioned in the area of the LD steel plant to monitor and improve the immission situation.

It is the duty of the company to periodically inform residents and employees about those plants of the Saarstahl Group that could pose a hazard. In 2011 a brochure was drawn up jointly with the municipal authorities that provides information on the stored materials and their properties, on the safety measures, and on behaviour of the residents in the event of an incident.

Safe and efficient power supply

The central Energy Supply division has the task of safely and cost-effectively providing the energies and media for the steel manufacturing and steel processing. This includes in particular the tailored design of the energy facilities in the case of new construction and revamping and the implementation of the legal requirements with respect to tax, emission trading and environment.

Excellent energy management

The introduction of a certified energy management system according to DIN/EN 16001 was one of the central tasks in 2011. The Saarstahl Group is one of the first ever German steel companies that has successfully completed this auditing. It has therefore succeeded in meeting the increased expectations of customers, the public and its employees with regard to an improved conservation of resources and an optimum energy efficiency. Saarstahl is a modern steel manufacturer that tackles contemporary challenges and undertakes everything necessary to increase energy efficiency and reduce emissions. The introduction and configuration of the energy management system create the basis for pushing ahead with structured energy efficiency measures and at the same time having its performance audited by an independent agency.

Power generated by Saarstahl's own industrial facilities

A cost-effective and reliable power supply is a crucial requirement for producing steel safely and economically. Recent years have been marked by increasing electricity costs and uncertainty about the reliability of the power grid and power supplies. This has spurred the Saarstahl Group to come up with feasible alternatives to having all its power supplied by external providers. Numerous scenarios were examined and extensive investigations were conducted, which finally led to Saarstahl leasing Block 3 of the Saarland power plant Ensdorf of VSE AG. Block 3 has a capacity of 300 MW and has been providing the Saarstahl Group with its power since August 2011. This regional solution makes the Group somewhat more independent of the speculation-driven increases in electricity prices and also reduces the supply risks from power failures.

Procurement

Raw materials market remains tense

The demand for raw materials for coke, hot metal and steel production was very high in 2011 as well – especially in Asia. Against this background, raw material prices reached record levels at the start of the year and then remained at a high level. Although noticeable price reductions did not occur until the second half of the year, the average price level remained above that of 2010. The trend toward shorter pricing periods is getting stronger and the price volatility increasing accordingly.

Renewed modification of the price system for ores

In 2010 the benchmark system based on annual prices was replaced by a system based on quarterly prices that is oriented to the spot price trend in China. In the fourth quarter of 2011 this system was further modified by the market leader Vale to ensure that the three-monthly pricing period and the respective delivery quarters are identical in each case, and this system has been adopted by most European steel producers. The ore prices fob (free on board) China reached a new record high level in mid February 2011. These prices then remained a very high level until the end of the third quarter, before slipping back to about the average level of 2010.

Coal and coke market volatile

Early 2011 was characterized by the impact of the flood catastrophe in the Australian federal state of Queensland – the largest export region in the world for coking coal – during which numerous open cuts were flooded. It has been estimated that about 15 million tons of production was lost, pushing first-half prices to historic highs. In the second half the coking coal prices received the required downward correction as demand – including demand from China – fell and the consequences of the flooding were gradually remedied. The world's largest coke producer, China, has disappeared almost completely as exporter from the world market due to protectionist measures which have significantly reduced the amount of blast furnace coke available worldwide.

Supply of ROGESA and ZKS secured

Despite the difficult market situation the supply of ROGESA and ZKS with all required raw materials was guaranteed at all times during the year under review. The strategy of using long-term contracts to safeguard the essential supplies of suitable qualities proved successful in these cases. Parallel to this and against the background of the general market trend, new sources of supply were developed which can allow a further procurement diversification in the long term.

The reduction in sea freight forecast by the market participants did not occur to the expected extent due to the commissioning of numerous new ships in 2011. By promptly taking advantage of a short-term window of opportunity in the market situation, Saarstahl was able to conclude new sea freight contracts for several years at favourable conditions.

Despite the unusually difficult weather situation, the supply of raw materials was guaranteed at all times. Transport capacities were especially impaired by the long-lasting low water periods in spring and late autumn. In view of the extremely dry conditions, quantities had in some cases to be switched to rail and truck and the additional costs taken into account.

Replacement of Saar Rail rolling stock

Saar Rail GmbH, which is responsible for the internal rail activities of the Saarstahl Group, launched a long-term investment programme in 2011 and purchased two new diesel Gravita 10BB locomotives as part of this programme. The upgrading of the rolling stock, which currently includes twelve locomotives, is to be continued.

Foundation of SHS Logistics

As of June 1, 2011, the logistics activities of Dillinger Hütte and Saarstahl as well as their subsidiaries – ROGESA and ZKS in particular – were brought together under the umbrella of SHS in the newly established company SHS Logistics GmbH as part of a reorganization of the operating activities. The objective is to leverage synergies by collecting all the Group's transport quantities and logistics activities and by further increasing efficiency.

Procurement company transferred to SHS Services

In April 2011 the previous procurement company of Dillinger Hütte and Saarstahl mbH was transferred to SHS Services GmbH, which is designed as operative service provider. Aktien-Gesellschaft der Dillinger Hüttenwerke, Saarstahl AG and Saarschmiede Freiformschmiede GmbH are the main customers of SHS Services GmbH. SHS Services GmbH continues to manage all the business relationships of the procurement company Dillinger Hütte und Saarstahl mbH. In other procurement areas – for example steelworks raw materials such as alloys and refractory materials – 2011 was noticeably marked by the challenge of approximately maintaining the existing price level in conditions where price developments were driven by increased energy costs.

Outlook: Markets remain volatile

The raw material markets will remain volatile in 2012, with the demand trend in China and India having a decisive impact. Owing to the demand situation, raw material prices are expected to remain roughly at turn-of-the-year level. Despite the measures adopted by ship-owners, such as decommissioning ships, ocean freight is expected to come under pressure again in the year ahead. Suppliers are currently intensifying their efforts to push through shorter pricing periods and to implement index-bound prices.

Holding company Saarstahl AG

Personnel

High standard of workplace safety

Increasing employee awareness of all aspects of workplace safety is an integral part of the corporate strategy. The low number of accidents in 2011 reflects the improvement that has been achieved. The internal accident rate fell again and now stands at 6.3 (previous year: 10.4). In the period up to July 2011, Saarstahl recorded 35 accidents with absence days; this figure only rose by a further 7 to a total of 42 accidents by the end of year (previous year: 69). Numerous preventative measures have been put into force, coordinated by the Workplace Safety department. These measures also include the continuation of the successfully launched "Walking Course".

In addition to behaviour oriented measures such as safe driving training courses, tools were established which form the basis of further strategic activities. The Group will continue to follow up on the "DuPont" project, with its behaviour oriented approach, in 2012. DuPont is the largest US American chemical company and at the same time the international pioneer in matters of workplace safety.

Almost unchanged number of employees

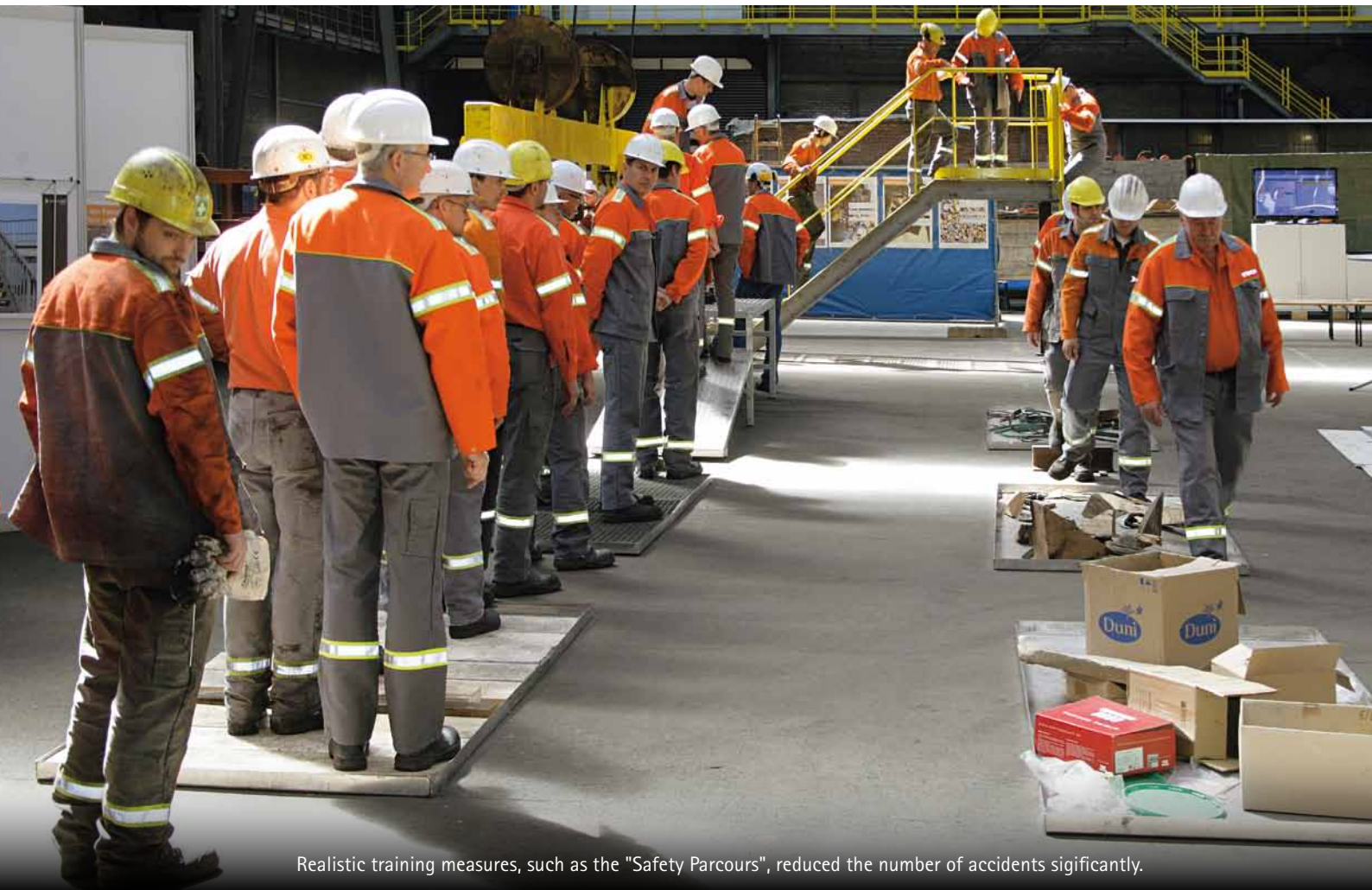
At Saarstahl AG, 3,905 employees (previous year: 3,843) were employed at the end of the year under review. Including all subsidiaries, the number of employees in the Saarstahl Group was 7,036 at December 31, 2011 (previous year: 7,176), of which 6,119 in Saarland. In the course of 2011, 148 Saarstahl employees transferred to SHS-Holding, to SHS Services or to SHS Versicherungskontor. At December 31, 2011, around 300 members of the workforce were in the active stage of partial retirement and approx. 290 were already in the inactive stage. A total of around 530 posts (116 of which temporary vacation jobs) were taken by others.

The number of applications reached record level: in 2011, around 3,600 people were interested in starting work at Saarstahl, in the business segment another approximately 3,100 applications were received. One of the main HR marketing instruments for recruiting young managers in 2011 was the first time participation at the graduate congress in Cologne. A total of 180 interested people made inquiries at the Saarstahl trade fair stand. Subsequently, 106 young managers actually applied for a job at Saarstahl.

Investments in education and further training

Saarstahl continues to attach great importance to a future-oriented initial training. Key milestones included the continued construction work on the new education and further training centre. The second construction stage was completed at the end of 2011, allowing the metal professions and the electrical professions to take up occupancy in early 2012.

The completion of construction now means that the planned centralization of education and further training can be implemented in 2012. The centre's seminar rooms with state-of-the-art technical equipment will provide the best conditions for ensuring that employees are ideally trained. In 2011, Saarlühl took on the large number of 91 new trainees (previous year: 89) and thus employs a total of 346 trainees. Another 51 specialist college and university placements and eleven students of the basic one-year vocational school course were also taken on.



Realistic training measures, such as the "Safety Parcours", reduced the number of accidents significantly.

Production has risen again

The production range of Saarstahl AG essentially includes the steelworks in Völklingen as well as three rolling mills – at Völklingen (Nauweiler), Burbach and Neunkirchen. The preliminary production stages, i.e. the production of coke and hot metal is located at the Dillingen site with the two companies ZKS and ROGESA (in each of which Saarstahl AG has a 50% share).

Steel plant

Saarstahl AG steel plant in Völklingen is supplied by rail with hot metal from ROGESA. The modern steel plant has three 170-ton LD converters and four continuous casters, in which the steel is cast to billets or blooms.

The range of produced steel grades extends from basic grades to alloyed and unalloyed quality and high-grade steels, cold heading grades, free-cutting steels and fabric wires to soft drawing qualities, welding wires, pre-stressed steels, and wires for steel ropes.

Saarstahl has increased steel production by approx. 300 thousand tons compared to the previous year: In 2011, 2.3 million tons of crude steel were produced at the LD steel plant in Völklingen.

Construction work on the large "New Secondary Metallurgy" investment project, which was approved and commenced in 2010, has been proceeding according to schedule. The commissioning of the ladle heaters is scheduled for late 2012 and that of the vacuum degassing (RH) plant for the first quarter 2013 (see the "Investments" chapter). With its new secondary metallurgy, Saarstahl can continue to meet the constantly rising demand for high quality vacuum treated constructional steels and thus underscore its strategic orientation as a manufacturer of high-grade steels.



The manufacture of high-quality wire on mill 31 at Neunkirchen.

Völklingen rolling mill

The production of bar steel in various round, square, rectangular, hexagonal and flat sizes as well as forged semi-finished products in round and square sizes is one of the outstanding features of the Völklingen-Nauweiler medium section mill. Furthermore, the rolled products can be inspected to customer specification and prefabricated in one step. For this purpose the plant operates peeling and inspection lines, heat treatment and quenching units and sawing plants for the manufacture of custom-made and high-quality steel products. The quality steel and high-grade steels in all areas of steel processing are mainly used in the automotive and engineering industries.

In 2011, extensive investments were implemented and continued in fully automated production and inspection systems in the rolling mill/finishing line and in further processing. The installed plants comply with cutting edge standards and make Nauweiler one of the most advanced bar steel centres in Europe. These investments have shortened lead times and increased the speed of response

in production. The implementation of this investment plan will also allow the plant to meet the strong rise in customer requirements with respect to quality and logistic. The rolled bar steel is used mainly in the automotive industry, where it is further processed to make crankshafts, suspension systems and transmission parts.

First half investment in 2011 focused mainly on the "rake-type cooling bed and new finishing line" investment projects. One of the two existing rake-type cooling beds was demolished to make way for this facility. The foundation was laid on an area of around 8,000 square metres during ongoing production and both the structural engineering and the new plants were erected. The work was commissioned in summer 2011 after a construction period of around ten months. A mean ready-to-roll annual output of around 39,000 month tons (previous year: 32,000 month tons) (incl. primary rolling) was reached.



Burbach rolling mill

The Burbach rolling mill with its wide range of products is one of the worldwide leading producers for drawing qualities, and its 4-strand wire rod mill in the 5 to 20 mm size range is one of the most efficient of its kind.

In 2011, production was increased to 896,700 tons, 13% higher than 2010. Despite the shift in range in the area of high qualities (especially with steel cord wire) the shift output rose by 90 tons to 1,373 tons per shift. Delivery reliability was improved to a new annual record of 96.34%. The job rolling size range was extended to 20 mm ribbed.

A new furnace control system provided an important contribution to energy saving within the scope of the first external energy efficiency audit.

Neunkirchen rolling mills

The Neunkirchen rolling mills produce wire rod and bar steel that are used in mechanical engineering, as well as in the electrical and automotive industries. With the two rolling mills, the highly automated preparation of semi-finished products and the specially customized post-treatment of rolled products the company has succeeded in meeting the rising customer expectations. These also include, for example, the efforts in lightweight automotive engineering to reduce the weight of the steel parts as much as possible – while of course also meeting the specified safety standards. At the same time the steels must be easy to work and finish, high strength and also ductile.

Both the bar steel and the wire rod are produced on a combined single strand wire rod/bar mill and on a single-strand wire rod mill. The following formats are produced: round, rectangular, hexagonal and flat or special sections. The rolled steel types – automotive steels, quality and high-grade steels, spring and bearing steels – are further processed by the customer into precision wire parts, forgings, gearbox and engine parts, connecting elements, vehicle suspension springs and bearing steel.

Saarstahl has for many years been the preferred supplier of wire rod for high strength vehicle springs for passenger cars. In addition to the classic SiCr spring steels, the company also increasingly supplies Ni-alloyed grades, which additionally meet higher corrosion-resistance requirements. In total, Saarstahl produced wire rod for an average of approx. 5 million coil springs per month at Neunkirchen in 2011.

Following the successful conversion of the roll train 32's primary mill in Neunkirchen, billets with an initial section of up to 180 mm x 180 mm can be used and the ring weight increased to approx. 2.6 tons. The additional optimization of the material flow while maintaining the proven rolling parameters has also had a positive impact on the surface qualities of the wire rod. In calendar year 2011, approx. 756 thousand tons of wire rod were produced on the roll trains of the Neunkirchen plant.

Improvement process stepped up Strategy project Agenda2012

The most important target of the project Agenda2012 is "Customer-oriented growth". The ideas on further industrial expansion developed for this were continued in 2011. A key element was the reorganization of secondary metallurgy, which is expected to be completed by early 2013.

In addition, the sub-project "OTIF (On Time In Full)" was successfully completed in 2011 and implemented in the sustainability programme. The basic premise of OTIF is to organize internal processes in such a way that the product requested by the customer can be delivered on the required and promised date in the ordered scope without any shortfall in quality.

From the customer's view the product is then not just a "product" that he could have bought elsewhere in the trade. In this way Saarstahl combines delivery reliability with a high quality level capable of satisfying individual customer requirements.

SixSigma

In the past year the SixSigma Project Wave 7 and the definition stage of Wave 8 ran at Saarstahl. Each of the two waves comprised or comprises five projects. The projects were focused on increasing plant efficiency, improving product quality and optimizing engineering and administrative processes. Between April 2007 and December 2011, 34 SixSigma projects were successfully completed at Saarstahl in the "Wire and Rod" area.

The second major focus of the SixSigma department was the piloting of a production system at three selected plants in the "Rolling mill and Further Processing" division. A production system is a uniform and long-term regulatory framework for process control and process optimization that is to be implemented in pilot plants in the short to medium term and throughout Saarstahl AG in the long term.

This system allows the plants to use suitable key indicators to control their core processes. Accomplished improvements are safeguarded by introducing standards. The methods required to achieve this are trained according to requirements and on a plant-specific basis.

Most important participations Zentralkokerei Saar GmbH, Dillingen

Saarstahl AG and Aktien-Gesellschaft der Dillinger Hütte each hold an indirect 50% interest in Zentralkokerei Saar GmbH. ZKS produces coke that is used exclusively in ROGESA's blast furnaces. Coke production (1,022 kt) has risen by 11.9% compared to the previous year (913 kt). This increase in production is attributable to the full-year capacity utilization and the optimized mode of operating the B3 battery of coke ovens. ZKS is a company without employees. The required personnel for operating the coking plant are provided by Dillinger Hütte.

In 2011, investments at ZKS amounted to € 27 million (2010: € 25 million). The main investment project was the construction of the new B1 battery of coke ovens. Following the commissioning of the new B3 battery and the demolition of the old battery 1 in 2010, the cornerstone of the new battery was laid in June 2011. The refractory lining was completed by the end of the year and the other remedial measures are proceeding according to schedule.

The final structural steel assembly work (doors, ties, master aisles) was commenced in spring 2012 and will continue up to mid-May, after which the new battery will be heated up. Battery B2 will be shut down after the successful commissioning of battery B1. The completion of this significant investment project will ensure that the coke oven engineering and environmental protection are brought into line with state-of-the-art technology and that the original level of production of the central coking plant (approx. 1.25 million tons) is reinstated by the end of 2012.

Another large investment project was launched in the period under review: in September 2011 a new tamping-feeding-pusher machine was ordered after extensive preparations. The commissioning of the machine is scheduled for spring 2013. A new fire engine car was also ordered, which was commissioned in December 2011.

**ROGESA Roheisengesellschaft Saar mbH,
Dillingen**

ROGESA Roheisengesellschaft Saar mbH, in which Saarstahl AG (directly and indirectly) holds a 50% interest, produces hot metal exclusively for its shareholders Saarstahl AG and Dillinger Hütte. The management of ROGESA, which is a company without employees, lies in the hands of Dillinger Hütte.

The capacities at which the ROGESA plants were operated were much higher than in the previous year. In 2011, annual production at 4,176 kt was 18.0 % higher than the annual production in 2010 (3,539 kt). The main reason for the increase in production was the availability of blast furnace 5, whose output was significantly lower last year due to the relining of furnaces from mid-July to mid-October. Of the generated quantity, 2,135 kt (2010: 1,813 kt) hot metal was delivered to Dillinger Hütte and 2,041 kt (2010: 1,726 kt) to Saarstahl.

In 2011, investments at ROGESA amounted to approx. € 30 million. In 2011, most of the investments in the area of ROGESA concerned the remaining work on projects from 2010. Most of the large projects in this area were successfully completed in 2010: for example, the second relining of the blast furnace 5, the repair of the granulation on blast furnace 5, the new coal milling plant and the process exhaust gas post-treatment plant PAN 2 for the sintering plant 3. In 2011, a new infrared overhead furnace camera was installed to monitor the charging profile on blast furnace 5 and the nitrogen supply of the blast furnaces and the coal milling plant were replaced.

Subsidiaries in the area of further processing

Sales levels in 2011 continue to develop in the direction of 2008's record figures. At the same time industry specific differences were observed. Whereas the subsidiaries that are integrated into the automotive supplier chain (Saar-Blankstahl, Saar-Bandstahl, Sodetals.a.s./s.r.o.) recorded sales that were again above pre-crisis levels, the companies that produce for the construction industry and for general purposes (Drahtwerk St. Ingbert, Drahtwerk Köln, Conflandey Industries) remained below these levels. Companies in the further processing segment in particular were confronted as of the second quarter with a massive increase in steel prices as a result of increases in raw material costs. The strong increase in the cost of materials used could only be offset slightly by increasing the price of the end products.

With its eight (previous year: eleven) independent companies, the further processing segment of Saarstahl AG recorded sales revenues amounting to € 467 million (previous year: € 426 million) in 2011. The EBT of all consolidated further processing subsidiaries amounts to approx. € 10 million (previous year: € 11 million).

In 2011, investments focused on the realignment of the cold heading activities by concentrating the drawing activities and the surface treatment in St. Ingbert. Parallel to this the expansion of the special wire drawing unit (sawing wire) in Tronville and the building up of the steel cord production in Slovakia were continued within the scope of the Sodetal realignment. Investments were also made to increase energy efficiency, to eliminate bottlenecks and to maintain assets. For 2012, the further processing companies are planning to further expand quantities and to extend the value added chain.

Stahlguss Saar GmbH

Stahlguss Saar GmbH (SGS) manufactures cast steel parts with a unit weight of up to 15 tons at its St. Ingbert site. Main customers are global manufacturers of energy machines, such as gas and steam turbines. Quality conscious pump manufacturers and customers from the general engineering sector are also supplied with cast parts. In the year under review, a rough cast volume of 1,041 tons was supplied, with sales totalling € 10.8 million.

Despite the slowdown in the international markets for energy machines, the multi-year investment programme with the goal of a comprehensive modernization of the existing production facilities was continued. This programme includes the installation of two new cranes in the heat treatment unit and the commissioning of a new grinding manipulator.

Saarschmiede GmbH Freiformschmiede

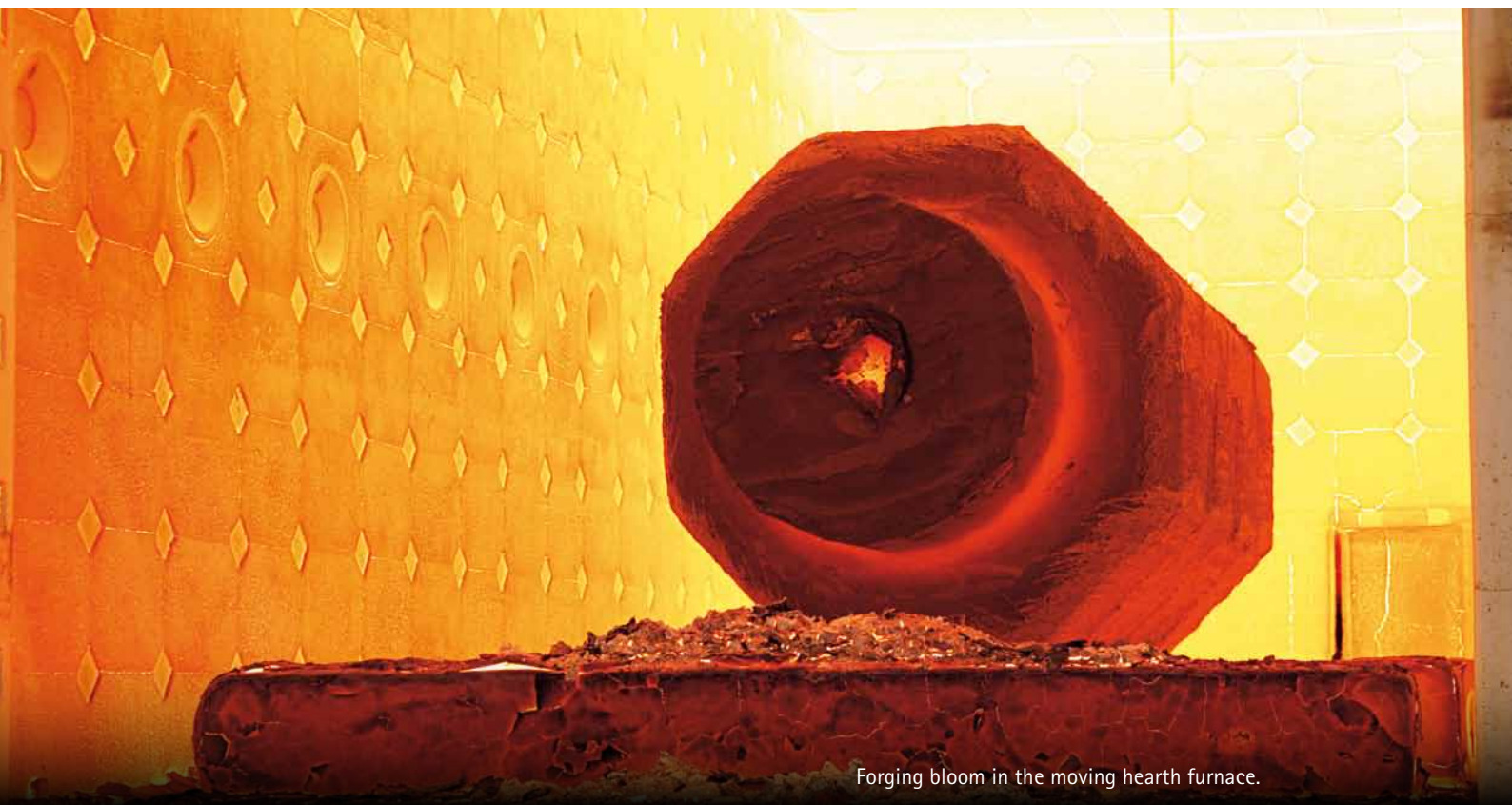
General economic situation

The year 2011 was marked by the effects of the nuclear catastrophe in Japan and the European financial crisis. The energy sector postponed or completely cancelled scheduled large projects in the nuclear area. Since the so-called changeover to alternative sources of energy, renewable energies such as wind power, hydroelectric power or geothermal power have become more and more prominent. At the same time the demand has grown for the fossil based sources of energy, gas and coal, especially in the strongly growing economies such as China and India. Overall demand for products of open die forgings for energy machine building has declined slightly owing to this situation. Investment activity in the area of special materials was also cautious. In the general engineering industry, on the other hand, the in-

vestment bottleneck that had accrued among end customers in past two years was released, leading to a increase in the number of orders placed in 2011.

The increase in the capacities of competitors in the past three years and the changed general conditions have put forges worldwide under pressure, especially price pressure.

At 31 December 2011 a total of 1,153 people (previous year: 1,137) were employed at Saarschmiede GmbH Freiformschmiede. The accident frequency (accidents per 1 million hours worked) fell notably to 15.2 (previous year: 22.8). Annual sales for 2011 totalled € 317 million, 14% lower than the annual sales for 2010 (€369 million). After the above-average investments of the previous years, 2011 was devoted more to consolidation.



Forging bloom in the moving hearth furnace.

Saarschmiede GmbH Freiformschmiede is made up of three divisions:

Energy machine construction

Accounting for approx. 80% of annual sales, energy machine construction is Saarschmiede's largest sales market. Sales and net income were down in 2011 due to the earthquake and resulting nuclear catastrophe in Japan and the financial crisis. Whereas the gas turbine and generator share of the product mix has remained fairly constant compared to 2010, the generator share has shown a notable increase. This trend goes hand in hand with an increase in gas-and-steam turbines, also in the industrial sector. In terms of incoming orders, Europe is taking up an increasingly strong position.

General engineering

The wide product portfolio in this area encompasses the production of top and bottom rolls for bending machines, marine shafts, crushing shafts for the mining industry, as well as the manufacture of tool steel.

Recovering from the relatively low sales in the past two years due to the economic crisis, general engineering sales picked up in 2011 and began to again approach the levels that were standard prior to the crisis.

A good level of new orders was recorded in the area of moulds for the manufacture of tubes using the spin casting process. On the other hand, initial results were successfully implemented from the cooperation with Dillinger Hütte, particularly in the form of ingot deliveries from Saarschmiede's electrical steel plant. In this sector Saarschmiede continues to pursue the strategy of manufacturing very heavy forgings for special plant construction.

Special materials

In addition to supplying standard products for the aviation and space industry, this sector also supplies forgings for machine building, for nuclear waste containers and, increasingly, for applications in the hydroelectrical power market. Saarschmiede has joined the global trend toward "renewable energies" and is positioning itself more strongly in this growing future-oriented market. The special materials sector was marked by rather cautious investment activity. In 2011, the market moved sideways, was strongly contested and also characterized by a high volatility.

Sales companies

In Germany, Sairstahl AG sells its products directly through its own company. Abroad, most of its products are sold by own sales subsidiaries. In addition to the European sites (France, Italy, Belgium, Switzerland, Czech Republic and Turkey), Sairstahl AG has other offices throughout the world, for example in the USA and key Asian markets (China, India and Malaysia). Sairstahl Export GmbH in Düsseldorf is responsible for sales and distribution in other European countries and in third country markets in which Sairstahl AG does not have a distribution agency of its own.

The international sales organization focuses on selling long products of Sairstahl AG and its subsidiaries. In addition and to a limited extent, trading activities are carried out and external companies are represented.

In 2011, third country exports especially to Eastern Europe, the Asian region and North America were ramped up further compared to the previous year. The strong rise in steel demand especially in the first half of 2011 helped partly offset the simultaneous downturn in the EU exports markets occasioned by the weak economic situation.

In 2011, the trading companies generated an EBIT of € 4.0 million (previous year: € 2.5 million) in 2011.

Aktien-Gesellschaft der Dillinger Hüttenwerke
Aktien-Gesellschaft der Dillinger Hütte (Dillinger Hütte), Dillingen, is specialised in the production of high-quality heavy steel plate. Together with its subsidiary GTS Industries S.A. in Dunkerque, France, Dillinger Hütte is the global leader in its market segment.

Recovery of the heavy plate market slowed in the second half

The recovery of the heavy plate market continued till the end of the first half of 2011 and demand initially picked up strongly. When the economic downturn began to bite, however, demand slipped again as of summer and the plants responded by decreasing production. Overall, with approx. 68%, capacity utilization of the heavy plate manufacturers fell short of the good production figures (around 80%) of the pre-crisis years. The increasing overcapacities had a negative impact on the global market situation, alongside the flagging demand.

Initially, the price level climbed gradually in 2011. However, the increasing pressure on prices, especially for standard grades, led to a decline in demand in the European market. Heavy plate manufactures were therefore able to only partly pass on to consumers the rise in costs for raw materials with price increases. In the area of special products, prices rose more continually.

2011 a good year for Dillinger Hütte

For Dillinger Hütte, financial year 2011 was characterised by a generally good capacity utilization of the production plants and a good level of incoming orders for its core products, standard plates and plates for pipes. Compared to the previous year, the company was able to boost sales and improve the operating result considerably.

Steel production and production in the two rolling mills, i.e. at Dillinger Hütte and at the fully-owned subsidiary GTS Industries S.A., was significantly higher than in the previous year. Hot metal purchases, for example, rose by 17.8% to 2,13 kt (2010: 1,813 kt) and crude steel production by 17.5% to 2,497 kt (2010: 2.125 kt) compared to the previous year. As in the previous years, steel production covered the slab supply for the rolling mill in Dillingen and the major part of the slab supply for GTS Industries. Rolling mill production (2,110 kt) increased by a total of 12.1% compared to the previous year (1,882 kt),

with 1,425 kt of heavy plate (2010: 1.216 kt) produced in Dillingen and 685 kt (2010: 666 kt) in Dunkerque.

Sales in 2011 exceeded those of the previous year in terms of both higher sales volumes and higher price levels. Total sales of heavy plates increased from 1,881 kt in the previous year to 2,104 kt (+11.9%) in 2011, with growth in standard plate sales more than offsetting the moderate fall in sales of pipe plate. Turnover improved from 1.955 Mio. € in the previous year to 2.499 Mio. € (+ 27,8%).

EBIT (Earnings Before Interest and Taxes) amounted to € 163 million (2010: € 158 million) and EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) to € 220 million (2010: € 214 million). ROCE in the year under review amounted to 8.9% (previous year: + 9.2%).

Larger workforce - lower accident frequency

The Dillinger Hütte workforce increased from 5,412 at 31 December 2010 to 5,464 at 31 December 2011. These employees worked at the Dillingen site, at Dillinger Hütte itself, at Zentralkokerei Saar GmbH, and at ROGESA Roheisengesellschaft Saar mbH. In addition, 618 people were employed at the subsidiary GTS Industries S.A. at 31 December 2011 (2010: 590).

On the back of the improved economic situation, 246 new employees were taken on in 2011. Of these, 204 were wage earners and 42 were salaried employees. Furthermore, 76 trainees were taken on and two re-trainees. As 100 employees of Dillinger Hütte moved to SHS - Stahl-Holding-Saar, the number of employees increased by 52 compared to the previous year (+ 0.96%).

Following the noticeable improvements in workplace safety over the past few years, the number of accidents in 2011 (40, one day's absence or more) remained unchanged compared to the previous year. The accident frequency (number of accidents with 1 day absence per 1,000,000 work hours) has again fallen slightly, with 4.4 compared to the previous year's 4.6.

Increased investment activity

In 2011, total investments of € 95 million at Dillinger Hütte were again considerably above those of the previous year (€ 73 million). The expansion of Hall 5 (casting bay), where the new ingot casting area will be located in future, and a new crane system represented a key investment in the steel plant. In addition, the below grade work for the revamping project of vacuum plant 1 (secondary metallurgy) was started and largely completed in 2011. The assembly of the plant will take place in 2012. The most important focus of investment activity is the new two-strand continuous casting plant "CC6", whose commissioning is scheduled for the first half of 2014 and whose approx. € 300 million price tag make it the most expensive single investment ever at the Dillingen site. Preparations for the below grade work were carried out in 2011. "CC6" will ensure the supply of slabs to the two heavy plate rolling mills in Dillingen and Dunkerque and will further consolidate Dillinger Hütte's position as a leading manufacturer of heavy plate.

A key aspect in the rolling mill was the strengthening and redesign of the roughing stand cooling bed to improve slab handling. To optimise the capacity utilization of the transverse cranes, the delivery roller table of twin trimming shears 2 was lengthened by 101 metres and the required measures taken for the direct transport of the 450-mm slabs to the roughing stand.

In September 2011 it was also decided to invest approximately € 9 million in the construction of a second modern plate-edge milling machine in the heavy fabrication division. This machine will allow precise, mechanically prefabricated plate edges to be milled with high accuracy. These products can be used, for example, for pressure vessels and offshore foundations. The commissioning is scheduled for mid-2013.



Semi-finished products, ready for shipping to the customer.

Consolidated financial statement for the year ended 31 December 2011

Consolidated balance sheet

	31 December 2011		31 December 2010	
	K€	K€	K€	K€
Assets				
A. Fixed Assets				
I. Intangible assets	4,978		5,222	
II. Tangible assets	1,284,036		1,257,159	
III. Financial assets	1,030,286		957,180	
		2,319,300		2,219,561
B. Current Assets				
I. Inventories				
1. Raw materials and supplies	361,348		401,173	
2. Work and services in process	500,409		415,450	
3. Payments on accounts received	-728		-868	
		861,029		815,755
II. Receivables and other assets				
1. Trade receivables	328,918		279,799	
2. Receivables from affiliated enterprises	36,912		12,250	
3. Receivables from enterprises in which participations are held	43,709		36,572	
4. Other assets	128,709		133,094	
		538,248		461,715
III. Cash-in-hand and bank balances		268,210		379,236
		1,667,487		1,656,706
C. Prepaid expenses		1,385		4,628
D. Active difference from capital consolidation		514		2,956
		3,988,686		3,883,851

Liabilities	31 December 2011		31 December 2010	
	K€	K€	K€	K€
A. Equity				
I. Subscribed capital	200,000		200,000	
II. Capital reserves	44,014		44,014	
III. Other revenue reserves	1,182,434		1,176,533	
IV. Minority interest in equity	0		86	
V. Net income of the group	1,361,841		1,218,063	
		2,788,289		2,638,696
B. Accruals				
1. Accruals for pensions	17,925		19,240	
2. Tax accruals	24,550		50,083	
2. Other accruals	195,144		243,490	
		237,619		312,813
C. Liabilities				
1. Liabilities to banks	540,169		400,058	
2. Payments received on account of orders			394	
3. Trade payables	185,318		297,018	
4. Liabilities on bills accepted and drawn	159		154	
5. Liabilities to affiliated companies	6,569		3,102	
6. Payables to companies in which the company has a participating interest	38,955		21,718	
7. Other liabilities	141,162		149,346	
		912,332		871,790
D. Deferred income		745		659
E. Deferred tax assets		49,701		59,893
		3,988,686		3,883,851

Consolidated profit and loss statement

	2011 K€	2010 K€
1. Sales	2,672,730	2,296,212
2. Changes in inventories and other own work capitalized	104,299	72,843
3. Other operating income	93,165	143,496
	2,870,194	2,512,551
4. Cost of materials	1,999,653	1,524,707
5. Personnel expenses	413,023	391,678
6. Depreciation on intangible fixed assets and tangible assets	144,403	110,644
7. Other operating expenses	158,148	170,930
	154,967	314,592
8. Income from participations	54,770	107,408
9. Net interest income	-15,283	-12,811
10. Results from ordinary activities	194,454	409,189
11. Extraordinary results	-	20,092
12. Taxes on income	2,238	28,554
13. Other taxes	3,980	4,705
14. Net income for the year	188,236	396,022

Consolidated cash flow statement

	2011 K€	2010 K€
Net income for the year	188,237	396,022
Write-downs/-ups		
- Intangible assets and tangible assets	155,074	110,643
- Fiscal assets (mainly from the equity write-ups on DHS)	-40,294	-145,247
Change in long-term provisions	-1,315	-433
Cash flow according to DVFA/SG *)	301,702	360,985
Change in inventories and receivables	-116,123	-344,672
Income from the disposal of fixed assets	-1,268	-3,370
Change in other provisions and liabilities	-183,744	3,720
Cash flow from operating activities	567	16,663
Investments in		
- Intangible assets and tangible assets	-231,671	-668,625
- Financial assets	3,102	231,805
Disposal of fixed assets	17,059	29,022
Cash flow from investments	-211,510	-407,798
Financial gains/losses		
Changes in non-current financial liabilities	102,231	253,956
Changes in current financial management	41,685	31,575
Dividend payment	-44,000	-9,600
Cash flow from financial activities	99,916	275,931
Changes in liquidity	-111,027	-115,204

*) DVFA/SG: Deutsche Vereinigung für Finanzanalyse und Anlageberatung/Schmalenbach-Gesellschaft

**) Due to first-time proportional consolidation of five joint ventures, cash and cash equivalents at the start of the period increased by K€ 61,287, thus reducing liquid funds by K€ 53,917.

Statement of the Group's shareholdings

	Share in Capital		Equity Capital 31 December 2011 K€	Profit/Loss for the Financial Year 2011 K€
	Direct %	Indirect %		
1. Full consolidation acc. to Secton 294 (1) HGB (German Commercial Code)				
Affiliated companies				
a) Domestic				
Saar-Blankstahl GmbH, Homburg	100.0000		46,886	1,398
Saar-Bandstahl GmbH, Völklingen	100.0000		13,487	2,715
Saarstahl-Export GmbH, Düsseldorf	100.0000		6,847	1,836
Metallurgische Gesellschaft Saar GmbH, Völklingen	100.0000		14,538	2,777
Saarschmiede GmbH Freiformschmiede, Völklingen	99.9480	0.0520	242,591	3,225
Saarstahl Finanzanlagen GmbH, Völklingen	100.0000		2,982	-6
Drahtwerk St. Ingbert GmbH, St. Ingbert	2.4900	97.5100	9,312	-1,187
Drahtwerk Luisenthal GmbH, Völklingen ¹⁾		100.0000	4,851	161
DWK Drahtwerk Köln GmbH, Köln	3.6180	96.3820	14,340	-858
Schweißdraht Luisenthal GmbH, Völklingen		100.0000	1,424	158
Drahtservice-Zentrum Saarstahl GmbH, Völklingen		100.0000	10,671	-396
Stahlguss Saar GmbH, St. Ingbert	100.0000		5,554	-1,275
Saar Stahlbau GmbH, Völklingen	100.0000		10,311	365
Saar Rail GmbH, Völklingen	100.0000		10,648	1,230
b) Foreign ²⁾				
Secosar S.A.S., Fontenay-sous-Bois	99.9900	0.0100	16,142	651
Conflandey Industries S.A.S., Port-sur-Saône	80.0000	20.0000	5,329	51
S.P.M. Participation S.A.S., Fontenay-sous-Bois	100.0000		1,564	-170
Sodetal S.A.S., Tronville-en-Barrois		100.0000	5,177	1,931
2. Proportionally consolidated companies				
Dillinger Hütte und Saarstahl Vermögens- verwaltungs- und Beteiligungs-OHG, Dillingen	50.0000		265,491	1,627
ROGESA Roheisengesellschaft Saar mbH, Dillingen	24.5000	25.5000	224,636	-104
Zentralkokerei Saar GmbH, Dillingen		50.0000	137,212	-999
3. Consolidation at equity acc. to Section 312 HGB				
DHS – Dillinger Hütte Saarstahl AG, Dillingen ³⁾	37.5000		2,909,765	158,870

	Share in Capital		Equity Capital 31 December 2011 K€	Profit/Loss for the Financial Year 2011 K€
	Direct %	Indirect %		
4. Waiver of consolidation acc. to Section 296 (2) sentence 1 HGB				
Saarsteel Inc., New York ⁴⁾	100.0000		129	84
Saarstahl-Export Ltd., Hongkong ⁴⁾		60.0000	1,107	254
Saarstahl (S.E.A.), Petaling Jaya/Malaysia ⁴⁾		100.0000	98	11
EUROFIL Polska, sp. z.o.o., Warsaw ⁴⁾		98.0000	-16	2
Saarstahl Export India Pvt Ltd, Mumbai ⁴⁾	1.0000	99.0000	85	58
Saarlog – Saarstahl				
Speditions- und Logistik GmbH, Völklingen	100.0000		1,918	439
Saarstahl-Vermögensverwaltung GmbH, Völklingen	100.0000		6,764	319
Saarstahl Beteiligungsgesellschaft mbH, Völklingen	100.0000		4,364	-6
SAG Medienversorgungs-GmbH, Völklingen	100.0000		16,086	-49
SIB-Immobilien-gesellschaft mbH, Völklingen		100.0000	52	4
Neunkircher Eisenwerk				
Wohnungsgesellschaft mbH, Völklingen	100.0000		8,788	44
Gewerbe- und Wohnpark Heubügel GmbH, Völklingen		89.0000	36	5
FORGE Saar GmbH, Völklingen	100.0000		95	-3
44. Vermögensverwaltungs- und Beteiligungs- GmbH, Völklingen		100.0000	2,829	9
45. Saarstahl-Beteiligungsgesellschaft mbH, Völklingen	100.0000		95	-4
Secosar Etirage S.A.S., Fontenay-sous-Bois		100.0000	2,445	291
Quinofer S.A.S., Fontenay-sous-Bois		100.0000	939	77
Saarstahl AG, Zürich	97.5000		3,718	58
Les Aciers Fins de la Sarre S.A., Liège	95.8330	4.1670	3,087	514
Acciai della Saar SpA., Milano	100.0000		1,315	86
Tréfileries du Beuchot S.A.S., Saint-Loup-sur-Semouse		98.8000	422	33
Metalfil S.A., Granollers Barcelona		100.0000	604	27
FILMETAL S.A., Bussy-Saint-Georges		99.1700	1,997	94
Sodetal s.r.o., Košice		100.0000	763	-1,413
ROGESA Beteiligungsgesellschaft mbH, Dillingen		50.0000	3,028	14
5. Waiver of consolidation acc. to Section 311 (2) HGB				
GAL Zentralkokerei Saar Besitzgesellschaft mbH & Co. KG, Dillingen		24.5000	14,715	1,058
1. Dillinger Projekt GmbH, Dillingen	50.0000		106	-3
Kraftwerk Wehrden GmbH, Völklingen ³⁾	33.3333		10,627	0

¹⁾ There is a profit and loss transfer agreement with Drahtwerk St. Ingbert GmbH; result before profit and loss transfer agreement.

²⁾ Local currency translated to EUR.

³⁾ Consolidated financial statements – DHS holds 10% treasury shares.

⁴⁾ Final accounts were not yet available at the time of preparation of the annual financial statement; information relates to the previous year.

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