



DILLINGER 

Executive Summary
of the **2017**
Financial Statement

Key figures

	2016	2017	Change
Hot metal purchase in kt *	1 921	2 188	+ 13.9 %
Crude steel production in kt	2 267	2 521	+ 11.2 %
Total production of heavy plate in kt	1 882	2 043	+ 8.6 %
of which produced in Dillingen in kt	1 284	1 391	+ 8.3 %
of which produced in Dunkerque in kt	598	652	+ 9.0 %
Total shipment in kt	2 603	2 804	+ 7.7 %
of which heavy plate in kt	1 898	2 047	+ 7.9 %
of which semi-finished product in kt	705	757	+ 7.4 %
Sales by country in millions of €			
Germany	684	851	
France	300	388	
Other EU countries	372	430	
Other exports	280	289	
Total sales	1 636	1 958	+ 19.7 %
Total workforce (excluding trainees) as of 31 Dec.	5 109	4 932	
Personnel expenses in millions of €	363	354	
Balance sheet total in millions of €	2 990	2 937	
Fixed assets in millions of €	2 074	2 054	
Investments	69	35	
Shareholders' equity in millions of €	1 707	1 671	
EBITDA in millions of €	- 37	70	
EBIT in millions of €	- 98	- 3	
Net result before profit transfer in millions of €	- 105	- 36	
Cash flow from operations in millions of €	103	19	

* Total production ROGESA: 4 596 kt (2016: 3 980 kt)

Cover photo:

Unique worldwide: The new eddy-current testing facility in Dillinger's rolling mill

*Photo composition: a glowing and a finished vessel head
from Dillinger's Heavy Fabrication Division*



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*This abridged English-language financial statement is an excerpt from the annual report of Dillinger for the 2017 financial year. This publication does not constitute the complete form required by law (for this, please see the 2017 Annual Report of Dillinger in German).

Members of the Supervisory Board

Dr. MICHAEL H. MÜLLER, Saarbrücken

Chairman
*Chairman of the Board of the
Curatorship for the Montan-Stiftung-Saar*

JÖRG KÖHLINGER, Frankfurt

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

MICHEL WURTH, Sandweiler

2nd Deputy Chairman
*Chairman of the Group Management Board
ArcelorMittal Luxembourg S. A.*

ARIBERT BECKER, Rehlingen

*Former member of the Board of the
Curatorship for the Montan-Stiftung-Saar*

MICHAEL BECKER, Saarwellingen

(as of 22 January 2018)
*Deputy Chairman of the Works Council of
Aktien-Gesellschaft der Dillinger Hüttenwerke*

Dr. BERND BERGMANN, Wallerfangen

*Member of the Board of Directors of Aktien-
Gesellschaft der Dillinger Hüttenwerke (ret.)*

Prof. Dr. HEINZ BIERBAUM, Saarbrücken

Director of the INFO Institute, Saarbrücken

JÜRGEN BLUDAU, Dillingen

*Member of the Group Works Council and
Deputy Chairman of the Works Council of
Aktien-Gesellschaft der Dillinger Hüttenwerke*

CARL DE MARÉ, Belsele

*Vice-President of ArcelorMittal,
Chief Technical Officer Flat Carbon Europe*

MICHAEL FISCHER, Dillingen

*Chairman of the Group Works Council
and Chairman of the Works Council of
Aktien-Gesellschaft der Dillinger Hüttenwerke*

ROBERT HIRY, Rehlingen-Siersburg

*Primary Authorized Representative for the
IG Metall Völklingen Administrative Office*

HEIKE PENON, Bremen

(as of 31 August 2017)
Finance FCE ArcelorMittal GmbH, Bremen

EUGEN ROTH, Merchweiler

*Deputy Chairman of
DGB Rheinland-Pfalz/Saarland*

FRIEDEL SCHMIDT, Merten

(until 31 December 2017)
*Member of the Group Works Council
and of the Works Council of Aktien-Gesellschaft
der Dillinger Hüttenwerke*

REINHARD STÖRMER, Völklingen

(as of 22 January 2018)
Managing Director of re:cas GmbH, Völklingen

ERICH WILKE, Königstein/Taunus

Bank Executive (ret.)

STEVE WAMPACH, Born

(until 15 August 2017)
*ArcelorMittal Europe – Flat Products –
Business Division North – CFO*

HENNER WITTLING, Ottweiler

(until 31 December 2017)
*Member of the Curatorship
for the Montan-Stiftung-Saar*

Members of the Board of Directors

FRED METZKEN

Spokesperson for the Board of Directors
and Chief Financial Officer

Dr. GÜNTER LUXENBURGER

Chief Sales Officer

Dr. BERND MÜNNICH

Chief Technical Officer

PETER SCHWEDA

Chief Human Resources Officer and Labor Director



from left to right:

Dr. Bernd Münnich, Dr. Günter Luxenburger, Fred Metzken, Peter Schweda

Report of the Board of Directors (abridged)

The company's fundamentals

The core business of Aktien-Gesellschaft der Dillinger Hüttenwerke, in the following referred to as Dillinger, is the manufacture and sale of heavy plate in the form of normal and pipe plate. This entails on the one hand the activities of an integrated steel plant, including the production of coke and hot metal through the subsidiaries Zentralkokerei Saar GmbH (ZKS) and ROGESA Roh-eisengesellschaft Saar mbH (ROGESA), jointly held with Saarstahl AG (SAG), or the production of liquid steel and semifinished products. On the other hand, in downstream stages, trading, flame-cutting and treatment businesses offer additional services and customized solutions in sales, in the processing of heavy plate, and in other steel products.

Also affiliated with Dillinger are transport and logistics companies that are involved in both raw materials transport and the shipping of finished products.

Dillinger holds an interest in both Saarstahl AG, Völklingen, and Europipe GmbH, Mülheim/Ruhr. Beyond this, these companies are also involved in operating business activities with Dillinger – either through involvement in the hot metal production and buying phase or as a buyer and processor of heavy plate steel. The wholly owned subsidiary Steelwind Nordenham, which manufactures monopile foundation systems for the offshore wind market in a plant on the Weser river estuary, offers products in a processing depth that goes beyond that of heavy plate.

SHS – Stahl-Holding-Saar GmbH & Co. KGaA (SHS) is the direct and indirect majority shareholder of Dillinger as well as of its affiliated company along the Saar river, Saarstahl AG. SHS is the wholly owned subsidiary of Montan-Stiftung-Saar, and the two companies cooperate closely under its umbrella. The SHS subsidiary SHS Logistics GmbH consolidates the logistics activities of the SHS Group with the goal of leveraging additional synergies in processes and costs. The same goal is pursued by SHS Services GmbH. It performs services in other purchasing (e.g. raw materials for steel plants) for the companies of the SHS Group. SHS Infrastruktur GmbH is responsible for Group-wide purchasing of energy and media as well as IT services.

Financial report

Overall economic and sector-related conditions

Noticeable acceleration of economic growth

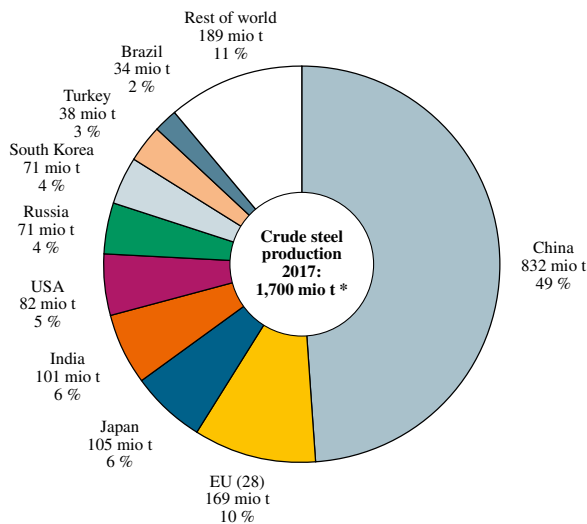
The global economy was in the midst of a strong recovery in 2017, supported by almost all major economies. According to the IMF*, a 3.7 % increase in world production (GDP) was observed for 2017 as a whole (2016: 3.2 %). Global trade volume also showed a clear upward trend with an increase of 4.7 % (2016: 2.5 %). This was mainly due to the expansion of foreign trade in Asia and a worldwide increase in investment volume. The eurozone was able to achieve 2.4 % economic growth in 2017 (2016: 1.8 %). A comparison of countries showed a broad basis for growth, with dynamic growth in Spain particularly worthy of note. Germany (+ 2.5 %) as well as France (+ 1.8 %) also grew robustly; economic activity in the United Kingdom was more subdued (+ 1.7 %).

Crude steel production increases worldwide

The improved global economy also had an impact on the international steel markets: Global crude steel production experienced an increase of around 5.3 % in 2017, amounting to 1.7 billion metric tons. Half of this annual volume was once again produced in China. The European Union was the second largest producer with a market share of 10 %, followed by Japan and India with 6 % each. Although global capacity utilization rose by 3 % to 75 %, the global structural crisis has not yet been overcome despite this six-year high and there are still severe overcapacities in the steel market.

* All data taken from IWF, worldsteel and Eurofer publications.

World crude steel production – distribution by country and share in %



*** Development of world crude steel production and share in %**

Global steel exports, at 346 million metric tons, declined slightly in 2017 but remain at a high level. Due to government cuts of overcapacities, Chinese steel exports fell in 2017 by around 30 million metric tons to 79 million metric tons. The moderate recovery of the steel market in the EU continued. Crude steel production grew by 3 %, but net imports also remained at a high level despite the imposition of anti-dumping duties.

Heavy plate market remains a challenge

The heavy plate market in Europe remained highly competitive in 2017. In a positive development for European manufacturers, imports were significantly reduced, especially those from China, on the basis of European anti-dumping measures introduced in 2016. Other countries increased their volumes, including Ukraine, India, South Korea and Indonesia, so that the level of imports nonetheless remains high. The general conditions for European heavy plate manufacturers were characterized in 2017 by growth in delivery quantities from European plants (+ 2 %) and market shares within Europe – despite a slight overall decline in market demand – as well as increased export volumes along with rising price levels. Consequently, production rose by a good 6 % compared with the weak year 2016. With capacity levels in Europe remaining constant in sum, this led to a slight increase in capacity utilization of production facilities. Overall, however, the rate of utilization of capacities remained unsatisfactory.

While the segments for construction machinery and heavy machine manufacturing reported respectable business in 2017, the heavy plate market in the offshore oil and gas sector was weakened by sluggish investment due to low oil and gas prices. In addition to the offshore sector, boiler and pressure vessel construction also remained affected by an unfavorable market environment. Steel construction in the core European markets experienced average activity. The offshore wind sector experienced an exceptional economic boom that developed very well in 2017 because projects that were actually planned for 2018 were also implemented in addition to the projects of the year 2017. The European large-diameter line pipe market, with its Nord Stream 2 and EUGAL projects, was also strongly invigorated by an exceptional economic boom.

The price increase for heavy plate that had already begun at the end of 2016 – starting from a very low level – also continued in early 2017. However, the generally unsatisfactory utilization of heavy plate capacities repeatedly led to price fragility. After markedly negative price development at the end of the second quarter, another upward trend began toward the end of the year. The primary reason for this was the rise in raw material and slab prices.

Business performance at Dillinger

The unfavorable conditions for Dillinger continued in various respects in the 2017 financial year: As a result of massive overcapacities in the heavy plate market, continued high import pressure and restrictions in the United States sales market, Dillinger was unable to completely avoid the resulting price pressure in the European market while raw materials prices continued to rise. Given the difficult market situation, however, the company was able to ensure high capacity utilization at an above-average level compared to its competitors, first and foremost due to the Nord Stream 2 and EUGAL large-diameter line pipe projects.

As a result, the company was again able to register a considerable volume of new orders. Due to the market situation, order intake for the normal plate segment was more problematic; positive influences from projects brought forward in the offshore wind sector helped ensure that the average level of previous years was nevertheless reached.

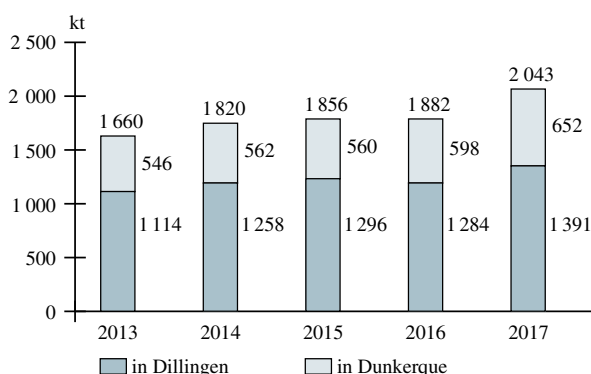
As expected, Dillinger closed the financial year much more positively than in the previous year due to high production output and the associated sales. This made it possible to achieve balanced earnings before interest and taxes (EBIT). Earnings before interest, taxes, depreciation and amortization (EBITDA) were significantly higher than in the previous year. However, the overall result remained negative despite the improvement. Internal projects, programs and initiatives were continued to improve competitiveness and strengthen innovation and digitalization as part of Dillinger 2020, which also contributed to the improved earnings.

Improved capacity utilization – heavy plate production at a 5-year high

As a result of higher demand – particularly as a result of major economic projects in the pipe plate segment – the capacity utilization of the production facilities in all production units was more uniform in 2017 and generally higher than in previous years. This also included the production of slab. With a small increase in inventories at the end of the year, production was significantly higher than in the previous year by around 12 %, thus reaching the highest level of the last five years.

Following the relining of blast furnace 4 in 2016, production figures for 2017 in the primary stages (hot metal and steel production) were significantly higher than the previous year’s quantities. As a consequence, there were increases in both the purchases of hot metal, which rose by 13.9 % to 2 188 kt (2016: 1 921 kt), and in crude steel production, which rose from the previous year by 11.2 % to 2 521 (2016: 2 267 kt).

Change in heavy plate production



As in previous years, steel production levels satisfied the slab requirements for the rolling mill in Dillingen as well as most of the requirements of Dillinger France in Dunkerque. The production of both rolling mills together (2 043 kt) increased by a total of 8.6 % from the previous year (2016: 1 882 kt), with 1 391 kt of heavy plate produced in Dillingen (2016: 1 284 kt) and 652 kt of heavy plate produced in Dunkerque (2016: 598 kt).

Earnings position

Increase in net sales due to higher sales volumes and higher revenues

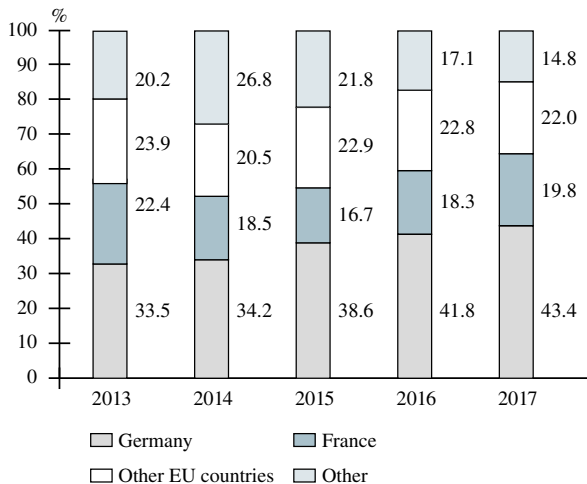
Shipped heavy plate increased overall in 2017 by 149 kt (+ 7.9 %) to 2 047 kt, with the increase in sales primarily in pipe plate due to large projects. Sales of normal plate also increased, albeit at a lower level.

Both higher sales volumes and price adjustments, which led to improved revenues, helped 2017 net sales exceed those of the previous year, as expected. Raw materials prices, which particularly rose in the first half of the year, were passed on in the form of higher selling prices.

Sales of semifinished products from Dillinger, at 757 kt, attained the record level of the last five financial years and exceeded the previous year (+ 7.4 %), mainly due to higher production and likewise higher sales of heavy plate at Dillinger France.

Under these circumstances, net sales increased from € 1 636 million in the previous year to € 1 958 million (+ 19.7 %). Distribution of net sales by geographic market shows a continuation of the development of the previous year – with higher revenue shares in Germany and France but stagnation in other EU countries along with reductions outside the European Union.

Geographic distribution of sales



Significantly improved earnings

Under continued difficult market conditions, Dillinger concluded the 2017 financial year with a balanced operating result as targeted. EBIT amounted to - € 3 million compared to - € 98 million in 2016 and EBITDA increased to € 70 million (2016: - € 37 million). The significant improvement in earnings is mainly due to higher production and sales volumes as well as partially implemented price adjustments.

Material intensity further increased here by 2.8 percentage points compared to the previous year, amounting to 75 %. The reasons for this, in addition to the growth of sales/material input prices, are in particular the allocation of value adjustments in provisions at Dillinger itself as well as at the production units ROGESA and ZKS, while purchased services were at the previous year's level despite higher production and procurement volumes.

Other operating income (€ 70 million) was higher than in the previous year (€ 27 million), mainly due to higher out-of-period income and write-ups of financial assets.

At € 354 million, personnel expenses were 2.5 % lower than the previous year's level (2016: € 363 million). Due to the lower number of employees, the ratio of personnel expenses to total output in 2017 fell at the same time to 17.9 % compared to 22.8 % in the previous year.

Depreciation and amortization of intangible and tangible fixed assets amounting to € 72 million exceeded the previous year's level (€ 61 million) using the investment and scheduled depreciation method.

With administrative expenses remaining nearly constant and a slight increase in general operating expenses, other operating expenses fell by a total of € 13 million, primarily due to lower marketing expenses (- € 19 million).

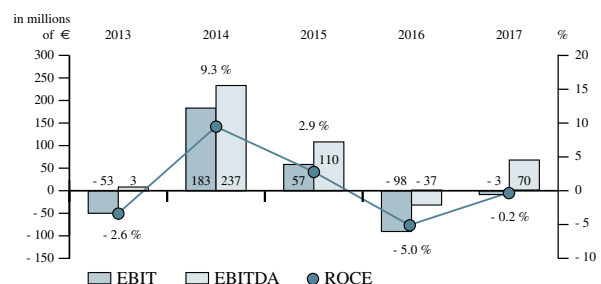
In 2017, higher expenses primarily due to assumed losses led to a decrease in income from investments of - € 20 million (2016: - € 11 million).

Following the positive one-off effect in the previous year, net interest income worsened by € 26 million to - € 32 million (2016: - € 6 million), which can be attributed almost exclusively to higher interest expenditures from the discounting of long-term provisions, here primarily from the discounting of pension provisions.

After deduction of taxes and compensatory payment to minority shareholders, net result before profit transfer amounted to - € 36 million (2016: - € 105 million).

This positive earnings performance compared to the previous year is also reflected in the most important key figures for asset and capital structure as well as in the yield performance: The return on capital employed (ROCE) during the year under review amounted to - 0.2 % (2016: - 5.0 %); return on sales (EBIT margin) amounted to - 0.2 % (2016: - 7.5 %).

Change in EBIT, EBITDA and ROCE



Financial and asset situation

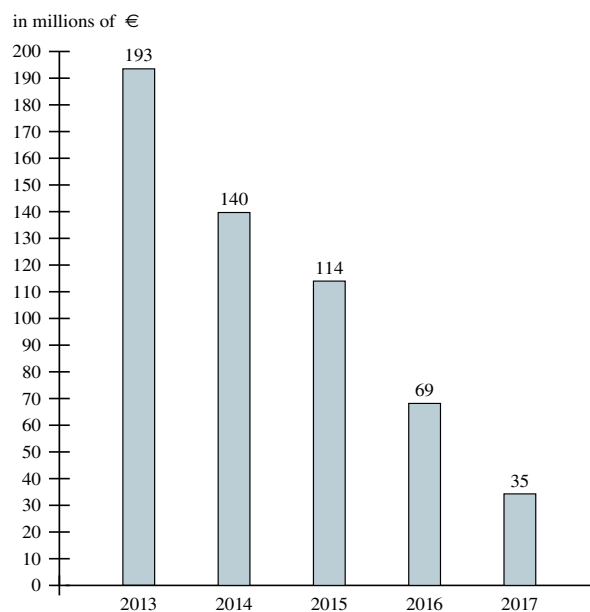
Moderate investment activity

Cash and cash equivalents decreased overall during the financial year from € 177 million to € 107 million (change in the previous year: + € 110 million).

Cash flow from operations meanwhile amounted to € 19 million (2016: € 103 million). The cash outflows from the - € 47 million increase in working capital (2016: cash inflow of € 137 million) were offset by a positive cash inflow of € 67 million (2016: -€ 33 million). In the 2017 year under review, this resulted from income for the accounting period adjusted for write-ups and depreciation of fixed assets, non-cash interest expenses for long-term provisions and income from investments.

Cash outflow for investments in 2017 amounted to a total of € 56 million (2016: € 78 million) – with € 35 million going to payments for investments in tangible fixed assets (2016: € 69 million). As a consequence, there was a negative free cash flow in the year under review amounting to - € 37 million (2016: € 25 million).

Investments in plant, property and equipment at Dillinger



Investments in the year under review involved, among other items, enhancement of the continuous casting machine CC 6, with which Dillinger underscores its technological leadership in manufacturing premium,

continuously cast slabs for the most demanding heavy plate specifications. On 25 July 2017, a slab thickness of 600 mm was cast for the first time worldwide on CC 6.

Another world first is the new Eddy Current Test Facility (ECP 1), which was installed directly behind the US test facility in 2017. With this system, the company can now automatically inspect steel plate for local differences in surface hardness by means of eddy current testing. Another investment in this area is the new surface inspection system installed in 2017 that can also detect tiny surface defects “inline.” In addition to these, numerous other investments related to the steel plant (e.g. new converter lining, converter control system) and rolling mill (e.g. new marking system, new lighting concept) as well as heavy fabrication, central workshops and inspections.

Scheduled payments for financing activities and the settlement of the profit and loss transfer agreement with the holding company resulted in a cash outflow from financing activities of € 33 million in 2017 (2016: cash surplus of € 85 million). No loans were taken out during the financial year.

Equity ratio remains at a high level

The balance sheet total decreased from the previous year by € 53 million to € 2 937 million. The net asset position is meanwhile characterized by a decrease in long-term assets as well as in short-term asset values. Fixed assets decreased in 2017 by a total of just € 21 million to € 2 054 million. This was due to the fact that scheduled depreciation of € 72 million exceeded the moderate investments in property, plant and equipment and the write-up of € 22 million in financial assets in terms of value. Current assets declined overall by € 30 million to € 882 million. Provisions and customer receivables meanwhile rose by a total of € 100 million, while other assets and cash and cash equivalents declined by a total € 139 million.

The € 36 million decrease in shareholders’ equity results from the net loss for the year, which was offset by the withdrawal from earnings reserves; accordingly, the equity ratio decreased only slightly in the year under review from 57.1 % to 56.9 %. Total borrowed capital decreased by € 17 million; accruals and provisions decreased overall by € 21 million, while liabilities were only € 4 million higher

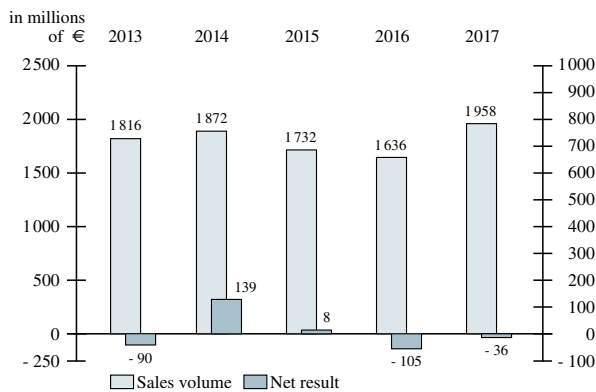
Key figures

		2013	2014	2015	2016	2017
Capital intensity						
Shareholders' equity	millions of €	1 747	1 812	1 812	1 707	1 671
Total assets	millions of €	2 872	2 962	2 943	2 990	2 937
	in %	60.8	61.2	61.6	57.1	56.9
Liquidation ratio for fixed assets						
Shareholders' equity	millions of €	1 747	1 812	1 812	1 707	1 671
Fixed assets	millions of €	1 894	1 967	2 019	2 074	2 054
	in %	92.2	92.1	89.7	82.3	81.4
Debts						
Long-term bank liabilities	millions of €	211	172	143	245	221
Shareholders' equity	millions of €	1 747	1 812	1 812	1 707	1 671
	in %	12.1	9.5	7.9	14.4	13.2
EBIT margin						
EBIT	millions of €	- 53	183	57	- 98	- 3
Sales DH-products	millions of €	1 449	1 505	1 375	1 305	1 519
	in %	- 3.7	12.2	4.1	- 7.5	- 0.2
EBITDA margin						
EBITDA	millions of €	3	237	110	- 37	70
Sales DH-products	millions of €	1 449	1 505	1 375	1 305	1 519
	in %	0.2	15.7	8.0	- 2.8	4.6
Return on capital employed (ROCE)						
EBIT	millions of €	- 53	183	57	- 98	- 3
Shareholders' equity, tax provisions, liabilities subject to interest (average)	millions of €	2 013	1 971	1 970	1 954	1 922
	in %	- 2.6	9.3	2.9	- 5.0	- 0.2
Internal financing capability						
Cash flow from operations *	millions of €	70	77	188	103	19
Net investment in tangible assets	millions of €	193	140	114	69	35
	in %	36.3	55.0	164.9	149.3	54.3
Expense structure in % of total operating revenue						
Material intensity	in %	72.7	66.8	65.9	72.2	75.0
Personnel intensity	in %	20.7	16.5	19.4	22.8	17.9

**) Statements as of 2014 through application of the German Accounting Standard (Deutsche Rechnungslegungs Standards) DRS 21*

than on the previous year's reporting date. After the change in 2016 to valuing pension provisions at the average interest rate of the past ten years had virtually no effect on the balance sheet, pension provisions once again rose significantly in 2017.

Sales and earnings performance



Developments in important non-financial performance factors

Sustainability

The productivity and success of Dillinger are determined by its sustainable and responsible treatment of employees, the environment, the public and the region. This is demonstrated not only by the company's 330 years of existence but also by numerous focal issues and areas of activity contained in the following sections of the management report. The sustainable corporate policy of Dillinger is distinguished by:

- Responsible human resource efforts that aim for workplace safety and health as well as 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 in the interest of the long-term success of our customers in efficiently implementing unique and innovative projects,
- Safeguarding and enhancing Dillinger's technological leadership through investing in new facilities and modernizing existing ones, as well as through developing innovative products and processes,

- Safeguarding know-how through knowledge transfer and strong training and professional development programs,
- Continuous investment in research and development to enable efficient and economical manufacture of innovative products,
- The establishment of in-house innovation management,
- Procurement with a focus on secure supply and environmentally beneficial modes of transport,
- Efficient and economical activity that employs a multitude of environmental protection measures for efficient use of energy, for the recycling of co-products from steel production and for the reduction of emissions.

Moreover, the very product that Dillinger manufactures – steel – fulfills the principle of sustainability more explicitly than virtually any other material. Steel is the most-used industrial base material and it contributes significantly, through a wide range of applications, to protecting the environment and climate. No other material is produced through a process as environmentally compatible as steel. At the end of their useful lifetimes, products made from steel can be completely recycled as often as desired and reintroduced into the economic cycle with virtually no waste or loss of quality.

Sustainable production of renewable energies from wind, water and the sun is inconceivable without steel. Innovative products made from steel, such as wind power plants or modern power stations, save six times as much CO₂ as is produced during their manufacture, according to a study by the Boston Consulting Group. The use of steel in building construction – likewise an important customer segment for Dillinger – is characterized by especially short installation times, which reduces to a minimum any negative impacts on the environment, such as from noise, dirt or traffic disruptions during bridge construction. In structures subjected to high stresses, it is not uncommon for material usage to be reduced by up to 50 % through the use of high-tensile steels. This helps preserve valuable resources and protect the environment.

Employees

In addition to its state-of-the-art plants and processes, an important factor for Dillinger's success as a manufacturer of high-tech and high-quality products is its qualified specialists and managers, with their expertise, outstanding

dedication and flexibility. The company therefore invests systematically in socially compatible and responsible human resources work. Central personnel policy issues in 2017 continued to include improving workplace safety, promoting health, fostering young skilled employees for the company and continued development of the management culture.

Slight decrease in number of employees

At the end of the year under review, 4 932 people were employed at the Dillingen site (31 Dec. 2016: 5 109). These employees worked at Dillinger itself, at ZKS, and at RO-GESA. In 2017, 37 new employees were hired. In addition, 49 trainees were given a job after completing training. The number of employees in the subsidiaries of Dillinger, at 2 409, remained unchanged compared to the previous year.

Safety and health

A safe and healthy work environment is given top priority at Dillinger. In keeping with corporate principles, numerous programs and measures contributed again in 2017 to promoting and maintaining the safety-consciousness and good health of employees. Dillinger concluded 2017 with 21 accidents requiring at least one day of time off (2016: 36) and a rate of accident frequency (the number of accidents requiring one day of time off per 1 million hours worked) of 2.7 (2016: 4.4). With this, the company achieved the best results in its corporate history, both in terms of absolute accident figures and the accident rate. In addition, the company continued to offer special health programs (e.g. spinal gymnastics) to raise awareness and support employees in leading healthy lives and practicing good work habits.

Support for young employees

Despite economically difficult conditions, Dillinger continues to invest in training its own young employees to prevent a possible shortage of skilled workers resulting from demographic change. During 2017, 66 young people started their careers with the company. As a result, the company trained a total of 241 young workers, when all training class years are included. The number of trainees thus rose slightly compared to previous years (2014: 206; 2015: 206 and 2016: 236). Added to this were 14 interns from technical secondary schools who completed a one-year school internship in Dillinger plants. Once again in 2017, three trainees from Dillinger were recognized as among the state’s best.

For many years now, the company has also maintained partnerships with universities in order to help support young academics. In 2017, 41 university students from a technical degree program and 9 university students from a commercial degree program worked at Dillinger as technical university or university trainees. In addition, five students began their cooperative degree program with the University of Applied Sciences in Saarbrücken (HTW) as well as the University of Saarland (UdS). A total of 24 students are currently completing this practical course of study in the company.

Corporate social policy

In addition to good retirement benefits for employees, Dillinger has traditionally included a wide range of social services for its employees as part of the company’s responsible corporate policy. The commitment to helping employees balance work and family includes two child daycare facilities initiated and supported by Dillinger. A total of 70 children can be cared for here – making this one more way the company is working to meet its social responsibility to the region. The company was awarded the “Family-Friendly Company” seal of approval for this by the “Working and Living in Saarland” service office in July 2017.

Improvement processes

Dillinger employs various improvement programs to further develop and continuously improve the company.

GPS program for integrated planning and control

The GPS program for integrated planning and control includes company-wide focal issues and objectives defined by the Board of Directors, which are formulated with measures in the annual development plan (JEP) and are monitored using the relevant key indicators. In 2017, this once again primarily included improvement of workplace safety as well as the issue of optimizing costs.

Continuous Improvement and Development (KVE)

Dillinger systematically involves its employees in the continuous improvement process in order to enhance the company and continuously improve product and process quality. In the course of this, employees work within their departments on ongoing improvements in their areas of responsibility as well as in their interface areas.

In addition to temporary priorities, the topic of occupational safety is an integral part of the improvement landscape. Of the numerous ideas for improvements that have resulted from the continuous improvement process, about 370 ideas have been implemented and evaluated. Their net annual benefit amounts to more than € 2.6 million.

Continuation of programs to cut costs and boost efficiency

The programs for continuous improvement are supplemented with the continuation of various programs aimed at cutting costs and boosting efficiency. In the fiscal year under review, ongoing initiatives and projects were consistently pursued as part of Dillinger 2020 – a joint agreement between the Board of Directors and the Works Council to strengthen competitiveness.

Innovation management

Consistent introduction of a planned and managed innovation process also continued in 2017. In the year under review, following the pilot phase in 2016, Dillinger focused its use of design-thinking process methods in the areas of R&D, sales, IT and ZKS. The aim is to define and initiate specific projects from this process. An innovation



*"Floating Bridge": 600 tons of heavy plate went into the Norwegian Bøkfjord Bridge project.
(Photo with kind permission of Thomas Schöler, SBN)*

workshop with the Board of Directors and first-level executives underscored the decision to continue the roll-out of innovation management in 2018.

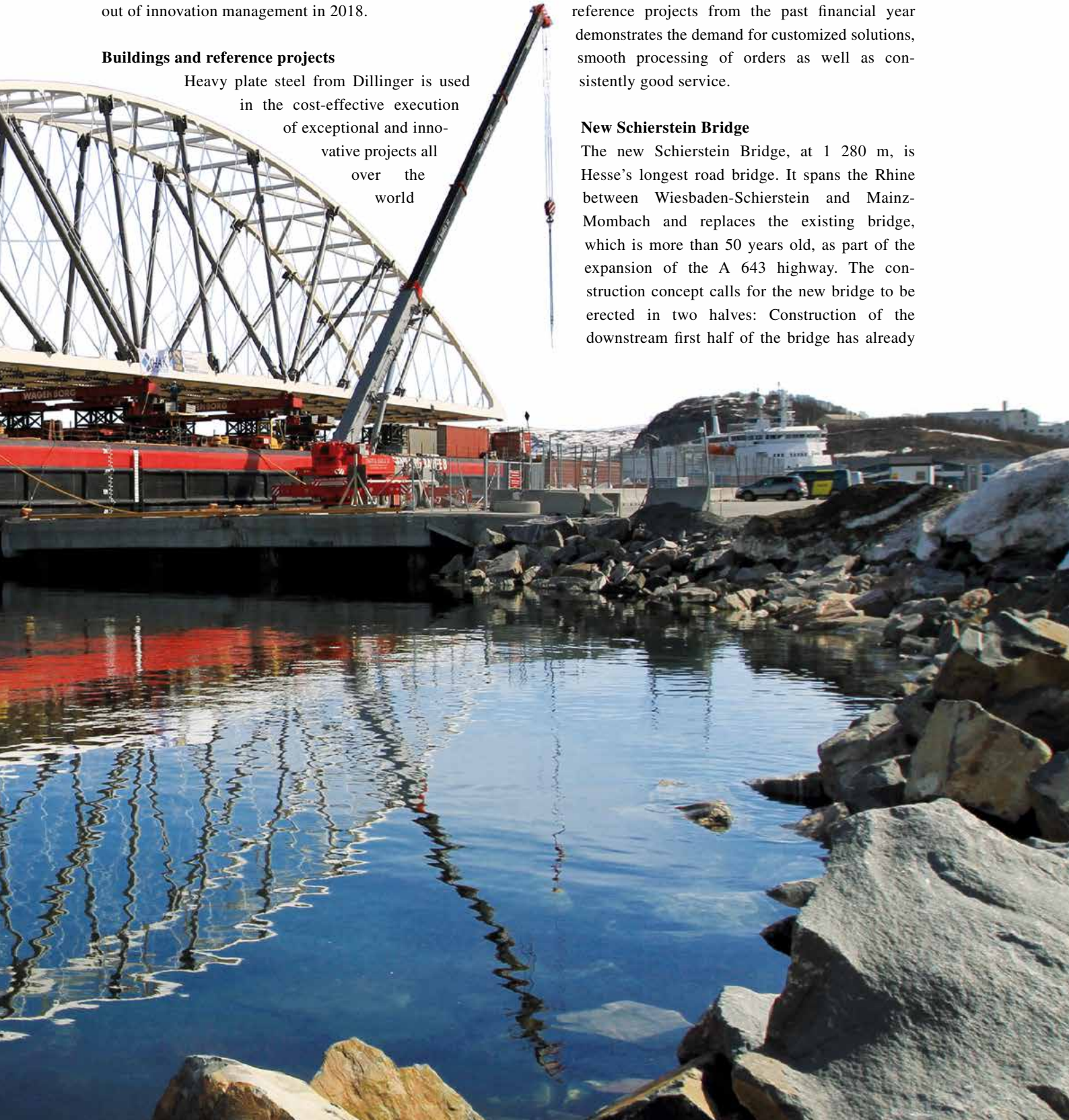
Buildings and reference projects

Heavy plate steel from Dillinger is used in the cost-effective execution of exceptional and innovative projects all over the world

and in a wide range of industries. In addition to high product quality, the following compendium of reference projects from the past financial year demonstrates the demand for customized solutions, smooth processing of orders as well as consistently good service.

New Schierstein Bridge

The new Schierstein Bridge, at 1 280 m, is Hesse's longest road bridge. It spans the Rhine between Wiesbaden-Schierstein and Mainz-Mombach and replaces the existing bridge, which is more than 50 years old, as part of the expansion of the A 643 highway. The construction concept calls for the new bridge to be erected in two halves: Construction of the downstream first half of the bridge has already



been completed. Traffic was redirected to this bridge section in November 2017 to allow the existing bridge upstream to be demolished and rebuilt. After completion of the construction project, a three-lane traffic guidance system with a hard shoulder in each direction of travel will be available on both of the new, separate structures. Dillinger supplied 6 880 metric tons of heavy plate for the superstructure of the first bridge.

Race Bank offshore wind farm

The Race Bank offshore wind farm off the east coast of England, which will soon be connected to the grid, is also based on steel from Dillinger. With a total output of 573 MW, it will have the capacity to supply over 400,000 households with electricity from renewable energy sources. The 91 turbines are anchored in the sea floor with steel foundations (monopiles with transition pieces) weighing up to 1 000 metric tons at water depths of 6 to 23 m, while the monopiles can have diameters of up to 7 m. Dillinger delivered around 52 000 metric tons of thermomechanical (TM) rolled plate for the steel monopiles in thicknesses of up to 92 mm and with individual plate weights of up to 34 metric tons. By using even heavier input formats, Dillinger can now supply this grade with individual plate weights of over 40 metric tons, which is a world first.

Monaco gas pipeline

During the 2017 financial year, Dillinger France, a wholly-owned subsidiary of Dillinger, supplied just under 60 000 metric tons of heavy plate for the “Monaco” natural gas pipeline. Monaco – whose name is based on the Italian name for the city of Munich – runs over a length of 87 km from Burghausen to Finsing near Munich and transports natural gas to and from storage facilities in Bavaria and Austria. The pipes must withstand a maximum operating pressure of 100 bar and have a minimum yield strength of 485 MPa. Dillinger France produced plate for this project with wall thicknesses of 23 and 25 mm, widths of up to 3 740 mm and a length of 18 m.

Teesta III hydropower project

Another special project with heavy plate from Dillinger is the Teesta Stage III hydropower project, which went into operation in 2017. The construction consists of a 60 m high concrete dam with two tunnel spillways, a reservoir flushing tunnel, two desilting chambers, a headrace tunnel

and a surge shaft with two pressure shafts. The underground power plant comprises six 200 MW turbine generator units. Dillinger has supplied 9 600 metric tons of DILLIMAX 690 PE steel in thicknesses of up to 100 mm for this project.

Tank farm for the Jazan refinery in Saudi Arabia

The Jazan Economic City (JEC) is an infrastructure and economic project in the southwest of the Kingdom of Saudi Arabia. Once completed, 500,000 people will work there in the manufacturing and energy sectors and live in the residential areas. The total area of the planned city on the Red Sea will be around 106 km². Part of the project is a gas processing plant with a tank farm. The tanks contain liquefied petroleum gas (LPG), a fossil fuel produced as a by-product of crude oil and natural gas production and refining. Dillinger supplied 8 000 metric tons of heavy plate for the construction of 12 gas spheres for the tank farm.

Research and development

Dillinger invests continuously in research and development (R&D) as an important basis for innovation. In 2017, research activities along the value chain – from hot metal and steel production to heavy plate production – once again focused primarily on process and product improvements with the aim of expanding the property profiles of heavy plate as well as optimizing quality and reducing costs.

R&D excellence cluster – strategic partnership with University of Saarland extended

Dillinger has established an “excellence cluster” in which some work is carried out by internal research departments while other work is accomplished through selective partnerships with external research institutes whose expertise cannot be provided internally. During 2017, Dillinger collaborated with 17 university institutes or other research organizations, in the course of which around 50 doctoral, master’s and bachelor’s students conducted research assignments for Dillinger. In December 2017, the strategic partnership in materials science with the University of Saarland was extended for a further 3 years and € 1 million was made available for this purpose.

Hot metal production

The focus of hot metal R&D in 2017 was once again on various projects for complying with the EU Industrial Emissions Directive (IED). Another priority was optimizing hot metal distribution and/or supply to the steel plants in Dillingen and Völklingen with the use of logistical optimization models.

Steel production

By introducing hot-briquetted iron (HBI) to the converter process as a substitute coolant for crude dolomite, R&D Steel Production implemented a process optimization during the year under review with significant potential to cut costs. Another focus of effort was the enhancement and optimization of existing process models as the basis for reproducible and stable steel production.

Heavy plate steel production

In heavy plate research, the expansion of metallographic knowledge about products and processes forms the foundation for fast and efficient development. Persistent efforts were therefore focused on microstructure-based material design with the key aims being modelling of microstructure and properties as well as material characterization. The use of data-based forecast models, which can be used to calculate properties including production parameters, was also furthered as a means of improving product properties and reducing production costs. Important advances in the area of product development were also achieved once again in 2017.

Raw materials procurement and transport

The trend towards rising raw material prices that emerged in the first half of 2016 continued in 2017. Sustained high demand for raw materials in Asia – especially China – and high demand from other regions made an impact following a phase of lacking investment in new mining and processing capacities.

While Europe, and Germany in particular, continue to push ahead with “decarbonization,” Asia and other regions increasingly rely on energy generation from fossil fuels – and in Asia, primarily coal – to meet their growing energy needs. China is once again underscoring its position as the most important customer for iron ores and coking coal

traded at sea and thus is having a decisive influence on raw material prices.

Ore prices markedly higher – pellet market strained

China was again the main driver on the ore market. Ore prices remained high. In particular, prices for high-quality fine ores and ore pellets rose. The supply situation for ore pellets remains strained, as Brazilian producer Samarco, with an original market share of 25 % of the seagoing world market, has still not resumed production. The strategy pursued by ROGESA and ZKS, involving diversification and continuous optimization of the blast furnace charge and coking coal mixture, allowed for optimal supply of the blast furnaces at all times in terms of quality and costs, even under the highly volatile conditions in 2017.

Fuels: high demand – prices volatile and rising

The coal market was characterized by increasing volatility in 2017. The primary reasons for this included a combination of the oligopolistic supplier structure, the increasing number of political crises – often combined with sanctions – increasing price speculation and bad weather. Cyclone Debbie, for example, effectively brought to a standstill exports from Australia, the most important supplier country for coking coal. The prevailing trend toward price indexes and shorter fixed-price cycles in the metallurgical coal market continued in 2017.

Limestone supply: changeover to imported lime completed

The primary focus in the limestone supply sector during 2017 was the scheduled commissioning of the processing and loading plant built exclusively for ROGESA in Dugny (France), which will guarantee the long-term supply of ROGESA with limestone, given the restricted production in terms of quality and quantity of the Auersmacher limestone mine at the end of 2017.

Shipping: rising cargo rates starting in the second half of the year

In line with developments in the bulk goods markets, the volatility of freight rates continued in 2017. In the second half of the year, rates rose steadily and reached their highest levels in three years. The combination of favorably priced cargo rates that are secured long-term and the



simultaneous use of opportunities on the spot market continued to prove fruitful for ROGESA and ZKS. New opportunities and methods were also generated and conditions were improved with regard to bulk handling companies.

In order to counteract the threat of monopoly in the bulk handling capacity sector posed by further takeovers and consolidation, ZKS began obtaining coal through the German deep-sea port of Wilhelmshaven for the first time during the financial year.

Successful supply strategy

The strategy of intensive market research, further technical and commercial flexibility combined with the possibility of rapid geographical diversification was continued in the fiscal year. For ZKS, for example, various alternative compounds have been tested in a struc-

World record: On July 25, 2017, a slab thickness of 600 mm was cast for the first time on Dillinger's continuous casting machine CC 6

tured process to optimize flexibility and expand options for action with regard to supplier and product selection. As part of innovation management, ZKS also initiated the procurement of its own pilot furnace to accelerate and expand this optimization process.

Slightly increased transport volumes at the Dillingen plant

Transport volumes in 2017 at the Dillingen plant were 11.2 million metric tons (2016: 9.8 million metric tons) for the transit of raw materials for Dillinger, ROGESA and ZKS, and 5.8 million metric tons (2016: 5 million metric tons) for the shipping of finished and co-products. Environmentally sound railway and inland vessels were again used to transport a high 88 % of this volume. Freight transport in 2017 was shaped by strong external influences. Three strong storms brought transport to a complete standstill. This particularly affected rail freight transport. This required a high degree of logistical flexibility to ensure the security of supply and reliability of delivery at all times.

Environmental protection and energy efficiency

Environmental protection and energy efficiency

In keeping with its corporate vision and its environmental guidelines, Dillinger consistently strives for sustainable and sound resource management and production throughout the company. Extensive investment in state-of-the-art technologies helps reduce environmental impacts and continuously improves energy efficiency. The focus of activities in 2017 was on emissions control, conserving valuable resources and increasing energy efficiency at the Dillingen steel plant.

Successful environmental management

In April 2017 the environmental management system successfully completed the monitoring audit conducted by TÜV Saar Cert in accordance with DIN EN ISO 14001: 2015. There were neither major nor minor deviations.

Emissions and water protection efforts continued

Additional optimization measures at existing exhaust air purification plants in particular contributed to improved air quality at the Dillingen site in 2017. New dedusting systems were also devised, including for the circular

cooler of sintering plant 3. The continuous improvement of the noise situation at the site of the steel plant, through the processing and updating of the noise inventory, continues to be one of the most important tasks in the area of noise protection. To improve water protection, the focus in 2017 was on both the biological wastewater treatment plant project and separating wastewater component currents in the area of blast furnace 4.

Energy management system and in-plant energy generation

During the financial year, the energy management system was enhanced in accordance with DIN EN ISO 50001 and preparations were made for recertification in 2018. In addition, the Board of Directors launched the ECO5 energy saving program, which is expected to result in savings of 5 % in energy costs.

Blast furnace gas power generation in the efficient power plant of Gichtgaskraftwerk Dillingen GmbH & Co. KG (see also the “Shareholdings – ROGESA” section) continued in 2017 to provide an important share of the Dillingen plant’s own power supply. The in-house plant generated 545 GWh of electricity. Likewise, 146 GWh of heat (in the form of steam and feed water) were extracted from the high-efficiency cogeneration plant to fulfill requirements for heat and heating.

CO₂ emissions trading

Once again in 2017, the multi-site working group including SHS subsidiary SHS Infrastruktur Energie und Medien and the Environmental Protection department of Saarstahl AG periodically amended and updated all monitoring plans for the plants subject to emissions trading. This reporting system includes activity rate reports, improvement and emissions reports and carbon leakage status reports, which are sent to the German Emissions Trading Authority (DEHSt).

For the current third trading period from 2013 to 2020, the free certificates for installations subject to emissions trading furnished to the two Saarland steel companies – Saarstahl and Dillinger (including ROGESA and ZKS) – are far from adequate when compared to the actual CO₂ emissions of the installations, even though the installations in the Saarland steel industry are among the most efficient.

The political discussions in the so-called trilogue negotiations regarding the reform of the European emissions trading system from the fourth trading period (2021 to 2030) ended on 8 November 2017 with an unsatisfactory result for the steel industry. The EU Commission, the EU Council and the EU Parliament agreed on a general increase in the number of allowances available to industry. However, according to current forecasts, around 20 % of the required certificates are lacking. As a result, additional burdens and disadvantages must be expected when compared with non-European companies, which will essentially depend on the politically controlled price of certificates.

The steel industry is also especially impacted by the fact that in the future, the blast furnace gases produced during steel production and their environmentally sound uses to date (power generation) will be subject to additional costs. Another central con-

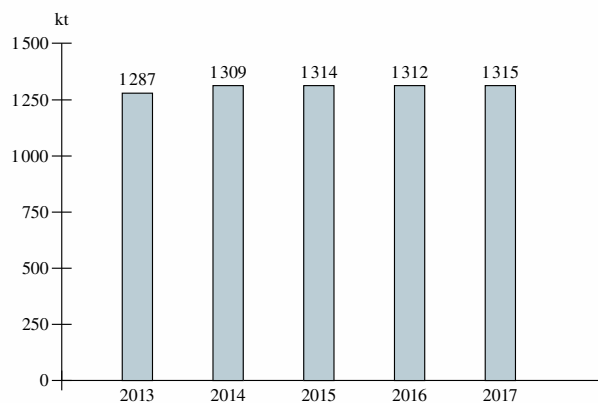
Most significant shareholdings

Zentralkokerei Saar GmbH, Dillingen

Aktien-Gesellschaft der Dillinger Hüttenwerke and Saarstahl AG 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 2017, at 1 315 kt, remained high and consistent with the previous year's production (1 312 kt). ZKS is a company without employees. The personnel required to operate the coking plant are made available by Dillinger.

cern, the correction of the technically unachievable hot metal benchmark, also failed to materialize. It is therefore important to develop constructive proposals for solutions at the political level to ensure competitiveness. In particular, care must be taken to ensure that the use of blast furnace gases for electricity generation is not burdened with additional costs from emissions trading and that the electricity price compensation scheme is comprehensively structured.

Coke production of ZKS





*With the new 600 slab format,
Dillinger is now in the position to roll
even larger dimensions – the
“record plate” shows dimensions
of 70 mm x 22 m x 4 m*

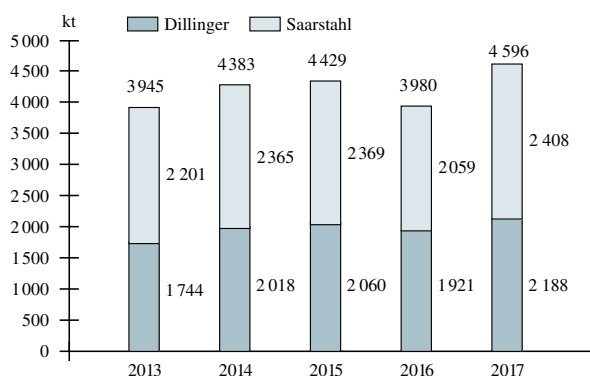
Investments at ZKS in 2017 amounted to € 3 million (2016: € 4 million). Key investments during the year under review included new soil sealing on the white side. Furthermore, a new vacuum cleaning system was installed in the mixing and grinding building and the coke gas line in the vacuum unit was renovated. These investments contribute significantly to improving environmental protection at the site.

ROGESA Roheisengesellschaft Saar mbH, Dillingen

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

Hot metal production in 2017 was generated as planned by blast furnaces 4 and 5, and, at 4 596 kt, was 15.5 % higher than in the previous year (3 980 kt) due to continuous operation of both blast furnaces throughout the year. During the year under review, 2 188 kt (previous year: 1 921 kt) was supplied to Dillinger and 2 408 kt (previous year: 2 059 kt) went to Saarstahl.

Hot metal production by ROGESA for Dillinger and Saarstahl



Investments at ROGESA in 2017 amounted to € 11 million (2016: € 57 million). Following the fourth relining of blast furnace 4 during the previous year, further repair work was carried out for this project. A test plant for coke gas injection was installed and commissioned in blast furnace 5 and the front section of the casting hall in the area of the slag outlet was renovated using steel construction methods.

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 GWK, Dillinger, ROGESA and ZKS, for the production of electricity.

Dillinger France S.A., Dunkerque

Dillinger France S.A. is a wholly owned subsidiary of Dillinger that operates a heavy plate rolling mill in Dunkerque. The products are marketed almost exclusively through Dillinger. Dillinger France also procures the majority of its input material from Dillinger.

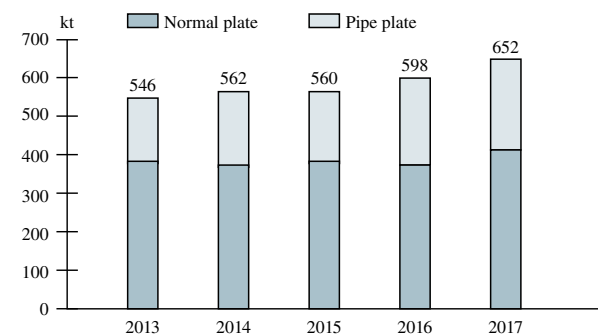
2017: Production at record level

The total production of Dillinger France in 2017 amounted to 652 kt, an increase of 9 % compared to the previous year (598 kt). This high level of production is by far the highest in the last five years.

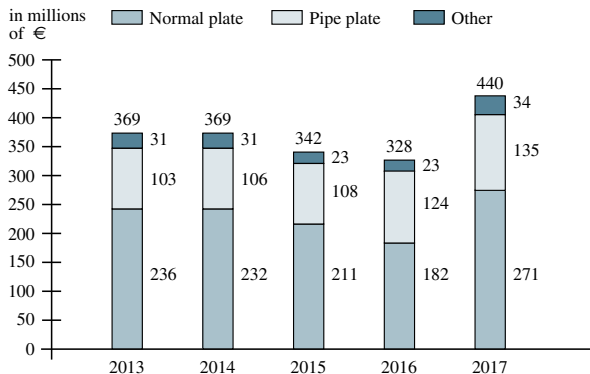
Production in the normal steel product range reached a record level of 424 kt (2016: 362 kt). The company owes this production record to the development in offshore wind power plants in 2017. Dillinger France has primarily supplied pipe plate to EUROPIPE Mülheim for major projects such as the 485 km-long EUGAL gas pipeline. As a result of the anti-dumping measures imposed by the USA, it was not possible to produce for Berg Steel Pipe Corp.

In the course of this increase in production with continued high quality, there was a need for flexibility, adaptability to new markets and new logistical concepts – especially for river/sea transport solutions. Since 2017, for example, Dillinger France has been using another quay in the port of Dunkerque, the Darse 6 port basin.

Change in heavy plate production



Change in sales performance of Dillinger France



Improved earnings

Due to the increases in volumes and sales prices, Dillinger France's sales rose to € 440 million in the 2017 financial year (compared to € 328 million in 2016), an increase of 34 %.

Production costs were reduced compared to previous years. Net earnings for the 2017 financial year was - € 6.0 million (2016: - € 19.2 million), an improvement of € 13.2 million. As at 31 Dec. 2017, the shareholders' equity of Dillinger France amounted to € 112 million.

Number of employees constant

The number of employees at Dillinger France, with 540 at the end of 2017, remained nearly constant in comparison to 541 employees at the end of 2016.

Dillinger France recorded three lost-time injuries in 2017 (2016: zero) and seven accidents subject to reporting requirements (2016: 14). This meant that the accident frequency rate was 11 – which is below the self-imposed target of a maximum of 13.

Integrated management system and investments continued

Dillinger France operates a quality management system and is ISO 9001:2015 quality certified, ISO 14001:2015 environment certified, OHSAS 18001 health and safety certified, and ISO 5001 energy certified. In 2017 the quality testing laboratory "Qualité-Essai" was certified for the first time according to ISO/TS 17025.

Investments in 2017 focused on the expansion of production capacity for thick plate through the commissioning of a new flame-cutting system. In addition, plans call for production output to be further improved with the

installation of a new special overhead traveling crane. The corresponding investment was approved in 2017 and is scheduled for completion in 2019. Furthermore, the Dillinger Group has developed new quality inspection systems and Dillinger France has already carried out initial work to install a new eddy current inspection system. The "Plate Router" IT project also continued during the financial year; the second project phase is scheduled to start in 2018.

Steelwind Nordenham GmbH, Nordenham

Steelwind Nordenham GmbH is a wholly owned subsidiary of Aktien-Gesellschaft der Dillinger Hüttenwerke that operates a plant in Nordenham for the production of foundations for offshore wind farms (monopiles, megamonopiles and transition pieces). Heavy plate steel in the required grades and dimensions is delivered by Dillinger and its subsidiary Dillinger France in Dunkerque.

Monopile foundation systems are cost-effective foundation systems whose support structure is constructed from heavy plate in thicknesses up to 150 mm. The structural elements have diameters of up to 10 m, unit weights of up to 1 500 metric tons and lengths of up to 120 m.

For Steelwind, the 2017 financial year was defined by the production of two large orders: Merkur and Borkum Riffgrund II. For the Merkur offshore wind power plant off Borkum, 66 megamonopiles with diameters of up to 7.8 m and weights of up to almost 1,000 metric tons were produced and delivered by the end of June. From July onwards, both mega monopiles and transition pieces for the Borkum Riffgrund II offshore wind farm were produced for the first time. Steelwind Nordenham is currently booked out with its current orders until the end of the 2nd quarter of 2018. Steelwind Nordenham sales in 2017 amounted to € 79 million. At the end of the financial year the company employed 326 people.

EUROPIPE GmbH, Mülheim an der Ruhr

The EUROPIPE Group manufactures and sells welded large-diameter line pipe made of steel. The diameters of the line pipe range from 24 inches (610 mm) to 60 inches (1 524 mm). As a corporate group, EUROPIPE GmbH and its affiliated companies are among the world's leading corporations in this market segment. Dillinger holds a 50 % share of EUROPIPE GmbH.

In Europe, the large-diameter line pipe is produced in Mülheim an der Ruhr on two production lines (18 m and 12 m lines). The pipe is coated by EUROPIPE subsidiary MÜLHEIM PIPECOATINGS GmbH (MPC), Mülheim an der Ruhr. Closure activities of the former second European production site at Dunkerque are planned for completion by the end of 2018.

In the United States, the operating companies of the EUROPIPE Group are consolidated under the holding company, BERG EUROPIPE Holding Corp. (BEHC). Berg Steel Pipe Corp. (BSPC) in Panama City, Florida, primarily supplies the North American market with longitudinally welded pipe; Berg Spiral Pipe Corp. (BSPM) in Mobile, Alabama, supplies spiral pipe. Both plants have facilities to coat the pipe. Marketing activities for the North American companies are combined in the BERG EUROPIPE Corp. (BEC) marketing company of Houston, Texas (USA).

Since almost all orders from the Mülheim plant produced during the 2017 financial year were booked with coatings, the employment situation at MPC improved again significantly compared to the previous year.

In the USA, the exceptionally high production and shipping tonnages of previous years could not be maintained in either plant due to a lack of orders. This is due above all to the fact that only a few projects have been awarded recently, overlaid by a wait-and-see approach to investment as a result of changing political conditions. However, utilization of Berg-Werke's capacity was still good in comparison to the competition due to the existence of old orders.

The conversion to domestic plants made necessary by anti-dumping duties on plate from Germany and France, among others, was achieved.

Shipping and sales in Europe significantly better than in the United States

EUROPIPE GmbH was able to evade a generally difficult market environment in Europe due to the high volume of bookings for the Nord Stream 2 and EUGAL projects. The high shipping volume and the tight delivery schedules associated with that required flexible deployment of personnel.

Although the order backlog of EUROPIPE GmbH as of 31 December 2017 could not maintain the exceptionally high level of the previous year (1,097 kt) at 717 kt, it is still at a good level. Worthy of note here as a large order in 2017 is the booking of the EUGAL project with a volume of 621 kt. The backlog of orders at the EUROPIPE Group sank as a consequence of weaker US business in particular as at 31 December 2017 to 766 kt (previous year: 1 304 kt).

*“Eddy Current” – a world novelty:
With the unique facility, the surface of
heavy plates can be automatically
inspected for local surface hardenings
through eddy current testing*



Sales posted by the EUROPIPE Group in 2017, at € 1 139 million, was nearly unchanged from the previous year’s level (previous year: € 1 148 million). The sales volume stems mainly from the European business; the US Group recorded sharp declines due to the worsening order situation. Shipments by EUROPIPE GmbH almost doubled year-on-year to 1 003 kt (previous year: 502 kt). The US Group’s shipped tonnage in 2017 reached a notably low level of 183 kt (previous year: 509 kt) due to the weaker order situation.

With net income of € 12.9 million, the EUROPIPE Group improved on the previous year (€ 10.1 million), although the US companies were no longer able to match the high earnings levels of previous years. The significant increase in shipments compared to the previous year, along with unchanged revenue quality, had a positive effect on the earnings of EUROPIPE GmbH.

At the end of 2017, the EUROPIPE Group employed a total workforce of 1 071 people (2016: 1 123). Of these, 558 employees worked for EUROPIPE GmbH (2016: 580).

Research and investment in quality and process optimization

During the financial year, the EUROPIPE Group invested € 14.8 million (2016: € 11.9 million) for plant, property and equipment and for intangible assets. The investments were primarily aimed at the modernization of the existing machinery as well as at enhancing existing systems for specific orders, with the goal of asserting and expanding market leadership in the large-diameter line pipe segment.

Particularly noteworthy for the Mülheim site is the investment to increase the capacity of two cranes in the 12m production line to 16 metric tons. At the Panama City site, the focus was on the installation of a new sheet metal edge-milling machine, which, due to its efficiency, enables a higher throughput and thus increases the performance of the plant.

EUROPIPE GmbH invested € 2.0 million during 2017 (previous year: € 1.9 million) in the enhancement of its products and the continuous improvement of production and quality assurance methods. The ultimate goal of the development efforts is to expand the range of application of the large-diameter line pipe and to improve quality parameters (e.g. optimization of pipe geometry and further development of production of thick-walled pipes).

Forecast: weaker capacity utilization expected after Nord Stream 2 and EUGAL

The continuing low oil and gas prices and the increasing geopolitical uncertainties worldwide are leading to a noticeable reluctance to invest in the large-diameter pipe industry with overall weak to moderate demand for large-diameter pipes that varies regionally. However, there are also signs that the market has bottomed out and that more projects will be awarded in the medium term.

Smaller projects are underway in Eastern and Central Europe to improve the interconnection of these countries' gas capacities. However, the requirements are generally lower, so that there is strong competition in spiral pipe in this market. Demand in the Middle East is stable in terms of volume, but the projects are difficult to attain for EUROPIPE in terms of price and cost.

The situation in the USA is difficult to fathom at present, since the market-side project situation is overshadowed by many trade policy developments. Following the very poor project situation in 2017, a significant increase in awarding activities is considered probable for 2018, driven above all by the transfer of shale oil and gas from the production sites to the processing centers or to export. The new administration has also removed regulatory hurdles.

Continued high production and shipment volumes (759 kt production, 755 kt shipping) are planned for EUROPIPE GmbH for 2018, of which about 80 % are currently

secured in the order backlog. Lower sales are expected due to lower shipment volumes compared to 2017. Despite the lower shipment volumes, EUROPIPE GmbH is aiming for a clearly positive pre-tax result due to the delivery of more profitable orders and ongoing cost savings. For the American part of the Group, a balanced result is targeted despite all the uncertainties in the market development.

Nevertheless, once the Nord Stream 2 and EUGAL projects have been completed, it can be assumed that the market environment will change long term and capacity utilization will worsen significantly. Sustained reductions and added flexibility of fixed costs are therefore top priorities for EUROPIPE GmbH.

Saarstahl AG, Völklingen

Specialties of Saarstahl AG, in which Dillinger holds 25.1% of shares, include the production of wire rod, bar steel and semifinished products in various qualities. Customers include automotive companies and their suppliers, companies that build machinery for power generation, the general machine manufacturing sector, the aerospace industry, the construction industry and other sectors that process steel.

The long products market in the EU was again influenced by overcapacities and sustained imports in 2017, although volumes from China declined slightly. Through its positioning in the higher quality segment, Saarstahl AG again benefited in 2017 from the extremely positive growth of strongly export-oriented German premium manufacturers in the automotive industry.

The company can look back on a generally successful 2017 financial year. Capacity utilization of the rod and wire facilities was consistently very good, and record volumes were achieved at all locations. Accordingly, shipments were at an even higher level than in the previous year. Sales also increased significantly due to high sales volume for wire and rod. As sales prices increased in all product segments, this led to a significant jump in earnings compared with the previous year.

Crude steel production by Saarstahl rose in 2017 compared to the previous year by 16.3 % to 2 785 kt. Shipping of steel products increased by 9.5 % to around 2 532 kt. Net sales increased by 22.1 % from € 1 499 million in the

previous year to € 1 830 million. Earnings before interest and taxes (EBIT) for Saarstahl amounted to € 25 million (2016: - € 142 million) and earnings before interest, taxes, depreciation and amortization (EBITDA) was € 69 million (2016: - € 101 million). Return on capital employed (ROCE) rose to 3.9 % (2016: - 5.3 %).

Additions to property, plant and equipment for Saarstahl AG in 2017 amounted to € 41 million (previous year: € 58 million). Saarstahl started work on the new € 100 million S1 continuous casting line in 2017. With this investment, which is consistently geared to industry 4.0 requirements, Saarstahl will once again set the benchmark in the long products sector in terms of product quality and customer service. Completion is planned for autumn 2019.

As of 31 December 2017, there were 4 040 people employed by Saarstahl AG (previous year: 4 009). During the year under review, 73 young people (previous year: 83) were able to begin their vocational training.

Trading and flame-cutting companies in the Dillinger Group

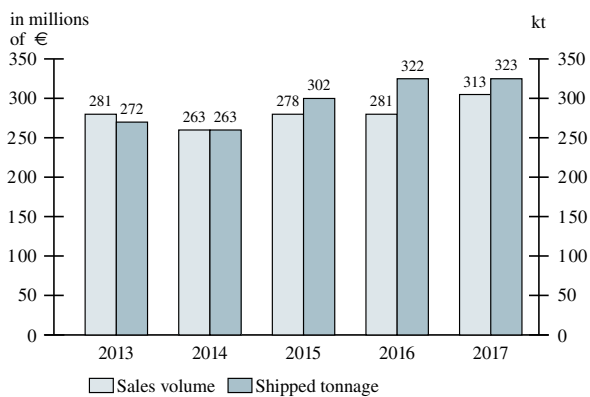
To supplement the range of products and lengthen the value chain, Dillinger holds several direct and indirect shareholdings in trading and flame-cutting companies in Germany, the Netherlands, France, Dubai and India. These companies are specialized with regard to their regional focus, product range and processing depth; however, products from other steel producers are also marketed and processed.

Customer demand for the products of the trading and flame-cutting companies developed unevenly according to region in 2017. As a result, sales once again increased slightly in Germany and in third countries, while they stagnated or fell slightly in the other EU countries.

For the trading, flame-cutting and treatment activities, business performance was marked by a consistent increase in revenue levels with sales volumes at the level of the previous year. With procurement prices continuing to rise, many of the most important companies were unable to achieve the gross margins of the previous year – depending on the circumstances of the competition and the product portfolio. Operating results at the most important companies were consistently lower than in the previous year.

Cumulative sales for 2017, at € 313.3 million, were 11.4 % above those of the previous year (€ 280.6 million). At 323 kt, net tonnage shipped was at the previous year's level (322 kt), with the increase in sales volumes in the flame cutting activities being higher than that resulting from trading activities. Earnings from operations amounted to € 6.7 million (2016: € 9.2 million).

Sales volume and shipped tonnage in 2017 for the trading and flame-cutting companies in the Dillinger affiliated network



Risk and opportunity report

Risk report

For Aktien-Gesellschaft der Dillinger Hüttenwerke, as a global producer of heavy plate in various grades, taking a structured and constructive approach to business risks and opportunities is of central importance. This is particularly the case in light of the challenging underlying economic conditions that, as the forecast report indicates, are to be anticipated. Dillinger introduced a company-wide risk management system several years ago for this reason. The methods and tools of risk management are continuously being developed further.

Organization of risk management

Risk management at Dillinger consists in part of the risk coordinators and officers in the departments and subsidiaries. These people are responsible for the operational risk control tasks that are integrated into the processes of the individual divisions and subsidiaries as well as for providing regular and ad hoc risk reports to the corporate

Risk Management of SHS. In addition, corporate Risk Management handles coordination, support and consolidation duties for Dillinger. Risk coordinators and SHS Risk Management collaborate as partners in the process.

Methods and structure of risk management

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

- **Risk transparency:** Risk management aims to identify and disclose significant risks connected to business activities as early as possible. A systematic and consistent method of analysis and evaluation is used for this.
- **Risk controllability:** Another objective of risk management is to avoid, minimize or transfer identified risks through new or existing risk control instruments. Transfer of risk takes place through the corporate service provider SHS Versicherungskontor GmbH, which is responsible for arranging an appropriate level of insurance coverage.
- **Risk communication:** The Board of Directors receives regular and event-related information regarding the current risk situation. Moreover, key risk management issues are discussed with the Supervisory Board.

A regular risk management process is the basis of the company’s risk management system. A network of risk coordinators has been established worldwide to carry out the operational risk management process. This operational risk management process includes risk control along with risk identification and risk assessment. In addition to this, ad hoc risk reporting was introduced in 2016. It is a component of the risk management system and makes it possible to show an up-to-date overview of the risk situation at all times. In addition to the risk management process, risk analysis is an important component of the risk management system of Dillinger. SHS Risk Management conducts risk analyses for Dillinger for specific orders and issues. The content, structure and results of the risk management system are documented in auditable form as per the German Corporate Sector Supervision and Transparency Act (KonTraG).

In the year under review, the SHS Group’s compliance management system was linked organizationally to the risk management system, and a compliance module was integrated into the existing risk management process. This module was developed as part of the compliance management system and on the basis of the Group-wide compliance risk analysis. The module collects information about implementation of compliance culture, organization and communication as well as about compliance risk areas



identified during risk analysis. The queries and subsequent analysis of the processed modules provide a basis for preventive risk analysis. The aim is early identification of compliance risks and, following from this, the derivation of measures (compliance program).

The compliance module was included in the SHS risk management reporting process for the first time on 30 June 2017. Risk coordinators handle the process. Corporate Auditing, as part of the comprehensive approach of corporate management to establish an internal management and monitoring system, is a component of risk management in accordance with the German Corporate Sector Supervision and Transparency Act (KonTraG). In this capacity, it is also responsible for the systematic and effective internal auditing of the risk management system.

External, market and sector risks

Dillinger is a company with worldwide operations. Moreover, the customer base of Dillinger is also characterized by companies with global activities, particularly those from the capital goods sector. This implies a dependence on both overall future development of the world economy as well as the development of individual customer segments. Added to this are complex underlying conditions and an extremely competitive situation. The global economy is currently in a recovery supported by almost all

major economies at the same time. The economies in the eurozone and Germany are also developing very positively. Global trade has picked up significantly, but economic risks nonetheless remain. The intense competition worldwide is characterized by large steel overcapacities and – associated with this – increased import pressure. Dillinger is exposed to this pressure in particular due to its highly price-competitive project business. Added to this are the impacts of national policies on open and rule-based global economic structures. Influences and decisions motivated by power politics are increasing overall. Political instability, a lacking legal basis and rising protectionist tendencies are negatively affecting global economic activity. There is also uncertainty as to how the negotiations on Britain's withdrawal from the European Union will be arranged and what their impact will be.

The offshore wind sector in Europe is currently developing well. While some European countries, such as the Netherlands, have already increased their expansion targets, the German government's unchanged expansion targets are slowing further development of the offshore wind industry in Germany. For 2018 there will be an additional special effect as project developers wait for larger turbines wherever the project process allows. Anticipatory effects from 2018 to 2017 will also reduce current expectations for the volume of plate and foundations in 2018. In the



Also the offshore wind park "Gemini", operating since 2017 off the Dutch coast, stands on Dillinger special steel foundations (Photo with kind permission of Geminiwindpark.nl)

long term, a possible shift in foundation type preference away from plate-heavy monopiles towards gravity or modular foundations poses risks for Dillinger.

These risks may impact both the business activities of Dillinger itself, which focuses on the supply of input material, and the business activities of its subsidiary Steelwind Nordenham, which specializes in foundation structures for the offshore wind sector.

The described externally driven risks ultimately result in a restriction of market prospects and thus in sales risks for the company. To counter these risks, the company continuously monitors both the overall economic situation and the sales markets in the specific countries. As a further measure, market-oriented adjustments are made to the product mix.

Dillinger 2020, the overarching internal project for securing the long-term future of the Dillinger site and the areas of activity, initiatives and projects this comprises, is aimed at securing technological leadership on a solid and sustainable basis of innovation and thus ensuring the long-term competitiveness of Dillinger and its subsidiaries under these difficult conditions. In sum, the impact of these externally driven risks must be considered significant.

Procurement risks

To produce high-quality products, Dillinger requires raw materials, energy and logistical capacities in a sufficient quality and quantity. For this reason, in addition to the procurement divisions of ROGESA and ZKS established for the procurement of raw materials, ore, coal and coke, specific procurement and logistics divisions are consolidated under the umbrella of SHS Services GmbH and SHS Logistics GmbH.

To ensure supply, procurement of bulk goods required to produce hot metal is based primarily on long-term framework agreements.

Nonetheless, the many current geopolitical crises can have a negative impact on the procurement situation as individual raw materials are procured from the corresponding regions. Ongoing developments in the crisis regions are therefore being followed closely and are actively monitored on an ongoing basis through work in associations

and the appropriate political forums. Risks are discussed with suppliers and minimized through consultation and cooperation with suppliers.

Moreover, a continuous diversification process has been implemented in raw materials procurement, which ensures that appropriate, technically suitable replacements can be provided from alternative sources in the case of missed deliveries due to a crisis.

Raw materials for iron and steel production are increasingly the subject of speculation. This leads to increased volatility in prices for raw materials. Purchase prices may therefore fluctuate considerably and burden the cost structures of the company. As a result, the trend in raw materials is currently defined by sharp price fluctuations. Options are therefore also employed to ensure a basic flexibility in raw material supply, especially by the affiliated companies ROGESA and ZKS. An adequate stock policy ensures that a supply buffer is consistently maintained (in the transshipment ports and at the Dillingen plant). In addition, new sources of supply are systematically and continuously sought. This also includes the expansion of the logistical connection through diversification into new, alternative logistics partners in the transshipment sector. Alternative possibilities for employing raw materials are also tested and analyzed. In addition to safeguarding the supply, the implemented measures also help reduce price risks.

Political decisions such as the trend towards “decarbonization,” which is particularly prevalent in Europe, entail particular risks for coal procurement and coal logistics. Implementation has already led to a series of additional regulatory measures by the authorities, which have culminated in additional risks for logistics and the use of coal.

The discontinuation of limestone production in the Auersmacher limestone mine in late 2017 was compensated for through timely development of alternative sources, both qualitatively and quantitatively, so that ROGESA’s limestone supply is ensured in the short and medium term.

With regard to energy supply and cost certainty, the 90 MW blast furnace gas power plant in Dillingen helps

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

Risks from operating activities

Stoppages, property damage and/or quality risks may occur in the production facilities of Dillinger. This could be due to the complexity of the manufactured products, to the complexity of the manufacturing processes and technical operating facilities, or to human error as well as to force majeure. Dillinger counters causes relating to complexity by continuously investing in the most advanced equipment. In addition, systematic methods and innovative diagnostics systems are used for preventive and condition-based maintenance, and the quality assurance system, which has been certified in accordance with international standards, is continuously developed further. A major contribution to operational safety is being made by the workforce, which is being prepared for operational requirements with professional training. The company counters risks associated with force majeure, such as explosions or major fires that have high potential to cause damage but can be considered unlikely to occur, with fire-protection systems, emergency plans, and its own fire department. In addition, Dillinger has procured an adequate amount of insurance coverage.

Occupational safety is a high priority at Dillinger and is an integral part of our corporate culture. The accident risks arising from operating activities are continuously countered with a variety of measures. The partner companies are also involved in these efforts.

Financial risks

Safeguarding the financial independence of the company by coordinating financial requirements is of central importance for Dillinger. Financial risk is actively managed and limited for this reason. This is supported by the integration of the financial departments under the umbrella of SHS.

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. The current investment

activity and the current market situation have a noticeable influence on the liquidity situation of Dillinger. The company counters this with an ongoing financing and liquidity plan as well as a far-reaching cash management approach that secures liquidity at all times. In addition, all major subsidiaries are incorporated in the short- and medium-term financial plan according to consistent standards. As part of regular analyses, both the current status and plans are incorporated into the risk management system. This ensures the necessary financial flexibility for Dillinger. Independent of this, market risks can influence fluctuations of current market values or future cash flows from financial instruments. Dillinger actively counters these risks through the use of currency and interest rate hedging transactions. These instruments considerably limit or completely eliminate market price risks. The persistently low interest rate has a notable influence on the valuation of pension obligations, even after the statutory regulations have been adjusted. Liquidity risks are not associated with this. In general, hedging instruments are not employed separately from the underlying performance-related hedged item. They are regularly monitored and analysis is generated for management purposes. The results are incorporated into the risk management system. Any residual risk is considered low.

Legal risks and compliance risks

Legal risks are to be assessed as moderate. The company is currently involved in a lawsuit whose outcome is open. A general risk exists for Dillinger that, due to the increasing internationalization and expansion of business activities, it could face legal uncertainties as a consequence of contact with numerous fields of law and legal systems. For very specific issues that reach beyond German and French jurisdictions Dillinger also procures the expertise of prominent external legal practitioners. This is also true for issues that carry a high risk of uncertainty. Independent of this, misconduct on the part of individuals – whether intentional or unintentional – cannot be completely excluded. However, potential misconduct is counteracted with preventive compliance efforts. Dillinger is committed to the code of ethics of the SHS Group. This code of ethics demonstrates both the values and conduct in our relationships with each other as well as with customers and third parties outside the company. Compliance efforts by the SHS Group and thus by Dillinger were continued during the past financial year by the Compliance

Committee. Informational events and publications on specific compliance issues are also used preventively to encourage conduct that is compliant and that exhibits integrity. Additional measures that go beyond this, such as audits and individual training, have been and will continue to be carried out as needed. Targeted eLearning-based training will be added to the compliance program in 2018.

Regulatory risks

New laws and changes to legal framework conditions at the national and international level may carry implicit risks for Dillinger. This is particularly true when new or amended laws are associated with higher costs for Dillinger in comparison to its international competitors. The company therefore follows regulatory efforts closely and through working contacts with trade associations. Dillinger is committed to constructive climate protection efforts and actively supports climate reversal through its corporate activities in the area of offshore wind. However, regulatory developments regarding climate protection also carry risks for Dillinger.

In 2016, the German federal cabinet adopted the Climate Action Plan 2050. Consistent implementation of the adopted climate protection plan will require the industry to reduce greenhouse gases by means of legal stipulations. The risk exists that the formulated goals will further burden Dillinger or could lead to distortion of international competition.

After months of negotiations, EU representatives agreed in November 2017 on a reform of European emissions trading in the fourth trading period from 2021-2030. The compromise entails considerable risks for the steel industry, including Dillinger. The company is particularly impacted by the fact that no free certificates will be allocated in the future for the blast furnace gases produced during steel production – and for the environmentally compatible way they have been used up to now – which will result in the company being charged additional costs. The reduction in the allocation of free allowances, which cannot be offset by technical measures, represents a considerable additional financial burden due to the emission allowances that will have to be acquired, while at the same time the price of the allowances is expected to rise for the period from 2021.

The anti-dumping proceedings initiated in 2016 by US authorities against 12 countries, including Germany and France, were upheld in the United States in May 2017. In November 2016, the US Department of Commerce had already imposed provisional import duties on various European steel companies, including Dillinger and its subsidiary Dillinger France. As a consequence, the company has largely suspended its deliveries to the USA.

IT risks

Both Dillinger’s complex technical production processes and its administrative processes are supported with modern IT systems. For this reason, the availability of data and information flows is of central importance for Dillinger. Specific information technology segments are consolidated under the umbrella of SHS Infrastruktur. Risks that endanger the confidentiality, availability, integrity and reliability of IT-supported information and systems can result from human error, organizational or technical procedures and/or security gaps. In addition to failures of important production- and administration-related systems within the value chain, are risks due to systems being accessed by unauthorized third parties, such as in the case of industrial espionage or sabotage, are notable in this regard. The software that is used is therefore continuously monitored by Dillinger and SHS Infrastruktur, and systems are updated as needed. In addition, an information security officer was appointed in 2017 to protect the data and systems from harmful attacks from the Internet. Moreover, hardware components such as servers and networks are continuously being expanded and adapted to technological innovations. In 2017, for example, the establishment of a comprehensive data center network between the Dillingen sites and Sairstahl AG in Völklingen enhanced protection against serious disruptions of availability. Furthermore, announcements are used preventively to warn employees of dangers and to motivate them to be sensitive regarding IT security. Along with the described concepts for achieving IT security, the use of modern technologies is aimed at early detection and defense against new threats. Close cooperation between departments and data protection officers ensures that personal data is always processed in accordance with the regulations of the German Data Protection Act. Dillinger also established a project structure in 2017 to ensure compliance with the requirements of the EU General Data Protection Regulation in 2018.

Human resource risks

For Dillinger, as a manufacturer of high-tech and high-quality products, successful operation fundamentally depends on skilled employees and managers as well as on their high level of commitment. In view of this, Dillinger places great importance on being an attractive employer. There is in general a risk of losing skilled employees, and with them, expertise. This could be due to various reasons such as retirement or a new personal career focus. The company counters this by providing training in various vocational fields. To make contact with suitable people, Dillinger undertakes various recruiting efforts. This effort also actively helps prevent the expected shortage of skilled employees. Moreover, Dillinger offers a range of advanced training options for skilled and management employees and counseling oriented to specific target groups. The company also promotes collaboration across multiple generations of employees to ensure systematic knowledge transfer to the successors of retiring experts and managers. This is supported by specially trained coaches who help to systematically record the knowledge critical to success and transfer it by means of a transfer plan to the successors of employees leaving the company. Regardless of this, risks caused by surplus personnel prompted by any future market conditions and the associated, unsatisfactory utilization of capacities cannot be excluded. Dillinger is responding to this by continuing to develop the organizational structure and by using the human resources possibilities offered within the group of companies.

Dillinger can furthermore make use of various employment policy tools such as reduced working hours and partial retirement models.

Environmental risks

The production processes in hot metal and steel production as well as the heavy fabrication division involve innate process-related environmental risks such as contamination of air and water. Dillinger therefore does everything it can to exclude damage caused by the product or its production through intensive quality and environmental management. For instance, the company operates an integrated management system that combines quality management, workplace safety and environmental protection with incident management. In addition, the company also invests continuously in measures that increase the effectiveness of its protection of the environment and fulfill environmental requirements.

Beyond this, however, there are still risks due to the tightening of environmental constraints and regulations with requirements that may not be economically feasible with current technology.

Organization of opportunity management

Opportunity management at Dillinger involves the systematic handling of opportunities and potentials. It is directly embedded into the work of the Board of Directors of Dillinger. The Board of Directors identifies and discusses opportunities and potential, and when needed, conducts strategic dialogue about market and technology trends with the affected departments and subsidiaries. The Board of Directors focuses in these strategic efforts on the current global drivers of growth as well as those for specific sectors, and continuously develops the company while taking global trends into account. An important contribution is made by the strategy program Dillinger 2020, which, as a continuation of the strategy program PRIMUS 16, includes various business initiatives to make use of both strategic and operational opportunities that arise. The targeted development of the company is supported in the annual development plan with suitable objectives as part of comprehensive planning and management.

Strategic opportunities

Dillinger sees both challenges and opportunities in the internationalization of its business activities. Many customers of Dillinger operate internationally or are in the process of expanding their international operations. In doing so, they are often focused on new growth markets. The company principally sees an opportunity to generate growth through strategic partnerships. This development should therefore be accompanied with strategic partnerships and alliances. Relevant opportunities are being explored and assessed. Moreover, the acquisition of new markets outside Europe that remain to be reached can be viewed as an opportunity, as can the dismantling of trade barriers. Dillinger is strengthening its worldwide presence through expanding its sales network and is especially leveraging potential in new and emerging markets, without giving up its position in traditional markets. The EU's planned free trade agreements with Mexico and Mercosur (Argentina, Brazil, Paraguay and Uruguay) offer market opportunities.

In addition, the package of measures adopted in December 2017 by the Commission, Parliament and Council (of the EU) to modernize EU trade defense instruments strengthens the EU steel industry in its fight against unfair market behavior. The company expects the revised EU anti-dumping regulation to provide effective protection against market and competition-distorting trade practices from third countries.

A key element of the innovation strategy of Dillinger has been implemented with the new continuous casting machine CC 6, which came online during the 2016 financial year. CC 6 allows the company to expand into

Dillinger has extended for another three years its strategic partnership with the Materials Science and Engineering department at the University of Saarland and the Steinbeis Research Center at the Material Engineering Center Saarland (MECS). The partnership was initiated in 2014. Research projects are to be funded again during this period. The application-focused projects, which are tightly integrated with the research activities of Dillinger, are aimed at continuously improving the company's heavy plate steel and thus at securing competitive advantages in the world market for heavy plate.

new dimensions and quality grades and to cover an increasingly advanced product mix as well as to expand the spectrum for product innovations. Linked to this is the quest to establish the company among the top group of cost leaders in western Europe.

The company sees an opportunity in the continuous development of the value chain. The subsidiary Steelwind Nordenham manufactures foundation structures for the offshore wind sector from Dillinger plates. However, to sufficiently exploit Dillinger's potential in the offshore wind sector, more framework conditions must be created at the European level to stimulate investment in networks and infrastructures. The paradigm shift in the refinancing of offshore wind farms has already led to the first projects being awarded in the Netherlands and Germany without state feed-in tariffs.

Operational opportunities

The operating activities of Dillinger consist of a multitude of processes that are sometimes interdependent or connected with each other through interfaces. Dillinger sees an operational opportunity in the optimization of these in-plant processes. It may be possible to achieve an accelerated workflow by adapting selected processes and thus reduce throughput times and lower costs. Optimized processes offer the chance for more flexibility in production processes and workflows. This flexibility will make the company capable of responding more quickly to changes in the order and capacity utilization situation.

Dillinger is also continuing to develop its organizational structure. This is tied to the opportunity for shorter decision-making processes and more direct communication.

Moreover, Industry 4.0 and innovation are important cornerstones in the development of Dillinger. As a consequence, innovation management was further expanded in 2017. The declared goal here is the targeted production of ideas and the introduction of an innovation culture.

The company sees the implementation of Dillinger 2020 as an opportunity to put the company's competitiveness on a solid footing.

In addition, the company is working to continue developing the management culture by implementing five

The continued merging of Dillinger and Saarstahl also holds great potential for the future of Saarland as a steel-producing region.

Overall assessment of the risk situation

On the whole, there are currently no identifiable risks that could endanger the continued existence of the company, nor are there any signs of trends that could have a major long-term influence on the asset, financial and earnings situation.

*Investment and innovation:
The new surface inspection facility
in Dillinger's rolling mill*

pillars (culture of responsibility, trust, change, performance and dealing with mistakes) to meet future demands and to promote innovation.

In the continuous and mandatory application of the methods of cost control and the – continuing – strict Cash Management 2.0, Dillinger sees the opportunity to increase cost sensitivity among all employees and ultimately to improve cost structures. The consolidation of the functions and activities of Aktien-Gesellschaft der Dillinger Hüttenwerke and Saarstahl AG into SHS – Stahl-Holding-Saar GmbH & Co. KGaA as well as its service companies is seen as an opportunity. In addition, there are many areas in which Dillinger cooperates directly with Saarstahl AG. Both should lead to a leveraging of synergies as processes and workflows are harmonized and improved.

Forecast

Underlying economic conditions

Global economic growth on the upswing

The global economy is expected to recover further in 2018. The OECD expects global GDP to grow by 3.7 %. Reasons for this include favorable financing conditions, the easing of recessions in Russia and Brazil and the continued economic recovery worldwide, especially in the emerging and developing countries of Asia. However, uncertainties remain due to geopolitical conflicts. According to the IMF, economic growth of 2.1 % (euro zone: 1.9 %) is expected for the EU in 2018. In Germany, the recovery of 2017 will continue well into 2018. According to the OECD forecast, the German economy

will grow by 2.3 % in 2018. The decisive factor is stronger domestic demand as well as higher foreign demand.

Solid prospects for the global steel market

The global steel market will also continue to develop positively in 2018 on the basis of broad global economic growth. Demand for steel is expected to remain favorable, particularly in the automotive, construction and capital goods sectors. Global crude steel production is expected to grow by around 2 % in 2018. Worldsteel forecasts a demand for steel of 1.65 billion metric tons for 2018, an increase of 1.6 % compared to 2017. Nonetheless, the improved steel economy does not change the basic problems of global overcapacities and increasingly protectionist measures.

For the EU steel industry, 2018 will be fraught with significant risk: For one, there are still risks from direct imports and steel at dumping prices from China and other countries, and for another, the risk from diversion effects, e.g. as a result of the announced steel import restrictions by the US government. It is nevertheless highly likely that the moderate recovery from 2017 will continue in 2018 on the European steel market. The Steel Industry Association expects growth of 1.9 % for the EU steel industry, with crude steel production expected to increase by 1.5 % to 169 million metric tons.

No all-clear signal in the heavy plate market

Although both the global economic outlook and general demand for steel will continue to develop positively in 2018, the heavy plate market continues to be strained, especially due to the structural crisis. Although Chinese imports into Europe are expected to remain at a lower level, other countries will take the opportunity, as they did last year, to offer their plate to an increasing number of European customers. The planned commissioning of a new re-roller in France and the expected increase of heavy plate production in Italy will also add to the overcapacity problem. In sum, overcapacity of heavy plate in Europe combined with high imports is a serious problem.

For European construction machinery manufacturers and machine manufacturing, business is expected to be good and growing in almost all product areas. The offshore oil and gas heavy plate market is still very weak because oil and gas prices remain too low, but there has been growing

hope in the industry for some time that more can be invested in projects in 2018. Boiler and pressure vessel construction also continues to be influenced by a rather unfavorable environment, although there is hope that more will be invested in the construction and expansion of refinery and petrochemical capacities in the future. In the steel construction segment, there are numerous projects in Dillinger's core and emerging markets. In the offshore wind sector, the outlook for 2018 is quite bleak, as many projects were brought forward to 2017 and projects planned for 2018 are being postponed to a later date. People are waiting here for the possibility of using turbines with a higher output, i.e. over 10 MW.

Development of Dillinger

Expectations for Dillinger for the financial year are influenced by market conditions that continue to be difficult overall as well as by many geopolitical uncertainties and are therefore relatively subdued. Nevertheless, despite the substantial temporary decline in business in the market for offshore wind construction in 2018, the company expects capacity utilization to be well above the market average. Continuing problematic underlying conditions such as existing overcapacities and cheap imports make it difficult to raise prices significantly. The strategy of further optimizing the product mix is therefore being consistently pursued.

With the Dillinger 2020 program launched in 2017 to strengthen its competitiveness, Dillinger considers itself well positioned for the future. The focus will be on the customer, and Dillinger's position as a leading brand in the heavy plate market will be further expanded. On the one hand, Dillinger 2020 is focused on the market: Thanks to the broadened range of new product developments, the intensive marketing of more profitable products and innovative services, the situation will lastingly improve. On the other hand, in "internal management," the measures introduced to achieve sustainable cost reductions also contribute significantly to increasing earnings. Dealing with central issues such as increasing customer satisfaction, advancing the digitalization of processes and further strengthening the culture of innovation is also being continued at an undiminished and intensified pace in 2018.

Dillinger began 2018 with good utilization of plant capacities thanks to strong demand. With slightly lower production and sales volumes and possibly only moderately enforceable price adjustments, Dillinger expects sales revenues to decline slightly overall in 2018 compared with the previous year. The effects of the measures taken in the first half of the year remain to be seen, however. The US sanctions mechanisms on steel and

aluminum products – and the associated diversionary effects and additional revenue pressure in Europe – will have a major impact in the second quarter of 2018. Provided that the measures to increase profitability and competitiveness continue to have an impact and counteract the difficult market environment, positive EBITDA and a slightly negative operating result (EBIT) are expected for 2018 at a level similar to 2017.

Dillingen, 28 March 2018

The Board of Directors



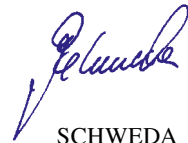
METZKEN



Dr. LUXENBURGER



Dr. MÜNNICH



SCHWEDA

Annual financial statement (abridged)

Balance sheet

Assets			
K €	Appendix	31/12/2017	31/12/2016
A. Fixed assets	(1)		
I. Intangible assets		1 369	2 076
II. Tangible assets		808 138	845 065
III. Financial assets		1 244 133	1 227 065
		2 053 640	2 074 206
B. Current assets	(2)		
I. Inventories			
1. Raw materials and supplies		39 057	28 187
2. Work in process		96 435	86 692
3. Finished goods and merchandise		88 299	85 060
		223 791	199 939
II. Receivables and other assets			
1. Trade accounts receivable		133 060	57 192
2. Receivables from affiliated companies		256 484	232 786
3. Receivables from companies in which the company has a participating interest		43 152	56 946
4. Other assets		120 357	189 394
		553 053	536 318
III. Cash and bank balances		105 161	175 514
		882 005	911 771
C. Positive difference from asset allocation	(3)	1 371	3 726
		2 937 016	2 989 703

Shareholders' equity and liabilities			
K €	Appendix	31/12/2017	31/12/2016
A. Shareholders' equity	(4)		
I. Subscribed capital		178 500	178 500
II. Capital reserve		378 574	378 574
III. Earnings reserves		1 114 009	1 150 137
		1 671 083	1 707 211
B. Accruals and provisions	(5)		
1. Accruals for pensions and similar obligations		424 465	405 141
2. Tax accruals		424	376
3. Other accruals and provisions		180 266	220 702
		605 155	626 219
C. Liabilities	(6)		
1. Liabilities to financial institutions		220 561	244 775
2. Customer advance payments		1 430	769
3. Trade accounts payable		46 639	52 880
4. Payables to affiliated companies		274 201	239 899
5. Payables to companies in which the company has a participating interest		77 067	89 893
6. Other liabilities		40 880	28 057
		660 778	656 273
		2 937 016	2 989 703

Profit and loss statement

K €	Appendix	2017	2016
1. Net sales	(7)	1 958 284	1 636 265
2. Changes in inventories and other own work, capitalized	(8)	23 301	– 41 320
3. Other operating income	(9)	69 555	26 784
		2 051 140	1 621 729
4. Cost of materials	(10)	1 486 496	1 150 760
5. Personnel expenses	(11)	354 239	363 167
6. Amortization and depreciation of intangible and tangible fixed assets		72 456	61 318
7. Other operating expenses	(12)	119 572	132 191
		2 032 763	1 707 436
8. Income from participating interests	(13)	– 19 975	– 11 164
9. Net interest income	(14)	– 32 164	– 5 717
10. Taxes on income and earnings		185	187
11. Result after tax		– 33 947	– 102 775
12. Other taxes		1 177	1 021
13. Compensatory payment to minority shareholders		1 004	1 004
14. Net loss for the year		– 36 128	– 104 800
15. Transfer from earnings reserves	(15)	36 128	104 800
16. Unappropriated retained earnings		0	0

Listing of shareholdings

	Share of capital in %			Shareholders' equity	Results 2017	
	Currency	Direct	Indirect			Total
1. Affiliated companies						
Domestic companies:						
Saarlux Stahl GmbH & Co. KG, Stuttgart	K €	53.0		53.0	11 812	- 417
Dillinger Hütte Vertrieb GmbH, Stuttgart	K €	100.0		100.0	4 210	¹⁾
Ancofer Stahlhandel GmbH, Mülheim/Ruhr	K €	100.0		100.0	26 031	1 417
Jebens GmbH, Korntal-Münchingen	K €	100.0		100.0	19 808	¹⁾
DHC-Consult GmbH, Dillingen	K €	100.0		100.0	202	3
Cargo-Rail GmbH, Dillingen	K €	100.0		100.0	44	5
MSG Mineralstoffgesellschaft Saar mbH, Dillingen	K €	100.0		100.0	19 968	¹⁾
Steelwind Nordenham GmbH, Nordenham	K €	100.0		100.0	89 062	¹⁾
Raupenfahrzeuge Nordenham GmbH, Dillingen	K €		100.0	100.0	2	5 ²⁾
Steelwind Nordenham Projekt GmbH, Dillingen	K €	100.0		100.0	2 608	3
Foreign companies:						
Dillinger France S.A., Grande-Synthe	K €	100.0		100.0	107 221	- 6 044
Eurodécoupe S.A.S., Grande-Synthe	K €		100.0	100.0	647	330
Ancofed S.A.R.L., Grande-Synthe	K €		100.0	100.0	- 861	18
AncoferWaldram Steelplates B.V., Oosterhout	K €	100.0		100.0	41 741	3 803
Trans-Saar B.V., Rotterdam	K €	100.0		100.0	1 553	1 083
Dillinger Nederland B.V., Dordrecht	K €	100.0		100.0	415	220
Dillinger International S.A., Paris	K €	100.0		100.0	1 346	77
Dillinger Middle East FZE, Dubai	K AED	100.0		100.0	74 650	71
Dillinger India Steel Service Center Private Ltd., Mumbai	K INR		100.0	100.0	128 543	125
Dillinger Hütte Services B.V., Dordrecht	K €	100.0		100.0	73	- 1
Dillinger America Inc., New York	K USD	100.0		100.0	700	- 23
Dillinger Nordic AB, Alingsås	K SEK	100.0		100.0	3 514	2 587
Dillinger Italia S.R.L., Milan	K €	100.0		100.0	296	96
Dillinger Espana S.L.U., Madrid	K €	100.0		100.0	201	126
Dillinger Hutte U.K. Ltd., London	K GBP	100.0		100.0	198	62

¹⁾ A profit and loss transfer agreement exists.

²⁾ Company is in liquidation.

	Share of capital in %			Shareholders' equity	Results 2017	
	Currency	Direct	Indirect			Total
2. Participating interests						
Domestic companies:						
Dillinger Hütte und Saarstahl Vermögens- verwaltungs- und Beteiligungs-OHG, Dillingen	K €	50.0		50.0	271 541	6 120
Zentralkokerei Saar GmbH, Dillingen	K €		50.0	50.0	137 212	¹⁾
ROGESA Roheisengesellschaft Saar mbH, Dillingen	K €	24.5	25.5	50.0	301 636	¹⁾
ROGESA Beteiligungsgesellschaft mbH, Dillingen	K €		50.0	50.0	3 000	- 7
Cokes de Carling S.A.S., Carling	K €		50.0	50.0	- 25 821	- 982
EUROPIPE GmbH, Mülheim/Ruhr	K €	50.0		50.0	97 893	32 134
EUROPIPE France S.A., Grande-Synthe	K €		50.0	50.0	- 1 016	0
BERG EUROPIPE Holding Corp., New York	K USD		50.0	50.0	214 543	11 720 ³⁾
MÜLHEIM PIPECOATINGS GmbH, Mülheim/Ruhr	K €		50.0	50.0	18 042	2 070
Saarstahl AG, Völklingen	K €	25.1		25.1	2 393 783	85 437 ³⁾

¹⁾ A profit and loss transfer agreement exists.

²⁾ Consolidated profit

Cash Flow Statement

in K €	FY 2017	FY 2016
1. Period result before profit transfer	- 35 123	- 103 796
2. Write-downs/(Write-ups) on fixed assets	50 014	54 553
3. Increase/(Decrease) in provisions	- 59 552	- 49 866
4. Decrease/(increase) in inventories, trade accounts receivables and other assets not allocated to investment or finance activities	- 2 671	86 851
5. Decrease in trade accounts payable as well as other liabilities not allocated to investment or finance activities	15 310	99 811
6. Profit from the disposal of fixed assets	- 659	- 712
7. Interest expenses incl. interest expenses and (interest income) not allocated to investment or finance activities	31 647	5 482
8. Other income from shareholdings	19 975	11 164
9. Income tax	185	187
10. Income tax payments	- 403	- 569
11. Cash flow from operations	18 723	103 105
12. Payments for investments in intangible assets	- 177	- 318
13. Proceeds from disposals of tangible fixed assets	856	1 453
14. Payments for investments in tangible fixed assets	- 34 842	- 69 130
15. Proceeds from disposals of financial assets	9 627	11 581
16. Payments for investments in financial assets	- 4 253	- 145
17. Payments / Proceeds due to financial investments as part of short-term financial resource management	- 33 233	- 19 918
18. Interest received	16 114	13 317
19. Received dividends and profit and loss transfers	10 991	11 226
20. Payments due to compensation obligations	- 20 906	- 26 149
21. Cash flow from investment activities	- 55 823	- 78 083
22. Free cash flow	- 37 100	25 022
23. Proceeds from loans	0	135 000
24. Payments from the amortization of bonds and loans	- 24 214	- 33 662
25. Interest paid	- 8 035	- 7 821
26. Dividends paid to shareholders	- 1 004	- 8 877
27. Cash flow from financing activities	- 33 253	84 640
28. Net change in cash and cash equivalents	- 70 353	109 662
29. Cash and cash equivalents at the start of the period	176 671	67 009
30. Cash and cash equivalents at the end of the period	106 318	176 671

Offsetting and reconciliation of cash and cash equivalents			
K €	31/12/2017	31/12/2016	1/1/2016
Cash and bank balances	105 161	175 514	65 852
Other securities	1 157	1 157	1 157
Cash and cash equivalents	106 318	176 671	67 009
Change in cash and cash equivalents	- 70 353	109 662	

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