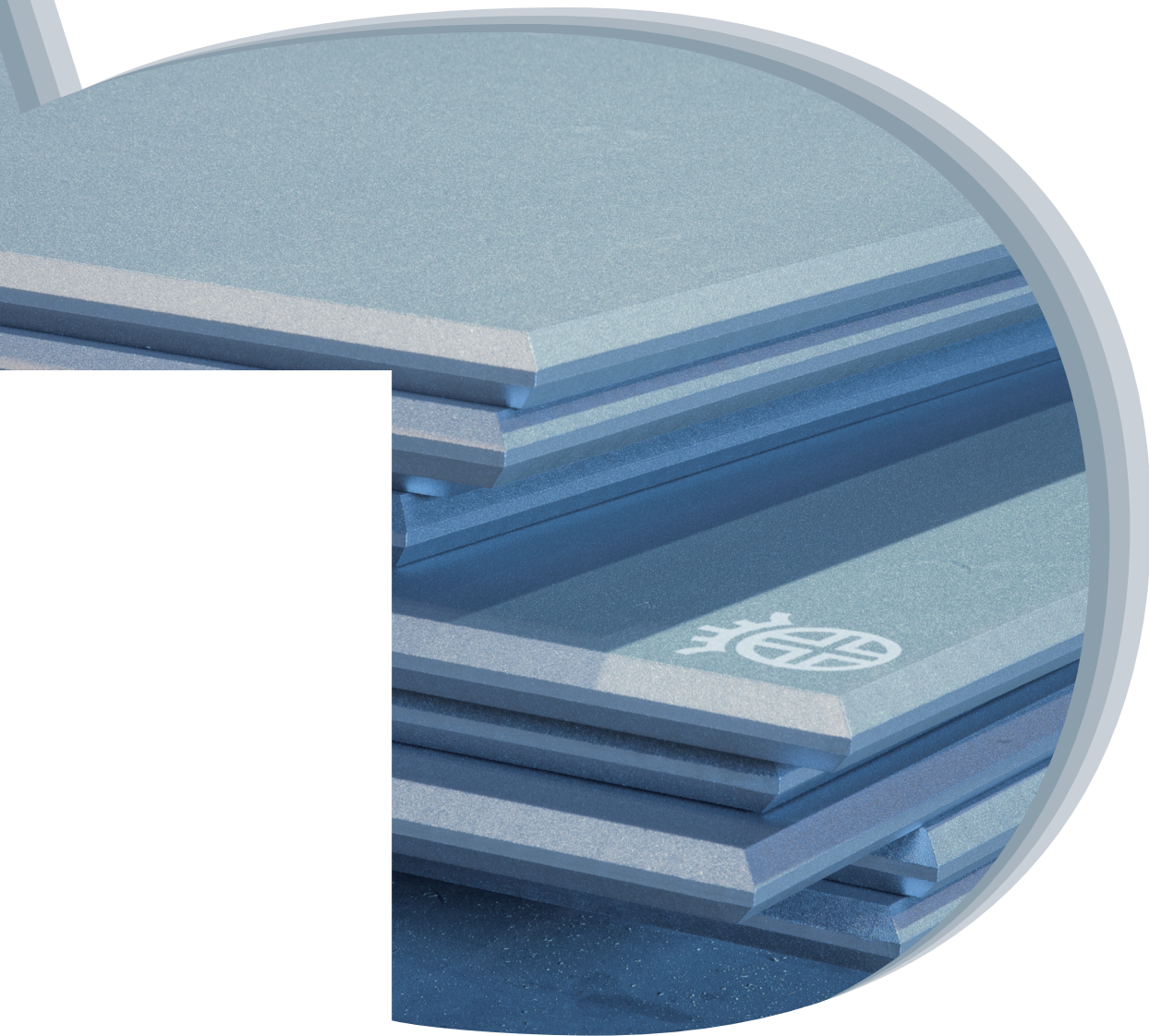


DILLINGER 



Executive Summary
of the **2018**
Financial Statement

KEY FIGURES

	2017	2018	Change
Hot metal purchase in kt *	2 188	2 012	- 8.0 %
Crude steel production in kt	2 550	2 334	- 8.5 %
Total production of heavy plate in kt	2 043	1 910	- 6.5 %
of which produced in Dillingen in kt	1 391	1 248	- 10.3 %
of which produced in Dunkerque in kt	652	662	+ 1.5 %
Total shipment in kt	2 804	2 681	- 4.4 %
of which heavy plate in kt	2 047	1 911	- 6.6 %
of which semi-finished product in kt	757	770	+ 1.7 %
Sales by country in millions of €			
Germany	851	831	
France	388	448	
Other EU countries	430	488	
Other exports	289	252	
Total sales	1 958	2 019	+ 3.1 %
Total workforce (excluding trainees) as of 31 Dec.	4 932	4 919	
Personnel expenses in millions of €	354	368	
Balance sheet total in millions of €	2 937	2 835	
Fixed assets in millions of €	2 054	2 064	
Investments	35	36	
Shareholders' equity in millions of €	1 671	1 619	
EBITDA in millions of €	70	66	
EBIT in millions of €	- 3	- 6	
Net result before profit transfer in millions of €	- 36	- 52	
Cash flow from operations in millions of €	19	36	

* Total production ROGESA: 4 389 kt (previous year: 4 596 kt)

CONTENTS

Key figures	1
Members of the Supervisory Board	4
Members of the Board of Directors	5
Report of the Board of Directors (abridged)	7
Annual financial statement (abridged)	28
Balance sheet	28
Profit and loss statement	30
– Listing of shareholdings	31
– Cash flow statement	33

This abridged English-language financial statement is an excerpt from the annual report of Dillinger for the 2018 financial year. This publication does not constitute the complete form required by law (for this, please see the 2018 Annual Report of Dillinger in German).

MEMBERS OF THE SUPERVISORY BOARD

Dr. MICHAEL H. MÜLLER, Saarbrücken

Chairman, died 21 February 2019
*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 (LU)

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

ARIBERT BECKER, Rehlingen

Sales Director of Saarstahl AG (ret.)

MICHAEL BECKER, Saarwellingen

*2nd Deputy Chair 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

(until 31 December 2018)
*Member of the Group Works Council and
 Deputy Chairman of the Works Council of
 Aktien-Gesellschaft der Dillinger Hüttenwerke*

CARL DE MARÉ, Belsele (BE)

*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

(until 31 December 2018)
Finance FCE ArcelorMittal GmbH, Bremen

EUGEN ROTH, Merchweiler

*Deputy Chairman
 of DGB Rheinland-Pfalz/Saarland*

RAINER SCHWICKERATH, Nalbach

(as of 1 January 2019)
*Member of the Works Council of
 Aktien-Gesellschaft der Dillinger Hüttenwerke*

RHEINHARD STÖRMER, Völklingen

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

ERICH WILKE, Königstein (Taunus)

Bank Executive (ret.)

MEMBERS OF THE BOARD OF DIRECTORS

FRED METZKEN

(until 31 August 2018)

*Spokesperson for the Board of Directors
and Chief Financial Officer*

TIM HARTMANN

(as of 1 September 2018)

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

Dr. GÜNTER LUXENBURGER

Chief Sales Officer

MARTIN BAUES

(as of 20 March 2019)

Chief Technical Officer

Dr. BERND MÜNNICH

(until 19 March 2019)

Chief Technical Officer

PETER SCHWEDA

*Chief Human Resources Officer
and Labor Director*

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, for one thing, the activities of an integrated blast furnace route, including the production of coke and hot metal through the subsidiaries Zentralkokerei Saar GmbH (ZKS) and ROGESA Roheisengesellschaft Saar mbH (ROGESA), jointly held with Saarstahl AG (SAG), or the production of liquid steel and semifinished products. 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 GmbH, 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 extends beyond heavy plate.

SHS - Stahl-Holding-Saar GmbH & Co. KGaA (SHS) is the direct and indirect majority shareholder of Dillinger as well as of 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

Slowdown in economic growth

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

After a dynamic 2017, the economic expansion (+ 2.4 %) in the euro zone continued at a slower pace in 2018 (+ 1.8 %). The United States surprised with GDP growth of just under 3 %. China is currently experiencing a slowdown in the momentum of growth. After 6.9 % in 2017, economic output will rise by “only” 6.6 % in 2018. After years of exceptional economic activity, economic growth in Germany (+ 1.5 %) slowed significantly in 2018 compared with the previous year. In contrast to this development, economic performance in most other EU member states continued to improve.

* Sources: Monthly report of German Central Bank (Deutsche Bundesbank) in December 2018, EUROFER, Eurostat, World Steel Association, WV Stahl

Slight recovery in steel demand

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

In the EU, demand for steel grew in 2018 for the fifth consecutive year, increasing by 2.2 % compared with 2017 due to the sustained economic recovery, but it is still significantly below pre-crisis levels. According to World-steel, growth in China was on the order of 6 % year-on-year. In the United States, market supply rose moderately by 2.3 % compared with 2017. Steel imports have fallen by 10 % as a result of the collection of 25 % duties on imports since 1 June 2018.

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

Heavy plate market remains highly competitive

The heavy plate business remained fiercely competitive in 2018 for European manufacturers. This was evident from the fact that capacity utilization at the Eurofer plants again fell slightly from around 66 % to 63 % and that the overall production of heavy plate decreased accordingly. The EU steel pipe sector suffered a significant decline in production activity – here especially in the large-diameter pipe industry due to a lack of pipeline projects – and in the offshore wind sector due to project postponements. Although deliveries to the EU home market (28) increased year-on-year, the share of deliveries to third countries fell sharply.

This development is without doubt influenced by trade policy measures.

In February 2019, the EU Commission approved the conversion of provisional EU safeguards into final measures. These measures have remained mostly ineffective for the heavy plate market in the current market situation, given the level of the reference quantity (average of imports from 2015 to 2017).

BUSINESS PERFORMANCE AT DILLINGER

In addition to unfavorable prevailing circumstances that included massive overcapacities in the heavy plate market, high imports from non-EU countries, restrictions in the US sales market and resulting price pressure in the European market, Dillinger was faced with further challenges in the 2018 financial year due to two disruptions, independent of each other, in the operation of ROGESA blast furnace 4. Moreover, ensuring on-time deliveries to customers during an unusually long period of low water on the Rhine, which resulted in severe restrictions on inland waterway transport, was connected with additional expenditure.

Despite the difficult market conditions, the company succeeded in booking more orders for normal plate in a wide variety of segments. These partly compensated for the lower demand for pipe plate and in the offshore wind segment, which traditionally account for a significant share of deliveries, and overall achieved above-market capacity utilization. However, incoming orders and overall production output were well below the level of the last two years. As expected, Dillinger closed the financial year somewhat weaker than in the previous year: the projections for a slightly negative operating result in 2018 were confirmed. Both EBIT and EBITDA are only slightly below the previous year's figures. Due to a further increase in interest expenses, the overall result fell more sharply below the previous year's amount.

Fluctuating utilization of plant capacities

The capacity utilization of the production facilities fluctuated in 2018 and production was lower overall. This also included the production of slab. Purchases of hot metal, at 2 012 kt (2017: 2 188 kt), fell by 8.0 % and crude steel production fell by 8.5 % to 2 334 kt (2017: 2 550 kt) compared with the record volumes in 2017.

As in previous years, steel production levels satisfied the slab requirements for the rolling mill in Dillinger as well as most of the requirements of Dillinger France S.A. in Dunkerque. The production of both rolling mills (1 910 kt) fell by a total of 6.5 % from the previous year (2017: 2 043 kt), with 1 248 kt of heavy plate produced in Dillinger (2017: 1 391 kt) and 662 kt of heavy plate produced in Dunkerque (2017: 652 kt).

EARNINGS POSITION**Increase in net sales due to revenue increases with lower sales volumes**

Overall, shipments of heavy plate fell in 2018 by 136 kt (- 6.6 %) to 1 911 kt. Price adjustments, which led to improved revenues, helped 2018 net sales exceed those of the previous year, as expected. Under these circumstances, net sales increased from € 1 958 million in the previous year to € 2 019 million (+ 3.1 %). Distribution of net sales by geographical markets shows slight shifts: while the revenue share in Germany and countries outside the EU declined, it increased in France and the other EU countries.

Planning results confirmed

As expected, Dillinger ended the 2018 financial year with a slightly negative result under continued difficult market conditions. The EBIT achieved amounted to - € 6 million compared with - € 3 million in 2017, and EBITDA decreased accordingly to € 66 million (2017: € 70 million). Despite price adjustments and positive effects in other operating income, the slight decline in earnings is mainly attributable to lower production and sales volumes and, at the same time, higher expenses in various divisions.

Material intensity (- 0.4 percentage points) fell year-on-year to 74.6 %, mainly due to the development of sales/material input prices. This decrease was offset by higher maintenance and repair expenses as well as higher inventory write-downs.

Other operating income (€ 75 million) was € 5 million higher than in the previous year, mainly due to higher income from the sale of financial assets combined with lower income relating to out-of-period income and write-ups on financial assets in the previous year.

Personnel expenses in 2018 (€ 368 million) increased by 4 % year-on-year (€ 354 million), mainly due to collective bargaining adjustments, changes in company agreements and the application of new biometric mortality tables. At the same time, the personnel intensity (ratio of personnel expenses to total output) also changed from 17.9 % in 2017 to 18.3 %, while the average number of employees fell by more than 100 compared with the previous year.

Amortization of intangible assets and depreciation of property, plant and equipment in the amount of € 72 million is determined by the course of capital expenditure and scheduled depreciation and amortization and corresponds to the previous year's amount.

With administrative expenses remaining nearly constant and a slight decrease in general operating expenses, other operating expenses increased by a total of € 15 million, primarily due to higher marketing expenses (+ € 20 million).

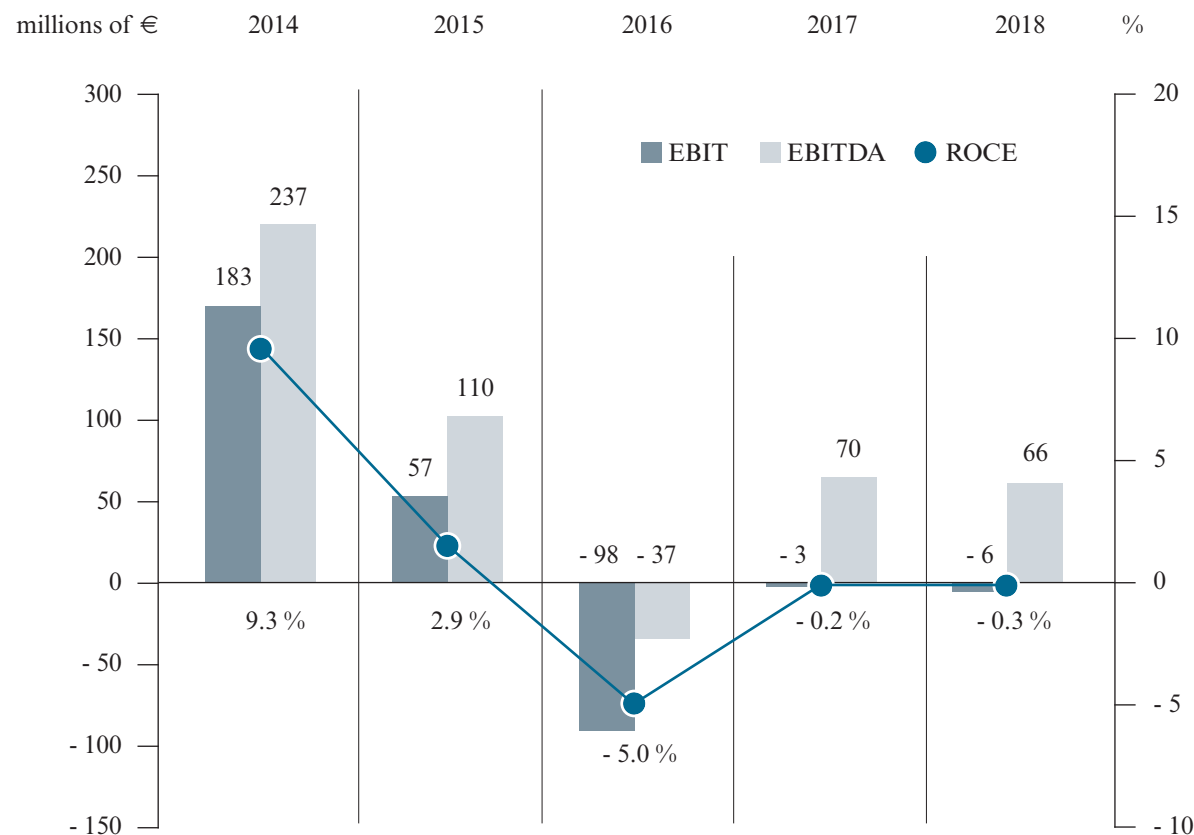
In 2018, lower expenses due in particular to assumed losses led to improved income from investments amounting to - € 16 million (2017: - € 20 million).

Net interest income worsened yet again by € 13 million to - € 45 million (2016: - € 32 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 external shareholders, net loss before loss compensation amounted to - € 52 million (2017: - € 36 million).

This slightly weaker 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: Return on capital employed (ROCE) during the year under review amounted to - 0.3 % (2017: - 0.2 %); return on sales (EBIT margin) amounted to - 0.4 % (2017: - 0.2 %).

Development of EBIT, EBITDA, ROCE



FINANCIAL AND ASSET SITUATION

Moderate investment activity

Cash and cash equivalents decreased overall during the financial year from € 107 million to € 60 million (change in the previous year: - € 70 million).

Cash flow from operations meanwhile amounted to € 36 million (2017: € 19 million). The low cash outflow from the - € 2 million increase in working capital (2017: cash outflow of € 47 million) was offset once again by a positive cash inflow of € 38 million (2017: € 67 million). In the 2018 year under review, this resulted from income for the accounting period adjusted for depreciation or earnings from the disposal of fixed assets, non-cash interest expenses for long-term provisions and income from investments.

Cash outflow for investments in 2018 amounted to a total of € 41 million (2017: € 56 million). Of this amount, € 36 million went to payments for investments in tangible fixed assets (2017: € 35 million). As a consequence, there was a negative free cash flow in the year under review amounting to - € 5 million (2017: - € 37 million).

Investments in the year under review included the re-commissioning of the CC 3 continuous casting line following an accident with liquid steel, the first casting of which took place in October 2018. Further improvements

were also made during 2018 to 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. Other investments were made in the rolling mill, in heavy fabrication, in the Central Workshops and in the Final Inspection. In addition, the new “Center for Risk Management” began operations at the Dillingen steel plant during the financial year.

The scheduled payments for financing activities including their interest payments resulted in 2018 in a cash outflow from financing activities of - € 42 million (2017: - € 33 million). No loans were taken out during the financial year.

Equity ratio remains at a high level

The balance sheet total again decreased from the previous year by € 102 million to € 2 835 million. The net asset position is meanwhile characterized by slight increase in long-term assets and a sharper reduction in short-term asset values. Fixed assets increased in 2018 by a total of € 10 million to € 2 064 million. This resulted from the fact that scheduled investments in tangible fixed assets and in financial assets exceeded the value of scheduled depreciation of € 72 million. Current assets declined overall by € 111 million to € 771 million. Customer receivables rose meanwhile by a total of € 17 million, while at the same time provisions, other assets and cash and cash equivalents declined by a total of € 128 million.

The € 52 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 changed only slightly in the year under review from 56.9 % to 57.1 %. Borrowed capital decreased in sum by € 50 million; accruals and provisions meanwhile increased by a total of € 34 million, while – due to scheduled payments – long-term bank liabilities (- € 34 million), liabilities to suppliers (- € 39 million) and other liabilities (- € 11 million) were each lower than on the previous year's reporting date. Pension provisions increased significantly once again due to further interest rate changes.

KEY FIGURES

			2014	2015	2016	2017	2018
Capital intensity	Shareholders' equity	millions of €	1 812	1 812	1 707	1 671	1 619
	Total assets	millions of €	2 962	2 943	2 990	2 937	2 835
		in %	61.2	61.6	57.1	56.9	57.1
Liquidation ratio for fixed assets	Shareholders' equity	millions of €	1 812	1 812	1 707	1 671	1 619
	Fixed assets	millions of €	1 967	2 019	2 074	2 054	2 064
		in %	92.1	89.7	82.3	81.4	78.4
Debts	Long-term bank liabilities	millions of €	172	143	245	221	187
	Shareholders' equity	millions of €	1 812	1 812	1 707	1 671	1 619
		in %	9.5	7.9	14.4	13.2	11.6
EBIT margin	EBIT	millions of €	183	57	- 98	- 3	- 6
	Sales DH products	millions of €	1 505	1 375	1 305	1 519	1 562
		in %	12.2	4.1	- 7.5	- 0.2	- 0.4
EBITDA margin	EBITDA	millions of €	237	110	- 37	70	66
	Sales DH products	millions of €	1 505	1 375	1 305	1 519	1 562
		in %	15.7	8.0	- 2.8	4.6	4.2
Return on capital employed (ROCE)	EBIT	millions of €	183	57	- 98	- 3	- 6
	Shareholders' equity, tax provisions, liabilities subject to interest	millions of €	1 971	1 970	1 954	1 922	1 849
		in %	9.3	2.9	- 5.0	- 0.2	- 0.3
Internal financing capability	Cash flow from operations	millions of €	77	188	103	19	36
	Net investment in tangible assets	millions of €	140	114	69	35	36
		in %	55.0	164.9	149.3	54.3	100.0
Expense structure in % of total operating revenue	Material intensity	in %	66.8	65.9	72.2	75.0	74.6
	Personnel intensity	in %	16.5	19.4	22.8	17.9	18.3

Changes 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 333 years of existence but also in part by the numerous key 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 resource-conserving 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 importantly, through a wide range of applications, to protecting the environment and climate. No other material is manufactured using a process as environmentally compatible as steel. Products made from steel can be completely recycled as often as desired at the end of their useful lifetimes 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 in 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 issues in 2018 continued to include improving workplace safety, promoting health, and fostering young, skilled employees for the company.

Slight decrease in number of employees

At the end of the year under review, 4 919 people were employed at the Dillingen site (31 Dec. 2017: 4 932). These employees worked at Dillinger itself and – within the course of operations management – at ZKS, and at ROGESA. In 2018, 176 new employees were hired. In ad-

dition, 49 trainees were given a job after completing training. These are contrasted against departures for reasons of age and staff turnover within the SHS Group as a consequence of ongoing restructuring processes as part of “Dillinger 2020.” The overall number of employees decreased by 0.26 % compared to the previous year. At the end of the financial year, the wholly owned subsidiary Dillinger France in Dunkerque employed 538 people (31 Dec. 2017: 540). A total of 2 391 people were employed at Dillinger subsidiaries and affiliated companies (2017: 2 409).

Safety and health

A safe and healthy work environment is given top priority at Dillinger. In keeping with corporate principles, numerous programs and measures again contributed in 2018 to promoting and maintaining the safety-consciousness and good health of employees. These programs included the Daily Work Safety Meeting, Fifteen Minutes for Safety and Safety Hour programs, as well as special health programs. Dillinger concluded 2018 with 30 accidents requiring at least one day of leave (2017: 21) and a lost time injury frequency rate (the number of accidents requiring one day of leave per 1 million hours worked) of 3.9 (2017: 2.7), and thus with a weaker result than in the previous year (the best workplace safety result in the company’s history).

Fostering 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 2018, 75 young people (2017: 66) 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. For many years now, the company has also maintained partnerships with universities in order to help support young university graduates. In 2018, 11 university students from technical degree programs and 9 university students from business degree programs worked at Dillinger as technical university or university trainees. In addition, 3 students began their cooperative degree program with the University of Applied Sciences in Saarbrücken as well as the University of Saarland. A total of 20 students are currently completing this practical course of study in the company.

RESEARCH AND DEVELOPMENT

Dillinger invests continuously in research and development (R&D) as an important basis for maintaining a leading position within increasingly tough competition among heavy plate manufacturers. In 2018, 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 as well as on optimizing quality and reducing costs.

In the area of coke and hot metal production, process engineering and simulation studies were focused on further reduction of emissions at the coke batteries and on further development of the torpedo management system for optimizing logistics between blast furnaces and steelworks. The research and development of new process routes for coping with the problem of carbon emissions is a focal point of increasing importance. In the area of steel production, the metallurgical process models were further developed.

Product-oriented R&D has advanced microstructure-based material development, especially microstructure and property modeling, in multiple cooperative projects with external institutes. Efforts in the area of data-based forecasting models were concentrated on the creation of the digital twin with respect to material properties and with its integration into the planning and control of production processes.

Market requirements were consistently translated into product developments that can be used on an industrial scale and brought to production maturity, thus significantly expanding Dillinger's product portfolio of steels. This particularly concerned the feasibility limits with regard to dimensions, the mechanical-technological property combinations and the processing properties.

PROCUREMENT AND TRANSPORT OF RAW MATERIALS

China was again the main driver in the ore market. Ore prices were by and large stable, but 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, still had not resumed production in 2018 following a serious accident.

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

Volatility in the area of cargo rates continued in 2018. The combination of cargo rates that are secured long-term and the simultaneous use of opportunities on the spot market continued to prove fruitful for ROGESA and ZKS. With regard to bulk cargo handling compa-

nies, competition has been intensified through generation of new options and routes. The conditions have been improved.

The strategy pursued by ROGESA and ZKS of intensive market research and increasing technical and commercial flexibility combined with the possibility of rapid geographical diversification was continued during the financial year. Cost advantages were generated during the course of the year through early and extensive procurement of raw materials. ROGESA and ZKS are maintaining their continuous efforts to optimize the quality and cost of the supply for the blast furnaces and the coking plant.

The total transport volume at the Dillingen plant in 2018 was 16.3 million metric tons. Of this amount, 10.8 million metric tons went to the supply of raw materials and fuels, 3.2 million metric tons to the shipment of semi-finished products, finished products and by-products, and 2.4 million metric tons to hot metal in interplant transport. During this period, logistics in inland water freight transport was influenced by a 5-month period of historically low water, which posed enormous problems for large parts of the industry. The massive structural problems of the contractual partner for rail transport had an impact on the performance of the rail transports. However, the security of supply for ROGESA's blast furnaces and the dispatch of the heavy plate was maintained at all times.

ENVIRONMENTAL PROTECTION

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, not least because innovative product solutions made from steel are contributing importantly to environmental protection (see the section on “Sustainability”).

Additional optimization measures at existing exhaust air purification plants in particular contributed to improved air quality at the Dillingen site in 2018. New dedusting systems were also devised, including the investment totaling € 28 million agreed in autumn 2018 for a circular cooler in ROGESA's 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.

As part of the environmental inspections under the European Industrial Emissions Directive (IED), an extended official inspection took place in 2018 of the blast furnaces and sinter plants, the heavy plate rolling mill and the central coking plant.

The environmental management system successfully completed its second monitoring audit in accordance with DIN EN ISO 14001:2015 in April 2018, conducted by TÜV-Saar Cert. There were neither major nor minor deviations.

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 2018, at 1 302 kt, was slightly below the previous year's production (1 315 kt). ZKS is a company without employees. The personnel required to operate the coking plant are made available by Dillinger. Investments at ZKS in 2018 amounted to € 4 million (2017: € 3 million).

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 blast furnaces 4 and 5, at 4 389 kt, was 4.5 % lower than the previous year (4 596 kt) due to incidents and the temporary poor functioning of blast furnace 4 in the period from August to October. During the year under review, 2 012 kt (previous year: 2 188 kt) was supplied to Dillinger and 2 377 kt (previous year: 2 408 kt) went to Saarstahl. Investments at ROGESA in 2018 amounted to € 5 million (2017: € 11 million).

Along with STEAG New Energies GmbH (49.9 %) and VSE AG (25.2 %), ROGESA holds a 24.9 % stake in Gichtgaskraftwerk Dillingen GmbH & Co. KG, which leases a 90 MW power plant at the Dillingen plant to the operators of 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.

The total production of Dillinger France in 2017 amounted to 662 kt, an increase of 1.5 % compared to the previous year (652 kt). The share of the normal steel product range rose to a tonnage of 476 kt (2017: 424 kt). The main sales markets were marketing companies, off-

shore wind turbines, boiler construction and steel construction, mainly in Europe. Pipe plate tonnage was 185 kt (2017: 228 kt). The company supplied 93 kt of this for the EUGAL project to the large-diameter line pipe manufacturer EUROPIPE Mülheim.

Sales increased from € 440 million in the 2017 financial year to € 459 million in the 2018 financial year (+ 4.4 %). This increase was due to a rise in sales prices during the course of 2018. EBITDA for the 2018 financial year amounted to € 6.1 million (2017: € 8.5 million), net earnings totaled - € 7.1 million (2017: - € 6.0 million). As at 31 Dec. 2018, the shareholders' equity of Dillinger France amounted to € 105 million.

The number of employees remained stable at 538 as of 31 December 2018, compared with 540 as of 31 December 2017. Occupational safety continued to develop positively: In 2018, Dillinger France recorded only one workplace accident followed by absence from work (2017: 3). This corresponds to an accident rate of 1.1. Investments at Dillinger France in 2018 amounted to € 6.3 million, roughly the same as in 2017.

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, mega monopiles 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 2 400 metric tons and lengths of up to 120 m.

For Steelwind, the 2018 financial year was defined by the delivery of two large orders and the dip in the offshore wind market. For the Borkum Riffgrund II offshore wind farms, 36 mega-monopiles and the first series of 36 transition pieces were delivered by the end of April. Starting in February, 32 monopiles were manufactured for the Trianel Borkum West 2 offshore wind farm and subsequently were delivered by the end of October. Due to a lack of follow-up orders, Steelwind began short-time work schedules on 1 November. Steelwind Nordenham sales in 2018 amounted to € 113 million (2017: € 79 million). At the end of the financial year the company employed 265 people (2017: 326).

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 targeted for completion by mid-2019.

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. On 1 January 2019, the organization of the US Group was restructured. BSPC was renamed BERG Pipe Panama City Corp (BPP), and BSPM became BERG Pipe Mobile Corp. (BPM). In addition, BEC was merged with BPP. The sales office in Houston is now operating under the umbrella of BPP.

The EUROPIPE Group recorded sales in 2018 of € 956 million (2017: € 1 045 million). Sales volumes continue to stem mainly from the European business, but the US Group recorded significant growth in comparison to the previous year due to the improved order situation. Shipments by EUROPIPE GmbH declined sharply as a consequence of a weakened order situation compared to the previous year with a volume of 706 kt (2017: 934 kt). The US Group's shipped tonnage in 2018 reached a slightly higher level of 190 kt (previous year: 172 kt) as a consequence of an improved order situation starting in the 2nd half of the year.

The order backlog of the EUROPIPE Group fell significantly as at 31 December 2018 to 235 kt (previous year: 861 kt), due in particular to the poor project situation of EUROPIPE GmbH at the end of the year. The EUROPIPE Group's net income for the year, at € 16.8 million, was around the previous year's level (€ 22.3 million). At the end of 2018, the EUROPIPE Group employed a total workforce of 1 058 people (2017: 1 029). Of these, 543 employees worked for EUROPIPE GmbH (2017: 558).

During the financial year, the EUROPIPE Group invested € 6.8 million (2017: € 11.1 million) for plant, property and equipment and for intangible assets. Expenditures at EUROPIPE GmbH for further development of its products and the continuous improvement of production and quality assurance methods amounted to € 2.0 million (2017: € 2.9 million).

While EUROPIPE was still able to benefit from the major projects Nord Stream 2 and EUGAL in 2018, there are few available projects in Western and Central Europe for 2019, the core market of EUROPIPE GmbH. Significantly lower production and shipping volumes and lower sales are therefore expected for EUROPIPE GmbH in 2019 compared with the previous year.

Saarstahl AG, Völklingen

Specialties of Saarstahl AG, in which Dillinger holds 25.1% of shares, include the production of wire rod, bar steel and semi-finished 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 steel market for wire and rod products, which is relevant for Saarstahl AG, continues to be characterized by overcapacities, so that pressure on volumes and prices remains high. As a supplier of steel grades in the demanding premium quality sector, Saarstahl was once again able to benefit from growth in the automotive industry and other steel processors. Due to high demand in the rod and wire segment, sales volumes were relatively high at 2.4 million metric tons. As in the previous year, Saarstahl's facilities were therefore well utilized. Sales volume and price development in 2018 resulted in Saarstahl AG

ending 2018 with good sales and earnings figures despite the difficult market environment.

The crude steel production of Saarstahl amounted in 2018 to 2 782 kt and thus fell compared to the previous year by 0.1 %. Shipping of steel products fell by 4.0 % to about 2 431 kt. Net sales increased by 6.9 % from € 1 830 million in the previous year to € 1 957 million. EBIT for Saarstahl amounted to € 107 million (2017: € 25 million) and EBITDA was € 153 million (2017: € 69 million). Return on capital employed (ROCE) rose to 5.5 % (2017: 1.3 %).

Additions to property, plant and equipment for Saarstahl AG in 2018 amounted to € 46 million (previous year: € 41 million). Saarstahl pressed ahead with work in 2018 on the new S1 continuous casting line for an investment sum of € 100 million. 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 2018, there were 4 340 people employed by Saarstahl AG (previous year: 4 040). During the year under review, 82 young people (previous year: 73) were able to begin their vocational training.

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 further developed.

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 the risk management system

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, 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 2017, 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. 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 has weakened slightly after several years of continuous improvement. Indicators of slowing world trade and economic risks are increasing. The on-

going 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.

The number of trade disputes increased further in 2018. As a consequence of the punitive tariffs imposed by the United States on steel imports and the resulting counter-tariffs imposed by individual countries and by the European Union, we have reached the brink of a trade war. The resulting diversionary effects have negative consequences for the entire EU steel industry. Geopolitical developments have increased the likelihood of additional sanctions. Even after a draft treaty on the withdrawal of the United Kingdom from the European Union has been produced, there are still uncertainties regarding the economic impacts of the approaching withdrawal. A hard, unregulated Brexit has unforeseeable consequences for the economy in the euro zone.

After some European countries, such as the Netherlands and Belgium, have already increased their expansion targets, the German government's unchanged expansion targets are currently slowing further development of the offshore wind industry in Germany. For a variety of reasons, Europe experienced the expected dip in the offshore wind sector in 2018. Investment bottlenecks and uncertainties, for example, in the award and financing of

major projects have led to many projects being executed earlier than originally planned or postponed, leading to this dip. Steelwind Nordenham therefore had to announce short-time work schedules on 1 November 2018.

These risks 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. More offshore projects are planned for 2019, and the overall order situation appears to be returning to normal.

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

After the exceptional boom in the linepipe market due to major projects such as Nordstream 2 and Eugal, projects of the same magnitude are not expected in the foreseeable future.

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 at 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, reducing agents and aggregate materials, specific procurement and logistics divisions are consolidated under the umbrella of SHS Services GmbH or 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.

The increasing political pressure in Europe to “decarbonize” also increases the risks for coal procurement and

coal logistics (further details can be found in the section “Regulatory risks”).

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

Raw materials for iron and steel production are increasingly the subject of speculation. This leads to intensified volatility in prices for raw materials. Options are therefore also employed to ensure a basic flexibility in raw material supply, especially for ROGESA and ZKS. An adequate stock policy ensures that a supply buffer is consistently maintained (in the transshipment ports and at the Dillingen plant). In addition to safeguarding the supply, the implemented measures relating to diversifying sources of supply and the raw materials used also help reduce price risks.

In the year under review, damage to machines at the blast furnace gas power plant in Dillingen led to a prolonged and unscheduled production shutdown and thus to a restriction in the in-house power supply at the Dillingen site. Nevertheless, the 90 MW blast furnace gas power plant helps to 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 assured.

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. In the year under review, two major incidents occurred in ROGESA’s blast furnace operations. Due to the considerable and widely visible emissions resulting from these incidents, both also had a negative external impact on the company’s image. Professional measures have been taken to rectify the fault. The crisis and emergency management system implemented by Dillinger has proven its worth in this instance. This was followed in each case by a systematic analysis of the causes, and the necessary sustainable measures were derived to avoid the same cases of damage in the future.

Our workforce, which is prepared for operational requirements through appropriate qualification and further training, significantly contributes to operational safety. 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.

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 partners 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. An ongoing financing and liquidity plan as well as an extensive cash management concept ensures the liquidity of the company 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 li-

mit 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. The financial reporting of the hedging instruments mentioned is presented in detail in the notes to the balance sheet.

Legal risks and compliance risks

Legal risks are to be assessed as moderate. The company is currently involved in 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 areas of law and legal systems. For very specific issues that reach beyond German and French jurisdictions, Dillinger also consults the expertise of 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. We rate general compliance risks as high. However, potential misconduct is counteracted with preventive compliance efforts. The compliance program of the SHS Group and

thus of Dillinger was intensified and continued by the Compliance Committee during the past financial year. Informational events, including in particular at the subsidiaries of Dillinger, as well as publications on specific compliance issues are used preventively to encourage conduct that is compliant and that exhibits integrity. The digital training program was launched in late 2018. Use of the eLearning tool now makes it possible to access the training content worldwide and in various languages. The focus will initially be on the important areas of antitrust and competition law as well as corruption. The contents of the ethics guideline will also be trained at a later date. An external law firm was appointed in the financial year as an additional external data protection officer (eDSB) for further practical implementation of the General Data Protection Regulation, which came into force in May 2018, and to support the activities of the Group Data Protection Officer.

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 when compared with its international competitors. The company therefore follows regulatory efforts directly and through working contacts with trade associations. Dillinger is committed to constructive climate protection efforts and actively supports climate reversal through its

corporate activities, including in the area of offshore wind, among others. However, regulatory developments regarding climate protection also carry risks for Dillinger. Consistent implementation of the Climate Action Plan 2050 adopted for Germany in 2016 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. The current European climate target has been further tightened with the long-term strategy for a climate-neutral economy presented by the European Commission. Complete climate neutrality of the economy is to be achieved by 2050. This is associated with enormous risks for energy-intensive industries.

The Emissions Trading Directive for the fourth trading period from 2021 to 2030 is in force. The rules for the free allocation of allowances have also been published. The allocation of free certificates will be well below the physical and processing capability of today's steel production. Consequently, this under-allocation cannot be offset by technical measures to reduce emissions on the current steelmaking process route with coking plant, blast furnace and converter steel plant. As a result of the introduction of the market stability reserve, substantial quantities of allowances will be withdrawn from the market from 2019 onwards, so that further price increases are to be expected. For Dillinger, this means that a considerable additional financial burden is to be expected in the fourth

trading period from 2021 onwards as a result of the emission allowances that will necessarily have to be acquired. Due to the great importance of this topic, it is being dealt with at SHS level by a separate consultant on carbon emissions trading.

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, 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 and updated by Dillinger and SHS Infrastruktur. The existing information security management system is continuously being expanded.

In addition, an information security officer was appointed in 2017 to protect the data and systems from harmful attacks from the Internet. Moreover, hardware compo-

nents such as servers and networks are continuously being expanded and adapted to technological innovations. To counter the dangers of ever-increasing cyberattacks, SHS acquired a stake in Rhebo GmbH in 2018. By signaling unauthorized interventions or even sabotage, Rhebo significantly increases security and optimizes plant availability through seamless real-time monitoring. 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.

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. The company counters this by providing training in various vocational fields. To make contact with suitable people, Dillinger undertakes various recruiting efforts. 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. Employment risks caused by the situation on the world market can be countered by labor market policy instruments as well as by internal flexibility instruments.

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 manufacture 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 with the affected departments and subsidiaries regarding market and technology trends. An important contribution is made by the strategy program Dillinger 2020, which 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. Dillinger also wants to assist its customers in the new markets. The intensified development of markets outside Europe, where little progress had previously been achieved, can be viewed as an opportunity. 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 company principally sees an opportunity to generate growth through strategic partnerships. This internationalization should therefore be accompanied with strategic partnerships and alliances. Relevant opportunities are being explored and assessed.

According to the OECD, the current overcapacity in the global steel industry amounts to more than 500 million metric tons. The G20 heads of government established the Global Steel Forum in 2016 with the aim of taking tangible steps to eliminate global overcapacities as a way to counter the sometimes considerable distortions on the global steel market. On 30 November 2017, the G20 economics ministers agreed in Berlin on common political core principles for resolving the structural crisis. This mandate was reaffirmed at the G20 Summit in December 2018. Dillinger sees this as an opportunity to sustainably reduce overcapacities by means of the market economy – including by identifying and eliminating subsidies that distort competition. 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-dis-

torting trade practices from third countries. Where trade barriers are successfully dismantled, market opportunities arise, such as through the Free Trade Agreement negotiated by the EU with Mexico and the planned Free Trade Agreement with Mercosur (Argentina, Brazil, Paraguay and Uruguay).

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. The CC 6 allows the company to expand into new dimensions and weights and to cover not only an increasingly advanced product mix but also to expand the spectrum for product innovations.

In 2018, Dillinger installed an eddy current testing unit in its rolling mill. This system uses eddy current to automatically inspect the surface of heavy plate for localized hard spots. This system was developed by Dillinger to meet new requirements from oil and gas companies for the ability to find and remove such hard spots on plate used for special pipelines. With this unique system, Dillinger has put a world first into operation. A similar system will be installed at Dillinger France.

The company sees an opportunity in the continuous development of the value chain. For instance, the subsidiary Steelwind Nordenham uses Dillinger plate to manufacture foundation structures for the offshore wind sector.

For Dillinger, the applications often subsumed under the term digitalization (e.g. Big Data analysis, machine learning, robotics, e-commerce, etc.) offer a wide range of development opportunities that can have a positive impact on competitiveness. Digitally enhanced and networked products, for example, can have the effect of consolidating a company's own creation of value, or more targeted communication activities can lead to the development of closer customer relationships. To exploit these potentials, Dillinger is increasingly pressing ahead with digital transformation, i.e. the continuous changing of business models, operating processes and customer interaction in connection with new information and communication technologies.

In late 2017, Dillinger extended for another three years its strategic partnership, initiated in 2014, with the Materials Science and Engineering Department at the University of Saarland and the Steinbeis Research Center at the Material Engineering Center Saarland (MECS). Research projects will once again be funded during this period. The application-focused projects, which are tightly integrated with the research activities of Dillinger, are aimed at continuously improving the heavy plate steel produced in the company and thus at securing competitive advantages in the world market for heavy plate. The cooperative venture initiated in 2015 with the Department of Numerical Mathematics at the University of Saarland has also been extended. The research project focuses on modeling the cooling process for heavy plate.

This autumn, the Supervisory Boards of SHS - Stahl-Holding-Saar, Dillinger and Saarstahl approved investments totaling almost € 90 million. These investments serve to improve not only environmental protection but also growth, quality and efficiency, as well as to make the company more attractive as an employer.

Operational opportunities

The operating activities of Dillinger consist of a multitude of processes that are sometimes interdependent or linked 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 as well as costs. Optimized processes offer the chance for more flexibility, higher throughput, less downtime and lower inventories 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.

The company is working to continue developing the management culture by implementing five pillars (culture of responsibility, trust, change, performance and dealing with mistakes) to meet future demands and to foster innovation. The management culture impacts the quality,

innovative strength and market viability of Dillinger. Management workshops to internalize and identify with the company's leadership principles were completed in 2018. Implementation of the management culture will now be continued through the companies and divisions as well as through cross-company workshops.

As part of the GO!Dillinger program launched in 2018, the introduction of a lean process for Dillinger will further advance this opportunity. For one thing, the existing processes will be summarized in a process map and, based on this, specific processes will be optimized according to the aspects of lean management. For another, the systematic introduction of shop floor management in all areas of the company creates an employee-oriented key performance indicator and management system that facilitates quick decisions on site and thus avoids waste.

The great challenge in today's world is to respond to the fast-moving changes and developments in the world. Industry 4.0 and innovation are important cornerstones in the development of Dillinger. Consequently, the innovation management introduced at Dillinger in 2016 was further expanded in 2018 and underpinned by innovative development and research efforts on various Dillinger products and processes. Dillinger is also focusing on digitalization for customer service. Introduction of the "E-Connect" customer app is planned for 2019, which will enable customers to confidently identify our plate

as a Dillinger product using a smartphone or tablet and to have all important information about the plate immediately on hand. The declared goal is targeted production of ideas and to introduce an innovation culture; the first ideas implemented have confirmed the decision to continue pursuing this path.

Important for all these production-supporting processes is a common basis of modern methods and a mindset regarding change management; the processes run in parallel and in coordinated form.

With the implementation of the projects to reduce costs and increase efficiency and competitiveness as part of Dillinger 2020, Dillinger will also be able to successfully confront the future challenges of a global competitive environment. Therefore, in addition to Dillinger 2020, the interlocking instruments for sustainable development I 4.0, innovation management, Continuous Improvement and Development, Lean and Shop Floor Management, IP and knowledge management are also being promoted.

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. This was also underscored in the management of the companies with the appointment of a single person as the Chairman of the Management Board of SHS - Stahl-Holding-Saar as well as the Chairmen of the Management Boards of both Dillinger and Saarstahl, effective 1 September 2018.

In addition, there are many areas in which Dillinger cooperates directly with Saarstahl AG. The coming together of Dillinger and Saarstahl holds great potential for the leveraging of synergies and thus for the future of Saarland as a steel-producing region. The credo here is "Think as a single entity, no longer as two individual companies." Duplicated structures are to be dismantled.

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.

Forecast

UNDERLYING ECONOMIC CONDITIONS

Slowing of economic growth

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

Subdued prospects for European steel market

On the basis of a minor increase in global economic output, global demand for steel will also develop in only a slightly positive direction in 2019. Worldsteel is forecasting growth of no more than 1.0 % in 2019, which means that the recovery on the global steel market will continue at a much slower pace. Demand for steel in the EU will decline significantly in 2019. The economic cycle is already well advanced for most steel processors in Europe, so that a weakening of steel demand is to be expected. A rather declining market supply can be assumed in Germany as well for 2019. There is also a significant risk for steel producers in the EU in the growing trade diversions triggered by the US measures under Section 232.

* Sources: IWF, OECD, World Steel Association, German Steel Federation (WV Stahl)

No all-clear signal in the heavy plate market

The difficult conditions for the heavy plate market will continue in 2019: There will be no significant improvements in worldwide overcapacity in the near future. In addition, the many trade policy measures, up to and including protectionism, will continue to impact the international heavy plate business. In February 2019, the EU Commission approved the conversion of provisional EU safeguards into final measures. These measures remain mostly ineffective for the heavy plate market in the current market situation, given the level of the reference quantity (average of imports from 2015 to 2017).

DEVELOPMENT OF DILLINGER

Due to the continued difficult state of the heavy plate market, Dillinger finds itself under massive pressure from the ongoing overcapacities and the continuing high level of imports into the EU, both in terms of volumes and sales revenues. Given these circumstances, the company started the year 2019 with somewhat weaker capacity utilization. Raw material prices continue to show an upward trend. Whether it will be possible to adequately implement price adjustments remains to be seen. Dillinger anticipates good demand from the machine manufacturing, steel construction and construction machinery sectors as well as from offshore wind, which will partially compensate for the lower demand for pipe plate.

Dillinger anticipates that sales revenue for 2019, with production and sales at the previous year's level, will be slightly lower than in the previous year due to a changed product mix and possibly moderately enforceable price adjustments. Even assuming that the measures to increase profitability and competitiveness continue to have an impact, positive EBITDA and a negative operating result (EBIT) are expected for 2019, at a slightly lower level than in the year under review.

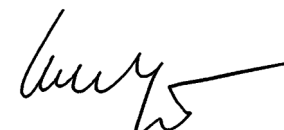
Dillingen, 28 March 2019
The Board of Directors



HARTMANN



BAUES



Dr. LUXENBURGER



SCHWEDA

ANNUAL FINANCIAL STATEMENT (ABRIDGED)

Balance sheet

Assets			
K €	Appendix	31/12/2018	31/12/2017
A. Fixed assets	(1)		
I. Intangible assets		1 181	1 369
II. Tangible assets		772 810	808 138
III. Financial assets		1 289 768	1 244 133
		2 063 759	2 053 640
B. Current assets	(2)		
I. Inventories			
1. Raw materials and supplies		37 499	39 057
2. Work in process		84 782	96 435
3. Finished goods and merchandise		83 892	88 299
		206 173	223 791
II. Receivables and other assets			
1. Trade accounts receivable		133 848	133 060
2. Receivables from affiliated companies		277 900	256 484
3. Receivables from companies in which the company has a participating interest		38 258	43 152
4. Other assets		54 903	120 357
		504 909	553 053
III. Cash and bank balances		59 539	105 161
		770 621	882 005
C. Positive difference from asset allocation	(3)	209	1 371
		2 834 589	2 937 016

Shareholders' equity and liabilities			
K €	Appendix	31/12/2018	31/12/2017
A. Shareholders' equity	(4)		
I. Subscribed capital		178 500	178 500
II. Capital reserve		378 574	378 574
III. Earnings reserves		1 061 663	1 114 009
		1 618 737	1 671 083
B. Accruals and provisions	(5)		
1. Accruals for pensions and similar obligations		469 599	424 465
2. Tax accruals		424	424
3. Other accruals and provisions		168 910	180 266
		638 933	605 155
C. Liabilities	(6)		
1. Liabilities to financial institutions		187 049	220 561
2. Customer advance payments		3 438	1 430
3. Trade accounts payable		59 722	46 639
4. Payables to affiliated companies		247 923	274 201
5. Payables to companies in which the company has a participating interest		48 987	77 067
6. Other liabilities		29 800	40 880
		576 919	660 778
		2 834 589	2 937 016

Profit and loss statement

K €	Appendix	2018	2017
1. Net sales	(7)	2 019 143	1 958 284
2. Changes in inventories and other own work, capitalized	(8)	- 8 469	23 301
3. Other operating income	(9)	75 350	69 555
		2 086 024	2 051 140
4. Cost of materials	(10)	1 500 253	1 486 496
5. Personnel expenses	(11)	368 003	354 239
6. Amortization and depreciation of intangible and tangible fixed assets		72 040	72 456
7. Other operating expenses	(12)	135 038	119 572
		2 075 334	2 032 763
8. Income from participating interests	(13)	- 15 893	- 19 975
9. Net interest income	(14)	- 44 781	- 32 164
10. Taxes on income and earnings		227	185
11. Result after tax		- 50 211	- 33 947
12. Other taxes		1 131	1 177
13. Compensatory payment to minority shareholders		1 004	1 004
14. Net loss for the year		- 52 346	- 36 128
15. Transfer from earnings reserves	(15)	52 346	36 128
16. Unappropriated retained earnings		0	0

LISTING OF SHAREHOLDINGS

	Currency	Share of capital in %			Shareholders' equity	Results 2018
		Direct	Indirect	Indirect		
1. Affiliated companies						
Domestic companies:						
Saarlux Stahl GmbH & Co. KG, Stuttgart	K €	53.0		53.0	11 278	- 534
Dillinger Hütte Vertrieb GmbH, Stuttgart	K €	100.0		100.0	4 210	¹⁾
Ancofer Stahlhandel GmbH, Mülheim/Ruhr	K €	90.0		100.0	26 031	¹⁾
Jebens GmbH, Korntal-Münchingen	K €	100.0		100.0	19 808	¹⁾
Cargo-Rail GmbH, Dillingen	K €	100.0		100.0	41	- 3
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	0 ²⁾
Steelwind Nordenham Projekt GmbH, Dillingen	K €	100.0		100.0	2 610	2
Foreign companies:						
Dillinger France S.A., Grande-Synthe	K €	100.0		100.0	100 155	- 7 066
Eurodécoupe S.A.S., Grande-Synthe	K €		100.0	100.0	1 004	357
Ancofed S.A.R.L., Grande-Synthe	K €		100.0	100.0	- 851	10
AncoferWaldram Steelplates B.V., Oosterhout	K €	100.0		100.0	43 822	2 081
Trans-Saar B.V., Rotterdam	K €	100.0		100.0	1 126	656
Dillinger Nederland B.V., Dordrecht	K €	100.0		100.0	562	367
Dillinger International S.A., Paris	K €	100.0		100.0	1 365	90
Dillinger Middle East FZE, Dubai	K AED	100.0		100.0	80 592	5 942
Dillinger India Steel Service Center Private Ltd., Mumbai	K INR		100.0	100.0	143 866	15 323
Dillinger Hütte Services B.V., Dordrecht	K €	100.0		100.0	74	1
Dillinger America Inc., New York	K USD	100.0		100.0	376	- 8
Dillinger Nordic AB, Alingsås	K SEK	100.0		100.0	3 514	2 587 ³⁾
Dillinger Italia S.R.L., Mailand	K €	100.0		100.0	296	96 ³⁾
Dillinger Espana S.L.U., Madrid	K €	100.0		100.0	201	126 ³⁾
Dillinger Hutte U.K. Ltd., London	K GBP	100.0		100.0	198	62 ³⁾

¹⁾ A profit and loss transfer agreement exists.

²⁾ Company is in liquidation.

³⁾ Previous year's amount

	Currency	Share of capital in %			Shareholders' equity	Results 2018
		Direct	Indirect	Total		
2. Participating interests						
Domestic companies:						
Dillinger Hütte und Saarstahl Vermögensverwaltungs- und Beteiligungs-OHG, Dillingen	K €	50.0		50.0	267 125	1 755
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	2 994	- 6
Cokes de Carling S.A.S., Carling	K €		50.0	50.0	- 25 316	505
EUROPIPE GmbH, Mülheim/Ruhr	K €	50.0		50.0	114 966	17 073
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	215 791	1 248 ⁴⁾
MÜLHEIM PIPECOATINGS GmbH, Mülheim/Ruhr	K €		50.0	50.0	18 173	131
Saarstahl AG, Völklingen	K €	25.1		25.1	2 428 672	58 417 ⁴⁾

¹⁾ A profit and loss transfer agreement exists.

⁴⁾ Consolidated profit

CASH FLOW STATEMENT

in K €	2018	2017
1. Period result before profit transfer	- 51 342	- 35 123
2. Write-downs/(Write-ups) on fixed assets	72 040	50 014
3. Increase/(Decrease) in provisions	- 16 134	- 59 552
4. Decrease/(Increase) in inventories, trade accounts receivables and other assets not allocated to investment or finance activities	56 634	- 2 671
5. Decrease in trade accounts payable as well as other liabilities not allocated to investment or finance activities	- 42 396	15 310
6. Profit from the disposal of fixed assets	- 43 082	- 659
7. Interest expenses incl. interest expenses and (interest income) not allocated to investment or finance activities	44 201	31 647
8. Other income from shareholdings	15 893	19 975
9. Income tax	227	185
10. Income tax payments	- 265	- 403
11. Cash flow from operations	35 776	18 723
12. Payments for investments in intangible assets	- 567	- 177
13. Proceeds from disposals of tangible fixed assets	1 010	856
14. Payments for investments in tangible fixed assets	- 36 177	- 34 842
15. Proceeds from disposals of financial assets	177 267	9 627
16. Payments for investments in financial assets	- 180 610	- 4 253
17. Payments/Proceeds due to financial investments as part of short-term financial resource management	7 013	- 33 233
18. Interest received	12 644	16 114
19. Received dividends and profit and loss transfers	13 033	10 991
20. Payments due to compensation obligations	- 34 336	- 20 906
21. Cash flow from investment activities	- 40 723	- 55 823
22. Free cash flow	- 4 947	- 37 100
23. Proceeds from loans	0	0
24. Payments from the amortization of bonds and loans	- 33 512	- 24 214
25. Interest paid	- 7 316	- 8 035
26. Dividends paid to shareholders	- 1 004	- 1 004
27. Cash flow from financing activities	- 41 832	- 33 253
28. Net change in cash and cash equivalents	- 46 779	- 70 353
29. Cash and cash equivalents at the start of the period	106 318	176 671
30. Cash and cash equivalents at the end of the period	59 539	106 318

Offsetting and reconciliation of cash and cash equivalents			
in K €	31/12/18	31/12/17	1/1/17
Cash and bank balances	59 539	105 161	175 514
Other securities	0	1 157	1 157
Cash and cash equivalents	59 539	106 318	176 671
Change in cash and cash equivalents	- 46 779	- 70 353	176 671

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