



EXECUTIVE SUMMARY  
OF THE FINANCIAL STATEMENT  
2020



## KEY FIGURES AT A GLANCE

		2019	2020	Change
Hot metal purchase	kt	1,955	<b>1,633</b>	-16.47 %
Crude steel production	kt	2,281	<b>1,879</b>	-17.62 %
Rolled steel production	kt	2,023	<b>1,668</b>	-17.54 %
of which Völklingen	kt	405	<b>338</b>	-16.54 %
of which Burbach	kt	953	<b>711</b>	-25.39 %
of which Neunkirchen	kt	665	<b>619</b>	-6.92 %
Shipping of steel products	kt	2,130	<b>1,754</b>	-17.65 %
<b>Sales revenues by region</b>				
of which Germany	€ million	964	<b>659</b>	-31.64 %
of which other EU countries	€ million	465	<b>354</b>	-23.87 %
of which other exports	€ million	233	<b>205</b>	-12.02 %
<b>Total turnover</b>	€ million	1,662	<b>1,218</b>	-26.71 %
<b>Workforce (excluding trainees), as at 31/12</b>				
Personnel costs	€ million	307	<b>250</b>	
<b>Balance sheet total</b>				
Fixed assets	€ million	1,276	<b>1,206</b>	
Investments	€ million	66	<b>42</b>	
<b>Shareholder's equity</b>				
EBITDA	€ million	-40	<b>-64</b>	
EBIT	€ million	-86	<b>-113</b>	
Net income/loss for the year	€ million	-130	<b>-132</b>	
<b>Operating cash flow</b>				
	€ million	84	<b>-33</b>	

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# MEMBERS OF THE SUPERVISORY BOARD

**REINHARD STÖRMER, Völklingen**

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

**JÖRG KÖHLINGER, Frankfurt**

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

**ARIBERT BECKER, Rehlingen**

2nd Deputy Chairman  
*Sales Director of Saarstahl AG, retired*

**STEPHAN AHR, Wadgassen**

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

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

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

**LARS DESGRANGES, Beckingen**

*Primary Authorized Representative for IG Metall, Völklingen*

**ELKE HANNACK, Berlin**

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

**NADINE KLIEBHAN, Illingen**

*Senior Manager of INFO-Institut Beratungs-GmbH*

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

*Managing Director / Partner,  
WGL Verwaltung und Beratung GmbH*

**MARKUS MENGES, Waldbrunn**

*Managing Director Südweststahl AG*

**ANTJE OTTO, St. Ingbert**

*Managing Director  
of the Association of Steelworks in Saarland, Saarbrücken*

**JÖRG PIRO, St. Wendel**

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

**ANGELO STAGNO, Saarbrücken**

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

**KATJA WEBER, Eberbach**

*Entrepreneur, Südweststahl AG*

**ERICH WILKE, Königstein (Taunus)**

*Bank Executive, retired*

# MEMBERS OF THE BOARD OF DIRECTORS

**DR. KARL-ULRICH KÖHLER**

(as of 1 January 2021)

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

**TIM HARTMANN**

(until 19 November 2020)

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

**MARTIN BAUES**

(until 31 March 2021)

*Chief Technical Officer*

**DR. KLAUS JÜRGEN RICHTER**

*Chief Sales & Marketing Officer*

**PETER SCHWEDA**

(until 30 June 2020)

*Chief Human Resources Officer and Labor Director*

**JOERG DISTELDORF**

(as of 1 July 2020)

*Chief Human Resources Officer and Labor Director*

# REPORT OF THE BOARD OF DIRECTORS (MANAGEMENT REPORT 2020)

## The company's fundamentals

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

In the 2020 financial year, restructuring between Saarstahl Group companies and Dillinger led to the consolidation of activities in rail transport operations, technical services and maintenance. As a result of (partial) transfers between operations, employees of Dillinger have moved to subsidiaries held jointly with Saarstahl.

### LEGAL PARAMETERS

A control agreement in accordance with Section 291 of the German Stock Corporations Act (AktG) has been concluded be-

tween Saarstahl AG, as the controlled company, and its majority shareholder, SHS - Stahl-Holding-Saar GmbH & Co KGaA (SHS), as the controlling company.

The direct and indirect majority shareholder of Dillinger, as well as of Saarstahl, is SHS - Stahl-Holding-Saar GmbH & Co. KGaA (SHS), a wholly owned subsidiary of Montan-Stiftung-Saar, under whose umbrella the two companies work closely together, e.g. via a joint purchasing department or via the SHS subsidiary SHS Logistics GmbH, which consolidates the logistics activities of the SHS Group with the aim of leveraging synergies in processes and costs.

## Financial report

### OVERALL ECONOMIC AND SECTOR-RELATED CONDITIONS

#### Global economic slowdown

The outbreak of the coronavirus pandemic caused a worldwide economic slump in the spring of 2020 due to lockdown measures: the global economy contracted by 4.2 %, exceeding the decline during the financial and economic crisis of 2008/2009. Developed economies (- 5.5 % in 2020 after + 1.7 % in 2019) as well as emerging and developing economies (- 3.0 % in 2020 after + 3.6 % in 2019) recorded a decline in gross domestic product. In addition to the coronavirus crisis,

weakening economic activity, global protectionism, the trade dispute between the United States and China, and protracted negotiations for the Brexit agreement between the EU and the UK also led to a decline in economic output.

In China, the economy recovered quickly thanks to a government investment program. According to the OECD (Organization for Economic Cooperation and Development), growth in 2020 was around 2 % compared to a 6 % increase in 2019. For the United States, a clear growth trajectory re-established itself in the summer of 2020. Even so, the economic downturns from the first half of the year could not be fully offset, resulting in a decline in economic output of just under 4 % after an increase of 2.2 % in 2019. GDP declined in the euro area in 2020 by 7.5 % year-on-year; in contrast, there was still an increase in 2019 of 1.3 %.

As an export country, Germany was impacted by a decline of 5.5 %. Exports fell 10 % year-on-year, marking the first decline in exports in 2020 since 2009.<sup>1</sup>

### GLOBAL STEEL MARKET AND STEEL PROCESSORS

The situation in the steel market in 2020 was characterized by global overcapacities. Global crude steel production amounted to 1.864 billion tons in 2020 compared to 1.869 billion tons in

<sup>1</sup> Source for world economy: OECD.

2019 (- 0.9 %). China's steel production remained unchanged at a high level of around 1.053 billion tons or 56.5 % of the global steel production. Growing protectionism and the associated tariffs made the products of European steel producers more expensive. The EU steel market for many products continued to suffer from high imports. Steel consumption decreased by 11.5 % in 2020 compared to 2019.

The automotive and mechanical engineering customer segments, which are important for Saarstahl, began showing broad-based declines already in the previous year due to cyclical business conditions. This was especially evident in Europe and was intensified by the pandemic.

Global automobile production experienced a deep slump, with the exception of China. In Germany, passenger car production in 2020 was down 26 % year-on-year in the first 11 months. The mechanical engineering sector was equally hard hit. Reasons for this included a lack of investments and orders as well as postponements of projects. Production in Europe fell short of the previous year's level by 11 %, and in Germany by as much as 14 %. The construction industry proved resilient in 2020. It was down only 3.6 % from the previous year in the euro area.<sup>2</sup>

#### **Business performance of Saarstahl AG**

Saarstahl continued to find itself in a structurally and economically difficult environment in 2020, primarily due to global protectionism and the associated customs duties, high over-

capacities and declining demand in core customer segments such as the automotive industry and mechanical engineering. The coronavirus pandemic dramatically intensified the existing crisis. Shutdowns in the automotive industry and its suppliers, which lasted several weeks and were in some cases total, further exacerbated the pressure on volumes and prices and presented enormous challenges for the production processes at Saarstahl. Demand for wire and rod correspondingly fell sharply and prices declined.

There was a massive drop in order intake overall in the year under review, particularly from the second quarter into the third quarter. At 1,754 kt, the sales volume fell to a ten-year low. As a result of the underutilization of capacity, the plants were curtailed or – if technically possible – temporarily taken out of production. At the same time, the short-time work introduced in autumn 2019 has been intensified in the company during large parts of the following year. A recovery set in from the autumn onwards and new orders rose again gradually in the second half of the year.

The cost-cutting program initiated in the previous year was continued, but the effects already resulting from this were exceeded by the slump in demand and the associated development of sales and revenues in 2020, which led to a significant decline in sales and earnings figures.

## Earnings position

### **Decline in turnover**

Sales revenues fell more sharply than expected in the financial year due to the considerable decline in shipment volumes and also as a result of lower average revenues. The forecast for 2020 was based on the assessment of a strained economic environment in the automotive industry, which is why declining order intake and lower sales revenues were already anticipated. However, it was not possible to assess the impact of the coronavirus pandemic and its consequences.

Shipments decreased from 2,130 kt to 1,754 kt (- 17.65 %) in the 2020 financial year. Sales revenues declined significantly from € 1,662 million to € 1,218 million (- 26.71 %). In addition to lower average selling prices and shifts in the product mix, this was primarily due to lower sales volume in the core wire and bar steel business. The geographical distribution of sales shows that Germany remained the most important sales market in 2020, accounting for 54 % of sales.

### **Earnings performance**

Given the extremely difficult conditions, the earnings situation deteriorated further compared to the pre-vious year. The key financial performance indicators include turnover and net income for the year. Saarstahl recorded EBIT of - € 113 million in 2020 (2019: - € 86 million) and EBITDA of - € 64 million (2019: - € 40 million). Turnover changed by - 26.71 % (- € 444 million) compared with the previous year due to lower sales volumes and average revenues for steel products.

<sup>2</sup> Sources for steel market: World Steel Association, worldsteel, EUROFER, WV Stahl.

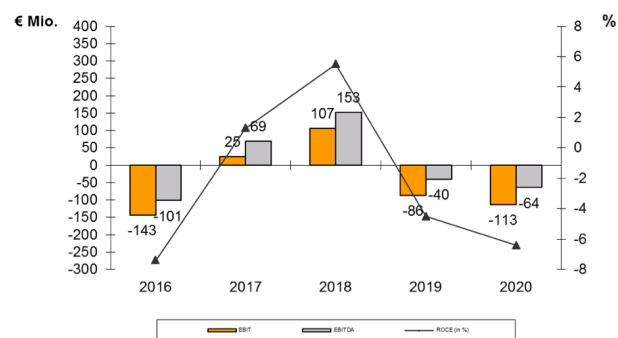


Based on declining revenues, with the change in semi-finished and finished goods in 2020, total operating revenue decreased by € 379 million (- 24 %) from € 1,609 million in 2019 to € 1,230 million in 2020. The valuation of work in progress and finished goods due to the changeover from the LIFO to the average cost method had the effect of increasing earnings by € 30 million. At the same time, other operating income increased by € 47 million, mainly due to income relating to other periods in the form of release of provisions.

The year-on-year reduction in the production volume of crude steel by 17.62 % or 402 kt resulted in a reduction in the cost of materials, especially in the expenditures for raw materials and supplies, maintenance and purchased services, while the cost of energy remained at the previous year's level.

Personnel costs decreased in 2020 from the previous year, primarily due to higher compensation in connection with short-time work in 2020 as well as the elimination of expenses for overtime and a provision for restructuring expenses recognized in the previous year. In addition, the average number of employees decreased by 315 in the current year.

However, the lower expenditures for materials and personnel in the combined amount of € 308 million could only partially compensate for the decline in total operating revenue; as a result, both the material and personnel intensity rose in 2020 to their highest levels in the past five years.



Change in EBIT, EBITDA, ROCE

Start-up of the new S1 continuous caster in Völklingen was the primary factor that led to depreciation of € 49 million, which is € 3 million higher than in the previous year. Other operating expenses also slightly exceeded the previous year's figure by a total of € 4 million. Lower distribution expenses due to the decline in sales volumes and lower cargo rates were primarily covered by higher administrative expenses, exchange rate differences and losses on the disposal of financial assets.

The financial result improved by a total of € 25 million due to slightly higher income from investments and significantly lower write-downs on financial assets. Income from securities held as fixed assets and interest income declined by almost the same amount as interest expenditures. The result for the year of - € 132 million was therefore below expectations, but only slightly down by € 2 million from the previous year (- € 130 million).

The challenging business performance in 2020 is also reflected in the key metrics of the asset and capital structure and of the development of returns. The return on capital employed (ROCE) amounted to - 6.4 % in the year under review (2019: - 4.5 %), while the return on sales (EBIT margin) was - 9.3 % (2019: - 5.2 %).

## FINANCIAL AND ASSET POSITION

### Financial position

The 2020 net loss for the year of € 76 million – adjusted primarily for depreciation and amortization as well as other non-cash income and expenses – was only partially offset by cash inflows, mainly from the change in working capital (€ 41 million). Accordingly, the cash outflow from operating activities totaled - € 33 million and was thus roughly € 117 million lower than in the previous year, which closed with a positive cash flow from operating activities of € 84 million.

The operating cash flow is followed by a cash inflow from investing activities of € 22 million (2019: - € 31 million). At € 51 million, proceeds from interest received, dividends and disposals of financial assets together exceeded payments for investments in property, plant and equipment (- € 32 million). This resulted in a free cash flow for Saarstahl of - € 11 million (2019: € 53 million).

After accounting for cash flow from financing activities of - € 3 million (2019: € 20 million) – due to slightly higher

repayments and interest payments than borrowings of current and non-current loans – cash and cash equivalents decreased by € 10 million to € 116 million, as a further € 4 million in cash was received from mergers in 2020.

#### **Net asset position**

The balance sheet total decreased by € 141 million year-on-year to € 2,048 million. In the process, the fixed assets of Saarstahl AG fell by € 69 million and amounted to € 1,206 million. The net asset position is primarily characterized by disposals and write-downs in the financial assets (€ 62 million). Scheduled depreciation of tangible fixed assets exceed capital expenditure by a further € 7 million, as the company had already embarked on a course of reducing capital expenditure in the previous year.

Current assets declined by almost the same amount as of the reporting date, amounting to € 72 million. Other assets decreased due to reduced tax refund claims and repaid promissory note loans in the amount of € 97 million, and cash and cash equivalents decreased by a further € 10 million.

The drastic drop in demand – especially in the second and third quarters – impacted sales performance and production and led to a reduction in stock inventories. However, the change in the valuation method from LIFO to the average value method more than compensated for this in terms of amount, with the result that inventories actually increased from the previous year by a total of € 21 million. Following a resurgent fourth quarter, customer receivables from third parties increased by

€ 29 million while trade receivables from affiliated companies declined by € 7 million.

The reduction in equity as a result of the net loss for the year of € 132 million and the simultaneous decrease in total assets led to a slight reduction in the equity intensity to 69.9 % as at 31 December 2020.

There was an overall decrease of € 10 million in borrowed funds. Tax provisions decreased by € 33 million, other provisions by a further € 25 million. The additions to provisions from anticipated losses and provisions for uncertain liabilities were significantly lower in 2020 than the release of provisions in the amount of € 48 million. At the same time, liabilities from operations increased by € 47 million, including € 13 million in trade liabilities and € 18 million in other operating liabilities to the majority shareholder.

#### **INVESTMENTS**

Investments were focused on the LD steel plant and the Burbach and Neunkirchen rolling mills. The investment volume for Saarstahl itself amounted to € 42 million (2019: € 66 million). Investment spending at the two indirect subsidiaries ROGESA and ZKS totaled € 25 million (2019: € 32 million), of which Saarstahl bears half, in proportion to its share in the companies. One focus was on investments in environmental and climate protection (see the section on sustainability).

#### **Völklingen LD steel plant**

Implementation of the new continuous casting line S1 was continued in 2020. With the S1, Saarstahl is further extending its technological competitive edge. The new plant, with an investment volume of almost € 100 million, is the first plant worldwide with mechanical soft reduction in the casting format 180 mm x 180 mm. The project planning for the new hot metal crane (investment € 14 million) was successfully completed. Assembly will start in early 2021.

#### **Burbach rolling mill**

One of the three new indoor cranes (No. 447) for semi-finished products was successfully brought online in December. The total investment volume amounted to around € 12 million.

#### **Neunkirchen rolling mill**

The high-pressure gas storage facility, with an investment volume of about € 8.3 million, was successfully commissioned. The walking beam furnaces for rolling trains 31 and 32 are now supplied with natural gas. The gasometer that was replaced by these furnaces was dismantled.

#### **Subsidiaries in Luisenthal and Homburg**

Expansion of the heat treatment capacity of Saar-Blankstahl GmbH in Homburg is being continued. Total investment amounts to € 17 million. Key components here are a new continuous furnace for heat treatment of bright steel bars and other processing machines. At the site of Schweißdraht Luisenthal GmbH, preparations were carried out for a new continuous copper plating line. The investment amounted to around € 4.4 million

**FINANCIAL KEY FIGURES**

			2016	2017	2018	2019	2020
<b>Equity intensity</b>	Equity	€ million	1,667	1,661	1,709	1,563	1,431
	Balance sheet total	€ million	2,355	2,317	2,282	2,189	2,048
		in %	70.8	71.7	74.9	71.4	69.9
<b>Liquidation ratio for fixed assets</b>	Equity	€ million	1,667	1,661	1,709	1,563	1,431
	Fixed assets	€ million	1,348	1,349	1,320	1,276	1,206
		in %	123.7	123.1	129.5	122.5	118.7
<b>Debt</b>	Long-term bank liabilities	€ million	214	234	200	241	244
	Equity	€ million	1,667	1,661	1,709	1,563	1,431
		in %	12.8	14.1	11.7	15.4	17.1
<b>EBIT margin</b>	EBIT	€ million	-143	25	107	-86	-113
	Product sales	€ million	1,499	1,830	1,957	1,662	1,218
		in %	-9.6	1.3	5.5	-5.2	-9.3
<b>EBITDA margin</b>	EBITDA	€ million	-101	69	153	-40	-64
	Product sales	€ million	1,499	1,830	1,957	1,662	1,218
		in %	-6.7	3.8	7.8	-2.4	-5.3
<b>Return on capital employed (ROCE)</b>	EBIT	€ million	-143	25	107	-86	-113
	Equity, tax provisions, liabilities subject to interest (average)	€ million	1,924	1,906	1,955	1,919	1,763
		in %	-7.4	1.3	5.5	-4.5	-6.4
<b>Internal financing capability</b>	Operating cash flow in accordance with German Accounting Standard 21	€ million	177	-56	-13	84	-33
	Net investment in tangible assets	€ million	58	41	46	66	42
		in %	305.2	-136.6	-28.3	127.3	-78.6
<b>Expense structure in % of overall performance</b>	Material intensity	in %	72.3	72.1	69.0	72.9	74.9
	Personnel intensity	in %	19.2	15.3	15.7	19.1	20.3

## Changes in important non-financial performance factors

### SUSTAINABILITY

Sustainable and responsible operation is firmly anchored in the corporate policy of Saarstahl. Together with SHS – Stahl-Holding-Saar and Dillinger, Saarstahl formulated a commitment to sustainability in a first joint sustainability report in 2019: "We accept our responsibility to current and future generations of employees and stakeholders, and we want to manufacture steel products in the most state-of-the-art and sustainable way. We are committed to the Paris Climate Agreement and want to do our part for low-carbon steel production."

With this voluntary sustainability report, the companies document their responsibility to economic, environmental and societal interests. The report is based on the GRI standards of the Global Reporting Initiative (GRI). A fact sheet with all relevant key metrics is updated annually.

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

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

Sustainability is also an important part of the current strategy process launched in 2019. In it, Dillinger and Saarstahl have specified technical options for the transformation to carbon-neutral steel production. The companies of the SHS Group want to produce steel in a carbon-neutral process by 2050 at the latest. Dillinger and Saarstahl are technologically capable of producing steel in a carbon-neutral way. To achieve this, however, the framework conditions for the competitiveness of carbon-neutral steel must be created.

Saarstahl and Dillinger invest sustainably and continuously in proactive measures for environmental and climate protection. A first step on the way to carbon-neutral production was the € 14 million investment in the construction of the coke gas injection system, which began operating in August 2020. With the new plant, Dillinger and Saarstahl are using hydrogen as a reducing agent in regular operation for the first time in Germany, thus achieving a significant reduction in carbon emissions. With the € 28 million investment in a new dedusting system for the circular coolers with an integrated heat

recovery system at the sinter plant of the subsidiary ROGESA, Dillinger and Saarstahl have made another important contribution to improving environmental protection. It began operating in early 2021.<sup>3</sup>

In 2020, the Energy Efficiency with Steel network (ESTA), a federal initiative, was able to post positive results after running for three years: Saarstahl, Dillinger and the affiliated companies were able to achieve energy savings of approx. 29,500 megawatt hours per year. This equals an annual carbon reduction of approx. 11,750 tons.

In the area of corporate social responsibility, Saarstahl received a gold award from the EcoVadis rating agency in 2020. Saarstahl received this award again in 2021. The EcoVadis assessment covers the following areas:

- A human resources policy based on continuity and high social standards
- Internal improvement processes that bring the principles of sustainability and safe conduct to each workplace and each employee
- Consolidation of competence and service for the continuous success of the customers in the economic realization of new products and systems

<sup>3</sup>Sources: Press releases from 21 August 2020: All systems go for the green transformation and from 17 March 2021: More energy and lower emissions – the environment benefits from new circular cooler dedusting system ([www.saarstahl.com](http://www.saarstahl.com)).

- Continued enhancement of technological competence by investing in new plants and modernizing existing ones and by developing innovative products and processes
- Securing of know-how through knowledge transfer and strong training and professional development
- Continuous investment in research and development to enable economical and resource-saving manufacture of innovative products
- Procurement with a focus on secure supply and environmentally compatible modes of transport
- Economically efficient and resource-saving operation through numerous environmental protection measures for the efficient use of energy
- Long-standing cooperation with universities, research institutes and customers for the development and improvement of materials <sup>4</sup>

In 2020, the companies of the SHS Group participated for the first time in the Carbon Disclosure Project (CDP) sustainability rankings and achieved an overall grade of A-. CDP thus recognizes the leading position of the SHS Group in the "metal smelting, refining & forming" sector. Once a year, the non-profit organization CDP documents and assesses the voluntarily provided data and information and, in particular, assesses the climate protection strategy. The CDP assessment is based on eleven different categories, including Business and financial planning, responsibility in the supply chain, governance, in the field of energy issues, and emissions reduction initiatives.<sup>5</sup>

The subsidiaries ROGESA and ZKS also consistently implement the sustainability strategy. As part of a supplier management system introduced in 2019, the companies present "TOP Supplier" awards in the "fuels" and "iron ores" segments. The award was presented for the first time in 2021 and is based on defined criteria.

### EMPLOYEES

For employees of Saarstahl, Dillinger and SHS – Stahl-Holding-Saar, 2020 was primarily defined by three issues: dealing with the coronavirus pandemic, the sometimes severe short-time work schedules and the simultaneous implementation of the joint "proactive, carbon-free, and efficient" cost-cutting program.

The primary objective during the coronavirus pandemic was to implement efficient measures to protect employees while also maintaining the company's business processes. In addition to numerous hygiene and social distancing measures, mobile working was introduced on a large scale wherever possible for operational reasons.

As part of the cost-cutting program, the first measures of the planned staff reduction were implemented. The basis for this is the reconciliation of interests and the social compensation plan that describes the framework conditions for socially acceptable staff reductions. Thanks to an upstream voluntary redundancy program, it has so far been possible to reduce the

workforce in Saarland without forced layoffs by instituting parttime work for older employees, flexible work schedules and transfers within Group companies.

As a result, at the end of the year under review, 3,827 people were employed (2019: 4,130). A total of 1,546 people were employed at the subsidiaries and affiliated companies of Saarstahl (2019: 2,074). The transfer of employees to proportionately consolidated companies (Saar Stahlbau, Saar Industrietechnik and Saar Rail) is also to be taken into account here. A total of 1,083 employees work there.

### Further improvements to occupational safety

Occupational safety was significantly improved in the year under review, achieving the best safety result ever realized. The number of accidents with days of leave was again significantly reduced from 12 to 9 accidents with days of leave. As a result, the internal accident rate has now fallen to 1.8 accidents per 1 million working hours (2019: 2.0). The focus of the safety efforts was on continued adaptation of the systems to DIN ISO 45001 certification, which was reconfirmed by TÜV in April 2020.

### COVID-19

With the start of 2020, COVID-19, an acute respiratory illness caused by a novel coronavirus (SARS-CoV-2) spread worldwide. The World Health Organization (WHO) declared a public health emergency of international concern (PHEIC) on 30 January 2020. To contain the risk of infection among employees, Dillinger and Saarstahl jointly introduced precautionary meas-

<sup>4</sup> Sources [www.ecovadis.com](http://www.ecovadis.com), press release from 21 April 2020: Saarstahl achieves gold rating for sustainability ([www.saarstahl.com](http://www.saarstahl.com)).

<sup>5</sup> Source: News from 21 February 2021: SHS Group achieves "leadership" status in CDP sustainability ranking ([www.saarstahl.com](http://www.saarstahl.com)).

ures at an early stage. The aim of the measures is to protect the health of all people at the sites as fully as possible, to safeguard orderly business operations and to guarantee the safety of employees and the neighborhood surrounding the company, even under restricted conditions.

A Group-wide pandemic working group has been formed for this purpose which, depending on the situation, prepares, initiates and coordinates the necessary measures together with the crisis management team. The prevention plan can be divided into three areas: organizational measures, informative and communicative measures, and hygienic and medical measures. All measures are continuously adapted to the situation. The provisions adopted also apply to all subsidiaries in Germany and abroad.

#### **Fostering young talent**

Despite economically difficult conditions, Saarstahl continues to invest in training its own young employees to counter a possible shortage of skilled workers resulting from demographic change. In 2020, 72 young people (2019: 76) started their careers in the company. As a result, the company trained a total of 253 young workers (2019: 270), when all training class years are included. In addition, there were three high school student interns and seven university student trainees throughout the year. The instrument of employing university student trainees in particular ensures the strategic fostering of young talent in the academic area.

#### **PERCENTAGE OF WOMEN**

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

Overall, the percentage of women in the total workforce at Saarstahl averaged 6.0 % in 2020. When considering this proportion, industry-specific, historical and socio-cultural circumstances must be taken into account. Saarstahl is taking measures at various levels to continuously increase the percentage of women: for example, by continuously increasing the percentage of female trainees, a wide range of part-time employment and the possibility of child care in the daycare center supported by the company. Women occupy leadership positions above all in the administrative area. As part of the assumption of operational tasks by the majority holding company SHS - Stahl-Holding-Saar, such as in the area of central staff functions, a considerable percentage of female employees and managers are represented in the holding company. Consequently, the percentage of female employees in the total workforce, at 45.0 %, is significantly higher than at Saarstahl.

Within the framework of Section 111 (5) of the German Stock Corporations Act (AktG), the target quota of 30 % for the percentage of women on the Supervisory Board committees was

set for all companies in Saarland's steel industry (SHS – Stahl Holding-Saar, Dillinger and Saarstahl). The Supervisory Board of Saarstahl will deal with the issue in the case of new appointments at the Board of Directors level in accordance with German law regarding the equal participation of women and men in executive positions (FührposGleichberG).

Within the framework of Section 76 (4) of the German Stock Corporation Act (AktG), the Saarstahl Board of Directors has set a target quota of 12 % for the percentage of women in management functions. This quota relates to senior executives and includes the first and second levels of the hierarchy as well as the functions that are equivalent to the two top levels of management in terms of their importance for the company.

#### **PRODUCTION**

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

Production had to be severely curtailed due to the slump in demand. Saarstahl made increased use of the instrument of short-time work here and adjusted the operation of the plants flexibly to the order situation.

### Rolling mills

In 2020, the four rolling mills produced a total of 1,667 kt of rolled products. The distribution in detail was as follows: The Burbach rolling mill produced a total of 718,824 tons of rolled products in the year under review. In 2020, the Nauweiler rolling mill produced 384,854 tons, of which 356,780 tons were bar steel and 28,074 tons were primary rolled products.

The Neunkirchen rolling mill produced 632,288 tons of rolled products on rolling trains 31 and 32, of which 310,014 tons were produced on rolling train 31 and 322,274 tons on rolling train 32. 1,633 kt of hot metal was delivered to the LD steel plant in 2020 and 1,879 kt of crude steel was produced.

### INNOVATION AND QUALITY

Use of Metallurgical Soft Reduction (MSR) on SiCr spring steels has significantly increased the ductility of the wire rod. Consequently, higher quenching and tempering strengths can be achieved with the spring steels currently in use, which offers potential for reducing the weight of the finished component. In the case of cold heading steel grades, the strength on the wire rod was reduced by double thermo-mechanical rolling on rolling train 32 in Neunkirchen. This eliminates the need to anneal the wire prior to further processing, which reduces energy use and thus lowers carbon emissions. In cooperation with a forging customer, the fatigue strength of the crankshaft for a well-known OEM was increased by 20 % through using a higher-strength bainitic steel.

A surveillance audit for accreditation based on DIN EN ISO/IEC 17025 (2018) was completed in April 2020. The German Accreditation Body (Deutsche Akkreditierungsstelle, or DAkkS) reviewed in particular the workflows relating to sampling procedures with a focus on the environment and documentation, such as the traceability of analysis orders or successful participation in interlaboratory comparisons. This confirmation by a "third party" also includes the new requirements regarding data processing and laboratory automation.

The repeat audit was carried out by DAkkS in accordance with DIN EN ISO/IEC 17025 in November 2020. Due to the pandemic, the audit was performed remotely involving the test sites in Burbach and Neunkirchen. The accreditation ensures the professional expertise of the test areas and thus the quality of the certified product properties.

The audits for Saarstahl to maintain the certifications in the quality, environment, energy and health and safety management areas were successfully completed in March. Some parts of the audits were carried out remotely. The importance of the certifications for Saarstahl is high: the certifications are a basic requirement for delivery of our products to our customers and there is a legal obligation to carry out energy audits. With the energy management certification, we as electricity cost-intensive companies also have the opportunity to limit the EEG surcharge for electricity and thus mitigate the high energy costs.

### RAW MATERIAL PROCUREMENT AND TRANSPORT

The COVID-19 pandemic has had a mixed impact in 2020 on commodity markets and therefore on supply.

In the case of iron ores, the effects were only felt in the first quarter. Driven by the sudden surge in demand in China and the at least temporary decline in production figures, iron ore prices increased sharply from the second quarter onward and even jumped in December. China further extended its market dominance for seaborne-traded iron ore during the pandemic, reaching an import volume of around 1.2 billion tons.

The trend in the coal market ran counter to this. Prices collapsed from the second quarter on, accompanied by a considerable reduction in production capacity. After a brief recovery in the summer – again driven by a rapid recovery in the Chinese steel market – the rest of the year to date has been dominated by the Chinese decision to stop importing Australian coal. The market has since been divided in two with respect to availability and price situation: Australian coal remained available and comparatively cheap, while producers in the United States, Canada and Russia were confronted with high demand from China, enabling them to achieve significantly higher prices to date. China's again record-setting steel production has seen the country go from being the world's largest coke exporter to a net importer over the course of the year, leading to an explosion in coke prices at the end of the year.



Volatility of freight rates continued, with increases in the second half of the year, and remained the major challenge. The combination of securing cargo rates over a medium to longer term with concurrent increased use of opportunities on the spot market has proven successful for ROGESA and ZKS.

The issue of "sustainability in procurement" will continue to be implemented. This year, for the first time, the majority of suppliers were assessed on CSR issues and informed of the results. A new supplier management system is currently being introduced for the procurement of raw materials.<sup>6</sup>

#### **Reduced shipping volume**

Most raw materials and fuels were delivered by rail. Inland waterway transport is also an important mode of transport for shipment. A total of 1.75 million tons were shipped in the 2020 business year, a considerably lower quantity compared with 2019. The pandemic has had little impact in the transport market and shipments have remained stable.

## **ENVIRONMENT AND ENERGY**

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

#### **Environmental management**

During the year under review, the three locations of Saarstahl were successfully certified in accordance with ISO 14001:2015, as were Kalksteingrube Auersmacher GmbH, Saarschmiede GmbH Freiformschmiede, Schweißdraht Luisenthal GmbH and Saar-Bandstahl GmbH.

#### **REACH**

In the context of the mandatory information requirements of Article 33 of the Registration, Evaluation, Authorisation and Restriction of Chemicals Regulations (REACH), all products containing substances on the REACH Candidate List in concentrations of > 0.1 % must be reported both to customers and to the European Chemicals Agency (ECHA). In addition to informing the customer, which has been mandatory since 2018, now the ECHA must also be informed. This notification of our free-cutting steels was realized via a SCIP database provided by ECHA, an electronic database of the European Chemicals Agency, and was completed in December 2020.

#### **Carbon emissions trading**

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

in particular updated for trading period 3 (2013-2020) during the year under review. The annual applications for aid for indirect carbon costs (electricity price compensation) for Saarstahl and Saarschmiede were approved at the end of 2020. For the subsequent trading period 4 (2021-2030), monitoring plans were drafted in accordance with the updated specifications and guidelines of the DEHSt. In addition, the effects of the national fuel emissions trading system starting in 2021 were examined and concepts for action derived.

## **MOST SIGNIFICANT SHAREHOLDINGS**

#### **Zentralkokerei Saar GmbH**

Saarstahl and Aktien-Gesellschaft der Dillinger Hüttenwerke each hold an indirect 50 % interest in Zentralkokerei Saar GmbH. ZKS produces coke intended exclusively for use in ROGESA's blast furnaces. Total coke production in 2020, at 1,154 kt, was slightly below the previous year's production level (1,281 kt). ZKS is a company without employees. Personnel required for operation of the coking plant are provided by Dillinger. Investments at ZKS in 2020 amounted to € 6 million (2019: € 14 million).

#### **ROGESA Roheisengesellschaft Saar mbH**

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

<sup>6</sup> Sources: Platts, Refinitiv, CoBa, CRU.



At 3,194 kt, hot metal production from blast furnaces 4 and 5 in 2020 was 17.4 % below the previous year's output (3,867 kt). In the year under review, 1,561 kt (2019: 1,911 kt) were delivered to Dillinger and 1,633 kt (2019: 1,956 kt) to Saarstahl. Investments at ROGESA in 2020 amounted to € 19 million (2019: € 18 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 GKW, Dillinger, ROGESA and ZKS, for the production of electricity.

#### **Saarschmiede GmbH Freiformschmiede**

The core business of Saarschmiede GmbH Freiformschmiede is the production of premium open-die forged components with a focus on power engineering, general mechanical engineering, tool steel and special materials made from nickel-based alloys. One of its most important markets is power generation, where the products are used both in conventional power plants and for the generation of renewable energies. Saarschmiede produces customer-specific products in a wide variety of machining conditions and material grades for the respective applications.

#### **General market situation**

The situation in the market segments in which Saarschmiede operates remained strained. This was mainly due to the lower level of demand in the energy machinery sector and the economic weakness in the industry since 2019.<sup>7</sup> This situation was overshadowed in the year under review by effects from

the COVID-19 pandemic, which varied in severity for the market segments supplied by Saarschmiede. The tool steel market segment and products for aircraft construction were particularly hard hit. But the heavy machinery sector also suffered from the uncertainties and earnings problems in individual customer industries, such as the steel industry. In addition, expansion of offshore wind farms will gain considerable momentum in the coming years and generate higher demand for special input material grades and forged engineering products.

#### **Business performance**

The planned increase in sales was largely achieved in 2020. The basis for this was the strong order book already in place at the beginning of the year, which was based on the relatively high order intake of the previous year.

The 2020 order intake, on the other hand, was negatively impacted by the effects of the COVID-19 pandemic. There was a certain lag here compared with other sectors, as incoming orders up to the end of June were on a par with the previous year. There was a significant slowdown in the second half of the year, however.

The average prices achieved in the individual sales segments improved slightly in 2020. In addition, the planned improvements in cost structures were achieved through consistent cost management and various internal projects.

Sales increased to € 105 million (2019: € 94 million) and the result amounted to approximately - € 13 million (2019: - € 20 million). The number of employees grew in the year under review from 449 to 454.

#### **Outlook**

The economy is expected to recover in the course of 2021, which will also result in positive momentum for individual demand segments. However, the overall market environment in which Saarschmiede operates continues to be characterized by high competitive pressure.

For Saarschmiede, the focus in 2021 will continue to be on further expansion of new business segments and implementation of various internal improvement projects. Under the given conditions, Saarschmiede expects sales revenues to be lower than in the previous year, but for the annual result to be at an improved level.

#### **Aktien-Gesellschaft der Dillinger Hüttenwerke**

Aktien-Gesellschaft der Dillinger Hüttenwerke (Dillinger), in which Saarstahl holds a 33.75 % stake, is the most important subsidiary of DHS - Dillinger Hütte Saarstahl AG. Dillinger specializes in the production of high quality heavy plate and, together with its subsidiary Dillinger France S.A. in Dunkerque, France, is the world leader in this market segment.

The European heavy plate market has continued to be burdened since the beginning of 2020 by overcapacities and weak demand due to cyclical factors. Added to this has been a massive slump in demand and sales since the spring as a result of the coronavirus crisis. The decline in consumption was felt in all customer segments, especially in those industries with long, global supply chains, such as the construction equipment and mechanical engineering segment. The oil and gas sector also suffered from the sometimes drastic investment cutbacks

<sup>7</sup> Source: BMWi, press release: Die wirtschaftliche Lage in Deutschland (Economic conditions in Germany), 15 January 2020.

by oil companies. Although demand for plate for the offshore wind market was still developing satisfactorily, it was, as expected, weaker.

Imports of heavy plate from third countries into the EU, although down from the previous year, were still very high, accounting for around 18 % of market supply. The capacity utilization situation of European producers fell to a dramatic and unprecedented low. Prices, which had recovered slightly at the start of 2020, plunged abruptly with the spring lockdown to inadequate levels. Since autumn there have been signs of stabilization on the heavy plate market, albeit with volumes remaining low and prices weak.

Purchases of hot metal, at 1,561 kt (2019: 1,911 kt), fell by 18.3 % and crude steel production fell by 18.8 % to 1,816 kt (2019: 2,238 kt) compared with the volumes in 2019. 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 S.A. in Dunkerque. Production at both rolling mills together (1,406 kt) fell by a total of 23.9 % compared with the previous year (2019: 1,847 kt), with 1,000 kt of heavy plate (2019: 1,291 kt) being produced in Dillingen and 406 kt (2019: 556 kt) in Dunkerque.

Sales revenue declined considerably as a consequence, falling by € 560 million during the financial year from € 1,990 million in the previous year to € 1,430 million (- 28.1%). EBIT fell further to - € 119 million compared to - € 91 million in 2019; EBITDA decreased almost analogously to - € 50 million (2019: - € 20 million).

Investments in 2020 amounted to € 13 million (2019: € 27 million). Investments and replacements in the 2020 year under review related primarily to measures that improve environmental protection and contribute to reducing carbon emissions at the Dillingen site. In the area of ROGESA, for example, the circular cooler dedusting system was installed at sinter plant 3. A new coke gas injection system was commissioned in the summer to achieve the initial reduction in carbon emissions with hydrogen at blast furnaces 4 and 5. In the area of the ZKS, the highpressure coke gas scrubber was installed and the extraction hood on the coke transfer machine was refurbished to improve emissions. Commissioning of the latter was carried out in December 2020.

At the end of the reporting year, 3,925 people were employed at the Dillingen site (2020: 4,871). They worked at Dillinger itself as well as – in the context of plant management – at ZKS and ROGESA.

## Opportunity and risk report

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

### Organization of risk management

Risk management at Saarstahl consists on the one hand of the risk coordinators and officers in the departments and subsidiaries. In addition, the corporate risk management of SHS handles coordination, support and consolidation tasks for Saarstahl.

### Methods and structure of risk management

The risk management system of Saarstahl includes all measures aimed at ensuring systematic handling of risk and is focused on risk transparency, risk manageability and risk communication.

- Risk transparency: Risk management aims to identify and highlight significant risks connected to business activities at the earliest possible stage. A systematic and consistent method of analysis and evaluation is used for this purpose.
- Risk manageability: We define this as avoiding, minimizing or transferring identified risks through new or existing risk control instruments. Transfer of risk is handled through the corporate service provider SHS Versicherungskontor GmbH, which is responsible for arranging adequate insurance coverage.

- Risk communication: The Board of Directors is informed about the current risk situation at regular intervals as well with regard to specific events. Moreover, key risk management issues are discussed with the Supervisory Board.

A network of risk coordinators has been established worldwide to carry out the operational risk management process. In addition, ad hoc risk reporting has been implemented. It makes it possible to generate a current overview of the risk situation at all times.

As part of the integrated governance, risk and compliance concept, the risk coordinators collect additional information for early identification of compliance risks (preventive risk analysis). Deriving measures is part of the compliance program. Corporate Auditing, as part of the comprehensive corporate management approach to establish an internal management and monitoring system, is a component of risk management as defined by the German Corporate Sector Supervision and Transparency Act (KonTraG). In this capacity, it is also responsible for the systematic and effective internal auditing of the risk management system.

#### **Organization of opportunity management**

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

The key opportunities for Saarstahl are discussed in more detail in the following sections.

#### **Strategic opportunities**

Steel is indispensable for the sustainable production of renewable energies. Saarstahl is already producing the steels today that are needed for the energy transition and climate reversal. The Saarland steel industry is committed to the goals of the Paris Climate Agreement and is focused on working toward the transformation to green steel. Saarstahl therefore supports the German government's Steel Action Plan for the impending transformation process of the steel industry in Germany. One of the key points of the concept is to enable the switch to low-carbon, and in the long term, carbon-neutral steel production, and to take advantage of the opportunity to become a pioneer of innovative climate protection technologies.

Within the company's own strategy process and the "pro-active, carbon-free, efficient" program for the future, the changeover to carbon-neutral production is a central topic. Saarstahl developed various scenarios early on for switching to carbon-reduced or carbon-neutral steel production. Initial measures are already being implemented (coke gas injection with first-ever use of hydrogen as a reducing agent on an industrial scale). Additional steps such as bridge technologies and concrete technological options are being analyzed and assessed in terms of their metallurgy and economics, and preparations for them are being studied.

The joint strategy process already initiated for Saarstahl and Dillinger also serves to consistently develop new growth potential and to position our company with our products in promising new business segments.

#### **Operational opportunities**

The company continues to press ahead with the strategy process initiated in the previous year. Saarstahl sees business opportunities in the growth strategy derived from this and in the cost-cutting program. The first measures relating to increasing productivity, eliminating duplicate structures, consolidating sales activities and closing and relocating divisions have already been initiated.

Saarstahl and Dillinger are together exploring new methods of reducing carbon emissions. Since summer 2020, the new coke gas injection system has been running successfully at blast furnace 5 of ROGESA. The transformation process at Saarstahl and Dillinger has begun with this plant, which is the first in Germany to use hydrogen as a reducing agent by injecting hydrogen-rich coke gas into the blast furnace at an industrial scale. This means that we have already achieved the conditions for operating our blast furnaces with green hydrogen in the future. The same plant also began operating at blast furnace 5 about three months later.

Digitalization is likewise a core component of the corporate strategy. To continue to develop from a digital perspective and thus become faster, more efficient and more competitive, the development of an overall concept for digitalization for the Saarland steel industry has been initiated. To achieve this target, the digitalization roadmap, which maps all areas of the company in detail, was adopted in the middle of the year.

All of this is aimed at securing the future viability of the Saarland steel industry.

### **Sector, external and market risks**

Global trade conflicts, especially between the two largest economies, the United States and China, continued to define the framework for trade and economic relations on the world market in 2020. The coronavirus-related recessionary trend has exacerbated this problem. The ongoing structural and cyclical problems in the steel market continue to have a sensitive impact on Saarstahl's business activities.

The customer segments in the manufacturing sector that are important for Saarstahl already showed broad-based declines in 2019. These were especially evident in Europe and have now been exacerbated by the pandemic. Despite the crisis, the industry is producing, and the supply chains are largely intact. The business climate and willingness to invest were generally subdued, however. These effects were particularly noticeable in Germany, where the country's steel processors are highly integrated into global supply chains.

Global automotive production, which is relevant for Saarstahl, was already driven by the weakened economic development in 2019. Conditions worsened in 2020 due to worldwide lockdown measures, which hit this industry especially hard. Global passenger car production fell 34 % year-on-year in the second quarter of 2020, after which production rebounded. This was compounded by the fact that the automotive industry is undergoing an intense transformation process in drive technology, which entails high costs.<sup>8</sup>

The difficulties in the automotive industry have especially impacted another important customer for Saarstahl products: the mechanical engineering sector. Looking at the global machinery industry excluding China, the industry continued to be in recession, resulting in a lack of investment and orders as well as in postponed projects. Output in Europe fell by 11 % in 2020 from the previous year. Only the construction industry proved resilient, recording a year-on-year decline of only 3.6 % in the euro area due to favorable financing conditions.<sup>9</sup>

Due to the uncertainties resulting from the difficult overall economic situation, the effects of the coronavirus pandemic, global overcapacities and trade disputes, the risks for Saarstahl are to be assessed as moderate. Much will depend on how the effects of the pandemic play out in the coming months.

### **Regulatory risks**

In 2020, the European Commission reaffirmed its current approach for achieving a climate-neutral economy and further raised the climate targets. This is associated with high long-term risks for the steel industry. Long-term planning security is required to achieve the climate targets, and in particular to initiate the necessary investments. The basis for this is reliable forecasts based on appropriate political decisions. The German government's Steel Action Plan represents an initial concept.

The risks are being countered operationally through the climate-compatible restructuring of steel production, including the use of hydrogen and the development of innovative technologies. Last year, Saarstahl and Dillinger adopted a forward-looking strategy with the motto: proactive, carbon-free,

and efficient. The first measures toward emission-free production were already implemented in 2020. However, there are additional, enormous investments associated with the climate targets that apply for us. These cannot be managed by the steel companies concerned on their own. Due to its high importance, the issue is being handled by a separate carbon strategy team at the SHS level.

The market stability reserve introduced in conjunction with the emissions trading directive for the fourth trading period has led to a reduction in the quantities of allowances and has caused the price of emissions allowances to rise. For Saarstahl, this entails a significant additional financial burden due to the certificates that must be acquired.

The amendment to the Renewable Energy Sources Act presented by the German government provides for a gradual increase in greenhouse gas-neutral electricity. Germany is to have only greenhouse gas-neutral electricity by 2050. The financial impact on the energy-intensive steel industry cannot be quantified at this stage. No changes are expected in the current regulations for self-generated electricity, but the effort required to measure and record the amount of electricity consumed by third parties continues to increase and is generating considerable costs.

We classify the risks from regulatory developments for Saarstahl as moderate.

### **Risks from operating activities**

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

<sup>8</sup> Sources: VDMA.

<sup>9</sup> Source: WV Stahl.

complexity of the manufactured products, to the complexity of the manufacturing processes and technical operating facilities, to human error, or to force majeure. Risks are countered through continuous investment in state-of-the-art equipment and through systematic methods and innovative diagnostic systems for preventive and condition-based maintenance. In addition, the quality assurance system, which is certified in accordance with international standards, is being consistently improved.

#### *Procurement risks*

The raw materials for the bulk goods required for hot metal production are procured worldwide. The many geopolitical crises and the current coronavirus pandemic may therefore have a negative impact on the procurement situation. To minimize risk, an ongoing diversification process with respect to sources and properties has been implemented in the procurement of raw materials. Long-term supply contracts are also concluded to secure supplies. In order to minimize price risks caused by volatile markets, contractual hedging of quantities and prices is used with the respective supplier/trader (natural hedge) or with derivatives, depending on the market situation. In addition, alternative possibilities for making the use of raw materials more flexible are constantly being tested and evaluated. Overall, security of the supply of raw materials, energy and logistical capacities in the required quantities and quality can be considered ensured over the medium term.

#### *IT risks*

Information processing contributes in important ways to Saarstahl's competitiveness. The availability of correct data and information flows is of central importance. Specific information technology areas are consolidated centrally. Risks exist in the failure of key production and management systems within the value chain. The risk of unavailability or to integrity can in particular arise due to system access by unauthorized third parties. In addition, the confidentiality of our data and information may be compromised, for example, through spying by competitors and industrial espionage or sabotage. There are also general threats from cybercrime and cyberfraud. Saarstahl counters these risks by continuously monitoring and updating the software used and the information technology protection systems by Group IT.

The existing information security management system is continuously being expanded. A corporate information security officer was appointed for the Group in 2019. Along with various internal and external concepts to achieve IT security, modern technologies and adapted IT operating processes are used to identify and defend against threats, including new ones, at an early stage. Emergency plans and exercises are part of the IT security concept. Close cooperation between departments and data protection officers ensures that personal data is always processed in accordance with the regulations of German Data Protection Law.

#### *Human resource risks*

For Saarstahl as a manufacturer of products with high technological standards and quality, qualified specialists and executives and their strong commitment to the success of the

company are of primary importance. In view of this, Saarstahl places great importance on being an attractive employer. There is a general risk of losing skilled employees, and with them, expertise. The company counters this risk by providing training in various vocational fields. To come into contact with suitable people, Saarstahl engages in a wide range of 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. These efforts are supported by specially trained coaches who help to systematically record the knowledge critical to success and transfer it by means of a transfer plan to the successors of employees leaving the company.

Employment risks caused by the situation on the world market are countered by labor market policy instruments (such as the short-time working scheme introduced by Saarstahl in September 2019), as well as by internal flexibility instruments. The current situation in the steel industry reduces the company's attractiveness as an employer. Similarly, a massive reduction in jobs leads to know-how risks, which are countered as described above.

#### *Environmental risks*

The production processes in hot metal and steel production as well as in further processing involve innate process-related environmental risks including contamination of air and water. Saarstahl 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 envi-

ronmental 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.

We consider the risks from operating activities to be low.

#### **Financial risks**

It is of central importance for Saarstahl to ensure the financial independence of the company by coordinating its financial requirements. To do so, the financial risks are actively controlled and limited. This is supported by integrating the financial departments under the umbrella of SHS. The introduction of a new treasury system will simplify management and map processes more efficiently. The company concludes financial instruments only with counterparts that have an excellent credit rating. Receivables in the area of deliveries and services are continuously monitored. Transactions are secured by means of credit insurance. The resulting risk of default can therefore be considered low. Ongoing financial and liquidity plans and a far-reaching cash management concept ensure the company's liquidity at all times.

A steel producer's financing of capital-intensive investments in fixed assets is always made at matching maturities, taking into account the expected capital returns and the necessary backing with equity capital. In addition, all major subsidiaries are incorporated in the short- and medium-term

financial plan according to uniform standards. During regularly occurring analysis, both the current status and planning are incorporated into the risk management system. This ensures the necessary financial flexibility for Saarstahl. Independent of this, market risks can influence fluctuations of current market values or future cash flows from financial instruments. Saarstahl actively counters these risks through the use of currency and interest rate hedging transactions. These instruments considerably limit or completely eliminate market price risks. In general, hedging instruments are not employed separately from the underlying performance-related hedged item. They are regularly monitored and analysis is generated for control purposes. The results are incorporated into the risk management system. Any residual risk is considered low. The financial reporting of the hedging instruments mentioned is presented in detail in the notes to the balance sheet. Overall, the financial risks are considered to be low.

#### **Legal risks and compliance risks**

The company is currently involved in various proceedings, the outcome of which is open. A major case was concluded in 2018. It is likely that various proceedings will follow this. In another proceeding, a leading decision by the Federal Supreme Court has resulted in a potential worsening of the legal position. Saarstahl and a subsidiary are affected here. A general risk exists for Saarstahl that, due to the increasing internationalization and expansion of business activities, Saarstahl AG could face legal uncertainties as a consequence of contact with numerous fields of law and legal systems. For very specific issues that reach beyond German and French jurisdictions, Saarstahl also procures the expertise of external legal

practitioners. This is also true for issues that carry a high risk of uncertainty.

The compliance program of the SHS Group and thus of Saarstahl was continued by the Compliance Committee in the past financial year. The focus continues to be on the important areas of antitrust and competition law as well as corruption. Informational events and publications addressing compliance topics are used preventively to encourage conduct that is compliant and that exhibits integrity. Use of an eLearning tool makes it possible to access the training content worldwide and in various languages. A stand-alone, structured process by which tips are reported and acted upon was implemented in 2020.

Two Group data protection officers (eDSB) were appointed for the practical implementation of the General Data Protection Regulation, which came into force in May 2018. The legal risks are to be assessed as moderate.

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

The World Health Organization (WHO) declared COVID-19 a pandemic on 11 March 2020. The effects on the financial and economic markets associated with the spread of the coronavirus will also influence Saarstahl's business activities in 2021. It is not yet possible, however, to reliably quantify the potential negative consequences for the asset, financial, and earnings position, such as declines in demand and sales, employee absences and production risks.

Overall, there are no discernible risks that could endanger the company's continued existence.



## Forecast report

### GENERAL ECONOMIC CONDITIONS

#### Global growth

Global economic output is expected to stabilize in 2021, with GDP growth of 4.2 %. Given the renewed lockdown in some regions of the world during the winter of 2020/2021, the recovery will weaken for the time being. The economy in the United States has been on the upswing since the second half of 2020, but this is threatened by high infection rates. GDP growth of 3.2 % is expected in 2021. China's economy continues to grow in 2021 (+ 8.0 %). This development is based on new incentives to purchase cars and household appliances. Positive development is also expected for the euro zone (+ 3.6 %). The recovery is being bolstered by the ECB's ongoing expansionary monetary policy. The recovery is generally fragile as there is high volatility and uncertainty due to the current coronavirus situation.<sup>10</sup>

#### Recovery of the steel market

The steel market is projected to recover in 2021. Worldsteel estimates global steel demand at 1,795.1 million tons (+ 4.1 %). Chinese steel demand is expected to calm down as the extensive fiscal stimulus is phased out and infrastructure and housing projects remain at the same level.

In the euro zone, production in the steel processing sectors will recover slowly due to the good order situation but will

remain susceptible to disruptive factors. As in 2020, import pressure coupled with general uncertainty regarding the future conditions for the emission reduction policy will pose a serious challenge for EU steel producers. Supply chains are endangered by the insolvencies of smaller companies. EUROFER forecasts growth of 8.2 % for steel processors in the euro zone. Prognos predicts a dynamic upswing of economic activity for Germany in spring 2021 with an increase in GDP of 3.9 %. Industries that may benefit include the automotive, mechanical engineering, construction and metal industries, among others.

The upswing will also be reflected in the steel processing market for wire and rod products and also in the main customer industries. However, the forecasts are subject to uncertainties. An increase of 15 % is expected for automobile production in Europe. For Germany, the VDA expects a strong counter-movement (+ 20 %) with regard to the declines in 2020. However, this will not be enough to return to precoronavirus levels, which were already very low. If the coronavirus measures take effect, new models on the market (especially e-cars) can ensure a recovery.

For 2021, the VDMA forecasts growth of 4 % for the mechanical engineering sector in Germany. Growth of 7.4 % is expected for the euro area. This assumes a global increase in demand for capital goods. A recovery is expected for the construction industry in the euro zone, resulting in growth of 5 %. In Germany, residential construction and infrastructure projects are causing a high level of stagnation.<sup>11</sup>

### Development of Saarstahl AG

In view of the continuing challenges in the steel market and the general economic uncertainties, Saarstahl's forecasts for the financial year are cautiously optimistic and remain subject to unpredictable factors, particularly with regard to the duration of the recovery and the further consequences of the ongoing coronavirus pandemic. Saarstahl nevertheless expects a significant recovery in business activity.

The company has started 2021 with noticeably better utilization of capacities: Saarstahl is benefiting here from increased demand due to catch-up effects in industry. High volatility and uncertainty are resulting in low inventory levels and short-term ordering behavior. This was already observed in the preceding months of 2020. Utilization of plant capacities has improved noticeably in line with the strong level of incoming orders in the first months of the year. Short-time work schedules will be phased out in the first months of 2021 due to the positive development.

Based on these framework conditions, Saarstahl is expecting good business performance characterized on one hand by significant price increases, especially in the procurement of raw materials, and on the other by a significant increase in revenue levels for steel products in Europe. The forecasts are subject to the expectation that the emerging gradual recovery of the economy will continue and not be impeded by further serious setbacks like those that occurred in 2020.

From today's perspective, it is expected that incoming orders and thus production and sales volumes will recover marked-

<sup>10</sup> Source for global growth: OECD.

<sup>11</sup> Sources: worldsteel, EUROFER, Prognos, IHS, VDMA.

ly and that sales revenues (positive volume and price effect) will increase noticeably. In addition, the measures identified as part of the strategy process – a sales campaign combined with a cost-cutting program – will be rigorously pursued and will have a positive impact on business performance. With this in mind, the company expects a slightly positive operating result (EBIT) and EBITDA as well as a balanced overall result for 2021.

Saarstahl is fully committed to the Paris climate targets and is continuing to work towards the goal of carbon-neutral steel production. The company is prepared and technologically capable of providing the solutions for this. Until the political framework is in place for decarbonization under competitive conditions, the company is pursuing an intensified reduction strategy together with Dillinger. The first major step on the road to the green transformation was taken in 2020 with the new coke gas injection system at the blast furnaces in Dillingen. Additional projects are being pursued with the aim of reducing or avoiding carbon emissions, and various feasibility studies have been initiated.

Völklingen, 29 March 2021



Dr. KÖHLER



BAUES



DISTELDORF



Dr. RICHTER





## BALANCE SHEET FOR THE YEAR ENDING

<b>Assets</b>			
€ thousand	Notes	31/12/2020	31/12/2019
<b>A. Fixed assets</b>			
I. Intangible assets	(1)	690	642
II. Tangible assets	(2)	476,061	483,807
III. Financial assets	(3)	729,324	791,106
		<b>1,206,075</b>	1,275,555
<b>B. Current assets</b>			
<b>I. Inventories</b> (4)			
1. Raw, auxiliary and operating materials		74,524	64,919
2. Unfinished products		29,693	23,123
3. Finished goods and merchandise		279,080	273,778
		<b>383,297</b>	361,820
<b>II. Accounts receivable and other assets</b>			
1. Trade accounts receivable		203,074	173,849
2. Receivables from affiliated companies	(5)	121,445	138,606
3. Accounts receivable from companies where a participatory interest exists		1,662	1,163
4. Other assets		11,872	108,506
		<b>338,053</b>	422,124
<b>III. Cash balance and credit with financial institutions</b>			
		116,159	126,025
		<b>837,509</b>	909,969
<b>C. Accruals and deferrals</b>			
		190	504
<b>D. Debit differences in assets in the calculation of assets</b> (6)			
		4,247	3,249
		<b>2,048,021</b>	2,189,277

<b>Liabilities</b>			
€ thousand	Notes	31/12/2020	31/12/2019
<b>A. Equity</b>	(7)		
<b>I. Subscribed capital</b>		<b>200,000</b>	200,000
<b>II. Capital reserve</b>		<b>41,313</b>	41,313
<b>III. Other retained profit</b>		<b>917,730</b>	917,730
<b>IV. Balance sheet profit</b>		<b>272,176</b>	403,945
		<b>1,431,219</b>	1,562,988
<b>B. Reserves</b>			
1. Reserves for taxes	(8)	<b>6,283</b>	39,711
2. Other reserves	(9)	<b>174,808</b>	199,985
		<b>181,091</b>	239,696
<b>C. Liabilities</b>			
1. Liabilities to banks	(10)	<b>243,599</b>	241,453
2. Advanced payments received on account of orders		<b>1,063</b>	472
3. Trade accounts payable	(11)	<b>49,453</b>	46,025
4. Liabilities toward affiliated companies	(12)	<b>61,321</b>	32,926
5. Liabilities towards companies where a participatory interest exists	(13)	<b>57,614</b>	46,721
6. Other liabilities	(14)	<b>22,097</b>	18,288
		<b>435,147</b>	385,885
<b>D. Accruals and deferrals</b>		<b>564</b>	708
		<b>2,048,021</b>	2,189,277

## Profit and loss statement

€ thousand	Notes	FY 2020	FY 2019
1. Sales revenues	(15)	<b>1,217,972</b>	1,661,579
2. Changes in inventory and internally produced and activated assets	(16)	<b>11,552</b>	-52,273
3. Other operating income	(17)	<b>64,679</b>	17,454
		<b>1,294,203</b>	1,626,760
4. Material costs	(18)	<b>921,086</b>	1,172,442
5. Personnel costs	(19)	<b>250,179</b>	307,110
6. Depreciation and amortization of intangible and tangible fixed assets		<b>48,662</b>	46,054
7. Other operating expenses	(20)	<b>191,000</b>	187,075
		<b>-116,724</b>	-85,921
8. Income from participations	(21)	<b>-11,263</b>	-36,747
9. Interest income	(22)	<b>-1,036</b>	-857
10. Taxes on income and earnings	(23)	<b>335</b>	2,859
11. Result after tax		<b>-129,358</b>	-126,384
12. Other taxes	(24)	<b>2,411</b>	3,168
13. Net loss		<b>-131,769</b>	-129,552
14. Profit brought forward from the previous year		<b>403,945</b>	533,497
15. Balance sheet profit		<b>272,176</b>	403,945

## STATEMENT OF THE GROUP'S SHAREHOLDINGS

	Capital share %	Equity 31/12/2020 thousand €	Result for the FY 2020 thousand €
<b>1. Affiliated companies</b>			
<b>a) In Germany</b>			
Saar-Blankstahl GmbH, Homburg <sup>1)</sup>	100,000	42,022	
Saar-Bandstahl GmbH, Völklingen <sup>1)</sup>	100,000	10,897	
Saarstahl-Export GmbH, Völklingen <sup>1)</sup>	100,000	1,585	
Metallurgische Gesellschaft Saar GmbH, Völklingen <sup>1)</sup>	100,000	5,123	
Saarschmiede GmbH Freiformschmiede, Völklingen	100,000	47,514	<b>-12,818</b>
Drahtwerk St. Ingbert GmbH, St. Ingbert	100,000	21,002	<b>-1,682</b>
Saarstahl Beteiligungsgesellschaft mbH, Völklingen	100,000	6,502	<b>-5</b>
DWK Drahtwerk Köln GmbH, Köln	100,000	5,802	<b>-768</b>
SIB-Immobilien-gesellschaft mbH, Völklingen	100,000	70	<b>4</b>
Neunkircher Eisenwerk Wohnungsgesellschaft mbH, Völklingen	100,000	8,907	<b>-358</b>
Gewerbe- und Wohnpark Heubügel GmbH, Völklingen	89,000	46	<b>19</b>
FORGE Saar GmbH, Dillingen	100,000	153	<b>13</b>
FORGE Saar Besitzgesellschaft mbH & Co KG, Dillingen	100,000	143,009	<b>150</b>
Schweißdraht Luisenthal GmbH, Völklingen	100,000	1,707	<b>64</b>
45. Saarstahl Beteiligungsgesellschaft mbH, Völklingen	100,000	51	<b>-5</b>
Stahlguss Saar GmbH, St. Ingbert (in Liquidation)	100,000	-5,663	<b>962</b>

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

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

<sup>3)</sup> No final result was available when the annual financial statement was compiled. The figures are for the previous year.

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

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

<sup>6)</sup> Last annual financial statement on 31 March 2020.

	Capital share %	Equity 31/12/2020 thousand €	Result for the FY 2020 thousand €
<b>b) Abroad <sup>(2)</sup></b>			
Secosar S.A.S., Bussy-Saint-Georges	100,000	13,338	-1,389
Secosar Etirage S.A.S., Bussy-Saint-Georges 3)	100,000	-6,150	-226
Quinofer S.A.S., Bussy-Saint-Georges	100,000	1,175	-66
Saarstahl AG, Zürich 2) 5)	100,000	2,272	-344
Les Aciers Fins de la Sarre S.A., Liège 5)	100,000	5,113	646
Acciai della Saar S.r.l., Milano	100,000	593	57
Saarsteel Inc., New York 2) 5)	100,000	369	39
Saarstahl (S.E.A.), Petaling Jaya/Malaysia 2) 5)	100,000	60	19
Conflandey Industries S.A.S., Port-sur-Saône	100,000	6,648	1,284
Saarstahl Ibérica S.A., Sant Just Desvern Barcelona 5)	100,000	750	19
FILMETAL S.A., Bussy-Saint-Georges	99,670	1,612	-70
EUROFIL Polska sp. z.o.o., Warsaw 2) 3)	98,000	-78	-6
S.P.M. Participation S.A.S., Bussy-Saint-Georges	100,000	62	-107
Saarstahl Shanghai Limited, Shanghai 2) 5)	100,000	434	27
Saarstahl Export India Pvt Ltd, Mumbai 2) 6)	100,000	143	14
Saarstahl Demir Celik, Istanbul 2)	100,000	103	15
Saarstahl s.r.o., Ostrava 2)	100,000	291	14
Saarstahl UK Limited, Scunthorpe 2) 5)	100,000	105	22

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

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<sup>6)</sup> Last annual financial statement on 31 March 2020.

	Capital share %	Equity 31/12/2020 thousand €	Result for the FY 2019 thousand €
<b>2. Participating interests</b>			
DHS-Dillinger Hütte Saarstahl AG, Dillingen 4)	33,750	2,147,852	<b>-292,388</b>
Dillinger Hütte und Saarstahl Vermögens- verwaltungs- und Beteiligungs-OHG, Dillingen	50,000	265,491	<b>3,298</b>
ROGESA Roheisengesellschaft Saar mbH, Dillingen 1)	50,000	301.636	
Kraftwerk Wehrden GmbH, Völklingen 3)	33,333	94	<b>-9</b>

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

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

<sup>3)</sup> No final result was available when the annual financial statement was compiled. The figures are for the previous year.

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

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<sup>6)</sup> Last annual financial statement on 31 March 2020.

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