19

# Annual Report 2019

SALZGITTER AG

Stahl und Technologie

Salzgitter AG ranks as one of Germany's companies rooted in a long tradition. Our business activities are concentrated on steel and technology. Through its sustainable organic and external growth, our company has advanced to take its place as one of Europe's leading steel and technology groups – with external sales of around € 9 billion in 2019, a crude steel capacity of 7 million tons and a workforce of more than 25,000 employees. The primary objective of our company – now and in the future – is the preservation of our independence through profitability and growth.

Our Group comprises more than 150 domestic and international subsidiaries and holdings and has been structured into the business units of Strip Steel, Plate/Section Steel, Mannesmann, Trading and Technology.

# Contents


2 The Salzgitter Group in Figures

3 Preface by the Executive Board

6 Report of the Supervisory Board

## Group Management Report and Management Report, combined

12 **Company and Organization**

35 **Financial Control System**

37 **Performance Report**

51 **Profitability, Financial Position and Net Assets**

65 **Opportunities and Risk Report, Guidance**

## Overview of consolidated financial statements

82 **Consolidated Income Statement**

83 **Statement of Comprehensive Income**

84 **Consolidated Balance Sheet**

86 **Cash Flow Statement**

88 **Statement of Changes in Equity**

90 **Notes**

169 Audit certificate

# The Salzgitter Group in Figures

| | | 2019 | 2018 |
|---|---|---|---|
| **Crude steel production** | **kt** | **6,613** | **7,039** |
| **External sales** | **€ m** | **8,547** | **9,278** |
| Strip Steel Business Unit | € m | 2,209 | 2,341 |
| Plate / Section Steel Business Unit | € m | 805 | 1,026 |
| Mannesmann Business Unit | € m | 1,120 | 1,119 |
| Trading Business Unit | € m | 2,846 | 3,268 |
| Technology Business Unit | € m | 1,390 | 1,338 |
| Industrial Participations / Consolidation | € m | 178 | 186 |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **354** | **797** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **–188** | **413** |
| **Earnings before taxes (EBT)** | **€ m** | **–253** | **347** |
| Strip Steel Business Unit | € m | –43 | 206 |
| Plate / Section Steel Business Unit | € m | –124 | 25 |
| Mannesmann Business Unit | € m | –42 | –5 |
| Trading Business Unit | € m | –31 | 51 |
| Technology Business Unit | € m | 33 | 43 |
| Industrial Participations / Consolidation | € m | –47 | 28 |
| **Consolidated net income/loss** | **€ m** | **–237** | **278** |
| **Earnings per share – basic** | **€** | **–4.46** | **5.06** |
| **Return on capital employed (ROCE)[1]** | **%** | **–5.8** | **10.3** |
| **Cash flow from operating activities** | **€ m** | **251** | **528** |
| **Investments[2]** | **€ m** | **593** | **338** |
| **Depreciation/amortization[2][3]** | **€ m** | **–541** | **–384** |
| **Total assets** | **€ m** | **8,618** | **8,757** |
| **Non-current assets** | **€ m** | **4,099** | **3,836** |
| **Current assets** | **€ m** | **4,519** | **4,921** |
| Inventories | € m | 2,248 | 2,327 |
| Cash and cash equivalents | € m | 701 | 556 |
| **Equity** | **€ m** | **2,939** | **3,332** |
| **Liabilities** | **€ m** | **5,679** | **5,425** |
| Non-current liabilities | € m | 3,454 | 3,036 |
| Current liabilities | € m | 2,225 | 2,389 |
| of which due to banks[4] | € m | 783 | 519 |
| **Net financial position on the reporting date[5]** | **€ m** | **–140** | **192** |
| **Employees** | | | |
| Personnel expenses | € m | –1,816 | –1,739 |
| Core workforce on the reporting date[6] | empl. | 23,354 | 23,523 |
| Total workforce on the reporting date[7] | empl. | 25,227 | 25,363 |

Disclosure of financial data in compliance with IFRS
[1] ROCE = EBIT I (= EBT + interest expenses excl. interest portion in transfers to pension provisions) divided by the sum of shareholders' equity (excl. calculation of deferred tax), tax provisions, interest-bearing liabilities (excl. pension provision) as well as liabilities from finance leasing and forfaiting
[2] Excluding financial assets; as from the financial year 2019, including non-cash additions from the initial application of IFRS 16 Leases
[3] Scheduled and unscheduled write-downs
[4] Current and non-current bank liabilities
[5] Including investments, e.g. securities and structured investments
[6] Excl. trainee contracts and excl. non-active age-related part-time work
[7] Incl. trainee contracts and incl. non-active age-related part-time work

# Preface by the Executive Board

Dear Shareholders, Ladies and Gentlemen:

There can be little doubt that the climate debate took center stage in 2019. Starting with a youth movement epicentered in Germany, issues concerning the environment and emissions were finally transported away from expert committees and out to the public at large, triggering controversial and generally emotionally-charged discussions.

Going forward, the topic of $CO_2$ reduction will foreseeably become one of this country's defining issues in the coming decade. The associated demand for the decarbonization of industry is not, however, taking place at the same speed on an international scale. The process is being driven forward in Europe, and particularly rigorously in Germany, with the result that our domestic economy is hugely disadvantaged. The unilateral burdens from energy and climate policies that already exist today, and to which our competitors outside the EU are not exposed, are set to increase substantially. Investments in the billion range envisaged for achieving the $CO_2$ reduction targets compound this scenario. Cheaper but more $CO_2$-intensive steel imports would inevitably crowd out our domestic industry. This is where politicians must be called upon to assume responsibility and finally take action to create future-proof framework conditions. Without a legal and economic environment that enables the viable operation of new plants and bolsters the competitiveness of low $CO_2$ products, the climate targets will not be met – or only at the price of deindustrialization with all its ensuing fallout.

Salzgitter AG has done its homework: On the one hand, we have largely compensated for the predictable shortfall of allocations through to the end of the fourth trading period in 2030 by taking the precautionary measure of acquiring $CO_2$ allowances. This has created scope for us in the European competitive arena – both financially speaking and in terms of time. On the other, we have assumed a pioneering role in decarbonizing the steel industry through the SALCOS® ("Salzgitter Low $CO_2$ Steelmaking") concept developed in cooperation with the Fraunhofer Society. SALCOS® will enable the $CO_2$ emissions in the Salzgitter steelworks, which generate around 90% of the Group's $CO_2$ emissions, to be reduced by at least 25% within five years as from the starting point and by up to as much as 95% by 2050, while still allowing the existing production facilities to be used for the most part. At the end of 2019, we took an important step in the direction of hydrogen-based steel production with the contract to build a 2.2 megawatt PEM electrolysis plant, thereby laying the foundations for our ambitions for harnessing hydrogen in the steel industry on an industrial scale in the not so distant future. These steps, along with other ecological and social aspects of what we do, are explained in the Salzgitter Group's Non-financial Report that is published at the same time as the annual report.

Alongside the upheavals emanating from society, the operating environment also placed extreme demands on us in 2019. Over the course of the year, the economy gradually deteriorated, specifically in the sectors that are important for the Salzgitter Group. The rare combination of declining steel prices and the leap in iron ore costs due to the dam breached in Brazil placed an additional burden on the steel business. Moreover, it transpired that the quotas under the European anti-dumping measures that are based on record import figures did not even come close to being exhausted due to the generally lackluster demand. Consequently, they have so far failed to deliver the desired effects. The higher imports are the direct consequence of growing trade conflicts and protectionist tendencies, translating directly into the customs duties and sanctions that also impact on Salzgitter AG.

We were nevertheless able to take countermeasures: Thanks to our corporate optimization measures, which in 2019 alone produced a recurrent profit improvement potential of more than € 70 million, flanked by our diversified corporate structure, we achieved the original performance forecast for pre-tax profit generated through operations, even in this adverse environment! With "FitStructure 2.0", which consists of over 700 individual measures and results in more than € 240 million a year in sustainable profit improvement potential, we have ushered in the next step in our successful structural improvements programs. By 2023, all measures are to have come to fruition.

The annual accounts comprise around € 400 million in total in extraordinary burdens. The impairment and the restructuring expenses for “FitStructure 2.0” will serve to ease the burden on future periods, either directly or indirectly. In the past financial year, expenses of € 140 million for the mutually agreed end to the investigation conducted on the grounds of suspected cartel arrangements had to be absorbed. We took this process as an occasion to do everything in our power beyond the preventive measures already taken for years not to allow such incidents to happen in the first place.

By contrast, the laudable performance of KHS in the Technology Business Unit gives us great satisfaction. The rigorous implementation of the optimization measures bucked the trend in the market for filling and packaging systems by delivering not only another increase in profit, but also the best result since joining the Salzgitter Group. The strategic decision to work toward achieving a balance between our steel-related activities and areas not so closely related to steel has therefore once again proven to be correct.

Valued Shareholders, the scenario dictated by the economy, trade and the climate policy in 2019 was also reflected in the sharp downturn in the share price of companies in our sector, and we look back on the unsatisfactory price performance of our share. Nevertheless, we will not fall prey to pessimism, but look to the new financial year with cautious confidence. This is not least corroborated by our proposal of paying dividend of € 0.20 per share for the financial year 2019. This measure bears testimony to our sound balance sheet, our determination to forge ahead with implementing measures to improve profit, and our firm intention of generating satisfactory returns again as soon as possible. The extent to which the Corona virus epidemic will counteract these intentions cannot be reliably assessed at the present point in time.

May we thank you most warmly, also in the name of our dedicated employees, as the valued shareholders and business partners of Salzgitter AG for the trust you have placed in our company again over the past financial year.

Sincerely,

Prof. Dr.-Ing. Heinz Jörg Fuhrmann

Burkhard Becker

Michael Kieckbusch

Executive Board and
Business Unit Heads (f.l.)
Ulrich Grethe
Volker Schult
Michael Kieckbusch
Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Burkhard Becker
Dr. Sebastian Bross
Kai Acker

# Report of the Supervisory Board

Chairman of the Supervisory Board
Heinz-Gerhard Wente

The financial year 2019 was characterized by conditions on the steel market deteriorating as the year progressed. Demand declined notably due to the slowdown in general economic growth, both in Europe and on a global scale. At the same time, raw material costs rose steeply. The Group achieved a positive operating result despite the extremely challenging conditions over the year as a whole, due not least to the rigorous implementation and effects of the profit improvement programs in recent years. Competition law proceedings in the heavy plate business, however, led to a negative annual result overall. Asset impairment applied following a detailed impairment test placed an additional pressure on the result, while nevertheless forming the basis for easing the burden on coming periods. The Technology Business Unit developed well. With a view to realizing future low $CO_2$ steel production, the Group continues to engage intensively in lobbying the regional government, the German federal government and the European Commission to win support for its SALCOS® (SAlzgitter Low $CO_2$ Steelmaking) concept. The necessary framework conditions must be created, also by the politicians, in order to facilitate the transition away from coal to other sources of energy in steel production.

**Monitoring and advising the Executive Board in the exercising of its management duties**

The Supervisory Board kept itself continuously informed in the financial year 2019 about the situation of the Group and the development of business. The Executive Board informed the Supervisory Board by way of detailed written monthly reports about the Group's result of operations, the current financial position and the net assets, as well as about the development of the relevant markets, the course of business and the investments in the individual business units. The reports also comprised information on the developments and activities in the area of human resources as well as detailed estimates on the opportunities and risks over the course of the year. Moreover, the Supervisory Board obtained detailed reports on the respective current situation of the Group and the important Group companies, as well as on material business transactions and relevant changes. The development of business compared with corporate planning was explained to us. Any deviations from planning were elaborated on, and then queried and discussed by the Board. Compensatory measures were discussed. In addition, meetings focused on the stage reached in the implementation of the groupwide "FitStructure SZAG" efficiency program and progress made in realizing the "Salzgitter AG 2021" growth program. In this financial year as well, the Supervisory Board devoted special attention to the long-term corporate strategy and planning. Business transactions requiring the consent of the Supervisory Board were approved by the Board after thorough examination and consultation. Furthermore, between meetings, the Chairman of the Supervisory Board was kept regularly informed by the Executive Board Chairman on current topics.

During the reporting year, the Supervisory Board convened in March, May, September and December at one meeting in each month respectively. The attendance rate at the Supervisory Board meetings totaled 92%. The Supervisory Board met mainly with the Executive Board attending. However, it discussed topics such as Executive Board remuneration and other matters affecting the Executive Board in the absence of Executive Board members. Regular preliminary discussions, partly with and partly without the attendance of the Executive Board, served the purpose of initial consultation on the current situation and imminent decisions. No conflicts of interest were brought to the attention of the Supervisory Board in the reporting year, neither by the Supervisory Board members nor by members of the Executive Board. The new system for the variable remuneration of the Executive Board that was launched on January 1, 2019 also comprises the topics of occupational safety and continuous professional development, along with the stakeholder objectives. The Supervisory Board places special importance on these aspects in particular from the standpoint of employer attractiveness in consideration of a potential skills shortage.

**Focus of the consultations of the Supervisory Board**

In its meeting on March 21, 2019, and as is customary in the March meetings, the Supervisory Board focused primarily on the financial statements of the separate company and of the Group, both drawn up as of December 31, 2018, as well as of the combined management report on the company and the Group for the financial year 2018. The representatives of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, the auditor selected by the General Meeting of Shareholders, explained the key findings of their audit and answered the questions put to them by the Supervisory Board members. Following a detailed examination of the documentation pertaining to the financial statements with the aid of the report of the auditor, the Supervisory Board ratified the separate and consolidated annual statements and gave its consent to the proposed appropriation of unappropriated retained earnings put forward by the Executive Board. Furthermore, it signed off its report to the General Meeting of Shareholders, the corporate governance report and the resolutions proposed for the individual items on the agenda requiring approval by the General Meeting of Shareholders in 2019. In addition, the Supervisory Board determined the variable part of the Executive Board members' remuneration for the financial year 2018. It conferred with the Executive Board members about adapting their employment contracts to the new remuneration structure that follows the recommendations of the German Corporate Governance Code. Moreover, the Supervisory Board deliberated on the development of business, particularly regarding the Group's steel operations, and the share price trend.

In its meeting on May 23, 2019, the consultations of the Supervisory Board focused on the current situation, including the risks and the outlook, as well as progress made in the efficiency and growth program. Furthermore, the Supervisory Board determined key audit areas for the audit of the annual financial statements 2019 at company and at Group level by the statutory auditor to be selected by the Annual General Meeting of Shareholders.

In its meeting on September 26, 2019, the Supervisory Board dealt with the most recent developments in business and the status of the investment undertaking involving the construction of a new heat treatment plant at Ilsenburger Grobblech GmbH. The Supervisory Board was kept abreast of the actual status concerning the cartel proceedings in the heavy plate business. Having discussed and duly considered the situation, it gave its consent to seeking a mutually agreed end to the anti-trust proceedings. Moreover, the Supervisory Board, acting on the recommendation of the Presiding Committee, decided to appoint Mr. Dipl.-Wirtsch.-Ing Kai Acker as head of the Group's "Technology" Business Unit for the period from October 1, 2019 through to October 31, 2023, as well as Dr.-Ing. Sebastian Bross as head of the Group's "Plate/Section Steel" Business Unit for the period from October 1, 2019 through September 30, 2024. The Supervisory Board received detailed written and verbal reports on the Group's compliance management system and on cases investigated on the grounds of a possible breach. In addition, it took the decision, acting on the recommendation of its Audit Committee, to propose to the 2020 Annual General Meeting of Shareholders that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, be selected as the statutory auditor of the separate annual financial statements and the consolidated financial statements of Salzgitter AG (SZAG), including the auditing of the condensed group management report on the company and on the group for the financial year 2020. This decision was preceded by a public tender for the auditing process and an evaluation of the offers by the Audit Committee.

The Executive Board submitted and explained the corporate planning for the financial years 2020 through 2022 to the Supervisory Board on December 5, 2019. The Supervisory Board was also brought up to date on the SALCOS® project. Other topics of consultation in this meeting included the review of Executive Board remuneration and, regarding the variable Executive Board remuneration in 2020, determining the qualitative criteria for assessing individual performance, as well as the stakeholder objectives for the performance period from 2020 through 2023. The Supervisory Board also concerned itself with the recommendations of the German Corporate Governance Code, including the submission of the Declaration of Conformity for 2019.

**Work of the Committees**
In order to prepare for its consultations and decisions, the Supervisory Board has formed presiding, audit, strategy and nomination committees.

The Presiding Committee met five times in 2019. Matters addressed in these meetings included important issues relating to the development of business, the corporate strategy and personnel matters at senior management level. In addition, the Presiding Committee deliberated on the increasingly difficult economic environment in the steel business and discussed pending decisions.

The members of the Audit Committee held four meetings in the period under review. In March, it discussed the audit of the 2018 annual financial statements at company and at Group level in the presence of the whole Supervisory Board and of representatives from the auditor, in particular by way of in-depth consultation on the respective audit reports and the oral report by the representatives of the auditor on the key findings of the audit. In the context of its audit, the Audit Committee saw no reason to raise objections and recommended that the whole Supervisory Board approve the annual financial statements. In the same way, the members of the Audit Committee examined the non-financial report on the Group in preparation. The consultations of further meetings of the Audit Committee focus on IT security, monitoring the accounting process, the effectiveness of the internal control system, as well as of the compliance and risk management system. Furthermore, the risk assessment of Internal Audit and its audit planning were discussed. The Audit Committee also dealt with preparing the proposal of the Supervisory Board for the appointing of the statutory auditor for the financial year 2019 by the Annual General Meeting of Shareholders, the assignment of the audit mandate, and agreeing the fees with the statutory auditor. It monitored the effectiveness of the financial statements audit and the independence of the statutory auditor, as well as the non-audit services provided by the auditor in addition to the audit of the financial statements. The Audit Committee was involved in the selection procedure for appointing the statutory auditor for the financial year 2020, in accordance with Section 16 of EU Directive No. 537/2014 (requirements regarding statutory auditing) and drew up the corresponding recommendation for the Supervisory Board. The quarterly financial reporting of the Group was discussed in detail with the Executive Board before publication.

In March 2020, following a detailed preliminary review, the Audit Committee recommended that the full Supervisory Board approve the 2019 annual financial statements at company and at Group level. Its preliminary review of the 2019 non-financial report on the Group did not give rise to any objections either.

The Strategy Committee met once in 2019. The central topic of this meeting was a review of the status of the current corporate portfolio and, derived from this, ultimately, the company's portfolio strategy, the focal point having been placed on the principles of the corporate strategy in 2016, the topic of "digitalization" in 2017 and on the "Strategy 2021" in 2018. Following the withdrawal of Mr. Ulrich Kimpel from the Supervisory Board and the Strategy Committee on July 31, 2019, the Supervisory Board voted unanimously in its meeting on May 23, 2019 to appoint Mr. Konrad Ackermann as a member of the Strategy Committee, effective August 1, 2019, for the remainder of the Supervisory Board's election period.

No meeting of the Nomination Committee was necessary in 2019.

Participation of the Supervisory Board members in Supervisory Board and committee meetings in the financial year 2019

| Members of the Supervisory Board | Supervisory Board Meetings (4) | Presiding Committee (5) | Audit Committee (4) | Strategy Committee (1) | Attendance |
|---|---|---|---|---|---|
| Heinz-Gerhard Wente, Chairman | 4/4 | 5/5 | / | 1/1 | 100% |
| Dr. Hans-Jürgen Urban, Vice Chairman | 4/4 | 5/5 | / | 1/1 | 100% |
| Konrad Ackermann | 4/4 | / | 4/4 | 1/1 | 100% |
| Ulrike Brouzi | 2/4 | / | / | / | 50% |
| Annelie Buntenbach | 3/4 | / | / | / | 75% |
| Hasan Cakir | 4/4 | 5/5 | / | 1/1 | 100% |
| Dr. Bernd Drouven | 4/4 | / | / | 1/1 | 100% |
| Roland Flach | 4/4 | / | 4/4 | / | 100% |
| Gabriele Handke | 4/4 | / | / | / | 100% |
| Reinhold Hilbers | 2/4 | 4/5 | / | 1/1 | 70% |
| Prof. Dr. Susanne Knorre | 4/4 | / | / | / | 100% |
| Norbert Keller (since 08/2019) | 2/2 | / | / | / | 100% |
| Ulrich Kimpel (until 07/2019) | 2/2 | / | / | / | 100% |
| Dr. Dieter Köster | 4/4 | / | / | / | 100% |
| Heinz Kreuzer | 4/4 | / | / | / | 100% |
| Bernd Lauenroth | 3/4 | / | 4/4 | 1/1 | 89% |
| Volker Mittelstädt | 3/4 | / | / | / | 75% |
| Prof. Dr. Joachim Schindler | 4/4 | / | 4/4 | / | 100% |
| Christine Seemann | 4/4 | / | / | / | 100% |
| Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer | 4/4 | / | / | 1/1 | 100% |
| Clemens Spiller | 4/4 | / | / | / | 100% |
| Dr. Werner Tegtmeier | 4/4 | / | / | / | 100% |

**Audit of the Annual Financial Statements of Salzgitter AG and the Consolidated Financial Statements**
In its meeting on March 12, 2020, the Supervisory Board examined the financial statements of SZAG and of the Group, both drawn up as of December 31, 2019, as well as the joint management report on the company and the Group for the financial year 2019. Prior to this meeting, the independent auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, Germany, selected by the General Meeting of Shareholders, reviewed both sets of financial statements and issued an unqualified ↗ "audit certificate". The auditor thereby confirmed that the accounting, valuation and consolidation carried out in the consolidated financial statements complied with the International Financial Reporting Standards (IFRS). Furthermore, as part of its assessment of the early risk detection system, the auditor ascertained that the Executive Board had taken the steps required by the German Stock Corporation Act (AktG) for the early recognition of risks that could endanger the company as a going concern.

The annual financial statements of SZAG, the consolidated financial statements of the Group, the joint management report on the company and the Group, the Executive Board's proposals for the appropriation of the retained earnings, as well as the auditor's reports were available to the Supervisory Board for examination. The representatives of the independent auditor took part in the discussions of the annual financial statements and the consolidated financial statements and elaborated on the most important findings of their audit.

Based on the final results of its own examination of the annual financial statements at company and at group level and the combined management report, the Supervisory Board did not raise any objections. The Board therefore approved the findings of the auditor's review and ratified the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted. We gave our approval to the proposal made by the Executive Board on the appropriation of retained earnings.

**Non-financial report on the Group**
In its meeting on March 12, 2020, the Supervisory Board also addressed the topic of the non-financial report on the Group for 2019. Prior to this, KPMG AG Wirtschaftsprüfungsgesellschaft conducted an audit on the report on behalf of the Supervisory Board and issued the following opinion:

"Based on the audit activities performed and the audit evidence obtained, no matters have come to our attention that cause us to believe that the report of Salzgitter for the period from January 1 to December 31, 2019 is not prepared, in all material respects, in accordance with Sections 315b, 315c in conjunction with Sections 289c through 289e of the German Civil Code (HGB)."

Following its own examination, the Supervisory Board concurred with the findings of the audit performed by KPMG.

**Changes to the Supervisory Board**
Mr. Ulrich Kimpel, employee representative, laid down his mandate with effect from July 31, 2019. The Supervisory Board thanks him for his activities to promote the good of the company. The Braunschweig Local Court appointed Mr. Norbert Keller as the successor to Mr. Kimpel, effective August 30, 2019, for the period until the end of the current term of office.

Our thanks go to the Executive Board and to all the employees of the Group for their dedicated work and sound commitment throughout the financial year 2019.

Salzgitter, March 12, 2020

The Supervisory Board

Heinz-Gerhard Wente
Chairman

# Management Report

## Group Management Report and Management Report, combined

### Background Information on the Group

**12 Company and Organization**
12 Group Structure and Operations
13 Management and Control
26 Declaration of Conformity and Corporate Governance Report
32 Employees
33 Research and Development
34 Separate non-financial report of the Group

**35 Financial Control System**

### Report on the Economy

**37 Performance Report**
37 General Business Conditions
37 Overall Statement by Management on the Economic Situation
38 Performance and General Business Conditions of the Business Units
48 Comparison between Actual and Forecasted Performance

**51 Profitability, Financial Position and Net Assets**
51 Profitability of the Group
56 Financial Position and Net Assets
61 The Annual Financial Statements of Salzgitter AG

**65 Opportunities and Risk Report, Guidance**
65 Opportunity and Risk Management System
68 Individual Risks
74 Overall Statement on the Risk Position of the Group
76 General Business Conditions in the coming Year
78 Overall Statement on Anticipated Group Performance

# Company and Organization

## Group Structure and Operations

With a crude steel capacity exceeding 7 million tons, a workforce of more than 25,000 employees, and external sales totaling around € 9 billion, the Salzgitter Group ranks among Europe's leading steel technology and plant engineering corporations. Worldwide, the Group comprises more than 150 subsidiaries and affiliated companies.

Our core competences lie in the production and processing of rolled steel and tubes products and trading in these products. We also operate a successful business in special machinery and plant engineering.

The Group, headed by Salzgitter AG (SZAG) as the holding company, is divided into the five business units of Strip Steel, Plate/Section Steel, Mannesmann, Trading and Technology. Participating investments, such as in European copper producer Aurubis AG, and our service companies that largely operate within the group, are combined under "Industrial Participations/Consolidation". More information on the individual business units is included in the section on ↗ "General Business Conditions and Performance of the Business Units".

All major companies belonging to the Salzgitter Group are combined together under the intermediate holding of Salzgitter Klöckner-Werke GmbH (SKWG). This structure allows us to carry out centralized and unrestricted financial management for the Group, among other tasks. As the management holding, SZAG manages SKWG, along with all associated companies, via the intermediate holding Salzgitter Mannesmann GmbH (SMG). The Executive Board of SZAG is composed of the same persons as the Executive Board of SMG and the Management Board of SKWG. The management and control of the Group are therefore carried out by the executive and supervisory bodies responsible for SZAG (Executive Board, Supervisory Board). The activities of the business units are coordinated by the heads of the business units. They are also the chief operating officers each of a large company belonging to their respective unit. The Executive Board and business unit managers together form the Group Management Board. This structure ensures that the activities of the companies are directly coordinated and managed across the business units, while remaining close to actual operations.

## Management and Control

### The Executive Board

The members of the Executive Board of Salzgitter AG (SZAG) are appointed by the Supervisory Board. The Supervisory Board can rescind the appointment for an important reason. The Executive Board represents, heads up the company and manages the company's business under its own responsibility. A restriction that certain transactions may only be concluded subject to the approval of the Supervisory Board has been imposed. The General Meeting of Shareholders can only decide matters affecting the management of the Group if this has been requested by the Executive Board.

In the financial year 2019, the following members belonged to the Executive Board of SZAG and held memberships in the following a) statutory supervisory boards and b) comparable domestic and foreign controlling bodies of commercial enterprises:

**Prof. Dr.-Ing. Heinz Jörg Fuhrmann**
Chief Executive Officer
*Non-listed consolidated companies:*
a)
- Hüttenwerke Krupp Mannesmann GmbH, Duisburg (Chairman)
- Ilsenburger Grobblech GmbH, Ilsenburg (Chairman)
- KHS GmbH, Dortmund (Chairman)
- Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr (Chairman)
- Peiner Träger GmbH, Peine (Chairman)
- Salzgitter Flachstahl GmbH, Salzgitter (Chairman)
- Salzgitter Mannesmann Grobblech GmbH Mülheim an der Ruhr (Chairman)
- Salzgitter Mannesmann Handel GmbH, Düsseldorf (Chairman)

b)
- Ilsenburger Grobblech GmbH, Ilsenburg and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council, Chairman)

*Other non-listed companies:*
a)
- Öffentliche Lebensversicherung Braunschweig, Braunschweig
- Öffentliche Sachversicherung Braunschweig, Braunschweig
- TÜV Nord AG, Hanover

*Listed companies:*
a)
- Aurubis AG, Hamburg

**Burkhard Becker**
Finance
*Non-listed consolidated companies:*
a)
- EUROPIPE GmbH, Mülheim an der Ruhr
- KHS GmbH, Dortmund
- Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr, until November 30, 2019
- Peiner Träger GmbH, Peine
- Salzgitter Flachstahl GmbH, Salzgitter
- Salzgitter Mannesmann Handel GmbH, Düsseldorf

b)
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg
- Ilsenburger Grobblech GmbH, Ilsenburg and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council)

*Other non-listed companies:*
a)
- Warburg Invest AG, Hanover

**Michael Kieckbusch**
Personnel
*Non-listed consolidated companies:*
a)
- KHS GmbH, Dortmund
- Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr
- Peiner Träger GmbH, Peine
- Salzgitter Flachstahl GmbH, Salzgitter
- Salzgitter Mannesmann Handel GmbH, Düsseldorf
- Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter (Chairman)
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg (Supervisory Board, Chairman)
- Ilsenburger Grobblech GmbH, Ilsenburg and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council)

*Other non-listed companies:*
b)
- Allianz für die Region GmbH, Braunschweig (Supervisory Board)
- Projektgesellschaft Salzgitter-Watenstedt GmbH, Salzgitter (formerly Industriepark Salzgitter-Watenstedt Entwicklungs-GmbH) (Supervisory Board, Vice Chairman)
- Wohnungsbaugesellschaft mbH Salzgitter, Salzgitter (Supervisory Board)

## Group Management Board

**Prof. Dr.-Ing. Heinz Jörg Fuhrmann**
Chief Executive Officer

**Kai Acker**
Technology Business Unit
since October 1, 2019

**Burkhard Becker**
Finance

**Dr.-Ing. Sebastian Bross**
Plate/Section Steel Business Unit
since October 1, 2019

**Ulrich Grethe**
Strip Steel Business Unit

**Michael Kieckbusch**
Personnel

**Dr.-Ing. Roger Schlim**
Plate/Section Steel Business Unit
until September 30, 2019

**Volker Schult**
Trading Business Unit

**Clemens Stewing**
Mannesmann Business Unit
until November 30, 2019

## Supervisory Board

In the financial year 2019, the following members belonged to the Supervisory Board of SZAG and held memberships in the following a) statutory supervisory boards and b) comparable domestic and foreign controlling bodies of commercial enterprises:

**Heinz-Gerhard Wente**
Chairman
Member of the Management Board of Continental AG, retired, Hanover
b) ▪ Alpha ABMD Holdco B. V., Alkmaar, Netherlands, since July 15, 2019

**Dr. Hans-Jürgen Urban**
Vice Chairman
Chairman Member of the Management Board of Industriegewerkschaft Metall, Frankfurt am Main
*Non-listed consolidated companies:*
a) ▪ Salzgitter Flachstahl GmbH, Salzgitter (Vice Chairman)

**Konrad Ackermann**
Chairman of the General Works Council of KHS GmbH, Dortmund
*Non-listed consolidated companies:*
a) ▪ KHS GmbH, Dortmund

**Ulrike Brouzi**
Member of the Board of Managing Directors of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main
*Other non-listed companies:*
a) ▪ Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, since January 1, 2019
▪ R+V Allgemeine Versicherung AG, Wiesbaden, since January 1, 2019
▪ R+V Lebensversicherung AG, Wiesbaden, since January 1, 2019
▪ Union Asset Management Holding AG, Frankfurt am Main, since April 8, 2019
▪ DZ CompliancePartner GmbH, Neu-Isenburg, since January 29, 2019, (Vice Chairwoman since March 22, 2019)

**Annelie Buntenbach**
Managing Member of the National Executive Board of the German Trade Union Federation (DGB), Berlin
▪ No membership in other governing bodies

**Hasan Cakir**
Chairman of the Group Works Council of Salzgitter AG, Salzgitter
Chairman of the Works Council of Salzgitter Flachstahl GmbH, Salzgitter
*Non-listed consolidated companies:*
a) ▪ Salzgitter Flachstahl GmbH, Salzgitter

**Dr. Bernd Drouven**
Member of the Executive Board of Aurubis AG, retired, Hamburg
▪ No membership in other governing bodies

**Roland Flach**
Chairman of the Executive Board of Klöckner-Werke AG, retired, Duisburg
Chairman of the Management Board of KHS AG, retired, Dortmund
*Non-listed consolidated companies:*
a) ▪ KHS GmbH, Dortmund

**Gabriele Handke**
Vice Chairwoman of the Works Council of Peiner Träger GmbH, Peine
*Non-listed consolidated companies:*
a) ▪ Peiner Träger GmbH, Peine

**Reinhold Hilbers**
Minister of Finance of the Federal State of Lower Saxony
*Other non-listed companies:*
a) ▪ Norddeutsche Landesbank Girozentrale, Hanover (Chairman)
▪ Deutsche Messe AG, Hanover
b) ▪ KfW-Bankengruppe (Board of Administration)

**Norbert Keller**
since August 30, 2019
Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH, Duisburg
*Non-listed consolidated companies:*
a) ▪ Hüttenwerke Krupp Mannesmann GmbH, Duisburg
▪ Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr

**Ulrich Kimpel**
until July 31, 2019
Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH, Duisburg
*Non-listed consolidated companies:*
a)
- Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr, until July 31, 2019

**Prof. Dr. Susanne Knorre**
Business consultant
*Other non-listed companies:*
a)
- Deutsche Bahn AG, Berlin
- Norddeutsche Landesbank Girozentrale, Hanover
- RÜTGERS Germany GmbH, Castrop-Rauxel
- STEAG GmbH, Essen

**Dr. Dieter Köster**
Managing Shareholder of HomeStead GmbH & Co. KG, Osnabrück
Chairman of the Executive Board of Köster Holding AG, retired, Osnabrück
*Other non-listed companies:*
a)
- Köster Holding AG, Osnabrück (Chairman)

**Heinz Kreuzer**
Chairman of the Management Board of TUI InfoTec GmbH, retired, Hanover
*Other non-listed companies:*
b)
- eves consulting GmbH, Braunschweig (Advisory Council), until January 20, 2020
- eves_information technology AG, Braunschweig (Supervisory Board), since January 10, 2020
- Safarihub Europe Ltd,Harrow, Middlesex, United Kingdom, since December 1, 2019

**Bernd Lauenroth**
Secretary of the Management Board of Industriegewerkschaft Metall, Branch Office Düsseldorf
*Other non-listed companies:*
a)
- Georgsmarienhütte Holding GmbH, Georgsmarienhütte, until September 30, 2019
- Aluminium Norf GmbH, Neuss, until September 30, 2019
- Hydro Aluminium Rolled Products GmbH, Grevenbroich (Vice Chairman), until September 30, 2019
- Hydro Aluminium Deutschland GmbH, Grevenbroich (Vice Chairman), until September 30, 2019

**Volker Mittelstädt**
Chairman of the Works Council of Ilsenburger Grobblech GmbH, Ilsenburg
*Non-listed consolidated companies:*
a)
- Ilsenburger Grobblech GmbH, Ilsenburg (Vice Chairman)

b)
- Ilsenburger Grobblech GmbH, Ilsenburg and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council)

**Prof. Dr. Joachim Schindler**
Accountant in own firm
*Other non-listed companies:*
a)
- CORE SE, Berlin (Chairman)
- Zoologischer Garten Berlin AG, Berlin

*Listed companies:*
a)
- Rocket Internet SE, Berlin (Vice Chairman)

**Christine Seemann**
Works Council member of Salzgitter Flachstahl GmbH, Salzgitter and Chairwoman of ARGE Strip Steel Business Unit
- No membership in other governing bodies

**Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer**
Director of Production and Technology Bayerischer Rundfunk, Munich
*Other non-listed companies:*
b)
- Bavaria Studios & Production und Services GmbH, Geiselgasteig (Supervisory Board – Chairwoman), since July 1, 2019
- Bayern Digital Radio GmbH, Munich (Supervisory Board)

**Clemens Spiller**
Systems analyst, Chairman of the Works Council of GESIS mbH, Salzgitter location, and Chairman of the General Works Council of GESIS mbH
- No membership in other governing bodies

**Dr. Werner Tegtmeier**
State Secretary, retired, of the Federal Ministry of Labor and Social Affairs
- No membership in other governing bodies

## Committees of the Supervisory Board

**Presiding Committee:**
Heinz-Gerhard Wente (Chairman)
Hasan Cakir
Reinhold Hilbers
Dr. Hans-Jürgen Urban

**Audit Committee:**
Prof. Dr. Joachim Schindler (Chairman)
Konrad Ackermann
Roland Flach
Bernd Lauenroth

**Strategy Committee:**
Heinz-Gerhard Wente (Chairman)
Konrad Ackermann, since August 1, 2019
Hasan Cakir
Dr. Bernd Drouven
Reinhold Hilbers
Ulrich Kimpel, until July 31, 2019
Bernd Lauenroth
Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer
Dr. Hans-Jürgen Urban

**Nomination Committee:**
Reinhold Hilbers
Heinz-Gerhard Wente

## Remuneration of the Executive Board and of the Supervisory Board

### Remuneration of the Executive Board

The remuneration of the members of the Executive Board is determined by their tasks and their own individual performance as well as by the success of the company. The amount of remuneration is based overall on the level customary in the comparable business environment. The peer group used in 2018 was formed from companies represented on the German Mid-Cap index MDAX of Deutsche Börse AG to which Salzgitter AG belonged at the time.

#### The remuneration system in the financial year 2018

In the financial year 2018, remuneration consisted of the following components:

- an annual fixed basic salary to be paid out in equal monthly installments (monthly salary),
- supplementary benefits (consisting mainly of making a company car available for private use),
- annual variable remuneration to be paid in full at the end of a financial year and measured partly by personal performance and partly by the return on capital employed (ROCE) calculated as an average of the last five years, with both parts capped, and
- a defined benefit pension commitment depending on the length of service to the Group, capped at a maximum 60% of the fixed salary.

#### The remuneration system in the financial year 2019

The Executive Board remuneration has been given a new structure, effective as from 2019. Remuneration almost fully reflects the most recent recommendations of the German Corporate Governance Code and now consists of the following components.

- an annual fixed basic salary to be paid out in equal monthly installments (monthly salary),
- supplementary benefits (consisting mainly of making a company car available for private use),
- annual variable remuneration to be paid out partly at the end of the respective financial year and partly at the end of the third year following the respective financial year, and measured partly by personal performance and the earnings before taxes of the respective year and partly by the trend of the Salzgitter share on the stock exchange in the three years following the respective financial year and the ROCE expressed as an average and achieved over a period of four years, beginning with the respective financial year, as well as
- a defined contribution pension commitment.

The **system of variable remuneration** in the financial year 2019 in detail:

Variable remuneration is based on the achieving of objectives. It consists, on the one hand, of an annual bonus and, on the other, of an annual performance bonus (performance cash award). Regarding the bonus for a one-year period, a target bonus is agreed in the Executive Board member's employment contract, along with a target amount for the performance bonus.

- Annual bonus:

  The precondition for the disbursement of the annual bonus is split as follows: 70% for achieving a financial performance target, measured on the basis of earnings before taxes (EBT), and 30% for individual performance, measured by qualitative criteria that are fixed by the Supervisory Board at the beginning of each year and relate to the respective year.

  The calculation of the payout multiplier for the EBT performance target is based on the EBT achieved in the respective financial year compared with the EBT of the preceding financial year. If EBT remains the same compared with the previous year, the multiplier is 100% of the target bonus agreed in the Executive Board employment contract. If EBT is raised by 50% compared with the previous year, the maximum multiplier of 150% is achieved. If EBT is –50% compared with the previous year, the minimum multiplier of 50% is achieved. Linear interpolation is applied if objectives are achieved between the fixed points. If the minimum multiplier is not achieved, the payout multiplier is 0%. If EBT is negative for the second year in a row, or if EBT of the previous year or the current financial year is less than € 1 million respectively, the Supervisory Board can determine the degree to which an objective has been achieved at its own discretion. If a positive EBT is achieved in the previous year and a negative EBT in the respective financial year, the payout factor is 0%.

In setting the criteria for individual performance the Supervisory Board may factor in a series of different aspects, such as strategic business development, specific projects, occupational safety and employee development. The individual performance is assessed at the end of the financial year by the Supervisory Board based on the predefined criteria. The degree to which an objective has been achieved can be determined by the Supervisory Board on a linear basis between 0% and 150%.

The annual bonus is paid out in an amount of 50% following the end of the respective financial year (one-year variable remuneration). The remaining 50% (initial value) of the annual bonus is withheld and converted into virtual shares in the company (share deferral) for a period of three years (blocking period), starting with the end of the respective financial year. The number of virtual shares is calculated from the arithmetic average of the Salzgitter share's closing price on XETRA on the Frankfurt Stock Exchange during the last 30 trading days before the start of the blocking period. After the end of the blocking period, the number of virtual shares is multiplied by the arithmetic average of the Salzgitter share's closing price on XETRA on the Frankfurt Stock Exchange during the last 30 trading days before the end of the blocking period, plus the fictitious dividend payout on the virtual shares during the blocking period, and paid out. The disbursement amount resulting from these calculations is capped at 150% of the initial value. The outlay for share-based remuneration recorded for Prof. Dr.-Ing. Fuhrmann in the financial year 2019 amounts to k€ 84 and for Mr. Becker and Mr. Kieckbusch to k€ 28 each.

In the event of exceptional and unforeseeable developments, the Supervisory Board can reduce the annual bonus at its discretion.

- Performance cash award:

  The precondition for the disbursement of a performance cash award is also split at 70% for achieving a financial performance target, in this case measured by the return on capital employed (ROCE) expressed as an average of the four-year performance period, and at 30% for achieving stakeholder objectives set by the Supervisory Board at the beginning of each year for the respective performance period.

  The average of the ROCE figures achieved after the end of the respective financial years during the performance period is used to calculate the payout amount for the ROCE performance target. The average of the planned ROCE figures in the respective financial years is then deducted from this amount. The resulting divergence between actual figures and targets in percentage points is compared with the values set by the Supervisory Board at the start of the performance period, taking account of the general development of business as well as the economic prospects of Salzgitter AG for a payout factor of 100% (target), 50% (minimum figure) and 200% (maximum figure) of the target amount agreed in the Executive Board member's contract of employment. Linear interpolation is applied if objectives are achieved between the fixed points. If the minimum figure is not achieved, the payout multiplier is 0%. Exceeding the maximum figure will not increase the payout multiplier.

  Example: If the target figure for the divergence of the average ROCE achieved from the average budgeted ROCE is set at 0%, with a minimum of –3% and a maximum of 2%, the payout factor is 100% of the target amount assuming that the exact amount of the budgeted ROCE is achieved. If a ROCE is achieved that is one percentage point higher than budgeted, the payout factor amounts to 150%. If a ROCE is achieved that is one percentage point lower than budgeted, the payout factor is 83.33%.

  In setting the stakeholder objectives, the Supervisory Board may factor in a series of different aspects, including strategic business development, specific projects, occupational safety or employee development. Achieving the targets is assessed by the Supervisory Board after the performance period has ended. The degree to which targets are achieved can be determined by the Supervisory Board on a linear basis between 0% and 200%.

  The performance cash award is paid out at the end of the respective performance period.

If the employment relationship of an Executive Board member is terminated by the company for an important reason during a financial year by way of extraordinary termination within the meaning of Section 626 (1) of the German Commercial Code (BGB), or prematurely terminated upon the initiative of an Executive Board member, without the company having established an important reason for such premature termination within the meaning of Section 626 (1) BGB, and without a change of control within the meaning of the Executive Board employment contract, the claim to an annual bonus as well as all claims from current share deferrals whose blocking period has not yet expired when the termination was announced shall be void without any entitlement to a substitute or compensation, along with all tranches of the multi-year remuneration whose performance periods have not yet come to the end on the date of the premature termination of the employment relationship.

#### Pension commitments

The commitments for the company pension scheme (pension commitments) vary:

For the period up until December 31, 2018, all Executive Board members received a commitment for payment of a pension the amount of which depends on the length of service to the Group and is capped at a maximum of 60% of the fixed basic salary (defined benefit commitment). Payment can be drawn once the age of 65 has been reached. In respect of Executive Board member Prof. Dr.-Ing. Heinz Jörg Fuhrmann, this commitment also applies to the period after December 31, 2018. In the context of this commitment, Prof. Fuhrmann will be deemed eligible for payments as if he had already reached the age of 65 if he retires before having reached the age of 65. The pension commitments in favor of Executive Board members Burkhard Becker and Michael Kieckbusch as of December 31, 2018, have been fixed as of this date and, as of January 1, 2019, supplemented by new, defined contribution commitments (see below). Should the company not offer a contract to Mr. Becker for a further term of office upon expiration of his current employment contract, the company waives the assertion of actuarial reductions in the event of the premature receipt of benefits, as well as the pro rata reduction of the entitlement over time for the event of his withdrawal from the company in a non-lapsable entitlement without immediate subsequent benefit eligibility.

For the period starting January 1, 2019, Executive Board members Burkhard Becker and Michael Kieckbusch were given a commitment by the company that it will make a certain amount of money available on a personal pension account (defined contribution commitment) for each year of Executive Board activity. A guaranteed annual interest credit will also be taken account of on the personal pension account. This interest credit will be based on the maximum technical interest rate of the life assurance industry in accordance with the actuarial reserve ordinance (DeckRV; guaranteed interest). The amount will be invested similar to the life cycle model established within the Salzgitter Group in the conditions for deferred compensation (SZAG model), while taking account of the securities designated by the Investment Committee for the Salzgitter Group's company pension. If the investment generates higher interest after tax compared with the guaranteed interest, this will be credited when benefits become due.

If the Executive Board member leaves the service of the company and enters into the statutory pension insurance scheme either on or before reaching the statutory retirement age, the Executive Board member will receive the credit on the pension account as a one-off retirement asset or, upon application, in ten annual instalments. If the Executive Board member leaves the company before reaching the statutory retirement age, the Board member shall be granted a vested claim on the basis of the pension account in accordance with the legal provisions of the German Company Pensions Act. The Executive Board Member shall, upon application, receive premature retirement assets upon reaching the age of 62 at the earliest.

#### Withdrawing from the company due to a change in control and premature departure

In the event of termination of Executive Board member activities due to a change of control, the Board members are entitled to settlement in the amount of overall remuneration for the remaining term of their contracts of employment. This settlement is, however, capped to the value of three years of remuneration. Should Executive Board activities be terminated without an important reason, the Executive Board members are entitled to the remuneration agreed until expiry of the contract. However, this entitlement is restricted to the amount of two years' remuneration (fixed and variable components). No benefits were granted or pledged by external parties to the individual members of the Executive Board in the financial year 2019 or the previous year for their activities as Executive Board members.

**Remuneration received by the individual members of the Executive Board: benefits accorded for the year**

| | | Prof. Dr.-Ing. Heinz Jörg Fuhrmann CEO | | | | Burkhard Becker CFO | | | | Michael Kieckbusch Personnel | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **In k€** | | **2018** | **2019** | **2019 min.** | **2019 max.** | **2018** | **2019** | **2019 min.** | **2019 max.** | **2018** | **2019** | **2019 min.** | **2019 max.** |
| Fixed remuneration | | 1,140 | 1,155 | 1,155 | 1,155 | 600 | 609 | 609 | 609 | 600 | 609 | 609 | 609 |
| Benefits | | 17 | 18 | 18 | 18 | 25 | 27 | 27 | 27 | 46 | 43 | 43 | 43 |
| **Total** | | **1,157** | **1,173** | **1,173** | **1,173** | **625** | **636** | **636** | **636** | **646** | **652** | **652** | **652** |
| One-year variable remuneration[1] | Annual bonus | 950 | 500 | 0 | 750 | 500 | 315 | 0 | 398 | 500 | 265 | 0 | 398 |
| Multi-year variable remuneration (MVR) | MVR FY 2018 | 0 | – | – | – | 0 | – | – | – | 0 | – | – | – |
| | Share deferral tranche 2019–2022[2] | – | 137 | 0 | 1,125 | – | 73 | 0 | 596 | – | 73 | 0 | 596 |
| | Performance cash plan tranche 2019–2022 | – | 400 | 0 | 800 | – | 212 | 0 | 424 | – | 212 | 0 | 424 |
| **Total** | | **2,107** | **2,210** | **1,173** | **3,848** | **1,125** | **1,236** | **636** | **2,054** | **1,146** | **1,202** | **652** | **2,070** |
| Pension expenses[3] | | 375 | 616 | 616 | 616 | 196 | 372 | 372 | 372 | 252 | 401 | 401 | 401 |
| **Total remuneration** | | **2,482** | **2,826** | **1,789** | **4,464** | **1,321** | **1,608** | **1,008** | **2,426** | **1,398** | **1,603** | **1,053** | **2,471** |

[1] The 2019 one-year variable remuneration of Mr. Becker includes k€ 50 (2018: 0 k€) for the temporary assignment as Chairman of the Management Board of KHS GmbH. The 2018 one-year variable remuneration of Prof. Dr.-Ing. Fuhrmann includes a one-time bonus paymenf of k€ 285 and of k€ 150 for Mr. Becker and Mr. Kieckbusch respectively.
[2] Fair Value at the time of granting on March 19, 2019, based on 5,520.795 virtual shares for Prof. Dr.-Ing. Fuhrmann and 2,926.021 virtual shares each for Mr. Becker and Mr. Kieckbusch respectively
[3] Service cost pursuant to IAS 19

### Remuneration received by the individual Members of the Executive Board: income in the year

| | | Prof. Dr.-Ing. Heinz Jörg Fuhrmann CEO | | Burkhard Becker CFO | | Michael Kieckbusch Personnel | |
|---|---|---|---|---|---|---|---|
| **In k€** | | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** |
| Fixed remuneration | | 1,140 | 1,155 | 600 | 609 | 600 | 609 |
| Benefits | | 17 | 18 | 25 | 27 | 46 | 43 |
| **Total** | | **1,157** | **1,173** | **625** | **636** | **646** | **652** |
| One-year variable remuneration[1] | Annual bonus | 950 | 225 | 500 | 169 | 500 | 119 |
| Multi-year variable remuneration (MVR) | MVR FY 2018 | 0 | – | 0 | – | 0 | – |
| | Share deferral tranche 2019–2022 | – | – | – | – | – | – |
| | Performance cash plan tranche 2019–2022 | – | – | – | – | – | – |
| Other | | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | | **2,107** | **1,398** | **1,125** | **805** | **1,146** | **771** |
| Pension expenses[2] | | 375 | 616 | 196 | 372 | 252 | 401 |
| **Total remuneration** | | **2,482** | **2,014** | **1,321** | **1,177** | **1,398** | **1,172** |

[1] With regard to the one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann, k€ 15 (2018: 25 k€) of his remuneration as member of the Supervisory Board of the shareholding Auribis AG are offset in accordance with the terms of his employment. The 2019 one-year variable remuneration of Mr. Becker includes k€ 50 (2018: 0 k€) for the temporary assignment as Chairman of the Management Board of KHS GmbH. The 2018 one-year variable remuneration of Prof. Dr.-Ing. Fuhrmann includes a one-time bonus payment of k€ 285 and of k€ 150 for Mr. Becker and Mr. Kieckbusch respectively.
[2] Service cost pursuant to IAS 19

Overall remuneration (without pension expenses and including the fair value of the share deferral from the granted benefits) received by the active members of the Executive Board for their activities in the financial year 2019 amounted to k€ 3,257 in total (previous year: k€ 4,378).

### Pensions

| | | | | Allocation to pension provision | | Present value of the obligation | |
|---|---|---|---|---|---|---|---|
| **In €** | | **Annual payment upon pension eligibility[1]** | **Payment upon actual retirement (guaranteed amount)** | **according to HGB** | **according to IFRS** | **according to HGB** | **according to IFRS** |
| Prof. Dr.-Ing. Heinz Jörg Fuhrmann Chairman | 2019 | 720,000 | 0 | 1,791,147 | 1,715,182 | 14,252,032 | 17,552,689 |
| | 2018 | 684,000 | 0 | 3,124,920 | 2,314,629 | 12,460,885 | 15,837,507 |
| Burkhard Becker | 2019 | 349,056[2] | 180,000 | 1,010,705 | 1,013,988 | 6,434,856 | 8,211,535 |
| | 2018 | 345,600[2] | 0 | 1,145,766 | 617,131 | 5,424,151 | 7,197,547 |
| Michael Kieckbusch | 2019 | 334,512[3] | 180,000 | 959,697 | 1,001,831 | 5,506,965 | 7,196,157 |
| | 2018 | 331,200[3] | 0 | 903,694 | 376,695 | 4,547,268 | 6,194,326 |

[1] Including a former employer's pension commitment taken over against compensation
[2] Contractually agreed cap on 96 % on the final pension entitlement of financial year 2018, as of 2019 automatic adjustment according to group modifications of the "Essener Verband"
[3] Contractually agreed cap on 92 % on the final pension entitlement of financial year 2018, as of 2019 automatic adjustment according to group modifications of the "Essener Verband"

**The remuneration system of the Supervisory Board**

Each member of the Supervisory Board receives a fixed remuneration of € 60,000 per financial year. This remuneration is double the amount for the Vice Chairman and three times the amount for the Chairman. In addition, each member receives € 5,000 for committee activities, the respective committee chairmen and members of the Audit Committee € 10,000, and the chairman of the Audit Committee € 30,000. The Chairman of the Supervisory Board and the Vice Chairman are not remunerated for membership in the committees. The other Supervisory Board members are compensated for a maximum of two memberships in committees. An attendance fee of € 500 is paid for participation in each Supervisory Board meeting; participation and decision making by way of telephone do not count insofar as participating in a meeting.

Remuneration received by the individual members of the Supervisory Board:

| | | Annual remuneration | | | |
|---|---|---|---|---|---|
| In € | | Fixed remuneration | Committee remuneration | Attendance fees | Total |
| Heinz-Gerhard Wente, | 2019 | 180,000 | 0 | 4,500 | 184,500 |
| Chairman | 2018 | 180,000 | 0 | 5,500 | 185,500 |
| Dr. Hans-Jürgen Urban, | 2019 | 120,000 | 0 | 4,500 | 124,500 |
| Vice Chairman | 2018 | 120,000 | 0 | 4,500 | 124,500 |
| Konrad Ackermann | 2019 | 60,000 | 12,083 | 4,500 | 76,583 |
| | 2018 | 60,000 | 10,000 | 4,000 | 74,000 |
| Ulrike Brouzi | 2019 | 60,000 | 0 | 1,000 | 61,000 |
| | 2018 | 60,000 | 0 | 1,500 | 61,500 |
| Annelie Buntenbach | 2019 | 60,000 | 0 | 1,500 | 61,500 |
| | 2018 | 60,000 | 0 | 1,500 | 61,500 |
| Hasan Cakir | 2019 | 60,000 | 10,000 | 4,500 | 74,500 |
| | 2018 | 60,000 | 10,000 | 4,500 | 74,500 |
| Ulrich Dickert | 2019 | 0 | 0 | 0 | 0 |
| until 2018/05/24 | 2018 | 25,000 | 0 | 1,000 | 26,000 |
| Tina Dreßen | 2019 | 0 | 0 | 0 | 0 |
| until 2018/05/24 | 2018 | 25,000 | 0 | 1,000 | 26,000 |
| Dr. Bernd Drouven | 2019 | 60,000 | 5,000 | 2,500 | 67,500 |
| since 2018/05/24 | 2018 | 40,000 | 3,333 | 2,000 | 45,333 |
| Dr. Thea Dückert | 2019 | 0 | 0 | 0 | 0 |
| until 2018/05/24 | 2018 | 25,000 | 0 | 1,000 | 26,000 |
| Karl Ehlerding | 2019 | 0 | 0 | 0 | 0 |
| until 2018/05/24 | 2018 | 25,000 | 0 | 0 | 25,000 |
| Roland Flach | 2019 | 60,000 | 10,000 | 4,000 | 74,000 |
| | 2018 | 60,000 | 18,333 | 4,000 | 82,333 |
| Gabriele Handke | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| | 2018 | 60,000 | 0 | 2,000 | 62,000 |
| Dr.-Ing. Dr. h. c. Jürgen Hesselbach | 2019 | 0 | 0 | 0 | 0 |
| until 2018/05/24 | 2018 | 25,000 | 0 | 1,000 | 26,000 |
| Reinhold Hilbers | 2019 | 60,000 | 10,000 | 3,000 | 73,000 |
| since 2018/01/18 | 2018 | 60,000 | 9,167 | 4,500 | 73,667 |

| In € | | Fixed remuneration | Committee remuneration | Attendance fees | Total |
|---|---|---|---|---|---|
| | | | | | **Annual remuneration** |
| Norbert Keller | 2019 | 25,000 | 0 | 1,000 | 26,000 |
| since 2019/08/30 | 2018 | 0 | 0 | 0 | 0 |
| Ulrich Kimpel | 2019 | 35,000 | 0 | 1,000 | 36,000 |
| until 2019/07/31 | 2018 | 60,000 | 5,000 | 1,500 | 66,500 |
| Prof. Dr. Susanne Knorre | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| since 2018/05/24 | 2018 | 40,000 | 0 | 1,500 | 41,500 |
| Dr. Dieter Köster | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| | 2018 | 60,000 | 0 | 2,000 | 62,000 |
| Heinz Kreuzer | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| since 2018/05/24 | 2018 | 40,000 | 0 | 1,000 | 41,000 |
| Bernd Lauenroth | 2019 | 60,000 | 15,000 | 4,000 | 79,000 |
| | 2018 | 60,000 | 13,333 | 4,000 | 77,333 |
| Volker Mittelstädt | 2019 | 60,000 | 0 | 1,500 | 61,500 |
| | 2018 | 60,000 | 0 | 2,000 | 62,000 |
| Prof. Dr. Joachim Schindler | 2019 | 60,000 | 30,000 | 4,000 | 94,000 |
| | 2018 | 60,000 | 20,000 | 3,000 | 83,000 |
| Christine Seemann | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| since 2018/05/24 | 2018 | 40,000 | 0 | 1,500 | 41,500 |
| Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer | 2019 | 60,000 | 5,000 | 2,500 | 67,500 |
| | 2018 | 60,000 | 3,333 | 2,000 | 65,333 |
| Clemens Spiller | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| since 2018/05/24 | 2018 | 40,000 | 0 | 1,500 | 41,500 |
| Dr. Werner Tegtmeier | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| | 2018 | 60,000 | 0 | 2,000 | 62,000 |
| **Total** | **2019** | **1,440,000** | **97,083** | **58,000** | **1,595,083** |
| | **2018** | **1,465,000** | **92,499** | **60,000** | **1,617,499** |

In addition, the following Supervisory Board members received remuneration for Supervisory Board mandates of subsidiaries:

| | | | | | Annual remuneration |
|---|---|---|---|---|---|
| **In €** | | **Fixed remuneration** | **Committee remuneration** | **Attendance fees** | **Total** |
| Konrad Ackermann | 2019 | 10,000 | 0 | 750 | 10,750 |
| (KHS) | 2018 | 10,000 | 0 | 750 | 10,750 |
| Hasan Cakir | 2019 | 8,000 | 0 | 400 | 8,400 |
| (SZFG) | 2018 | 8,000 | 0 | 400 | 8,400 |
| Ulrich Dickert | 2019 | 0 | 0 | 0 | 0 |
| (MRW) | 2018 | 0 | 0 | 0 | 0 |
| Tina Dreßen | 2019 | 4,167 | 0 | 100 | 4,267 |
| (SMHD, until 2019/05/31) | 2018 | 10,000 | 0 | 300 | 10,300 |
| Karl Ehlerding | 2019 | 2,500 | 0 | 0 | 2,500 |
| (KHS, until 2019/03/31) | 2018 | 10,000 | 0 | 0 | 10,000 |
| Roland Flach | 2019 | 10,000 | 0 | 750 | 10,750 |
| (KHS) | 2018 | 10,000 | 0 | 750 | 10,750 |
| Gabriele Handke | 2019 | 5,000 | 0 | 400 | 5,400 |
| (PTG) | 2018 | 5,000 | 0 | 400 | 5,400 |
| Norbert Keller | 2019 | 2,084 | 0 | 100 | 2,184 |
| (MPT, since 2019/08/01) | 2018 | 0 | 0 | 0 | 0 |
| Ulrich Kimpel | 2019 | 2,917 | 0 | 200 | 3,117 |
| (MPT, until 2019/07/31) | 2018 | 5,000 | 0 | 200 | 5,200 |
| Volker Mittelstädt | 2019 | 7,500 | 0 | 400 | 7,900 |
| (ILG/MGB) | 2018 | 7,500 | 0 | 400 | 7,900 |
| Christine Seemann | 2019 | 0 | 0 | 0 | 0 |
| (SZFG, until 2018/07/19) | 2018 | 4,667 | 0 | 100 | 4,767 |
| Dr. Hans-Jürgen Urban | 2019 | 12,000 | 0 | 400 | 12,400 |
| (SZFG) | 2018 | 12,000 | 0 | 400 | 12,400 |
| **Total** | **2019** | **64,168** | **0** | **3,500** | **67,668** |
| | **2018** | **82,167** | **0** | **3,700** | **85,867** |
| **Sum total** | **2019** | **1,504,168** | **97,083** | **61,500** | **1,662,751** |
| | **2018** | **1,547,167** | **92,499** | **63,700** | **1,703,366** |

The employee representatives who are members of trade unions have declared that they will remit their remuneration to the Hans Böckler Foundation in accordance with the provisions of the German Trade Union Confederation.

## Declaration of Conformity and Corporate Governance Report

The corporate governance of Salzgitter AG (SZAG) is geared to ensuring the sustainable development and long-term success of the company in harmony with the principles of a social market economy and in observance of its corporate responsibility for people and the environment. This is based on the provisions set out under German stock corporation law and the recommendations laid down in German Corporate Governance Code (↗ **www.dcgk.de/en/**). It is therefore both intrinsically important to us and our obligation to ensure that the prevailing laws are complied with at all times, that generally accepted basic values in dealing with people and companies are observed, and that nature is preserved in conducting the company's business.

**2019 Declaration of Conformity with the recommendations of the German Corporate Governance Code**
The Executive Board and Supervisory Board submitted the following declaration in respect of the recommendations of the German Corporate Governance Code, pursuant to Section 161 of the German Stock Corporation Act (AktG) on December 5, 2019:

"In 2019, Salzgitter Aktiengesellschaft conformed – and currently continues to conform – to all of the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice and for Consumer Protection in the official section of the electronic Federal Gazette."

**Ethical standards of SZAG**
Beyond the statutory requirements placed on managing companies and the recommendations of the German Corporate Governance Code, we have developed a mission statement by the name "YOUNITED" for our Group. In this process, employees from all Group companies across all hierarchical levels defined a shared system of values, among other things. This system includes values such as reliability, fairness and sustainability. You will find our mission statement on our website at ↗ **www.salzgitter-ag.com/en/company/mission-statement-younited/.**

Moreover, the Executive Board has defined a set of clear rules regulating conduct for all the Group's employees in the form of a Code of Conduct that they are to follow in carrying out their activities. This Code of Conduct also includes compliance with the law, commitment to fair competition and the rejection of corruption of any kind. In addition, these rules enable the trustful cooperation of the employees among themselves and honest dealings with one another and with business partners. The Code of Conduct can also be accessed on our website at ↗ **www.salzgitter-ag.com/en/corporate-responsibility/**.

**The shareholders of SZAG**
The shareholders principally exercise their rights at general meetings of shareholders. Each shareholder of SZAG is entitled to participate in the General Meeting of Shareholders, which takes place at least once a year, and to address the Meeting about items on the agenda, to ask pertinent questions and submit relevant motions and to exercise their voting rights. Fundamental decisions affecting the company, such as changes to the Articles of Incorporation, the appropriation of annual profit, the election of shareholder representatives to the Supervisory Board, the raising or lowering of capital, or the selection of the annual independent auditor are reserved for the General Meeting of Shareholders. It also decides on the remuneration of the Supervisory Board. We facilitate the process of shareholders exercising their voting rights without having to personally take part in the General Meeting of Shareholders: They can appoint a proxy of the company and instruct this person on how they wish to exercise their voting rights.

You will find the results of the 2019 Annual General Meeting of Shareholders at ↗ **www.salzgitter-ag.com/en/investor-relations/shareholders-meeting/.**

**The Executive Board of SZAG**
The Executive Board manages the company under its own responsibility in accordance with the German Stock Corporation Act. It determines the strategic direction and the future development of the company together with the Supervisory Board. In carrying out these activities, the Executive Board is bound by the interests of the company. It strives to achieve the highest possible return on capital employed within the scope of the corporate purpose. The Supervisory Board has determined that certain business transactions may only be carried out with Supervisory Board approval.

The Executive Board currently comprises three members consisting of the Chief Executive Officer, the Chief Financial Officer and the Chief Personnel Officer. The Supervisory Board has assigned each Executive Board member a portfolio of responsibilities for specific organization units and has specified the decisions for which all Executive Board members are jointly responsible. The management of the five business units is the joint responsibility of all the members. A Group Management Board is at hand to assist them. Members of this board are the three Executive Board members and generally one manager from each of the five business units who coordinates the activities of his respective business unit (business unit manager).

The members of the Executive Board are liable to the company for any dereliction of duty. The company's D&O insurance provides for an appropriate deductible that accords with statutory requirements.

**Appointing of members and composition of SZAG's Executive Board**
The Executive Board members are appointed by the Supervisory Board for a maximum of five years. As part of successor planning, the Supervisory Board discusses in good time before the expiration of a contract whether the incumbent should be offered a renewal of his/her employment contract. The Supervisory Board informs the Executive Board member accordingly of the result. In the event of replacement or recruiting for a newly created Executive Board position, the Supervisory Board's Presiding Committee approves a requirement profile and searches for suitable candidates, generally with the support of external consultants. Following a pre-selection process, the Presiding Committee then presents one or a selection of several candidates for appointment.

When appointing Executive Board members, the Supervisory Board takes account of the fact that the period of office of the person appointed does not exceed the age of 65. As part of the Board's diversity concept, it also gives consideration to the following:

- that the member to be appointed possesses the personal competence, skills and expertise necessary for professionally and responsibly performing their tasks; this includes, on the one hand, the specific skills and knowledge for heading up the executive portfolio in question and, on the other, the necessary leadership skills for participating in the management of both company and Group by the entire Executive Board,
- that, along with their suitability in terms of personal competence, skills and expertise, consideration is also given to age as far as possible, on the one hand in order to permit service to the company for a number of years so as to promote continuity and sustainability in corporate management and, on the other, to have younger persons who are familiar with more recent specialist knowledge and management methods as well as older persons on the Executive Board who have greater professional, life and management experience represented on the Executive Board,
- that, in the case of equal suitability of personal competence, skills and expertise, as far as possible both male and female persons are represented on the Executive Board, with the Supervisory Board targeting a proportion of women of at least 30% by June 30, 2022 in the event of any future opening for a successor,
- that, along with their suitability in terms of personal competence, skills and expertise, members of the Executive Board have as wide a range of educational backgrounds as possible, including technical, business, legal and other humanistic and scientific disciplines.

Along with suitability in terms of personal competence, skills and expertise for the individual Executive Board member portfolio, and while taking account of company-specific requirements, the concept applied to the composition of the Executive Board is aimed at contributing through the greatest possible diversity to a professional and responsible performing of the management duties of the entire Executive Board.

The Supervisory Board realizes the concept of diversity in the composition of the Executive Board by taking account within the greatest scope possible of the aspects of diversity under this concept when selecting members to be appointed to the Executive Board. The search for suitable persons is incumbent upon the Supervisory Board's Presiding Committee that uses various tools to assist it in this task.

The diversity concept for the composition of the Executive Board is implemented to the highest degree possible.

**Working practices of the Executive Board**
The Executive Board holds regular meetings and telephone conferences for the purpose of discussion and decision-making. It has not currently formed any standing committees.

In its management and control of the subsidiaries and affiliates, the Executive Board deploys the following instruments, while also consulting with the Group Management Board:

- rules and regulations on reporting duties and approval requirements in corporate guidelines and the articles of association of Group companies pertaining to specific areas of business,
- defining of the Group's management principles in the policy entitled "Management and Organization",
- obligation of all Group companies to prepare annual shipment and sales budgets as well as investment, financial and personnel planning,
- the regular monitoring of progress made throughout the year in all Group companies; if necessary, the taking of appropriate measures,
- regular audits and special case-by-case audits performed by an internal audit department,
- operating of a groupwide monitoring system for the early detection of risks and a risk management system, and
- agreeing of the goals and deciding of a performance-oriented remuneration component for managers and senior executives of the Group companies.

**The Supervisory Board of SZAG**
The core tasks of the Supervisory Board are to advise and supervise the Executive Board in its management of the company. In accordance with the law, certain fundamental decisions may only be made with its approval. It has determined that, in addition, certain types of transactions require its approval. The members of the Supervisory Board are liable to the company for any dereliction of duty. The company's D&O insurance provides for an appropriate deductible.

**Composition and working practices of SZAG's Supervisory Board**
The Supervisory Board comprises 21 members, specifically ten shareholder and ten employee representatives plus one other member. This composition has been laid down under the provisions of the Co-Determination Amendment Act applicable to the company, in conjunction with Article 7 of the company's Articles of Incorporation. In the proposals for election or, in the case of the judicial appointment of Supervisory Board members, the Supervisory Board ensures that the candidates have generally not reached the age of 70 at the start of their term of office and, in the case of judicial appointments, when they join the Supervisory Board. Once the mandate has been accepted, SZAG supports new members of the Supervisory Board by offering them an onboarding program that presents the Group and its business activities. In addition, each Supervisory Board member is provided with an extensive manual comprising information on the Group relevant to Supervisory Board activities. Furthermore, SZAG supports Supervisory Board members with measures for continuous professional development. In the year under review, SZAG bore the cost of a two-day seminar, organized together with external consultants, dedicated to analyzing corporate financial statements in accordance with IFRS and the German Commercial Code (HGB), as well as corporate management for employee representatives. The Supervisory Board regularly assesses its work overall, as well as the work of its committees. In 2017, this self-assessment took place with the aid of a survey directed at members of the Executive Board and the Supervisory Board. The results were analyzed by an external, independent consultant and presented at a Supervisory Board meeting. After discussion in plenary, measures for further optimization were agreed. In the first half of 2020, a new self-assessment will be conducted in the same manner.

**Objectives for the composition and the competence profile of SZAG's Supervisory Board**
The Supervisory Board considers at least six independent shareholder representatives on the Supervisory Board to be an appropriate number. In the opinion of the Supervisory Board, the following shareholder representatives can be considered independent within the meaning of the German Corporate Governance Code: Ulrike Brouzi, Dr. Bernd Drouven, Roland Flach, Reinhold Hilbers, Prof. Dr. Susanne Knorre, Dr. Dieter Köster, Heinz Kreuzer, Prof. Dr. Joachim Schindler, Prof. Dr. Dr.-Ing Birgit Spanner-Ulmer and Heinz-Gerhard Wente. In addition, the Supervisory Board also assesses Supervisory Board member Dr. Werner Tegtmeier – a further member of the Supervisory Board pursuant to the German Co-Determination Amendment Act – as independent.

The Supervisory Board has defined the objectives set out below as further important goals for its composition and competence profile: Along with all statutory requirements placed on the individual supervisory board members, they should possess the necessary expertise and personal competence anchored in expert knowledge, capabilities and experience, as well as in their personal suitability for assuming the tasks incumbent on them. As a whole, they must be familiar with the sectors of steel and mechanical/plant engineering. Among the members there should be persons with technical expertise, experience in managing companies and in developing corporate strategies, with knowledge of financial instruments and preferably international experience. At least one member must be specially qualified in matters of accounting and the auditing of financial statements. Similarly, at least one member must have special knowledge and experience in applying accounting standards and in internal control procedures. With Supervisory Board proposals to be put to the 2018 Annual General Meeting of Shareholders, the objectives of the Supervisory Board for its composition and the competence profile that it has drawn up for the entire Board have been fulfilled.

**Diversity concept for the composition of SZAG's Supervisory Board**
In selecting candidates for its proposals for the election of Supervisory Board members to be put forward to the General Meeting of Shareholders, the Supervisory Board gives consideration to the following:

- that the personal competence, skills and expertise necessary for professionally and responsibly performing duties of the Supervisory Board – essentially the appointing of Executive Board members, the supervision of the Executive Board's management of the company, as well as the examination of the annual financial statements and management reports – are represented on the Board as a whole; this includes particularly technical expertise, experience in corporate management and the crafting of corporate strategies, knowledge of financial instruments and experience in international business with regard to the sectors in which the companies of the Salzgitter Group operate and also with respect to the management tasks of SZAG,
- along with suitability in terms of personal competence, expertise and skills, that younger persons exercising their professions as well as older persons more experienced in professional life and life in general are represented on the Supervisory Board,
- along with suitability in terms of personal competence, skills and expertise, that female and male persons are represented on the Supervisory Board, whereby the entire Supervisory Board must consist of at least 30% women and at least 30% men in accordance with legal requirements,
- along with suitability in terms of personal competence, expertise and skills, that such persons come as far as possible from the widest educational backgrounds – including technical, business, legal and other humanistic and scientific disciplines – with different professional backgrounds – including professionals from technical, business, scientific and humanistic walks of life.

In terms of the composition of the Supervisory Board, and while taking account of the company-specific requirements, the diversity concept is aimed at contributing to the professional and responsible performing of the duties of the entire Supervisory Board through the greatest possible diversity of the personal competences, skills and expertise represented on the Board, the educational and professional backgrounds, as well as different assessment aspects based on age and gender.

The Supervisory Board endeavors to implement the diversity concept applied to its composition by taking the aspects of this concept into account as far as possible in the election of Supervisory Board members, along with other aspects to be considered when selecting appropriate candidates for its proposals for the election of Supervisory Board members. The search for suitable candidates and their pre-selection are incumbent on the Supervisory Board's Nomination Committee that uses various tools to assist it in this task. The ultimate decision on the composition of the Supervisory Board is the province of SZAG's shareholders in the General Meeting of Shareholders.

The diversity concept applied to the composition of the Supervisory Board is implemented to the greatest extent possible.

**Working practices of the Supervisory Board**

The Supervisory Board meets a minimum of four times a year, has the Executive Board report in detail, and discusses the development of business and the situation of the company with the Executive Board. It takes receipt of written reports submitted by the Executive Board at regular intervals on the course of business and the performance of the company.

The Supervisory Board deploys the following instruments in particular in performing its advisory and supervisory function:

- defining the allocation of duties at Executive Board level, with clear assignment of areas of competence,
- obligation of the Executive Board to submit regular, timely and comprehensive reports to the Supervisory Board,
- regular discussion of the planning, business development and the strategy with the Executive Board,
- determination of the type of transactions and measures of the Executive Board that necessitate Supervisory Board approval,
- obligation of the Executive Board to submit a longer-term corporate plan on an annual basis and to report on the execution of such a plan, and
- agreeing variable remuneration components for Executive Board members.

**Working practices of the committees of the Supervisory Board**

In order to prepare its meetings and decisions the Supervisory Board has currently formed four standing committees:

The Presiding Committee undertakes the preparatory work in connection with the appointing of Executive Board members and, in place of the Supervisory Board plenum, makes decisions on business measures requiring urgent approval.

The Audit Committee deals with the following above all:

- the financial reports during the year and the supervision of the annual auditing of the accounts, here mainly the independence of the external auditor
- the effectiveness of the internal control system, the internal audit system and the risk management system,
- compliance with the provisions applicable to the company (corporate compliance), and
- the assignment of the audit mandate as well as the determination of key audit areas.

The Audit Committee meets at least four times a year and has the Executive Board report in writing and verbally on the individual issues to be discussed, as well as having representatives of the independent auditor explain the report on their audit of the financial statements at company and at Group level.

The Strategy Committee consults in depth with the Executive Board on the corporate strategy whenever necessary.

The Nomination Committee, which is exclusively comprised of representatives of the shareholders, proposes suitable candidates to the Supervisory Board that, in turn, presents its proposals to the Annual General Meeting of Shareholders for the election of shareholder representatives to the Supervisory Board.

The names of the members of the committees are listed under the section on ↗"Management and Control/ Committees of the Supervisory Board".

**Corporate compliance**

The Executive Board is responsible for compliance with the relevant statutory requirements and company guidelines and acts, among other things deploying the following measures, through the Group companies with the aim of ensuring compliance (Compliance Management System):

- publication of a code of conduct binding on all employees in which the Executive Board explicitly declares its commitment to observe all laws at all times and in all places,

- issuance of a corporate guideline on "Corporate Compliance" that lays down the responsibilities and organizational duties, as well as providing all Group companies and their employees with detailed descriptions and instructions in the form of guidelines on conduct that complies with the law and the fulfilling of their compliance duties in particularly sensitive areas of the law, for instance, guidelines on the avoidance of corruption, correct behavior in competition and information on insider law,
- granting employees the option of providing confidential information on infringements of the law within the company,
- setting up a Compliance Committee as a platform for the exchange on and the discussion of topical compliance issues and for arriving at a common consensus and decisions, for instance on changes to the compliance structure or the implementation of special compliance measures,
- setting up a compliance management organization unit with a compliance officer,
- carrying out of regular compliance training in order to raise the awareness of managers and employees regarding the observance of standards, to identify potential hazards and to recommend suitable courses of action, and
- regular analysis of the compliance risks within the Group.

**Target parameters for the proportion of women in management**
In 2017, the Executive Board defined a target of 13% for the proportion of women in the first management level under the Board and 20% for women at the second management level under the Board. These quotas are to have been achieved by June 30, 2022.

In 2017, the Supervisory Board decided, in the event of an Executive Board member having to be replaced by June 30, 2022, to strive for a target of 30% in respect of the proportion of women represented on the Executive Board that consisted at the time and still does of three male persons.

The statutory minimum requirement in respect of men and women on the Supervisory Board was adhered to during the financial year.

**Transparency of the company**
SZAG publishes an annual report once a year and provides a summary of the development of business on a quarterly basis as the year progresses. This ensures that our shareholders are kept informed about the situation of the company in a timely manner. The dates of publication are announced in the financial calendar sufficiently in advance for the coming financial year and posted on the company's website at: ↗ **https://www.salzgitter-ag.com/en/investor-relations/shareholders-meeting/**. Furthermore, the Executive Board explains the results of each financial year elapsed at an annual results press conference, reported on by the media, that takes place directly after the meeting of the Supervisory Board when the financial statements are adopted.

In addition to this, we organize regular analysts' conferences for analysts and institutional investors in Frankfurt am Main and London. Finally, the Executive Board reports to the general public on significant events by way of press releases and ad-hoc announcements. All reports and statements are available on the company's website at ↗ **www.salzgitter-ag.com** in both German and English.

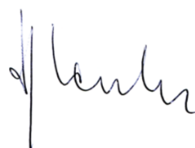
The Declaration of Conformity is accessible on the Internet at ↗ **www.salzgitter-ag.com/en/investor-relations/corporate-governance/**.

Salzgitter, March 12, 2020

The Executive Board

Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Chief Executive Officer

The Supervisory Board



Heinz-Gerhard Wente
Chairman

## Employees

As of December 31, 2019, the core workforce of the Salzgitter Group numbered 23,354 employees, which is 169 people less than at the end of the financial year 2018. During the reporting period, two fully consolidated Group companies of the Technology Business Unit with 31 employees in total were included in the personnel statistics for the first time. The decline in the workforce is attributable, among other factors, to the scheduled implementation of the reorganization program at Ilsenburger Grobblech GmbH. A counter effect emanates from the increase in workforce numbers to support the strategic expansion of business activities in KHS' international companies. At the end of the financial year 2019, we had 771 temporary employees outsourced, which corresponds to 3.2% of the sum total of core workforce members and staff outsourced. The number of external temporary employees outsourced has therefore declined by 142 persons compared with the previous year.

Including trainees and employees in non-active age-related part-time work, the core workforce of the Salzgitter Group stood at 25,227 persons.

As of December 31, 2019, 886 members of the workforce were working short time.

| | 2019/12/31 | 2018/12/31 | Change |
|---|---|---|---|
| **Core workforce Group[1)]** | **23,354** | **23,523** | **–169** |
| Strip Steel Business Unit | 6,090 | 6,182 | –92 |
| Plate/Section Steel Business Unit | 2,352 | 2,451 | –99 |
| Mannesmann Business Unit | 4,643 | 4,675 | –32 |
| Trading Business Unit | 2,066 | 2,109 | –43 |
| Technology Business Unit | 5,557 | 5,490 | 67 |
| Industrial Participations/Consolidation | 2,646 | 2,616 | 30 |
| Apprentices, students, trainees | 1,380 | 1,375 | 5 |
| Non-active age-related part-time employment | 493 | 465 | 28 |
| **Total workforce** | **25,227** | **25,363** | **–136** |

[1)] Excluding executive body members

### Regional distribution

| | | Germany | Rest of Europe | America | Asia | Other regions |
|---|---|---|---|---|---|---|
| Core workforce[1)] | empl. | 18,897 | 1,987 | 1,534 | 766 | 170 |
| | % | 80.9 | 8.5 | 6.6 | 3.3 | 0.7 |

[1)] Excluding executive body members

Personnel expenses amounted to € 1,815.7 million in 2019, which is 4.4% higher than in the year-earlier period. This figure reflects tariff increases and provisions for planned restructuring measures, among other factors. Personnel cost savings resulting from the structural measures already realized and from the lower level of performance-related remuneration served to counteract this development.

## Research and Development

The Salzgitter Group's research and development (R&D) for the steel-related business units are grouped together under Salzgitter Mannesmann Forschung GmbH (SZMF). SZMF is part of a tight network with universities, research institutes and industrial partners in the context of numerous national and international research projects. We use the resulting cooperations that we regard as clearly preferable to buying in external know-how, which is also the reason that no commensurate expenses have been incurred during the reporting period. In addition, SZMF actively participates in defining relevant standardizations, also in the international arena. R&D is organized decentrally for the Technology Business Unit.

Innovative capability has always been our strength, which also applies to the reporting year: Our leading position is evidenced by the 5,077 patent and 1,553 trademark rights registered for the entire Group at year-end 2019 (2018: 4,978 and 1,685 respectively). The Technology Business Unit accounts for 4,342 active patents and patent applications (2018: 4,177) and 563 trademark rights (2018: 569).

### R&D expenses

In 2019, the Salzgitter Group spent € 97.9 million on R&D and R&D-related activities. The breakdown of expenses per business unit developed as follows:

Research and development expenses by business unit

| | | Group | Strip Steel | Plate/ Section Steel | Mannesmann | Technology | Third party and no BU allocation |
|---|---|---|---|---|---|---|---|
| R&D expenses[1] | € m | 97.9 | 38.3 | 10.0 | 9.9 | 26.9 | 12.8 |
| | % | 100.0 | 39.2 | 10.2 | 10.1 | 27.4 | 13.0 |

[1] Excluding the EUROPIPE Group

As of December 31, 2019, 762 employees in our Group were engaged in research and development activities. Of this number, 281 members of staff work at SZMF and 481 at the operating companies. This allocation underscores how strongly our R&D activities are focused on products – and therefore on our customers.

Multi-year overview of research and development

| | | 2019[1] | 2018[1] | 2017[1] | 2016[1] | 2015[1] | 2014[1] | 2013[2] | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| R&D expenses[3] | € m | 93 | 96 | 91 | 85 | 85 | 87 | 88 | 82 | 79 | 78 |
| R&D employees | empl. | 762 | 763 | 750 | 733 | 767 | 784 | 828 | 879 | 910 | 972 |
| R&D ratio[4] | % | 1.1 | 1.0 | 1.0 | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 | 0.8 | 0.9 |
| R&D intensity[5] | % | 5.7 | 4.5 | 4.5 | 4.8 | 4.8 | 5.2 | 7.4 | 5.1 | 4.4 | 4.9 |

[1] Excluding the EUROPIPE Group
[2] Restated
[3] R&D expenses in relation to goods and services for Group companies
[4] R&D expenses in relation to Group sales
[5] R&D expenses in relation to Group value added

## R&D focus areas

We have defined our research and development focus clearly and with a view to the future: The emphasis in the Strip Steel Business Unit is on steels with improved formability and residual elongation. For the automotive industry, the development of highest strength hot strip grades, cold-rolled multi-phase steels and press-hardened steels with enhanced product properties takes center stage in the conventional grades segment. A key area is also the development of the very successful SZBS800 grade that has been adopted as the standard for chassis applications by a number of automotive manufacturers. Along with product development and improvement, support in process optimization in the steelworks, hot- and cold-rolling mill and in surface finishing is playing an increasingly greater role.

In the heavy plate segment, our focus is placed on the optimal strategic alignment of our product range and on expanding it. This includes developing high strength construction steels with greater sheet thicknesses, new wear-resistant steel grades, as well as special rolling and cooling strategies.

Key activities in the large-diameter pipe and line pipe segment consist in improving corrosion resistance (sour gas application) with increasing wall thicknesses, crack arrest, above all when exposed to low temperatures, optimized pipe coating concepts and hydrogen applications. In this case as well, we not only develop new products, but also optimize the production processes and raise their efficiency. Concrete examples include, for instance, automatic tube joint welding for offshore foundation structures, as well as the improved high-frequency induction welding of line pipes and precision tubes.

Airbag tubes and components are developed for the application of precision tubes in the automotive field. The very specific requirements profile of these security components necessitate the precise setting of specific properties within tight tolerances. Hydraulic piping with improved corrosion resistance was developed for the "industry" market segment and the production process adjusted accordingly.

As has been already the case for many years in respect of the automotive activities under "Initiative Automotive", all hydrogen activities in the Group are also now coordinated within SZMF. The aim is to combine our already extensive hydrogen know-how and to tap groupwide market potential, while releasing synergy effects.

The Technology Business Unit also consistently aligns its innovation and product development processes to reflect customer and market requirements, also in respect of reducing the lifetime costs of lines and individual machinery as well as in the development of intelligent line concepts. Research and development activities in the KHS Group are concentrated on optimizing the products that are part of the core portfolio, as well as on innovative new products. With the fifth generation of the "InnoPET Blomax", a particularly durable and high-performance stretch-blow machine was developed, for example. In the packaging segment, the new "Nature MultiPack" for cans in packs of four and six allow savings of up to 80% on plastics. In order to strengthen its competitiveness, KHS GmbH also completes its range in the after-sales business. In addition, it has extended its portfolio to include consumer goods and will be offering all products from one source in future.

# Separate non-financial report on the Group

The Salzgitter Group's separate non-financial report on the Group for 2019 has been published on the website at ↗ **www.salzgitter-ag.com/en/corporate-responsibility.html**. The structure and the content of the report reflect the German Sustainability Code (Deutscher Nachhaltigkeitskodex – DNK). The report concentrates mainly on the topics and sustainability metrics that are of material importance to our company.

# Financial Control System

Our Group companies operate in fiercely competitive markets and in an extremely challenging sectoral environment. Against this backdrop, the Group's autonomous development and the ongoing improvement of cost structures and process efficiency are imperative. We pursue these goals with the aid of our comprehensive 360° Concept and by way of the following management and control instruments:

- return on capital employed (ROCE),
- Profit Improvement Program (PIP) and
- individual objectives agreed with executives and non-tariff employees.

Along with ROCE, the Salzgitter Group uses sales and earnings before taxes as its key financial performance indicators. In this context, sales are defined as external sales, namely the proportion of overall sales generated by transactions with companies outside the consolidated group of Salzgitter AG (SZAG). Other parameters of control include order intake, shipment volumes and the development of the cash flow.

## Management and control system applied within the company – ROCE

The quantitative, performance-related target set for the Group consists of a return on capital employed (ROCE) of at least 12% over an economic cycle that we generally define as a period of five years. ROCE shows the relationship of "EBIT I" to capital employed and measures the return on capital employed:

$$\textbf{ROCE}\text{ (annualized)} = \frac{\textbf{EBIT I}}{\textbf{Capital employed}} \times 100\,\%$$

EBIT I (earnings before interest and taxes), used in the calculation of ROCE, is the result before taxes and interest expenses, adjusted for the interest portion of transfers to pension provisions. Interest income remains part of EBIT I as it is considered to be part of ordinary activities and therefore contributes to the return on capital employed.

| In € million | 2019 | 2018 |
|---|---|---|
| EBT | –253 | 347 |
| + Interest expenses | 80 | 80 |
| – Interest expenses for pension provisions | –39 | –36 |
| **= EBIT I** | **–212** | **391** |

Capital employed comprises interest-bearing equity and debt. Pension provisions and non-interest-bearing balance sheet items are deducted from the total assets.

| In € million | 2019 | 2018 |
|---|---|---|
| Total assets | 8,618 | 8,757 |
| – Pension provisions | –2,356 | –2,275 |
| – Other provisions excluding provision for income taxes | –560 | –640 |
| – Trade payables, contractual obligations, other liabilities excluding notes payable[1)] | –1,578 | –1,648 |
| – Deferred tax claims | –492 | –399 |
| **= Capital employed** | **3,631** | **3,794** |

[1)] Notes payable amounting to € 0.7 million (previous year: € 1.7 million)

The pension provisions and related interest expenses are eliminated in the calculation of ROCE as these components cannot be influenced by management decisions in the short to medium term.

The figures used for the calculation of the ratios are taken from the consolidated financial statements. We use reporting date-related figures from the financial statements for our calculations.

Since the ROCE target (12%) is to be achieved within the Group as an average over the economic cycle, it is more of a medium to long-term target. We derive specific strategic objectives from this target for each individual business unit and company. These objectives are taken account of in medium-term planning – in an updated form whenever necessary. In 2019 we generated a ROCE of –5,8% (previous year: 10.3%).

## Profit Improvement Program (PIP)

We regard the sustainable improvement of the Group's competitiveness as our permanent management task to be achieved by optimizing our value chain processes on an ongoing basis. We place special emphasis here on the systematic and consistent leverage of the existing potential in all our business units. This has a long tradition in our company: We introduced the Profit Improvement Program (PIP) as a groupwide, uniform management instrument into the Salzgitter Group back in 1996.

PIP combines all the explicitly defined measures designed to improve the performance and results of the Group's companies, the prerequisite being that the impact of these measures is measurable and assessable, based on a set of financial ratios. All projects are subject to a stringently systematic procedure for measuring success to which binding and standardized assessment criteria are applicable.

As part of ongoing profit improvement, we have launched various successful programs in past years that we explain in more detail, including their effects at ↗ **www.salzgitter-ag.com/en/company/strategy**.

## Agreeing individual objectives with executives and non-tariff employees

Agreeing objectives connects up the corporate goals with the personal aspirations of each individual employee. SZAG divides these objectives up into individual targets for executives and non-tariff employees and a collective, quantitative component. Among other things, this quantitative component provides for achieving the Group's goal of a return of capital employed (ROCE) of at least 12% groupwide. In addition, objectives for the business units and the associated companies are derived for each Group company depending on how services are integrated and the specific role within the respective business unit. The individual component of the targets is agreed between employee and superior, with the personal goals being drawn from the objectives of the organization unit next up in the hierarchy. We pay strict attention to ensuring that the interaction between the various targets of all the employees has a positive impact on achieving the overall results of the Group.

# Performance Report

## General Business Conditions

The **global economy** lost momentum in 2019. The trade dispute between China and the US and the resulting, increasingly protectionist policy in many countries played a major role in this slowdown. This situation had a particularly negative impact on trade and industry. Social unrest and environmental catastrophes in some countries also burdened growth in the respective regions. Only at the end of the year were there increasing signs of a trend reversal. The International Monetary Fund (IMF) estimates global economic growth at 2.9% in 2019 (2018: 3.6%).

The **eurozone** also recorded subdued expansion in 2019. Capital goods and upstream manufacturers were mainly impacted for several reasons: Demand from regions outside Europe declined, the global automotive sector showed weakness in the due to the more vocal public debate on alternative mobility offerings in Europe, while tax reliefs for new vehicle purchases in China expired. Consequently, member countries with a weightier proportion of services and consumer goods production in the value chain, such as France and Spain, staged a stronger recovery than countries whose production industries concentrated more strongly on manufacturing capital goods. The IMF currently puts expansion in the euro area at 1.2% in 2019 (2018: 1.9%).

Economic growth in **Germany** slowed again in 2019 compared with the previous year, while the second quarter even saw a decline in the gross domestic product. The economy only stabilized again in autumn. From a sectoral point of view, the consumer and construction industries continued to underpin developments, whereas the manufacturing industry delivered a negative contribution. Foreign trade suffered from the many trade conflicts. Overall, the IMF estimates economic growth in Germany at 0.5% (2018 1.5%); the German Federal Statistical Office calculates a slightly better figure of 0.6%, adjusted for calendar effects.

The information was obtained mainly on the basis of the following sources: International Monetary Fund (January 2020): World Economic Outlook Update; ifo Economic Forecast 2019; German World Bank (January 2020) Global Economic Prospects; German Federal Statistical Office, January 2020.

## Overall Statement by Management on the Economic Situation

Great political uncertainty, compounded by multiple trade conflicts and economic headwind, presented Salzgitter AG with special challenges in the past financial year. The gradual decline in rolled steel selling prices over the course of the year, accompanied by a temporary sharp increase in the cost of iron ore and a downturn in demand – not only from the automotive sector – burdened the steel producing and processing companies in particular. In addition, impairment of € –192.9 million in the business units of Strip Steel, Plate/Section Steel and Mannesmann and at Salzgitter Automotive Engineering GmbH & Co. KG, as well as € –62.3 million in restructuring expenses for implementing the “FitStructure 2.0” streamlining program burdened earnings before taxes. Including expenses of € –140.8 million for the mutually agreed end to the investigation conducted on the grounds of suspected cartel arrangements, the pre-tax loss stood at € –253.3 million (2018: € +347.3 million). Excluding these special items, the original forecast for a pre-tax profit generated from operations (of between € 125 million and € 175 million) was achieved. With an equity ratio of 34.1% (2018: 38.1%), the balance sheet remains sound.

The Group’s external sales declined to € 8,547.3 million (2018: € 9,278.2 million) due above all to the drop in rolled steel selling prices and lower shipment volumes. Along with a net € –396.0 million in burdens on earnings from special items (2018: € –62.8 million), € 99.5 million (2018: € 44.0 million) in contribution from the Aurubis AG investment accounted for using the equity method were included in earnings before taxes. An after-tax result that stood at € –237.3 million (2018: € +277.7 million) brings earnings per share to € –4.46 (2018: € 5.06) and return on capital employed to –5.8% (ROCE; 2018: 10.3%).

# Performance and General Business Conditions of the Business Units

## Strip Steel Business Unit

| Key data | | 2019 | 2018 |
|---|---|---|---|
| Order intake | kt | 4,318 | 4,518 |
| Order backlog as of 12/31 | kt | 914 | 918 |
| Crude steel production | kt | 4,321 | 4,645 |
| Rolled steel production | kt | 3,566 | 3,643 |
| Shipments | kt | 4,413 | 4,551 |
| **Segment sales[1)]** | **€ m** | **2,950.8** | **3,112.5** |
| **Sales to other segments/Group companies** | **€ m** | **–741.8** | **–771.6** |
| **External sales[2)]** | **€ m** | **2,209.0** | **2,341.0** |
| **Earnings before taxes (EBT)** | **€ m** | **–42.8** | **205.8** |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **259.5** | **439.2** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **–8.3** | **243.7** |

[1)] Including sales with other business units in the Group
[2)] Contribution to consolidated external sales

The core competences of the Strip Steel Business Unit lie in the production of steel in the fully integrated steelworks of Salzgitter Flachstahl GmbH (SZFG) and in subsequent processing to produce high-grade strip steel products. The affiliated Steel Service Centers of Salzgitter Mannesmann Stahlservice GmbH (SMS) serve the prefabrication requirements of our customers. The two processing companies Salzgitter Europlatinen GmbH (SZEP) and Salzgitter Bauelemente GmbH (SZBE) extend the value chain within the business unit with their customized products (tailored blanks as well as roofing and wall elements). The European automotive industry is the most important customer sector.

**Market development**
Massive overcapacities and the ensuing pressure on margins continue to prevail in the global steel markets. Since the US as the world's largest steel importer placed restrictions on steel product imports from foreign countries, considerable distortions in the international steel trade have ensued. The US's Section 232 measures, whose purpose is to levy a flat rate ad valorem duty of 25% on almost all steel imports, triggered substantial redirections of steel trade flows toward the EU. The difficult market situation was exacerbated by the concurrent contraction of the EU steel market. Weak demand from important customer groups burdened the European steel producers that reported a decline in order intake, ongoing since mid-2018. The selling price level slumped in the spring, and prices have moved since then in a range significantly below those of the previous year. The safeguard measures approved by the EU in 2018 failed to deliver the desired result. A review of the safeguard measures targeted over the course of the year and enacted in October did not take sufficient account of the market environment either. Additional modifications are therefore necessary to counteract further price declines and production cuts, and the threat of job losses in Europe's steel industry.

**Procurement**
Iron ore
The iron ore market displayed more pronounced volatility over the course of 2019 compared with the previous year. Hence, Platts IODEX 62% Fe CFR China, the spot market's benchmark, fluctuated within a range of 69 USD/dmt and 126 USD/dmt. Up until the dam in VALE's ore mining complex in Brazil was breached at the end of January, the index had settled at a level of over 70 USD/dmt on the back of stable demand. As a result of the disaster, the price leapt temporarily to 95 USD/dmt and then subsequently moved sideways within a range of between 83 and 89 USD/dmt. Production adjustments at VALE and delivery problems in Australia boosted

prices as from the second quarter, bringing levels to a five-year high at 126 USD/dmt at the start of July, and reflecting a 74% increase since the start of the year. Already by the end of July, however, prices came under considerable pressure due to market sentiment and the increasing availability of Brazilian ore. In the period through to November, prices dropped by 39% compared with their highest level, thereby below the 80 USD/dmt mark for the first time since January. From mid-month onward, prices ticked up to 92 USD/dmt. The average of IODEX 62% Fe CFR China stood at 93.56 USD/dmt in 2019, which is consequently 35% higher than in the year-earlier period. In order to mitigate the risks resulting from procurement, defined iron ore volumes are hedged to secure against price risks.

#### Coking coal

In the first quarter of 2019, price levels ranged around the 200 USD/t FOB Australia mark, which is marginally below the annual average of 2018 (207 USD/t FOB Australia). This level firmed up due to sustained interest in procuring high-grade coking coal. Demand only slowed in the course of the trade dispute between China and the US, with a substantial downturn in the exchange rate of the yuan against the US dollar, which made coking coal imports from Chinese consumers much more expensive. This caused the price to drop to 193 USD/t at the end of June. The downturn in prices continued in the third quarter at an accelerated pace, which was due to a number of factors. On the producer side, including railway and harbor logistics, no irregularities in the summer months of 2019 were reported. Moreover, the Chinese government had not issued any further orders to curb coal production. The import quotas imposed by the government also did not permit any further purchasing of coal traded seaward, partly already from the start of October. Last but not least, demand outside China was ailing due to the global decline in pig iron production. Prices fell to 132 USD/t FOB Australia in mid-November, marking the lowest level since August 2016. At 181 USD/t, the average price dropped 13% year on year. Defined coking coal volumes are hedged to secure against price risks in order to mitigate the risks resulting from procurement.

### Business development

The **order intake** of the Strip Steel Business Unit settled below the previous year while **orders on hand** matched the 2018 level. **Rolled steel output** almost reached the year-earlier figure, as opposed to **shipments** that were somewhat lower. SZFG produced notably less rolled steel than a year ago since a blast furnace was taken out of production due to the downturn in the steel market as from late summer. Slabs procured from the associated company Hüttenwerke Krupp Mannesmann GmbH covered part of the input material requirements. **Segment** and **external sales** declined due above all to selling prices. The erosion of selling prices, accompanied by the gradual increase in iron ore costs over the course of the year, as well as impairment of € –100.0 million placed a significant burden on the **pre-tax result** (€ –42.8 million; 2018: € 205.8 million), along with establishing restructuring provisions of € –19.3 million (2018: € 0 million). A counter effect emanated from the release of provisions amounting to € 50.3 million for typical operating risks.

### Investments

In 2019, the Strip Steel Business Unit focused its investments on new aggregates as well as on optimizing and extending its existing facilities. The “Hot Dip Galvanizing Line 3” project was initiated in the period under review and construction commenced on the foundations. The construction of the facility is currently at the engineering stage. In line with SZFG’s strategy, the product portfolio is being developed in the direction of high and extremely high strength grades. Investments in a hot strip slitting plant that is currently at the assembly stage also serve this purpose. The exchange of the machine head of Continuous Casting Line 1 will make using the facilities more flexible and improve the product quality. The welding machinery on Coil Line 4 is being replaced to ensure quality standards. In November, the mandate to build a 2.2 megawatt PEM electrolyzer (PEM = Proton Exchange Membrane) was granted to Siemens Gas and Power. An important first step has therefore been taken in the direction of hydrogen-based steel production. The electrolyzer is to be taken into operation at the end of 2020 and cover all current SZFG hydrogen requirements.

## Plate / Section Steel Business Unit

| Key data | | 2019 | 2018 |
|---|---|---|---|
| Order intake[1] | kt | 1,873 | 2,189 |
| Order backlog[1] as of 12/31 | kt | 309 | 384 |
| Crude steel production | kt | 1,003 | 1,077 |
| Rolled steel production | kt | 1,891 | 2,273 |
| Shipments[1] | kt | 1,949 | 2,244 |
| **Segment sales[2]** | **€ m** | **1,557.7** | **1,821.8** |
| **Sales to other segments/Group companies** | **€ m** | **–753.1** | **–795.5** |
| **External sales[3]** | **€ m** | **804.7** | **1,026.4** |
| **Earnings before taxes (EBT)** | **€ m** | **–124.0** | **24.8** |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **–30.0** | **71.8** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **–116.7** | **32.7** |

[1] Excluding the DMU Group
[2] Including sales with other business units in the Group
[3] Contribution to consolidated external sales

The Plate / Section Steel Business Unit incorporates the companies of the Group that primarily serve customers in the project-oriented construction and infrastructure sectors. The business unit comprises Ilsenburger Grobblech GmbH (ILG) and Salzgitter Mannesmann Grobblech GmbH (MGB), as well as Peiner Träger GmbH (PTG). ILG and MGB produce a wide range of high-grade plate products. The most important customers include heavy mechanical engineering, tube and pipe producers, along with wind turbine manufacturers. PTG is a supplier for construction and civil engineering projects across Europe. The integration of DEUMU Deutsche Erz- und Metall-Union GmbH (DMU) as a scrap supplier of PTG permits logistics processes to be more closely and flexibly coordinated.

### Market development

The markets of heavy plate, including deliveries in the large-diameter pipe sector, and of steel girders, are important for the business unit's companies.

#### Heavy plate

Imponderables due to the geopolitical situation, with crisis hotspots across the globe, trade tensions between the US and China, as well as numerous punitive tariffs and trade barriers, characterized the heavy plate market. At the start of the second half of the year, the market deteriorated substantially. High stock levels that met with a lack of orders for large-diameter pipes, with demand slumping in many sectors, led to considerable competitive and price pressure in the third quarter. Despite the increase in input material costs, this was reflected in lower selling prices both for commodity grades and in the higher-end grade segment. Consequently, a number of European producers cut their steel production. Imports from non-EU countries to Europe that became increasingly unappealing due to the low price level in Europe and longer delivery periods dropped by around 12 %. As a result of the weak demand in Europe, the proportion of imports in market supply nevertheless remained above 20 %. In 2019, Ukraine remained the most important country of origin for imports into the EU, followed by South Korea, Russia and India.

### Steel girders

In the financial year 2019, the buying patterns of customers on the European sections market were hallmarked by reticence and speculation. Orders were placed at very short notice, prompted by the huge uncertainty about the price trend, and only to cover immediate needs. Speculations about falling prices prevailed through to the third quarter until it became clear that the steep upturn in scrap prices meant that implementing further price reductions with the producers was not possible. This boosted demand in the short term, which resulted in high order intake and contributed to enabling reduced stock held by the trade to return to normal levels over the course of the year. All in all, the market situation remained tight, dominated by surplus capacities, even though, in contrast to the heavy plate market, imports into the EU 28 from non-EU countries are virtually immaterial.

## Procurement

### Supply of slabs

The heavy plate companies are supplied with material within the group by Salzgitter Flachstahl GmbH (SZFG) and Hüttenwerke Krupp Mannesmann GmbH (HKM), with SZFG ensuring supplies to ILG and HKM to MGB in particular.

### Steel scrap

Every year around 1.2 million tons of steel scrap as the most important feedstock for the section steel segment is melted into crude steel in PTG’s two electric arc furnaces. Following a decline at the start of the year, with ground already made up in the first quarter, scrap prices initially remained virtually stable. As from May, prices slipped substantially due to the slowdown in Turkish imports. November saw prices rise again notably through to the end of the year. This scenario was essentially due to the lower supply of scrap caused by the weak market situation in the preceding months, in conjunction with a tangible increase in demand from Turkey.

## Business development

Against the backdrop of the difficult market situation, the Plate / Section Steel Business Unit’s **order intake** and **orders on hand, rolled steel production** and **crude steel output** as well as **shipments** dropped notably below the year-earlier level. Consequently, **segment** and **external sales** declined substantially year on year as well, also burdened by selling prices being largely in a downtrend. The business unit reported € –124.0 million **in pre-tax result** (2018: € +24.8 million). The result was impacted both by impairment (€ –47.8 million; 2018: € 0 million) and by restructuring provisions (€ –17.1 million; 2018: € 0 million) for the programs of measures initiated in the plate business. PTG and DMU generated positive contributions to earnings that were nevertheless lower year on year.

## Investments

The “New Heat Treatment Line” project initiated under the “Salzgitter AG 2021” growth program serves to extend our product portfolio while strengthening our position in the higher-end grade segment. The facilities are due for commissioning by the start of 2021. Other investments undertaken in the financial year 2019 were aimed at maintaining operational workflows. Individual projects to improve on quality as well as process optimization were linked to our efficiency measures.

## Mannesmann Business Unit

| Key data | | 2019 | 2018 |
|---|---|---|---|
| Order intake | € m | 1,384 | 1,464 |
| Order backlog as of 12/31 | € m | 446 | 512 |
| Crude steel production Hüttenwerke Krupp Mannesmann (30%) | kt | 1,289 | 1,317 |
| Shipment tubes[1] | kt | 546 | 625 |
| **Segment sales[2]** | **€ m** | **1,714.0** | **1,726.5** |
| **Sales to other segments/Group companies** | **€ m** | **–594.3** | **–607.9** |
| **External sales[3]** | **€ m** | **1,119.6** | **1,118.6** |
| **Earnings before taxes (EBT)** | **€ m** | **–41.5** | **–5.4** |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **70.0** | **98.6** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **–27.1** | **7.3** |

[1] Taking account of revenue recognition recognized for the respective period (IFRS 15)
[2] Including sales with other business units in the Group
[3] Contribution to consolidated external sales

The Mannesmann Business Unit is primarily geared to serving the international project business in the sectors of energy supply and infrastructure and covers a wide range of line pipe diameters. The products of a leading supplier in Europe for precision steel tubes used in automotive engineering, as well as a leading global manufacturer of seamless stainless steel and nickel-based tubes supplement the portfolio.

The business unit has its own supply of input material as well as the production of semi-finished materials for the manufacturing of seamless tubes in the form of a 30% stake in Hüttenwerke Krupp Mannesmann GmbH (HKM), an integrated steelworks with an annual capacity of more than 4.2 million tons of crude steel. In addition, the business unit makes extensive use of our trading organization to source feedstock and to sell its products.

The participating investments in the EUROPIPE Group (EP Group; 50%) as well as in Turkish pipes producer Borusan Mannesmann Boru Yatirim Holding A.S. (BMBYH; 23%) are accounted for using the proportionate after-tax result (at-equity consolidation). HKM is reported at 30% on a proportionate basis and is included accordingly in the order intake, sales and the result of the business unit. We do not include this company in terms of its orders on hand and shipments, as only tubes are disclosed here.

For the Group closing date at December 31, 2019 (with retrospective effect as of January 1, 2019), we used the consolidated financial statements of BMBYH instead of the separate accounts of BMBYH for the first time for accounting in accordance with the equity method.

**Market development**

Global steel pipe production remained virtually unchanged in the reporting year at around 172 million tons. Slight production increases in the CIS countries, the US and China were offset by downtrends in Japan, the EU and also in Germany. With an overall output of 96 million tons and a share of 56% in the global market, China remained a factor that determines the market. European steel production declined marginally to 13.3 million tons in the financial year 2019, with the EU global market share only slightly below the previous year's level of 8%. German steel pipe and tube production that came in at 2.5 million tons dropped below the 2018 figure. While the production of cold-finished, seamless and welded precision tubes remained comparatively stable despite the overall downturn, the output of seamless hot-rolled pipes and tubes and welded medium-diameter line pipes was lower than in the year before. The manufacturers of large-diameter welded pipes reported a slump in production due to the lack of projects.

**Business development**

The **order intake** of the Mannesmann Business Unit fell short of the previous year's figure. This development was essentially attributable to the notable downturn in demand in the precision tube group's customer sectors of automotive and industry. Moreover, the lack of volumes from the US market in the medium-sized line pipe segment was not fully offset by projects from other markets. By contrast, the stainless steel tubes group achieved a notable increase in order intake. Similarly, Mannesmann Grossrohr GmbH (MGR) also exceeded the low year-earlier figure, although only a few projects were awarded in the period under review, as before. **Orders on hand** did not match the prior-year figure due to the low number of orders placed. Shipments in all sub-segments with the exception of stainless steel tubes dropped below the 2018 level pressured by demand. Despite the discernible decrease in **shipments**, **segment** and **external sales** recorded a virtually stable development on the back of selling prices. The Mannesmann Business Unit recorded a visibly lower **pre-tax result** compared with the previous year (€ –41.5 million; 2018: € –5.4 million). This figure includes € –40.0 million in impairment at the precision tubes group in Europe (2018: € –30.0 million), restructuring provisions amounting to € –14.1 million (2018: € 0 million), as well as € 30.1 million in earnings from the participating investment in the Borusan Group accounted for using the equity method (2018: € 6.0 million). While the stainless steel tubes group raised its profit before tax, the other product segments dropped below the year-earlier level.

Outside the group of consolidated companies, order intake and orders on hand of the EP Group included at equity increased substantially. This development is mainly attributable to the good project situation in the US companies whose sales rose accordingly. The lack of larger project bookings for EUROPIPE GmbH in Germany nevertheless resulted in shipments dropping notably overall. Thanks to the orders received by the American companies on the back of strong selling prices, the decline in sales was less pronounced. All in all, this scenario led to a negative, notably lower at-equity contribution from the EP Group in the financial year 2019.

**Investments**

The Mannesmann Business Unit focused first and foremost on replacement and supplementary investments. As part of expanding the Mexican precision tubes company at El Salto, ramping up production, with the corresponding serial manufacturing for prestigious tier one customers, took place in 2019. The first tubes were shipped at the start of the third quarter. Investments of the stainless steel tubes group in a large cold pilger machine at the Remscheid location facilitates the expansion of the capacity and product range in the cold-finished seamless stainless segment, and thus the production of larger tube diameters.

## Trading Business Unit

| Key data | | 2019 | 2018 |
|---|---|---|---|
| Shipments | kt | 3,796 | 4,478 |
| **Segment sales[1]** | **€ m** | **2,890.2** | **3,346.4** |
| **Sales to other segments/Group companies** | **€ m** | **–44.1** | **–78.7** |
| **External sales[2]** | **€ m** | **2,846.2** | **3,267.7** |
| **Earnings before taxes (EBT)** | **€ m** | **–31.0** | **50.5** |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **–2.9** | **75.9** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **–18.8** | **64.6** |

[1] Including sales with other business units in the Group
[2] Contribution to consolidated external sales

The Trading Business Unit comprises a well-developed organization of stockholding steel trading subsidiaries in Europe with a wide range of processing capabilities, various companies specialized in plate, as well as an international trading network spanning the globe. Apart from the rolled steel, pipes and tubes products of the Salzgitter Group, it also undertakes the sale of other domestic and international manufacturers' products. Moreover, the Trading Business Unit procures input material for Group companies and external customers on the international markets.

### Market development

Declining selling prices were recorded in an environment characterized by fierce competition and a cooling economy. The uncertain economic outlook, accompanied by prices in a downward spiral, caused a substantial slowdown in customer demand. While the trading business was also confronted with growing uncertainty in the view of protectionist trading measures during the reporting period, the stockholding steel trade in Europe, and in Germany in particular, was dominated by aggressive price-led competition.

### Business development

In the financial year 2019, the Trading Business Unit's **shipment volume** dropped notably below the year-earlier figure due above all to the considerably more difficult international trading business and the market situation in the stockholding steel trade. The Universal Eisen und Stahl Group (UES Group) matched the 2018 tonnage. Overall, these developments resulted in tangibly lower **segment** and **external sales**. The margins of the stockholding steel trade narrowed in the wake of the price downtrend in conjunction with inventory prices following suit. Although margins were held at the previous year's level in international trading, a significantly lower result was nevertheless reported due to volumes and burdens from value adjustments at the US company. Sound earnings generated by the UES Group were unable to offset the trend in the stockholding steel trade and international trading. Consequently, the **pre-tax result** of the Trading Business Unit (€ –31.0 million), including € –5.4 million in restructuring provisions set aside for "FitStructure 2.0" (2018: € 0) and burdens from value adjustments of € –30.5 million fell considerably short of the previous year's figure (2018: € 50.5 million).

### Investments

Maintaining and upgrading existing facilities continued to form the focus of investments by the Trading Business Unit in 2019. In addition, we forged ahead with measures launched as part of the "Salzgitter AG Strategy 2021". In this environment, numerous projects aimed at digitalizing sales processes – mainly in the European stockholding steel trade – from warehousing through to shipment, were initiated and taken forward.

## Technology Business Unit

| Key data | | 2019 | 2018 |
|---|---|---|---|
| Order intake | € m | 1,374 | 1,334 |
| Order backlog as of 12/31 | € m | 709 | 697 |
| **Segment sales[1]** | **€ m** | **1,390.8** | **1,338.7** |
| **Sales to other segments/Group companies** | **€ m** | **–0.5** | **–0.5** |
| **External sales[2]** | **€ m** | **1,390.3** | **1,338.2** |
| **Earnings before taxes (EBT)** | **€ m** | **32.7** | **43.1** |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **61.9** | **64.9** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **35.0** | **43.3** |

[1] Including sales with other business units in the Group
[2] Contribution to consolidated external sales

The Technology Business Unit comprises three well-established special machinery manufacturers each with a long tradition. The KHS Group that holds a leading international position in filling and packaging technology, represents the mainstay of sales with a share of around 90%. KHS is a full-line supplier. Its product range covers intralogistics and processing through to the filling and packaging of beverages. Other companies within the business unit sell special machinery for the shoe industry or specialize in the manufacturing of rubber and silicon injection molding machinery.

The following companies were newly established in the reporting period:

- KHS Eurasia LLC, Almaty
- KHS d.o.o. Beograd, Novi Beograd

On September 30, 2019, the following companies were newly admitted to SZAG's group of consolidated companies, with retrospective effect as of January 1, 2019:

- KHS ME FZCO, Dubai
- PT. KHS Packaging Machinery Indonesia, Jakarta

NMP Systems GmbH, Kleve, was combined with KHS GmbH on September 30, 2019, with retrospective effect as of January 1, 2019.

**Market development**
According to the German Engineering Federation (VDMA), order intake fell substantially below the 2018 figure. Both local and international demand has weakened. The sector's sales remained at the year-earlier level. Orders placed in the market for food and packaging machinery entered a steep decline. While domestic order activity settled just above the year-earlier figure, international orders dropped sharply.

**Business development**

The **order intake** of the Technology Business Unit developed somewhat more positively in the financial year 2019 compared with the year before. New orders received by the KHS Group exceeded the previous year's level, as opposed to the Klöckner DESMA Elastomer Group (KDE Group) and DESMA Schuhmaschinen GmbH (KDS) that were unable to repeat the high, above average figures posted in 2018. The business unit's **orders on hand** fell marginally short of the previous year's figure, while **segment** and **external sales** remained at the same level year on year. This also reflects the heterogeneous development in the business unit: While the KHS Group reported a moderate increase, the sales of the KDE Group and of KDS mirrored order intake. The KHS Group achieved its best result since joining the consolidated group, which partly compensated for the results of KDS and the KDE Group that were notably lower compared with the 2018 figures. All in all, the Technology Business Unit generated a **pre-tax profit** of € 32.7 million (2018: € 43.1 million) that included € –3.3 million in restructuring provisions (2018: € 0 million).

The KHS Group continues to rigorously pursue measures to develop its business. "KHS Future", the updated comprehensive efficiency and growth program, has been in the process of being implemented since the start of 2018 as a successor to the previous measures. With a focus on reducing costs and expanding the service business, the program has already made a significant contribution to lifting profit and is aimed at promoting the development of the company in 2020 as well in the fiercely competitive market environment.

**Investments**

In the reporting period, the Technology Business Unit continued to focus on replacement and streamlining measures. To ensure the steady optimization of organizational workflows, IT projects in Germany and in the international companies were carried out within the KHS Group to further optimize workflows. Implementation of the extensive modernization of the Bad Kreuznach site with a view to ensuring lean manufacturing was ongoing in various individual subprojects. Sizeable investments were made at the Dortmund location to upgrade the business unit's production and extend its assembly operations. An investment program for strategic realignment has been launched for the Chinese market.

At KDS, the "Fabrik der Zukunft" (factory of the future) project for the construction of office and production buildings on the existing site in Achim progressed. The investment is aimed at ensuring KDS' sustainable growth and profitability. The information and material flow, as well as the assembly process associated with this investment, are to be optimized in order to raise productivity.

## Industrial Participations / Consolidation

| Key data | | 2019 | 2018 |
| --- | --- | --- | --- |
| **Sales** | € m | 916.7 | 910.5 |
| **Sales to other segments/Group companies** | € m | –739.2 | –724.2 |
| **External sales**[1] | € m | 177.6 | 186.3 |
| **Earnings before taxes (EBT)** | € m | –46.7 | 28.4 |
| **EBIT before depreciation and amortization (EBITDA)** | € m | –4.2 | 46.9 |
| **Earnings before interest and taxes (EBIT)** | € m | –51.5 | 21.0 |

[1] Contribution to consolidated external sales

Industrial Participations / Consolidation comprises activities that are not directly allocated to a business unit. As a management holding company, SZAG does not have any operations of its own. Instead it manages Salzgitter Mannesmann GmbH and Salzgitter Klöckner Werke GmbH under which the major companies of the Salzgitter Group are held. In addition, the results of companies operating primarily within the Group, as well as those of Group companies that support the core activities of the business units with their products and services, are recorded here.

**Sales** in the Industrial Participations / Consolidation segment, which are based mainly on business in semi-finished products with subsidiaries and external parties, came in at € 916.7 million in the financial year 2019 around the level of the previous year (2018: € 910.5 million). **External sales** dropped slightly to € 177.6 million (2018: € 186.3 million).

**Earnings before taxes** stood at € –46.7 million (2018: € 28.4 million) in the financial year 2019. This figure includes the contribution of Aurubis AG, an investment included at equity, amounting to € 99.5 million (2018: € 44.0 million). The contribution comprises € 27.8 million (2018: € 13.5 million) in income from an accounting adjustment through profit and loss in connection with the Aurubis AG shares acquired at an average price below the market value of the pro rata equity of the shares. At year end, SZAG held a stake of 29.99 % in Aurubis AG (December 31, 2018: 25.50 %). The result comprised € –148.9 million net in burdens from special items (2018: € –38.8 million), first and foremost the liability formed in connection with the end to the investigations conducted on the grounds of suspected cartel arrangements. The sum total of the reporting-date related valuation effects of foreign currency and derivatives positions, as well as net interest income from the cash management of the consolidated group contributed a positive result. The pre-tax result of the Group companies not directly allocated to a business unit fell short of the year-earlier figure.

## Comparison between Actual and Forecasted Performance

After the **Salzgitter Group** closed the financial year 2018 with the highest pre-tax profit for a decade, we issued the following forecast in February 2019 for the financial year, having taken account of the deteriorating sentiment, as well as numerous economic uncertainties:

- a slight increase in sales to above the € 9.5 billion mark (2018: € 9.3 billion),
- a pre-tax profit of between € 125 million and € 175 million (2018: € 347 million), and
- a return on capital employed (ROCE) tangibly below the year-earlier figure (2018: 10.3 %).

By the end of the first three months of 2019, pre-tax profit came in at € 125.9 million, thus already settling at the lower end of the range. In consideration of the volatile economic situation and reduced planning reliability, we nevertheless affirmed the earnings forecast we released at the start of the year. Nevertheless, at that point in time, we were anticipating a result rather more at the upper end of the range.

In the first half of 2019, the Salzgitter Group delivered a generally satisfactory performance even though the market conditions had gradually worsened. In August, Salzgitter AG reaffirmed its earnings forecast and anticipated

- slightly lower sales above the € 9.0 billion mark compared with the previous year,
- a pre-tax profit of between € 125 million and € 175 million, and
- a return on capital employed (ROCE) tangibly below the year-earlier figure.

In the Supervisory Board meeting at the end of September 2019 a resolution was taken to increase the risk provision formed in the 2018 accounts for a mutually agreed end to the investigation on the grounds of suspected cartel arrangements by around € 140 million. In conjunction with the restructuring expenses still to be determined from the "FitStructure 2.0" profit improvement program, this resulted in a downward revision of the earnings forecast. We now anticipated

- lower external sales of under € 9.0 billion compared with the previous year's figure,
- a pre-tax loss in the mid-double-digit million-euro range, and
- a return on capital employed (ROCE) tangibly below the previous year's figure.

In mid-January 2020, impairments in the course of preparing the consolidated financial statements for 2019 required another readjustment of the earnings forecast. Along with the risk provision, we accounted for impairment of almost € 200 million, as well as approximately € 65 million in restructuring provisions earmarked for the implementation of "FitStructure 2.0". Our assumption was for a pre-tax loss of between € 250 million and € 280 million. At € –253.3 million, the Salzgitter Group's pre-tax result remains within the scope of the last set of updated expectations. Sales reached € 8.5 billion, and ROCE came in at –5.8 %.

The individual business units developed as follows in comparison with the forecast:

The **Strip Steel Business Unit** anticipated a moderate course of business compared with the above-average performance of the previous year. Sustained high pressure from imports into the European steel market was anticipated, on the one hand, while, on the other, raw material costs, especially for iron ore, were expected to range notably above the 2018 level. The business unit forecasted:

- stable sales (2018: € 2.3 billion) and
- a significant reduction in pre-tax profit due to margins (2018: € 205.8 million).

External sales declined to € 2.2 billion on the back of lower selling prices. The erosion of selling prices, accompanied by the gradual increase in iron ore costs over the course of the year, as well as impairment of € –100.0 million placed a significant burden on the pre-tax result (€ –42.8 million). Moreover, restructuring provisions of € –19.3 million were booked. A counter effect emanated from the release of provisions amounting to € 50.3 million for typical operating risks.

The **Plate/Section Steel Business Unit** assumed that the heavy plate market would be impacted, as before, by particularly high import volumes from non-EU countries into the EU. Moreover, we assumed that the lack of follow-up contracts for the delivery of input material for line pipes would exacerbate the situation for the Mülheim company. After the very satisfactory previous year, margins in the section steel segment were expected to return to normal levels. All in all, the business unit anticipated that

- sales (2018: € 1.0 billion) and
- the result would fall notably short of the previous year's figures, and that a pre-tax loss (2018: € +24.8 million) would be recorded.

At € 0.8 billion, external sales fell clearly short of the year-earlier figure, both in terms of volumes and in burdens from largely declining selling prices. The business unit reported a pre-tax loss of € –124.0 million. The result was impacted by impairment (€ –47.8 million) as well as by restructuring provisions (€ –17.1 million) for the programs of measures initiated in the plate business. Peiner Träger GmbH delivered a positive earnings contribution below that of the previous year.

The **Mannesmann Business Unit** assumed that the capacity utilization of the EUROPIPE Group's German large-diameter pipe company would be unsatisfactory, at least in the first half of 2019. By contrast, the American EUROPIPE companies were expected to benefit from the order backlog of the previous year and orders placed at the start of the year and, similar to Mannesmann Grossrohr GmbH, expected further project bookings over the course of the year. After two very good years, the medium-sized line pipe segment expected demand to settle at a normal level. The precision tube companies anticipated a market situation that would remain stable overall, while the stainless steel segment expected a moderate improvement. With shipment figures remaining virtually unchanged, we forecasted the following for the business unit:

- stable sales (2018: € 1.1 billion) and
- a marginally positive pre-tax profit (2018: € –5.4 million).

External sales remained stable due to selling prices (€ 1.1 billion). The Mannesmann Business Unit reported a pre-tax result (€ –41,5 million) that was lower than in the previous year. This figure includes € –40 million in impairment at the precision tubes group in Europe, restructuring provisions amounting to € –14.1 million, as well as € 30.1 million in earnings from the participating investment in the Borusan Group accounted for at equity.

The **Trading Business Unit** assumed that generating margins would remain under pressure in international trading due to the ongoing impact of restrictive trade policies everywhere, and that the declines forecast for margins in the stockholding steel trade would be at least partly compensated by additional value-added business. All in all, the business unit anticipated

- visible sales growth on the back of shipments (2018: € 3.3 billion) and
- another gratifying pre-tax profit that would nevertheless be notably lower year on year (2018: € 50.5 million).

With a visible downturn in shipment volumes, the Trading Business Unit reported substantially lower external sales of € 2.8 billion. The sound earnings trend of the UES Group was unable to compensate for the development in the stockholding steel trade and in international trading. Consequently, the business unit's pre-tax result of € –31.0 million fell notably short of the previous year's figure. Furthermore, the result was impacted by € –5.4 million in provisions for restructuring measures as well as burdens from value adjustments of € 30.5 million.

In the **Technology Business Unit**, the KHS Group opted for accepting orders on a selective basis, expanding the service business, as well as deriving positive effects from the measures initiated to enhance efficiency. The DESMA Group's two specialist mechanical engineering companies expected earnings to normalize. Based on the high level of orders on hand and good order intake, the Technology Business Unit predicted

- a slight increase in sales (2018: € 1.3 billion) and
- a pre-tax profit above the average of previous years, but notably lower than in the year before (2018: € 43.1 million).

At € 1.4 billion, external sales were slightly higher year on year. The KHS Group achieved its best result since joining the consolidated group, which partly compensated for the results of KDS and the KDE Group that were lower compared with the 2018 figures. All in all, the Technology Business Unit generated a pre-tax profit of € 32.7 million that included restructuring provisions of € –3.3 million.

# Profitability, Financial Position and Net Assets

## Profitability of the Group

The Group's **external sales** declined to € 8,547 million due above all to the drop in average selling prices for rolled steel products and lower shipment volumes (2018: € 9,278 million) and were distributed as follows among the units:

Consolidated sales by business unit

| | 2019 | | 2018 | | |
|---|---|---|---|---|---|
| | In € million | % | In € million | % | Change in % |
| Strip Steel | 2,209 | 26 | 2,341 | 25 | –6 |
| Plate/Section Steel | 805 | 9 | 1,026 | 11 | –22 |
| Mannesmann | 1,120 | 13 | 1,119 | 12 | 0 |
| Trading | 2,846 | 33 | 3,268 | 35 | –13 |
| Technology | 1,390 | 16 | 1,338 | 14 | 4 |
| Industrial Participations/Consolidation | 178 | 2 | 186 | 2 | –5 |
| **Group** | **8,547** | **100** | **9,278** | **100** | **–8** |

The regional distribution of sales revenues remained virtually unchanged: As before, the business activities of the Salzgitter Group are therefore focused on the EU (€ 6,104 million; 71 % share of sales). Germany remained by far the largest single market with sales of € 3,845 million, equivalent to a share of 45 %. It should be noted in this context, however, that many of our products are supplied to export-oriented German businesses and therefore ultimately find their way abroad.

Consolidated sales by region

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | In € million | % | In € million | % |
| Germany | 3,845 | 45 | 4,450 | 48 |
| Other EU countries | 2,259 | 26 | 2,216 | 24 |
| Rest of Europe | 277 | 3 | 261 | 3 |
| America | 1,060 | 12 | 1,153 | 12 |
| Asia | 645 | 8 | 714 | 8 |
| Other regions | 461 | 5 | 483 | 5 |
| **Group** | **8,547** | **100** | **9,278** | **100** |

Due to a progressively weakening economy over the course of the year, with an ongoing high level of steel imports and an increase in iron ore costs, as well as special items in a net amount of € –396.0 million (2018: € –62.8 million), the Salzgitter-Group reported a **pre-tax result** of € –253.3 million (2018: € +347.3 million). The result also includes a contribution of € 99.5 million from the participating investment in Aurubis AG accounted for at equity (2018: € 44.0 million). This figure comprises € 27.8 million in income from an accounting adjustment through profit and loss in connection with the Aurubis shares acquired at an average price below the market value of the pro rata equity of the shares (2018: € 13.5 million).

The **business units** delivered the following results:

The pre-tax result of the **Strip Steel Business Unit** (€ –42.8 million; 2018: € 205.8 million) was burdened to a huge extent by a significant decline in selling prices, accompanied by a steady increase in iron ore costs over the course of the year, and impairment of € –100.0 million (2018: € 0 million). Moreover, the result includes € –19.3 million in restructuring provisions (2018: € 0 million). A counter effect emanated from the release of provisions amounting to € 50.3 million for typical operating risks.

The **Plate/Section Steel Business Unit** reported a pre-tax loss of € –124.0 million (2018: € 24.8 million). The result was impacted both by the difficult market situation and by impairment (€ –47.8 million; 2018: € 0 million) as well as by restructuring provisions (€ –17.1 million; 2018: € 0 million) for the programs of measures initiated in the plate business. Peiner Träger GmbH made a positive contribution to earnings that was lower year on year.

The **Mannesmann Business Unit** recorded a tangibly lower pre-tax result (€ –41.5 million; 2018: € –5.4 million). This figure includes € –40.0 million in impairment at the precision tubes group in Europe (2018: € –30.0 million), restructuring provisions amounting to € –14.1 million (2018: € 0 million), as well as € 30.1 million in earnings from the participating investment in the Borusan Group accounted for using the equity method (2018: € 6.0 million). While the stainless steel tubes group raised its profit before tax, the other product segments dropped below the year-earlier level.

The sound earnings trend of the UES Group was unable to compensate for the downtrend in the stockholding steel trade and international trading caused by declining steel prices and the lower shipment volumes. The pre-tax result (€ –31.0 million) of the **Trading Business Unit**, including € –5.4 million in restructuring provisions for “FitStructure 2.0”, (2018: € 0) and burdens from impairment of € –30.5 million distinctly lagged the previous year’s figure (2018: € 50.5 million).

In the **Technology Business Unit**, the KHS Group achieved its best result since joining the consolidated group, which partly compensated for the results of KDS and the KDE Group that were lower compared with the outstanding 2018 figures. All in all, the business unit generated earnings before taxes of € 32.7 million (2018: € 43.1 million), that included € –3.3 million in restructuring provisions (2018: € 0).

The pre-tax result of **Industrial Participations/Consolidation** came in at € –46.7 million (2018: € 28.4 million). This figure includes the contribution of Aurubis AG, an investment included at equity amounting to € 99.5 million (2018: € 44.0 million). The result comprised a net amount of € –148.9 million in burdens from special items (2018: € –38.8 million), first and foremost from the obligation formed in connection with the end to the investigations conducted on the grounds of suspected cartel arrangements.

Results by business unit and consolidated net income/loss for the year

| In € million | 2019 | 2018 |
|---|---:|---:|
| Strip Steel | –42.8 | 205.8 |
| Plate/Section Steel | –124.0 | 24.8 |
| Mannesmann | –41.5 | –5.4 |
| Trading | –31.0 | 50.5 |
| Technology | 32.7 | 43.1 |
| Industrial Participations/Consolidation | –46.7 | 28.4 |
| **EBT Group** | **–253.3** | **347.3** |
| Taxes | –16.0 | 69.5 |
| **Consolidated net income/loss for the financial year[1)]** | **–237.3** | **277.7** |

[1)] Including minority interest

### Special items/EBT business units and Group

| | EBT | | Restructuring | | Impairment/ reversal of impairment[1] | | Other | | EBT without special items | |
|---|---|---|---|---|---|---|---|---|---|---|
| **In € million** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Strip Steel | –42.8 | 205.8 | –19.3 | – | –100.0 | – | – | – | 76.5 | 205.8 |
| Plate / Section Steel | –124.0 | 24.8 | –17.1 | – | –47.8 | – | – | – | –59.1 | 24.8 |
| Mannesmann | –41.5 | –5.4 | –14.1 | – | –40.0 | –30.0 | – | 6.0 | 12.6 | 18.6 |
| Trading | –31.0 | 50.5 | –5.4 | – | – | – | – | – | –25.6 | 50.5 |
| Technology | 32.7 | 43.1 | –3.3 | – | – | – | – | – | 36.0 | 43.1 |
| Industrial Participations / Consolidation | –46.7 | 28.4 | –3.1 | – | –5.0 | 12.9 | –140.8 | –51.7 | 102.2 | 67.2 |
| **Group** | **–253.3** | **347.3** | **–62.3** | **–** | **–192.9** | **–17.1** | **–140.8** | **–45.7** | **142.7** | **410.1** |

[1] Disclosure as an impairment/write-up in this overview has only been reported if the cash flows are allocated to a group of assets.

**Development of selected income statement items**
The consolidated income statement is explained in detail in the ↗ "Notes to the Consolidated Financial Statements". Selected items are explained in the following.

The decline in sales in comparison with 2018 is offset by a decrease in the cost of materials in similar dimensions. Depreciation and amortization includes impairment of € –192.9 million. The result of the companies included at equity increased significantly. While the participating investment in Aurubis AG and in Borusan Mannesmann Boru Yatirim Holding A.S. made higher contributions than in the year before, the contributions to earnings of the other companies accounted for according to the equity method were lower than in the previous year.

Adjusted for € 16.0 million in tax revenue, the consolidated net loss stood at € –237.3 million (2018: annual net income of € +277.7 million).

### Multi-year overview of earnings

| In € million | 2019 | 2018 | 2017 | 2016 | 2015[1] | 2014 | 2013[2] | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| EBT | –253.3 | 347.3 | 238.0 | 53.2 | 4.1 | –15.2 | –482.8 | –29.4 | 201.6 | 48.9 |
| EBIT I[3] | –212.0 | 390.8 | 295.7 | 96.6 | 69.5 | 63.9 | –422.7 | 59.8 | 264.7 | 102.9 |
| EBIT[4] | –187.5 | 412.6 | 316.8 | 119.2 | 81.9 | 97.9 | –393.2 | 98.0 | 304.5 | 159.8 |
| EBITDA[5] | 354.2 | 797.2 | 707.2 | 476.4 | 422.6 | 483.6 | 138.1 | 462.7 | 666.8 | 539.7 |
| EBT margin | –3.0 | 3.7 | 2.7 | 0.7 | 0.1 | –0.2 | –5.2 | –0.3 | 2.1 | 0.6 |
| EBIT margin[4] | –2.2 | 4.5 | 3.5 | 1.5 | 1.0 | 1.1 | –4.2 | 0.9 | 3.1 | 1.9 |
| EBITDA margin[5] | 4.1 | 8.6 | 7.9 | 6.0 | 4.9 | 5.4 | 1.5 | 4.5 | 6.8 | 6.5 |
| ROCE % | –5.8 | 10.3 | 8.6 | 2.7 | 1.9 | 1.8 | –10.5 | 1.3 | 5.6 | 2.2 |

[5] EBT + interest expenses/– interest income + depreciation and amortization of tangible, intangible fixed assets and non-current financial assets
[1] Restatement because of a correction of the stock value
[2] Restated because of first time adoption of IFRS 11
[3] Excluding interest expenses for provisions
[4] EBT + interest expenses/– interest income
[5] EBT + interest expenses/– interest income + depreciation and amortization of tangible, intangible fixed assets and non-current financial assets

Reconciliation EBIT/EBITDA

| In € million | 2019 | 2018 |
|---|---|---|
| EBT | –253.3 | 347.3 |
| + Interest expenses | 80.4 | 79.6 |
| – Interest income | –14.6 | –14.2 |
| **= EBIT** | **–187.5** | **412.6** |
| + Depreciation/amortization[1] | 541.7 | 384.6 |
| **= EBITDA** | **354.2** | **797.2** |

[1] Depreciation/amortization of tangible, intangible fixed assets and non-current financial assets

The EBIT and EBITDA earnings ratios merely indicate the operating strength of a company set apart from its capital structure. These ratios allow an additional analysis and assessment of a company's results, as well as facilitating approximate comparability with its peers at an operating level. Differences in taxation specific to the respective country, as well as special features concerning the structure of financing and property, plant and equipment of the individual company, can therefore be disregarded. In accordance with the considerable downtrend in earnings compared with the previous year, EBIT and EBITDA have also declined notably.

**Value added in the Salzgitter Group**

The operational value added in the Group amounted to € 1,630 million in 2019 (2018: € 2,164 million). Consequently, personnel expenses (€ 1,855 million; 2018: € 1,776 million) could not be fully covered for the first time since 2013. As regards the public sector, the proportion in the form of taxes and levies stood at –1.0% (2018: +3.2%). The proportion of lenders increased to 1.9% year on year (2018: 1.7%). A proportion of 0.7% of value added is available for the shareholders (including treasury shares) for the financial year ended (2018: 1.5%). Notwithstanding the residual negative figure in the reporting year (€ –252 million), an amount of € 2.8 billion in value added has remained within the Group over the last 15 years.

Value added

| | 2019/12/31 | | 2018/12/31 | |
|---|---|---|---|---|
| | In € million | % | In € million | % |
| **Sources** | | | | |
| Group outputs | 8,971 | 100.0 | 9,804 | 100.0 |
| Inputs | 7,341 | 81.8 | 7,640 | 77.9 |
| **Value added** | **1,630** | **18.2** | **2,164** | **22.1** |
| **Appropriation** | | | | |
| Employees | 1,855 | 113.8 | 1,776 | 82.1 |
| Public sector | –16 | –1.0 | 70 | 3.2 |
| Shareholders | 12 | 0.7 | 33 | 1.5 |
| Lenders[1] | 32 | 1.9 | 37 | 1.7 |
| Remaining within the Group | –252 | –15.5 | 249 | 11.5 |
| **Value added** | **1,630** | **100.0** | **2,164** | **100.0** |

[1] Component of the finance expenses item

## Reconciliation value added

| In € million | 2019 | 2018 |
|---|---:|---:|
| Sales | 8,547.3 | 9,278.2 |
| Changes in inventories/other own work capitalized | –8.2 | 161.6 |
| Other operating income | 285.6 | 256.8 |
| Income from shareholdings | 2.0 | 2.4 |
| Result from investments accounted for using the equity method | 125.2 | 74.7 |
| Income from reversal of impairment losses of financial assets | 14.3 | 22.7 |
| Financial result[1)] | 4.9 | 7.3 |
| **Group outputs** | **8,971.0** | **9,803.7** |
| | | |
| Cost of materials | 5,602.6 | 6,131.4 |
| Depreciation/amortization | 541.0 | 384.0 |
| Other operating expenses | 1,157.8 | 1,099.9 |
| Expenses of impairment losses of financial assets | 39.4 | 24.6 |
| **Input** | **7,340.9** | **7,640.0** |

[1)] Excluding income from securities and loans, interest expense, allocation to pension reserves as well as excluding interest expense and similar expenses

# Financial Position and Net Assets

## Financial management

Salzgitter Klöckner-Werke GmbH (SKWG), a wholly-owned subsidiary of Salzgitter AG (SZAG), has carried out cash and foreign currency management principally on a centralized basis for the companies belonging to the Salzgitter Group since January 1, 2012. Joint venture companies are not included.

The internal financing of Group companies is fundamentally conducted through making Group credit lines available in the context of Group financial transactions and, in individual cases, external loan guarantee commitments. To cover the financial requirements of foreign Group companies, in particular those outside the euro area, the Salzgitter Group also makes use of local lending markets. At the same time, it draws on the liquidity surplus of the Group companies for financing. Supplies and services within the Salzgitter Group are settled via internal accounts. Central finance management enables us to procure external capital at favorable conditions and has a positive impact on interest income. We calculate the Group's liquidity requirements through financial planning with a multi-year planning horizon and a monthly rolling liquidity planning with a six-month forecasting horizon. Funds invested, medium-term bilateral credit lines, a syndicated credit limit of € 560 million renewed in 2017 with eight banks, a term through to July 2024 as a back-up line not used, and the tapping of the bond markets guarantee that our liquidity requirements are covered. In addition, a bonded loan (Schuldschein) was issued for the first time in 2016. In 2019, another bonded loan was successfully placed with around 100 investors in a converted amount of € 364 million and tranches with terms of up to ten years.

Our international business activities generate cash flows in a number of different currencies. In order to secure against the resulting currency risk, Salzgitter Group companies must hedge foreign currency positions at the time when they arise in accordance with Group guidelines. Internal Audit monitors compliance with these regulations in the context of their regular tasks. For transactions denominated in US dollar, which make up a major portion of our foreign currency transactions, the option of setting off sales and purchasing items (netting) is considered first within the Group. Any surplus amounts are covered by way of hedging transactions that are customary in the market.

Pension provisions still play a significant role in corporate financing. On the basis of a lower actuarial interest rate (1.4 %) derived from the current level of capital market rates, they currently amount to € 2,356 million (2018: € 2,275 million at 1.75 %). In accordance with the standards of international accounting, the effect of adjusting the actuarial interest rate was reported in the statement of comprehensive income in equity with no effect on net income.

### Cash flow statement

The cash flow statement (detailed disclosure in the section on the ↗ "Consolidated Annual Financial Statements") shows the source and application of funds. The cash and cash equivalents referred to in the cash flow statement correspond to the balance sheet item "Cash and cash equivalents".

Cash and cash equivalents

| In € million | 2019 | 2018 |
|---|---|---|
| Cash inflow from operating activities | 250.7 | 527.8 |
| Cash outflow from investment activities | –304.8 | –589.5 |
| Cash inflow/outflow from financing activities | 194.7 | –65.7 |
| **Change in cash and cash equivalents** | **140.6** | **–127.4** |
| Changes in the Group of consolidated companies/changes in exchange rates | 4.3 | 3.6 |
| **Cash and cash equivalents on the reporting date** | **700.5** | **555.6** |

The Group generated € 251 million in **cash flow from operating activities** (2018: € 528 million). The lower net figure calculated from earnings before taxes and non-cash income and expenses included in impairment is offset by the decrease in working capital. Compared with the year-earlier period (€ 590 million), the **cash outflow from investment activities** (€ 305 million) mainly reflected disbursements for investments in property, plant and equipment and intangible assets. The investments in other non-current assets, in particular in shares accounted for in accordance with the equity method, were lower than in the previous year. Payments for allowances for short-term investment had a positive impact on cash outflow from investment activities.

The cash outflow from financing activities is determined by disbursements for dividend, the redemption of loans granted, as well as interest payments. The proceeds resulting from borrowing, including from the bonded loan issued in May 2019, resulted overall in a positive **cash inflow from financing activities** of € 195 million (2018: €–66 million).

### Net financial position

**Net financial position = Investment of funds – Financial liabilities of net financial position**

| In € million | 2019/12/31 | 2018/12/31 |
|---|---|---|
| Cash and cash equivalents acc. to balance sheet | 700.5 | 555.6 |
| + Certificates held for trading | 0.0 | 200.0 |
| + Other investments of funds[1] | 96.5 | 122.7 |
| = Investments of funds | 797.0 | 878.3 |
| | | |
| Financial liabilities acc. to balance sheet | 1,067.2 | 718.0 |
| – Liabilities from leasing agreements (previous year: finance lease agreements), liabilities from financing and other financial liabilities | 130.4 | 31.3 |
| = Financial liabilities of net financial position | 936.8 | 686.7 |
| | | |
| **Net financial position** | **–139.8** | **191.6** |

[1] Securities, loans excl. valuation allowances (€ 43.1 million; previous year: € 52.7 million) and incl. other cash investments reported under other receivables and other assets (€ 2.5 million; previous year: € 2.5 million)

The net financial position of € –140 million declined considerably compared with 2018 (€ 192 million). This is due in particular to replenishing the participation in Aurubis AG, as well as to progressing the strategic investment projects. The lower level of cash investments, including securities (€ 797 million), was offset by a significant increase of € 937 million in liabilities owed to banks at the end of the year (2018: € 687 million). The latter figure includes € 151 million in nominal liabilities from bonds that are disclosed in the balance sheet at their present value. Obligations from leasing agreements that were substantially higher than in 2018 due to the initial application of IFRS 16 are not included in the net financial position.

## Investments

Additions to property, plant and equipment and intangible assets from investments stood at € 593 million (2018: € 338 million). This figure comprises € 148 million in non-cash additions from the initial application of IFRS 16 Leases. Capitalized investments exceeded the scheduled depreciation and amortization (€ 344 million). Additions to financial assets (€ 9 million) largely pertain to investments in subsidiaries not included in the group of consolidated companies for reasons of immateriality. Along with the Strip Steel Business Unit (€ 183 million), a major part of the investments in property, plant and equipment and intangible assets were made in the Plate/Section Business Unit (€ 120 million) in 2019. Furthermore, investments were made in additional purchasing of shares as part of the participating investment in Aurubis AG included at equity.

On the reporting date, a purchase commitment on investments existed in an amount of € 359 million (2018: € 245 million).

Depreciation and amortization include impairment of € 197 million (2018: € 44 million).

| | Investments[1] | | Depreciation/amortization[1)2)] | |
|---|---|---|---|---|
| In € million | Group | of which Strip Steel BU and Plate/Section Steel BU | Group | of which Strip Steel BU and Plate/Section Steel BU |
| **2019** | **593** | **302** | **541** | **354** |
| 2018 | 338 | 195 | 384 | 235 |
| 2017 | 287 | 166 | 390 | 269 |
| 2016 | 352 | 213 | 357 | 224 |
| 2015 | 411 | 278 | 340 | 221 |
| **Total** | **1,981** | **1,154** | **2,013** | **1,302** |

| | Investments[1] | | Depreciation/amortization[1)2)] | |
|---|---|---|---|---|
| In € million | 2019 | 2018 | 2019 | 2018 |
| Strip Steel | 183 | 116 | 268 | 195 |
| Plate/Section Steel | 120 | 79 | 87 | 39 |
| Mannesmann | 78 | 85 | 97 | 91 |
| Trading | 37 | 15 | 16 | 11 |
| Technology | 68 | 24 | 27 | 22 |
| Industrial Participations/Consolidation | 108 | 19 | 47 | 26 |
| **Group** | **593** | **338** | **541** | **384** |

[1] Excluding financial assets; as from the financial year 2019, including non-cash additions from the initial application of IFRS 16 Leases
[2] Scheduled and unscheduled write-downs

The liquidity and debt-to-equity ratios in the financial year 2019 were as follows:

Multi-year overview of the financial position

| | 2019 | 2018 | 2017 | 2016 | 2015[1] | 2014 | 2013[2] | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Solvency I (%)[3] | 101 | 107 | 131 | 123 | 132 | 116 | 130 | 156 | 169 | 192 |
| Solvency II (%)[4] | 202 | 203 | 234 | 201 | 214 | 196 | 227 | 262 | 287 | 287 |
| Dynamic debt burden (%)[5] | 9.4 | 22.3 | 11.6 | 11.6 | 19.8 | 26.0 | 6.8 | 22.0 | –12.1 | 30.1 |
| Gearing (%)[6] | 193.3 | 162.8 | 178.3 | 196.3 | 190.0 | 195.4 | 158.9 | 145.1 | 120 | 125.9 |
| Cash flow (€ m) from operating activities | 251 | 528 | 274 | 290 | 448 | 599 | 141 | 427 | –197 | 209 |
| Net financial position (€ m)[7] | 140 | –192 | –381 | –302 | –415 | –403 | –303 | –497 | –508 | –1,272 |

[1] Restatement because of a correction of the stock value
[2] Restated because of first time adoption of IFRS 11
[3] (Current assets – inventories) x 100 / (current liabilities + dividend proposal)
[4] Current assets x 100 / (current liabilities + dividend proposal)
[5] Cash flow from operating activities x 100 / (non-current and current borrowings [including pensions] – investments)
[6] Non-current and current liabilities (including pensions) x 100 / equity
[7] – ≙ cash in bank, + ≙ liabilities

## Asset position

At € 8,618 million, the Group's total assets had settled at a level similar to that of the 2018 reporting date (€ 8,757 million). The growth in non-current assets (€ +263 million) largely resulted from the significant increase in shares held in companies accounted for at equity (€ +185 million), above all due to raising the stake held in Aurubis AG from 25.50 % at year-end 2018 to 29.99 % as of December 31, 2019. Property, plant and equipment and intangible assets increased slightly, while the investments (€ 593 million) exceeded depreciation and amortization (€ 541 million). Current assets declined, notably compared with the previous year (€ –402 million). Inventories, trade receivables, including contract assets and other receivables, decreased overall by € –529 million, also due to surrendering allowances acquired for the purpose of short-term investment. By contrast, the financial assets rose by € +145 million.

Asset and capital structure

| | 2019/12/31 | | 2018/12/31 | |
|---|---|---|---|---|
| | € m | % | € m | % |
| Non-current assets | 4,099 | 47.6 | 3,836 | 43.8 |
| Current assets | 4,519 | 52.4 | 4,921 | 56.2 |
| **Assets** | **8,618** | **100.0** | **8,757** | **100.0** |
| Equity | 2,939 | 34.1 | 3,332 | 38.1 |
| Non-current liabilities | 3,454 | 40.1 | 3,036 | 34.7 |
| Current liabilities | 2,225 | 25.8 | 2,389 | 27.3 |
| **Equity and liabilities** | **8,618** | **100.0** | **8,757** | **100.0** |

Working capital stood at € 2,455 million, which is marginally below the year-earlier figure.

The equity ratio came in at 34.1 % (2018: 38.1 %). This development is mainly attributable to the negative annual result as well as the lower actuarial rate for pension provisions. While non-current liabilities (€ +418 million) rose due in particular to higher non-current financial liabilities (€ +346 million) compared with the previous year, current liabilities decreased (€ –164 million) for reason of the substantial decline in trade payables, including contract liabilities (€ –265 million). This is offset by higher other liabilities (€ +193 million) as a consequence of the antitrust fine.

Multi-year overview of the asset position

| | 2019 | 2018 | 2017 | 2016 | 2015[1] | 2014 | 2013[2] | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Asset utilization ratio (%)[3] | 47.6 | 43.8 | 42.9 | 43.8 | 44.4 | 42.1 | 43.9 | 42.5 | 41.8 | 39.7 |
| Inventory ratio (%)[4] | 26.1 | 26.6 | 25.1 | 21.8 | 21.3 | 23.4 | 23.9 | 23.2 | 23.9 | 19.9 |
| Depreciation/ amortization ratio (%)[5] | 22.3 | 15.8 | 15.9 | 13.9 | 13.3 | 15.3 | 20.7 | 13.6 | 13.5 | 14.2 |
| Debtor days[6] | 56.5 | 61.7 | 61.6 | 68.2 | 63.4 | 66.5 | 57.8 | 54.2 | 53.7 | 51.7 |
| Capital employed (€ m) | 3,631 | 3,794 | 3,436 | 3,584 | 3,620 | 3,526 | 4,034 | 4,481 | 4,733 | 4,596 |
| Working capital (€ m) | 2,455 | 2,515 | 2,433 | 2,165 | 2,271 | 2,487 | 2,598 | 2,694 | 2,753 | 2,193 |

[1] Restatement because of a correction of the stock value
[2] Restated because of first time adoption of IFRS 11
[3] Non-current assets x 100 / total assets
[4] Inventories x 100 / total assets
[5] Until 2016: write-downs on property, plant and equipment and intangible assets x 100 / property, plant and equipment and intangible assets
From 2017: (write-downs on property, plant and equipment intangible assets + investment property) x 100 / (property, plant and equipment and intangible assets + investment property)
[6] Until 2017: trade receivables x 365 / sales
From 2018: trade receivables including contract assets x 365 / sales

## The Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG (SZAG) for the financial year 2019 have been drawn up in application of the accounting policies and valuation methods of the German Commercial Code, taking account of the supplementary provisions set out under the German Stock Corporation Act, and have been approved without qualification by the auditor PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Hanover. The complete text is published in the German Federal Gazette.

As before, SZAG as the management holding company heads up the Group's business units that are responsible at the operational level.

The main associated companies are held through the wholly-owned company Salzgitter Mannesmann GmbH (SMG) via its wholly-owned subsidiary Salzgitter Klöckner-Werke GmbH (SKWG). Letters of comfort have been issued between SZAG and SMG, as well as between SMG and SKWG by the respective controlling companies. These controlling companies undertake to furnish SMG and SKWG respectively in the subsequent financial year so that obligations entered into in the current financial year can be settled true to deadlines.

As a non-operational holding company, SZAG is an integral part of the Salzgitter Group's management and control concept and is therefore subject to the same risks and opportunities as the Salzgitter Group. Consequently, the profitability of the company depends on the business progress made by its subsidiaries and on the extent to which the shareholdings retain their value. The legal requirements placed on managing and controlling SZAG have been taken into account here.

Balance sheet of Salzgitter AG (condensed)

| | 2019/12/31 | | 2018/12/31 | |
|---|---|---|---|---|
| | € m | % | € m | % |
| **Non-current assets** | **74.9** | **9.0** | **68.1** | **7.9** |
| Property, plant and equipment[1] | 20.6 | 2.5 | 20.8 | 2.4 |
| Financial investments | 54.3 | 6.5 | 47.4 | 5.5 |
| **Current assets** | **757.0** | **91.0** | **791.8** | **92.1** |
| Inventories | 0.0 | 0.0 | 2.4 | 0.3 |
| Trade receivables and other assets[2] | 757.0 | 91.0 | 789.4 | 91.8 |
| **Assets** | **832.0** | **100.0** | **859.9** | **100.0** |
| | | | | |
| Equity | 382.0 | 45.9 | 403.0 | 46.9 |
| Provisions | 253.9 | 30.5 | 260.7 | 30.3 |
| Liabilities | 196.1 | 23.6 | 196.2 | 22.8 |
| **Equity and liabilities** | **832.0** | **100.0** | **859.9** | **100.0** |

[1] Including intangible assets
[2] Including prepaid expenses

The receivables from the liquidity (€ 645 million) provided to the subsidiary SKWG as part of a groupwide cash management continue to form the main item on the assets side. The treasury shares are disclosed separately from equity in accordance with the regulations prescribed by the German Commercial Code (HGB).

On the liabilities side, pension obligations of € 233 million, as well as a residual repayment obligation (€ 168 million) in respect of a Dutch issuer of a convertible bond are disclosed, alongside equity. The equity ratio declined to 45.9 % (2018: 46.9 %).

Income statement of Salzgitter AG (condensed)

| In € million | 2019 | 2018 |
|---|---|---|
| **Sales** | **22.9** | **21.9** |
| Changes in the inventory of unfinished goods | 0.2 | 0.6 |
| Other operating income | 15.8 | 30.1 |
| Cost of materials | 0.2 | 0.5 |
| Personnel expenses | 34.7 | 30.7 |
| Depreciation/amortization[1)] | 5.3 | 7.3 |
| Other operating expenses | 41.4 | 27.6 |
| Income from shareholdings | 59.8 | 51.3 |
| Net interest result | –7.2 | –5.6 |
| Income tax | 0.9 | 0.9 |
| **After-tax result** | **10.8** | **33.1** |
| Other taxes | –2.1 | –2.7 |
| **Net income for the financial year** | **8.7** | **30.3** |

[1)] Including write-downs on financial assets and marketable securities

Sales revenues largely comprise earnings from the levying of a Group contribution. Other operating income in 2019 mainly comprises earnings from affiliated companies. Other operating expenses rose due to the higher level of external consultancy services. Income from shareholdings consisted almost exclusively of the contribution to the result received by SMG. As of December 31, 2019, the company had a workforce of 169 employees (previous year's reporting date: 162 employees).

## Disclosures pursuant to Sections 289a and 315a of the German Commercial Code (HGB)

Subscribed capital consisted of 60,097,000 ordinary bearer shares with a notional value per share of € 2.69 in the capital stock on the reporting date. All shares are subject to the same rights and obligations laid out under the German Stock Corporation Act (AktG).

To the knowledge of the Executive Board, the only restrictions on the voting rights or the assignment of shares on the reporting date were as follows: The company was not entitled to any voting rights from its treasury shares (6,009,700 units), and the members of the Executive and Supervisory boards were not entitled to any voting rights from their shares in respect of the resolution passed on their own ratification and discharge.

A participating interest of more than 10% of the voting rights as per the reporting date accrued to Hannoversche Beteiligungsgesellschaft Niedersachsen mbH (HanBG), Hanover, that announced in its notification on April 2, 2002, that it owned 25.5% of the voting rights in Salzgitter AG (SZAG); as a proportion of the total number of shares issued that has fallen since then, this corresponds to a share of 26.5% in the voting rights. Sole shareholder of HanBG is the Federal State of Lower Saxony.

There are no shares with special rights that confer powers of control. The Executive Board does not know of any employees participating in the capital who do not exercise their power of control directly.

The appointing and dismissing of members of the Executive Board and amendments to the Articles of Incorporation are carried out solely within the provisions set out under the German Stock Corporation Act (AktG).

Based on the resolutions passed by the Annual General Meeting of Shareholders, the Executive Board has the following three options of issuing or buying back shares:

- Upon approval by the Supervisory Board, the Executive Board may issue 30,048,500 new no par bearer shares against payment in cash or in kind on or before May 31, 2022 (Authorized Capital 2017), whereby a maximum of 12,019,400 units may be issued excluding the subscription rights of the shareholders (20% of all shares issued on June 1, 2017). The 20% cap is reduced by the proportionate amount in the capital stock to which the following relate: the option or conversion rights and the option or conversion obligations attached to the warrants, convertible bonds, profit participation rights and/or participating bonds or a combination of these instruments which have been issued, with subscription rights excluded, since June 1, 2017.
- Moreover, upon approval by the Supervisory Board, the Executive Board may issue bonds in a total nominal amount of up to € 1 billion on or before May 31, 2022, and grant the holders of the respective bonds conversion rights to shares of the company in a total amount of up to 26,000,093 units (Contingent Capital 2017). The shareholder subscription rights can be excluded up to a total nominal amount of bonds with which conversion rights to shares are combined, of which the pro rata amount in the capital stock may not exceed 10% of the capital stock. Bonds with conversion rights excluding shareholder subscription rights may be issued only if shares making up a proportion of 20% of the capital stock, excluding subscription rights, from the Authorized Capital have not been issued since June 1, 2017. By the reporting date no shares had been issued from the Authorized Capital since June 1, 2017.
- The Executive Board is authorized to purchase the company's own shares equivalent to a proportion of the capital stock of up to 10% in the period on or before May 27, 2020, and to use these shares for all purposes permitted under the law.

In addition, the Executive Board made use on June 5, 2015 of the authorization valid up until June 1, 2017 to issue a bond in the form of a convertible bond to the exclusion of shareholder subscription rights with conversion rights pertaining to currently up to 3,610,264 new shares from contingent capital (Contingent Capital 2013), exercisable until May 26, 2022. By the reporting date, no holder of bonds forming part of the issue had yet exercised their conversion rights.

Subject to the condition of change of control following a takeover offer, there are material agreements of the company that have the following effects:

- In the case of the convertible bond of € 168 million issued in 2015, all bondholders are entitled to request the repayment of their bonds within a certain period in the event of a change of control; moreover, should bondholders exercise their conversion and/or exchange rights within a certain period, the convertible and/or exchangeable ratio will be adjusted in application of a specific formula.
- Under a contract agreed in 2017 with a banking syndicate on a credit line of € 560 million, each syndicate bank is entitled in the event of a change of control to terminate its participation in the credit line and, if desired, to request repayment.
- Under a contract agreed in 2019 with the European Investment Bank on a further credit line, the European Investment Bank is entitled in the event of a change of control to terminate the credit line and, if desired, to request repayment.
- Under an agreement of the shareholders of EUROPIPE GmbH, Mülheim an der Ruhr, 50% of whose shares are held by the Group, the company may, in the event of a change of control, retract shares without the consent of the shareholder affected in the event that the business activities of the third party that has attained a controlling influence stand in direct competition to the company's business activity. In place of retracting the shares, the other shareholders may request that shares are assigned to a designated purchaser.

In the event of a takeover offer, the members of the Executive Board have the right to terminate their contracts of employment under certain preconditions and are entitled to settlement in an amount of the total remuneration over the residual term of their respective contracts. There is, however, a cap on the maximum amount of this entitlement.

The disclosures pursuant to Section 289a (1) sentence 1 and Section 315a (1) sentence 1 of the German Commercial Code (HGB) on the existence of a participation/voting rights notification pursuant to Section 160 (1) item 8 of the German Stock Corporation Act (AktG) are to be found under ↗ "Notes" (17).

## Appropriation of the profit of Salzgitter AG

Salzgitter AG (SZAG) reported annual net income of € 8.7 million in the financial year 2019. Including the profit carryforward (€ 3.4 million), appropriated retained earnings amount to € 12.1 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that these unappropriated retained earnings (€ 12.1 million) be used to fund payment of a dividend of € 0.20 per share (based on the capital stock of € 161.6 million divided into 60,097,000 shares) and that the remaining amount be carried forward to new account.

If the company holds treasury shares on the day of the General Meeting of Shareholders, the proposed appropriation of profit will be adjusted accordingly at the Meeting as treasury shares are not eligible for dividend.

As before, the dividend amount will be geared to the earnings trend of SZAG. The unappropriated retained earnings in the annual financial statements of SZAG drawn up under German commercial law are the sole determining factor for the ability to pay dividend and, in as much, for management and control. The Salzgitter Group pursues a fundamental policy of paying out steady and attractive dividend – removed from volatile reporting-date related influences – based on the pre-requisite of achieving actual operating profit. The dividend proposal does not necessarily have to fully reflect the cyclicality of the earnings performance. Against the backdrop of the market environment currently to be expected and the dependence of SZAG’s earnings on its subsidiaries we anticipate unappropriated retained earnings for the financial year 2020 at a level notably above the previous year. The forecast for 2019 was significantly underperformed.

# Opportunities and Risk Report, Guidance

## Opportunity and Risk Management System

We comment on expectations of the medium-term development of the economy and the potential impact on our company, while taking account of the opportunities and risks, in the section on ↗ "Overall Statement on Anticipated Group Performance".

**Differentiation between risk and opportunity management**
We treat risk and opportunity management separately as a matter of principle. A separate reporting system documents the risks and facilitates the relevant monitoring activities. By contrast, recording and communicating opportunities forms an integral part of the management and controlling system that operates between our subsidiaries/associated companies and the holding company. The identification, analysis and implementation of operational opportunities are directly incumbent on the management of the individual companies. Together with the holding company of the Group, goal-oriented measures are devised to reinforce strengths and to tap strategic growth potential.

**Opportunities and opportunities management**
The ongoing monitoring and analysis of the relevant developments affecting the products, technology, markets and competition in the environment of the Group companies are an integral part of opportunity management dedicated to ensuring that we can identify, seize and realize opportunities.

Our group and management structure that is aligned to efficient and effective structures and workflows forms an important basis for the consistent leveraging of potential. This allows us to seize market opportunities more swiftly and in a more selective manner against the backdrop of a challenging and dynamic environment.

Business opportunities are to be specifically used under the aspect of sustainable profitability. We are concerned not only with measures to promote organic growth but also with investigating new business models, and we screen external options with regard to their potential contribution to securing the Salzgitter Group's success. Plant productivity and efficient resource deployment, as well as the clear alignment of our products and services to reflect customer and market requirements, are also components that are critical to our Group's success.

Opportunities arise most notably from our numerous and diverse research and development activities. More information on projects currently under way has been included in the section on ↗ "Research and Development". The SALCOS® (Salzgitter Low $CO_2$ Steelmaking) project is our own specific climate strategy aimed at sustainable, reduced $CO_2$ steel production. Information on SALCOS® and the associated future opportunities and preconditions can be found in the section on ↗ **https://salcos.salzgitter-ag.com/en**.

**Risks and risk management**
In the past year, our risk management system has delivered proof of its worth and effectiveness.

Business activity as defined by our Articles of Incorporation makes risk taking unavoidable in many instances, as this is frequently a precondition for exploiting opportunities. As far as possible, all relevant risks must therefore be containable and kept within certain limits by the management of the company. For this reason, foresighted and effective risk management is an important and value-creating contribution of management that is geared toward safeguarding the company as a going concern, along with our investors' capital and jobs.

**Qualified top-down set of rules and regulations**
It is the task of the management holding to put guidelines in place that constitute the basis on which a uniform and adequate consideration and communication of risks can be ensured throughout the Group. We communicate the relevant concept to our subsidiaries and associated companies with the aid of a risk policy that sets out principles concerning the

- identification,
- assessment,
- dealing with risk,
- communication and
- documentation

of the risks based upon which the groupwide risk inventory is standardized, with the ultimate of guaranteeing the informative value for the entire Group. We develop our risk management system on a steady basis in response to requirements.

**Identification**
With risk management within the Salzgitter Group in mind, we identify situations in the business units that we have not yet incorporated – or been able to incorporate – into our planning or in our forecast. The damage or the amount of loss is based on the potential divergence from the forecast or anticipation of the result. The risk coordinators in the companies ensure that this is a continuous process. We have drawn up a checklist that can be used to identify risks. At the same time, the various situations are assigned to risk types. The categorization of the different types of risks in the Salzgitter Group consists of the following four main groups:

- general external risks,
- performance risks,
- financial risks and
- general internal risks.

In order to ensure a fundamental methodology, we record and monitor mandatory risks for a series of risks in our inventory – irrespective of the amount of loss – such as performance risks, for instance, arising from sales, procurement, stocks and production downtime. External risks comprise environmental protection risks and risks relating to the operation of our plants as well as the risks inherent in environmental and energy policies that are particularly significant for our Group. Examples of the financial component include rolling, short-term liquidity planning, and, in the case of internal risks, evaluating information technology. Experience has shown that this selection covers the main risks in our Group's risk portfolio.

**Assessment**
In order to understand the risks, we generally assess the threat scenario and recognize all influencing factors. In the event, provisions and valuation allowances reduce the amount of loss, which is noted in the risk documentation.

Risks from fire damage, operational downtime and other damage and liabilities claims covered by our insurance policies are not recorded. Our insurance providers are responsible for any severe loss incurred by the aforementioned risks, with the exception of any excess. We continuously review the scope and content of our cover and make adjustments whenever necessary to ensure that it always reflects the status quo.

With regard to the extent of loss or damage, we distinguish between major risks in excess of a gross amount of at least € 25 million that are assigned a probability of occurrence in the following, and other risks involving loss or damage of less than a gross amount of € 25 million.

In deriving net loss from gross loss we take account of all measures to contain loss.

With respect to the probability of occurrence, we distinguish between five categories based on the likelihood of their occurrence: "very unlikely", "unlikely", "rather unlikely", "likely", and "very likely". Risks in the first three categories are events that, after careful commercial, technical and legal consideration, are deemed unlikely to occur. In the case of risks in the risk categories above these, loss accruing to the company from an undesirable event can no longer be ruled out.

**Dealing with risk**
Measures that have been and would need to be taken for evaluating and overcoming each respective risk are documented and reported as described below.

**Communication and documentation**
We generally include all the consolidated companies of our business units in our risk management.

We incorporate risks as an integral part of our intra-year forecasting and the medium-term planning. We have defined a set of different procedures, rules, regulations and tools with the aim of avoiding potential risks and of controlling and managing the risks that arise and taking preventive measures. Our internal control system that incorporates the principles of the COSO model is an integral instrument in minimizing risk. The COSO model is based on the "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of the high degree of transparency achieved with regard to developments that involve risk, we as a Group are able to take appropriate countermeasures and implement them in a targeted manner at an early stage. The conditions that must be fulfilled for these measures to be effective are documented, periodically examined and updated if necessary.

We use our groupwide reporting system to ensure that Group management is provided with the necessary and pertinent information. The Group companies report on the risk situation in accordance with reporting thresholds in monthly controlling reports or ad hoc, which they do directly to the Executive Board. We analyze and assess the risks at Group level, monitor them punctiliously and, especially in the case of risks necessitating urgent action, align them to our overall business situation.

We regard risks entailing a loss of at least € 25 million and categorized as "likely" or "very likely" in terms of their probability of occurrence as significant. For reasons of caution, we also include risks that are "rather unlikely" in these considerations.

We limit the risks arising from joint ventures in which we do not hold a majority stake by way of appropriate reporting and consultation structures, through participation in supervisory committees and through contractual arrangements. Members of the Executive Board of Salzgitter AG (SZAG) are, for instance, represented on the Supervisory Board of EUROPIPE GmbH, a joint venture, and Hüttenwerke Krupp Mannesmann GmbH in order to ensure the transparency. Moreover, on the reporting date, one Executive Board member of our company served on the Supervisory Board of Aurubis AG, a participating investment of ours.

For its part, the Executive Board reports to the Supervisory Board on the risk position of the Group as well as – where appropriate – on the status of individual risks. The Supervisory Board has formed an Audit Committee that is tasked with addressing issues relating to risk management in its regular meetings.

## Individual Risks

We make reference to the fact that the very comprehensive and detailed description of risks set out below cannot claim to be complete and exhaustive.

**Business unit allocations**
The main price and procurement risks inherent in the raw materials and energy required primarily affect the Strip Steel, Plate/Section Steel and Mannesmann business units in the Salzgitter Group. This is similarly applicable to production downtime risks relating essentially to key plant equipment and machinery such as the rolling mills. The economic risks for companies belonging to the corporate finance and fiscal group are coordinated and controlled by the management holding across all business units.

**Sectoral risks**
Starting with macroeconomic changes in the international markets, the trends of

- prices in sales and procurement markets,
- energy prices and
- the exchange rates (above all USD – EUR)

are particularly significant for the Salzgitter Group.

In order to minimize the associated business risks, we monitor the relevant trends and take account of them in risk forecasts. This is also true of potential restrictions resulting from financial or political measures affecting international business. Uncertainty prevails as to how this situation will develop.

We see risks from the consequences of the global trade disputes initiated by the USA, as well as from the United Kingdom withdrawing from the EU. Specific risks in this context are:

- the ongoing US threat of possibly levying special import duties on vehicles and vehicle parts,
- a renewed escalation of the trade dispute between the US and China, with a wider impact on the global economy, as well as
- uncertainty with regard to the future status of the United Kingdom, with a potential impact on the economy and the flow of goods within the EU.

Industry-specific risks arise from distortions to competition in the international steel markets, huge and increasing excess capacities, US special duties on steel products, and the associated import pressure in the EU. The duties of 25% introduced on steel imports into the US at the end of March 2018 (Section 232) remain in force.

In response to the redirection effects and the ensuing threat of damage to the local steel industry, the EU Commission enacted the final safeguards on February 2, 2019, through to July 2021. Import quotas based on the average imports in the years 2015 through 2017 apply. A duty of 25% becomes due once these quotas are exceeded. Owing to the quotas, which are in any event not restrictive enough, and their successive increase in February and July 2019, the safeguards have had virtually no impact so far.

As of October 1, the EU Commission introduced a number of positive administrative changes in the safeguard system through a revision procedure. The generous quotas were, however, adjusted only insufficiently. The progressive increases provided for were merely reduced slightly. We are of the opinion that another timely further review of the measures is therefore indispensable.

Moreover, many countries outside the EU have responded with their own safeguard measures for steel products in response to the US import duties. These developments are likely to hinder exports even further, causing additional redirections into the EU market. A number of Group companies are also directly affected by the measures, albeit to a lesser extent.

Further risks arise from the attempts of importers to obviate the existing trade defense measures, thus rendering them ineffective. To counteract such practices, the flow of goods is monitored on an ongoing basis and potential breaches are passed on via Eurofer, the European Steel Association, to the EU Commission and the EU anti-corruption authority.

Upon conclusion of the withdrawal agreement, the United Kingdom officially left the EU on January 31, 2020. There will be a transition phase through to the end of 2020 during which the United Kingdom will still be a member of the customs union and stay in the EU Single Market while remaining subject to EU law. During this period, the EU and the United Kingdom will strive to conclude a free trade agreement. In view of the tight schedule and the ensuing danger of an unregulated trade arrangement as from 2021, considerable uncertainty about Brexit will be ongoing. This situation does not, however, pose a direct risk for Salzgitter AG's business development.

Due to the sanctions imposed by the US against Russia and Iran that have been tightened further over the last twelve months, uncertainty still prevails in respect of the direct and indirect business relations with these two countries.

The various endeavors under energy and climate policies pose a threat in the form of ongoing, significant burdens that are highly detrimental to the competitiveness of SZAG in the European and international environment.

The fourth period of the EU emission trading scheme will commence on January 1, 2021 and will run up until and including 2030. As we have purchased $CO_2$ allowances as a precaution, the shortfall estimated in the medium term following allocation for the SZAG subsidiaries subject to emissions trading should be largely compensated. After the data for our applications to be submitted by the end of June had been finally calculated and externally verified in the reporting period, we announced this in the context of an insider information on June 14, 2019. Consequently, we estimate the risk of our subsidiaries and affiliated companies experiencing a shortfall in $CO_2$ allowances on this basis and the indirect additional cost risk from emissions trading for electricity sourced externally currently in dimensions of up to € 75 million per year for the fourth emissions trading period (2021/30; previously: € 155 million per year). We view the probability of the "$CO_2$ emissions trading" issue occurring as generally likely. The amount of loss will continue to hinge on how the political and regulatory framework conditions develop. In procuring $CO_2$ allowances, we still keep an eye on a potential deterioration in the situation and in prices.

SZAG produces rolled steel and steel tubes as well as focusing on trading and on plant and machinery engineering. This broad-based business portfolio goes some way to reducing the Group's dependency on the strongly cyclical nature of the steel industry. We limit risks from changes in the steel and tubes markets by ensuring short decision-making processes that allow us to adapt rapidly to new market conditions.

**Price risks of essential raw materials**

In 2019 as well, the raw materials price trend on the international procurement markets was volatile with respect to the determinant raw materials such as iron ore, coking coal and scrap. We assume that burdens can be passed on to customers to the extent that we do not anticipate any risks that could constitute a threat to our company as a going concern. Burdens arising from a breach in the mining dam in Brazil in January 2019, and the resulting production cutbacks by Vale as the world's largest iron ore mining company, triggered price rises through to the summer. Concerns about longer-term, considerable capacity restrictions did not, however, materialize to the degree anticipated. The economic slowdown caused daily quotations to decline significantly again to a low level as from August.

We fundamentally endeavor to even out fluctuations in the price of raw materials. To this end, we use hedging within a limited scope, mainly for iron ore as well as for coking coal. The Group applies a permanent system of monitoring sales and procurement to ensure congruence between the fixed-price procurement of raw materials and the fixed-price sale of our products. This system enables changes to be recognized at an early stage so that any resulting risk can be dealt with in time.

**Procurement risks**

We counteract the general risk from supply shortfalls of raw materials (iron ore, coal) and energy (electricity, gas) by safeguarding their procurement, firstly by way of long-term framework contracts, and secondly through ensuring our supply from several regions and/or a number of suppliers. In addition, we also operate appropriate inventory management. Our assessment of our supply sources confirms our opinion that the medium-term availability of these raw materials in the desired quantity and quality is ensured. We procure our electricity largely on a contractually secured basis if our needs exceed our own generating capacity. In addition, we have established a groupwide project to sustainably enhance energy efficiency. In order to be equipped for power cuts, though infrequent, we have emergency power generators for particularly sensitive areas, such as the computer center. For the reasons cited above, we believe that supply bottlenecks are unlikely, and no adverse effects are therefore anticipated. We keep abreast of the further growth of renewable energies in order to detect potential medium-term risks to the stability of our supply.

The scheduled and punctual rail transport of iron ore and coal from the international port in Hamburg to the Salzgitter site is especially important. We have developed a detailed contingency plan to deal with any adverse effects, such as strikes. This plan includes foresighted stockholding and intensive coordination between DB Cargo and ourselves to keep train transport running regularly. Another viable alternative is the more intensive use of the railway facilities owned by the Group, as well as resorting to inland waterways to transport partial shipments. Moreover, we counteract possible constraints that could hinder the supply of materials by rail at the weekend and public holidays through closely coordinating activities with railway operators or opting to use our own means of transport more intensively.

**Selling risks**

A risk typical of our business may also result from sharply fluctuating prices and volumes in our target markets. In assessing the current economic environment with regard to the outlook for the financial year 2020, we refer to the section entitled ↗ "Overall Statement on Anticipated Group Performance".

We counteract the general risk to our company as a going concern by maintaining a diversified portfolio of products, customer sectors and regional sales market. As the effects of the economic situation on various business units differ, we achieve a certain balance in our risk portfolio.

We place a high priority on ensuring reliable delivery to our customers. With this in mind, we have been operating more logistics trains from the Salzgitter location since 2018. These trains are run by Verkehrsbetriebe Peine-Salzgitter GmbH (VPS), the Group's own rail company, to serve important customers. This measure gives us control over the logistics process for a significant part of our strip steel products, from production right through to handing the products over to the customer. Moreover, this also enables us to optimize storage and accommodate customer requirements at short notice as well.

**Financial risks**

Our management holding defines the financial structure. It coordinates the funding and manages the interest rate and currency risks of companies financially integrated into the Group. The risk horizon that has proven to be expedient is a rolling period of up to three years aligned to the planning framework. The guidelines issued require all companies belonging to the group of consolidated companies to hedge against financial risks at the time when they arise. For instance, risk-bearing open positions or financing in international trading must be reported to Salzgitter Klöckner-Werke GmbH (SKWG) by the respective subsidiaries. SKWG then decides on hedging measures, taking account of the Group's exposure at the time. On principle, we permit financial and currency risks only in conjunction with processes typical to steel production and trading. Please also see the sections on "Currency risks" and "Interest rate risks". The financial risks are clearly relative when taken in proportion to the operating risks.

**Currency risks**
Our procurement and sales transactions in foreign currencies naturally harbor currency risks. The development of the dollar, for instance, exerts a major influence on the cost of procuring raw materials and energy, as well as on revenues in the tubes business or in mechanical engineering, for example. Although the effects are mutually counteracting, the need for dollars for procurement activities predominates owing to the business volumes that vary greatly. We generally offset all EUR–USD denominated cash flows within the consolidated group, a process known as netting, thereby minimizing currency exposure.

To limit the volatility of financial risks, we conclude derivative financial instruments with terms whose value develops counter to our operational business. The development of the market value of all derivative financial instruments is regularly ascertained. Moreover, for the purpose of the annual financial statements, we simulate the sensitivity of these instruments in accordance with the standards laid down under IFRS 7 (see the section entitled ↗ "Notes to the Consolidated Financial Statements"). Hedging arrangements are essentially not disclosed as hedge accounting positions in the accounts; this method is used, however, to hedge the price risk of raw materials.

We do not hedge translation risks arising from the converting of positions held in a foreign currency into the reporting currency, as these are of secondary importance in relation to the consolidated balance sheet. More information can be found in the ↗ "Notes to the Consolidated Financial Statements". As a result of the preventive measures, we believe that currency risks do not constitute a threat to the company as a going concern.

**Default risks**
We counter our receivables risks by practicing stringent internal exposure management. We limit around two thirds of these risks through trade credit insurance and other collateral. We monitor the unsecured positions meticulously, as well as evaluating and taking them into account in our business transactions.

**Liquidity risks**
The management holding monitors the liquidity situation within the Group by operating a central cash and interest management system for all the companies that are financially integrated into the Group. This system defines internal credit lines for the subsidiaries. If subsidiaries have their own credit lines, they are responsible for minimizing the associated risk themselves and for reporting on potential risks in the context of the Group management and controlling structures. Risks may also arise from the necessary capital and liquidity measures taken on behalf of the subsidiaries and holdings if their business should develop unsatisfactorily in the longer term. We do not, however, anticipate any burdens from this area of risk that could constitute a going concern risk. We monitor this risk by means of rolling liquidity planning and the respective analysis of the counterparty risks. In view of the cash and credit lines available, we do not perceive any danger to our Group as a going concern at this time.

**Interest rate risks**
The cash and cash equivalents item that is significant for us is exposed to interest rate risk. Our investment policy is fundamentally oriented toward investment categories with appropriate credit ratings while, at the same time, ensuring the availability of the assets. In order to monitor the interest rate risk, we regularly conduct interest rate analyses the results of which are directly incorporated into investment decisions. On the liabilities side of the balance sheet, another decline in the yields of first rate corporate bonds could in particular cause a further increase in the pension provisions needing to be formed. Should this risk occur – the assumption being that the scope will be limited given the already historically low interest rate level – the Group's robust balance sheet forms a sound basis for compensatory measures

**Tax risks**
The recording and documenting of tax risks are carried out by the companies integrated into the tax group in close coordination with the holding company's tax department. Generally, SZAG, Salzgitter Mannesmann GmbH and SKWG are responsible for provisioning, for example, in respect of the risks inherent in audits conducted on their tax group. Subsidiaries taxable as individual entities, above all international companies belonging to the Trading, Mannesmann and Technology business units, are responsible for their own provisioning. Provisions have been set up to cover any identifiable tax risks.

Since the spring of 2014, the Braunschweig public prosecutor's office has been investigating a number of Group companies on the grounds of unlawful provisions and expenses. The investigations were concluded in the reporting year, to the exception of one company, and terminated. The investigative proceedings against one company are ongoing. The Salzgitter Group is cooperating unconditionally with the investigating authorities and has hired external attorneys to investigate the matter comprehensively. We believe that the tax returns in question submitted by the Group companies are in compliance with the statutory regulations. In view of current knowledge and taking the overall circumstances into account, the risk of a claim being asserted from the ongoing proceedings is deemed to be unlikely.

In 2016, the Bundesfinanzhof (Federal Finance Court) gave a judgment on securities lending in respect of which the Salzgitter Group had already arranged sufficient provisions concerning the repayment of corporate tax advantages (including interest). In this context, legal uncertainty has arisen regarding the possible repayment of accrued capital gains tax. The probability of occurrence of this risk is deemed to be unlikely.

**Production downtime risks**
We counteract the risk of unscheduled, protracted downtime of our key plant equipment and machinery through regular plant and facility checks, a program of preventive maintenance, as well as a continuous process of modernization and investment. In order to contain other potential loss or damage and the associated production downtime, as well as any other compensation and liabilities claims, the Group has concluded insurance policies that guarantee that the potential financial consequences are curtailed. The scope and content of insurance cover is reviewed on an ongoing basis and adjusted, if necessary. We view the potential loss not covered by insurance as manageable and consider it unlikely.

**Legal risks**
In order to exclude potential risks arising from a possible breach of the manifold fiscal, environmental, competition- and corruption-related rules and regulations and other legal provisions including the GDPR (General Data Protection Regulation) we require our employees' strict compliance with any of these. The Executive Board has communicated its fundamental set of values by distributing a Code of Conduct to all the Group's employees. We seek extensive legal advice from our experts as well as, on a case-by-case basis, from qualified external specialists. Comprehensive training supports the process of raising our employees' awareness of this aspect. We have set up a compliance management system for the preventative treatment of risks from infringements of the law. We classify the occurrence of legal risks as unlikely. For further information on our compliance management system, we refer to the ↗ "Corporate Governance Report".

The investigations conducted by the German Federal Cartel Office against individual companies of the Salzgitter Group and other producers of strip steel products and heavy plate on the grounds violations of competition law have meanwhile been brought to an end in respect of the affected companies of the Salzgitter Group. Regarding heavy plate this was done by way of a settlement through payment of a fine and by a closure of proceedings with regard to strip steel.

**Personnel risks**
SZAG actively competes on the market to attract qualified specialists and managers. We counter the risk of fluctuation and the associated loss of knowledge by means of broad-based personnel development measures aligned to the different groups of employees. Along with the already established specialist careers, succession and talent management, dedicated to the identification and preparation of employees with high potential and successors to take on more advanced tasks, was also successfully introduced in 2017. This constitutes an important part of personnel work that is aimed at securing qualified expert and management personnel. Structured methods of knowledge are used in the event of succession in order to ensure the transfer of all knowledge-relevant information, contact and business connections pertaining to the respective professional activity.

Moreover, we also offer attractive company pension schemes that, given the dwindling benefits under the state pension scheme, are becoming increasingly important. We initiated the "GO – Generation Campaign 2025 of Salzgitter AG" back in 2005 against the backdrop of demographic trends with the aim of responding in good time to the impact of these trends on our Group, thereby securing our innovative strength and competitiveness in the long term. The project is focused on the systematic preparation of all employees for a longer working life. Given our manifold measures, we believe that we are well prepared in this area of risk. In "ASTRA", the Group companies have a powerful tool at their disposal that they can use to extensively analyze their workforce structure and make projections. Any critical tendencies in the development of the workforce can therefore be identified at an early stage and appropriate measures introduced.

**Product and environmental risks**
In order to safeguard against product and environmental risks, we have set the following measures in place, among others:

- certification in accordance with international standards,
- consistent modernization of plants,
- ongoing development of our products,
- process-integrated quality assurance, and
- comprehensive management of environmental issues.

Salzgitter AG's head of Environmental Protection and Energy Policies is tasked with centralizing and coordinating environmental and energy policy issues affecting all companies, with representing the Group externally in such matters, and with managing individual projects affecting the whole Group.

Risks from owning land and property may arise, particularly from inherited contamination. We counteract these risks, for instance, by fulfilling our clean-up duties. In terms of financial precautions, provisions in an appropriate amount are formed. To our knowledge there are no unmanageable circumstances arising from this type of risk.

**Information technology risks**
Value-added processes are being increasingly digitalized, and information technology is consistently permeating production technology. Against this backdrop, the requirements placed on the information systems used are growing in our Group as well. We counteract potential risks and guarantee the availability and security of our information systems by using cutting-edge hard- and software and ensuring the ongoing technological upgrading of our IT infrastructure.

To this end, the Group also implements new technologies to meet constantly changing requirements, alongside harmonization projects concerning IT-structures that have developed organically and heterogeneously. Together with the necessary economic aspect, the compatibility and security of the IT systems and databases are guaranteed in the process. The risks from this area are deemed manageable, and we estimate the probability of an adverse event occurring to be low or unlikely.

**Corporate strategy risks**
We invest regularly in securing our future profitability. More detailed information on the individual business units is included in the section on ↗ "General Business Conditions and Performance of the Business Units". We nevertheless see the need for restructuring for market and competitive reasons and address this in a targeted manner. Following the conclusion of the "SZAG 2015" and "FitStructure" programs, we are stepping up the continual improvement of our cost structure and process efficiency with the "FitStructure 2.0" successor program that is integrated into all important companies. We consider the risks inherent in this restructuring to be manageable.

## Overall Statement on the Risk Position of the Group

**Evaluation of the risk position by management**
Having reviewed the overall risk position of the Salzgitter Group, we can conclude that there were no risks endangering either the individual companies or the entire Group as going concerns at the time when the 2019 annual financial statements were drawn up. This evaluation applies to the individual companies as well as to the Group as a whole.

Nevertheless, we continue to be burdened by the ongoing structural crisis in the global steel market, massive distortions of competition in non-EU countries and foreign policy developments. Particularly noteworthy at this juncture are the threats by the US government of levying special import duties on vehicles and vehicle parts, an escalation of the trade dispute between the US and China, as well as the political uncertainty surrounding the UK's leaving the EU. We regard the energy and environmental policy of Germany and Europe respectively, as well as ongoing huge import pressure despite the safeguards enacted by the EU Commission, as serious factors influencing our future development. Risks to the survival of the company may arise under certain circumstances from these scenarios.

Despite limited planning reliability, we nevertheless consider ourselves well equipped in the current situation to master the considerably greater challenges placed on opportunity and risk management during this phase. Our business policy, which takes due account of risks and is geared toward sustainability, and the sound strategic alignment of the Salzgitter Group form the basis for this assessment.

The independent auditor has examined the early warning system installed at SZAG applicable to the entire Group in accordance with the German Stock Corporation Act (AktG). This audit verified that the early warning system fulfills its functions and fully satisfies all requirements under company law.

As an independent authority, SZAG's Internal Audit Department examines the systems used throughout the Group in terms of their adequacy, security and efficiency and provides impetus for their further development as and when required.

**Rating of the company**
No official rating has been issued for SZAG by international rating agencies recognized in the capital market. From our perspective, there is currently no need for such a rating as companies that are not rated externally meanwhile also fundamentally have access to all material instruments of capital market financing.

**Description of the main features of the accounting-related internal control system and the risk management system with respect to the (Group) accounting process (Sections 289 (4) and 315 (4) of the German Commercial Code (HGB))**
To supplement the information already contained in the risk report, the main features of the internal control and risk management system implemented within the Salzgitter Group in respect of the (Group) accounting process are described as follows:

The aim is to use automated or manual control mechanisms to obtain sufficient assurance that, despite potential risks, the consolidated financial statements are drawn up in accordance with rules and regulations.

To ensure the effectiveness, efficiency and regularity of accounting and compliance with pertinent statutory provisions, the control system therefore encompasses all the necessary principles, procedural requirements and measures.

The Executive Board of SZAG is responsible for the implementation of and compliance with statutory provisions. It reports to the Audit Committee (Supervisory Board) regularly on the financial position of the Salzgitter Group. The Audit Committee is also tasked with monitoring the effectiveness of the internal control system. The Chairman of the Supervisory Board is informed without delay about all material findings and events connected with the auditing of the annual financial statements that are relevant to the tasks of the Supervisory Board.

The Salzgitter Group has a decentralized structure. The responsibility for compliance with legal standards as well as groupwide standards by the companies rests with their respective bodies. The Executive Board works towards ensuring compliance i.a. through SZAG's staff departments.

When conducting internal audits, independently and on behalf of the SZAG's Executive Board, SZAG's Internal Audit also takes account of the operations and transactions relevant to the accounting of SZAG and its subsidiaries and holdings from a risk-oriented perspective. The planning and carrying out of audits by Internal Audit considers the risks in the (consolidated) financial statements and the accounting process. These tasks are carried out by members of staff specially qualified in accounting. The basis of activities is the annual audit plan that is determined in accordance with statutory requirements. Internal Audit informs SZAG's Executive Board and the Group's external auditor of the outcome of audits by way of written audit reports. Group Internal Audit follows up on the implementation of measures and recommendations agreed in these audit reports.

SZAG's Group Accounting Department draws up the consolidated annual financial statements of the Group and the separate financial statements of the parent company. Independent auditors issue an audit opinion on the major reporting packages of the companies included, as well as on the consolidated financial statements. To ensure that statutory requirements are complied with in respect of accounting, Group accounting guidelines are updated on an annual basis and disseminated to the companies. These guidelines form the basis of a uniform, due and proper ongoing accounting process, both with respect to accounting as defined under the International Financial Reporting Standards (IFRS). Along with general accounting principles and methods, rules and regulations on the balance sheet, income statement, notes to the financial statements, cash flow statement and segment report are first and foremost defined, taking into account the legal position prevailing within the EU. Accounting regulations also lay down specific formal requirements relating to the consolidated financial statements so that the components of the reporting packages to be prepared by the Group companies are also defined in detail. A standardized and electronically-facilitated set of forms is used for this purpose. Accounting policies are also defined centrally for the accounting process under the German Commercial Code (HGB). Group policies also comprise specific instructions on the treatment and settlement of intragroup transactions with the respective process of the reconciliation of balances. The companies are informed about changes under the law and the consequences pertaining to the preparation of the consolidated annual financial statements usually by a monthly newsletter or – if necessary – through mandatory information events organized by the Group.

The financial statements of the consolidated companies are recorded with the aid of a uniform IT-based workflow used throughout the Group. This workflow comprises a permissions concept, along with checking routines and check digits. These control and surveillance mechanisms have been devised for process integration as well as for functioning independently of processes. A major part of this is, for instance, made up of manual process controls in application, among other things, of the principle of dual control, alongside automated IT-based processes controls. Moreover, the Group has integrated accounting systems. At Group level, the control activities geared specifically to ensuring proper and reliable consolidated accounting comprise the analysis of the reporting packages submitted by the Group companies. In application of the control mechanisms and plausibility controls already established in the consolidation software, reporting packages containing errors are corrected – once the Group companies in question have been informed and respective external auditor consulted – prior to the consolidation process.

The application of uniform, standardized measurement criteria to impairment tests is ensured by way of centralized processing in the Group Accounting Department for the – from the Group's perspective – individual cash generating units.

The valuation of pensions and other provisions, among other items, is also subject to uniform regulations by centrally determining the parameters applicable throughout the Group.

Moreover, the preparation of the management report is carried out centrally, thereby ensuring compliance with legal requirements.

## General Business Conditions in the coming Year

Against the backdrop of ongoing considerable political uncertainty, the International Monetary Fund (IMF) anticipates that the **global economy** will pick up slight momentum. This uptrend is to be underpinned by a discernible recovery in the emerging countries, above all India, Brazil and Mexico. The easing of the monetary policy in many countries is also considered to be a supporting factor. Growth in the industrial nations and in China is likely to weaken slightly. Generally speaking, the global economy is still in a phase of robust expansion. Risk emanates from multiple negative geopolitical factors, first and foremost from the trade conflict between the US and China, as well as from the global tendency toward growing protectionism. Overall, the IMF estimates global economic expansion at 3.3% in its forecast for 2020 (2019: 2.9%).

In the current year, **eurozone** growth is expected to remain around the 2019 level. While countries with manufacturing industries concentrated on the consumer goods segment should be well able to expand, the recovery of economies specialized in producing capital goods is likely to be more modest. In many euro area countries, the economy is supported by fiscal stimulus. Factoring in an assumed expansive fiscal and money market policy, the IMF puts eurozone economic growth at 1.3% in 2020 (2019: 1.2%).

Predictions for **Germany** anticipate a gradual end to the recessionary phase of the manufacturing industry. Fears about a macroeconomic recession are therefore deemed unfounded. As uncertainty about the way in which Brexit will unfold and the trade disputes is still considerable, and the proportion of capital goods manufacturing in the export-oriented German industry is relatively high, fundamental economic growth is initially expected to be more modest. The IMF therefore predicts moderate growth for the German economy of 1.1% in 2020 (2019: 0.5%).

### Market outlook

We assume the following development for the markets of the business units:

#### Steel

According to the World Steel Association (WSA), growth in the global demand for steel is expected to halve in 2020 compared with the previous year. This development is largely believed due to China's ongoing economic slowdown. Demand for steel in North America and Europe is expected to be slightly higher than in 2019. The strongest growth impetus should emanate from the steel markets in the emerging countries. In its most recent forecast from October 2019, the WSA generally anticipates growth of 1.7% in the global demand for steel in 2020.

In its most recent outlook, Eurofer, the European Steel Association, assumes a further reduction in market supply for the European Union in 2020, with an overall contraction of 0.4%. The lowest point is likely to be reached in the first quarter, and the negative development of the first six months is unlikely to be fully offset by growth expected in the second half of the year.

#### Steel tubes and pipes

Geopolitical political and economic imponderables that placed a burden on the steel market over the past year are likely to persist in 2020 as well. Protectionist tendencies observed on a worldwide scale and most particularly in the US could become more pronounced. Large-diameter pipes production in Germany is expected to remain at its currently low level for the time being due to the lack of projects. In the medium term, pipeline projects already planned could ease the situation here. With the shift in powertrain technology, the automotive industry will be increasingly subject to a changed requirements structure but, as with mechanical engineering, will remain an important mainstay of demand for the steel tubes and pipes industry.

### Mechanical engineering

German Engineering Federation (VDMA) predicts a slight decline in sales of around 2% for the mechanical engineering sector as a whole in 2020. Despite the global upturn in demand for packaged beverages and food, the VDMA assumes that the market for food and packaging machinery will not be able to match the generally positive development of previous years in some of its subsegments. Geopolitical and macroeconomic factors of uncertainty are likely to cause customers to delay their investment decisions. The discussion conducted on a global scale about packaging waste is likely to focus the decisions of customers in the packaging industry on topics such as sustainability and conserving resources.

# Overall Statement on Anticipated Group Performance

## Planning process

As a matter of principle, the corporate planning of Salzgitter AG takes account of the strategic goals and comprises a set of entrepreneurial measures with action embedded in the general economic environment. It forms the basis for a realistic assessment of earnings, but, at the same time, includes the long-term aspects relating to investments and the securing of a sound balance sheet and financial stability. Market expectations prevailing at the time when planning takes place, as well as the entrepreneurial measures envisaged, are incorporated into this plan that is prepared in a process involving the entire Group: The individual goals of the subsidiaries are discussed and defined in a combination of a top-down and bottom-up approach between the respective management, the Group's Executive Board and the heads of the business units. All individual plans are then aggregated to form a plan for the entire Group. This sophisticated Group planning process is conducted once before the start of each new financial year, generally commencing in August and ending with the presentation of the insights gained that is delivered at the last meeting of the Group's Supervisory Board in the respective financial year.

## Expected earnings

The companies of the Salzgitter Group will hold their ground in a challenging business environment in 2020 as well. With this goal in mind, we continue to rigorously and consistently improve our structures and processes under our "FitStructure 2.0" optimization program. By 2022, we intend to have generated a minimum of € 240 million in profit improvement potential mainly in the steel segments and in the Mannesmann Business Unit. Part of this potential will already bolster earnings in the current year.

Compared with the previous year, the business units anticipate that business in the financial year 2020 will develop as follows:

In the **Strip Steel Business Unit,** selling price declines and narrowing margins sustained over the course of 2019 will be reflected in a negative pre-tax result at least in the first quarter of 2020. Given the generally lower demand, the quotas under the European anti-dumping measures derived from record import figures will not even come close to being exhausted and will therefore fail to deliver the desired effect across the board. For the financial year 2020, we anticipate a discernible decline in sales. Since the selling price level bottomed out at the end of 2019, we nevertheless – depending on the strength and the stability of the trend reversal – anticipate a considerably reduced pre-tax loss compared with the previous year's result that was burdened by nonrecurrent effects. The raw material costs for iron ore and coking coal have in this case been assumed at the level seen at the end of 2019.

We assume that situation in the markets relevant to the **Plate/Section Steel** Business Unit will remain tight. Import volumes at a similarly high level in the heavy plate segment, as well as the lack of orders for deliveries of pipe feedstock are likely to continue to burden the situation. In the Section Steel segment, we assume that we will once again be operating in a volatile market environment geared to the short term. As there will be no repeat of the burdens of the restructuring provisions booked in 2019 and of impairment, notable improvements in the result are predicted. We nevertheless assume a pre-tax loss for the Plate/Section Steel Business Unit, with sales remaining virtually unchanged.

The business development of the **Mannesmann Business Unit** will continue to be strongly influenced by the unsatisfactory capacity utilization of the EUROPIPE Group. By contrast, the American EUROPIPE companies will continue to benefit from the improved project situation in America's large-diameter pipe market. Mannesmann Grossrohr GmbH is expecting follow-up orders to be placed for two-shift operation, and the medium-diameter line pipe segment anticipates a slight increase in volumes accompanied by lower selling prices. Activities in the precision tubes companies are likely to be subdued, at least in the first half of 2020. In contrast, the stainless steel segment expects the positive trend to continue. Overall, we predict rising sales volumes for the business unit, sales at around the same level, as well as a significantly improved, marginally positive pre-tax result.

The **Trading Business Unit** assumes an increase in shipments and notable sales growth. While generating margins in international trading is most likely to remain under pressure due to all-pervasive restrictive trade policies, the stockholding steel trade should be able to achieve increasingly higher margins once again on the back of selling prices that are expected to stabilize over the course of the year. We anticipate a significantly higher, positive pre-tax result for the business unit.

Based on the rigorous expediting of the "KHS Future" program and the selling of new, innovative products, predictions envisage improved profitability of the KHS Group, accompanied by moderate growth in volumes and sales. Gaining additional market shares in the standard business in particular should underpin this positive trajectory. Conversely, the two smaller specialist mechanical engineering companies expect lower sales and earnings figures compared with the previous year due to the subdued market outlook. Consequently, sales that are almost stable and a pre-tax profit that is slightly higher in comparison with 2019 are anticipated for the **Technology Business Unit**.

Against this backdrop, we anticipate the following for the **Salzgitter Group** in the current financial year 2020:

- an increase in sales to € 9 billion,
- earnings before taxes around breakeven, as well as
- a return on capital employed (ROCE) that is tangibly above the previous year's figure.

As in recent years, please note that opportunities and risks from currently unforeseeable trends in selling prices, input material prices and capacity level developments, as well as exchange rate fluctuations, may considerably affect performance in the course of the financial year 2020. The resulting fluctuation in the consolidated pre-tax result may be within a considerable range, either to the positive or to the negative. The dimensions of this volatility are illustrated by the following example: With around 12 million tons p.a. of steel products sold by the Strip Steel, Plate/Section Steel, Mannesmann and Trading business units, an average € 25 change in the margin per ton is already sufficient to cause a variation in the annual result of more than € 300 million. Moreover, the accuracy of the company's planning is restricted by the volatile cost of raw materials and shorter contractual durations, on the procurement as well as on the sales side.

## Anticipated financial position

Our cash and cash equivalents are used partly for financing investments that are ongoing primarily in our steel, plate and technology business. As before, we consider it essential to keep cash funds available up to a mid-triple-digit million range to ensure that, in the event of a deterioration in the environment, we will not have to procure funds on the capital market at short notice. External financing measures are nevertheless subject to ongoing review with a view to attractive placement conditions.

An amount of € 253 million has been earmarked for our Group's capital expenditure budget in 2020. Together with the follow-up amount of just over € 300 million in investments approved in previous years, the cash-effective portion of the 2020 budget should amount to a good € 500 million (2018: € 439 million). As previously, investments will be effectively triggered on a step-by-step basis and in accordance with the development of profit and liquidity.

The funds required in the financial year 2020 for foreseeable investment measures will therefore exceed depreciation and amortization.

Taking account of the planned investments, as well as in particular the payment of a fine to the German Federal Cartel Office in January 2020 (€ –211 million), the net financial position in the financial year 2020 is likely to decline notably compared with the previous year (€ –140 million). Seen from a general standpoint, account should be taken of the fact that the strategic decisions in the past years of acquiring $CO_2$ allowances for the fourth period of the EU's trading system for greenhouse gas emissions that begins on January 1, 2021 as a precautionary measure, as well as replenishing the shares held in Aurubis AG to 29.99% have reduced the Salzgitter Group's net financial position by almost € 600 million since 2017. The rising prices for emission allowances in recent years, as well as the result and dividend contributions of Aurubis AG, bear testimony to the correctness of these measures.

All in all, it can be concluded that, owing to its broad-based business and balanced financial base, the Salzgitter Group is still comparatively well prepared to meet challenging phases. We will continue to attach great importance to this in the future as well.

# Consolidated Financial Statements

## Overview of consolidated financial statements


**82 Consolidated Income Statement**

**83 Statement of Comprehensive Income**

**84 Consolidated Balance Sheet**

**86 Cash Flow Statement**

**88 Statement of Changes in Equity**

**90 Notes**

90 Segment Reporting
92 Analysis of Fixed Assets
96 Principles of the Consolidated Financial Statements
96 Accounting and Valuation Principles
116 Notes to the Income Statement
123 Notes to the Consolidated Balance Sheet
142 Contingencies
143 Other Financial Obligations
144 Financial Instruments
145 Categories and Fair Values of Financial Instruments
147 Determination of Fair Values of Financial Instruments
150 Net Results of Categories of Financial Instruments
150 Financial Risk Management of Financial Instruments – Default Risk
154 Financial Risk Management of Financial Instruments – Liquidity Risk
155 Financial Risk Management of Financial Instruments – Market Price Risk
158 Sensitivity Analysis for Foreign Exchange, Interest Rate and Market Price Risks
159 Offsetting Financial Instruments
159 Notes to the Cash Flow Statement
161 Notes to the Segment Reporting
162 Related party disclosures
163 Fees for the Auditor of the Consolidated Financial Statements that were reported as expenses in the financial year in accordance with Section 314 (9) of the German Commercial Code (HGB)
163 Significant Events occurring after the reporting date
164 Waiver of disclosure and preparation of a management report pursuant to Section 264 (3) or Section 264b of the German Commercial Code (HGB)
165 Disclosures on the Remuneration of the Executive Board, Supervisory Board and other Members of the Key Management Personnel
168 Assurance from the Legal Representatives

# Consolidated Income Statement

| In € m | Note | 2019 | 2018 |
|---|---|---|---|
| Sales | [1] | 8,547.3 | 9,278.2 |
| Changes in inventories / other own work capitalized | | –8.2 | 161.6 |
| | | **8,539.1** | **9,439.8** |
| Other operating income | [2] | 285.6 | 256.8 |
| Cost of materials | [3] | 5,602.6 | 6,131.4 |
| Personnel expenses | [4] | 1,815.7 | 1,739.5 |
| Amortization and depreciation of intangible assets and property, plant and equipment | [5] | 541.0 | 384.0 |
| Other operating expenses | [6] | 1,157.8 | 1,099.9 |
| Result from impairment losses and reversal of impairment losses of financial assets | | –25.1 | –1.9 |
| Income from shareholdings | | 2.0 | 2.4 |
| Result from investments accounted for using the equity method | | 125.2 | 74.7 |
| Finance income | | 17.5 | 15.0 |
| Finance expenses | | 80.4 | 84.6 |
| **Earnings before taxes (EBT)** | | **–253.3** | **347.3** |
| Income tax | [7] | –16.0 | 69.5 |
| **Consolidated result** | | **–237.3** | **277.7** |
| Consolidated net result due to Salzgitter AG shareholders | | –241.2 | 273.7 |
| Minority interest in consolidated net result for the year | | 3.8 | 4.0 |

| Appropriation of profit in € m | Note | 2019 | 2018 |
|---|---|---|---|
| Consolidated result | | –237.3 | 277.7 |
| Profit carried forward from the previous year | | 33.1 | 27.1 |
| Minority interest in consolidated net result for the year | | 3.8 | 4.0 |
| Dividend payment | | –29.7 | –24.3 |
| Change in retained earnings | | 249.9 | –243.4 |
| **Unappropriated retained earnings of Salzgitter AG** | | **12.1** | **33.1** |
| | | | |
| **Earnings per share (in €) – basic** | **[8]** | **–4.46** | **5.06** |
| | | | |
| **Earnings per share (in €) – diluted** | **[8]** | **–4.46** | **4.80** |

# Statement of Comprehensive Income

| In € m | 2019 | 2018 |
|---|---|---|
| **Consolidated result** | **−237.3** | **277.7** |
| | | |
| **Recycling profit and loss** | | |
| Changes in value due to currency translation | 5.7 | 2.6 |
| Changes in value from cash flow hedges | 9.5 | 19.2 |
| Fair value change | 16.7 | 27.0 |
| Recognition with effect on income | −2.7 | 0.8 |
| Deferred tax | −4.6 | −8.5 |
| Changes in the value of investments accounted for using the equity method | 0.2 | −4.0 |
| Fair value change | −1.3 | −9.5 |
| Currency translation | 1.8 | 4.2 |
| Deferred tax | −0.4 | 1.3 |
| Deferred taxes on other changes without effect on income | −0.1 | −1.0 |
| | **15.2** | **16.8** |
| **Non-recycling profit and loss** | | |
| Changes in equity investments without effect on income | −2.1 | 20.0 |
| Fair value change | −3.1 | 23.1 |
| Deferred tax | 1.0 | −3.1 |
| Remeasurements | −89.9 | 99.6 |
| Remeasurement of pensions | −122.1 | 121.1 |
| Currency translation | 0.0 | 0.1 |
| Deferred tax | 32.1 | −21.7 |
| Changes in the value of investments accounted for using the equity method | −16.8 | 5.9 |
| | **−108.8** | **125.4** |
| | | |
| **Other comprehensive income** | **−93.6** | **142.3** |
| | | |
| **Total comprehensive income** | **−330.8** | **420.0** |
| | | |
| **Total comprehensive income due to Salzgitter AG shareholders** | **−334.7** | **416.0** |
| **Total comprehensive income due to minority interest** | **3.8** | **4.0** |

# Consolidated Balance Sheet

| Assets in € m | Note | 2019/12/31 | 2018/12/31 |
| --- | --- | --- | --- |
| **Non-current assets** | | | |
| Intangible assets | [9] | 211.6 | 219.4 |
| Property, plant and equipment | [10] | 2,131.4 | 2,120.5 |
| Investment property | [11] | 82.0 | 83.5 |
| Financial assets | [12] | 64.7 | 75.6 |
| Investments accounted for using the equity method | [13] | 1,072.9 | 888.3 |
| Trade receivables | [16] | 18.4 | 25.5 |
| Other receivables and other assets | [18] | 25.6 | 24.0 |
| Income tax assets | [19] | 0.0 | 0.1 |
| Deferred income tax assets | [14] | 492.3 | 399.1 |
| | | **4,099.0** | **3,835.9** |
| **Current assets** | | | |
| Inventories | [15] | 2,248.1 | 2,327.5 |
| Trade receivables | [16] | 1,118.4 | 1,367.2 |
| Contract assets | [17] | 186.3 | 175.2 |
| Other receivables and other assets | [18] | 191.8 | 403.7 |
| Income tax assets | [19] | 22.6 | 24.5 |
| Securities | [20] | 50.9 | 67.4 |
| Cash and cash equivalents | [21] | 700.5 | 555.6 |
| | | **4,518.5** | **4,921.0** |
| | | **8,617.5** | **8,756.9** |

| Equity and liabilities in € m | Note | 2019/12/31 | 2018/12/31 |
|---|---|---|---|
| **Equity** | | | |
| Subscribed capital | [22] | 161.6 | 161.6 |
| Capital reserve | [23] | 257.0 | 257.0 |
| Retained earnings | | 2,845.1 | 3,181.0 |
| Other reserves | | 23.0 | 60.0 |
| Unappropriated retained earnings | [24] | 12.1 | 33.1 |
| | | **3,298.7** | **3,692.6** |
| Treasury shares | | −369.7 | −369.7 |
| | | **2,929.0** | **3,322.9** |
| Minority interest | | 9.6 | 9.1 |
| | | **2,938.6** | **3,332.1** |
| **Non-current liabilities** | | | |
| Provisions for pensions and similar obligations | [26] | 2,356.1 | 2,275.5 |
| Deferred income tax liabilities | [14] | 72.0 | 67.6 |
| Income tax liabilities | [19] | 36.6 | 36.9 |
| Other provisions | [27] | 334.9 | 358.4 |
| Financial liabilities | [28] | 637.1 | 291.1 |
| Other liabilities | | 16.8 | 6.1 |
| | | **3,453.6** | **3,035.7** |
| **Current liabilities** | | | |
| Other provisions | [27] | 224.6 | 281.4 |
| Financial liabilities | [29] | 430.1 | 426.9 |
| Trade payables | | 915.2 | 1,130.2 |
| Contract liabilities | [30] | 200.7 | 250.2 |
| Income tax liabilities | [19] | 8.6 | 37.0 |
| Other liabilities | [31] | 446.0 | 263.4 |
| | | **2,225.3** | **2,389.2** |
| | | **8,617.5** | **8,756.9** |

# Cash Flow Statement

### (35) Cash Flow Statement

| In € m | 2019 | 2018 |
|---|---|---|
| Earnings before taxes (EBT) | – 253.3 | 347.3 |
| Depreciation, write-downs (+) / write-ups (–) of non-current assets | 541.3 | 371.3 |
| Income tax paid (–) / refunded (+) | – 49.8 | – 48.4 |
| Other non-cash expenses (+) / income (–) | 39.1 | 128.4 |
| Interest expenses | 80.4 | 79.6 |
| Gain (–) / loss (+) from the disposal of non-current assets | 11.2 | 8.8 |
| Increase (–) / decrease (+) in inventories | 84.0 | – 198.1 |
| Increase (–) / decrease (+) in trade receivables and other assets not attributable to investment or financing activities | 221.2 | – 83.9 |
| Use of provisions affecting payments, excluding use of tax provisions | – 206.0 | – 234.1 |
| Increase (+) / decrease (–) in trade payables and other liabilities not attributable to investment or financing activities | – 217.4 | 157.0 |
| | | |
| **Cash inflow from operating activities** | **250.7** | **527.8** |

| In € m | 2019 | 2018 |
|---|---|---|
| Cash inflow from the disposal of non-current assets | 11.8 | 0.9 |
| Cash outflow for investments in intangible assets and property, plant and equipment | –444.3 | –342.5 |
| Cash inflow from financial investments | 232.6 | 112.3 |
| Cash outflow for financial investments | –10.0 | –108.0 |
| Cash inflow from the disposal of other non-current assets | 9.3 | 8.8 |
| Cash outflow for investments in other non-current assets | –104.3 | –261.0 |
| | | |
| **Cash outflow from investment activities** | **–304.8** | **–589.5** |
| | | |
| Cash outflow to company owners | –29.7 | –24.3 |
| Cash inflow from taking out loans and other financial liabilities | 652.1 | 15.9 |
| Repayment of loans and other financial liabilities | –381.0 | –16.8 |
| Cash outflow for bonds | –16.8 | – |
| Interest paid | –29.8 | –40.5 |
| | | |
| **Cash flow from financing activities** | **194.7** | **–65.7** |
| | | |
| Cash and cash equivalents at the start of the period | 555.6 | 679.4 |
| Cash and cash equivalents relating to changes in the consolidated group | 0.4 | 2.6 |
| Gains and losses from changes in foreign exchange rates | 3.9 | 0.9 |
| Payment-related changes in cash and cash equivalents | 140.6 | –127.4 |
| | | |
| **Cash and cash equivalents at the end of the period** | **700.5** | **555.6** |

# Statement of Changes in Equity

| In € m | Subscribed capital | Capital reserve | Treasury shares | Retained earnings | Other reserves from currency translation |
|---|---|---|---|---|---|
| **As of 2018/01/01** | **161.6** | **257.0** | **–369.7** | **2,845.5** | **–9.4** |
| Consolidated result | – | – | – | – | – |
| Other comprehensive income | – | – | – | 98.5 | 2.6 |
| Total comprehensive income | – | – | – | 98.5 | 2.6 |
| Basis adjustments | – | – | – | – | – |
| Dividend | – | – | – | – | – |
| Allocations / contributions and withdrawals to/from capital reserves | – | – | – | – | – |
| Allocations / contributions and withdrawals to/from retained erarnings | – | – | – | 243.4 | – |
| Initial consolidation of Group companies so far not consolidated for materiality reasons | – | – | – | –6.3 | – |
| Other | – | – | – | –0.0 | – |
| **As of 2018/12/31** | **161.6** | **257.0** | **–369.7** | **3,181.0** | **–6.8** |
| Changes in accounting methods[1] | – | – | – | 1.5 | – |
| **As of 2019/01/01** | **161.6** | **257.0** | **–369.7** | **3,182.5** | **–6.8** |
| Consolidated result | – | – | – | – | – |
| Other comprehensive income | – | – | – | –90.0 | 5.7 |
| Total comprehensive income | – | – | – | –90.0 | 5.7 |
| Basis adjustments | – | – | – | – | – |
| Dividend | – | – | – | – | – |
| Allocations / contributions and withdrawals to/from capital reserves | – | – | – | – | – |
| Allocations / contributions and withdrawals to/from retained earnings | – | – | – | –249.9 | – |
| Initial consolidation of Group companies so far not consolidated for materiality reasons | – | – | – | –0.7 | – |
| Other | – | – | – | 3.2 | – |
| **As of 2019/12/31** | **161.6** | **257.0** | **–369.7** | **2,845.1** | **–1.1** |

[1] Further explanations on the effects of the changes in accounting methods are shown in the Notes under ↗ “Accounting and Valuation Principles”.

| | | | Unappropriated retained earnings | Share of the Salzgitter AG shareholders | Minority interest | Equity |
|---:|---:|---:|---:|---:|---:|---:|
| **Cashflow hedges** | **Equity investments valuated without effect on income** | **Investments accounted for using the equity method** | | | | |
| **39.3** | **–** | **19.7** | **27.1** | **2,971.0** | **8.1** | **2,979.2** |
| | | | | | | |
| – | – | – | 273.7 | 273.7 | 4.0 | 277.7 |
| 19.2 | 20.0 | 1.9 | – | 142.3 | −0.0 | 142.3 |
| 19.2 | 20.0 | 1.9 | 273.8 | 416.1 | 4.0 | 420.0 |
| −33.4 | – | – | – | −33.4 | – | −33.4 |
| – | – | – | −24.3 | −24.3 | −3.0 | −27.3 |
| – | – | – | – | – | – | – |
| – | – | – | −243.4 | – | – | – |
| – | – | – | – | −6.3 | – | −6.3 |
| – | – | – | – | −0.0 | – | −0.0 |
| | | | | | | |
| **25.1** | **20.0** | **21.6** | **33.1** | **3,323.0** | **9.1** | **3,332.1** |
| – | – | – | – | 1.5 | – | 1.5 |
| **25.1** | **20.0** | **21.6** | **33.1** | **3,324.4** | **9.1** | **3,333.6** |
| | | | | | | |
| – | – | – | −241.2 | −241.2 | 3.9 | −237.3 |
| 9.5 | −2.1 | −16.6 | – | −93.6 | −0.0 | −93.6 |
| 9.5 | −2.1 | −16.6 | −241.2 | −334.7 | 3.8 | −330.8 |
| −33.5 | – | – | – | −33.5 | – | −33.5 |
| – | – | – | −29.7 | −29.7 | −3.4 | −33.2 |
| – | – | – | – | – | – | – |
| – | – | – | 249.9 | – | – | – |
| – | – | – | – | −0.7 | – | −0.7 |
| – | – | – | – | 3.2 | – | 3.2 |
| | | | | | | |
| **1.1** | **18.0** | **5.0** | **12.1** | **2,929.0** | **9.6** | **2,938.6** |

# Notes

### (37) Segment Reporting

| In € m | Strip Steel | | Plate / Section Steel | | Mannesmann | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| External sales | 2,209.0 | 2,341.0 | 804.7 | 1,026.4 | 1,119.6 | 1,118.6 |
| Sales to other segments | 738.5 | 768.0 | 752.2 | 794.7 | 182.5 | 228.9 |
| Sales to Group companies that are not allocated to an operating segment | 3.3 | 3.6 | 0.9 | 0.8 | 411.8 | 378.9 |
| Segment sales | 2,950.8 | 3,112.5 | 1,557.7 | 1,821.8 | 1,714.0 | 1,726.5 |
| Interest income (consolidated) | 2.2 | 0.9 | 0.1 | 0.1 | 1.0 | 0.8 |
| Interest income from other segments | – | – | 0.0 | 0.0 | – | – |
| Interest income from Group companies that are not allocated to an operating segment | 0.0 | 0.1 | 1.0 | 0.7 | 0.9 | 1.8 |
| Segment interest income | 2.2 | 0.9 | 1.1 | 0.8 | 1.9 | 2.6 |
| Interest expenses (consolidated) | 14.3 | 14.5 | 3.2 | 2.9 | 7.0 | 6.9 |
| Interest expenses to other segments | – | – | – | – | – | – |
| Interest expenses from group companies that are not allocated to an operating segment | 22.3 | 24.4 | 5.2 | 5.8 | 9.2 | 8.4 |
| Segment interest expenses | 36.7 | 38.8 | 8.4 | 8.7 | 16.3 | 15.3 |
| Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in accordance with IAS 36) | 167.8 | 181.1 | 38.8 | 39.1 | 57.1 | 61.3 |
| Impairment of tangible and intangible assets (according to IAS 36) | 100.0 | 14.3 | 47.8 | – | 40.0 | 30.0 |
| Impairment of financial assets | – | – | – | – | – | 0.0 |
| Segment resultss before taxes | –42.8 | 205.8 | –124.0 | 24.8 | –41.5 | –5.4 |
| of which resulting from investments accounted for using the equity method | – | – | – | – | 24.9 | 17.6 |
| Material non-cash items | 6.7 | 43.6 | 33.0 | 14.7 | 23.8 | 11.2 |
| Investments in property, plant and equipment and intangible assets | 182.8 | 116.3 | 119.6 | 78.9 | 78.4 | 85.0 |

In the case of Group companies not assigned to a different segment, these are non-reportable segments under IFRS 8.16 and represent "all other segments".

| Trading | | Technology | | Total segments | | Reconciliation | | Group | |
|---|---|---|---|---|---|---|---|---|---|
| **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| 2,846.2 | 3,267.7 | 1,390.3 | 1,338.2 | 8,369.7 | 9,091.8 | 177.6 | 186.3 | 8,547.3 | 9,278.2 |
| 44.0 | 78.6 | 0.5 | 0.5 | 1,717.6 | 1,870.6 | 739.2 | 724.2 | | |
| 0.0 | 0.1 | – | – | 416.1 | 383.4 | – | – | | |
| 2,890.2 | 3,346.4 | 1,390.8 | 1,338.7 | 10,503.5 | 11,345.9 | 916.7 | 910.5 | | |
| 3.2 | 2.8 | 2.1 | 2.9 | 8.7 | 7.4 | 6.0 | 6.8 | 14.6 | 14.2 |
| – | – | – | – | 0.0 | 0.0 | 39.0 | 44.6 | | |
| 5.1 | 7.9 | 0.7 | 0.9 | 7.7 | 11.4 | – | – | | |
| 8.3 | 10.7 | 2.8 | 3.8 | 16.4 | 18.9 | 44.9 | 51.4 | | |
| 20.0 | 20.4 | 3.4 | 2.3 | 48.0 | 46.9 | 32.4 | 32.6 | 80.4 | 79.6 |
| 0.0 | 0.0 | – | – | 0.0 | 0.0 | 7.7 | 11.4 | | |
| 0.5 | 4.3 | 1.7 | 1.7 | 39.0 | 44.6 | – | – | | |
| 20.5 | 24.7 | 5.1 | 4.0 | 87.0 | 91.5 | 40.1 | 44.1 | | |
| 15.9 | 10.7 | 27.0 | 21.6 | 306.6 | 313.8 | 37.9 | 25.9 | 344.5 | 339.7 |
| – | – | – | – | 187.8 | 44.3 | 8.7 | – | 196.6 | 44.3 |
| – | 0.6 | – | – | – | 0.6 | 0.7 | – | 0.7 | 0.6 |
| –31.0 | 50.5 | 32.7 | 43.1 | –206.6 | 318.9 | –46.7 | 28.4 | –253.3 | 347.3 |
| – | – | – | – | 24.9 | 17.6 | 100.3 | 57.1 | 125.2 | 74.7 |
| 5.1 | 9.4 | 27.1 | 31.8 | 95.7 | 110.6 | 16.6 | 90.5 | 112.3 | 201.1 |
| 36.8 | 14.8 | 67.5 | 23.6 | 485.1 | 318.5 | 108.0 | 19.2 | 593.1 | 337.7 |

## Analysis of Fixed Assets 2019

| In € m | Acquisition and production costs | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2019/01/01 | Currency translation differences | Changes in the consoli-dated group | Additions | Disposals[2)] | Transfers to other accounts | 2019/12/31 |
| **Intangible assets** | | | | | | | |
| Concessions, brand names, industrial property rights plus licenses and emission rights | 463.6 | 0.0 | 0.1 | 9.4 | –32.5 | 6.2 | 446.8 |
| Payments on account | 9.7 | 0.0 | – | 7.5 | –0.2 | –5.0 | 11.9 |
| | **473.3** | **0.0** | **0.1** | **16.9** | **–32.7** | **1.2** | **458.7** |
| **Property, plant and equipment** | | | | | | | |
| Land, similar rights and buildings, including buildings on land owned by others | 1,664.9 | 0.9 | 0.6 | 116.5 | –13.0 | 14.1 | 1,784.2 |
| Plant equipment and machinery | 6,784.6 | 1.3 | 0.0 | 158.4 | –171.7 | 73.2 | 6,845.8 |
| Other equipment, plant and office equipment | 463.9 | 0.2 | 0.1 | 61.1 | –27.7 | 3.0 | 500.7 |
| Payments made on account and equipment under construction | 203.2 | 0.7 | – | 240.2 | – | –91.4 | 352.6 |
| | **9,116.6** | **3.1** | **0.8** | **576.2** | **–212.4** | **–1.1** | **9,483.3** |
| **Investment property** | **98.9** | **–** | **–** | **–** | **–0.0** | **–** | **98.8** |
| | **9,688.8** | **3.2** | **0.8** | **593.1** | **–245.1** | **0.0** | **10,040.8** |

| Valuation allowances | | | | | | | | Book values | |
|---|---|---|---|---|---|---|---|---|---|
| 2019/01/01 | Currency translation differences | Changes in the consoli-dated group | Write-ups in the financial year | Depre-ciation in the financial year[1] | Disposals[2] | Transfers to other accounts | 2019/12/31 | 2019/12/31 | 2018/12/31 |
| | | | | | | | | | |
| −252.8 | −0.0 | −0.0 | – | −18.0 | 27.5 | −1.0 | −244.2 | 202.6 | 210.9 |
| −1.1 | – | – | – | −2.8 | – | 1.0 | −2.9 | 9.0 | 8.6 |
| **−253.9** | **−0.0** | **−0.0** | **–** | **−20.8** | **27.5** | **−0.0** | **−247.1** | **211.6** | **219.4** |
| | | | | | | | | | |
| | | | | | | | | | |
| −1,058.5 | −0.3 | – | – | −79.9 | 4.1 | 0.2 | −1,134.4 | 649.7 | 606.4 |
| −5,561.2 | −1.0 | – | – | −377.5 | 133.5 | −1.0 | −5,807.1 | 1,038.7 | 1,223.4 |
| −373.8 | −0.2 | −0.0 | – | −48.8 | 27.1 | 0.6 | −395.2 | 105.5 | 90.1 |
| −2.6 | – | – | – | −12.7 | – | 0.2 | −15.1 | 337.6 | 200.6 |
| **−6,996.1** | **−1.5** | **−0.0** | **–** | **−518.8** | **164.7** | **−0.0** | **−7,351.9** | **2,131.4** | **2,120.5** |
| | | | | | | | | | |
| **−15.4** | **–** | **–** | **–** | **−1.4** | **0.0** | **–** | **−16.8** | **82.0** | **83.5** |
| **−7,265.4** | **−1.5** | **−0.0** | **–** | **−541.0** | **192.2** | **−0.0** | **−7,615.8** | **2,425.1** | **2,423.4** |

[1] The impairments (unscheduled amortization and depreciation) under this item are summarized under Note 5.
[2] This includes disposals of assets that are classified as held for sale in accordance with IFRS 5 with acquisition and production costs of € 10.7 million and value adjustments of € 1.9 million.

## Analysis of Fixed Assets 2018

| In € m | Acquisition and production costs | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2018/01/01** | **Currency translation differences** | **Changes in the consolidated group** | **Additions** | **Disposals** | **Transfers to other accounts** | **2018/12/31** |
| **Intangible assets** | | | | | | | |
| Concessions, brand names, industrial property rights plus licenses and emission rights | 455.6 | –0.1 | 11.7 | 6.8 | –11.4 | 1.0 | 463.6 |
| Payments on account | 4.2 | – | – | 5.6 | – | –0.1 | 9.7 |
| | **459.8** | **–0.1** | **11.7** | **12.4** | **–11.4** | **0.9** | **473.3** |
| **Property, plant and equipment** | | | | | | | |
| Land, similar rights and buildings, including buildings on land owned by others | 1,693.7 | 0.9 | 4.3 | 13.1 | –2.0 | –45.1 | 1,664.9 |
| Plant equipment and machinery | 6,700.4 | 2.6 | 5.7 | 128.4 | –101.1 | 48.6 | 6,784.6 |
| Other equipment, plant and office equipment | 441.5 | 0.1 | 1.5 | 35.0 | –18.2 | 4.1 | 463.9 |
| Payments made on account and equipment under construction | 117.4 | 1.0 | 0.4 | 148.9 | –1.0 | –63.4 | 203.2 |
| | **8,953.0** | **4.5** | **11.9** | **325.3** | **–122.3** | **–55.8** | **9,116.6** |
| | | | | | | | |
| **Investment property** | **27.3** | **–** | **–** | **0.0** | **–0.1** | **71.6** | **98.9** |
| | **9,440.1** | **4.4** | **23.6** | **337.7** | **–133.7** | **16.7** | **9,688.8** |

| Valuation allowances | | | | | | | | Book values | |
|---|---|---|---|---|---|---|---|---|---|
| 2018/01/01 | Currency translation differences | Changes in the consolidated group | Write-ups in the financial year | Deprecia-tion in the financial year | Disposals | Transfers to other accounts | 2018/12/31 | 2018/12/31 | 2017/12/31 |
| | | | | | | | | | |
| –240.1 | 0.1 | –0.4 | – | –16.4 | 4.0 | – | –252.8 | 210.9 | 215.5 |
| –1.1 | – | – | – | – | – | – | –1.1 | 8.6 | 3.1 |
| **–241.2** | **0.1** | **–0.4** | **–** | **–16.4** | **4.0** | **–** | **–253.9** | **219.4** | **218.5** |
| | | | | | | | | | |
| –1,032.5 | –0.2 | –0.9 | – | –31.7 | 1.9 | 4.9 | –1,058.5 | 606.4 | 661.3 |
| –5,345.8 | –1.7 | –1.5 | – | –302.4 | 89.7 | 0.6 | –5,561.2 | 1,223.4 | 1,354.7 |
| –357.3 | –0.1 | –0.6 | – | –32.5 | 17.5 | –0.8 | –373.8 | 90.1 | 84.2 |
| –2.6 | – | – | – | – | 0.0 | 0.1 | –2.6 | 200.6 | 114.8 |
| **–6,738.2** | **–2.1** | **–3.0** | **–** | **–366.6** | **109.1** | **4.8** | **–6,996.1** | **2,120.5** | **2,214.8** |
| | | | | | | | | | |
| **–5.8** | **–** | **–** | **12.9** | **–1.1** | **–** | **–21.4** | **–15.4** | **83.5** | **21.5** |
| **–6,985.2** | **–2.1** | **–3.4** | **12.9** | **–384.0** | **113.1** | **–16.6** | **–7,265.4** | **2,423.4** | **2,454.9** |

# Principles of the Consolidated Financial Statements

The Consolidated Financial Statements are based on the audited financial statements of the ultimate parent company Salzgitter AG (SZAG), as well as those of the companies to be included in these financial statements. SZAG is entered in the Commercial Register at Braunschweig Local Court, Germany, under HRB 9207 and has its headquarters in Salzgitter. The address of the SZAG Executive Board is Eisenhüttenstraße 99, 38239 Salzgitter.

Authoritative for the preparation of SZAG's consolidated financial statements are the accounting rules of the International Accounting Standards Board (IASB) that are mandatory in the European Union as of the balance sheet date, as well as the supplementary rules of Section 315a (1) German Commercial Code (HGB). These standards, together with the interpretations based on them, constitute the foundation for the accounting and valuation principles that must be applied uniformly throughout the Group. All of the requirements set down in these standards were fulfilled, with the result that the consolidated financial statements were prepared in compliance with the applicable accounting rules (IFRS). The consolidated financial statements of SZAG are prepared in euros. Unless otherwise indicated, the amounts are stated in millions of euros (€ m). As a result, there may be deviations from the unrounded amounts.

On December 5, 2019, the Executive Board and the Supervisory Board issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders on the company’s website (↗ **www.salzgitter-ag.com**). The Declaration of Conformity is also printed in the “Corporate Governance Report” section of the Annual Report.

The consolidated financial statements and the Group management report were approved by the Executive Board on March 12, 2020, for submission to the Supervisory Board. They will then be published in the German Federal Gazette.

# Accounting and Valuation Principles

## Effects of standards applied for the first time or amended standards

| Standards / Interpretation | | Mandatory date in financial year | EU-Endorsement | Effects |
|---|---|---|---|---|
| | Annual Improvements of IFRS (cycle 2015–2017) | 2019 | yes | none |
| IFRIC 23 | Uncertainty over Income Tax Treatments | 2019 | yes | none |
| IFRS 9 | Prepayment Features with Negative Compensation | 2019 | yes | none |
| IFRS 10<br>IAS 28 | Amendments - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 2019 | yes | none |
| IFRS 16 | Leasing | 2019 | yes | compare with following information |
| IAS 19 | Amendments to IAS 19 “Employee Benefits” – plan adjustments, curtailments and settlements | 2019 | yes | none |

**Effects of IFRS 16 "Leases"**

Using the modified retrospective method, the Salzgitter Group is reporting leases in accordance with IFRS 16 for the first time as of January 1, 2019. Previous periods have not been adjusted. Instead, the cumulative effects on initial application are shown in retained earnings. The determination of present value was based on the incremental borrowing interest rate on January 1, 2019. The weighted average interest rate for this was 2.6 % in the Salzgitter Group.

Based on the Other financial obligations from rental, tenancy and lease contracts as of December 31, 2018, this resulted in the following reconciliation with the opening balance figure for lease liabilities as of January 1, 2019:

| In € m | 2019/01/01 |
|---|---|
| **Minimum lease payments from operating lease agreements as of December 31, 2018** | **191.1** |
| Application relief for short-term leases | – 5.5 |
| Application relief for leases pertaining to assets of low value | – 4.5 |
| Rent-related obligations (non-lease components) | – 1.4 |
| Miscellaneous | – 35.6 |
| **Additional liabilities recognized due to the first-time application of IFRS 16 as of January 1, 2019 (undiscounted)** | **144.1** |
| Discounting effects | – 28.3 |
| **Additional liabilities recognized due to the first-time application of IFRS 16 as of January 1, 2019 (undiscounted)** | **115.8** |
| Remeasurement of lease agreements under IFRS 16 | 11.4 |
| Liabilities from finance leases as of December 31, 2018 | 29.1 |
| **Liabilities from lease agreements as of January 1, 2019** | **156.3** |

Leases for intangible assets not reported in the Group are included in "Miscellaneous", licenses for example. The change is also due to the reassessment of leases in terms of extension and termination options. The reduction results mainly from an amount of € 24.6 million from a long-term lease contract included in the previous year. An annual price increase that does not reflect any contractually agreed graduated rent or fixed index adjustment was used for the calculation. To measure the lease liability, the current lease payment was used without assuming any further price increases.

In addition, the Salzgitter Group takes advantage of the relief granted by IFRS 16 when transitioning to the new standard. At the time of initial application, lease contracts with terms ending before January 1, 2020 were classified as short-term leases regardless of the starting date of the contract and expensed in profit and loss. When measuring the right of use at the time of initial application, the initial direct costs are not included, and it therefore correspond to the liabilities from lease contracts as of January 1, 2019. This does not apply to liabilities from finance leases already recognized from the previous year. No test is carried out for impairment losses. Instead, for simplicity's sake, the right of use at the time of initial application is reduced by the amount recognized on December 31, 2018 as a provision for onerous leases.

This is reflected in profit and loss as follows:

| In € m | 2019 |
|---|---|
| | |
| **Sales / Other operating income** | |
| Income from operating-leases | 2.3 |
| | |
| **Cost of materials / other operating expenses** | |
| Expenses for leases for which underlying asset is of low value | 3.5 |
| Expenses for short-term leases | 8.4 |
| Expenses for variable lease payments | 0.7 |
| | |
| **Depreciation** | |
| Depreciation of right-of-use assets | 25.5 |
| | |
| **Financial result** | |
| Interest expenses for lease liabilities | 3.3 |

Total cash outflows for leases amount to € 27.5 million in the financial year.

The carrying amounts from finance leases in the Group reported in the previous year equate to the carrying amounts of the corresponding rights of use and lease liabilities at the time of initial recognition. As part of the reassessment of leases, some finance leases were derecognized in the financial year as they no longer met the criteria for a lease under IFRS 16. The adjustments amounting to € 2.3 million were recognized in equity under other retained earnings.

Information on the rights of use and lease liabilities as well as further explanations are provided under the corresponding items in the balance sheet.

## Likely effects of new and/or amended standards to be applied in the future:

| Standards / Interpretation | | Mandatory date in financial year | EU Endorsement | Likely effects |
|---|---|---|---|---|
| IFRS 3 | Amendments to IFRS 3 "Business Combinations" – Definition of Business Operations | 2020 | no | no material effects |
| IAS 1<br>IAS8 | Amendments – Definition of Materiality | 2020 | yes | no material effects |
| IFRS 9<br>IFRS 7 | Interest Rate Benchmark Reform | 2020 | yes | none |
| IFRS 17 | Insurance Contracts | 2021 | no | not foreseeable |

## Consolidation principles and methods

**Subsidiaries**
All of the material subsidiaries are fully integrated into the consolidated financial statements. Subsidiaries are commercial entities over which SZAG, in accordance with IFRS 10, has indirect or direct power of disposition (control) and consequently receives both positive and negative variable returns whose amounts can be influenced by the power of disposition.

These subsidiaries are included fully in the consolidated financial statements as of the time when the possibility of being controlled commences. Changes in SZAG's ownership interest in a subsidiary that do not lead to a cessation of control are shown in the balance sheet as equity transactions. If the potential for control of a subsidiary by the Group ceases, that entity is excluded from the consolidated group.

Capital consolidation is carried out by setting off the acquisition cost of the shareholding against the proportionate amount of the newly valued equity at the time when the subsidiary was purchased. Intercompany sales, expenses, and income are eliminated within the scope of consolidation, while receivables and liabilities between the companies included in the financial statements are eliminated within the scope of debt consolidation. Intercompany results deriving from intercompany deliveries and services are eliminated with effect on income, taking deferred taxes into account. Minority interests in the consolidated companies are reported separately within equity (minority interest).

**Joint arrangements**
Arrangements under which SZAG contractually exercises the joint management functions together with one or more partner entities are classified as joint arrangements in accordance with IFRS 11. In accounting for the joint arrangements in the balance sheet, a distinction is made between joint ventures and joint operations.

The distinction depends on the rights and obligations of the parties. Joint operations are characterized by the fact that the parties possess rights to the assets and have obligations for the liabilities in the arrangement, whereas the parties to joint ventures possess rights to the net assets in the arrangement. Joint ventures are accounted for using the equity method, while joint operations are included proportionately in the consolidated financial statements (proportionate application of the consolidation rules).

**Associated companies**
According to IAS 28, moreover, those participating interests in associated companies in which SZAG is able to participate in the respective financial and business strategy decisions, but where neither control nor joint management applies (material influence), are accounted for using the equity method.

The times of admission into and departure from the group of consolidated companies accounted for using the equity method are determined by applying the same principles that are used for subsidiaries. The associated companies are reported using the revaluation method with their proportionate equity at the time of acquisition. The equity valuation is based on the last audited annual financial statements or, in the case of a financial year deviating from the consolidated financial statements, interim financial statements as of December 31.

**Shareholdings**
If SZAG is unable either to exercise material influence or to participate in the respective financial and business strategy decisions, the shares in the company are accounted for at their fair value as financial assets with no effect on income in accordance with IFRS 9.

## Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements include the annual financial statements of 58 (previous year 59) domestic and 61 (previous year 59) foreign affiliated companies. The change in the number of domestic companies is the result of the merger of a consolidated company. The foreign additions concern two – hitherto on grounds of materiality – non-consolidated companies from the Technology Business Unit whose IFRS figures from ongoing operations were included in SZAG's consolidated financial statements for the first time in the financial year 2019. Profits or losses carried forward were recognized directly in equity. The financial year of SZAG and its subsidiaries included in the consolidated financial statements corresponds to the calendar year.

A total of six (previous year six) domestic and 14 (previous year 13) foreign subsidiaries have still not been consolidated due to their minor overall significance for the Group's net assets, financial position and results of operations, but shown as other non-current financial assets. Most of these companies are non-operational shell or holding companies and very small marketing or real estate companies.

As in the previous year, one domestic company is being included proportionately in the consolidated financial statements as a joint operation. The company in question is Hüttenwerke Krupp Mannesmann GmbH (HKM), Duisburg, in which Salzgitter Mannesmann GmbH has a 30% participating interest. HKM's business activities consist of supplying the partners with input material. For this reason, HKM's operating result depends in particular on orders from the partners, with the result that they also assume the rights to the assets and the obligations for the liabilities.

As an associated company, Aurubis AG, Hamburg, in which Salzgitter Mannesmann GmbH has a 29.9% participating interest (previous year 25.5%), is accounted for using the equity method, as it was in the previous year. Aurubis AG, for its part, holds a stake of 1.2% (previous year 1.2%) in Salzgitter AG. There are no commercial relationships of a substantial nature between the groups. Salzgitter Mannesmann GmbH has a 50% participating interest in EUROPIPE GmbH, Mülheim. As both owners of EUROPIPE GmbH run the company jointly and have a contractual share in its net assets, this constitutes a joint venture. The EUROPIPE Group is therefore also accounted for using the equity method. The EUROPIPE Group procures input material from the Salzgitter Group. In addition, Wohnungsbaugesellschaft mit beschränkter Haftung Salzgitter, Salzgitter, whose business purpose consists of the construction, administration and management of real estate, and the holding in the Turkish pipe manufacturer Borusan Mannesmann Boru Yatirim Holding A.S., Istanbul, are accounted for by the equity method. Companies in the Salzgitter Group maintain business relationships of minor significance with the two aforementioned companies.

As a part of SZAG's consolidated financial statements and annual financial statements, the full list of shareholdings in accordance with Section 285 item 11 HGB can be retrieved from the electronic company register ↗ **www.unternehmensregister.de** and under the headline “Financial Reports” at ↗ **www.salzgitter-ag.com/en/investor-relations**.

## Currency translation

In the individual annual financial statements of the Group companies, business transactions in foreign currencies are valued at the exchange rate prevailing at the time when they were first recorded. Exchangerate gains and losses incurred due to the valuation of receivables and/or liabilities up to the reporting date are taken into consideration and impact profit and loss.

Annual financial statements are prepared in the functional currency of the individual company. A company's functional currency is defined as the currency of the economic environment in which it primarily operates. With the exception of a few companies, the functional currencies of subsidiaries correspond to the currency of the country in which the relevant subsidiary has its head office.

Assets and liabilities are translated at the exchange rates prevailing on the reporting date; the positions in the income statement are translated at the annual average exchange rate. The resulting differences are reported in the currency translation reserve in equity without effect on income until such time as the subsidiary is sold.

A similar approach is adopted when translating equity adjustment for foreign companies that are included in the consolidated financial statements using the equity method. Differences from the previous year's translation are offset against retained earnings without effect on income. Income and expenses are translated at annual average exchange rates, while changes in reserves are translated at the rate prevailing on the reporting date.

## Estimates and assumptions

When the consolidated financial statements were being prepared, estimates and assumptions were made that impacted the amounts and reporting of the assets and liabilities, the earnings and expenses and the contingent liabilities that are included in the balance sheet. All estimates and assumptions were made in a way that conveys a true and fair view of the profitability, financial position and net assets. The actual values may deviate from the assumptions and estimates in individual cases. Deviations of this kind are accounted for as of the time when better knowledge becomes available. Significant estimates and assumptions are used primarily for the following items explained below: "Impairment of intangible assets, property, plant and equipment and investment property", "Recognition of income and expenses", "Income taxes", "Provision for pensions and similar obligations" as well as "Provisions for typical operational and other risks".

**Impairment of intangible assets, property, plant and equipment and investment property**
As of every balance sheet date, the Group must estimate whether there is any concrete indication that the carrying amount of an intangible asset, property, plant and equipment or investment property could be impaired. Should this be the case, the recoverable amount of these assets are estimated. The recoverable amount is either the fair value less cost to sell or the value in use, whichever is higher. The calculation is basically made at fair value less cost to sell. To determine the value in use in this context, the discounted future cash flows of the asset in question must be determined. The estimate of the discounted future cash flows is based on fundamental assumptions concerning, for example, future selling prices and selling volumes, costs and discount rates. Comparable issues arise with purchase price allocations in acquisitions.

**Revenue recognition**
Ascertaining the stage of completion in order to account for existing contracts for the manufacture of machines and technical systems necessitates a precise estimate of the total costs of the contract, the costs still to be incurred before completion, total revenues from the contract, the risks associated with the contract and other assumptions. Estimates with respect to revenues, costs or progress of the contract are corrected if circumstances change. Any resulting increases or decreases in the estimated revenues or costs are recognized in profit and loss at the time when management becomes aware of the circumstances giving rise to the correction.

**Taxes on income**
As the Group operates and generates income in numerous countries, it is subject to an extremely wide variety of tax laws under a multiplicity of taxation authorities. To ascertain the Group's tax liabilities worldwide, fundamental assessments must therefore be made. The carrying of potential tax risks in the Group as a liability is based on the best possible estimate.

Provisions are accrued for potential income tax back payments from preceding years with associated interest. The Salzgitter Group is continually audited by the local tax authorities. Continuous changes to tax laws, tax case law and its interpretation by the national tax authorities can result in differences between the actual taxes to be paid and the estimates and expectations formed in the financial statements. Measurement of the provision for income tax is based on the most likely value at which an uncertain event may be realized. The Salzgitter Group decides whether to show several tax uncertainties individually or as a group in each instance on the basis of which presentation is better suited to estimating the risk. From a tax perspective, the Salzgitter Group sees estimation uncertainties regarding the timing of tax deductibility and the measurement of balance sheet items including provisions and capitalization and also off-balance sheet additions, for instance in the area of tax-related transfer pricing. Potential recourse to comparable market prices or similar accounting circumstances is subject to considerable uncertainty regarding tax implications. The best possible estimate is made based on the facts known on the reporting date.

As of every balance sheet date, the Group, on the basis of a three-year planning period, assesses whether the realizability of future tax benefits is sufficiently probable for the reporting of deferred tax assets. Among other things, this requires management to assess the tax benefits that arise from the available tax strategies and future taxable income, and to take other positive and negative factors into account.

**Provision for pensions and similar obligations**
Pensions and other obligations are reported in the balance sheet in accordance with actuarial valuations. These valuations are based on statistical and other factors with a view to anticipating future events. These encompass actuarial assumptions such as expected salary increases and mortality rates.

**Provisions for operational and other risks**
In determining obligations, assumptions must be made on future cash flows and, in the case of long-term obligations, also on cost increases. If necessary, the facts of the matter are assessed with the help of external advisors. Probabilities of occurrence are also taken into account when recognizing any possible obligation.

## Intangible assets

Purchased intangible assets are reported at acquisition cost and amortized on a straight-line basis over the period of their likely useful economic lives, generally between three and five years.

Intangible assets generated internally are capitalized if it is probable that their usefulness for the Group is reliable and if the acquisition or production costs can be measured with accuracy. The production costs of internally generated intangible assets are determined on the basis of directly allocatable costs. Costs that are necessary for the creation, production and development of the asset so that it is in a ready-to-use condition for the purposes intended for it by the Group's management are included. These intangible assets are usually amortized over a period of five years.

The assets identified by a purchase price allocations are amortized regularly over periods of between ten and 26 years using the straight-line basis.

Development costs are capitalized if a newly developed product or process can be clearly defined, is technically feasible and is intended either for the company's own use or for selling. Moreover, capitalization presupposes that development costs will with sufficient probability be covered by future inflows of cash and cash equivalents. The development process must be distinguished from a research phase. Development is the application of the research result and takes place before the start of commercial production or use. If the

prerequisites for capitalization are not satisfied, the expenses are set off with effect on income in their year of origin.

The acquisition or production costs include all costs that are directly attributable to the development process, as well as similarly directly attributable parts of the development-related overheads. They are amortized from the start of production onward on a straight-line basis over the likely useful economic life of the developed asset models.

Rights to emit $CO_2$ are reported under intangible assets if the intention is to use emission rights for production purposes. The resulting expenses are recognized in cost of materials. Initial ownership of emission rights that were acquired gratuitously are recorded at an acquisition cost of € 0. Purchased emission rights are reported at their acquisition cost.

## Property, plant and equipment

Property, plant and equipment are measured at their production costs, less accumulated depreciation and impairment costs. Any investment grants received are shown as a reduction in the acquisition and production costs. The residual book values and the economic useful lives are examined on every reporting date and adjusted if necessary.

The production costs of internally generated intangible assets are determined on the basis of directly attributable costs.

The costs incurred by the regular maintenance and repair of property, plant and equipment are recognized as expenses. Renewal and maintenance expenses are capitalized as subsequent production costs only if they result in an extension of the useful life or an improvement or change in the use of the said property, plant and equipment.

Material components of property, plant and equipment that require replacement at regular intervals are capitalized as autonomous assets and depreciated over the course of their economic useful lives.

The scheduled straight-line depreciation is essentially based on the following economic useful lives:

| Useful economic lives | |
|---|---|
| Buildings including investment property | 10 to 50 years |
| Fixtures on properties | 5 to 40 years |
| Technical machinery and equipment | 5 to 33 years |
| Other equipment, plant and office equipment | 3 to 20 years |

## Leases

IFRS 16 amends the rules for accounting for leases and replaces the previous standard IAS 17 as well as associated interpretations. The principal aim of IFRS 16 is to recognize all leases in the balance sheet. Consequently, the previous classification in finance and operating leases no longer applies for the lessee. Instead, a right of use and a lease liability must be recognized in the balance sheet for all leases.

Initial recognition of the lease liabilities assigned to financing liabilities is determined by the present value of the lease payments to be made. In the subsequent measurement, the carrying amount of the lease liability is compounded and reduced by the lease payments made with no effect on income. Lease payments include fixed payments (including de facto fixed payments) less any lease incentives to be received, variable lease payments linked to an index or interest rate and amounts that have to be paid as residual value guarantees. Lease payments also comprise the exercise price of a purchase option if it is regarded as reasonably certain that it will be exercised, and contractual penalties for terminating the lease if its term reflects the possibility that a termination option will be exercised. Variable payments not linked to an index or interest rate are recognized as expenses in profit and loss. In calculating the present value, the Salzgitter Group uses the incremental borrowing interest rate because the interest rate underlying the lease cannot be readily determined. To determine the incremental borrowing interest rate, reference interest rates are derived for a period of up to 30 years from the yields of corporate bonds for industrial companies from Europe which match the Salzgitter Group's rating class. Country-specific circumstances are taken into account for foreign Group companies.

Rights of use shown in tangible assets are recognized at the cost of acquisition less cumulative depreciation as well as any necessary impairment. The cost of acquiring the right of use is determined by the present value of all future lease payments plus the lease payments made at or before the beginning of the lease term as well as the cost of concluding the contract and the estimated cost of dismantling or restoring the leased object. All lease incentives received are deducted. In this context, the Salzgitter Group makes use of its option to consider payments for non-lease components as lease payments as a general rule. Leases for property and vehicle fleets constitute an exception. If the lease payments to be taken into account also comprise the transfer of ownership of the underlying asset at the end of the lease term, including the exercise of a purchase option, amortization will be applied over the economic useful life. Otherwise, the right of use is amortized over the term of the lease.

During the term of the lease, the right of use must be amortized and the lease liability adjusted by using the effective interest method and taking account of lease payments. Under IFRS 16, application relief is available for short-term and low-value leases that the Salzgitter Group takes advantage of and therefore does not recognize any right of use or liability for such leases. Such lease payments in this respect continue to be recognized as an expense in profit and loss. In addition, the new regulations are not applied to leases for intangible assets.

In determining the term of contracts with options to extend or terminate, all facts and circumstances which offer a financial incentive to exercise extension options or not to exercise termination options are taken into account. Changes to terms resulting from the exercise and/or non-exercise of such options are only taken into account in the term of the contract if they are reasonably certain. Lease agreements for real estate and land, in particular, contain extension and termination options in the Salzgitter Group. For details of possible future lease payments for periods after the time when extension and termination options not reflected in the term of the lease will be exercised, we refer to Note (33) ↗ "Other financial obligations".

The accounting treatment for the lessor essentially equates to the former standards of IAS 17. Lessors must continue to classify leases as finance or operating leases on the basis of the distribution of opportunities and risks arising from the asset. In the case of an operating lease in the Salzgitter Group, the leased object is reported as an asset at amortized cost in tangible assets, and the lease installments collected shown under other operating income. With a finance lease, the asset is shown under receivables at the level of the net investment value.

## Investment property

Investment property comprises property that is used to earn rentals or for capital appreciation and not for production or administration purposes. This property is recognized at cost in accordance with IAS 40 consideration of impairments ("cost model").

## Financial assets – categorization and measurement

On initial recognition, a financial asset is classified for subsequent measurements either to be reported "at amortized cost", recognized "in profit or loss at fair value" or "at fair value with no effect on profit or loss".

### Categorization

#### Business model condition and cash flow condition

In accordance with IFRS 9, the categorization and measurement of financial assets are determined by the business model and the structure of the agreed payment flows. The financial instruments are allocated to different categories on the basis of these two conditions.

#### Recognized at amortized cost

A financial instrument falls into the category of "at amortized cost" if the objective of the business model consists of holding a debt instrument in order to generate the contractual payment flows (e.g. interest income), and at the same time, the terms of the contract lead to payment flows at certain defined times constituting payments of principal and interest.

#### Recognized in profit or loss at fair value

A financial instrument falls into the category "in profit or loss at fair value" if the objective of the business model consists of holding the debt instruments or equity instruments for the short term in order to realize price gains (business model condition), and in the case of debt instruments, interest payments and principal repayments are not exclusively generated on the outstanding principal (payment flow condition). In addition, derivatives not used in hedge accounting are also shown in this category.

#### Recognized at fair value with no effect on profit or loss

A financial instrument defined as a debt instrument falls into the category "at fair value with no effect on profit or loss" if it has not been designated as "at fair value recognized in profit or loss" and the objective of the business model consists both of holding the financial assets to collect the contractual payment flows of the debt instrument and of selling the debt instrument, and the terms of the contract lead to payment flows at defined times that represent exclusively principal repayments and interest payments on the outstanding principal.

A financial instrument defined as an equity instrument falls into the category "at fair value with no effect on profit or loss" if it is not only held for the short term to realize price gains although gains and losses accumulated with no effect on profit or loss **cannot** be derecognized in profit or loss when the financial asset is derecognized (no recycling). Accumulated gains and losses not recognized in profit or loss are transferred to retained earnings. The Salzgitter Group takes advantage of this irrevocable option to recognize equity instruments **not** assigned to the **"Trading"** business model and which meet the definition of equity under IAS 32, in equity on their initial recognition. Irrespective of the above, dividends are recognized in profit or loss unless they represent the repayment of part of the cost of acquiring the equity instrument.

Derivatives that according to hedge accounting rules are accounted for without affecting profit or loss as part of a cash flow hedge are also assigned to this category.

No use is made in the Salzgitter Group of the option to account for financial assets or liabilities at their fair value (fair value option) in profit or loss.

**Initial and subsequent measurement**
Regular purchases and disposals of financial assets are recognized as of the trading date, the day on which the Group undertakes to purchase or dispose of a financial asset.

Financial assets are initially recognized and measured at fair value.

Financial instruments are attributed to non-current assets if management does not intend to sell them within twelve months of the reporting date.

Financial instruments in the categories "in profit or loss at fair value" and "at fair value with no effect on profit or loss" are subsequently measured at fair value. The category "at amortized cost" is subsequently measured at amortized cost using the effective interest method.

Unlisted shares in companies with no appreciable influence are measured "at fair value with no effect on profit or loss" if they are not only held for the short-term realization of exchange gains.

Market values are determined for foreign exchange forward contracts and commodity forward transactions by means of recognized actuarial methods in finance. In the event of substantial market values, the counterparty risk is taken into account by way of a credit risk discount.

Foreign exchange forward contracts are valued using the Group's own calculations. The outright rates applicable on the reporting date were determined on the basis of the ECB's reference rates for the respective currency pairs and the interest rate differences between the various terms of the forward exchange contracts. Working on the assumption of standardized terms, the interest rate differences between the actual terms were determined by means of interpolation. The information regarding the standardized terms was obtained from a standard market information system. The difference ascertained between the contractually agreed foreign exchange amount at the forward exchange rate and the cut-off date exchange rate is mainly discounted as of the reporting date using the Euribor interest rate in accordance with the residual term.

Open iron ore and coking coal swaps are measured with the aid of monthly forward prices. The future cash flows from these derivatives are discounted in accordance with their maturity. On the basis of these parameters, a market value is initially calculated for the open volume in foreign currency with no credit risk exposure. The second step is to determine a correction amount to take account of the credit risk in accordance with IFRS 13. This correction amount acts as an adjustment to the risk-free market value and takes account of the counterparty credit default risk (CVA = Credit Value Adjustment) and the company's own credit default risk (DVA = Debit Value Adjustment). The market value in foreign currency is finally converted into euros using the current rate of exchange.

Unrealized gains and losses arising from changes in the fair value of financial instruments in the "at fair value with no effect on profit or loss" category are recognized in equity. If assets in this category defined as a debt instrument are sold, the cumulative adjustments to fair value under equity are recognized as income in the income statement. If assets in this category defined as an equity instrument are sold, the gains and losses accumulated with no effect on income are **not** to be derecognized through profit or loss when the financial asset is derecognized (no recycling in other words). Accumulated gains and losses not recognized in profit or loss are transferred to retained earnings.

Changes in the fair values of derivative financial instruments that do not qualify for hedge accounting are shown directly in the income statement.

**Derecognition**
Financial instruments are derecognized if the rights to payments from the investment have expired or were transferred, and the Group has essentially transferred all risks and opportunities associated with their ownership.

**Offsetting of financial instruments**
Financial assets and liabilities are netted and shown as a net amount in the balance sheet only if there a legal entitlement to this, plus an intention to bring about the settlement on a net basis or, at the same time, to utilize the asset concerned in order to redeem the associated liability. The legal right to netting out may not depend on some future event and must be enforceable both in the normal course of business and in the event of a default or an insolvency.

## Financial assets – accounting treatment of impairment losses

**Expected losses model**
The impairment model under IFRS 9 is based on the premise that the credit losses actually to be expected ("expected losses model") can be reflected as soon as financial assets are recognized.

**Staging model (general approach)**
Assets for which expected losses are to be reflected in accordance with the expected losses model are assigned to one of three stages depending on possible future loss events (3-stage concept). A loss allowance is generally formed in all stages. All financial assets are to be assigned to Stage 1 when they are first recognized. Financial assets that are already impaired at the time of acquisition form an exception to this rule.

Stage 1
The extent to which expected losses are recognized depends on whether the default risk of financial assets has substantially deteriorated since their acquisition or not. If substantial deterioration applies and the default risk on the closing date is not to be rated as low, all losses over the entire term must be recognized from that moment onward (Stages 2 and 3). Otherwise, only the expected losses over the life of the receivable resulting from possible future loss events within the next twelve months are to be taken into account (Stage 1).

Stage 2
If the credit risk increases significantly after acquisition, the financial instrument is transferred to Stage 2. When calculating the loan loss provision in Stage 2, the expected losses over the entire residual term of the financial asset must be taken into account.

Stage 3
The financial asset must be assigned to Stage 3 if its credit quality has deteriorated further and there is objective evidence of impairment. Breach of contract or considerable financial difficulties on the part of the debtor may represent objective evidence, for example. The loan loss provision is calculated as in Stage 2; however, the effective interest income must then be calculated not on the gross but on the net carrying amount (after deducting the loan loss provision).

### Simplified approach

Derogations apply to trade receivables and contract assets under IFRS 15. For these assets, all expected losses over the entire life can be taken into account on acquisition of the financial instrument. The simplified impairment model contained under IFRS 9 is applied in the Salzgitter Group to trade receivables and contractual assets as a result of which the impairment is determined on the basis of the losses expected over the residual term and immediately recognized in profit or loss. The staged model is not applied as part of the simplified approach.

To calculate the expected credit losses, trade receivables and contract assets are aggregated on the basis of common credit risk characteristics. Contract assets relate to as yet uninvoiced, outstanding contractual obligations and essentially exhibit the same credit risk characteristics as trade receivables for the same types of contract. The Salzgitter Group therefore applies the same loss ratios as for trade receivables when measuring the expected losses from contract assets.

The expected loss ratios are based on external and internal credit ratings. To judge whether the default risk has increased significantly, the default risk with respect to the closing date is compared with the default risk at the time of initial recognition. Besides external credit ratings, particular weight is given to internal credit ratings and significant changes to the expected profitability and payment behavior of the debtor.

## Financial instruments – hedge accounting

The method used to report gains or losses from derivatives depends on whether the derivative was designated a hedging instrument and, if this was the case, on the type of hedging arrangement. The Group designates derivatives either as hedging the fair value of an asset or a liability reported in the balance sheet (fair value hedge), as hedging cash flows from a transaction that is regarded as highly likely, or as hedging the currency risk inherent in a firm obligation (both cash flow hedges). The underlying and hedging transactions designated as a hedging relationship (hedge accounting) are managed and monitored within the scope of corporate risk management.

**Fair value hedge**

In the past financial year, no derivatives were qualified as fair value hedges in the Salzgitter Group.

**Cash flow hedges**

The effective portion of changes in the market value of derivatives that are designated for hedging cash flows or for the currency risk inherent in firm obligations and qualify as cash flow hedges is recognized under equity. The ineffective portion of the changes in value, on the other hand, is recognized immediately in the income statement.

When a hedged future transaction results in the recognition of a non-financial asset (e.g. inventories), the gains or losses previously recognized in equity are included directly in the initial measurement of the cost of the non-financial asset (adjusted basis). When a hedging instrument expires or is sold, or when a hedge no longer meets the requirements of hedge accounting, the cumulative gain or loss remains in equity and is not recognized as an adjusted basis in the balance sheet or disclosed in the income statement until the underlying transaction occurs.

If the forecast transaction is no longer expected to take place, the cumulative gains or losses that were recorded directly in equity must be transferred immediately to the income statement.

## Inventories

Inventories are recognized at acquisition or production cost or the net realizable value, whichever is lower. Inventories are valued at average costs or individually attributed acquisition or production costs. The production costs are determined on the basis of normal capacity utilization. Specifically, the production costs include not only the directly attributable costs but also the production-related material costs and production overheads, including production-related depreciation. If the values as of the reporting date are lower because of a decline in net realizable values, these are reported. If the net selling value of previously written-down inventories has increased, the resultant reversal of write-downs is recorded as a reduction in the cost of materials or a change in inventories.

Unfinished and finished products, as well as raw materials generated internally, are valued at Group production cost that, in addition to direct costs, includes the variable and fixed overhead costs that are calculated systematically or attributed.

## Contract assets and contract liabilities

Payments received (in advance) are deducted from contract assets on an order-specific basis. If the payments received on account for individual customer contracts exceed the receivables from customer contracts, the excess amount is reported under contract liabilities. If total contract costs are likely to exceed total contract revenues, the anticipated loss is recognized immediately as an expense and, if it exceeds the contract costs already incurred, reported as a contract liability.

For the realization of sales revenues and further assumptions regarding customer contracts, reference is made to the section on "Revenue recognition".

## Provision for pensions and similar obligations

Provisions and similar obligations are capitalized as a result of benefit plans for retirement and invalidity pensions and provisions for surviving dependents. These provisions are capitalized exclusively for defined benefit plans under which the company guarantees that employees will receive a specific level of pension. The pension provisions also include bridging payments in the event of death.

The pension obligations are measured on the basis of actuarial assumptions and calculations. The defined benefit obligations are determined using the usual projected unit credit method defined by IFRS. The calculation of the discount interest rate applied is based on the returns from high-quality corporate bonds. This index takes account of all bonds with a minimum term of ten years that have received at least one AA rating from at least one of the leading rating agencies. In order to achieve an interest rate adequate for the duration of the obligation, an extrapolation is carried out along the yield curve of government bonds that have received at least one AAA rating from at least one of the leading rating agencies.

In contrast to this principle, pension commitments for which benefits are based on the growth of securities are, as a general rule, shown at the fair value of the underlying securities ("securities-based commitments"). To the extent that any minimum interest is guaranteed on the contributions made, a minimum, actuarially determined obligation is shown if it exceeds the current market value of the securities.

In order to improve the way in which the actuarial interest rate is determined to measure pensions under IFRS, it will be determined on the basis of the "Mercer Yield Curve Approach" from December 31, 2019 onward. According to this approach, a spot rate yield curve is calculated in the Eurozone on the basis of high-quality corporate bonds. In order to represent the current market value of the money appropriately in accordance with IAS 19.84, both statistical outliers which are significantly higher or lower in their risk rating, as well as bonds with interest-distorting options are ignored. The yield curve is extrapolated in order to obtain an interest rate to match the duration of the obligation.

In the 2019 financial year, an actuarial interest rate of 1.4 % was applied. If the same approach had been used to determine the actuarial interest rate as in the 2018 financial year, pension provisions would have been around € 155.3 million higher with an interest rate of 1.00 %. As actuarial gains and losses are netted with no effect on the income statement, the actuarial gains in the 2019 financial year, and therefore equity would have been reduced by the same amount. With an actuarial interest rate of 1.00 %, interest expenses for the financial year 2020 would have been reduced by around € 7.6 million while service costs would have increased by approx. € 4.1 million. It is not possible to make a valid determination of the effects on future periods. For this reason no corresponding information is given.

## Income taxes

In accordance with IAS 12, deferred taxes are calculated using the balance-sheet-oriented liability method. Under this method, reductions in the tax burden and charges that are likely to arise in future are reported for temporary differences between the book values shown in the consolidated financial statements and the values attributed to assets and liabilities for tax purposes.

As of December 31, 2019, the deferred taxes of domestic corporate entities were measured with an overall tax rate of 31.5 % (previous year 31.4 %). This tax rate comprises the 15.7 % trade tax rate that prevails in the Group (previous year 15.6 %), and the 15.8 % rate of corporate income tax (including the solidarity surcharge; previous year 15.8 %).

The calculation of foreign income tax is based on the laws and regulations applicable in the individual countries.

The anticipated tax savings resulting from the utilization of tax loss carryforwards whose realization is expected in the future are capitalized. When capitalized assets are valued for future reductions in the tax burden, consideration is given to the probability of the expected tax benefit being realized.

Assets deriving from future reductions in the tax burden include deferred tax assets arising from temporary differences between the book values stated in the consolidated balance sheet and values attributed for tax purposes, as well as tax savings resulting from loss carryforwards whose realization is anticipated at a future date.

Deferred tax claims in a particular area of fiscal jurisdiction are offset against deferred tax liabilities in the same area if the company is entitled to offset actual tax liabilities against tax claims and the tax is levied by the same tax authority; the offsetting is carried out on condition that there is matching maturity.

Provided that they relate to the same geographical area of fiscal jurisdiction and their types and maturities match, income tax liabilities are set off against corresponding tax refund claims.

## Other provisions

Provisions are measured and recognized for current legal or factual obligations vis-à-vis third parties whose occurrence would be likely to burden Group assets. They are reported at their likely settlement amount, taking account of all the discernible risks involved, and are not offset against recourse claims. If discounting results in any significant effect, the provisions will be made at their present value. The interest rate used will be appropriate to the term and currency and free of risk. There will be no compounding if interest rates are negative.

## Share-based payments

Share-based payment plans existing in the Group constitute payment plans settled in cash. The Group's resulting liability is determined at fair value and recognized as an expense over the period until the claim for cash settlement has been unalterably established. Until it is settled, the fair value of the liability is remeasured on each reporting date and any changes in the fair value recognized in profit or loss. An appropriate option pricing model is used to determine the fair value.

## Financial liabilities

### Categorization

Financial liabilities are categorized and measured at their amortized cost or at their fair value through profit or loss.

#### Amortized cost

When financial liabilities are recognized for the first time, they are stated at fair value less transaction costs. In subsequent periods they are basically valued at amortized cost. Each difference between the amount paid out and the amount repaid is then spread over the term of the loan using the effective interest method.

#### Recognized in profit or loss at fair value

As the Salzgitter Group does not designate financial instruments for valuation at fair value through profit and loss when first recognized (non-application of the fair value option), this category contains only those derivatives with a negative fair value that are not shown in the hedge accounting.

### Derecognition

Financial liabilities are derecognized if the contractual obligations have been fulfilled, annulled or have expired.

## Revenue recognition

Revenue recognition under IFRS 15 is based on the transfer of control approach. The basic concept states that the recognition and measurement of assets and sales revenues be determined by applying five steps:

- Identifying the contract with the customer
- Identifying separate performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations identified
- Recognizing revenue when (or as) the performance obligation is satisfied

Revenues from contracts with customers are recognized when the separate performance obligations, i.e. the contractually agreed goods or services, have been transferred. This is basically the case if the customer is able to decide on his use of the goods or services transferred and essentially derive the remaining benefit from them. Revenues must be recognized at the time when and in the amount at which performance obligations are met. The fulfillment of performance obligations is therefore classified by time or period. Revenues from sales are recognized at the level of the price defined in the contract – after deducting any reductions such as bonuses, cash discounts or rebates – and therefore equate to the transaction price. They are recognized to the extent that it is highly likely that no significant cancellation of the sales will become necessary provided there is no further uncertainty in this regard.

In the Salzgitter Group, power of disposal over products is generally transferred to the customer on delivery to the customer in accordance with the contractually agreed delivery terms.

No major financing components are included. There are no significant obligations to take back products, provide reimbursement or similar obligations which exceed normal assurance-type warranties. In the case of contracts with customers containing a bundle of performance obligations, the prices of such obligations are largely estimated on the basis of existing individual sales prices.

Contract assets are subject to the expected losses model under IFRS 9. Impairment losses are recognized at the level of the expected credit loss over the term.

**Sale of strip steel and plate steel, section steel products, tubes and pipes and other products**
The Group sells its products in its Strip Steel, Plate / Section Steel and Mannesmann Business Units both directly to customers and through the Trading Business Unit. Revenues from sales are recognized when the customer obtains control of the assets and no unfulfilled obligations remain that might affect the customer's acceptance of the products. This is predominantly the case on delivery with transfer of physical possession to the customer in the first segments mentioned and on transfer of the risks and rewards in the Trading Business Unit. Payment terms of less than six months are usually agreed with customers.

Revenues from sales are recognized at the level of the price defined in the contract – minus any reductions such as bonuses, cash discounts or rebates. Sales revenues are only recognized to the extent that it is highly likely that no significant cancellation of the sales will become necessary provided there is no further uncertainty in this regard.

**Sale of machines and technical equipment**
In principle, the Group sells machines and technical equipment directly. Spare parts and maintenance services are also offered. Revenues from sales are recognized both at a point in time and over time.

In the case of time-related recognition, revenues from sales are recognized when the customer obtains control and no unfulfilled obligations remain that might affect the customer's acceptance of the products. This is predominantly the case on delivery with the transfer of risks and rewards.

In the case of period-related recognition, the revenues are recognized over the term of the contract to the extent that a claim for the agreed payment by the customer is established by fulfillment of performance obligations provided the contract is structured accordingly. Payment terms of less than twelve months are usually agreed with customers. A receivable is shown on dispatch or delivery of the goods as at this point the claim for consideration is unconditional, i.e. payment will automatically become due with the lapse of time from this moment onward.

Applying IFRS 15, revenues from contracts with customers are realized as period-related sales if performance of the contract gives rise to a claim for the agreed payment by the customer. The Group provides its performance for contracts with customers on a period basis if performance gives rise to an asset with no alternative economic benefit, and an enforceable legal claim to consideration (incl. margin) for the contractual obligations fulfilled applies. Costs for the products sold and services provided are recognized at the end of the period in accordance with the stage of completion.

The input-oriented "cost-to-cost method" is used almost exclusively in the Group to determine the stage of completion as this method is best suited to reflecting the transfer of assets to the customer. The determination is based on the ratio between the costs accumulated by the closing date and the current estimate of the total costs.

Methods, assumptions and estimates are applied consistently. Losses on contracts are recognized in the period in which the latest estimate for the total costs of the contract exceeds the total contract revenues. Contract costs are estimated on the basis of project calculations, updated monthly. They also contain estimated follow-on costs.

If the sales revenues for an individual order recognized by the stage of completion exceed payments received and advance payments requested, a contract asset is recognized for the excess amount. If the revenues are lower, a contract liability is recognized. If a claim for payment is successively established against the customer for an order for which a contract asset is shown, or if the customer pays the relevant order, the contract asset is reduced accordingly and a receivable is recognized; if the company successively meets its performance obligations for an order for which a contract liability is shown, the contract liability is reduced and sales are shown.

**Realization of dividends, interest and government grants**
Dividends are collected when the claim has been legally accrued. Interest expenses and interest income are reported pro rata temporis. When there are changes in the consolidated group, acquired dividend claims are recorded without effect on income as part of the capital consolidation.

Grants are not reported in the balance sheet until the necessary claim prerequisites have been fulfilled and it can be anticipated that the grants will actually be paid out. Grants relating to assets are always reported as deductions from acquisition or production costs. Performance-based remuneration is reported as other operating income. If performance-based remuneration relates to future financial years, it is accrued appropriately.

## Impairment of assets (impairment test)

On every balance sheet date at the latest, the Group examines the carrying amounts of its intangible assets and property, plant and equipment to establish whether there are any signs of impairment. If such signs are discernible, the recoverable amount is ascertained and compared with the carrying amount of the asset concerned, taking account of corporate assets. If the recoverable amount for the individual asset cannot be estimated, an impairment test is carried out at the level of the cash generating unit to which the asset belongs. If the carrying amount of an asset or a cash generating unit exceeds the respective recoverable amount, the asset will be impaired at its recoverable amount. If the reason for a previous impairment no longer applies, a reversal is carried out.

## Financial risk management

The Group's commercial activities expose it to a variety of financial risks: market risk (currency, interest rate and market price risk), credit risk and liquidity risk. The Group's overarching risk management aims to minimize the potentially negative effects of financial market developments on the Group's financial position.

Risk management is carried out independently by the subsidiaries and associated companies of Salzgitter AG in accordance with guidelines approved by the Executive Board. The Executive Board issues written principles for overall risk management, as well as guidelines for specific areas such as the hedging of currency risks, interest rate and credit risks, the use of financial instruments as well as the investment and borrowing of funds.

**Currency risk**
The Group operates internationally and is therefore exposed to currency risks based on fluctuations in the exchange rates between various foreign currencies. Currency risks arise from expected future transactions and from assets and liabilities reported in the balance sheet. The risks arise when transactions are denominated in a currency that is not the functional currency of the company. At the level of the Group companies, it is generally the case that forward exchange contracts are concluded with the Group's in-house bank to hedge the calculation basis. Within the framework of the hedging strategy applicable in each case, the Group's in-house bank decides on the use of suitable financial instruments.

In the Group, the hedging relationship between the hedging instrument and the underlying transaction, the objective of the Group's risk management and the strategy underlying the hedging transactions are documented when an effective hedging transaction is concluded. The estimation as to whether the derivatives used in the hedging relationship are highly effective in compensating for the changes in the current value or the underlying is examined in the Group at the start of the hedging relationship and continuously thereafter.

**Cash flow and fair value interest rate risk**
The Group's interest rate risk arises from interest-bearing receivables and liabilities. The variable interest rates expose the Group to a cash flow interest rate risk that influences interest expenses and interest income. The fixed-interest liabilities give rise to a fair value interest rate risk, although this has an impact on the balance sheet only if the financial instruments are reported at current value.

The Group's risk of interest rate changes is always viewed and analyzed in connection with ongoing or planned financing measures. The use of derivative interest rate hedging instruments is only considered for existing or highly probable underlying transactions. In order to reduce the risks arising from derivative financial instruments, risks of interest rate changes are not decoupled from liquidity risks. As a general rule, market-related risks of interest rate changes are preferred to additional liquidity risks posed by asymmetric interest rate hedging transactions.

**Market price risk**
The Salzgitter Group counters the risk of fluctuating market prices, especially in the procurement of raw materials and energy, with price and supply contracts. Hedging is also used to a limited extent, primarily for ore and coking coal. The analysis period for hedging is based on the medium-term three-year plan. Starting from a hedging ratio up to the mid-double-digit range, the aim is to reduce this over the following years. A risk committee manages the risk exposure as a function of the market situation and business position and implements suitable measures.

**Credit risk**
In respect of potential credit risks, the Group has trading rules and regulations and an efficient receivables management system that ensure that products are sold only to customers with an appropriate payment history. Contracts involving derivative financial instruments and financial transactions are restricted to financial institutions with good credit standing. The Group's business policy is to limit the amount of credit exposure in respect of the individual financial institution. As regards the financial institutions, there were no significant risk clusters in the financial year ended.

**Liquidity risk**
The Group's liquidity management includes an adequate reserve of cash and cash equivalents, marketable securities, and the possibility of financing with bilateral credit lines, a medium-term syndicated credit ficility and capital market instruments.

**Capital risk management**
To reduce its capital costs, the Group pursues the objective of maximizing the earnings from its shareholdings by optimizing the relationship between equity and debt. In the process, it is ensured that all of the Group companies can operate under the going concern premise.

In order to maintain or optimize the capital structure, the Group is obliged to adjust the amount of the dividend payments, make repayments of capital to the shareholders, issue new shares or dispose of assets for purposes of debt reduction.

Maintaining the independence of Salzgitter AG is the focus of its corporate policy. One condition is the maintenance of a sound balance sheet and financial structure in order to secure its freedom to act at all times with regard to the operational, financial and strategic growth of the Group. Given that a very adequate equity ratio of 34.1% (previous year 38.1%) has been preserved, we have once again succeeded in meeting this goal. We still regard it as essential to keep liquid assets up to a volume in the mid-triple-digit million euro range at the ready to ensure that we are not compelled to borrow money on the capital market at short notice if the market environment tightens. Our liquidity requirements are guaranteed by existing financial investments, medium-term bilateral credit lines, a € 560 million syndicated credit facility with eight banks renewed in 2017, running until July 2024 as an undrawn backup line, as well as use of the bond markets.

## Notes to the Income Statement

### (1) Sales

| In € m | 2019 | 2018 |
|---|---|---|
| **By product group** | | |
| Strip Steel | 4,139.9 | 4,617.9 |
| Section Steel | 712.1 | 796.1 |
| Pipes | 1,344.5 | 1,357.6 |
| Filling and packaging machinery | 1,372.3 | 1,310.7 |
| Other | 978.6 | 1,195.9 |
| **Total** | **8,547.3** | **9,278.2** |
| **Breakdown by region** | | |
| Domestic | 3,844.7 | 4,450.2 |
| Other EU | 2,258.9 | 2,216.4 |
| Rest of Europe | 276.7 | 261.5 |
| America | 1,060.5 | 1,153.0 |
| Asia | 645.1 | 714.1 |
| Africa | 423.2 | 454.4 |
| Australia / Oceania | 38.3 | 28.6 |
| **Total** | **8,547.3** | **9,278.2** |

The distribution of sales represents a breakdown by product category that does not correspond to segment reporting.

Sales revenues comprise point-in-time-related revenues amounting to € 7,797.3 million (previous year € 7,888.1 million), as well as period-related revenues totaling € 750.0 million (previous year € 720.2 million). Point-in-time-related revenues result from the sale of goods. Period-related sales predominantly comprise work in progress for construction contracts for which a contract asset has been recognized as well as revenues for transport services in connection with point-in-time-related sales. Other services are also classified as period-related.

The amount of sales revenues comprised in the balance of contract liabilities at the beginning of the period stood at € 284.7 million (previous year € 87.8 million). Sales revenues from performance obligations already fulfilled or partially fulfilled in earlier periods account for € 0.1 million (previous year € 34.7 million).

Fixed performance obligations not yet completely fulfilled as of the closing date are likely to lead to the realization of the following sales:

| In € m | 2019 |
|---|---|
| **Up to 6 months** | **153.8** |
| 7 months to 12 months | 158.7 |
| Over 12 months | 75.3 |
| **Total** | **387.7** |

In the previous year, liabilities with a term of more than one year amounted to € 253.2 million. As a general rule, the transaction prices of the remaining performance obligations are determined at the level of the volumes and services contractually agreed with customers as of the closing date for which the customer has an obligation to buy and the Group an obligation to deliver. Unfulfilled (or partly unfulfilled) performance obligations as of the end of the financial year with an original term of no more than one year are not disclosed, as is permitted under IFRS 15.121.

### (2) Other operating income

Other operating income includes income from the reversal of provisions amounting to € 124.4 million (previous year € 55.6 million) as well as from the measurement of financial derivatives and foreign exchange positions of € 34.2 million (previous year € 60.5 million). Furthermore, this item also comprises lease income amounting to € 5.4 million € (previous year € 5.3 million) as well as subsidies amounting to € 6.9 million (previous year € 5.3 million).

### (3) Cost of materials

| **In € m** | **2019** | **2018** |
|---|---|---|
| Cost of raw materials, consumables, supplies and goods purchased | 5,152.7 | 5,694.8 |
| Cost of services purchased | 449.9 | 436.6 |
| **Cost of materials** | **5,602.6** | **6,131.4** |

### (4) Personnel expenses

| **In € m** | **2019** | **2018** |
|---|---|---|
| Wages and salaries | 1,501.0 | 1,442.5 |
| Social security, pensions and other benefits | 314.7 | 297.0 |
| of which pension plans and retirement benefits | [140.2] | [139.4] |
| **Personnel expenses** | **1,815.7** | **1,739.5** |

In the financial year, the sum total of all defined-contribution pension expenses in the Salzgitter Group stood at € 110.3 million (previous year € 105.2 million). The service cost for defined benefit obligations in the financial year amounted to € 29.9 million (previous year € 34.2 million).

| **Average number of employees (excl. employees in passive partial retirement)** | **2019** | **2018** |
|---|---|---|
| Wage labor | 13,331 | 13,408 |
| Salaried employees | 10,242 | 10,126 |
| **Group core workforce** | **23,573** | **23,534** |

Of the Group employees, 890 (previous year 889) are involved in our part of the joint activities.

### (5) Depreciation and amortization of intangible assets and property, plant and equipment

Scheduled depreciation and amortization comprise the amortization of intangible assets and depreciation of property, plant and equipment are shown in the schedule of fixed assets. The following impairment losses were also taken into account:

| In € m | 2019 | 2018 |
|---|---|---|
| **Intangible assets** | | |
| Concessions, brand names, industrial property rights plus licenses and emission rights | 2.7 | 0.5 |
| Payments on account | 2.8 | – |
| | | |
| **Property, plant and equipment** | | |
| Land, similar rights and buildings, including buildings on land owned by others | 40.2 | 2.2 |
| Plant equipment and machinery | 130.1 | 40.1 |
| Other equipment, plant and office equipment | 8.0 | 1.5 |
| Payments made on account and equipment under construction | 12.7 | – |
| | | |
| **Impairment losses** | **196.6** | **44.3** |

The fair value less selling costs was calculated using the discounted cash flow method based on an interest after taxes rate of 7.97 % (previous year 8.02 %) for the Technology Business Unit and 6.22 % p.a. (previous year 6.28 % p.a.) for the other business units. The calculation is based on the current plans prepared by the management for the three following years (Level 3 of the valuation hierarchy). The premises of the plans are adjusted to reflect the current status of knowledge which is based on general business and economic data supplemented by the company's own estimates. In the process, basic assumptions are made especially in the areas of sale and procurement prices as well as sales volumes. The recoverable amount in each case equates to the fair value less selling costs.

Impairment losses totaling € 196.6 million have been recognized in the Salzgitter Group, due to the difficult economic environment and the drop in sales resulting from it.

Salzgitter Flachstahl GmbH accounts for € 100.0 million of these impairment losses with the recoverable amount determined at € 1,672.9 million. Furthermore, Ilsenburger Grobblech GmbH recognized impairment losses in an amount of € 30.0 million and Salzgitter Mannesmann Grobblech GmbH of € 17.8 million, with recoverable amounts of € 197.5 million and € –34.3 million respectively. The Mannesmann Business Unit considered impairment losses of € 40.0 million, attributable to the cash-generating unit of the Mannesmann Precision Tubes Group. The underlying recoverable amount in this case is € 201.3 million. At the Salzgitter Automotive Engineering Group, assets were impaired by € 5.0 million and the recoverable amount calculated came in at € 14.0 million.

Impairment losses were also applied to the residual carrying amount of a capitalized development project at a service company as it is not expected to be commercially viable. Expenditure on this project stands at € 3.6 million. Furthermore, impairment losses of € 0.1 million were recognized at Salzgitter Hydroforming Verwaltungs GmbH.

The following depreciation of usage rights is also included:

| In € m | 2019 |
|---|---|
| Real estate, land rights and buildings, including buildings on land owned by others | 10.4 |
| Technical equipment and machinery | 7.2 |
| Other equipment, plant and office equipment | 7.9 |
| **Depreciation of usage rights** | **25.5** |

In the previous year, depreciation amounting to € 4.9 million was applied under Technical equipment and machinery as part of the finance leases. The depreciation of rights of use also includes unscheduled impairment losses of € 0.8 million on Technical equipment and machinery and € 0.1 million on Other equipment, plant and office equipment.

### (6) Other operating expenses

This item essentially includes expenditure for external services and the appropriation to provisions (€ 335.1 million; previous year € 318.3 million) as well as for distribution expenses (€ 296.1 million; previous year € 310.1 million). Other operating expenses also contain € 140.8 million resulting from the mutually agreed closure of the anti-trust proceedings (previous year € 70.0 million).

### (7) Income tax

| In € m | 2019 | 2018 |
|---|---|---|
| **Income tax** | | |
| current tax expenses / tax income (+/–) | 29.6 | 66.1 |
| deferred tax expenses / tax income (+/–) | –45.6 | 3.5 |
| | **– 16.0** | **69.5** |
| of which unrelated to the reporting period | [–16.6] | [–0.0] |

The income taxes amounting to € –16.0 million concern the net operating income (EBT). The income taxes from former reporting periods comprise deferred and actual taxes for previous years.

The reduction in actual income taxes to € 29.6 million can essentially be attributed to the decrease in the consolidated result. All in all, the actual income taxes applicable to foreign companies amount to € 23.4 million (previous year € 18.1 million). Deferred tax income of € 45.6 million is essentially due to the capitalization of deferred tax assets on temporary differences, due among other things to impairment losses at domestic Group companies.

By using tax loss carryforwards that had not previously been considered, the actual tax expenses were reduced by € 0.9 million (previous year € 1.4 million).

The following deferred tax assets/liabilities reported in the balance sheet are recognized in respect of the differences between reported book values and attributed tax valuations:

| In € m | 2019/12/31 | | 2018/12/31 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Intangible assets | 3.8 | 11.5 | 4.0 | 11.3 |
| Property, plant and equipment | 70.8 | 52.0 | 49.0 | 98.1 |
| Financial assets | 0.4 | 2.0 | 1.4 | 2.7 |
| Current assets | 43.3 | 105.6 | 43.8 | 105.2 |
| Pension provisions | 309.0 | 0.1 | 272.4 | 0.1 |
| Other provisions | 91.4 | 4.6 | 77.8 | 3.3 |
| Special accounts with reserve character | – | 2.3 | – | 2.4 |
| Liabilities | 20.4 | 6.1 | 19.0 | 11.8 |
| Other items | 0.0 | 0.0 | 1.3 | 0.0 |
| **Total** | **539.3** | **184.0** | **468.6** | **234.9** |

Composition of the capitalized tax savings from loss carryforwards that may be realized in the future (domestically and abroad):

| In € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| Corporate income tax | 33.4 | 50.3 |
| Trade tax | 31.6 | 47.4 |
| **Capitalized tax savings** | **65.0** | **97.7** |

Development of the capitalized tax savings from loss carryforwards that may be realized in the future:

| In € m | 2019 | 2018 |
|---|---|---|
| Capitalized tax savings, 01/01 | 97.7 | 99.5 |
| Changes in the consolidated group | – | 0.4 |
| Capitalization of tax savings from loss carryforwards | 2.2 | 59.4 |
| Valuation allowances from loss carryforwards | −34.7 | −0.2 |
| Use of losses carried forward | −0.3 | −61.3 |
| **Capitalized tax savings, 12/31** | **65.0** | **97.7** |

As a result of the “minimum taxation” that was introduced in Germany in 2004, the tax loss carryforwards are offset against the operating tax result in full up to an amount of € 1 million but only up to 60 % thereafter.

For some domestic companies, no deferred taxes were activated for trade tax loss carryforwards in an amount of € 1,452.5 million (previous year € 1,279.6 million) and corporation tax loss carryforwards in an amount of € 1,825.3 million (previous year € 1,642.4 million) because, from a current perspective, the possibility is considered unlikely that they can be used. The tax loss carryforwards can be utilized without time restrictions.

For foreign loss carryforwards without intrinsic value in an amount of € 145.0 million (previous year € 106.3 million) deferred tax assets were likewise not capitalized. Of this amount, € 110.4 million (previous year € 87.8 million) can be utilized for an unlimited period of time, € 23.3 million (previous year € 15.5 million) limited to the next five years, and € 11.3 million (previous year € 3.0 million) limited to the next 20 years. For domestic and foreign companies, moreover, no deferred tax assets for deductible temporary differences in an amount of € 99.2 million (previous year € 82.4 million) were formed.

In the case of Group companies that have generated tax losses in the current or previous financial year, deferred tax assets of € 418.3 million (previous year € 5.0 million) are reported as of December 31, 2019 because of anticipated future taxable income. Of this figure, € 411.6 million is accounted for by domestic Group companies. It is assumed that the deferred tax assets are recoverable as the earnings forecast for the coming years is expected to remain positive after the current cyclical decline of the business. The positive prospects for earnings as part of the economic cycle are supported by the restructuring measures already introduced in the reporting year. No deferred tax liabilities were formed for temporary differences between net assets and the tax base of Group companies of SZAG amounting to € 20.4 million (previous year € 19.9 million) as it is not expected that the temporary differences will reverse in the near future.

Reconciliation of the anticipated and income tax expenses shown (+) and/or income (–):

| In € m | 2019 | 2018 |
|---|---|---|
| **Earnings before taxes (EBT)** | **– 253.3** | **347.3** |
| Expected income tax expenses (+) / income (–) (31.4 % / 31.0 %) | – 79.5 | 107.7 |
| Tax share for: | | |
| differences between tax rates | 0.5 | – 1.5 |
| effects of changes in statutory tax rates | – 0.5 | – 1.1 |
| tax credits | -1.3 | – 1.7 |
| tax-free income | – 39.9 | – 23.1 |
| non-deductible tax expenses and other additions | 75.9 | 15.9 |
| Effects of differences and losses | | |
| without capitalization of deferred tax | 18.9 | 26.8 |
| adjustments in the value of capitalization benefits | 26.5 | – 52.6 |
| utilization of benefits not previously capitalized | – 0.9 | – 1.4 |
| tax expenses and income unrelated to the reporting period | – 16.6 | 0.0 |
| other deviations | 0.7 | 0.6 |
| **Disclosed income tax expenses (+) / income (–)** | **– 16.0** | **69.5** |

The income tax income reported of € 16.0 million differs from the expected income tax income of € 79.5 million by a total of € 63.5 million. This results essentially from the non-deductibility for tax purposes of expenses in connection with the anti-trust proceedings and the re-estimation of capitalized benefits and non-capitalization of deferred taxes. This is offset, in particular, by tax-free income.

### (8) Earnings per share

The basic earnings per share are determined in accordance with IAS 33 as the ratio of consolidated net income or loss for the financial year to which the shareholders of SZAG are entitled to the weighted average number of no-par bearer shares in circulation during the financial year. A dilution would occur if the earnings per share were reduced by issuing potential shares from options and conversion rights. As of the balance sheet date, such rights existed in one convertible bond. However, taking these into account this does not result in any reduction in the earnings per share for the period, and these conversion rights consequently do not lead to any dilution.

| | Shares issued | Treasury shares | Shares in circulation | Potential diluting shares |
|---|---|---|---|---|
| Beginning of financial year | 60,097,000 | 6,009,700 | 54,087,300 | 3,568,665 |
| Change | – | – | – | –323,944 |
| End of financial year | 60,097,000 | 6,009,700 | 54,087,300 | 3,244,721 |
| **Weighted number of shares** | **60,097,000** | **6,009,700** | **54,087,300** | **3,244,721** |

| **Earnings per share** | | **2019** | **2018** |
|---|---|---|---|
| Consolidated result | In € m | –237.3 | 277.7 |
| Minority interest | In € m | 3.8 | 4.0 |
| Amount due to Salzgitter AG shareholders | In € m | –241.1 | 273.7 |
| **Earnings per share – basic** | **(in €)** | **–4.46** | **5.06** |
| Diluted result | In € m | –238.5 | 276.5 |
| **Earnings per share – diluted** | **(in €)** | **–4.46** | **4.80** |

# Notes to the Consolidated Balance Sheet

## Non-current assets

### (9) Intangible assets

Total research and development costs in the reporting year amounted to € 97.9 million (previous year € 100.3 million) including € 10.4 million (previous year € 10.8 million) for external services. Expenditure on research and development does not comprise any expenditure by equity-accounted companies.

There are no restraints on the right of ownership or disposal.

### (10) Property, plant and equipment

The following table shows the separately displayed rights of use in assets accounted for in fixed assets as part of a lease agreement:

| In € m | 2019/12/31 |
| --- | --- |
| Land, similar rights and buildings, including buildings on land owned by others | 84.5 |
| Plant equipment and machinery | 26.7 |
| Other equipment, plant and office equipment | 13.5 |
| **Rights of use** | **124.7** |

In the previous year, assets amounting to € 25.4 million were reported under “Technical equipment and machinery” as part of finance leases.

Additions from recognized rights of use are divided between the following asset classes:

| In € m | 2019/12/31 |
| --- | --- |
| Land, similar rights and buildings, including buildings on land owned by others | 94.8 |
| Plant equipment and machinery | 31.8 |
| Other equipment, plant and office equipment | 21.5 |
| **Additions of right-of-use assets** | **148.1** |

The Salzgitter Group rents assets, in particular, in the form of factories and production space as well as office space which are recognized in the asset class “Land, similar rights and buildings, including buildings on land owned by others”. This item is dominated in particular by a long-term lease agreement with a term of over 15 years. The agreement does not carry an option to extend. “Technical machinery and equipment” essentially pertains to rented locomotives and goods wagons while “Other equipment, plant and office equipment” is made up mainly of the vehicle fleet. The vehicle fleet contains predominantly fork-lift trucks and vehicles.

The restrictions on ownership and disposal have declined to € 1.2 million (previous year € 4.0 million) due to the conditions of external financing abroad.

Government grants of € 1.2 million (previous year € 0.9 million) were deducted from the acquisition costs of property, plant and equipment. The conditions to which the public financial assistance was attached were fulfilled as of the balance sheet date.

“Advance payments and assets under construction” include prepayments amounting to € 8.5 million (previous year € 8.0 million).

For one operating lease in the Salzgitter Group, the leased object is shown as an asset at amortized cost in Property, plant and equipment. The historical costs of acquisition and production, as well as the cumulative depreciation can be taken from the following overviews:

| In € m | 2019/12/31 |
|---|---|
| Land, similar rights and buildings, including buildings on land owned by others | 8.3 |
| Plant equipment and machinery | 1.8 |
| Other equipment, plant and office equipment | 0.3 |
| **Acquisition and production costs** | **10.4** |

| In € m | 2019/12/31 |
|---|---|
| Land, similar rights and buildings, including buildings on land owned by others | 2.2 |
| Plant equipment and machinery | 1.1 |
| Other equipment, plant and office equipment | 0.3 |
| **Depreciation and amortization** | **3.7** |

For a more detailed explanation of lease income, we refer to Note (18) ↗ „Other receivables and other assets”.

**(11) Investment property**

Investment property comprises undeveloped and developed land that is held to generate rental income or for the purpose of long-term value appreciation and not for production or administration purposes.

Rental income amounted to € 8.4 million (previous year € 5.0 million) in the reporting period. The direct operating expenses totaled € 6.3 million (previous year € 5.4 million) and were basically incurred for properties that generated rental earnings in the reporting year.

As of December 31, 2019, the fair value of the investment properties stood at € 91.3 million (previous year € 90.1 million); there is no knowledge of any significant impairing factors. This fair value is calculated using the discounted cash flow method and comparisons with current market values of comparable properties. Input factors used to measure the fair values include anticipated rental income, possible vacancy costs and maintenance costs. The fair values of the investment properties are assessed at regular intervals by independent experts. The valuation is based on an alternative utilization of potential, the “highest and best use method“, in accordance with IFRS 13, and must be classified in Level 3 of the fair value hierarchy.

### (12) Financial assets

| In € m | 2019/12/31 | 2018/12/31 |
| --- | --- | --- |
| Financial Investments | 22.1 | 25.3 |
| Other loans | 41.1 | 50.2 |
| Other financial assets | 1.4 | 0.1 |
| **Financial assets** | **64.7** | **75.6** |

Other loans relate largely to a company that has been consolidated proportionally.

### (13) Investments in companies accounted for using the equity method

| | Aurubis AG, Hamburg | | EUROPIPE Group | | Other | | Total | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **In € m** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Opening balance, 01/01 | 729.5 | 459.0 | 135.4 | 118.5 | 23.4 | – | 888.3 | 577.5 |
| Result of current financial year | 99.5 | 44.0 | –5.2 | 12.1 | 30.9 | 18.6 | 125.2 | 74.7 |
| Propotionate gain/loss | 76.5 | 33.5 | –4.8 | 11.7 | –0.5 | 18.6 | | |
| Adjustments with effect on the income under the “at-equity method” | 23.0 | 10.5 | –0.4 | 0.5 | 31.4 | – | | |
| Dividends | –19.4 | –11.3 | – | – | –2.9 | –2.8 | –22.2 | –14.1 |
| Changes in shares | 95.4 | 240.9 | – | – | – | – | 95.4 | 240.9 |
| Changes in the consolidated group | | | | | – | 7.6 | – | 7.6 |
| Other changes in equity | –16.3 | –3.2 | 1.9 | 4.8 | 0.7 | – | –13.7 | 1.6 |
| Proportional other income | –16.3 | –3.2 | 1.9 | 4.8 | 0.7 | – | | |
| **Book value, 12/31** | **888.8** | **729.5** | **132.1** | **135.4** | **52.1** | **23.4** | **1,072.9** | **888.3** |

The changes in shareholdings contain additions from the acquisition of shares in companies that are accounted for using the equity method.

The adjustments recognized in income as part of the equity method comprise an adjustment effect totaling € 31.4 million resulting from the first-time inclusion of the consolidated financial statements of Borusan Mannesmann Boru Yatirim Holding A.S. instead of the single entity statements of this associated company.

Changes to the group of fully consolidated entities include the effects of the first-time consolidation of two companies hitherto not consolidated for reasons of materiality.

The fair value of the holding in Aurubis AG amounts to € 738.0 million (previous year € 495.5 million). A review of the substantive value of the carrying amount (value in use model) did not reveal any need a writedown.

The investments in companies accounted for using the equity method are as follows (100 % figures):

| | Aurubis AG, Hamburg | | EUROPIPE Group | |
|---|---|---|---|---|
| In € m | 2019 | 2018 | 2019 | 2018 |
| Non-current assets | 1,470.8 | 1,376.0 | 177.8 | 154.4 |
| Current assets | 3,333.5 | 3,040.1 | 398.0 | 353.0 |
| Non-current liabilities | 709.7 | 712.4 | 131.4 | 100.5 |
| Current liabilities | 1,401.8 | 1,148.6 | 179.5 | 136.1 |
| Sales | 10,901.7 | 9,892.1 | 776.6 | 953.4 |
| Gain (–) / loss (+) | 262.9 | 164.9 | –9.5 | 23.3 |
| Other comprehensive income | –55.6 | –14.0 | 3.7 | 9.7 |
| Total comprehensive income | 207.2 | 150.9 | –5.8 | 33.0 |
| Dividends received | 19.4 | 11.3 | – | – |
| Share (%) | 29.9 | 25.5 | 50.0 | 50.0 |

| | Wohnbaugesellschaft mbH | | Borusan Mannesmann Boru Yatirim Holding A.S. | |
|---|---|---|---|---|
| In € m | 2019 | 2018 | 2019 | 2018 |
| Non-current assets | 118.3 | 113.8 | 432.6 | 14.8 |
| Current assets | 17.3 | 17.5 | 448.9 | 13.4 |
| Non-current liabilities | 58.1 | 58.0 | 183.7 | 0.0 |
| Current liabilities | 10.7 | 9.6 | 451.7 | 0.0 |
| Sales | 26.8 | 26.9 | 720.5 | 14.9 |
| Gain (–) / loss (+) | 2.5 | 2.9 | –7.6 | 14.8 |
| Dividends received | – | – | 2.9 | 2.8 |
| Share (%) | 25.1 | 25.1 | 23.0 | 23.0 |

Further summarizing financial information for joint ventures:

| | EUROPIPE Group | |
|---|---|---|
| In € m | 2019 | 2018 |
| Cash and cash equivalents | 170.0 | 55.7 |
| Current financial liabilities | 2.8 | 51.9 |
| Non-current financial liabilities | 15.7 | – |
| Depreciation and amortisation | 18.9 | 17.2 |
| interest income | 1.9 | 1.2 |
| Interest expenses | 3.1 | 2.4 |
| Income tax expense (–) / income (+) | –10.3 | –5.4 |

### (14) Deferred income tax assets and deferred income tax liabilities

If it is likely that tax benefits will be realized, they must be capitalized. Netting is possible only if the deferred tax assets and liabilities have matching maturities and relate to the same tax authority. After offsetting, the deferred tax assets and liabilities for the financial year 2019 are as follows:

| In € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| **Deferred income tax assets** | **492.3** | **399.1** |
| Realization within 12 months | 9.2 | 5.8 |
| Realization after more than 12 months | 483.1 | 393.2 |
| **Deferred income tax liabilities** | **72.0** | **67.6** |
| Realization within 12 months | 68.7 | 62.3 |
| Realization after more than 12 months | 3.3 | 5.3 |
| **Balance of deferred tax assets and deferred tax liabilities** | **420.3** | **331.5** |

## Current assets

### (15) Inventories

| In € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| Raw materials, consumables and supplies | 762.2 | 748.6 |
| Unfinished products | 616.8 | 645.0 |
| Unfinished goods or services | 14.5 | 13.0 |
| Finished goods | 438.4 | 436.4 |
| Goods | 401.7 | 467.0 |
| Payments on account | 14.5 | 17.6 |
| **Inventories** | **2,248.1** | **2,327.5** |

In the reporting period there were write-ups amounting to € 2.0 million (previous year € 1.5 million). Inventory impairments of € 67.6 million (previous year € 46.4 million) were posted to expenses. The book value of the inventories reported at fair value less selling costs amounted to € 686.0 million (previous year € 454.3 million).

### (16) Trade receivables

Trade receivables subject to restrictions on ownership or disposal amount to € 125.3 million (previous year € 142.7 million). These are accounted for by the forfaiting and factoring of receivables. For further details, we refer to Note (29) ↗ "Current financial liabilities".

### (17) Contract assets

Net contract assets increased in the reporting period from € 175.2 million to € 186.3 million. The rise relates almost exclusively to technical machinery and equipment in the Technology Business Unit.

### (18) Other receivables and other assets

The item "Other receivable and other assets" contains numerous minor transactions on the part of the consolidated companies. In the previous year, this item also contained allowances for short-term financial investments.

Other receivables are subject to restrictions on ownership or disposal amounting to € 2.6 million (previous year € 2.6 million).

Under operating leases, the Group essentially leases out real estate that is used commercially. The future minimum rental earnings from these contracts are:

| Future lease income in € m | 2019/12/31 | 2018/12/31 |
|---|---:|---:|
| up to 1 year | 3.5 | 3.0 |
| 1 to 5 years | 5.5 | 4.1 |
| over 5 years | 10.5 | 3.0 |
| **Total** | **19.5** | **10.1** |

The income statement contains lease income from the current year amounting to € 2.3 million (previous year € 1.6 million).

### (19) Income tax assets and income tax liabilities

The existing income tax assets as of December 31, 2019 amounting to € 22.6 million (previous year € 24.6 million) largely concern capital gains tax demands from domestic Group companies. These are offset by long-term income tax liabilities of € 36.6 million (previous year € 36.9 million) and short-term income tax liabilities of € 8.6 million (previous year € 37.0 million).

Refund claims are set off against tax liabilities if there is an enforceable right to set off the reported amounts against each other and the intention is to settle on a net basis. The prerequisite for this is that the tax refund claim and the tax liability both relate to the same tax authority and that the tax authority allows their offsetting.

### (20) Securities

Funds for current financial investments are disclosed in a total amount for securities of € 50.9 million (previous year € 67.4 million). The invested funds reported here have a term of less than twelve months.

### (21) Cash and cash equivalents

| In € m | 2019/12/31 | 2018/12/31 |
|---|---:|---:|
| Cash at banks | 436.7 | 351.9 |
| Term deposits | 260.0 | 200.0 |
| Checks, cash in hand | 3.8 | 3.6 |
| **Cash and cash equivalents** | **700.5** | **555.6** |

## Equity

### (22) Subscribed capital

The subscribed capital (share capital) remains unchanged at € 145,453,745.98 after offsetting against the notional value of treasury shares, corresponding to a total of 54,087,300 no-par value shares. The pro-rata amount of share capital accounted for by each individual bearer share is € 2.69 per share. The shares issued are fully paid in.

As of the reporting date, Salzgitter AG continued to hold 6,009,700 treasury shares. As before, they account for € 16,161,527.33 (=10.1 %) of the share capital.

All of these shares were acquired on the basis of Section 71 (1) item 8, German Stock Corporation Act, based on authorization given by the Annual General Meeting of Shareholders (2,487,355 shares from May 26, 2004, 462,970 shares from June 8, 2006, 2,809,312 shares from May 21, 2008, 35,600 shares from 27 May, 2009, and 214,463 shares from June 8, 2010) to be able to use them in particular for future acquisitions, to fulfill option or convertible rights from options or convertible bonds or to issue them to employees of the company or an affiliate of the company.

The Executive Board is authorized to increase the share capital with the approval of the Supervisory Board by up to a nominal amount of € 80,807,636.65 in the period up to May 31, 2022, by issuing up to 30,048,500 new no par value bearer shares against payment in cash or kind (Authorized Capital 2017). This capital, combined and to the exclusion of the shareholders' subscription rights, may be increased only by up to € 32,323,054.66, (20 % of the share capital) through the issuance of up to 12,019,400 new no par value bearer shares. The 20 % ceiling is reduced by the pro-rata amount of the share capital to which option or conversion rights, or option or conversion obligations from warrant-linked bonds, convertible bonds, profit-sharing rights and/or participating bonds and/or combinations of these instruments that were issued since June 1, 2017, to the exclusion of subscription rights, relate.

Moreover, upon approval by the Supervisory Board, the Executive Board may issue bonds in a total nominal amount of up to € 1 billion on or before May 31, 2022, and grant the holders of the respective bonds conversion rights to shares of the company in a total amount of up to 26,000,093 units (Contingent Capital 2017). These shareholders' subscription rights can be precluded up to a total nominal amount of bonds with which conversion rights to shares are combined, of which the pro rata amount in the capital stock may not exceed 10 % of the capital stock. Bonds with conversion rights excluding shareholder subscription rights may only be issued if shares making up a proportion of 20 % of the capital stock, excluding subscription rights, from the Authorized Capital have not been issued since June 1, 2017. By the reporting date no shares had been issued from the Authorized Capital since June 1, 2017.

On June 5, 2015, a convertible bond was issued in an overall amount of € 167,900,000 to the exclusion of shareholders' subscription rights with conversion rights to up to 3,610,263 no par value bearer shares. The total nominal value of the bonds issued by the company from this convertible bond was unchanged as of the balance sheet date. They certify an interest entitlement and a right of conversion into shares in the company at a conversion price of € 46.5063 per share that can be exercised up until May 26, 2022. The secure, irrevocable benefit of € 536,757.63 arising by the earliest possible time of conversion (July 25, 2015) due to the fact that the convertible bond issued in the 2015 financial year is non-interest-bearing was paid into capital reserve in accordance with Section 272 (2) item 2 of the German Commercial Code (HGB).

The Executive Board is authorized to purchase the company's own shares equivalent to a proportion of the capital stock of up to 10 % in the period on or before May 27, 2020, and to use these shares for all purposes permitted under the law.

**(23) Capital reserve**

Of the capital reserve of € 257.0 million (previous year € 257.0 million), a sum of € 115.2 million is accounted for by a premium lodged at the time of the capital increase on October 1, 1970 and a further € 7.9 million by two premiums contributed from the exercise of bonds with warrants from 2004 and 2005.

As part of the divestiture agreement, certain assets were sold to Salzgitter AG by Preussag AG for € 0.51 each. These assets were reported at the time of acquisition at their fair values (€ 49.2 million) and the differences posted to the capital reserve.

The value of the equity component of the convertible bond issued on October 6, 2009 and in the meantime replaced in a total nominal amount of € 296,450,000 stands at € 54.4 million.

The value of the equity component of the convertible bond issued on June 5, 2015 in a total nominal amount of € 167,900,000 stands at € 18.3 million. The transaction costs reported as a deduction from equity amount to € 0.2 million.

Other contributions paid by shareholders from 1995 amount to € 12.0 million.

**(24) Unappropriated retained earnings**

Under the German Commercial Code (HGB), dividend payments to shareholders in Salzgitter AG depend on the year-end result reported by Salzgitter AG. The unappropriated retained earnings are shown at the same level in both the consolidated financial statements of the Salzgitter Group and in the financial statements of Salzgitter AG. The transition of Salzgitter AG’s unappropriated retained earnings from the consolidated net result for the year is shown in the income statement.

The proposal will be made to Salzgitter AG’s Annual General Meeting of Shareholders that a dividend for the financial year 2019 of € 0.20 per share be paid from Salzgitter AG’s unappropriated retained earnings and that the remaining amount be brought forward to new account. The dividend for the previous year was € 0.55 per share.

Based on the Salzgitter share’s closing XETRA price of € 19.76 on December 31, 2019, the dividend yield amounts to 1.0 % (previous year 2.2 %).

If the company holds treasury shares on the day of the Annual General Meeting of Shareholders, the proposed appropriation of profit will be adjusted accordingly since treasury shares are not eligible for dividend.

**(25) Further details of shareholders’ equity**

Details of the existence of a participating interest / voting rights disclosures in accordance with Section 160 (1) item 8 of the German Stock Corporation Act (AktG):

As of the 2019 reporting date, there are participating interests in Salzgitter AG that have been reported in accordance with Section 33 (1) of the German Securities Trading Act (WpHG) (Section 21 (1) of the old version) and published in accordance with Section 40 (1) of the German Securities Trading Act (WpHG) (Section 26 (1) of the old version):

Hannoversche Beteiligungsgesellschaft mbH, Hanover, Germany, informed us on April 2, 2002 that on April 1, 2002 it held 25.5 % of the voting rights in Salzgitter AG.

In addition, the State of Lower Saxony, represented by the Ministry of Finance for Lower Saxony, Hanover, has informed us that it is entitled to this 25.5 % of the voting rights in Salzgitter AG. According to the Ministry, these entire voting rights are to be attributed to the State of Lower Saxony in accordance with Section 22 (1) sentence 1 item 1 of the old version of the German Securities Trading Act.

It is noted here that due to the changes in the total number of shares of Salzgitter AG's that have now been completed the aforementioned number of voting rights currently corresponds to a voting share of 26.48%.

Salzgitter AG, Salzgitter, Germany announced on July 8, 2010, with respect to its treasury shares in accordance with Section 26 (1) sentence 2 of the old version of the Germany Securities Trading Act (WpHG) in conjunction with Section 21 (1) sentence 1 of the old version of the German Securities Trading Act (WpHG), that its holding of treasury shares had reached the 10% threshold on July 6, 2010. Its share of voting rights with respect to treasury shares is 10.000%. Salzgitter AG currently holds 6,009,700 treasury shares. This equates to a share of voting rights of 10.000%.

BlackRock, Inc., Wilmington, Delaware, USA informed us on May 31, 2019 in accordance with Section 33 (1) of the German Securities Trading Act that its share of the voting rights in Salzgitter AG, Salzgitter, Germany, fell below the threshold of 3% of the voting rights on May 24, 2019, amounting on this day to 2.85% (this corresponds to 1,710,694 voting rights). Of these, 2.85% of voting rights (equating to 1,710,694 voting rights) are attributable to BlackRock, Inc. in accordance with Section 34 of the German Securities Trading Act. BlackRock, Inc. has disclosed that with regard to a further 0.74% it is the owner of instruments in accordance with Section 38 of the German Securities Trading Act of which 0.13% (equating to 76,541 voting rights) are to be classified as instruments under Section 38 (1) of the German Securities Trading Act and 0.61% (equating to 369,233 voting rights) as instruments under Section 38 (2) of the German Securities Trading Act.

Dimensional Holdings Inc., Austin, Texas, USA, informed us on September 21, 2019 in accordance with Section 33 (1) of the German Securities Trading Act that its share of the voting rights in Salzgitter AG, Salzgitter, Germany exceeded the threshold of 3% of the voting rights on August 27, 2019, amounting on this day to 3.40% (this corresponds to 2,045,932 voting rights). Of these, 3.40% of voting rights (equating to 2,045,932 voting rights) are attributable to Dimensional Holdings, Inc. in accordance with Section 34 of the German Securities Trading Act.

After the closing date, Dimensional Holdings Inc., Austin, Texas, USA informed us on January 10, 2020 in accordance with Section 33 (1) of the German Securities Trading Act that its share of the voting rights in Salzgitter AG, Salzgitter, Germany, fell below the threshold of 3% of the voting rights on January 6, 2020, amounting on this day to 2.96% (this corresponds to 1,781,642 voting rights). Of these, 2.96% of voting rights (equating to 1,781,642 voting rights) are attributable to Dimensional Holdings Inc. in accordance with Section 34 of the German Securities Trading Act.

After the closing date, Mr. Richard Penza also informed us on February 10, 2020 in accordance with Section 33 (1) of the German Securities Trading Act that his share of the voting rights in Salzgitter AG, Salzgitter, Germany, exceeded the threshold of 3% of the voting rights on February 22, 2019, amounting on this day to 3.01% (this corresponds to 1,810,376 voting rights). Of these, 3.01% of voting rights (equating to 1,810,376 voting rights) are attributable to Penza Investment Management, LCC in accordance with Section 34 of the German Securities Trading Act. Furthermore, Mr. Richard Penza informed us after the closing date on February 10, 2020 in accordance with Section 33 (1) of the German Securities Trading Act that his share of the voting rights in Salzgitter AG, Salzgitter, Germany, exceeded the threshold of 5% of the voting rights on February 4, 2020, amounting on this day to 5.07% (this corresponds to 3,046,579 voting rights). Of these, 5.07% of voting rights (equating to 3,046,579 voting rights) are attributable to Penza Investment Management, LCC in accordance with Section 34 of the German Securities Trading Act.

## Non-current liabilities

**(26) Provision for pensions and similar obligations**

In Germany there are collective and individual commitments in the form of direct commitments made by the employer. The great majority of the employees in the Salzgitter Group's German-based companies receive retirement pensions that are essentially based on a collective Group agreement concluded in December 2006 ("Salzgitter pension"). Within the scope of the pension commitment guaranteed in this agreement, the employer pays an annual fixed percentage contribution into the employee's individual pension account. The amount of the resultant pension component depends on the age of the employee entitled to pension payments in the respective contribution year. When payment becomes due, the employee or his/her surviving dependents is/are entitled to a monthly pension – with no lump-sum option. The pension commitments granted before the collective Group agreement came into effect generally provided for pension payments dependent on the income situation upon the employee's departure from the company and/or initial receipt of pension payments (final-salary pension commitments). These entitlements were replaced within the scope of the collective Group agreement and transferred to the Salzgitter pension by means of transition arrangements. Furthermore, employees can convert part of their gross salary into pension benefits in the form of a one-time amount (deferred compensation). The amounts accumulated as part of the deferred compensation commitment will be invested in fund shares. When payment becomes due, the employee will receive the income generated by the fund shares, but no less than his/her deferred contributions plus guaranteed minimum interest (so-called securities-based commitment).

For executives of the Salzgitter Group companies there are individual pension commitments based essentially on the pension tables drawn up by the Essener Verband. In accordance with these pension arrangements, employees with expectant rights are allocated to a particular benefits category in line with their position in the company. The respective benefits category's maximum entitlement has generally been reached after 25 years and is earned in stages. When payment becomes due, the employee or his/her surviving dependents is/are entitled to a monthly pension with no lump-sum option.

As part of the process of concluding new contracts for members of the Executive Board, the previous performance-related commitments made to Board members Becker and Kieckbusch with effect from December 31, 2018 were frozen and replaced by "defined contribution" commitments with effect from January 1, 2019. These provide for fixed annual pension contributions. The amounts accumulated as part of the commitment will be invested in fund shares. When payment becomes due, the Board member will receive the fund income but not less than the contributions plus guaranteed minimum interest (so-called securities-based commitment). Payment will be made as a one-off capital payment or, if applicable, in 10-year installments.

The pension payments made to the recipients on the basis of the collective agreements are revised every three years in accordance with Section 16, German Occupational Pensions Act (BetrAVG) and, in the event of an adjustment being necessary, adjusted to the trend in consumer prices. In the individual commitments area, the pension commitment is determined annually by the Essener Verband and accepted by the company in, unchanged form. An asset-liability matching procedure has been waived due to the insignificance of the plan assets. The likely cash outflows are measured within the scope of the rolling corporate plans and included in the Group's cash flow planning.

Pension commitments exist only to an immaterial extent in the Salzgitter Group's foreign companies, and where they do exist, they are covered to a minor extent by plan assets (mainly insurance policies).

In addition, one company in the Salzgitter Group has a reimbursement claim against the public authorities in connection with its pension obligations. The present value of this claim is recognized under "Other receivables and other assets".

Overview of the treatment of pensions and similar obligations in the consolidated financial statements:

**Balance sheet**

| In € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| **Provisions for pensions and similar obligations** | | |
| Net pension provision | 2,356.1 | 2,275.5 |
| **Other receivables and other assets** | | |
| Reimbursement right | 2.6 | 3.3 |

**Income statement**

| In € m | 2019 | 2018 |
|---|---|---|
| **Personnel expenses** | | |
| Service cost | 29.9 | 34.2 |
| **Finance expenses** | | |
| Net interest | 39.1 | 36.0 |

**Other comprehensive income**

| In € m | 2019 | 2018 |
|---|---|---|
| **Remeasurement of pensions** | | |
| Remeasurements from pension provisions | –122.1 | 121.1 |
| Remeasurements from reimbursement rights | –0.0 | –0.0 |
| | –122.1 | 121.1 |

The net pension commitment as of December 31, 2019 is calculated as follows:

| In € m | Defined benefit obligation | Plan assets | Net pension provision |
|---|---|---|---|
| **As of 2019/01/01** | **2,350.7** | **75.2** | **2,275.5** |
| **Service cost** | | | |
| Current service cost | 36.6 | 3.6 | 33.0 |
| Past service cost | −3.1 | – | −3.1 |
| | **33.4** | **3.6** | **29.9** |
| **(Net) interest expense / income** | **39.4** | **0.3** | **39.1** |
| **Remeasurements** | | | |
| Experience gains (–) / losses (+) | −0.9 | – | −0.9 |
| Gain (–) / loss (+) from change in demographic assumptions | −0.1 | – | −0.1 |
| Gain (–) / loss (+) from change in financial assumptions | 128.3 | – | 128.3 |
| Return on plan assets excluding amounts included in interest income | – | 5.3 | −5.3 |
| | **127.4** | **5.3** | **122.1** |
| **Benefits paid** | **−113.4** | **−3.1** | **−110.2** |
| **Contributions** | | | |
| Employers | – | 0.3 | −0.3 |
| Plan participants | – | – | – |
| | **–** | **0.3** | **−0.3** |
| **Currency translation differences** | **0.0** | **0.1** | **– 0.1** |
| **Changes in the consolidated group** | **0.0** | **0.0** | **–** |
| **Transfers / repostings to other accounts** | **– 15.8** | **−16.1** | **0.3** |
| **As of 2019/12/31** | **2,421.7** | **65.6** | **2,356.1** |

As of December 31, 2019, plan assets are essentially made up of investment funds (€ 62.8 million) and other equity instruments (€ 1.7 million) whose present values were determined on an active market on the closing date. Plan assets also consist of insurance contracts (€ 1.1 million), the present values of which were not determined on an active market.

The net pension commitment as of December 31, 2018 was calculated as follows:

| In € m | Defined benefit obligation | Plan assets | Net pension provision |
|---|---|---|---|
| **As of 2018/01/01** | **2,514.8** | **74.3** | **2,440.5** |
| **Service cost** | | | |
| Current service cost | 39.3 | 3.8 | 35.5 |
| Past service cost | –1.2 | – | –1.2 |
| | **38.0** | **3.8** | **34.2** |
| **(Net) interest expense / income** | **36.5** | **0.5** | **36.0** |
| **Remeasurements** | | | |
| Experience gains (–) / losses (+) | – 11.5 | – | –11.5 |
| Gain (–) / loss (+) from change in demographic assumptions | –22.3 | – | –22.3 |
| Gain (–) / loss (+) from change in financial assumptions | –89.7 | – | –89.7 |
| Return on plan assets excluding amounts included in interest income | – | –2.3 | 2.3 |
| | **– 123.5** | **–2.3** | **–121.1** |
| **Benefits paid** | **–115.8** | **–2.3** | **–113.5** |
| **Contributions** | | | |
| Employers | – | 1.1 | –1.1 |
| Plan participants | 0.1 | 0.1 | – |
| | **0.1** | **1.1** | **–1.1** |
| **Currency translation differences** | **–0.3** | **0.0** | **–0.3** |
| **Changes in the consolidated group** | **1.3** | **0.1** | **1.3** |
| **Transfers / repostings to other accounts** | **–0.5** | **0.1** | **–0.5** |
| **As of 2018/12/31** | **2,350.7** | **75.2** | **2,275.5** |

The net present value of the defined benefit obligation can be allocated as follows:

| In € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| **Actual Net present value of the defined benefit obligation (Germany)** | **2,399.9** | **2,313.1** |
| of which aspirant | 1,029.1 | 946.0 |
| of which recipient | 1,370.8 | 1,367.1 |
| **Actual Net present value of the defined benefit obligation (abroad)** | **21.8** | **37.6** |
| | **2,421.7** | **2,350.7** |

The sensitivity of the defined benefit obligation is as follows:

| In € m | | | | 2019/12/31 |
|---|---|---|---|---|
| | Reference | Degree of sensitivity | + Unit | – Unit |
| Discount rate | 1.40% | 0.25%-points | −88.6 | +94.8 |
| Salary trend | 2.75% | 0.5%-points | +4.7 | −4.5 |
| Pension trend | 1.75% | 0.25%-points | +69.8 | − 67.0 |
| Mortality | Heubeck 2018G | 1 year | +125.8 | −124.4 |

| In € m | | | | 2018/12/31 |
|---|---|---|---|---|
| | Reference | Degree of sensitivity | + Unit | – Unit |
| Discount rate | 1.75% | 0.25%-points | −82.4 | +87.9 |
| Salary trend | 2.75% | 0.5%-points | +4.7 | −4.5 |
| Pension trend | 1.75% | 0.25%-points | +63.6 | −61.1 |
| Mortality | Heubeck 2018G | 1 Jahr | +120.9 | −119.5 |

The sensitivity of this value is ascertained analogously to the calculation of the present value of the obligation shown in the balance sheet. In each of these process steps, one assumption is changed while the other assumptions remain the same. Possible dependencies between the assumptions are not taken into account.

The following pension payments will probably have to be made over the next 20 years:

| In € m | |
|---|---|
| 2020 | 113.0 |
| 2021 | 109.6 |
| 2022 | 107.3 |
| 2023 | 107.3 |
| 2024 | 104.3 |
| 2025–2029 | 496.8 |
| 2030–2039 | 850.4 |

The duration of the obligation's net present value according to Macaulay as of December 31, 2019 is 15.88 years.

## (27) Other provisions

The development of other short-term and other long-term provisions is shown in the following table:

| In € m | 2019/01/01 | Currency translation differences | Addition / disposal from changes in cons. group | Transfer | Transfer to other accounts |
|---|---|---|---|---|---|
| **Other taxes** | **7.8** | **0.0** | **–** | **–** | **– 0.0** |
| **Personnel** | **163.5** | **0.0** | **0.1** | **–0.0** | **–** |
| of which anniversary provisions | [59.4] | [–] | [–] | [–] | [–] |
| of which for the social compensation / age-related part-time employment / demographics fund | [67.5] | [–] | [–] | [–] | [1.1] |
| **Operating risks** | **158.1** | **0.0** | **–** | **–** | **–** |
| **Other risks** | **310.3** | **0.0** | **0.0** | **–** | **– 70.0** |
| of which price reductions / complaints | [83.1] | [0.1] | [–] | [–] | [–] |
| of which risks from pending transactions | [14.8] | [–0.0] | [–] | [–] | [–] |
| **Total** | **639.8** | **0.1** | **0.1** | **0.0** | **–70.0** |

The anniversary provisions shown under personnel provisions have a duration of ten years.

With regard to explanations of the share-based payments under IFRS 2, we refer to the explanations provided in Note (41) ↗ "Disclosures on the Remuneration of the Executive Board, Supervisory Board and other Members of the Key Management Personnel".

Provisions for typical operational risks are formed, in particular for landfill obligations, and have a duration of 18 years. The provisions for other risks comprise provisions for discounts/complaints, litigation risks, warranties and risks from pending transactions.

The restructuring costs for the year total € 62.3 million, of which € 61.4 million is attributable to the addition to the provision; € 0.9 million was recognized as current expenditure for restructuring.

| Used | Reversal | Allocation | Compound interest | 2019/12/31 | of which long.term |
|---|---|---|---|---|---|
| **–0.7** | **–3.6** | **2.8** | **–** | **6.4** | **3.6** |
| **–51.6** | **–10.2** | **113.2** | **1.5** | **216.7** | **133.6** |
| [–4.1] | [–0.1] | [7.1] | [0.9] | [63.2] | [57.7] |
| [–33.9] | [–3.2] | [39.9] | [0.3] | [71.7] | [40.9] |
| **–5.5** | **–51.2** | **13.3** | **1.0** | **115.8** | **107.9** |
| **–38.0** | **–57.7** | **75.6** | **0.4** | **220.7** | **89.8** |
| [–23.5] | [–31.5] | [44.3] | [–] | [72.5] | [1.2] |
| [–3.1] | [–5.2] | [8.1] | [–] | [14.5] | [3.6] |
| **– 95.7** | **–122.5** | **205.0** | **2.9** | **559.6** | **334.9** |

### (28) Non-current financial liabilities

| In € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| Liabilities to banks | 531.5 | 100.8 |
| Lease liabilities | 102.5 | – |
| Other borrowings | 3.0 | – |
| Liabilities from financing | 0.1 | 6.3 |
| Bonds | – | 162.0 |
| Liabilities from finance lease agreements | – | 22.1 |
| **Financial liabilities** | **637.1** | **291.1** |

The disposal of bonds results form a reclassification between current and non-current financial liabilities caused by the residual term.

Upon the initial application of IFRS 16, liabilities from lease agreements were recognized for the first time. In the previous year, liabilities were only recognized from finance lease agreements.

The liabilities from lease agreements reported under non-current financial liabilities are shown in the following tables:

| In € m | Residual term 1 to 5 years | Residual term > 5 years | 2019/12/31 |
|---|---|---|---|
| Lease liabilities (undiscounted) | 60.3 | 86.0 | 146.4 |
| Finance costs | 16.3 | 27.5 | 43.8 |
| **Liabilities from lease agreements** | **44.0** | **58.5** | **102.5** |

| In € m | Residual term 1 to 5 years | Residual term > 5 years | 2018/12/31 |
|---|---|---|---|
| Lease liabilities (undiscounted) | 19.3 | 5.9 | 25.2 |
| Finance costs | 2.8 | 0.3 | 3.1 |
| **Liabilities from lease agreements** | **16.5** | **5.6** | **22.1** |

For a more detailed explanation of the assets carried in the balance sheet as a result of the accounting treatment of leases, we refer to Note (10) ↗ "Property, plant and equipment".

## Current liabilities

### (29) Current financial liabilities

| In € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| Bonds | 149.3 | – |
| Liabilities to banks | 125.9 | 275.3 |
| Liabilities from factoring | 125.3 | 142.7 |
| Lease liabilities | 22.9 | – |
| Other borrowings | 6.7 | 1.8 |
| Liabilities from finance lease agreements | – | 7.0 |
| **Current financial liabilities** | **430.1** | **426.9** |

The addition of bonds results from a reclassification between current and non-current financial liabilities caused by the residual term. For the convertible bonds issued on June 5, 2015 in an aggregate amount of € 167,900,000, the debt component totaled € 148.0 million. The values of the equity and debt components were determined as of the convertible bonds' date of issue. Shares in this convertible bond in a nominal amount of € 17.0 million were bought back on the market in the 2019 financial year.

Companies in Germany and abroad have made external financing arrangements outside of the Group. The resulting liabilities from factoring are secured by trade receivables. The default risk and the late payment risk regarding the sold receivables continue to be borne by the companies. The receivables will continue to be disclosed in full in the companies' balance sheets. The funds received are reported as liabilities. Due to their short terms, the book value of the receivables and liabilities corresponds to their fair value. The receivables will be assigned to the bank. In the case of sold receivables amounting to € 84.8 million, the purchaser of the receivables has the right to transfer the sold receivables to third parties, but without the reciprocal rights and obligations being infringed.

Upon the initial application of IFRS 16, liabilities from lease agreements were recognized for the first time. In the previous year, liabilities were only recognized from finance lease agreements.

The liabilities from lease agreements reported under current financial liabilities are shown in the following table:

| In € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| Lease liabilities (undiscounted) | 26.8 | 8.5 |
| Finance costs | 3.9 | 1.5 |
| **Liabilities from lease agreements** | **22.9** | **7.0** |

For a more detailed explanation of the assets carried in the balance sheet as a result of the accounting treatment of leases, we refer to Note (10) ↗ "Property, plant and equipment".

**(30) Contract liabilities**

Net contract liabilities fell from € 250.2 million to € 200.7 million in the reporting period. The decline relates mainly to technical machinery and equipment in the Technology Business Unit.

**(31) Other liabilities**

| In € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| Liabilities to employees | 85.7 | 122.4 |
| Tax liabilities | 37.5 | 47.6 |
| Liabilities from derivatives | 20.4 | 2.9 |
| Customer credit balances | 14.0 | 14.3 |
| Liabilities from social security contributions | 10.8 | 12.9 |
| Other liabilities | 277.5 | 63.2 |
| **Other liabilities (current)** | **446.0** | **263.4** |

As well as the liabilities from factoring secured by receivables, a sum of € 37.8 million (previous year € 34.5 million) is secured through mortgages.

"Other liabilities" contains essentially liabilities in connection with the mutually agreed end to the anti-trust proceedings (€ 210.8 million). Otherwise, this item includes a large number of small amounts pertaining to individual transactions at the consolidated companies.

### (32) Contingencies

Contingent liabilities are existing collateral commitments for third-party liabilities that are not expected to be utilized, however. Valued on the closing date, these commitments amount to € 23.9 million (previous year € 16.1 million).

Taking account of individual risk assessments as well as the actual contractual obligations as of the balance-sheet date, the contingencies comprise sureties and guarantees in an amount of € 11.3 million (previous year € 8.5 million). Based on past experience, the probability of their being utilized can be regarded as low.

Contingent liabilities also include the Group's own liabilities where the probability of occurrence involving a possible outflow of resources is less than 50 % but not entirely unlikely.

In 2016, the German Federal Fiscal Court pronounced a judgment on securities lending, to which the Salzgitter Group has already responded by reflecting this judgment in its accounting as of December 31, 2016. During the course of 2017, the legal opinion with regard to circumstances at Salzgitter AG took on a concrete form indicating that the risks already reported comprehensively are likely to lead to outside jurisdiction. In addition, there are legal uncertainties surrounding the possible repayment of accrued capital gains tax totaling € 102.4 million (including interest) that are now regarded as unlikely to be assessed.

Since the spring of 2014, the Braunschweig public prosecutor's office has been investigating the management of various Group companies on suspicion of forming provisions and recognizing expenses not permitted under tax legislation. Apart from one company, the investigation was completed in the reporting year and the case closed. The investigation into one company continues. The Salzgitter Group is cooperating unconditionally with the investigating authorities and has hired external attorneys to investigate the matter comprehensively. We believe that the tax returns in question are in compliance with the statutory regulations. On the basis of the facts of the case as it currently stands and taking the overall circumstances into account, it is unlikely that any demands will be made.

Neither Salzgitter AG nor any of its Group companies are involved in any further ongoing or imminent court or arbitration proceedings that might have a substantial effect on the financial position.

### (33) Other Financial Obligations

| In € m | | | 2019/12/31 |
|---|---|---|---|
| | up to 1 year | 1 to 5 years | over 5 years |
| Purchase commitments for investments (essentially property, plant and equipment) | 244.0 | 115.0 | – |
| Obligations from rental and leasing agreements | 4.7 | 3.6 | 0.0 |
| Other financial obligations | 459.5 | 296.3 | 32.6 |
| **Total** | **708.2** | **414.9** | **32.6** |

| In € m | | | 2018/12/31 |
|---|---|---|---|
| | up to 1 year | 1 to 5 years | over 5 years |
| Purchase commitments for investments (essentially property, plant and equipment) | 204.0 | 37.0 | 3.6 |
| Obligations from rental and leasing agreements | 34.3 | 66.3 | 91.8 |
| Other financial obligations | 608.3 | 387.4 | 51.7 |
| **Total** | **846.6** | **490.6** | **147.2** |

The other financial obligations primarily concern long-term purchasing commitments of the companies in the Strip Steel and Mannesmann business units whose purpose is to ensure the procurement of input material for raw materials and sea freight.

The obligations from rental and leasing agreements include those non-capitalized lease agreements that continue to be recognized in profit and loss as part of the application relief. In addition, this item also reflects future leases which the Salzgitter Group has already entered into but where the date of provision falls after the closing date. Overall, lease obligations account for € 2.9 million and are essentially due to non-capitalized leases of minor value as well as future leases. The expenses from short-term leases recognized in the financial year totaling € 8.4 million are due in particular to the relief regulation according to which at the time of initial application, lease agreements ending before January 1, 2020 are classified as short-term leases irrespective of their starting date and recognized as an expense in the income statement. As a result, no significant lease obligations from short-term leases have been recognized.

The Group has lease agreements particularly in the area of real estate and land which contain options to extend and terminate, and it is forecasting potential future lease payments of € 7.6 million after the date on which such options can be exercised that are not included in term of the lease.

The decline in obligations from rental and leasing agreements by comparison with the previous year results essentially from the amended accounting treatment for leases under IFRS 16.

## (34) Financial Instruments

In the case of highly likely procurement transactions, definable risk components forming part of cash flow hedges can be designated as underlying transactions for treatment as hedge accounting. The Salzgitter Group avails itself of this option. Hedging transactions, underlying transactions and the management of risks are described in the course of this section.

Investments for the generation of dividend income are held in a separate portfolio within financial assets. These equity investments represent investments that the Group is holding for the long term. The Salzgitter Group has designated these investments as "fair value through other comprehensive income" in equity instruments. The accumulated reserve from changes in fair value in connection with these investments is never reclassified to profit and loss.

The Securities item only shows fund units held for investment. These fund units have been classified at "fair value through profit and loss" as the payment flows from these fund units do not consist exclusively of interest payments and principal repayments.

Hedging transactions not forming part of hedge accounting are classified at "fair value through profit and loss" as the payment flows from these transactions do not consist exclusively of interest payments and principal repayments.

### Categories and Fair Values of Financial Instruments

As of the balance sheet date of December 31, 2019, the transition of the balance sheet items to the various categories of financial instruments was as follows:

| 2019 in € m | | | | Valuation according to IFRS 9 | | | Valuation according to IFRS 15 and IFRS 16 | |
|---|---|---|---|---|---|---|---|---|
| | Book value as of 2019/12/31 | Out of scope of IFRS 7 | In scope of IFRS 7 | At amortized costs | At fair value (OCI) | At fair value (P&L) | At amortized cost | Fair value |
| **Assets** | | | | | | | | |
| Financial assets | 64.7 | – | 64.7 | 42.6 | 22.1 | – | – | 72.4 |
| Other non-current receivables and assets | 25.6 | 14.9 | 10.7 | 2.0 | 8.7 | – | – | 10.7 |
| Long-term and short-term trade receivables | 1,136.8 | – | 1,136.8 | 1,136.8 | – | – | – | 1,136.8 |
| Contract assets | 186.3 | – | 186.3 | – | – | – | 186.3 | 186.3 |
| Other current receivables and assets | 191.8 | 74.7 | 117.1 | 89.5 | 20.3 | 7.3 | – | 117.1 |
| Securities | 50.9 | – | 50.9 | – | – | 50.9 | – | 50.9 |
| Cash and cash equivalents | 700.5 | – | 700.5 | 700.5 | – | – | – | 700.5 |
| **Assets financial instruments** | | | **2,267.0** | **1,971.4** | **51.1** | **58.2** | **186.3** | |
| | | | | | | | | |
| **Equity and liabilities** | | | | | | | | |
| Non-current financial liabilities | 637.1 | – | 637.1 | 534.5 | – | – | 102.5 | 637.3 |
| Other non-current liabilities | 16.8 | 4.9 | 11.9 | 0.3 | 11.7 | – | – | 11.9 |
| Current financial liabilities | 430.2 | 0.0 | 430.1 | 407.2 | – | – | 22.9 | 433.7 |
| Trade payables | 915.2 | – | 915.2 | 915.2 | – | – | – | 915.2 |
| Other current liabilities | 446.0 | 154.9 | 291.1 | 270.7 | 13.7 | 6.8 | – | 291.1 |
| **Equity and liabilities financial instruments** | | | **2,285.6** | **2,128.0** | **25.3** | **6.8** | **125.5** | |

As of the balance sheet date of December 31, 2018, the transition of the balance sheet items to the various categories of financial instruments was as follows:

| 2018 in € m | | | | Valuation according to IFRS 9 | | | Valuation according to IAS 17 | |
|---|---|---|---|---|---|---|---|---|
| | Book value as of 2018/12/31 | Out of scope of IFRS 7 | In scope of IFRS 7 | At amortized costs | At fair value (OCI) | At fair value (P&L) | At amortized cost | Fair value |
| **Assets** | | | | | | | | |
| Financial assets | 75.6 | – | 75.6 | 50.3 | 25.3 | – | – | 95.9 |
| Other non-current receivables and assets | 24.0 | 16.2 | 7.8 | – | 7.8 | – | – | 7.8 |
| Long-term and short-term trade receivables | 1,392.7 | – | 1,392.7 | 1,392.7 | – | – | – | 1,392.7 |
| Other current receivables and assets | 403.7 | 59.4 | 344.3 | 300.0 | 30.8 | 13.6 | – | 344.3 |
| Securities | 67.4 | – | 67.4 | – | – | 67.4 | – | 67.4 |
| Cash and cash equivalents | 555.6 | – | 555.6 | 555.6 | – | – | – | 555.6 |
| **Assets financial instruments** | | | **2,443.5** | **2,298.5** | **63.9** | **81.1** | **–** | |
| | | | | | | | | |
| **Equity and liabilities** | | | | | | | | |
| Non-current financial liabilities | 291.1 | – | 291.1 | 269.0 | – | – | 22.1 | 299.0 |
| Other non-current liabilities | 6.1 | 4.9 | 1.2 | – | 1.2 | – | – | 1.2 |
| Current financial liabilities | 426.9 | – | 426.9 | 419.8 | – | – | 7.0 | 429.8 |
| Trade payables | 1,130.2 | – | 1,130.2 | 1,130.2 | – | – | – | 1,130.2 |
| Other current liabilities | 263.4 | 211.0 | 52.4 | 49.5 | 0.3 | 2.7 | – | 52.4 |
| **Equity and liabilities financial instruments** | | | **1,900.6** | **1,868.5** | **1.5** | **2.7** | **29.2** | |

### Determination of Fair Values of Financial Instruments

Trade receivables and cash and cash equivalents have short residual terms for the most part, and as a result their book values correspond to their fair values as of the reporting date. With regard to the fair values of derivatives, we refer to ”Financial assets – recognition and measurement” in the section on ↗ “Accounting and Valuation Principles”. The book value of the derivative financial instruments corresponds to their market value. The securities are listed on the stock market valued on the basis of their market price as of the balance sheet date through profit and loss.

Trade payables and other liabilities regularly have short residual terms, and as a result their reported values correspond to their fair values.

The calculation of the fair value disclosures for financial assets and debts not measured at fair value as well as for liabilities from finance lease contracts is carried out by discounting future cash flows. This is performed by using a term-dependent interest rate that reflects the risk-free rate and the counterparty risk or Salzgitter Group’s counterparty default risk deduced on the basis of a peer group. The calculation parameters are based on data from directly and indirectly observable input factors. The fair value disclosures in the “Fair Value” column in the above table are therefore to be assigned overall to Level 2. Further information on the fair value hierarchy and the categorization of financial instruments in hedge accounting can be found in the explanations of the fair value hierarchy below.

When calculating the fair value of an asset or a liability, the Group uses observable market data as far as possible. Based on the input factors used in the calculation techniques, the fair values are assigned to different levels in the fair value hierarchy.

Level 1: Listed prices on active markets for identical assets and liabilities.

Level 2: Valuation parameters that are not concerned with the listed prices taken into account in Level 1, but can be observed either directly or indirectly (from the derivation of prices) for the asset or liability in question.

Level 3: Valuation parameters for assets or liabilities not based on observable market data.

If the input factors used for calculating the fair value cannot be assigned to one single level, they are assigned collectively to the level that corresponds to the lowest input factor which has overall significance for the measurement process.

Market values were always determined on the basis of conditions that prevailed on the reporting date, using the values at which the relevant derivative financial instruments were traded or listed, without considering contrary movements in the value deriving from the underlying transactions. The current value of the derivatives to be reported derives from the valuation of the hedged foreign currency amount or commodity price, with the difference between the rate applying when the forward contract was entered into and the forward rate on the reporting date; this amount is discounted to the balance sheet date in accordance with the residual term.

Fair value calculation:

| 2019 in € m | Fair value | | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial investments at fair value without effect on the income | Hedge accounting at fair value without effect on the income | At fair value (P&L) | Total | Of which level 1 | Of which level 2 | Of which level 3 |
| **Assets** | | | | | | | |
| Financial assets | 22.1 | – | – | 22.1 | – | – | 22.1 |
| Other non-current receivables and assets | – | 8.7 | – | 8.7 | – | 8.7 | – |
| Other current receivables and assets | – | 20.3 | 7.3 | 27.6 | – | 27.6 | – |
| Securities | – | – | 50.9 | 50.9 | 50.9 | – | – |
| **Assets at fair value** | **22.1** | **29.0** | **58.2** | | | | |
| | | | | | | | |
| **Equity and liabilities** | | | | | | | |
| Other non-current liabilities | – | 11.7 | – | 11.7 | – | 11.7 | – |
| Other current liabilities | – | 13.7 | 6.8 | 20.4 | – | 20.4 | – |
| **Liabilities at fair value** | **–** | **25.3** | **6.8** | | | | |

Financial assets measured at their fair value with no effect on income represent exclusively long-term holdings in companies over which the Salzgitter Group is unable to exert any significant influence. The measurement chosen through other comprehensive income with no subsequent reclassification to the income statement is regarded as appropriate as there is no intention to achieve short-term profits with these investments.

The dividends from these financial investments recognized in the financial year result exclusively from equity instruments still held by the Salzgitter Group on the closing date. The dividend income is recognized in the Group's income from shareholdings. The subsequent measurement of the equity instruments held with no effect on income also decreased their carrying amounts by € 3.1 million (previous year increase of € 23.1 million). The carrying amounts of all financial investments as of the closing date of December 31, 2019, as well as the carrying amounts of the previous year are disclosed in the notes to items in the balance sheet.

No financial investments in equity instruments were sold in the 2019 financial year. No cumulative gains or losses were transferred within equity in this context.

The market value of these equity instruments was determined on the basis of parameters for which there are no observable market data. The equity instruments assigned to Level 3 and measured at fair value with no effect on profit or loss with a carrying amount of € 22.1 million constitute investments measured on the basis of the best information available on the closing date.

The main unobservable input factors for measuring the fair value of financial investments assigned to Level 3 of the measurement hierarchy consist of dividend payments and the imputed cost of capital. The fair value is determined on the basis of these input factors using a discounted cash flow method. If the cost of capital changes by + / – 1%, the fair value would fall by € 1.8 million (previous year € 2.3 million) or increase by € 2.1 million (previous year € 3.0 million).

Financial instruments measured at fair value and recognized in profit or loss essentially contain derivatives for currency hedging outside the scope of hedge accounting as well as fund assets.

| 2018 in € m | Fair value | | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial investments at fair value without effect on the income | Hedge accounting at fair value without effect on the income | At fair value (P&L) | Total | Of which level 1 | Of which level 2 | Of which level 3 |
| **Assets** | | | | | | | |
| Financial assts | 25.3 | – | – | 25.3 | – | – | 25.3 |
| Other non-current receivables and assets | – | 7.8 | – | 7.8 | – | 7.8 | – |
| Other current receivables and assets | – | 30.8 | 13.6 | 44.4 | – | 44.4 | – |
| Securities | – | – | 67.4 | 67.4 | 67.4 | – | – |
| **Assets at fair value** | **25.3** | **38.6** | **81.1** | | | | |
| | | | | | | | |
| **Equity and liabilities** | | | | | | | |
| Other non-current liabilities | – | 1.2 | – | 1.2 | – | 1.2 | – |
| Other current liabilities | – | 0.3 | 2.7 | 2.9 | – | 2.9 | – |
| **Liabilities at fair value** | **–** | **0.3** | **2.7** | | | | |

### Net Results of Categories of Financial Instruments

The net results of the categories are as follows:

| In € m | 2019 | 2018 |
|---|---|---|
| Financial assets and liabilities at fair value with effect on income | 13.9 | 36.1 |
| Financial assets at amortized cost | –12.2 | –3.3 |
| Equity instruments at fair value without effect on income | 2.0 | 2.4 |
| Financial liabilities at amortized cost | –32.8 | –35.5 |
| **Total** | **–29.2** | **–0.3** |

The net result of the category "Financial assets and liabilities at fair value with effect on income" includes essentially the effects of measuring forward currency transactions as of the closing date. Besides impairments and the effects of changes in exchange rates, the category "Financial assets at amortized cost" also includes interest income amounting to € 14.6 million (previous year € 14.8 million). The category "Equity instruments at fair value with no effect on income" includes primarily investment income. Interest expenses of € 31.8 million (previous year € 36.8 million) are allocated to the "Financial liabilities at amortized cost" category. This category also includes effects from currency translation.

For financial instruments not measured at fair value through profit and loss, the expenses incurred in financial and monetary transactions amounted to € 6.5 million (previous year € 7.8 million); these were immediately recognized with effect on income.

### Financial Risk Management of Financial Instruments – Default Risk

The concentration of risk with regard to trade receivables is assessed as low as the customers are based in different countries, belong to different sectors of industry and operate in largely independent markets. There are no customers from whom there are trade receivables amounting to more than 10% of the total trade receivables. The individual companies in the Group have loan insurance to cover most of the risk of bad debt.

The Salzgitter Group has three types of assets subject to the model of expected losses. Besides trade receivables, these are contract assets and debt instruments measured at amortized cost. Cash and Cash equivalents are also subject to IFRS 9 impairment standards. The impairment loss identified was immaterial, however.

The Salzgitter Group applies the simplified approach to all trade receivables and contract assets in accordance with IFRS 9 in order to measure the expected credit losses.

To calculate the expected credit losses, trade receivables and contract assets are aggregated on the basis of common credit risk characteristics. Contract assets relate to as yet uninvoiced, ongoing work and essentially exhibit the same credit risk characteristics as trade receivables for the same types of contract. The Salzgitter Group therefore applies the same loss ratios as for trade receivables when measuring the expected losses from contract assets.

The Salzgitter Group takes account of the probability of default at the time of assets' initial recognition as well as of any significant increase in the default risk during the reporting period. To judge whether the default risk has increased significantly, the default risk with respect to the closing date is compared with the default risk at the time of initial recognition. Besides external credit ratings, particular weight is given to internal credit ratings and significant changes to the expected profitability and payment behavior of the debtor.

Financial assets are written off if, after due consideration, deemed unrecoverable, for instance if a debtor refuses to agree a repayment plan. If loans or receivables have been written off, the company will continue to enforce its claim in order to recover the amounts due. A financial instrument is derecognized if, after due consideration, a financial asset can no longer be assumed to be partially or wholly recoverable, for example,

upon the conclusion of insolvency proceedings or following judicial rulings. For these reasons, trade receivables in an amount of € 22.5 million (previous year € 3.5 million) were derecognized in the financial year.

As of the reporting date, the default risk compared with the previous year was as follows:

| **In € m** | | **2019/12/31** | | **2018/12/31** |
|---|---|---|---|---|
| | **Maximum default risk** | **Hedged default risk** | **Maximum default risk** | **Hedged default risk** |
| Long-term and short-term trade receivables | 1,136.8 | 638.8 | 1,392.7 | 762.4 |
| Other receivables | 91.5 | 2.0 | 300.0 | 20.2 |
| Financial assets | 42.6 | – | 50.3 | – |
| **Total** | **1,270.9** | **640.8** | **1,742.9** | **782.6** |

There are also default risks amounting to the positive market values of derivatives equating to the assets reported for which the default risk is not secured.

Trade receivables in an amount of € 581.1 million (previous year 733.8 million) are secured against default by means of credit insurance.

The Salzgitter Group assigns receivables, trade receivables and contract assets to three categories that reflect the risk of default as well as the way in which any impairment loss is determined for each category. These credit ratings are aligned with the ratings of external agencies such as Standard and Poor's, Moody's and Fitch.

The rating system for assets accounted for in accordance with the general approach is as follows:

| **In € m** | | | **2019/12/31** |
|---|---|---|---|
| **General approach** | **Level 1** | **Level 2** | **Level 3** |
| High credit rating | 92.1 | – | – |
| Fair credit rating | 31.8 | – | – |
| Increased risk | 12.7 | – | – |
| **Total** | **136.7** | **–** | **–** |

| **In € m** | | | **2018/12/31** |
|---|---|---|---|
| **General approach** | **Level 1** | **Level 2** | **Level 3** |
| High credit rating | 300.0 | – | – |
| Fair credit rating | 35.9 | – | – |
| Increased risk | 14.4 | – | – |
| **Total** | **350.3** | **–** | **–** |

| In € m | Impairmant general approach level 1 | | |
|---|---|---|---|
| | Gross book value | Credit risk | Net book value |
| Opening balance 01/01 | 350.3 | – 2.7 | 347.6 |
| Addition | 13.4 | 0.5 | 13.9 |
| Disposal | – 227.4 | – 0.3 | – 227.7 |
| Currency differences | 0.4 | – | 0.4 |
| **As per 12/31** | **136.7** | **– 2.5** | **134.2** |

| In € m | Impairmant general approach level 1 | | |
|---|---|---|---|
| | Gross book value | Credit risk | Net book value |
| Opening balance 01/01 | 357.9 | – 2.9 | 355.0 |
| Addition | – | – 0.5 | – 0.5 |
| Disposal | – 7.6 | 0.7 | – 6.9 |
| **As per 12/31** | **350.3** | **– 2.7** | **347.6** |

The drop in impairment allowances is essentially due to the disposal of gross carrying amounts from other receivables (financial investments). The approach for calculating expected credit losses is unchanged by comparison with the description given in the last consolidated financial statements of Salzgitter AG.

The rating system for assets accounted for in accordance with the simplified approach, is as follows:

**2019/12/31 in € m**

| Simplified approach | Trade receivables gross | Contract assets gross |
|---|---|---|
| High credit rating | 778.5 | 177.1 |
| Fair credit rating | 337.3 | 9.1 |
| Increased risk | 94.0 | 0.8 |
| **Total** | **1,209.9** | **186.9** |

**As of 2018/12/31 in € m**

| Simplified approach | Trade receivables gross | Contract assets gross |
|---|---|---|
| High credit rating | 820.8 | 49.2 |
| Fair credit rating | 505.3 | 126.8 |
| Increased risk | 134.7 | – |
| **Total** | **1,460.8** | **176.0** |

The figures shown for the various rating categories are gross carrying amounts before taking account of the credit default risk. The gross carrying amount for all trade receivables as of December 31, 2019 totals to € 1,209.9 million (previous year € 1,460.8 million). Of the entire risk provision for trade receivables amounting to € 73.1 million (previous year € 68.2 million), € 68.9 million (previous year € 62.3 million) was attributable to the "Increased risk" category. The remaining sum for the risk provision for trade receivables amounting to € 4.2 million (previous year € 5.9 million) results primarily from the risk provision for trade receivables in the "Fair credit rating" category.

As of December 31, 2019, the gross carrying amount of all contract assets stood at € 186.9 million (previous year € 176.0 million). Overall, there is a risk provision for contract assets amounting to € 0.6 million (previous year € 0.9 million) resulting essentially from the risk provision for contract assets in the "High credit rating" category.

| **FY 2019 in € m** | **Impairment trade receivables** | **Impairment contract assets** |
|---|---|---|
| **As per 01/01** | **−68.2** | **−0.9** |
| Addition | −101.1 | −1.9 |
| Utilization | 22.5 | 0.0 |
| Disposal | 74.1 | 2.0 |
| Transfer to other accounts | −0.2 | 0.2 |
| Currency differences | −0.2 | 0.0 |
| **As per 12/31** | **−73.1** | **−0.6** |

| **FY 2018 in € m** | **Impairment trade receivables** | **Impairment contract assets** |
|---|---|---|
| As per 01/01 acc. to IAS 39 | −67.2 | 0.0 |
| Adjustment IFRS 9 | −2.2 | −1.3 |
| **As per 01/01 acc. to IFRS 9** | **−69.4** | **−1.3** |
| Addition | −93.0 | −0.1 |
| Utilization | 3.5 | 0.0 |
| Disposal | 91.1 | 0.0 |
| Transfer to other accounts | −0.5 | 0.5 |
| Currency differences | 0.0 | 0.0 |
| **As per 12/31** | **−68.2** | **−0.9** |

### Financial Risk Management of Financial Instruments – Liquidity Risk

The management holding monitors the liquidity situation within the Group by operating a central cash and interest management system for all the companies that are financially integrated into the Group. This system defines internal credit lines for the subsidiaries. If subsidiaries have their own credit lines, they are responsible for minimizing the associated risk themselves and for reporting on potential risks in the context of the Group management and controlling structures. Risks may also arise from the necessary capital and liquidity measures taken on behalf of the subsidiaries and holdings if their business should develop unsatisfactorily in the longer term. We do not, however, anticipate any burdens from this area of risk that could constitute a going concern risk. The risk concentration is countered by a rolling liquidity plan. In view of the cash and credit lines available, we do not perceive any danger to our Group as a going concern at this time.

The liquidity structure of all the financial liabilities is as follows:

| 2019/12/31 in € m | up to 1 year | 1 to 5 years | over 5 years |
|---|---|---|---|
| Trade payables | 915.2 | – | – |
| Financial liabilities | 440.1 | 661.3 | 5.6 |
| Lease liabilities | 26.8 | 60.3 | 86.0 |
| Other liabilities (without derivatives) | 270.8 | 0.2 | – |

| 2018/12/31 in € m | up to 1 year | 1 to 5 years | over 5 years |
|---|---|---|---|
| Trade payables | 1,130.2 | – | – |
| Financial liabilities | 431.5 | 302.2 | 0.1 |
| Lease liabilities | 8.5 | 19.3 | 5.9 |
| Other liabilities (without derivatives) | 49.5 | 0.1 | – |

As of December 31, 2019, derivative financial liabilities with a term of under one year led to disbursements of € 531.4 million (previous year € 361.6 million), while those with a term of between one and five years led to payouts totaling € 12.1 million (previous year € 1.2 million). The disbursements from derivative financial liabilities for which payments on a gross basis were agreed are counterbalanced by in-payments. If these in-payments are taken into account, the payouts are substantially lower.

### Financial Risk Management of Financial Instruments – Market Price Risk

The business model for areas of the Salzgitter Group's business that are heavily focused on steel is exposed to volatility in the price of raw materials and in sales prices. Selected raw material hedging transactions entered into to manage raw material price risks and margin risks are accounted for using hedge accounting. Starting with the variability of raw material purchase prices in procurement contracts, the relationship between the price of raw materials and the price of steel, the time lapse between when raw material prices are set and the price of steel in the market, as well as the anomalies of the business model (throughput times, minimum stocks, batch sizes within production, etc.), all of these factors form part of the process of identifying risks. As a result of the circumstances outlined, there is a risk that the actual margin obtained may differ from the margin originally budgeted. Key management indicators including associated limits are used to manage these raw material price risks and associated margin risks in the Salzgitter Group. Taking account of these key performance indicators, a risk committee is responsible throughout the Group for initiating and selecting appropriate measures to manage risk positions and defines a hedging ratio.

The various measurement parameters pertaining to the underlying transaction and the hedging transaction are compared in order to determine the economic hedging relationships. As the measurement parameters of the underlying transaction and the hedging transaction are the same (nominal volume, price index and maturity), an economic hedge can be assumed. The following reasons may lead to the hedge becoming ineffective: a change in the payment schedule, an increase or decrease in the nominal volume or the price or a significant change in the credit risk of one or both of the two contractual partners. The ineffectiveness of a hedging transaction is measured on the basis of the cumulative dollar offset method for each quarter, i.e. the cumulative cash flow changes of the underlying transaction are compared with the cumulative cash flow changes of the hedging transaction. Both the underlying transaction (hypothetical derivative) and the hedging transaction are measured using forward market rates and by applying the forward-to-forward method.

In the case of highly likely procurement transactions, definable risk components forming part of cash flow hedges can be designated as underlying transactions under IFRS 9. This facility is used in the Salzgitter Group to reduce the ineffectiveness of hedging relationships through commodity procurement transactions for iron ore and coking coal. As a result of the opportunity to designate definable risk components, the risk component of ship diesel no longer needs to be included, for example, when calculating the effectiveness of hedging iron ore and coking coal procurement transactions.

The Salzgitter Group applied financial year hedge accounting in accordance with IFRS 9 for commodity futures (iron ore and coking coal swaps) and, to a minor extent, forward exchange contracts. In the process, it hedged the risks of changes in prices or exchange rates using cash flow hedges. The respective market values were as follows:

| Positive market value in € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| Forward exchange contracts – cash flow hedges | 0.7 | 2.0 |
| Commodity futures – cash flow hedges | 28.3 | 36.6 |
| Total | 29.0 | 38.6 |

| Negative market values in € m | 2019/12/31 | 2018/12/31 |
|---|---|---|
| Forward exchange contracts – cash flow hedges | 0.6 | 0.0 |
| Commodity futures – cash flow hedges | 24.8 | 1.5 |
| Total | 25.3 | 1.5 |

The commodity future transactions will affect income in the financial years 2020, 2021 and 2022. Thanks to high effectiveness, the changes in value of the forward currency transactions are matched by almost identical underlying transactions. By comparison with the previous year, positive forward currency transactions reduced by € 1.3 million (previous year increase of € 2.0 million) and negative ones increased by € 0.6 million (previous year decrease of € 1.9 million). Changes in the value of commodity future transactions were again reflected in almost identical underlying transactions due to the high level of effectiveness. By comparison with the previous year, positive commodity futures declined by € 8.3 million (previous year € 23.5 million) and negative ones increased by € 23.3 million (previous year € 1.5 million).

The cash flow hedge reserve that was posted to equity with no effect on income (after taxes) developed as follows:

| **In € m** | **2019** | **2018** |
|---|---:|---:|
| As of 01/01 | 25.1 | 39.3 |
| Write-up without effect on income | 87.4 | 27.0 |
| Write-down without effect on income | –70.7 | – |
| Basis adjustment | –48.9 | –48.4 |
| Deferred taxes basis adjustment | 15.4 | 15.0 |
| Realization | – 2.7 | 0.8 |
| Other deferred taxes | –4.6 | –8.5 |
| **As of 12/31** | **1.0** | **25.1** |

The volume of hedging transactions accounted for in hedge accounting as of the relevant closing date:

| **2019** | **up to 1 year** | **over 1 year** | **Nominal volume** | **Average hedging rate** |
|---|---:|---:|---:|---:|
| Hedging currency exchange risk in USD m | 73.9 | 0.0 | 73.9 | 1.13 |
| Hedging price change risk of iron ore in m t | 0.8 | 0.7 | 1.4 | 60.15 |
| Hedging price change risk of coking coal in m t | 0.6 | 0.8 | 1.5 | 168.45 |
| Book value receivables in € m | 20.3 | 8.7 | | |
| Book value payables in € m | 13.7 | 11.7 | | |

| **2018** | **up to 1 year** | **over 1 year** | **Nominal volume** | **Average hedging rate** |
|---|---:|---:|---:|---:|
| Hedging currency exchange risk in USD m | 84.7 | 0.0 | 84.7 | 1.19 |
| Hedging price change risk of iron ore in m t | 1.3 | 0.9 | 2.3 | 53.29 |
| Hedging price change risk of coking coal in m t | 0.4 | 0.7 | 1.2 | 167.63 |
| Book value receivables in € m | 30.8 | 7.8 | | |
| Book value payables in € m | 0.3 | 1.2 | | |

The effectiveness of all hedging arrangements is examined as of every reporting date. In the process, the cumulative changes in the value of the underlying transaction are compared with the cumulative changes in the value of the hedging transaction. In the financial year, ineffectivities totaling € 0.1 million (previous year € 0.1 million) arose from cash flow hedges. The ineffectivities were recognized in other operating income and other operating expenses.

In the financial year, an amount of € 48.9 million (previous year € 48.4 million) from expired futures was set off against the acquisition costs of non-financial assets (basis adjustment).

In the case of foreign currency receivables, rate hedging cover is provided by entering into forward exchange contracts with various banks. The claims reported in hedge accounting are recognized at the agreed rate. Hedging relationships were established both for firm obligations and for anticipated future transactions.

The Salzgitter Group is exposed to further price risks from the measurement of equity instruments held for the long term. Movements in the reserve for changes in the value of financial instruments in the category "Equity instruments measured at fair value with no effect on income" are as follows after tax:

| **In € m** | **2019** | **2018** |
|---|---|---|
| As of 01/01 | 20.0 | 1.5 |
| Transition IFRS 9 | – | –1.5 |
| Write-up without effect on income | 0.2 | 23.1 |
| Write-down without effect on income | –3.2 | – |
| Deferred tax | 1.0 | –3.1 |
| **As of 12/31** | **18.0** | **20.0** |

The carrying amount of equity instruments measured at fair value with no effect on the income statement in the amount of € 22.1 million (previous year € 25.3 million) is shown in the reconciliation matrix for financial instruments in Financial assets.

The equity instruments in the Salzgitter Group measured at fair value in other comprehensive income essentially comprise the following unlisted companies:

| **In € m** | **2019/12/31** | **2018/12/31** | **2019/12/31** | **2018/12/31** |
|---|---|---|---|---|
| | **Fair value** | **Fair value** | **Dividend income** | **Dividend income** |
| Arsol Aromatics GmbH & Co. KG | 16.5 | 19.6 | 1.2 | 1.5 |
| PEAG Holding GmbH | 2.8 | 2.6 | 0.2 | 0.2 |
| Niedersächsische Gesellschaft zur Endlagerung von Sonderabfall mbH | 1.4 | 1.6 | 0.2 | 0.2 |
| Other | 1.4 | 1.5 | 0.5 | 0.5 |
| Total | 22.1 | 25.3 | 2.1 | 2.3 |

### Sensitivity Analysis for Foreign Exchange, Interest Rate and Market Price Risks

The Salzgitter Group is exposed to a variety of financial risks. These, as defined by the sensitivity analysis prescribed under IFRS 7, are interest rate risks, currency risks and other price risks. For the interest rate risks, the sensitivity analysis assumes a change of 100 basis points in the market interest rate. With regard to the currency risks, a fluctuation of 10% in the Group companies' respective functional currencies against the foreign currencies is assumed. The other price risks arise for the Salzgitter Group from changes in commodity prices or stock market indices. In this case, the impact of a 10% change in the respective quoted prices is taken into account. The sensitivities are ascertained by banks or by means of internal calculations using acknowledged methods (e.g. Black-Scholes, Heath-Jarrow-Morton). The portfolio of financial instruments as of the balance sheet date is representative of the financial year as a whole.

| 2019/12/31 | Recognized in profit and loss | Affecting equity | Total | Recognized in profit and loss | Affecting equity | Total |
|---|---|---|---|---|---|---|
| Degree of sensitivity | +10% | +10% | +10% | –10% | –10% | –10% |
| USD | –23.9 | –13.2 | –37.1 | 23.6 | 16.7 | 40.3 |
| GBP | 1.1 | 2.6 | 3.7 | –1.8 | –2.6 | –4.4 |
| Other currencies | 1.4 | 1.0 | 2.4 | –2.1 | –1.3 | –3.4 |
| **Currency sensitivities** | **–21.4** | **–9.6** | **–31.0** | **19.7** | **12.8** | **32.5** |
| Degree of sensitivity | +100 bp | +100 bp | +100 bp | –100 bp | –100 bp | –100 bp |
| **Interest rate sensitivities** | **–1.8** | **–** | **–1.8** | **2.2** | **–** | **2.2** |
| Degree of sensitivity | +10% | +10% | +10% | –10% | –10% | –10% |
| Coking coal | – | 18.2 | 18.2 | – | –18.2 | –18.2 |
| Iron ore | – | 11.8 | 11.8 | – | –11.8 | –11.8 |
| Others | 1.1 | 0.1 | 1.2 | –1.1 | –0.1 | –1.2 |
| **Other price sensitivities** | **1.1** | **30.1** | **31.2** | **–1.1** | **–30.1** | **–31.2** |

| 2018/12/31 | Recognized in profit and loss | Affecting equity | Total | Recognized in profit and loss | Affecting equity | Total |
|---|---|---|---|---|---|---|
| Degree of sensitivity | +10% | +10% | +10% | –10% | –10% | –10% |
| USD | –39.6 | –19.8 | –59.4 | 43.1 | 25.2 | 68.3 |
| GBP | 0.5 | 4.4 | 4.9 | –0.5 | –5.3 | –5.8 |
| Other currencies | –3.1 | 1.4 | –1.7 | 3.0 | –1.8 | 1.2 |
| **Currency sensitivities** | **–42.2** | **–14.0** | **–56.2** | **45.6** | **18.1** | **63.7** |
| Degree of sensitivity | +100 bp | +100 bp | +100 bp | –100 bp | –100 bp | –100 bp |
| **Interest rate sensitivities** | **–3.9** | **–** | **–3.9** | **2.2** | **–** | **2.2** |
| Degree of sensitivity | +10% | +10% | +10% | –10% | –10% | –10% |
| Coking coal | – | 21.5 | 21.5 | – | –21.5 | –21.5 |
| Iron ore | – | 14.3 | 14.3 | – | –14.3 | –14.3 |
| Others | 0.4 | – | 0.4 | –0.4 | – | –0.4 |
| **Other price sensitivities** | **0.4** | **35.8** | **36.2** | **–0.4** | **–35.8** | **–36.2** |

### Offsetting Financial Instruments

Salzgitter AG concludes financial futures transactions only with core banks and solely on the basis of the standardized German Master Agreement on Financial Derivatives. This agreement contains a conditional netting agreement according to which – in the event of insolvency – the party that owes the higher amount pays the difference.

Derivatives with, respectively, positive or negative market values are not netted with each other in the balance sheet. The “not offset amount” column contains the amounts of the derivatives accounted for which do not satisfy the criteria for netting under IAS 32.42.

**As of 2019/12/31 in € m**

| | Gross book value | Offsetting amount | Net book value | Not offset amount | Total net book value |
|---|---|---|---|---|---|
| Positive market values derivates | 36.3 | – | 36.3 | 21.6 | 14.7 |
| Negative market values derivates | 32.1 | – | 32.1 | 21.6 | 10.5 |

**As of 2018/12/31 in € m**

| | Gross book value | Offsetting amount | Net book value | Not offset amount | Total net book value |
|---|---|---|---|---|---|
| Positive market values derivates | 52.2 | – | 52.2 | 3.3 | 48.8 |
| Negative market values derivates | 4.2 | – | 4.2 | 3.3 | 0.8 |

## (35) Notes to the Cash Flow Statement

In accordance with IAS 7, the cash flow statement depicts the development in cash flows, broken down into inflows and outflows of funds from current operating, investment and financing activities. The cash flow statement is derived from the consolidated financial statements of Salzgitter AG using the indirect method.

The cash and cash equivalents used consist of cash in hand, checks and cash at banks and term deposits (term of under three months).

In the cash inflow from operating activities, the income and expenses from fixed asset disposals have been eliminated. Interest income amounts to € 8.7 million (previous year € 7.8 million). Dividend income received during the financial year 2019 amounted to € 24.6 million (previous year € 16.5 million).

The investments disclosed in the cash outflow for investment activity include cash additions to intangible assets and property, plant and equipment as well as to non-current financial assets, in particular investments in shares in equity-accounted companies, as well as additions from recently acquired or newly founded companies, some of which are not consolidated, partly for reasons of materiality, for capital increases in non-consolidated companies and for securities (€ 8.8 million).

The cash inflows and outflows from/for financial investments comprise futures contracts and bond funds.

| In € m | As of 2019/01/01 | Cash inflow total | of which: cash inflow from financing cash flow | Cash outflow total | of which: cash outflow from financing cash flow | Addition/ disposal from changes in consoli- dated group | Currency differ- ences | Other changes | As of 2019/12/31 | of which non- current |
|---|---|---|---|---|---|---|---|---|---|---|
| Bonds | 162.0 | – | – | −16.8 | −16.8 | – | – | 4.1 | 149.3 | – |
| Loan payables and other financial liabilities | 556.0 | 786.5 | 652.1 | −546.3 | −381.0 | – | 2.2 | 119.5 | 918.0 | 637.1 |
| Liabilities to banks | 376.1 | 715.7 | 652.1 | −435.3 | −356.7 | – | 2.2 | −1.2 | 657.4 | 531.5 |
| Liabilities from factoring | 142.7 | 67.7 | – | −85.1 | – | – | – | – | 125.3 | – |
| Liabilities from financing | 8.1 | 3.1 | – | −1.5 | – | – | 0.0 | 0.1 | 9.8 | 3.1 |
| Liabilities from finance lease agreements | 29.2 | – | – | −24.3 | −24.3 | – | 0.0 | 120.6 | 125.5 | 102.5 |
| | **718.0** | **786.5** | **652.1** | **−563.0** | **−397.7** | **–** | **2.2** | **123.6** | **1,067.2** | **637.1** |

| In € m | As of 2018/01/01 | Cash inflow total | of which: cash inflow from financing cash flow | Cash outflow total | of which: cash outflow from financing cash flow | Addition/ disposal from changes in consoli- dated group | Currency differ- ences | Other changes | As of 2018/12/31 | of which non- current |
|---|---|---|---|---|---|---|---|---|---|---|
| Bonds | 157.9 | – | – | – | – | – | – | 4.0 | 162.0 | 162.0 |
| Loan payables and other financial liabilities | 513.7 | 192.1 | 15.9 | −154.4 | −16.8 | 2.2 | 2.2 | 0.2 | 556.0 | 129.2 |
| Liabilities to banks | 332.8 | 108.9 | 15.9 | −69.3 | −10.5 | 1.3 | 2.3 | 0.1 | 376.1 | 100.8 |
| Liabilities from factoring | 138.7 | 82.6 | – | −78.5 | – | – | – | – | 142.7 | – |
| Liabilities from financing | 7.5 | 0.6 | – | −0.0 | – | – | −0.0 | – | 8.1 | 6.3 |
| Liabilities from finance lease agreements | 34.7 | – | – | −6.5 | −6.3 | 0.9 | −0.0 | 0.1 | 29.2 | 22.1 |
| | **671.6** | **192.1** | **15.9** | **−154.4** | **−16.8** | **2.2** | **2.2** | **4.2** | **718.0** | **291.1** |

**(36) Notes to the Segment Reporting**

The segmentation of the Salzgitter Group into five business units accords with the Group's internal controlling and reporting functions. The main decision-maker is the Executive Board.

In the segment report, the business activities of the Salzgitter Group are assigned to the Strip Steel, Plate / Section Steel, Mannesmann, Trading, and Technology business units in accordance with the Group structure in line with different products and services.

The Strip Steel Business Unit manufactures high-quality branded steel and special steels. Its main products are hot-rolled strip steel and steel sheet, sections and tailored blanks.

The companies in the Plate / Section Steel Business Unit produce a broad spectrum of high-grade plate products. Further core product areas are sections production and scrap trading.

The Mannesmann Business Unit is concerned primarily with the manufacture of line pipes, HFI-welded tubes, precision tubes and stainless steel tubes.

The Trading Business Unit operates a tightly-knit European sales network, as well as trading companies and agencies worldwide that ensure that the Salzgitter Group's products and services are marketed efficiently.

The Technology Business Unit operates mainly in the filling and packing technology segment, as well as in special machinery engineering for shoe manufacturing and elastomer production.

Companies in "Industrial Participations" mainly comprise service providers working for the Group and comply with the summary in accordance with IFRS 8.16. Some of the companies among the service units also offer their services to third-party customers. On this basis, the companies conceive and implement a broad spectrum of attractive service offerings. These encompass raw materials supplies, IT services, facility management, logistics, automotive engineering and research and development. Included in the consolidations are Salzgitter AG as the management holding company, the intermediate holding companies Salzgitter Mannesmann GmbH, Salzgitter-Klöckner- Werke GmbH, and Salzgitter Finance B.V., as well as Aurubis AG.

The accounting principles are the same as described for the Group in its Accounting and Valuation Principles. The segment reporting does not take account of intragroup leases in accordance with IAS 16 or intragroup provisions pursuant to IAS 37. The same applies to open derivatives within the Group pursuant to IFRS 9.

The effects of eliminating intercompany results for overarching group relationships are included in the supplier's segment. The profit and loss statements for individual business units therefore comprise the effects of eliminating intercompany results across all business units.

There are no relationships with individual customers whose sales represent a significant proportion of the Group's total sales. For an overview of sales by region, please see Note (1) ↗ "Sales" in the Notes to the Income Statement. Non-current assets are allocated to countries by their respective location, and country allocations are disclosed for intangible assets, tangible assets and property investments.

| In € m | 2019 | 2018 |
|---|---|---|
| Domestic | 2,217.2 | 2,232.1 |
| Other EU | 93.6 | 95.6 |
| Rest of Europe | 0.8 | 0.1 |
| America | 94.3 | 83.0 |
| Asia | 15.1 | 9.7 |
| Africa | 2.3 | 1.2 |
| Australia / Oceania | 1.7 | 1.8 |
| | **2,425.1** | **2,423.4** |

The transition of total segment sales and segment results to, respectively, consolidated sales and the consolidated result from ordinary activities is disclosed in the following overviews:

| In € m | 2019 | 2018 |
|---|---|---|
| Total sales of the segments | 10,503.5 | 11,345.9 |
| Industrial Participations | 420.8 | 413.4 |
| Consolidation | –2,377.0 | –2,481.1 |
| **Sales** | **8,547.3** | **9,278.2** |

| In € m | 2019 | 2018 |
|---|---|---|
| Total results of the segments for the period | –206.6 | 318.9 |
| Industrial Participations | 7.0 | 33.7 |
| Consolidation | –53.7 | –5.3 |
| **Earnings before taxes (EBT)** | **–253.3** | **347.3** |

### (37) Related party disclosures

In addition to business relationships with companies that are consolidated fully in the consolidated financial statements, relationships also exist with associated companies and shareholdings that must be designated as related companies in accordance with IAS 24. The category of joint operations includes only Hüttenwerke Krupp Mannesmann GmbH, Duisburg. The category of other related parties includes the majority shareholdings and joint ventures of the State of Lower Saxony.

The following delivery and service relationships exist between companies in the consolidated group and companies related to the Salzgitter Group:

| In € m | Sale of goods and services | | Purchase of goods and services | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Non-consolidated group companies | 56.1 | 45.3 | 24.7 | 20.7 |
| Joint ventures | 63.8 | 259.0 | 18.5 | 3.1 |
| Joint operations | 2.2 | 4.1 | 1.1 | 1.1 |
| Associated companies | 1.0 | 1.5 | 17.6 | 5.4 |
| Other related parties | 2.8 | 1.9 | 1.0 | 2.2 |

Outstanding balances from deliveries and services arising from the purchase or sale of goods and services between companies in the consolidated group and companies related to the Salzgitter Group:

| In € m | Receivables | | Liabilities | |
|---|---|---|---|---|
| | 2019/12/31 | 2018/12/31 | 2019/12/31 | 2018/12/31 |
| Non-consolidated group companies | 9.9 | 42.4 | 3.0 | 3.0 |
| Joint ventures | 7.0 | 10.8 | 11.6 | 0.2 |
| Joint operations | 40.0 | 49.1 | 31.1 | 30.7 |
| Associated companies | 0.9 | 0.5 | 0.0 | 0.0 |
| Other related parties | 5.2 | 2.7 | 85.0 | 102.9 |

Receivables from companies with joint operations include a loan receivable from Hüttenwerke Krupp Mannesmann GmbH, Duisburg, 30% consolidated, amounting to € 39.9 million (previous year € 48.1 million) after consolidation.

The sale of goods and services largely consists of the delivery of input materials for manufacturing large-diameter pipes.

Contingencies totaling € 11.3 million (previous year € 7.8 million) exist in relation to non-consolidated associated companies.

### (38) Fees for the Auditor of the Consolidated Financial Statements that were reported as expenses in the financial year in accordance with Section (9) of the German Commercial Code (HGB)

| In € m | 2019 | 2018 |
|---|---|---|
| Audit services | 2.8 | 2.7 |
| Other certification or assessment services | 0.3 | 0.2 |
| Tax consulting services | 0.0 | 0.0 |
| Other services | 0.0 | 0.0 |

Expenses relating to other auditors were incurred in an amount of below € 0.1 million (previous year below € 0.1 million) for the auditing of the annual financial statements of consolidated German-based companies.

Payments for the audit of financial statements comprise above all fees for the audit of the consolidated financial statements as well as the legally required audits of Salzgitter AG and the subsidiaries included in the consolidated financial statements. Other assurance and audit-related activities pertained virtually exclusively to energy certifications and EMIR audits conducted on behalf of Salzgitter AG and the companies it controls. In addition, tax advisory services were provided to an insignificant extent, particularly concerning the area of transfer pricing documentation.

### (39) Significant Events occurring after the reporting date

There were no significant events occurring after the reporting date.

## (40) Waiver of disclosure and preparation of a management report pursuant to Section 264 (3) or Section 264b of the German Commercial Code (HGB)

The following fully consolidated domestic subsidiaries have fulfilled the conditions required under Section 264 (3) or Section 264b of the German Commercial Code (HGB) and are therefore exempted from disclosure of their financial statements and from the obligation to prepare a management report.

- Salzgitter Mannesmann GmbH, Salzgitter[1) 2)]
- Salzgitter Klöckner-Werke GmbH, Salzgitter[1) 2)]
- Salzgitter Flachstahl GmbH, Salzgitter
- Salzgitter Bauelemente GmbH, Salzgitter[1)]
- Salzgitter Europlatinen GmbH, Salzgitter[1)]
- Hövelmann & Lueg Vermögensverwaltung GmbH, Schwerte[1)]
- Salzgitter Mannesmann Stahlservice GmbH, Karlsruhe[1)]
- Peiner Träger GmbH, Peine
- Ilsenburger Grobblech GmbH, Ilsenburg
- Salzgitter Mannesmann Grobblech GmbH, Mülheim
- DEUMU Deutsche Erz- und Metall-Union GmbH, Peine[1) 2)]
- BSH Braunschweiger Schrotthandel GmbH, Braunschweig[1)]
- Mannesmann Verwaltung GmbH, Mülheim[1)]
- Mannesmann Precision Tubes GmbH, Mülheim[1) 2)]
- Mannesmannröhren-Werk GmbH, Zeithain[1)]
- Mannesmann Line Pipe GmbH, Siegen[1)]
- Mannesmann Grossrohr GmbH, Salzgitter[1)]
- Mannesmann Stainless Tubes GmbH, Mülheim[1) 2)]
- Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid[1)]
- Salzgitter Mannesmann Handel GmbH, Düsseldorf[1) 2)]
- Salzgitter Mannesmann International GmbH, Düsseldorf[1) 2)]
- Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf[1) 2)]
- Stahl-Center Baunatal GmbH, Baunatal[1)]
- Universal Eisen und Stahl GmbH, Neuss[1) 2)]

Furthermore, the company VPS Infrastruktur Salzgitter GmbH, Salzgitter, has, in accordance with Section 264 (3) HGB, made use of its right to waive the preparation of a management report.

- KHS GmbH, Dortmund[2)]
- KHS Corpoplast GmbH, Hamburg[1)]
- DESMA Schuhmaschinen GmbH, Achim[1) 2)]
- Klöckner DESMA Elastomertechnik GmbH, Fridingen[1) 2)]
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg
- GESIS Gesellschaft für Informationssysteme mbH, Salzgitter[1)]
- TELCAT MULTICOM GmbH, Salzgitter[1) 2)]
- TELCAT KOMMUNIKATIONSTECHNIK GmbH, Salzgitter[1)]
- Glückauf Immobilien GmbH, Peine[1)]
- Salzgitter Mannesmann Forschung GmbH, Salzgitter[1)]
- Salzgitter Business Service GmbH, Salzgitter[1)]
- Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau[1) 2)]
- Salzgitter Hydroforming Verwaltungs GmbH, Crimmitschau[1)]
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück[1) 2)]
- Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück[1)]
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück[1)]
- RSE Projektentwicklungs-GmbH, Mülheim[1)]
- Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter[1) 2)]

[1)] Use was made of the option under Section 264 (3) and 264b to waive the preparation of Notes.

[2)] Use was made of the option under Section 291 to waive the preparation of consolidated financial statements and a group management report.

### (41) Disclosures on the Remuneration of the Executive Board, Supervisory Board and other Members of the Key Management Personnel

Key management personnel pursuant to IAS 24 comprises the members of Group's Executive Board and the members of the Supervisory Board. In addition to the active members of the Executive Board, the Group Management Board comprises the heads of the Salzgitter Group's five business units. In the tables below, they are referred to as "other members of key management personnel".

Remuneration from the Salzgitter Group:

| In € m | Short-term employee benefits (salary and other compensation) | | Post-employment benefits (pension obligation) | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Current members of the Executive Board | 2.9 | 4.4 | 1.4 | 0.8 |
| Members of the Supervisory Board | 1.7 | 1.7 | – | – |
| Other members of the key management personel | 2.5 | 3.2 | 0.3 | 0.3 |

In addition to the amounts disclosed, the employee representatives on the Supervisory Board who are employees of the Salzgitter Group received their salaries within the scope of their employment contracts. Their amount constituted remuneration that is appropriate for their functions and tasks in the Group.

Obligations of the Salzgitter Group:

| In € m | Short-term employee benefits (salary and other compensation) | | Post-employment benefits (pension obligation) | |
|---|---|---|---|---|
| | 2019/12/31 | 2018/12/31 | 2019/12/31 | 2018/12/31 |
| Former members of the Executive Board | – | – | 51.5 | 51.0 |
| Current members of the Executive Board | 0.4 | 1.9 | 33.0 | 29.2 |
| Members of the Supervisory Board | – | – | – | – |
| Other members of the key management personel | 0.7 | 1.5 | 8.1 | 6.0 |

The obligations arising from short-term employee benefits include the variable annual remuneration that is paid out in the respective subsequent year.

Former members of the Executive Board and their surviving dependents received pensions totaling € 2.9 million (previous year € 2.9 million).

Further obligations of the Salzgitter Group from share-based payments and other long-term employee benefits:

| In € m | Share-based payment | Other long-term employee benefits |
|---|---|---|
| | 2019/12/31 | 2019/12/31 |
| Current members of the Executive Board | 0.1 | 0.1 |

All entitlements in existence as of December 31, 2019 resulting from share-based remuneration programs are reported as remuneration with cash settlement.

As of the closing date, a long-term incentive program has been put in place for members of the Executive Board based on virtual shares. Each member of the Board is assigned an individual target for each financial year which is converted into a number of virtual shares at the end of the financial year depending on whether the target has been met.

The degree to which the target has been met is determined at the end of the first financial year and converted into virtual shares. 70% of the degree of attainment is based on the EBT figure generated by the Salzgitter Group. The payment factor is determined by comparing the figure with the EBT figure from the previous year. If EBT has remained the same, the payment amount is 100%. If an increase of 50% is achieved, the payment factor is 150% (maximum value). If EBT falls by 50%, the payment factor is 50% (minimum value). Linear interpolation is applied between the minimum and maximum figures. If the minimum payment factor is not reached, the payment factor is 0%. If EBT is negative for a second successive year, of if EBT in the previous year and in the current financial year is less than € 1 million in each case, the Supervisory Board can use its discretion in defining target attainment.

The remaining 30% of the total degree of target attainment is determined on the basis of the Board member's individual performance in the financial year. In setting the criteria for individual performance, the Supervisory Board can take a series of aspects into account, e.g. the strategic development of the company, special projects, occupational safety or employee development. The Supervisory Board will use its discretion in assessing individual performance at the end of the financial year on the basis of the criteria previously defined. The Supervisory Board can set a linear degree of achievement between 0% and 150%.

Half of the annual bonus determined will be due in cash immediately after the Supervisory Board has defined the degree to which the respective targets have been met. The remaining 50% of the calculated annual bonus will be transferred to a virtual share deferral scheme. The share deferral scheme is subject to a three-year lockup. The lockup begins at the end of the financial year for which the annual bonus is granted. The number of shares at the start of the lockup is calculated by dividing the starting figure by the initial share price. The initial share price is deemed to be the arithmetical average of the Xetra closing price for the Salzgitter stock at the Frankfurt Stock Exchange over the last 30 days of trading before the lockup begins.

The entitlement to cash settlement of the virtual shares determined arises after the three-year lockup has ended. At this time, the virtual shares will be multiplied by an average share price at the end of the lockup plus notional dividend payments accruing to the virtual shares during the lockup. The initial share price is determined on the basis of the arithmetical average of the Xetra closing price for the Salzgitter stock at the Frankfurt Stock Exchange over the last 30 days of trading before the lockup ends. The resulting payment is limited to 150% of the starting value.

If an executive Board member's employment relationship is terminated in the course of a financial year by way of summary dismissal by the company for good cause as defined by Section 626 (1) of the German Civil Code (BGB) or terminated prematurely at the instigation of the Board member without the company having given any good cause for such premature termination as defined by Section 626 (1) BGB and without there being any change of control as defined by the Executive Board member's contract of employment, all entitlements from running share deferral schemes for which the lockup period has not yet expired at the time when notice is served will lapse without replacement or compensation.

In the event that a member of the Executive Board leaves the company in compliance with their contract, running tranches of virtual shares whose lockup period has not yet expired will be settled and paid at the end of the lockup period.

Personnel expenses will be distributed over the period of performance in accordance with the provisions of IFRS 2.

In the 2019 financial year, personnel expenses of € 0.1 million were recognized in profit or loss due to share-based remuneration with cash settlement.

Detailed supplementary information about the remuneration of the individual members of the Executive Board and Supervisory Board is disclosed in the “Group Management Report and Management Report of Salzgitter AG” in the section entitled ↗ “Management and Control”.

### (42) Assurance from the Legal Representatives

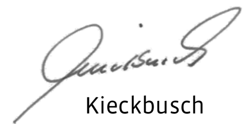
We give our assurance that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and that the course of business, including the business result and the position of the Group, is portrayed in such a way in the Group Management Report that a true and accurate picture is conveyed and that the significant opportunities and risks of the Group's future development are fairly described.

Salzgitter, March 12, 2020

The Executive Board

Fuhrmann

Becker


Kieckbusch

# Audit certificate

**"INDEPENDENT AUDITOR'S REPORT**

To Salzgitter Aktiengesellschaft, Salzgitter

**REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT**

**Audit Opinions**

We have audited the consolidated financial statements of Salzgitter Aktiengesellschaft, Salzgitter, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Salzgitter Aktiengesellschaft, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

1. the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and

2. the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

**Basis for the Audit Opinions**

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10

(2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

**Key Audit Matters in the Audit of the Consolidated Financial Statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

(1) Recoverability of intangible assets and property, plant and equipment

(2) Deferred tax assets in particular relating to tax loss carryforwards

(3) Pension provisions

Our presentation of these key audit matters has been structured in each case as follows:

1 Matter and issue

2 Audit approach and findings

3 Reference to further information

Hereinafter we present the key audit matters:

**(1) Recoverability of intangible assets and property, plant and equipment**

1 In the consolidated financial statements of the Company a total amount of € 2,343 million is reported under the “Intangible assets” and “Property, plant and equipment” balance sheet items. The recoverability of the intangible assets and property, plant and equipment was reviewed as of the balance sheet date by means of impairment tests in accordance with IAS 36. This measurement is based on the present value of future cash flows from the cash-generating units to which the relevant assets are allocated. The present value is calculated using discounted cash flow models on the basis of the Group's three-year operating plan prepared by the executive directors and acknowledged by the supervisory board and extrapolated on the basis of assumptions about, for example, long-term rates of growth in order to portray a sustainable condition over the long term (“perpetual annuity”). The discount rate used is the weighted cost of capital for the relevant cash-generating unit. The result of this measurement depends to a large extent on the estimate by the Company's executive directors of the future cash inflows and outflows of the respective cash-generating unit and the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the methodological requirements for the impairment tests, this matter was of particular significance in the context of our audit.

2 As part of our audit, we reviewed the methodology used for the purposes of performing the impairment tests and assessed the calculation of the weighted cost of capital, among other things. We evaluated the appropriateness of the future cash inflows and outflows used in the measurement by, inter alia, comparing this data with the current budgets in the three-year plan prepared by the executive directors and acknowledged by the supervisory board, and by reconciling them against general and sector-specific market expectations. We also reviewed the assumptions made by the executive directors for the purpose of their impairment assessments relating to the effects of the proposed reform of EU emissions trading from 2021. In addition, we assessed whether the costs for Group functions included in the segment reporting were properly

reflected in the impairment tests of the respective cash-generating unit. In the knowledge that even relatively small changes in the discount rate applied can have material effects on the value of the entity calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, including the weighted cost of capital, and evaluated the calculation model. Furthermore, we performed our own additional sensitivity analyses for those cash-generating units with low headroom (excess of present value over the carrying amount). Overall, the measurement parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3 The Company's disclosures relating to intangible assets and property, plant and equipment are contained in the section entitled "Accounting and Valuation Principles" and in notes 5, 9 and 10 of the notes to the consolidated financial statements.

**(2) Deferred tax assets in particular relating to tax loss carryforwards**

1 In the consolidated financial statements of the Company deferred tax assets of € 492 million, of which € 65 million represent tax loss carryforwards, are reported. Deferred tax assets are recognized on temporary differences and tax loss carryforwards to the extent that the executive directors consider it probable that taxable profits will be available in the future which will enable the deductible temporary differences and tax losses to be utilized. If insufficient deferred tax liabilities are available, forecasts of future taxable profits are determined for this purpose. These taxable profits are taken from the tax planning projections prepared by the executive directors which are derived from the Group's multi-year plan for 2020 to 2022. In addition, there are deferred taxes on temporary differences amounting to € 99 million, relating mainly to German companies, and German trade and corporation tax loss carryforwards amounting to € 1,453 million and € 1,825 million, respectively, as well as foreign loss carryforwards amounting to € 145 million, for which no deferred tax assets have been recognized. In the estimation of the executive directors, it is unlikely that it will be possible to utilize these amounts for tax purposes by offsetting them against taxable profits.

In our view, the accounting treatment of the deferred tax assets was of particular significance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

2 As part of our audit, we involved internal specialists from our Tax Reporting & Strategy department in connection with assessing the recoverability of the tax items and the appropriateness of their accounting treatment. With their assistance, we reviewed, among other things, the internal processes and controls for recording tax matters as well as the methodology adopted for the determination, accounting treatment and measurement of deferred taxes. We further assessed the recoverability of the deferred taxes recognized in relation to tax loss carryforwards and deductible temporary differences on the basis of the Company's internal forecasts of the future taxable earnings situation of the German tax group for income tax purposes by comparing them with the tax planning projections prepared by the executive directors and derived from the multi-year plan for 2020 to 2022, and we evaluated the appropriateness of the underlying estimates.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3 The Company's disclosures relating to the deferred tax assets and tax loss carryforwards are contained in the notes to the consolidated financial statements in the section entitled "Accounting and Valuation Principles" as well as in note 7 and note 14.

### (3) Pension provisions

1 In the consolidated financial statements of the Company pension provisions totaling € 2,356 million (27 % of consolidated total assets), a portion of which is funded by plan assets (mainly investment funds), are reported under the “Provisions for pensions and similar obligations” balance sheet item. The pension provisions comprise the present value of the obligations amounting to € 2,422 million, net of plan assets measured at fair value of € 66 million. The obligations in Germany represent collective and individual pension commitments in the form of direct commitments by the employer. Obligations under defined benefit plans are measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, life expectancy, and staff turnover. Furthermore, the discount rate must be determined as of the balance sheet date by reference to the yield on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since sufficient long-term corporate bonds do not exist. Changes to these actuarial assumptions and experience adjustments are recognized in other comprehensive income as actuarial gains or losses. Actuarial losses amounting to € 127 million arose during the reporting period. The plan assets are measured at fair value, which in turn involves making estimates that are subject to uncertainty. The income for the plan assets (excluding amounts included in net interest income) is recorded together with actuarial gains or losses in other comprehensive income as a gain or loss on revaluation and amounted to € 5 million in the reporting period.

In our view, these matters were of particular significance in the context of our audit because the recognition and measurement of this item – which is significant in terms of its amount – are based to a large extent on the estimates and assumptions made by the Company's executive directors.

2 As part of our audit, we evaluated, with the assistance of our pensions specialists, the actuarial expert reports obtained and the professional qualifications of the external experts, among other things. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with standards and appropriateness, in addition to other procedures. In addition, we analyzed the development of the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and assessed their plausibility. For the purposes of our audit of the fair value of the plan assets, we obtained bank and fund confirmations.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3 The Company's disclosures relating to the pension provisions are contained in the section entitled “Accounting and Valuation Principles” and in note 26 of the notes to the consolidated financial statements.

### Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

1 the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section I.3 of the group management report

2 the separate non-financial group report pursuant to § 315b Abs. 3 HGB.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

**Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

**OTHER LEGAL AND REGULATORY REQUIREMENTS**

**Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as group auditor by the annual general meeting on May 23, 2019. We were engaged by the supervisory board on June 6, 2019. We have been the group auditor of Salzgitter Aktiengesellschaft, Salzgitter, without interruption since financial year 1938.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

**GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT**

**The German Public Auditor responsible for the engagement is Martin Schröder.”**

Hanover, March 12, 2020

PricewaterhouseCoopers
GmbH
Wirtschaftsprüfungsgesellschaft

| signed | signed |
|---|---|
| Martin Schröder | ppa. Stephan Hachmeyer |
| Auditor | Auditor |

Some of the statements made in this report have the character of forecasts or can be interpreted as such. They have been made to the best of our knowledge and belief, and by the nature of things, they apply on the condition that no unforeseeable deterioration in the economy or the specific market situation for companies in the business segments occurs, and that the basis for planning and forecasting proves, as expected, to be accurate in terms of its scope and timeframe. Notwithstanding existing statutory requirements, particularly in terms of the regulations governing capital markets, the company accepts no obligation to continually update forward-looking statements which are based solely on the circumstances on the day of publication.

For computational reasons, rounding differences amounting to ± one unit (€, %, etc.) may occur in the tables.

To improve readability, we only use the male form in the present annual report. Personal designations always apply to both genders.

The annual report of Salzgitter AG is also available in an English translation. In the event of discrepancies, the German version takes precedence over the English version..

# Editorial Details and Contact

**Contact**
SALZGITTER AG
Eisenhüttenstraße 99
38239 Salzgitter
Germany

**Postal address**
38223 Salzgitter
Germany

**Public Relations**
Telephone: +49 (0)53 41/21-27 01
Telefax: +49 (0)53 41/21-23 02

**Investor Relations**
Telephone: +49 (0)53 41/21-18 52
Telefax: +49 (0)53 41/21-25 70

**Publisher**
SALZGITTER AG

**Concept and Design**
wirDesign Berlin Braunschweig

**Editorial Office**
SALZGITTER AG, Investor Relations

**Translation**
Baker & Company, Munich

**Printed by**
oeding print GmbH, Braunschweig

This annual report was prepared with the support of the firesys editorial system.

20