20

# Annual Report 2020

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 € 7 billion in 2020, a crude steel capacity of 7 million tons and a workforce of more than 24,000 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

# The Salzgitter Group in Figures

| | | 2020 | 2019 |
|---|---|---|---|
| **Crude steel production** | **kt** | **6,033** | **6,613** |
| **External sales** | **€ m** | **7,091** | **8,547** |
| Strip Steel Business Unit | € m | 1,880 | 2,209 |
| Plate/Section Steel Business Unit | € m | 684 | 805 |
| Mannesmann Business Unit | € m | 947 | 1,120 |
| Trading Business Unit | € m | 2,225 | 2,846 |
| Technology Business Unit | € m | 1,207 | 1,390 |
| Industrial Participations/Consolidation | € m | 148 | 178 |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **176** | **354** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **–119** | **–188** |
| **Earnings before taxes (EBT)** | **€ m** | **–196** | **–253** |
| Strip Steel Business Unit | € m | –87 | –43 |
| Plate/Section Steel Business Unit | € m | –94 | –124 |
| Mannesmann Business Unit | € m | –62 | –42 |
| Trading Business Unit | € m | 25 | –31 |
| Technology Business Unit | € m | 1 | 33 |
| Industrial Participations/Consolidation | € m | 21 | –47 |
| **Consolidated result** | **€ m** | **–274** | **–237** |
| **Earnings per share – basic** | **€** | **–5.13** | **–4.46** |
| **Return on capital employed (ROCE)**[1] | **%** | **–3.9** | **–5.8** |
| **Cash flow from operating activities** | **€ m** | **18** | **251** |
| **Investments**[2] | **€ m** | **411** | **593** |
| **Depreciation/amortization**[2][3] | **€ m** | **–295** | **–541** |
| **Total assets** | **€ m** | **8,237** | **8,618** |
| **Non-current assets** | **€ m** | **4,244** | **4,099** |
| **Current assets** | **€ m** | **3,993** | **4,519** |
| Inventories | € m | 1,934 | 2,248 |
| Cash and cash equivalents | € m | 621 | 701 |
| **Equity** | **€ m** | **2,679** | **2,939** |
| **Liabilities** | **€ m** | **5,559** | **5,679** |
| Non-current liabilities | € m | 3,476 | 3,454 |
| Current liabilities | € m | 2,082 | 2,225 |
| of which due to banks[4] | € m | 885 | 783 |
| **Net financial position on the reporting date**[5] | **€ m** | **–432** | **–140** |
| **Employees** | | | |
| Personnel expenses | € m | –1,654 | –1,816 |
| Core workforce on the reporting date[6] | Employees | 22,604 | 23,354 |
| Total workforce on the reporting date[7] | Employees | 24,416 | 25,227 |

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 FY 2019 under 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

# Letter of the Executive Board

Valued Shareholders,
Ladies and Gentlemen:

With a long stream of events, the year 2020 excelled in its dynamics to go down in modern history as an indelible milestone for society in general: With the onset of the coronavirus pandemic, also in Europe, daily life as we knew it changed overnight. A year has passed since the beginning of the first lockdown. And we now see that, despite considerable differences from country to country, European civil society, adjoined to the economy, is setting a new course in addressing fundamental topics. This course is determined by two clearly discernible factors: firstly, an accelerating drive for stability, and secondly growing willingness to embrace longer-term approaches.

We at Salzgitter AG attributed great importance to these two aspects long before the crisis. This said, the past year was confirmation for us that our strategy, with its balanced portfolio aligned to the long term, has set us on the right path. Moreover, the year brought another very important aspect to light: **Our company remains firmly positioned and rooted, also in times of crisis.**

There can be no question about it: The past year presented all-engrossing challenges for Salzgitter AG. Our task was to deal with significant additional challenges on top of our business that is conducted in an already extremely competitive environment. With the outbreak of the pandemic, production in the automotive industry, one of our key customer sectors, went into free fall. At times, production was almost at zero. In some other customer segments, the situation was not much better. The outcome: Particularly in the first half-year, production capacity utilization in our companies collapsed by up to 70% in some cases.

We responded to the huge slumps in demand by introducing short-time work in large parts of the Group. In doing so, we voluntarily took on additional responsibility: For instance, we continued to pay remuneration to our core workforce and temporary workers at our KHS site in India during the national lockdown. In parallel, several hundred managers, including members of the Executive Board, the Group Management Board and the Supervisory Board waived parts of their salary.

We owe our thanks to the strong identification of our almost 25,000 employees with their – and our – company that we were able to keep operations running in the past year and successfully continue to implement our key projects – despite restrictions that necessitated heightened awareness. With our management team as a basis, we ensured that our employees across the entire Group were able to carry out their tasks as safely as possible.

SALCOS® is the core project with which we are paving our course into the future. With this project, we are addressing Europe's ambitious climate requirements and, together with our research partners, are developing benchmark solutions for avoiding $CO_2$ emissions in the steel industry. By implementing the "Wind Hydrogen Salzgitter" project in 2020 we realized the first industrial cross-sector combining of renewable energy, hydrogen production and industrial consumption at a single location in Germany. We achieved another milestone on the path to hydrogen-based steel production through the installation of the world's currently largest high-temperature electrolyzer.

The next SALCOS® building block involves the construction of the first direct reduced iron production (DRI) plant to be operated alternatively with hydrogen and natural gas. We were given the relevant funding approval for implementation by Federal Environment Minister Svenja Schulze in December. We are also now in the process of investigating whether the Wilhelmshaven site is suitable for scaling up electrolysis and DRI capacities.

Producing green strip steel in our Peine mini mill bears testimony to our pioneering role in low $CO_2$ steel production. Since the end of last year we have been able to offer our customers real, physical reduced $CO_2$ strip steel products rather than more or less theoretical $CO_2$ footprint projections.

**We are more than confident that our strategy of $CO_2$ avoidance will confer a competitive advantage on us in the global arena**, with the result that our economic data will likewise improve substantially and sustainably. One thing is clear: The time will come when we will have put the Corona crisis behind us. Decarbonization will then reclaim its place as a defining issue – and not only in our industry. We are optimally positioned as a pioneer in this field.

Notwithstanding this extensive progress, we will now address the bare figures for 2020. Following a very difficult first half year and a notable recovery, especially in the fourth quarter, the Group reported a negative pre-tax result of € –196 million for 2020. A large part of this is attributable to the aforementioned general conditions prevailing in the past year.

The fact that the result improved compared with 2019, despite the pandemic, is essentially due to our rigorous and equally successful cost and liquidity management. Investments that were not in the implementation stage or not directly linked with our operating ability were largely shelved. The two major strategic projects formed an exception here: the third hot dip galvanizing line in Salzgitter and the new heat treatment line in Ilsenburg. In December, the first plate was successfully produced on Ilsenburg's new heat treatment line. In terms of production technology, we occupy an excellent position.

Valued Shareholders,

We have held our ground well in a challenging financial year and taken the development of our company forward. Salzgitter AG remains firmly anchored, with its solid financial footing, sound balance sheet and an equity ratio of 33 %. The strategic replenishing of our participating investments in Aurubis AG to virtually 30 % was an astute move. Procuring $CO_2$ allowances as a precautionary measure for the fourth period of the EU emission trading scheme that commenced on January 1, 2021 also proved to be extremely worthwile. Thanks to these measures – compared with the respective costs of procurement – we now have a hidden reserve in the upper triple-digit million range. The capital market rewarded all this with a positive share price trend. The value of the Salzgitter share rose by 10 % over the course of the year.

All things considered, however, the commercial result dictates that a dividend payout for the recent financial year is not possible. With signs of a significant improvement in the financial situation in the current year, we expect that we will be able to resume dividend distribution again in 2022.

May we thank you as our esteemed Shareholders and our business partners for the trust you have placed in our company in this exceptional year. Our thanks go to our employees for their outstanding performance. Together with you, we are looking forward to mastering the tasks that lie ahead.

Sincerely,

Jörg Fuhrmann — Burkhard Becker — Michael Kieckbusch

Prof. Dr.-Ing. Heinz Jörg Fuhrmann — Burkhard Becker — Michael Kieckbusch

**Prof. Dr.-Ing. Heinz Jörg Fuhrmann**
Chairman of the Executive Board

**Burkhard Becker**
Member of the Executive Board, Finance

**Michael Kieckbusch**
Member of the Executive Board, Personnel

**Ulrich Grethe**
Head of the Strip Steel Business Unit

**Volker Schult**
Head of the Trading Business Unit

**Dr. Sebastian Bross**
Head of the Plate/Section Steel Business Unit

**Kai Acker**
Head of the Technology Business Unit

# Report of the Supervisory Board

Chairman of the Supervisory Board
Heinz-Gerhard Wente

The Salzgitter Group's financial year 2020 was determined by the repercussions of the Corona pandemic, as was all global economic activity. The effects and the resulting recession also impacted Europe's steel industry from mid-March onward. The weakness of important customer groups, such as the automotive industry and mechanical engineering, caused demand to plunge in almost all the Salzgitter Group's companies. Immediate measures cushioned the impact on the earnings situation to the greatest possible extent. A partial recovery took place in the fourth quarter on the back of an upturn in the order intake of the Strip Steel, Trading and Technology business units. In this environment, the Group was unable to deliver a positive result. Uncertainty continues to prevail in 2021 against the backdrop of the virtually unforeseeable nature of the general economic development.

In the financial year, the Salzgitter Group rigorously expedited its existing efficiency and growth programs, also enabling it to counteract the poor economic conditions through these activities. The goal of producing low $CO_2$ steel in the future was vigorously pursued. A wind farm with seven turbines was taken into operation at the Salzgitter site to produce hydrogen from renewable energies, with the associated hydrogen electrolysis currently in the ramping up stage. The contract to build pilot facilities for the direct reduction of iron ore has been awarded. Furthermore, the Group continued to lobby at all political levels to gain necessary financial support for its SALCOS® (SAlzgitter Low $CO_2$ Steelmaking) concept and for creating the necessary framework conditions to promote the transformation from coal-based to low $CO_2$ 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 2020 about the situation of the Group and the development of business. The Executive Board informed the Supervisory Board by way of detailed written quarterly 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 held five meetings to obtain 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 the Supervisory Board. 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.

With regard to the special challenges presented by the Corona crisis, we agreed “Corona reports” with the Executive Board that were presented to us in written form six times in total over the period from May through November. The individual reports were followed up by telephone conferences between the Executive Board and the Supervisory Board during which discussions were held on the key issues in the current situation and any questions answered. Emphasis must be placed on the fact that the Executive Board presented scenarios enabling the company’s situation, based on the respective results, to be reviewed at all times in relation to the pandemic and the measures implemented by the Executive Board.

The Supervisory Board held regular meetings in the reporting year, in the months of March, May, September and December, and convened an extraordinary meeting in October. The attendance rate at the Supervisory Board meetings totaled 94%. 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 the 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.

**Focus of the consultations of the Supervisory Board**
In its meeting on March 12, 2020, and as is customary in March meetings, the Supervisory Board focused primarily on the financial statements of Salzgitter AG and of the Group, both drawn up as of December 31, 2019, as well as on the combined management report on the company and the Group for the financial year 2019. The representatives of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, the auditor selected by the Annual 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, the Supervisory Board determined the extent to which defined targets were achieved, based on fixed performance criteria, to ascertain the Executive Board’s variable remuneration in 2019. In addition, it adopted its report to the Annual General Meeting of Shareholders and proposals for resolutions on the individual items of the agenda for the 2020 Annual General Meeting, in particular the proposal to select Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as the new external auditor. The Supervisory Board also consulted on the recommendations of the thoroughly revised version of the German Corporate Governance Code from December 16, 2019, on the business development, especially in the large-diameter tubes segment, and on the endeavors of the steel industry to address decarbonization in steel production. Moreover, the Supervisory Board decided, on the basis of the Presiding Committee’s recommendation, to reappoint Mr Burkhard Becker as a member of Salzgitter AG’s Executive Board for a term of office from February 1, 2021 through January 31, 2024, including the corresponding renewal of his employment contract, and to extend the term of office of Mr Volker Schult as head of the Trading Business Unit from January 1, 2021 through December 31, 2023.

The main topics of consultation addressed by the Supervisory Board in its meeting on May 28, 2020 that took place in the form of a web conference due to the Corona pandemic included the Supervisory Board’s assessment of itself (efficiency audit), the status reached by major investments, as well as the efficiency and growth program. Moreover, the Supervisory Board deliberated in detail on the current business situation with respect to the Corona pandemic. Beyond this, it approved the holding of the regular 2020 Annual General Meeting of Shareholders as a virtual meeting and resolved a change in the proposal for the distribution of profit.

In its meeting on September 17, 2020, the Supervisory Board addressed the issue of the future composition of the Executive Board as from mid-2021 and the most recent business development, in particular the stage reached by the investment undertaking at Salzgitter Flachstahl GmbH ("Hot Dip Galvanizing Line 3") and at Ilsenburger Grobblech GmbH ("New Heat Treatment Line"). The Supervisory Board also kept itself informed about progress made with the SALCOS® project, including the next steps toward decarbonizing steel production and about discussions held with policymakers on this topic. The Supervisory Board also had the Executive Board report in writing and orally on the Group's compliance management system and on investigated activities. The Supervisory Board consulted in detail about the current consequences of the Corona pandemic and the potential impact on the development of business.

Along with the current challenges in the steel market, the Supervisory Board discussed the issue of the future composition of the Executive Board in its meeting on October 17, 2020. As Chief Executive Officer Prof. Dr.-Ing. Fuhrmann is due to retire on June 30, 2021, the Supervisory Board appointed Dipl.-Ing. Gunnar Groebler, subsequent to a search and selection process, as a member of the Executive Board over the period from May 15, 2021 through September 30, 2024, and to the position of Chief Executive Officer and Chairman of the Executive Board, effective July 1, 2021.

On December 2, 2020, the Supervisory Board and the Executive Board intensively discussed the corporate plan submitted and explained by the latter for the financial years 2021 through 2023. The Supervisory Board was also brought up to date on the SALCOS® project. Other topics of consultation in this meeting, included the imminent defining of qualitative criteria for assessing the performance of the individual Executive Board members as well as the stakeholder objectives for the performance period from 2021 through 2024. The Supervisory Board also concerned itself with the recommendations of the German Corporate Governance Code for purpose of submitting the Declaration of Conformity for 2020.

**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 2020. These meetings covered particularly important questions on how business was developing, especially in view of the impact of the Corona pandemic, and on the corporate strategy. The Presiding Committee dealt with the components of the Executive Board's variable remuneration and the Supervisory Board's self-assessment. In addition, the recommendations of the extensively revised version of the German Corporate Governance Code constituted an important topic.

The members of the Audit Committee held four meetings in the period under review. In March, it discussed the audit of the 2019 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 2019 non-financial report on the Group in preparation. The consultations of further meetings of the Audit Committee focused on IT security and IT structures, monitoring the accounting process, as well as the effectiveness of the internal control system and risk management system. Moreover, the Audit Committee obtained detailed information on the Group's compliance management system and compliance measures. 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 2020 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, in this context including the scope of non-audit services provided by the auditor in addition to the audit of the financial statements. The quarterly financial reporting of the Group was discussed in detail with the Executive Board before publication.

In March 2021, following a detailed preliminary review, the Audit Committee recommended that the full Supervisory Board approve the 2020 annual financial statements at company and at Group level. Its preliminary review of the 2020 non-financial report on the Group did not give rise to any objections either.

The Strategy Committee met once in 2020. A central issue in this context concerned the stage reached by the implementation of the key strategic cornerstones for the Group's further development, following on from previous years when emphasis was placed on topics such as the principles of the corporate strategy, digitalization and a review of the status of the current corporate portfolio.

The Nomination Committee held one meeting in 2020.

**Participation of the Supervisory Board members in Supervisory Board and committee meetings in the financial year 2020**

| Members of the Supervisory Board | Supervisory Board Meetings (5) | Presiding Committee (5) | Audit Committee (4) | Strategy Committee (1) | Nomination Committee (1) | Attendance |
|---|---|---|---|---|---|---|
| Heinz-Gerhard Wente, Chairman | 5/5 | 5/5 | / | 1/1 | 1/1 | 100% |
| Dr. Hans-Jürgen Urban, Vice Chairman | 5/5 | 5/5 | / | 1/1 | / | 100% |
| Konrad Ackermann | 5/5 | / | 3/4 | 1/1 | / | 90% |
| Ulrike Brouzi | 4/5 | / | / | / | / | 80% |
| Annelie Buntenbach | 5/5 | / | / | / | / | 100% |
| Hasan Cakir | 4/5 | 5/5 | / | 1/1 | / | 91% |
| Dr. Bernd Drouven | 3/5 | / | / | 1/1 | / | 67% |
| Roland Flach | 5/5 | / | 4/4 | / | / | 100% |
| Gabriele Handke | 5/5 | / | / | / | / | 100% |
| Reinhold Hilbers | 5/5 | 5/5 | / | 1/1 | 1/1 | 100% |
| Norbert Keller | 3/5 | / | / | / | / | 60% |
| Prof. Dr. Susanne Knorre | 5/5 | / | / | / | / | 100% |
| Dr. Dieter Köster | 5/5 | / | / | / | / | 100% |
| Heinz Kreuzer | 5/5 | / | / | / | / | 100% |
| Bernd Lauenroth | 5/5 | / | 4/4 | 1/1 | / | 100% |
| Volker Mittelstädt | 5/5 | / | / | / | / | 100% |
| Prof. Dr. Joachim Schindler | 5/5 | / | 4/4 | / | / | 100% |
| Christine Seemann | 5/5 | / | / | / | / | 100% |
| Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer | 5/5 | / | / | 1/1 | / | 100% |
| Clemens Spiller | 5/5 | / | / | / | / | 100% |
| Dr. Werner Tegtmeier | 5/5 | / | / | / | / | 100% |

**Audit of the Annual Financial Statements of Salzgitter AG and the Consolidated Financial Statements**
In its meeting on March 10, 2021, the Supervisory Board examined the financial statements of Salzgitter AG (SZAG) and of the Group, both drawn up as of December 31, 2020, as well as the joint management report on the company and on the Group for the financial year 2020. Prior to this meeting, the independent auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Hanover, Germany, selected by the General Meeting of Shareholders, reviewed both sets of financial statements and issued an unqualified ↗ "Independent auditor's report". 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.

**Non-financial report on the Group**
In its meeting on March 10, 2021, the Supervisory Board also addressed the topic of the non-financial Group report for 2020. 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, 2020 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**
There were no changes in the composition of the Supervisory Board in the reporting period.

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 2020.

Salzgitter, March 10, 2021

The Supervisory Board

Heinz-Gerhard Wente
Chairman

# Management Report

## Group Management Report and Management Report, combined

### Background Information on the Group



### Report on the Economy

# Company and Organization

## Group Structure and Operations

With a crude steel capacity exceeding 7 million tons per year, a workforce of more than 24,000 employees, and external sales totaling around € 7 billion for the financial year 2020, 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 competencies lie in the production and processing of rolled steel and tubes products and trading in those products. We also operate a 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 management boards of SMG and 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 generally 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 2020, 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
- 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)

b)
- 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, Vice Chairman)

## Group Management Board

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

**Kai Acker**
Technology Business Unit

**Burkhard Becker**
Finance

**Dr.-Ing. Sebastian Bross**
Plate/Section Steel Business Unit

**Ulrich Grethe**
Strip Steel Business Unit

**Michael Kieckbusch**
Personnel

**Volker Schult**
Trading Business Unit

## Supervisory Board

In the financial year 2020, 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, Niederlande, (Supervisory Board member)

**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 Management Board of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main
*Other non-listed companies:*
a) ▪ Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall
▪ R+V Allgemeine Versicherung AG, Wiesbaden
▪ R+V Lebensversicherung AG, Wiesbaden
▪ Union Asset Management Holding AG, Frankfurt am Main
▪ DZ CompliancePartner GmbH, Neu-Isenburg (Vice Chairwoman)

**Annelie Buntenbach**
Managing Member of the National Executive Board of the German Trade Union Federation (DGB), Berlin, until May 3, 2020
▪ 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**
Chairwoman of the Works Council of Peiner Träger GmbH, Peine, since October 26, 2020
*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**
Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH, Duisburg
*Non-listed consolidated companies:*
a) ▪ Hüttenwerke Krupp Mannesmann GmbH, Duisburg, until June 29, 2020
▪ Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr

**Prof. Dr. Susanne Knorre**
Business consultant
*Other non-listed companies:*
a) ▪ Deutsche Bahn AG, Berlin
▪ Norddeutsche Landesbank Girozentrale, Hanover
▪ Rain Carbon Germany GmbH (formerly 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 SE, Osnabrück (Chairman)

**Heinz Kreuzer**
Chairman of the Management Board of TUI InfoTec GmbH, retired, Hanover
Chairman of the Management Board of eves_information technology AG, Braunschweig, since November 1, 2020
*Other non-listed companies:*
b) ▪ eves consulting GmbH, Braunschweig (Advisory Council), until January 20, 2020
▪ eves_information technology AG, Braunschweig (Supervisory Board), until October 28, 2020
▪ Safarihub Europe Ltd. Harrow, Middlesex, United Kingdom

**Bernd Lauenroth**
Secretary of the Management Board of Industriegewerkschaft Metall, Branch Office Düsseldorf
▪ No membership in other governing bodies

**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**
Member of various supervisory boards
*Other non-listed companies:*
a) ▪ CORE SE, Berlin (Chairman)
▪ Zoologischer Garten Berlin AG, Berlin
▪ 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)
▪ 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
Hasan Cakir
Dr. Bernd Drouven
Reinhold Hilbers
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

### Executive Board remuneration system

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. In the most recent 2018 comparison, the peer group used were companies belonging to the German “MDAX”, Deutsche Börse AG’s mid-cap index to which Salzgitter AG belonged to at the time.

Executive Board remuneration consists of the following components:

- a fixed annual 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),
- variable annual remuneration, to be paid out partly upon expiration of the respective financial year and partly at the end of the third year following the respective financial year. This remuneration is measured partly by personal performance and the operating pre-tax result in the respective financial year and partly by the performance of the Salzgitter share’s stock market price in the three years following the respective financial year and the return on capital employed (ROCE) calculated as an average of the past four years beginning with the respective financial year, and
- a defined pension contribution plan.

#### Variable remuneration

Variable remuneration presupposes the achieving of targets. This remuneration consists, on the one hand, of an annual bonus, and of a performance bonus (performance cash award) on the other. A target bonus is agreed in the Executive Board employment contract for the annual bonus, and a target amount for the performance bonus.

- Annual bonus:

  The precondition for the disbursement of an 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 determined by the Supervisory Board at the beginning of each year and pertaining to the respective year.

  The payout multiplier for the EBT performance target is calculated by comparing the EBT of the respective financial year 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 employment contract. If EBT is raised by 50% compared with the previous year, the maximum multiplier of 150% is applied. If EBT is –50% compared with the previous year, the minimum multiplier of 50% is applied. Linear interpolation is applied if objectives are achieved between the fixed points. If the minimum multiplier is not achieved, the multiplier is 0%. If EBT is negative for the second time in a row, or if EBT in the previous year or in the current financial year is less than € 1 million respectively, the Supervisory Board can determine the degree to which goals have been achieved at their own discretion. The same applies if an exceptional event occurs due to which the Executive Board member receives a higher or lower disbursement amount than he would have been entitled to had this exceptional event not taken place, without this having been warranted by the Board member’s performance. If a positive EBT is achieved in the previous financial year and a negative EBT in the current financial year, the multiplier 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. After a financial year has ended, the individual performance is assessed by the Supervisory Board using the predefined criteria. The degree to which targets have been achieved can be determined by the Supervisory Board on a linear basis between 0% and 150%.

The annual bonus is paid out at 50% after the respective financial year has ended (one-year variable remuneration). The remaining 50% (initial value) of the annual bonus is retained and converted into virtual shares of the Company (share deferral) for a three-year period (blocking period) that commences at the end of the respective financial year. The number of virtual shares is calculated from the arithmetic average of the Salzgitter share's Xetra closing price on the Frankfurt Stock Exchange over the last 30 trading days prior to the beginning of the blocking period. Upon expiration of the blocking period, the number of virtual shares are multiplied by the arithmetic average of the Salzgitter share's Xetra closing price on the Frankfurt Stock Exchange over the last 30 days before the end of the blocking period, plus the fictitious dividend payments on the virtual shares, and paid out. The resulting payout amount is capped at 150% of the initial value. The expense for share-based remuneration recorded in the financial year 2020 for Prof. Dr.-Ing. Fuhrmann amounts to k€ 276 and for Mr Becker and Mr Kieckbusch k€ 68 each.

In the event of exceptional, unforeseeable developments, the Supervisory Board may reduce the annual bonus at its own 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 a 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 budgeted ROCE figures of the respective financial years is then deducted from this amount. The resulting difference between the target figure and actual figure in percentage points is compared with the figures fixed by the Supervisory Board at the start of the respective performance period for a multiplier of 100% (target figure), of 50% (minimum figure) and of 200% (maximum figure) of the target amount agreed in the respective Executive Board member's employment contract, taking account of the general development of business and the economic prospects of Salzgitter AG. Linear interpolation is applied if objectives are achieved between the fixed points. If the minimum figure is not reached, the payout multiplier is 0%. Exceeding the maximum figure will not increase the payout multiplier.

  Example: If the target figure for the difference between the average ROCE achieved and the average budgeted ROCE is set at 0%, with minimum set at 3% and a maximum figure of 2%, the multiplier is 100% of the target amount assuming that the exact amount of the budgeted ROCE is achieved. If ROCE is one percentage point higher than budgeted, the multiplier will be 150%. If ROCE is one percentage point lower than budgeted, the multiplier will be 83.33%.

  In setting the stakeholder objectives the Supervisory Board may factor in a series of different aspects, such as strategic business development, specific projects, occupational safety and employee development. Achieving the targets is assessed by the Supervisory Board after the performance period has ended. The degree to which targets have been 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.

### Pension commitments

The company 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 (commitment to pension benefits). Payment can be drawn once the age of 65 has been reached (full year). In respect of Executive Board member Prof. Dr.-Ing. Heinz Jörg Fuhrmann, this commitment also applies for the period after December 31, 2018. If, in the context of this commitment, Prof. Dr.-Ing. Fuhrmann leaves the Company during the term of his employment contract at the wish of the Company or at his own wish before the age of 65, he will be deemed eligible for payments as if he had already reached the age of 65. The pension commitments in favor of Executive Board members Burkhard Becker and Michael Kieckbusch existing as of December 31, 2018 were formalized as of this date. As from January 1, 2019, these commitments will be supplemented by a new, defined contribution commitments (see below).

For the period starting January 1, 2019, Executive Board members Burkhard Becker and Michael Kieckbusch received the commitment that the Company will make certain amount of money available on a pension account (defined contribution commitment) for each year of Executive Board service. In addition, a guaranteed annual interest credit that depends on the respectively valid statutory maximum technical interest rate applicable to the life insurance industry (guaranteed interest rate) in accordance with the actuarial reserve ordinance (DeckRV) will also be taken account of on the pension account. The amount is invested in accordance with the life cycle model defined under the conditions for deferred compensation in the Salzgitter Group (SZAG model), while taking account of the securities determined by the Investment Committee for the company pension scheme within the Salzgitter Group. If higher interest after tax is generated by the funds invested, the amount will be credited when pension payments begin.

If an Executive Board member leaves the service of the Company before reaching the retirement age under the statutory retirement pension scheme, the Board member will receive the plan assets on the pension account as a one-off retirement capital amount or, upon application, in ten annual instalments. If an Executive Board member leaves the service of the Company without having reached retirement age, the Board member will be granted a vested entitlement to the pension account in accordance with the statutory provisions of the German Occupational Retirement Provision Act. Upon request, the Executive Board member will receive retirement capital brought forward, at the age of 62 at the earliest.

### Premature departure and departure due to a change of control

Should Executive Board activities be terminated without an important reason, the Executive Board members are entitled to the remuneration agreed until expiration of the respective contracts. However, this entitlement is restricted to the amount of two years' remuneration (fixed and variable components). In the event of the premature 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.

### 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€** | | **2019** | **2020** | **2020 min.** | **2020 max.** | **2019** | **2020** | **2020 min.** | **2020 max.** | **2019** | **2020** | **2020 min.** | **2020 max.** |
| Fixed remuneration[1] | | 1,155 | 1,200 | 1,200 | 1,200 | 609 | 636 | 636 | 636 | 609 | 636 | 636 | 636 |
| Benefits | | 18 | 22 | 22 | 22 | 27 | 27 | 27 | 27 | 43 | 47 | 47 | 47 |
| **Total** | | **1,173** | **1,222** | **1,222** | **1,222** | **636** | **663** | **663** | **663** | **652** | **683** | **683** | **683** |
| One-year variable remuneration[2] | Annual bonus | 500 | 500 | 0 | 750 | 315 | 265 | 0 | 398 | 265 | 265 | 0 | 398 |
| Multi-year variable remuneration | Share deferral tranche 2019-2022[3] | 137 | – | – | – | 73 | – | – | – | 73 | – | – | – |
| | Share deferral tranche 2020–2023[4] | – | 126 | 0 | 1,125 | – | 67 | 0 | 596 | – | 67 | 0 | 596 |
| | Performance cash plan tranche 2019–2022 | 400 | – | – | – | 212 | – | – | – | 212 | – | – | – |
| | Performance cash plan tranche 2020–2023 | – | 400 | 0 | 800 | – | 212 | 0 | 424 | – | 212 | 0 | 424 |
| **Total** | | **2,210** | **2,248** | **1,222** | **3,897** | **1,236** | **1,207** | **663** | **2,081** | **1,202** | **1,226** | **683** | **2,100** |
| Pension expenses[5] | | 616 | 475 | 475 | 475 | 372 | 393 | 393 | 393 | 401 | 440 | 440 | 440 |
| **Total remuneration** | | **2,826** | **2,723** | **1,697** | **4,372** | **1,608** | **1,599** | **1,055** | **2,473** | **1,603** | **1,666** | **1,123** | **2,541** |

[1] Against the backdrop of the impact of the Corona pandemic and the resulting short-time work in the workforce, the Executive Board members voluntarily and individually waived 10 % of their monthly gross fixed salary for the six-month period from April through September 2020. The listed fixed salary corresponds to the amount granted as per the respective employment contracts, prior to the salary waiver.
[2] The 2019 one-year variable remuneration of Mr. Becker included k€ 50 for the temporary assignment as Chairman of the Management Board of KHS GmbH.
[3] 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
[4] Fair Value at the time of granting on December 5, 2019, based on 8,239.495 virtual shares for Prof. Dr.-Ing. Fuhrmann and 4,366.932 virtual shares each for Mr. Becker and Mr. Kieckbusch respectively
[5] Service cost pursuant to IAS 19

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

| In k€ | | Prof. Dr.-Ing. Heinz Jörg Fuhrmann CEO 2019 | 2020 | Burkhard Becker CFO 2019 | 2020 | Michael Kieckbusch Personnel 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| Fixed remuneration[1] | | 1,155 | 1,140 | 609 | 604 | 609 | 604 |
| Benefits | | 18 | 22 | 27 | 27 | 43 | 47 |
| **Total** | | **1,173** | **1,162** | **636** | **631** | **652** | **651** |
| One-year variable remuneration[2] | Annual bonus | 225 | 278 | 169 | 147 | 119 | 147 |
| **Total** | | **1,398** | **1,439** | **805** | **778** | **771** | **798** |
| Pension expenses[3] | | 616 | 475 | 372 | 393 | 401 | 440 |
| **Total remuneration** | | **2,014** | **1,914** | **1,177** | **1,171** | **1,172** | **1,238** |

[1] Against the backdrop of the impact of the Corona pandemic and the resulting short-time work in the workforce, the Executive Board members voluntarily and individually waived 10 % of their monthly gross fixed salary for the six-month period from April through September 2020.
[2] With regard to the one-year variable remuneration of Prof. Dr.-Ing. Heinz-Jörg Fuhrmann, k€ 15 (2019: 15 k€) of his remuneration as member of the Supervisory Board of the shareholding Aurubis AG are offset in accordance with the terms of his employment. The 2019 one-year variable remuneration of Mr. Becker includes k€ 50 for the temporary assignment as Chairman of the Management Board of KHS GmbH.
[3] Service cost pursuant to IAS 19

Overall remuneration (excluding service cost and including the fair value of the share deferral from fringe benefits granted) of serving Executive Board members in the 2020 financial year for their activities totaled k€ 3,274 (previous year: k€ 3,257).

### Pensions

| In € | | Annual payment upon pension eligibility[1] | Payment upon actual retirement (guaranteed amount) | Allocation to pension provision according to HGB | Allocation to pension provision according to IFRS | Present value of the obligation according to HGB | Present value of the obligation according to IFRS |
|---|---|---|---|---|---|---|---|
| Prof. Dr.-Ing. Heinz Jörg Fuhrmann | 2020 | 720,000 | 0 | 1,216,758 | 983,487 | 15,468,817 | 18,536,176 |
| Chairman | 2019 | 720,000 | 0 | 1,791,147 | 1,715,182 | 14,252,032 | 17,552,689 |
| Burkhard Becker | 2020 | 349,056[2] | 361,620 | 699,604 | 595,396 | 7,134,460 | 8,806,931 |
| | 2019 | 349,056[2] | 180,000 | 1,010,705 | 1,013,988 | 6,434,856 | 8,211,535 |
| Michael Kieckbusch | 2020 | 334,512[3] | 361,620 | 703,117 | 640,093 | 6,210,082 | 7,836,250 |
| | 2019 | 334,512[3] | 180,000 | 959,697 | 1,001,831 | 5,506,965 | 7,196,157 |

[1] Annual payment for a service term until the age of 65, 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"

### Explanations on remuneration in 2020

Executive Board remuneration in the 2020 financial year corresponded to the remuneration system approved by the Annual General Meeting of Shareholders in 2020 (available at ↗ **https://www.salzgitter-ag.com/en/company/executive-board/remuneration.html**):

- Out of solidarity with employees working short time due to the massive slump in orders in 2020 and who were suffering a loss of income, all Executive Board members waived 10% of their **basic salary** for six months. Otherwise, the basic salary corresponded to the amounts individually agreed in the Executive Board employment contracts.
- The information on the **fringe benefits** reflects the benefit in kind granted in the respective employment contract, which essentially consisted of the benefit derived from the private use of a company car.
- The **2020 annual bonus** was calculated in accordance with the remuneration system comprising the target bonus and the multiplier (between 0% and 150%) agreed individually with each Executive Board member in their employment contracts. The multiplier depended on fulfilling the performance criteria in the financial year 2020, specifically – as provided for under the remuneration system – 70% of earnings before taxes at Group level in the financial year 2020 in comparison with 2019 (the relevant performance criteria are precisely defined in the remuneration system) and 30% depending on the individual performance in the financial year 2020, the latter measured by the following criteria defined by the Supervisory Board at the beginning of the financial year for all Executive Board members equally, as follows:

  a) Reducing the occurrence of accidents (10%-points): In respect of lowering the per capita accident rate across the entire Group by a certain percentage figure in the financial year 2020 compared with financial 2019, the Supervisory Board defined specific levels of target achievement of between 0% and 150%.
  b) Submission of a concept for handling challenges in the area of knowledge management and qualification, as well development of ratios for control purposes (10%-points): For certain qualitative aspects of the concept and the fulfilling of other tasks in this context, the Supervisory Board determined specific levels of achievement of between 0% and 150%.
  c) Submission of a concept for enhancing the Salzgitter Group's attractiveness as an employer, as well as development of a set of ratios for measuring this (10%-points): For certain qualitative aspects of the concept and the fulfilling of other tasks in this context, the Supervisory Board determined specific levels of achievement of between 0% and 150%.

  #### Calculation of the multiplier

  EBT target:

  EBT was negative in the financial year 2020 and in the previous year as well. This being the case, the Supervisory Board is authorized under the remuneration system to determine the extent to which goals have been achieved at its own discretion (Section 315 German Commercial Code (BGB)). Against the backdrop of the exceptional challenges presented by the Corona pandemic, and in recognition of the great endeavors of the Executive Board geared to future proofing the Company's position with regard to decarbonizing steel production, the Supervisory Board determined goal attainment of 15% for all Executive Board members in its meeting on March 10, 2021.

  Individual performance:

  In respect of criterion a), the Supervisory Board set target attainment at 150% for the respective lowering of the per capita industrial accident rate. In respect of criterion b), the Supervisory Board set target attainment at 150% based on its assessment of the concept's quality and the fulfilling of other tasks in this context. In respect of criterion c), the Supervisory Board set target attainment at 150% based on its assessment of the concept's quality and the fulfilling of other tasks in this context. The Supervisory Board therefore set target attainment and thereby the multiplier with respect to the criteria applied for the purpose of assessing the individual performance of each individual Executive Board member at an overall 150%.

  Depending on the degree to which targets have been achieved (= multiplier M) for the two components – 15% with regard to EBT and 150% with regard to the individual performance – the annual bonus for the financial year 2020 for each individual Executive Board member is calculated as follows under the remuneration system: [(M EBT 15% x 70%) + (M individual performance 150% x 30%)] x target bonus of the Executive Board member = annual bonus of the Executive Board member, specifically € 555,000 for Prof. Dr.-Ing. Fuhrmann, € 294,150 for Mr. Becker and € 294,150 for Mr. Kieckbusch.

The 2020 annual bonus of each individual Executive Board member will be paid out in the financial year 2021 in accordance with the specifications of the remuneration system as follows: 50% in cash and 50% invested in virtual shares of the Company (share deferral). With respect to the share deferral, the start share price calculated in accordance with the remuneration system stood at € 18.55217 for Prof. Fuhrmann's 14,957.819 virtual shares and 7,927.644 each for the virtual shares of Messrs Becker and Kieckbusch. At the end of the three-year blocking period, i.e. at the start of 2024, the stock market value of the shares at the time, plus dividend disbursed during the blocking period, capped at 150% of the initial value (50% of the 2020 annual bonus), is to be paid out.

Promoting of the Company's long-term development through the annual bonus

Executive Board member remuneration is intended to act as an incentive for implementing the Company's strategic direction. In the opinion of the Supervisory Board, a key parameter for measuring the success of the business strategy and the Company's long-term development consists of the earnings before taxes (EBT) achieved for the respective year. The Supervisory Board has therefore selected the achieving of stable or improved EBT measured against the previous year as the principal performance criterion for granting the annual bonus.

Transferring part of the annual bonus to a share deferral component with a blocking period of three years promotes the corporate strategy and the Company's long-term development by incentivizing the Executive Board members to increase the enterprise value and by directly aligning the interests of the Executive Board with those of the shareholders, as well as enhancing the Company's attractiveness in the capital market. This is one of the prerequisites for the Company's long-term development.

- The **performance cash award 2020** is calculated in accordance with the remuneration system from the individual target amount agreed with each individual Executive Board member in their respective employment contracts and the multiplier (between 0% and 200%). The multiplier depends on the degree to which the performance criteria have been fulfilled in the performance period 2020 through 2023, – as laid down by the remuneration system – specifically 70% depending on ROCE and 30% depending on the achievement of the following stakeholder goals determined by the Supervisory Board at the start of the financial year for all Executive Board members equally, as follows:

  a) Sustainably reducing the occurrence of accidents (15%-points): In respect of lowering the average per capita accident rate across the entire Group over the performance period from 2020 through 2023 by a certain percentage figure, the Supervisory Board defined specific levels of target achievement of between 0 and 150%.
  b) Consistent stepping up of further training (15%-points), measured by the percentage rate of employees participating in a further training measure: the Supervisory Board defined specific levels of achievement between 0% and 200% for achieving participation rates in Germany in the financial years 2020 and 2021 and worldwide in the financial years 2022 and 2023.

Calculation of the multiplier

ROCE target:

At the start of the financial year 2020, the Supervisory Board defined a specific target figure (figure indicating the difference between the average ROCE achieved and budgeted ROCE, triggering a multiplier of 100%) for achieving the target set for return on capital employed (ROCE target) in the performance period from 2020 through 2023, a specified minimum figure (figure for a multiplier of 50%), and a specified maximum figure (figure for a multiplier of 200%). To obtain the multiplier at the end of the performance period – as provided for under the remuneration system – i.e. after the end of the financial year 2023, target attainment is ascertained and the multiplier determined.

Stakeholder objectives:

To arrive at the degree to which targets have been achieved, i.e. after the end of the financial year 2023, target attainment is ascertained and the multiplier determined on the basis of how the per capita accident rate and the participation rate developed.

The performance cash award 2020 will be paid out in cash after the end of the performance period from 2020 through 2023.

#### Promoting the Company's long-term development through the performance cash award

The remuneration is intended to be an incentive for implementing the Company's strategic direction. One of the Group's key control parameters for the success of the corporate strategy and its long-term successful development is the achieving of return on capital employed (ROCE) that can be considered an indicator of whether and to what extent investments are eligible for implementation to promote sustainable growth. For this reason, the Supervisory Board has selected the achieving of the planned ROCE in the performance period as the principal performance criterion for the performance cash award.

Along with this criterion, the Supervisory Board is of the opinion that non-financial criteria also have an effect on the success of the corporate strategy and the Company's long-term good development. In respect of granting the performance cash award, the Supervisory Board therefore additionally determines stakeholder goals per year. The Executive Board remuneration system thus also makes a definitive contribution to promoting the corporate strategy and the long-term development of the Company.

- The **service expense for the pension scheme in 2020** is incurred by the Executive Board remuneration system in conjunction with the pension commitments made to the individual members of the Executive Board in their employment contracts. In respect of commitments to pension benefits granted to all Executive Board members, as well as the defined contribution commitments given to Executive Board members Becker and Kieckbusch, the respective pension provisions have been increased by an amount calculated in accordance with actuarial principles. With respect to the defined benefit portion of commitments made to Messrs Becker and Kieckbusch, the pension contribution was credited to their pension accounts.

- The option under the remuneration system of reclaiming variable remuneration components was not utilized as there was no occasion nor the preconditions to justify this. The maximum remuneration under the remuneration system stands at k€ 2,900 for regular Executive Board members and at€ 5,100 for the Chairman of the Executive Board. These limits were observed. No benefits were granted or pledged by external parties to the individual members of the Executive Board in the financial year 2020 for their activities as Executive Board members. No benefits were granted to the Executive Board members for the regular end to their service.

### Supervisory Board remuneration system

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, each committee chairman and each member 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, | 2020 | 171,000 | | 3,000 | 174,000 |
| Chairman | 2019 | 180,000 | 0 | 4,500 | 184,500 |
| Dr. Hans-Jürgen Urban, | 2020 | 114,000 | | 3,000 | 117,000 |
| Vice Chairman | 2019 | 120,000 | 0 | 4,500 | 124,500 |
| Konrad Ackermann | 2020 | 57,000 | 14,250 | 3,500 | 74,750 |
| | 2019 | 60,000 | 12,083 | 4,500 | 76,583 |
| Ulrike Brouzi | 2020 | 57,000 | | 1,000 | 58,000 |
| | 2019 | 60,000 | 0 | 1,000 | 61,000 |
| Annelie Buntenbach | 2020 | 57,000 | | 1,500 | 58,500 |
| | 2019 | 60,000 | 0 | 1,500 | 61,500 |
| Hasan Cakir | 2020 | 57,000 | 9,500 | 3,000 | 69,500 |
| | 2019 | 60,000 | 10,000 | 4,500 | 74,500 |
| Dr. Bernd Drouven | 2020 | 57,000 | 4,750 | 500 | 62,250 |
| | 2019 | 60,000 | 5,000 | 2,500 | 67,500 |
| Roland Flach | 2020 | 57,000 | 9,500 | 3,000 | 69,500 |
| | 2019 | 60,000 | 10,000 | 4,000 | 74,000 |
| Gabriele Handke | 2020 | 57,000 | 0 | 1,500 | 58,500 |
| | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| Reinhold Hilbers | 2020 | 57,000 | 9,500 | 3,000 | 69,500 |
| | 2019 | 60,000 | 10,000 | 3,000 | 73,000 |
| Norbert Keller | 2020 | 57,000 | 0 | 500 | 57,500 |
| since 2019/08/30 | 2019 | 25,000 | 0 | 1,000 | 26,000 |
| Ulrich Kimpel | 2020 | 0 | 0 | 0 | 0 |
| until 2019/07/31 | 2019 | 35,000 | 0 | 1,000 | 36,000 |
| Prof. Dr. Susanne Knorre | 2020 | 57,000 | 0 | 1,500 | 58,500 |
| | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| Dr. Dieter Köster | 2020 | 57,000 | 0 | 1,000 | 58,000 |
| | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| Heinz Kreuzer | 2020 | 57,000 | 0 | 1,500 | 58,500 |
| | 2019 | 60,000 | 0 | 2,000 | 62,000 |

| | | Annual remuneration | | | |
|---|---|---|---|---|---|
| **In €** | | **Fixed remuneration** | **Committee remuneration** | **Attendance fees** | **Total** |
| Bernd Lauenroth | 2020 | 57,000 | 14,250 | 3,500 | 74,750 |
| | 2019 | 60,000 | 15,000 | 4,000 | 79,000 |
| Volker Mittelstädt | 2020 | 57,000 | 0 | 1,500 | 58,500 |
| | 2019 | 60,000 | 0 | 1,500 | 61,500 |
| Prof. Dr. Joachim Schindler | 2020 | 57,000 | 28,500 | 3,000 | 88,500 |
| | 2019 | 60,000 | 30,000 | 4,000 | 94,000 |
| Christine Seemann | 2020 | 57,000 | 0 | 1,500 | 58,500 |
| | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer | 2020 | 57,000 | 4,750 | 1,500 | 63,250 |
| | 2019 | 60,000 | 5,000 | 2,500 | 67,500 |
| Clemens Spiller | 2020 | 57,000 | 0 | 1,500 | 58,500 |
| | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| Dr. Werner Tegtmeier | 2020 | 57,000 | 0 | 1,500 | 58,500 |
| | 2019 | 60,000 | 0 | 2,000 | 62,000 |
| **Total** | **2020** | **1,368,000** | **95,000** | **41,500** | **1,504,500** |
| | **2019** | **1,440,000** | **97,083** | **58,000** | **1,595,083** |

Out of solidarity with the employees working short time due to the massive slump in orders in 2020 and who were suffering a loss of income, all the Supervisory Board members waived 10% of their fixed remuneration for six months in the financial year 2020. As a result, fixed remuneration was lower in 2020.

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 | 2020 | 9,000 | | 750 | 9,750 |
| (KHS) | 2019 | 10,000 | 0 | 750 | 10,750 |
| Hasan Cakir | 2020 | 8,000 | | 400 | 8,400 |
| (SZFG) | 2019 | 8,000 | 0 | 400 | 8,400 |
| Roland Flach | 2020 | 10,000 | | 750 | 10,750 |
| (KHS) | 2019 | 10,000 | 0 | 750 | 10,750 |
| Gabriele Handke | 2020 | 5,000 | | 400 | 5,400 |
| (PTG) | 2019 | 5,000 | 0 | 400 | 5,400 |
| Norbert Keller | 2020 | 5,000 | 0 | 300 | 5,300 |
| (MPT, since 2019/08/01) | 2019 | 2,084 | 0 | 100 | 2,184 |
| Ulrich Kimpel | 2020 | 0 | 0 | 0 | 0 |
| (MPT, until 2019/07/31) | 2019 | 2,917 | 0 | 200 | 3,117 |
| Volker Mittelstädt | 2020 | 7,500 | 0 | 400 | 7,900 |
| (ILG/MGB) | 2019 | 7,500 | 0 | 400 | 7,900 |
| Dr. Hans-Jürgen Urban | 2020 | 12,000 | | 400 | 12,400 |
| (SZFG) | 2019 | 12,000 | 0 | 400 | 12,400 |
| **Total** | **2020** | **56,500** | **0** | **3,400** | **59,900** |
| | **2019** | **64,168** | **0** | **3,500** | **67,668** |
| **Sum total** | **2020** | **1,424,500** | **95,000** | **44,900** | **1,564,400** |
| | **2019** | **1,504,168** | **97,083** | **61,500** | **1,662,751** |

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 on Corporate Governance

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.

**2020 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):

"In 2020, 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, with the exception of the recommendation B.3 stipulating that a management board member should be initially appointed for a maximum period of three years, recommendation G.10 sentence 1 stipulating that variable remuneration amounts should mainly be granted in shares of the company or based on shares, as well as G.13 stipulating that, if management board activity is prematurely terminated, the amount of two year's remuneration should not be exceeded.

In the case of a successor joining the Executive Board in 2021, the member was initially appointed for three years and four and a half months to allow for a time lag between the time when the appointment of the new Executive Board member elapses and the time when the appointments of other Board members elapse.

The variable remuneration amounts granted to Executive Board members are 36% based on shares. The Supervisory Board considers this proportion appropriate.

In accordance with their current employment contracts and under certain conditions, Executive Board members are entitled to a settlement of up to a maximum of three year's remuneration if they leave the Company's service prematurely due to a change of control. This arrangement corresponded to the recommendations of the Code valid up until March 2020, but does not accord with the new version of the Code drawn up in 2020, however. Owing to the current employment contracts, the new version cannot be accommodated."

**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 of "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 2020 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. The Supervisory Board ensures long-term successor planning together with the Executive Board. As part of this process, 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, 2025 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 appoint members of the Executive Board and 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 provided for an appropriate deductible in the reporting year.

**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. The Supervisory Board regularly assesses how effectively it performs its tasks overall and the effectiveness of its committees. In 2020, 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.

**Objectives for the composition and competence profile of SZAG's Supervisory Board**

The shareholder representatives serving on the Supervisory Board consider at least six independent shareholder representatives on the Supervisory Board to be an appropriate number. In the opinion of the shareholder representatives, the following shareholder representatives can be considered independent within the meaning of the German Corporate Governance Code: 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 considers Supervisory Board member Dr. Werner Tegtmeier – a further member of the Supervisory Board pursuant to the German Co-Determination Amendment Act – as independent.

The shareholder representatives also consider Dr. Drouven and Dr. Köster to be independent. In the year of his appointment in 2018, Dr. Drouven was a member of the Supervisory Board Board of Aurubis AG in which the Company holds a participating investment. He nevertheless withdrew from the Supervisory Board of Aurubis AG in the same year. Dr. Köster has been a member of the Supervisory Board for a little more than twelve years. During the period of his service on the Supervisory Board, he is nevertheless not considered by the shareholder representatives to have developed any personal or business relationships with the Company or the members of the Executive Board that could give rise to a material conflict of interest.

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. The members should include 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 Annual 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 of duties of the Supervisory Board – essentially the appointing of Executive Board members 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 Annual 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 2020, the Supervisory Board decided, in the event of an Executive Board member having to be replaced by June 30, 2025, to strive for a target of 30% in respect of the proportion of women represented on the Executive Board that currently consists 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 ↗ **www.salzgitter-ag.com/en/investor-relations/service/financial-calendar.** 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 or in a virtual format. 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 on Corporate Governance is accessible on the Internet at ↗ **www.salzgitter-ag.com/en/investor-relations/corporate-governance/**.

Salzgitter, March 10, 2021

| The Executive Board | The Supervisory Board |
|---|---|
| Prof. Dr.-Ing. Heinz Jörg Fuhrmann | Heinz-Gerhard Wente |
| Chief Executive Officer | Chairman |

## Employees

As of December 31, 2020, the core workforce of the Salzgitter Group numbered 22,604 employees, which is 750 people less than at the end of the financial year 2019. The lower workforce numbers are attributable, among other factors, to the implementation of the restructuring programs, particularly in the European precision tubes companies, at Salzgitter Flachstahl GmbH, Salzgitter Mannesmann Stahlhandel GmbH as well as at Salzgitter Mannesmann Grobblech GmbH. Along with the structural reduction in personnel, the groupwide development of the workforce also reflects the shelving of the planned staffing of positions due to the sales shortfalls caused by the pandemic. At the end of the financial year 2020, we had 687 temporary employees outsourced, which corresponds to 2.9% of the sum total of core workforce members and staff outsourced. The number of external temporary employees outsourced has therefore declined by 84 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 24,416 persons.

Along with numerous measures to safeguard health and prevent infection, we implemented a comprehensive monitoring system in 2020, which has created transparency concerning infections across the entire Group. Special importance is attached to short time work, the aim being to cushion the economic impact of the Corona pandemic and to secure liquidity. At the end of the reporting period, short time work affected 1,040 employees in the domestic Group entities, above all in the companies of the Technology and Mannesmann business units as well as Salzgitter Mannesmann Grobblech GmbH and Salzgitter Automotive Engineering GmbH & Co. KG. The proportion of operations working short time remained at a high level, albeit with visibly diminishing intensity since the peaks reached in the summer. Expressed as an annual average, 4,233 employees a month were impacted by short time work.

| | 2020/12/31 | 2019/12/31 | Change |
|---|---|---|---|
| **Core workforce Group[1)]** | **22,604** | **23,354** | **–750** |
| Strip Steel Business Unit | 5,999 | 6,090 | –91 |
| Plate/Section Steel Business Unit | 2,272 | 2,352 | –80 |
| Mannesmann Business Unit | 4,366 | 4,643 | –277 |
| Trading Business Unit | 1,946 | 2,066 | –120 |
| Technology Business Unit | 5,433 | 5,557 | –124 |
| Industrial Participations/Consolidation | 2,588 | 2,646 | –58 |
| Apprentices, students, trainees | 1,264 | 1,380 | –116 |
| Non-active age-related part-time employment | 548 | 493 | 55 |
| **Total workforce** | **24,416** | **25,227** | **–811** |

Rounding differences may occur due to pro-rata shareholdings.
1) Excluding executive body members

### Regional distribution

| | | Germany | Rest of Europe | America | Asia | Other regions |
|---|---|---|---|---|---|---|
| Core workforce[1)] | Employees | 18,270 | 1,904 | 1,502 | 771 | 157 |
| | % | 80.8 | 8.4 | 6.6 | 3.4 | 0.7 |

1) Excluding executive body members

Personnel expenses amounted to € 1,654.1 million in 2020, which is 8.9% lower than in the year-earlier period. Along with the structural reduction in workforce numbers, this lower level of personnel expenses resulted in particular from the intensive use of short-time work over the course of the year due to the Corona pandemic. Furthermore, the non-recurrent expenses for forming restructuring provisions that placed a burden on the previous year's result no longer applied.

## Research and Development

The Salzgitter Group's research and development (R&D) for the steel-related business units are combined under Salzgitter Mannesmann Forschung GmbH (SZMF). SZMF networks closely with universities, research institutes and industrial partners in the context of numerous national and international research projects. We make use of the resulting cooperation activities 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. SZMF actively participates in defining the relevant norms and standards, also in the international arena. R&D is organized decentrally for the Technology Business Unit.

Innovative prowess has always ranked as one of our key strengths, which also applies to the reporting year: At the end of 2020, 4,938 patents and 1,640 trademark rights (2019: 5,077 and 1,553 respectively) were registered for the entire Group. The Technology Business Unit accounts for 4,255 active patents and patent applications (2019: 4,342) and 643 trademark rights (2019: 563).

### R&D expenses

In 2020, the Salzgitter Group spent € 91.1 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 | 91.1 | 33.9 | 6.7 | 8.7 | 30.2 | 11.6 |
| | % | 100.0 | 37.2 | 7.4 | 9.6 | 33.1 | 12.7 |

[1] Excluding the EUROPIPE Group

As of December 31, 2020, 700 employees in our Group were engaged in research and development activities. Of this number, 267 members of staff work at SZMF and 432 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

| | | 2020[1] | 2019[1] | 2018[1] | 2017[1] | 2016[1] | 2015[1] | 2014[1] | 2013[2] | 2012 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| R&D expenses[3] | € m | 88 | 93 | 96 | 91 | 85 | 85 | 87 | 88 | 82 | 79 |
| R&D employees | empl. | 700 | 762 | 763 | 750 | 733 | 767 | 784 | 828 | 879 | 910 |
| R&D ratio[4] | % | 1.2 | 1.1 | 1.0 | 1.0 | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 | 0.8 |
| R&D intensity[5] | % | 5.7 | 5.7 | 4.5 | 4.5 | 4.8 | 4.8 | 5.2 | 7.4 | 5.1 | 4.4 |

[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:

Pursuing the SALCOS® (SAlzgitter Low $CO_2$-Steelmaking) concept, we have ushered in a new era for the entire steel sector, and we are committed to mastering the challenging targets of the European Emissions Trading System aimed at reducing $CO_2$. This concept covers the implementation of all technical measures required by a significant and gradual reduction of the $CO_2$ emissions in steel production at the Salzgitter site. As part of this concept, Salzgitter AG initiated the "GrInHy/GrInHy2.0" and "Wind Hydrogen" projects. These projects are dedicated to investigating new ways of producing hydrogen that can make a contribution to reducing $CO_2$ in steel production in the future. Moreover, in collaboration with the Fraunhofer Institutes, and as part of the BeWiSe project (Begleitforschung Wasserstoff in der Stahlerzeugung – accompanying research on hydrogen in steel production) that is sponsored by the German Federal Ministry of Education (BMBF), research topics geared to optimizing the SALCOS® route are being developed based on the result of the successfully concluded MACOR feasibility study. As has already been the case for many years with regard to the automotive activities under "Initiative Automotive", all hydrogen activities throughout the Group are also now coordinated within SZMF. The aim is to combine our existing extensive hydrogen know-how and to tap groupwide market potential, while leveraging synergy effects. With this end in mind, a hydrogen competence center is being further expanded at SZMF's Duisburg-based research location. Drawing on in-depth materials expertise, the competence center will be available both within the group and for external parties, also for R&D services revolving around hydrogen transport and storage. More information on SALCOS® is available in the section on ↗ "Performance and General Business Conditions of the Business Units" and at ↗ **https://salcos.salzgitter-ag.com/en**. Information on SZMF's Duisburg location is available at ↗ **https://www.salzgitter-mannesmann-forschung.de/en**.

In addition to SALCOS®, we are also advancing the development of processes, materials and products.

The emphasis in the Strip Steel Business Unit is on steels with improved formability and residual expansion. With a look to the automotive industry, the development of highest strength hot strip grades, cold-rolled multiphase steels and press-hardened steels with enhanced product properties are taking center stage in the conventional grades segment. The development of the very successful SZBS800 grade that has been adopted as the standard for chassis applications by a number of automotive manufacturers represents another key focus area. However, we do not only concentrate on product development and improvements, support geared to process optimization in the steelworks, hot- and cold-rolling mill and in surface finishing is playing an increasingly greater role.

The product range is being extended in the heavy plate business where a number of product segments are ready for serial production, including ultra-high strength grades and thick mild steel plates. Industrializing products on Ilsenburg's new heat treatment line represents a major focus of development activities.

Product optimization currently ranks as the key objective in the large-diameter pipe and line pipe segment. The latest thrust of qualification and development addresses the use of line pipe for hydrogen in connection with a fracture-mechanical life span design.

Innovative products are being created, above all in the medium-diameter line pipe segment, for instance through deliberations on tanks and containers for the hydrogen energy economy. Product ideas for the energy transition are technically supported right from the outset.

In the precision tubes segments, we are engaged in an ongoing improvement process focusing on automotive components in the safety and chassis areas, such as airbags and stabilizers. Here, product developments are also aligned to the hydrogen economy, as evidenced by hydrogen tanks for vehicle applications.

Within the context of the energy transition, we are pushing ahead with the product optimization of high-alloy stainless steel tubes for applications in solar thermal power plants, biomass and waste co-incineration.

With a look to the upcoming years, measures have been planned in the research and development area for the Technology Business Unit that are geared to securing the competitive capabilities of KHS's product program and which are implemented in line with the defined R&D roadmap. Priority is placed on rounding off the product portfolio in core applications. Another focus area of development activities is concerned with optimizing product costs, especially through modularization and standardization, and, among other things, includes ongoing projects in the filling machines and bottle washing technology areas, as well in PET barrier coating (Plasmax). A solution for IT-supported user guidance in changeover and conversion procedures is being advanced in order to enhance the user-friendliness of KHS filling and packaging lines. Similarly, a monitoring system is being developed with the aim of providing information on plant status and on key production figures for plant operators. In view of the rising market demands and requirements for alternative secondary packaging, development activities addressing the use of sustainable packaging material are under way.

## Separate Non-Financial Report on the Group

The Salzgitter Group's separate Non-Financial Report on the Group for 2020 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 Group's 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" (Earnings before Interest and Taxes) 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 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** | **2020** | **2019** |
|---|---|---|
| EBT | –196 | –253 |
| + Interest expenses | 91 | 80 |
| – Interest expenses for pension provisions | –32 | –39 |
| **= EBIT I** | **–138** | **–212** |

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

| **In € million** | **2020** | **2019** |
|---|---|---|
| Total assets | 8,237 | 8,618 |
| – Pension provisions | –2,299 | –2,356 |
| – Other provisions excluding provision for income taxes | –477 | –560 |
| – Trade payables, contractual obligations, other liabilities excluding notes payable[1] | –1,435 | –1,578 |
| – Deferred tax assets | –482 | –492 |
| **= Capital employed** | **3,545** | **3,631** |

[1] Notes payable amounting to € 0.5 million (previous year: € 0.7 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 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 2020 we generated a ROCE of –3.9% (previous year: –5.8%).

## 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 details, 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 target 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** was determined by the impact of the COVID 19 pandemic in 2020. From February onward, burdens emanated from the restrictions placed on contact, travel and on business in almost all economies, causing considerable economic declines. The industrial nations were particularly impacted while the emerging markets reported more moderate deteriorations, also due to the rapid lifting of the lockdown measures in China. In the second half of the year, many economies staged an unexpectedly strong rebound following an easing of the measures to combat Corona before the second wave of the pandemic put an end to the uptrend shortly before the turn of the year, triggering new restrictions. All in all, the International Monetary Fund (IMF) estimates the global economic downturn at 3.5% in the year 2020 (2019: +2.8%).

In the **eurozone**, countries in southern Europe were hit hardest by the first wave of the pandemic. In response to infection rates toward the end of the first quarter, most member states introduced protective measures that disrupted supply chains and imposed constraints – even to the point of closing down large swathes of the economy. This situation caused the euro area economy to slump by more than 10% in the second quarter. On the back of the gradual easing of the restrictions as from May, economic activity regained notable momentum. While retail and industry reported strong signs of recovery in the months that followed, large parts of the services sector were limited as to their business possibilities due to the prevailing hygiene rules. Toward the end of the year, the second wave of the pandemic released a slew of fresh restrictions that applied through to the new year. The IMF has calculated that the eurozone's economy slumped by 7.2% in 2020 (2019: +1.3%).

Compared with most other European countries, **Germany's** economy was better able to cope with burdens from the Corona crisis in 2020. While the impact was still moderate in the first quarter of the year, the situation took a dramatic turn for the worse upon the decision to implement the first lockdown at the end of March. In the second quarter, the economy contracted by almost 10% compared with the year-earlier period. Underpinned by private consumption, the summer saw signs of recovery that lasted until the beginning of the second lockdown at the start of November. From the standpoint of the full year, government spending – here in particular expenses for short-time work – and the construction industry provided support for the economy, while other sectors of the economy suffered partly steep economic downturns measured against the previous year. The IMF estimates that the German economy saw its economic output contract by 5.4% in 2020 (2019: +0.6%); the German Federal Statistical Office calculates a slightly better figure of 5.0%.

Information was obtained mainly on the basis of the following sources: International Monetary Fund (1/2021): World Economic Outlook Update; ifo Economic Forecast Winter 2020; German World Bank (1/2021) Global Economic Prospects; German Federal Statistical Office, 1/2021.

## Overall Statement by Management on the Economic Situation

The economic impact of the Corona crisis adversely affected the Salzgitter Group's business mainly in the second and third quarter of 2020. We reacted quickly and rigorously to the demand plunge caused by the pandemic and the resulting challenges by taking measures to secure earnings and liquidity. Thanks to stringent crisis management and the uptrend in business in the fourth quarter, particularly in the Strip Steel, Trading and Technology business units, along with the very gratifying contribution of Aurubis AG, the 2020 pre-tax result exceeded the previous year's figure. Consolidated external sales declined to € 7.090,8 million due to market conditions (2019: € 8,547.3 million). The pre-tax result (€– 196.4 million; 2019: €– 253.3 million) includes net income of € 18.9 million from the release of restructuring provisions (2019: € – 56.1 million in net expenses for restructuring) and a contribution of € 104.0 million from the participating investment in Aurubis AG accounted for using the equity method (2019: € 99.5 million, including € 27.8 million in income from an accounting adjustment in connection with the acquisition of shares). An after-tax loss recorded at € 273.9 million (2019: € – 237.3 million). brings earnings per share to € – 5.13 (2019: € 4.46) and return on capital employed to – 3.9 % (ROCE; 2019: – 5.8 %). Earnings after taxes was impacted by additional tax expenses of € 71.0 million for capital gains tax to be repaid in connection with the ruling of the Federal Fiscal Court (Bundesfinanzhof) issued on structured securities lending in 2016. Salzgitter AG has lodged an appeal against this repayment. With an equity ratio of 32.5 % (2019: 34.1 %), the Group's balance sheet remains sound. The participating investment in Aurubis AG was acquired at a substantially lower average price than would be the case with the current stock market valuation. Moreover, $CO_2$ allowances were acquired at a favorable price as a precautionary measure in earlier years for the fourth period of the EU emission trading scheme that commenced on January 1, 2021. These two positions meanwhile add up to a higher triple-digit million euro amount.

# Performance and General Business Conditions of the Business Units

## Strip Steel Business Unit

| Key data | | 2020 | 2019 |
|---|---|---|---|
| Order intake | kt | 4,239 | 4,318 |
| Order backlog as of 12/31 | kt | 1,082 | 914 |
| Crude steel production | kt | 3,944 | 4,321 |
| Rolled steel production | kt | 3,206 | 3,566 |
| Shipments | kt | 4,127 | 4,413 |
| **Segment sales[1]** | **€ m** | **2,526.3** | **2,950.8** |
| **Sales to other segments/Group companies** | **€ m** | **–646.7** | **–741.8** |
| **External sales[2]** | **€ m** | **1,879.7** | **2,209.0** |
| **Earnings before taxes (EBT)** | **€ m** | **–86.8** | **–42.8** |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **65.8** | **259.5** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **–62.9** | **–8.3** |

[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

As a consequence of the Corona pandemic and the ensuing economic shutdown of large parts of Europe, demand and selling prices in the EU steel market slumped dramatically at the end of March 2020. With the recovery of key customer industries, such as the automotive industry, the take-up of steel products staged a gradual comeback. Cuts in the volumes of steel plants introduced in the early months of the year, in tandem with the rapid increase in demand, contributed to the quick recovery in Europe's strip steel market. In conjunction with the meanwhile steep uptrend in ore prices, selling prices partly increased by leaps and bounds in the second half of the year and, by the fourth quarter, exceeded the price level at the start of the year. In the first half of 2020, the EU's safeguard measures had virtually no impact given the ailing market situation caused by the pandemic. The most aggressive importers were only curbed upon the recovery that set in in the second half of the year and as a result of a number of administrative changes to the safeguards.

### Procurement

#### Iron ore

The IODEX 62% Fe CFR China benchmark price for the spot market started the year 2020 at around 93 USD/dmt. Over the course of the quarter, iron ore prices moved within a range of between 80 and 90 USD/dmt. In anticipation of an oversupply in the market, prices initially came under pressure in April before the situation reversed in May. An upturn in steel production and low iron ore inventory levels in China resulted in strong purchase requirements, which lifted the benchmark price by around 20% to just over 100 USD/dmt through to the start of June. Unabatedly strong demand from China and recurrent demand from other Asian countries and Europe sent the price to a level of more than 120 USD/dmt CFR China over the course of the third quarter. The shortages initially feared on the market due to Corona measures did not materialize. Instead, exports from

Brazil stabilized toward mid-year. Australia generated its highest export volume ever in 2020. These volumes were juxtaposed to Chinese demand that was much higher than expected. Accordingly, prices rose in succession as from mid-November, reaching the highest level seen since September 2011 at 176.90 USD/dmt CFR China at the end of the year. An interplay of stronger real demand, concerns about supply fueled by the again recently strained situation in Brazil, and an upturn in speculative trading activities caused this drastic increase. The annual average for 2020 stood at 108.87 USD/dmt, which is 17% higher than the figure posted in 2019. In order to mitigate the risks resulting from procurement, defined iron ore volumes are hedged to secure against price risks.

#### Coking coal

At the beginning of the COVID-19 pandemic, many traders and consumers stocked up on material to be prepared for potential shortfalls in coking coal and delivery delays. The increased demand for coking coal traded seaward coincided with relatively stable supply. Disruptions due to weather conditions in the logistics chain in Australia nevertheless caused price fluctuations. From the end of the first quarter of 2020, prices slipped notably in response to weaker demand and a sustained high level of Australian coking coal production. This trend continued in the second quarter and subsequently lasted right through until the start of September. The price of high grade coking coal fell from its peak in mid-March, by more than 50 USD/t to USD 109 USD/t by September. In response to Chinese demand resuming its uptrend before the holiday week at the start of October and to a similar increase in requirements from India and Europe, prices climbed within a few weeks to just under 140 USD/FOB Australia. Contrary to expectations for further price increases, the index fell within a very short space of time to around 100 USD/t as the Chinese government imposed an embargo on Australian coal imports. The resulting lack of demand kept prices for coal FOB Australia at this level through to the end of the year. Chinese steel mills had to cover their coking coal requirements from other countries due to this ban on imports. Prices averaged 123.99 USD/t FOB Australia in 2020, thereby falling 30% short of the previous year's figure. We hedge defined coking coal volumes in order to mitigate the risks resulting from procurement.

### Business development

All in all, the **order intake** of the Strip Steel Business Unit approached the level of the previous year. Unexpectedly strong demand from June onward, above all from automotive customers, and a strong fourth quarter virtually compensated for the slump that lasted from mid-March to May. **Orders on hand** rose tangibly above the previous year's figure. The blast furnace taken out of production in September 2019 remained idle due to the deterioration in the steel market caused by the Corona pandemic. Slabs sourced from the associated company Hüttenwerke Krupp Mannesmann GmbH (HKM) covered part of the input material requirements. **Crude** and **rolled steel output** dropped notably below year-earlier levels due to the necessary production adjustments, and **shipments** did not reach 2019 levels either. **Segment** and **external sales** declined markedly due to volumes and selling prices. Having delivered a positive result again in the final quarter, the Strip Steel Business Unit recorded a **pre-tax result** of € –86.8 million (2019: € –42.8 million) that includes € 6.2 million in net income from restructuring provisions (2019: € –19.1 million in net expenses for restructuring). The previous year was heavily burdened by € –100.0 million in impairment (2020: € 0), with a counter effect emanating from the release of provisions in an amount of € 50.3 million for typical operating risks.

### Investments

The Strip Steel Business Unit continued to work on its strategic "Hot Dip Galvanizing Line 3" project. The new facilities are to increase the existing hot dip galvanizing capacities of Salzgitter Flachstahl GmbH by around 500 ktons per year, with the additional aim of accommodating greater customer requirements for galvanized high-strength and ultra-high strength steel grades. The building was completed in the period under review and work on the foundations for the facilities commenced.

The new hot strip slitting plant and the exchange of the machine head of Continuous Casting Line 1 are measures with which we support the strategic goal of developing our product portfolio further in the direction of high strength and ultra-high strength grades

Moreover, the welding machinery on Coil Line 4 is being replaced to ensure quality standards. The project has reached the completion stage.

**SALCOS® (SAlzgitter Low $CO_2$ Steelmaking)**
With our SALCOS® concept we have adopted a pioneering role in decarbonizing the steel industry. The engineering approach of SALCOS® targets the direct avoidance of $CO_2$ emissions in the production process itself through using hydrogen to gradually replace the carbon necessary for steel production based on iron ore, initially by natural gas and then by hydrogen at a later stage in direct reduction facilities to be built. Largely using existing downstream production facilities deployed in producing crude steel, SALCOS® will enable the $CO_2$ emissions of the steelworks in Salzgitter to be reduced by 30% by 2030. A reduction of over 95% can be achieved based on full implementation over the period up until 2050.

The “Wind Hydrogen (Wind$H_2$) Salzgitter” project is allowing SZFG to gain operational experience in the important field of “hydrogen from renewable energies” essential to SALCOS®. As part of the project, we put a 2.5 megawatt PEM electrolysis plant (PEM = Proton-Exchange Membrane) on the premises of SZFG into operation in March 2021. The plant will fully cover the Salzgitter site’s current hydrogen requirements. This is a key component on the path to hydrogen-based steel production.

In addition, Salzgitter AG has been working together with Sunfire GmbH and other partners on the EU “GrInHy” (= Green Industrial Hydrogen) research project since 2016. New approaches for producing hydrogen efficiently are being investigated with the aim of making a contribution to lowering $CO_2$ in steel production through SALCOS® in the future. At the end of August, the world’s most powerful high-temperature electrolyzer for producing energy-efficient hydrogen was delivered to SZFG as part of the successor project “GrInHy2.0”. Under the project, a high-temperature electrolyzer with rated electrical output of 720 kilowatts is to be deployed in an industrial context. Over the period up until the end of 2022, the electrolyzer is to have been in operation for at least 13,000 hours and have produced over 100 tons of green hydrogen.

At the start of December 2020, Federal Environment Minister Svenja Schulze gave Salzgitter AG the funding approval for the construction of the first small-scale direct reduced iron (DRI) plant to be operated flexibly by hydrogen and natural gas. The new plant that is due to start production in the first half of 2022 marks a further step on the way to realizing SALCOS®. Further knowledge will be gained from the operations, the aim being to enable the production of efficient and low $CO_2$ directly reduced iron castings on a large scale in a few years’ time. Initially, the directly reduced iron castings of the small plant will be used in the blast furnace process to save on coal used for injection into the blast furnace and in the electric arc furnace of the Peine plant.

**Expanding the product range to include green strip steel**
Low $CO_2$ green steel slabs have been produced in our Peine mini mill since the end of 2020 for subsequent processing by SZFG into hot and cold strip in a wide range of various dimensions and grades. Due to the scrap-based metallurgy, the $CO_2$ footprint of these products is only around one quarter of that of steel products from the iron-ore based route. Our green strip steel enables us to address numerous customers who place importance on taking delivery of a real, physically reduced $CO_2$ product rather than being merely satisfied with more or less theoretical $CO_2$ footprint projections.

## Plate / Section Steel Business Unit

| Key data | | 2020 | 2019 |
|---|---|---|---|
| Order intake[1] | kt | 1,958 | 1,873 |
| Order backlog[1] as of 12/31 | kt | 386 | 309 |
| Crude steel production | kt | 1,038 | 1,003 |
| Rolled steel production | kt | 1,938 | 1,891 |
| Shipments[1] | kt | 1,901 | 1,949 |
| **Segment sales[2]** | **€ m** | **1,343.4** | **1,557.7** |
| **Sales to other segments / Group companies** | **€ m** | **–659.3** | **–753.1** |
| **External sales[3]** | **€ m** | **684.2** | **804.7** |
| **Earnings before taxes (EBT)** | **€ m** | **–94.4** | **–124.0** |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **–63.8** | **–30.0** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **–94.9** | **–116.7** |

[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 Peiner Träger GmbH (PTG) permits logistics processes to be more closely and flexibly co-ordinated.

### Market development

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

#### Heavy plate

In 2020, the heavy plate market was characterized by fierce competition between the rolling mills caused by imports at very low prices and the ongoing lack of large-diameter pipe projects. In contrast to the hot strip segment that experienced rapid distortions, the direct impact of the Corona crisis only filtered through with a delay. Heavy plate consumers in the areas of mechanical engineering and shipbuilding, yellow goods, along with the stockholding steel trade suffered steep declines in sales, which amounted to between 25 and 50% in trading alone. Along with the lack of capacity utilization, prices spiraled downward in the second quarter in a trend that persisted through to the third quarter. With the seasonally-induced short supply of the European steelworks due to downtime and the summer vacation period, prices stabilized briefly at the end of the summer at a very low level. At the start of the fourth quarter, the second wave of the pandemic triggered another deterioration in the market, accompanied by fierce price-led competition, also for the smallest volumes. The proportion of imports from non-EU countries that had steadily increased since the onset of the COVID-19 pandemic exacerbated the already difficult market situation. Only at the end of the year did a positive change in demand in the hot strip market, boosted by rising prices for Black Sea slab and greater demand from Asia for iron ore, generate slight tailwind, also in the heavy plate business.

### Steel girders

Over the course of 2020, the European section market reported only a slight downturn thanks to stable construction activities. Concerns about slumps caused by the lack of propensity to invest due to the Corona pandemic remained largely unrealized. Demand fluctuated over the course of the year as planning offices and approval authorities were not sufficiently staffed, and projects approved and released by investors were therefore unable to be implemented. Lack of clarity about the market situation resulted in orders being placed by the stockholding steel trade at increasingly shorter notice, which engendered great uncertainty about the booking of producers' capacities. Prices came under growing pressure in the second half of the year as southern European producers returned to the market after downtime necessitated by the Corona crisis.

## 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. In a difficult market environment and with exposure to fluctuations, the scrap price level rose slightly over the period through to mid-March. As a result of plant closures necessitated by the Corona measures, the market subsequently declined again. Slight counter movements were reported in May and June. With the general strengthening of the economy, prices entered a steady uptrend in the third quarter. At the same time, volumes also staged a recovery. Notably higher demand from Turkey whose order books are well filled by domestic and foreign orders through to April 2021 prompted sharp price increases in December.

## Business development

**Order intake**, **rolled steel production** and **crude steel output** of the Plate/Section Steel Business Unit were marginally higher year on year. **Orders on hand** visibly exceeded the previous year's figure, driven above all by the increase in plate volumes, while **shipments** fell marginally short of the year-earlier figure due to the market situation that only recovered toward the end of the year. In conjunction with declining selling prices, **segment** and **external sales** settled notably below the previous year's figures. The business unit reported a **pre-tax result** of € –94.4 million (2019: € –124.0 million), including € 9.7 million in income from the release of restructuring provisions (2019: € –17.1 million in expenses for restructuring). DMU made a positive earnings contribution that was nevertheless somewhat lower than in 2019. The 2019 result was burdened by impairment of € –47.8 million (2020: € 0).

## 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 in the spring of 2021. Other investments undertaken in the financial year 2020 were aimed at maintaining operational workflows. There are also a number of individual projects aimed at improving quality and optimizing processes.

## Mannesmann Business Unit

| Key data | | 2020 | 2019 |
|---|---|---|---|
| Order intake | € m | 1,073 | 1,384 |
| Order backlog as of 12/31 | € m | 359 | 446 |
| Crude steel production Hüttenwerke Krupp Mannesmann (30%) | kt | 1,051 | 1,289 |
| Shipment tubes[1] | kt | 400 | 546 |
| **Segment sales[2]** | **€ m** | **1,320.3** | **1,714.0** |
| **Sales to other segments/Group companies** | **€ m** | **–373.6** | **–594.3** |
| **External sales[3]** | **€ m** | **946.7** | **1,119.6** |
| **Earnings before taxes (EBT)** | **€ m** | **–62.0** | **–41.5** |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **2.6** | **70.0** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **–52.3** | **–27.1** |

[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 automobile manufacturing, 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, it 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.

**Market development**

With assumptions having been relatively optimistic at the start of 2020 thanks to robust framework conditions, March onward saw the development of the steel tubes market come under the strong influence of the Corona pandemic, in combination with low oil and gas prices. This was reflected in particular by the shelving of line pipe projects and significant declines in demand from the automotive industry and the mechanical and plant engineering sector. Production capacities were pared down in response, with short-time work and partial shutdowns. The first signs of recovery materialized at the end of the year. Having reached a record high in 2019, global steel tubes production in the period under review dropped to the level posted in 2012. In the EU, output declined from previously 14 to around a mere 11 million tons. German steel tubes production came in at two million tons in 2020. Two years previously more than three million tons of steel tubes were being produced in Germany. Domestic precision tubes production that stood at approximately 380 ktons only achieved around three quarters of the year-earlier figure. With no suitable projects on the books, large-diameter pipe production in particular tumbled to below 400 ktons.

**Business development**

The **order intake** of the Mannesmann Business Unit fell notably short of the previous year's figure due to reduced demand in all the business unit's product segments. With oil and gas prices plummeting, virtually no tenders were offered for large-diameter pipe projects in Europe in 2020. Moreover, promising projects were delayed due to the effects of the pandemic, with the result that Mannesmann Grossrohr GmbH (MGR) underperformed the previous year's figure. Order intake in the international project business for HFI-welded tubes also entered a downtrend. Although incoming orders in the precision tubes group had settled at a stable, relatively high level by the start of the second half year, the high volume of cancellations in the second quarter, especially from the automotive sector, prevented a repeat of the year-earlier figure. The stainless steel tubes group reported a healthy booking situation in the oil country tubular goods (OCTG) business, while business with the stockholding steel trade dropped sharply at times, delivering a shortfall compared with the year-earlier figure. **Orders on hand** did not match the year-earlier figure due to the low number of orders placed. For reason of demand, **tubes shipments** as well as **segment** and **external sales** fell short of the 2019 level in all parts of the business. Despite immediate adjustments to the lower level of business activity, the Mannesmann Business Unit recorded a tangibly reduced **pre-tax result** compared with the previous year (€ –62.0 million; 2019: € –41.5 million). The result includes € 4.9 million in net income from restructuring provisions (2019: € –10.5 million in net expenses for restructuring). The precision tubes group was able to reduce its loss compared with the previous year's result that was burdened by impairment (€ –40.0 million), also thanks to the continuously implemented "FitStructure 2.0" program of measures; by contrast, the other product segments fell short of the 2019 level.

Order intake and orders on hand of the EP Group accounted for at equity declined essentially due to the aforementioned market environment. While the German company's order intake increased on the back of the "Qatargas" project, incoming orders for the US companies that had booked a major project in 2019 declined. The EP group's shipments and sales did not match the figures achieved in 2019. All in all, this scenario led to a negative at-equity contribution from the EP Group in the financial year 2020 below the previous year's level.

**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, the homologation process is making headway. Investments of the stainless steel tubes group in a large cold pilger mill at the Remscheid location facilitate the expansion of the capacity and product range in the cold-finished seamless stainless segment, and thereby the production of larger tube diameters. As the world's largest pilger mill, the facility kicked off production in 2020.

## Trading Business Unit

| Key data | | 2020 | 2019 |
|---|---|---|---|
| Shipments | kt | 3,176 | 3,796 |
| **Segment sales[1]** | **€ m** | **2,244.6** | **2,890.2** |
| **Sales to other segments / Group companies** | **€ m** | **–19.4** | **–44.1** |
| **External sales[2]** | **€ m** | **2,225.2** | **2,846.2** |
| **Earnings before taxes (EBT)** | **€ m** | **25.1** | **–31.0** |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **44.1** | **–2.9** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **27.8** | **–18.8** |

[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

Following an already subdued start to the year, demand on the international steel markets continued to deteriorate in the course of the Corona pandemic. Protectionist trading measures and the market environment caused order activity in the trading business in particular to decline, with price levels remaining low, pressured by demand. Similarly, the development in Europe's stockholding steel trade entered into decline, above all in Germany. Margins in the stockholding steel business came under great pressure in the first three quarters compared with year-earlier levels. By the end of the year demand had picked up, accompanied by a similar increase in the selling prices of the plants, which allowed the first price hikes to be implemented in the final quarter.

### Business development

In the reporting period, the **shipment volumes** of the Trading Business Unit dropped substantially below the previous year's levels. International trading suffered the greatest deviations due to weak demand. The stockholding steel trade as well as the UES Group did not match the previous year's figures either due to the difficult market environment. In conjunction with the unsatisfactory price situation that lasted right through to the fourth quarter, **segment** and **external sales** were markedly lower. While steel stockholding traders achieved close to breakeven at the end of the year on the back of business developing well, international trading recorded a negative result albeit with a slight improvement in a year-on-year comparison. The UES Group did not repeat the good year-earlier figure, but nevertheless delivered a positive result. Extraordinary proceeds from the sale of a property (€ 47.2 million) lifted the **pre-tax profit** of the Trading Business Unit to € 25.1 million, which was notably higher than in the previous year (€ –31.0 million) despite impairment (€ –20.3 million; 2019: € –30.5 million). The result includes € –0.9 million in net expenses for restructuring (2019: € –4.9 million).

### Investments

Maintaining and upgrading existing facilities continued to form the focus of investments by the Trading Business Unit in 2020. 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 | | 2020 | 2019 |
|---|---|---|---|
| Order intake | € m | 1,248 | 1,374 |
| Order backlog as of 12/31 | € m | 658 | 709 |
| **Segment sales[1]** | **€ m** | **1,207.4** | **1,390.8** |
| **Sales to other segments/Group companies** | **€ m** | **–0.4** | **–0.5** |
| **External sales[2]** | **€ m** | **1,207.0** | **1,390.3** |
| **Earnings before taxes (EBT)** | **€ m** | **0.9** | **32.7** |
| **EBIT before depreciation and amortization (EBITDA)** | **€ m** | **32.2** | **61.9** |
| **Earnings before interest and taxes (EBIT)** | **€ m** | **4.2** | **35.0** |

[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. KHS GmbH (KHS), a company holding a leading international position in filling and packaging technology, represents the mainstay of sales with a share of around 90%. The KHS Group is a full-line supplier. The 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.

### Market development

According to the German Engineering Federation (VDMA), order intake in 2020 underperformed the previous year, burdened by the impact of the Corona pandemic. Both local and international demand weakened considerably. The market for packaging machinery also fell significantly short of the year-earlier figure in terms of bookings.

### Business development

The **order intake** of the Technology Business Unit entered a downtrend in the financial year 2020 as a result of market conditions. At the KHS Group, order activity initially proved satisfactory at the start of the year thanks to good project business, but mirrored the downtrend in the market as from the spring. This development slowed in the third quarter, with the fourth quarter bringing a recovery in bookings that partly approached the good year-earlier level. While the Klöckner DESMA Elastomer Group (KDE Group) did not repeat the previous year’s figures, DESMA Schuhmaschinen GmbH (KDS) was able to expand its order intake compared with 2019. The business unit’s **orders on hand** and its **segment** and **external sales** fell substantially below the 2019 levels. The KHS Group generated a result that was lower year on year, but was nevertheless gratifying in a turbulent market environment, which served to compensate the negative results of KDS and the KDE Group. All in all, the Technology Business Unit generated a **pre-tax profit** of € 0.9 million (2019: € 32.7 million) that includes € –0.6 million in expenses for restructuring (2019: € –1.3 million net expenses).

The KHS Group continues to rigorously pursue the comprehensive “KHS Future” efficiency and growth program. With a focus on reducing costs and expanding the service business, the program has already made a significant contribution to the overall result achieved and is aimed at promoting the development of the company in the fiercely competitive and challenging market environment, now and in future.

**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 optimizing workflows. An investment program for strategic realignment is being implemented for the Chinese market. About a year after the groundbreaking ceremony, the “Factory of the Future” meaning the new production and office building of Achim-based KDS was completed in June 2020. 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 | | 2020 | 2019 |
| --- | --- | --- | --- |
| Sales | € m | 729.6 | 916.7 |
| Sales to other segments/Group companies | € m | –581.4 | –739.2 |
| External sales[1] | € m | 148.2 | 177.6 |
| Earnings before taxes (EBT) | € m | 20.8 | –46.7 |
| EBIT before depreciation and amortization (EBITDA) | € m | 95.1 | –4.2 |
| Earnings before interest and taxes (EBIT) | € m | 58.9 | –51.5 |

[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 € 729.6 million in the financial year 2020, significantly lower than the level achieved in the previous year (2019: € 916.7 million). **External sales** dropped notably to € 148.2 million (2019: € 177.6 million). **Earnings before taxes** stood at € 20.8 million in the financial year 2020 (2019: € –46.7 million). This figure includes the contribution of Aurubis AG, an investment included at equity (IFRS accounting) amounting to € 104.0 million. The counterpart figure in 2019 (€ 99.5 million) comprises € 27.8 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 an unchanged stake of 29.99 % in Aurubis AG. The result includes virtually no burdens from special items (€ –0.3 million; 2019: € –148.9 million). 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, delivered – contrary to the previous year – a negative result overall (€ –15.5 million; 2019: € +33.8 million). The pre-tax profit of Group companies not directly assigned to a business unit exceeded the year-earlier figure due to proceeds from the disposal of a property.

## Comparison between Actual and Forecasted Performance

At the start of the financial year 2020, the **Salzgitter Group** anticipated

- an increase in sales to € 9 billion (2019: € 8.5 billion)
- a pre-tax result around breakeven (2019: € – 253.3 million) and
- a return on capital employed (ROCE) tangibly above the previous year's figure (2019: – 5.8 %).

At the end of March, the coronavirus and its immediate impact had an unequivocal grip on the economy and society. At that time, no reliable forecast could be given on prospects for the development of the environment relevant to the Salzgitter Group. We were therefore unable to uphold our forecast from the start of the year and not able to issue a sufficiently reliable new forecast for the financial year 2020 for the time being.

Although the results of the first three months of 2020 remained largely unaffected by the impact of the Corona epidemic, it was foreseeable that the following quarters would be determined by global restrictions on economic activity. With a marked downturn in sales, we therefore then expected a negative pre-tax result in a significant, with a high probability, triple-digit million euro range for the financial year 2020. The scope of feasible scenarios was so extensive that precise quantification would be have been pure speculation.

In line with expectations, the Salzgitter Group took a significantly greater hit from the economic impact of the Corona pandemic in the second quarter than in the first three months of the year. The slump in the demand from the automotive industry burdened our company in particular. Compared with 2019, the Group's subsidiaries reported capacity utilization that had contracted by as much as 70 %. Based on the half-yearly result, we specified our earnings forecast and predicted a negative pre-tax result in the low to mid-triple digit million euro range.

Having ascertained the nine-monthly result, we assumed that the trough had bottomed out in the second and third quarter. The development of the macroeconomic situation was nevertheless subject to great uncertainty. With this in mind, we anticipated pre-tax earnings roughly in the dimension of the year-earlier result – to the exclusion of eventual special items in the context of the annual financial statements.

The Salzgitter Group closed the financial year 2020 with a pre-tax result of € – 196.4 million that included € 18.9 million in net income from restructuring provisions. Thanks to stringent crisis management and the uptrend in business in the fourth quarter, particularly in the Strip Steel, Trading and Technology business units, and the very gratifying contribution of Aurubis AG, the pre-tax result exceeded the previous year's figure as well as the last forecast. Sales came in at only € 7.1 billion due to market conditions, and ROCE stood at – 3.9 %.

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

The **Strip Steel Business Unit** anticipated that the deterioration in selling prices and squeezed margins observed over the course of 2019 would be reflected in a negative pre-tax result, at least in the first quarter of 2020. Furthermore, it expected the quotas from European anti-dumping measures derived from record import figures would not even come close to being exploited due to the generally low level of demand. Based on raw materials costs for iron ore and coking coal at the level of year-end 2019, the business unit predicted the following:

- a tangible decline in sales (2019: € 2.2 billion) and
- a notable reduction in the pre-tax loss compared with the year-earlier result (2019: € – 42.8 million) that was burdened by non-recurrent effects.

Although an unexpected surge in demand from June onward, above all from the automotive industry, and a strong fourth quarter of 2020 almost compensated for the severe slump caused by the Corona pandemic from mid-March through to May, sales nevertheless declined considerably due to volume- and price-related effects. Having delivered a positive result again in the final quarter, a pre-tax result of € – 86.8 million was recorded that included € 6.2 million in net income from restructuring provisions.

We assumed that situation in the markets relevant to the **Plate/Section Steel Business Unit** would remain tight. As there was no repeat of the burdens from the restructuring provisions booked in 2019 and from impairment, notable improvements in the result were nevertheless predicted. The business unit anticipated:

- sales at a virtually unchanged level (2019: € 0.8 billion) and a
- notable reduction in the pre-tax loss (2019: € –124.0 million).

With shipments marginally lower compared with 2019, sales dropped appreciably short of the year-earlier levels in conjunction with the downtrend in selling prices. With a pre-tax result of € –94.4 million, the business unit delivered a better result, as anticipated, than in the previous year that was determined by negative special items. The result included € 9.7 million in income from the release of restructuring provisions.

At the beginning of the year, the **Mannesmann Business Unit** anticipated unsatisfactory capacity utilization at the EUROPIPE Group. Mannesmann Grossrohr GmbH expected follow-up orders to be placed for two-shift operation, and the medium-diameter line pipe segment anticipated a slight increase in volumes, accompanied by lower selling prices. While the stainless steel segment predicted that business would continue to develop well, the precision tubes companies factored in an economic downturn, at least for the first half of 2020. In combination with rising shipment volumes, we forecast the following for the business unit:

- sales remaining virtually unchanged (2019: € 1.1 billion) and
- a significantly improved, marginally positive pre-tax result (2019 € –41.5 million).

Sales fell short of the previous year's level in all parts of operations due to demand. All in all, the Mannesmann Business Unit delivered a tangibly lower pre-tax result (€ –62.0 million) than in the previous year, despite prompt adjustments to the lower level of business activity. The result includes € 4.9 million in net income from restructuring provisions.

While we assumed that generating margins in international trading was most likely to remain under pressure due to the restrictive trade policies, we anticipated that the stockholding steel trade should be able to achieve increasingly higher margins on the back of selling prices that were expected to stabilize over the course of 2020. Accordingly, the **Trading Business Unit** predicted:

- an increase in shipments and visible sales growth (2019: € 2.8 billion) and
- a significantly increased, positive pre-tax profit compared with the previous year (2019: € –31.0 million).

In conjunction with the unsatisfactory price situation that lasted right through to the fourth quarter, sales fell markedly short of expectations. Extraordinary proceeds from the sale of a property (€ 47.2 million) nevertheless lifted the pre-tax profit of the Trading Business Unit to € 25.1 million, which was notably higher than in the previous year. A counter effect emanated from a net amount of € –0.9 million in expenses from restructuring provisions.

The KHS Group expected to see profitability improve, accompanied by a moderate increase in volumes and sales. By contrast, the two smaller specialist mechanical engineering companies anticipated lower sales and earnings figures compared with the previous year due to the subdued market outlook. The **Technology Business Unit** therefore predicted:

- a virtually stable level of sales (2019: € 1.4 billion) and
- a slight increase in pre-tax profit compared with 2019 (€ 32.7 million).

Sales dropped notably below the 2019 level. The KHS Group generated a result that was lower year on year but was nevertheless gratifying in a turbulent market environment, and which served to compensate the negative results of KDS and the KDE Group. All in all, the Technology Business Unit generated a pre-tax profit of € 0.9 million that included expenses from restructuring provisions of € –0.6 million.

# Profitability, Financial Position and Net Assets

## Profitability of the Group

The Group's **external sales** declined to € 7,091 million (2019: € 8,547 million), due above all to the drop in average selling prices for rolled steel products and lower shipment volumes, and were distributed as follows among the business units:

Consolidated sales by business unit

| | 2020 | | 2019 | | |
|---|---|---|---|---|---|
| | In € million | % | In € million | % | Change in % |
| Strip Steel | 1,880 | 27 | 2,209 | 26 | –15 |
| Plate/Section Steel | 684 | 10 | 805 | 9 | –15 |
| Mannesmann | 947 | 13 | 1,120 | 13 | –15 |
| Trading | 2,225 | 31 | 2,846 | 33 | –22 |
| Technology | 1,207 | 17 | 1,390 | 16 | –13 |
| Industrial Participations/Consolidation | 148 | 2 | 178 | 2 | –17 |
| **Group** | **7,091** | **100** | **8,547** | **100** | **–17** |

The regional distribution of sales revenues remained virtually unchanged: As before, the business activities of the Salzgitter Group are therefore focused on the EU (€ 5,083 million; 72 % share of sales). Germany remained by far the largest single market with sales of € 3,195 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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | In € million | % | In € million | % |
| Germany | 3,195 | 45 | 3,845 | 45 |
| Other EU countries | 1,888 | 27 | 2,259 | 26 |
| Rest of Europe | 305 | 4 | 277 | 3 |
| America | 815 | 11 | 1,060 | 12 |
| Asia | 487 | 7 | 645 | 8 |
| Other regions | 401 | 6 | 461 | 5 |
| **Group** | **7,091** | **100** | **8,547** | **100** |

Against a difficult market environment impacted by the coronavirus, the **pre-tax result** came in at € –196.4 million thanks to rigorous crisis management and business trending up in the fourth quarter, particularly in the Strip Steel, Trading and Technology business units, supported by the very gratifying contribution from Aurubis AG that exceeded the previous year's figure (€ –253.3 million). The result also includes net income of € 18.9 million from restructuring provisions (2019: € –56.1 million in net expenses for restructuring) and a contribution of € 104.0 million from the participating investment in Aurubis AG accounted for using the equity method (2019: € 99.5 million, including € 27.8 million in income from an accounting adjustment in connection with the acquisition of shares).

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

Having delivered a positive result again in the final quarter, the **Strip Steel Business Unit** recorded earnings before taxes of € –86.8 million (2019: € –42.8 million) that included € 6.2 million in net income from restructuring provisions (2019: € –19.1 million in net expenses for restructuring). The previous year was heavily burdened by impairment of € –100 million (2020: € 0), with a counter effect emanating from the release of provisions amounting to € 50.3 million for typical operating risks.

The **Plate/Section Steel Business Unit** reported a pre-tax result of € –94.4 million (2019: € –124.0 million) including € 9.7 million in income from the release of restructuring provisions (2019: € –17.1 million in expenses for restructuring). DMU was the only company to make a positive earnings contribution that was nevertheless marginally lower year on year. The result of 2019 was burdened by impairment of € –47.8 million (2020: € 0).

All in all, the **Mannesmann Business Unit** delivered a tangibly lower pre-tax result than in the previous year despite prompt adjustments to the lower level of business activity (€ –62.0 million; 2019: € –41.5 million). The result includes € 4.9 million in net income from restructuring provisions (2019: € –10.5 million in net expenses for restructuring). With the exception of the precision tubes group that reduced its loss in comparison with the previous year that was burdened by impairment (€ –40.0 million), all product segments settled below the levels posted in 2019.

Extraordinary proceeds from the sale of a property (€ 47.2 million) lifted the pre-tax profit of the **Trading Business Unit** to € 25.1 million, which is notably higher than in the previous year (2019: € –31.0 million). The result includes € –0.9 million in net expenses in connection with restructuring provisions (2019: € –4.9 million).

The **Technology Business Unit** generated earnings before taxes of € 0.9 million (2019: € 32.7 million) that included € –0.6 million in expenses from restructuring provisions (2019: net expenses of € –1.3 million). In this context, the KHS Group generated a result that was lower year on year but was nevertheless gratifying in a turbulent market environment and served to compensate the negative results of KDS and the KDE Group.

The pre-tax result of **Industrial Participations/Consolidation** came in at € 20.8 million (2019: € –46.7 million). This figure includes the contribution of Aurubis AG, an investment included at equity, amounting to € 104.0 million (2019: € 99.5 million) and a very low volume of burdens from special items (€ –0.3 million; 2019: € –148.9 million; essentially for the liability formed for the payment of the fine to the German Federal Cartel Office).

Results of the business units and consolidated result

| In € million | 2020 | 2019 |
|---|---|---|
| Strip Steel | –86.8 | –42.8 |
| Plate/Section Steel | –94.4 | –124.0 |
| Mannesmann | –62.0 | –41.5 |
| Trading | 25.1 | –31.0 |
| Technology | 0.9 | 32.7 |
| Industrial Participations/Consolidation | 20.8 | –46.7 |
| **EBT Group** | **–196.4** | **–253.3** |
| Taxes | 77.5 | –16.0 |
| **Consolidated result[1)]** | **–273.9** | **–237.3** |

[1)] Including minority interest

Special items / EBT of the business units and of the Group

| | EBT | | Restructuring[1] | | Impairment/ reversal of impairment[2] | | Other | | EBT without special items | |
|---|---|---|---|---|---|---|---|---|---|---|
| **In € million** | **2020** | **2019** | **2020** | **2019[3]** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Strip Steel | –86.8 | –42.8 | 6.2 | –19.1 | – | –100.0 | – | – | –93.0 | 76.3 |
| Plate/Section Steel | –94.4 | –124.0 | 9.7 | –17.1 | – | –47.8 | – | – | –104.1 | –59.0 |
| Mannesmann | –62.0 | –41.5 | 4.9 | –10.5 | – | –40.0 | – | – | –66.9 | 9.0 |
| Trading | 25.1 | –31.0 | –0.9 | –4.9 | – | – | – | – | 26.1 | –26.1 |
| Technology | 0.9 | 32.7 | –0.6 | –1.3 | – | – | – | – | 1.5 | 34.0 |
| Industrial Participations/ Consolidation | 20.8 | –46.7 | –0.3 | –3.1 | – | –5.0 | – | –140.8 | 21.1 | 102.2 |
| **Group** | **–196.4** | **–253.3** | **18.9** | **–56.1** | **–** | **–192.9** | **–** | **–140.8** | **–215.3** | **136.4** |

[1] This disclosure takes account of expenses for a restructuring measure and gains from the release of a restructuring provision. Only income is included in 2020 in the Plate / Section Steel Business Unit (previous year: only expenses) and only expenses in 2020 in the Technology Business Unit and in Industrial Participations / Consolidation (previous year: net expenses).
[2] Disclosure as an impairment / write-up in this overview has only been reported if the cash flows are allocated to a group of assets.
[3] For better comparability, figures were adjusted retrospectively.

### 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 compared with 2019 is offset by a decrease in the cost of materials in similar dimensions. Depreciation and amortization in the financial year 2020 correspond exclusively to the regular decline in value. In the previous year, by contrast, expenses for unplanned expenditures amounting to € –192.9 million had to be taken into account. The result of the companies included at equity declined notably. While the participating investment in Aurubis AG made a higher contribution than in the year before, the contributions to earnings by the other companies accounted for according to the equity method were lower than in the previous year.

Adjusted for € 77.5 million in tax expenses, the consolidated net loss came in at € –237.9 million (2019: € –237.3 million). Earnings after taxes was impacted by additional tax expenses of € 71.0 million for capital gains tax to be repaid in connection with the ruling of the Federal Fiscal Court (Bundesfinanzhof) issued on structured securities lending in 2016. Salzgitter AG has lodged an appeal against this ruling.

Multi-year overview of earnings

| **In € million** | **2020** | **2019** | **2018** | **2017** | **2016** | **2015[1]** | **2014** | **2013[2]** | **2012** | **2011** |
|---|---|---|---|---|---|---|---|---|---|---|
| EBT | –196.4 | –253.3 | 347.3 | 238.0 | 53.2 | 4.1 | –15.2 | –482.8 | –29.4 | 201.6 |
| EBIT I[3] | –138.1 | –212.0 | 390.8 | 295.7 | 96.6 | 69.5 | 63.9 | –422.7 | 59.8 | 264.7 |
| EBIT[4] | –119.2 | –187.5 | 412.6 | 316.8 | 119.2 | 81.9 | 97.9 | –393.2 | 98.0 | 304.5 |
| EBITDA[5] | 176.1 | 354.2 | 797.2 | 707.2 | 476.4 | 422.6 | 483.6 | 138.1 | 462.7 | 666.8 |
| EBT margin | –2.8 | –3.0 | 3.7 | 2.7 | 0.7 | 0.1 | –0.2 | –5.2 | –0.3 | 2.1 |
| EBIT margin[4] | –1.7 | –2.2 | 4.5 | 3.5 | 1.5 | 1.0 | 1.1 | –4.2 | 0.9 | 3.1 |
| EBITDA margin[5] | 2.5 | 4.1 | 8.6 | 7.9 | 6.0 | 4.9 | 5.4 | 1.5 | 4.5 | 6.8 |
| ROCE % | –3.9 | –5.8 | 10.3 | 8.6 | 2.7 | 1.9 | 1.8 | –10.5 | 1.3 | 5.6 |

[1] Restatement because of a correction of the stock value
[2] Restated because of first time adoption of IFRS 11
[3] Excluding elimination of 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 | 2020 | 2019 |
|---|---|---|
| EBT | –196.4 | –253.3 |
| + Interest expenses | 90.8 | 80.4 |
| – Interest income | –13.6 | –14.6 |
| **= EBIT** | **–119.2** | **–187.5** |
| + Depreciation / amortization[1] | 295.3 | 541.7 |
| **= EBITDA** | **176.1** | **354.2** |

[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. As a reflection of the improved earnings trend when compared with the previous year, the performance indicator EBIT has also risen. In a year-on-year comparison, however, EBITDA indicates a reduction, as the downturn in customer demand in the wake of the Corona pandemic resulted in sales declining to a greater extent than the allocable expenses.

**Value added in the Salzgitter Group**

The operational value added of the Group amounted to € 1,543 million in 2020 (2019: € 1,630 million). As in the previous year, personnel expenses (€ 1,687 million; 2019: € 1,855 million) could not be fully covered. In terms of the public sector, the proportion in the form of taxes and levies stood at 5.0 % (2019: –1.0 %). The proportion of lenders increased to 3.4 % year on year (2019: 1.9 %). A proportion of value added (including treasury shares) will not be available to the shareholders for the financial year ended (2019: 0.7 %). Notwithstanding the residual negative figure in the reporting year (€ –273 million), an amount of € 1.7 billion in value added has remained within the Group over the last 15 years.

Value added

| | 2020/12/31 | | 2019/12/31 | |
|---|---|---|---|---|
| | In € million | % | In € million | % |
| **Sources** | | | | |
| Group outputs | 7,397 | 100.0 | 8,971 | 100.0 |
| Inputs | 5,854 | 79.1 | 7,341 | 81.8 |
| **Value added** | **1,543** | **20.9** | **1,630** | **18.2** |
| **Appropriation** | | | | |
| Employees | 1,687 | 109.3 | 1,855 | 113.8 |
| Public sector | 78 | 5.0 | –16 | –1.0 |
| Shareholders | 0 | 0.0 | 12 | 0.7 |
| Lenders[1] | 52 | 3.4 | 32 | 1.9 |
| Remaining within the Group | –273 | –17.7 | –252 | –15.5 |
| **Value added** | **1,543** | **100.0** | **1,630** | **100.0** |

[1] Component of the finance expenses item

### Reconciliation value added

| In € million | 2020 | 2019 |
|---|---|---|
| Sales | 7,090.8 | 8,547.3 |
| Changes in inventories/other own work capitalized | –158.1 | –8.2 |
| Other operating income | 345.3 | 285.6 |
| Income from shareholdings | 2.4 | 2.0 |
| Result from investments accounted for using the equity method | 95.6 | 125.2 |
| Income from reversal of impairment losses of financial assets | 13.3 | 14.3 |
| Financial result[1)] | 7.3 | 4.9 |
| **Group outputs** | **7,396.7** | **8,971.0** |
| | | |
| Cost of materials | 4,579.2 | 5,602.6 |
| Depreciation/amortization | 295.3 | 541.0 |
| Other operating expenses | 936.6 | 1,157.8 |
| Expenses of impairment losses of financial assets | 42.5 | 39.4 |
| **Input** | **5,853.6** | **7,340.9** |

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 mainly 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 renewed syndicated credit limit of € 560 million renewed in 2017 with eight banks and 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 the lower actuarial interest rate (1.1 %) derived from the current level of capital market rates, they amounted to € 2,299 million (2019: € 2,356 million at 1.4 %). 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 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 | 2020 | 2019 |
|---|---|---|
| Cash inflow from operating activities | 18.3 | 250.7 |
| Cash outflow from investment activities | –234.2 | –304.8 |
| Cash inflow/outflow from financing activities | 151.0 | 194.7 |
| **Change in cash and cash equivalents** | **–64.9** | **140.6** |
| Changes in the Group of consolidated companies/changes in exchange rates | –14.2 | 4.3 |
| **Cash and cash equivalents on the reporting date** | **621.4** | **700.5** |

The Group generated € 18 million in **cash flow from operating activities** (2019: € 251 million). The reduced volume essentially results from lower earnings before taxes. Compared with the year-earlier period (€ 305 million), the **cash outflow from investment activities** (€ 234 million) was characterized mainly by a lower level of disbursements for investments in property, plant and equipment and intangible assets and reflects greater restraint exercised with investments against the backdrop of the Corona pandemic. In a year-on-year comparison, the reduced volume of funds invested (€ –168 million) was offset by higher contributions from asset disposals (€ 71 million) and lower investments in other non-current assets (€ –102 million). In the previous year, the non-current assets position was determined in particular by disbursements for shares in companies accounted for in accordance with the equity method.

The cash outflow from financing activities is impacted by the full repayment of the convertible bond issued in 2015 (€ –151 million), as well as the redemption of loans received and interest payments. This was offset by incoming payments from borrowing, resulting overall in a positive **cash inflow** of € 151 million from financing activities (previous year: € 195 million).

### Net financial position

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

| In € million | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Cash and cash equivalents acc. to balance sheet | 621.4 | 700.5 |
| + Other investments of funds[1] | 37.6 | 96.5 |
| = Investments of funds | 659.0 | 797.0 |
| | | |
| Financial liabilities acc. to balance sheet | 1,237.6 | 1,067.2 |
| – Liabilities from leasing agreements, liabilities fom financing and other financial liabilities | 146.9 | 130.4 |
| = Financial liabilities of net financial position | 1,090.7 | 936.8 |
| | | |
| **Net financial position** | **–431.7** | **–139.8** |

[1] Loans excl. valuation allowances (€ 34.6 million; previous year: € 43.1 million) and incl. other cash investments reported under other receivables and other assets (€ 3.0 million; previous year: € 2.5 million). In the previous year, securities were included.

The net financial position of € –432 million declined considerably compared with 2019 (€ –140 million). The difference compared with the previous year is almost fully attributable to the fine (€ 211 million) paid to the German Federal Cartel Office and tax prepayments to the German tax authority in connection with the securities lending transaction (€ 71 million). Furthermore, when considering the net financial position, two significant hidden reserves not discernible from the balance sheet must be taken into account: The participating investment in Aurubis AG was acquired at a substantially lower average price than would be the case with the current stock market valuation. Moreover, $CO_2$ allowances were acquired at a favorable price as a precautionary measure in earlier years for the fourth period of the EU emission trading scheme that commenced on January 1, 2021. These two positions meanwhile add up to an upper-triple digit million euro amount.

The tangibly lower level of cash investments, including securities (€ 659 million; 2019: € 797 million), was offset by an increase of € 1,091 million in liabilities owed to banks at the end of the year (2019: € 937 million). Obligations arising from leasing agreements are not included in the net financial position.

## Investments

Additions to property, plant and equipment and intangible assets from investments stood at € 411 million (2019: € 593 million). This amount includes € 46 million from lease accounting for newly concluded or renewed contracts over their full contractual term under which the impact on payments lies in the future. Capitalized investments exceeded the scheduled depreciation and amortization (€ 295 million). Additions to financial assets (€ 3 million) mainly pertain to investments in subsidiaries not included in the group of consolidated companies for reasons of immateriality. Along with the Strip Steel Business Unit (€ 162 million), a major part of the investments in property, plant and equipment and intangible assets were made in the Plate/Section Business Unit (€ 87 million) and in the Mannesmann Business Unit (€ 70 million) in 2020.

On the reporting date, a purchase commitment on investments existed in an amount of € 261 million (2019: € 359 million).

No impairment was included in depreciation and amortization (2019: € 197 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 |
| **2020** | **411** | **249** | **295** | **160** |
| 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** | **2,392** | **1,404** | **2,308** | **1,462** |

| | Investments[1] | | Depreciation/amortization[1)2)] | |
|---|---|---|---|---|
| In € million | 2020 | 2019 | 2020 | 2019 |
| Strip Steel | 162 | 183 | 129 | 268 |
| Plate/Section Steel | 87 | 120 | 31 | 87 |
| Mannesmann | 70 | 78 | 55 | 97 |
| Trading | 33 | 37 | 16 | 16 |
| Technology | 35 | 68 | 28 | 27 |
| Industrial Participations/Consolidation | 24 | 108 | 36 | 47 |
| **Group** | **411** | **593** | **295** | **541** |

1) Excluding financial assets, as from FY 2019 under initial application of IFRS 16 Leases
2) Scheduled and unscheduled write-downs

The liquidity and debt-to-equity ratios in the financial year 2020 were as follows:

### Multi-year overview of the financial position

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015[1] | 2014 | 2013[2] | 2012 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Solvency I (%)[3] | 99 | 101 | 107 | 131 | 123 | 132 | 116 | 130 | 156 | 169 |
| Solvency II (%)[4] | 192 | 202 | 203 | 234 | 201 | 214 | 196 | 227 | 262 | 287 |
| Dynamic debt burden (%)[5] | 0.6 | 9.4 | 22.3 | 11.6 | 11.6 | 19.8 | 26.0 | 6.8 | 22.0 | – 12.1 |
| Gearing (%)[6] | 207.5 | 193.3 | 162.8 | 178.3 | 196.3 | 190.0 | 195.4 | 158.9 | 145.1 | 120 |
| Cash flow (€ m) from operating activities | 18 | 251 | 528 | 274 | 290 | 448 | 599 | 141 | 427 | – 197 |
| Net financial position (€ m)[7] | 432 | 140 | – 192 | – 381 | – 302 | – 415 | – 403 | – 303 | – 497 | – 508 |

[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 € 8,237 million, the Group's total assets settled below the year-earlier level (2019: € 8,618 million). The increase in non-current assets (€ +146 million) essentially resulted from the significant increase in shares held in companies accounted for using the equity method (€ +96 million). Property, plant and equipment and intangible assets increased slightly, while the investments (€ 411 million) exceeded depreciation and amortization (€ 295 million). Current assets declined sharply compared with the previous year (€ – 526 million). This is due in particular to the lower level of inventories (€ – 314 million) and trade receivables, including contract assets (€ – 81 million). Cash and cash equivalents dropped by € 79 million compared with previous year's reporting date.

### Asset and capital structure

| | 2020/12/31 | | 2019/12/31 | |
|---|---|---|---|---|
| | € m | % | € m | % |
| Non-current assets | 4,244 | 51.5 | 4,099 | 47.6 |
| Current assets | 3,993 | 48.5 | 4,519 | 52.4 |
| **Assets** | **8,237** | **100.0** | **8,618** | **100.0** |
| Equity | 2,679 | 32.5 | 2,939 | 34.1 |
| Non-current liabilities | 3,476 | 42.2 | 3,454 | 40.1 |
| Current liabilities | 2,082 | 25.3 | 2,225 | 25.8 |
| **Equity and liabilities** | **8,237** | **100.0** | **8,618** | **100.0** |

Working capital stood at € 2,094 million, which is tangibly lower than the year-earlier figure (2019: € 2,455 million).

The equity ratio came in at 32.5% (2019: 34.1%), determined by the negative annual result. Non-current liabilities climbed by € +23 million. While non-current financial liabilities increased compared with the previous year (€ +112 million), other non-current provisions declined (€ –67 million). Current liabilities were lower than in the previous year (€ –143 million). Other liabilities were significantly reduced through the payment of the fine (€ –143 million) to the German Federal Cartel Office. Trade payables, including contract liabilities, declined by € –41 million, which was offset by higher current financial liabilities (€ +58 million).

### Multi-year overview of the asset position

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015[1] | 2014 | 2013[2] | 2012 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Asset utilization ratio (%)[3] | 51.5 | 47.6 | 43.8 | 42.9 | 43.8 | 44.4 | 42.1 | 43.9 | 42.5 | 41.8 |
| Inventory ratio (%)[4] | 23.5 | 26.1 | 26.6 | 25.1 | 21.8 | 21.3 | 23.4 | 23.9 | 23.2 | 23.9 |
| Depreciation/ amortization ratio (%)[5] | 11.8 | 22.3 | 15.8 | 15.9 | 13.9 | 13.3 | 15.3 | 20.7 | 13.6 | 13.5 |
| Debtor days[6] | 63.6 | 56.5 | 61.7 | 61.6 | 68.2 | 63.4 | 66.5 | 57.8 | 54.2 | 53.7 |
| Capital employed (€ m) | 3,545 | 3,631 | 3,749 | 3,436 | 3,584 | 3,620 | 3,526 | 4,034 | 4,481 | 4,733 |
| Working Capital (€ m)[7] | 2,094 | 2,455 | 2,515 | 2,433 | 2,165 | 2,271 | 2,487 | 2,598 | 2,694 | 2,753 |

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
7) Inventories plus trade receivables and contract assets less trade payables and contract liabilities

## The Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG (SZAG) for the financial year 2020 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.

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)**

| | 2020/12/31 | | 2019/12/31 | |
|---|---|---|---|---|
| | € m | % | € m | % |
| **Non-current assets** | **72.0** | **11.4** | **74.9** | **9.0** |
| Property, plant and equipment[1] | 20.1 | 3.2 | 20.6 | 2.5 |
| Financial investments | 51.9 | 8.2 | 54.3 | 6.5 |
| **Current assets** | **558.7** | **88.6** | **757.0** | **91.0** |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade receivables and other assets[2] | 558.7 | 88.6 | 757.0 | 91.0 |
| **Assets** | **630.7** | **100.0** | **832.0** | **100.0** |
| Equity | 369.9 | 58.6 | 382.0 | 45.9 |
| Provisions | 240.7 | 38.2 | 253.9 | 30.5 |
| Liabilities | 20.1 | 3.2 | 196.1 | 23.6 |
| **Equity and liabilities** | **630.7** | **100.0** | **832.0** | **100.0** |

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

The receivables from the liquidity (€ 528 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 € 217 million are disclosed in particular, alongside equity. The equity ratio increased to 58.6 % (2019: 46.9 %).

Income statement of Salzgitter AG (condensed)

| In € million | 2020 | 2019 |
|---|---|---|
| **Sales** | **20.0** | **22.9** |
| Changes in the inventory of unfinished goods | 0.0 | 0.2 |
| Other operating income | 12.6 | 15.8 |
| Cost of materials | 0.0 | 0.2 |
| Personnel expenses | 24.5 | 34.7 |
| Depreciation / amortization[1] | 5.8 | 5.3 |
| Other operating expenses | 27.2 | 41.4 |
| Income from shareholdings | 19.9 | 59.8 |
| Net interest result | –5.9 | –7.2 |
| Income tax | 0.1 | 0.9 |
| **After-tax result** | **–10.7** | **10.8** |
| Other taxes | –1.4 | –2.1 |
| **Consolidated net income / loss** | **–12.1** | **8.7** |

[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 2020 mainly comprises earnings from affiliated companies. Personnel expenses are lower than in the previous year essentially due to changes in the parameters for measuring pension provisions. Other operating expenses declined due to the lower level of external consultancy services. Income from shareholdings consisted almost exclusively of the contribution to the result received by SMG. As of December 31, 2020, the company had a workforce of 164 employees (previous year's reporting date: 169 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 July 7, 2025, and to use these shares for all purposes permitted under the law.

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

- 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 an annual net loss of € –12.1 million in the financial year 2020. Including the profit carryforward (€ 12.1 million), unappropriated retained earnings amount to € 0. A resolution by the Annual General Meeting of Shareholders on unappropriated retained earnings, and thus a proposal on the appropriation of the same, is therefore not required.

As before, the dividend amount will be geared to the performance 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 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. The Corona pandemic nevertheless had a considerable impact on the Salzgitter Group's performance in the financial year 2020. As a result, the forecast of significantly higher unappropriated retained earnings in 2020 compared with the previous year was clearly underperformed. 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 2021 at a level notably above the previous year.

# 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 as well as improve our competitiveness.

Business opportunities are to be specifically used under the aspect of sustainable profitability. We are concerned not only with measures initiated to promote organic growth but also with investigating new business models and screening 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". We provide information here on SALCOS® (SAlzgitter Low $CO_2$ Steelmaking), our defined climate strategy for sustainable low $CO_2$ steel production. You can also find further information on SALCOS® and on the associated future opportunities and preconditions at ↗ **https://salcos.salzgitter-ag.com/en/**.

**Risks and risk management**
In the past year, our risk management system has, in our view, 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 company to put guidelines in place to form 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. This policy sets out principles concerning the

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

of the risks in order to standardize them throughout the Group and to guarantee 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. In the Salzgitter Group we categorize the risk types as follows:

- strategic/political risks,
- performance risks,
- financial risks and
- general risks.

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

**Assessment**

So as to be able to assess the risks we generally evaluate the threat scenario, while taking into account all factors of influence. 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, as well as our 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. Risks are reported to the Executive Board in accordance with the reporting thresholds. Reports are submitted i.a. on the meetings of the Group Management Board that take place every two weeks, in the form of monthly controlling reports, controlling and planning deliberations throughout the year and, if highly pertinent, on an ad hoc basis. 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 actually develop.

The Corona pandemic presented our company with huge challenges in 2020: Key customer sectors in particular, such as the automotive industry, saw their production slashed by more than 80%, which triggered a slump in EU demand for steel. Non-EU countries, China and Turkey for instance, have not cut back on their steel production despite the Corona crisis. The resulting relatively and consistently high level of imports led to EU producers losing market shares in 2020. The ongoing restrictions on public life and economic activity continue to exacerbate the risk of abrupt changes in steel demand and import flows.

With this in mind, we initiated an extensive program of measures to cushion the impact of the Corona pandemic on the result as well as on liquidity. These measures also include the temporary scaling back of the production volume in the respective locations, the introduction of short-time work, reducing maintenance and repair measures not required for operational purposes, stringent working capital management, as well as the cautious approval of new investments. We consider ourselves to be well equipped, also in the future, with this established catalog of measures.

To protect the EU steel market from redirection measures in response to US special duties levied on steel, the EU Commission enacted safeguards in the form of tariff quotas in July 2018. The slump in the demand for steel rendered these measures ineffective in 2020. A number of administrative changes ensured that constraints were imposed on the most aggressive importers, such as Turkey and China, in the second half of 2020. Whether the measures are to be extended beyond July 2021, and if so when, is questionable. Removing the safeguards could result much higher volumes of imports in the individual product groups. The German government is backing an extension of the measures under its Steel Action Concept.

Other risks arise from the attempts of importers to obviate the existing trade defense measures, thus voiding their effectiveness. 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 OLAF.

Along with the EU, many non-EU countries have responded with their own safeguard measures for steel products in response to the US import duties introduced in 2018. These developments constitute a further hindrance to exports, causing additional redirections into the EU market. Some Group companies – such as from the Plate/Section Steel Business Unit in relation to Canada – are also directly affected by the current safeguard measures.

With the EU reaching a last-minute agreement on Brexit with the United Kingdom, a no deal scenario was ultimately banished. Chaotic conditions on the borders have largely not come to pass. Risks from the United Kingdom withdrawing from the EU nevertheless continued to manifest in disrupted supply chains and changes in the flow of goods. Brexit may well give rise to trade defense actions between the two trading partners, which could cause significant disruptions in the steel trade.

The US sanction policy continues to pose risks for future business activity, also with Russia, among others above all, in respect of existing or new pipeline projects. How far the election of Joe Biden as US President will ease commercial confrontation is not yet foreseeable. Inasmuch, the risks from a protectionist US trade policy generally continue to exist. Rescinding the US's Section 232 measures on steel imports can be not expected in the short term either. Potential pressure from these issues is regularly factored into regular Group earnings forecasts.

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 commenced 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 have been largely compensated. We can only achieve greater accuracy when more detailed rules and regulations on all aspects relevant to allocation have been set out, and it becomes clear, possibly over the course of 2021, whether and to what extent the EU's increased climate target envisaged through to 2030 will also impact the budget of free allocation. Following completion of the final calculations and external verifications of the data for our application for free allocation that had to be submitted by the end of June 2019, we announced the acquisition of $CO_2$ certificates through an insider information released on June 14, 2019.

On this basis, as well as based on preparatory planning for eventual shortfalls in $CO_2$ allowances in our subsidiary and affiliated companies, we do not anticipate any elevated risk. The indirect additional cost risk from emissions trading for electricity sourced externally currently in dimensions of up to € 35 million per year initially exists unchanged for the fourth emissions trading period (2021/2030). Over the course of 2021, we anticipate further regulatory instructions in this matter, which will allow greater precision. We view the probability of this issue generally occurring as 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 as well as 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 2020 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. Iron ore supplies declined. This was firstly caused by production glitches in Australia and Brazil due to the weather at the start of the year, in conjunction with restrictions in South Africa and Canada official requirements imposed to contain the virus, and secondly by the rate at which it was spreading in Brazil from the second quarter onward. An increase in steel production, lower ore inventories in China, and the rest of the world's demand for ore rebounding ensured a steady uptrend in iron ore prices in the second half of the year that reached a nine-year high at the end of the year.

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 geared to keeping 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. Any burdens emanating from this source are incorporated into regular Group earnings forecasts. In assessing the current economic environment with regard to the outlook for the financial year 2021, 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, 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 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 export 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 such 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. We therefore do not consider that these positions will give rise to any serious burdens.

**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 low-risk 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. In terms of the entire Group, we consider it unlikely that significant burdens will originate from this source.

**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. 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.

The investigations of the Braunschweig public prosecutor's office, initiated in the spring of 2014 to investigate those responsible in a Group company on grounds of unlawful provisions and expenses for tax purposes, were terminated in the reporting year. The judgment of the Federal Fiscal Court (Bundesfinanzhof) handed down in 2016 so far in connection with the legal uncertainty as to the securities lending regarding the possible repayment of accrued capital gains tax took on a more concrete form in the current financial year. The financial authority has requested the Salzgitter Group to repay the capital gains tax accrued to date. The tax and interest burden on this transaction were recorded in full in the financial year. Salzgitter AG has lodged an appeal against this repayment. A ruling on this case has not yet been given.

**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, we require strict compliance from each and every employee. 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 current legal risks as unlikely. This also applies to two matters at our 30%-owned HKM in connection with operating the Huckingen power plant whose categorization under energy law has not yet been clarified. At the present point in time, we do not see any reliable indications for the occurrence of risks in this connection. For further information on our compliance management system, we refer to our ↗ "Declaration on Corporate Governance".

**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 established for many years and dedicated to the identification and preparation of employees with high potential and successors to take on more advanced tasks, 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. Insofar the risks from this area are deemed manageable.

**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 further 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 also tasked with centralizing and coordinating other 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**
These 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 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. Due to the great complexity, the probability of occurrence in the area of IT security can be classified as probable in individual cases in parts of the Group. We keep a close watch on this, also in an international context, and derive specific measures so as to take direct action to counteract any adverse impact. We consider future risks from this area as improbable for the Group as a whole.

**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 ↗ "Performance and General Business Conditions of the Business Units". Information on the topic of SALCOS® can also be found here. We approach any restructuring requirements necessitated by the market and competition in a targeted manner. Our "FitStructure 2.0" program of measures that involves all major companies is designed to address the continuous improvement of our cost structure and process efficiency. 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 2020 annual financial statements were drawn up. This evaluation applies to the individual companies as well as to the Group as a whole.

Although a number of existing risks have been meanwhile overshadowed by the Corona epidemic, they nevertheless continue to play a relevant role in assessing the current situation. Nevertheless, we continue to be burdened by the structural crisis in the global steel market, massive distortions of competition in non-EU countries and foreign policy developments. 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 certainty, we 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.

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 when and as 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 para. 4 and 315 para. 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 process control mechanisms to sufficiently ensure 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 accounting process encompasses all the necessary principles, operating instructions and measures.

SZAG's Executive Board is responsible for the implementation of and compliance with statutory provisions. It regularly reports to the Audit Committee (Supervisory Board) on the Salzgitter Group's overall financial position. 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 arising from the auditing of the annual financial statements that are relevant to the tasks of the Supervisory Board.

The structure of the Salzgitter Group is decentralized. Responsibility for compliance with legal standards and instructions by the companies within the Group rests with their respective executive and supervisory bodies. The Executive Board works towards ensuring compliance i.a. with the assistance of SZAG's staff departments.

When internal audits are conducted independently and on behalf of the Executive Board, SZAG's Internal Audit also considers 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 an audit by Internal Audit takes account of 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 audit reports. Internal Audit follows up on the implementation of measures and recommendations agreed in the audit reports.

SZAG's Group Accounting Department draws up the annual financial statements at Group and at parent company level. External auditors audit and issue audit opinions on the financial statements of major companies included in the consolidated financial statements, as well as on the consolidated financial statements. To ensure that statutory requirements are complied with in respect of accounting, Group 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 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, the statement of changes in equity, 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. The components of the reporting packages to be prepared by the Group companies are therefore determined in detail. A standardized and IT-facilitated set of forms is used for this purpose. Additional Group guidelines also include explicit instructions for the presentation and processing of offsetting procedures within the Group, with the respective process for reconciling balances. Newsletters customarily distributed once a month and on-site events organized on a needs basis keep the companies informed about changes in the law and the resulting consequences for preparing the consolidated financial statements.

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 also in application of the principle of dual control, alongside automated IT-based processes controls. Moreover, the Group deploys an integrated accounting system. 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 and leasing contracts, among other items, is also subject to uniform regulations by centrally determining the parameters applicable to throughout the Group.

Moreover, the preparation of the management report is carried out centrally in consultation and agreement with the Group companies, thereby ensuring compliance with legal requirements.

## General Business Conditions in the coming Year

In its current forecast, the International Monetary Fund (IMF) anticipates a notable recovery in the **global economy** in 2021. As many countries are still experiencing waves of infection, the pre-pandemic level is nevertheless unlikely to be achieved despite efforts at rolling out the vaccine in the period covered by the forecast. From a regional standpoint, the forecast indicates significant differences as to the rate of recovery, depending on how strongly the individual countries and regions are able to bolster their economies through economic stimulus packages and government aid. With regard to the US and Japan, for instance, a return to pre-crisis levels has already been forecast for the second half of 2021, as opposed to most emerging markets, with the exception of China, that are expected to be burdened by the pandemic through to 2022. All in all, the IMF estimates global economic growth at 5.5% in 2021 (2020: –3.5%).

**Eurozone** growth should gradually gain a firmer foothold in 2021. With lockdown measures still having a burdening effect in the first months of the year, the economy is expected to stagnate. In tandem with the growing success of the vaccine campaigns and the resulting possibility of easing the lockdowns, the economy should pick up notable momentum as from the second quarter. In the opinion of the IMF, the 2019 production level is only likely to be regained in 2022. Assuming restrictions on the economy will be gradually lifted, the IMF forecasts full-year eurozone growth at 4.2% in 2021 (2020: –7.2%).

**Germany's** economy is also expected to undergo a similar development. The restrictions on business under the protective measures still in place at the start of the year will continue to primarily impact the services sector, while the producing industry should continue on its path to recovery initiated in the summer of 2020. Industrial output and the export economy may therefore be able to offset initial losses in private consumption, with the result that a moderate economic recovery is anticipated in the first quarter, which is likely to gain traction as the year progresses. Based on this scenario, the IMF anticipates overall growth of 3.5% for the German economy in 2021 (2020: –5.4%).

### Market outlook

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

#### Steel

The World Steel Association (WSA) expects global demand for steel to rise by 4.1% in 2021 compared with the previous year's figure. In the industrial nations, growth rates of 7.9% are predicted, with the emerging countries, excluding China, clocking up as much as 10.6%. In this scenario, the base effect from the decline of demand outside of China due the Corona pandemic should nevertheless be factored in. According to the WSA, the slump in 2020 may have been compensated by the end of the year and the 2019 level regained. In its most recent outlook for the European Union, Eurofer, the European Steel Association, anticipates a recovery in market supply. Having grown slightly in the first quarter, demand should pick up notable momentum in the spring and, despite an assumed seasonal-related effect, remain healthy in the second half of the year. Generally speaking, market supply is expected to grow by 13.1% compared with 2020.

#### Steel tubes and pipes

The German Association of Steel Tube Producers (Wirtschaftsvereinigung Stahlrohre e.V.) also expects the impact of the Corona pandemic to dissipate in the first half of 2021, leading to a significant economic recovery in the second half of the year. The uptrend in the price of raw and input materials observed since the fourth quarter of 2020, along with the significant upturn in freights rates, anticipates this development. The steel tubes and pipes industry is likely to benefit accordingly from the predicted recovery in their customer markets.

### Mechanical engineering

Following German mechanical engineering's significant slump in production estimated at 14% in 2020, the German Engineering Federation (VDMA) forecasts growth of around 4% in 2021. The order situation is also expected to recover in the food and packaging machinery segment, with signs already evident in the fourth quarter of 2020. These forecasts are nevertheless subject to uncertainty as to how the pandemic will develop. In the context of structural change, 2021 is likely to see the topics of sustainability and conserving resources becoming increasingly important as key factors in investment decisions.

## Overall Statement on Anticipated Group Performance

### Planning process

As a matter of principle, Salzgitter AG's corporate planning takes account of the strategic goals and comprises a set of entrepreneurial measures with action embedded in the general economic environment. Consequently, 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 extremely sophisticated Group planning process is conducted once before the start of each new financial year, generally starting 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

Compared with the previous year, the business units anticipate that business in the financial year 2021 will develop as follows:

Based on a high level of orders on hand, the **Strip Steel Business Unit** anticipates demand that will fully utilize capacity in the first six months of 2021 despite the ongoing pandemic situation, along with improved price levels compared with the previous year. This positive trend should also continue in the second half of the year. On the raw materials front, significantly higher operating costs are forecast for iron ore. In view of the sufficient volumes of slabs available within the group of companies, one blast furnace remains out of operation. Supported by further additional effects from the "FitStructure 2.0" program of measures, we assume a significant increase in sales and a very gratifying pre-tax profit of more than € 100 million for the business unit.

We anticipate that the situation in the markets relevant to the **Plate/Section Steel Business Unit** will remain tight, accompanied by persistently high imports in the heavy plate segment and a fundamental lack of orders for the delivery of input material for line pipes. In the section steel business, we forecast a volatile market environment that will continue to focus on the short term. Following a rather subdued start to the year 2021, we anticipate that the situation will gradually improve as the year progresses, accompanied by the first positive effects from taking the Ilsenburg's new heat treatment line into operation, and flanked by further efficiency gains from implementing "FitStructure 2.0". Insofar, we expect a notable increase in sales compared with the previous year, as well as a significantly reduced but nevertheless marked pre-tax loss.

The **Mannesmann Business Unit** continues to report a difficult market situation in 2021, especially in the large-diameter pipes business, that should nevertheless improve compared with the previous year that was impacted by the coronavirus. Despite the "Qatargas" project that secures basic capacity utilization in Germany, the EUROPIPE Group continues to suffer from unsatisfactory capacity utilization. Similarly, the booking situation at Mannesmann Grossrohr GmbH is currently unsatisfactory. By contrast, we expect an uptrend to resume in the medium-diameter line pipe segment. The precision tubes companies started off the new year with a very healthy volume of orders on hand – boosted by demand rebounding especially in the automotive industry – and assume that the market will continue its pleasing recovery. We also anticipate growing demand in the stainless steel segment. Generally speaking, we forecast the following for the business unit: a significant increase in shipment volumes, a higher sales level and, supported by further cost cutting measures, a visibly improved but nevertheless still negative pre-tax result.

The **Trading Business Unit** anticipates that business will develop well for its companies, above all on the back of a healthy demand situation and supported by a notable uptrend in selling prices at the end of the previous financial year, which we generally assume will hold steady going forward. In conjunction with still low inventory prices, this will boost earnings considerably especially in the stockholding steel trade in the first months of 2021. Due to the ongoing difficult trading conditions, shipment volumes in international trading are likely to rise only marginally. All in all, we expect the business unit to deliver higher shipment and sales figures that should ultimately result in earnings before taxes that are notably higher than in the previous year.

Owing to good order intake at year-end 2020, the companies of the **Technology Business Unit** commenced the new year with a sound cushion of orders. With the rigorous expediting of the "KHS Future" program and the selling of new, innovative products, our predictions are for improved profitability of the KHS Group, accompanied by slight growth in volumes and sales. Gaining additional market shares in the standard business in particular should underpin this positive trajectory. The two DESMA specialist mechanical engineering companies expect the market to rebound and, also thanks to a program of cost measures, a discernible improvement in the earnings situation, with the prospect of marginally positive pre-tax results. Consequently, we anticipate the following for the whole business unit: somewhat higher sales and a pre-tax profit that is also positively impacted by non-recurrent effects and is significantly higher than in the previous year.

With explicit reference to the still imminent, virtually unquantifiable risk of the Corona pandemic, we anticipate the following for the **Salzgitter Group** in the financial year 2021:

- an increase in sales to more than € 8.5 billion,
- a pre-tax profit of between € 150 million and € 200 million, and
- 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 2021. 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 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.

## 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 in 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 € 225 million has been earmarked for our Group's capital expenditure budget in the financial year 2021. Together with the follow-up amount of around € 270 million in investments approved in previous years, the cash-effective portion of the 2021 budget should amount to just under € 400 million (2019: € 365 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 2021 for foreseeable investment measures will therefore exceed depreciation and amortization.

Having considered the planned investments, along with the working capital that is notably higher due to the price of raw materials and is necessary in particular for financing the expansion of business, the net financial position is likely to be considerably lower in the financial year 2021 than in the previous year (€ –432 million). Seen from a general standpoint, account should be taken of the fact that the strategic decisions of acquiring $CO_2$ allowances for the fourth period of the EU's trading system for greenhouse gas emissions that began 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 2015. The increase in emission allowance prices and the Aurubis AG share price, as well as its regular earnings and dividend contributions, 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

# Consolidated Income Statement

| In € m | Note | 2020 | 2019 |
|---|---|---|---|
| Sales | [1] | 7,090.8 | 8,547.3 |
| Changes in inventories/other own work capitalized | | –158.1 | –8.2 |
| **Total operating performance** | | **6,932.7** | **8,539.1** |
| Other operating income | [2] | 345.3 | 285.6 |
| Cost of materials | [3] | 4,579.2 | 5,602.6 |
| Personnel expenses | [4] | 1,654.1 | 1,815.7 |
| Amortization and depreciation of intangible assets and property, plant and equipment | [5] | 295.3 | 541.0 |
| Other operating expenses | [6] | 936.6 | 1,157.8 |
| Result from impairment losses and reversal of impairment losses of financial assets | | –29.2 | –25.1 |
| Income from shareholdings | | 2.4 | 2.0 |
| Result from investments accounted for using the equity method | [13] | 95.6 | 125.2 |
| Finance income | | 14.9 | 17.5 |
| Finance expenses | | 92.9 | 80.4 |
| **Earnings before taxes (EBT)** | | **–196.4** | **–253.3** |
| Income tax | [7] | 77.5 | –16.0 |
| **Consolidated result** | | **–273.9** | **–237.3** |
| Consolidated net result due to Salzgitter AG shareholders | | –277.3 | –241.2 |
| Minority interest in consolidated net result | | 3.5 | 3.8 |

| Appropriation of profit in € m | Note | 2020 | 2019 |
|---|---|---|---|
| Consolidated result | | –273.9 | –237.3 |
| Profit carried forward from the previous year | | 12.1 | 33.1 |
| Minority interest in consolidated net result | | 3.5 | 3.8 |
| Dividend payment | | – | –29.7 |
| Change of retained earnings | | 265.2 | 249.9 |
| **Unappropriated retained earnings of Salzgitter AG** | | **–** | **12.1** |
| | | | |
| **Earnings per share (in €) – basic** | **[8]** | **–5.13** | **–4.46** |
| | | | |
| **Earnings per share (in €) – diluted** | **[8]** | **–5.13** | **–4.46** |

# Statement of Comprehensive Income

| In € m | Note | 2020 | 2019 |
|---|---|---|---|
| **Consolidated result** | | **–273.9** | **–237.3** |
| | | | |
| **Recycling** | | | |
| Reserve from currency translation | | –33.0 | 5.7 |
| Changes in value from cash flow hedges | [34] | 20.8 | 9.5 |
| Changes in Fair Value | | 28.4 | 16.7 |
| Recognition with effect on income | | 1.9 | –2.7 |
| Deferred tax | | –9.6 | –4.6 |
| Changes in value of investments accounted for using the equity method | [13] | 4.1 | 0.2 |
| Changes in Fair Value (in particular cash flow hedges) | | 16.4 | –1.3 |
| Currency translation | | –8.9 | 1.8 |
| Deferred tax | | –3.3 | –0.4 |
| Deferred taxes on other changes without effect on the income | | –0.4 | –0.1 |
| | | **–8.5** | **15.2** |
| **Non-recycling** | | | |
| Changes in equity for financial equity instruments valued without effect on the income | [34] | 0.9 | –2.1 |
| Changes in Fair Value | | –1.1 | –3.1 |
| Deferred tax | | 2.1 | 1.0 |
| Remeasurements | | 14.6 | –89.9 |
| Remeasurement of pensions | [26] | 15.4 | –122.1 |
| Currency translation | | 1.0 | 0.0 |
| Deferred tax | | –1.8 | 32.1 |
| Changes in value of investments accounted for using the equity method | [13] | 14.0 | –16.8 |
| | | **29.6** | **–108.8** |
| | | | |
| **Other comprehensive income** | | **21.1** | **–93.6** |
| | | | |
| **Total comprehensive income** | | **–252.8** | **–330.8** |
| | | | |
| **Total comprehensive income due to Salzgitter AG shareholders** | | **–256.1** | **–334.7** |
| **Total comprehensive income due to minority interest** | | **3.3** | **3.8** |

# Consolidated Balance Sheet

| Assets in € m | Note | 2020/12/31 | 2019/12/31 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | [9] | 223.1 | 211.6 |
| Property, plant and equipment | [10] | 2,200.5 | 2,131.4 |
| Investment property | [11] | 81.5 | 82.0 |
| Financial assets | [12] | 54.6 | 64.7 |
| Investments accounted for using the equity method | [13] | 1,169.1 | 1,072.9 |
| Trade receivables | [16] | 11.0 | 18.4 |
| Other receivables and other assets | [18] | 22.3 | 25.6 |
| Income tax assets | [19] | 0.5 | – |
| Deferred income tax assets | [14] | 481.9 | 492.3 |
| | | **4,244.5** | **4,099.0** |
| **Current assets** | | | |
| Inventories | [15] | 1,933.7 | 2,248.1 |
| Trade receivables | [16] | 923.9 | 1,118.4 |
| Contract assets | [17] | 300.2 | 186.3 |
| Other receivables and other assets | [18] | 188.3 | 191.8 |
| Income tax assets | [19] | 23.7 | 22.6 |
| Securities | [20] | – | 50.9 |
| Cash and cash equivalents | [21] | 621.4 | 700.5 |
| Assets available for sale | | 1.7 | – |
| | | **3,992.9** | **4,518.5** |
| | | **8,237.4** | **8,617.5** |

| Equity and liabilities in € m | Note | 2020/12/31 | 2019/12/31 |
|---|---|---|---|
| **Equity** | | | |
| Subscribed capital | [22] | 161.6 | 161.6 |
| Capital reserve | [23] | 257.0 | 257.0 |
| Retained earnings | | 2,594.5 | 2,845.1 |
| Other reserves | | 26.4 | 23.0 |
| Unappropriated retained earnings | [24] | – | 12.1 |
| **Subtotal** | | **3,039.5** | **3,298.7** |
| Treasury shares | | −369.7 | −369.7 |
| Amount due to Salzgitter AG shareholders | | 2,669.8 | 2,929.0 |
| Minority interest | | 9.1 | 9.6 |
| | | **2,678.9** | **2,938.6** |
| **Non-current liabilities** | | | |
| Provisions for pensions and similar obligations | [26] | 2,298.6 | 2,356.1 |
| Deferred income tax liabilities | [14] | 73.9 | 72.0 |
| Income tax liabilities | [19] | 30.4 | 36.6 |
| Other provisions | [27] | 267.1 | 334.9 |
| Financial liabilities | [28] | 749.4 | 637.1 |
| Other liabilities | | 57.1 | 16.8 |
| | | **3,476.4** | **3,453.6** |
| **Current liabilities** | | | |
| Other provisions | [27] | 210.4 | 224.6 |
| Financial liabilities | [29] | 488.3 | 430.1 |
| Trade payables | | 802.4 | 915.2 |
| Contract liabilities | [30] | 272.8 | 200.7 |
| Income tax liabilities | [19] | 5.5 | 8.6 |
| Other liabilities | [31] | 302.8 | 446.0 |
| | | **2,082.1** | **2,225.3** |
| | | **8,237.4** | **8,617.5** |

# Cash Flow Statement

| In € m | 2020 | 2019 |
|---|---|---|
| Earnings before taxes (EBT) | –196.4 | –253.3 |
| Depreciation, write-downs (+) / write-ups (–) of non-current assets | 295.2 | 541.3 |
| Income tax paid (–) / refunded (+) | –83.5 | –49.8 |
| Other non-cash expenses (+) / income (–) | 75.5 | 39.1 |
| Interest expenses | 90.8 | 80.4 |
| Gain (–) / loss (+) from the disposal of non-current assets | –57.4 | 11.2 |
| Increase (–) / decrease (+) in inventories | 301.5 | 84.0 |
| Increase (–) / decrease (+) in trade receivables and other assets not attributable to investment or financing activities | 43.1 | 221.2 |
| Use of provisions affecting payments, excluding use of tax provisions | –255.3 | –206.0 |
| Increase (+) / decrease (–) in trade payables and other liabilities not attributable to investment or financing activities | –195.2 | –217.4 |
| | | |
| **Cash inflow from operating activities** | **18.3** | **250.7** |

| **In € m** | **2020** | **2019** |
|---|---|---|
| Cash inflow from the disposal of non-current assets | 83.3 | 11.8 |
| Cash outflow for investments in intangible assets and property, plant and equipment | −374.4 | −444.3 |
| Cash inflow from investments of funds | 64.8 | 232.6 |
| Payments for financial investments | −15.3 | −10.0 |
| Cash inflow from the disposal of other non-current assets | 10.1 | 9.3 |
| Cash outflow for investments in other non-current assets | −2.7 | −104.3 |
| | | |
| **Cash outflow from investment activities** | **−234.2** | **−304.8** |
| | | |
| Cash outflow in payments to company owners | – | −29.7 |
| Deposits from taking out loans and other financial debts | 372.8 | 652.1 |
| Repayment of loans and other financial liabilities | −44.1 | −381.0 |
| Repayments (–) of bonds | −150.9 | −16.8 |
| Interest paid | −26.7 | −29.8 |
| | | |
| **Cash flow from financing activities** | **151.0** | **194.7** |
| | | |
| Cash and cash equivalents at the start of the period | 700.5 | 555.6 |
| Cash and cash equivalents relating to changes in the consolidated group | 0.2 | 0.4 |
| Gains and losses from changes in foreign exchange rates | −14.4 | 3.9 |
| Payment-related changes in cash and cash equivalents | −64.9 | 140.6 |
| | | |
| **Cash and cash equivalents at the end of the period** | **621.4** | **700.5** |

# Statement of Changes in Equity

| | Subscribed capital | Capital reserve | Treasury shares | Retained earnings | Other reserves from |
|---|---|---|---|---|---|
| **In € m** | | | | | **Currency translation** |
| **Note** | **[22]** | **[23]** | | | |
| **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 | – | – | – | – | – |
| Change of 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** |
| | | | | | |
| Consolidated result | – | – | – | – | – |
| Other comprehensive income | – | – | – | 14.2 | −32.9 |
| Total comprehensive income | – | – | – | 14.2 | −32.9 |
| Basis adjustments | – | – | – | – | – |
| Dividend | – | – | – | – | – |
| Change in retained earnings | – | – | – | −265.2 | – |
| Other | – | – | – | 0.3 | – |
| | | | | | |
| **As of 2020/12/31** | **161.6** | **257.0** | **−369.7** | **2,594.5** | **−33.9** |

| Cashflow hedges | Equity instruments measured without effect on income | Investments accounted for using the equity method | Unappropriated retained earnings | Share of the Salzgitter AG shareholders | Minority interest | Equity |
|---|---|---|---|---|---|---|
| **[34]** | **[34]** | **[13]** | **[24]** | | | |
| **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** |
| | | | | | | |
| – | – | – | −277.3 | −277.3 | 3.5 | −273.9 |
| 20.8 | 0.9 | 18.2 | – | 21.2 | −0.1 | 21.1 |
| 20.8 | 0.9 | 18.2 | −277.3 | −256.1 | 3.3 | −252.8 |
| −3.3 | – | – | – | −3.3 | – | −3.3 |
| – | – | – | – | – | −3.8 | −3.8 |
| – | – | – | 265.2 | – | – | – |
| – | – | – | – | 0.3 | – | 0.3 |
| | | | | | | |
| **18.5** | **18.8** | **23.1** | **0.0** | **2,669.8** | **9.1** | **2,678.9** |

# Notes

### (37) Segment Reporting

| In € m | Strip Steel | | Plate/Section Steel | | Mannesmann | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| External sales | 1,879.7 | 2,209.0 | 684.2 | 804.7 | 946.7 | 1,119.6 |
| Sales to other segments | 643.5 | 738.5 | 658.3 | 752.2 | 95.2 | 182.5 |
| Sales to group companies that are not allocated to an operating segment | 3.2 | 3.3 | 1.0 | 0.9 | 278.4 | 411.8 |
| Segment sales | 2,526.3 | 2,950.8 | 1,343.4 | 1,557.7 | 1,320.3 | 1,714.0 |
| Interest income (consolidated) | 0.1 | 2.2 | 0.1 | 0.1 | 0.8 | 1.0 |
| Interest income from other segments | – | – | 0.0 | 0.0 | – | – |
| Interest income from group companies that are not allocated to an operating segment | 0.1 | 0.0 | 4.7 | 1.0 | 2.8 | 0.9 |
| Segment interest income | 0.2 | 2.2 | 4.7 | 1.1 | 3.6 | 1.9 |
| Interest expenses (consolidated) | 11.8 | 14.3 | 1.8 | 3.2 | 6.6 | 7.0 |
| Interest expenses to other segments | – | – | – | – | – | – |
| Interest expenses from group companies that are not allocated to an operating segment | 12.3 | 22.3 | 2.4 | 5.2 | 6.8 | 9.2 |
| Segment interest expenses | 24.1 | 36.7 | 4.2 | 8.4 | 13.4 | 16.3 |
| Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in accordance with IAS 36) | 128.7 | 167.8 | 31.2 | 38.8 | 54.9 | 57.1 |
| Impairment of tangible and intangible assets (according to IAS 36) | – | 100.0 | – | 47.8 | – | 40.0 |
| Impairment of financial assets | – | – | – | – | 0.0 | – |
| Segment earnings before taxes | –86.8 | –42.8 | –94.4 | –124.0 | –62.0 | –41.5 |
| of which resulting from investments accounted for using the equity method | – | – | – | – | –8.8 | 24.9 |
| Material non-cash items | 36.6 | 6.7 | 5.9 | 33.0 | 13.4 | 23.8 |
| Investments in property, plant and equipment and intangible assets | 162.2 | 182.8 | 87.1 | 119.6 | 69.6 | 78.4 |

For further information, reference is made to (36) ↗ "Notes to the Segment Reporting" in the Notes.
This section also includes notes on the reconciliation.

| | Trading | | Technology | | Total segments | | Reconciliation | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | 2,225.2 | 2,846.2 | 1,207.0 | 1,390.3 | 6,942.6 | 8,369.7 | 148.2 | 177.6 | 7,090.8 | 8,547.3 |
| | 19.4 | 44.0 | 0.4 | 0.5 | 1,416.8 | 1,717.6 | | | | |
| | 0.0 | 0.0 | – | – | 282.6 | 416.1 | | | | |
| | 2,244.6 | 2,890.2 | 1,207.4 | 1,390.8 | 8,642.0 | 10,503.5 | | | | |
| | 2.3 | 3.2 | 2.1 | 2.1 | 5.4 | 8.7 | 8.2 | 6.0 | 13.6 | 14.6 |
| | – | – | – | – | 0.0 | 0.0 | | | | |
| | 6.7 | 5.1 | 0.0 | 0.7 | 14.3 | 7.7 | | | | |
| | 8.9 | 8.3 | 2.2 | 2.8 | 19.7 | 16.4 | 33.1 | 44.9 | | |
| | 11.2 | 20.0 | 2.5 | 3.4 | 33.8 | 48.0 | 56.9 | 32.4 | 90.8 | 80.4 |
| | 0.0 | 0.0 | – | – | 0.0 | 0.0 | | | | |
| | 0.4 | 0.5 | 3.0 | 1.7 | 24.9 | 39.0 | | | | |
| | 11.6 | 20.5 | 5.4 | 5.1 | 58.7 | 87.0 | 71.1 | 40.1 | | |
| | 16.3 | 15.9 | 28.0 | 27.0 | 259.1 | 306.6 | 36.2 | 37.9 | 295.3 | 344.5 |
| | – | – | – | – | – | 187.8 | – | 8.7 | – | 196.6 |
| | – | – | – | – | 0.0 | – | – | 0.7 | 0.0 | 0.7 |
| | 25.1 | −31.0 | 0.9 | 32.7 | −217.2 | −206.6 | 20.8 | −46.7 | −196.4 | −253.3 |
| | – | – | – | – | −8.8 | 24.9 | 104.4 | 100.3 | 95.6 | 125.2 |
| | 6.7 | 5.1 | 17.3 | 27.1 | 79.8 | 95.7 | 29.2 | 16.6 | 109.1 | 112.3 |
| | 33.2 | 36.8 | 34.8 | 67.5 | 386.8 | 485.1 | 24.1 | 108.0 | 411.0 | 593.1 |

## Analysis of Fixed Assets 2020

| In € m | Acquisition and production costs | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1/1/2020 | Currency differences | Changes in the consoli-dated group | Additions | Disposals[1] | Transfers to other accounts | 2020/12/31 |
| **Intangible assets** | | | | | | | |
| Purchased concessions, brand names, industrial property rights plus licenses and emission rights | 446.8 | −0.5 | – | 9.8 | −11.0 | 9.1 | 454.3 |
| Payments on account | 11.9 | −0.1 | – | 15.4 | −0.1 | −2.4 | 24.6 |
| | **458.7** | **−0.6** | **–** | **25.1** | **−11.0** | **6.7** | **478.9** |
| **Property, plant and equipment** | | | | | | | |
| Land, similar rights and buildings, including buildings on land owned by others | 1,784.2 | −6.9 | 3.2 | 84.6 | −48.2 | 110.7 | 1,927.6 |
| Plant equipment and machinery | 6,845.8 | −10.5 | 0.1 | 116.3 | −84.1 | 66.5 | 6,934.2 |
| Other equipment, plant and office equipment | 500.7 | −2.9 | 0.1 | 31.6 | −22.0 | 5.3 | 512.9 |
| Payments made on account and equipment under construction | 352.6 | −0.4 | – | 153.3 | −0.0 | −191.1 | 314.3 |
| | **9,483.3** | **−20.7** | **3.4** | **385.8** | **−154.3** | **−8.6** | **9,689.0** |
| | | | | | | | |
| **Investment property** | **98.8** | **–** | **–** | **0.0** | **−0.1** | **1.9** | **100.7** |
| | **10,040.8** | **−21.3** | **3.4** | **411.0** | **−165.4** | **0.0** | **10,268.6** |

| | | | | | | | Valuation allowances | | Book values |
|---|---|---|---|---|---|---|---|---|---|
| 2020/01/01 | Currency differ-ences | Changes in the consoli-dated group | Write-ups in the financial year | Depre-ciation in the financial year | Disposals[1)] | Transfers to other accounts | 2020/12/31 | 2020/12/31 | 2019/12/31 |
| | | | | | | | | | |
| −244.2 | 0.4 | – | – | −14.9 | 5.8 | −0.1 | −253.0 | 201.2 | 202.6 |
| −2.9 | – | – | – | −0.0 | 0.1 | 0.1 | −2.8 | 21.8 | 9.0 |
| **−247.1** | **0.4** | **–** | **–** | **−14.9** | **5.8** | **−0.0** | **−255.8** | **223.1** | **211.6** |
| | | | | | | | | | |
| −1,134.4 | 2.2 | – | – | −40.5 | 31.0 | 0.6 | −1,141.1 | 786.5 | 649.7 |
| −5,807.1 | 5.7 | – | – | −198.8 | 79.5 | −2.6 | −5,923.4 | 1,010.8 | 1,038.7 |
| −395.2 | 1.9 | – | – | −39.8 | 21.1 | 0.3 | −411.7 | 101.2 | 105.5 |
| −15.1 | – | – | – | – | – | 2.7 | −12.4 | 301.9 | 337.6 |
| **−7,351.9** | **9.7** | **–** | **–** | **−279.0** | **131.7** | **1.0** | **−7,488.5** | **2,200.5** | **2,131.4** |
| | | | | | | | | | |
| **−16.8** | **–** | **–** | **–** | **−1.4** | **–** | **−1.0** | **−19.2** | **81.5** | **82.0** |
| **−7,615.8** | **10.1** | **–** | **–** | **−295.3** | **137.5** | **−0.0** | **−7,763.5** | **2,505.0** | **2,425.1** |

[1)] Includes disposals of assets classified as held for sale under IFRS 5 with a residual book value of € 1.7 million.

## Analysis of Fixed Assets 2019

| In € m | Acquisition and production costs | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2019/01/01 | Currency differences | Changes in the consoli-dated group | Additions | Disposals | Transfers to other accounts | 2019/12/31 |
| **Intangible assets** | | | | | | | |
| Purchased 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 differ-ences | Changes in the consoli-dated group | Write-ups in the financial year | Depreci-ation in the financial year | Disposals | 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** |

## 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 on the largely audited statements 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. Our business operations include the production and processing of rolled steel and tubes products, trading in those products as well as special machinery and plant engineering. 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 rules, 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 2, 2020, 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.de**). 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 10, 2021, for submission to the Supervisory Board. They will subsequently 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 | Adopted by EU Commission | Effects |
|---|---|---|---|---|
| IFRS 3 | Amendments to IFRS 3 "Business Combinations" – Definition of Business Operations | 2020 | yes | 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 |
| | Reference to the Conceptual Framework – Amendments | 2020 | yes | none |
| IFRS 16 | Covid-19-Related Rent Concessions – Amendment to IFRS 16 | 2020 | yes | none |

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

| Standards/Interpretation | | Mandatory date in financial year | Adopted by EU Commission | Likely effects |
|---|---|---|---|---|
| IFRS 17 | Insurance Contracts | 2023 | no | no material effects |
| IAS 1 | Classification of Liabilities as Current or Non-current – Amendments to IAS 1 | 2023 | no | no material effects |
| IAS 37 | Amendments to IAS 37 – Onerous Contracts: Costs of Fulfilling a Contract | 2022 | no | none |
| IAS 16 | Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use | 2022 | no | none |
| IFRS 1 | AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter | 2022 | no | none |
| IFRS 9 | AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities | 2022 | no | none |
| IAS 41 | IP IAS 41 Agriculture – Taxation in Fair Value Measurements | 2022 | no | none |
| | Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 | 2021 | no | none |

## 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 in which SZAG contractually exercises the 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 proportionally in the consolidated financial statements (proportional application of the consolidation rules).

### Associated companies

According to IAS 28 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 (significant influence), are accounted for using the equity method.

The dates of admission to 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. As a general rule, the equity valuation is based on the last audited annual financial statements or, in the case of a financial year that diverges from the consolidated financial statements, the interim financial statements as of December 31.

### Shareholdings

If SZAG is unable either to exercise significant 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 56 (previous year: 58) domestic and 61 unchanged to previous year foreign affiliated companies. The change in the number of domestic companies is the result of two mergers of consolidated companies. 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 12 (previous year: 14) 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 are 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 proportionally 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 commercial activities consist in supplying the partners with input material. For this reason, HKM's operating result is dependent 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: 29.9 %), is accounted for using the equity method, as it was in the previous year. Aurubis AG, for its part, holds a stake of 2.9 % (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 an der Ruhr. 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 No. 11 HGB can be retrieved from the electronic company register ↗ **www.unternehmensregister.de** and under the item "Financial Reports" at ↗ **www.salzgitter-ag.com/en/investor-relations.html**

## 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. Exchange gains and losses incurred due to the valuation of receivables and/or liabilities up to the reporting date are taken into consideration and impact the 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 rollover 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 expenditure 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 picture of the Group's net assets, financial position and results of operations. 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", "Impairment of financial instruments", "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, shares in equity-accounted companies 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, tangible fixed asset, shares in equity-accounted companies or property held as a financial investment could be impaired. Should this be the case, the recoverable amount of the asset in question is estimated. The recoverable amount is either the fair value less selling costs or the value in use, whichever is higher. The calculation is basically made at fair value less selling costs. To determine the value in use in this context, the discounted future cash flows of the asset in question must be ascertained. 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 estimates arise with purchase price allocations in acquisitions. As part of the impairment test, models are run for the cash-generating entity Salzgitter Flachstahl GmbH, including the possible effects of $CO_2$ emissions in conjunction with the SALCOS® (SAlzgitter Low CO2 Steelmaking) project. The underlying estimates and assumptions take account of future price trends for $CO_2$ certificates, the likely $CO_2$ allocation quotas as well as the investment costs to be expected and their effect on sales prices. In order to achieve low $CO_2$ steel production, the assessment assumes external support (e.g. in the form of government subsidies). The economic consequences of the coronavirus pandemic have been factored into future cash flows but, according to our present estimate, they will have no long-term effect.

**Impairment of financial instruments**
With regard to the assessment of the impairment of financial instruments for which there is no active market, alternative actuarial assessment methods are used. The parameters taken into consideration in determining the fair value are based partially on forward-looking assumptions. Further explanations can be found in the section ↗ “Financial assets – categorization and measurement” as well as in Note (34) ↗ “Financial instruments”.

External and internal credit ratings are used to assess any impairment of receivables and contract assets in accordance with the expected credit loss model. The parameters used for determining credit ratings are partly based on forward-looking assumptions. Further explanations can be found in the section ↗ “Financial assets – accounting treatment of impairment losses” as well as in Note (34) ↗ “Financial instruments”.

**Revenue recognition**
Ascertaining the progress made so far in order to account for existing orders 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, the 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. For further estimates and assumptions in revenue recognition, reference is made to the explanations under ↗ “Revenue recognition”.

**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, a number of fundamental assessments must therefore be made. The carrying of potential tax risks in the Group as a liability is effected on the basis of the best possible estimate.

Provisions are formed 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 discrepancies 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 with regard to the timing of tax deductibility and the measurement of balance sheet items including provisions and capitalization and also off-balance sheet additions, for example, in the area of tax-related transfer pricing. Potential recourse to comparable market prices or similar accounting circumstances is subject to considerable uncertainty with regard to 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 interest rates, expected salary increases and mortality rates. Further explanations on the assessment of this provision can be found in Note (26) ↗ "Provisions for pensions and similar obligations".

**Provisions for operational and other risks**
Any potential obligation is recognized taking account of its probability of occurrence. An amount is used to assess the obligation which matches the most likely scenario on the basis of the best possible estimates.

In determining obligations, assumptions must be made on future cash flows and, in the case of long-term obligations (particularly in the Strip Steel Business Unit), also on cost increases. The actual figures may diverge from the assumptions made if the underlying conditions change against expectations on the reporting date. Deviations of this kind are accounted for in profit or loss as of the time when greater insight becomes available. If necessary, the facts of the matter are assessed with the help of external advisors. Further explanations and details on this can be taken from Note (27) ↗ "Other provisions".

## Intangible assets

Intangible assets acquired against payment are reported at acquisition cost and amortized on a straight-line basis over the period of their likely economic useful 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 attributable costs. Costs that are necessary for the creation, production and development of the asset so that it is in good operational 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 within the framework of the purchase price allocations are amortized regularly over periods of between ten and 26 years using the straight-line method.

Development costs are capitalized if a newly developed product or process can be clearly defined, is technically feasible and is intended for either 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 in question encompass 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 economic useful 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 valued at acquisition or production cost, 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:

**Economic useful lives**

| | |
|---|---|
| Buildings including property held as a financial investment | 10 to 50 years |
| Fixtures on properties | 5 to 40 years |
| Technical machinery and equipment | 5 to 33 years |
| Other equipment, factory and office equipment | 3 to 20 years |

## Leases

A right of use and lease liability is generally recognized for leases under IFRS 16.

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 amortized 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 which the Salzgitter Group takes advantage of and therefore does not recognize any right of use or liability for such leases. 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, reference is made to Note (33) ↗ "Other financial obligations".

Lessors must 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 generate rental income or long-term value appreciation and not for production or administration purposes. This property is recognized at cost in accordance with IAS 40, taking into account unscheduled depreciation ("cost model").

## Financial assets – categorization and measurement

On initial recognition, a financial asset is classified for subsequent measurements as to be reported at “amortized cost”, recognized “in profit or loss at its fair value” or “at its 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 cash flows. The financial instruments are allocated to different categories on the basis of these two conditions.

#### Amortized cost

A financial instrument falls into the category of “at amortized cost” if the objective of the business model consists in holding a debt instrument in order to generate the contractual cash flows (for example, interest income), and at the same time, the terms of the contract lead to cash 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 “at fair value through profit or loss” if the objective of the business model consists in 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 (cash flow condition). In addition, derivatives not used in hedge accounting are also shown in this category.

#### 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 through profit or loss” and the objective of the business model consists both in holding the financial assets to collect the contractual cash flows of the debt instrument and in selling the debt instrument, and the terms of the contract lead to cash flows at defined times that represent exclusively principal repayments and interest payments on the outstanding principal.

A financial instrument defined as an equity instrument is reported in 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 through 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 through 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) through profit or loss.

**Initial and subsequent evaluation**

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 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 “at fair value through profit or loss” 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 material 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 price gains.

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

Forward exchange 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 to euros using the current rate of exchange.

Unrealized profits 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 posted to equity. If assets in this category defined as a debt instrument are sold, the cumulative adjustments to fair value under equity are posted to 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 (i.e., no recycling). 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 written off 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 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 can be reflected as soon as financial assets are recognized.

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, weight is given to internal credit ratings and significant changes to the expected profitability and payment behavior of the debtor.

**Staged 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 movements in the default risk (3-stage concept). A loss allowance is generally formed at 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 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 services already provided which it has not yet been possible to invoice 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.

## Financial instruments – accounting treatment of hedge instruments

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 payment 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 hedge**

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 selling 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

The companies in the Salzgitter Group must determine on each reporting date the extent to which the parties involved in a customer contract have fulfilled the contract and show the net contract position in the balance sheet. This results in a contract asset if our Group company has fulfilled a greater part of the contract than the customer or a contract liability if the customer's consideration received in advance is not yet matched by complete fulfillment. Prepayments received 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 "Revenue recognition".

## Provision for pensions and similar obligations

Provisions and similar obligations are formed as a result of benefit plans for retirement and invalidity pensions and provisions for surviving dependents. These provisions are formed 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 valued on the basis of actuarial assumptions and calculations. The defined benefit obligations are determined using the usual projected unit credit method prescribed by IFRS. The actuarial interest rate for measuring pensions under IFRS is determined on the basis of the "Mercer Yield Curve Approach". 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 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.

## 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, 2020 the deferred taxes of domestic corporate entities were evaluated with an overall tax rate of 31.5 % (previous year: 31,5 %). This tax rate comprises the 15.7 % trade tax rate that prevails in the Group (previous year: 15.7 %), 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 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 assets 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 formed for current legal or factual obligations to 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 for reasons of materiality.

## 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 through 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 principle. The basic concept states that the recognition and measurement of assets and sales revenues be determined by applying five steps:

- Identify the contract with the customer
- Identify separate contractual obligations
- Determine the transaction price
- Split the transaction price across the contractual obligations identified
- Realize the sales revenues when the contractual obligation is met

Revenues from contracts with customers are recognized when the delimitable contractual obligations, in other words, 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 contractual obligations are met. The fulfillment of contractual 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 contractual 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 contained in 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 with the involvement of the Trading Business Unit. Revenues from sales are recognized when power of disposal has been transferred to the buyer 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 physical possession to the customer. 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 – after deducting 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**

As a general rule, the Group sells machines and technical equipment directly. Spare parts and maintenance services are also offered. Revenues from sales are recognized both by time and period.

In the case of time-related recognition, revenues from sales are recognized when power of disposal has been transferred to the buyer and no unfulfilled obligations remain that might affect the customer's acceptance of the products. This is predominantly the case on delivery.

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 performance of the service already rendered 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, in other words, 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 (including 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 public 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.

Government 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 book values 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 is impaired and will be subjected to unscheduled depreciation at its recoverable amount. If the reason for a previous unscheduled depreciation 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 Group companies, forward currency transactions are generally concluded with a central Group organization. Within the framework of the hedging strategy applicable in each case, this organization 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 a consistent 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 loan limit and capital market instruments. In the past financial year, the Salzgitter Group was able to maintain its previous financing strategy even during the coronavirus pandemic, and was able at all times to show sufficient liquidity through independent measures without any specific government support for the Group.

### 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.

Preservation of Salzgitter AG’s independence is the focus of its corporate policy. One prerequisite 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. Considering the very robust equity ratio of 32.5 % (previous year: 34.1 %), we have once again succeeded in meeting this goal. As before, we consider it essential to keep sufficient cash funds available for the Group’s financial management to ensure that, in the event of a deterioration in the environment, we will not be dependent on the capital market. An undrawn € 560 million syndicated loan facility with eight banks running until July 2024, bilateral annual credit lines with over ten credit institutes, further fungible assets and an established position in the capital market as an issuer are intended to secure our liquidity needs.

## Notes to the Income Statement

### (1) Sales

| In € m | 2020 | 2019 |
|---|---|---|
| **By product group** | | |
| Strip Steel | 3,465.7 | 4,139.9 |
| Section Steel | 637.6 | 712.1 |
| Pipes | 1,054.3 | 1,344.5 |
| Filling and packaging machinery | 1,188.2 | 1,372.3 |
| Other | 745.0 | 978.6 |
| | **7,090.8** | **8,547.3** |
| **Breakdown by region** | | |
| Domestic | 3,194.7 | 3,844.7 |
| Other EU | 1,888.2 | 2,258.9 |
| Rest of Europe | 304.9 | 276.7 |
| America | 815.2 | 1,060.5 |
| Asia | 486.9 | 645.1 |
| Africa | 385.7 | 423.2 |
| Australia/Oceania | 15.4 | 38.3 |
| | **7,090.8** | **8,547.3** |

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

Sales revenues comprise time-related revenues amounting to € 6,395.1 million (previous year: € 7,797.3 million) as well as period-related revenues totaling € 695.7 million (previous year: € 750.0 million). 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. Other services are also classified as period-related.

The amount of sales revenues comprised at the start of the period in net contract liabilities stands at € 41.2 million (previous year: € 284.7 million). Sales revenues from contractual obligations already fulfilled or partially fulfilled in earlier periods come in at € 4.1 million (previous year: € 0.1 million).

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

| In € m | 2020 | 2019 |
|---|---|---|
| **up to 6 months** | **111.3** | **153.8** |
| 7 months to 12 months | 154.8 | 158.7 |
| over 12 months | 28.0 | 75.3 |
| | **294.1** | **387.7** |

As a general rule, the transaction prices of the remaining contractual 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 supply. Unfulfilled (or partly unfulfilled) contractual 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 comprises income from the release of provisions amounting to € 76.3 million (previous year: € 124.4 million), from the measurement of financial derivatives and foreign exchange positions in the amount of € 37.8 million (previous year: € 34.2 million) as well as income from the sale of assets amounting to € 63.3 million (previous year: € 3.4 million). Furthermore, this item also includes lease income amounting to € 4.9 million (previous year: € 5.4 million) as well as subsidies amounting to € 19.9 million (previous year: € 6.9 million). The subsidies include reimbursements for social security expenses in the amount of € 12.0 million due to state aid as part of short-time work arrangements.

### (3) Cost of materials

| In € m | 2020 | 2019 |
|---|---|---|
| Cost of raw materials, consumables, supplies and goods purchased | 4,215.0 | 5,152.7 |
| Cost of services purchased | 364.2 | 449.9 |
| **Cost of materials** | **4,579.2** | **5,602.6** |

### (4) Personnel expenses

| In € m | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 1,342.5 | 1,501.0 |
| Social security, pensions and other benefits | 311.6 | 314.7 |
| of which pension plans and retirement benefits | [144.5] | [140.2] |
| **Personnel expenses** | **1,654.1** | **1,815.7** |

With the elimination of restructuring expenses, personnel expenses have fallen by an average of approx. 5 % since the second quarter of 2020 due to measures implemented as a result of the coronavirus pandemic (primarily short-time work).

In the financial year, the sum total of all defined-contribution pension expenses in the Salzgitter Group stood at € 109.0 million (previous year: € 110.3 million). The past service cost for defined-benefit commitments in the financial year amounted to € 35.5 million (previous year: € 29.9 million).

| Average number of employees (excl. employees in non-active age-related part-time employment) | 2020 | 2019 |
|---|---|---|
| Wage labor | 12,870 | 13,331 |
| Salaried employees | 10,056 | 10,242 |
| **Group core workforce** | **22,926** | **23,573** |

Of the Group employees, 869 (previous year: 890) are involved in our part of the joint activities.

### (5) Amortization and depreciation of intangible assets and property, plant and equipment

The scheduled depreciation and amortization comprise amortization of intangible assets and depreciation of property, plant and equipment, and are shown in the assets analysis. No unscheduled impairment losses were required in financial year 2020.

| In € m | 2020 | 2019 |
|---|---|---|
| **Intangible assets** | | |
| Purchased concessions, brand names, industrial property rights plus licenses and emission rights | – | 2.7 |
| Payments on account | – | 2.8 |
| | | |
| **Property, plant and equipment** | | |
| Land, similar rights and buildings, including buildings on land owned by others | – | 40.2 |
| Plant equipment and machinery | – | 130.1 |
| Other equipment, plant and office equipment | – | 8.0 |
| Payments made on account and equipment under construction | – | 12.7 |
| | | |
| **Impairment losses** | **–** | **196.6** |

The fair value less selling costs was calculated using the discounted cash flow method based on an interest rate of 6.99 % (previous year: 7.97 %) for the Technology Business Unit and 6.19 % p.a. (previous year: 6.22 % p.a.) for the other business units. The calculation is based on the current plans prepared by management for the three following years (Level 3 of the valuation hierarchy). The premises of the plans are adjusted to the current status of knowledge that, in turn, 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.

Scheduled amortization of rights of use is shown as follows:

| In € m | 2020 | 2019 |
|---|---|---|
| Land, similar rights and buildings, including buildings on land owned by others | 10.7 | 10.4 |
| Plant equipment and machinery | 7.9 | 7.2 |
| Other equipment, plant and office equipment | 8.4 | 7.9 |
| **Amortization of rights of use** | **27.0** | **25.5** |

In the previous year, impairment losses of € 0.8 million were attributable to "Technical equipment and machinery" and € 0.1 million to "Other equipment, factory and office equipment", taking account of rights of use.

### (6) Other operating expenses

This item essentially comprises expenses for external services and the formation of provisions (€ 307.9 million; previous year: 335.1 million) as well as for sales (€ 262.3 million; previous year: 296.1 million). The previous year comprised expenses in connection with the termination of an investigation into alleged antitrust agreements (€ 140.8 million).

### (7) Income taxes

| In € m | 2020 | 2019 |
|---|---|---|
| **Income tax** | | |
| current tax expenses/tax income (+/–) | 76.2 | 29.6 |
| deferred tax expenses/tax income (+/–) | 1.3 | –45.6 |
| | **77.5** | **–16.0** |
| of which unrelated to the reporting period | [68.9] | [–16.6] |

The income taxes amounting to € 77.5 million relate to earnings before taxes. The income taxes unrelated to the reporting period comprise deferred and actual taxes for previous years.

The increase in actual income taxes to € 76.2 features additional tax expenses for capital gains tax to be repaid in connection with the ruling of the Federal Fiscal Court (Bundesfinanzhof) on structured securities lending transactions issued in 2016. All in all, the actual income taxes applicable to foreign companies amount to € 5.6 million (previous year: € 23.4 million). The deferred tax expense of € 1.3 million is essentially due to the formation of deferred tax assets on temporary differences, and the reassessment of deferred tax assets on loss carryforwards in domestic Group companies.

Thanks to the use of tax loss carryforwards that had not previously been availed of, the actual tax expenses were reduced by € 5.1 million (previous year: € 0.9 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 | 2020/12/31 | | 2019/12/31 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Intangible assets | 29.9 | 11.4 | 3.8 | 11.5 |
| Property, plant and equipment | 55.1 | 51.2 | 70.8 | 52.0 |
| Financial assets | 0.5 | 1.7 | 0.4 | 2.0 |
| Current assets | 54.8 | 92.8 | 43.3 | 105.6 |
| Pension provisions | 312.3 | – | 309.0 | 0.1 |
| Other provisions | 72.2 | 5.6 | 91.4 | 4.6 |
| Special reserve with equity portion | – | 2.1 | – | 2.3 |
| Liabilities | 21.9 | 9.7 | 20.4 | 6.1 |
| Other items | 3.2 | 2.7 | 0.0 | 0.0 |
| **Total** | **549.9** | **177.2** | **539.3** | **184.0** |

The deferred tax assets and liabilities shown are recognized in profit or loss or equity depending on the underlying circumstances. Circumstances recognized in equity can be seen in the ↗ “Statement of comprehensive income”.

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

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Corporate income tax | 17.8 | 33.4 |
| Trade tax | 17.4 | 31.6 |
| **Capitalized tax savings, 12/31** | **35.2** | **65.0** |

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

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Capitalized tax savings, 01/01 | 65.0 | 97.7 |
| Changes in the consolidated group | – | – |
| Capitalization of tax savings from losses carried forward | 1.3 | 2.2 |
| Valuation allowances from losses carried forward | –30.6 | –34.7 |
| Use of losses carried forward | –0.5 | –0.3 |
| **Capitalized tax savings, 12/31** | **35.2** | **65.0** |

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

For a number of domestic companies, no deferred taxes were activated for trade tax loss carryforwards amounting to € 1,708.2 million (previous year: € 1,452.5 million) or corporation tax loss carryforwards amounting to € 2,075.5 million (previous year: € 1,825.3 million) because, from a current viewpoint, the possibility of their being used can be regarded as unlikely. The tax loss carryforwards can be utilized without time restrictions.

For foreign loss carryforwards without intrinsic value in an amount of € 133.4 million (previous year: € 145.0 million) deferred tax assets were likewise not capitalized. Of this amount, € 104.0 million (previous year: € 110.4 million) can be utilized for an unlimited period of time, € 15.7 million (previous year: € 23.3 million) limited to the next five years and € 13.8 million (previous year: € 11.3 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 € 104.0 million (previous year: € 99.2 million) were formed.

In the case of Group companies that have generated tax losses in the current or previous financial year, deferred tax assets amounting to € 410.1 million (previous year: € 418.3 million) are reported as of December 31, 2020 because of anticipated future taxable income. Of this figure, € 404.6 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 as a result of overcoming the coronavirus pandemic. The positive earnings prospects will be supported by the restructuring measures already introduced in the previous year and systematically maintained 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 € 20.8 million (previous year: € 20.4 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 | 2020/12/31 | 2019/12/31 |
|---|---|---|
| **Earnings before taxes (EBT)** | **–196.4** | **–253.3** |
| Expected income tax expenses (+) / income (–) (31.5 % / 31.4 %) | –61.9 | –79.5 |
| Tax share for: | | |
| differences between tax rates | 1.7 | 0.5 |
| effects of changes in statutory tax rates | –0.6 | –0.5 |
| tax credits | –0.6 | –1.3 |
| tax-free income | –33.9 | –39.9 |
| non-deductible tax expenses and other additions | 21.2 | 75.9 |
| Effects of differences and losses | | |
| without capitalization of deferred tax | 57.0 | 18.9 |
| Adjustments in the value of capitalization benefits | 30.7 | 26.5 |
| utilization of benefits not previously capitalized | –5.1 | –0.9 |
| tax expenses and income unrelated to the reporting period | 68.9 | –16.6 |
| other deviations | 0.0 | 0.7 |
| **Disclosed income tax expenses (+) / income (–)** | **77.5** | **–16.0** |

The income tax expense of € 77.5 million differs from the expected income tax expense of € 61.9 million by a total of € 139.4 million. This results essentially from tax expenses relating to other periods, the non-capitalization of deferred taxes, as well as the reassessment of capitalized benefits. 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 option and conversion rights. As of December 31, 2020, this was not the case although such rights existed until the middle of the year.

| | Shares issued | Treasury shares | Shares in circulation | Potentially diluting shares |
|---|---|---|---|---|
| Beginning of financial year | 60,097,000 | 6,009,700 | 54,087,300 | 3,244,721 |
| Change | – | – | – | –3,244,721 |
| End of financial year | 60,097,000 | 6,009,700 | 54,087,300 | 0 |
| **Weighted number of shares** | **60,097,000** | **6,009,700** | **54,087,300** | **0** |

| **Earnings per share** | | **2020** | **2019** |
|---|---|---|---|
| Consolidated result | In € million | –273.9 | –237.3 |
| Minority interest | In € million | 3.5 | 3.8 |
| Amount due to Salzgitter AG shareholders | In € million | –277.3 | –241.1 |
| **Earnings per share – basic** | **(in €)** | **–5.13** | **–4.46** |
| Diluted result | In € million | –274.7 | –238.5 |
| **Earnings per share – diluted** | **(in €)** | **–5.13** | **–4.46** |

# Notes to the Balance Sheet

## Non-current assets

### (9) Intangible assets

Total research and development costs in the reporting year amounted to € 91.1 million (previous year: € 97.9 million) including € 9.3 million (previous year: € 10.4 million) for external companies. Expenditure on research and development does not include 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 disclosed rights of use in assets at historical cost, as well as the cumulative amortization accounted for in fixed assets as part of a lease agreement:

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Land, similar rights and buildings, including buildings on land owned by others | 119.4 | 94.9 |
| Plant equipment and machinery | 39.9 | 34.7 |
| Other equipment, plant and office equipment | 25.1 | 21.5 |
| **Right of use acquisition costs** | **184.4** | **151.1** |

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Land, similar rights and buildings, including buildings on land owned by others | 19.9 | 10.4 |
| Plant equipment and machinery | 16.4 | 8.0 |
| Other equipment, plant and office equipment | 14.6 | 8.0 |
| **Right of use amortization** | **50.8** | **26.4** |

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

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Land, similar rights and buildings, including buildings on land owned by others | 32.8 | 94.8 |
| Plant equipment and machinery | 6.7 | 31.8 |
| Other equipment, plant and office equipment | 6.3 | 21.5 |
| **Right of use additions** | **45.8** | **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 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 comprises rented locomotives and goods wagons while Other equipment, plant and office equipment is made up mainly of the vehicle fleet. The vehicle fleet predominantly includes fork-lift trucks and vehicles.

For one operating lease as the lessor 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 | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Land, similar rights and buildings, including buildings on land owned by others | 5.7 | 8.3 |
| Plant equipment and machinery | 1.9 | 1.8 |
| Other equipment, plant and office equipment | – | 0.3 |
| **Acquisition and production costs** | **7.6** | **10.4** |

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Land, similar rights and buildings, including buildings on land owned by others | 2.3 | 2.2 |
| Plant equipment and machinery | 1.3 | 1.1 |
| Other equipment, plant and office equipment | – | 0.3 |
| **Depreciation, amortization and impairment losses** | **3.7** | **3.7** |

The restrictions on ownership and disposal have declined to € 1.1 million (previous year: € 1.2 million) due to debt financing conditions abroad.

Government grants amounting to € 0.2 million (previous year: € 1.2 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 € 7.2 million (previous year: € 8.5 million).

**(11) Investment property**

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.

In the reporting period, rental income amounted to € 5.1 million (previous year: € 8.4 million). The direct operating expenses totaled € 2.3 million (previous year: € 6.3 million) and were basically incurred for properties that generated rental earnings in the reporting year.

As of 31 December 2020, the fair value of the investment properties stood at € 104.4 million (previous year: € 91.3 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 | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Financial investments | 21.5 | 22.1 |
| Other loans | 32.7 | 41.1 |
| Other financial assets | 0.4 | 1.4 |
| **Financial assets** | **54.6** | **64.7** |

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 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Opening balance 01/01 | 888.8 | 729.5 | 132.1 | 135.4 | 52.1 | 23.4 | 1,072.9 | 888.3 |
| Result of current financial year | 104.0 | 99.5 | −11.8 | −5.2 | 3.5 | 30.9 | 95.6 | 125.2 |
| Proportionate gain/loss | 104.0 | 76.5 | −12.3 | −4.8 | 3.5 | −0.5 | | |
| Adjustments with effect on the income under the “at-equity method” | – | 23.0 | 0.4 | −0.4 | | 31.4 | | |
| Dividends | −16.9 | −19.4 | – | – | −0.7 | −2.9 | −17.6 | −22.2 |
| Changes in shares | – | 95.4 | – | – | – | – | – | 95.4 |
| Other changes in equity | 25.6 | −16.3 | −7.4 | 1.9 | 0.0 | 0.7 | 18.2 | −13.7 |
| Proportional other income | 25.6 | −16.3 | −7.4 | 1.9 | 0.0 | 0.7 | | |
| **Book value, 12/31** | **1,001.5** | **888.8** | **112.8** | **132.1** | **54.8** | **52.1** | **1,169.1** | **1,072.9** |

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

In the previous year, the adjustments recognized in income as part of the equity method contain 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.

The fair value of the holding in Aurubis AG is based on the share price as of December 31, 2020 and amounts to € 858.6 million (previous year: € 738.0 million). An impairment review was carried out on the carrying amount on the basis of the value-in-use of the shares, and it did not reveal any need for write-downs.

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

| | Aurubis AG, Hamburg | | EUROPIPE Group | |
|---|---|---|---|---|
| In € m | 2020 | 2019 | 2020 | 2019 |
| Non-current assets | 1,955.0 | 1,470.8 | 168.5 | 177.8 |
| Current assets | 3,986.0 | 3,333.5 | 248.9 | 398.0 |
| Non-current liabilities | 1,236.0 | 709.7 | 128.1 | 131.4 |
| Current liabilities | 1,675.0 | 1,401.8 | 63.7 | 179.5 |
| Sales | 13,412.4 | 10,901.7 | 629.0 | 776.6 |
| Profit/loss | 363.1 | 262.9 | −24.5 | −9.5 |
| Other comprehensive income | 85.3 | −55.6 | −14.9 | 3.7 |
| Total comprehensive income | 448.4 | 207.2 | −39.4 | −5.8 |
| Dividends received | 16.9 | 19.4 | – | – |
| Share (%) | 29.9 | 29.9 | 50.0 | 50.0 |
| | | | | |
| Net assets | 3,030.0 | 2,692.8 | 225.6 | 265.0 |
| pro rata net assets | 908.7 | 807.6 | 112.8 | 132.5 |
| Addition from purchase of own shares resp. disposals of investments accounted for using the equity method | −4.4 | −4.4 | – | – |
| Consolidation effects | 79.1 | 85.6 | – | 0.4 |
| Purchase of own shares of investments accounted for using the equity method | 18.1 | – | – | – |
| Investment book value | 1,001.5 | 888.8 | 112.8 | 132.1 |

| | Wohnbaugesellschaft mbH | | Borusan Mannesmann Boru Yatirim Holding A.S. | |
|---|---|---|---|---|
| In € m | 2020 | 2019 | 2020 | 2019 |
| Non-current assets | 117.2 | 118.3 | 395.4 | 432.6 |
| Current assets | 15.3 | 17.3 | 342.8 | 448.9 |
| Non-current liabilities | 55.9 | 58.1 | 150.8 | 183.7 |
| Current liabilities | 10.7 | 10.7 | 347.1 | 451.7 |
| Sales | 27.5 | 26.8 | 465.3 | 720.5 |
| Profit/loss | 2.2 | 2.5 | −0.5 | −7.6 |
| Dividends received | 0.7 | – | – | 2.9 |
| Share (%) | 25.1 | 25.1 | 23.0 | 23.0 |
| | | | | |
| Net assets | 65.9 | 66.8 | 240.2 | 246.2 |
| pro rata net assets | 16.5 | 16.7 | 55.3 | 56.6 |
| Consolidation effects | 0.1 | 0.1 | −17.0 | −21.4 |
| Investment book value | 16.6 | 16.9 | 38.3 | 35.2 |

Further summarizing financial information for joint ventures:

| | EUROPIPE Group | |
|---|---|---|
| In € m | 2020 | 2019 |
| Cash and cash equivalents | 90.2 | 170.0 |
| Current financial liabilities | 3.6 | 2.8 |
| Non-current financial liabilities | 12.7 | 15.7 |
| Depreciation and amortization | 18.8 | 18.9 |
| interest income | 1.4 | 1.9 |
| Interest expenses | 2.5 | 3.1 |
| Income tax expense (–) / -income (+) | –4.6 | –10.3 |

### (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 2020 are as follows:

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| **Deferred income tax assets** | **481.9** | **492.3** |
| Realization within 12 months | 6.4 | 9.2 |
| Realization after more than 12 months | 475.5 | 483.1 |
| **Deferred income tax liabilities** | **73.9** | **72.0** |
| Realization within 12 months | 71.1 | 68.7 |
| Realization after more than 12 months | 2.9 | 3.3 |
| **Balance of deferred tax assets and deferred tax liabilities** | **408.0** | **420.3** |

## Current assets

### (15) Inventories

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Raw materials, consumables and supplies | 700.4 | 762.2 |
| Unfinished products | 541.5 | 616.8 |
| Unfinished goods or services | 15.0 | 14.5 |
| Finished goods | 331.6 | 438.4 |
| Goods | 331.2 | 401.7 |
| Advance payments | 13.9 | 14.5 |
| **Inventories** | **1,933.7** | **2,248.1** |

In the reporting period there were write-ups amounting to € 6.2 million (previous year: € 2.0 million). Inventory write-downs of € 56.5 million (previous year: € 67.6 million) were posted to expenses. The book value of the inventories reported at fair value less selling costs amounted to € 392.3 million (previous year: € 686.0 million).

### (16) Trade receivables

Trade receivables subject to restrictions on ownership or disposal amount to € 117.9 million (previous year: € 125.3 million). These are accounted for by the forfeiting and factoring of receivables. For further details, reference is made to Note (29) ↗ "Current financial liabilities".

### (17) Contract assets

Net contract assets increased in the reporting period from € 186.3 million to € 300.2 million. The rise relates almost exclusively to plant equipment and machinery in the Technology Business Unit. As of January 1, 2019, the balance of contract assets amounted to € 175.2 million.

### (18) Other receivables and other assets

The item "Other receivables and other assets" comprises numerous minor transactions on the part of the consolidated companies.

Other receivables are subject to restrictions on ownership or disposal amounting to € 3.1 million (previous year: € 2.6 million).

Derivative financial instruments with positive market values are reported under the item "Other receivables and other assets". Further information on the derivatives accounted for in the Salzgitter Group can be found in the section on Financial instruments in the notes to the consolidated financial statements of Salzgitter AG.

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 | 2020/12/31 | 2019/12/31 |
|---|---|---|
| up to 1 year | 3.5 | 3.5 |
| 1 to 5 years | 8.1 | 5.5 |
| over 5 years | 11.7 | 10.5 |
| **Total** | **23.2** | **19.5** |

The income statement contains lease income from the current year amounting to € 1.2 million (previous year: € 2.3 million).

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

The existing income tax assets as of December 31, 2020 amounting to € 24.2 million (previous year: € 22.6 million) largely concern capital gains tax demands from domestic Group companies. On the other side there are long-term income tax liabilities of € 30.4 million (previous year: € 36.6 million) and short-term income tax liabilities of € 5.5 million (previous year: € 8.6 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

In the previous year, funds for short-term financial investments were shown in an overall amount for securities of € 50.9 million. The term was less than twelve months.

### (21) Cash and cash equivalents

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Cash at banks | 424.7 | 436.7 |
| Term deposits | 195.0 | 260.0 |
| Checks, cash in hand | 1.7 | 3.8 |
| **Cash and cash equivalents** | **621.4** | **700.5** |

## Equity

### (22) Subscribed capital

**Share capital, treasury shares, authorized and contingent capital**

The subscribed capital (share capital) remained unchanged at € 161,615,273.31. After setting off the notional value of treasury shares (€ 16,161,527.33), the subscribed capital amounts to € 145,453,745.98 equating 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 Aktiengesellschaft continued to hold 6,009,700 treasury shares. As before, they account for € 16,161,527.33 (= 10.00 %) 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, authorization from May 26, 2004, 462,970 shares, authorization from June 8, 2006, 2,809,312 shares, authorization from May 21, 2008, 35,600 shares, authorization from 27 May, 2009, and 214,463 shares, authorization 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 on or before 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.

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 July 7, 2025, 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 contributed 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 Tuesday, 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 Friday, June 5, 2015 and in the meantime replaced, 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 reconciliation of the consolidated net profit for the year to Salzgitter AG's unappropriated retained earnings is shown in the income statement.

Salzgitter AG (SZAG) reported a net loss of € –12.1 million for the financial year 2020. Including the profit carryforward (€ 12.1 million), unappropriated retained earnings amount to € 0. There is therefore no need for the Annual General Meeting to adopt a resolution on the unappropriated retained earnings or any corresponding proposal for the appropriation of retained earnings. Equally, no dividend was paid for the previous year.

Based on the Salzgitter stock's closing XETRA price of € 21.80 on Thursday, December 31, 2020, the dividend yield amounts to 0.0 % (previous year: 0.0 %)

### (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 2020 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 in Salzgitter AG 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%.

Günter Papenburg, Hanover, informed us on Wednesday, June 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 exceeded the threshold of 3% of the voting rights on Friday, June 5, 2020, amounting on this day to 4.77% (this corresponds to 2,867,016 voting rights). Of these 3.13% of voting rights (equating to 1,886,716 voting rights) are attributable to GP Günter Papenburg AG, Hanover, in accordance with Section 34 of the German Securities Trading Act. Günter Papenburg, Hanover, also informed us on Monday, June 15, 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 exceeded the threshold of 5% of the voting rights on Friday, June 12, 2020, amounting on this day to 5.13% (this corresponds to 3,086,000 voting rights). Of these 3.49% of voting rights (equating to 2,100,000 voting rights) are attributable to GP Günter Papenburg AG, Hanover, in accordance with Section 34 of the German Securities Trading Act.

Richard Pzena informed us on Monday, July 27, 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 fell below the threshold of 5% of the voting rights on Monday, July 20, 2020, amounting on this day to 4.84% (this corresponds to 2,909,123 voting rights). Of these 4.84% of voting rights (equating to 2,909,123 voting rights) are attributable to Pzena Investment Management LCC in accordance with Section 34 of the German Securities Trading Act.

## Non-current liabilities

**(26) Provisions 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-Rente"). 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 (deferred compensation). The amounts accumulated as part of the deferred compensation commitment will be invested in fund units. When payment becomes due, the employee will receive the income generated by the fund shares, but no less than his deferred contributions plus guaranteed minimum interest (so-called securities-based commitment).

For managing directors and selected 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 2018/12/31 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 units. 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 instalments.

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 | 2020/12/31 | 12/31/2019 |
|---|---|---|
| **Provisions for pensions and similar obligations** | | |
| Net pension provision | 2,298.6 | 2,356.1 |
| **Other receivables and other assets** | | |
| Reimbursement right | 1.9 | 2.6 |

**Profit & Loss**

| In € m | 2020 | 2019 |
|---|---|---|
| **Personnel expenses** | | |
| Service cost | 35.5 | 29.9 |
| **Finance expenses** | | |
| Net interest | 32.5 | 39.1 |

**Other comprehensive income**

| In € m | 2020 | 2019 |
|---|---|---|
| **Remeasurement of pensions** | | |
| Remeasurements from pension provision | 15.4 | –122.1 |
| Remeasurements from reimbursement right | –0.0 | –0.0 |
| | 15.4 | –122.1 |

The net pension commitment as of December 31, 2020 is calculated as follows:

| In € m | Defined benefit obligation | Plan assets | Net pension provision |
|---|---|---|---|
| **As of 1/1/2020** | **2,421.7** | **65.6** | **2,356.1** |
| **Service cost** | | | |
| Current service cost | 39.2 | 3.3 | 35.9 |
| Past service cost | −0.4 | – | −0.4 |
| | **38.8** | **3.3** | **35.5** |
| **(Net) Interest expense/income** | **32.8** | **0.3** | **32.5** |
| **Remeasurements** | | | |
| Experience gains (–)/losses (+) | −52.6 | – | −52.6 |
| Gain (–)/loss (+) from change in demographic assumptions | −10.5 | – | −10.5 |
| Gain (–)/loss (+) from change in financial assumptions | 48.9 | – | 48.9 |
| Return on plan assets excluding amounts included in interest income | – | 1.2 | −1.2 |
| | **−14.2** | **1.2** | **−15.4** |
| **Benefits paid** | **−109.9** | **−3.0** | **−106.9** |
| **Contributions** | | | |
| Employers | – | 1.2 | −1.2 |
| Plan participants | – | – | – |
| | **–** | **1.2** | **−1.2** |
| **Currency translation differences** | **−2.5** | **−0.5** | **−2.0** |
| **As of 2020/12/31** | **2,366.7** | **68.1** | **2,298.6** |

As of December 31, 2020 plan assets are essentially made up of investment funds (€ 65.5 million) and other equity instruments (€ 1.6 million), whose present values were determined on an active market on the closing date. Plan assets also consist of insurance contracts (€ 1.0 million), the present values of which were not determined on an active market.

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

| In € m | Defined benefit obligation | Plan assets | Net pension provision |
|---|---|---|---|
| **As of 2019/1/1** | **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** |
| **Transfers/transfers to other accounts** | **–15.8** | **–16.1** | **0.3** |
| **As of 2019/12/31** | **2,421.7** | **65.6** | **2,356.1** |

The net present value of the obligation can be allocated as follows:

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| **Actual net present value of the defined benefit obligation (Germany)** | **2,347.0** | **2,399.9** |
| of which aspirant | 1,047.3 | 1,029.1 |
| of which recipient | 1,299.7 | 1,370.8 |
| **Actual net present value of the defined benefit obligation (abroad)** | **19.7** | **21.8** |
| | **2,366.7** | **2,421.7** |

The sensitivity of the defined benefit obligation is as follows:

| In € m | | | | 2020/12/31 |
|---|---|---|---|---|
| | Reference | Degree of sensitivity | + Unit | – Unit |
| Discount rate | 1.10% | 0.25% points | –89.3 | +95.7 |
| Salary trend | 2.50% | 0.5% points | +5.0 | –4.8 |
| Pension trend | 1.50% | 0.25% points | +64.7 | –62.1 |
| Mortality | Heubeck 2018G | 1 year | +122.9 | –121.9 |

| 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 |

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 | |
|---|---|
| 2021 | 105.2 |
| 2022 | 102.8 |
| 2023 | 102.3 |
| 2024 | 99.2 |
| 2025 | 97.5 |
| 2026 – 2030 | 460.7 |
| 2031 – 2040 | 791.6 |

The duration of the obligation's net present value according to Macaulay as of December 31, 2020 is 16.35 years.

### (27) Other provisions

The development of other short-term and other long-term provisions is shown in the following table:

| In € m | 1/1/2020 | Currency differences | Addition/ disposal from changes in cons. group | Transfer | Transfer to other accounts |
|---|---|---|---|---|---|
| **Other taxes** | **6.4** | **–0.3** | **–** | **–** | **–0.0** |
| **Personnel** | **216.7** | **–0.7** | **–** | **0.0** | **0.3** |
| of which anniversary provisions | [63.2] | [–] | [–] | [–] | [–] |
| of which for the social compensation/age-related part-time employment/ demographics fund | [71.7] | [–0.0] | [–] | [0.0] | [9.1] |
| **Operating risks** | **115.8** | **–0.2** | **–** | **–** | **–** |
| **Other risks** | **220.7** | **–3.4** | **–** | **0.0** | **–0.4** |
| of which risks from settled contracts[1)] | [72.5] | [–1.1] | [–] | [–] | [–] |
| of which risks from pending transactions | [14.5] | [–0.3] | [–] | [–] | [–] |
| **Total** | **559.6** | **–4.6** | **–** | **0.0** | **–0.2** |

1) In 2020 this item was renamed for clarification purposes (previous year: "of which for price reductions/complaints"). The content is unchanged.

The anniversary provisions shown under personnel provisions have a duration of ten years.

With regard to explanations of the share-based remuneration under IFRS 2, reference is made to the explanations provided in Note (42) ↗ "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 11 years. The provisions for other risks comprise provisions for risks from invoiced orders, litigation risks, warranties and risks from pending transactions.

The restructuring costs for the year total € 4.4 million, of which € 4.2 million is caused by the addition to the provision, and € 0.2 million was recognized as current expenditure for restructuring. The release of restructuring provisions in the amount of 23.3 € million relates to obligations to be released on the reporting date for which there was no longer any likelihood that they would be required.

| Used | Reversal | Allocation | Compound interest | 2020/12/31 | of which long-term |
|---|---|---|---|---|---|
| **–1.5** | **–0.3** | **1.1** | **–** | **5.4** | **3.3** |
| **–63.2** | **–28.7** | **48.2** | **0.9** | **173.5** | **109.1** |
| [–3.9] | [–0.4] | [3.8] | [0.7] | [63.5] | [58.7] |
| [–38.1] | [–3.8] | [34.6] | [0.1] | [73.6] | [35.1] |
| **–2.6** | **–6.9** | **7.9** | **0.2** | **114.3** | **103.7** |
| **–84.1** | **–37.9** | **89.4** | **0.0** | **184.3** | **51.0** |
| [–19.5] | [–25.6] | [35.3] | [–] | [61.7] | [0.9] |
| [–8.9] | [–4.4] | [30.3] | [–] | [31.3] | [1.9] |
| **–151.4** | **–73.8** | **146.6** | **1.1** | **477.5** | **267.1** |

## (28) Non-current financial liabilities

| In € m | 2020/12/31 | 12/31/2019 |
|---|---|---|
| Liabilities to banks | 625.5 | 531.5 |
| Lease liabilities | 114.5 | 102.5 |
| Liabilities from financing | 6.4 | 0.1 |
| Other borrowings | 3.0 | 3.0 |
| **Financial liabilities** | **749.4** | **637.1** |

The liabilities from lease agreements reported under non-current financial liabilities are shown in the following tables:

| In € m | Due within 1 to 5 years | Due within > 5 years | 2020/12/31 |
|---|---|---|---|
| Lease liabilities (undiscounted) | 57.6 | 83.7 | 141.3 |
| Finance costs | 10.9 | 15.9 | 26.8 |
| **Liabilities from lease agreements** | **46.7** | **67.8** | **114.5** |

| In € m | Due within 1 to 5 years | Due within > 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** |

For a more detailed explanation of the assets carried in the balance sheet as a result of the accounting treatment of leases, reference is made to Note (10) ↗ "Property, plant and equipment".

## Current Liabilities

### (29) Current financial liabilities

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Other borrowings | 203.4 | 6.7 |
| Liabilities to banks | 142.2 | 125.9 |
| Liabilities from factoring | 117.7 | 125.3 |
| Lease liabilities | 25.0 | 22.9 |
| Bonds | – | 149.3 |
| **Current financial liabilities** | **488.3** | **430.1** |

The increase in "Other borrowings" results essentially from borrowing funds as part of financing activities with non-banks. In the process, $CO_2$ certificates temporarily not required for production, were transferred as security. The disposal of bonds relates to the complete repayment of the residual amount of the convertible bond issued on Friday, June 5, 2015.

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. The bank has the right to transfer the assigned receivables to third parties, but without the reciprocal rights and obligations being infringed.

The liabilities from lease agreements reported under current financial liabilities are shown in the following table:

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Lease liabilities (undiscounted) | 28.7 | 26.8 |
| Finance costs | 3.7 | 3.9 |
| **Liabilities from lease agreements** | **25.0** | **22.9** |

For a more detailed explanation of the assets carried in the balance sheet as a result of the accounting treatment of leases, reference is made to Note (10) ↗ "Property, plant and equipment".

### (30) Contract liabilities

Net contract liabilities increased in the reporting period from € 200.7 million to € 272.8 million. The increase relates mainly to plant equipment and machinery in the Technology Business Unit. As of 1/1/2019, the balance of contract liabilities amounted to € 250.2 million.

### (31) Other liabilities

| In € m | 2020/12/31 | 2019/12/31 |
|---|---|---|
| Tax liabilities | 93.3 | 37.5 |
| Liabilities to employees | 73.9 | 85.7 |
| Liabilities from derivatives | 38.4 | 20.4 |
| Customer credit balances | 17.8 | 14.0 |
| Liabilities from social security contributions | 9.2 | 10.8 |
| Other liabilities | 70.1 | 277.5 |
| **Other liabilities (current)** | **302.8** | **446.0** |

"Other liabilities" in the previous year contains essentially liabilities in connection with the mutually agreed closure of 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.

As well as the liabilities from factoring secured by receivables, liabilities in the amount of € 31.6 millon (previous year: € 37.8 million) are secured through mortgages.

## (32) Contingencies

Contingent liabilities are existing collateral commitments for third-party liabilities which are not expected to be utilized, however. Valued on the closing date, these commitments amount to € 23.9 million (previous year: € 23.9 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 € 10.6 million (previous year: 11.3 million). Based on past experience, the probability of their being utilized can be regarded as low.

Contingent liabilities also comprise the Group's own liabilities where the probability of occurrence involving a possible outflow of resources is less than 50 % but not entirely unlikely.

The legal uncertainties existing in connection with the ruling issued by the Federal Finance Court on securities lending in 2016 with regard to the possible repayment of capital gains tax amounts already taken into account, took on more concrete form in the current financial year. The financial authorities have asked the Salzgitter Group to repay the capital gains tax amounts previously taken into account. The tax and interest resulting from this transaction were recognized in full in the reporting year. Salzgitter AG has appealed against the demand for repayment. No decision has been issued yet.

The investigations instigated by Braunschweig's public prosecutor's office in the spring of 2014 against managers of a Group company on suspicion of illegal provisions and expenses under tax law, were fully closed in the reporting year.

With our 30 % participation in HKM, there are two matters in connection with the operation of the Huckingen power station with regard to their classification under energy legislation which are being clarified. At the present time, we see no hard and fast indications that risks in this regard will materialize.

Neither Salzgitter AG nor any of its Group companies is involved in any further ongoing or imminent court or arbitration proceedings that might have a substantial effect on its financial position.

### (33) Other financial obligations

| In € m | | | 2020/12/31 |
|---|---|---|---|
| | up to 1 year | 1 to 5 years | over 5 years |
| Purchase commitments for investments (essentially property, plant and equipment) | 204.7 | 56.4 | – |
| Obligations from rental and leasing agreements | 7.8 | 11.8 | 4.1 |
| Other financial obligations | 495.7 | 387.4 | 78.0 |
| **Total** | **708.2** | **455.6** | **82.1** |

| 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 | – |
| Other financial obligations | 459.5 | 296.3 | 32.6 |
| **Total** | **708.2** | **414.9** | **32.6** |

The other financial obligations primarily concern long-term purchasing commitments whose purpose is to ensure the procurement of input material for raw materials and sea freight.

The obligations arising from rental and lease 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 whose date of provision falls after the closing date, however. A total of € 18.3 million (previous year: € 2.9 million) is attributable to lease obligations. The increase is essentially due to future leases for locomotives and freight cars in the amount of € 14.1 million.

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 € 4.8 million (previous year: € 7.6 million) after the date on which such options can be exercised which are not included in the term of the lease.

## (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.

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 Thursday, December 31, 2020, the reconciliation of the balance sheet items to the various categories of financial instruments was as follows:

| 2020 in € m | | | | Valuation according to IFRS 9 | | | Valuation according to IFRS 15 and IFRS 16 | |
|---|---|---|---|---|---|---|---|---|
| | Book value as of 2020/12/31 | 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 costs | Fair value |
| **Assets** | | | | | | | | |
| Financial assets | 54.6 | – | 54.6 | 33.1 | 21.5 | – | – | 59.2 |
| Other non-current receivables and assets | 22.3 | 10.5 | 11.8 | 1.4 | 10.4 | – | – | 11.8 |
| Long-term and short-term trade receivables | 935.0 | 0.0 | 934.9 | 934.9 | – | – | – | 934.9 |
| Contract assets | 300.2 | – | 300.2 | – | – | – | 300.2 | 300.2 |
| Other current receivables and assets | 188.3 | 53.7 | 134.6 | 91.0 | 41.1 | 2.5 | – | 134.6 |
| Cash and cash equivalents | 621.4 | – | 621.4 | 621.4 | – | – | – | 621.4 |
| **Assets financial instruments** | | | **2,057.5** | **1,681.9** | **72.9** | **2.5** | **300.2** | |
| | | | | | | | | |
| **Equity and liabilities** | | | | | | | | |
| Non-current financial liabilities | 749.4 | – | 749.4 | 634.9 | – | – | 114.5 | 752.1 |
| Other non-current liabilities | 57.1 | 54.9 | 2.2 | 0.3 | 1.9 | – | – | 2.2 |
| Current financial liabilities | 488.3 | 0.0 | 488.3 | 463.3 | – | – | 25.0 | 491.4 |
| Trade payables | 802.4 | 0.0 | 802.4 | 802.4 | – | – | – | 802.4 |
| Other current liabilities | 302.8 | 202.7 | 100.1 | 61.7 | 21.9 | 16.5 | – | 100.1 |
| **Equity and liabilities financial instruments** | | | **2,142.3** | **1,962.5** | **23.8** | **16.5** | **139.5** | |

As of the balance sheet date of December 31, 2019, the reconciliation 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 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 costs | 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 |
| **Assets financial instruments** | | | **2,267.0** | **700.5** | **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** | |

### 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, please consult "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 and are 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 of the input factor of decisive significance for the measurement process.

Market values were determined on the basis of conditions that prevailed on the reporting date, using the values at which the relevant financial instruments were traded or listed. 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:

| 2020 in € m | Fair value | | | | | | |
|---|---|---|---|---|---|---|---|
| | At fair value without effect on the income financial invest-ments | At fair value without effect on the income hedge accounting | At Fair Value (P&L) | Total | thereof level 1 | thereof level 2 | thereof level 3 |
| **Assets** | | | | | | | |
| Financial assets | 21.5 | – | – | 21.5 | – | – | 21.5 |
| Other non-current receivables and assets | – | 10.4 | – | 10.4 | – | 10.4 | – |
| Other current receivables and assets | – | 41.1 | 2.5 | 43.6 | – | 43.6 | – |
| Securities | – | – | – | – | – | – | – |
| **Assets fair value** | **21.5** | **51.4** | **2.5** | | | | |
| | | | | | | | |
| **Equity and liabilities** | | | | | | | |
| Other non-current liabilities | – | 1.9 | – | 1.9 | – | 1.9 | – |
| Other current liabilities | – | 21.9 | 16.5 | 38.4 | – | 38.4 | – |
| **Liabilities fair value** | **–** | **23.8** | **16.5** | | | | |

Financial assets measured at their fair value with no effect on income represent exclusively long-term shares 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 subsequent valuation of the equity instruments held with no effect on income decreased their carrying amounts by € 1.1 million (previous year: € 3.1 million). The carrying amounts of all financial investments as of the closing date of Thursday, December 31, 2020, 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 2020 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 € 21.5 million (previous year: € 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 € 1.5 million (previous year: € 1.8 million) or increase by € 1.9 million (previous year: € 2.1 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.

The assessment as to whether in the case of financial assets and liabilities recognized at fair value, there has been a transfer between fair value hierarchy levels is made at the end of each reporting period. No reclassifications were made in the past reporting period.

| **2019 in € m** | **Fair value** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **At fair value without effect on the income financial invest-ments** | **At fair value without effect on the income hedge accounting** | **At Fair Value (P&L)** | **Total** | **thereof level 1** | **thereof level 2** | **thereof 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 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 fair value** | **–** | **25.3** | **6.8** | | | | |

### Net Results of Categories of Financial Instruments

The net results of the categories are as follows:

| In € m | 2020 | 2019 |
|---|---|---|
| Financial instruments measured without effect on income | –17.9 | 13.9 |
| Financial assets at cost | –5.1 | –12.2 |
| Equity instruments at fair value without effect on income | 2.4 | 2.0 |
| Financial liabilities measured at amortized cost | –52.4 | –32.8 |
| **Total** | **–73.0** | **–29.2** |

The net result of the category “Financial assets and liabilities measured 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 measured at amortized cost” also includes interest income amounting to € 13.6 million (previous year: € 14.6 million). The category “Equity instruments measured at fair value with no effect on profit or loss” includes primarily investment income. 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.

Interest expenses amounting to € 52.4 million (previous year: € 31.8 million) are allocated to the “Financial liabilities measured 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: € 6.5 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 impairment rules under IFRS 9 but the impairment expense identified was inconsequential.

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 Salzgitter Group applies the simplified approach for 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, 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, they are 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 € 3.2 million (previous year: € 22.5 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 | 2020/12/31 | | 2019/12/31 | |
|---|---|---|---|---|
| | Maximum default risk | Hedged default risk | Maximum default risk | Hedged default risk |
| Long-term and short-term trade receivables | 934.9 | 592.4 | 1,136.8 | 638.8 |
| Other receivables | 92.4 | 1.8 | 91.5 | 2.0 |
| Financial assets | 33.1 | – | 42.6 | – |
| **Total** | **1,060.5** | **594.2** | **1,270.9** | **640.8** |

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 € 511.4 million (previous year: € 581.1 million) are secured against default by means of credit insurance.

The rating system for assets accounted for in accordance with the general approach is as follows:

| In € m | | | 2020/12/31 |
|---|---|---|---|
| **General approach** | **Level 1** | **Level 2** | **Level 3** |
| High credit rating | 92.4 | – | – |
| Fair credit rating | 23.7 | – | – |
| Increased risk | 9.5 | – | – |
| **Total** | **125.6** | **–** | **–** |

| 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** | **–** | **–** |

| FY 2020 in € m | Write-off general approach level 1 | | |
|---|---|---|---|
| | Gross book value | Credit risk | Net book value |
| Opening balance 01/01 | 136.6 | –2.5 | 134.1 |
| Addition | 4.5 | –4.1 | 0.3 |
| Disposal | –9.7 | 1.9 | –7.8 |
| Currency differences | –0.8 | –0.3 | –1.1 |
| **As per 12/31** | **130.6** | **–5.0** | **125.6** |

| FY 2019 in € m | Impairment 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** |

The rating system for assets accounted for in accordance with the simplified approach, is as follows:

**As of 2020/12/31 in € m**

| Simplified | Trade receivables gross | Contract assets gross |
|---|---|---|
| High credit rating | 661.1 | 295.5 |
| Fair credit rating | 256.3 | 4.2 |
| Increased risk | 112.4 | 1.3 |
| **Total** | **1,029.8** | **301.0** |

**2019/12/31 in € m**

| Simplified | 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** |

The figures shown for the various rating categories are gross carrying amounts before taking account of the credit default risk. This gross carrying amount for all trade receivables as of December 31, 2020 amounts to € 1,029.8 million (previous year: € 1,209.9 million). Of the entire risk provision for trade receivables amounting to € 94.8 million (previous year: € 73.1 million), € 91.6 million (previous year: € 68.9 million) was accounted for by the "Increased risk" category. The remaining sum for the risk provision for trade receivables amounting to € 3.2 million (previous year: € 4.2 million) results primarily from the risk provision for trade receivables in the "Fair credit rating" category.

As of Thursday, December 31, 2020, the gross carrying amount of all contract assets amounts to € 301.0 million (previous year: € 186.9 million). Overall, there is a risk provision for contract assets amounting to € 0.8 million (previous year: € 0.6 million) resulting essentially from the risk provision for contract assets in the "High credit rating" category.

**FY 2020 in € m**

| | Impairment trade receivables | Impairment contract assets |
|---|---|---|
| **As of 01/01** | **–73.1** | **–0.6** |
| Addition | –87.6 | –1.6 |
| Utilization | 3.2 | – |
| Disposal | 60.4 | 1.3 |
| Transfer to other accounts | –0.1 | 0.1 |
| Currency differences | 2.4 | – |
| **As per 12/31** | **–94.8** | **–0.8** |

**FY 2019 in € m**

| | Impairment trade receivables | Impairment contract assets |
|---|---|---|
| As of 01/01 | –68.2 | –0.9 |
| Addition | –101.1 | –1.9 |
| Utilization | 22.5 | – |
| Disposal | 74.1 | 2.0 |
| Transfer to other accounts | –0.2 | 0.2 |
| Currency differences | –0.2 | – |
| **As per 12/31** | **–73.1** | **–0.6** |

### 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:

| As of 2020/12/31 in € m | up to 1 year | 1 to 5 years | over 5 years |
|---|---|---|---|
| Trade payables | 802.4 | – | – |
| Financial liabilities | 497.3 | 768.4 | 3.5 |
| Lease liabilities | 28.7 | 57.6 | 83.7 |
| Other liabilities (without derivatives) | 61.8 | 0.3 | – |

| 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 | – |

As a general rule, all amounts constitute contractually undiscounted cash flows.

As of Thursday, December 31, 2020, derivative financial liabilities with a term of under one year lead to disbursements of € 619.0 million (previous year: € 531.4 million), while those with a term of between one and five years lead to payouts totaling € 1.9 million (previous year: € 12.1 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. To control the margin risks, the Salzgitter Group also deploys derivative financial instruments to a limited extent to hedge the sales prices of hot-rolled strip products.

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, in other words, 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 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 financial year. 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** | **2020/12/31** | **2019/12/31** |
|---|---|---|
| Forward exchange contracts – cash flow hedges | 0.0 | 0.7 |
| Commodity futures – cash flow hedges | 51.4 | 28.3 |
| Total | 51.4 | 29.0 |

| **Negative market values in € m** | **2020/12/31** | **2019/12/31** |
|---|---|---|
| Forward exchange contracts – cash flow hedges | 2.6 | 0.6 |
| Commodity futures – cash flow hedges | 21.2 | 24.8 |
| Total | 23.8 | 25.3 |

The commodity future transactions will affect income in the financial years 2021, 2022 and 2023. 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 € 0.7 million (previous year: decrease of € 1.3 million) and negative ones increased by € 2.0 million (previous year: increase of € 0.6 million). Thanks to high effectiveness, the changes in value of commodity future transactions are matched by almost identical underlying transactions. By comparison with the previous year, positive commodity future transactions increased by € 23.1 million (previous year: decrease of € 8.3 million) and negative ones decreased by € 3.6 million (previous year: increase of € 23.3 million).

For materiality reasons, reconciliation in the cash flow hedge reserve for forward currency transactions are not shown separately, and the figures in the following table therefore include forward currency transactions to a limited extent as well as commodity futures. The cash flow hedge reserve that was posted to equity with no effect on income (after taxes) developed as follows:

| **In € m** | **2020** | **2019** |
|---|---|---|
| As of 01/01 | 1.0 | 25.1 |
| Write-up without effect on income | 99.0 | 87.4 |
| Write-down without effect on income | –70.6 | –70.7 |
| Basis adjustment | –4.9 | –48.9 |
| Deferred taxes basis adjustment | 1.5 | 15.4 |
| Realization | 1.9 | –2.7 |
| Other deferred taxes | –9.5 | –4.6 |
| **As of 12/31** | **18.5** | **1.0** |

The volume of hedging transactions accounted as in hedge accounting as of the relevant closing date:

| **2020** | **up to 1 year** | **over 1 year** | **Nominal volume** | **Average hedging rate** |
|---|---|---|---|---|
| Hedging currency exchange risk in USD m – purchase | 124.1 | – | 124.1 | 1.16 |
| Hedging currency exchange risk in GBP m | 18.9 | – | 18.9 | 0.91 |
| Hedging currency exchange risk in CAD m | 4.7 | – | 4.7 | 1.57 |
| Hedging currency exchange risk in USD m – sale | 0.7 | – | 0.7 | 1.22 |
| Hedging price change risk of iron ore in m t | 0.6 | 0.2 | 0.8 | 62.45 |
| Hedging price change risk of coking coal in m t | 0.7 | 0.6 | 1.3 | 157.31 |
| Hedging price change risk of hot rolled coils in m t | 0.1 | – | 0.1 | 519.33 |
| Book value receivables in € m | 41.1 | 10.4 | | |
| Book value payables in € m | 21.9 | 1.9 | | |

| **2019** | **up to 1 year** | **over 1 year** | **Nominal volume** | **Average hedging rate** |
|---|---|---|---|---|
| Hedging currency exchange risk in USD m | 73.9 | – | 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 | – | 8.7 | | |
| Book value payables in € m | 13.7 | 11.7 | | |

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 € 4.9 million (previous year: € 48.9 million) from expired futures was set off against the acquisition costs of non-financial assets (basis adjustment). Reserves for currency hedging in the amount of € 1.9 million (previous year: € –2.7 million) were reclassified from OCI to other operating expenses or other operating income for underlying transactions now recognized in profit or loss.

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** | **2020** | **2019** |
|---|---|---|
| As of 01/01 | 18.0 | 20.0 |
| Write-up without effect on income | – | 0.2 |
| Write-down without effect on income | –1.1 | –3.2 |
| Deferred tax | 2.1 | 1.0 |
| **As of 12/31** | **18.9** | **18.0** |

The carrying amount of equity instruments measured at fair value with no effect on the income statement in the amount of € 21.4 million (previous year: € 22.2 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 contain the following unlisted companies:

| **In € m** | **2020/12/31** | **2019/12/31** | **2020** | **2019** |
|---|---|---|---|---|
| | | **Fair value** | | **Dividends** |
| Arsol Aromatics GmbH & Co. KG | 15.6 | 16.5 | 1.8 | 1.2 |
| PEAG Holding GmbH | 2.6 | 2.8 | – | 0.2 |
| Niedersächsische Gesellschaft zur Endlagerung von Sonderabfall mbH | 1.4 | 1.4 | 0.2 | 0.2 |
| Other | 1.8 | 1.4 | 0.5 | 0.5 |
| Total | 21.4 | 22.2 | 2.5 | 2.1 |

**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 base 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 (for example: 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.

| 2020/12/31 | 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 | −24.4 | −12.8 | −37.2 | 29.8 | 15.9 | 45.7 |
| GBP | 0.7 | 1.7 | 2.4 | −0.9 | −2.1 | −3.0 |
| Other currencies | 3.5 | 0.4 | 3.9 | −4.1 | −0.5 | −4.6 |
| **Currency sensitivities** | **−20.2** | **−10.7** | **−30.9** | **24.8** | **13.3** | **38.1** |
| Degree of sensitivity | +100 bp | +100 bp | +100 bp | −100 bp | −100 bp | −100 bp |
| **Interest rate sensitivities** | **–** | **–** | **–** | **–** | **–** | **–** |
| Degree of sensitivity | +10% | +10% | +10% | −10% | −10% | −10% |
| Coking coal | – | 10.7 | 10.7 | – | −10.7 | −10.7 |
| Iron ore | – | 9.8 | 9.8 | – | −9.8 | −9.8 |
| Others | – | −4.0 | −4.0 | – | 4.0 | 4.0 |
| **Other price sensitivities** | **–** | **16.5** | **16.5** | **–** | **−16.5** | **−16.5** |

| 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** |

### 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 2020/12/31 in € m**

| | Gross book value | Offsetting amount | Net book value | Not offset amount | Total net book value |
|---|---|---|---|---|---|
| Positive market values derivates | 53.9 | – | 53.9 | 23.2 | 30.7 |
| Negative market values derivates | 40.4 | – | 40.4 | 23.2 | 17.1 |

**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 |

## (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 € 5.1 million (previous year: € 8.7 million). Dividend income received during the financial year 2020 amounted to € 20.2 million (previous year: € 24.6 million).

The investments disclosed in the cash outflow for investment activity include additions with effect on cashflow to intangible assets and property, plant and equipment as well as non-current financial assets, in particular additions from newly acquired companies not consolidated for materiality reasons and for securities. In the previous year, this item also included outflows for investments in equity-accounted companies.

The cash inflows and outflows from / for financial investments comprise bond funds.

Changes in liabilities were as follows:

| **In € m** | **As of 1/1/2020** | **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 conso-lidated group** | **Currency differ-ences** | **Other changes** | **As of 2020/12/31** | **of which non-current** |
|---|---|---|---|---|---|---|---|---|---|---|
| Bonds | 149.3 | – | – | –150.9 | –150.9 | – | – | 1.6 | – | – |
| loan payables and other financial liabilities | 918.0 | 480.6 | 372.8 | –201.5 | –44.1 | – | –6.8 | 47.4 | 1,237.6 | 749.4 |
| Liabilities to banks | 657.4 | 188.8 | 172.8 | –80.0 | –18.9 | – | –5.7 | 7.1 | 767.6 | 625.5 |
| Other financial obligations | 3.0 | 203.0 | 200.0 | – | – | – | –0.0 | – | 206.0 | 3.0 |
| Liabilities from factoring | 125.3 | 88.5 | – | –96.1 | – | – | – | – | 117.7 | – |
| Liabilities from financing | 6.7 | 0.3 | – | –0.2 | – | – | –0.0 | –0.0 | 6.8 | 6.4 |
| Lease liabilities | 125.5 | – | – | –25.2 | –25.2 | – | –1.0 | 40.2 | 139.5 | 114.5 |
| | **1,067.2** | **480.6** | **372.8** | **–352.4** | **–195.0** | **–** | **–6.8** | **49.0** | **1,237.6** | **749.4** |

| **In € m** | **As of 1/1/2019** | **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 conso-lidated 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 |
| Other financial liabilities | – | 3.0 | – | – | – | – | – | 0.0 | 3.0 | 3.0 |
| Liabilities from factoring | 142.7 | 67.7 | – | –85.1 | – | – | – | – | 125.3 | – |
| Liabilities from financing | 8.1 | 0.1 | – | –1.5 | – | – | 0.0 | 0.1 | 6.7 | 0.1 |
| Lease liabilities | 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** |

## (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 the Industrial Participations category 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 include 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 | 2020 | 2019 |
|---|---|---|
| Domestic | 2,294.1 | 2,217.2 |
| Other EU | 106.9 | 93.6 |
| Rest of Europe | 1.5 | 0.8 |
| America | 84.1 | 94.3 |
| Asia | 14.5 | 15.1 |
| Africa | 2.4 | 2.3 |
| Australia / Oceania | 1.6 | 1.7 |
| | **2,505.0** | **2,425.1** |

The reconciliation of total segment sales and segment results to, respectively, consolidated sales and the consolidated earnings before tax is disclosed in the following overviews:

| In € m | 2020 | 2019 |
|---|---|---|
| Total sales of the segments | 8,642.0 | 10,503.5 |
| Industrial Participations | 392.8 | 420.8 |
| Consolidation | −1,944.0 | −2,377.0 |
| **Sales** | **7,090.8** | **8,547.3** |

| In € m | 2020 | 2019 |
|---|---|---|
| Total results of the segments for the period | −217.2 | −206.6 |
| Industrial Participations | 23.6 | 7.0 |
| Consolidation | −2.8 | −53.7 |
| **Earnings before taxes (EBT)** | **−196.4** | **−253.3** |

### (37) Notes on Leases

This is reflected in profit and loss as follows:

| In € m | 2020 | 2019 |
|---|---|---|
| | | |
| Other operating income | | |
| Income from operating-leases | 1.2 | 2.4 |
| | | |
| Cost of materials / other operating expenses | | |
| Expenses for leases in which the underlying asset is of low value | 2.7 | 3.5 |
| Expenses for short-term leases | 5.4 | 8.4 |
| Expenses for variable lease payments | 0.1 | 0.7 |
| | | |
| Financial result | | |
| Interest expenses from lease liabilities | 3.6 | 3.3 |

Total cash outflows for leases amount to € 28.8 million in the financial year (previous year: € 27.5 million). The interest expenses from lease liabilities are included. Gains from a sale-and-leaseback transaction in the amount of € 47.2 million are also reflected in the financial year.

**(38) 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 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Non consolidated group companies | 21.2 | 56.1 | 13.7 | 24.7 |
| Joint ventures | 63.5 | 63.8 | 8.6 | 18.5 |
| Joint operations | 2.4 | 2.2 | 1.0 | 1.1 |
| Investments accounted for using the equity method | 0.0 | 1.0 | 7.5 | 17.6 |
| Other related parties | 1.3 | 2.8 | 1.2 | 1.0 |

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 | |
|---|---|---|---|---|
| | 2020/12/31 | 2019/12/31 | 2020/12/31 | 2019/12/31 |
| Non consolidated group companies | 6.5 | 9.9 | 2.5 | 3.0 |
| Joint ventures | 2.0 | 7.0 | 0.2 | 11.6 |
| Joint operations | 31.7 | 40.0 | 20.6 | 31.1 |
| Investments accounted for using the equity method | – | 0.9 | 1.8 | 0.0 |
| Other related parties | 5.1 | 5.2 | 70.6 | 85.0 |

Receivables from companies with joint operations include a loan receivable from Hüttenwerke Krupp Mannesmann GmbH, Duisburg, 30 % consolidated, amounting to € 30.6 million (previous year: € 39.9 million) after consolidation.

The sale of goods and services largely consists of the delivery of input materials for manufacturing large-diameter pipes.

Contingencies totaling € 10.6 million (previous year: € 11.3 million) exist in relation to non-consolidated associated companies.

### (39) 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)

| In € m | 2020 | 2019 |
|---|---|---|
| Audit services | 2.2 | 2.8 |
| Other certification or assessment services | 0.0 | 0.3 |
| 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 EMIR audits and were conducted to a very limited degree on behalf of Salzgitter AG and the companies it controls. Tax advisory services were also provided to an insignificant extent.

### (40) Significant events occurring after the reporting date

There were no significant events occurring after the reporting date.

### (41) Waiver of disclosure and preparation of a management report pursuant to Section 264 para. 3 German Commercial Code (HGB) or Section 264b HGB

The following fully consolidated domestic subsidiaries have fulfilled the conditions required under Section 264 para. 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)]
- 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)]
- 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.

Furthermore, the company VPS Infrastruktur Salzgitter GmbH, Salzgitter, has, in accordance with Section 264 para. 3 HGB, made use of its right to waive the preparation of a management report.

### (42) 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) | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Current members of the Executive Board | 3.0 | 2.9 | 1.3 | 1.4 |
| Members of the Supervisory Board | 1.6 | 1.7 | – | – |
| Other members of the key management personnel | 2.9 | 2.5 | 0.2 | 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) | |
|---|---|---|---|---|
| | 2020/12/31 | 2019/12/31 | 2020/12/31 | 2019/12/31 |
| Former members of the Executive Board | – | – | 48.3 | 51.5 |
| Current members of the Executive Board | 0.6 | 0.4 | 35.2 | 33.0 |
| Members of the Supervisory Board | – | – | – | – |
| Other members of the key management personnel | 0.7 | 0.7 | 6.5 | 8.1 |

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 € 2.8 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 payments | | Other long-term employee benefits | |
|---|---|---|---|---|
| | 2020/12/31 | 2019/12/31 | 2020/12/31 | 2019/12/31 |
| Current members of the Executive Board | 0.6 | 0.1 | 0.6 | 0.1 |

All entitlements in existence as of Thursday, December 31, 2020 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 (deferred shares).

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 given by 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 growth. 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 %.

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 average 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 a 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 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.

The valuation made on December 31, 2020 was based on the following parameters, using an appropriate option price model.

| | **Tranche 2020** | **Tranche 2019** |
|---|---:|---:|
| Number of virtual shares | 30,813.107 shares | 24,734.510 shares |
| Interest rate | –0.77% | –0.75% |
| Volatility | 39.87% | 39.75% |
| Term | 2023/12/31 | 2022/12/31 |
| Share price as of balance sheet date | € 21.70 | € 21.70 |

The fair value on the reporting date for Tranche 2020 is € 0.2 million and for Tranche 2019 € 0.3 million.

Personnel expenses will be distributed over the period of performance in accordance with the provisions of IFRS 2.

In the 2020 financial year, personnel expenses of € 0.4 million (previous year: 0.1 million) were recognized in profit or loss due to share-based remuneration with cash settlement.

As of December 31, 2020, the carrying amount of the Salzgitter Group's obligations from share-based remuneration amounts to € 0.6 million (previous year: 0.1 million).

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".

Salzgitter, Wednesday, March 10, 2021

The Executive Board

Fuhrmann | Becker | Kieckbusch

# Responsibility statement

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, Wednesday, March 10, 2021

The Executive Board

Fuhrmann Becker Kieckbusch

# Independent auditor's report

**„Independent auditor's report**

To Salzgitter Aktiengesellschaft

Report on the audit of the consolidated financial statements and of the group management report

**Opinions**

We have audited the consolidated financial statements of Salzgitter Aktiengesellschaft, Salzgitter, and its subsidiaries (the Group), which comprise the consolidated income statement, and the consolidated statement of comprehensive income, consolidated balance sheet as at 31 December 2020, consolidated cash flow statement and consolidated statement of changes in equity for the fiscal year from 1 January 2020 to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report, which was combined with the Company's management report, for the fiscal year from 1 January 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the parts of the group management report specified in the appendix to the auditor's report and the company information stated therein that is provided outside of the annual report and is referenced in the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- 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 Sec. 315e (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 31 December 2020 and of its financial performance for the fiscal year from 1 January 2020 to 31 December 2020, and
- 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 opinion on the group management report does not cover the content of the parts of the group management report listed in the appendix to the auditor's report.

Pursuant to Sec. 322 (3) 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 opinions**

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and 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 Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 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 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 fiscal year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

#### 1) Fair valuation of intangible assets and property, plant and equipment

**Reasons why the matter was determined to be a key audit matter**

Significant intangible assets and property, plant and equipment were tested for impairment by the executive directors in order to identify any need to recognize impairment losses. The result of this valuation is highly dependent on the executive directors' estimate of future cash flows of the cash-generating units to which the assets are allocated and the respective discount rates used.

The derivation of future cash inflows and outflows is based on the Group's three-year plan prepared by the executive directors, which is adjusted at the level of the cash-generating units based on assumptions about, for example, long-term growth rates, in order to reflect a sustainable condition ("perpetual annuity").

In light of the judgment exercised in valuation, among other things with regard to the impact of the COVID-19 pandemic, and due to the underlying complexity of the methodological requirements, the impairment testing of intangible assets and property, plant and equipment was a key audit matter.

**Auditor's response**

During our audit procedures, among other things, we assessed the methods used to carry out the impairment tests including an examination of the suitability of the procedure for performing an impairment test in accordance with IAS 36 and for providing objective indications of impairment. In doing so, we analyzed, among other things, the planning process and tested the operating effectiveness of the controls implemented therein. As part of our audit procedures, with the assistance of our internal valuation specialists, we particularly assessed the methods and calculations of the valuation model used to determine the recoverable amount.

We reconciled the future cash inflows and outflows used for valuation with the current plans of the cash-generating units based on the Group's three-year plan prepared by the executive directors.

We also analyzed the plans by comparing them with the results and cash inflows and outflows actually achieved in the past. We also assessed the executive directors' estimates relating to the impact of the COVID-19 pandemic on future business activities and income development based on the impact in 2020 and checked their inclusion in the plans. Further, we compared the executive directors' assumptions about the impact of emissions trading on the individual cash-generating units affected by the EU emissions trading system with industry-specific market expectations, especially with regard to the expected price development of emission certificates. We obtained an understanding of and assessed the significant assumptions underlying the plans for business development and growth by discussing them with those responsible for planning at the individual cash-generating units and the executive directors of Salzgitter Aktiengesellschaft and including general and industry-specific market expectations in the analysis of the plans.

Based on our understanding that even relatively small changes in the discount rate used can at times have significant effects on value, we assessed the derivation of the relevant discount rates used, with the assistance of our internal valuation specialists, by scrutinizing the selected peer companies and comparing the market data used with external evidence.

With the aid of our own sensitivity analyses, we estimated impairment risks arising when significant valuation assumptions change.

Our procedures did not lead to any reservations relating to the fair valuation of intangible assets and property, plant and equipment.

**Reference to related disclosures**

The Company’s disclosures on intangible assets and property, plant and equipment are presented in the “Accounting and Valuation Principles” section and in notes 5, 9 and 10 of the notes to the consolidated financial statements.

**2) Fair valuation of shares in the affiliate Aurubis AG, Hamburg**

**Reasons why the matter was determined to be a key audit matter**

In light of the fact that the market price of the shares in Aurubis AG, Hamburg, presented under “Investments accounted for using the equity method” was lower than the average carrying amount per share as of the reporting date, the executive directors tested the shares for impairment as of the reporting date by determining their value in use.

The result of this valuation is highly dependent on the Salzgitter Aktiengesellschaft executive directors’ estimate of future cash flows and the respective discount rates used. The derivation of future cash inflows and outflows is based on the estimates of Salzgitter AG’s executive directors regarding future sales revenue and margin developments, which are adjusted based on assumptions about, for example, long-term growth rates, in order to reflect a sustainable condition (“perpetual annuity”).

In light of the judgment exercised in valuation and due to the underlying complexity of the methodological requirements, the impairment testing of the shares in Aurubis AG, Hamburg, presented under “Investments accounted for using the equity method” was a key audit matter.

**Auditor’s response**

During our audit procedures, among other things, we assessed the methods used to carry out the impairment tests including an examination of the suitability of the procedure for performing an impairment test in accordance with IAS 36 and for providing objective indications of impairment. In doing so, we analyzed, among other things, the planning process and tested the operating effectiveness of the controls implemented therein. As part of our audit procedures, with the assistance of our internal valuation specialists, we particularly assessed the methods and calculations of the valuation model used to determine the value in use.

We analyzed the estimates of the executive directors relating to margins in the perpetual annuity by comparing them with the results actually achieved in the past and the current development of business figures. We obtained an understanding of and assessed the significant assumptions on business development and growth by comparing them, among other things, with publicly available information including existing analyst assessments, discussing them with the executive directors and including general and industry-specific market expectations in the analysis of the plans.

Based on our understanding that even relatively small changes in the discount rate used can at times have significant effects on value, we assessed the derivation of the discount rate used, with the assistance of our internal valuation specialists, by scrutinizing the selected peer companies and comparing the market data used with external evidence.

With the aid of our own sensitivity analyses, we estimated impairment risks arising when significant valuation assumptions change.

Our procedures did not lead to any reservations relating to the fair valuation of the shares in Aurubis AG, Hamburg, presented under "Investments accounted for using the equity method."

**Reference to related disclosures**

The Company's disclosures on investments accounted for using the equity method are presented in the "Accounting and Valuation Principles" section and in note 13 of the notes to the consolidated financial statements.

**3) Fair valuation of deferred tax assets, particularly those on loss carryforwards**

**Reasons why the matter was determined to be a key audit matter**

Deferred tax assets on temporary differences and tax loss carryforwards are recognized to the extent that is probable, according to the executive directors' assessment, that future taxable profits will be available against which the deductible temporary differences and tax loss carryforwards can be utilized.

For this purpose, forecasts of future taxable profits are prepared. These taxable profits are based on the tax forecast derived from the Group's three-year plan for 2021 to 2023 prepared by the executive directors.

In light of the judgment exercised in the three-year plan and tax forecast, among other things with regard to the impact of the COVID-19 pandemic, the assessment of the fair valuation of deferred tax assets, particularly those on loss carryforwards, was a key audit matter.

**Auditor's response**

As part of our audit procedures, we examined the underlying processes for the determination, recognition and valuation of deferred taxes. We involved our internal tax specialists in our audit procedures on deferred tax assets.

With the respect to the deferred tax assets determined by the executive directors, especially the assessment of the usability of the tax loss carryforwards of the domestic tax group for income tax purposes, we checked whether the derivation of the tax forecast is based on the Group's three-year plan for 2021 to 2023 prepared by the executive directors. Further, we assessed the significant tax reconciliation items based on the tax calculations for 2020.

We assessed the executive directors' estimates, including those relating to the impact of the COVID-19 pandemic, regarding future business activities and income development based on general and industry-specific market expectations and checked their inclusion in the plans.

Our procedures did not lead to any reservations relating to the fair valuation of deferred tax assets, particularly those on loss carryforwards.

**Reference to related disclosures**

The Company's disclosures on deferred tax assets and tax loss carryforwards are presented in the "Accounting and Valuation Principles" section and in notes 7 and 14 of the notes to the consolidated financial statements.

**Other information**

The Supervisory Board is responsible for the Report of the Supervisory Board. The executive directors and the Supervisory Board are responsible for the declaration pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] on the German Corporate Governance Code, which is part of the group statement on corporate governance. In all other respects, the executive directors are responsible for the other information. The other information comprises the parts of the annual report listed in the appendix to the auditor's report.

Our 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 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 Sec. 315e (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 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 Sec. 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 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 control.
- 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 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 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 Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express 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 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

### Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the group management report prepared for publication purposes

### Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the “ESEF documents”) contained in the attached electronic file “Salzgitter_Aktiengesellschaft_KA+ZLB_ESEF-2020-12-31B.zip” and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format (“ESEF format”). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2020 to 31 December 2020 contained in the “Report on the audit of the consolidated financial statements and of the group management report” above.

### Basis for the opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the “Group auditor’s responsibilities for the assurance work on the ESEF documents” section. Our audit firm applied the standards for the quality assurance system set forth in IDW Standard on Quality Control: “Requirements for Quality Control in Audit Firms” (IDW QS 1).

### Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor’s report and the attached audited consolidated financial statements and the audited group management report as well as other documents to be published to the operator of the Bundesanzeiger [German Federal Gazette].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

**Group auditor's responsibilities for the assurance work on the ESEF documents**

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

**Further information pursuant to Art. 10 of the EU Audit Regulation**

We were elected as group auditor by the Annual General Meeting on 8 July 2020. We were engaged by the Supervisory Board on 27 July 2020. We have been the group auditor of Salzgitter Aktiengesellschaft without interruption since fiscal year 2020.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 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 Tjark Eickhoff.

**Appendix to the auditor's report:**

**1. Parts of the group management report whose content is unaudited**

We have not audited the content of the following parts of the group management report:

- The statement on corporate governance included in the "Declaration of Conformity and Corporate Governance Report" section of the group management report.

**2. Further other information**

The other information comprises the following part of the annual report pursuant to ISA [DE] 720, of which we obtained a version of prior to issuing this auditor's report:

- The group non-financial report.

The other information also comprises other parts to be included in the annual report, of which we obtained a copy prior to issuing this auditor's report, in particular the sections:

- the Report of the Supervisory Board;
- the Report of the Executive Board; and
- the Assurance from the Legal Representatives.

but not the consolidated financial statements, not the parts of the group management report whose content is audited and not our auditor's report thereon.

**3. Company information outside of the annual report referenced in the group management report**

The group management report, which was combined with the Company's management report, contains cross-references to webpages of the Group. We have not audited the content of the information accessible through the cross-references."

Hannover, March 10, 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Dr. Janze<br>Wirtschaftsprüfer | Eickhoff<br>Wirtschaftsprüfer |

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20