Annual Press Conference Financial Year 2019

Prof. Dr.-Ing. Heinz Jörg Fuhrmann, Chairman of the Executive Board
Burkhard Becker, Chief Financial Officer
Hannover, March 16, 2020
1 Key Data
2 Business Units
3 Annual Accounts Financial Year 2019
4 Market Situation
5 Strategy
6 Guidance
Key Data

Overview

Market

- Market environment characterized by political uncertainty, compounded by multiple trade conflicts and economic headwind
- Gradual decline in rolled steel selling prices over the course of the year, accompanied by a temporary sharp increase in the cost of iron ore and a downturn in demand
- Trade policy burdens with significant uncertainties the calculability and international projects

Salzgitter Group

- Challenges comparatively well met despite € 253 million in pre-tax loss, as
  - All in all almost € 400 million in non-recurring burdens on earnings absorbed
  - Pre-tax result before special effects within the range of the original earnings guidance from February 2019
- KHS-Group with highest pre-tax profit since joining the consolidated group!
- € 46 million additional earnings improvement potential and an additional € 27 million in earnings contributions from growth programs realized
### Key Data per 2019/12/31

<table>
<thead>
<tr>
<th></th>
<th>FY 2019</th>
<th>FY 2018</th>
<th>Δ</th>
<th>Q4 2019</th>
<th>Q3 2019</th>
<th>Q2 2019</th>
<th>Q1 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude steel production</td>
<td>kt</td>
<td>6,613.4</td>
<td>7,039.4</td>
<td>-426.0</td>
<td>1,553.3</td>
<td>1,648.0</td>
<td>1,672.3</td>
</tr>
<tr>
<td>External sales¹</td>
<td>€ million</td>
<td>8,547.3</td>
<td>9,278.2</td>
<td>-730.8</td>
<td>1,910.0</td>
<td>2,111.1</td>
<td>2,232.4</td>
</tr>
<tr>
<td>Earnings before tax</td>
<td>€ million</td>
<td>-253.3</td>
<td>347.3</td>
<td>-600.6</td>
<td>-294.0</td>
<td>-104.6</td>
<td>19.4</td>
</tr>
<tr>
<td>Earnings after tax</td>
<td>€ million</td>
<td>-237.3</td>
<td>277.7</td>
<td>-515.0</td>
<td>-207.5</td>
<td>-126.2</td>
<td>-0.3</td>
</tr>
<tr>
<td>Earnings per share (undiluted)</td>
<td>€</td>
<td>-4.46</td>
<td>5.06</td>
<td>-9.52</td>
<td>-3.83</td>
<td>-2.36</td>
<td>-0.03</td>
</tr>
<tr>
<td>ROCE</td>
<td>%</td>
<td>-5.8</td>
<td>10.3</td>
<td>-16.1</td>
<td>-31.2</td>
<td>-10.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Core workforce²</td>
<td></td>
<td>23,354</td>
<td>23,523</td>
<td>-169</td>
<td>23,354</td>
<td>23,562</td>
<td>23,639</td>
</tr>
</tbody>
</table>

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1 only from entities within the Group of Consolidated Companies of Salzgitter Group  
2 per reporting date

Result of Salzgitter Group impacted by a total of € -396.0* million in special effects

*) € -62,3 million restructuring provisions, € -192,9 million impairment as well as € -140,8 Mio. € other special effects (cartell fine)
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Erosion of selling prices, accompanied by the increase in iron ore costs over the course of the year, as well as impairment of € -100.0 million placed a burden on the result.
Result impacted by the difficult market situation in heavy plate and by impairment (€ -47.8 million) as well as by restructuring provisions (€ -17.1 million) for the initiated programs of measures.
Pre-tax result includes € -40.0 million in impairment and restructuring provisions amounting to € -14.1 million.
Economic downturn and decreasing selling prices shape FY 2019; pre-tax result comprises € -5.4 million in restructuring provisions as well as burdens from impairments of € -30.5 million.
KHS Group recorded highest pre-tax profit since joining the consolidated group! earnings include € -3.3 million in restructuring provisions
Pre-tax result comprises a net amount of € -148.9 million in burdens, first and foremost the liability formed in connection with the end to the investigations conducted on the grounds of suspected cartel arrangements.
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Financial Year 2019 impacted by special effects

Pre-tax result of € -253 million includes a total of € -396 million in special effects

Aurubis, Technology Business Unit and effects from programs of measures bolster the result

Impairments will positively impact the consolidated result of financial years 2020 onwards in dimensions of around € 30 million p.a.

EBT before special effects at € 143 million with the span of the original forecast

Still solid equity ration of 34%

Continuous dividend payments; proposal of € 0.20 to the AGM
### Annual Accounts Financial Year 2019

#### Income statement

<table>
<thead>
<tr>
<th>Income Statement (€ million)</th>
<th>FY 2019</th>
<th>FY 2018</th>
<th>Δ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>8,547.3</td>
<td>9,278.2</td>
<td>-730.9</td>
</tr>
<tr>
<td>Increase/decrease in finished goods and work in process/other own work capitalized</td>
<td>-8.2</td>
<td>161.6</td>
<td>-169.8</td>
</tr>
<tr>
<td></td>
<td>8,539.1</td>
<td>9,439.8</td>
<td>-900.7</td>
</tr>
<tr>
<td>Other operating income</td>
<td>285.6</td>
<td>256.8</td>
<td>28.8</td>
</tr>
<tr>
<td>Cost of materials</td>
<td>5,602.6</td>
<td>6,131.4</td>
<td>-528.8</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>1,815.7</td>
<td>1,739.5</td>
<td>76.2</td>
</tr>
<tr>
<td>Amortization and depreciation of intangible assets and property, plant and equipment</td>
<td>541.0</td>
<td>384.0</td>
<td>157.0</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>1,157.8</td>
<td>1,099.9</td>
<td>57.8</td>
</tr>
<tr>
<td>Result from impairment losses an reversal of impairment losses of financial assets</td>
<td>-25.1</td>
<td>-1.9</td>
<td>-23.3</td>
</tr>
<tr>
<td>Income from shareholdings</td>
<td>2.0</td>
<td>2.4</td>
<td>-0.4</td>
</tr>
<tr>
<td>Result from investments accounted for using the equity method</td>
<td>125.2</td>
<td>74.7</td>
<td>50.5</td>
</tr>
<tr>
<td>Finance income</td>
<td>17.5</td>
<td>15.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Finance expenses</td>
<td>80.4</td>
<td>84.6</td>
<td>-4.2</td>
</tr>
<tr>
<td>Earnings before taxes (EBT)</td>
<td>-253.3</td>
<td>347.3</td>
<td>-600.6</td>
</tr>
<tr>
<td>Income tax</td>
<td>-16.0</td>
<td>69.5</td>
<td>-85.5</td>
</tr>
<tr>
<td>Consolidated result</td>
<td>-237.3</td>
<td>277.7</td>
<td>-515.0</td>
</tr>
</tbody>
</table>
Comparison earnings – forecast

€ million

Earnings before special effects within original guidance of € 125-175 million EBT from February 2019
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Balance sheet

€ million

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment and other non-current assets</td>
<td>8,757</td>
<td>8,618</td>
</tr>
<tr>
<td>Inventories</td>
<td>3,836</td>
<td>4,099</td>
</tr>
<tr>
<td>Cash and securities</td>
<td>2,328</td>
<td>2,248</td>
</tr>
<tr>
<td>Other current assets</td>
<td>623</td>
<td>751</td>
</tr>
<tr>
<td></td>
<td>1,971</td>
<td>1,519</td>
</tr>
<tr>
<td>Inventories</td>
<td>2,328</td>
<td>2,248</td>
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<td>1,971</td>
<td>1,519</td>
</tr>
</tbody>
</table>

Equity ratio: 34%

Sound financial basis
Annual Accounts Financial Year 2019

Dividend proposal

Financial year 2019
Proposal: € 0.20 dividend per share

Continuous dividend payment since going public
Market Situation

Order intake of steel consumers

Order intake of selected branches of the German industrial sector (Jan. 2018 = 100)

2019: Weaker order intake of some major steel consuming industries

Source: Bundesbank, last figure from December 2019
Steel prices consolidate from mid 2018 until recently while iron ore prices surged in the first half of 2019; improvements of the last few weeks will only be reflected in the results with a time delay.

Source: Platts
Market Situation

EU steel imports

Import situation EU (in 1,000t/month)

- Imports marked a record level in 2018
- Declining demand in the EU steel market is only reflected in the imports from autumn 2019 onwards
- Initiated review of the Safeguards must be used to adapt the measures to the current economic situations and to reestablish an effective protective function

Slight decrease of imports due to the weakening economy and eroding steel prices

Source: Eurofer
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Update programs of measures

FitStructure 2.0 (incl. remaining effects of FitStructure)

€ million earnings improvement potential

- 2020: ~50
- 2021: ~50
- 2022: ~80
- 2023: ~60

SZAG 2021 Growth Programs

€ million additional profit contribution

- 2020: ~45
- 2021: ~60
- 2022 ff.: ~50

All in all more than € 350 million in additional effects from optimization programs planned
Steel and tubes producing business units are in the focus of FitStructure 2.0.
Ilsenburger Grobblech: New heat treatment line
- Optimization of the product portfolio
- Expansion of the market position and volume expansion for higher value grade segments such as high strength and wear resistant, water tempered steel
- Commissioning: 2021
- **Current status: Preparation for the installment of the plant**

Salzgitter Flachstahl: Hot-Dip Galvanizing Line 3
- Qualitative growth in the strip steel business
- Reinforcement of the market position in the automotive segment
- Strengthening of the premium segment for auto customers
- Commissioning: 2022
- **Current status: Construction of the building**

**Sustainable strategy:**
Realization of major investment projects also in less comfortable phases!
Initial situation: Is the dimension of the challenge underestimated?

Commission President v. d. Leyen: Proposal for EU climate law - To zero until 2050
The EU Commission presented the first joint climate law of the union on Wednesday, March 4, 2020. It regulates that the EU has to be climate neutral by 2050. “…EU to be the first climate neutral continent by 2050.”, says von der Leyen. “With this climate law we put our political commitment now also on a legal base.” All sectors are obliged to climate neutrality. (spiegel.de, March 4, 2020)

Federal Chancellor Angela Merkel - World Economic Forum in Davos on January 23, 2020
„Green Deal“ presented. … these are, of course, transformations of gigantic, historic proportions. This transformation essentially means turning our backs on our entire way of doing business and our way of life, to which we have become accustomed in the industrial age, over the next 30 years – we have already taken the first steps – and transitioning to completely new forms of value creation, which, of course, also include industrial production … (bundeskanzlerin.de)

AGORA Energiewende - Dr. Patrik Graichen: Interview with WELT from January 10, 2020
…industry is much further than the policy makers, … Politicians seem often to believe that decisions for the time after 2030 can be made by the next government … In the case of steel, this does not work and that is a problem. Unfortunately I do not sense that policy makers realize the scale of the challenge and communicate it to the public. This task is a project size of “reunification” or “reconstruction after the war” magnitude …

The targets are clear – the political framework conditions are anything but!
Strategy

Consequence: CO₂ emission allowances are continuously cut back

- The price for CO₂ emission allowances has surged since 2018
- The cost of energy intensive industrial production increases permanently

Price forecast CO₂ allowances

- The price for CO₂ emission allowances has surged since 2018
- The cost of energy intensive industrial production increases permanently

Source: ICIS, own calculations
The Salzgitter Group has two safety nets:

- CO₂ emission allowances for the Fourth Trading Period purchased as a precaution
- SALCOS® – technological concept for CO₂-reduced steel production
Technological resolution approach: **SAlzgitter Low CO₂ Steelmaking - SALCOS**

**Strategy**

Flexible use of renewable energy

Substitution of carbon with (electrolytically generated) **Hydrogen** as reduction agent for the iron production → **Indirect** use of electrical energy

- **SALCOS „Stage I“**: -26% CO₂; (-2 mt CO₂/a)

- Flexible use of renewable energy

**Downstream processes unchanged**

**Electric steel production (EAF) in the primary steel production** → **Direct** use of electrical energy

«**Carbon Direct Avoidance**» = Gradual electrification of the primary steel production …
Strategy

Technological resolution approach: **SALzgitter Low CO\textsubscript{2} Steelmaking - SALCOS**

Flexible use of renewable energy

Substitution of carbon with (electrolytically generated)

**Hydrogen** as reduction agent for the iron production

→ **Indirect** use of electrical energy

SALCOS „Stage III“:
-95% CO\textsubscript{2}; (-7.6 mt CO\textsubscript{2}/a)

Flexible use of renewable energy

Downstream processes unchanged

Electric steel production (EAF) in the primary steel production

→ **Direct** use of electrical energy

...up to the complete transformation to the hydrogen-based DRP/EAF route in 2050.
Arguments for

1. Biggest CO₂ reduction potential per MWh of renewable energies used in a processual as well as industry and sector comparison
2. The Salzgitter AG has the leading concept. The required individual technical components are available in the market
3. Lower Saxony has the best preconditions to be the No. 1 transformation state in Germany: high level of electricity production from renewable sources and required hydrogen infrastructure
4. No relocation of production, no carbon leakage
5. Economical, ecological and social concept
6. Integration with local industrial sectors possible (among others automotive); important component of a holistic CO₂-free product lifecycle

Green steel with SALCOS® – sensible and realizable!
You can see a tremendous difference here.

For the environment.

Different perspectives:

**Customer:** the CO₂-reduced product the same technological properties as conventionally produced steel.

→ No incentive to pay higher prices!

**Producer:** the CO₂-reduced product results in a production cost increase of 30 to 60%* and necessitates new investments of n-billion Euro.

(Salzgitter AG approx. 3 billion Euro until 2050)

**Green Steel** requires public start-up funding and political incentives!

* Study AGORA Energiewende "Climate-neutral Industry"

With the smallest required investment, the lowest incremental operating costs and potential for rapid implementation the most favorable offer to policymakers!
Cooperation: close ties to NGOs and think tanks

Salzgitter AG joined the “Stiftung 2° - Deutsche Unternehmer für Klimaschutz” as a sponsoring company.

The Stiftung 2° has a cross-industry foundation and is therefore from the perspective of the Group very suitable to investigate the pending transformation task in the economy from different perspectives and to promote joint approaches and initiatives.

Participation in the Study “Climate-neutral Industry” of “AGORA Energiewende” und „Wuppertal Institute“

Comprehensive comparison of technical resolution approaches for energy intensive sectors discussion of the necessary political instruments.

Interview WELT 10.01.20
GREEN STEEL
“A climate levy for customers is imaginable”

Active participation in the transformation to a low-CO₂ business location
Communication: diverse activities on all levels

Strong interest and explicitly positive feedback!
**Strategy**

**Realization: first steps were already implemented**

World's first steam electrolysis on MW scale at Salzgitter Flachstahl as from 2020

**Wind-H2 – sector integration**

Production of electrical energy via wind power and electrolytic hydrogen on the works premises

**MACOR: SALCOS-feasibility study**

- Analysis of framework conditions
- Numerical modelling of melt shop and direct reduction plant
- Results of cost-effectiveness analysis by 2021
Strategy

Realization: two additional H₂ projects in 2020

Development of know-how for the production of hydrogen with electricity from renewable energies. Supply of the annealing plant:
- 7 wind power plant with 30 MW
- 1 PEM Electrolysis with 2.5 MW

Partner:
- avacon
- Linde

Start: November 2020

www.windH2.de


Partner:
- sunfire
- PAUL WURTH
- CEACER
- tenova

Start: August 2020

www.green-industrial-hydrogen.com
Together with policymakers we can make the switch!

Bis zu 95% weniger CO₂ in der Stahlerzeugung? Wir sind bereit.


Alles zum Projekt SALCOS® finden Sie unter salcos.salzgitter-ag.com
ifobusiness climate February 2020

Outlook 2020:

ifo Business Climate Index rises marginally
The ifo Business Climate Index rose to 96.1 points in February. Although companies assessed their current situation as a little worse, they are less pessimistic about the next six months.
[ifo-Institute, February 24, 2020]

Growth slowed markedly in 2019 – uncertain outlook for 2020
• anti-dumping quotas based on record levels fail in delivering the desired effect across the board
• stabilizing tendencies in the European steel markets should be reflected in earnings increasing gradually over the course of the year

• market situation and demand will remain tight
• consistently high import volumes in the plate segment

• LD pipe mills: unsatisfactory capacity utilization in GER, US much better
• medium line pipes: slight increase in volumes accompanied by lower selling prices
• precision tubes: continuously tight market
• stainless tubes: positive development

• prospects in international trading will remain under pressure due to restrictive trading policies
• expected margin increase in stockholding steel trade due to stabilizing selling prices

• KHS Group: further increase of profitability and moderate growth of shipments and sales
• KDE and KDS: decreasing earnings due to overall muted market forecasts

Guidance for sales and earnings of the business units

• decline in sales
• considerably reduced pre-tax loss depending on the strength and stability of the trend reversal
• sales virtually stable
• reduced pre-tax loss expected

• sales at around the same level
• significantly increased, marginally positive pre-tax result

• growth in volumes and sales
• noticeably higher, positive pre-tax result

• almost stable sales
• slightly higher pre-tax profit
The Salzgitter Group anticipates for the financial year 2020:

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

Legal Note and other remarks

We make explicit reference to the fact that imponderables, including changes in the cost of raw materials, precious metal prices and exchange rates, along with global trade policy measures and their possible impact may still exert a considerable influence over the course of the financial year.

To the extent that this presentation contains statements oriented towards or related to the future, such statements are based on our current state of knowledge and the estimates based on such knowledge made by the management of Salzgitter AG. However, as is the case with any forecasts or prognosis, such statements are also subject to uncertainties and risks. Notwithstanding prevailing statutory provisions and capital market law in particular, we are not obligated to update this data. In particular, we shall not assume liability of any kind for knowledge and statements, as well as any acts resulting on the basis of such knowledge or statements that emanate directly or indirectly from the analysis of the data, content and correlations of this document. The information and data made available do not represent an encouragement or invitation to buy, sell or conduct any other type of trade in securities. Salzgitter AG shall neither assume liability for direct nor indirect damages, including lost profits, arising as a result of the utilization of the information or data contained in this document.

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