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Non-Financial Report 2020



SALZGITTERAG
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.

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About this report

We have based our reporting in the separate Non-Financial Report of the Salzgitter Group (Non-Financial Group Report) on the German Sustainability Code (Deutscher Nachhaltigkeitskodex – DNK). We apply the code to all information assessed as being of material importance that we have determined, firstly by means of an internal materiality analysis, and secondly through dialog with stakeholders, on:

- environmental issues,
- matters relating to employees and society,
- regard for human rights,
- combating corruption and bribery.

The Non-Financial Report of the Salzgitter Group for the 2020 financial year has been vetted by the company's Supervisory Board and audited on behalf of the Supervisory Board by the accounting firm of KPMG AG, with due regard for the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information", published by the International Auditing and Assurance Standards Board (IAASB) for the purpose of reaching limited assurance engagement with respect to the information required by law under Sections 289b, 315b in conjunction with 289c to 289e German Commercial Code (Handelsgesetzbuch – HGB).

As a general rule, the statements contained in the present report apply to the group of consolidated entities used in the consolidated accounts. Any variances from this principle are explained at the appropriate points.

Business Model of Salzgitter AG

A modern company with a long tradition

The companies in the Salzgitter Group have stood for the innovative, sustainable manufacture of steel products and high-tech goods for more than 150 years. The idea of smelting ore from Lower Saxony has spawned an international company that includes world-famous brands such as Peiner Träger, Mannesmann and KHS. Today, around 25,000 employees work to provide innovative and both financially and ecologically sustainable products of high quality to customers from a wide variety of sectors. Our core expertise lies in the production of rolled steel and tube products as well as their further processing, and in trading globally with such products. We also operate successfully in building custom machines and systems.

We are represented around the world and well positioned

The Salzgitter Group comprises over 150 subsidiaries and affiliated companies around the world. We are represented across the globe through our international locations, which demonstrates our geographical proximity to our customers.

Managed by Salzgitter AG as the holding company, the Group is divided into five business units: Strip Steel, Plate / Section Steel, Mannesmann, Trading and Technology. It also has stakes in further industrial companies, among others in Europe's leading copper producer Aurubis AG, as well as numerous service companies not assigned to any business unit.

The Strip Steel Business Unit produces, processes and distributes strip steel in a wide variety of metallurgical grades and dimensions. To do so, we operate a modern, environmentally friendly, integrated steel mill at our Salzgitter site. In 2020, it produced round about 4 million tons of crude steel and more than 3 million tons of rolled steel. The most important feed materials are iron ore, coke, scrap and alloying agents. Most of the high-quality products are processed by the automotive sector. The pipe sector and industry (e.g. manufacturers of household appliances, mechanical engineering industry) also feature among the most important customer segments.

As well as two plate mills, the Plate / Section Steel Business Unit operates an electric steel mill in which around 1 million tons of crude steel are smelted from scrap steel per year. This makes it a significant part of the materials cycle and its products demonstrate that steel can be recycled with no loss of quality. Plate is traditionally used in the metalworking, shipbuilding and mechanical engineering industries. Our mills have also established themselves in recent years as the preferred supplier of steel for the wind turbine industry. Our structural steel is used in the construction sector.

The companies in the Salzgitter Group making steel tubes are combined in the Mannesmann Business Unit. Three product segments offer a wide range of tube and pipe products for diverse applications from fuel injection systems, power plants and boilers right through to pipelines. In addition, the Mannesmann Business Unit has access to its own crude steel supply via the 30% shareholding Hüttenwerke Krupp Mannesmann GmbH (HKM). HKM produces around 4 million tons of steel per year.

Most of the global demand for steel is accounted for by small and medium-sized customers who are not able to process the minimum order quantities for direct sale from steel mills. Such companies use the steel trade for their purchases. It makes sense to operate one's own trading activities in order to stay in direct contact with the majority of one's end users. These activities are concentrated in the Trading Business Unit.

The Technology Business Unit comprises three long-standing manufacturers of specialized machines that all rank among the leading providers in their respective markets. The products made by these companies embody our core values of innovation, quality and sustainability.

The main external factors affecting the growth of the Salzgitter Group's business are portrayed in Section "Opportunities and Risk Report", "Guidance" in the management report forming part of the annual report.

Strategy

Strategic analysis and actions

The coronavirus pandemic presented our company with major challenges this year: a massive economic collapse, a temporary decline in demand among entire customer groups, a news cycle constantly overtaken by events, and the need to protect the health of employees as effectively as possible. We put together an extensive package of measures within a very short space of time to cushion the effects on earnings as well as liquidity. These measures included temporarily scaling back production volumes at many facilities, introducing short-time working, several hundred managers in Germany and abroad taking a pay cut, cancelling non-essential maintenance and repair work, stringent working capital management as well as a prudent approach to new investment.

Securing the future and further development of our Group remains at the heart of our entrepreneurial responsibility – for our shareholders, our employees, our places of business and society in which we are firmly embedded as a company. SZAG subscribes to a responsible corporate policy aimed at growing the value of the company. The management of our Group is based on values, and its strategy is designed for the long term. All decisions pursue the aim of preserving the intrinsic value of the Group and continually raising its performance. At the same time, we do not lose sight of our social responsibilities. Strengthening our production facilities with due regard for the statutory and economic framework conditions forms the foundation of a good, target-oriented working relationship with our stakeholders. We are aware that from time to time conflicts of interest may arise between or even within individual stakeholders. The preservation of our competitiveness and the profitability of our entrepreneurial endeavors are essential prerequisites in order to act sustainably and responsibly in the sphere of Corporate Social Responsibility (CSR). In the long run, these objectives can only be achieved if sustainability criteria for mankind and the environment do not end at the factory gate or national borders, but all market players act on the same or at least similar competitive terms. As has been demonstrated once again, especially by the recent discussions, for instance about steel imports to the EU, amendments to emissions trading from 2021 or the further specification of the next steps of the European Green New Deal in 2020, production with the highest environmental standards can only be sustainably guaranteed if the economic viability and preservation of jobs can be ensured in our own company. We recognize that European and German views of CSR topics are not given the same weight by any global yardstick. As an internationally active Group, we must exercise cultural tolerance accordingly. We understand full well that global issues in particular, such as climate protection or respect for human rights, ultimately require a global framework in order to actively and productively shape the future. As a company, we can only play a very limited role in influencing any such framework; it is in the nature of things that ultimately the onus lies with the politicians.

Our business activities benefit primarily from our own performance. At the same time, we must acknowledge that a reliable social framework, fair collaboration with partners based on trust and our relationship with our natural surroundings are of considerable importance. This obliges all employees of the Salzgitter Group to observe all laws anywhere and at any time when acting on behalf of the company, to respect generally accepted basic values when dealing with other people and other companies, to maintain fairness in our actions and to preserve nature to the best of our ability – or to put it in a nutshell: to act responsibly at all times. This is the starting point for the Salzgitter Group's Code of Conduct dated August 2015, which also declares the basic principles listed in the United Nations Global Compact to be the basis for actions taken in the company. Further information on the Code of Conduct is to be found both in Chapter "Process Management", "Rules and Processes", and on our homepage. CSR is firmly established at SZAG. A corresponding working group has been set up and located at Group level. It comprises the responsible managers of the relevant technical departments, and it reports directly to the Executive Board. This enables us to ensure that all aspects regarded as correct and important are incorporated into the corresponding specifications for the various departments via Group directives, instructions and target agreements.

In addition, aspects such as environmental protection and occupational safety are components of target agreements with managers alongside financial indicators. For example, CSR-related targets – in areas such as energy efficiency or health and safety at work – are defined for variable components of remuneration.

However, we can only put CSR into practice successfully if all employees embrace the subject in the daily business of our Group companies. The fact that we are succeeding in this endeavor with our existing structures has now been confirmed by an external source. In 2020, SZAG was accepted into the Lower Saxony Alliance for Sustainability ↗ <https://www.nachhaltigkeitsallianz.de> as a participating company. The Alliance is a collaboration between the Federal State Government, business associations, trade unions and chambers of commerce of Lower Saxony. It pursues the goal of promoting sustainable growth in companies in order to strengthen Lower Saxony as a business location on a lasting basis. As a symbol of its organizational and operational achievements in the sphere of sustainability, SZAG as the parent company and all Group facilities in Lower Saxony are entitled – initially until 2025 – to sport the official slogan of the Lower Saxony Alliance, “Wir sind dabei” (We’re on board).

So far, the Salzgitter Group has not pursued an independent, and therefore potentially isolated, sustainability strategy. We prefer to govern aspects of relevance to the subject of sustainability by means of specific Group directives and other specifications with binding effect on the workforce. Examples to be mentioned here are the Group directives on environmental protection and Energy policy, Corporate Compliance as well as the Code of Conduct issued by the Executive Board. In addition, the project SALCOS® (Salzgitter Low CO₂ Steelmaking) is our concrete climate strategy for a sustainable, reduced-CO₂ steel production. Up-to-date information on SALCOS® as well as the opportunities and prerequisites associated with it can be found in this report in the chapters “Innovation and Product Management” and “Emissions impacting climate” and also at ↗ <https://salcos.salzgitter-ag.com>.

Materiality

Steel has been and still ranks as the number 1 construction material worldwide. It is an integral part of many industrial value chains – or even their starting point – and thereby contributes to the prosperity of those working in them.

At the same time, steel production and steel processing are necessarily associated with the consumption of relevant resources and energy, and particular attention must be paid to this aspect. A sharp eye must also be kept on working conditions in order to avoid any harmful effects for staff or areas surrounding production facilities.

Steel production and steel processing, together with associated activities, remain at the heart of the entrepreneurial value chain in the Salzgitter Group. We are therefore aware of our special responsibility for ensuring that our work is sparing on resources and energy efficient and for providing a high degree of workplace health and safety. With this in mind, priority is given to the Group’s steel-related activities as defined by the criterion of “materiality” in the environmental sphere, as these activities far outweigh all other Group operations as far as the use of resources, consumption of energy and emissions are concerned. For example, analysis of the Group’s total CO₂ emissions from operating its plants shows that around 90% is accounted for by the steel production of Salzgitter Flachstahl GmbH (SZFG) alone. This correlates above all with further air emissions as well as the consumption of resources and generation of waste. This report thus reveals any circumstances of material importance for obtaining a general understanding of the Salzgitter Group’s business operations in this context. The aim is to define the reporting framework and at the same time highlight significant information. The findings from an internal materiality analysis and the results of stakeholder interviews held in September / October 2018 basically support the accuracy of these previous ideas (see also Chapter “Process Management”, “Stakeholder participation”). In addition, this Non-Financial Report also presents further aspects not classified as material as defined by the CSR Directive Implementation Act, such as our explanations regarding community.

As far as employee matters are concerned, the following issues were also rated as material for the preparation of this year's Non-Financial Report: transparent and fair principles of remuneration on which we report in Chapter "Process Management", "Incentive Systems"; employee rights both with regard to information and the workforce's participation and also with respect to the inclusion of employee interests in decision-making processes, as well as the set of issues surrounding the development of junior staff, personnel growth and training and further education which we cover in Chapter "Society", "Qualifications". Moreover, we regard our comments on health and safety at work and health protection in the Chapter "Society", "Employee Rights" as material.

In addition, we voluntarily report on our human resources strategy with the aid of which we respond to the challenges of demographic changes and that we portray on the basis of selected areas of our project "GO – The Generation Offensive 2025".

In addition, we report more comprehensively on the topics of human rights, political dialog as well as conduct compliant with laws and directives.

Objectives

Salzgitter AG (SZAG) subscribes to qualitative and quantitative sustainability targets that can be measured over time. However, due to the complexity of our production systems and the products manufactured in them, it is usually not useful to attach absolute or relative targets across the group to certain aspects. This is evidenced by the fact that we do not run any groupwide management systems, e.g. in accordance with DIN EN ISO 14001 (environment) or DIN EN ISO 50001 (energy) standards, but implement them at Group company level depending on requirements. We will therefore focus below on individual targets in relevant sustainability areas:

The environment/energy

- CO₂ reduction target 30% by 2030
 With regard to the sphere of action encompassed by our SALCOS®-project, our ambition in the Salzgitter Group is to reduce CO₂ emissions by 30% by 2030 (see also Chapter "The Environment", "Emissions impacting climate").
- Energy savings in the Salzgitter Group
 Now that the target of SZAG's energy efficiency network to save 100,000 MWh of energy across the Group in the period from August 2016 to August 2019 has been reached, 2020 saw the registration of a follow-up network which will run for two years. The potential for energy savings across the Group will therefore continue to be identified and realized. Buoyed by our positive experience from the first network, we have raised the annual savings target to 105,000 MWh.
- Hydrogen Campus Salzgitter
 In September 2020, Salzgitter AG signed a collaboration agreement with its partners, the town of Salzgitter, Projektbüro Südostniedersachsen represented by the Office for regional State Development, the regional Network Alliance for the region, MAN Energy Solutions, Bosch, Alstom, WEVG Salzgitter and the Fraunhofer Institute for Surface Engineering and Thin Films, in order to set up a Salzgitter hydrogen campus. Its aim is to promote the subject of hydrogen in the region by implementing specific, joint projects already underway and establishing a suitable legal entity in 2021.
- Heat treatment line investment project by Ilseburger Grobblech GmbH (ILG)
 Thanks to the new construction started in 2018, 200,000 tons of plate steel are to be refined in energy-efficient processes from 2021 onwards. The use of modern technology prevents significant loss of exhaust heat – by comparison with previous technology – and allows substantial reduction in the volume of material transports by rail to be achieved by moving the heat treatment line from Salzgitter to Ilseburg.

- Erection of electrolyzers to generate hydrogen at Salzgitter Flachstahl GmbH (SZFG)
The construction of a 2.5-megawatt PEM electrolysis plant (PEM = Proton Exchange Membrane) will complete an important step toward achieving hydrogen-based steel production at the Salzgitter facility. The plant will go into operation in the first quarter of 2021. Together with the high-temperature electrolysis plant with a nominal output of 720 kW_{el} (kilowatts electric), launched at the end of 2020 as part of the innovation project GrInHy2.0, both plants are expected to be sufficient to meet the entire current hydrogen requirement for SZFG's annealing processes. Today, this requirement is still produced elsewhere from natural gas and transported to Salzgitter by truck.
- Software-based management system
The transparent design of internal and cross-company interfaces with SZFG's established management system which commenced in 2019 has already brought success and led to the effective exploitation of synergies. Implementation in Group companies such as Peiner Träger GmbH, Ilsenburger Grobblech GmbH, Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter Europlatinen GmbH, Salzgitter Mannesmann Forschung GmbH (Salzgitter facility) and TELCAT MULTICOM GmbH is to continue in 2021.
- Integrated transfer of employer's obligations
In 2019, in a joint project, the occupational safety department and the project and environmental management of SZFG as well as Salzgitter AG's legal department developed and successfully tested a concept to harmonize and optimize the processes in transferring the employer's obligations regarding industrial health and safety at work and environmental protection for managers. It was not possible to implement the scheduled rollout in Group companies in 2020 due to the coronavirus pandemic. As soon as conditions permit, a start will be made on conducting the requisite seminars in 2021.

Work/social issues

- Corporate mission statement "YOUNITED"
Groupwide refinement of the six values behind the corporate mission statement "YOUNITED" within the workforce on the basis of the "YOUNITED 2.0" initiative.
- Groupwide talent pool
Identification of talent across the Group with the objective of increasing the Group's attractiveness as an employer by taking into account groupwide career prospects.
- Systematic succession planning
Securing systematic succession planning to guarantee the provision of the necessary personnel resources in the medium and long term.
- Further training
Constant intensification of the further education of our staff to preserve and strengthen their employability in the face of technological change.
- Occupational safety
Reduction of absenteeism rates through measures and campaigns on occupational health and safety.

Depth of the value chain

Quality assurance for our products begins with the choice of suppliers for primary and raw materials. Lasting supplier relationships are of particular importance to Salzgitter AG due to its positioning in its markets, and procurement is therefore an essential part of our risk management. To ensure the demand-based supply of all Group companies, we aim for long-term partnerships with key suppliers. Cooperation based on trust, flexibility and reliability carry great weight here. When analyzing supply chains, the emphasis naturally lies on steel production at the Salzgitter and Peine facilities due to the large throughput of material. In the 2020 financial year, the Group's material expenditure stood at approx. € 4.6 billion with external sales of around € 7.1 billion. A major part of that expenditure, amounting to 24.2%, was accounted for by the purchase of raw materials and energy for steel production at Salzgitter Flachstahl GmbH (SZFG) and Peiner Träger GmbH alone. Procurement is conducted via SZFG's Purchasing Department, paying strict attention to all the principles of an integrated management system in accordance with current standards.

As already shown in our non-financial reports of preceding years, environmental effects in the upstream supply chain are of particular significance for the metal-producing and metal-processing industry. As bulk raw materials – such as iron ore, coal and bought-in coke – are almost exclusively imported, we pay attention in this regard to our upstream supply chain.

As the center of excellence for various Group companies, the Purchasing Department at SZFG assesses significant long-term suppliers of all products with relevance to quality and environmental protection on the basis of various criteria every year. Besides the standardized supplier evaluation, SZFG developed a separate questionnaire in 2015 to cover the most important sustainability issues that is closely based on the "Sustainability for Automotive Sector Suppliers" self-disclosure form used in the automotive industry. This form was first sent in 2016 to all major long-term suppliers of different raw materials, and it includes subject areas such as "Social sustainability" and "Compliance". Initial analysis showed that all long-term suppliers from the mining (iron ore and coal suppliers) and chemical industries have met SZFG's targets. The range of suppliers to be assessed on sustainability criteria is to be successively expanded in the coming years.

Process Management

Responsibility

The Group's Executive Board assumes the responsibility for sustainability. Duties within the Executive Board are divided into the domains of "CEO", "Finance" and "Human Resources". With the support of the technical departments set up in their remits, members of the Executive Board strive to ensure that work is conducted in a sustainable fashion in their disciplines.

The Group Management Board represents the Group's extended management body and is made up of one representative from each of the Group's five business units as well as members of the Executive Board. These representatives promote economically, socially and ecologically sustainable management in the individual business units and operating Group companies assigned to their particular business unit.

Rules and processes

The aspiration of the Salzgitter Group is to remain one of the best steel and technology companies, also in the future. Employees and managers are working together to achieve this objective. This was one of the reasons for drawing up the mission statement "YOUNITED" for the Group with the following three elements:

- Our aims – they describe the long-term strategy.
- Our pathways – they show the specific procedures for achieving our aims.
- Our values – they form the foundation for the way we think and act.

Further details on that can be found in Chapter "Society" "Employee rights", section "Corporate mission statement YOUNITED".

The Executive Board has defined principles in its Code of Conduct "Acting responsibly" and, in the process, specified binding guidelines for each individual's work. This highlights protection of the environment and sustainable management as follows:

"We attach high value to protecting the environment in all our actions. We minimize emissions and the use of energy within the scope of what is economically and competitively justifiable. When we develop new products and new production processes, we endeavor to keep the environmental impact as low as technically and economically possible. Sustainable management is one of our guiding principles. The long-term success of the company is at the forefront of all our activities. Every employee must be aware of their responsibility for protecting the environment towards their colleagues, customers and shareholders and as part of society. We pay particular attention to using resources efficiently and thereby conserving resources in view of the finite nature of many raw materials."

In a Group guideline, “Environmental protection and Energy policy”, the Executive Board has declared protection of the environment to be a central management assignment. It has drawn up “Environmental and Energy guidelines” which “are to be seen as principles for action defining aims and methods” and which state among other things:

“Protection of the environment, the conservation of natural resources and a frugal approach to energy constitute important corporate goals of Salzgitter AG. The observance of current laws and requirements is self-evident for us. Our understanding of responsible protection of the environment and resources does not end with the observance of statutory regulations but is also an integral part of our entrepreneurial conduct. Systems and production processes are subject to constant review and continuously improved.”

To ensure that strategic assignments are fulfilled in this regard, a central Department for Environmental Protection and Energy Policy has been set up. The main operating Group companies also maintain specialist departments for environmental protection.

Monitoring

To ensure that the company prevails against the competition on a lasting, sustainable basis, targets are set with respect to a series of financial performance indicators for each Group company as part of a rolling three-year plan, and there is a regular monitoring process in place to establish to what extent they have been achieved. The reliability, comparability and consistency of the data are ensured by centrally specified definitions and other measures serving the purpose of standardization.

In addition, technical performance indicators such as the output and availability of production systems, or rates of complaints are regularly recorded in Group companies, compared with target figures, analyzed and used for management decisions.

Accidents at work in Germany are recorded and accident frequency rates calculated in order to monitor occupational safety over the long term. The average number of accidents at work leading to days off work per employee (work-related accident - per person rate) in Group companies throughout the world is treated as a performance indicator. The target is to lower the rate by comparison with the previous year. As far as staff health is concerned, absenteeism rates are reported on a regular basis and any anomalies give rise to further inquiries. You can find information on occupational health management in the Section “Society”, “Equal opportunities”. A further goal is to sustainably intensify the further training of employees. In this case, the participation rate serves as the performance indicator. The target is to increase it steadily from year to year.

Incentive systems

Acting entrepreneurially in unison is a success formula of Salzgitter AG (SZAG). In the process, we rely on committed employees to whom we offer an attractive, respectful working environment. One important condition is a transparent and fair remuneration policy consistent with economic growth. This is guaranteed and supported by means of Group framework specifications for managers and the application of sector-specific collective agreements which preserve the competitiveness of the companies. In 2020, a total of 95% of our core workforce in Germany were working in companies subject to a collective agreement. Due to the macroeconomic effects of the coronavirus pandemic, short-time work was introduced in large parts of our Group this year. On the basis of a groupwide works agreement on short-time work, Group companies paid top-up contributions to employees affected, thereby mitigating the associated loss of income. When employing temporary workers we observe the legal framework specifications and require the temp work employer to provide wage supplements to the collective pay schemes of the temporary employment sector in accordance with sector-specific collective bargaining agreements, or to provide compensation on the level comparable to in-house employees, respectively (Equal Pay).

A collective Group agreement on profit-sharing in the Salzgitter Group governs the participation of our workforce in the success of the company for the majority of our companies within Germany. Profit shares are assessed on the basis of the Salzgitter Group's pre-tax earnings as well as the ROCE targets (ROCE = Return on Capital Employed) for Group companies which are defined annually by the Executive Board. If a Group minimum earnings target is met, all employees receive a basic bonus topped up in successful companies by an additional company component.

The variable remuneration of our employees paid at rates above the collective pay scale is also subject to standard Group rules in order to guarantee comprehensive fairness and transparency in the payment structure. Members of the Executive Board, general managers and senior executives have a high variable share in their remuneration package via which the financial results of the Group, the business unit and the relevant company as well as the individual performance of the manager are reflected in the calculation. At the beginning of the new financial year, SZAG's Executive Board adopts the targets for SZAG and its Group companies. These are discussed in subsequent interviews with the general managers and in a top-down process, they form the basis for target agreements for all employees participating in the variable remuneration system. The resulting cascade of information ensures that the Group targets defined are implemented in specific assignments with the degree to which the target is met having a direct impact on the level of variable remuneration or bonus. In this way, an employee's contribution towards the overall financial results is rewarded as is their own individual performance. The Group's Executive Board can specify results-based, and equally performance or conduct-related targets to be applied in the companies. As we are convinced that non-financial targets also contribute towards the long-term success of the company, agreements with our managers reflect not only key financial indicators but also ecological and social ones such as reducing accident figures, intensifying the further education of our staff or the sparing use of resources.

To reinforce the incentive of achieving sustainable company growth for members of the Executive Board, their variable remuneration is partly dependent on achieving targets over a performance period covering several years and the future growth of the share price.

A detailed explanation of the current remuneration system for the Executive and Supervisory boards can be found in our management report forming part of the annual report in Chapter "Company and Organization", "Management and Control".

Our aim is for minimum standards to be observed for salaries, and payments to be fairly based on performance. SZAG considers the indicator demanded in SRS-102-38 as not meaningful here with regard to the fairness of salaries. As the business activities in the Salzgitter Group are heavily diversified, a purely relative value – such as the ratio of the annual remuneration of the highest paid employee to the median of the total annual remuneration of all employees (SRS-102-38) – does not adequately reflect this state of affairs.

Stakeholder participation

Openness and transparency towards our partners form part of our guiding principles. From the outset, we have regarded dialog with stakeholders as a significant factor in the long-term success of the company. Such dialog acts as a driving force and helps us to identify opportunities as well as risks at an early stage and take them into account in the way we conduct our business. Special open days for customers on subjects relevant to sustainability, dialog with our neighboring communities and analysts' conferences are just a few examples of the events we stage to understand the viewpoints and needs of internal and external stakeholders and to integrate them into our own actions. Our commitment to the regional network "Allianz für die Region" at the Salzgitter location constitutes a further example. The alliance pools resources from political and administrative circles, industry and science, thereby establishing conditions vital for a strong region. In joint projects and programs, the spotlight falls on the spheres of action represented by the recruitment of skilled workers, mobility, regional marketing as well as business development.

We conducted two extensive, detailed stakeholder dialog events as early as 2009 with the aim of identifying the aspects of corporate responsibility with relevance to the Salzgitter Group. In the course of the events, internal and external experts, among them representatives from science, politics and the media, the automotive and finance sectors, a firm of auditors and an environmental research institute as well as union and works council members, discussed and assessed a wide range of issues. The outcome was a ranking which reflected the internal and external expectations placed on the reporting of Salzgitter AG on the subject of corporate responsibility. This extensive preliminary work and the results obtained from it were referenced in the first Non-Financial Report. To add to these findings and update them, we conducted further stakeholder interviews with representatives of different groupings in September/October 2018 – as announced. They included a fund manager, customers, suppliers, regional and national politicians, representatives of associations, an environmental NGO, employee representatives as well as the regional press. The results from these interviews basically confirmed the substantive reporting priorities we had previously set. As the Salzgitter Group did not undergo any significant changes by comparison with 2019 with regard to production plants and products, we have relied on the previous results of our talks with stakeholders for the 2020 Non-Financial Report.

Innovation and product management

Sustainability as the basis for innovative products

Sustainability is an important aspect of research and development in the Salzgitter Group. For example, the standard we set ourselves already when selecting pre-development and development projects is that they must make economic and ecological sense. Numerous projects contain very specifically sustainable applications such as for lightweight automotive construction or systems for the generation of renewable energy. We accept the challenge of developing sustainable products and process solutions along the entire value chain. This will secure the long-term success of our company, and entails resource-efficient steel production, the optimized use of energy and the development of innovative materials, e.g. for automotive construction or towers for wind farms. We are pursuing approaches for reducing CO₂ in steel production and throwing our weight behind renewable energies.

The following examples from different business units illuminate the level of importance accorded to the subject of sustainability in our company:

Life Cycle Assessment (LCA) – eco-auditing of steel products

One central challenge consists in protecting the environment and making sustainable use of resources. The results of eco-audits, the so-called Life Cycle Assessments (LCA), serve as an indicator of the environmental impact of products. The steel production process of Salzgitter Flachstahl GmbH (SZFG) has been mapped in terms of its life cycle assessment. The model comprises the manufacture of the main products (e.g. slab, hot strip, cold strip), and shows the advantages of steel in terms of its eco balance sheet over its entire life cycle. Specific components from SZFG products can also be assessed with the result that customers can also be expertly advised in this regard when selecting materials.

Resource-efficient StronSal® coating for the automotive industry

The resource-efficient zinc-magnesium coating StronSal® for automotive applications is making a significant contribution towards saving resources as a coil-coated material. Due to its significantly improved corrosion protection properties, the thickness of the zinc layer has been cut in half for the same level of corrosion protection, which leads to considerable weight and resource savings. Alternatively, the life cycles of components can be extended accordingly due to the improved corrosion protection. Besides the automotive industry, these coatings are used predominantly in construction.

Support for the efficient expansion of offshore and onshore capacity for the generation and supply of renewable energy

The offshore wind farm segment is developing new technologies to protect against corrosion and wear and tear which are certain to extend the life of steel structures. Materials saved conserve resources. In the wind power sector, Salzgitter AG (SZAG) has developed an innovative system solution for foundations with the development of the onshore K-Tower which facilitates the sustainable generation of energy on an ever larger scale. The novel support structure consists of standard components (tubes and sections) for onshore towers. This results in a reduction in material and costs, while also enabling old wind farms to be repowered. Here, old foundations can be viably upgraded and reused at an affordable cost and to the benefit of the environment.

Sustainable filling of still water under ultra-clean conditions

KHS GmbH, part of SZAG, has developed a filling machine for filling water in PET bottles under ultra-clean conditions that significantly reduces both the consumption of air and the use of cleaning agents. Further benefits of the Innofill PET NV filling system lie in its closed, hygienic design, low space requirement, low maintenance and the accompanying cost saving for customers.

“Beyond Juice”: first recyclable juice bottle made of 100% PET

The demand in the beverage industry and from consumers for packaging solutions which protect resources is growing. Anyone designing a container today must focus on the entire life cycle of a product. This is precisely the aspect that KHS takes as its starting point with its new “Beyond Juice” concept. It has developed the first completely recyclable juice bottle made from 100% recycled material, offering unique product protection and freshness thanks to its FreshSafe-PET® barrier solution. By combining its proven solutions, KHS is pursuing an interdisciplinary, holistic approach to the beverage industry’s efforts to achieve sustainability.

“Tethered Caps”: efficient solutions with added value

From July 2024, the caps of all PET drinks bottles with a volume of up to three liters in the EU must be firmly attached to the thread of the bottle. The “Tethered Caps” specification is part of the European Union’s Single-Use Plastics Directive. KHS is already providing its customers with comprehensive advice on appropriate conversion options, thus offering bespoke solutions in good time. All options along the value chain are offered, from a simple change of cap to working out the potential for eco-friendly processing of lighter bottles in the filling line. Such measures lead to long-term savings in resources and costs, thereby helping to promote a low CO₂ circular economy. For more information, please go to ↗ <https://www.khs.com/en/services/consulting/tethered-caps-find-legally-compliant-solutions-in-time>.

Our management of innovation, ideas and knowledge promotes innovative energy within the company. The framework is provided by an ingenious innovation process, professionally structured with corresponding interfaces with individual Group companies. The innovation process in central Group research is supported by an integrated management system comprising the aspects of quality, the environment and occupational safety.

The subject of sustainability is inherent in the innovation process. Potential development trends are also reflected in the sustainability concept, also as early as the “Analysis of Trends and Markets”. Sustainability is a cornerstone of the Group’s mission statement, particularly in terms of formulating strategy.

Future R&D priorities for the Group

Research and Development (R&D) for business units of the Salzgitter Group connected with steel is pooled in Salzgitter Mannesmann Forschung GmbH (SZMF). SZMF is closely networked with higher education institutions, research facilities and industrial partners through numerous domestic and international research projects. The resulting collaborations are preferred to buying in external know-how.

In all its business activities, SZAG is aware of its social responsibility with regard to their ecological and social impact. In addition, the environmental impact of our steel products is determined with the aid of life cycle assessments and further optimized. Besides classical life cycle assessments, Environmental Product Declarations are also produced for construction products, which gives users from the construction sector a tool with which to construct a building with maximum eco-friendliness.

R&D priorities are based on the requirements of the market and customers. SZAG companies offer not only products but increasingly complete technological solutions containing innovative and sustainable properties.

The Technology Business Unit uses its products, solutions and services to underpin the competitiveness of our customers, enabling them to increase productivity, protect resources and lower CO₂ emissions and so to obtain significant advantages in terms of costs. We undertake great efforts in our own production facilities to use less energy and natural resources.

SALCOS®

With its SALCOS concept®, (Salzgitter Low CO₂ Steelmaking), SZAG is facing up to the challenging targets of the European Emissions Trading System (EU-ETS) to reduce CO₂ emissions. The concept comprises the execution of all technical measures for achieving a significant, gradual reduction in CO₂ emissions in SZFG's steel production at its Salzgitter facility while using existing production systems to the greatest extent possible. As part of this concept, SZAG has launched its "GrInHy/GrInHy2.0" and "Wind Hydrogen" project. Here, research is conducted into new ways of producing hydrogen that in the future may make a contribution towards the production of steel with significantly reduced CO₂ emissions. You can find further information in Chapter "The Environment", "Emissions impacting climate" and at ↗ <https://salcos.salzgitter-ag.com>.

Environment

Utilization of natural resources

The wide variety of steel products in everyday life provide greater quality of life, ensure a safe and effective energy supply, guarantee mobility and form the necessary prerequisites of productivity in numerous sectors of industry. However, the production of steel is unavoidably associated with a significant consumption of energy and resources. As a steel and technology group, we are aware of this special responsibility. The consumption of natural resources and energy is also of increasing concern to our customers and has become an important purchase criterion. Efficiency of resources and energy is therefore the subject of systematic management in the different business units of Salzgitter AG (SZAG) that are uncompromising in their demand for such efficiency.

The environmental relevance of steel production and the constantly rising pressure on costs led the Salzgitter Group to focus on its own resource efficiency at an early juncture with a view to identifying a long-term strategy. Scarcely three quarters of the cost of steel production are accounted for by raw materials such as iron ore, scrap, reducing agents and energy. Increasing the efficiency of its production processes has long since been a target for SZAG, both from a financial and an ecological perspective. Our activities for protecting the environment are based on an established, viable organizational structure resulting in particular from the Group directive “Environmental protection and Energy policy” drafted in October 2019. In the process, we trust the specific skills of our employees evolved over time at a local level in individual companies. At a group level, the Department for Environmental Protection and Energy Policy defines the strategic focus of activities, in collaboration with the relevant Group Divisions and in consultation with the Executive Board.

In order to reflect the aspect of materiality in this Chapter, too, particular emphasis with regard to the consumption of resources and energy, emissions, the generation of waste and further parameters is placed on the figures recorded by the Strip Steel, Plate/Section Steel and Mannesmann business units for the reasons outlined in Chapter “Strategy”, “Materiality”.

Resource management

Embedded in the Group directive Environmental Protection and Energy Policy, the Environment and Energy Steering Committee has existed for almost 20 years. It represents the most important areas of the Group from the perspective of environmental impact and the consumption of resources. It reports directly to the CEO of Salzgitter AG (SZAG). The particular assignment of this body consists in organizing the exchange of relevant information on the subject of the environment and energy across the Group. As well as ensuring information transfer within this network, it also coordinates uniform strategies throughout the Group on issues regarding environmental policy and energy management. A further example of the operationalization of sustainability targets in resource management is the “Energy Management Group Forum” which came into existence as early as 2013. It brings together the most important Group companies in terms of their energy consumption. The common objective is to improve energy efficiency through a continuous process of learning from each other, thereby contributing at the same time to a reduction in greenhouse gas emissions. A further core element of the Energy Management Group Forum’s work is to establish an “energy efficiency knowledge platform” with shared responsibility for registering efficiency measures already implemented or under examination and making them available to other Group companies. It comprises several hundred individual measures.

With this idea in mind, SZAG registered the Group’s own energy efficiency network in 2016 as part of an initiative launched by the Federal Government. A specific target was set to implement energy efficiency measures across the Group from August 2016 to August 2019 with a cumulative saving of 100,000 MWh. This target was even clearly exceeded. Following on from this target and to maintain our success in achieving consistent energy savings into the future, we registered a new energy efficiency network within the Group in 2020 (see also Chapter “Objectives”).

The significance of the subject of environmental protection with respect to individual companies in our Group is directly related to the particular production processes and methods used and their basic potential impact on the environment. For example, a significantly higher number of statutory environmental regulations and requirements apply to the integrated steel production at the Salzgitter facility than is the case for Group companies that only process steel. Furthermore, due to our sense of identity, we strive to treat natural resources responsibly and reduce the environmental impact to an unavoidable minimum under consideration of technical and economic factors. The status enjoyed by this commitment is also reflected in the fact that in the Strip Steel, Plate/Section Steel, Mannesmann and Technology business units, the majority of manufacturing Group companies have installed certified environmental management systems in accordance with the international standard DIN EN ISO 14001 and/or certified energy management systems to the DIN EN ISO 50001 standard. You can find further information on this on our homepage: www.salzgitter-ag.com/de/corporate-responsibility/zertifizierungen-management-systeme. The current expenditure on environmental protection also shows the importance attached to it in the totality of our production processes. In the 2020 financial year, this totaled around € 170 million (2019: € 194 million). The change from the previous year results essentially from a temporary fall in production volumes and lower utilization of capacity due to the coronavirus-induced dip in the steel market as well as the associated effects of short-time work.

Following the criteria outlined in Chapter “Strategy”, “Materiality”, the key ecological indicators shown in this report refer – unless stated otherwise – to the fully consolidated manufacturing companies in the Strip Steel, Plate/Section Steel and Mannesmann business units with SZAG’s share standing at over 50%. Contrary to the results of the materiality analysis conducted in 2018 in accordance with the CSR Directive Implementation Act, the present 2020 Non-Financial Report includes figures on water consumption and wastewater volumes as the resource of water is of strategic importance not only in terms of process technology but also with respect to volume, particularly for steel production at the Salzgitter facility.

The key indicators shown on energy consumption, waste, air emissions and greenhouse gas emissions (see Chapters “The Environment”, “Emissions impacting climate”) for 2020 are partially based on the extrapolations of individual Group companies included in the report – particularly for the months of November and December. For the 2019 financial year, we have relied on the key indicators already published in the 2019 Non-Financial Report, taking account of cost/benefit aspects. Any extrapolations it contains have not been retrospectively adjusted. Wherever key indicators for the current reporting year differ from those of the previous year by more than 10%, comments on the change have been inserted directly below the relevant table.

Materials used¹⁾

		2020	2019
Iron ore (lump ore, pellets, ...)	kt	5,056	5,803
Reduction agents			
Coking coal	kt	1,676	1,828
Bought coke	kt	76	195
Anthracite and coal fines	kt	736	835
Other auxiliary materials			
Limestone and dolomite	kt	933	1,070
Alloys and metal	kt	85	90
Auxilliaries such as Dunit, ...	kt	197	207
Total scrap	kt	2,022	2,065

¹⁾ Only the quantitatively most important material flows for steelmaking at the Salzgitter and Peine sites have been taken into account, that means materials which are input for the final product and whose amount is larger than 50 kt a year.

Crude steel output at the Salzgitter facility was lower in 2020 than in the previous year. This is also reflected in the consistently lower input volumes for iron ore and reducing agents as well as the process materials lime and dolomite. As the coke required for the blast furnace process in the current reporting year was mainly met by material produced in house, the use of external coke fell significantly by comparison with 2019.

Energy consumption¹⁾

		2020	2019
Primary energy sources²⁾	GWh	3,844	4,128
Energy used to generate steam and electricity from waste gas and waste heat	GWh	1,779	2,049
Electricity consumption	GWh	2,461	2,618
of which external power supply	GWh	1,117	1,130
Total energy consumption	GWh	4,961	5,258

¹⁾ In terms of materiality additional Group companies of Trading Business Unit, Technology Business Unit, Industrial Participations/Consolidation and EUROPIPE sites were considered for the energy consumption. In detail: EUROPIPE GmbH, Berg Pipe Mobile Corporation, Berg Pipe Panama City Corporation, GESIS Gesellschaft für Informationssysteme mbH, Glückauf Immobilien GmbH, Hansaport Hafenbetriebsgesellschaft mbH, Klöckner Desma Elastomertechnik GmbH, DESMA Schuhmaschinen GmbH, KHS GmbH, MÜLHEIM PIPECOATINGS GmbH, Salzgitter Automotive Engineering GmbH & Co. KG, Salzgitter Hydroforming GmbH & Co. KG, Salzgitter Mannesmann Forschung GmbH, TELCAT KOMMUNIKATIONSTECHNIK GmbH, TELCAT MULTICOM GmbH, Verkehrsbetriebe Peine-Salzgitter GmbH, VPS Infrastruktur GmbH, KHS Corpoplast GmbH, Salzgitter Mannesmann Handel GmbH, Salzgitter Mannesmann Stahlhandel GmbH, Stahl-Center Baunatal GmbH, Universal Eisen und Stahl GmbH.

²⁾ Without reducing agents, they are considered under "Materials used".

Energy consumption in the Group companies under review was below the level for the previous year overall. In particular, lower crude steel production at Salzgitter Flachstahl GmbH led to lower volumes of byproduct gases with the result that the corresponding, in-house generation of steam and electricity was significantly lower than in 2019.

Water consumption

		2020	2019
Total water consumption	Thousand cubic meters	17,135	19,482
of which drinking water	Thousand cubic meters	2,195	2,346
of which industrial water/service water	Thousand cubic meters	14,940	17,136

Wastewater discharge

		2020	2019
Total wastewater discharge	Thousand cubic meters	13,691	14,257
of which direct discharge	Thousand cubic meters	13,212	13,631
of which indirect discharge	Thousand cubic meters	479	626

Overall, wastewater volumes in the current reporting year were broadly similar to those for 2019. Water consumption, on the other hand, was noticeably lower than for the previous year. This is primarily due to lower crude steel production at the Salzgitter facility and the resulting reduced need for service water which is used, for example, as cooling and process water in metallurgical processes.

Waste generation

		2020	2019
Total waste generation	kt	859	1,186
of which recycled	kt	596	796
hazardous waste as a share of the total	kt	40	49

The overall volume of waste generated fell in 2020. The determining factors behind this development include lower year-on-year crude steel production and in some cases lower utilization of capacity in the Strip Steel, Plate / Section Steel and Mannesmann business units. In addition, major construction projects such as the “heat treatment line” capital expenditure project at Ilsenburger Grobblech GmbH had led to a significant increase in waste in the 2018 and 2019 reporting years. There were no construction projects with a similar impact in the current reporting year.

Air emissions¹⁾

		2020	2019
NO _x	t	3,792	5,229
SO _x	t	4,081	4,568
Particulate matter (PM10)	t	108	156

¹⁾ Facilities for which an emission declaration is made pursuant to Section 11 of the German Federal Control Act (BImSchV) or which are listed in the PRTR register.

The majority of the air emissions reported here result from the operations of Salzgitter Flachstahl GmbH due to the processes involved. To this extent, lower year-on-year crude steel production at the Salzgitter facility in the reporting year also impacts emissions of NO_x, SO_x and fine particles. The decrease in fine particle emissions is also attributable to an adjustment in the emission factors to be applied which was implemented in 2020.

Emissions impacting climate

Salzgitter AG (SZAG) participates in the CDP reporting format (formerly Carbon Disclosure Project) since 2016 on an annual basis. In 2020, SZAG once again achieved a good “B” rating. CDP is an international not-for-profit organization. Among other aspects, it records and evaluates the greenhouse gas emissions (GHG emissions) voluntarily reported by companies and organizations as well as the way in which opportunities and risks resulting from climate change are handled and strategies evolved in response. Once a year, CDP collects extensive data on behalf of investors, and it claims to have now established the most important database and analysis on the subject in the world.

Based on the system of the Greenhouse Gas Protocol which is also used by CDP, we report GHG emissions in the categories Scope 1 to Scope 3 as shown below. The definitions are as follows.

- Scope 1 = direct GHG emissions from operating plants
- Scope 2 = indirect, energy-related GHG emissions
- Scope 3 = further indirect GHG emissions from the purchase of raw materials

We have therefore used the approach of the Greenhouse Gas Protocol Corporate Standard for calculating the greenhouse gas emissions in Scope 1 to Scope 3. The majority of our direct emissions are also subject to the European Emissions Trading System (ETS) with the result that the strict specifications contained in the Monitoring Regulation are applied in this area. The data for Scope 1 and 2 result from energy consumption figures shown in Section “Resources Management” as well as details from ETS monitoring.

As an integrated steel mill, Salzgitter Flachstahl GmbH (SZFG) occupies a special position with regard to GHG emissions, and it therefore operates its own energy savings scheme and GHG emissions reduction program. In 2019, these programs achieved a cumulative reduction in Scope 1 and Scope 2 emissions of 211 kt CO₂ as a direct consequence of efficiency measures; in 2020, the figure was 203 kt CO₂.

GHG emissions

		2020	2019
Direct GHG emissions from operating plants (Scope 1)	kt CO ₂	7,646	8,402
Indirect GHG emissions (Scope 2)	kt CO ₂	448	536
Other indirect GHG emissions from feedstock purchase ¹⁾ (Scope 3)	kt CO ₂	1,375	1,423
Reduction of GHG emissions as a direct result of efficiency measures ²⁾	kt CO ₂	203	211

¹⁾ Without reducing agents; specific emission factors based on supplier information or common available sources. Survey is oriented to Corporate Value Chain Standard (Scope 3) of the Greenhouse Gas Protocol Initiative of the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD)

²⁾ Resulting from measures of the EE project of Salzgitter Flachstahl GmbH, affecting Scope 1 and Scope 2.

Crude steel output at the Salzgitter facility was lower in 2020 than in the previous year. This is also reflected in lower volumes of reducing agents used as a result of which both direct GHG emissions (Scope 1) and indirect GHG emissions from the procurement of raw materials (Scope 3) are also lower (see also the Sections “The Environment” and “Resource Management”). The reduction in Scope 2 emissions is due both to somewhat lower procurement of electricity from third parties in the Group and the average carbon dioxide emission factor in the electricity mix in Germany that has fallen significantly.

The greatest challenge for the Group in connection with emissions affecting the climate is the fact that CO₂ emissions stemming from technologies for the ore-based production of primary steel used today on an international scale and in the Salzgitter Group have nearly reached their minimum possible level within the process boundaries set by laws of nature. There are therefore strict limits to future reductions in greenhouse gas emissions achievable merely through efficiency measures. SZAG therefore set up a project named SALCOS® (Salzgitter Low CO₂ Steelmaking) in 2015 together with the Fraunhofer Gesellschaft. You can find further information on our homepage: ↗ <https://salcos.salzgitter-ag.com/en/>. The aim is to examine and pursue a gradual transformation from today's carbon-based to hydrogen- and electricity-based steel production. In order to achieve a significant degree of decarbonization in its primary steelmaking, SZAG wants to exploit a unique feature of iron metallurgy. Hydrogen can replace carbon in the reduction of iron ore which leads to the formation of water (H₂O) instead of carbon dioxide (CO₂). The process heat required in steelmaking and further processing can also be provided by electrical energy instead of carbon-based sources. This means that ultimately nearly all CO₂ emissions from steel production can be avoided.

The direct avoidance of CO₂ (Carbon Direct Avoidance [CDA]) in steel production is more sustainable and makes more sense in energy terms than Carbon Capture and Usage (CCU) or Carbon Capture and Storage (CCS). CDA hence closely reflects a generally preferred concept in any waste management: Avoidance is always preferable to processing or disposal. In addition, our approach offers the best combination of energy efficiency and CO₂ reduction potential compared to other industrial concepts.

In the course of the project, the preconditions and impact of the proposed implementation steps on our Group's integrated steel mill in Salzgitter are being examined. Scientific support comes from the neutral expertise of Fraunhofer Gesellschaft, one of the leading research organizations for applied science in Europe. Key aspects of technical feasibility were already confirmed in the "MACOR" feasibility study sponsored by the Federal Ministry of Education and Research (↗ <https://salcos.salzgitter-ag.com/>) which was concluded at the beginning of 2019.

In implementing SALCOS®, the aim is to realize the technical measures required for this technology at the Salzgitter facility in order as far as possible to preserve our company's existing production plants and jobs and rule out any shifting of CO₂ emissions to areas beyond the scope of the ETS. An additional feasibility study with further partners is examining whether a direct reduction plant (DRP) – as an important part of the SALCOS® concept – can also be achieved by way of an alternative in the deep water port in Wilhelmshaven near the offshore wind farm.

The project is based on a modular concept, offering the possibility to be realized in subsequent steps. The steps to implement it will be based on the future, challenging CO₂ reduction targets in Europe up until and after 2030. The current, energy-efficient steelmaking at the integrated steel mill in Salzgitter must be extensively and successively modified on the basis of the concept portrayed below.

As a first step (stage I), which includes all relevant SALCOS® technologies, a direct reduction plant (DRP), water electrolysis capacity for H₂ production and an electric arc furnace (EAF) would be installed in Salzgitter. One part of the directly reduced iron (DRI) produced would be processed in the EAF, which will be operated with renewable energy whenever possible, and the balance of DRI fed to the remaining blast furnaces. This would allow for replacing one of the three blast furnaces currently in operation as well as one of the existing three basic oxygen furnaces. The CO₂ emissions at the Salzgitter facility would already be cut by around 30% in this expansion phase. Although the investment required is in the billion-euro range, by comparison with other sectors and industries, SALCOS® represents a particularly attractive concept in terms of avoidable CO₂ emissions, as the significant CO₂ savings in the steel industry can be concentrated in just a few facilities.

The major strength of SALCOS® is that its approach is based on industrially established technology (gas-based direct reduction) which can be refined in response to future challenges. From a technical perspective, this offers the chance to achieve a significant reduction in CO₂ emissions (by as early as around the middle of this decade), without the need for tedious and costly laboratory facilities, through the deployment of a direct reduction plant on an industrial scale. It is our conviction that we must act now if business and society wish to achieve the climate targets set.

The further implementation steps (expansion phases II and III) are largely grounded on the same basic module (DRP, electrolysis and EAF) and are likely to lead in the coming decades to a complete transition in steelmaking from the carbon-based blast furnace-converter route to the direct reduction EAF route. This, together with the use of 100% hydrogen generated through renewable energies, will mean that the CO₂ reduction achievable as a result of the SALCOS® concept will be over 95%. As with comparable approaches, SALCOS® will require very high investment in new plant equipment. Based on today's knowledge, the complete conversion of production in Salzgitter would cost around €3 billion. It should be noted in this context that for the foreseeable future, processes for reducing CO₂ emissions will not lower energy costs or result in higher product quality by comparison with the status quo thus leading to lower production costs or higher sales. The added value is likely to lie solely in producing steel with reduced CO₂ emissions, thereby meeting our responsibilities to society to protect the climate and safeguard key industries. The domestic steel industry must therefore respond locally to the challenge of reducing CO₂ emissions and nevertheless continue to hold its own against global competition. Politicians must therefore create the right framework conditions to permit appropriate concepts to be implemented. On December 4, 2020, Federal Minister for the Environment, Svenja Schulze, presented SZAG with its approval of a grant for the construction of the first iron ore direct reduction plant (DRI plant) to be flexibly operated with hydrogen and natural gas. The aim is to derive knowledge from operating this plant to enable the Group in a few years to run plants with maximum efficiency and sustainability on a much larger scale. Contracts have already been awarded, and the plant is due to be commissioned in the first half of 2022. The directly reduced iron is to be used initially in the blast furnace process in Salzgitter (to save on pulverized coal) and in the electric arc furnace at the Peine plant.

In addition to the GrInHy and Wind Hydrogen components (further information to be found at [↗ https://www.salzgitter-ag.com/de/corporate-responsibility](https://www.salzgitter-ag.com/de/corporate-responsibility)), SZAG has already expanded its product range in a further implementation step to include low-CO₂ strip steel products. Low-CO₂ green steel slabs have been produced at our electric steel mill in Peine since the end of 2020 and subsequently further processed at SZFG into hot and cold strip in a differentiated range of dimensions and grades. The CO₂ footprint of these products is around three quarters smaller than that of steel products on the iron ore-based route due to its scrap-based metallurgy. To this extent, we regard these strip steel products as a further important – and physically real – step towards a low-CO₂ metallurgy in our overall SALCOS® concept.

Society

Employee rights

Success and progress are heavily dependent on our employees; they shape the future of Salzgitter AG (SZAG). That is why we set great store by maintaining an open, regular exchange of views as well as including the workforce in the affairs of the company at an early stage. We use various tools to integrate the experience and expertise of our employees into SZAG's change and improvement processes.

Governing principles

The management of SZAG is geared towards ensuring the company's sustainable growth and long-term success in keeping with the principles of the social market economy and meeting its responsibility for people and the environment. It is based on the specifications contained in the German Stock Corporation Act and the recommendations of the German Corporate Governance Code.

Our Code of Conduct also represents an important foundation for working relationships in the Group based on trust and with our external partners (see also Chapter "Process Management", "Rules and Processes"). The Executive Board has drawn up clear behavioral principles in this code that all employees at home and abroad should be guided by in their work.

Coal and steel co-determination

The dialog at SZAG between Group management, company management and employee representatives has traditionally been marked by a relationship of trust and constructive cooperation. As a Germany-based steel and technology group, we are subject to the coal and steel co-determination law with respect to SZAG and the primary iron and coal producing Group companies; this agreement gives employee representatives on the Supervisory Board substantial influence over the main business transactions and the appointment of the Industrial Relations Director. Complementing our corporate objectives and entrepreneurial perception, the interests of our employees are represented legally by unions, works councils and other forms of employee representation. The Group Works Council is the employees' central co-determination and participation body. The works councils also have separate working groups for every business unit of the company. The Executive Board and company heads regularly participate in events of the Group works council and the working groups, which ensures an intensive exchange between company and employee representatives. Special subjects such as occupational safety, health and environmental protection are dealt with by the Group Works Council in separately formed committees.

By concluding collective agreements on the various operational and pay scale levels, we secure the inclusion of employees' interests both on a statutory basis and the more generous voluntary basis as well as the application of standard, objective procedures for shaping service relationships with our employees. For example, measures to deal with the coronavirus pandemic, which reflect both our duty of care towards our staff and our corporate responsibilities, were negotiated between the Management Board and the Group Works Council in a Group works agreement.

In addition, the setting up of steering committees and control bodies with equal representation facilitates participation by employees in the development of the company, thereby promoting a managerial style that is free of discrimination and focused on diversity while maintaining social standards.

The inclusion of foreign companies in the design of Group directives and circulars extends the scope of national standards to our foreign facilities, particularly in the sphere of any management concept based on values, within statutory provisions and as long as this makes sense from a human resources and economic perspective.

Corporate mission statement YOUNITED

Our corporate mission statement “YOUNITED” describes SZAG’s “essence”, its responsibilities, special features and principles. At the same time, it formulates the target state our company is striving to reach. “YOUNITED” therefore serves as the starting point and defining element as far as the aims of desired changes are concerned, and it offers the orientation of a “company philosophy”. It is composed of three different elements: aims, pathways and values.

The six aims “We are profitable!”, “We are a promising investment!”, “We are first class and we think ahead!”, “We are an ideal partner!”, “We are fit for global challenges!” and “We are responsible in our growth!” were drawn up by SZAG’s Executive Board, while a group of managers from the whole Group developed the pathways. Our affirmation of the aim “We are responsible in our growth!” reflects the overarching importance of a corporate strategy based on sustainability. Around 300 employees in the Salzgitter Group, working in large group events, were largely responsible for formulating the values which govern our actions. The mission statement implementation team – a group of managers from all business units of the Salzgitter Group – has since been continuously developing ideas for implementing them in the companies. Specific projects and measures are initiated in consultation with the managements and their effectiveness constantly reviewed. The Group’s Executive Board also conducts regular, intensive discussions on the status of the implementation process.

The six values “Customer orientation”, “Reliability”, “Fairness and working together as partners”, “Groupwide cooperation”, “Innovation” and “Sustainability” were each brought to life from 2014 to 2019 as “Value of the Year” by means of initiatives to highlight their relevance in the everyday working life of all employees.

Building on the “Values of the Year”, the “YOUNITED 2.0” initiative was launched in 2019 with its main focus on quality. Five managing directors in the Salzgitter Group acted as the sponsors, each taking active responsibility for one aspect of quality and assembling a cross-company team – the Value Team – to work on it.

Since then, the five value teams have been developing (technical) solutions to pressing challenges and successively implementing them in their departments. As a team, they have set an example by their value-driven approach, consistently drawing parallels with the values contained in the mission statement and actively contributing their insights and action plans to the Group by means of groupwide initiatives. In addition, the value teams presented the results of their project at the end of 2020 in the managing directors’ workshop conducted annually by SZAG. The solutions developed were discussed in a virtual meeting at the level of top management with the aim of putting them into practice in further Group companies in the coming months.

Communication and participation

We are continuously refining our products and processes. The creativity and inventiveness of our employees are major drivers in this process – potential that we appreciate and which we want to promote to the best of our ability. The management of ideas offers employees the opportunity to submit their suggestions for improvements, thereby actively promoting changes in their working environments. In 2020, we received 1,855 suggestions for improvements in Group companies in Germany.

We regularly and actively involve our workforce in the further development of the Group. To this end, the groupwide employee survey IMPULS has already been conducted three times. The results were saved within a structured follow-up process and the measures derived from them implemented.

We ensure that our employees are informed of current issues in the Group through our extensive website, a range of printed matter and events.

Equal opportunities

Demographic change is one of the most important topics in discussions within society with regard to securing the future on a sustainable basis. The changed demographic of the population and the structure of employment in Germany also impact the Salzgitter Group. The diversity of Salzgitter AG's (SZAG) products is matched by that of the workforces, workplaces and the regional framework conditions at individual Group locations. All this requires a human resources policy which reflects the different demands made of SZAG and that, as a result of suitable measures, both enables the employees to enjoy fulfilling and fruitful work and guarantees the company's long-term performance.

Employee structure

The following remarks give a short overview of the structure of our workforce. The key workforce indicators for understanding the course of business are based on the permanent workforces of all domestic, consolidated Group companies – in contrast to the focus on steel-related activities with respect to environmental issues.

The core workforce of Group companies based in Germany fell slightly in 2020 compared with the preceding year (2019: 18,926) and stood at 18,297 at the end of 2020. The staff turnover rate (percentage average of additions to and departures from the core workforce) in 2020 was 5.01% (2019: 5.38%). The majority of employees of the Salzgitter Group work in Germany, the precise figure standing at 81%. A further number of roughly 8% are employed in other EU countries and around 11% of our workforce in facilities outside the EU.

The following table shows the split by gender and employee category:

Core workforce Germany by gender and employee category

	2020		2019	
	m	f	m	f
Wage earners	10,225	274	10,656	267
Tariff	3,853	1,749	3,941	1,811
Non-tariff	1,658	265	1,700	274
Senior executives	243	30	246	31
Total core workforce	15,979	2,318	16,543	2,383

The total consolidated workforce at home and abroad in 2020 amounted to 24,416 employees.

The share of female employees in the Group in 2020 amounted to 12.7%. Female students are still heavily underrepresented in scientific and technical subjects – a factor which also affects companies' workforce structures. The distribution of female members of the workforce in the respective areas of activity of the Salzgitter Group is correspondingly uneven.

One trend observable in society as a whole that can also be seen in the Salzgitter Group is the increasing age of workforces due to demographic change. The distribution of respective age groups is as follows:

Workforce by age group

Age structure in %	2020	2019
Up to 30 years	12.7	13.5
31 to 50 years	45.4	46.2
Over 50 years old	41.9	40.3

A description of changes in the workforce in 2020 and information on the composition of our Supervisory Board can be found in the management report forming part of the annual report in Section “Company and Organization”, “Employees”.

The challenge of demographic change

The success of the company in the coming years will depend appreciably on identifying the effects of demographic change in good time and taking them into account in terms of the company’s human resources policy. Challenges such as the imminent lack of skilled workers, the extension of working life or the changed demands of employees for a better work-life balance will also affect the Salzgitter Group. SZAG therefore launched the groupwide project “GO – The Generation Offensive 2025” as early as 2005 to manage these diverse challenges.

Numerous measures and projects are drawn together in the Group under the umbrella of the project. They range from activities in the recruiting of junior staff and training employees, health insurance and old age pension offers for the employees to the ergonomic design of workplaces. Some of these offers – FORWARD, Salzgitter pensions and workplaces adapted to employees’ needs, for instance – will be explained in greater detail in the course of this report. Groupwide priorities were also identified in the shape of the promotion of women and the reconciliation of family and work, and further efforts will be focused on these areas.

Promotion of women

SZAG regards the promotion and development of female prospects as an important duty which begins before they even join the company. As the majority of our staff work in technical and scientific domains and female graduates are still underrepresented in these MINT professions, we encourage any interest shown in these subjects by young female schoolchildren even at this early stage. One example is the Technology Center of Lower Saxony which enables female high school graduates to take on parallel work placement at SZAG and to enroll in taster engineering courses at a participating university.

Two elements of our human resources development program FORWARD are making an important contribution to the promotion of female staff in the Salzgitter Group:

The orientation program Career Paths for Women is addressed to women of all functions who wish to actively plan their careers and see a managerial career as an option. The concept of the program takes account of their personal goals and prospects as well as the specific demands of different professions. Since the start in 2015, 49 women have already taken part in the program.

In addition, the target market for the mentoring program for women is composed of dedicated female managers and experts on every level of the hierarchy. It serves to develop them further in their managerial role or to support them on their path to taking over managerial responsibility. Acting in the role of mentors are senior executives or CEOs in the Group who are willing to share their professional experience and insights as well as their network of contacts with the mentee in confidence and to support them as their career develops. Since the start of the program in 2012, 56 mentees and 41 mentors have already helped the project to achieve lasting success.

Reconciliation of family and work

Against the backdrop of demographic change, it is important to reflect the individual needs of our employees. Various company-specific working time models such as trust-based working hours, flexitime and working time accounts allow our employees to shape their working hours to reflect their individual needs. The instrument of teleworking is also used in various Group companies – taking account of the relevant operating conditions.

For several years, our employees in Germany have also been able to take advantage of a free family service which advises them and helps to arrange care for children or dependents in need of nursing care.

Workplaces adapted to employee needs

SZAG offers workplaces adapted to employee needs for the integration of people with severe disabilities. A Group framework inclusion agreement also stipulates that the participation of employees with severe disabilities in training measures to maintain, expand and adapt their skills and knowledge, must be promoted. Companies define their targets on their own initiative, for example on the appointment or training of young people with disabilities. To meet these targets, “Inclusion Teams” can be set up in individual companies which draw up the specific measures to be implemented. The proportion of employees in the Salzgitter Group in Germany with severe disabilities was above 5% in the last few years, in line with statutory demands.

Company pension

Large parts of SZAG have a uniform model for pensions funded by the employer: the Salzgitter pension (company pension). It makes an important contribution towards securing employees’ standard of living when they retire by reducing pension shortfalls between the final pay packet and their old-age pension. We also offer attractive options for deferred compensation in the form of a pension plan and as disability insurance. They complement the company pension and allow our employees to pursue individual solutions.

Demography fund

We wish to preserve the health and capacity of our employees to their best possible advantage. Nevertheless, they will not all be able to work until the statutory retirement age. We were therefore one of the first companies in our sector to set up company demography funds financed in equal measure by employers and employees. They are used primarily for the early retirement of employees with particular health problems, for instance as part of a semi-retirement package if the intention is to fill the post again.

Health and safety at work

Besides cost-effectiveness, productivity and quality, occupational safety is one of SZAG’s high-priority corporate goals. Our responsibility derives from our obligation for the well-being and physical safety of our own employees, but also with regard to the employees of partner companies, customers, suppliers and our visitors. Consequently, the groupwide target of our safety policy is: zero accidents! Above and beyond this goal, we also want our employees to live healthy lives and to be able to work free of illness. This task is taking on ever greater significance with respect to longer working lives.

Health and safety management

The different requirements in the individual business units and companies of the Salzgitter Group necessitate that occupational safety be regulated on a decentralized basis. A Group directive defines SZAG’s safety policy and the components and standards of our health and safety management. Every company is tasked with drawing up targets, priorities and programs and reviewing the effect of the measures taken. In particular, the collaboration with partner companies is substantiated by corresponding guidelines, for instance with common and order-specific briefings as part of the contractor management. In this way, we are able to define a high standard across the Group and lay the foundation for continual improvement.

A Group committee for health and safety at work supports Group companies in their objective to continuously improve occupational safety. Members of the working group have been conducting smart audits on selected Group companies for this purpose since 2019. The aim of this analysis is to identify strengths and areas in need of development. Due to the coronavirus pandemic, it was only possible to carry out limited smart audits this year. Further audits are planned for 2021.

The following key statistics in relation to employees are collected in the Salzgitter Group in accordance with statutory and trade association principles in order to evaluate health and safety at work and the situation with regard to accidents.

Safety at work

	2020	2019
Rate H ¹⁾	6.1	6.0
Rate h* ²⁾	8.4	9.6

¹⁾ Reportable work-related accidents per 1 million work hours (from the fourth day off work); domestic core workforce and training contracts

²⁾ Work-related accidents per 1 million work hours (from the first day off work); domestic core workforce and training contracts

The frequency of accidents from the fourth day of absence per million working hours worked increased minimally from 2019 to 2020, and the number of accidents at work per million hours worked measured from the first day of absence however decreased. In 2020, there was one work-related accident resulting in death.

A record of the work-related accident per person rate is kept in order to understand the worldwide occupational safety and accident situation. This metric records the average number of accidents at work leading to days off work per 1,000 employees.

Occupational safety worldwide

	2020	2019
Work-related accident per person rate ¹⁾	11.3	13.6

¹⁾ Work-related accidents from the first day off work; worldwide core workforce and apprenticeships

The Group succeeded in reducing its work-related accident per person rate year on year.

Health and safety at work is subject to co-determination as a general rule. For example, there are various company agreements in Group companies that reflect comprehensive health and safety at work as well as an integrated understanding of health. In terms of agreements on a collective level, in Germany the collective agreement for shaping demographic change in the iron and steel industry is important. Among others, the collective agreement comprises aspects of health promotion and workplace design. It defines potential measures necessary for the health- and age-appropriate design of work conditions, operating processes as well as the work organization, for instance.

Measures related to the coronavirus pandemic

In order to cope with the coronavirus pandemic, extensive monitoring was introduced in SZAG and task forces and pandemic teams were set up in Group companies. The latter developed operational measures and hygiene concepts exceeding statutory obligations and implemented them for the protection of their own workforces as well as outside employees (partner companies, suppliers, etc.). Extensive information and communication offerings were also prepared for managers and employees to enable operational processes to run as safely and smoothly as possible under pandemic conditions and at the same time to discharge our duty of care towards employees.

Health management

We subscribed to the “Luxembourg Declaration on Workplace Health Promotion” in the EU as early as 2004. It aims not only to prevent work-related illnesses but also to actively reinforce the potential for good health and improve the feeling of well-being at the workplace. To this end, we have developed numerous measures in the GO sphere of action “Health, Fitness and Ergonomics”. Offers in Group companies range from “The Salzgitter AG Health Check”, via proprietary fitness centers and collaborations with external partners to special days of action with the emphasis on health and prevention. In particular, it was only possible to offer limited sport and fitness activities in 2020 due to coronavirus restrictions. These activities will pick up again as soon as conditions permit.

Prevention is a pivotal aspect of our health management, meaning efforts to promote behavior conducive to good health. In addition, employees with long-term illnesses are given special support to reacclimatize to working life. First and foremost, this includes measures individually tailored to those affected and their workplace demands. The highest priority is given to enabling them to return to their existing workplace. The close networking of all service providers allows a coordinated response to be quickly orchestrated.

Training

The commitment, knowledge and creativity of our employees are important factors in the success of our company. Personnel growth and training have therefore always been central components of our human resources work. We are convinced that continuous learning and further training form the foundation for successful work. To enable our employees to develop their capabilities and talent, we create an environment offering the opportunity and space to grow. To do so, we provide suitable opportunities in the Group for any age and position.

Securing the workforce of the future

To counter the imminent lack of specialists and engineers in good time, we promote young people also during their training. We focus our commitment on disciplines where there are clear signs of an upcoming shortage of qualified workers in Germany. In the process, we make a commitment towards the talent of tomorrow along the entire education chain.

Visits to companies, practical days and company presentations as well as other professional orientation activities enable schoolchildren to gain practical insights and show them the wide-ranging professional prospects on offer in the Salzgitter Group. The STEP.ING project invites students from high schools in Salzgitter and the region to take a detailed look at the opportunities to study science and technology and the career prospects such courses open up. To this end, we offer training for career orientation and the opportunity to swap notes with engineers. The students involved take charge of advertising this project themselves through a special Instagram account – by students for students.

Our commitment to higher education institutions serves to enthuse students for the tasks facing our Group and tie young, highly qualified and talented individuals to the company for the long term. To ensure that we are successful in that endeavor, we work with numerous higher education institutions. We actively design curricula together, support students' projects and offer students the chance to take on internships and write their theses and dissertations with close support.

Training

Mega trends such as globalization and digitalization require worldwide networking and the fast availability of information. This requirement challenges workforces and companies to constantly update and expand their capabilities. This can start with in-depth training and continues throughout their entire professional life in the form of "lifelong learning".

Vocational training

SZAG currently offers training in over 40 professions and dual study courses in the industrial/technical, commercial and IT sphere. As of December 31, 2020, the company employed 997 trainees in Germany. There were also a further 195 other training contracts in Germany with interns, working students and apprentices. Vocational training represents an important investment in the future in our eyes. This is demonstrated by the proportion of trainees which, at the end of 2020, stood at 5.2%. Securing the future prospects of trainees by giving them follow-on employment not always based on requirements reinforces the processes of obtaining and extending qualifications, and it constitutes an important element in countering demographic challenges.

In 2020, the business magazine Focus Money once again honored the quality and commitment of our training at our Salzgitter facility, crowning it "Germany's Best Training Company".

For graduates, there is the chance to join SZAG as a trainee. The trainee programs that serve to secure the futures of specialists and managers have different emphases and are conducted by individual companies.

Personnel growth

Personnel growth has traditionally enjoyed a high status at SZAG and its subsidiaries. We have therefore established FORWARD in the Salzgitter Group, a system of personnel growth across all companies that promotes commitment, innovative energy and the exchange of information between high achievers on all levels. Our Salzgitter model of expertise defines the generic requirements of special significance besides technical know-how and professional experience.

Junior employees with a university degree and qualified staff with vocational training constitute the target market for FORWARD basic programs. The focus here is on the structured communication of knowledge and the systematic establishment and expansion of methodological expertise and social skills which are intended to enable students to take on departmental and managerial responsibility at a later date. There is a broadly diversified range of seminars on offer that not only offer interesting opportunities for further training in line with requirements and on an extracurricular basis, but also contribute towards the networking of junior staff between companies. Regular presentations from internal speakers also give an insight into company structures, processes and subjects.

With more extensive programs on personnel growth such as the Salzgitter College for the target group of experienced specialists and managers, FORWARD promotes and supports the development of skills in high-potential individuals and high achievers for the long term.

The aim of the Salzgitter Group's succession and talent management launched in 2017 is initially to identify and encourage successors (with a specific target function) and talented individuals (with potential for more far-reaching management assignments without as yet any defined personal development target) for the general manager level and managers reporting directly to them in a standardized form across the Group. A precise analysis of their potential is obligatory for all those nominated. Talented individuals are integrated into a talent pool and they undergo a high-quality international program for personnel growth at a Group level. The development of successors is managed in the companies on a decentralized basis.

The content of the FORWARD program for top management was comprehensively updated in 2019. Under the name “Insight”, it has since provided top management at the Salzgitter Group with a high-quality, varied and up-to-date program for personnel growth which offers new impetus with its focus on self-management, entrepreneurial action, leadership communication as well as strategy and finance.

We also attach great importance to the continuous promotion of employees on the collective pay scale. One example of this is the PEQO program (PersonalEntwicklung, Qualität & Qualifizierung, Organisationsentwicklung – Personnel growth, quality & training, organizational development) conducted by Salzgitter Flachstahl GmbH. The need for training and career prospects are discussed with the line manager in an annual interview. Building on this foundation, measures or career development opportunities are agreed and usually implemented within a year.

Further training

As well as the initial training, continuous further training represents an essential means of securing motivated, qualified employees and of preserving their employability for the rest of their working lives. In 2020, we registered 16,202 participants in a total of 40,908 further training measures (2019: 15,591 participants, 37,772 further training measures). A higher number of e-learning formats and virtual events were conducted in various Group companies to ensure that employees’ participation in further training measures was guaranteed in spite of the restrictions on face-to-face learning due to the coronavirus pandemic.

Human rights

The Group's Code of Conduct emphasizes: "Respect for internationally recognized human rights (personality rights, civil liberties, statutory and social human rights) is a matter of course for the Salzgitter Group." More precisely, reference is made to the catalogues of the European Convention of Human Rights and the Universal Declaration of Human Rights of the United Nations. The Code has been produced in twelve languages and distributed to every employee through the Group companies in the form of a brochure in the relevant language. Procurement processes represent an important subject in the Salzgitter Group with respect to the observance of human rights.

As the center of excellence for various Group companies, the Purchasing Department at Salzgitter Flachstahl GmbH (SZFG) sees sustainability as an important element in procurement processes. Natural resources, materials and services are procured from around the world in order to secure the sustainable, lasting success of our customers with innovative, high-quality products. Alongside financial and technical evaluation criteria, procurement processes also take into account social and ecological issues such as human rights, environmental protection, occupational safety and the prevention of corruption. The interplay of these factors plays the predominant role in selecting, evaluating and training suppliers and service providers.

Significant long-term suppliers of all products with relevance to quality and environmental protection made by SZFG and other Group companies are evaluated once a year on the basis of various criteria such as price, logistics, quality and other contractual terms. The list of products and services relevant to quality and the environment is constantly modified to fit new requirements. If the targets set are missed, the supplier may be blocked and the contractual relationship terminated. Besides the standardized supplier evaluation, SZFG developed a separate form in 2015 to cover the most important sustainability issues which is closely based on the self-disclosure form used in the automotive industry "Sustainability for Automotive Sector Suppliers". This form, first sent in 2016 to all major long-term suppliers in the mining, raw materials, chemical and processing industries, comprises the following sections:

- Code of Conduct
- Social sustainability
- Occupational health and safety
- Compliance
- Environmental protection
- Supplier management

The sustainability survey is now sent to the relevant suppliers on a recurring basis. A growing number of suppliers meet the requirements. The results of the self-disclosure form provide the basis for planning future sustainability performance in the supply chain. SZFG's aim is to prepare a concept for supplier audits and on-site inspections. This step will complement the supplier evaluations, thereby ensuring that the sustainability standards demanded are genuinely and transparently met along the entire supply chain.

EcoVadis has honored the KHS Group every year since 2015 – awarding it a silver medal in 2019 at all its facilities around the world. This independent rating tool evaluates Corporate Social Responsibility (CSR) in the spheres of the environment, labor rights and human rights, ethics and sustainable procurement.

As far as their corporate due diligence with regard to respecting human rights is concerned, companies in the Salzgitter Group take their bearings from the federal Government's National Action Plan "Business and Human Rights" (NAP). All Group companies in Germany meet the requirements set out in this NAP in a fashion commensurate with their size, sector and position in the supply and value chains. Various Group companies took part in the second round of surveys conducted by the Foreign Office in the spring of 2020 in order to monitor the NAP.

Community

SZAG has particularly close ties to the region of South East Lower Saxony. Here, roughly 40,000 people – employees, retired workers and their families – derive their livelihood from the Salzgitter Group. In 2020, 9,470 employees, i.e. 41% of our permanent workforce (2020/12/31: 22,604) were employed at these facilities. Every year, we award contracts worth more than € 300 million to almost 700 regional service providers and suppliers. SZAG therefore plays an important part in the regional economy. We also make a commitment to the local communities in our locations in many different ways.

Location concept

The location concept forms the basis for structuring our social commitment. It defines groupwide criteria for the systematic, transparent promotion of cultural, social and sporting projects and initiatives. The extent of overall funding is closely linked to the relevant economic framework conditions affecting the financial years concerned and the company's resulting financial capacity. The aim of the location concept is to promote the quality of life in the communities in which our employees and their families live and work. Initially developed for the Salzgitter facility, further Group companies are now making a commitment to their regions.

Promotion of the business location

We commit to initiatives and projects that strengthen Lower Saxony as a place to do business over the long term. SZAG is a shareholder in "Allianz für die Region GmbH". This initiative functions in accordance with the "public private partnership model", meaning that it is funded in equal measure by public and private shareholders. Besides Salzgitter AG and the State of Lower Saxony, further companies and numerous towns and districts from the region are also actively engaged in the project.

Social commitment

Apart from economic development, we also focus on social concerns in the regions where our plants are sited. As a founder member of the Salzgitter Citizens' Foundation, we support charitable projects in the areas of education, sport, youth, culture, social affairs and the environment. The Foundation supports both individuals and institutions, clubs and associations in their commitment to the public good. As a founding member of the foundation, SZAG made a significant contribution towards the starting capital of € 700,000. In 2020, a total of € 23,177 were given to deserving projects.

Political dialog

Fair political conditions are crucial for successfully positioning companies engaged in global competition. In times of global trade flows, highly complex, industrial value chains require reliable rules as essential factors in entrepreneurial activity.

Multilateral agreements and institutions are being increasingly called into question against the background of growing protectionist measures in (steel) exports. A lack of standards or different norms around the world in numerous political areas, e.g. in environmental, climate, energy and labor policy, can be the cause of considerable distortion in competition. We therefore lobby political decision-makers for an international level playing field which provides fair production conditions for German industry.

To do so, we follow the political debate systematically, maintain contact with relevant political institutions and contribute our expertise to political processes. In our dialog with communal, regional, national and European bodies, we rely on precise information and credible, transparent communication. In this context, we would refer to our corporate policy of giving no donations or payments to political parties. Due to the shareholding of the State of Lower Saxony, we see ourselves obliged to maintain political neutrality, also with regard to open dialog with all democratic parties.

The independent tracking of issues relevant to the Group by means of political monitoring forms the basis for effective communication: parliamentary bills are already substantially drafted at a European level. It is therefore crucially important to identify legislative measures which directly or indirectly affect Group activities or its business environment at an early stage. To intensify this area of responsibility and the representation of the Group's interests at EU level, the Salzgitter Group has its own liaison office in Brussels staffed by one employee. Due to these political activities, Salzgitter AG (SZAG) has been registered in the EU's Transparency Register since 2014. Interested parties can obtain insights here into the resources spent for its political work at European level.

Besides policies on energy, the environment and climate protection (e.g. the transposition acts governing EU emissions trading from 2021, border adjustment mechanisms, low carbon technologies), the main political issues of the last few years actively followed by the Group included trade policy (EU trade protection procedures and instruments, in particular EU safeguards, and reform of the WTO), EU research and innovation policy (e.g. the ETS Innovation Fund, Important Projects of Common European Interest and Clean Steel Europe) as well as employment and social policies.

The Salzgitter Group has been trustfully working for years as a know-how incumbent with associations and cross-sectoral initiatives to follow legislative procedures and promote constructive cooperation between politics, industry and society. Representatives of the Group are actively engaged in political umbrella associations both at a national and European level. Among the most important of these are the Federation of German Industries, the Business Confederation of Lower Saxony, the European Steel Association Eurofer, the German Steel Federation as well as the European Hydrogen Association Hydrogen Europe and the German Hydrogen and Fuel-Cell Association (DWV). The foundation of all work in associations is a set of rules on compliance meeting legal requirements and the observance of a lawful code of conduct (see Chapter "Conduct compliance with laws and directives", "Corporate compliance"). SZAG also played an active role in the development of the Federal Government's "Action Plan for Steel – For a strong Steel Industry in Germany and Europe", and it is involved in its continuing implementation.

SZAG regularly participates on the employers' side in the "Sectoral social dialog – Steel" set up by the European Commission. Furthermore, delegates from the company take part in expert groups set up by the European Commission such as the "RFCS – Steel Advisory Group (SAG)", "RFCS – Technical Group (TGS9)". For this purpose, SZAG is a regular member of the German delegation in the OECD Steel Committee.

Conduct compliant with laws and directives

Corporate Compliance

Corporate Compliance, meaning the observance of all external and internal regulations (laws, ordinances, provisions in articles of association, rules of procedure, internal directives, etc.), is regarded as an important part of Corporate Governance in the Salzgitter Group. In its prudent and scrupulous management of the company, the Executive Board of Salzgitter AG (SZAG) goes above and beyond the observance of regulations as far as the actions of its Executive Board members and general managers is concerned, by employing systematic prevention to actively ensure that its employees also respect the regulations. In the process, it is supported by the Compliance Management Department. The Executive Board has installed a Compliance Management System (CMS) which focuses on the company's compliance risks. It includes numerous measures for avoiding, exposing and penalizing unlawful conduct, in particular corruption and antitrust violations, for example personal statements by members of the Executive Board, a code of conduct, a mission statement and a "Corporate Compliance" Group directive.

The scope of this Compliance Management System (CMS) comprises the processes in all SZAG's Group companies (Section 18 para. 1 German Stock Corporation Act). Its structure is tailored to the nature of the business and closely linked to the management organization to ensure the highest level of efficiency possible, i.e. responsibility for compliance corresponds to managerial responsibility.

All consolidated companies (100% of the operating facilities of the Salzgitter Group) are vetted first and foremost but not exclusively for corruption and competition risks with the aid of annual compliance surveys. No substantial risks were identified in 2020 for which there are no clear prevention measures in place. No significant fines or monetary sanctions were imposed on Group companies in 2020 due to failure to observe laws or regulations. For detailed information we refer to the legal risks described in Section "Opportunities and Risk Report, Guidance", "Individual Risks" of the management report in the annual Report. Sales of the Salzgitter Group were also generated in regions with a Transparency International Corruption Index of under 60 – also including some Western European countries – with due attention paid to the particular risk position. The main preventive measures include regular compliance training for employees on the subjects of criminal law governing corruption, antitrust law and the law on money laundering by means of e-learning which ensures a substantively uniform training standard throughout the world.

A Compliance Committee has been set up in the Group parent company as a platform to monitor, review and discuss current compliance issues, and as a joint opinion-forming and decision-making forum, for example, when the compliance organization is changed or special compliance measures are implemented. The committee is made up of the Chief Executive Officer, the Chief Financial Officer, the Legal/Insurance Manager and the Audit Manager. This Compliance Committee meets as warranted but at least twice a year to assess the CMS.

A whistleblower system consisting of internal reporting posts, a compliance hotline and external ombuds-person gives all employees the chance to report breaches of external and internal regulations to be observed in the course of company activities – also under the cloak of confidentiality – in order to minimize the damage and prevent similar breaches in the future.

The Executive Board portrays the corporate compliance situation of the Salzgitter Group to the Supervisory Board in a detailed compliance report every year and as and when needed. An Audit Committee set up by the Supervisory Board also addresses issues relevant to compliance. SZAG also reports on the Group's Corporate Compliance in a Corporate Governance report published annually.

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