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Annual Report 2021



SALZGITTERAG
People, Steel and Technology

Salzgitter AG ranks as one of Germany's companies rooted in a long tradition.

Our Strategy "Salzgitter AG 2030" marks the start of our journey to evolve into Europe's strongest steel and technology group.

The aim is to establish our Group as a market leader for circular economy solutions with innovative products and processes. Our "Pioneering for Circular Solutions" vision illustrates this leadership aspiration, the success of which hinges on strong partners and networks, as reflected in our "Partnering for Transformation" mission.

The Salzgitter Group comprises more than 150 domestic and international subsidiaries and associated companies and employs a workforce of over 24,000 employees worldwide. In the financial year 2021, we generated external sales of around € 10 billion, with a crude steel capacity of 7 million tons.

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The Salzgitter Group in Figures

		2021	2020
Crude steel production	kt	6,749	6,033
External sales	€ m	9,767	7,091
Strip Steel Business Unit	€ m	2,534	1,880
Plate/Section Steel Business Unit	€ m	945	684
Mannesmann Business Unit	€ m	1,157	947
Trading Business Unit	€ m	3,603	2,225
Technology Business Unit	€ m	1,360	1,207
Industrial Participations/Consolidation	€ m	167	148
EBIT before depreciation and amortization (EBITDA)	€ m	1,262	176
Earnings before interest and taxes (EBIT)	€ m	753	-119
Earnings before taxes (EBT)	€ m	706	-196
Strip Steel Business Unit	€ m	418	-87
Plate/Section Steel Business Unit	€ m	41	-94
Mannesmann Business Unit	€ m	-273	-62
Trading Business Unit	€ m	353	25
Technology Business Unit	€ m	59	1
Industrial Participations/Consolidation	€ m	108	21
Consolidated result	€ m	586	-274
Earnings per share – basic	€	10.74	-5.13
Return on capital employed (ROCE)¹⁾	%	16.2	-3.9
Cash flow from operating activities	€ m	329	18
Investments²⁾	€ m	367	411
Depreciation/amortization^{2) 3)}	€ m	-508	-295
Total assets	€ m	10,255	8,237
Non-current assets	€ m	4,250	4,244
Current assets	€ m	6,005	3,993
Inventories	€ m	3,123	1,934
Cash and cash equivalents	€ m	742	621
Equity	€ m	3,357	2,679
Liabilities	€ m	6,898	5,559
Non-current liabilities	€ m	3,247	3,476
Current liabilities	€ m	3,651	2,082
of which due to banks ⁴⁾	€ m	858	885
Net financial position on the reporting date⁵⁾	€ m	-544	-432
Employees			
Personnel expenses	€ m	-1,770	-1,654
Core workforce on the reporting date ⁶⁾	Employees	22,356	22,604
Total workforce on the reporting date ⁷⁾	Employees	24,255	24,416

Disclosure of financial data in compliance with IFRS

¹⁾ ROCE = EBIT I (= EBT + interest expenses excl. interest portion in transfers to pension provisions) divided by the sum of shareholders' equity (excl. calculation of deferred tax), tax provisions, interest-bearing liabilities (excl. pension provision) as well as liabilities from finance leasing and forfeiting

²⁾ Excluding financial assets

³⁾ Scheduled and unscheduled write-downs

⁴⁾ Current and non-current bank liabilities

⁵⁾ Including investments, e.g. securities and structured investments

⁶⁾ Excl. trainee contracts and excl. non-active age-related part-time work

⁷⁾ Incl. trainee contracts and incl. non-active age-related part-time work

Letter of the Executive Board

Valued Shareholders,
Ladies and Gentlemen:

Change permeates our daily life and makes one thing crystal clear: We all have to keep moving. To put it positively: We can – and we want to – keep moving. Change comes at the point of obsolescence, where what has been is no longer viable. Change seeks for equilibrium at a new level. If we find the right solutions to the challenges we face, we can make the way we conduct business healthier in the future – with a focus less on the cost and more on the benefit to us humans and nature. We view change as an opportunity.

And so with us at Salzgitter AG, the signs are set for change: We are taking up the societal mandate and are transforming our company at an accelerated pace. We have embarked on a journey which will make Salzgitter AG Europe's strongest steel and technology group – perhaps not measured by size and steel tonnage, but in the speed of innovation and commitment to transformation, in our pioneering role as a technology leader, which is to be reflected in economic prosperity, and ultimately also in the profile of an Employer of Choice. We want to shape a sustainable future, together with the next generation.

Our “Salzgitter AG 2030” strategy, which we presented to you a few weeks ago, has laid the foundations for these ambitions with a concept that will guide our actions in the years to come. The preconditions for successfully realizing our plans are good! Also because it is not just today that we have started to chart this course. Under the leadership of long-standing CEO Heinz Jörg Fuhrmann, our Group has built a sound financial foundation in past years. We will build on this basis and have set the course to ensure that we implement the most ambitious of our goals faster and with greater success: transformation away from coal-based steel production toward steel production harnessing hydrogen.

We formulate this goal somewhat more expansively in our strategy: Our objective is to establish the Group as a **market leader for circular economy solutions** with innovative products and processes. With this in mind, closed-loop value flows and supply chains are to be established in cooperation with customers and suppliers. With steel as our core product, this venture could work particularly well as steel is a material that can be endlessly and energy-efficiently recycled. Our aim is to keep resources once sourced from nature for as long as possible in economic use, thereby minimizing the additional introduction of finite resources into the economic cycle. We have adopted this principle as the core of our business activities.

We are in the comfortable position of already having a mature concept with implementation under way as part of our SALCOS® transformation program. The aim of this program is to replace the carbon required by steel production initially by natural gas and then through a gradual switch to hydrogen. We will have SALCOS® investment-ready by the summer of 2022 and, as from the end of 2025, be able to produce crude steel through hydrogen-based direct production at our Salzgitter site. The program is scheduled for full implementation by 2033, which is 12 years earlier than the plan to date and 17 years ahead of the original goal stated in 2015.

With a view to promoting the successful realization of the plan, we reorganized the SALCOS® project and gave it a new project structure at mid-year: The SALCOS® Office, reporting directly to the Chief Executive Officer, combines the entire technical and commercial expertise necessary for transforming crude steel production. Having signed agreements on collaboration with our partners, both customers and suppliers, at the start of 2022, we have now reached further, genuine milestones in implementing our strategy.

Let us now take a look at the figures of the financial year 2021: After two rather more challenging years for our company, we delivered the best result of the last 13 years in 2021. Earnings before taxes of € 706 million is an excellent result. Almost all Group companies benefited from a strong economic upswing. The rising price of rolled steel enabled the Strip Steel and Trading business units in particular to generate exceptional results. With the ramp-up phase of Ilseburg's new heat treatment line having commenced, and good progress made in building the third hot-dip galvanizing line in Salzgitter, we have made a great deal of headway in promoting our Group's development in the direction of qualitative higher-grade steel products. All this has been rewarded by the capital market: The value of the Salzgitter share rose by 45% over the course of the year.


Valued Shareholders,

Against the backdrop of the very good annual results, we are delighted to announce that we can put forward a proposal for dividend distribution at the coming Annual General Meeting of Shareholders on June 2. Together with the Supervisory Board, we intend to submit a proposal to you to distribute dividend of € 0.75 per share, which is 36% higher than the amount per share that we were last able to pay before the pandemic. Looking back, may we thank you for staying with us during these two years when dividend was suspended, which enabled us to concentrate our funds fully on forward-looking reorganization.

Our thanks also go to our employees who participated in this process of reorganization with great commitment and dedication, also over the past year. Day in, day out, we have seen a motivated team that is ready to inject life into our "Partnering for Transformation" in spite of the current difficulties. These are excellent prerequisites for Salzgitter to hold its successful and sustainable position on the markets – now and in the future.

We have a number of plans on the agenda for the coming year as well. We will be forging ahead with our numerous projects and, if the general environment allows, produce another good result, boosted by rising sales. The supply of raw materials, energy prices, inflation and, sadly, also events in the current global political arena – first and foremost the war in Ukraine, are variables that we are unable to influence. We can, however, prepare ourselves to the best of our ability. As in previous years, we rely on having you at our side, as owners, as a business partners, and as employees.

With our greetings and our wishes for Glückauf – good luck!



Gunnar Groebler



Burkhard Becker



Michael Kieckbusch



**Executive Board and
Heads of Business Units (f.l.):**
Ulrich Grethe
Burkhard Becker
Michael Kjeckbusch
Kai Acker
Gunnar Groebler
Dr. Sebastian Bross
Volker Schult

Report of the Supervisory Board



Chairman of the Supervisory Board
Heinz-Gerhard Wentze

After a difficult year in 2020, the company delivered the best pre-tax result for more than a decade in 2021, although the year continued to be impacted by the COVID-19 pandemic. Business developed significantly better than was originally anticipated at the start of the year. Especially the first half of the year saw a gratifying price and demand trend set in, above all in the Strip Steel and Trading business units. As from the end of the summer quarter, however, Salzgitter Group was increasingly affected by supply chain disruptions and their impact, along with rising raw material prices. The earnings forecast was nevertheless revised upward several times over the course of the year and ultimately resulted in the very gratifying performance. Against the backdrop of persistent volatility, however, the year 2022 remains subject to uncertainty as well.

Despite the significant improvement in the general environment, the Salzgitter Group continues to rigorously implement its efficiency and growth program, which contributed to its good performance. The goal of producing low CO₂ steel in the future was vigorously pursued. Furthermore, the Group continued to lobby at all political levels to gain the necessary financial support for its SALCOS® (Salzgitter Low CO₂ Steelmaking) program and for creating the necessary framework conditions to promote the transformation from coal-based to low-CO₂ steel production. These endeavors were embedded in an extensive examination of the Group's strategy for the next decade.

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

The Supervisory Board kept itself continuously informed in the financial year 2021 about the situation of the Group and the development of business. The Executive Board informed the Supervisory Board by way of detailed written quarterly reports about the Group's result of operations, the current financial position and the net assets, as well as about developments in the relevant markets, the course of business and the investments in the individual business units. The reports also comprised information on the developments and activities in the area of human resources as well as detailed estimates on the opportunities and risks over the course of the year and the effects of the COVID-19 pandemic. Moreover, the Supervisory Board held six meetings to obtain detailed oral reports on the respective current situation of the Group and the important Group companies, as well as on material business transactions and relevant changes. The development of business compared with corporate planning was explained to the Supervisory Board. Any deviations from planning were elaborated on, and then queried and discussed by the Board. Compensatory measures were discussed. In addition, meetings focused on the stage reached in implementing the groupwide "FitStructure 2.0" efficiency program and progress made in realizing the "Salzgitter AG 2021" growth program. In this financial year as well, the Supervisory Board devoted special attention to the long-term corporate strategy and planning, as well as to

the status of the SALCOS® program. Business transactions requiring the consent of the Supervisory Board were approved by the Board after thorough examination and consultation. Furthermore, between meetings, the Chairman of the Supervisory Board was kept regularly informed by the Executive Board Chairman on current topics

The Supervisory Board held regular meetings in the reporting year in the months of March, May, September and December, and convened extraordinary meetings in February and November. The attendance rate at the Supervisory Board meetings totaled 97.6%. Due to the restrictions from the coronavirus pandemic, and with the aim of avoiding the risk of infection, a number of the Supervisory Board's meetings were held exclusively via video conference. The Supervisory Board met mainly with the Executive Board attending. However, it discussed topics such as Executive Board remuneration and other matters affecting the Executive Board in the absence of the Executive Board members. Regular preliminary discussions, partly with and partly without the attendance of the Executive Board, served the purpose of initial consultation on the current situation and imminent decisions. No conflicts of interest were brought to the attention of the Supervisory Board in the reporting year, neither by the Supervisory Board members nor by members of the Executive Board.

Upon assuming their mandates, members newly appointed to the Supervisory Board in the financial year were supported, as is customary with all new Supervisory Board members, through an onboarding program that includes detailed information on the Group and its various business activities, along with an extensive manual with further information relevant to Supervisory Board activities.

Focus of the consultations of the Supervisory Board

On February 8, 2021, the Supervisory Board convened an extraordinary meeting. This meeting focused on the topic of decarbonization in steel production and on the SALCOS® program. The Supervisory Board had the Executive Board explain its SALCOS® concept and discussed the topic in detail with the Executive Board. In addition, the Supervisory Board had the Executive Board inform it about the current development of business.

In its meeting on March 10, 2021, and as is customary in March meetings, the Supervisory Board focused primarily on the financial statements of Salzgitter AG and of the Group, both drawn up as of December 31, 2020, as well as on the combined management report on the company and the Group for the financial year 2020. The representatives of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, the auditor selected by the Annual General Meeting of Shareholders, explained the key findings of their audit and answered the questions put to them by the Supervisory Board members. Following a detailed examination of the documentation pertaining to the financial statements, with the aid of the report of the auditor, the Supervisory Board ratified the separate and consolidated annual statements. Furthermore, the Supervisory Board determined the extent to which defined targets were achieved, based on fixed performance criteria, to ascertain the Executive Board's variable remuneration in 2020. In addition, it adopted its report to the Annual General Meeting of Shareholders and proposals for resolutions on the individual items of the agenda for the 2021 Annual General Meeting and approved the Executive Board's suggestion of again holding the Annual General Meeting of Shareholders as a virtual meeting. Furthermore, the Supervisory Board also consulted on the 2020 non-financial report on the Group and, following its own detailed examination, approved the audit findings in the report by the auditor. The Supervisory Board concerned itself on an ongoing basis with the development of business and with the steel industry's endeavors in the field of decarbonizing steel production. The transformation program as a whole and the relevant impact and requirements placed on the respective stakeholders were presented and discussed.

The main topics of consultation addressed by the Supervisory Board in its meeting on May 18, 2021 that – similar to the two preceding meetings – took place through the medium of a web conference due to the coronavirus pandemic, was concerned with the development of business and the efficiency and growth program.

In its meeting on September 9, 2021, the Supervisory Board elected Mr. Bloemers as the successor to Mr. Lauenroth to the position of member of the Audit and Strategy Committee. Furthermore, the Supervisory Board discussed the most recent business development and informed itself about the current status of the SALCOS® program. The Supervisory Board also had the Executive Board report in writing and orally on the Group's compliance management system and on investigated activities. It also informed itself about the content of Germany's Act on Strengthening Financial Market Integrity (FISG) and of the Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz), and the impact of this legislation on the Salzgitter Group.

A special information and training session on this legislation was held by the head of Salzgitter AG's Legal Department for the Supervisory Board members.

On November 17, 2021, the Supervisory Board had the Executive Board report in detail in the Supervisory Board meeting on the status of deliberations on the "Salzgitter AG 2030" strategy and discussed this in detail with the Executive Board.

On December 16, 2021, the Supervisory Board and the Executive Board discussed the corporate plan submitted and explained by the latter for the financial years 2022 through 2024. Moreover, the Supervisory Board was informed extensively about the status of the SALCOS® program and deliberations on the "Salzgitter AG 2030" strategy. Other topics of consultation in this meeting included the imminent defining of qualitative criteria determining variable Executive Board remuneration in 2022 for assessing the performance of the individual Executive Board members, as well as the stakeholder objectives for the performance period from 2022 through 2025. The Supervisory Board also concerned itself with the recommendations of the German Corporate Governance Code for purpose of submitting the Declaration of Conformity for 2021.

Work of the Committees

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

The Presiding Committee met four times in 2021. The committee consulted in detail on the development of business – specifically on the impact and the measures necessary to deal with challenges arising from the pandemic – along with the SALCOS® program and the corporate strategy. In addition, the Presiding Committee addressed the issue of appointing successors to the Supervisory Board, corporate planning, the components of variable Executive Board remuneration, and the recommendations of the German Corporate Governance Code.

The members of the Audit Committee held four meetings in the period under review. In March, as is customary in the March meeting, it prepared the examination of the 2020 annual financial statements at company and at Group level by the full Supervisory Board in the presence of the representatives from the auditor, in particular by way of in-depth consultation on the respective audit reports and the oral report by the representatives of the auditor on the key findings of the audit. In the context of its audit, the Audit Committee saw no reason to raise objections and recommended that the full Supervisory Board approve the annual financial statements. In the same way, the members of the Audit Committee examined the 2020 non-financial report on the Group in preparation. In addition, the Audit Committee once again focused on the independence of the external auditor as a routine task, in particular the scope of non-audit services provided by the auditor and the quality of the audit. The consultations of further meetings of the Audit Committee concerned IT security and IT structures, monitoring the accounting process, as well as the effectiveness of the internal control system, the risk management system, and the internal audit system. Moreover, the Audit Committee obtained detailed information on the Group's compliance management system and compliance measures. The Audit Committee also dealt with preparing the proposal of the Supervisory Board for the appointing of the statutory auditor for the financial year 2021 by the Annual General Meeting of Shareholders, the assignment of the audit engagement, and agreeing the fees with the statutory auditor. The quarterly financial reporting of the Group was discussed in detail with the Executive Board before publication.

In March 2022, following a detailed preliminary review, the Audit Committee recommended that the full Supervisory Board approve the 2021 annual financial statements at company and at Group level. Its preliminary review of the 2021 non-financial report on the Group did not give rise to any objections either.

The Strategy Committee held one meeting in 2021. The main emphasis was placed on the status of deliberations on the "Salzgitter AG 2030" strategy. This meeting in September 2021 also concentrated on preparing the extraordinary Supervisory Board meeting on November 17, 2021 that was dedicated to discussing the corporate strategy in a plenary session of the Supervisory Board.

The Nomination Committee held two meetings in 2021.

Participation of the Supervisory Board members in Supervisory Board and committee meetings
in the financial year 2021

Members of the Supervisory Board	SB meetings (6)	Presiding Committee (4)	Audit Committee (4)	Strategy Committee (1)	Nomination Committee (2)	Attendance
Heinz-Gerhard Wente, Chairman	6/6	4/4	/	1/1	2/2	100%
Dr. Hans-Jürgen Urban, Vice Chairman	6/6	4/4	/	1/1	/	100%
Konrad Ackermann	5/6	/	3/4	1/1	/	82%
Manuel Bloemers (since 07/2021)	3/3	/	1/1	1/1	/	100%
Ulrike Brouzi	5/6	/	/	/	/	83%
Annelie Buntenbach (until 06/2021)	3/3	/	/	/	/	100%
Hasan Cakir	5/6	3/4	/	1/1	/	82%
Dr. Bernd Drouven	6/6	/	/	1/1	/	100%
Roland Flach	6/6	/	4/4	/	/	100%
Gabriele Handke	6/6	/	/	/	/	100%
Reinhold Hilbers	5/6	3/4	/	1/1	2/2	92%
Norbert Keller	6/6	/	/	/	/	100%
Frank Klingebiel (since 05/2021)	3/3	/	/	/	/	100%
Prof. Dr. Susanne Knorre	6/6	/	/	/	/	100%
Dr. Dieter Köster (until 06/2021)	3/3	/	/	/	/	100%
Heinz Kreuzer	6/6	/	/	/	/	100%
Bernd Lauenroth (until 06/2021)	3/3	/	2/2	/	/	100%
Volker Mittelstädt	6/6	/	/	/	/	100%
Klaus Papenburg (since 07/2021)	3/3	/	/	/	/	100%
Anja Piel (since 07/2021)	3/3	/	/	/	/	100%
Prof. Dr. Joachim Schindler	6/6	/	4/4	/	/	100%
Christine Seemann	6/6	/	/	/	/	100%
Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer	6/6	/	/	1/1	/	100%
Clemens Spiller	6/6	/	/	/	/	100%
Dr. Werner Tegtmeier (until 05/2021)	3/3	/	/	/	/	100%

Audit of the Annual Financial Statements of Salzgitter AG and the Consolidated Financial Statements

In its meeting on March 17, 2022, the Supervisory Board conducted a detailed examination of the financial statements of SZAG and of the Group, both drawn up as of December 31, 2021, as well as of the joint management report on the company and on the Group for the financial year 2021. Prior to this meeting, the independent auditor Ernst & Young Wirtschaftsprüfungsgesellschaft, Hanover, Germany, selected by the Annual General Meeting of Shareholders, reviewed both sets of financial statements and issued an unqualified \nearrow “auditors’ opinion”. The auditor thereby confirmed that the accounting, valuation and consolidation carried out in the consolidated financial statements complied with the International Financial Reporting Standards (IFRS). Furthermore, as part of its assessment of the early risk detection system, the auditor ascertained that the Executive Board had taken the steps required by the German Stock Corporation Act (AktG) for the early recognition of risks that could endanger the company as a going concern.

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

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

Non-financial report on the Group

In its meeting on March 17, 2022, the Supervisory Board also addressed the topic of the non-financial Group report for 2021. Prior to this, KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, Germany, conducted an audit on the report on behalf of the Supervisory Board and issued the following opinion:

“Based on the audit activities performed and the audit evidence obtained, no matters have come to our attention that cause us to believe that the report of Salzgitter for the period from January 1 to December 31, 2021 has not been prepared, in all material respects, in accordance with Sections 315b, 315c in conjunction with Sections 289c through 289e of the German Civil Code (HGB).”

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

Changes to the Supervisory Board

Dr. Werner Tegtmeier, neutral member of the Supervisory Board, laid down his office at the end of the 2021 Annual General Meeting of Shareholders. Upon the proposal of the shareholder and employee representatives on the Supervisory Board, the Annual General Meeting of Shareholders elected Mr. Frank Klingebiel to the Supervisory Board of Salzgitter AG with effect from the end of the 2021 Annual General Meeting of Shareholders until the end of the Supervisory Board’s current term of office.

Dr. Dieter Köster, shareholder representative, laid down his mandate with effect from June 30, 2021. The Annual General Meeting of Shareholders elected Mr. Klaus Papenburg as a member of the Supervisory Board with effect from July 1, 2021 until the end of the Supervisory Board’s current term of office.

Ms Annelie Buntenbach and Mr. Bernd Lauenroth, both representatives of the employees, also laid down their office. Ms Anja Piel and Mr. Manuel Bloemers were appointed by the court as successors with effect from July 22, 2021 and July 1, 2021 respectively until the end of the Supervisory Board’s current term of office.

Changes to the Executive Board

The Supervisory Board appointed Mr. Gunnar Groebler as member of the Executive Board, effective May 17, 2021, and as Chairman of the Executive Board effective July 1, 2021. In the latter function, Mr. Groebler follows on from Prof. Dr.-Ing. Heinz Jörg Fuhrmann who withdrew from the Executive Board on June 30, 2021.

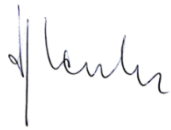
The Supervisory Board thanks Ms Buntenbach, Dr. Köster, Mr. Lauenroth and Dr. Tegtmeier for their many years of service in promoting the company.

The Supervisory Board's special thanks go to Prof. Fuhrmann who has left his mark on the company in various different lines of business over many decades since the company's listing in 1998. Despite difficult times, he led the company to profitable growth and paved the way for the decarbonization of steel production at an early stage. This is the foundation for the company's future successful development under the leadership of the current Executive Board. Our very best wishes accompany Prof. Fuhrmann in the new chapter of his life.

Our thanks go to the Executive Board and to all the employees of the Group for their dedicated work and sound commitment throughout the financial year 2021.

Salzgitter, March 17, 2022

The Supervisory Board



Heinz-Gerhard Wente
Chairman

Management Report

Group Management Report and Management Report, combined

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Company and Organization

Group Structure and Operations

With a crude steel capacity in excess of 7 million tons per annum, more than 24,000 employees, and external sales totaling around € 10 billion in the financial year 2021, the Salzgitter Group ranks among Europe's leading steel technology and plant engineering corporations. A worldwide network of subsidiaries and affiliated companies ensures the Group's global presence.

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

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

All major companies belonging to the Salzgitter Group are combined under the intermediate holdings of Salzgitter Mannesmann GmbH (SMG) and Salzgitter KlöcknerWerke GmbH (SKWG). SKWG also comprises the Group's Finance Department that facilitates centralized and unrestricted financial management for the Group. As the management holding, SZAG manages SMG and SKWG along with all major affiliated companies. The Executive Board of SZAG is composed of the same persons as the management boards of SMG and SKWG. The management and control of the Group are therefore carried out by the executive and supervisory bodies responsible for SZAG (Executive Board, Supervisory Board). The activities of the business units are coordinated by the heads of the business units. They are generally also the chief operating officers each of a large subsidiary belonging to their respective unit. The Executive Board and business unit managers together form the Group Management Board. This structure ensures that the activities of the companies are directly coordinated and managed across the business units, while remaining close to actual operations.

Strategy

Salzgitter AG 2030

With our “Salzgitter AG 2021” strategy, we achieved important milestones for the Group’s future development. Salzgitter AG’s strategy has now been redefined following the appointment of a new Chief Executive Officer in the summer of 2021. The new “Salzgitter AG 2030” corporate strategy was released at the start of 2022. The Group’s core set of values, anchored in tradition, a spirit of partnership and entrepreneurial independence, is to be preserved and reinforced.

Vision and mission

The objective of the “Salzgitter AG 2030,” corporate strategy is to position Salzgitter AG as an independent group of companies at the center of a circular economy. With innovative products and processes, underpinned by strong partnerships and networks, we want to establish ourselves as a market leader for circular economy solutions. The new “Pioneering for Circular Solutions” vision clearly and emphatically illustrates our circularity leadership aspiration.

For the Salzgitter Group, circularity means keeping resources once sourced from nature in economic use for as long as possible, thereby minimizing the additional introduction of finite resources into the economic cycle. In steel, we are producing a sustainable material that is ideal for circularity in that it can be infinitely recycled without quality losses. Furthermore, steel, with its broad application spectrum, is the starting point in numerous supply chains for other circular materials and products. We are building on this foundation by extending the offering of steel produced virtually free of CO₂, through reinforcing our scrap recycling activities, and by stepping up the recycling of by-products. The Trading and Technology business units’ product portfolios will also focus more intensively on sustainable market segments and customer solutions, while promoting low-CO₂, resource-conserving and closed flows of energy and material.

Our “Partnering for Transformation” mission highlights the significance of the interaction between all business units, products, technologies, employees and partnerships in achieving our goals and points the way toward profitable and successful transformation.

SALCOS® (Salzgitter Low CO₂ Steelmaking)

The SALCOS® program is the linchpin of our low-CO₂ steel production and an integral part of the transformation envisaged. Owing to its key significance, and to the intense discussion in society on decarbonization, we will be accelerating the implementation of SALCOS® under the new corporate strategy for completion by 2033. By the end of 2025, therefore two years earlier than originally planned, we want to be producing 30% of Salzgitter Flachstahl GmbH’s primary steel production without coking coal. The engineering approach of SALCOS® targets the direct avoidance of CO₂ emissions (Carbon Direct Avoidance (CDA)) in the production process by harnessing hydrogen to incrementally replace the carbon necessary for steel production, initially mainly by natural gas and then by 100% green hydrogen at a later stage in the direct reduction plant to be built. Further information on SALCOS® can be found at <https://salcos.salzgitter-ag.com/en/index.html>.

Strategic cornerstones and areas of activity

The “Salzgitter AG 2030” strategy is based on the cornerstones and areas of activity described in the following.

Circularity:

We are strengthening closed-loop value flows, both within our company and in cooperation with our customers and suppliers, and forming a closed-loop value chain that meshes with the economy and society of the future.

- **Aligning of the product portfolio to circular, sustainable market segments**

We are expanding our portfolio in green markets. We are focusing, for instance, on steel for wind turbines and trading in green steel.

- **Converting business and processes into closed-loop value streams**
With our products and services, we are concentrating on areas that enable low CO₂, energy efficient and closed-loop production chains.
- **Establishing and building up closed loops together with our customers**
By recycling and reusing raw materials and products, we keep them in use in the process chains.
- **Energetically CO₂-neutral steel production**
We are already producing steel based on scrap at our Peine location. Certified to the VERIsteel Standard of TÜV Süd (German technical inspectorate), we are able to lower the carbon footprint in this location compared with the conventional blast furnace route by more than 75% in the CO₂ footprint of slabs and by more than 66% in that of galvanized coils. We are engaged in the process of steadily leveraging the potential for lowering the carbon footprint, for instance by harnessing green electricity. In addition, as described above, we want to have fully implemented our SALCOS® program by 2033, including completing the conversion to CO₂-neutral production at the Salzgitter location. We are securing critical stages in the value chain (DR pellets, green electricity, scrap, for instance) through partnerships.

Growth & customer solutions

We are expanding our offerings in particularly promising areas and tapping new sources of earnings.

- **Focus**
We are concentrating on growing market segments with our offerings and intensifying our vertical integration in these areas. We will be adjusting our portfolio in line with this strategy.
- **Internationalization**
We are aiming to expand our activities in Eastern Europe and exploit new opportunities in global markets, such as in the US and Asia.
- **New digital areas of business and services**
Drawing on our core business, we are developing new digital offerings and opening up further business opportunities through acquisitions.

Profitability

We are strengthening our earnings power and setting benchmarks in a European peer comparison in the area of profitability.

- **Moving boundaries**
We are concentrating on products with high added value. The foundations for this are being laid by two major investments: the new Heat Treatment Line in Ilsenburg and the Hot Dip Galvanizing Line 3 at the Salzgitter site.
- **Fitness/operational excellence**
We are pressing ahead with our successful profit improvement program (PIP) and significantly expanding it.
- **Innovation**
We continue to develop our process technologies and to create new and innovative products, in particular with the aim of supporting our customers in their own endeavors toward decarbonization (Scope 3).
- **Digitalization**
We are driving digitalization across all process stages, from administration through to production and on to volatility management and distribution/trading.
- **Energy procurement**
Against the backdrop of the electricity price trend, we are using all economically viable options to minimize our energy consumption and to switch the energy supply to renewable sources. For instance, as from 2023, we have already secured initial volumes of green electricity via Power Purchase Agreements (PPA). Where useful, we will supplement our portfolio through our own power production sourced from renewable energies.

Corporate culture

People will play a critical role in the aforementioned entrepreneurial transformation. People are the dynamic driver, ensuring implementation, and, as pioneers, are therefore the key factor for success. In full awareness of this, we have initiated a process to develop our corporate culture running parallel to our strategy program. In these activities, we are using our YOUNITED mission statement and developing it in the direction of setting new strategic priorities. Our self-image and the “Salzgitter AG 2030” strategy will also be visibly transported through the new corporate claim. This claim perpetuates “Steel and Technology”, the basis on which our Group stands, and supplements it by adding a component that will be key to our success in the future: people. Consequently, “Salzgitter AG – Steel and Technology” has now become “Salzgitter AG – People, Steel and Technology”.

More information on our new corporate strategy can be found on our homepage at: ↗ <https://www.salzgitter-ag.com/en/company/strategy>.

Management and Control

The Executive Board

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

In the financial year 2021, the following members belonged to the Executive Board of SZAG and held memberships in the following a) statutory supervisory boards and b) comparable domestic and foreign controlling bodies of commercial enterprises:

Prof. Dr.-Ing. Heinz Jörg Fuhrmann, until June 30, 2021

Chairman

Non-listed consolidated companies:

- a)
 - Hüttenwerke Krupp Mannesmann GmbH, Duisburg (Chairman), until July 15, 2021
 - Ilseburger Grobblech GmbH, Ilseburg (Chairman), until June 30, 2021
 - KHS GmbH, Dortmund (Chairman), until June 30, 2021
 - Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr (Chairman), until June 30, 2021
 - Peiner Träger GmbH, Peine (Chairman), until June 30, 2021
 - Salzgitter Flachstahl GmbH, Salzgitter (Chairman), until June 30, 2021
 - Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Chairman), until June 30, 2021
 - Salzgitter Mannesmann Handel GmbH, Düsseldorf (Chairman), until June 30, 2021
- b)
 - Ilseburger Grobblech GmbH, Ilseburg, and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council, Chairman), until June 30, 2021

Other non-listed companies:

- a)
 - Öffentliche Lebensversicherung Braunschweig, Braunschweig
 - Öffentliche Sachversicherung Braunschweig, Braunschweig
 - TÜV Nord AG, Hanover

Listed companies:

- a)
 - Aurubis AG, Hamburg, until September 30, 2021
 - Outokumpu Oyj, Helsinki, since April 1, 2021

Gunnar Groebler since May 17, 2021

Member since May 17, 2021

Chairman since July 1, 2021

Non-listed consolidated companies:

- a)
 - Ilseburger Grobblech GmbH, Ilseburg (Chairman), since July 1, 2021
 - KHS GmbH, Dortmund, since July 1, 2021
 - Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr, since July 1, 2021
 - Peiner Träger GmbH, Peine (Chairman), since July 1, 2021
 - Salzgitter Flachstahl GmbH, Salzgitter (Chairman), since July 1, 2021
 - Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Chairman), since July 1, 2021
 - Salzgitter Mannesmann Handel GmbH, Düsseldorf (Chairman), since July 1, 2021
- b)
 - Ilseburger Grobblech GmbH, Ilseburg, and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council, Chairman), since July 1, 2021

Other non-listed companies:

- a)
 - Semco Maritime A/S, Esbjerg, Denmark

Listed companies:

- a)
 - Aurubis AG, Hamburg, since October 1, 2021

Burkhard Becker

Finance

Non-listed consolidated companies:

- a)
 - Hüttenwerke Krupp Mannesmann GmbH, Duisburg (Second Vice Chairman), since July 16, 2021
 - EUROPIPE GmbH, Mülheim an der Ruhr
 - KHS GmbH, Dortmund (Chairman since September 23, 2021)
 - Peiner Träger GmbH, Peine
 - Salzgitter Flachstahl GmbH, Salzgitter
 - Salzgitter Mannesmann Handel GmbH, Düsseldorf
 - Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr, since October 1, 2021 (Chairman since November 19, 2021)
- b)
 - Hansaport Hafenbetriebsgesellschaft mbH, Hamburg
 - Ilsenburger Grobblech GmbH, Ilsenburg, and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council)

Other non-listed companies:

- a)
 - Warburg Invest AG, Hanover

Michael Kieckbusch

Personnel

Non-listed consolidated companies:

- a)
 - KHS GmbH, Dortmund
 - Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr
 - Peiner Träger GmbH, Peine
 - Salzgitter Flachstahl GmbH, Salzgitter
 - Salzgitter Mannesmann Handel GmbH, Düsseldorf
 - Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter (Chairman)
- b)
 - Hansaport Hafenbetriebsgesellschaft mbH, Hamburg (Supervisory Board, Chairman)
 - Ilsenburger Grobblech GmbH, Ilsenburg, and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council)

Other non-listed companies:

- b)
 - Allianz für die Region GmbH, Braunschweig (Supervisory Board)
 - Projektgesellschaft Salzgitter-Watenstedt GmbH, Salzgitter (Supervisory Board, Vice Chairman)
 - Wohnungsbaugesellschaft mbH Salzgitter, Salzgitter (Supervisory Board, Vice Chairman)

Group Management Board

Prof. Dr.-Ing. Heinz Jörg Fuhrmann

Chairman until June 30, 2021

Gunnar Groebler

Member since May 17, 2021

Chairman since July 1, 2021

Kai Acker

Technology Business Unit

Burkhard Becker

Finance and Mannesmann Business Unit

Dr.-Ing. Sebastian Bross

Plate/Section Steel Business Unit

Ulrich Grethe

Strip Steel Business Unit

Michael Kieckbusch

Personnel

Volker Schult

Trading Business Unit

Supervisory Board

In the financial year 2021, the following members belonged to the Supervisory Board of SZAG and held memberships in the following a) statutory supervisory boards and b) comparable domestic and foreign controlling bodies of commercial enterprises:

Heinz-Gerhard Wente

Chairman

Member of the Management Board of Continental AG, retired, Hanover

Other non-listed companies:

- b)
 - Alpha ABMD Holdco B.V., Alkmaar, Netherlands (Supervisory Board member)

Dr. Hans-Jürgen Urban

Vice Chairman

Chairman Member of the Management Board of Industriegewerkschaft Metall, Frankfurt am Main

Non-listed consolidated companies:

- a)
 - Salzgitter Flachstahl GmbH, Salzgitter (Vice Chairman)

Konrad Ackermann

Chairman of the General Works Council of KHS GmbH, Dortmund

Non-listed consolidated companies:

- a)
 - KHS GmbH, Dortmund

Manuel Bloemers since July 1, 2021

Union Secretary, IG Metall Management Board, Düsseldorf

Other non-listed companies:

- a)
 - Speira GmbH, Grevenbroich (Vice Chairman)
 - Hydro Aluminium Deutschland GmbH, Grevenbroich (Vice Chairman)
 - Aluminium Norf GmbH, Neuss

Ulrike Brouzi

Member of the Management Board of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

Other non-listed companies:

- a)
 - Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall
 - R+V Allgemeine Versicherung AG, Wiesbaden
 - R+V Lebensversicherung AG, Wiesbaden
 - Union Asset Management Holding AG, Frankfurt am Main
 - DZ CompliancePartner GmbH, Neu-Isenburg (Vice Chairwoman)

Annelie Bunttenbach until June 30, 2021

Managing Member of the National Executive Board of the German Trade Union Federation (DGB), retired, Berlin

- No membership in other governing bodies

Hasan Cakir

Chairman of the Group Works Council of Salzgitter AG, Salzgitter

Chairman of the Works Council of Salzgitter

Flachstahl GmbH, Salzgitter

Non-listed consolidated companies:

- a)
 - Salzgitter Flachstahl GmbH, Salzgitter

Dr. Bernd Drouven

Member of the Executive Board of Aurubis AG, retired, Hamburg

- No membership in other governing bodies

Roland Flach

Chairman of the Executive Board of Klöckner-Werke AG, retired, Duisburg

Chairman of the Management Board of KHS AG, retired, Dortmund

Non-listed consolidated companies:

- a)
 - KHS GmbH, Dortmund

Gabriele Handke

Chairwoman of the Works Council of Peiner Träger GmbH, Peine

Non-listed consolidated companies:

- a)
 - Peiner Träger GmbH, Peine

Reinhold Hilbers

Minister of Finance of the Federal State of Lower Saxony

Other non-listed companies:

- a)
 - Norddeutsche Landesbank Girozentrale, Hanover (Chairman)
 - Deutsche Messe AG, Hanover
- b)
 - KfW-Bankengruppe (Board of Administration)

Norbert Keller

Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH, Duisburg

Non-listed consolidated companies:

- a)
 - Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr

Frank Klingebiel since May 19, 2021

Lord Mayor of the independent City of Salzgitter, Salzgitter

Other non-listed companies:

- a)
 - Braunschweigische Landessparkasse, Braunschweig, Board of Administration (First Vice Chairman)
 - Öffentliche Versicherung Braunschweig, Braunschweig, Supervisory Board
 - Helios Klinikum Salzgitter GmbH, Salzgitter, Supervisory Board (Vice Chairman)
- b)
 - WEVG Salzgitter GmbH & Co. KG, Salzgitter, Supervisory Board (Chairman)
 - ASG Abwasserentsorgung Salzgitter GmbH, Salzgitter, Supervisory Board
 - Versorgungszentrum Salzgitter GmbH, Salzgitter, Supervisory Board (Chairman)
 - Projektgesellschaft Salzgitter-Watenstedt GmbH, Salzgitter, Supervisory Board (Chairman)
 - Wohnungsbaugesellschaft mbH Salzgitter, Salzgitter, Supervisory Board (Chairman)
 - Kraftverkehrsgesellschaft mbH Braunschweig, Salzgitter, Supervisory Board
 - Allianz für die Region GmbH, Braunschweig, Supervisory Board

Prof. Dr. Susanne Knorre

Business consultant

Other non-listed companies:

- a)
 - Deutsche Bahn AG, Berlin
 - Norddeutsche Landesbank Girozentrale, Hanover
 - Rain Carbon Germany GmbH (formerly RÜTGERS Germany GmbH), Castrop-Rauxel
 - STEAG GmbH, Essen

Dr. Dieter Köster until June 30, 2021

Managing Shareholder of HomeStead GmbH & Co. KG, Osnabrück

Chairman of the Executive Board of Köster Holding AG, retired, Osnabrück

Other non-listed companies:

- a)
 - Köster Holding SE, Osnabrück (Chairman)

Heinz Kreuzer

Chairman of the Management Board of

TUI InfoTec GmbH, retired, Hanover

Chairman of the Management Board of eves_information technology AG, Braunschweig, until December 31, 2021

Other non-listed companies:

- b)
 - eves_information technology AG, Braunschweig (Supervisory Board), since January 1, 2022
 - Safarihub Europe Ltd, Harrow, Middlesex, United Kingdom

Bernd Lauenroth until June 30, 2021

Secretary of the Management Board of Industriegewerkschaft Metall, Branch Office Düsseldorf

- No membership in other governing bodies

Volker Mittelstädt

Chairman of the Works Council of Ilsenburger Grobblech GmbH, Ilsenburg

Non-listed consolidated companies:

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

Klaus Papenburg since July 1, 2021

Member of the Management Board of GP

Günter Papenburg AG, Halle

Other non-listed companies:

- a)
 - Member of the Advisory Council of STOCKMEIER Holding GmbH, Bielefeld

Anja Piel since July 22, 2021

Member of the Federal Executive Board of

Deutscher Gewerkschaftsbund, Berlin

- No membership in other governing bodies

Prof. Dr. Joachim Schindler

Member of various supervisory boards:

Other non-listed companies:

- a)
 - CORE SE, Berlin (Chairman) until July 23, 2021
 - Zoologischer Garten Berlin AG, Berlin
 - Rocket Internet SE, Berlin (Vice Chairman)

Christine Seemann

Works Council member of Salzgitter Flachstahl GmbH, Salzgitter and Chairwoman of ARGE Strip Steel Business Unit

- No membership in other governing bodies

Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer

Director of Production and Technology
Bayerischer Rundfunk, Munich

Other non-listed companies:

- b) ▪ Bavaria Studios & Production und Services GmbH, Geiseltal (Supervisory Board, Chairwoman)
- Bayern Digital Radio GmbH, Munich (Supervisory Board)

Clemens Spiller

Systems analyst, Chairman of the Works Council of GESIS mbH

- No membership in other governing bodies

Dr. Werner Tegtmeier until May 19, 2021

State Secretary, retired, of the Federal Ministry of Labor and Social Affairs

- No membership in other governing bodies

Committees of the Supervisory Board

Presiding Committee:

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

Audit Committee:

Prof. Dr. Joachim Schindler (Chairman)
Konrad Ackermann
Manuel Bloemers since September 9, 2021
Roland Flach
Bernd Lauenroth until June 30, 2021

Strategy Committee:

Heinz-Gerhard Wente (Chairman)
Konrad Ackermann
Manuel Bloemers since September 9, 2021
Hasan Cakir
Dr. Bernd Drouven
Reinhold Hilbers
Bernd Lauenroth until June 30, 2021
Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer
Dr. Hans-Jürgen Urban

Nomination Committee:

Reinhold Hilbers
Heinz-Gerhard Wente

Declaration of Corporate Governance

The corporate governance of Salzgitter AG (SZAG) is geared to ensuring the sustainable development and long-term success of the company in harmony with the principles of a social market economy and in observance of its corporate responsibility for people and the environment. This is based on the provisions set out under German stock corporation law and the recommendations laid down in German Corporate Governance Code 7 (<http://www.dcgk.de/en/home.html>). It is therefore both intrinsically important to us and our obligation to ensure that the prevailing laws are complied with at all times, that generally accepted basic values in dealing with people and companies are observed, and that nature is preserved in conducting the company's business.

2021 Declaration of Conformity with the recommendations of the German Corporate Governance Code

The Executive Board and Supervisory Board submitted the following declaration in respect of the recommendations of the German Corporate Governance Code, pursuant to Section 161 of the German Stock Corporation Act (AktG):

"In 2021, Salzgitter AG conformed – and currently continues to conform – to all of the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice and for Consumer Protection in the official section of the Federal Gazette, with the exception of the recommendation B.3 stipulating that an executive board member should be initially appointed for a maximum period of three years, recommendation G.10 sentence 1 stipulating that variable remuneration amounts should mainly be granted in shares of the company or based on shares, as well as G.13 stipulating that, if executive board activity is prematurely terminated, the amount of payment to an Executive Board member should not exceed two year's remuneration.

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

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

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

Ethical standards of SZAG

Beyond the statutory requirements placed on managing companies and the recommendations of the German Corporate Governance Code, we have developed a mission statement by the name of "YOUNITED" for our Group. In this process, employees from all Group companies across all hierarchical levels defined a shared system of values, among other things. This system includes values such as reliability, fairness and sustainability. You will find our mission statement on our website at [7 https://www.salzgitter-ag.com/en/company/mission-statement-younited.html](https://www.salzgitter-ag.com/en/company/mission-statement-younited.html).

Moreover, the Executive Board has defined a set of clear rules regulating conduct for all the Group's employees in the form of a Code of Conduct that they are to follow in carrying out their activities. This Code of Conduct also includes compliance with the law, commitment to fair competition and the rejection of corruption of any kind. In addition, these rules enable the trustful cooperation of the employees among themselves and honest dealings with one another and with business partners. The Code of Conduct can also be accessed on our website at [7 https://www.salzgitter-ag.com/en/corporate-social-responsibility.html](https://www.salzgitter-ag.com/en/corporate-social-responsibility.html).

The shareholders of SZAG

The shareholders principally exercise their rights at general meetings of shareholders. Each shareholder of SZAG is entitled to participate in the Annual General Meeting of Shareholders, which takes place at least once a year, to ask pertinent questions and submit relevant motions and to exercise their voting rights. Fundamental

decisions affecting the company, such as changes to the Articles of Incorporation, the appropriation of annual profit, the election of shareholder representatives to the Supervisory Board, the raising or lowering of capital, or the selection of the annual independent auditor are reserved for the Annual General Meeting of Shareholders. It also decides on the remuneration of the Supervisory Board. We facilitate the process of shareholders exercising their voting rights without having to personally take part in the Annual General Meeting of Shareholders: They can appoint a proxy of the company and instruct this person on how they wish to exercise their voting rights.

At <https://www.salzgitter-ag.com/en/investor-relations/shareholders-meeting.html>, you will find the results of the 2021 Annual General Meeting of Shareholders.

The Executive Board of SZAG

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

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

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

Appointing of members and composition of SZAG's Executive Board

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

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

- that the member to be appointed possesses the personal competence, skills and expertise necessary for professionally and responsibly performing their tasks; this includes, on the one hand, the specific skills and knowledge for heading up the executive portfolio in question and, on the other, the necessary leadership skills for participating in the management of both company and Group by the entire Executive Board,
- that, along with their suitability in terms of personal competence, skills and expertise, consideration is also given to age as far as possible, on the one hand in order to permit service to the company for a number of years so as to promote continuity and sustainability in corporate management and, on the other, to have younger persons who are familiar with more recent specialist knowledge and management methods as well as older persons on the Executive Board who have greater professional, life and management experience represented on the Executive Board,

- that, in the case of equal suitability of personal competence, skills and expertise, as far as possible both male and female persons are represented on the Executive Board, with the Supervisory Board targeting a proportion of women of at least 30% by June 30, 2025 in the event of any future opening for a successor,
- that, along with their suitability in terms of personal competence, skills and expertise, members of the Executive Board have as wide a range of educational backgrounds as possible, including technical, business, legal and other humanistic and scientific disciplines.

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

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

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

Working practices of the Executive Board

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

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

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

The Supervisory Board of SZAG

The core tasks of the Supervisory Board are to advise and supervise the Executive Board in its management of the company. In accordance with the law, certain fundamental decisions may only be made with its approval. It has determined that, in addition, certain types of transactions require its approval. The members of the Supervisory Board are liable to the company for any dereliction of duty.

Composition and working practices of SZAG's Supervisory Board

The Supervisory Board comprises 21 members, specifically ten shareholder and ten employee representatives plus one other member. This composition has been laid down under the provisions of the Co-Determination Amendment Act applicable to the company, in conjunction with Article 7 of the company's Articles of Incorporation. In the proposals for election or, in the case of the judicial appointment of Supervisory Board members, the Supervisory Board ensures that the candidates have generally not reached the age of 70 at the start of their term of office and, in the case of judicial appointments, when they join the Supervisory Board. Once the mandate has been accepted, SZAG supports new members of the Supervisory Board by offering them an onboarding program that presents the Group and its business activities. In addition, each Supervisory Board

member is provided with an extensive manual comprising information on the Group relevant to Supervisory Board activities. Furthermore, SZAG supports Supervisory Board members with measures for continuous professional development. The Supervisory Board regularly assesses how effectively it performs its tasks overall and the effectiveness of its committees. No self-assessment was carried out in the financial year 2021, but is planned again for the financial year 2022, an assessment having been conducted in the financial year 2020 on the basis of a questionnaire addressed to the Executive Board and Supervisory Board.

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

The shareholder representatives serving on the Supervisory Board consider at least six independent shareholder representatives on the Supervisory Board to be an appropriate number. In the opinion of the shareholder representatives, the following shareholder representatives can be considered independent within the meaning of the German Corporate Governance Code: Dr. Bernd Drouven, Roland Flach, Reinhold Hilbers, Prof. Dr. Susanne Knorre, Heinz Kreuzer, Klaus Papenburg, Prof. Dr. Joachim Schindler, Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer and Heinz-Gerhard Wentz.

The shareholder representatives also consider Dr. Drouven to be independent. In the year of his appointment in 2018, Dr. Drouven was a member of the Supervisory Board of Aurubis AG in which the company holds a participating investment. He nevertheless withdrew from the Supervisory Board of Aurubis AG in the same year.

In December 2017, the Supervisory Board defined the objectives set out below as further important goals for its composition and competence profile: Along with all statutory requirements placed on the individual Supervisory Board members, they should possess the necessary expertise and personal competence anchored in expert knowledge, capabilities and experience, as well as in their personal suitability for assuming the tasks incumbent on them. As a whole, they must be familiar with the sectors of steel and mechanical/plant engineering. Among the members there should be persons with technical expertise, experience in managing companies and in developing corporate strategies, with knowledge of financial instruments and preferably international experience. At least one member must be specially qualified in accounting and the auditing of financial statements (in view of the meanwhile new legislation under Germany's Financial Market Integrity Strengthening Act (FISG), at least one member must be specially qualified in accounting and one other member in the auditing of financial statements). Similarly, at least one member must have special knowledge and experience in applying accounting standards and in internal control procedures. With Supervisory Board proposals to be put to the 2018 Annual General Meeting of Shareholders and in 2021 for the by-election of Supervisory Board members, the objectives of the Supervisory Board for its composition and the competence profile that it has drawn up for the entire Board have been fulfilled; this also applies to the meanwhile more extensive legal requirements.

Diversity concept for the composition of SZAG's Supervisory Board

In selecting candidates for its proposals for the election of Supervisory Board members to be put forward to the Annual General Meeting of Shareholders, the Supervisory Board gives consideration to the following:

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

- along with suitability in terms of personal competence, expertise and skills, that such persons come as far as possible from the widest educational backgrounds – including technical, business, legal and other humanistic and scientific disciplines – with different professional backgrounds – including professionals from technical, business, scientific and legal professions.

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

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

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

Working practices of the Supervisory Board

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

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

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

Working practices of the committees of the Supervisory Board

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

The Presiding Committee undertakes the preparatory work in connection with the appointing of Executive Board members and, in place of the Supervisory Board plenum, makes decisions on business measures requiring urgent approval. Members of the Presiding Committee in the financial year 2021, were as follows: Heinz-Gerhard Wente (Chairman), Hasan Cakir, Reinhold Hilbers and Dr. Hans-Jürgen Urban.

The Audit Committee focuses on the following:

- accounting (preparatory examination of the separate financial statements and the consolidated financial statements, as well as the non-financial report, discussion of financial reports during the year with the Executive Board),
- monitoring of the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system,
- compliance with the provisions applicable to the company (corporate compliance), and

- the audit of the financial statements (recommendation to the Supervisory Board for the selection of the external auditor, assignment of the audit engagement and determination of key audit areas, monitoring the quality of the audit carried out on the financial statements and the independence of the external auditor, approval of additional services provided).

The Audit Committee comprised the following members: Prof. Dr. Joachim Schindler (Chairman and member with special expertise in the auditing of financial statements), Konrad Ackermann, Roland Flach (member with special expertise in accounting), Bernd Lauenroth (until June 30, 2021) and Manuel Bloemers (as from September 9, 2021).

The Strategy Committee consults in depth with the Executive Board on the corporate strategy whenever necessary. The Strategy Committee consisted of the following members: Heinz-Gerhard Wente (Chairman), Konrad Ackermann, Hasan Cakir, Dr. Bernd Drouven, Reinhold Hilbers, Bernd Lauenroth (until June 30, 2021), Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer, Dr. Hans-Jürgen Urban and Manuel Bloemers (as from September 9, 2021).

The Nomination Committee, which is exclusively comprised of representatives of the shareholders, proposes suitable candidates to the Supervisory Board that, in turn, presents its proposals to the Annual General Meeting of Shareholders for the election of shareholder representatives to the Supervisory Board. The Nomination Committee was formed by the shareholder representatives Reinhold Hilbers and Heinz-Gerhard Wente.

Remuneration system and remuneration report

The remuneration report on the financial year now ended and the auditor's report pursuant to Section 162 AktG, the current remuneration system pursuant to Section 87a para. 1 and 2 sentence 1 AktG, and the resolution on remuneration passed by the Annual General Meeting of Shareholders on July 8, 2020 pursuant to Section 113 (3) AktG have been made available at ↗ <https://www.salzgitter-ag.com/en/investor-relations/news-and-publications/reports.html>.

Corporate Compliance

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

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

Target parameters for the proportion of women in management

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

In 2020, the Supervisory Board decided, in the event of an Executive Board member having to be replaced by June 30, 2025, to strive for a target of 30% in respect of the proportion of women represented on the Executive Board that currently consists of three male persons.

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

Transparency of the company

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

In addition to this, we organize regular analysts' conferences for analysts and institutional investors in Frankfurt am Main and London. These events were principally held in virtual form in 2021 due to the coronavirus. Finally, the Executive Board reports to the general public on significant events by way of press releases and ad-hoc announcements. All reports and statements are available on the company's website at ↗ <https://www.salzgitter-ag.com/en/index.html> in both German and English.

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

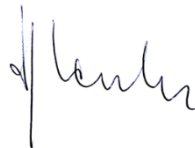
Salzgitter, March 15, 2022

The Executive Board



Gunnar Groebler
Chief Executive Officer

The Supervisory Board



Heinz-Gerhard Wente
Chairman

Employees

As of December 31, 2021, the core workforce of the Salzgitter Group numbered 22,356 employees, which is 248 people less than at the end of the financial year 2020. Along with the ongoing implementation of the restructuring program introduced in previous years, this development was due to the postponing of planned recruitment due to the lower take-up volumes, particularly in the automotive business. In addition, the sale of KHS's pouch packaging machine business in the US at the start of 2021 was also responsible for the decline in the workforce. A counter trend emanated from the legal necessity of replacing temporary staff by core workforce members at the precision tubes company in Mexico.

At the end of the financial year 2021, we had 671 temporary employees outsourced, which corresponds to 2.9% of the sum total of core workforce members and staff outsourced. The number of external temporary employees outsourced has therefore declined by 16 persons compared with the previous year. Including trainees and employees in non-active age-related part-time work, the total workforce of the Salzgitter Group stood at 24,255 persons.

Despite the significant improvement in the development of business compared with the 2020 financial year, short-time work continued to be sporadically necessary due to temporary capacity problems experienced by some companies. At the end of the reporting period, 256 employees were working short time in the domestic Group companies, mainly at Mannesmann Precision Tubes GmbH. In 2021, an average of 609 employees a month were affected by short-time work.

	2021/12/31	2020/12/31	Change
Core workforce Group¹⁾	22,356	22,604	- 248
Strip Steel Business Unit	5,970	5,999	- 29
Plate/Section Steel Business Unit	2,222	2,272	- 50
Mannesmann Business Unit	4,307	4,366	- 59
Trading Business Unit	1,934	1,946	- 12
Technology Business Unit	5,298	5,433	- 135
Industrial Participations/Consolidation	2,625	2,588	37
Apprentices, students, trainees	1,310	1,264	46
Non-active age-related part-time employment	590	548	42
Total workforce	24,255	24,416	- 161

Rounding differences may occur due to pro-rata shareholdings.

¹⁾ Excluding executive body members

Regional distribution

		Germany	Rest of Europe	America	Asia	Other regions
Core workforce ¹⁾	Employees	17,995	1,893	1,517	777	174
	%	80.5	8.5	6.8	3.5	0.8

¹⁾ Excluding executive body members

Personnel expenses amounted to € 1,769.7 million in 2021, reflecting an increase of 7.0% compared with the year-earlier period. This higher level is due in particular to significantly scaling back short-time work, with its associated reduction in costs, compared with 2020, and the notable increase in performance-related compensation on the back of earnings.

Research and Development

The Salzgitter Group's research and development (R&D) for the steel-related business units are grouped together under Salzgitter Mannesmann Forschung GmbH (SZMF). SZMF is part of a tight network with universities, research institutes and industrial partners in the context of numerous national and international research projects. We regard the resulting cooperations as clearly preferable to buying in external know-how. We continued to pursue this strategy in the period under review, which is the reason why no major procurement expenses were incurred. SZMF actively participates in defining the relevant norms and standards both in the domestic and in the international arena. Our R&D is organized decentrally for the Technology Business Unit.

The capacity to innovate is one of our Group's core strengths – this also applies to the year under review: At the end of 2021, 4,991 patent and 1,691 trademark rights (2020: 4,938 and 1,640 respectively) were registered for the entire Group. The Technology Business Unit accounts for 4,325 active patents and patent applications (2020: 4,255) and 624 trademark rights (2020: 643).

R&D expenses

In 2021, the Salzgitter Group spent € 82.4 million on R&D and R&D-related activities. The breakdown of expenses per business unit developed as follows:

Research and development expenses by business unit

		Group	Strip Steel	Plate/ Section Steel	Mannesmann	Technology	Third party and no BU allocation
R&D expenses ¹⁾	€ m	82.4	33.1	6.6	9.6	20.5	12.6
	%	100.0	40.1	8.0	11.6	24.9	15.3

¹⁾ Excluding the EUROPIPE Group

As of December 31, 2021, 684 employees in our Group were engaged in research and development activities. Of this number, 256 members of staff work at SZMF and 428 at the operating companies. This allocation underscores how strongly our R&D activities are focused on products – and therefore on our customers. We nevertheless dedicate a notable part of our research capacity to advance development projects.

Multi-year overview of research and development

		2021 ¹⁾	2020 ¹⁾	2019 ¹⁾	2018 ¹⁾	2017 ¹⁾	2016 ¹⁾	2015 ¹⁾	2014 ¹⁾	2013 ²⁾	2012
R&D expenses ³⁾	€ m	80	88	93	96	91	85	85	87	88	82
R&D employees	empl.	684	700	762	763	750	733	767	784	828	879
R&D ratio ⁴⁾	%	0.8	1.2	1.1	1.0	1.0	1.1	1.0	1.0	0.9	0.8
R&D intensity ⁵⁾	%	3.1	5.7	5.7	4.5	4.5	4.8	4.8	5.2	7.4	5.1

¹⁾ Excluding the EUROPIPE Group

²⁾ Restated

³⁾ R&D expenses in relation to goods and services for Group companies

⁴⁾ R&D expenses in relation to Group sales

⁵⁾ R&D expenses in relation to Group value added

R&D focus areas

We have defined our research and development focus clearly and with a view to the future:

In implementing our SALCOS® (Salzgitter Low CO₂ Steelmaking) concept, we are playing a pioneering role in decarbonizing the steel industry. The engineering approach of SALCOS® targets the direct avoidance of CO₂ emissions in the production process itself (Carbon Direct Avoidance (CDA)) by using hydrogen to incrementally replace the carbon necessary for steel production based on iron ore, initially mainly by natural gas and then by 100% green hydrogen at a later stage in the direct reduction plant to be built.

Under the “μDRAL” project, we are currently in the process of building a demonstration plant on the premises of Salzgitter Flachstahl GmbH (SZFG) that is capable of flexible operation, using gas and hydrogen for the production of directly reduced iron castings (DRI). The plant is to be commissioned in 2022. Depending on the Supervisory Board giving the go-ahead in the summer of 2022, the first stage of implementing SALCOS® on an industrial scale has been planned from the end of 2025, which is two years earlier than originally envisaged. The year after (2026) should already see 30% of SZFG’s primary steel production – more than one million tons of steel – being produced without coking coal. Full implementation has now been scheduled for 2033. Assuming the availability of green hydrogen, the carbon footprint can subsequently be reduced by more than 95%, which will avoid around 1% of Germany’s emissions today. Consequently, we would be much earlier in terms of the goal we originally set for 2050 and also substantially ahead of Germany’s climate target timeline. With a view to promoting the successful realization of the plan, we reorganized the SALCOS® project and gave it a new project structure at mid-year: The SALCOS® Office, reporting directly to the Chief Executive Officer, combines the entire technical and commercial expertise necessary for transforming crude steel production.

Moreover, in collaboration with the Fraunhofer Institutes, and as part of the BeWiSe project (Begleitforschung Wasserstoff in der Stahlerzeugung – accompanying research on hydrogen in steel production), we are working on research issues for optimizing the SALCOS® route. The topics addressed follow on from the result of the successfully concluded MACOR feasibility study. As it has already been the case for many years with regard to the automotive activities under “Initiative Automotive”, all hydrogen activities in the Group are also now coordinated: We are pooling our already extensive hydrogen know-how, which is enabling us to leverage synergies and tap market potential. We are setting up a hydrogen competence center at SZMF’s Duisburg-based research location. This center, with its in-depth expertise in hydrogen, will be available both within the Group and for external parties, also for R&D services encompassing hydrogen transport and storage. Instrumented tests on materials under compressed hydrogen gas are facilitated here, for instance. Various activities are also underway in the field of 3D printing, for the qualification of manufacturing replacement parts in the Group companies, for example.

More information on SALCOS® is available at ↗ <https://salcos.salzgitter-ag.com/en/index.html>. Information on SZMF’s Duisburg location is available at ↗ <https://www.szmf.de/en>.

In addition to SALCOS®, we are also making headway in developing processes, materials and products. The emphasis in the Strip Steel Business Unit is on steels with improved formability and residual expansion. With regard to the automotive industry, the development of highest strength hot strip grades, cold-rolled multi-phase steels and press-hardened steels with enhanced product properties takes center stage in the conventional grades segment. Activities are aimed at improving the quality for micro-alloyed hot strip, especially for rerollers, and at lowering the quality-related costs by adjusting alloys and processes. Our focus is not only on developing new products, but also on improving existing ones. Optimizing processes in the steelworks, in the hot and cold rolling mill, as well as in surface finishing continues to play an important role.

We intend to expand our product range in the heavy plate business as well. A number of product segments are ready for serial production, including ultra-high strength grades and thick mild steel plate. A family of wear-resistant steel grades based on a completely new concept was developed, for instance. Industrializing products on Ilseburg’s new heat treatment line is a further area of development activities.

In the Mannesmann Business Unit, we are concentrating on optimizing the existing large-diameter pipe and line pipe product portfolio. The current thrust of qualification and development addresses the use of Mannesmann products for the transport and storage of hydrogen. Innovative products are created above all in the medium-diameter line pipe segment, for tanks and containers for the hydrogen energy economy, for instance. Many ideas concerning Germany's Energiewende are supported right from the start from a technical and content standpoint, also in the context of publicly funded projects. In the precision tubes segments, we are working in an ongoing process of improving automotive components in the areas of safety and chassis, such as airbags and stabilizers. Product developments here are also aligned to the hydrogen economy, examples being hydrogen tanks for vehicle applications. With regard to the Energiewende, we are forging ahead in optimizing high-alloy seamless stainless steel tubes for use in solar thermal power plants, biomass and waste incineration.

We are following a clearly defined R&D road map in the Technology Business Unit where the priority is placed on rounding off the product portfolio in core applications. Development activities are also focused on optimizing product costs, particularly through modularization and standardization, and, among other things, include projects under way in the business of filling machines, bottle washing technology, palletizing technology, as well as PET barrier coating (Plasmax). In order to exploit optimization potential in operating filling and packaging plants based on digital technologies in a targeted manner, we are implementing projects centered around cloud-based services for the collection and processing of production data. A monitoring system is being developed for plant operators with the aim of providing customized information on plant status and on key production figures in order to facilitate effective plant control and capacity utilization. Furthermore, a solution for IT-supported operator guidance with changeover procedures is being expedited with a view to enhancing the user-friendliness of KHS filling and packaging lines. As demand in the market for alternative secondary packaging is growing, we are also pressing ahead with development activities regarding the use of sustainable packaging material.

Separate Non-Financial Report on the Group

The Salzgitter Group's separate Non-Financial Report on the Group for 2021 has been published on the website at <https://www.salzgitter-ag.com/en/corporate-social-responsibility.html>. The structure and the content of the report reflect the German Sustainability Code as well as Regulation (EU) 2020/852 in the version of June 18, 2020, of the European Parliament and of the Council on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (EU Taxonomy Regulation). The report concentrates mainly on the topics and the sustainability metrics that are important for our company.

Financial Control System

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

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

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

Management and control system applied within the company – ROCE

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

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

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

In € million	2021	2020
EBT	706	-196
+ Interest expenses	63	91
- Interest expenses for pension provisions	-25	-32
= EBIT I	743	-138

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

In € million	2021	2020
Total assets	10,255	8,237
- Pension provisions	-2,179	-2,299
- Other provisions excluding provision for income taxes	-531	-477
- Trade payables, contractual obligations, other liabilities excluding notes payable ¹⁾	-2,463	-1,435
- Deferred tax assets	-492	-482
= Capital employed	4,590	3,545

¹⁾ Notes payable amounting to € 1.7 million (2020: € 0.5 million)

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

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

The ROCE target (12%) is to be achieved within the Group as an average over the economic cycle and is therefore more of a medium to long-term target. We derive specific strategic objectives from this target for each individual business unit and company. These objectives are taken account of in medium-term planning – in an updated form whenever necessary. ROCE stood at 16.2% in 2021 (2020: –3.9%).

Profit Improvement Program (PIP)

We view the sustainable improvement of the Group's competitiveness as one of our permanent management tasks to be achieved by optimizing our value chain processes on an ongoing basis. In this context, we place emphasis on leveraging the existing potential across all business units. This has a long tradition in our company: We introduced the Profit Improvement Program (PIP) as a groupwide, uniform management instrument into the Salzgitter Group back in 1996.

PIP combines all the explicitly defined measures designed to improve the performance of the companies, the prerequisite being that the impact of these measures is measurable and assessable, based on a set of financial ratios. The success of all projects is systematically measured based on a set of binding and standardized assessment criteria.

Agreeing individual objectives with executives and non-tariff employees

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

Performance Report

General Business Conditions

The COVID 19 pandemic continued to impact the **global economy** in 2021. The regional development remained disparate: The economic recovery in Europe set in later than in North America, but lasted longer, right through to the summer period whereas, in America, the first signs of pandemic-induced cooling off were evident at the start of the third quarter. The emerging markets exceeded the pre-crisis level at a much earlier stage, above all on the back of China's swift rebound. As part of the strong recovery in industrial production in the winter half-year 2020/2021, many raw materials, input and finished goods and especially semiconductors were subject to bottlenecks developing, which slowed the economy. All in all, the International Monetary Fund (IMF) nevertheless estimates global economic growth at 5.9% in 2021 (2020: -3.1%).

At the start of the year, the **eurozone** was still reporting recessionary tendencies due to the second and third wave of infections and the associated restrictions. Differences depending on the region were huge, ranging from contraction in Germany, stagnation in France, minimal expansion in Italy, and right through to strong growth in Ireland. Only in the second quarter did an all-embracing strong recovery set in that held steady through to late summer. Disruptions to supply chains occurred from the spring onward, above all with semiconductors, and increasingly affected the recovery of the manufacturing industry. As from the autumn infection rates began to rise again, putting the brakes on economic momentum. For the full year 2021, the IMF calculates economic growth of 5.2% in the euro area (2020: -6.4%).

Following a contraction in economic output in the winter of 2020/2021 caused by the second pandemic wave and the ensuing necessary restrictions, **Germany's** economy also began to recover as from the spring of 2021. The upswing in the summer months was borne by the services sector that benefited from the gradual lifting of coronavirus restrictions in the early summer months and increased its sales notably again. The manufacturing sector was unable to keep pace with the recovery in the services industry as bottlenecks occurring with important industrial primary products put constraints on value creation, despite the virtually uninterrupted increase in orders placed. The retail sector and the construction industry were also negatively impacted by supply problems at year end despite similarly robust demand. The IMF and the German Federal Statistical Office expect the German economy to grow by 2.7% overall in 2021 (2020: -4.6%).

The information was obtained mainly on the basis of the following sources: International Monetary Fund (1/2022): World Economic Outlook Update; ifo Economic Forecast Winter 2021; German Council of Economic Experts: Annual Report 2021/22; World Bank (1/2022): Global Economic Prospects; German Federal Statistical Office, January 2022.

Overall Statement by Management on the Economic Situation

In 2021, the Salzgitter Group delivered the best pre-tax profit for thirteen years. After the previous year that was burdened by the COVID-19 pandemic, almost all Group companies benefited from the strong economic upswing. Counter trends emanated from the increase in the cost of raw materials, and particularly coking coal and electricity, as well as from the impact of disruptions to global supply chains and logistics in the second half of the year. Thanks to the uptrend in steel prices, the Strip Steel and Trading business units made major contributions to the substantial profit improvement. Furthermore, the sections segment reported an outstanding result despite the massive increase in energy prices, while the Technology Business Unit also significantly lifted its pre-tax profit. The Group's external sales rose to € 9,767.4 million boosted primarily by the increase in average selling prices for rolled steel products and higher shipment volumes (2020: € 7,090.8 million). The very gratifying pre-tax profit (€ 705.7 million; 2020: € -196.4 million) includes a contribution of € 217.1 million from the participating investment in Aurubis AG accounted for using the equity method (2020: € 104.0 million) as well as € 6.7 million in net income from restructuring provisions (2020: € 18.9 million). By contrast, impairment totaling € 243.3 million (2020: € 0 million) in the Mannesmann Business Unit as well as in Industrial Participations / Consolidation burdened the result. An after-tax result that stood at € 586.1 million (2020: € -273.9 million) brings earnings per share to € 10.74 (2020: € -5.13) and return on capital employed to 16.2% (ROCE; 2020: -3.9%). With an equity ratio of 32.7% (2020: 32.5%), the Group's balance sheet remains sound.

Performance and General Business Conditions of the Business Units

Strip Steel Business Unit

Key data		2021	2020
Order intake	kt	4,114	4,239
Order backlog as of 12/31	kt	1,045	1,082
Crude steel production	kt	4,341	3,944
Rolled steel production	kt	3,582	3,206
Shipments	kt	4,168	4,127
Segment sales¹⁾	€ m	3,392.9	2,526.3
Sales to other segments/Group companies	€ m	-858.4	-646.7
External sales²⁾	€ m	2,534.5	1,879.7
Earnings before taxes (EBT)	€ m	417.7	-86.8
EBIT before depreciation and amortization (EBITDA)	€ m	558.0	65.8
Earnings before interest and taxes (EBIT)	€ m	432.6	-62.9

¹⁾ Including sales with other business units in the Group

²⁾ Contribution to consolidated external sales

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

Market development

The year 2021 was determined by the recovery of the global economy following the first year of the pandemic. Economic recovery nevertheless ran an uneven course and, particularly in the second half of the year, was impacted by growing supply shortfalls, above all of semiconductor products. The first six months of the year saw strong demand for almost all steel products. This demand upturn was triggered by the lower levels of inventories during the short-time work phases in the previous year and the unexpectedly rapid increase in production across numerous customer sectors. This effect was mirrored across the world in many countries. The resulting concerns about supplies led to price hikes for all steel products. In the second half of the year, the supply chain situation in the steel business eased again thanks to swift production ramp-ups, and also because supply bottlenecks, particularly for chips and semiconductors, repeatedly halted production, and thereby the take-up-volumes of automotive manufacturers. The various COVID-19 waves that engulfed all parts of the world, albeit at different times, had less of an impact on the global economy than in the previous year. The disruption to supply chains in international trading and shipping – in China entire seaports were closed, for example, against the backdrop of the country's zero COVID strategy – was the only factor repeatedly derailing the economic sectors affected.

Procurement

Iron ore

The ore market proved to be volatile in 2021. The prices for the spot market IODEX 62% Fe CFR China fluctuated within a range of 150 USD/dmt and 180 USD/dmt. The wider margins of Chinese steel manufacturers after Chinese New Year, as well as strong global demand for steel, sent demand for iron ore upward. Consequently, prices climbed steadily to 233 USD/dmt CFR China through to mid-May, marking the highest figure since the launch of the index in 2008. Since demand exceeded supply, frequent reports about possible increases in steel production in China and downtime or delays in iron ore mining kept prices at a very high level. The end of July saw a trend reversal: Prices entered a steady downtrend, ultimately dropping below the mark of 100 USD/dmt in the third quarter for the first time since June 2020. The decline of ore prices was mainly attributable to the Chinese steel industry cutting production to gain a stronger handle on CO₂ emissions and due to the downturn in the demand for steel in China. Traders and consumers used the significantly lower prices to replenish their inventories and book balances. These activities triggered a price uptrend in the direction of 130 USD/dmt CFR China at the start of the fourth quarter. Following these backlog effects, the demand for ore dropped off again, and prices have settled around the level of 100 USD/dmt since November. From the standpoint of the full year, prices have risen by almost 50% on average to 159 USD/dmt compared with the year-earlier period. In order to mitigate the risks resulting from procurement, defined iron ore volumes are hedged to secure against price risks.

Coking coal

As from mid-January 2021, greater demand for coking coal, in conjunction with low free spot volumes, had pushed prices up sharply by almost 60 USD/t to more than 160 USD/t FOB Australia by the end of the month. February brought notable price corrections again as, contrary to statements made by the producers, high-grade coking coal FOB Australia proved to be sufficiently available. Consequently, prices dropped to just over 110 USD/t, and then entered a steady uptrend from the start of May. By the end of June, prices had reached 194 USD/t FOB Australia. In the months thereafter, prices also continued to trend upward, peaking at the end of September at a record level of 408 USD/t FOB Australia, principally because of the import ban imposed by the Chinese government on Australian coal. As Chinese consumers had to cover their persistently strong demand from other parts of the world, prices for coal imported by China surged, setting a new record of 615 USD/t CFR China at the beginning of the fourth quarter. In contrast to the price rises seen at the start of the year, essentially determined by speculation, increased physical demand existed this time round. The changed market situation allowed spot quantities of coal not sourced from Australia to be offered on the global market again, which caused the FOB Australia price to decline to a level of 315 USD/t. The beginning of December nevertheless brought a counter trend as heavy rainfall in Canada and Australia, resulting in the first logistics delays, fanned the fear of supply shortages. At the end of the year, FOB Australia was quoted at 357 USD/t. From the standpoint of the full year, the price of high-grade coking coal rose by approximately 80% to 225 USD/t Australia compared with 2020. Defined coking coal volumes are hedged to secure against price risks in order to mitigate the risks resulting from procurement.

Business development

Order intake and orders on hand of Salzgitter Flachstahl GmbH (SZFG) settled marginally below the year-earlier level. While production benefited from the strong economic upswing in the first half of 2021, supply chain disruptions occurred as the year progressed, accompanied by declining order volumes placed by the automotive industry. **Crude** and **rolled steel production** visibly returned to normal levels compared with the previous year, with production figures significantly lower due to phases of short-time work necessitated by the coronavirus. In view of the sufficient volumes of slabs available within the group of companies, one blast furnace remained out of operation in 2021. **Shipments** remained virtually unchanged from the 2020 level. The exacerbation of supply chain problems in industry and the resulting production cuts filtered through in the form of excess demand, causing selling prices to surge to a record level. **Segment** and **external sales** therefore rose notably, above all on the back of prices, and the Strip Steel Business Unit generated a **pre-tax profit** of € +417.7 million (2020: € -86.8 million). The result includes € 0.2 million in net expenses in connection with restructuring provisions (2020: € 6.2 million in net income from restructuring provisions).

Investments

The “Hot Dip Galvanizing Line 3” investment project proceeded as planned. The new facilities will increase SZFG’s existing hot dip galvanizing capacities by around 500 ktons per year with the aim of accommodating greater customer requirements for galvanized high-strength and ultra-high strength steel grades. Work on the foundations and the construction of the building have been completed. The installation of the plant technology progressed in line with expectations and functional testing has commenced.

Approval has been given for the construction of a hydrogen-fueled direct reduction plant, designed for flexible use with natural gas/hydrogen, as pilot facilities on a significantly reduced scale for SALCOS® (Salzgitter Low CO₂ Steelmaking). Work on the foundations and building construction have been completed. The plant assembly is proceeding according to plan.

With a view to securing the supply of pig iron, the “relining of Blast Furnace A” was approved in the reporting period for 2023. The project is currently at the awarding stage.

Green strip steel products

Since the end of 2020, low CO₂ green steel products in a defined range of various dimensions and grades have been produced using steel scrap in Peiner Träger GmbH’s mini mill for subsequent processing by SZFG into hot and cold strip. As the first European steel producer, Salzgitter AG obtained conformity statements in accordance with the VERIsteel standard of TÜV SÜD (German technical inspectorate). The process provides proof of product-specific carbon emissions in steel production and flanks the process of decarbonization. According to this procedure, transitioning the steel production process from the conventional blast furnace route to the electro-steel route achieves reductions of more than 75% in the CO₂ footprint of slabs and more than 66% in that of hot-dip galvanized coils. The low CO₂ steel products have already been successfully delivered to prestigious customers such as BMW, Mercedes-Benz, BSH and Miele. As part of the “eMove360° Europe 2021 International Trade Fair for Mobility 4.0” held in November 2021 in Munich, SZFG, together with Mercedes-Benz, jointly won the 19th MATERIALICA Design + Technology Award in the category of “CO₂ Efficiency” for low CO₂ steel.

Plate/Section Steel Business Unit

Key data		2021	2020
Order intake ¹⁾	kt	1,881	1,958
Order backlog ¹⁾ as of 12/31	kt	422	386
Crude steel production	kt	1,021	1,038
Rolled steel production	kt	1,926	1,938
Shipments ¹⁾	kt	1,909	1,901
Segment sales²⁾	€ m	1,904.2	1,343.4
Sales to other segments/Group companies	€ m	-958.8	-659.3
External sales³⁾	€ m	945.3	684.2
Earnings before taxes (EBT)	€ m	41.4	-94.4
EBIT before depreciation and amortization (EBITDA)	€ m	77.1	-63.8
Earnings before interest and taxes (EBIT)	€ m	41.4	-94.9

¹⁾ Excluding the DMU Group

²⁾ Including sales with other business units in the Group

³⁾ Contribution to consolidated external sales

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

Market development

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

Heavy plate

Following an upbeat start to the year, the heavy plate market experienced a considerable growth spurt as from the second quarter. Very strong demand for hot-rolled strip, in conjunction with the shortage of slabs on the heavy plate front, and low inventory levels fueled the demand of heavy plate consumers, from the steel construction and wind industries, for example. The steel trading business also stocked up on a running basis in order to replenish the low levels of inventories from 2020. This trend resulted in high capacity utilization for the plants, accompanied with long lead times for orders. At the same time, heavy plate prices rose sharply on the back of similar price hikes for procuring feedstock of iron ore, scrap and slabs. Only at the beginning of the second half-year did the market return to calmer waters due to the increased availability of slabs and the higher level of imports from non-EU countries. Thanks to the good order situation, prices stagnated at a satisfactory level as the year progressed. The end of the year nevertheless brought concerns about further market developments. The backdrop for these concerns was the sharp increase in energy costs starting in October, high raw materials prices, and renewed fears of another COVID-19 wave. Despite these negative trends, demand remained moderately stable at year end.

Steel sections

The European section market was determined in 2021 by price increases in response to the high cost of scrap and alloying agents, as well as to the massive increase in energy prices in the final quarter. Real demand ran at a healthy level. Following initial reticence on the part of trade and consumers, prompted by uncertainty about the price trend, concerns about supply shortages in the second quarter led to unusually long lead times with producers. Given unchanged real demand and the resulting absence of supply reliability uncertainties, trade inventory levels rose over the course of the third quarter. In turn, this prompted a downturn in orders placed with the plants over the remainder of the year.

Procurement

Supply of slabs

The heavy plate companies are supplied with feedstock within the Group by Salzgitter Flachstahl GmbH (SZFG) and Hüttenwerke Krupp Mannesmann GmbH (HKM). SZFG supplies specifically to ILG and HKM to MGB.

Steel scrap

Every year, as the most important feedstock for the section steel segment, around 1.2 million tons of steel scrap are melted into crude steel in PTG's two electric arc furnaces. Scrap prices rose over the course of 2021, characterized by pronounced volatility. Owing to strong domestic and international demand for steel scrap, prices on the scrap market took an unprecedented leap right at the start of the year. The following price correction did not last long, and prices continued to rise through to the summer months. A more marked decline only set in in the third quarter, with reticent domestic demand due to the vacation period and a lower volume outflow for overseas exports. Prices entered another uptrend in the fourth quarter. This development was triggered by the lack of availability and the impact of the steel processing industries curbing production due to the fourth COVID-19 wave, and the ensuing supply chain disruptions.

Business development

Order intake, rolled steel production and crude steel output of the Plate/Section Steel Business Unit were marginally lower year on year. **Orders on hand** exceeded the year-earlier figure in the heavy plate and sections business, while **shipments** matched the 2020 level. As a result of the significant increase in selling prices, particularly in the second half of the year, **segment** and **external sales** outstripped the year-earlier figures. The business unit recorded a pre-tax result of €+41.4 million (2020: €-94.4 million). All companies reported considerable improvements. The heavy plate business did not achieve a turnaround, however, as opposed to Peiner Träger GmbH and DMU that generated gratifying, positive contributions to earnings. The pre-tax result includes € 1.4 million in income from the release of restructuring provisions (2020: € 9.7 million).

Investments

The "New Heat Treatment Line" project initiated under the "Salzgitter AG 2021" growth program serves to extend our product portfolio on a running basis while reinforcing our position even more strongly in the higher-end grade segment. Commissioning of the facilities took place in the spring of 2021, and technical acceptance for production followed on at the end of the year. Other investments undertaken in the financial year 2021 were aimed at maintaining operational workflows. A number of individual projects geared to improving quality and optimizing processes were also initiated.

Mannesmann Business Unit

Key data		2021	2020
Order intake	€ m	1,739	1,073
Order backlog as of 12/31	€ m	603	359
Crude steel production Hüttenwerke Krupp Mannesmann (30%)	kt	1,387	1,051
Shipment tubes ¹⁾	kt	407	400
Segment sales²⁾	€ m	1,747.2	1,320.3
Sales to other segments/Group companies	€ m	-590.2	-373.6
External sales³⁾	€ m	1,157.1	946.7
Earnings before taxes (EBT)	€ m	-273.3	-62.0
EBIT before depreciation and amortization (EBITDA)	€ m	-7.4	2.6
Earnings before interest and taxes (EBIT)	€ m	-265.2	-52.3

¹⁾ Taking account of revenue recognition recognized for the respective period (IFRS 15)

²⁾ Including sales with other business units in the Group

³⁾ Contribution to consolidated external sales

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

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

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

Market development

The key markets for large-diameter pipes were confronted by a difficult project situation in the financial year 2021 as the changed focus in the energy policy of the new US administration, in conjunction with the steel price level, caused a reticent approach to investment. The project situation concerning the medium-diameter line pipe segment stagnated in Germany and remained muted in the European market as well. Although inquiries for projects continued to be recorded in North and South America, many projects were not awarded due to the high price of steel. Order intake on the precision tubes market in the first six months initially settled at a stable, satisfactory level. Since August, however, supply bottlenecks, especially in the case of semiconductors, took effect, triggering a plunge in demand in the automotive sector. As from the end of the first quarter, the markets for seamless stainless steel tubes staged a clear recovery in Europe, America and Asia in virtually all application areas. The final quarter brought the predicted upswing in the aviation industry.

Business development

The **order intake** of the Mannesmann Business Unit significantly exceeded the year-earlier level that was impacted by the pandemic. This performance was reflected in stronger bookings at the precision tubes group, albeit with a slowdown over the course of the second half of the year as a consequence of supply bottlenecks. The medium-diameter line pipe segment, the stainless steel tubes group, and Mannesmann Grossrohr GmbH also recorded increases in order intake during the period under review. The business unit's **orders on hand** also rose notably compared with 2020. With **tubes shipments** at a stable level, **segment and external sales** rose on the back of selling prices in comparison with the year-earlier period. Despite the considerable improvement in the result of the precision tubes group and the positive pre-tax result of the medium-diameter line pipe segment, the Mannesmann Business Unit recorded a clearly negative **pre-tax result** of € -273.3 million (2020: € -62.0 million), also as a consequence of impairment (€ -235.1 million) at the HKM and EUROPIPE holdings. The result includes € 2.6 million in income from the release of restructuring provisions (2020: € 4.9 million in net income from restructuring provisions).

Outside the consolidated group, the EP Group's order intake fell notably short of the previous year's level due to the lower level of bookings placed with the US plants. By contrast, EUROPIPE GmbH recorded a higher year-on-year order intake thanks to the "Scarborough Woodside" project. The markedly lower level of the US companies' shipment volumes caused shipments and sales to drop below the year-earlier figures. As a result, the EP Group's operational at-equity contribution was lower than in 2020.

The resonance elicited by the more emphatic political declarations expressed in 2021, for instance in the context of the EU's "Fit for 55" climate protection package, prompted us to review the long-term future prospects of the EP Group and, consequently, of HKM as its input material supplier, which we view as considerably less profitable than in the past. Furthermore, HKM's steel production in its current form is significantly negatively impacted by the price increases anticipated for CO₂ allowances under the EU Emissions Trading Scheme.

Investments

The Mannesmann Business Unit focused first and foremost on replacement and supplementary investments. Ramping up the new Line 2 of the Mexican precision tubes company at El Salto was consistently expedited. Further sample orders are currently in the final stage of approval at large automotive suppliers. The bottlenecks already described of important input material are nevertheless resulting in lower order intake levels at suppliers, and thereby to delays in product releases. The focus of the stainless steel tubes group was on final acceptance at the Remscheid site of the largest cold pilger line ever built. This investment enables the product portfolio to be systematically extended in the high-end dimension range that is particularly relevant for sophisticated applications in the oil and gas segments and in the petrochemicals industry.

Trading Business Unit

Key data		2021	2020
Shipments	kt	3,639	3,176
Segment sales ¹⁾	€ m	3,654.8	2,244.6
Sales to other segments/Group companies	€ m	-51.6	-19.4
External sales ²⁾	€ m	3,603.1	2,225.2
Earnings before taxes (EBT)	€ m	352.5	25.1
EBIT before depreciation and amortization (EBITDA)	€ m	363.2	44.1
Earnings before interest and taxes (EBIT)	€ m	346.9	27.8

¹⁾ Including sales with other business units in the Group

²⁾ Contribution to consolidated external sales

The Trading Business Unit comprises a well-developed organization of stockholding steel trading subsidiaries in Europe with a wide range of processing capabilities, various companies specialized in plate, as well as an international trading network spanning the globe. Along with selling rolled steel and tubes products of the Salzgitter Group and complementary products of other producers, feedstock is also procured on the international markets for Group companies and external customers.

Market development

In the first half of the year, the market was determined by rapid and notable price increases across all product categories that only leveled off over the course of the third quarter and resulted in a high, stable price level. Robust demand ensured that volumes grew considerably in all areas compared with 2020. Sea freight costs that have risen sharply since the end of the first quarter, combined with a shortage of available freight capacities, placed a burden on international trading's earnings, which was, however, more than compensated by price and volume growth.

Business development

The **shipments** of the Trading Business Unit grew notably compared with the previous year. Both the stockholding steel trade and international trading, as well as the UES Group, contributed to this result. Significant price hikes realized at the same time led to year-on-year growth of 60% in **segment** and **external sales**. The higher price level in particular, combined with favorable purchase prices in the stockholding steel business and at the UES Group, resulted in record **earnings before taxes** of € 352.5 million (2020: € 25.1 million). International trading also delivered a decidedly positive result that exceeded the year-earlier figure. Extraordinary proceeds from the sale of two properties (€ 16.7 million; 2020: € 47.2 million) also had a positive impact on the business unit's result. In addition, the pre-tax profit includes € 0.1 million in net income from restructuring provisions (2020: € -0.9 million in expenses from restructuring provisions).

Investments

Maintaining, along with upgrading and expanding existing facilities continued to form the focus of investments by the Trading Business Unit in 2021. Moreover, numerous projects aimed at digitalizing sales processes, from warehousing through to shipment, were initiated and developed further.

Technology Business Unit

Key data		2021	2020
Order intake	€ m	1,548	1,248
Order backlog as of 12/31	€ m	864	658
Segment sales¹⁾	€ m	1,361.3	1,207.4
Sales to other segments/Group companies	€ m	-0.8	-0.4
External sales²⁾	€ m	1,360.5	1,207.0
Earnings before taxes (EBT)	€ m	59.2	0.9
EBIT before depreciation and amortization (EBITDA)	€ m	84.2	32.2
Earnings before interest and taxes (EBIT)	€ m	56.7	4.2

¹⁾ Including sales with other business units in the Group

²⁾ Contribution to consolidated external sales

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

Market development

According to the German Engineering Federation (VDMA), order intake in 2021 was higher than the previous year's figures that were burdened by the impact of the coronavirus pandemic. Both local and international demand picked up considerable momentum. The market for packaging machinery also significantly exceeded the year-earlier figure in terms of bookings.

Business development

The **order intake** of the Technology Business Unit recorded market-driven growth in the financial year 2021. Order activity at the KHS Group remained steady over the course of the year at a gratifying level, and the record figure of 2019 was exceeded. The project business in particular was characterized by strong demand. The Klöckner DESMA Elastomer Group (KDE Group) tracked the economic trend, improving on the previous year's figures, while DESMA Schuhmaschinen GmbH (KDS) also lifted its order intake notably in a year-on-year comparison. The business unit's **orders on hand** and its **segment** and **external sales** clearly outstripped the 2020 levels. With support derived from the profit achieved by selling the pouch business (€18.8 million), the KHS Group's pre-tax result significantly outperformed the year-earlier figure. The KDE Group and KDS also made positive contributions to the segment result. All in all, the Technology Business Unit generated a **pre-tax profit** of €59.2 million (2020: €0.9 million) that includes €2.8 million in income from the release of restructuring provisions (2020: €-0.6 million in expenses for restructuring).

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

Investments

In the reporting period, the Technology Business Unit continued to focus on replacement and streamlining measures. To ensure the steady optimization of organizational workflows, IT projects in Germany and in the international companies were also carried out within the KHS Group. An investment program for strategic realignment was successfully implemented for the Chinese market.

Industrial Participations/Consolidation

Key data		2021	2020
Sales	€ m	983.3	729.6
Sales to other segments/Group companies	€ m	-816.4	-581.4
External sales ¹⁾	€ m	166.9	148.2
Earnings before taxes (EBT)	€ m	108.1	20.8
EBIT before depreciation and amortization (EBITDA)	€ m	186.6	95.1
Earnings before interest and taxes (EBIT)	€ m	140.7	58.9

¹⁾ Contribution to consolidated external sales

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

Sales in the Industrial Participations/Consolidation segment, which are based mainly on business in semi-finished products with subsidiaries and external parties, were reported at a level in 2021 that was considerably higher compared with the year-earlier period. **External sales** also increased notably. **Earnings before taxes** rose significantly to €108.1 million (2020: €20.8 million). This figure includes the very gratifying contribution of Aurubis AG, an investment included at equity (IFRS accounting) amounting to €217.1 million (2020: €104.0 million). At year end, SZAG held an unchanged stake of 29.99% in Aurubis AG. Reporting-date related valuation effects of foreign currency and derivatives positions, as well as net interest income from the cash management of the consolidated group, delivered a negative result overall (€-10.3 million; 2020: €-15.5 million). Earnings before taxes also include burdens of €-8.3 million from special items (2020: €-0.3 million) originating almost fully from fixed assets impairment at Salzgitter Hydroforming Group. Despite the improved performance, the pre-tax profit of the Group companies not directly assigned to a business unit was unable to match the year-earlier result that was determined by proceeds from the sale of property.

Comparison between Actual and Forecasted Performance

At the start of the financial year 2021, the **Salzgitter Group** anticipated the following, making explicit reference to the still imminent, virtually unquantifiable risk of the coronavirus pandemic:

- an increase in sales to more than € 8.5 billion (2020: € 7.1 billion),
- a pre-tax profit of between € 150 million and € 200 million (2020: € –196.4 million) and
- a return on capital employed (ROCE) tangibly higher than the previous year's figure (–3.9%).

In view of the unexpectedly good start to the year and the surge in rolled steel prices, we revised our guidance issued at the end of the first quarter upward and subsequently anticipated a pre-tax result for the Salzgitter Group in a range of between € 300 million and € 400 million. After the pleasing start to the year, the European steel market continued its uptrend in the months thereafter. Given the better than previously expected earnings situation, above all in the Trading Business Unit, we lifted our earnings forecast once more in mid-June, then predicting a pre-tax profit of between € 400 million and € 600 million. The positive development in prices and demand held steady in the second half of the year as well, which was reflected in the excellent results of the Strip Steel and Trading business units in particular. Furthermore, the margin situation in the steel girder product segment improved, enabling better results than formerly anticipated to be achieved. In response, we raised the earnings forecast for pre-tax profit to between € 600 million and € 700 million.

The Salzgitter Group closed the financial year 2021 with earnings before taxes of € 705.7 million, which includes net income from restructuring provisions of € 6.7 million. The upper end of the forecast range was therefore achieved. At € 9.8 billion, sales as well as ROCE (16.2%) considerably outperformed the original expectations.

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

Based on a high level of orders on hand, the **Strip Steel Business Unit** anticipated demand that would fully utilize capacity in the first six months of 2021 despite the ongoing pandemic situation, along with improved price levels compared with the previous year. This positive trend was also expected to continue in the second half of the year. Supported by further, additional effects from the “FitStructure 2.0” program of measures, we anticipated the following for the business unit:

- substantial sales growth (2020: € 1.9 billion) and
- a very gratifying pre-tax result of more than € 100 million (2020: € –86.8 million).

In line with expectations, sales increased substantially, above all on the back of selling prices. The Strip Steel Business Unit generated a pre-tax profit of € 417.7 million, including € 0.2 million in net expenses for restructuring.

We anticipated that the situation in the markets relevant to the **Plate/Section Steel Business Unit** would remain tight, accompanied by persistently high imports in the heavy plate segment and a fundamental lack of orders for the delivery of input material for line pipes. In the section steel business, we forecasted a volatile market environment that would continue to focus on the short term. After a rather more subdued start to the year 2021, we assumed that the situation would gradually improve over the course of the year. Consequently, we anticipated:

- a notable increase in sales compared with the previous year (2020: € 0.7 billion) and
- a tangible, but nevertheless substantially reduced, pre-tax loss (2020: € –94.4 million).

Particularly as a consequence of prices that rose markedly in the second half of the year, sales significantly outperformed the year-earlier figures. Thanks first and foremost to the good result of the sections business, the Plate/Section Steel Business Unit delivered a positive pre-tax result of € 41.4 million contrary to expectations. Earnings before taxes comprise € 1.4 million in income from the release of restructuring provisions (2020: € 9.7 million).

The **Mannesmann** Business Unit assumed a difficult market environment in 2021, especially for the large-diameter tubes business. In the medium-diameter line pipe segment, we expected volumes to increase again. The precision tubes companies assumed that the market would continue to recover well. We expected growing demand in the stainless steel segment. Overall, we predicted the following, accompanied by a significant increase in shipping volumes for the business unit:

- a higher sales level (2020: € 0.9 billion) and
- a tangibly improved but nevertheless still negative pre-tax result (2020: € –62.0 million).

With tubes shipments at a stable level, sales rose on the back of selling prices in comparison with the year-earlier period. Despite the considerable improvement in the result of the precision tubes group, flanked by the positive pre-tax result of the medium-diameter line pipe segment, the Mannesmann Business Unit recorded a clearly negative pre-tax result (€ –273.3 million), also as a consequence of impairment (€ –235.1 million) at the HKM and EUROPIPE holdings. The result includes € 2.6 million in income from the release of restructuring provisions.

At the start of 2021, the **Trading** Business Unit anticipated that business would develop well for its companies, above all based on a healthy demand situation and supported by a notable uptrend in selling prices at the end of the previous financial year, which we assumed would hold steady going forward. In conjunction with still low inventory prices, this was expected to boost earnings considerably especially in the stockholding steel trade in the first few months. Due to the ongoing difficult trading conditions experienced in international trading, an only marginal increase in shipment volumes was assumed. We anticipated the following overall for the segment:

- a significant increase in sales (2020: € 2.2 billion) and
- earnings before taxes notably above the previous year (2020: € 25.1 million).

A substantial increase in shipments, accompanied by significantly higher prices, resulted in sales that were a good 60% higher than in 2020. The higher price level in particular, in combination with favorable procurement prices in the stockholding steel trade and at the UES Group delivered a record pre-tax profit of € 352.5 million for the Trading Business Unit. Extraordinary proceeds from the sale of two properties (€ 16.7 million; 2020: € 47.2 million) also had a positive impact on the result. Furthermore, the pre-tax profit included € 0.1 million in net income from restructuring provisions.

Owing to good order intake at year-end 2020, the companies of the **Technology** Business Unit commenced the new year with a sound cushion of orders. The KHS Group expected to see profitability improve, accompanied by a moderate increase in volumes and sales. The two DESMA specialist mechanical engineering companies assumed the market would rebound and anticipated a tangibly improved pre-tax result. As a result, we expected the following for the business unit as a whole:

- a slight increase in sales and
- a pre-tax profit significantly higher than in the previous year (2020: € 0.9 million), with the additional positive impact of one-off items.

Sales increased notably above the 2020 level. With support derived from the accounting profit achieved by selling the pouch business, the KHS Group's pre-tax result significantly outperformed the year-earlier figure. The KDE Group and KDS also made positive contributions to the segment result. All in all, the Technology Business Unit generated a pre-tax profit of € 59.2 million that included income of € 2.8 million from the release of restructuring provisions.

Profitability, Financial Position and Net Assets

Profitability of the Group

The Group's **external sales** rose to € 9,767 million (2020: € 7,091 million) due above all to increase in average selling prices for rolled steel products and higher shipment volumes and were distributed as follows among the business units:

Consolidated sales by business unit

	2021		2020		Change	
	In € million	%	In € million	%	In € million	In %
Strip Steel	2,534	26	1,880	27	655	35
Plate/Section Steel	945	10	684	10	261	38
Mannesmann	1,157	12	947	13	210	22
Trading	3,603	37	2,225	31	1,378	62
Technology	1,360	14	1,207	17	154	13
Industrial Participations/Consolidation	167	2	148	2	19	13
Group	9,767	100	7,091	100	2,677	38

The regional distribution of sales revenues remained virtually unchanged: As before, the business activities of the Salzgitter Group are therefore focused on the EU (€ 7,131 million; 73% share of sales). Germany remained by far the largest single market with sales of € 4,416 million, equivalent to a share of 45%. It should be noted in this context, however, that many of our products are supplied to export-oriented German businesses and therefore ultimately find their way abroad.

Consolidated sales by region

	2021		2020		Change	
	In € million	%	In € million	%	In € million	in %
Germany	4,416	45	3,195	45	1,222	38
Other EU countries	2,715	28	1,888	27	827	44
Rest of Europe	438	4	305	4	133	44
America	1,098	11	815	11	283	35
Asia	703	7	487	7	216	44
Other regions	397	4	401	6	-4	-1
Group	9,767	100	7,091	100	2,677	38

The Salzgitter Group achieved an excellent **pre-tax profit** of € 705.7 million (2020: € -196.4 million). The result also includes a contribution of € 217.1 million (2020: € 104.0 million) from the participating investment in Aurubis AG accounted for at equity (IFRS accounting), as well as € 6.7 million in net income in connection with restructuring provisions (2020: € 18.9 million). A counter trend emanated in particular from impairment of € 235.1 million (2020: € 0 million) in the Mannesmann Business Unit.

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

The **Strip Steel Business Unit** achieved a pleasing pre-tax profit of € +417,7 million (2020: € –86.8 million) thanks to the positive price trend. Earnings before taxes include € 0.2 million in net expenses in connection with restructuring provisions (2020: € 6.2 million in net income from restructuring).

The **Plate/Section Steel Business Unit** generated earnings before taxes of € +41.4 million (2020: € –94.4 million). All companies reported considerable improvements. The heavy plate business did not achieve a turnaround, however, as opposed to Peiner Träger GmbH and DEUMU that generated gratifying, positive contributions to earnings. The pre-tax result includes € 1.4 million in income from the release of restructuring provisions (2020: € 9.7 million).

Despite the considerable improvement in the result of the precision tubes group and the positive pre-tax result of the medium-diameter line pipe segment, the **Mannesmann Business Unit** recorded a clearly negative pre-tax result (€ –273.3 million; 2020: € –62.0 million), also as a consequence of impairment (€ –235.1 million) at the HKM and EUROPIPE holdings. The result includes € 2.6 million in income from the release of restructuring provisions (2020: € 4.9 million in net income from restructuring provisions).

Thanks to the higher price level, in conjunction with favorable procurement prices in the stockholding steel trade and at the UES Group, the **Trading Business Unit** delivered a pre-tax profit of € 352.5 million (2020: € 25.1 million). International trading also achieved a markedly positive result that was higher than in the year-earlier period. Extraordinary proceeds from the sale of two properties (€ 16.7 million; 2020: € 47.2 million) also had a positive impact on the result. The pre-tax profit includes € 0.1 million in net income from restructuring provisions (2020: € –0.9 million in expenses from restructuring provisions).

All in all, the **Technology Business Unit** generated earnings before taxes of € 59.2 million (2020: € 0.9 million). The figure comprises € 2.8 million in income from the release of restructuring provisions (2020: € –0.6 million in restructuring expenses). The pre-tax result of the KHS Group was substantially higher than in the previous year, boosted by the accounting profit achieved by selling the pouch business (€ 18.8 million). The KDE Group and KDS also made positive contributions to the segment result.

The pre-tax result of **Industrial Participations/Consolidation** came in at € 108.1 million (2020: € 20.8 million). The result includes the contribution of Aurubis AG, an investment included at equity (IFRS accounting) amounting to € 217.1 million (2020: € 104.0 million) as well as burdens from special items (€ –8.3 million; 2020: € –0.3 million) originating almost fully from fixed assets impairment at the Salzgitter Hydroforming Group in 2021.

Results of the business units and consolidated result

In € million	2021	2020
Strip Steel	417.7	-86.8
Plate/Section Steel	41.4	-94.4
Mannesmann	-273.3	-62.0
Trading	352.5	25.1
Technology	59.2	0.9
Industrial Participations/Consolidation	108.1	20.8
EBT Group	705.7	-196.4
Taxes	119.6	77.5
Consolidated result¹⁾	586.1	-273.9

¹⁾ Including minority interest

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

In € million	EBT		Restructuring ¹⁾		Impairment/ reversal of impairment ²⁾		Other		EBT without special items	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Strip Steel	417.7	-86.8	-0.2	6.2	-	-	-	-	417.9	-93.0
Plate/Section Steel	41.4	-94.4	1.4	9.7	-	-	-	-	40.0	-104.1
Mannesmann	-273.3	-62.0	2.6	4.9	-235.1	-	-	-	-40.8	-66.9
Trading	352.5	25.1	0.1	-0.9	-	-	-	-	352.4	26.1
Technology	59.2	0.9	2.8	-0.6	-	-	-	-	56.5	1.5
Industrial Participations/ Consolidation	108.1	20.8	-0.1	-0.3	-8.2	-	-	-	116.5	21.1
Group	705.7	-196.4	6.7	18.9	-243.3	-	-	-	942.4	-215.3

¹⁾ This disclosure takes account of expenses for a restructuring measure and gains from the release of a restructuring provision. For the Plate/Section Steel Business unit only income is included in 2021 and 2020, in the Mannesmann Business Unit only income for 2021 (2020: net income), in the Technology Business Unit 2021 only income (2020: only expenses) and in Industrial Participations/Consolidation net expenses for 2021 (2020: only expenses).

²⁾ Disclosure as an impairment/write-up in this overview has only been reported if the cash flows are allocated to a group of assets.

Development of selected income statement items

The consolidated income statement is explained in detail in the ↗ “Notes to the Consolidated Financial Statements.” Selected items are explained in the following.

The year-on-year increase in total output (€ +3.4 billion) is offset by a less pronounced increase in the cost of materials (€ 2.2 billion). Along with scheduled depreciation and amortization, the decline in asset value in the financial year 2021 also comprises impairment costs amounting to € –208.3 million. The result of the companies included at equity increased considerably. While the participating investment in Aurubis AG and in Wohnbaugesellschaft mit beschränkter Haftung made higher contributions than in the year before, the contributions to earnings of the other companies accounted for according to the equity method were lower than in the previous year. The EUROPIPE Group’s lower earnings contribution is also attributable to impairment costs of € 35.0 million.

Taking account of € 119.6 million in tax expenses (2020: € 77.5 million), consolidated net income stood at € 586.1 million (2020: annual net loss of € –273.9 million).

Multi-year overview of earnings

In € million	2021	2020	2019	2018	2017	2016	2015 ¹⁾	2014	2013 ²⁾	2012
EBT	705.7	-196.4	-253.3	347.3	238.0	53.2	4.1	-15.2	-482.8	-29.4
EBIT ³⁾	743.4	-138.1	-212.0	390.8	295.7	96.6	69.5	63.9	-422.7	59.8
EBIT ⁴⁾	753.2	-119.2	-187.5	412.6	316.8	119.2	81.9	97.9	-393.2	98.0
EBITDA ⁵⁾	1,261.6	176.1	354.2	797.2	707.2	476.4	422.6	483.6	138.1	462.7
EBT margin	7.2	-2.8	-3.0	3.7	2.7	0.7	0.1	-0.2	-5.2	-0.3
EBIT margin ⁴⁾	7.7	-1.7	-2.2	4.5	3.5	1.5	1.0	1.1	-4.2	0.9
EBITDA margin ⁵⁾	12.9	2.5	4.1	8.6	7.9	6.0	4.9	5.4	1.5	4.5
ROCE %	16.2	-3.9	-5.8	10.3	8.6	2.7	1.9	1.8	-10.5	1.3

¹⁾ Restatement because of a correction of the stock value

²⁾ Restated because of first time adoption of IFRS 11

³⁾ Excluding elimination of interest expenses for provisions

⁴⁾ EBT + interest expenses/- interest income

⁵⁾ EBT + interest expenses/- interest income + depreciation and amortization of property, plant and equipment, intangible assets and non-current financial assets

Reconciliation EBIT/EBITDA

In € million	2021	2020
EBT	705.7	-196.4
+ Interest expenses	62.7	90.8
- Interest income	-15.2	-13.6
= EBIT	753.2	-119.2
+ Depreciation/amortization ¹⁾	508.4	295.3
= EBITDA	1,261.6	176.1

¹⁾ Depreciation / amortization of property, plant and equipment, intangible assets and non-current financial assets

Value added in the Salzgitter Group

The operational value added of the Group amounted to € 2,537 million in 2021 (2020: € 1,543 million). As opposed to the previous year, personnel expenses (€ 1,795 million; 2020: € 1,687 million) were therefore fully covered. In terms of the public sector, the proportion in the form of taxes and levies stood at 4.7% (2020: 5.0%). The proportion of lenders decreased to 1.4% year on year (2020: 3.4%). Shareholders (including treasury shares) will receive 1.8% of value added for the financial year ended (2020: 0.0%). Over the last 15 years, an amount of € 0.9 billion from the value added has remained within the Group, with funds of € 541 million contributed to the Group in 2021.

Value added

	2021/12/31		2020/12/31	
	In € million	%	In € million	%
Sources				
Group outputs	11,029	100.0	7,397	100.0
Inputs	8,492	77.0	5,854	79.1
Value added	2,537	23.0	1,543	20.9
Appropriation				
Employees	1,795	70.7	1,687	109.3
Public sector	120	4.7	78	5.0
Shareholders	45	1.8	0	0.0
Lenders ¹⁾	36	1.4	52	3.4
Remaining within the Group	541	21.3	-273	-17.7
Value added	2,537	100.0	1,543	100.0

¹⁾ Component of the finance expenses item

Reconciliation value added

In € million	2021	2020
Sales	9,767.4	7,090.8
Changes in inventories/other own work capitalized	522.9	-158.1
Other operating income	548.5	345.3
Income from shareholdings	0.0	2.4
Result from investments accounted for using the equity method	159.5	95.6
Income from reversal of impairment losses of financial assets	16.6	13.3
Financial result ¹⁾	13.7	7.3
Group outputs	11,028.5	7,396.7
Cost of materials	6,746.1	4,579.2
Depreciation/amortization	508.4	295.3
Other operating expenses	1,222.4	936.6
Expenses of impairment losses of financial assets	14.8	42.5
Input	8,491.7	5,853.6

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

Financial Position and Net Assets

Financial management

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

The internal financing of Group companies is fundamentally conducted through making Group credit lines available in the context of Group financial transactions and, in individual cases, external loan guarantee commitments. To cover the financial requirements of foreign Group companies, in particular those outside the euro area, the Salzgitter Group also makes use of local lending markets. At the same time, it draws on the liquidity surplus of the Group companies for financing. Supplies and services within the Salzgitter Group are settled via internal accounts. Central finance management enables us to procure external capital at favorable conditions and has a positive impact on interest income. We calculate the Group's liquidity requirements through financial planning with a multi-year planning horizon and a monthly rolling liquidity planning with a six-month forecasting horizon. Cash investments, medium-term bilateral credit lines, a syndicated credit limit of € 560 million renewed in 2017 with eight banks and a term through to July 2024 as a back-up line not used, and the tapping of the bond markets guarantee that our liquidity requirements are covered. The portfolio of committed, but not yet utilized credit lines stood at € 560.0 million as of the reporting date (2020: € 578.7 million). In addition, a bonded loan (Schuldschein) was issued for the first time in 2016. In 2019, another bonded loan was successfully placed with around 100 investors in a converted amount of € 364 million and tranches with terms of up to ten years.

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

Pension provisions still play a significant role in corporate financing. On the basis of the higher actuarial interest rate (1.3%) derived from the current level of capital market rates, they amounted to € 2,179 million (2020: € 2,299 million at 1.1%). In accordance with the standards of international accounting, the effect of adjusting the actuarial interest rate was reported in the statement of comprehensive income in equity with no effect on net income.

Cash flow statement

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

Cash and cash equivalents

In € million	2021	2020
Cash inflow from operating activities	329.4	18.3
Cash outflow from investment activities	-366.6	-234.2
Cash inflow/outflow from financing activities	146.3	151.0
Change in cash and cash equivalents	109.1	-64.9
Changes in the Group of consolidated companies/changes in exchange rates	11.3	-14.2
Cash and cash equivalents on the reporting date	741.8	621.4

The Group generated € 329 million in **cash flow from operating activities** (2020: € 18 million). The significantly improved pre-tax result and unscheduled higher levels of depreciation and amortization are offset by a marked increase in working capital. Compared with the year-earlier period (€ 234 million), the **cash outflow from investment activities** (€ 367 million) mainly reflected the lower level of proceeds from the disposal of property, plant and equipment and intangible assets as well as cash investments. Besides this, funds were invested in further cash investments. Disbursements for investments in property, plant and equipment and intangible assets were lower compared with the previous year and reflect the restrictive, but nevertheless scheduled implementation of the investments.

The cash outflow from financing activities is determined by the redemption of loans granted and interest payments. Cash outflow was offset by cash inflow from borrowing, resulting in an overall positive **cash inflow from financing activities** of € 146 million (previous year's period: € 151 million). In 2020, the convertible bond issued in 2015 (€ -151 million) was fully repaid.

Net financial position

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

In € million	2021/12/31	2020/12/31
Cash and cash equivalents acc. to balance sheet	741.8	621.4
+ Other investments of funds ¹⁾	78.3	37.6
= Investments of funds	820.1	659.0
Financial liabilities acc. to balance sheet	1,514.8	1,237.6
– Liabilities from leasing agreements, liabilities from financing and other financial liabilities	150.2	146.9
= Financial liabilities of net financial position	1,364.5	1,090.7
Net financial position	-544.4	-431.7

¹⁾ Loans excl. valuation allowances (€ 25.6 million; previous year: € 34.6 million), other cash investments reported under other receivables and other assets (€ 3.0 million; previous year: € 3.0 million) as well as securities (€ 49.7 million; previous year: € 0 million).

The net financial position of € -544 million declined substantially compared with 2020 due to the reporting-date-related increase in working capital (€ -432 million). When considering the net financial position, two significant hidden reserves not discernible from the balance sheet must be taken into account: Firstly, the participating investment in Aurubis AG was acquired at a substantially lower average price than would be the case with the current stock market valuation. Secondly, CO₂ allowances were acquired at a favorable price as a precautionary measure in earlier years for the fourth period of the EU emission trading scheme that commenced on January 1, 2021. Taken together, these two items added up to more than € 1 billion as of the reporting date.

Tangibly higher cash investments, including securities (€ 820 million; 2020: € 659 million), were offset by an increase of € 1,365 million in liabilities owed to banks at the end of the year (2020: € 1,091 million). Obligations arising from leasing agreements are not included in the net financial position.

Investments

Additions to property, plant and equipment and to intangible assets from investments stood at € 367 million (2020: € 411 million). This amount includes € 27 million from lease accounting for newly concluded or renewed contracts over their full contractual term under which the impact on payments lies in the future. Capitalized investments exceeded scheduled depreciation and amortization (€ 300 million). Additions to financial assets (€ 7 million) mainly pertain to investments in companies not included in the consolidation scope. Along with the Strip Steel Business Unit (€ 161 million), a major part of the investments in property, plant and equipment and in intangible assets were made in the Mannesmann Business Unit (€ 70 million) and in the Plate/Section Business Unit (€ 56 million) in 2021.

Along with scheduled depreciation and amortization, impairment of € 208 million (2020: € 0 million) was also recognized through profit and loss.

In € million	Investments ¹⁾		Depreciation/amortization ¹⁾²⁾	
	Group	of which Strip Steel BU and Plate/Section Steel BU	Group	of which Strip Steel BU and Plate/Section Steel BU
2021	367	217	508	161
2020	411	249	295	160
2019	593	302	541	354
2018	338	195	384	235
2017	287	166	390	269
Total	1,996	1,130	2,119	1,179

In € million	Investments		Depreciation/amortization ²⁾	
	2021	2020	2021	2020
Strip Steel	161	162	125	129
Plate/Section Steel	56	87	36	31
Mannesmann	70	70	258	55
Trading	15	33	16	16
Technology	29	35	27	28
Industrial Participations/Consolidation	35	24	46	36
Group	367	411	508	295

¹⁾ Excluding financial assets, as from FY 2019 under initial application of IFRS 16 Leases

²⁾ Scheduled and unscheduled write-downs

The liquidity and debt-to-equity ratios in the financial year 2021 were as follows:

Multi-year overview of the financial position

	2021	2020	2019	2018	2017	2016	2015 ¹⁾	2014	2013 ²⁾	2012
Solvency I (%) ³⁾	78	99	101	107	131	123	132	116	130	156
Solvency II (%) ⁴⁾	162	192	202	203	234	201	214	196	227	262
Dynamic debt burden (%) ⁵⁾	11.4	0.6	9.4	22.3	11.6	11.6	19.8	26.0	6.8	22.0
Gearing (%) ⁶⁾	205.5	207.5	193.3	162.8	178.3	196.3	190.0	195.4	158.9	145.1
Cash flow (€ m) from operating activities	329	18	251	528	274	290	448	599	141	427
Net financial position (€ m) ⁷⁾	544	432	140	-192	-381	-302	-415	-403	-303	-497

¹⁾ Restatement due to stock value correction

²⁾ Restated due to first time adoption of IFRS 11

³⁾ (Current assets – inventories) x 100 / (current liabilities + dividend proposal)

⁴⁾ Current assets x 100 / (current liabilities + dividend proposal)

⁵⁾ Cash flow from operating activities x 100 / (non-current and current borrowings [including pensions] – investments)

⁶⁾ Non-current and current liabilities (including pensions) x 100 / equity

⁷⁾ – ≙ cash in bank, + ≙ liabilities

Asset position

At € 10,255 million, the Group's total assets considerably exceeded the year-earlier level (2020: € 8,237 million). Growth in non-current assets (€ +6 million) essentially resulted from the significant increase in shares held in companies accounted for using the equity method (€ +159 million). Property, plant and equipment and intangible assets declined as impairment (€ 208 million) and scheduled depreciation and amortization (€ 300 million) exceeded the investments (€ 367 million). Current assets increased considerably compared with the previous year (€ +2,012 million). This is due in particular to the higher level of inventories (€ +1,190 million) and trade receivables, including contract assets (€ +552 million). Cash and cash equivalents rose by € 120 million compared with previous year's reporting date.

Asset and capital structure

	2021/12/31		2020/12/31	
	€ m	%	€ m	%
Non-current assets	4,250	41.4	4,244	51.5
Current assets	6,005	58.6	3,993	48.5
Assets	10,255	100.0	8,237	100.0
Equity	3,357	32.7	2,679	32.5
Non-current liabilities	3,247	31.7	3,476	42.2
Current liabilities	3,651	35.6	2,082	25.3
Equity and liabilities	10,255	100.0	8,237	100.0

Working capital stood at € 2,825 million, which is tangibly higher than the year-earlier figure (2020: € 2,094 million).

The equity ratio amounted to 32.7% (2020: 32.5%). Non-current liabilities were € – 229 million lower, as both the non-current financial liabilities (€ – 128 million) and the pension provisions (€ – 120 million) declined in comparison with the previous year. Current liabilities exceeded the previous year's period (€ +1,568 million). Trade payables, including contract liabilities, increased by € +1,007 million and current financial liabilities by € +405 million in a year-on-year comparison. Moreover, tax liabilities on the last balance sheet date had increased by € +59 million, and current provisions (€ +53 million) also reported at a higher level.

Multi-year overview of the asset position

	2021	2020	2019	2018	2017	2016	2015 ¹⁾	2014	2013 ²⁾	2012
Asset utilization ratio (%)	41.4	51.5	47.6	43.8	42.9	43.8	44.4	42.1	43.9	42.5
Inventory ratio (%) ³⁾	30.5	23.5	26.1	26.6	25.1	21.8	21.3	23.4	23.9	23.2
Depreciation/ amortization ratio (%) ⁵⁾	21.7	11.8	22.3	15.8	15.9	13.9	13.3	15.3	20.7	13.6
Debtor days ⁶⁾	66.7	63.6	56.5	61.7	61.6	68.2	63.4	66.5	57.8	54.2
Capital employed (€ m)	4,590	3,545	3,631	3,749	3,436	3,584	3,620	3,526	4,034	4,481
Working Capital (€ m) ⁷⁾	2,825	2,094	2,455	2,515	2,433	2,165	2,271	2,487	2,598	2,694

¹⁾ Restatement due to stock value correction

²⁾ Restated due to first time adoption of IFRS 11

³⁾ Non-current assets x 100 / total assets

⁴⁾ Inventories x 100 / total assets

⁵⁾ Until 2016: write-downs on property, plant and equipment and intangible assets x 100 / property, plant and equipment and intangible assets
 From 2017: (write-downs on property, plant and equipment and intangible assets + investment property) x 100 / (property, plant and equipment and intangible assets + investment property)

⁶⁾ Until 2017: trade receivables x 365 / sales

From 2018: trade receivables including contract assets x 365 / sales

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

The Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG (SZAG) for the financial year 2021 have been drawn up in application of the accounting policies and valuation methods of the German Commercial Code, taking account of the supplementary provisions set out under the German Stock Corporation Act.

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

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

Balance sheet of Salzgitter AG (condensed)

	2021/12/31		2020/12/31	
	€ m	%	€ m	%
Non-current assets	71.2	10.3	72.0	11.4
Property, plant and equipment ¹⁾	19.3	2.8	20.1	3.2
Financial investments	51.9	7.5	51.9	8.2
Current assets	622.9	89.7	558.7	88.6
Trade receivables and other assets ²⁾	622.9	89.7	558.7	88.6
Assets	694.1	100.0	630.7	100.0
Equity	415.0	59.8	369.9	58.6
Provisions	240.7	34.7	240.7	38.2
Liabilities	38.4	5.5	20.1	3.2
Equity and liabilities	694.1	100.0	630.7	100.0

¹⁾ Including intangible assets

²⁾ Including prepaid expenses

The receivables from the liquidity (€ 501 million) provided to the subsidiary SKWG as part of a groupwide cash management continue to form the main item on the assets side. The treasury shares are disclosed separately from equity in accordance with the regulations prescribed by the German Commercial Code (HGB).

On the liabilities side, pension obligations of € 212 million are disclosed in particular, alongside equity. The equity ratio increased to 59.8% (2020: 58.6%).

Income statement of Salzgitter AG (condensed)

In € million	2021	2020
Sales	26.5	20.0
Changes in the inventory of unfinished goods	0.0	0.0
Other operating income	5.5	12.6
Cost of materials	0.0	0.0
Personnel expenses	39.7	24.5
Depreciation/amortization ¹⁾	1.7	5.8
Other operating expenses	30.7	27.2
Income from shareholdings	89.9	19.9
Net interest result	-3.7	-5.9
Income tax	0.0	0.1
After-tax result	46.1	-10.7
Other taxes	-1.0	-1.4
Consolidated net income/loss	45.1	-12.1

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

Sales revenues largely comprise earnings from the levying of a Group contribution. Other operating income mainly consists of earnings from affiliated companies. Personnel expenses exceed the previous year's figure, also due to changes in the parameters for measuring pension provisions. Other operating expenses rose due to the higher level of services sourced externally. Income from shareholdings consisted almost exclusively of the contribution to the result received by SMG. As of December 31, 2021, the company had a workforce of 161 employees (previous year's reporting date: 164 employees).

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

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

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

A participating interest of more than 10% of the voting rights as per the reporting date accrued to Hannoversche Beteiligungsgesellschaft Niedersachsen mbH (HanBG), Hanover, that announced in its voting rights notification on April 2, 2002, that it owned 25.5% of the voting rights in Salzgitter AG; as a proportion of the total number of shares issued that has fallen since then, this corresponds to a share of 26.5% in the voting rights. Sole shareholder of HanBG is the Federal State of Lower Saxony. Moreover, a participating interest of more than 10% of the voting rights as per the reporting date accrued to GP Günter Papenburg AG, Hanover, that announced in its voting rights notification on December 8, 2021, that it owned 15.0% of the voting rights in Salzgitter AG. This participating interest is assigned to Günter Papenburg pursuant to Section 34 of the German Securities Trading Act (WpHG).

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

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

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

- Upon approval by the Supervisory Board, the Executive Board may issue 30,048,500 new no par bearer shares against payment in cash or in kind on or before May 31, 2022 (Authorized Capital 2017), whereby a maximum of 12,019,400 units may be issued excluding the subscription rights of the shareholders (20% of all shares issued on June 1, 2017). The 20% cap is reduced by the proportionate amount in the capital stock to which the following relate: the option or conversion rights and the option or conversion obligations attached to the warrants, convertible bonds, profit participation rights and/or participating bonds or a combination of these instruments which have been issued, with subscription rights excluded, since June 1, 2017.
- Moreover, upon approval by the Supervisory Board, the Executive Board may issue bonds in a total nominal amount of up to €1 billion on or before May 31, 2022 and grant the holders of the respective bonds conversion rights to shares of the company in a total amount of up to 26,000,093 units (Contingent Capital 2017). These shareholders' subscription rights can be precluded up to a total nominal amount of bonds with which conversion rights to shares are combined, of which the pro rata amount in the capital stock may not exceed 10% of the capital stock. Bonds with conversion rights excluding shareholder subscription rights may be issued only if shares making up a proportion of 20% of the capital stock, excluding subscription rights, from the Authorized Capital have not been issued since June 1, 2017. By the reporting date no shares had been issued from the Authorized Capital since June 1, 2017.
- The Executive Board is authorized to purchase the company's own shares equivalent to a proportion of the capital stock of up to 10% in the period on or before July 7, 2025, and to use these shares for all purposes permitted under the law.

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

- Under a contract agreed in 2017 with a banking syndicate on a credit line of €560 million, each syndicate bank is entitled in the event of a change of control to terminate its participation in the credit line and, if desired, to request repayment.
- According to a contract on a further credit line concluded with the European Investment Bank in 2019, the European Investment Bank has the right to terminate the credit line in the event of a change of control and, if desired, to demand repayment.
- Under an agreement of the shareholders of EUROPIPE GmbH, Mülheim an der Ruhr, 50% of whose shares are held by the Group, the company may, if there is a change of control, retract shares without the consent of the shareholder affected in the event that the business activities of the third party that has attained a controlling influence stand in direct competition to the company's business activity. In place of retracting the shares, the other shareholders may request that shares are assigned to a designated purchaser.

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

The information required under Section 289a (1) sentence 1 and Section 315a (1) sentence 1 of the German Commercial Code on the existence of a participating interest pursuant to Section 160 (1) item 8 of the German Stock Corporation Act can be found at <https://www.salzgitter-ag.com/en/investor-relations/news-and-publications/reports.html>.

Appropriation of the profit of Salzgitter AG

Salzgitter AG (SZAG) reported unappropriated retained earnings of € 45.1 million in the financial year 2021.

The Executive Board and the Supervisory Board will propose to the Annual General Meeting of Shareholders that these unappropriated retained earnings (€ 45.1 million) be used to fund payment of a dividend of € 0.75 per share (based on the capital stock of € 161.6 million divided into 60,097,000 shares) and that the remaining amount be carried forward to new account.

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

As before, the dividend amount will be geared to the performance of SZAG. The unappropriated retained earnings in the annual financial statements of SZAG drawn up under German commercial law are the sole determining factor for the ability to pay dividend and, in as much, relevant to management and control. The Salzgitter Group pursues a fundamental policy of paying out steady dividend – removed from volatile reporting-date related influences – based on the prerequisite of achieving actual operating profit. The dividend proposal does not necessarily have to fully reflect the cyclicity of the earnings performance. Against the backdrop of the market environment currently to be expected and the dependence of SZAG's earnings on its subsidiaries we anticipate unappropriated retained earnings for the financial year 2022 at around the previous year's level. The forecast for the Group's IFRS 2021 pre-tax result was revised upward several times and ultimately fulfilled. Determinant factors included one-off impairment effects and the excellent operating performance of the Strip Steel and Trading business units. Our forecasted unappropriated retained earnings were therefore significantly exceeded.

Opportunities and Risk Report, Guidance

Opportunity and Risk Management System

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

Differentiation between risk and opportunity management

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

Opportunities and opportunities management

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

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

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

Opportunities arise most notably from our numerous and diverse research and development activities. More information on projects currently under way has been included in the section on ↗ “Research and Development”. We provide information here on SALCOS® (Salzgitter Low CO₂ Steelmaking), our defined climate strategy for sustainable low CO₂ steel production. You can also find further information on SALCOS® and on the associated future opportunities and preconditions at ↗ <https://salcos.salzgitter-ag.com>.

Risks and risk management

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

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

Qualified top-down set of rules and regulations

It is the task of the management holding company to put guidelines in place to form the basis on which a uniform and adequate consideration and communication of risks can be ensured throughout the Group. We communicate the relevant concept to our subsidiaries and associated companies with the aid of a risk policy. This policy sets out principles concerning the

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

of the risks in order to standardize them for the throughout the Group and to guarantee the informative value for the entire Group. We develop our risk management system on a steady basis in response to requirements.

Identification

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

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

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

Assessment

So as to be able to assess the risks, we generally evaluate the threat scenario, while taking into account all factors of influence. In the event, provisions and valuation allowances reduce the amount of loss, which is noted in the risk documentation

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

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

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

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

Dealing with risk

We document the measures that have been and would need to be taken for evaluating and overcoming the risks and report on this as described below.

Communication and documentation

We generally include all the consolidated companies of our business units in our risk management.

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

We use our groupwide reporting system to ensure that Group management is provided with the necessary and pertinent information. Risks are reported to the Executive Board in accordance with the reporting thresholds. Reports are submitted i.a. on the meetings of the Group Management Board that take place every two weeks, in the form of monthly controlling reports, controlling and planning deliberations throughout the year and, if highly pertinent, on an ad hoc basis. We analyze and assess the risks at Group level, monitor them punctiliously and, especially in the case of risks necessitating urgent action, align them to our overall business situation.

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

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

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

Individual Risks

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

Business unit allocations

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

Sectoral risks

Starting with macroeconomic changes in the international markets, the trends of

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

are particularly significant for the Salzgitter Group.

Industry-specific risks have existed for a number of years – from distortions to competition in the international steel markets, huge and increasing excess capacities, US special duties on steel products, and the associated import pressure in the EU. The coronavirus pandemic harbors further trade policy risks from imports increasing at short notice, or from distortions in trade flows due to very varied infection rates in different parts of the world.

At the start of November, the EU and the US, meeting at the G7 Summit in Rome, announced an agreement pertaining to Section 232. Under this agreement, the EU is to be given better access to the US steel market again. On January 1, 2022, the US therefore introduced a system of tariff quotas similar to the EU safeguard measures. Each EU member state is granted its own duty-free import quota based on 2015 to 2017 exports. The agreement generates export opportunities for the Salzgitter Group, particularly in the medium-diameter line pipe segment.

At the same time, there are risks inherent in the agreement: The rigid implementation of the US quotas and the lack of transparency on their utilization give rise to expectations for difficulties in the import process and customs risks. Moreover, given significant changes to the US, Section 232 tariffs, the EU Commission is required to review the terms and the necessity of the EU safeguards. This review was initiated on December 17, 2021, and it is likely to last until late spring 2022. In this scenario, possible risks arise from a stronger liberalization of import quotas and administrative changes that could benefit the imports of particularly aggressive importers. At the present point in time, we consider it unlikely that all of the safeguards will expire in full. The third safeguard year has delivered clear evidence of the measures' effectiveness for the first time. As part of the upswing on Europe's steel market, imports have indeed risen compared with 2020, but extreme blips were nevertheless effectively contained by the existing quotas. The safeguard system therefore significantly bolstered the steel sector's recovery.

In 2021 as well, new, conventional trade defense procedures have been added. For instance, anti-dumping duties on the imports of Turkish hot-rolled stripped products were levied over the course of the year, and proceedings were brought against imports of certain galvanized products from Russia and Turkey. No results were available at the time when the report was being drawn up.

Material risks are now emerging in 2022 from currently expiring trade defense procedures from the years 2016/2017. The EU industry can apply for an extension for another five years, as has already been done in the case of anti-dumping duties on cold-rolled strip imports from Russia and China. Proceedings were opened

accordingly in August 2021. Despite the renewal request having been submitted, the EU Commission may take the decision not to perpetuate duties if it comes to the conclusion that there are no signs of renewed dumping to the detriment of the EU industry. Moreover, the currently good economic situation could make extending the existing customs duties decidedly difficult. Important renewal procedures are imminent for the heavy plate and hot-rolled strip businesses in the spring of 2022.

In addition, risks are also inherent in importers' attempts to obviate existing safeguards, thereby undermining their effectiveness. To counteract such practices, the flow of goods is monitored on an ongoing basis and potential breaches are passed on via Eurofer, the European Steel Association, to the EU Commission and the EU anti-corruption authority OLAF. Last year the EU Commission once more ordered several importers to pay penalties and retroactive customs duties.

In terms of EU trade legislation, the negotiations on various dossiers in the field of award practices, foreign subsidies, as well as on implementing WTO law are to be continued in the current year. Salzgitter AG has adopted a fundamentally positive stance in respect of all suggestions in anticipation of improved implementation of international trading rules and reciprocity. However, due to protracted political processes, the usefulness of new instruments can only be expected a few years down the line at the earliest.

Along with these trade legislative processes, July 2021 saw the EU Commission propose a carbon border adjustment mechanism (CBAM) in the context of its "Fit for 55" package in supplementation of and for the long-term replacement of the free allocation of CO₂ allowances. This proposal provides for imports having carbon costs imposed at the border, thereby creating a level playing field between imports and EU producers. Many trade policy aspects important for the steel industry were therefore integrated into the proposal. The fact that the effectiveness of CBAM that is needed to rapidly replace free allocation has never been tested is, however, problematic. Insofar, risks pertaining to climate policy in particular are inherent in the new instrument. The legislative package presented by the EU Commission still has to be negotiated at the level of the European Council and EU Parliament. In this context, France that holds the Presidency of the Council of the European Union in the first half of 2022 that is so crucial for consultation on the package, and Germany are set to play a major role. The outcome of the negotiations can be expected at the end of 2022 at the earliest.

The completion of Brexit at the start of the previous year disrupted supply in some instances and caused difficulties with imports into the UK. Especially the EU and UK safeguard rules for Northern Ireland caused incidences of this kind. Furthermore, the US sanctions policy continues harbor risks regarding future business activities.

The fourth period of the EU emission trading scheme commenced on January 1, 2021, and will run up until and including 2030. As we have purchased CO₂ allowances as a precaution, the shortfall estimated in the medium term following allocation for the SZAG fully consolidated subsidiaries subject to emissions trading has been largely compensated. We can arrive at more precise opinion when more detailed rules and regulations on all aspects relevant to allocation have been set out, and it becomes clear whether and to what extent the EU's increased climate target envisaged through to 2030 will also impact the budget of free allocation.

On this basis, as well as in view of the plans for addressing any shortfall in CO₂ allowances at our fully consolidated subsidiaries, we do not expect any relevant risks in the aggregate of the scenarios we have run. Assuming the development of unfavorable political framework conditions, the necessity of procuring further CO₂ allowances, at least toward the end of the fourth trading period, cannot be excluded in our current judgment.

We have reassessed and revised the risk accruing in the area of indirect additional costs from carbon pricing in procuring electricity sourced externally, as well as additionally for the use of electricity generated for our own consumption: A continuation of so-called carbon electricity price compensation in the fourth emissions trading period already under way has been provided for by the policymakers, albeit with a respective review announced in the first half of 2023 at the latest. This said, we have henceforth estimated the risk at up to € 20 million p.a. (previously: up to € 35 million p.a.). This now revised risk is based on compensation being fully scrapped compared with the planning of the relevant Group companies. A more accurate definition will only be

possible when clarity is obtained in particular about how long carbon electricity price compensation will run for. We view the probability of this issue generally occurring as likely. The amount of loss will continue to hinge on how the political and regulatory framework conditions develop. In procuring CO₂ allowances, we still keep an eye on a potential deterioration in the situation and in prices.

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

Price risks of essential raw materials, freight costs and energy

In 2021, the raw materials price trend on the international procurement markets proved to be very volatile again with respect to determinant raw materials such as iron ore, coking coal and scrap. This volatility that originates in a range of different factors sent the daily quotations of iron ore and coal to record highs over the course of the year. This market development regarding iron ore and coal is explained in more detail under the section entitled ↗ “Performance and General Business Conditions of the Business Units”. We assume that burdens can be passed on to customers to the extent that we do not anticipate any risks that could constitute a threat to our company as a going concern. We fundamentally endeavor to even out fluctuations in the price of raw materials. To this end, we use hedging within a limited scope, mainly for iron ore as well as for coking coal. The Group applies a permanent system of monitoring sales and procurement to ensure congruence between the fixed-price procurement of raw materials and the fixed-price sale of our products. This system enables changes to be recognized at an early stage so that any resulting risk can be dealt with in time. Considerable burdens emanate from the increase in freight costs, above all for sea freights that are particularly relevant to our company and the high levels they have settled at. We keep a close eye on the development of costs and incorporate them into our earnings guidance.

All over the world, but particularly in Germany as well, consumers have been exposed to the surging gas and electricity prices since late summer. On the one hand, this uptrend is a consequence of industrial demand that has increased by leaps and bounds, with an only moderate power production from renewable energies this year, coupled with the carbon pricing of energy for the first time, and, on the other, to delayed gas imports due to the global political scenario. With a view to improving energy efficiency, we have long been engaged in continuously screening our production processes for energetic improvement potential, and we implement savings measures accordingly. We constantly monitor areas requiring a great deal of power in particular. On occasion, it may be the case that production is run depending on the electricity price. Russia's attack on Ukraine that commenced on February 24, 2022, unleashing further potential geopolitical implications, may result in a danger of energy prices rising even further. We are therefore meticulously monitoring the situation and taking burdens arising from the situation into consideration in regular Group earnings forecasts.

Procurement risks

We counteract the general risk from supply shortfalls of raw materials (iron ore, coal) and energy (electricity, gas) by safeguarding their procurement, firstly by way of long-term framework contracts, and secondly through ensuring our supply from several regions and/or a number of suppliers. In addition, we also operate appropriate inventory management. Our assessment of our supply sources confirms our opinion that the medium-term availability of these raw materials in the desired quantity and quality is ensured despite any disruption to supply and logistics chains. In consideration of the war taking place between Russia and Ukraine, we have investigated substitute suppliers for input material which has so far been procured from the Russian Federation. We are in contact with alternative suppliers and anticipate that we will be able to supply our production plants in line with their requirements.

International shipping for the conveyance of our iron ore and coking coal bulk materials is running at a very stable level. Conversely, container-based procurements, for refractory material and alloying agents, for instance, are subject to delays due to the well-known “blockage effects” in harbors around the world. Even if the material bottlenecks are unlikely to unravel any time soon, the situation should ease again going forward. We keep a close watch on international markets and, from today's standpoint, do not see any particular supply risks.

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

Selling risks

A risk typical of our business may also result from sharply fluctuating prices and volumes in our target markets, such as lower orders placed by the automotive industry in the context of the semiconductor shortfall, for instance. The EU sanctions triggered by Russia's acts of war are likely to cause a loss of the markets in Russia and Ukraine or, at minimum, lead to a significant decline in exports into these regions. Both countries are of secondary importance for our Group, however. Any burdens emanating from this source are incorporated into regular Group earnings forecasts. In assessing the current economic environment with regard to the outlook for the financial year 2021, we refer to the section entitled ↗ "Overall Statement on Anticipated Group Performance".

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

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

Financial risks

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

Currency risks

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

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

We do not hedge translation risks arising from the converting of positions held in a foreign currency into the reporting currency, as these are of secondary importance in relation to the consolidated balance sheet. More information can be found in the ↗ “Notes to the Consolidated Financial Statements”.

As a result of the preventive measures, we believe that currency risks do not constitute a threat to the company as a going concern.

Default risks

We counter our receivables risks by practicing stringent internal exposure management. We limit around two thirds of these risks through trade credit insurance and other collateral. We monitor the unsecured positions meticulously as well as evaluating and taking them into account in our business transactions. We therefore do not consider that these positions will give rise to any serious burdens.

Liquidity risks

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

Interest rate risks

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

Tax risks

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

The tax and interest back payments in connection with the ruling of the German Federal Fiscal Court (Bundesfinanzhof) issued in 2016 on securities lending was fully recognized in the reporting year. Salzgitter AG has lodged an appeal against these claimed payments. A ruling on this case has not been handed down as yet.

Production downtime risks

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

Legal risks

In order to exclude potential risks arising from a possible breach of the manifold fiscal, environmental, competition- and corruption-related rules and regulations, and other legal provisions, including the GDPR, we require strict compliance from each and every employee. The Executive Board has communicated its fundamental set of values by distributing a Code of Conduct to all the Group's employees. We seek extensive legal advice from our experts as well as, on a case-by-case basis, from qualified external specialists. Comprehensive training supports the process of raising our employees' awareness of this aspect. We have set up a compliance management system for the preventative treatment of risks from infringements of the law. We classify the occurrence of current legal risks as unlikely. This also applies to two matters at our 30%-owned HKM in connection with operating the Huckingen power plant whose categorization under energy law has not yet been clarified. At the present point in time, we do not see any reliable indications for the occurrence of risks in this connection. For further information on our compliance management system, we refer to our ["Declaration of Corporate Governance"](#).

Personnel risks

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

In addition, we are stepping up our activities to position Salzgitter AG even more firmly, both internally and externally, as a modern, attractive employer. As part of a new employer campaign, the manifold possibilities the Group offers in terms of jobs and development are being presented in keeping with the times via a range of different communication channels. Extensive employer benefits, such as attractive company pension models, flexible working hours, and a groupwide discount portal offering goods and services at a discount underpin these endeavors. Various health and pension packages, along with continuous professional development, support the systematic preparation of all workforce members for a longer working life, while making a contribution to shaping demographic change. We consider that the risks have been duly taken into consideration by the wide range of different measures. In general, the Group continues to expand its ability to systematically identify human resource risks. Dashboards in the context of business intelligence self-services for managers play a central role here. These dashboards enable fields for action in the area of personnel policies relevant for success to be monitored specifically using key performance indicators, while serving as an indication for deriving measures and measuring their success.

Product and environmental risks

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

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

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

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

Information technology risks

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

To this end, the Group also implements new technologies to meet constantly changing requirements, alongside harmonization projects concerning IT-structures that have developed organically and heterogeneously. Together with the necessary economic aspect, the compatibility and security of the IT systems and databases are guaranteed in the process. The risks from this area are deemed manageable. Due to the great complexity, the probability of occurrence in the area of IT security can be classified as likely in individual cases in parts of the Group. Against the backdrop of the current military conflict between Russia and Ukraine, there is a heightened risk of cyber attacks, also for our Group. In this context we have stepped up our monitoring on an international scale in order to be able to react adequately and in a timely fashion. We are keeping a close watch on the situation and deriving specific measures so as to take direct action to counteract any adverse impact. We consider future risks from this area as improbable for the Group as a whole.

Corporate strategy risks

We invest regularly in securing our future profitability. More detailed information on the individual business units is included in the section on ↗ [“Performance and General Business Conditions of the Business Units”](#). Information on the topic of SALCOS® can be found under ↗ [“Strategy”](#). We approach any restructuring requirements necessitated by the market and competition in a targeted manner. Our “FitStructure 2.0” program of measures that involves all major companies is designed to address the continuous improvement of our cost structure and process efficiency. We consider the risks inherent in this restructuring to be manageable.

Overall Statement on the Risk Position of the Group

Evaluation of the risk position by management

Having reviewed the overall risk position of the Salzgitter Group, we can conclude that there were no risks endangering either the individual companies or the entire Group as going concerns at the time when the 2021 annual financial statements were drawn up. This evaluation applies to the individual companies as well as to the Group as a whole.

While the economic institutions predict encouraging growth rates in the next two years, they nevertheless also refer to economic risks. These risks include the combination of scarce materials in a range of sectors, such as in the semiconductor industry, and concerns about recent COVID-19 restrictions or even a lockdown in China with consequences for the global economy, as well as the danger of a further increase in the already very high energy costs. The current geopolitical conflicts between Russia and NATO, could also abruptly slow economic recovery and thus impact our Group companies as well. Following Russia's attack on Ukraine on February 24, 2022, the same scenario may also occur as a result of sanctions issued by the EU and the US, on the one hand, and by Russia in response, on the other. Therefore, sales, pretax profit and ROCE could come out lower than anticipated at the moment.

Back in 2020 we had already initiated an extensive program of measures, then in response to the COVID-19 pandemic, to secure the result and the liquidity. This program was designed to be deployed at short notice and in a targeted manner depending on economic developments. Despite the good state of the economy, we are operating in a phase of limited planning reliability. We nevertheless consider ourselves well equipped to master this situation of considerably greater challenges placed on opportunity and risk management. Our business policy, which takes due account of risks and is geared toward sustainability, and the sound strategic alignment of the Salzgitter Group form the basis for this assessment.

The development of prices in the sales and procurement markets, of freight rates, along with energy prices and exchange rates (above all, USD/EUR), are particularly important for the Salzgitter Group. Currently, and as far as is discernible, we are exposed to the impact of the potential economic impact of the military conflict in Ukraine, disruption in global supply and logistics chains, as well as extreme volatility on the raw materials and energy markets, as well as freight costs, along with the accompanying higher inflation rates. We anticipate burdens from these scenarios, at least in the first half of 2022. The effect on earnings from the risks arising from these scenarios have been factored in for the companies in the current year and in the forecast to the extent foreseeable. In order to minimize further business risks, we monitor the relevant trends and take account of them in risk forecasts. This is also true of potential restrictions resulting from financial or political measures affecting international business.

Moreover, we continue to be burdened by the structural crisis in the global steel market, massive distortions of competition in non-EU countries, the resulting import pressure, and foreign policy developments. We regard Germany's respective European energy and environmental policy as critical for our future development. Risks to the survival of the company may arise under certain circumstances from these scenarios.

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

Rating of the company

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

Description of the main features of the accounting-related internal control system and the risk management system with respect to the (Group) accounting process (Sections 289 para. 4 and 315 para. 4 of the German Commercial Code (HGB))

To supplement the information already contained in the risk report, the main features of the internal control and risk management system implemented within the Salzgitter Group in respect of the (Group) accounting process are described as follows:

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

To ensure the effectiveness, efficiency and regularity of accounting and compliance with pertinent statutory provisions the accounting process encompasses all the necessary principles and the operating instructions and measures derived therefrom.

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

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

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

SZAG's Group Accounting Department draws up the annual financial statements at Group and at parent company level. External auditors audit and issue audit opinions on the financial statements of major companies included in the consolidated financial statements, as well as on the consolidated financial statements. To ensure that statutory requirements are complied with in respect of accounting, Group guidelines are updated on an annual basis and disseminated to the companies. These guidelines form the basis of a uniform, due and proper ongoing accounting process with respect to accounting as defined under the International Financial Reporting Standards (IFRS). Along with general accounting principles and methods, rules and regulations on the balance sheet, income statement, notes to the financial statements, cash flow statement, the statement of changes in equity, and segment report are first and foremost defined, taking into account the legal position prevailing within the EU. Accounting regulations also lay down specific formal requirements relating to the consolidated financial statements. The components of the reporting packages to be prepared by the Group companies are therefore determined in detail. A standardized and IT-facilitated set of forms is used for this purpose. Additional Group guidelines also include explicit instructions for the presentation and processing of offsetting procedures within the Group, with the respective process for reconciling balances. Newsletters customarily distributed once a month and on-site events organized on a requirements basis keep the companies informed about changes in the law and the resulting consequences for preparing the consolidated financial statements.

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

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

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

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

General Business Conditions in the Coming Year

According to the most recent forecasts of the International Monetary Fund (IMF), the **global economy's** dynamic growth is likely to persist in 2022, albeit at a somewhat weaker pace than in 2021. The ongoing COVID-19 pandemic, as well as supply bottlenecks and shortfalls, are initially likely to dampen the economy in the first months of 2022. As before, disparate regional development can be assumed: While the industrial nations are expected to return to economic output at pre-crisis levels, the emerging and development markets are likely to fall considerably short due to lower vaccination rates. The IMF forecasts general global economic growth of 4.4% in 2022 (2021: 5.9%).

The economic performance of the **euro area** is also set to expand swiftly in 2022 in the opinion of the IMF. Despite high order intake, industrial activity will stay muted at the beginning of the year due to supply bottlenecks. Industry is only expected to see a significant surge in growth once the supply and capacity constraints begin to ease as the year 2022 progresses. Provided the restrictions imposed on travel and on the economy to combat the spread of COVID-19 are relaxed, people's consumption and travel behavior should return to normal levels again. Against this backdrop, countries that are particularly dependent on the services sector and tourism in particular should benefit especially from strong growth stimulus. At present, the IMF expects economic growth of 3.9% in the eurozone for the full-year 2022 (2021: 5.2%).

A similar development has been predicted for the economy in **Germany**. While the manufacturing sector will be initially hampered by supply chain disruptions, especially in the case of semiconductors, economic output in the services sector will be largely constrained by voluntary restrictions on contact. Private consumer spending is expected to normalize by the summer period. In terms of supply bottlenecks, and the resulting hindrance to production, the situation is expected to gradually resolve itself in the spring. Based on these assumptions, the IMF anticipates overall growth of 3.8% for the German economy in 2022 (2021: 2.7%).

Market outlook

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

Steel

The World Steel Association (WSA) predicts that global demand for steel will rise by 2.2% in 2022 compared with the previous year's figure. With the exception of China, the sharp increase in demand in 2021 should normalize in the industrial nations and the emerging markets, while still remaining markedly positive. As far as the People's Republic of China is concerned, zero growth has been predicted in view of the situation in the country's real estate sector and political targets for environmental protection and budget consolidation. In its most recent outlook for the European Union, Eurofer, the European Steel Association, anticipates a pleasing upturn in steel consumption in the EU, albeit below the growth rate seen in 2021. All in all, Eurofer expects an increase in the market supply of 3.2% compared with 2021.

Mechanical engineering

Following substantial production growth of an estimated 10% in German mechanical engineering in 2021, the German Engineering Federation (VDMA) forecasts growth in a range of between 4% and 5% in 2022. These predictions are nevertheless subject to uncertainty regarding the development of the pandemic and material and supply shortages, particularly in the case of electronic components and transport capacities. Moreover, bottlenecks in the labor market for German production locations also present a challenge.

Overall Statement on Anticipated Group Performance

Planning process

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

Expected Earnings

Compared with the previous year, the business units anticipate that business in the financial year 2022 will develop as follows:

The **Strip Steel Business Unit** is expecting business to develop well. We basically anticipate that the European automotive market will revive although its recovery is likely to be still subdued, at least in the first half of the year due to supply chain issues. In the remainder of the year, we anticipate pent-up demand from the automotive industry and from the white goods sector as waiting lists have built up with many producers due to the supply bottlenecks in 2021. Inasmuch, we assume that capacity utilization will be covered by demand. As far as selling prices are concerned, we expect a good level from which we derive pleasing assumptions for new orders and orders on hand. Blast furnace C that was taken out of operation will be recommissioned during the year to ensure sufficient slab availability for companies within the Group. On the raw materials front, we expect much lower costs for iron ore but significantly higher costs for coking coal. In conjunction with demand remaining at healthy levels and higher average selling prices, we anticipate an increase in sales and earnings before taxes that will considerably exceed the year-earlier figure.

We assume a cautiously positive market situation for the markets relevant to the **Plate/Section Steel Business Unit**. In the section steel business, we predict a volatile market environment that continues to focus on the short term. Based on the positive effects from commissioning Ilsenburg's new heat treatment line, improved capacity utilization at the Mülheim heavy plate producer resulting from the booking of a major pipeline order placed with EUROPIPE, in conjunction with the good selling price level in the sections business, particularly in the first quarter, we anticipate sales that are higher than in the previous year and a marked improvement in the pre-tax result for the business unit.

The **Mannesmann Business Unit** is expecting the market situation to improve overall. Thanks to the production of the "Scarborough Woodside" contract, the EUROPIPE Group reports that basic capacity utilization has been secured. By contrast, the US plants are having to confront an unsatisfactory capacity utilization situation. Against the backdrop of greater project availability, Mannesmann Grossrohr GmbH is aiming to improve its booking situation. Similarly, we expect an uptrend in volumes to resume in the medium-diameter line pipe segment. At the start of the year, the precision tubes companies were still feeling the impact of supply bottlenecks in the automotive industry. The companies nevertheless anticipate that the market recovery from the previous year will continue over the course of this year. We expect stable demand in the stainless steel segment. All in all, we forecast the following for the business unit: a significant increase in shipment volumes, a higher sales level and, supported by further cost cutting measures, a visibly improved, positive pre-tax result compared with the previous year that was impacted by impairment.

The companies of the **Trading Business Unit** continue to expect that business will develop at a high level. The stabilization of prices at the end of the 2021 financial year, in conjunction with still rising inventory prices in the stockholding business, is resulting in the normalization of the still high margins seen at the start of the year, which will be positively reflected in the result, at least in the first quarter. The remainder of the year is expected to entail much lower profit margins, which will nevertheless be partly compensated by higher shipment volumes, in particular in international trading, but also in the stockholding business. Overall, we expect the business unit to deliver higher shipment and sales figures that should ultimately result in earnings before taxes that are still very pleasing, but nevertheless notably lower than in the previous year due to the squeeze on margins.

Owing to good order intake at year-end 2021, the companies of the **Technology Business Unit** commenced the new year with a sound cushion of orders. With the rigorous expediting of the “KHS Future” growth program and the marketing and sales of new, innovative products, we predict – after adjustment of the effect on earnings from the disposal of the pouch business in the US – another improvement in the KHS Group’s profitability, accompanied by slight growth in volumes and sales. Gaining additional market shares in the standard business in particular should bolster this positive trajectory. The two DESMA specialist mechanical engineering companies anticipate a sustained recovery in the market and, supported by cost-cutting programs, a pre-tax result that exceeds the year-earlier figure. We therefore anticipate higher sales for the business unit as well as a pre-tax profit marginally below that of the previous year.

In view of the decidedly encouraging start to the year and the sustained, strong profit trend, above all in the strip steel business, we anticipate the following for the **Salzgitter Group** in the financial year 2022:

- an increase in sales to just under € 11 billion,
- a pre-tax profit of between € 600 million and € 750 million, and
- a return on capital employed (ROCE) that is around the previous year’s level.

We consider it rather more unlikely that the pandemic will cause another plunge in the economy. The Russian attack on Ukraine and its effects could, however, cause an abrupt slowdown of the economic recovery and thus also affect our Group companies. This is accompanied by the danger of the already very high energy costs rising even further. Thus, there are currently risks to the forecast that are not quantifiable. Moreover, as in recent years, please note that opportunities and risks from currently unforeseeable trends in selling prices, input material prices and capacity level developments, as well as exchange rate fluctuations, may considerably affect performance in the course of the financial year 2022. The resulting fluctuation in the consolidated pre-tax result may be within a considerable range, either to the positive or to the negative. The dimensions of this volatility are illustrated by the following example: With around 12 million tons p.a. of steel products sold by the Strip Steel, Plate/Section Steel, Mannesmann and Trading business units, an average € 25 change in the margin per ton is already sufficient to cause a variation in the annual result of more than € 300 million.

Anticipated Financial Position

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

An amount of € 422 million has been earmarked for our Group’s capital expenditure budget in the financial year 2022. Together with the follow-up amount of around € 215 million in investments approved in previous years, the cash-effective portion of the 2022 budget should amount to around € 460 million (2021: € 309 million). As previously, investments will be effectively implemented on a step-by-step basis and in accordance with the development of profit and liquidity. The investments necessary for realizing our SALCOS® (Salzgitter Low CO₂ Steelmaking) have not been taken account of in the aforementioned budget. Upon approval of the first stage of the program in industrial scale by the Supervisory Board in the summer of this year, the requisite investments could be incurred in significant dimensions in 2022 as well.

The funds required in the financial year 2022 for foreseeable investment measures will therefore exceed depreciation and amortization.

Having factored in the planned investments, along with further capital commitment in Salzgitter Flachstahl GmbH's inventories in preparation for the relining of the blast furnace in 2023, the net financial position is likely to decline somewhat in 2022 compared with the previous year (€-544 million). Seen from a general standpoint, account should be taken of the fact that the strategic decisions in the past year of acquiring CO₂ allowances for the fourth period of the EU's trading system for greenhouse gas emissions that began on January 1, 2021 as a precautionary measure, as well as replenishing the shares held in Aurubis AG to 29.99% have reduced the Salzgitter Group's net financial position by almost € 600 million since 2015. The increase in emission allowance prices and the Aurubis AG share price, as well as its regular earnings and dividend contributions, bear testimony to the correctness of these measures.

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

Consolidated Financial Statements

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Consolidated Income Statement

In € million	Note	2021	2020
Sales	[1]	9,767.4	7,090.8
Changes in inventories/other own work capitalized		522.9	-158.1
Overall performance		10,290.4	6,932.7
Other operating income	[2]	548.5	345.3
Cost of materials	[3]	6,746.1	4,579.2
Personnel expenses	[4]	1,769.7	1,654.1
Amortization and depreciation of intangible assets and property, plant and equipment	[5]	508.4	295.3
Other operating expenses	[6]	1,222.4	936.6
Result from impairment losses and reversal of impairment losses of financial assets		1.8	-29.2
Income from shareholdings		-0.0	2.4
Result from investments accounted for using the equity method	[13]	159.5	95.6
Finance income		15.3	14.9
Finance expenses		63.0	92.9
Earnings before taxes (EBT)		705.7	-196.4
Income tax	[7]	119.6	77.5
Consolidated result		586.1	-273.9
Consolidated net result due to Salzgitter AG shareholders		581.1	-277.3
Minority interest in consolidated net result		5.0	3.5
Appropriation of profit in € m	Note	2021	2020
Consolidated result		586.1	-273.9
Profit carried forward from the previous year		-	12.1
Minority interest in consolidated net result		5.0	3.5
Dividend payment		-	-
Change of retained earnings		-536.0	265.2
Unappropriated retained earnings of Salzgitter AG	[24]	45.1	-
Earnings per share (in €) – basic	[8]	10.74	-5.13
Earnings per share (in €) – diluted	[8]	-	-5.13

Statement of Comprehensive Income

In € million	Note	2021	2020
Consolidated result		586.1	-273.9
Recycling			
Changes in value from currency translation		17.5	-33.0
Changes in value from cash flow hedges	[34]	85.6	20.8
Changes in fair value		86.1	28.4
Recognition with effect on income		37.4	1.9
Deferred taxes		-37.9	-9.6
Changes in the value of investments accounted for using the equity method	[13]	-3.5	4.1
Changes in fair value (in particular cash flow hedges)		-14.0	16.4
Currency translation		8.5	-8.9
Deferred taxes		2.0	-3.3
Deferred taxes on other changes in value with no effect on income		-0.7	-0.4
		98.8	-8.5
Non-recycling			
Changes in equity for financial equity instruments valued without effect on the income	[34]	-3.8	0.9
Changes in fair value		-3.8	-1.1
Deferred tax		-0.0	2.1
Remeasurements		40.4	14.6
Remeasurement of pensions	[26]	77.6	15.4
Currency translation		-0.1	1.0
Deferred tax		-37.1	-1.8
Changes in value of investments accounted for using the equity method	[13]	20.8	14.0
		57.4	29.6
Other comprehensive income		156.3	21.1
Total comprehensive income		742.3	-252.8
Total comprehensive income due to Salzgitter AG shareholders		737.3	-256.1
Total comprehensive income due to minority interest		5.0	3.3

Consolidated Balance Sheet

Assets in € m	Note	12/31/2021	2021/12/31
Non-current assets			
Intangible assets	[9]	216.5	223.1
Property, plant and equipment	[10]	2,051.4	2,200.5
Investment property	[11]	79.5	81.5
Financial assets	[12]	51.4	54.6
Investments accounted for using the equity method	[13]	1,327.8	1,169.1
Trade receivables	[16]	8.3	11.0
Other receivables and other assets	[18]	21.6	22.3
Income tax assets	[19]	1.9	0.5
Deferred income tax assets	[14]	491.8	481.9
		4,250.1	4,244.5
Current assets			
Inventories	[15]	3,123.3	1,933.7
Trade receivables	[16]	1,452.8	923.9
Contract assets	[17]	323.0	300.2
Other receivables and other assets	[18]	296.7	188.3
Income tax assets	[19]	17.0	23.7
Securities	[20]	49.7	-
Cash and cash equivalents	[21]	741.8	621.4
Assets available for sale		0.5	1.7
		6,004.7	3,992.9
		10,254.9	8,237.4

Equity and liabilities in € m	Note	2021/12/31	2021/12/31
Equity			
Subscribed capital	[22]	161.6	161.6
Capital reserve	[23]	257.0	257.0
Retained earnings		3,170.4	2,594.5
Other reserves		81.9	26.4
Unappropriated retained earnings	[24]	45.1	-
Subtotal		3,716.0	3,039.5
Treasury shares		-369.7	-369.7
Amount due to Salzgitter AG shareholders		3,346.3	2,669.8
Minority interest		10.7	9.1
		3,357.0	2,678.9
Non-current liabilities			
Provisions for pensions and similar obligations	[26]	2,178.6	2,298.6
Deferred income tax liabilities	[14]	147.1	73.9
Income tax liabilities	[19]	25.7	30.4
Other provisions	[27]	267.5	267.1
Financial liabilities	[28]	621.5	749.4
Other liabilities		6.6	57.1
		3,247.0	3,476.4
Current liabilities			
Other provisions	[27]	263.1	210.4
Financial liabilities	[29]	893.2	488.3
Trade payables		1,728.9	802.4
Contract liabilities	[30]	353.8	272.8
Income tax liabilities	[19]	36.1	5.5
Other liabilities	[31]	375.6	302.8
		3,650.7	2,082.1
		10,254.9	8,237.4

Cash Flow Statement

In € million	Note	2021	2020
Earnings before taxes (EBT)		705.7	-196.4
Depreciations and impairments (+)/of non-current assets (-)		507.6	295.2
Income tax paid (-)/refunded (+)		-54.9	-83.5
Other non-cash expenses (+)/income (-)		33.3	75.5
Interest expenses		62.7	90.8
Gain (-)/loss (+) from the disposal of non-current assets		-14.4	-57.4
Increase (-)/decrease (+) in inventories		-1,173.2	301.5
Increase (-)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities		-576.9	43.1
Use of provisions affecting payments, excluding use of tax provisions		-199.5	-255.3
Increase (+)/decrease (-) in trade payables and other liabilities not attributable to investment or financing activities		1,039.0	-195.2
Cash inflow from operating activities		329.4	18.3

In € million	2021	2020
Cash inflow from the disposal of non-current assets	24.6	83.3
Cash outflow for investments in intangible assets and property, plant and equipment	-343.4	-374.4
Cash inflow from investments of funds	-	64.8
Payments for financial investments	-50.0	-15.3
Cash inflow from the disposal of other non-current assets	8.9	10.1
Cash outflow for investments in other non-current assets	-6.7	-2.7
Cash outflow from investment activities	-366.6	-234.2
Deposits from taking out loans and other financial debts	503.8	372.8
Repayment of loans and other financial liabilities	-300.8	-44.1
Paid loans	-	-150.9
Interest paid	-56.7	-26.7
Cash flow from financing activities	146.3	151.0
Cash and cash equivalents at the start of the period	621.4	700.5
Cash and cash equivalents relating to changes in the consolidated group	-	0.2
Gains and losses from changes in exchange rates	11.3	-14.4
Payment-related changes in cash and cash equivalents	109.1	-64.9
Cash and cash equivalents at the end of the period	741.8	621.4

For information on the content on cash and cash equivalents, please refer to Note. (21) ↗ „Cash and cash equivalents“.

Statement of Changes in Equity

	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	Other reserves from
In € million					Currency translation
Note	[22]	[23]			
As of 2020/1/1	161.6	257.0	-369.7	2,845.1	-1.1
Consolidated result	-	-	-	-	-
Other comprehensive income	-	-	-	14.2	-32.9
Total comprehensive income	-	-	-	14.2	-32.9
Basis adjustments	-	-	-	-	-
Dividend	-	-	-	-	-
Change in retained earnings	-	-	-	-265.2	-
Other	-	-	-	0.3	-
As of 2020/12/31	161.6	257.0	-369.7	2,594.5	-33.9
Consolidated result	-	-	-	-	-
Other comprehensive income	-	-	-	39.7	17.4
Total comprehensive income	-	-	-	39.7	17.4
Basis adjustments	-	-	-	-	-
Dividend	-	-	-	-	-
Change in retained earnings	-	-	-	536.0	-
Other	-	-	-	0.3	-
As of 2021/12/31	161.6	257.0	-369.7	3,170.4	-16.5

			Unappropriated retained earnings	Share of the Salzgitter AG shareholders	Minority interest	Equity
	Equity instruments measured at fair value with no effect on the income	Investments accounted for using the equity method				
Cashflow hedges						
	[34]	[13]	[24]			
	1.1	5.0	12.1	2,929.0	9.6	2,938.6
	-	-	-277.3	-277.3	3.5	-273.9
	20.8	18.2	-	21.2	-0.1	21.1
	20.8	18.2	-277.3	-256.1	3.3	-252.8
	-3.3	-	-	-3.3	-	-3.3
	-	-	-	-	-3.8	-3.8
	-	-	265.2	-	-	-
	-	-	-	0.3	-	0.3
	18.5	23.1	0.0	2,669.8	9.1	2,678.9
	-	-	581.1	581.1	5.0	586.1
	85.6	17.3	-	156.2	-0.0	156.2
	85.6	17.3	581.1	737.3	5.0	742.3
	-61.1	-	-	-61.1	-	-61.1
	-	-	-	-	-3.4	-3.4
	-	-	-536.0	-	-	-
	-	-	-	0.3	-	0.3
	42.9	40.5	45.1	3,346.3	10.7	3,357.0

Notes

(37) Segment Reporting

In € million	Strip Steel		Plate/Section Steel		Mannesmann	
	2021	2020	2021	2020	2021	2020
External sales	2,534.5	1,879.7	945.3	684.2	1,157.1	946.7
Sales to other segments	854.7	643.5	955.5	658.3	136.0	95.2
Sales to group companies that are not allocated to an operating segment	3.7	3.2	3.3	1.0	454.2	278.4
Segment sales	3,392.9	2,526.3	1,904.2	1,343.4	1,747.2	1,320.3
Interest income (consolidated)	0.2	0.1	0.1	0.1	0.9	0.8
Interest income from other segments	-	-	-	0.0	-	-
Interest income from group companies that are not allocated to an operating segment	0.6	0.1	3.1	4.7	2.5	2.8
Segment interest income	0.8	0.2	3.2	4.7	3.4	3.6
Interest expenses (consolidated)	11.1	11.8	2.1	1.8	5.6	6.6
Interest expenses to other segments	-	-	-	-	-	-
Interest expenses from group companies that are not allocated to an operating segment	4.6	12.3	1.1	2.4	5.9	6.8
Segment interest expenses	15.7	24.1	3.3	4.2	11.5	13.4
Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in accordance with IAS 36)	125.4	128.7	35.6	31.2	57.7	54.9
Impairment of tangible and intangible assets (according to IAS 36)	-	-	-	-	200.1	-
Segment earnings before taxes	417.7	-86.8	41.4	-94.4	-273.3	-62.0
of which resulting from investments accounted for using the equity method	-	-	-	-	-58.2	-8.8
Material non-cash items	67.9	36.6	19.4	5.9	39.6	13.4
Investments in property, plant and equipment and intangible assets	160.7	162.2	56.3	87.1	70.0	69.6

For further information, please refer to Note (36) ↗ "Notes to the Segment Reporting" in the Notes. This section also includes explanations on reconciliation.

Trading		Technology		Total segments		Reconciliation		Group	
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
3,603.1	2,225.2	1,360.5	1,207.0	9,600.5	6,942.6	166.9	148.2	9,767.4	7,090.8
51.5	19.4	0.8	0.4	1,998.5	1,416.8				
0.1	0.0	-	-	461.4	282.6				
3,654.8	2,244.6	1,361.3	1,207.4	12,060.3	8,642.0				
2.1	2.3	3.7	2.1	7.0	5.4	8.2	8.2	15.3	13.6
-	-	-	-	-	0.0				
15.3	6.7	2.1	0.0	23.7	14.3				
17.5	8.9	5.8	2.2	30.7	19.7				
11.7	11.2	2.4	2.5	32.9	33.8	29.8	56.9	62.7	90.8
-	0.0	-	-	-	0.0				
0.1	0.4	0.9	3.0	12.7	24.9				
11.9	11.6	3.3	5.4	45.6	58.7				
16.3	16.3	27.5	28.0	262.5	259.1	37.6	36.2	300.1	295.3
-	-	-	-	200.1	-	8.2	-	208.3	-
352.5	25.1	59.2	0.9	597.6	-217.2	108.1	20.8	705.7	-196.4
-	-	-	-	-58.2	-8.8	217.7	104.4	159.5	95.6
16.6	6.7	16.3	17.3	159.7	79.8	29.3	29.2	189.0	109.1
15.3	33.2	29.5	34.8	331.8	386.8	35.3	24.1	367.1	411.0

Analysis of Fixed Assets 2021

In € million	Acquisition and production costs					2021/12/31
	2021/1/1	Currency translation differences	Additions	Disposals	Transfers to other accounts	
Intangible assets						
Purchased concessions, brand names, industrial property rights plus licenses and emission rights	454.3	0.3	8.7	-29.7	8.1	441.8
Payments on account	24.6	0.0	15.3	-	-7.5	32.5
	478.9	0.3	24.1	-29.7	0.7	474.3
Property, plant and equipment						
Land, similar rights and buildings, including buildings on land owned by others	1,927.6	5.3	18.3	-15.0	41.2	1,977.4
Plant equipment and machinery	6,934.2	8.3	147.6	-94.9	127.3	7,122.6
Other equipment, plant and office equipment	512.9	1.3	37.7	-34.5	2.4	519.9
Payments made on account and equipment under construction	314.3	0.5	139.5	-0.3	-171.3	282.7
	9,689.0	15.4	343.1	-144.6	-0.4	9,902.5
Investment property	100.7	-	-	-0.6	0.1	100.2
	10,268.6	15.7	367.1	-174.8	0.3	10,477.0

2021/1/1	Currency translation differences	Depreciation in the financial year ¹⁾	Disposals	Transfers to other accounts	Valuation allowances		Book values
					2021/12/31	2021/12/31	2021/12/31
-253.0	-0.2	-17.3	15.4	0.1	-255.0	186.7	201.2
-2.8	-	-	-	-	-2.8	29.7	21.8
-255.8	-0.2	-17.3	15.4	0.1	-257.8	216.5	223.1
-1,141.1	-1.6	-64.0	9.8	-0.9	-1,197.8	779.6	786.5
-5,923.4	-4.7	-381.4	91.6	1.0	-6,217.0	905.6	1,010.8
-411.7	-0.9	-44.2	33.4	-0.5	-424.1	95.8	101.2
-12.4	-	-	-	0.1	-12.3	270.4	301.9
-7,488.5	-7.2	-489.6	134.7	-0.4	-7,851.2	2,051.4	2,200.5
-19.2	-	-1.5	-	0.0	-20.6	79.5	81.5
-7,763.5	-7.4	-508.4	150.1	-0.3	-8,129.6	2,347.4	2,505.0

¹⁾ The impairments (unscheduled amortization and depreciation) under this Note are summarized under Note (5) ¶.

Analysis of Fixed Assets 2020

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

2020/1/1	Currency translation differences	Depreciation in the financial year	Valuation allowances			Book values	
			Disposals	Transfers to other accounts	2020/12/31	2021/12/31	2019/12/31
-244.2	0.4	-14.9	5.8	-0.1	-253.0	201.2	202.6
-2.9	-	-0.0	0.1	0.1	-2.8	21.8	9.0
-247.1	0.4	-14.9	5.8	-0.0	-255.8	223.1	211.6
-1,134.4	2.2	-40.5	31.0	0.6	-1,141.1	786.5	649.7
-5,807.1	5.7	-198.8	79.5	-2.6	-5,923.4	1,010.8	1,038.7
-395.2	1.9	-39.8	21.1	0.3	-411.7	101.2	105.5
-15.1	-	-	-	2.7	-12.4	301.9	337.6
-7,351.9	9.7	-279.0	131.7	1.0	-7,488.5	2,200.5	2,131.4
-16.8	-	-1.4	-	-1.0	-19.2	81.5	82.0
-7,615.8	10.1	-295.3	137.5	-0.0	-7,763.5	2,505.0	2,425.1

Principles of the Consolidated Financial Statements

The Consolidated Financial Statements are based on the audited financial statements of the ultimate parent company Salzgitter AG (SZAG) as well as the largely audited statements of the companies to be included in these financial statements. SZAG is entered in the Commercial Register at Braunschweig Local Court, Germany, under HRB 9207 and has its headquarters in Salzgitter. The Group's business stretches from the production and further processing of rolled steel and tube products, trading with such products as well as the construction of custom machines and systems. The address of the SZAG Executive Board is Eisenhüttenstraße 99, 38239 Salzgitter.

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

On December 16, 2021, the Executive Board and the Supervisory Board issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders on the company's website ([↗ www.salzgitter-ag.de](http://www.salzgitter-ag.de)). The Declaration of Conformity is also printed in the "Corporate Governance Report" section of the Annual Report.

The consolidated financial statements and the Group management report will be approved by the Executive Board on March 17, 2022, for submission to the Supervisory Board. They will then be published in the German Federal Gazette.

Accounting and Valuation Principles

Effects of standards applied for the first time or amended standards

Standards/Interpretation	Mandatory date in financial year	Adoption by EU Commission	Effects
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2	2021	yes	no material effects
Covid-19-Related Rent Concessions – Amendment to IFRS 16	2021	yes	no material effects

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

Standards/Interpretation		Mandatory date in financial year	Adoption by EU Commission	Likely effects
IFRS 17	Insurance Contracts	2023	yes	none
IAS 1	Classification of Liabilities as Current or Non-current – Amendments to IAS 1	2023	no	no material effects
IAS 37	Amendments to IAS 37 – Onerous Contracts: Costs of Fulfilling a Contract	2022	yes	none
IAS 16	Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use	2022	yes	none
IFRS 1	AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	2022	yes	none
IFRS 9	AIP IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities	2022	yes	none
IAS 41	IP IAS 41 Agriculture – Taxation in fair value measurements	2022	yes	none
IAS 8	Definition of Accounting Estimates – Amendments	2023	no	none
IAS 1	Disclosure of Accounting Policies – Amendments	2023	no	Notes
IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	2023	no	none

Consolidation principles and methods

Subsidiaries

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

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

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

Joint arrangements

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

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

Associated companies

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

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

Shareholdings

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

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements include the annual financial statements of 55 (previous year: 56) domestic and 61 foreign affiliated companies (unchanged from the previous year's figure of 61), all prepared as of the same reporting date. The change in the number of domestic companies is the result of a merger of consolidated companies. The financial year of SZAG and its subsidiaries included in the consolidated financial statements corresponds to the calendar year.

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

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

As an associated company, Aurubis AG, Hamburg, in which Salzgitter Mannesmann GmbH has a 29.9% participating interest (previous year 29.9%), is accounted for using the equity method, as it was in the previous year. Aurubis AG, for its part, holds a stake of 2.9% (previous year: 2.9%) in Salzgitter AG. There are no commercial relationships of a substantial nature between the groups. Salzgitter Mannesmann GmbH has a 50% participating interest in EUROPIPE GmbH, Mülheim an der Ruhr. As both owners of EUROPIPE GmbH run the company jointly and have a contractual share in its net assets, this constitutes a joint venture. The EUROPIPE Group is therefore also accounted for using the equity method. The EUROPIPE Group procures input material from the Salzgitter Group. In addition, Wohnungsbaugesellschaft mit beschränkter Haftung Salzgitter, Salzgitter, whose business purpose consists of the construction, administration and management of real estate, and the holding in the Turkish pipe manufacturer Borusan Mannesmann Boru Yatirim Holding A.S., Istanbul, are accounted for by the equity method. Companies in the Salzgitter Group maintain business relationships of minor significance with the two aforementioned companies.

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

Currency translation

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

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

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

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

Estimates and assumptions

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

Impairment of intangible assets, property, plant and equipment, shares in equity-accounted companies and investment property

As of every balance sheet date, the Group must estimate whether there is any concrete indication that the carrying amount of an intangible asset, tangible fixed asset, shares in equity-accounted companies or property held as a financial investment could be impaired. Should this be the case, the recoverable amount of the asset in question or the cash generating unit is estimated using recognized measurement methods. The recoverable amount is either the fair value less selling costs or the value in use, whichever is higher. The calculation is basically made at fair value less selling costs. To determine the value in use in this context, the discounted future cash flows of the asset in question must be ascertained. The estimate of the discounted future cash flows is based on fundamental assumptions concerning, for example, future selling prices and selling volumes, costs and discount rates. Comparable estimates arise with purchase price allocations in acquisitions. As part of the impairment test, models are run for the cash-generating entity Salzgitter Flachstahl as well as for Hüttenwerke Krupp Mannesmann including the possible effects of CO₂ emissions. The underlying estimates and assumptions take account of future price trends for CO₂ certificates, the likely CO₂ allocation quotas as well as their effect on sales prices. In the case of Salzgitter Flachstahl GmbH, the investment costs to be expected in connection with the SALCOS® project are also taken into account as part of the valuation and external support assumed for the implementation of low CO₂ steel production (for example, in the form of government subsidies). It is also assumed that future increases in production costs for other reasons (for example, rising energy prices) will generally be able to be passed on in product sales prices.

Impairment of financial instruments

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

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

Revenue recognition

Ascertaining the progress made so far in order to account for existing orders for the manufacture of machines and technical systems necessitates a precise estimate of the total costs of the contract, the costs still to be incurred before completion, total revenues from the contract, the risks associated with the contract and other assumptions. Estimates with respect to revenues, costs or progress of the contract are corrected if circumstances change. Any resulting increases or decreases in the estimated revenues or costs are recognized in profit and loss at the time when management becomes aware of the circumstances giving rise to the correction. For further estimates and assumptions in revenue recognition, please refer to the explanations in ↗ “Revenue recognition”.

Taxes on income

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

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

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

Provision for pensions and similar obligations

Pensions and other obligations are reported in the balance sheet in accordance with actuarial valuations. These valuations are based on statistical and other factors with a view to anticipating future events. These encompass actuarial assumptions such as interest rates, expected salary increases and mortality rates. Further explanations on the assessment of this provision can be found in Note 26 ↗ [“Provisions for pensions and similar obligations”](#).

Provisions for operational and other risks

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

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

Impact of climate change

As a result of heightened social and political discussions surrounding the need for (tougher) climate protection measures, the Salzgitter Group sees itself exposed to new risks in the form of regulatory measures (for example, changes to CO₂ emissions trading) as well as a structural change in production methods with the aim of achieving a significant, long-term reduction in CO₂ emissions as our contribution towards climate protection. These risks may have an effect on the impairment of assets as the useful lives of property, plant and equipment have to be re-estimated or future cash flows are affected.

We regard the further development of the European greenhouse gas emissions trading system as a key regulatory measure. No detailed regulations have been defined as yet but they may relate to the fourth trading period lasting up to and including 2030. As we acquired CO₂ certificates as a precautionary measure, the estimated medium-term shortfall after allocations for SZAG's fully consolidated subsidiaries covered by emissions trading is likely to be largely compensated. It will only be possible to be more specific once more detailed rules are in place for all aspects relevant to allocations and it becomes clear whether and to what extent the envisaged raising of the EU's climate target by 2030 will also impact the budget for free allocation. On this basis and due to the fact that our fully consolidated subsidiaries have plans in place to cover any shortfalls in CO₂ certificates, we are not expecting any relevant risk on average. If we assume that the underlying political framework will turn unfavorable, a requirement to buy further CO₂ certificates, at least toward the end of the fourth trading period, cannot be ruled out on current assessments.

The change of production processes will make itself felt particularly with regard to the implementation of SALCOS® (SALzgitter Low CO₂ Steelmaking). Assuming a positive vote in the Supervisory Board in summer 2022, the first expansion stage is due to be implemented from the end of 2025. In the following year (2026), 30% of SZFG's primary steel production – over a million tons of steel – is set to be produced without the use of coking coal. Complete implementation is planned by 2033.

In impairment tests on the cash generating units, the effects of the emissions trading described above and the implementation of SALCOS® are reflected in future cash flows. We took an appraisal of political declarations of intent increasingly expressed in 2021 (for example, “Fit for 55” and tougher finance terms for CO₂-intensive investments such as oil and gas pipelines) as well as growing ecological awareness with respect to low or zero CO₂ energy production as our cue to significantly scale back our view of the long-term profitability of the Europe Group. This circumstance also gives rise to long-term risks resulting from reduced take-up of input material at HKM unless this is offset by other Group companies. Furthermore, the expected price increases for CO₂ certificates in the European greenhouse gas emissions trading scheme over the long term will have a substantial negative impact on HKM's steel production in its present form. This resulted in write-downs totaling € 35 million for the Europe Group and € 200 million for HKM.

The successive conversion of the production process described above as a result of climate-related demands did not lead to any change in estimates of useful lives.

Intangible assets

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

Intangible assets generated internally are capitalized if the economic benefit accruing to the Group is probable and can be reliably estimated and if the acquisition or production costs can be measured with accuracy. The production costs of internally generated intangible assets are determined on the basis of directly attributable costs. Costs that are necessary for the creation, production and development of the asset so that it is in good operational condition for the purposes intended for it by the Group's management are included. These intangible assets are usually amortized over a period of five years.

The assets identified within the framework of the purchase price allocations are amortized regularly over periods of between ten and 26 years using the straight line method.

Development costs are capitalized if a newly developed product or process can be clearly defined, is technically feasible and is intended for either the company's own use or for selling. Moreover, capitalization presupposes that development costs will with sufficient probability be covered by future inflows of cash and cash equivalents. The development process must be distinguished from a research phase. Development is the application of the research result and takes place before the start of commercial production or use. If the prerequisites for capitalization are not satisfied, the expenses are set off with effect on income in their year of origin.

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

Rights to emit CO₂ are reported under intangible assets if the intention is to use emission rights for production purposes. The resulting expenses are recognized in cost of materials. Initial ownership of emission rights that were acquired gratuitously are recorded at an acquisition cost of € 0. Paid-for emission rights are reported at their acquisition cost.

Property, plant and equipment

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

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

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

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

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

Economic useful lives

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

Leases

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

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

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

During the term of the lease, the right of use must be amortized and the lease liability amortized by using the effective interest method and taking account of lease payments. Under IFRS 16, application relief is available for short-term and low-value leases, which the Salzgitter Group takes advantage of and therefore does not recognize any right of use or liability for such leases. Lease payments in this respect are recognized as an expense in profit and loss. The option not to apply IFRS 16 to intangible assets is also taken into account.

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

Lessors must classify leases as finance or operating leases on the basis of the distribution of opportunities and risks arising from the asset. In the case of an operating lease in the Salzgitter Group, the leased object is reported as an asset at amortized cost in tangible assets, and the lease installments collected shown under other operating income. With a finance lease, the asset is derecognized and shown instead under receivables at the level of the net investment value.

Investment property

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

Financial assets – categorization and measurement

On initial recognition, a financial asset is classified for subsequent measurement either at “amortized cost”, or recognized “in profit or loss at its fair value” or “at its fair value with no effect on profit or loss”.

Categorization

Business model condition and cash flow condition

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

Amortized cost

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

Recognized at fair value through profit or loss

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

At fair value with no effect on profit or loss

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

A financial instrument defined as an equity instrument in which the contractual conditions do not lead to cash flows exclusively representing payments of principal and interest on the outstanding capital, can be reported in the category “at fair value with no effect on profit or loss” if it is not only held for the short term to realize price gains. If this option is exercised, the cumulative gains and losses in other comprehensive income are not derecognized through profit or loss when the financial asset is derecognized (no recycling) but recognized directly in retained earnings. The Salzgitter Group makes use of this option if the preconditions described are met. Irrespective of the above, dividends are recognized in profit or loss unless they represent the repayment of part of the cost of acquiring the equity instrument.

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

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

Initial and subsequent measurement

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

Financial assets are initially recognized at fair value.

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

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

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

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

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

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

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

Derecognition

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

Offsetting Financial instruments

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

Financial assets – accounting treatment of impairment losses**Expected losses model**

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

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

Staged model (general approach)

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

Stage 1

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

Stage 2

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

Stage 3

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

Simplified Approach

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

To calculate the expected credit losses, trade receivables and contract assets are aggregated on the basis of common credit risk characteristics. Contract assets relate to services already provided for which it has not yet been possible to invoice and essentially exhibit the same credit risk characteristics as trade receivables for the same types of contract. The Salzgitter Group therefore applies the same loss ratios as for trade receivables when measuring the expected losses from contract assets.

Financial instruments – accounting treatment of hedge instruments

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

Fair value hedge

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

Cash flow hedge

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

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

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

Inventories

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

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

Contract assets and contract liabilities

The companies in the Salzgitter Group must determine on each reporting date the extent to which the parties involved in a customer contract have fulfilled the contract and show the net contract position in the balance sheet. This results in a contract asset if our Group company has fulfilled a greater part of the contract than the customer or a contract liability if the customer's consideration received in advance is not yet matched by complete fulfillment. Prepayments received are deducted from contract assets on an order-specific basis. If the payments received on account for individual customer contracts exceed the receivables from customer contracts, the excess amount is reported under contract liabilities. If total contract costs are likely to exceed total contract revenues, the anticipated loss is recognized immediately as an expense and, if it exceeds the contract costs already incurred, reported as a contract liability.

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

Provision for pensions and similar obligations

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

The pension obligations are valued on the basis of actuarial assumptions and calculations. The defined benefit obligations are determined using the usual projected unit credit method prescribed by IFRS. The actuarial interest rate for measuring pensions under IFRS is determined on the basis of the "Mercer Yield Curve Approach". According to this approach, a spot rate yield curve is calculated in the eurozone on the basis of high-quality corporate bonds. In order to represent the current market value of the money appropriately in accordance with IAS 19.84, both statistical outliers which are significantly higher or lower in their risk rating, as well as bonds with interest-distorting options are ignored. The yield curve is extrapolated in order to obtain an interest rate to match the duration of the obligation.

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

Income taxes

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

As of December 31, 2021, the deferred taxes of domestic corporate entities were evaluated with an overall tax rate of 31.5% (previous year: 31.5%). This tax rate comprises the 15.7% trade tax rate that prevails in the Group (previous year: 15.7%), the 15.8% rate of corporate income tax (including the solidarity surcharge; previous year: 15.8%).

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

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

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

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

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

Other provisions

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

Share-based payments

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

Financial liabilities

Categorization

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

Amortized cost

When financial liabilities are recognized for the first time, they are stated at fair value less transaction costs. In subsequent periods they are basically valued at amortized cost. Each difference between the amount paid out and the amount repaid is then spread over the term of the loan using the effective interest method. Supply chain finance agreements concluded with financial institutes correspond to the usual payment terms and do not change the original liability to the suppliers with the result that the amounts continue to be reported in trade accounts payable.

Recognized at fair value in profit or loss

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

Derecognition

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

Revenue recognition

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

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

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

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

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

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

Sale of strip steel and plate steel, section steel products, tubes and pipes and other products

The Group sells its products in its Strip Steel, Plate/Section Steel and Mannesmann business units both directly to customers and with the involvement of the Trading Business Units. Revenues from sales are recognized when power of disposal has been transferred to the buyer and no unfulfilled obligations remain that might affect the customer's acceptance of the products. This is predominantly the transfers of physical possession to the customer. Payment terms of less than six months are usually agreed with customers.

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

Sale of machines and technical equipment

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

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

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

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

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

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

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

Realization of dividends, interest and public grants

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

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

Impairment of assets (impairment test)

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

Financial risk management

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

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

Currency risk

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

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

Cash flow and fair value interest rate risk

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

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

Market price risk

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

Credit risk

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

Liquidity risk

The Group's liquidity management includes an adequate reserve of cash and cash equivalents, marketable securities, and the possibility of financing with bilateral credit lines, a medium-term syndicated loan limit and capital market instruments. In the past financial year, the Salzgitter Group was able to maintain its previous financing strategy even during the coronavirus pandemic and was able at all times to show sufficient liquidity through independent measures without any specific government support for the Group.

Capital risk management

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

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

Preservation of Salzgitter AG's independence is the focus of its corporate policy. One prerequisite is the maintenance of a sound balance sheet and financial structure in order to secure its freedom to act at all times with regard to the operational, financial and strategic growth of the Group. Looking at the way in which a very robust equity ratio of 32.7% (previous year: 32.5%) has been preserved, we have once again succeeded in meeting this goal. As before, we consider it essential to keep sufficient cash funds available for the Group's financial management to ensure that, in the event of a deterioration in the environment, we will not be dependent on the capital market. An undrawn 560 million euro syndicated loan facility with eight banks running until July 2024, bilateral annual credit lines with over ten credit institutes, further fungible assets and an established position in the capital market as an issuer are intended to secure our liquidity needs.

Notes to the Income Statement

(1) Sales

In € million	2021	2020
By product groups		
Strip Steel	3,750.0	2,652.8
Section Steel	944.1	637.6
Plate	1,408.2	812.9
Pipes	1,341.4	1,054.3
Filling and packaging machinery	1,339.3	1,188.2
Other	984.4	745.0
	9,767.4	7,090.8
Breakdown by region		
Domestic	4,416.3	3,194.7
Other EU	2,714.8	1,888.2
Rest of Europe	438.3	304.9
America	1,098.1	815.2
Asia	702.7	486.9
Africa	377.1	385.7
Australia/Oceania	20.1	15.4
	9,767.4	7,090.8

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

Sales revenues comprise time-related revenues amounting to € 8,960.2 million (previous year: € 6,395.1 million) as well as period-related revenues totaling € 807.3 million (previous year: € 695.7 million). Time-related revenues result from the sale of goods. Period-related sales predominantly comprise work in progress for construction contracts for which a contract asset has been recognized. Other services are also classified as period-related.

The amount of sales revenues comprised at the start of the period in net contract liabilities stands at € 141.8 million (previous year: € 41.2 million). Sales revenues from contractual obligations already fulfilled or partially fulfilled in earlier periods come in at € 2.3 million (previous year € 4.1 million).

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

In € million	2021	2020
up to 6 months	17.9	111.3
7 months to 12 months	79.6	154.8
over 12 months	–	28.0
	97.5	294.1

As a general rule, the transaction prices of the remaining contractual obligations are determined at the level of the volumes and services contractually agreed with customers as of the closing date for which the customer has an obligation to buy and the Group an obligation to supply. Unfulfilled (or partly unfulfilled) contractual obligations as of the end of the financial year with an original term of no more than one year are not disclosed, as is permitted under IFRS 15,121.

(2) Other operating income

Other operating income contains income from the release of provisions amounting to € 60.8 million (previous year: € 76.3 million), from exchange rate changes in the amount of € 118.5 million (previous year: € 54.7 million) as well as from the measurement of financial derivatives and foreign exchange positions amounting to € 174.8 million (previous year: € 37.8 million). Furthermore, this item also contains lease income amounting to € 5.4 million (previous year: € 4.9 million) as well as subsidies amounting to 12.0 € million (previous year: € 19.9 million). The subsidies include reimbursements for social security expenses due to state aid as part of short-time work arrangements amounting to € 2.8 million (previous year: € 12.0 million).

(3) Cost of materials

In € million	2021	2020
Cost of raw materials, consumables, supplies and goods purchased	6,316.5	4,215.0
Cost of services purchased	429.5	364.2
Cost of materials	6,746.1	4,579.2

(4) Personnel expenses

In € million	2021	2020
Wages and salaries	1,457.7	1,342.5
Social security, pensions and other benefits	312.0	311.6
of which pension plans and retirement benefits	[145.1]	[144.5]
Personnel expenses	1,769.7	1,654.1

In the financial year, the sum total of all defined contribution pension expenses in the Salzgitter Group stood at € 107.8 million (previous year: € 109.0 million). The past service cost for defined benefit commitments in the financial year amounted to € 37.3 million (previous year: € 35.5 million).

Average number of employees (excl. employees in non-active age-related part-time employment)	2021	2020
Wage labor	12,531	12,870
Salaried employees	9,883	10,056
Group core workforce	22,414	22,926

Of the Group employees, 857 (previous year: 869) are involved in our part of the joint activities.

(5) Amortization and depreciation and impairment losses on intangible assets and property, plant and equipment

The scheduled depreciation and amortization comprise amortization of intangible assets and depreciation of property, plant and equipment, and are shown in the assets analysis. Impairment losses were required in financial year 2021:

In € million	2021	2020
Intangible assets		
Purchased concessions, brand names, industrial property rights plus licenses and emission rights	0.5	-
Property, plant and equipment		
Land, similar rights and buildings, including buildings on land owned by others	20.8	-
Plant equipment and machinery	182.6	-
Other equipment, plant and office equipment	4.4	-
Impairment losses	208.3	-

The fair value less selling costs was calculated using the discounted cash flow method based on an interest rate of 6.48% (previous year: 6.19%) for the Technology Business Unit and 7.41% p.a. (previous year: 6.99% p.a.) for the other business units. The calculation is based on the current plans prepared by management for the three following years (Level 3 of the valuation hierarchy). The premises of the plans are adjusted to the current status of knowledge that, in turn, is based on general business and economic data supplemented by the company's own estimates. In the process, basic assumptions are made especially in the areas of sale and procurement prices as well as sales volumes. The recoverable amount in each case equates to the fair value less selling costs.

Total impairment losses of € 208.3 million were recognized in the Salzgitter Group mainly due to Hüttenwerke Krupp Mannesmann GmbH as the expected price increases for CO₂ certificates in the European greenhouse gas emissions trading scheme over the long term will have a substantial negative impact on its steel production in its present form. In addition, the economic environment in the field of exhaust gas systems has changed, leading to declining demand.

Hüttenwerke Krupp Mannesmann GmbH accounts for € 200.1 million of these impairment losses with the recoverable amount determined at € 114.7 million. In addition, impairment losses were recognized at an amount of € 8.2 million on the cash-generating unit of the Salzgitter Hydroforming Group. The write-downs are offset by a recoverable amount of € 16.3 million.

For a more detailed explanation of the impairment losses in the Europe Group, please refer to Note (13) ↗ "Investments in companies accounted for using the equity method".

Scheduled amortization of rights of use is shown as follows:

In € million	2021	2020
Land, similar rights and buildings, including buildings on land owned by others	11.1	10.7
Plant equipment and machinery	8.6	7.9
Other equipment, plant and office equipment	7.9	8.4
Amortization of rights of use	27.5	27.0

(6) Other operating expenses

This item essentially contains expenses for external services in an amount of € 315.9 million (previous year: € 285.2 million), sales expenses in an amount of € 291.6 million (previous year: € 262.3 million) as well as losses from exchange rate changes totaling € 262.5 million (previous year: € 80.7 million).

(7) Income taxes

In € million	2021	2020
Income tax		
current tax expenses/tax income (+/-)	103.4	76.2
deferred tax expenses/tax income (+/-)	16.3	1.3
	119.6	77.5
of which unrelated to the reporting period	[6.1]	[68.9]

The income taxes amounting to € 119.6 million relate to earnings before taxes. The income taxes unrelated to the reporting period comprise deferred and actual taxes for previous years, of which actual income taxes comprise € 6.7 million (previous year: € 65.4 million).

The increase in actual income taxes to € 103.4 million reflects extraordinary consolidated earnings in financial year 2021. All in all, the actual income taxes applicable to foreign companies amount to € 43.6 million (previous year: € 5.6 million). The deferred tax expense of € 16.3 million is essentially due to the realization of deferred tax assets on temporary differences and loss carryforwards, and the reassessment of deferred tax assets on loss carryforwards in domestic Group companies.

Thanks to the use of tax loss carryforwards that had not previously been availed of, the actual tax expenses were reduced by € 38.2 million (previous year: € 5.1 million).

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

In € million	2021/12/31		2020/12/31	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	2.8	14.7	29.9	11.4
Property, plant and equipment	50.9	26.9	55.1	51.2
Financial assets	0.4	1.6	0.5	1.7
Current assets	59.6	179.4	54.8	92.8
Pension provisions	274.6	-	312.3	-
Other provisions	85.3	4.0	72.2	5.6
Special reserve with equity portion	-	2.2	-	2.1
Liabilities	16.8	14.6	21.9	9.7
Other items	3.2	1.3	3.2	2.7
Total	493.7	244.7	549.9	177.2

The deferred tax assets and liabilities shown are recognized in profit or loss or equity depending on the underlying circumstances. Circumstances recognized in equity can be seen in the [7 "statement of comprehensive income"](#).

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

In € million	2021/12/31	2020/12/31
Corporate income tax	48.1	17.8
Trade tax	47.6	17.4
Capitalized tax savings, 12/31	95.8	35.2

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

In € million	2021/12/31	2020/12/31
Capitalized tax savings, 01/01	35.2	65.0
Changes in the consolidated group	-	-
Use of losses carried forward	-33.3	-0.5
Valuation allowances from losses carried forward	-0.0	-30.6
Capitalization of tax savings from losses carried forward	93.9	1.3
Capitalized tax savings, 12/31	95.8	35.2

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

For a number of domestic companies, no deferred taxes were activated for trade tax loss carryforwards amounting to € 1,451.7 million (previous year: € 1,708.2 million) or corporation tax loss carryforwards amounting to € 1,847.9 million (previous year: € 2,075.5 million) because, from a current viewpoint, the possibility of their being used can be regarded as unlikely. The tax loss carryforwards can be utilized without time restrictions.

For foreign loss carryforwards without intrinsic value in an amount of €153.8 million (previous year €133.4 million) deferred tax assets were likewise not capitalized. Of this amount, €127.9 million (previous year: €104.0 million) can be utilized for an unlimited period of time, €6.0 million (previous year: €15.7 million) limited to the next five years and €19.9 million (previous year: €13.8 million) limited to the next 20 years. For domestic and foreign companies, moreover, no deferred tax assets for deductible temporary differences in the amount of €92.4 million (previous year: €104.0 million) were formed.

In the case of Group companies that have generated tax losses in the current or previous financial year, deferred tax assets amounting to €337.1 million (previous year: €410.1 million) are reported as of December 31, 2021 because of anticipated future taxable income. Of this figure, €332.5 million is accounted for by domestic Group companies. It is assumed that the deferred tax assets are recoverable as the earnings forecast for the coming years is expected to remain positive following the economic downturn caused by the coronavirus pandemic. The positive earnings prospects will be supported by investments in viable business areas already introduced in previous years and systematically maintained in the reporting year. No deferred tax liabilities were formed for temporary differences between net assets and the tax base of Group companies of SZAG amounting to €20.3 million (previous year €20.8 million) as it is not expected that the temporary differences will reverse in the near future.

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

In € million	2021/12/31	2020/12/31
Earnings before taxes (EBT)	705.7	-196.4
Expected income tax expenses (+) / income (-) (31.5% / 31.4%)	222.3	-61.9
Tax share for:		
differences between tax rates	-19.9	1.7
effects of changes in statutory tax rates	0.1	-0.6
tax credits	-0.8	-0.6
tax-free income	-69.0	-33.9
non-deductible tax expenses and other additions	51.7	21.2
Effects of differences and losses		
without capitalization of deferred tax	60.9	57.0
adjustments in the value of capitalized benefits	-93.8	30.7
utilization of benefits not previously capitalized	-38.2	-5.1
tax expenses and income unrelated to the reporting period	6.1	68.9
other deviations	0.3	0.0
Disclosed income tax expenses (+) / income (-)	119.6	77.5

The income tax expense of €119.6 million differs from the expected income tax expense of €222.3 million by a total of €102.7 million. This results in particular from the effects of the reassessment of capitalized benefits as well as tax-free income. This is offset in particular by the non-capitalization of deferred taxes as well as non-tax-deductible expenses and additions.

(8) Earnings per share

The basic earnings per share are determined in accordance with IAS 33 as the ratio of consolidated net income or loss for the financial year to which the shareholders of SZAG are entitled to the weighted average number of no-par bearer shares in circulation during the financial year. A dilution would occur if the earnings per share were reduced by issuing potential shares from option and conversion rights. There were no such rights in the financial year under review.

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

Earnings per share		2021	2020
Consolidated result	In € million	586.1	-273.9
Minority interest	In € million	5.0	3.5
Amount due to Salzgitter AG shareholders	In € million	581.1	-277.4
Earnings per share – basic	(in €)	10.74	-5.13
Diluted result	In € million	-	-274.7
Earnings per share – diluted	(in €)	-	-5.13

Notes to the Balance Sheet

Non-current Assets

(9) Intangible assets

Total research and development costs in the reporting year amounted to € 82.4 million (previous year: € 91.1 million) including € 10.5 million (previous year: € 9.3 million) for external companies. Expenditure on research and development does not include expenditure by equity-accounted companies.

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

(10) Property, plant and equipment

The following tables show the separately disclosed rights of use in assets at historical cost as well as the cumulative amortization accounted for in fixed assets as part of a lease agreement:

In € million	2021/12/31	2020/12/31
Land, similar rights and buildings, including buildings on land owned by others	125.7	119.4
Plant equipment and machinery	48.4	39.9
Other equipment, plant and office equipment	25.2	25.1
Rights of use acquisition costs	199.2	184.4

In € million	2021/12/31	2020/12/31
Land, similar rights and buildings, including buildings on land owned by others	29.1	19.9
Plant equipment and machinery	23.2	16.4
Other equipment, plant and office equipment	15.4	14.6
Amortization of rights of use	67.7	50.8

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

In € million	2021/12/31	2020/12/31
Land, similar rights and buildings, including buildings on land owned by others	9.6	32.8
Plant equipment and machinery	9.6	6.7
Other equipment, plant and office equipment	7.8	6.3
Additions right-of-use assets	27.0	45.8

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

For further explanations on liabilities from lease agreements, please refer to Note (28) ↗ “Non-current financial liabilities” and Note (29) ↗ “Current financial liabilities“.

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

In € million	2021/12/31	2020/12/31
Land, similar rights and buildings, including buildings on land owned by others	5.2	5.7
Plant equipment and machinery	1.9	1.9
Other equipment, plant and office equipment	0.0	-
Acquisition and production costs	7.1	7.6

In € million	2021/12/31	2020/12/31
Land, similar rights and buildings, including buildings on land owned by others	3.4	2.3
Plant equipment and machinery	1.5	1.3
Other equipment, plant and office equipment	0.0	-
Depreciation, amortization and impairment losses	4.8	3.7

The restrictions on ownership and disposal of property, plant and equipment increased slightly to € 1.2 million (previous year: € 1.1 million) due to debt financing conditions abroad.

Government grants amounting to € 3.5 million (previous year: € 0.2 million) were deducted from the acquisition costs of property, plant and equipment. The conditions to which the public financial assistance was attached were fulfilled as of the balance sheet date.

“Advance payments and assets under construction” include prepayments amounting to € 11.6 million (previous year: € 7.2 million).

(11) Investment property

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

In the reporting period, rental income amounted to € 7.6 million (previous year € 5.1 million). The direct operating expenses totaled € 2.1 million (previous year € 2.3 million) and were basically incurred for properties that generated rental earnings in the reporting year.

As of 31 December 2021, the fair value of the investment properties stood at € 103.1 million (previous year: € 104.4 million); there is no knowledge of any significant impairing factors. This fair value is calculated using the discounted cash flow method and comparisons with current market values of comparable properties. Input factors used to measure the fair values include anticipated rental income, possible vacancy costs and maintenance costs. The fair values of the investment properties are assessed at regular intervals by independent experts. The valuation is based on an alternative utilization of potential, the “highest and best use method”, in accordance with IFRS 13, and must be classified in Level 3 of the fair value hierarchy.

(12) Financial assets

In € million	2021/12/31	2020/12/31
Financial investments	26.6	21.5
Other loans	24.4	32.7
Other financial assets	0.4	0.4
Financial assets	51.4	54.6

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

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

In € million	Aurubis AG, Hamburg		EUROPIPE Group		Other		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
Opening balance 01/01	1,001.5	888.8	112.8	132.1	54.8	52.1	1,169.1	1,072.9
Result of current financial year	217.1	104.0	-59.5	-11.8	1.8	3.5	159.5	95.6
Proportionate gain/loss	217.1	104.0	-24.5	-12.3	1.8	3.5		
Adjustments with effect on income using the "at-equity method"	-	-	-35.0	0.4	-	-		
Dividends	-17.5	-16.9	-	-	-0.6	-0.7	-18.2	-17.6
Changes in shares	-	-	-	-	-	-	-	-
Other changes in equity	9.2	25.6	8.0	-7.4	0.1	0.0	17.3	18.2
Proportional other income	9.2	25.6	8.0	-7.4	0.1	0.0		
Book value, 12/31	1,210.3	1,001.5	61.4	112.8	56.1	54.8	1,327.8	1,169.1

The adjustments recognized in income as part of the equity method include expenses of € 35.0 million for a write-down. The impairment loss, offset by a related recoverable amount of € 78.0 million, is due to fraught economic conditions and a resulting squeeze on margins. For further explanations on determining impairment, please refer to Note (5) ↗ "Amortization and depreciation and impairment losses on intangible assets and property, plant and equipment".

The fair value of the holding in Aurubis AG is based on the share price as of December 31, 2021 and amounts to € 1,187.7 million (previous year: € 858.6 million). An impairment review was carried out on the carrying amount on the basis of the value-in-use of the shares and it did not reveal any need for write-downs.

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

In € million	Aurubis AG, Hamburg		EUROPIPE Group	
	2021	2020	2021	2020
Non-current assets	2,040.0	1,955.0	148.6	168.5
Current assets	5,020.0	3,986.0	246.8	248.9
Non-current liabilities	1,160.0	1,236.0	114.1	128.1
Current liabilities	2,156.0	1,675.0	88.5	63.7
Sales	17,242.8	13,412.4	248.9	629.0
Profit/loss	741.0	363.1	-48.9	-24.5
Other comprehensive income	30.6	85.3	16.1	-14.9
Total comprehensive income	770.6	448.4	-32.8	-39.4
Dividends received	17.5	16.9	-	-
Share (%)	29.9	29.9	50.0	50.0
Net assets	3,744.0	3,030.0	192.7	225.6
Pro rata net assets	1,122.8	908.7	96.4	112.8
Additions from the purchase of own shares resp. disposals of investments accounted for using the equity method	-4.4	-4.4	-	-
Impairments	-	-	-35.0	-
Consolidation effects	73.8	79.1	-	-
Purchase of own shares of investments accounted for using the equity method	18.1	18.1	-	-
Investment book value	1,210.3	1,001.5	61.4	112.8

In € million	Wohnbaugesellschaft mbH		Borusan Mannesmann Boru Yatirim Holding A.S.	
	2021	2020	2021	2020
Non-current assets	120.1	117.2	415.1	395.4
Current assets	24.7	15.3	504.3	342.8
Non-current liabilities	65.4	55.9	167.3	150.8
Current liabilities	13.5	10.7	483.3	347.1
Sales	27.8	27.5	697.7	465.3
Profit/loss	2.2	2.2	9.0	-0.5
Dividends received	0.6	0.7	-	-
Share (%)	25.1	25.1	23.0	23.0
Net assets	65.9	65.9	268.9	240.2
Pro rata net assets	16.5	16.5	61.8	55.3
Consolidation effects	-	0.1	-22.2	-17.0
Investment book value	16.5	16.6	39.6	38.3

Further summarizing financial information for joint ventures:

In € million	EUROPIPE Group	
	2021	2020
Cash and cash equivalents	74.6	90.2
Current financial liabilities	43.4	3.6
Non-current financial liabilities	14.1	12.7
Depreciation and amortization	17.4	18.8
interest income	0.3	1.4
Interest expenses	2.8	2.5
Income tax expense (-) / - income (+)	0.2	-4.6

Non-reclassifiable gains and losses from companies accounted for by the equity method are essentially composed of valuations of pensions and financial investments.

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

If it is likely that tax benefits will be realized, they must be capitalized. Netting is possible only if the deferred tax assets and liabilities have matching maturities and relate to the same tax authority. After offsetting, the deferred tax assets and liabilities for the financial year 2021 are as follows:

In € million	2021/12/31	2020/12/31
Deferred income tax assets	491.8	481.9
Realization within 12 months	10.3	6.4
Realization after more than 12 months	481.5	475.5
Deferred income tax liabilities	147.1	73.9
Realization within 12 months	143.9	71.1
Realization after more than 12 months	3.2	2.9
Balance of deferred tax assets and deferred tax liabilities	344.7	408.0

Current Assets**(15) Inventories**

In € million	2021/12/31	2020/12/31
Raw materials, consumables and supplies	969.2	700.4
Unfinished products	843.5	541.5
Unfinished goods or services	15.1	15.0
Finished goods	525.4	331.6
Goods	750.0	331.2
Payments on account	20.1	13.9
Inventories	3,123.3	1,933.7

In the reporting period there were write-ups amounting to € 1.8 million (previous year € 6.2 million). Inventory impairments of € 31.4 million (previous year € 56.5 million) were posted to expenses. The book value of the inventories reported at fair value less selling costs amounted to € 494.3 million (previous year € 392.3 million). Due to a rise in stocks and higher prices, inventories grew accordingly.

(16) Trade receivables

Trade receivables subject to restrictions on ownership or disposal amount to € 169.2 million (previous year € 117.9 million). These are accounted for by the forfeiting and factoring of receivables. For further details, please refer to Note (29) ↗ “Current financial liabilities”.

(17) Contract assets

Net contract assets increased in the reporting period from € 300.2 million to € 323.0 million. The rise relates almost exclusively to technical machinery and equipment in the Technology Business Unit. As of 2020/1/1, the balance of contract assets amounted to € 186.3 million.

(18) Other receivables and other assets

The Note “Other receivables and other assets” contains numerous minor transactions on the part of the consolidated companies.

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

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

This item also includes receivables from lease agreements in an amount of €0.0 million (previous year: €0.3 million). Under operating leases, the Group essentially leases out real estate that is used commercially. The future minimum rental earnings from these contracts are:

Future lease income in € million	2021/12/31	2020/12/31
up to 1 year	4.2	3.5
1 to 5 years	8.1	8.1
over 5 years	10.6	11.7
Total	23.0	23.2

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

(19) Income tax assets and income tax liabilities

The existing income tax assets as of December 31, 2021 amounting to €18.9 million (previous year: €24.2 million) largely concern capital gains tax demands from domestic Group companies. On the other side there are long-term income tax liabilities of €25.7 million (previous year: €30.4 million) and short-term income tax liabilities of €36.1 million (previous year: €5.5 million).

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

(20) Securities

Funds for short-term financial investments totaling €49.7 million are shown under securities (previous year none). The term was less than twelve months.

(21) Cash and cash equivalents

In € million	2021/12/31	2020/12/31
Cash at banks	581.2	424.7
Term deposits	160.3	195.0
Checks, cash in hand	0.3	1.7
Cash and cash equivalents	741.8	621.4

Equity

(22) Subscribed capital

Share capital, treasury shares, authorized and contingent capital

The subscribed capital (share capital) remained unchanged at € 161,615,273.31. After setting off the notional value of treasury shares (€ 16,161,527.33), the subscribed capital amounts to € 145,453,745.98 equating to a total of 54,087,300 no-par value shares. The pro-rata amount of share capital accounted for by each individual bearer share is € 2.69 per share. The shares issued are fully paid in.

As of the reporting date, Salzgitter Aktiengesellschaft continued to hold 6,009,700 treasury shares. As before, they account for € 16,161,527.33 (= 10.00%) of the share capital.

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

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

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

The Executive Board is authorized to purchase the company's own shares equivalent to a proportion of the capital stock of up to 10% on or before July 7, 2025, and to use these shares for all purposes permitted under the law.

(23) Capital reserve

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

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

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

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

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

(24) Unappropriated retained earnings

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

Salzgitter AG (SZAG) reported a net profit of € 45.1 million in the financial year 2021. The Executive Board and Supervisory Board are submitting a proposal to the Annual General Meeting to use the net profit (€ 45.1 million) to distribute a dividend of € 0.75 per share (in relation to the share capital of € 161.6 million divided into 60,097,000 shares) and to carry the remaining amount forward to new account. If the company holds treasury shares on the day of the Annual General Meeting of Shareholders, the proposed appropriation of profit will be adjusted accordingly since treasury shares are not eligible for dividend.

Based on the Salzgitter stock's closing XETRA price of € 31.42 on December 31, 2020, the dividend yield amounts to 2.4% (previous year: 0.0%).

(25) Further details of shareholders' equity

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

As of the 2021 reporting date, there are participating interests in Salzgitter AG that have been reported in accordance with Section 33 (1) of the German Securities Trading Act (WpHG) (Section 21 (1) of the old version) and published in accordance with Section 40 (1) of the German Securities Trading Act (WpHG) (Section 26 (1) of the old version):

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

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

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

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

Günter Papenburg, Hanover, informed us on May 6, 2021 in accordance with Section 33 (1) of the German Securities Trading Act (WpHG) that his share of voting rights in Salzgitter AG, Salzgitter, Germany, had exceeded the 10% threshold of voting rights on April 30, 2021 and stood at 10.02% on that day (equating to 6,023,185 voting rights). Of these, 10.02% of voting rights (equating to 6,023,185 voting rights) held by GP Günter Papenburg AG, Hanover, are attributable in accordance with Section 34 of the German Securities Trading Act. **Günter Papenburg**, Hanover, informed us on December 8, 2021 in accordance with Section 33 (1) of the German Securities Trading Act that his share of the voting rights in Salzgitter AG, Salzgitter, Germany had exceeded the threshold of 15% of the voting rights on December 7, 2021, amounting on this day to 15.00% (this corresponds to 9,016,700 voting rights). Of these, 15.00% of voting rights (equating to 9,016,700 voting rights) held by GP Günter Papenburg AG, Hanover, are attributable in accordance with Section 34 of the German Securities Trading Act. Günter Papenburg also informed us on February 25, 2022 in accordance with Section 33 (1) of the German Securities Trading Act that his share of voting rights in Salzgitter AG, Salzgitter, Germany had exceeded the threshold of 20% of the voting rights on February 2022, amounting on this day to 20.08% (corresponding to 12,070,400 voting rights). Of these, 20.08% of voting rights (equating to 12,070,400 voting rights) held by GP Günter Papenburg AG, Hanover, are attributable in accordance with Section 34 of the German Securities Trading Act.

Richard Pzena informed us on September 21, 2021 in accordance with Section 33 (1) of the German Securities Trading Act that his share of the voting rights in Salzgitter AG, Salzgitter, Germany fell below the threshold of 3% of the voting rights on September 16, 2021, amounting on this day to 2.97% (this corresponds to 1,785,267 voting rights). Of these, 2.97% of voting rights (equating to 1,785,267 voting rights) are attributable in accordance with Section 34 of the German Securities Trading Act.

Non-current liabilities

(26) Provisions for pensions and similar obligations

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

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

As part of the process of concluding new contracts for members of the Executive Board, the previous performance-related commitments made to Board members Becker and Kieckbusch with effect from December 31, 2018, were frozen and replaced by "defined contribution" commitments with effect from January 01, 2019. These provide for fixed annual pension contributions. The amounts accumulated as part of the commitment will be invested in fund units. When payment becomes due, the Board member will receive the fund income but not less than the contributions plus guaranteed minimum interest (so-called securities-based commitment). Payment will be made as a one-off capital payment or, if applicable, in 10-year instalments.

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

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

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

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

Balance sheet		
In € million	2021/12/31	2020/12/31
Provisions for pensions and similar obligations		
Net pension provision	2,178.6	2,298.6
Other receivables and other assets		
Reimbursement right	1.3	1.9
Profit & Loss		
In € million	2021	2020
Personnel expenses		
Service cost	37.3	35.5
Finance expenses		
Net interest	25.0	32.5
Other comprehensive income		
In € million	2021	2020
Remeasurement of pensions		
Remeasurements from pension provision	77.5	15.4
Remeasurements from reimbursement rights	0.1	-0.0
	77.6	15.4

The net pension commitment as of December 31, 2021 is calculated as follows:

In € million	Defined benefit obligation	Plan assets	Net pension provision
As of 2021/1/1	2,366.7	68.1	2,298.6
Service cost			
Current service cost	40.6	3.1	37.4
Past service cost	-0.1	-	-0.1
	40.5	3.1	37.3
(Net) Interest expense/income	25.3	0.3	25.0
Remeasurements			
Experience gains (-)/losses (+)	-5.9	-	-5.9
Gain (-)/loss (+) from change in demographic assumptions	-0.0	-	-0.0
Gain (-)/loss (+) from change in financial assumptions	-69.6	-	-69.6
Return on plan assets excluding amounts included in interest income	-	2.0	-2.0
	-75.5	2.0	-77.5
Benefits paid	-107.2	-3.3	-103.9
Contributions			
Employers	-	0.9	-0.9
Plan participants	-	-	-
	-	0.9	-0.9
Currency translation differences	0.3	0.3	0.1
As of 2021/12/31	2,250.1	71.5	2,178.6

As of December 31, 2021 plan assets are essentially made up of investment funds (€ 68.8 million) and other equity instruments (€ 1.7 million), whose present values were determined on an active market on the closing date. Plan assets also consist of insurance contracts (€ 1.0 million), the present values of which were not determined on an active market.

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

In € million	Defined benefit obligation	Plan assets	Net pension provision
As of 2020/1/1	2,421.7	65.6	2,356.1
Service cost			
Current service cost	39.2	3.3	35.9
Past service cost	-0.4	-	-0.4
	38.8	3.3	35.5
(Net) Interest expense/income	32.8	0.3	32.5
Remeasurements			
Experience gains (-)/losses (+)	-52.6	-	-52.6
Gain (-)/loss (+) from change in demographic assumptions	-10.5	-	-10.5
Gain (-)/loss (+) from change in financial assumptions	48.9	-	48.9
Return on plan assets excluding amounts included in interest income	-	1.2	-1.2
	-14.2	1.2	-15.4
Benefits paid	-109.9	-3.0	-106.9
Contributions			
Employers	-	1.2	-1.2
Plan participants	-	-	-
	-	1.2	-1.2
Currency translation differences	-2.5	-0.5	-2.0
As of 2021/12/31	2,366.7	68.1	2,298.6

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

In € million	2021/12/31	2020/12/31
Actual net present value of the defined benefit obligation (Germany)	2,232.4	2,347.0
of which aspirant	972.3	1,047.3
of which recipient	1,260.2	1,299.7
Actual net present value of the defined benefit obligation (abroad)	17.7	19.7
	2,250.1	2,366.7

The sensitivity of the defined benefit obligation is as follows:

In € million	2021/12/31			
	Reference	Degree of sensitivity	+ Unit	- Unit
Discount rate	1.30%	0.25% points	-82.9	+88,7
Salary trend	2.50%	0.5% points	+4,2	-4.0
Pension trend	1.50%	0.25% points	+62,2	-59.7
Mortality	Heubeck 2018G	1 year	+114,4	-113.6

In € million	2020/12/31			
	Reference	Degree of sensitivity	+ Unit	- Unit
Discount rate	1.10%	0.25% points	-89.3	+95,7
Salary trend	2.50%	0.5% points	+5,0	-4.8
Pension trend	1.50%	0.25% points	+64,7	-62.1
Mortality	Heubeck 2018G	1 year	+122,9	-121.9

The sensitivity of this value is ascertained analogously to the calculation of the present value of the obligation shown in the balance sheet. In each of these process steps, one assumption is changed while the other assumptions remain the same. Possible dependencies between the assumptions are not taken into account.

The following pension payments will probably have to be made over the next 20 years:

In € million	
2022	102.9
2023	102.4
2024	99.1
2025	97.3
2026	95.5
2027 – 2031	449.7
2032 – 2041	781.3

The duration of the obligation's net present value according to Macaulay as of December 31, 2021 is 16.00 years.

(27) Other provisions

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

In € million	2021/1/1	Currency differences	Addition/ disposal from changes in cons. group	Transfer	Transfer to other accounts
Other taxes	5.4	0.0	-	-	0.1
Personnel	173.5	0.2	-	0.0	-0.1
of which anniversary provisions	[63.5]	[-]	[-]	[-]	[-]
of which for the social compensation/age-related part-time employment/demographics fund	[73.6]	[-0.0]	[-]	[0.0]	[0.9]
Operating risks	114.3	0.0	-	-	-
Other risks	184.3	0.5	-	-	-0.2
thereof risks from calculated orders	[61.7]	[0.3]	[-]	[-]	[-0.3]
of which risks from pending transactions	[31.3]	[0.0]	[-]	[-]	[-]
Total	477.5	0.8	-	0.0	-0.2

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

With regard to explanations of the share-based remuneration under IFRS 2, please refer to the explanations provided in Note (42) ↗ “Disclosures on the Remuneration of the Executive Board, Supervisory Board and other Members of the Key Management Personnel”.

Provisions for typical operational risks are formed, in particular for landfill obligations, and have a duration of eleven years. The provisions for other risks comprise provisions for risks from invoiced orders, litigation risks, warranties and risks from pending transactions.

The restructuring costs for the year total € 1.2 million, of which € 1.1 million is caused by the addition to the provision, and € 0.1 million was recognized as current expenditure for restructuring. The release of restructuring provisions in an amount of € 7.8 million relates to obligations to be released on the reporting date for which there was no longer any likelihood that they would be required.

Used	Reversal	Allocation	Compound interest	2021/12/31	of which long term
-0.8	-0.2	1.1	-	5.5	3.4
-53.8	-12.0	62.1	1.0	170.9	110.4
[-3.5]	[-1.3]	[4.0]	[0.7]	[63.4]	[59.1]
[-40.9]	[-4.9]	[42.6]	[0.1]	[71.4]	[36.0]
-4.6	-0.7	16.9	-	125.9	113.1
-41.0	-53.5	138.1	0.1	228.3	40.6
[-13.3]	[-25.4]	[37.6]	[0.1]	[60.7]	[0.8]
[-12.7]	[-15.5]	[25.3]	[-]	[28.3]	[1.1]
-100.2	-66.4	218.1	1.0	530.6	267.5

(28) Non-current financial liabilities

In € million	2021/12/31	2020/12/31
Liabilities to banks	502.7	625.5
Lease liabilities	115.8	114.5
Liabilities from financing	0.1	6.4
Other borrowings	3.0	3.0
Financial liabilities	621.5	749.4

Non-current liabilities to banks include the following variable interest rate portions:

Currency	Book value	Interest	End of term
Euros	125.5	6-month Euribor	05/31/2024
Euros	8.6	6-month Euribor	09/30/2026
Euros	5.5	6-month Euribor	05/31/2026
Euros	1.0	6-month Euribor	05/31/2029
US dollar	36.5	3-month Libor	05/31/2024

The Group closely observed the market and the results of various industry working groups managing the transition to the new reference interest rates. This includes announcements from the responsible regulatory authorities. The latter have clarified that immediately after June 30, 2023, the 3-month USD Libor will either no longer be published or will no longer be representative.

The method for calculating Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority issued approval for the Euribor in accordance with the European Union Benchmarks Regulation. This allows market participants to continue using the Euribor both for existing and for new contracts, and the Group assumes that the Euribor will remain as a reference interest rate for the foreseeable future.

Consequently, the Group's only IBOR risks as of December 31, 2021 relate to loan liabilities with variable interest rates which are linked to the UDS Libor.

To avoid the risks resulting from the IBOR reform such as the basis spread risk, liquidity risk or legal risk, the Group evaluates the contracts, works closely with all contracting parties and plans renegotiations in good time to ensure that the necessary conversions are completed before official replacement dates.

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

In € million	Residual term 1 to 5 years	Residual term > 5 years	2021/12/31
Lease liabilities (undiscounted)	60.5	80.1	140.6
Finance costs	11.7	13.1	24.8
Liabilities from lease agreements	48.7	67.0	115.8

In € million	Residual term 1 to 5 years	Residual term > 5 years	2020/12/31
Lease liabilities (undiscounted)	57.6	83.7	141.3
Finance costs	10.9	15.9	26.8
Liabilities from lease agreements	46.7	67.8	114.5

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

Current Liabilities

(29) Current financial liabilities

In € million	2021/12/31	2020/12/31
Other borrowings	517.6	203.4
Liabilities to banks	185.8	142.2
Liabilities from factoring	169.2	117.7
Lease liabilities	20.6	25.0
Current financial liabilities	893.2	488.3

"Other financial liabilities" result essentially from taking out loans as part of financing transactions with banks and listed international industrial companies from the energy sector. CO₂ certificates temporarily not required for production, were transferred here as collateral.

Companies in Germany and abroad have made external financing arrangements outside of the Group. The resulting liabilities from factoring are secured by trade receivables. The default risk and the late payment risk regarding the sold receivables continue to be borne by the companies. The receivables will continue to be disclosed in full in the companies' balance sheets. The funds received are reported as liabilities. Due to their short terms, the book value of the receivables and liabilities corresponds to their fair value. The receivables will

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

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

In € million	2021/12/31	2020/12/31
Lease liabilities (undiscounted)	25.9	28.7
Finance costs	5.3	3.7
Liabilities from lease agreements	20.6	25.0

For more detailed explanations of the assets carried in the balance sheet as a result of the accounting treatment of leases, please refer to Note (10) ↗ “Property, plant and equipment”.

(30) Contract liabilities

Net contract liabilities increased in the reporting period from € 272.8 million to € 353.8 million. The increase relates mainly to technical machinery and equipment in the Technology Business Unit. As of 2020/1/1, the balance of contract liabilities amounted to € 200.7 million.

(31) Other liabilities

In € million	2021/12/31	2020/12/31
Tax liabilities	121.6	93.3
Liabilities to employees	127.2	73.9
Customer credit balances	18.2	17.8
Liabilities from derivatives	16.5	38.4
Liabilities from social security contributions	15.0	9.2
Other liabilities	77.0	70.1
Other liabilities (current)	375.6	302.8

The Note “Other liabilities” contains numerous minor transactions on the part of the consolidated companies.

As well as the liabilities from factoring secured by receivables, liabilities amounting to € 32.4 million (previous year: € 31.6 million) are secured through mortgages.

(32) Contingencies

Contingent liabilities are existing collateral commitments for third-party liabilities which are not expected to be utilized, however. Valued on the closing date, these commitments amounted to € 18.0 million (previous year: € 23.9 million).

Taking account of individual risk assessments as well as the actual contractual obligations as of the balance sheet date, the contingencies comprise sureties and guarantees in an amount of € 5.4 million (previous year: € 10.6 million). Based on past experience, the probability of their being utilized can be regarded as low.

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

In connection with the sanctions imposed by the Federal Competition Authority in earlier years due to the suspicion of antitrust collusion on premiums and surcharges in the Plate Business Unit, individual customers approached us with claims for compensation. We regard these demands as unjustified and are confident that we will be able successfully defend them. Nevertheless, the costs that we are at least likely to incur, particularly for legal advice in the matter, are included in the form of provisions in the consolidated financial statements.

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

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

(33) Other Financial Obligations

In € million	2021/12/31		
	up to 1 year	1 to 5 years	over 5 years
Purchase commitments for investments (essentially property, plant and equipment)	142.5	59.5	–
Obligations from rental and leasing agreements	6.9	11.4	6.3
Other financial obligations	520.0	276.0	76.9
Total	669.4	346.9	83.2

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

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

The obligations arising from rental, tenancy and lease agreements include those non-capitalized lease agreements that continue to be recognized in profit and loss as part of the application relief. In addition, this item also reflects future leases which the Salzgitter Group has already entered into whose date of provision falls after the closing date, however. A total of € 20.6 million (previous year: € 18.3 million) is attributable to lease obligations.

The Group has lease agreements particularly in the area of real estate and land which provide for options to extend and terminate. The Group forecasts potential future lease payments of € 8.7 million (previous year: € 4.8 million) after the date on which such options can be exercised which are not included in the term of the lease.

(34) Financial Instruments

In the case of highly likely procurement transactions, definable risk components forming part of cash flow hedges can be designated as underlying transactions for treatment as hedge accounting. The Salzgitter Group avails itself of this option. Hedging transactions, underlying transactions and the management of risks are described in the course of this section.

Investments for the generation of dividend income are held in a separate portfolio within financial assets. These equity investments represent investments that the Group is holding for the long term. The Salzgitter Group has designated these investments as “fair value through other comprehensive income” in equity instruments. The accumulated reserve from changes in fair value in connection with these investments is never reclassified to profit and loss.

Hedging transactions not forming part of hedge accounting are classified at “fair value through profit and loss” as the cash flows from these transactions do not consist exclusively of interest payments and principal repayments.

Categories and Fair Values of Financial Instruments

As of the balance sheet date of December 31, 2021, the reconciliation of the balance sheet items to the various categories of financial instruments was as follows:

2021 in € m	Valuation according to IFRS 9						Valuation according to IFRS 15 and IFRS 16	
	Book value as of 2021/12/31	Out of scope of IFRS 7	In scope of IFRS 7	At amortized costs	At fair value (OCI)	At fair Value (P&L)	At amortized costs	Fair value
Assets								
Financial assets	51.4	-	51.4	24.8	26.6	-	-	53.7
Other non-current receivables and assets	21.6	7.4	14.1	2.2	11.9	-	-	14.1
Long-term and short-term trade receivables	1,461.0	-	1,461.0	1,461.0	-	-	-	1,461.0
Contract assets	323.0	-	323.0	-	-	-	323.0	323.0
Other current receivables and assets	296.7	74.1	222.5	122.5	57.6	42.4	-	222.5
Securities	49.7	-	49.7	0.0	-	49.7	-	49.7
Cash and cash equivalents	741.8	-	741.8	741.8	-	-	-	741.8
Assets financial instruments			2,863.6	2,352.4	96.2	92.1	323.0	
Equity and liabilities								
Non-current financial liabilities	621.5	-	621.5	505.8	-	-	115.8	624.0
Other current liabilities	6.6	4.2	2.4	0.1	2.3	-	-	2.4
Current financial liabilities	893.2	-	893.2	872.7	-	-	20.6	898.7
Trade payables	1,729.0	-	1,729.0	1,729.0	-	-	-	1,729.0
Other non-current liabilities	375.6	289.8	85.9	69.3	5.3	11.2	-	85.9
Equity and liabilities financial instruments			3,332.0	3,176.8	7.7	11.2	136.3	

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

2020 in € m	Valuation according to IFRS 9						Valuation according to IFRS 15 and IFRS 16	
	Book value as of 2020/12/31	Out of scope of IFRS 7	In scope of IFRS 7	At amortized costs	At fair value (OCI)	At fair Value (P&L)	At amortized costs	Fair value
Assets								
Financial assets	54.6	-	54.6	33.1	21.5	-	-	59.2
Other non-current receivables and assets	22.3	10.5	11.8	1.4	10.4	-	-	11.8
Long-term and short-term trade receivables	935.0	0.0	934.9	934.9	-	-	-	934.9
Contract assets	300.2	-	300.2	-	-	-	300.2	300.2
Other current receivables and assets	188.3	53.7	134.6	91.0	41.1	2.5	-	134.6
Cash and cash equivalents	621.4	-	621.4	621.4	-	-	-	621.4
Assets financial instruments			2,057.5	1,681.9	72.9	2.5	300.2	
Equity and liabilities								
Non-current financial liabilities	749.4	-	749.4	634.9	-	-	114.5	752.1
Other current liabilities	57.1	54.9	2.2	0.3	1.9	-	-	2.2
Current financial liabilities	488.3	0.0	488.3	463.3	-	-	25.0	491.4
Trade payables	802.4	0.0	802.4	802.4	-	-	-	802.4
Other non-current liabilities	302.8	202.7	100.1	61.7	21.9	16.5	-	100.1
Equity and liabilities financial instruments			2,142.3	1,962.5	23.8	16.5	139.5	

Determination of Fair Values of Financial Instruments

Trade receivables and cash and cash equivalents have short residual terms for the most part, and as a result their book values correspond to their fair values as of the reporting date. With regard to the fair values of derivatives, please consult “Financial assets – recognition and measurement” in the section on ↗ “Accounting and Valuation Principles”. The book value of the derivative financial instruments corresponds to their market value. The securities are listed on the stock market and are valued on the basis of their market price as of the balance sheet date through profit and loss.

Trade payables and other liabilities regularly have short residual terms, and as a result their reported values correspond to their fair values.

The calculation of the fair value disclosures for financial assets and debts not measured at fair value in the scope of IFRS 7 is carried out by discounting future cash flows in general. This is performed by using a term-dependent interest rate that reflects the risk free rate and the counterparty risk or Salzgitter Group’s counterparty default risk deduced on the basis of a peer group. The calculation parameters are based on data from directly and indirectly observable input factors. The fair value disclosures in the Fair value column in the above table are therefore to be assigned overall to Level 2. Further information on the fair value hierarchy and the categorization of financial instruments in hedge accounting can be found in the explanations of the fair value hierarchy below.

When calculating the fair value of an asset or a liability, the Group uses observable market data as far as possible. Based on the input factors used in the calculation techniques, the fair values are assigned to different levels in the fair value hierarchy.

Level 1: listed prices on active markets for identical assets and liabilities.

Level 2: Valuation parameters that are not concerned with the listed prices taken into account in Level 1, but can be observed either directly or indirectly (from the derivation of prices) for the asset or liability in question.

Level 3: Valuation parameters for assets or liabilities not based on observable market data

If the input factors used for calculating the fair value cannot be assigned to one single level, they are assigned collectively to the level of the input factor of decisive significance for the measurement process.

Market values were determined on the basis of conditions that prevailed on the reporting date, using the values at which the relevant financial instruments were traded or listed. The current value of the derivatives to be reported derives from the valuation of the hedged foreign currency amount or commodity price, with the difference between the rate applying when the forward contract was entered into and the forward rate on the reporting date; this amount is discounted to the balance sheet date in accordance with the residual term.

Fair value calculation:

2021 in € m	Fair value						
	At fair value with no effect on the income financial investments	At fair value with no effect on the income hedge accounting	At fair Value (P&L)	Total	of which level 1	of which level 2	of which level 3
Assets							
Financial assets	26.6	-	-	26.6	-	-	26.6
Other non-current receivables and assets	-	11.9	-	11.9	-	11.9	-
Other current receivables and assets	-	57.6	42.4	100.0	-	100.0	-
Securities	-	-	49.7	49.7	49.7	-	-
Assets fair value	26.6	69.6	92.1				
Equity and liabilities							
Other current liabilities	-	2.3	-	2.3	-	2.3	-
Other non-current liabilities	-	5.3	11.2	16.5	-	16.5	-
Liabilities fair value	-	7.7	11.2				

Financial investments measured at their fair value with no effect on income represent exclusively long-term holdings in companies over which the Salzgitter Group is unable to exert any significant influence. The measurement chosen through other comprehensive income with no subsequent reclassification to the income statement is regarded as appropriate as there is no intention to achieve short-term profits with these investments.

The subsequent measurement of the equity instruments held with no effect on income decreased their carrying amounts by € 3.9 million (previous year: € 1.1 million). The carrying amounts of all financial investments as of the closing date of December 31, 2021, as well as the carrying amounts of the previous year are disclosed in the notes to items in the balance sheet.

No financial investments in equity instruments were sold in the 2021 financial year. No cumulative gains or losses were transferred within equity in this context.

The market value of these equity instruments was determined on the basis of parameters for which there are no observable market data. The equity instruments assigned to Level 3 and measured at fair value with no effect on profit or loss with a carrying amount of € 26.6 million (previous year: € 21.5 million) constitute investments measured on the basis of the best information available on the closing date.

The main unobservable input factors for measuring the fair value of financial investments assigned to Level 3 of the measurement hierarchy consist of dividend payments and the imputed cost of capital. The fair value is determined on the basis of these input factors using a discounted cash flow method. If the cost of capital changes by + / -1% fair value would fall by € 1.4 million (previous year: € 1.5 million) or increase by € 1.7 million

(previous year: € 1.9 million). Financial instruments measured at fair value and recognized in profit or loss essentially contain derivatives for currency hedging outside the scope of hedge accounting as well as fund assets.

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

2020 in € m	Fair value						
	At fair value with no effect on the income financial investments	At fair value with no effect on the income hedge accounting	At fair Value (P&L)	Total	of which level 1	of which level 2	of which level 3
Assets							
Financial assets	21.5	-	-	21.5	-	-	21.5
Other non-current receivables and assets	-	10.4	-	10.4	-	10.4	-
Other current receivables and assets	-	41.1	2.5	43.6	-	43.6	-
Securities	-	-	-	-	-	-	-
Assets fair value	21.5	51.4	2.5				
Equity and liabilities							
Other current liabilities	-	1.9	-	1.9	-	1.9	-
Other non-current liabilities	-	21.9	16.5	38.4	-	38.4	-
Liabilities fair value	-	21.9	16.5				

Net Results of Categories of Financial Instruments

The net results of the categories are as follows:

In € million	2021	2020
Financial instruments measured with no effect on income	61.3	-17.9
Financial assets measured at cost	-21.5	-5.1
Equity instruments measured at fair value with no effect on income	1.0	2.4
Financial liabilities measured at amortized cost	-38.5	-52.4
Total	2.4	-73.0

The net result of the category “Financial assets and liabilities measured at fair value with effect on income” essentially includes the effects of measuring forward currency transactions as of the closing date.

Besides impairments and the effects of changes in exchange rates, the category “Financial assets measured at amortized cost” also includes interest income amounting to €15.2 million (previous year: €13.6 million). The category “Equity instruments measured at fair value with no effect on profit or loss” includes primarily investment income. The dividends from these financial investments recognized in the financial year result exclusively from equity instruments still held by the Salzgitter Group on the closing date. The dividend income is recognized in the Group’s income from shareholdings.

Interest expenses amounting to €36.2 million (previous year: €52.4 million) are allocated to the “Financial liabilities measured at amortized cost” category. This category also includes effects from currency translation.

For financial instruments not measured at fair value through profit and loss, the expenses of €10.4 million were incurred in financial and monetary transactions (previous year: €6.5 million); these were immediately recognized with effect on income.

Financial Risk Management of Financial Instruments – Default Risk

The concentration of risk with regard to trade receivables is assessed as low as the customers are based in different countries, belong to different sectors of industry and operate in largely independent markets. There are no customers from whom there are trade receivables amounting to more than 10% of the total trade receivables. The individual companies in the Group have loan insurance to cover most of the risk of bad debt.

The Salzgitter Group has three types of assets subject to the model of expected losses. Besides trade receivables, these are contract assets and debt instruments measured at amortized cost. Cash and cash equivalents are also subject to impairment rules under IFRS 9 but the impairment expense identified was inconsequential.

The Salzgitter Group assigns receivables, trade receivables and contract assets to three categories that reflect the risk of default as well as the way in which any impairment loss is determined for each category. These credit ratings are aligned with the ratings of external agencies such as Standard and Poor's, Moody's and Fitch.

The Salzgitter Group applies the simplified approach for all trade receivables and contract assets in accordance with IFRS 9 in order to measure the expected credit losses.

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

The Salzgitter Group takes account of the probability of default at the time of assets' initial recognition as well as of any significant increase in the default risk during the reporting period. To judge whether the default risk has increased significantly, the default risk with respect to the closing date is compared with the default risk at the time of initial recognition. Besides external credit ratings, weight is given to internal credit ratings and significant changes to the expected profitability and payment behavior of the debtor.

Financial assets are written off if, after due consideration, they are deemed unrecoverable, for instance if a debtor refuses to agree a repayment plan. If loans or receivables have been written off, the company will continue to enforce its claim in order to recover the amounts due. A financial instrument is derecognized if, after due consideration, a financial asset can no longer be assumed to be partially or wholly recoverable, for example, upon the conclusion of insolvency proceedings or following judicial rulings. For these reasons, trade receivables in an amount of € 3.3 million (previous year: € 3.2 million) were derecognized in the financial year.

As of the reporting date, the default risk compared with the previous year was as follows:

In € million	2021/12/31		2020/12/31	
	Maximum default risk	Hedged default risk	Maximum default risk	Hedged default risk
Long-term and short-term trade receivables	1,461.0	947.7	934.9	592.4
Other receivables	124.7	0.9	92.4	1.8
Financial assets	24.8	-	33.1	-
Total	1,610.6	948.6	1,060.5	594.2

There are also default risks amounting to the positive market values of derivatives equating to the assets reported for which the default risk is not secured.

For all other financial instruments not listed in the overview, the default risk essentially corresponds to the carrying amount.

Trade receivables in an amount of € 843.3 million (previous year: € 511.4 million) are secured against default by means of credit insurance.

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

In € million	2021/12/31		
	Level 1	Level 2	Level 3
General approach			
High credit rating	124.7	-	-
Fair credit rating	17.7	-	-
Increased risk	7.1	-	-
Total	149.6	-	-

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

FY 2021 in € m	Impairment general approach level 1		
	Gross book value	Credit risk	Net book value
Opening balance 01/01	130.6	-5.0	125.6
Addition	32.0	-	32.0
Change in value	-	-0.1	-0.1
Reversal	-9.2	1.1	-8.2
Currency differences	0.0	0.2	0.3
As per 12/31	153.4	-3.8	149.6

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

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

As of 2021/12/31 in € m	Trade receivables gross	Contract assets gross
Simplified		
High credit rating	1,047.7	301.8
Fair credit rating	411.4	20.1
Increased risk	93.8	1.9
Total	1,552.9	323.7

As of 2020/12/31 in € m	Trade receivables gross	Contract assets gross
Simplified		
High credit rating	661.1	295.5
Fair credit rating	256.3	4.2
Increased risk	112.4	1.3
Total	1,029.8	301.0

The figures shown for the various rating categories are gross carrying amounts before taking account of the credit default risk. The gross carrying amount for all trade receivables as of December 31, 2021 stands at € 1,552.9 million (previous year: € 1,029.8 million). Of the entire risk provision for trade receivables amounting to € 91.9 million (previous year: € 94.8 million), € 86.7 million (previous year: € 91.6 million) was accounted for by the “Increased risk” category. The remaining sum for the risk provision for trade receivables amounting to € 5.1 million (previous year: € 3.2 million) results primarily from the risk provision for trade receivables in the “Fair credit rating” category.

As of December 31, 2021, the gross carrying amount of all contract assets amounted to € 323.7 million (previous year: € 301.0 million). Overall, there is a risk provision for contract assets amounting to € 0.8 million (previous year: € 0.8 million) resulting essentially from the risk provision for contract assets in the “High credit rating” category.

FY 2021 in € m

	Impairment trade receivables	Impairment contract assets
As of 01/01	-94.9	-0.8
Addition	-84.9	-1.5
Utilization	3.3	-
Reversal	86.8	1.4
Transfer to other accounts	-0.1	0.1
Currency differences	-2.2	-
As per 12/31	-91.9	-0.8

FY 2020 in € m

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

Financial Risk Management of Financial Instruments – Liquidity Risk

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

The liquidity structure of all the financial liabilities is as follows:

2021/12/31 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	1,729.0	-	-
Financial liabilities (without lease liabilities)	880.0	451.7	69.0
Lease liabilities	25.9	60.5	80.1
Other liabilities (without derivatives)	73.5	0.1	-

As of 2020/12/31 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	802.4	-	-
Financial liabilities (without lease liabilities)	472.2	481.3	176.1
Lease liabilities	28.7	57.6	83.7
Other liabilities (without derivatives)	61.8	0.3	-

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

As of December 31, 2021, derivative financial liabilities with a term of under one year lead to disbursements of € 564.3 million (previous year: € 619.0 million), while those with a term of between one and five years lead to payouts totaling € 2.3 million (previous year: € 1.9 million). The disbursements from derivative financial liabilities for which payments on a gross basis were agreed are counterbalanced by in-payments. If these in-payments are taken into account, the payouts are substantially lower.

Companies in the Technology Business Unit conclude reverse factoring agreements with financial institutions in favor of suppliers. This gives our companies the chance to balance the differing payment terms between customers and suppliers without reducing our liquidity prematurely. As of December 31, 2021, reverse factoring agreements amounting to € 51.8 million (previous year: € 17.9 million) are shown in trade payables. The payment terms for liabilities as part of reverse factoring are almost exclusively 180 days. Reverse factoring is used essentially within Germany to support financing and thus to tie selected, first-class suppliers to the company. Reverse factoring has no effect on the level or timing of cash flows for the Group.

Financial Risk Management of Financial Instruments – Market Price Risk

The business model for areas of the Salzgitter Group's business that are heavily focused on steel is exposed to volatility in the price of raw materials and in sales prices. Selected raw material hedging transactions entered into to manage raw material price risks and margin risks are accounted for using hedge accounting. Starting with the variability of raw material purchase prices in procurement contracts, the relationship between the price of raw materials and the price of steel, the time lapse between when raw material prices are set and the price of steel in the market as well as the anomalies of the business model (throughput times, minimum stocks, batch sizes within production, etc.), all of these factors form part of the process of identifying risks. As a result of the circumstances outlined, there is a risk that the actual margin obtained may differ from the margin originally budgeted. Key management indicators including associated limits are used to manage these raw material price risks and associated margin risks in the Salzgitter Group. Taking account of these key performance indicators, a risk committee is responsible throughout the Group for initiating and selecting appropriate measures to manage risk positions and defines a hedging ratio. To control the margin risks, the Salzgitter Group also deploys derivative financial instruments to a limited extent to hedge the sales prices of hot-rolled strip products.

The various measurement parameters pertaining to the underlying transaction and the hedging transaction are compared in order to determine the economic hedging relationships. As the measurement parameters of the underlying transaction and the hedging transaction are the same (nominal volume, price index and maturity), an economic hedge can be assumed. The following reasons may lead to the hedge becoming ineffective: a change in the payment schedule, an increase or decrease in the nominal volume or the price or a significant change in the credit risk of one or both of the two contractual partners. The ineffectiveness of a hedging transaction is measured on the basis of the cumulative dollar offset method for each quarter, in other words, the cumulative cash flow changes of the underlying transaction are compared with the cumulative cash flow changes of the hedging transaction. Both the underlying transaction (hypothetical derivative) and the hedging transaction are measured using forward market rates and by applying the forward-to-forward method.

In the case of highly likely procurement transactions, definable risk components forming part of cash flow hedges can be designated as underlying transactions under IFRS 9. This facility is used in the Salzgitter Group to reduce the ineffectiveness of hedging relationships through commodity procurement transactions for iron ore and coking coal. This eliminates the risk component of ship diesel in the effectiveness calculation.

Iron ore is hedged on the basis of the IODEX. Coking coal is hedged on the basis of the Platts/TSI Index. The selling price for hot-rolled coils is hedged on the basis of the North European HRC index, EXW Ruhr. The underlying risk of commodity futures transactions is almost identical to that of the hedged risk components. The Salzgitter Group has therefore defined a hedging ratio of 1 : 1 for hedging relationships.

The Salzgitter Group applied financial year hedge accounting in accordance with IFRS 9 for commodity futures (hot-rolled coils, iron ore and coking coal swaps) and, to a minor extent, forward exchange contracts. In the process, it hedged the risks of changes in prices or exchange rates using cash flow hedges. The respective market values were as follows:

Positive market value in € m	2021/12/31	2020/12/31
Forward exchange contracts – cash flow hedges	2.5	0.0
Commodity futures – cash flow hedges	67.0	51.4
Total	69.6	51.4

Negative market values in € m	2021/12/31	2020/12/31
Forward exchange contracts – cash flow hedges	0.0	2.6
Commodity futures – cash flow hedges	7.7	21.2
Total	7.7	23.8

The commodity future transactions will affect income in the financial years 2022, 2023 and 2024. Thanks to high effectiveness, the changes in value of the forward currency transactions are matched by almost identical underlying transactions. By comparison with the previous year, positive forward currency transactions increased by € 2.5 million (previous year: decrease of € 0.7 million) and negative ones decreased by € 2.6 million (previous year: increase of € 2.0 million). Thanks to high effectiveness, the changes in value of commodity future transactions are matched by almost identical underlying transactions. By comparison with the previous year, positive commodity futures increased by € 15.6 million (previous year: € 23.1 million) and negative ones fell by € 13.5 million (previous year: € 3.6 million).

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

In € million	2021	2020
As of 01/01	18.5	1.0
Write-up with no effect on income	195.1	99.0
Write-down with no effect on income	-109.0	-70.6
Basis adjustment	-89.2	-4.9
Deferred taxes basis adjustment	28.1	1.5
Realization	37.4	1.9
Other deferred taxes	-37.9	-9.5
As of 12/31	42.9	18.5

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

2021	up to 1 year	over 1 year	Nominal volume	Average hedging rate
Hedging currency Cross-out risk in million USD – purchase	240.3	–	240.3	1.17
Hedging currency Cross-out risk in million GBP	62.2	–	62.2	0.86
Hedging currency Cross-out risk in million CAD	72.1	–	72.1	1.47
Hedging price Cross-out risk of iron ore in m t	0.4	0.4	0.8	84.15
Hedging price Cross-out risk of coking coal in m t	0.5	0.1	0.6	152.55
Hedging price Cross-out risk hot rolled coils in m t	0.1	0.0	0.1	756.04
Book value receivables in € m	57.6	11.9		
Book value payables in € m	5.3	2.3		
2020	up to 1 year	over 1 year	Total nominal volume	Average hedging rate
Hedging currency Cross-out risk in million USD – purchase	124.1	–	124.1	1.18
Hedging currency Cross-out risk in million GBP	18.9	–	18.9	0.91
Hedging currency Cross-out risk in million CAD	4.7	–	4.7	1.57
Hedging currency Cross-out risk in million USD – sale	0.7	–	0.7	1.22
Hedging price Cross-out risk of iron ore in m t	0.6	0.2	0.8	62.45
Hedging price Cross-out risk of coking coal in m t	0.7	0.6	1.3	157.31
Hedging price Cross-out risk hot rolled coils in m t	0.1	–	0.1	519.33
Book value receivables in € m	41.1	10.4		
Book value payables in € m	21.9	1.9		

The effectiveness of all hedging arrangements is examined as of every reporting date. In the process, the cumulative changes in the value of the underlying transaction are compared with the cumulative changes in the value of the hedging transaction. In the financial year, ineffectivities totaling under € 0.1 million (previous year: under € 0.1 million) arose from cash flow hedges. The ineffectivities were recognized in other operating income and other operating expenses.

In the financial year, an amount of € 89.2 million (previous year: € -7.6 million) from expired forward exchange contracts was offset against the acquisition costs of non-financial assets (basis adjustment). In addition, reserves for price hedging for sales transactions amounting to € -34.1 million (previous year: € 2.7 million) were reclassified from OCI to Sales revenues for underlying transactions now recognized in profit or loss. Reserves for currency hedging amounting to € 3.3 million (previous year: € 1.9 million) were reclassified from OCI to other operating expenses or other operating income for underlying transactions now recognized in profit or loss.

In the case of foreign currency receivables, rate hedging cover is provided by entering into forward exchange contracts with various banks. The claims reported in hedge accounting are recognized at the agreed rate. Hedging relationships were established both for firm obligations and for anticipated future transactions.

The Salzgitter Group is exposed to further price risks from the measurement of equity instruments held for the long term. Movements in the reserve for changes in the value of financial instruments in the category "Equity instruments measured at fair value with no effect on income" are as follows after tax:

In € million	2021	2020
As of 01/01	18.9	18.0
Write-up with no effect on income	0.1	-
Write-down with no effect on income	-3.9	-1.1
Deferred tax	-0.0	2.1
As of 12/31	15.0	18.9

The carrying amount of equity instruments measured at fair value with no effect on income amounting to € 26.6 million (previous year: € 21.4 million) is shown in the reconciliation matrix for financial instruments in financial assets.

The equity instruments in the Salzgitter Group measured at fair value in other comprehensive income essentially comprise the following unlisted companies:

In € million	2021/12/31	2020/12/31	2021	2020
	Fair value		dividends	
Arsol Aromatics GmbH & Co. KG	14.1	15.6	0.1	1.8
Ferrum Packaging AG	6.6	-	-	-
PEAG Holding GmbH	2.6	2.6	0.2	-
Niedersächsische Gesellschaft zur Endlagerung von Sonderabfall mbH	1.5	1.4	0.3	0.2
Other	1.8	1.8	0.4	0.5
Total	26.6	21.4	1.0	2.5

Sensitivity Analysis for Foreign Exchange, Interest Rate and Market Price Risks:

The Salzgitter Group is exposed to a variety of financial risks. These, as defined by the sensitivity analysis prescribed under IFRS 7, are interest rate risks, currency risks and other price risks. For the interest rate risks, the sensitivity analysis assumes a change of 100 base points in the market interest rate. With regard to the currency risks, a fluctuation of 10% in the Group companies' respective functional currencies against the foreign currencies is assumed. The other price risks arise for the Salzgitter Group from changes in commodity prices or stock market indices. In this case, the impact of a 10% change in the respective quoted prices is taken into account. The sensitivities are ascertained by banks or by means of internal calculations using acknowledged methods (for example, Black-Scholes, Heath-Jarrow-Morton). The portfolio of financial instruments as of the balance sheet date is representative of the financial year as a whole.

2021/12/31	Recognized in profit and loss	Affecting equity	Total	Recognized in profit and loss	Affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	-10%	-10%	-10%
USD	-28.4	-24.0	-52.4	28.9	29.6	58.5
GBP	2.3	6.7	9.0	-2.8	-8.2	-11.0
Other currencies	5.3	4.5	9.8	-6.5	-5.5	-12.0
Currency sensitivities	-20.8	-12.8	-33.6	19.6	15.9	35.5
Degree of sensitivity	+100 bp	+100 bp	+100 bp	-100 bp	-100 bp	-100 bp
Interest rate sensitivities	-	-	-	-	-	-
Degree of sensitivity	+10%	+10%	+10%	-10%	-10%	-10%
Coking coal	-	19.0	19.0	-	-19.0	-19.0
Iron ore	-	8.9	8.9	-	-8.9	-8.9
Other	-	-7.6	-7.6	-	7.6	7.6
Other price sensitivities	-	20.3	20.3	-	-20.3	-20.3

2020/12/31	Recognized in profit and loss	Affecting equity	Total	Recognized in profit and loss	Affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	-10%	-10%	-10%
USD	-24.4	-12.8	-37.2	29.8	15.9	45.7
GBP	0.7	1.7	2.4	-0.9	-2.1	-3.0
Other currencies	3.5	0.4	3.9	-4.1	-0.5	-4.6
Currency sensitivities	-20.2	-10.7	-30.9	24.8	13.3	38.1
Degree of sensitivity	+100 bp	+100 bp	+100 bp	-100 bp	-100 bp	-100 bp
Interest rate sensitivities	-	-	-	-	-	-
Degree of sensitivity	+10%	+10%	+10%	-10%	-10%	-10%
Coking coal	-	10.7	10.7	-	-10.7	-10.7
Iron ore	-	9.8	9.8	-	-9.8	-9.8
Other	-	-4.0	-4.0	-	4.0	4.0
Other price sensitivities	-	16.5	16.5	-	-16.5	-16.5

Offsetting Financial Instruments

Salzgitter AG generally only concludes financial futures transactions with banks with which it already has a business relationship. Financial futures transactions are only concluded on the basis of a standardized contract for financial futures transactions. This agreement contains a conditional netting agreement according to which – in the event of insolvency – the party that owes the higher amount pays the difference.

Derivatives with, respectively, positive or negative market values are not netted with each other in the balance sheet. The “Not offset amount” column shows the amounts of the derivatives accounted for which do not satisfy the criteria for netting under IAS 32.42.

2021/12/31 in € m

	Gross book value	Offsetting amount	Net book value	Not offset amount	Total net book value
Positive market values derivatives	111.9	–	111.9	18.1	93.8
Negative market values derivatives	18.9	–	18.9	18.1	0.7

As of 2020/12/31 in € m

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

(35) Notes to the Cash Flow Statement

In accordance with IAS 7, the cash flow statement depicts the development in cash flows, broken down into inflows and outflows of funds from current operating, investment and financing activities. The cash flow statement is derived from the consolidated financial statements of Salzgitter AG using the indirect method.

The cash and cash equivalents used consist of cash in hand, checks and cash at banks and term deposits (term of under three months).

In the cash inflow from operating activities, the income and expenses from fixed asset disposals have been eliminated. Interest income amounts to € 5.6 million (previous year: € 5.1 million). Dividend income received during the financial year 2021 totaled € 19.2 million (previous year: € 20.2 million).

The investments disclosed in the cash outflow from investment activity include cash additions to intangible assets and property, plant and equipment as well as non-current financial assets, in particular additions from newly acquired companies not consolidated for materiality reasons and for securities.

Cash outflows for financial investments comprise fund units.

Changes in financial liabilities were as follows:

In € million	As of 2021/1/1	Cash inflow total	of which: cash inflow from financing cash flow	Cash outflow total	of which: cash outflow from financing cash flow	Currency differ- ences	Other changes	As of 2021/12/31	of which non- current
Loan payables and other financial liabilities	1,237.6	660.0	503.8	-409.1	-300.8	4.6	21.7	1,514.8	621.5
Liabilities to banks	767.6	20.0	4.3	-102.6	-73.4	3.7	-0.2	688.5	502.7
Other financial liabilities	206.0	503.9	499.5	-201.0	-200.0	0.0	-2.1	506.8	3.0
Liabilities from factoring	117.7	129.0	-	-77.4	-	-	-	169.2	-
Liabilities from financing	6.8	7.1	-	-0.3	-	0.3	0.0	13.9	0.1
Lease liabilities	139.5	-	-	-27.7	-27.4	0.5	24.0	136.3	115.8
	1,237.6	660.0	503.8	-409.1	-300.8	4.6	21.7	1,514.8	621.5

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

(36) Notes to the Segment Reporting

The segmentation of the Salzgitter Group into five business units accords with the Group's internal controlling and reporting functions. The main decision-maker is the Executive Board.

In the segment report, the business activities of the Salzgitter Group are assigned to the Strip Steel, Plate/Section Steel, Mannesmann, Trading, and Technology business units in accordance with the Group structure in line with different products and services.

The Strip Steel Business Unit manufactures high-quality branded steel and special steels. Its main products are hot-rolled coil and steel sheet, sections and tailored blanks.

The companies in the Plate/Section Steel Business Unit produce a broad spectrum of high-grade plate products. Further core product areas are sections production and scrap trading.

The Mannesmann Business Unit is concerned primarily with the manufacture of line pipes, HFI-welded tubes, precision tubes and stainless steel tubes.

The Trading Business Unit operates a tightly-knit European sales network, as well as trading companies and agencies worldwide that ensure that the Salzgitter Group's products and services are marketed efficiently.

The Technology Business Unit operates mainly in the filling and packing technology segment, as well as in special machinery engineering for shoe manufacturing and elastomer production.

Companies in the Industrial Participations category mainly comprise service providers working for the Group and comply with the summary in accordance with IFRS 8.16. Some of the companies among the service units also offer their services to third-party customers. On this basis, the companies conceive and implement a broad spectrum of attractive service offerings. These encompass raw materials supplies, IT services, facility management, logistics, automotive engineering and research and development. Included in the consolidations are Salzgitter AG as the management holding company, the intermediate holding companies Salzgitter Mannesmann GmbH, Salzgitter-Klöckner-Werke GmbH, and Salzgitter Finance B.V. as well as Aurubis AG.

The accounting principles are the same as described for the Group in its Accounting and Valuation principles. The segment reporting does not take account of intragroup leases in accordance with IAS 16 or intragroup provisions pursuant to IAS 37. The same applies to open derivatives within the Group pursuant to IFRS 9.

The effects of eliminating intercompany results for overarching group relationships are included in the supplier's segment. The profit and loss statements for individual business units therefore include the effects of eliminating intercompany results across all business units.

There are no relationships with individual customers whose sales represent a significant proportion of the Group's total sales. For an overview of sales by region, please see our presentation in the Section "Notes to the Income Statement", Note (1) ↗ "Sales". Non-current assets are allocated to countries by their respective location, and country allocations are disclosed for intangible assets, tangible assets and property investments.

In € million	2021	2020
Domestic	2,128.6	2,294.1
Other EU	106.2	106.9
Rest of Europe	1.3	1.5
America	83.9	84.1
Asia	23.2	14.5
Africa	2.4	2.4
Australia/Oceania	1.6	1.6
	2,347.4	2,505.0

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

In € million	2021	2020
Total sales of the segments	12,060.3	8,642.0
Industrial Participations	425.6	392.8
Consolidation	-2,718.5	-1,944.0
Sales	9,767.4	7,090.8

In € million	2021	2020
Total results of the segments for the period	597.6	-217.2
Industrial Participations	6.4	23.6
Consolidation	101.8	-2.8
Earnings before taxes (EBT)	705.7	-196.4

(37) Notes to Leases

This is reflected in profit and loss as follows:

In € million	2021	2020
Other operating income		
Income from operating leases	2.3	1.2
Cost of materials/other operating expenses		
Expenses for leases in which the underlying asset is of low value	2.0	2.7
Expenses for short-term leases	5.1	5.4
Expenses for variable lease payments	0.1	0.1
Financial result		
Interest expenses from lease liabilities	3.2	3.6

Total cash outflows for leases amount to € 31.0 million in the financial year € (previous year: € 28.8 million). The interest expenses from lease liabilities are included.

(38) Related Party Disclosures

In addition to business relationships with companies that are consolidated fully in the consolidated financial statements, relationships also exist with companies that must be designated as related parties in accordance to IAS 24. The category of joint operations includes only Hüttenwerke Krupp Mannesmann GmbH, Duisburg. The category of other related parties includes the majority shareholdings and joint ventures of the State of Lower Saxony.

The following delivery and service relationships exist between companies in the consolidated group and companies related to the Salzgitter Group:

In € million	Sale of goods and services		Purchase of goods and services	
	2021	2020	2021	2020
Non consolidated group companies	15.8	21.2	14.2	13.7
Joint ventures	41.5	63.5	111.9	8.6
Joint operations	5.8	2.4	0.9	1.0
Companies account for using the equity method	0.1	0.0	1.2	7.5
Other related parties	2.5	1.3	7.1	1.2

Outstanding balances from deliveries and services arising from the purchase or sale of goods and services between companies in the consolidated group and companies related to the Salzgitter Group:

In € million	Receivables		Liabilities	
	2021/12/31	2020/12/31	2021/12/31	2020/12/31
Non consolidated Group companies	4.2	6.5	11.0	2.5
Joint ventures	14.2	2.0	39.8	0.2
Joint operations	25.9	31.7	33.5	20.6
Companies account for using the equity method	-	-	0.0	1.8
Other related parties	5.1	5.1	99.0	70.6

Receivables from companies with joint operations include a loan receivable from Hüttenwerke Krupp Mannesmann GmbH, Duisburg, 30% consolidated, amounting to € 22.5 million (previous year: € 30.6 million) after consolidation.

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

Contingencies totaling € 10.0 million (previous year: € 10.6 million) exist in relation to non-consolidated associated companies.

(39) Fees for the Auditor of the Consolidated Financial Statements that were reported as expenses in the financial year in accordance with Section 314 (9) of the German Commercial Code (HGB)

In € million	2021	2020
Audit services	2.4	2.2
Other certification or assessment services	0.1	0.0
Tax consulting services	0.0	0.0
Other services	0.3	0.0

Expenses relating to other auditors were incurred in an amount of below €0.1 million (previous year: below €0.1 million) for the auditing of the annual financial statements of consolidated German-based companies.

Payments for the audit of financial statements comprise above all fees for the audit of the consolidated financial statements as well as the legally required audits of Salzgitter AG and the subsidiaries included in the consolidated financial statements. Other assurance and audit-related activities for EMIR audits as well as other statutory, contractually agreed or voluntarily commissioned assurance services were provided on behalf of Salzgitter AG and the companies it controls. In addition, other services were provided for the Salzgitter Group, essentially in connection with funding applications for the SALCOS® project. Tax advisory services were also provided to an insignificant extent.

(40) Significant events occurring after the reporting date

On February 24, 2022, Russia attacked Ukraine militarily. This situation gives rise to uncertainties for the development of the global economy and the sectors in which the Salzgitter Group operates. The economic uncertainties relate in particular to price developments and security of supply in the procurement markets for energy and raw materials, as well as to future sales prospects. The direct impact on our customers and suppliers changes at the time of reporting, in some cases on a daily basis, and these developments may affect us to varying degrees. Reliable quantification of the impact is not possible due to the changing framework conditions. To ensure security of supply, we are in contact with alternative suppliers and expect to continue to receive supplies in line with demand. The decline in sales to the war-torn regions of Russia and Ukraine is of minor importance to us overall. In our Group management report we have included our current expectations in this respect in our assessment of the individual risks and also in the overall statement on the expected development of the Group for the fiscal year 2022.

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

The following fully consolidated domestic subsidiaries have fulfilled the conditions required under Section 264 (3) or Section 264b of the German Commercial Code (HGB) and are therefore exempted from disclosure of their financial statements and from the obligation to prepare a management report.

- Salzgitter Mannesmann GmbH, Salzgitter^{1) 2)}
- Salzgitter Klöckner-Werke GmbH, Salzgitter^{1) 2)}
- Salzgitter Flachstahl GmbH, Salzgitter
- Salzgitter Bauelemente GmbH, Salzgitter¹⁾
- Salzgitter Europlatinen GmbH, Salzgitter¹⁾
- Hövelmann & Lueg Vermögensverwaltung GmbH, Schwerte
- Salzgitter Mannesmann Stahlservice GmbH, Karlsruhe¹⁾
- Peiner Träger GmbH, Peine
- Ilsenburger Grobblech GmbH, Ilsenburg
- Salzgitter Mannesmann Grobblech GmbH, Mülheim
- DEUMU Deutsche Erz- und Metall-Union GmbH, Peine^{1) 2)}
- BSH Braunschweiger Schrotthandel GmbH, Braunschweig¹⁾
- Mannesmann Verwaltung GmbH, Mülheim¹⁾
- Mannesmann Precision Tubes GmbH, Mülheim^{1) 2)}
- Mannesmannröhren-Werk GmbH, Zeithain¹⁾
- Mannesmann Line Pipe GmbH, Siegen¹⁾
- Mannesmann Grossrohr GmbH, Salzgitter¹⁾
- Mannesmann Stainless Tubes GmbH, Mülheim^{1) 2)}
- Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid¹⁾
- Salzgitter Mannesmann Handel GmbH, Düsseldorf^{1) 2)}
- Salzgitter Mannesmann International GmbH, Düsseldorf^{1) 2)}
- Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf^{1) 2)}
- Stahl-Center Baunatal GmbH, Baunatal¹⁾
- Universal Eisen und Stahl GmbH, Neuss^{1) 2)}
- KHS GmbH, Dortmund²⁾
- DESMA Schuhmaschinen GmbH, Achim^{1) 2)}
- Klöckner DESMA Elastomertechnik GmbH, Fridingen^{1) 2)}
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg
- GESIS Gesellschaft für Informationssysteme mbH, Salzgitter¹⁾
- TELCAT MULTICOM GmbH, Salzgitter^{1) 2)}
- TELCAT KOMMUNIKATIONSTECHNIK GmbH, Salzgitter¹⁾
- Glückauf Immobilien GmbH, Peine¹⁾
- Salzgitter Mannesmann Forschung GmbH, Salzgitter¹⁾
- Salzgitter Business Service GmbH, Salzgitter¹⁾
- Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau^{1) 2)}
- Salzgitter Hydroforming Verwaltungs GmbH, Crimmitschau¹⁾
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück^{1) 2)}
- Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück¹⁾
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück¹⁾
- Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter^{1) 2)}

¹⁾ Use was made of the option under Section 264 (3) and 264b to waive the preparation of Notes.

²⁾ Use was made of the option under Section 291 to waive the preparation of consolidated financial statements and a group management report.

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

(42) Disclosures on the Remuneration of the Executive Board, Supervisory Board and other Members of the Key Management Personnel

Key management personnel pursuant to IAS 24 comprises the members of Group's Executive Board and the members of the Supervisory Board. In addition to the active members of the Executive Board, the Group Management Board comprises the heads of the Salzgitter Group's five business units. In the tables below, they are referred to as "other members of key management personnel".

Remuneration from the Salzgitter Group:

In € million	Short-term employee benefits (salary and other compensation)		Post employment benefits (additions to pension obligation)	
	2021	2020	2021	2020
Current members of the Executive Board	4.6	3.0	1.7	1.3
Members of the Supervisory Board	1.7	1.6	-	-
Other members of the key management personnel	3.2	2.9	0.3	0.2

The expenses recognized in the consolidated financial statements form the basis for short-term payments due to active members of the Executive Board in the reporting year.

In addition to the amounts disclosed, the employee representatives on the Supervisory Board who are employees of the Salzgitter Group received their salaries within the scope of their employment contracts. Their amount constituted remuneration that is appropriate for their functions and tasks in the Group.

Obligations of the Salzgitter Group:

In € million	Short-term employee benefits (salary and other compensation)		Post employment benefits (pension obligation)	
	2021/12/31	2020/12/31	2021/12/31	2020/12/31
Former members of the Executive Board	-	-	47.0	48.3
Current members of the Executive Board	1.8	0.6	36.6	35.2
Members of the Supervisory Board	-	-	-	-
Other members of the key management personnel	1.5	0.7	6.5	6.5

The obligations arising from short-term employee benefits include the foreseeable variable annual remuneration that is to be paid out in the subsequent year.

Former members of the Executive Board and their surviving dependents received pensions totaling € 2.8 million (previous year: € 2.8 million).

Further obligations of the Salzgitter Group from share-based payments and other long-term employee benefits:

In € million	Share-based payments		Other long-term employee benefits	
	2021/12/31	2020/12/31	2021/12/31	2020/12/31
Current members of the Executive Board	1.6	0.6	2.2	0.6

All entitlements in existence as of December 31, 2021 resulting from share-based remuneration programs are reported as remuneration with cash settlement.

As of the closing date, a long-term incentive program had been put in place for members of the Executive Board based on virtual shares. Each member of the Board is assigned an individual target for each financial year which is converted into a number of virtual shares at the end of the financial year depending on whether the target has been met (deferred shares).

The degree to which the target has been met is determined at the end of the first financial year and converted into virtual shares. 70% of the degree of attainment is given by the EBT figure generated by the Salzgitter Group. The payment factor is determined by comparing the figure with the EBT figure from the previous year. If EBT has remained the same, the payment amount is 100%. If an increase of 50% is achieved, the payment factor is 150% (maximum value). If EBT falls by 50%, the payment factor is 50% (minimum value). Linear interpolation is applied between the minimum and maximum figures. If the minimum payment factor is not reached, the payment factor is 0%. If EBT is negative for a second successive year or if EBT in the previous year, and in the current financial year is less than €1million in each case, the Supervisory Board can use its discretion in defining target attainment.

The remaining 30% of the total degree of target attainment is determined on the basis of the Board member's individual performance in the financial year. In setting the criteria for individual performance, the Supervisory Board can take a series of aspects into account, e.g. the strategic development of the company, special projects, occupational safety or employee growth. The Supervisory Board will use its discretion in assessing individual performance at the end of the financial year on the basis of the criteria previously defined. The Supervisory Board can set a linear degree of achievement between 0% and 150%.

The share deferral scheme is subject to a three-year lockup. The lockup begins at the end of the financial year for which the annual bonus is granted. The number of shares at the start of the lockup is calculated by dividing the starting figure by the initial share price. The initial share price is deemed to be the arithmetical average of the Xetra closing price for the Salzgitter stock at the Frankfurt Stock Exchange over the last 30 days of trading before the lockup begins.

The entitlement to cash settlement of the virtual shares determined arises after the three-year lockup has ended. At this time, the virtual shares will be multiplied by an average share price at the end of the lockup plus notional dividend payments accruing to the virtual shares during the lockup. The average share price is determined on the basis of the arithmetical average of the Xetra closing price for the Salzgitter stock at the Frankfurt Stock Exchange over the last 30 days of trading before the lockup ends. The resulting payment is limited to 150% of the starting value.

If a Board member's employment relationship is terminated in the course of a financial year by way of summary dismissal by the company for good cause as defined by Section 626 (1) of the German Civil Code (BGB) or terminated prematurely at the instigation of the Board member without the company having given any good cause for such premature termination as defined by Section 626 (1) BGB and without there being any change of control as defined by the Executive Board member's contract of employment, all entitlements from running share deferral schemes for which the lockup period has not yet expired at the time when notice is served will lapse without replacement or compensation.

In the event that a member of the Board leaves the company in compliance with their contract, running tranches of virtual shares whose lockup period has not yet expired will be settled and paid at the end of the lockup period.

The valuation made on December 31, 2021 was based on the following parameters, using an appropriate option price model.

	Tranche 2021	Tranche 2020	Tranche 2019
Number of virtual shares	49,143,103.000	30,813.107	24,734.510
Interest rate	-0.62%	-0.68%	-0.73%
Volatility	46.57%	51.79%	42.15%
Term	12/31/2024	12/31/2023	12/31/2022
Share price as of balance sheet date	€ 31.42	€ 31.42	€ 31.42

With regard to Tranche 2021, the number of virtual shares corresponds to the variable remuneration reflected in the consolidated financial statements.

The fair value on the reporting date for Tranche 2021 is € 0.5 million, for Tranche 2020 € 0.5 million and for Tranche 2019 € 0.5 million.

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

In the 2021 financial year, personnel expenses of € 1.0 million (previous year: € 0.4 million) were recognized in profit or loss due to share-based remuneration with cash settlement.

As of December 31, 2021, the carrying amount of the Salzgitter Group's obligations from share-based remuneration amounts to € 1.6 million (previous year: € 0.6 million).

Detailed, supplementary information about the remuneration of the individual members of the Executive Board and the Supervisory Board is disclosed in the [↗ Remuneration report](#) of Salzgitter AG.

Salzgitter, March 15, 2022

The Executive Board

Groeblner

Becker

Kieckbusch

Assurance from the Legal Representatives

We give our assurance that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and that the course of business, including the business result and the position of the Group, is portrayed in such a way in the Group Management Report that a true and accurate picture is conveyed and that the significant opportunities and risks of the Group's future development are fairly described.

Salzgitter, March 15, 2022

The Executive Board

Groeblert

Becker

Kieckbusch

Audit opinion

“Independent auditor’s report

To Salzgitter Aktiengesellschaft

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

Opinions

We have audited the consolidated financial statements of Salzgitter Aktiengesellschaft, Salzgitter, and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the fiscal year from 1 January 2021 to 31 December 2021, and the consolidated balance sheet as at 31 December 2021, consolidated cash flow statement, consolidated statement of changes in equity for the fiscal year from 1 January 2021 to 31 December 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report, which was combined with the Company’s management report, for the fiscal year from 1 January 2021 to 31 December 2021. We have not audited the content of the parts of the group management report specified in the appendix to the auditor’s report and the company information stated therein that is provided outside of the annual report and is referenced in the group management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB [“Handelsgesetzbuch”: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the net assets and financial position of the Group as at 31 December 2021 and of its profitability for the fiscal year from 1 January 2021 to 31 December 2021, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the parts of the group management report listed in the appendix to the auditor’s report.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2021 to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

1) Fair valuation of intangible assets and property, plant and equipment**Reasons why the matter was determined to be a key audit matter**

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

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

In view of the challenges assessed by the executive directors with regard to a structural change in the production processes aimed at reducing CO₂ emissions and in view of the judgment exercised in valuation and due to the underlying complexity of the methodological requirements, the fair valuation of intangible assets and property, plant and equipment was a key audit matter.

Auditor's response

During our audit procedures, among other things, we assessed the methods used to carry out the impairment tests including an examination of the suitability of the procedure for performing an impairment test in accordance with IAS 36 and for providing objective indications of impairment. As part of our audit procedures, we particularly assessed the methods and calculations of the valuation model used to determine the recoverable amount.

We reconciled the future cash inflows and outflows used for valuation with the current plans of the cash-generating units based on the Group's three-year plan prepared by the executive directors. In doing so, we also analyzed the design of the planning process used for deriving the three-year plan.

We also analyzed the plans by comparing them with the results and cash inflows and outflows actually achieved in the past. Furthermore, we also compared the executive directors' assumptions about the need for changing the production processes for the purpose of reducing CO₂ emissions in connection with the increasing social requirements and the impact of emissions trading on the individual cash-generating units affected by the EU emissions trading system with industry-specific market expectations, especially with regard to the expected price development of emission certificates. We obtained an understanding of and assessed the significant assumptions underlying the plans for business development and growth by discussing them with those responsible for planning at the individual cash-generating units and the executive directors of Salzgitter Aktiengesellschaft and including general and industry-specific market expectations, along with changes in the political framework, in the analysis of the plans.

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

With the aid of our own sensitivity analyses, we estimated impairment risks arising when significant valuation assumptions change, such as changes in the discount rate and EBIT margin.

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

Reference to related disclosures

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

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

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

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

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

In light of the judgment exercised in valuation and due to the underlying complexity of the methodological requirements, the fair valuation of the shares in the associate Aurubis AG, Hamburg, was a key audit matter.

Auditor's response

During our audit procedures, among other things, we assessed the methods used to carry out the impairment tests including an examination of the suitability of the procedure for performing an impairment test in accordance with IAS 36 and for providing objective indications of impairment. As part of our audit procedures, we particularly assessed the methods and calculations of the valuation model used to determine the value in use.

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

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

With the aid of our own sensitivity analyses, we estimated impairment risks arising when significant valuation assumptions change, such as changes in the discount rate and EBIT margin.

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

Reference to related disclosures

The Company’s disclosures on investments accounted for using the equity method are presented in the “Significant accounting policies” section and in note 13 of the notes to the consolidated financial statements.

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

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

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

For this purpose, forecasts of future taxable profits are prepared. These taxable profits are based on the tax forecast derived from the Group’s three-year plan for 2022 to 2024 prepared by the executive directors.

In light of the judgment exercised in the three-year plan and tax forecast, the assessment of the fair valuation of deferred tax assets, particularly those on loss carryforwards, was a key audit matter.

Auditor’s response

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

With the respect to the deferred tax assets determined by the executive directors, especially the assessment of the usability of the tax loss carryforwards of the domestic tax group for income tax purposes, we checked whether the derivation of the tax forecast is based on the Group’s three-year plan for 2022 to 2024 prepared by the executive directors. Further, we assessed the significant tax reconciliation items based on the tax calculations for 2021.

We assessed the executive directors’ estimates regarding future business activities and income development based on general and industry-specific market expectations, including changes in the political framework, and checked their inclusion in the plans.

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

Reference to related disclosures

The Company's disclosures on deferred tax assets and tax loss carryforwards are presented in the "Accounting and Valuation Principles" section and in notes 7, 14 and 19 of the notes to the consolidated financial statements.

Other information

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

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the net assets, financial position and profitability of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group

management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets, financial position and profitability of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements**Report on the assurance on the electronic rendering of the consolidated financial statements and the group management report prepared for publication purposes in accordance with Sec. 317 (3a) HGB****Opinion**

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in "Salzgitter_Aktiengesellschaft_KA-ZLB_ESEF-2021-12-31.zip" (SHA256 Wert: 196c8ad6a0db2fae0e3d8dc6c5288dbee4d8429831f4cb6893a8585b7fdb0f19) and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the accompanying file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2021 to 31 December 2021 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the accompanying file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (10.2021). Our responsibility in accordance therewith is further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

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

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

In addition, the executive directors of the Company are responsible for such internal control as they have determined necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format.

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

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

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

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.
- Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Arts. 4 and 6 of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

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

We were elected as group auditor by the Annual General Meeting on 19 May 2021. We were engaged by the Supervisory Board on 21 June 2021. We have been the group auditor of Salzgitter Aktiengesellschaft without interruption since fiscal year 2020.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

Other matter – Use of the auditor's report

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Bundesanzeiger [German Federal Gazette] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Tjark Eickhoff.

Appendix to the auditor's report:**1. Parts of the group management report whose content is unaudited**

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

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

2. Further other information

The other information comprises the following component of the annual report, of which we obtained a version of prior to issuing this auditor's report:

- Non-financial report on the Group.

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

- Report of the Supervisory Board;
- Letter of the Executive Board; and
- Responsibility Statement

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

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

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

Hanover, March 16, 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Signed by: JANZE CHRISTIAN

Dr. Janze
Wirtschaftsprüfer

Signed by: EICKHOFF TJARK

Eickhoff
Wirtschaftsprüfer

Some of the statements made in this report have the character of forecasts or can be interpreted as such. They have been made to the best of our knowledge and belief, and by the nature of things, they apply on the condition that no unforeseeable deterioration in the economy or the specific market situation for companies in the business segments occurs, and that the basis for planning and forecasting proves, as expected, to be accurate in terms of its scope and timeframe. Notwithstanding existing statutory requirements, particularly in terms of the regulations governing capital markets, the company accepts no obligation to continually update forward-looking statements which are based solely on the circumstances on the day of publication.

For computational reasons, rounding differences amounting to \pm one unit (€, %, etc.) may occur in the tables.

To improve readability, we only use the male form in the present annual report. Personal designations always apply to both genders.

The annual report of Salzgitter AG is also available in an English translation. In the event of discrepancies, the German version takes precedence over the English version.

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