



Analyst Conference Financial Year 2019

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

Burkhard Becker, Chief Financial Officer

Salzgitter, March 17, 2020

Prof. Dr.-Ing. Heinz Jörg Fuhrmann

- 1** Key Data / Market Situation
- 2 Business Units
- 3** Strategy

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Market

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

Salzgitter Group

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

Key data per 2019/12/31

		FY 2019	FY 2018	Δ	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Crude steel production	kt	6,613.4	7,039.4	-426.0	1,553.3	1,648.0	1,672.3	1,739.8
External sales ¹	€ million	8,547.3	9,278.2	-730.8	1,910.0	2,111.1	2,232.4	2,293.8
Earnings before tax	€ million	-253.3	347.3	-600.6	-294.0	-104.6	19.4	125.9
Earnings after tax	€ million	-237.3	277.7	-515.0	-207.5	-126.2	-0.3	96.7
Earnings per share (undiluted)	€	-4.46	5.06	-9.52	-3.83	-2.36	-0.03	1.76
ROCE	%	-5.8	10.3	-16.1	-31.2	-10.0	2.8	14.1
Core workforce ²		23,354	23,523	-169	23,354	23,562	23,639	23,683

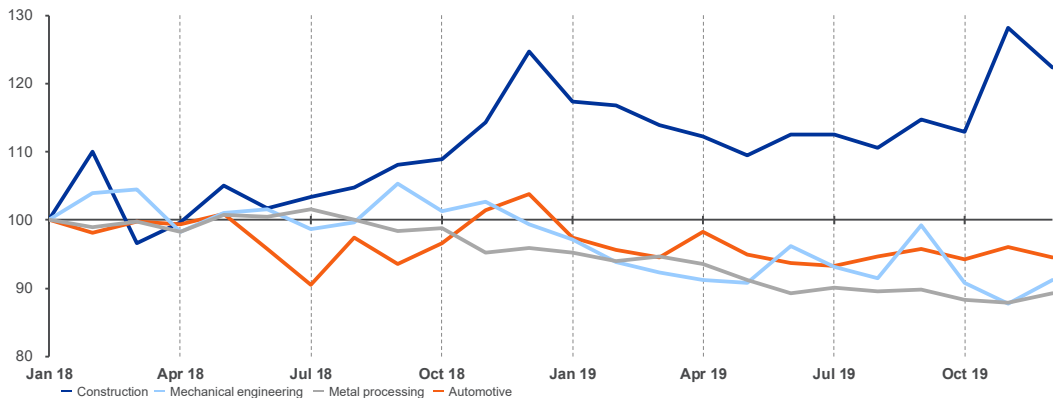
¹ only from entities within the Group of Consolidated Companies of Salzgitter Group ² per reporting date

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

*) € -62,3 million restructuring provisions, € -192,9 million impairment as well as € -140,8 Mio. € other special effects (cartell fine)

Order intake of steel consumers

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



2019: Weaker order intake of some major steel consuming industries

Raw materials and steel prices

Raw Materials

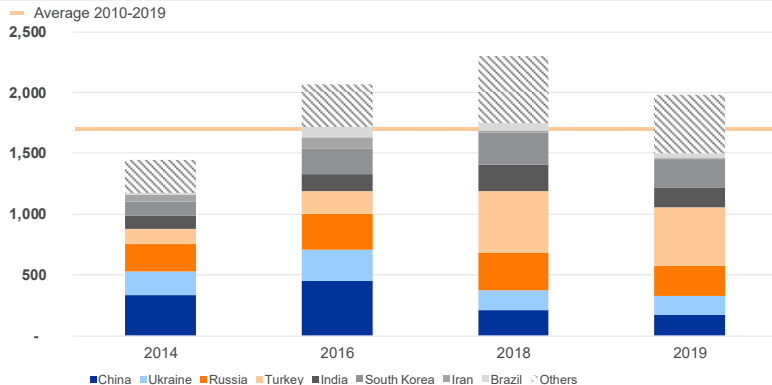


Hot rolled coil & Heavy Plate



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

Import situation EU (in 1.000t/month)



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

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

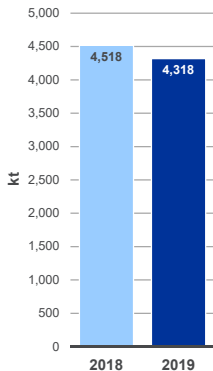
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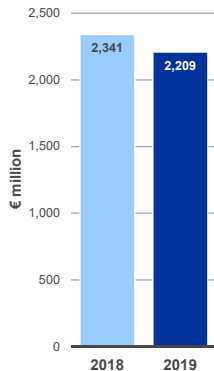
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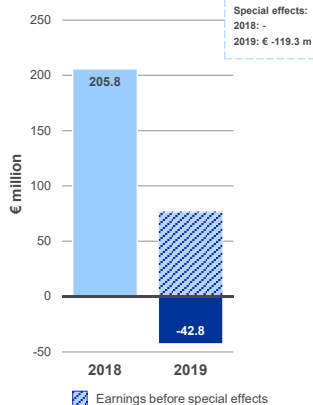
Order intake



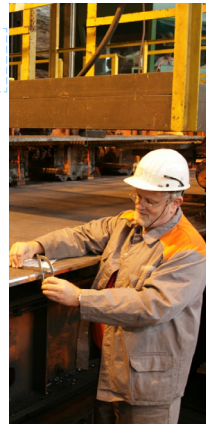
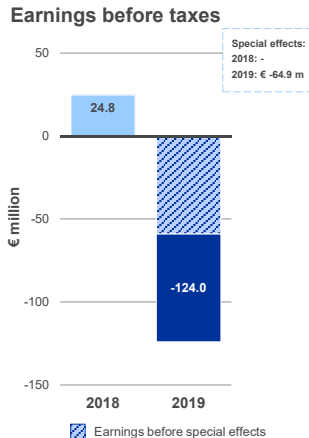
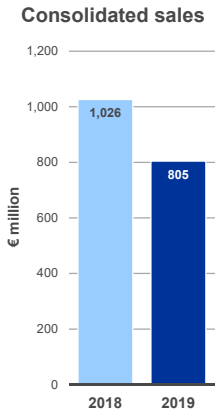
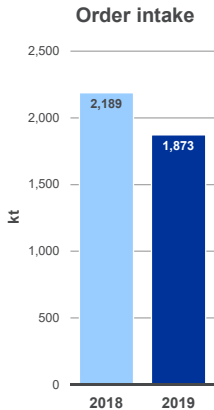
Consolidated sales



Earnings before taxes

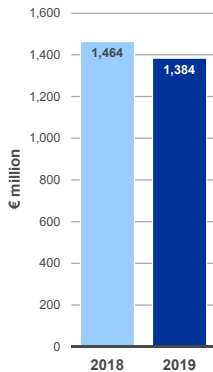


Erosion of selling prices, accompanied by the increase in iron ore costs over the course of the year, as well as impairment of € -100.0 million placed a burden on the result

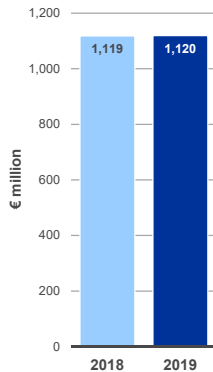


Result impacted by the difficult market situation in heavy plate and by impairment (€ -47.8 million) as well as by restructuring provisions (€ -17.1 million) for the initiated programs of measures

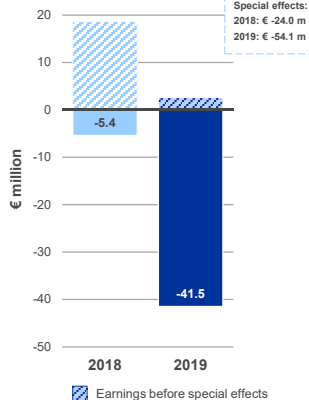
Order intake*



Consolidated sales*



Earnings before taxes

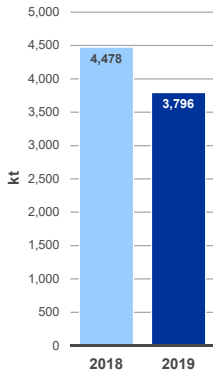


* excluding EUROPIPE-Group

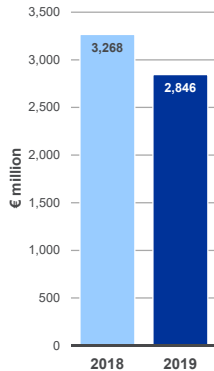


Pre-tax result includes € -40.0 million in impairment and restructuring provisions amounting to € -14.1 million

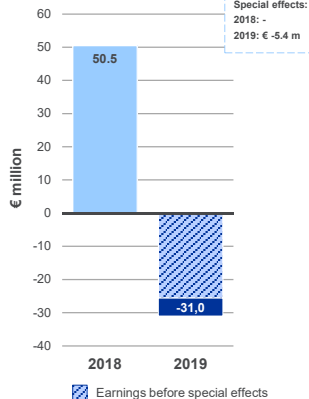
Shipments



Consolidated sales

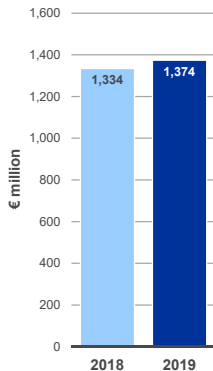


Earnings before taxes

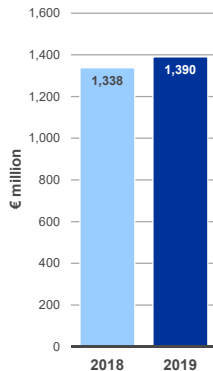


Economic downturn and decreasing selling prices shape FY 2019; pre-tax result comprises € -5.4 million in restructuring provisions as well as burdens from impairments of € -30.5 million

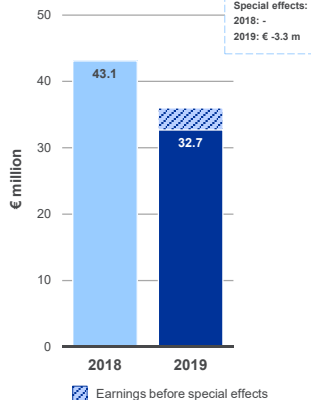
Order intake



Consolidated sales



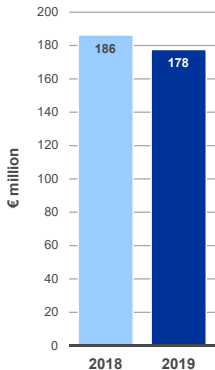
Earnings before taxes



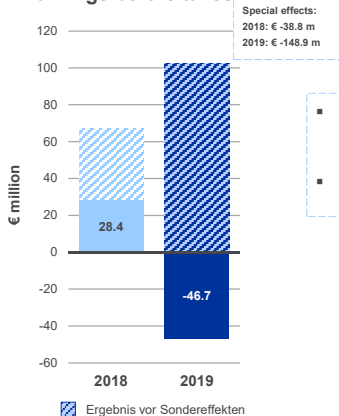
**KHS Group recorded highest pre-tax profit since joining the consolidated group!
earnings include € -3.3 million in restructuring provisions**

Industrial Participations / Consolidation

Consolidated sales



Earnings before taxes



- Contribution Aurubis investment:
2018: € 44.0 m
2019: € 99.5 m
- SZAG shareholding increased to 29.99% in FY 2019



Pre-tax result comprises a net amount of € -148.9 million in burdens, first and foremost the liability formed in connection with the end to the investigations conducted on the grounds of suspected cartel arrangements

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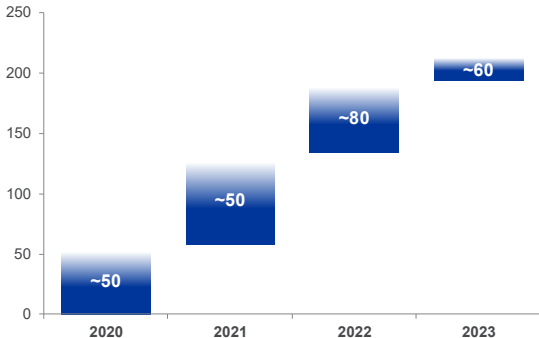
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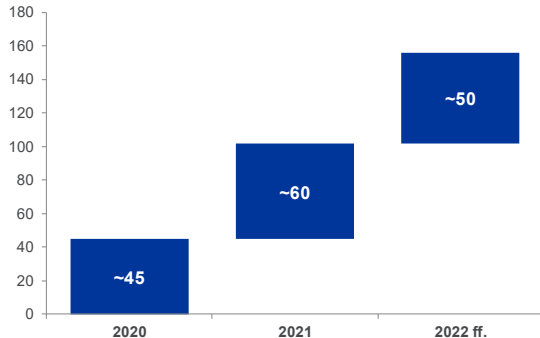
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FitStructure 2.0 (incl. remaining effects of FitStructure)

€ million earnings improvement potential

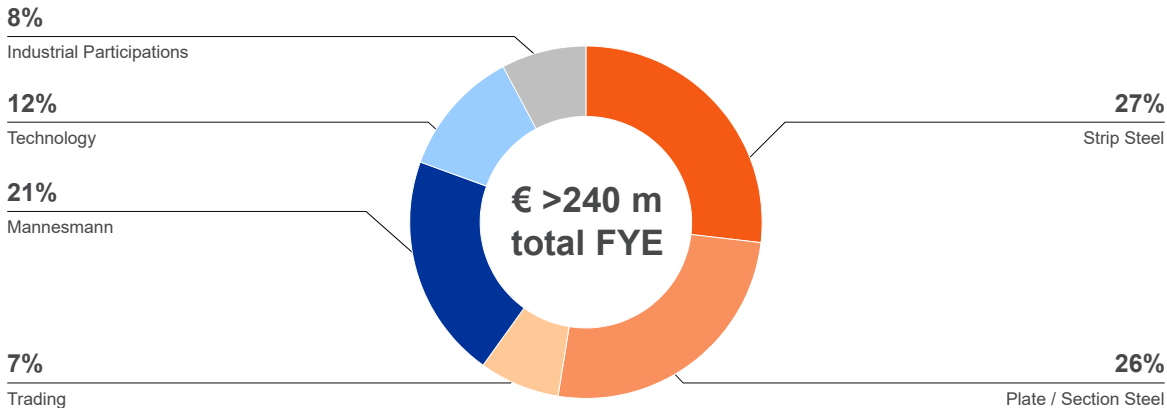
**SZAG 2021 Growth Programs**

€ million additional profit contribution



All in all more than € 350 million in additional effects from optimization programs planned

FitStructure 2.0: Distribution of full-year effects expected by 2023



Steel and tubes producing business units are in the focus of FitStructure 2.0

Climate neutrality – task of a century

„The vast majority of the countries of the European Union have committed themselves to the objective of climate neutrality “

„The Commission President was here yesterday and presented the Green Deal to you. Europe intends to be the first continent to be CO₂-free, i.e. emissions-free.

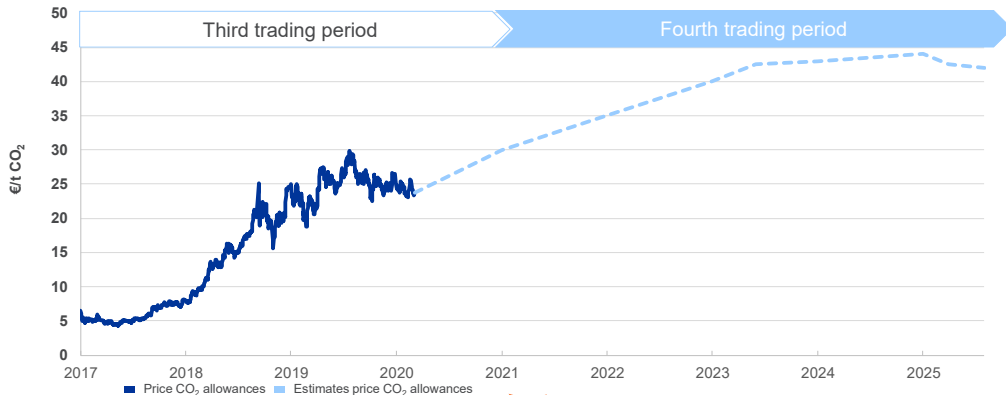
But, ladies and gentlemen, these are, of course, transformations of gigantic, historic proportions. This transformation essentially means turning our backs on our entire way of doing business and our way of life, to which we have become accustomed in the industrial age, over the next 30 years – we have already taken the first steps – and transitioning to completely new forms of value creation, which, of course, also include industrial production and which have been informed above all by the digital transformation. We must also get on top of a second giant transformation. And we hope that the transformation to a CO₂-free economy will intensify thanks to the digital transformation and that the digital transformation can facilitate this development.“

Federal Chancellor Dr. Angela Merkel at the 2020 Annual Meeting of the World Economic Forum in Davos on 23 January 2020



Challenge: CO₂ emission allowances are continuously cut back

Price forecast CO₂ allowances



Price for CO₂ emission allowances has surged since 2018 – further increase is highly likely!

Resolution approach: Salzgitter AG with two-fold strategy

First Safety Net

CO₂- emission allowances acquired as a precaution

- Shortfall in CO₂ allowances has been compensated for the most part at the subsidiaries of the Salzgitter Group
- **Current market value of the CO₂ allowances acquired as a precaution exceeds the figure accounted for in the balance sheet by around € 300 million**

Second Safety Net



Steelmaking. Reinvented.

- Significant, gradual reduction of the CO₂ emissions of Salzgitter AG
- Target: Reduction of up to 95% of the CO₂ emissions of Salzgitter Flachstahl until 2050

The Salzgitter Group has two safety nets:

- ✓ CO₂ emission allowances for the Fourth Trading Period purchased as a precaution
- ✓ SALCOS® – technological concept for CO₂-reduced steel production

Technical solution approach: assessment

Arguments for

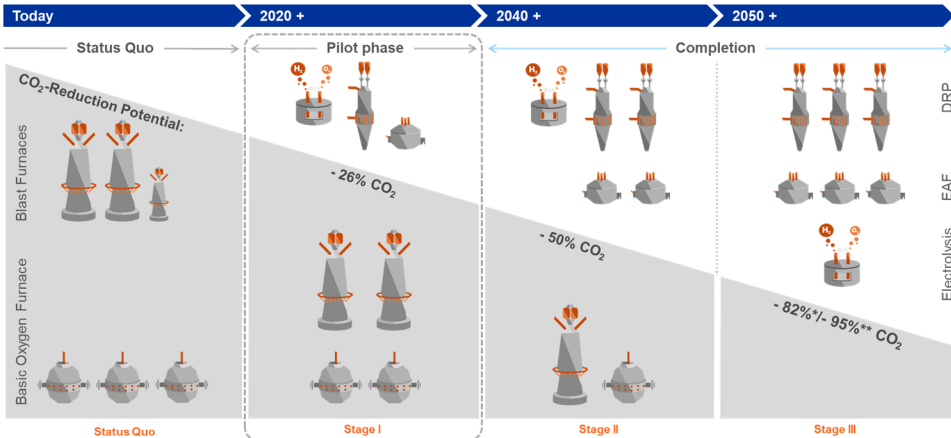


1. Biggest CO₂ reduction potential per MWh of renewable energies used in a processual as well as industry and sector comparison
2. The Salzgitter AG has the leading concept. The required individual technical components are available in the market
3. Lower Saxony has the best preconditions to be the No.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

Green steel with SALCOS® – sensible and realizable!

SALCOS® – Gradual conversion to a H₂-based steel production

SALCOS
Steelmaking. Reinvented.



We are ready!
Gradual technical implementation possible as soon as the necessary framework conditions are realized

Individual stages may technically also be realized in combination. The actual implementation time depends on the economic and political framework.

*with the use of 55% H₂ in the Direct Reduction Plants (DRP) / **with the use of 100% H₂ in the DRPs

Realization: first steps were already implemented



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



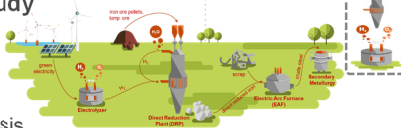
Wind-H2 – sector integration

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



MACOR: SALCOS-feasibility study

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



„Mini-SALCOS“
Project planning of a demonstration plant for direct reduction in Salzgitter



Update investment projects

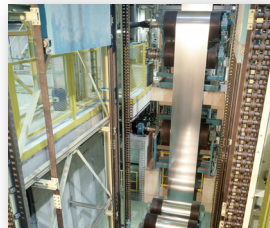
Ilseburger Grobblech: New heat treatment line

- Optimization of the product portfolio
- Expansion of the market position and volume expansion for higher value grade segments such as high strength and wear resistant, water tempered steel
- Commissioning: 2021
- *Current status: Preparation for the installment of the plant*



Salzgitter Flachstahl: Hot-Dip Galvanizing Line 3

- Qualitative growth in the strip steel business
- Reinforcement of the market position in the automotive segment
- Strengthening of the premium segment for auto customers
- Commissioning: 2022
- *Current status: Construction of the building*



Sustainable strategy:
Realization of major investment projects also in less comfortable phases!

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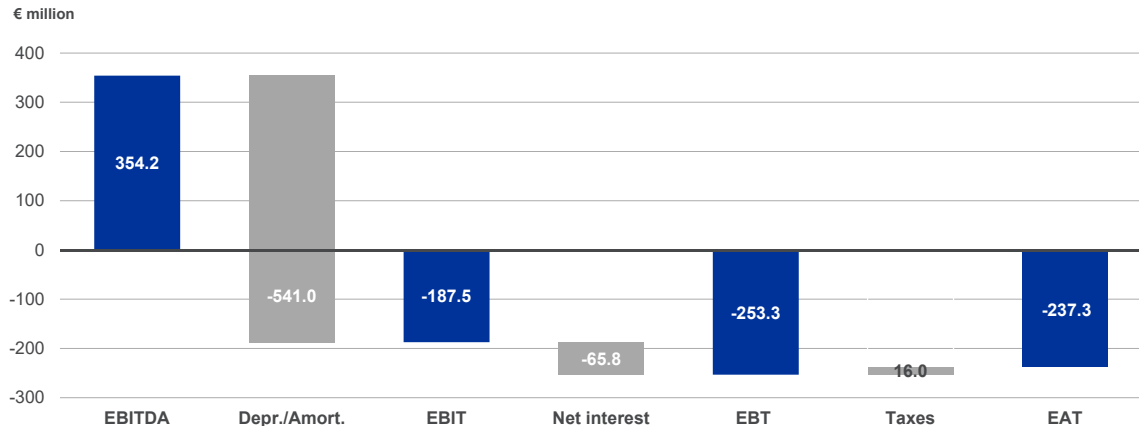
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- Financial Year 2019 impacted by special effects
- Pre-tax result of € -253 million includes a total of € -396 million in special effects
- Aurubis, Technology Business Unit and effects from programs of measures bolster the result
- Impairments will positively impact the consolidated result of financial years 2020 onwards in dimensions of around € 30 million p.a.
- EBT before special effects at € 143 million with the span of the original forecast
- Still solid equity ration of 34%
- Continuous dividend payments; proposal of € 0.20 to the AGM

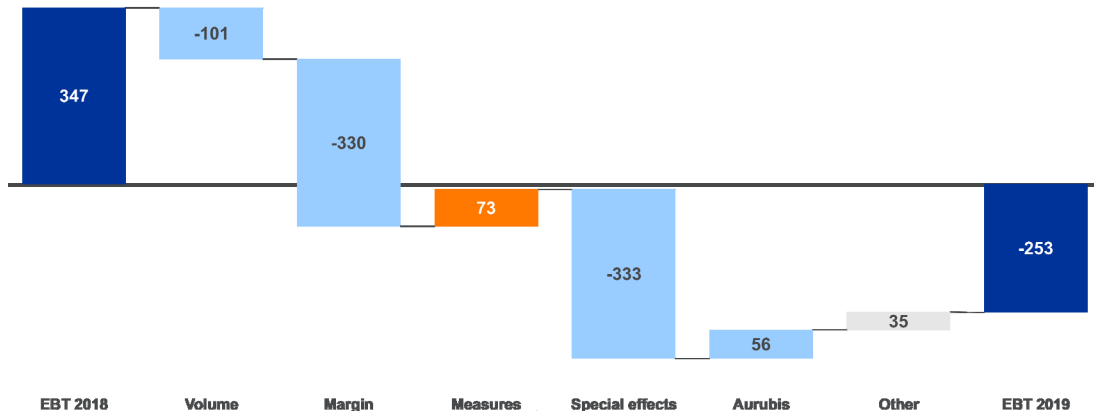
Group Result



Impairments main driver of significant increase of depreciation,
 consolidated result will be positively impacted by around € 30 million p.a. from the financial year 2020 onwards

Earnings bridge Group

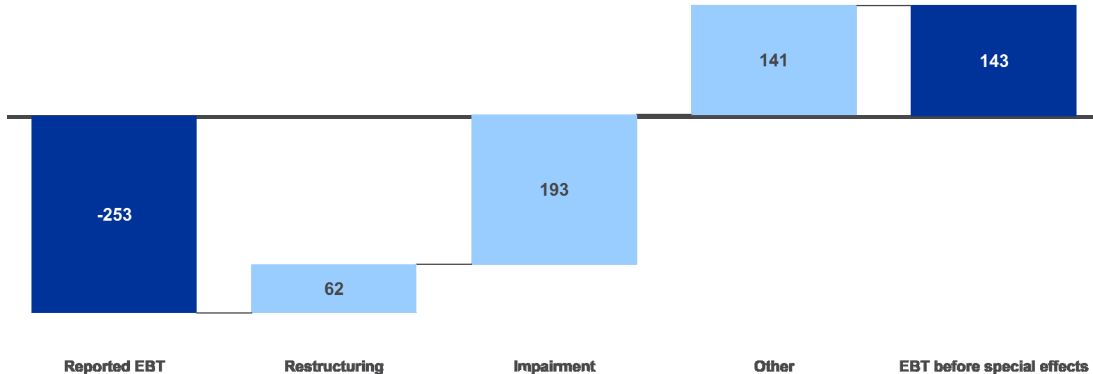
€ million



Margin erosion and special effects drive deterioration of earnings, counterbalanced by effects of programs of measures and Auribus

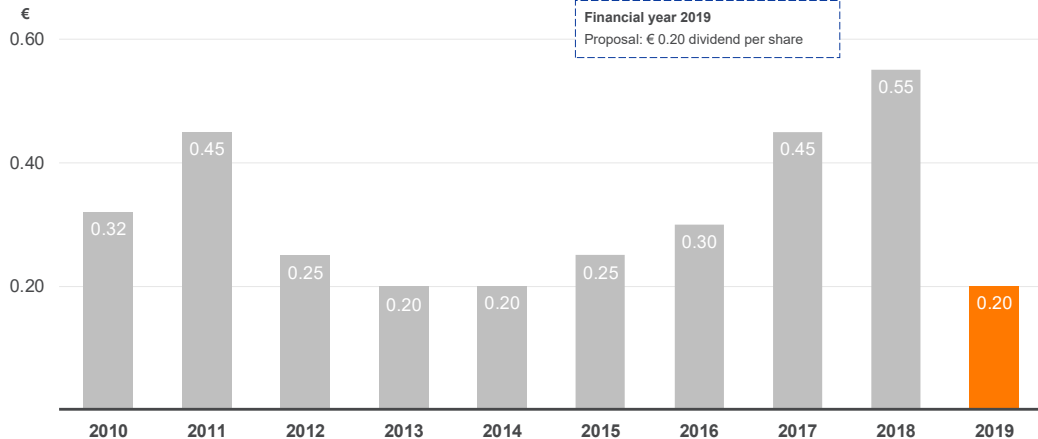
Comparison earnings – forecast

€ million



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

Dividend proposal



Continuous dividend payment since going public

Income statement

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

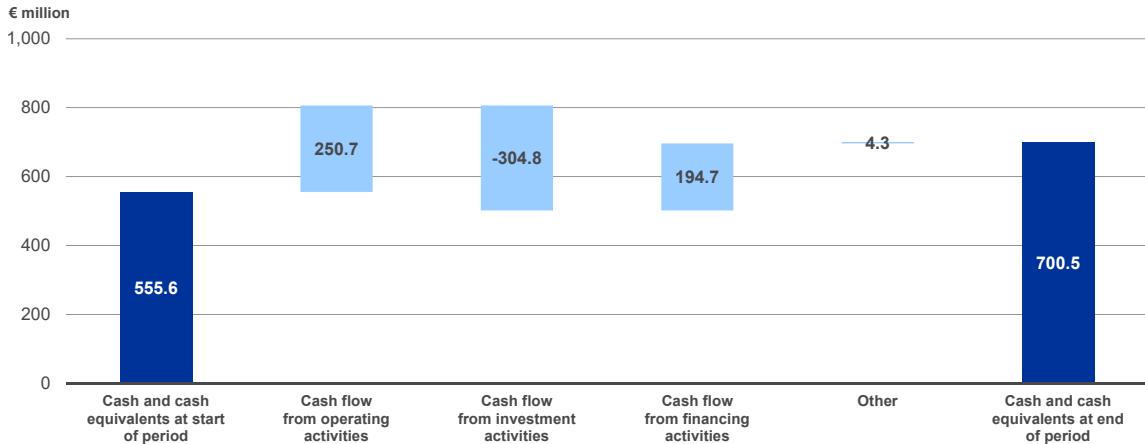
Consolidated balance sheet

Assets (€ million)	2019/12/31	2018/12/31	Δ
Non-current assets	4,099.0	3,835.9	263.1
Intangible assets, property, plant and equipment	2,343.0	2,339.9	3.1
Investment property	82.0	83.5	-1.5
Financial assets	64.7	75.6	-10.9
Investments accounted for using the equity method	1,072.9	888.3	184.6
Trade receivables	18.4	25.5	-7.1
Other receivables and other assets	25.6	24.0	1.6
Income tax assets	0.0	0.1	-0.1
Deferred income tax assets	492.3	399.1	93.2
Current assets	4,518.5	4,921.0	-402.5
Inventories	2,248.1	2,327.5	-79.4
Trade receivables	1,118.4	1,367.2	-248.8
Contract assets	186.3	175.2	11.1
Other receivables and other assets	191.8	403.7	-211.9
Income tax assets	22.6	24.5	-1.9
Securities	50.9	67.4	-16.5
Cash and cash equivalents	700.5	555.6	144.9
Balance sheet total	8,617.5	8,756.9	-139.4

Consolidated balance sheet

Equity and liabilities (€ million)	2019/12/31	2018/12/31	Δ
Equity	2,938.6	3,332.1	-393.5
Subscribed capital	161.6	161.6	0.0
Capital reserve	257.0	257.0	0.0
Retained earnings	2,845.1	3,181.0	-335.9
Other reserves	23.0	60.0	-37.0
Unappropriated retained earnings	12.1	33.1	-21.0
Treasury shares	-369.7	-369.7	0.0
Minority Interest	9.6	9.1	0.5
Non-current liabilities	3,453.6	3,035.7	417.9
Provisions for pensions and similar obligations	2,356.1	2,275.5	80.6
Deferred tax liabilities	72.0	67.6	4.4
Income tax liabilities	36.6	36.9	-0.3
Other provisions	334.9	358.4	-23.5
Financial liabilities	637.1	291.1	346.0
Other liabilities	16.8	6.1	10.7
Current liabilities	2,225.3	2,389.2	-163.9
Other provisions	224.6	281.4	-56.8
Financial liabilities	430.1	426.9	3.2
Trade payables	915.2	1,130.2	-215.0
Liability contracts	200.7	250.2	-49.5
Income tax liabilities	8.6	37.0	-28.4
Other liabilities	446.0	263.4	182.6
Balance sheet total	8,617.5	8,756.9	-139.4

Cash flow statement



Cash flow from investing activities contains € 96 million for the increase of the shareholding in Aurubis
 Cash flow from financing activities includes € 364 million from the issuance of a bonded loan in May of 2019

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“The Commission has prepared the following measures to support EU countries in their efforts to,

- make sure that state aid can flow to companies that need it
- make full use of the flexibility which exists in the Stability and Growth Pact.”

EU-Commission, March 2020



Federal Ministry of Finance

“We have the financial resources to cope with this crisis.

There’s enough money there, and we’re using it.”

“No healthy company should go bankrupt due to corona, no job should be lost.

We are therefore putting a comprehensive protective shield in place for employees and companies.”

Federal Ministers Olaf Scholz (Finance) and Peter Altmaier (Economy), March 13, 2020



“The spread of coronavirus is currently impacting the global economy. It is uncertain how severely or for how long this will also affect the Volkswagen Group.

Currently, it is almost impossible to make a reliable forecast.”

Volkswagen Group, March 17, 2020

Massive impact on all sectors – comprehensive measures on European and national level in implementation

Salzgitter Group – Guidance before impacts from Corona Crisis

The Salzgitter Group anticipates for the financial year 2020:

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

Legal Note and other remarks

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

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

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