

# 17

Non-financial Report 2017



**SALZGITTERAG**  
Stahl und Technologie

**Salzgitter AG** ranks as one of Germany's companies rooted in a long tradition. Our business activities are concentrated on steel and technology. Through its sustainable organic and external growth, our company has advanced to take its place as one of Europe's leading steel and technology groups – with external sales of € 9 billion in 2017, a crude steel capacity of approximately 7 million tons and a workforce of more than 25,000 employees. The primary objective of our company – now and in the future – is the preservation of our independence through profitability and growth.

Our Group comprises more than 150 domestic and international subsidiaries and holdings and has been structured into the business units of Strip Steel, Plate/Section Steel, Mannesmann, Trading and Technology.

The share of Salzgitter AG is listed on the MDAX index of Deutsche Börse AG.

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## About this report

We have based our reporting in the separate, non-financial Group report on the German Sustainability Code (Deutscher Nachhaltigkeitskodex - DNK). We apply it to all information assessed as being of material importance:

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

The separate, non-financial report of the Salzgitter Group for the 2017 financial year has been vetted by the company's Supervisory Board and audited on behalf of the Supervisory Board by the accounting firm of KPMG AG, with due regard for the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information", published by the International Auditing and Assurance Standards Board (IAASB) for the purpose of reaching limited assurance engagement with respect to the information required by law under §§ 315b and 315c in conjunction with §§ 289b, 315b German Commercial Code (Handelsgesetzbuch - HGB).

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

# I. Business Model Salzgitter AG

## A modern company with a long tradition

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

## We are represented around the world and well positioned

The Salzgitter Group comprises over 150 subsidiaries and affiliated companies around the world. We are represented throughout the world through our international facilities which also demonstrate our geographical proximity to our customers.

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

The Strip Steel Business Unit produces, processes and distributes flat steel in a wide variety of metallurgical formulas and sizes. To do so, we operate a modern, environmentally friendly, integrated steel mill at our Salzgitter facility. It produces almost 5 million tons of crude steel and around 3.5 million tons of rolled steel per year. The most important feed materials are iron ore, coke, scrap and alloying agents. Most of the high-quality products are processed by the automotive sector. The pipe sector and industry (e.g. manufacturers of household appliances, mechanical engineering industry) are also among the most important customer segments.

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

The companies in the Salzgitter Group making steel tubes are combined in the Mannesmann Business Unit. Three product segments offer a wide range of tube products for diverse applications from fuel injection systems, power plants and boilers to large diameter pipelines.

Most of the global demand for steel is accounted for by small and medium-sized customers who are not able to process the minimum order quantities for direct sale from steel mills. Such companies use the steel trade for their purchases. It makes sense to your own trading activities in order to stay in direct contact with the majority of one's end users. For this reason, companies in the Salzgitter Group have maintained their own sales organizations from the outset, all to be found in the Trading Business Unit.

The Technology Business Unit comprises three long-standing manufacturers of specialized machines which all occupy outstanding positions in their respective markets. The products made by these companies embody our core values of innovation, quality and sustainability. The companies formerly combined under Klöckner-Werke AG have been part of the Salzgitter Group since 2007.

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

## II. Strategy

### 1. Strategic analysis and actions

Around 20 years after the stock listing of Salzgitter AG (SZAG), securing the future of our Group remains at the heart of our entrepreneurial responsibility – for our shareholders, our employees, our places of business and society in which we are firmly embedded as a company. SZAG subscribes to a responsible corporate policy aimed at growing the value of the company. The management of our Group is based on values, and its strategy is designed for the long term. All decisions pursue the aim of preserving the substance of the Group and continually raising its performance. In this process, we do not lose sight of our responsibilities in society. Strengthening our production facilities with due regard for the economic framework conditions forms the basis for a good, purposeful working relationship with our stakeholders. We are aware that from time to time there may be conflicts of interest between or even within individual stakeholders. The preservation of our competitiveness and the profitability of our entrepreneurial endeavors are essential prerequisites in order to act sustainably and responsibly in the sphere of Corporate Social Responsibility (CSR). We can only achieve these objectives in the long run if sustainability criteria for mankind and the environment do not end at factory gates or national borders but all market players act under the same or at least similar competitive conditions. The latest discussions, e.g. about steel imports to the EU or amendments to emissions trading from 2021, have shown once again that production with the highest standards for the environment can only be sustainably ensured if the cost-effectiveness and preservation of jobs is guaranteed here. We recognize in the process that the significance of European and German views of CSR issues cannot per se be given the same weight by any global yardstick. As a globally active Group, we must exercise cultural tolerance accordingly. We fully understand that global issues in particular, such as climate protection or the observance of human rights ultimately require a global framework if we are to play an active, productive role in shaping the future. We as a company only have limited influence on any such framework; by the nature of things, the onus lies with the politicians.

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

However, we can only be successful also in the area of CSR if all employees embrace the subject in the daily business of our Group companies.

For this reason, aspects such as environmental protection and occupational safety are central components of target agreements with our managers alongside financial indicators. Targets with relevance to CSR – e.g. in the areas of, energy efficiency or occupational safety – are defined for variable remuneration components.

In 2015, we also implemented a group-wide program featuring the value of the year in the form of “sustainability” as part of our mission statement “YOUNITED”. A group-wide implementation initiative was put in place during the campaign period from September 2015 until May 2016 under the banner “Creating values – avoiding waste” in order to promote the saving of resources on the basis of a structured process. Overall, more than 2,000 measures were implemented, achieving an estimated total saving of over € 25 million. This initiative forms the starting point for our further actions in this field. Examples worthy of mention in this context are the Group forum Energy Management and SZAG’s Energy Efficiency Network based on it with the aid of which further energy is to be saved across the Group (see also Section IV. “The environment”, 2. “Resource management”).

As yet there is no separate sustainability strategy for the company as a whole. However, we draw up rules for aspects with relevance to the subject of sustainability via specific Group directives and other binding specifications directed at the workforce. Examples to be mentioned here are the Group directives on Environmental Protection and Corporate Compliance as well as the Code of Conduct issued by the Management Board in 2015.

## 2. Materiality

Steel has been and still ranks as the number 1 construction material in the world. It is a component of or even the starting point for many industrial value chains, thereby contributing to the prosperity of those working in them.

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

Steel production and steel processing as well as associated activities remain at the heart of the entrepreneurial value chain in the Salzgitter Group. We are therefore aware of our special responsibility for ensuring that our work is gentle on resources and energy-efficient, for providing a high degree of occupational safety and maintaining our social commitment. With this in mind, priority is given to the Group’s steel-related activities as defined by the criterion of “materiality” in the environmental sphere, as these activities far outweigh all other Group operations as far as the use of resources, consumption of energy and emissions are concerned. This process reveals such circumstances of material importance for obtaining a general understanding of the Salzgitter Group’s business operations in this context. At the same time, it serves the purpose of limiting the reporting framework and highlighting significant information. We regard the aspects analyzed in more detail as relevant with respect to their possible effect on our own business operations. For example, analysis of the Group’s total CO<sub>2</sub> emissions from operating its plants shows that around 90% is accounted for by the steel production of Salzgitter Flachstahl GmbH alone. This essentially correlates with further air emissions as well as the consumption of resources and generation of waste. You can find further information on this in Section IV “The environment”.

As far as employee matters are concerned, the following issues were also rated as material for the preparation of this year’s non-financial report: transparent and fair principles of remuneration on which we report in the Section “Incentive systems”, employee rights both with regard to information and the workforce’s participation and also with respect to the inclusion of employee interests in decision-making processes, as well as the set of issues surrounding the development of junior staff, personnel development and training and professional development which we touch on in Section V “Society”, 2. “Training”.

We also report on our human resources strategy with the aid of which we respond to the challenges of demographic changes and which we portray on the basis of selected areas of our project “GO – The Generation Offensive 2025”. In this context, we also regard our remarks on health and safety at work as material.

As part of our materiality analysis, we have also identified the following issues as of relevance for the non-financial report: human rights, political dialog and conduct complying with statutory regulations and directives.

### 3. Targets

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

#### The environment

- Energy savings  
In line with the target of SZAG's energy efficiency network, savings of 100,000 MWh from August 2016 to August 2019 through the implementation of corresponding efficiency measures throughout the Group.
- Renewable energy  
100% of electricity requirements procured from KHS GmbH from renewable energies from the 2017 financial year.

#### Work/ Social issues

- Group mission statement "YOUNITED"  
Establishment within the workforce of the six values behind the new Group mission statement "YOUNITED" through annual initiatives promoting the "Value of the year".
- Group-wide talent pool  
Identification of talent across the Group with the objective of increasing the Group's attractiveness as an employer by taking into account group-wide career prospects.
- Systematic succession planning  
Systematic succession planning ensured by guaranteeing the provision of the necessary personnel resources over the medium and long term.
- Occupational safety  
Reduction of absenteeism rates through measures and campaigns on occupational health and safety.

#### Supply chains

- Procurement processes  
Besides financial and technical evaluation criteria, equal attention paid to social and ecological issues such as human rights, environmental protection, occupational safety and the prevention of corruption.



## 4. Depth of the value chain

Quality assurance for our products begins already with the choice of suppliers for primary and raw materials. Sustainable supplier relationships are of particular importance to Salzgitter AG due to its positioning in its markets, and procurement is therefore an essential part of our risk management. To ensure the demand-based supply of all Group companies, we aim for long-term partnerships with key suppliers. Cooperation based on trust, flexibility and reliability are of particular importance to us in this regard. When analyzing supply chains, particular emphasis naturally lies on the steel production at the Salzgitter and Peine facilities due to the large throughput of material. The Group's material expenditure for the 2017 financial year stood at approx. € 6 billion with external sales of around € 9 billion. The largest share of that expenditure, amounting to 20.9%, was accounted for by the purchase of raw materials and energy for steel production at Salzgitter Flachstahl GmbH (SZFG) and Peiner Träger GmbH. Procurement is conducted via SZFG's Purchasing Department, paying strict attention to all the principles of an integrated management system in accordance with valid standards.

In the "Atlas on Environmental Impacts: Supply Chains"<sup>1)</sup>, it was shown that the environmental impacts of the metal producing and processing industry in the supply chain are higher than at our own facilities. This cross-sector analysis revealed that almost two thirds of the entire greenhouse gas emissions and more than three quarters of pollutants are emitted at the start of the supply chain before metal production and metal processing in this country have even begun. As bulk raw materials – such as iron ore, coal and bought-in coke – are almost exclusively imported, we are paying special attention in this regard to our upstream supply chain.

As the center of excellence for various Group companies, the Purchasing Department at SZFG assesses significant long-term suppliers of all products with relevance to quality and environmental protection on the basis of various criteria every year. Besides the standardized supplier evaluation, SZFG developed a separate form in 2015 to cover the most important sustainability issues which is closely based on the self-disclosure form used in the automotive industry "Sustainability for Automotive Sector Suppliers". This form was first sent in 2016 to all major long-term suppliers of different raw materials, and it includes subject areas such as "Social sustainability" and "Compliance".

<sup>1)</sup> Norbert Jungmichel, Christina Schampel and Daniel Weiss, Umweltatlas Lieferketten – Umweltwirkungen und Hot-Spots in der Lieferkette, adelphi/Systain, Hamburg/Berlin 2017

## III. Process Management

### 1. Responsibility

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

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

### 2. Rules and processes

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

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

One of our six values is "sustainability" which for us means the following: We assume social responsibility and pursue our aims for the long term. The wording of our mission statement has been published throughout the group and handed to every employee as well as being available on the company's Intranet.

In 2015/16, special emphasis was given to the value of "sustainability" by means of a group-wide implementation initiative under the banner "Creating values – avoiding waste". The initiative was prepared and supported by a project team and promoted through workshops, and every employee was challenged to propose measures for saving resources in their own area of responsibility. The results were documented. Particularly creative and sustainable proposals were announced and rewarded.

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

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

The Executive Board has declared protection of the environment to be a central management assignment. It issued Group “environmental protection guidelines” which “are to be seen as principles for action defining aims and methods” and which state among other things:

“Protection of the environment and saving natural resources constitute an important corporate goal of Salzgitter AG. The observance of current laws and requirements is self-evident for us. Our understanding of responsible environmental protection does not end with the observance of statutory regulations. Systems and production techniques are subject to constant review and continuously improved.”

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

### 3. Monitoring

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

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

Accidents at work in Germany are recorded and accident frequency rates calculated in order to monitor occupational safety over the long term. As far as staff health is concerned, absenteeism rates are reported on a regular basis and any anomalies give rise to further inquiries. You can find information on occupational health management in the Section V. “Society”, 2. “Equal opportunities”.

### 4. Incentive systems

Acting entrepreneurially in unison is a success formula of Salzgitter AG (SZAG). In the process, we rely on committed employees to whom we offer an attractive, appreciative and respectful working environment. One important prerequisite is a transparent, fair remuneration policy, which is consistent with the economic development. This is guaranteed and supported by means of group framework specifications for managers and the use of sector-specific collective agreements, that maintain the competitive ability of our Group companies. In 2017, a total of 95% of our permanent workforce were working in Group companies that were subject to a collective agreement.

A collective Group agreement on profit-sharing in the Salzgitter Group governs the participation of our workforce in the success of the company for the majority of our companies within Germany. Profit shares are assessed on the basis of SZAG’s ROCE target (ROCE = Return on Capital Employed) as well as the ROCE targets of Group companies defined every year by the Executive Board. This way we recognize the commitment of our employees and at the same time we reinforce their identification with our company.

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

As far as the evaluation of members of the Management Board is concerned, the Supervisory Board has specified that more than half of the variable share of the remuneration package must depend on meeting key results targets over the average of several years. This creates an incentive for a sustainable company management and a long-term value chain.

To further reinforce this incentive for sustainable growth in the company, the Supervisory Board has also restructured the variable remuneration in contracts for future appointments to the Management Board. According to the new system, several remuneration components will relate to the achievement of targets in subsequent years, and only after these years have elapsed, will a check be conducted of whether the targets have been met and the salary components paid.

A detailed explanation of the remuneration system for the Management and Supervisory Boards can be found in our management report of the Annual Report in Section I. "Company and Organization", 2. "Management and Control".

Our aim is for minimum standards to be observed for salaries, and payments to be fairly based on performance. SZAG considers the indicator demanded in G4-54 in this context as not meaningful with regard to the fairness of salaries. As the business activities in the Salzgitter Group are heavily diversified, a purely relative value – such as the ratio of the annual remuneration of the highest paid employee to the median of the total annual remuneration of all employees – does not adequately reflect this state of affairs.

## 5. Stakeholder participation

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

We conducted two extensive, detailed stakeholder dialog events as early as 2009 with the aim of identifying the aspects of corporate responsibility with relevance to the Salzgitter Group. In the course of the events, internal and external experts, among them participants from science, politics and the media, the automotive and finance sectors, representatives of a firm of auditors and an environmental research institute as well as union and works council members, discussed and assessed a wide range of issues. The outcome was a ranking which reflected the internal and external expectations placed in the reporting of Salzgitter AG in the field of corporate responsibility. The most important elements identified in this way included information on climate protection and energy, innovation, co-determination, research and development as well as the promotion of specialists and junior staff. This extensive preparatory work and the results obtained from it have been taken up by us as part of the present non-financial report, particularly as the focus of our production has not changed appreciably since the time of the events. Nevertheless, we intend to continue this process with a follow-up stakeholder dialog in the course of 2018.

## 6. Innovation and product management

### Sustainability as the basis for innovative products

Sustainability is an important aspect of research and development in the Salzgitter Group. For example, the standard we set ourselves when selecting predevelopment and development projects is that they must make economic and ecological sense. Numerous projects contain very specifically sustainable applications such as for lightweight automotive construction or plants for the generation of renewable energy. We accept the challenge of developing products and process solutions with sustainable effects along the entire value chain. It will secure the long-term success of our company. This includes resource-efficient steel production, optimized energy management and the development of innovative materials, e.g. for lightweight automotive construction or towers for wind farms. We are pursuing approaches for reducing CO<sub>2</sub> in steel production and throwing our weight behind renewable energies.

The following examples from different business units illustrate the great importance of sustainability in our company:

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

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

#### **Resource-efficient StronSal coating for the automotive industry**

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

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

In the area of offshore wind turbines, new technologies for corrosion and wear protection are being developed, which guarantee an extension of the service life of steel structures. Materials saved protect resources.

In the wind power sector, Salzgitter AG (SZAG) has developed an innovative system for foundations in the shape of its onshore K-Tower which facilitates the sustainable generation of energy on an ever larger scale. The innovative supporting structure consists of standard components (tubes and sections) for onshore towers. This reduces material and costs. The tower design also complements the onshore repowering concept for old wind farms. Here, old foundations can be economically and ecologically viably prepared and reused.

**Petrol injection lines – greater efficiency from autofrettage**

The tightening of car exhaust standards is forcing automotive manufacturers to further optimize fuel combustion. Against the background of the stricter EURO 6c exhaust standard which came into force in September 2017, the injection pressures for petrol engines have been increased from 200 to up to 400 bar, for example. To meet this requirement, a development series was initiated at Salzgitter Mannesmann Forschung GmbH (SZMF) to improve the fatigue resistance of stainless steel injection lines. The potential of enhanced autofrettage (increasing durability through pulsating internal pressure) leading to increased fatigue strength with very low risk of failure, had already been identified.

**Sustainable filling of still water under ultra-clean conditions**

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

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

The subject of sustainability is inherent in the innovation process. Potential development trends are also reflected in the sustainability concept, even as early as the “Analysis of Trends and Markets”. Sustainability is a key element, particularly for devising strategies, and it is embedded in the Group mission statement.

**Future R&D priorities for the Group**

Research and Development (R&D) for business units of the Salzgitter Group connected with steel is pooled in SZMF. SZMF is closely networked with higher education institutions, research facilities and industrial partners through numerous domestic and international research projects.

The resulting collaborations are preferred to buying in external know-how.

In all its business activities, SZAG is aware of its social responsibility with regard to their ecological and social impact.

In addition, the environmental impact of our steel products is determined with the aid of life cycle assessments. Besides classical life cycle assessments, Environmental Product Declarations are also produced for construction products which give users from the construction sector a tool with which to construct a building with maximum eco-friendliness.

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

One current development for the automotive sector, for example, is the sheet metal surface Pretex®forcar®. It facilitates resource-efficient, fillerless body shell painting.

In the strip steel field, the resource-efficient production of conventional and novel high-performance steels using belt casting technology, forms one of the major areas of emphasis.

Development activities in tubes, for example, are focusing on the customer-oriented optimization of the tube properties of precision tubes which facilitate environmentally friendly combustion in engines. The development of variable tube wall thicknesses permits their application to be based on the stresses they will have to withstand, thereby leading to lightweight construction.

The Technology Business Unit uses its products, solutions and services to underpin the competitiveness of our customers, enabling them to increase productivity, protect resources and lower CO<sub>2</sub> emissions and so to obtain significant advantages in terms of costs. We make great efforts in our own production facilities to use less energy and natural resources.

Two innovation topics that address sustainability issues in particular are described in detail below:

#### **Research and development of high-performance waterwheel technology**

In cooperation with the Technical University of Braunschweig, a new and unique high performance steel water wheel technology is tested, researched and further developed. The energy is generated by harnessing hydropower potential in the area of low fall heights and large flow rates. The flow rate can be up to 100m<sup>3</sup>/s per high-performance waterwheel and therefore 16.6 times that of the largest classical waterwheels.

#### **SALCOS®**

With the SALCOS® concept, SZAG is facing up to the challenging targets of the European Emissions Trading System (EU-ETS) to reduce CO<sub>2</sub> emissions. The concept comprises the execution of all technical measures for achieving a significant, gradual reduction in CO<sub>2</sub> emissions in the steel production of SZFG at the Salzgitter facility while using existing production systems to the greatest extent possible.

Within this concept, SZAG has launched the GrInHy project. Here research is conducted into new ways of producing hydrogen which in the future may make a contribution towards the production of steel with reduced CO<sub>2</sub> emissions.

## IV. The environment

### 1. Utilization of natural resources

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

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

In order to reflect the aspect of materiality in this Section, too, particular emphasis with regard to the consumption of resources and energy, emissions, the generation of waste and further parameters is therefore placed on the figures recorded by the Strip Steel, Plate / Section Steel and Mannesmann business units for the reasons described in Section II “Strategy”, 2. “Materiality”.

### 2. Resource management

Embedded in the Group directive “Environmental protection”, the Environment and Energy Steering Committee has existed in the Salzgitter Group for more than 15 years. The most important areas of the Group from the perspective of environmental impact and the consumption of resources are represented on this committee. It reports directly to the CEO of Salzgitter AG (SZAG). The particular assignment of this steering committee consists in organizing the exchange of relevant information on the subject of the environment and energy across the Group. As well as ensuring information transfer within this network, it also coordinates uniform strategies throughout the Group on issues regarding environmental policy and energy management. A further example of the operationalization of sustainability targets in the area of resource management is the “Energy Management Group Forum” which has been in existence since 2013. It brings together the most important Group companies in terms of their energy consumption. The common objective is to improve energy efficiency in a continuous process of learning from each other, thereby contributing at the same time to a reduction in greenhouse gas emissions. For example, the target set for KHS GmbH to convert 100% of its electricity procurement to renewable energy from the 2017 financial year, was met in full. A further core element of the Energy Management Group Forum’s work is to establish an “energy efficiency knowledge platform” with shared responsibility for registering efficiency measures already implemented or under examination and making them available to other Group companies. To date, this platform now consists of more than 850 individual measures.



With this idea in mind, SZAG registered the Group's own energy efficiency network in 2016 as part of an initiative launched by the German Federal Government. In the middle of 2017, a specific target was set to implement energy efficiency measures across the Group in the period from August 2016 to August 2019 with a cumulative saving of 100,000 MWh.

The significance of the subject of environmental protection with respect to individual companies in our Group is directly related to the particular production processes and methods used and their basic potential impact on the environment. For example, a significantly higher number of statutory environmental regulations and requirements apply to the integrated steel production at the Salzgitter facility than is the case for Group companies which only process steel. It is also part of our sense of identity to strive to treat natural resources responsibly and reduce the environmental impact to an unavoidable minimum. The status enjoyed by this commitment is also reflected in the fact that in the Strip Steel, Plate / Section Steel and Mannesmann Business Units, the majority of manufacturing Group companies have installed certified environmental management systems in accordance with the international standard DIN EN ISO 14001 as well as certified energy management systems to the DIN EN ISO 50001 standard. The importance attached to environmental protection in the totality of our production processes, is also shown in operating expenses on it. Expenditure in the 2017 financial year totaled around € 181 million.

Following the criteria outlined in Section II "Strategy", 2. "Materiality", the key ecological indicators shown in this report refer – unless stated otherwise – to the fully consolidated manufacturing companies in the Strip Steel, Plate / Section Steel and Mannesmann Business Units with SZAG's share standing at over 50%.

The key indicators shown on energy consumption, waste, air emissions and greenhouse gas emissions (see Section IV. "The environment", 3. "Emissions impacting climate") for 2017 are partially based on the extrapolations of individual Group companies included in the report – particularly for the months of November and December. The intention is to adjust any significant variances occurring as a result of this procedure, if so required, as part of the non-financial reporting for 2018.

#### Materials used<sup>1)</sup>

		2017	2016
<b>Iron ore (lump ore, pellets, ...)</b>	<b>kt</b>	<b>5,811</b>	<b>5,995</b>
<b>Reduction agents</b>			
Coking coal	kt	1,920	1,946
Bought coke	kt	225	188
Anthracite and coal fines	kt	612	647
<b>Other auxiliary materials</b>			
Limestone	kt	994	1,027
Dolomite	kt	67	46
Alloys and metal	kt	99	104
Auxilliaries as Dunit, ...	kt	195	192
<b>Total Scrap</b>	<b>kt</b>	<b>2,177</b>	<b>2,206</b>

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

### Energy consumption<sup>1)</sup>

		2017	2016
<b>Primary energy sources<sup>2)</sup></b>	<b>GWh</b>	<b>4,077</b>	<b>4,033</b>
<b>Energy used to generate steam and electricity from waste gas and waste heat</b>	<b>GWh</b>	<b>1,928</b>	<b>2,102</b>
<b>Electricity consumption</b>	<b>GWh</b>	<b>2,682</b>	<b>2,742</b>
of which external power supply	GWh	1,315	1,282
<b>Total energy consumption</b>	<b>GWh</b>	<b>5,392</b>	<b>5,315</b>

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

<sup>2)</sup> Without reducing agents, they are considered as "Materials used".

### Water

		2017	2016
<b>Total water consumption</b>	<b>Thousand cubic meters</b>	<b>18,493</b>	<b>18,773</b>
of which drinking water	Thousand cubic meters	2,693	2,647
of which industrial water/service water	Thousand cubic meters	15,800	16,126

### Waste water

		2017	2016
<b>Total waste water</b>	<b>Thousand cubic meters</b>	<b>15,877</b>	<b>14,483</b>
of which direct discharge	Thousand cubic meters	15,315	13,880
of which indirect discharge	Thousand cubic meters	562	603

### Waste

		2017	2016
<b>Total waste</b>	<b>kt</b>	<b>1,011</b>	<b>986</b>
of which recycled	kt	730	701
Hazardous waste as a share of the total	kt	55	62

### Air emissions<sup>1)</sup>

		2017	2016
NOx	t	4,730	4,493
SOx	t	5,450	5,111
Particulate matter (PM10)	t	183	185

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

### 3. Emissions impacting climate

Salzgitter AG (SZAG) participated in the reporting format of the CDP (formerly Carbon Disclosure Project) for the first time in 2016 (based on the figures for the 2015 financial year) and again in 2017 (figures for the 2016 financial year). For its initial participation in 2016, SZAG was crowned “Best Newcomer Germany”. We achieved a “B” rating in both years.

CDP is a international non-profit organization. It records and evaluates the greenhouse gas emissions (GHG emissions) voluntarily reported by companies and organizations as well as the way in which opportunities and risks resulting from climate change are handled and strategies evolved in response. Once a year, CDP collects extensive data on behalf of investors, and it claims to have now established the most important database and analysis on the subject in the world.

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

- Scope 1 = direct GHG emissions from plant operation,
- Scope 2 = indirect energy related GHG-emissions and
- Scope 3 = other indirect GHG-emissions from feedstock purchase.

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

As an integrated steel works, Salzgitter Flachstahl GmbH occupies a special position within the Group in regards to GHG emissions, and it therefore operates its own energy savings and thus also GHG reduction program. In the context of this program an aggregate reduction effect of 140 kt CO<sub>2</sub> in Scope 1 and Scope 2 emissions was realized in 2016 as a direct consequence of efficiency enhancement measures; for 2017 this amounted to 190 kt CO<sub>2</sub>.

#### GHG emissions

		2017	2016
Direct GHG emissions from operating plants (Scope 1)	kt CO <sub>2</sub>	8,470	8,670
Indirect GHG-emissions (Scope 2)	kt CO <sub>2</sub>	693	686
Other indirect GHG-emissions from feedstock purchase <sup>1)</sup> (Scope 3)	kt CO <sub>2</sub>	1,362	1,330
Reduction of GHG emissions as a direct result of efficiency measures <sup>2)</sup>	kt CO <sub>2</sub>	190	140

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

<sup>2)</sup> Resulting from measures of the EE-project of Salzgitter Flachstahl GmbH, which affect Scope 1 and Scope 2.

The greatest challenge for the Group in connection with emissions affecting the climate is the fact that CO<sub>2</sub> emissions have nearly reached their minimum level in terms of the scientific process on the basis of the technologies mainly used today on international level and therefore also within the Salzgitter Group. This means there are strict limits to future reductions in greenhouse gas emissions to be achieved through efficiency measures on the basis of the processes used. SZAG therefore set up a project named SALCOS (Salzgitter Low CO<sub>2</sub> Steelmaking) together with the Fraunhofer Gesellschaft in 2015. The intention is to explore and make progress on a gradual transformation from today's carbon-based steel production to one based on hydrogen and electricity. The measures derived from the project to date could be used to achieve a successive conversion by integrating them into the melt shop at the Salzgitter facility, at least in terms of their fundamental technical feasibility.

## V. Society

### 1. Employee rights

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

#### Governing principles

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

Our Code of Conduct also represents an important foundation for working relationships in the Group as well as with our external partners based on trust (see also Section III. "Process Management", 2. "Rules and processes"). The Management Board has drawn up clear behavioral principles in this code which all employees at home and abroad should be guided by in their work.

#### Coal and steel co-determination

The dialog at SZAG between Group management, company managements and employee representatives has traditionally been marked by a relationship of trust and constructive cooperation. As a steel and technology group, we are subject to the coal and steel co-determination law with respect to SZAG and the primary iron and coal producing Group companies; this agreement gives employee representatives on the Supervisory Board substantial influence over the main business transactions and the appointment of the Industrial Relations Director. Supplementary to the business objectives, the interests of our employees are advocated on a legal basis by trade unions, works councils and other forms of employee representation. The Group works council is the employees' central co-determination and participation body. The works councils also have separate working groups for every sector of the company. Special subjects such as occupational safety, health and environmental protection are dealt with by the Group works council in separately formed committees.

By concluding collective agreements on the various operational and pay scale levels, we secure the inclusion of employees' interests both on a statutory basis and the more voluntary basis as well as the application of standard, objective procedures for shaping the service relationship with our employees. At the same time, we facilitate participation by employees in the development of the company by setting up steering committees and control bodies with equal representation, thereby promoting a managerial style that is free of discrimination and focused on diversity while maintaining social standards.

The inclusion of foreign companies in the design of Group directives and circulars extends the scope of national standards, particularly in the sphere of the value-oriented management concept, within the scope of statutory provisions and wherever economical and personnel policy wise reasonable to our foreign facilities.

### Corporate mission statement “YOUNITED”

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

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

The six values “Customer orientation”, “Reliability”, “Fairness and working together as partners”, “Group-wide cooperation”, “Innovation” and “Sustainability” are brought to life in succession as “Value of the Year” with initiatives to highlight their relevance in the everyday working life of all employees.

In 2016/2017, the focus was on the value of “Fairness and working together as partners”. Under the slogan “Great deeds sought”, all employees were asked to tell their personal fair play stories in short interviews. 1,563 teams took part. Thereafter, every company decided on its most instructive experience from their fair play stories submitted. Ideas for a fair play action plan emerged from internal workshops. It is intended to bring a further noticeable improvement in cooperation for all employees, both in their teams and throughout the whole company. In 2017/2018, the value of “Customer orientation” (together with “Reliability”) is the value of the year.

The concept of the “YOUNITED” values of the year was designed as a long-term project and will probably accompany the Salzgitter Group until 2019.

### Communication and participation

We are continuously refining our products and processes. The creativity and inventiveness of our employees are a major driver in this process — potential that we appreciate and which we want to promote to the best of our ability. As part of our management of ideas, employees can submit their suggestions for improvements and thereby actively campaign for improvements in their working environment. In 2017, we were able to register 3,467 suggestions for improvements across the Group.

A further established procedure for including our workforce in a structured and regular fashion, is the group-wide employee survey IMPULS. This survey was conducted for the third time in November 2015; over 22,000 employees were surveyed in more than 70 companies at home and abroad. The participation rate of 64% stood at a very high level. In general, the results of the survey have certainly taken a positive turn by comparison with the previous employee survey in 2011. In spite of the excellent results of the survey, however, it is possible to identify topics which do not yet sufficiently meet our high expectations. A group-wide, structured and sustainable follow-up process will ensure that all insights from the survey are implemented. By the end of 2017, around 2,600 measures had been announced throughout the Group which have resulted from the follow-up process. On the Intranet, our employees have the chance to keep up-to-date at all times on the latest status and view current IMPULS projects.

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

## 2. Equal opportunities

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

### Employee structure

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

The core domestic workforce in the Salzgitter Group only changed marginally in 2017 by comparison with the previous year (19,095 in 2016) and stands at 19,036 as of the end of 2017. The following table shows the split by gender and employee category:

#### Core workforce by gender and employee category

	2017		2016	
	m	f	m	f
Wage earners	10,797	270	10,894	265
Tariff	3,888	1,840	3,868	1,835
Non-tariff	1,685	275	1,670	280
Senior executives	255	26	258	25
<b>Total core workforce</b>	<b>16,625</b>	<b>2,411</b>	<b>16,690</b>	<b>2,405</b>

The total workforce of Salzgitter Group (domestic and abroad) counts 25.074 employees. The vast majority, namely 82%, of the Salzgitter Group's employees were based in Germany. Another 8% were working in other EU countries, and around 10% of our workforce was employed in locations outside Europe.

The proportion of female employees in the Group has risen continuously in the last few years and stands at 12.7% for 2017. Female students are still heavily underrepresented in scientific and technical subjects – a factor which also affects workforce structures in companies. The distribution of female members of the workforce in the respective areas of activity of the Salzgitter Group is correspondingly uneven.

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

#### Workforce by age group

Age structure in %	2017	2016
up to 30 years	13.7	13.7
31 to 50 years	48.1	49.2
over 50 years old	38.2	37.1

A detailed description of changes in the workforce in 2017 and information on the composition of our Supervisory Board can be found in our management report in the Annual Report in Section I. "Company and Organization", 4. Employees".

#### The challenge of demographic change:

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

Numerous measures and projects are drawn together in the Group under the umbrella of the project. They range from activities in the area of recruiting junior staff and training employees, health insurance and old age pension offers for the employees to the ergonomic design of working times and workplaces. Some of these offers – e.g. FORWARD, Salzgitter pensions and workplaces adapted to employees' needs – will be explained in even greater detail in the course of this report. Further group-wide priorities have also been identified in the form of topics such as the promotion of women, the reconciliation of working life and family and the integration of (young) migrants, which are also being tackled.

#### Promotion of women

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

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

The orientation program Career Paths for Women is addressed to women of all functions who wish to actively plan their careers and see a managerial career as an option. The concept of the program takes account of their personal goals and prospects as well as the specific demands of different careers.



In addition, the mentoring program for women is aimed at dedicated female managers and experts on every level of the hierarchy. It serves to develop them further in their managerial role or to support them on their path to taking over managerial responsibility. Acting in the role of mentors are senior executives or CEOs in the Group who are willing to share their professional experience and insights as well as their network with the mentee in confidence and to support them as their career develops. Since the start of the program in 2012, 40 mentees and 30 mentors have already helped the project to achieve lasting success.

#### **Reconciliation of family and work**

It is becoming ever more important to provide the workforce with healthy working options, especially against the background of demographic change. Various company-specific working time models such as trust-based working hours, flexitime and working time accounts allow our employees to shape their working hours to take account of their individual needs. Four out of five business units are also already using telework as a tool.

Since the beginning of 2012, our employees in Germany have also been able to call on a free family service to help them in an advisory and facilitating capacity with regard to the provision of care for children or relatives in need of long-term care.

#### **Promotion of diversity**

The General Equal Treatment Act has been in force in Germany since 2006 to prevent and avert discrimination and to ensure the equal treatment of all employees regardless of their age, gender, ethnic background, religion, disabilities or sexual orientation. We have felt a long-standing commitment to this principle at SZAG. In the process, we foster, not least through our mission statement initiatives, a common appreciation of values which informs our dealings and our work and which is based on mutual respect.

The aim of working together in a spirit of partnership free of prejudice was also highlighted by this year's group-wide initiative "Diversity and Tolerance". The Management Board and Group Works Council underlined the importance of establishing tolerant and respectful working relationships within our diverse workforce.

#### **Integration of migrants**

As an international Group, a particular concern of ours is to play an active role in the integration of refugees. One important hurdle in this context is their entry into the labor market and the necessity of learning German to make this step possible. In order to offer refugees measures to prepare them for working life, SZAG has launched the project "Dual Integration Aid" together with external collaboration partners. The combination of subject-related theory and language teaching with various practical elements is intended to give participants their first contact with the company. After successful conclusion of the course, a review is conducted in each case to ascertain whether graduates of the program qualify for further measures, and if so what form they should take. In 2017, three participants in the "Dual Integration Aid" program began their vocational trainings in the Group.

#### **Workplaces adapted to employee needs**

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

**Company pension**

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

**Demography fund**

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

**Health and Safety at work**

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

**Health and safety management**

The different requirements in the individual business units and companies of the Salzgitter Group necessitate that occupational safety be regulated on a decentralized basis. We define SZAG's safety policy and the components and standards of our health and safety management in a Group directive. Every company is tasked with drawing up targets, priorities and programs as well as with reviewing the effect of the measures taken. In this way, we define a high standard across the Group and lay the foundation for continual improvement.

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

**Safety at work**

	2017	2016
rate H <sup>1)</sup>	8.1	7.4
rate h <sup>*2)</sup>	12.3	12.0

<sup>1)</sup> reportable work-related accidents per 1 million work hours (more than 3 days off work); core workforce and Training contracts

<sup>2)</sup> work-related accidents per 1 million work hours (all days off work); core workforce and Training contracts

Both the accident frequency per 1 million work hours resulting in more than 3 days off and the number of work-related accidents per 1 million work hours resulting in any days off, increased slightly from 2016 to 2017. There were no work-related fatal accidents within our workforce in 2017 nor in the preceding year.

Health and safety at work is subject to co-determination as a general rule. For example, there are various agreements on an operational level in Group companies which reflect comprehensive health and safety at work as well as an integrated understanding of health. In terms of agreements on a collective level, the collective agreement for shaping demographic change in the iron and steel industry is important.

### **Occupational safety campaign “Out of love for steel”**

Technology and organization are important prerequisites for a high standard of occupational safety. A further factor is safety-conscious, proactive behavior and actions on the part of employees. To reinforce the safety culture, new approaches are used in the overarching campaign to draw attention on topics concerning occupational safety. For example, the focus is placed on employees and their safety behavior because with their knowledge and their motivation, they not only look after themselves but also their fellow-workers in their team.

### **Health management**

Implementation of our Company Health Management is organized locally. All companies pursue an integrated approach which for us means not only making the way in which we handle sick employees more professional but also sensitizing employees to behave in ways conducive to their health. Measures are planned and implemented in companies at a local level. Our focus is not only on primary prevention and precautions but also increasingly on therapeutic and rehabilitational measures.

We subscribed to the “Luxembourg Declaration on Workplace Health Promotion” in the European Union as early as 2004. It aims not only to prevent work-related illnesses but also to actively reinforce the potential for good health and improve the feeling of well-being at the workplace. To this end, we have developed numerous measures in the GO sphere of action “Health, Fitness and Ergonomics”. Offers in Group companies range from “The Salzgitter AG Health Check”, via proprietary fitness centers and collaborations with external partners to special days of action with the emphasis on health and prevention.

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

## **3. Training**

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

### **Securing the workforce of the future**

To counter the imminent lack of specialists and engineers in good time, we promote young people even during their training. We focus our commitment on disciplines where a lack of qualified workers can be expected in Germany in the future. In the process, we make a commitment towards the talent of tomorrow along the entire education chain.

With visits to companies, practical days and training in submitting applications as well as other professional orientation activities, we give pupils practical insights and show them the wide-ranging professional prospects on offer in the Salzgitter Group. We also attended IdeenExpo again in 2017, Germany’s largest science and technology event for young people. Using the slogan “My heart beats for steel”, Salzgitter AG (SZAG) presented an interactive industrial landscape in which a wide variety of production processes were portrayed in model form. Supported by film clips, visitors were given an impression of steel production and steel processing.

Through our commitment to higher education institutions, we want to inspire students to take an interest in the steel industry and tie young, highly qualified and talented individuals to the company for the long term. To ensure that we are successful in that endeavor, we work with numerous higher education institutions. For example, we provide active help in designing curricula, support students' projects and offer students the chance to take on internships and write their theses and dissertations with close support. In collaboration with AIESEC, an international organization of young people, we support students in making a commitment to social projects around the world. In doing so, we are supporting some of the Sustainable Development Goals of the United Nations on the one hand, and establishing early contact with young people with commitment and a cosmopolitan outlook, on the other.

## Training

Mega trends such as globalization and digitization require worldwide networking and the fast availability of information. For workforces and companies, this is associated with the challenge of constantly updating and expanding their capabilities. This can start with in-depth training and continue throughout their entire professional life in the form of "lifelong learning".

### Vocational training

SZAG offers training in over 50 professions and dual study courses in the industrial/technical, commercial and IT sphere across the Group. As of 31 December 2017, the company employed 1,065 trainees in Germany alone. There were also 273 other apprenticeships in Germany with interns, working students and trainees. In spite of the at times difficult economic environment, vocational training represents for us an important investment in the future. This is reflected in a training rate of currently 5.3%. Securing the future prospects of trainees by giving them follow-on employment not always based on requirements, reinforces the processes of obtaining and extending qualifications, and it constitutes an important element in dealing with demographic challenges.

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

### Personnel development

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

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

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

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

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

### Professional development

As well as training, continuous further training constitutes an essential step towards ensuring motivated, qualified staff as well as preserving the lifelong employability of participants. In 2017, we were able to record 8,150 participants in a total of 15,828 further training opportunities.

#### Professional training

	2017	2016
Participants in training measures	8,150	7,190
Number training measures	15,828	14,571

## 4. Human rights

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

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

Since 2003, significant long-term suppliers of all products with relevance to quality and environmental protection made by SZFG and other Group companies have been regularly evaluated once a year on the basis of various criteria such as price, logistics, quality and other contractual terms. Where necessary, we agree corresponding development measures with the supplier. If the targets set are missed, the supplier may be blocked and the contractual relationship terminated. Besides the standardized supplier evaluation, SZFG developed a separate form in 2015 to cover the most important sustainability issues which is closely based on the self-disclosure form used in the automotive industry "Sustainability for Automotive Sector Suppliers". This form, first sent in 2016 to all major long-term suppliers in the mining, raw materials, chemical and processing industries, comprises the following sections:

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

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

## 5. Communities

Companies belonging to Salzgitter AG (SZAG) have close links with the regional communities surrounding their facilities. This is because our employees and their families as well as many suppliers and service providers have their homes there and this is where they spend their lives outside their work for our company. A fulfilling private life and the balance provided by good leisure facilities represent important factors for everyone's health. For this reason, we make a commitment to social and regional affairs at these locations.

SZAG has particularly close ties to the region of South East Lower Saxony. Here, approximately 40,000 people – employees, retired workers and their families – derive their livelihood from the Salzgitter Group. In 2017, the 9,237 employees at our facilities there represented 40% of our permanent workforce (23,139 as of the end of December 2017).

Every year, we award contracts worth more than € 300 million to around 700 regional service providers and suppliers. SZAG therefore plays an important part in the regional economy. We also make a commitment to the local communities in our locations in many different ways.

### **Location concept**

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

### **Promoting the location as a place to do business**

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

### **Social commitment**

As well as economic development, we also focus on social concerns in the regions where our plants are sited. As a founder member of the Salzgitter Citizens’ Foundation, we support charitable projects in the areas of education, sport, youth, culture, social affairs and the environment. The Foundation supports both individuals and institutions, clubs and associations in their commitment to the public good. As a founding member of the foundation, SZAG made a significant contribution towards the starting capital of € 700,000. In 2016, more than € 36,000 was distributed from the interest generated by the foundation’s capital and given to deserving projects.

### **Citizens’ hotline**

In accordance with § 10 of the Hazardous Incident Ordinance, Salzgitter Flachstahl GmbH has an internal emergency plan (Alarm- und Gefahrenabwehrplan – AGAP) at its Salzgitter facility. This document gives a detailed description of responsibilities, organization and processes for different emergencies. This also includes the installation of a citizens’ hotline if the occasion demands.

## **6. Political dialog**

The political framework conditions are of crucial importance for the successful positioning of companies facing global competition. In this era of global trading and international value chains, reliable rules are an essential factor for conducting business. A lack of standards or different norms around the world in numerous political areas, e.g. in environmental, climate or energy policy, can entail considerable distortion of competition.

We therefore establish contact with political decision-makers to advocate an international level playing field with fair framework conditions for German industry. To do so, we follow the political debate rigorously, maintain contact with all relevant political institutions and contribute our expertise to the political process. In our dialog with communal, regional, national and European bodies, we rely on precise information and credible communication. In this context, we refer to our corporate policy of giving no donations or payments to political parties. Due to the shareholding of the State of Lower Saxony, we see ourselves obliged to maintain political neutrality, also with regard to open dialog with all democratic parties.

The independent monitoring of issues relevant to the Group is an essential element in political communication. Relevant draft legislation is already substantially fleshed out at European level. It is therefore crucial to identify political projects which directly or indirectly affect Group activities or its business environment at an early stage. The liaison office in Brussels is run to intensify work on such assignments and reinforce representation of the Group’s interests. Due to its political activities at EU level, Salzgitter AG (SZAG) has been registered in the EU’s public transparency register since the end of 2014. Here, interested parties can obtain insights into the resources used at European level.

The main political issues of the last few years actively supported by the Group included policies on energy, the environment and climate protection (for example, the reform of EU emissions trading scheme from 2021 or the reform of the Renewable Energies Act), trade policy (modernization of trade defence instruments, trade defence investigations, China's market economy status), EU funds as well as employment and social policies.

The Salzgitter Group has been working for years on a basis of trust and as the owner of expertise with associations and initiatives across all sectors to follow legislative procedures and promote constructive cooperation between political circles, industry and society. Against this background, representatives of SZAG are actively involved in various associations both at a national and European level. The most important organizations include Eurofer, the German Steel Federation, the Association of German Steel Manufacturers, Bauforumstahl [German Steel Construction Forum], Bundesverband Deutscher Stahlhandel [Federal Association of the German Steel Trade], the German Steel Tube Association and the German Engineering Federation (VDMA).

Beyond its participation in associations, SZAG is also actively engaged in advisory groups in the public sector or the European Union. Government commissions on important issues relating to policies on the environment and energy have a long tradition, especially in Lower Saxony. Experts from SZAG are regularly present in this advisory body to the State government as well as in the working groups assigned to it. In addition, a representative from the Group has participated in the "Round Table for Lower Saxony's Energy Turnaround" in the last three years, an initiative of the State government with participation from science, unions, NGOs, churches, industry and other stakeholders, to name but some.

SZAG regularly participates on the employers' side in the "Social Dialogue Committee on Steel" set up by the European Commission. Furthermore, delegates from the company take part in expert groups such as the "RFCS – Steel Advisory Group (SAG)", "RFCS – Technical Group (TGS9)" and the "High Level expert group on energy-intensive industries". SZAG is also represented in the OECD Steel Committee as part of the German delegation.

## 7. Conduct compliant with laws and directives

### Corporate Compliance

Corporate Compliance, i.e. the observance of all external and internal regulations (laws, ordinances, provisions in articles of association, rules of procedure, internal directives, etc.) is regarded as an important part of Corporate Governance in the Salzgitter Group. As part of its prudent and scrupulous management of the company, the Management Board goes above and beyond the observance of regulations in the actions of its own members and CEOs, and therefore plays an active role in ensuring that regulations are observed by employees by deploying a process of systematic prevention. As the managers of a listed company, the Management Board of Salzgitter AG (SZAG) has taken suitable steps, based on the company's risk position – specifically, regular personal explanations, Code of Conduct, mission statement, Group directive "Corporate Compliance" – to prevent, reveal and penalize illegal conduct and in particular corruption and breaches of competition law (Compliance Management System).

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



All consolidated companies (100% of operational business locations of the Salzgitter Group) are therefore vetted with regard to the risk of corruption and competition risks in annual compliance surveys. No substantial risks were identified that would indicate insufficient preventive measures. As no essential cases of corruption were confirmed in 2017 via the Salzgitter Group's prevention system issues described in detail, no separate steps were taken in this regard. No significant fines or monetary sanctions were to be paid in the reporting year due to the failure to observe laws or regulations – in particular, no expenditure or sanctions following law suits or litigation due to anti-trust behavior or breaches of cartel and anti-monopoly rules. Sales of the Salzgitter Group were also generated in regions with a Transparency International Corruption Index of under 60 – also including some Western European countries – with due attention paid to the particular risk position. As no cases of corruption were confirmed via the Salzgitter Group's prevention system measures described in detail, no separate steps were taken in this regard.

The main prevention measures include regular training for employees on the subjects of criminal law in relation to corruption and competition law as well as on other specific legal areas, if required, e.g. new regulations for combating money laundering.

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

To ensure that SZAG's CMS structure is suitable for the sub-domains of anti-corruption and competition law, the Management Board has had the description of its design externally audited by the firm of auditors KPMG AG (KPMG) in 2015. KPMG conducted its audit with due regard for the IDW auditing standard "Principles for the due and proper auditing of Compliance Management Systems (IDW PS 980)" and reached the verdict that the CMS description and therefore the design of the CMS had been appropriately portrayed in all its significant aspects.

The Management Board presents the Corporate Compliance situation of the Salzgitter Group to the Supervisory Board by means of a detailed compliance report every year and as and when needed. An audit committee set up by the Supervisory Board also addresses issues relevant to compliance.

SZAG also reports on the Group's Corporate Compliance in a Corporate Governance report published annually.



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