

# 18

Non-financial Report 2018



**Salzgitter AG** ranks as one of Germany's companies rooted in a long tradition. Our business activities are concentrated on steel and technology. Through its sustainable organic and external growth, our company has advanced to take its place as one of Europe's leading steel and technology groups – with external sales of around € 9 billion in 2018, 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.

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## About this report

We have based our reporting in the separate, Non-financial group management report on the German Sustainability Code (Deutscher Nachhaltigkeitskodex – DNK). We apply the code it to all information assessed as being of material importance that we have determined for 2018, firstly by means of an internal materiality analysis, and secondly through dialog with stakeholders, on:

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

The separate, Non-financial report of the Salzgitter Group for the 2018 financial year has been vetted by the company's Supervisory Board and audited on behalf of the Supervisory Board by the accounting firm of KPMG AG, with due regard for the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information", published by the International Auditing and Assurance Standards Board (IAASB) for the purpose of reaching limited assurance engagement with respect to the information required by law under Sections 289b, 315b in conjunction with 289c to 289e German Commercial Code (Handelsgesetzbuch – HGB).

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

# I. Business Model of Salzgitter AG

## A modern company with a long tradition

The companies in the Salzgitter Group have stood for the innovative, sustainable manufacture of steel products and high-tech goods for more than 150 years. The idea of smelting ore from Lower Saxony has spawned an international company that includes world-famous brands such as Peiner Träger, Mannesmann 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 that 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, among others in Europe's leading copper producer Aurubis AG, as well as numerous service companies not assigned to any business unit.

The Strip Steel Business Unit produces, processes and distributes 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 more than 3.0 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 and pipe products for diverse applications from fuel injection systems, power plants and boilers right through to 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 operate one's own trading activities in order to stay in direct contact with the majority of one's end users. These activities are concentrated in the Trading Business Unit.

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

Twenty years after the stocklisting 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. At the same time we do not lose sight of our social responsibilities. Strengthening our production facilities with due regard for the statutory and economic framework conditions forms the foundation of a good, target-oriented working relationship with our stakeholders. We are aware that from time to time conflicts of interest may arise between or even within individual stakeholders. The preservation of our competitiveness and the profitability of our entrepreneurial endeavors are essential prerequisites in order to act sustainably and responsibly in the sphere of Corporate Social Responsibility (CSR). In the long run, these objectives can only be achieved if sustainability criteria for mankind and the environment do not end at the factory gate or national borders, but all market players act on the same or at least similar competitive terms. As has been demonstrated once again, especially by the recent discussions, for instance, about steel imports to the EU or amendments to emissions trading from 2021, production with the highest environmental standards can only be sustainably guaranteed if the economic viability and preservation of jobs can be ensured in our own company. We recognize that European and German views of CSR topics are not given the same weight per se by any global yardstick in terms of their importance. As an internationally active Group, we must exercise cultural tolerance accordingly. We understand full well that global issues in particular, such as climate protection or respect for human rights, ultimately require a global framework in order to actively and productively shape the future. As a company, we can only play a limited role in influencing any such framework; it is in the nature of things that ultimately the onus lies with the politicians.

Our business activities benefit primarily from our own performance. At the same time, we must acknowledge that a reliable social framework, fair collaboration with partners based on trust and our relationship with our natural surroundings are of considerable importance. This obliges all employees of the Salzgitter Group to observe all laws anywhere and at any time when acting on behalf of the company, to respect generally accepted basic values when dealing with other people and other companies, to maintain fairness in our actions and to preserve nature to the best of our ability – or to put it in a nutshell: to act responsibly at all times. This is the starting point for the Salzgitter Group's Code of Conduct dated August 2015, which also declares the basic principles listed in the United Nations Global Compact to be the basis for actions taken in the company. Further information on the Code of Conduct is to be found both in Chapter III. "Process Management", 3. "Rules and Processes", and on our homepage. CSR is firmly established at SZAG. 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 Executive Board. This enables us to ensure that all aspects regarded as correct and important are incorporated into the corresponding specifications for the various departments via Group directives, instructions and target agreements.

However, we can only put CSR into practice successfully 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 components of target agreements with our managers alongside financial indicators. For example, CSR-related targets – in areas such as energy efficiency or health and safety at work – are defined for variable components of remuneration.

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 Executive Board.

## 2. Materiality

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

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

Steel production and steel processing, together with associated activities, remain at the heart of the entrepreneurial value chain in the Salzgitter Group. We are therefore aware of our special responsibility for ensuring that our work is sparing on resources and energy efficient and for providing a high degree of workplace health and safety. With this in mind, priority is given to the Group's steel-related activities as defined by the criterion of "materiality" in the environmental sphere, as these activities far outweigh all other Group operations as far as the use of resources, consumption of energy and emissions are concerned. This process reveals any 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 defining the reporting framework and highlighting significant information. The findings from an internal materiality analysis and the results of stakeholder interviews held in September/October 2018 basically support the accuracy of these previous ideas (see also Chapter III. "Process Management", 5. "Stakeholder participation"). However, in addition to this observation, it should also be noted that, in accordance with materiality as defined by the CSR Directive Implementation Act (CSR-RUG), in a few places, the contents of the 2017 Non-Financial Report have now been classified as not relevant and have therefore not been elaborated on again in the 2018 Non-Financial Report. We also provide explanations of points portrayed in this Non-Financial Report for other reasons. 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 correlates above all with further air emissions as well as the consumption of resources and generation of waste. You can find further information on this in Chapter 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 Chapter III. "Process Management", 4. "Incentive Systems"; employee rights both with regard to information and the workforce's participation and also with respect to the inclusion of employee interests in decision-making processes, as well as the set of issues surrounding the development of junior staff, personnel growth and training and further education which we cover in Chapter V. "Society", 3. "Qualifications".

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

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

### 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 useful to attach absolute or relative targets across the Group to certain aspects. This is evidenced by the fact that we do not run any groupwide management systems, for instance 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

- Energy savings in the Salzgitter Group  
In line with the target of SZAG's energy efficiency network, a saving of 100,000 MWh from August 2016 to August 2019 through the implementation of corresponding efficiency measures throughout the Group.
- Heat treatment line investment project of Ilsenburger Grobblech GmbH  
With the new construction started in 2018, 200,000 t of plate steel are to be refined in energy-efficient processes from the year 2020. The use of modern technology prevents significant loss of exhaust heat – by comparison with current technology – and allows a substantial reduction in the volume of material transports by rail to be achieved by moving the heat treatment line from Salzgitter to Ilsenburg.
- Software-based management system  
Special software was introduced in the wake of conversion of the Integrated Management System of Salzgitter Flachstahl GmbH to meet the new requirements of the revised standards DIN EN ISO 14001, DIN EN ISO 9001 and IATF 16949. The aim is to make internal interfaces in particular – but also cross-company interfaces – more transparent from 2019, enabling existing synergies to be more effectively exploited.

#### Work/social issues

- Group mission statement “YOUNITED”  
Establishment within the workforce of the six values behind the Group mission statement “YOUNITED” through annual initiatives promoting the “Value of the year”.
- Groupwide talent pool  
Identification of talent across the Group with the objective of enhancing the Group's attractiveness as an employer by taking into account groupwide 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.



## 4. Depth of the value chain

Quality assurance for our products begins with the choice of suppliers for primary and raw materials. Lasting supplier relationships are of particular importance to Salzgitter AG due to its positioning in its markets, and procurement is therefore an essential part of our risk management. To ensure the demand-based supply of all Group companies, we aim for long-term partnerships with key suppliers. Cooperation based on trust, flexibility and reliability carry great weight here. When analyzing supply chains, the emphasis naturally lies on steel production at the Salzgitter and Peine facilities due to the large throughput of material. In the 2018 financial year, the Group's material expenditure stood at approx. € 6 billion with external sales of around € 9 billion. A major part of that expenditure, amounting to 21.3%, was accounted for by the purchase of raw materials and energy for steel production at Salzgitter Flachstahl GmbH (SZFG) and Peiner Träger GmbH alone. Procurement is conducted via SZFG's Purchasing Department, paying strict attention to all the principles of an integrated management system in accordance with current standards.

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 greater 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 questionnaire in 2015 to cover the most important sustainability issues that is closely based on the "Sustainability for Automotive Sector Suppliers" self-disclosure form used in the automotive industry. This form was first sent in 2016 to all major long-term suppliers of different raw materials, and it includes subject areas such as "Social sustainability" and "Compliance". Initial analysis showed that all long-term suppliers from the mining (iron ore and coal suppliers) and chemical industries have met SZFG's targets. The range of suppliers to be assessed on sustainability criteria is to be successively expanded in the coming years.

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

## III. Process Management

### 1. Responsibility

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

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

### 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.

Further details on that can be find in Chapter V. "Society" 1. "Employee rights", section "Corporate mission statement "YOUNITED".

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

"We attach high value to protecting the environment in all our actions. We minimize emissions and the use of energy within the 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 conserving 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" that "are to be seen as principles for action defining aims and methods" and which state among other things:

"Protection of the environment and conserving 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, respectful working environment. One important condition is a transparent and fair remuneration policy consistent with economic growth. This is guaranteed and supported by means of Group framework specifications for managers and the application of sector-specific collective agreements which preserve the competitiveness of the companies. In 2018, a total of 95% of our core workforce in Germany were working in companies subject to a collective agreement. When employing temporary workers we observe the legal framework specifications and require the temp work employer to provide wage supplements to the collective pay schemes of the temporary employment sector in accordance with sector-specific collective bargaining agreements, or to provide compensation on the level comparable to in-house employees, respectively (Equal Pay).

A Group company agreement on profit sharing in the Salzgitter Group that was comprehensively revised in 2018 governs the participation of our workforce in the success of the company for the majority of our companies within Germany. Profit shares are assessed on the basis of the Salzgitter Group's pre-tax earnings as well as the ROCE targets (ROCE = Return on Capital Employed) for Group companies which are defined annually by the Executive Board. If a Group minimum earnings target is met, all employees receive a basic bonus topped up in successful companies by an additional company component.

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

As far as the evaluation of members of the Executive 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 establishes an incentive for sustainable management and the creation of long-term value.

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 Executive 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 current remuneration system for the Executive and Supervisory boards can be found in our management report forming part of the annual report in Chapter 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 SRS-102-38 as not meaningful here with regard to the fairness of salaries. As the business activities in the Salzgitter Group are heavily diversified, a purely relative value – such as the ratio of the annual remuneration of the highest paid employee to the median of the total annual remuneration of all employees (SRS-102-38) – does not adequately reflect this state of affairs.

## 5. Stakeholder participation

Openness and transparency towards our partners form part of our guiding principles. From the outset, we have regarded dialog with stakeholders as a significant factor in the long-term success of the company. Such dialog acts as a driving force and helps us to identify opportunities as well as risks at an early stage and take them into account in the way we conduct our business. Special open days for customers on subjects relevant to sustainability, dialog with our neighboring communities and analysts' conferences are just a few examples of the events we stage to understand the viewpoints and needs of internal and external stakeholders and to integrate them into our own actions. Our commitment to the regional network "Allianz für die Region" at the Salzgitter location constitutes a further example. The alliance pools resources from political and administrative circles, industry and science, thereby establishing conditions vital for a strong region. In joint projects and programs, the spotlight falls on the spheres of action represented by 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 representatives from science, politics and the media, the automotive and finance sectors, a firm of auditors and an environmental research institute as well as union and works council members, discussed and assessed a wide range of issues. The outcome was a ranking which reflected the internal and external expectations placed on the reporting of Salzgitter AG on the subject of corporate responsibility. This extensive preliminary work and the results obtained from it were referenced in the 2017 Non-Financial Report. To add to these findings and update them, we conducted further stakeholder interviews with representatives of different groupings in September/October 2018 – as announced. They included a fund manager, customers, suppliers, regional and national politicians, representatives of associations, an environmental NGO, employee representatives as well as the regional press. The results from these interviews basically confirmed the substantive reporting priorities we had previously set.

Furthermore, they provided valuable pointers for structuring the report which – where practical – we have taken into account in the present 2018 Non-Financial Report.

## 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 already when selecting pre-development and development projects is that they must make economic and ecological sense. Numerous projects contain very specifically sustainable applications such as for lightweight automotive construction or systems for the generation of renewable energy. We accept the challenge of developing sustainable products and process solutions along the entire value chain. This will secure the long-term success of our company, and entails resource-efficient steel production, the optimized use of energy and the development of innovative materials, for instance 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 illuminate the level of importance accorded to the subject of sustainability in our company:

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

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

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

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

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

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

#### **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 ever stricter EU vehicle exhaust standards, the injection pressures for petrol engines have been increased from 200 to up to 400 bar, for example. Salzgitter Mannesmann Forschung GmbH (SZMF) initiated a development series to improve the fatigue resistance of stainless steel injection lines. This identified the potential of enhanced autofrettage (increasing durability through pulsating internal pressure) leading to increased fatigue strength in connection with very low risk of failure.

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

KHS GmbH, part of SZAG, has developed a filling machine for filling water in PET bottles under ultra-clean conditions that significantly reduces both the consumption of air and the use of cleaning agents. Further benefits

of the Innofill PET NV filling system lie in its closed, hygienic design, low space requirement, low maintenance and the accompanying cost saving for customers.

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

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

### Future R&D priorities for the Group

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

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

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

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

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

The Strip Steel Business Unit is focusing on new fields of application for high-strength steel with improved formability and residual elongation. Conventional grades are prioritizing the development of maximum strength hot strip grades and cold-rolled multiphase steels with improved product properties for the automotive industry. Besides the development and optimization of products, support for process optimization and efficiency increases, for instance in steel works, hot rolling mills and surface refinement is playing an increasingly important role. In the large-diameter pipes and plate segments, development activity concentrates mainly on further enhancing corrosion resistance (sour gas applications), especially with increasing wall thickness. Product developments with end users in the precision tubes segment are looking at hydraulic lines, for example, with improved corrosion protection or chassis parts made from precision tubes for automobiles.

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 undertake great efforts in our own production facilities to use less energy and natural resources.

One innovation topic that addresses the sustainability concept in particular measure, is described below.

#### **SALCOS®**

With its SALCOS concept®, (Salzgitter Low Carbon Steelmaking), 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 SZFG’s steel production at its Salzgitter facility while using existing production systems to the greatest extent possible. As part of this concept, SZAG has launched the GrInHy and “Wind Hydrogen” project. Here, research is conducted into new ways of producing hydrogen that in the future may make a contribution towards the production of steel with significantly reduced CO<sub>2</sub> emissions. You can find further information in Chapter IV. “The Environment” 3. “Emissions impacting climate” and at [salcos.salzgitter-ag.de](http://salcos.salzgitter-ag.de).

## IV. Environment

### 1. Utilization of natural resources

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

The environmental relevance of steel production and the constantly rising pressure on costs led the Salzgitter Group to focus on its own resource efficiency at an early juncture with a view to identifying a long-term strategy. 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 the process, we trust the specific skills of our employees evolved over time at a local level in individual companies. At a group level, the Department for Environmental Protection and Energy Policy defines the strategic focus of activities, in consultation with the Executive Board.

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

### 2. Resource management

Embedded in the Group Environmental Protection directive, the Environment and Energy Steering Committee has existed in the Salzgitter Group for more than 15 years. It represents the most important areas of the Group from the perspective of environmental impact and the consumption of resources. It reports directly to the CEO of Salzgitter AG (SZAG). The particular assignment of this body consists in organizing the exchange of relevant information on the subject of the environment and energy across the Group. As well as ensuring information transfer within this network, it also coordinates uniform strategies throughout the Group on issues regarding environmental policy and energy management. A further example of the operationalization of sustainability targets in resource management is the "Energy Management Group Forum" which 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 through a continuous process of learning from each other, thereby contributing at the same time to a reduction in greenhouse gas emissions. A further core element of the Energy Management Group Forum's work is to establish an "energy efficiency knowledge platform" with shared responsibility for registering efficiency measures already implemented or under examination and making them available to other Group companies. It comprises several hundred individual measures.

With this idea in mind, SZAG registered the Group's own energy efficiency network in 2016 as part of an initiative launched by the Federal Government. In the mid-2017, a specific target was set to implement energy efficiency measures across the Group from August 2016 to August 2019 with a cumulative saving of 100,000 MWh. As of October 2018, around 90% of this target had already been met.

The significance of the subject of environmental protection with respect to individual companies in our Group is directly related to the particular production processes and methods used and their basic potential impact on the environment. For example, a significantly higher number of statutory environmental regulations and

requirements apply to the integrated steel production at the Salzgitter facility than is the case for Group companies that only process steel. Furthermore, due to our sense of identity, we strive to treat natural resources responsibly and reduce the environmental impact to an unavoidable minimum. 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 current expenditure on environmental protection also shows the importance attached to it in the totality of our production processes. Expenditure in the 2018 financial year totaled around € 185 million (2017: € 181 million).

Following the criteria outlined in Chapter 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%. Contrary to the results of the materiality analysis conducted in 2018 in accordance with the CSR Directive Implementation Act, the present Non-Financial Report includes figures on water consumption and wastewater volumes as the resource of water is of strategic importance not only in terms of process technology but also with respect to volume, particularly for steel production at the Salzgitter facility.

The key indicators shown on energy consumption, waste, air emissions and greenhouse gas emissions (see Chapter IV. “The environment”, 3. “Emissions impacting climate”) for 2018 are partially based on the extrapolations of individual Group companies included in the report – particularly for the months of November and December. Taking account of cost- and benefit aspects, we have relied on the key indicators already published in the 2017 Non-Financial Report for the 2017 financial year. Any extrapolations it contains in it have not been retrospectively adjusted. Wherever key indicators for the current reporting year differ from those of the previous year by more than 10%, comments on the change have been inserted directly below the relevant table.

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

		2018	2017
<b>Iron ore (lump ore, pellets, ...)</b>	<b>kt</b>	<b>6,055</b>	<b>5,811</b>
<b>Reduction agents</b>			
Coking coal	kt	1,885	1,920
Bought coke	kt	188	225
Anthracite and coal fines	kt	779	612
<b>Other auxiliary materials</b>			
Limestone and dolomite	kt	1,109	1,061
Alloys and metal	kt	103	99
Auxiliaries such as Dunit, ...	kt	210	195
<b>Total scrap</b>	<b>kt</b>	<b>2,209</b>	<b>2,177</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 materials which are input for the final product and whose amount is larger than 50 kt a year.



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

		2018	2017
<b>Primary energy sources<sup>2)</sup></b>	<b>GWh</b>	<b>4,411</b>	<b>4,077</b>
<b>Energy used to generate steam and electricity from waste gas and waste heat</b>	<b>GWh</b>	<b>1,987</b>	<b>1,928</b>
<b>Electricity consumption</b>	<b>GWh</b>	<b>2,663</b>	<b>2,682</b>
of which external power supply	GWh	1,227	1,315
<b>Total energy consumption</b>	<b>GWh</b>	<b>5,638</b>	<b>5,392</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, Berg Pipe Mobile Corporation, Berg Pipe Panama City Corporation, GESIS Gesellschaft für Informationssysteme mbH, Glückauf Immobilien GmbH, Hansaport Hafenbetriebsgesellschaft mbH, Klöckner Desma Elastomertechnik GmbH, DESMA Schuhmaschinen GmbH, KHS GmbH, MÜLHEIM PIPECOATINGS GmbH, Salzgitter Automotive Engineering GmbH & Co. KG, Salzgitter Hydroforming GmbH & Co. KG, Salzgitter Mannesmann Forschung GmbH, TELCAT KOMMUNIKATIONSTECHNIK GmbH, TELCAT MULTICOM GmbH, Verkehrsbetriebe Peine-Salzgitter GmbH, VPS Infrastruktur GmbH, KHS Corpoplast GmbH, Salzgitter Mannesmann Handel GmbH, Salzgitter Mannesmann Stahlhandel GmbH, Stahl-Center Baunatal GmbH, Universal Eisen und Stahl GmbH.

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

### Water consumption

		2018	2017
<b>Total water consumption</b>	<b>Thousand cubic meters</b>	<b>18,614</b>	<b>18,493</b>
of which drinking water	Thousand cubic meters	2,523	2,693
of which industrial water/service water	Thousand cubic meters	16,091	15,800

### Waste water

		2018	2017
<b>Total waste water</b>	<b>Thousand cubic meters</b>	<b>13,749</b>	<b>15,877</b>
of which direct discharge	Thousand cubic meters	13,211	15,315
of which indirect discharge	Thousand cubic meters	538	562

While the volume of water consumed in the current reporting year was in a similar range to 2017, waste water volumes for 2018 were appreciably lower than for the previous year. This is basically due to very low rainfall and high evaporation rates in the comparatively dry, warm summer of 2018.

### Waste

		2018	2017
<b>Total waste</b>	<b>kt</b>	<b>1,231</b>	<b>1,011</b>
of which recycled	kt	798	730
Hazardous waste as a share of the total	kt	62	55

There was a noticeable increase in the amount of waste generated in 2018. The majority of it results from construction work in connection with the current "Heat Treatment Line" investment project at Ilseburger Grobblech GmbH (see also Chapter II. "Strategy", 3. "Objectives"). Disposal of the excavated soil / rubble generated is leading to higher numbers in the key waste indicators shown.

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

		2018	2017
NO <sub>x</sub>	t	4,839	4,730
SO <sub>x</sub>	t	4,692	5,450
Particulate matter (PM10)	t	162	183

<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.

Lower SO<sub>x</sub> emissions were achieved in 2018 than in 2017 as a result of technical and operational measures such as optimizing process control in Salzgitter Flachstahl GmbH's sinter plant. A reduction in emissions was also recorded for the parameter of fine dust particles. This result is primarily based on operating and technical factors such as lower operating hours, that as well as unavoidable variations caused by the method used which always play a role in the measurement of all indicators.

### 3. Emissions impacting climate

Salzgitter AG (SZAG) participated in the CDP reporting format (formerly Carbon Disclosure Project) for the first time in 2016 and subsequently in 2017 and 2018. For its initial participation in 2016, SZAG was crowned "Best Newcomer Germany" by CDP. While we achieved a "B" rating in 2016 and 2017, we managed to further improve our CDP performance in 2018 and for the first time we were awarded an "A-" rating.

CDP is an international not-for-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 data-base and analysis on the subject in the world.

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

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

We have 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 shown in Section 2 "Resources Management" as well as details from ETS monitoring.

As an integrated steel mill, Salzgitter Flachstahl GmbH (SZFG) occupies a special position with regard to GHG emissions, and it therefore operates its own energy savings scheme and GHG emissions reduction program. In 2017, these programs achieved a cumulative reduction in Scope 1 and Scope 2 emissions of 190 kt CO<sub>2</sub> as a direct consequence of efficiency measures. In 2018, the figure was 208 kt CO<sub>2</sub>.

## GHG emissions

		2018	2017
Direct GHG emissions from operating plants (Scope 1)	kt CO <sub>2</sub>	8,710	8,470
Indirect GHG emissions (Scope 2)	kt CO <sub>2</sub>	600	693
Other indirect GHG emissions from feedstock purchase <sup>1)</sup> (Scope 3)	kt CO <sub>2</sub>	1,508	1,362
Reduction of GHG emissions as a direct result of efficiency measures <sup>2)</sup>	kt CO <sub>2</sub>	208	190

<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, affecting Scope 1 and Scope 2.

The reduction in Scope 2 emissions in the current reporting year by comparison with the previous year is due both to lower volumes of external power procured (see also IV “Environment” 2 “Resource Management”) and to the lower average carbon dioxide emission factor in the German electricity mix. The higher Scope 3 emissions in 2018 result from increased use of lime at SZFG as well as higher emissions from pellet production at the relevant suppliers.

The greatest challenge for the Group in connection with emissions affecting the climate is the fact that CO<sub>2</sub> emissions based on technologies development largely today on an international scale and in the Salzgitter Group have nearly reached their minimum possible level within the process boundaries set by laws of nature. There are therefore strict limits to future reductions in greenhouse gas emissions achievable merely through efficiency measures. SZAG therefore set up a project named SALCOS® (Salzgitter Low Carbon Steelmaking) in 2015 together with the Fraunhofer Gesellschaft. The aim is to examine and pursue a gradual transformation from today’s carbon-based to hydrogen- and electricity-based steel production. The measures derived from the project are intended to be implemented in the Salzgitter steel works for the successive, stepwise conversion of production.

In order to achieve a significant degree of decarbonization in its primary steelmaking, SZAG wants to exploit a unique feature of iron metallurgy: Hydrogen can replace carbon in the reduction of iron ore, which leads to the formation of water (H<sub>2</sub>O) instead of carbon dioxide (CO<sub>2</sub>). The process heat required in steelmaking and further processing can also be provided by electrical energy instead of carbon-based sources. This means that ultimately nearly all CO<sub>2</sub> emissions caused by steel production can be avoided.

To make a clear distinction between our new ideas and the concepts of CO<sub>2</sub> usage (Carbon Capture and Usage, CCU) or storage (Carbon Capture and Storage, CCS), we coined the expression “Carbon Direct Avoidance” (CDA) in November 2016. The purpose of this neutral acronym is to show that our approach to the problem is not restricted to SZAG, but is technically applicable in principle at all integrated steelmaking facilities around the world.

In the course of the project, the preconditions and impact of the proposed implementation steps on our Group’s integrated steel mill in Salzgitter will be examined. Scientific support comes from the neutral expertise of “Fraunhofer Gesellschaft”, one of the leading research organizations for applied science in Europe.

If SALCOS® is implemented, all technical measures required for this technology are to be realized at the Salzgitter facility in order to safeguard our company’s existing production plants and jobs as far as possible and prevent any carbon leakage to areas outside the ETS.

The project is based on a modular concept offering the possibility of gradual implementation. The steps involved can adapt to future challenging CO<sub>2</sub> reduction targets in Europe after 2030. Energy-efficient steelmaking at the integrated steel mill in Salzgitter currently in existence has to be extensively modified on the basis of the SALCOS® concept, as outlined below.

The combination of direct reduction technology and electrolysis technology permits the optimum use of volatile renewable energies as, depending on their availability, electrolytic hydrogen can flexibly replace natural gas in the direct reduction process, thus also allowing for storing of renewable energy in excess production of directly reduced iron, so-called DRI.

It must be emphasized that combining such a flexibly operated direct reduction plant with an existing integrated steel mill has never been implemented anywhere in the world, and thus represents a major challenge primarily in terms of process integration but also from an economic perspective. As is the case with alternative concepts to reduce CO<sub>2</sub> emissions in the steel industry, the deployment of SALCOS® within the given regulatory and economic framework conditions could lead to an increase operating costs and jeopardize competitiveness. Against this background, corresponding framework conditions must be created which enable the proposed project to be realized.

The major strength of SALCOS® is that its approach is based on industrially established technology (gas-based direct reduction) that can be adapted in response to future challenges. From a technical perspective, this offers the chance to achieve a significant reduction in CO<sub>2</sub> emissions early, thus not requiring any tedious and costly laboratory facilities, by using a plant on an industrial scale. It is our conviction that we must act now if economy and society wish to achieve the climate targets set for 2050. This is where SALCOS® clearly differs from many other decarbonization approaches, most of which mainly can only be realized on an industrial scale from 2035 onwards.

If production is completely converted and only hydrogen is used for iron reduction, the maximum reduction in CO<sub>2</sub> emissions achievable with the SALCOS® concept is around 95%.

As with comparable approaches, SALCOS® will require very high investment in new plant equipment which will be in the order of several billion euros if it is fully implemented. In this context, the following points should be noted: For the foreseeable future, techniques for reducing CO<sub>2</sub> emissions will not offer any higher energy efficiency, lower energy costs or better product quality than the status quo that might lead to lower production costs or higher sales. The added value lies solely in steelmaking with reduced CO<sub>2</sub> emissions in order to fulfil the task that society has set us. The domestic steel industry must respond locally to the challenge of reducing CO<sub>2</sub> emissions while continuing to hold its own against global competition. We are therefore applying for considerable sums of public funding in order to implement SALCOS®.

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

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

#### Coal and steel co-determination

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

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

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

## Corporate mission statement YOUNITED

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

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

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

In 2017/2018, the “Customer orientation” value was highlighted. Working with the motto “Straight course to customer”, the companies took a detailed look at the needs and requirements of their customers. Joint cooperation was analyzed in interviews with customers and company workshops, customer wishes explored and measures of excellence defined. In 2018/2019, the focus will be on the “Groupwide cooperation” value. The initiative “Waking potential across the Group” is dedicated to cross-company workshops. Their aim is to optimize existing processes or to discuss new topics using the existing know-how within the Group. The exchange of guest visitors, scouts, between Group companies also serves to intensify collaboration effectively.

The concept of the “YOUNITED” values of the year was designed as a long-term project and will accompany the Salzgitter Group until 2019. Work on the “YOUNITED” mission statement will be continued beyond that, however.

## Communication and participation

We are continuously refining our products and processes. The creativity and inventiveness of our employees are major drivers in this process – potential that we appreciate and which we want to promote to the best of our ability. The management of ideas offers employees the opportunity to submit their suggestions for improvements, thereby actively promoting changes in their working environments. In 2018, we recorded a total of 3,034 suggestions for improvements in Germany.

We regularly and actively involve our workforce in the further development of the Group. To this end, the groupwide employee survey IMPULS has already been conducted three times. The results were secured within the structured follow-up process and the measures derived from them implemented. We currently intend to conduct another groupwide employee survey in 2019.

We ensure that our employees are informed of current issues in the Group through our extensive website, 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 demographic of the population and the structure of employment in Germany also impact the Salzgitter Group. The diversity of Salzgitter AG's (SZAG) products is matched by that of the workforces, workplaces and the regional framework conditions at individual Group locations. All this requires a human resources policy which reflects the different demands made of SZAG and that, as a result of suitable measures, both enables the employees to enjoy fulfilling and fruitful work and guarantees the company's long term performance.

### Employee structure

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

The core domestic workforce of Salzgitter Group companies headquartered in Germany increased marginally in 2018 by comparison with the previous year (2017: 19,036) and stood at 19,144 at the end of 2018. The following table shows the split by gender and employee category:

#### Core workforce Germany by gender and employee category

	2018		2017	
	m	f	m	f
Wage earners	10,845	270	10,797	270
Tariff	3,921	1,829	3,888	1,840
Non-tariff	1,715	289	1,685	275
Senior executives	249	26	255	26
<b>Total core workforce</b>	<b>16,730</b>	<b>2,414</b>	<b>16,625</b>	<b>2,411</b>

The total consolidated workforce at home and abroad in 2018 amounted to 25,363. The majority of employees in the Salzgitter Group (81%) work in Germany. A further 9% are employed in other EU countries and around 10% of our workforce work in non-European facilities.

The proportion of female employees in the Group in Germany stood at 12.6% in 2018. Female students are still heavily underrepresented in scientific and technical subjects – a factor which also affects companies' workforce structures. The distribution of female members of the workforce in the respective areas of activity of the Salzgitter Group is correspondingly uneven.

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

#### Workforce by age group

Age structure in %	2018	2017
Up to 30 years	13.8	13.7
31 to 50 years	46.8	48.1
Over 50 years old	39.3	38.2

A description of changes in the workforce in 2018 and information on the composition of our Supervisory Board can be found in the management report forming part of 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 better work-life balance will also affect the Salzgitter Group. SZAG therefore launched the groupwide project "GO – The Generation Offensive 2025" as early as 2005 to manage these diverse challenges.

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

#### Promotion of women

SZAG regards the promotion and 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 professions.

In addition, the target market for the mentoring program for women is composed of dedicated female managers and experts on every level of the hierarchy. It serves to develop them further in their managerial role or to support them on their path to taking over managerial responsibility. Acting in the role of mentors are senior executives or CEOs in the Group who are willing to share their professional experience and insights as well as their network of contacts with the mentee in confidence and to support them as their career develops. Since the start of the program in 2012, 47 mentees and 37 mentors have already helped the project to achieve lasting success.



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

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

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

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

SZAG offers workplaces adapted to employee needs for the integration of people with severe disabilities. A Group framework 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. Companies define their targets on their own initiative, for example on the appointment or training of young people with disabilities. To meet these targets, "Integration Teams" can be set up in individual companies that draw up the specific measures to be implemented. The proportion of employees in the Salzgitter Group in Germany with severe disabilities was above 5% in the last few years, in line with statutory demands.

### **Company pension**

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

### **Demography fund**

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

### **Occupational disability pension**

Since 2018, the Salzgitter Group has been offering most of its employees the chance to insure themselves against occupational disability risks by deferring part of their remuneration. The company has concluded a group contract with an insurer for this purpose that offers employees favorable collective terms. The company also supports occupational disability pensions through an employer's contribution.

### **Health and Safety at work**

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

**Health and safety management**

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

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

**Safety at work**

	2018	2017
Rate H <sup>1)</sup>	7.9	8.1
Rate h* <sup>2)</sup>	12.4	12.3

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

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

The frequency of accidents in relation to one million hours worked from the fourth day of absence fell slightly from 2017 to 2018, while the number of accidents at work from the first day of absence per million hours worked increased slightly. In 2018, there were no work-related accidents resulting in death within our workforce.

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

**The “Out of love for steel” health and safety campaign**

Technology and organization are important prerequisites for a high standard of health and safety at work. Safety-conscious, proactive behavior and actions on the part of employees represent additional significant factors. This company-wide campaign uses new approaches to reinforce the culture of safety to draw attention to health and safety issues. For example, the focus is placed on employees and their actions 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 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 includes therapeutic and rehabilitational measures.

We subscribed to the “Luxembourg Declaration on Workplace Health Promotion” in the EU as early as 2004. It aims not only to prevent work-related illnesses but also to actively reinforce the potential for good health and improve the feeling of well-being at the workplace. To this end, we have developed numerous measures in the GO sphere of action “Health, Fitness and Ergonomics”. Offers in Group companies range from “The Salzgitter

ter AG Health Check”, via proprietary fitness centers and collaborations with external partners to special days of action with the emphasis on health and prevention.

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

### 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 provide suitable opportunities in the Group for any age and position.

#### Securing the workforce of the future

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

Visits to companies, practical days and training in submitting applications as well as other professional orientation activities enable our pupils to gain practical insights and show them the wide-ranging professional prospects on offer in the Salzgitter Group. In line with our slogan “Be a part of something BIG”, we have also developed a multi-format campaign for recruiting young talent that can be utilized throughout the Group. An appropriately decorated public bus has been advertising our training and dual study courses in the region of Braunschweig/Salzgitter – a tactic we have employed for the first time.

Our commitment to higher education institutions serves to inspire students to take an interest in the steel industry and integrate young, highly qualified and talented individuals into the company over the long term. To ensure that we are successful in that endeavor, we work with numerous higher education institutions. We actively design curricula together, support students’ projects and offer students the chance to take on internships and write their theses and dissertations with close support. Together with AIESEC, an international organization of young people, we help students to make a commitment to social projects around the world.

#### Training

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

**Vocational training**

SZAG currently offers training in over 40 professions and dual study courses in the industrial/technical, commercial and IT sphere. As of December 31, 2018, a total of 1,051 apprentices were employed in Germany alone. There were also a further 251 other training contracts in Germany with interns, working students and trainees. Vocational training represents an important investment in the future in our eyes. This is demonstrated by the proportion of trainees which currently stands at 5.2%. Securing the future prospects of trainees by giving them follow-on employment not always based on requirements, reinforces the processes of obtaining and extending qualifications, and it constitutes an important element in countering demographic challenges. The quality and commitment of our training at our Salzgitter facility received multiple awards in 2018 including from the business magazines Capital and Focus Money which crowned it “Germany’s Best Trainer” and “Germany’s Best Training Companies”.

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

**Personnel growth**

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

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

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

The aim of the Salzgitter Group’s succession and talent management launched in 2017 is initially to identify and encourage successors (with a specific target function) and talented individuals (with potential for more far-reaching management assignments without as yet any defined personal development target) for the general manager level and managers reporting directly to them in a standardized form across the Group. A precise analysis of their potential is obligatory for all those nominated. Talented individuals are integrated into a talent pool and they undergo a high-quality international program for personnel growth at a Group level. The development of successors is managed on a decentralized basis in the companies. Succession and talent management was initially launched successfully in seven pilot companies for a period of one year. The pilot phase was extended in 2018, including the integration of all German Group companies in which the Group has a majority shareholding.

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

**Further training**

As well as the initial training, continuous further training represents an essential means of securing motivated, qualified employees and of preserving their employability for the rest of their working lives. In 2018, we registered 7,545 participants in a total of 13,870 further training measures.

## 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.

We will analyze the requirements of the national action plan "Business and Human Rights" – in regards to Salzgitter Group – and review to what extent they already have been or can be implemented.

## 5. Political dialog

The political framework conditions are of crucial importance for the successful positioning of companies facing global competition. In times of global trading and international value chains, reliable rules are an essential factor for conducting business. Against the background of growing protectionist measures in international (steel) trade, multilateral agreements and institutions are being increasingly called into question. A lack of standards or different norms around the world in numerous political areas, for instance in environmental, climate or energy policy, can create considerable distortion of competition.

We therefore advocate for an international level playing field which provides fair framework conditions for German industry. To do so, we follow the political debate systematically, maintain contact with relevant political institutions and contribute our expertise to political processes. In talks with communal, regional, national and European bodies, we rely on precise information and credible communication. We would refer here 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 autonomous monitoring of political discourses relevant to the Group is an important building block of our political communication. Legislation is already substantially designed at the EU level. It is therefore crucially important to identify legislative measures which directly or indirectly affect Group activities or its business environment at an early stage. To intensify this area of responsibility and the representation of the Group's interests at EU level, the Salzgitter Group has its own liaison office in Brussels staffed by one employee. Due to these political activities, Salzgitter AG (SZAG) has been registered in the EU's Transparency Register since 2014. Interested parties can obtain insights here into the resources spent for its political work at European level.

Besides policies on energy, the environment and climate (for example, the reform of EU emissions trading from 2021, border adjustment mechanisms, low carbon technologies), the main political issues of the last few years actively followed by the Group included trade policy (US Section 232, trade defense actions and instruments, reform of the WTO), EU research and innovation policy (such as the EU research and innovation framework program – Horizon Europe) as well as employment and social policies.

The Salzgitter Group has been trustfully working for years as a know-how incumbent with associations and cross-sectoral initiatives to follow legislative procedures and promote constructive cooperation between politics, industry and society. Representatives of the Group are active in various associations both at a national and European level. First and foremost, these include the Federation of German Industries, the Business Confederation of Lower Saxony, Eurofer, the German Steel Federation, the European Steel Tube Association, the German Steel Tube Association, bauforumstahl [German Steel Construction Forum], the Federal Association of the German Steel Trade and the German Engineering Federation (VDMA). The foundation of all work in associations is a set of rules on compliance meeting legal requirements and the observance of a lawful code of conduct (see chapter Conduct compliance with laws and directives, Corporate compliance).

Beyond its participation in associations, SZAG is actively engaged in advisory groups in the public sector and the EU. 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 represented in these advisory bodies to the State government as well as in the working groups assigned to it.

SZAG regularly participates on the employers' side in the "Sectoral social dialogue – Steel" set up by the European Commission. Furthermore, delegates from the company take part in expert groups set up by the European Commission such as the "RFCS – Steel Advisory Group (SAG)", "RFCS – Technical Group (TGS9)" 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.

## 6. Conduct compliant with laws and directives

### Corporate Compliance

Corporate Compliance, meaning the observance of all external and internal regulations (laws, ordinances, provisions in articles of association, rules of procedure, internal directives, etc.) is regarded as an important part of Corporate Governance in the Salzgitter Group. As part of its prudent and scrupulous management of the company, the Executive 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 Executive 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 (Section 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, which means 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 material cases of corruption were confirmed in 2018 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. For detailed information we refer to the legal risks described in Section V. “Opportunities and Risk Report, Guidance” 2. “Individual Risks” of the management report in the annual Report. Sales of the Salzgitter Group were also generated in regions with a Transparency International Corruption Index of under 60 – also including some Western European countries – with due attention paid to the particular risk position.

The main 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, new regulations for combating money laundering, for example.

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 Executive 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 Executive 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.





# Notes

# Notes

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