H1

Interim Report
1st Half 2020

SALZGITTER AG
Stahl und Technologie

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The Salzgitter Group in Figures

		H1 2020	H1 2019	+/–
Crude steel production	**kt**	**2,952.7**	**3,412.1**	**–459.4**
External sales	**€ m**	**3,631.0**	**4,526.2**	**–895.2**
Strip Steel Business Unit	€ m	902.8	1,175.5	–272.7
Plate/Section Steel Business Unit	€ m	363.2	442.3	–79.0
Mannesmann Business Unit	€ m	494.5	582.3	–87.8
Trading Business Unit	€ m	1,229.2	1,578.3	–349.0
Technology Business Unit	€ m	574.6	656.9	–82.3
Industrial Participations/ Consolidation	€ m	66.7	91.0	–24.3
EBIT before depreciation and amortization (EBITDA)	**€ m**	**49.7**	**353.7**	**–304.0**
Earnings before interest and taxes (EBIT)	**€ m**	**–99.0**	**177.3**	**–276.3**
Earnings before taxes (EBT)	**€ m**	**–127.8**	**145.3**	**–273.1**
Strip Steel Business Unit	€ m	–69.2	60.3	–129.5
Plate/Section Steel Business Unit	€ m	–27.0	0.6	–27.5
Mannesmann Business Unit	€ m	–22.7	9.0	–31.8
Trading Business Unit	€ m	–15.8	4.1	–19.9
Technology Business Unit	€ m	–10.6	16.1	–26.7
Industrial Participations/ Consolidation	€ m	17.4	55.1	–37.7
Consolidated result	**€ m**	**–144.7**	**96.4**	**–241.1**
Earnings per share – basic	**€**	**–2.70**	**1.73**	**–4.43**
Return on capital employed (ROCE)[1]	**%**	**–6.3**	**7.9**	**–14.2**
Cash flow from operating activities	**€ m**	**–121.5**	**–25.9**	**–95.6**
Investments[2]	**€ m**	**209.9**	**306.6**	**–96.7**
Depreciation/amortization[2]	**€ m**	**–148.7**	**–176.4**	**27.7**
Total assets	**€ m**	**8,124.4**	**9,269.2**	**–1,144.8**
Non-current assets	**€ m**	**4,128.0**	**4,118.8**	**9.2**
Current assets	**€ m**	**3,996.3**	**5,150.3**	**–1,154.0**
of which inventories	€ m	2,047.0	2,341.2	–294.2
of which cash and cash equivalents	€ m	401.5	663.2	–261.7
Equity	**€ m**	**2,795.5**	**3,229.5**	**–434.0**
Liabilities	**€ m**	**5,328.9**	**6,039.7**	**–710.8**
Non-current liabilities	€ m	3,564.2	3,796.8	–232.6
Current liabilities	€ m	1,764.7	2,242.9	–478.3
of which due to banks[3]	€ m	949.1	997.6	–48.5
Net financial position on the reporting date[4]	**€ m**	**–472.3**	**–164.4**	**–307.9**
Employees				
Personnel expenses	€ m	–846.0	–890.7	44.7
Core workforce on the reporting date[5]	empl.	23,009	23,683	–674
Total workforce on the reporting date[6]	empl.	24,653	25,378	–725

Disclosure of financial data in compliance with IFRS
[1] Annualized
[2] Excluding financial assets, as from FY 2019 incl. non-cash additions from the initial application of IFRS 16 Leases
[3] Current and non-current bank liabilities
[4] Including investments, e.g. securities and structured investments
[5] Excl. trainee contracts and excl. non-active age-related part-time work
[6] Incl. trainee contracts and incl. non-active age-related part-time work

Profitability of the Group and its Business Units

Profitability of the Group

		Q2 2020	Q2 2019	H1 2020	H1 2019
Crude steel production	kt	1,271.2	1,672.3	2,952.7	3,412.1
External sales	**€ m**	**1,522.7**	**2,232.4**	**3,631.0**	**4,526.2**
EBIT before depreciation and amortization (EBITDA)	€ m	–7.6	125.4	49.7	353.7
Earnings before interest and taxes (EBIT)	€ m	–82.1	36.4	–99.0	177.3
Earnings before taxes (EBT)	**€ m**	**–96.4**	**19.4**	**–127.8**	**145.3**
Consolidated result	**€ m**	**–101.0**	**–0.3**	**–144.7**	**96.4**
Return on capital employed (ROCE)[1)]	**%**	**–10.0**	**2.8**	**–6.3**	**7.9**
Investments[2)]	€ m	115.0	105.1	209.9	306.6
Depreciation/amortization[2)]	€ m	–74.6	–89.0	–148.7	–176.4
Cash flow from operating activities	€ m	21.3	–79.5	–121.5	–25.9
Net financial position[3)]	**€ m**	**–472.3**	**–164.4**	**–472.3**	**–164.4**
Equity ratio	%			34.4	34.8

1) Annualized
2) Excluding financial assets, as from FY 2019 incl. non-cash additions from the initial application of IFRS 16 Leases
3) Including investments, e.g. securities and structured investments

The Salzgitter Group's **external sales** were down by 20% in the first half of 2020 compared with the year-earlier period (€ 3,631.0 million; H1 2019: € 4,526.2 million), which was due in particular to lower volumes. The **pre-tax result** came in at €–127.8 million (H1 2019: € 145.3 million), essentially reflecting the decline in the capacity utilization of the Salzgitter Group's subsidiaries of between 10 and 70% in the second quarter compared with 2019, and the resulting lower earnings contributions of all business units. A counter effect emanated from rigorous measures introduced at an early stage to reduce costs and secure liquidity, along with a contribution of € 34.0 million from Aurubis AG, an investment accounted for by the equity method (H1 2019: € 56.4 million). An **after-tax result** that stood at €–144.7 million (H1 2019: € 96.4 million) brings **earnings per share** to €–2.70 (H1 2019: € 1.73) and **return on capital employed** to –6.3% (H1 2019: 7.9%). The **net financial position** (€–472.3 million; H1 2019: €–164.4 million) declined above all due to the payment made to the German Federal Cartel Office in the first quarter. With an **equity ratio** of 34.4%, the Salzgitter Group's balance sheet continues to be sound (H1 2019: 34.8%).

Special items / EBT Business Units and Group

In € million	EBT H1 2020	EBT H1 2019	Restructuring H1 2020	Restructuring H1 2019	Impairment/ Reversal of impairment H1 2020	Impairment/ Reversal of impairment H1 2019	Other H1 2020	Other H1 2019	EBT without special items H1 2020	EBT without special items H1 2019
Strip Steel	–69.2	60.3	–	–	–	–	–	–	–69.2	60.3
Plate/Section Steel	–27.0	0.6	–	–	–	–	–	–	–27.0	0.6
Mannesmann	–22.7	9.0	–	–	–	–	–	–	–22.7	9.0
Trading	–15.8	4.1	–	–	–	–	–	–	–15.8	4.1
Technology	–10.6	16.1	–	–	–	–	–	–	–10.6	16.1
Industrial Participations/ Consolidation	17.4	55.1	–	–	–	–		–	17.4	55.1
Group	**–127.8**	**145.3**	**–**	**–**	**–**	**–**	**–**	**–**	**–127.8**	**145.3**

Return on Capital Employed (ROCE)

In € million	H1 2020	H1 2019
EBT	–127.8	145.3
+ Interest expenses	32.7	39.2
– Interest expenses for pension provisions	16.2	19.2
= EBIT I	**–111.3**	**165.3**
Total assets	8,124.4	9,269.2
– Pension provisions	2,298.5	2,519.3
– Other provisions excluding provision for income taxes	527.5	636.0
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting, derivatives	1,291.5	1,474.8
– Deferred tax claims	473.0	447.5
= Capital employed	**3,533.9**	**4,191.6**
in %		
ROCE	**–6.3**	**7.9**

ROCE is an important financial performance indicator and an integral part of the internal system of management and control. The quantitative, performance-related target set for the Salzgitter Group consists of ROCE of at least 12 % over an economic cycle that we generally define as a period of five years. ROCE came in at –6.3 % in the first half of 2020 (H1 2019: +7.9 %).

More detailed explanations on the derivation of ROCE are provided in the section on “Financial Control System” of the 2019 Annual Report.

Earnings Before Interest and Taxes (EBIT) / Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

In € million	H1 2020	H1 2019
EBT	– 127.8	145.3
+ Interest expenses	32.7	39.2
– Interest income	3.9	7.3
= EBIT	**– 99.0**	**177.3**
+ Depreciation / amortization[1)]	148.7	176.4
= EBITDA	**49.7**	**353.7**

[1)] Depreciation / amortization of tangible, intangible fixed assets and non-current financial assets

The EBIT and EBITDA earnings ratios indicate the operating strength of a company set apart from its capital structure. These ratios allow an additional analysis and assessment of a company's results, as well as facilitating comparability with its peers at an operating level. Differences in taxation specific to the respective country, as well as special features concerning the structure of financing and property, plant and equipment of the individual company, can therefore be disregarded. With the lower level of depreciation and amortization, the decline in the pre-tax result of the first six months of 2020 is also reflected in lower EBIT and EBITDA.

Strip Steel Business Unit

		Q2 2020	Q2 2019	H1 2020	H1 2019
Order intake	kt	640.9	1,143.6	1,834.0	2,282.4
Order backlog on reporting date	kt			779.4	932.4
Crude steel production	kt	815.2	1,067.6	1,884.3	2,220.1
Rolled steel production	kt	650.9	854.0	1,595.2	1,765.0
Shipments	kt	781.8	1,145.4	1,990.2	2,317.6
Segment sales[1)]	**€ m**	**489.7**	**763.2**	**1,237.9**	**1,568.5**
External sales	**€ m**	**336.6**	**576.7**	**902.8**	**1,175.5**
Earnings before taxes (EBT)	**€ m**	**–62.4**	**14.0**	**–69.2**	**60.3**

[1)] Including sales with other business units in the Group

Development of the European steel market

The impact of the Corona pandemic determined global economic activity in the first half of 2020. The European steel industry was also caught up in the resulting recession from mid-March onward. The weakness of important customer groups, with the automotive industry and mechanical engineering leading the way, caused a massive slump in the demand for steel in Europe that, according to the European Steel Association Eurofer, has temporarily contracted by around 50% since the outbreak of the COVID-19 pandemic. Some segments of the steel processing industry saw even steeper declines. Only construction-related sectors continued to perform well. With demand dropping off drastically, the majority of European steel producers have been forced to reduce capacities in the individual production locations. Crude steel output in Europe shrank by around 16% in the first six months of the year, compared with the result of the year-earlier period that was in any case low. Although global steel production decreased by some 7% overall in the same period, a few important countries such as China, but also Russia and Turkey, even ramped up their production instead of adjusting it to demand. Faced with the danger that insufficient domestic demand would now cause the high stock levels of these countries to flood the market, Europe's steel industry has been working toward having the existing safeguard measures reviewed. Nevertheless, the tightening of measures desired did not take place and the changed economic situation caused by the Corona crisis was not factored into the changes approved by the EU Commission and enacted on July 1. As a result, the share of imports in market supply rose. The gradual return of the steel processing sectors to a normal level was recently reflected in a slight recovery in demand and thus in new orders placed with steel producers. At the same time, the steep downtrend in the price of steel seems to have bottomed out, and the first signs of a stabilization have appeared.

Procurement

Iron ore

Strong demand in the run-up to the Chinese New Year celebrations enabled the IODEX 62% Fe CFR China benchmark price for the spot market to start the year at around 93 USD/dmt. Only upon the outbreak of COVID-19 and the resulting collapse in demand did the benchmark price drop below the 80 USD mark again at the start of February. Over the course of the quarter, prices moved within a range of between 80 and 90 USD/dmt. The average price in the first three months of 2020 stood at 89 USD/dmt CFR China, reflecting an increase of just under 8% compared with the previous year's quarter. Price volatility persisted in the second quarter. While prices in April came under pressure due falling global demand in anticipation of excess supply in the market, the end of May saw a trend reversal: Restrictions in South Africa and Canada imposed by the authorities to control the virus and its rapid spreading in Brazil resulted in a low supply of iron ore. An upturn in steel production and low inventory levels triggered a strong need to purchase from China, which lifted the benchmark price by around 20% at the start of June to just over 100 USD/dmt. In the second quarter, prices averaged 93 USD/dmt CFR China, reflecting the level at the start of the year (–7% compared with the previous year's quarter). We hedge defined iron ore volumes in order to mitigate the price risks resulting from procurement.

Coking coal

Coal production and logistics initially took a greater hit from the COVID-19 epidemic than coking plants and steelworks in the period under review. Consequently, many traders and consumers stocked up on material to be prepared for potential shortfalls and delivery delays. The increased demand for coking coal traded seaward coincided with relatively stable supply. Disruptions due to weather conditions in the logistics chain in Australia nevertheless caused frequent price fluctuations. At the end of the first quarter, prices slipped notably in response to weaker demand from China, as well as from India and Europe, with a sustained high level of Australian coking coal production. The average price in the first quarter stood at 155 USD/t, down one quarter compared with the year-earlier period. This trend persisted in the second quarter as well. The price of high-grade coking coal dropped from its peak in mid-March through to the start of May by more than 50 USD/t to 109 USD/t. The average price in the second quarter came in at 118 USD/t FOB Australia. We hedge defined coking coal volumes in order to mitigate the risks resulting from procurement.

Business development

Given the steep decline in demand, above all in the automotive industry that is important for the Strip Steel Business Unit, **order intake** slumped in the second half of March and, similar to **orders on hand**, dropped considerably below the first six months of 2019. **Crude steel production** and **rolled steel output** therefore did not match the year-earlier figures in the first half of 2020 either. The blast furnace that was taken out of production in late summer 2019 is still in shutdown. **Shipments** declined by one third in the second quarter compared with the good previous quarter and were therefore notably lower in the reporting period compared with the 2019 level. As a result, **segment** and **external sales** were tangibly lower in terms of volumes and selling prices than a year ago. In view of the production cutbacks and the significant decline in performance in the second quarter due to the pandemic, the Strip Steel Business Unit recorded a **pre-tax loss** of € 69.2 million (H1 2019: € +60.3 million).

Investments

The Strip Steel Business Unit continued to work on its strategic “Hot Dip Galvanizing Line 3” project in the first half of 2020. The new facilities are to supplement the existing hot dip galvanizing capacities of Salzgitter Flachstahl GmbH (SZFG) by around 500 ktons per year with the aim of accommodating greater customer requirements for galvanized high-strength and ultra-high strength steel grades. The construction of the project is currently at the engineering stage. In the reporting period, the hall construction was largely completed and preparations got underway for the installation of the hall cranes.

As part of the “Wind Hydrogen Salzgitter” project, we will be commissioning a 2.5 megawatt PEM electrolysis plant (PEM = Proton-Exchange Membrane) at the end of 2020 on the premises of SZFG that will fully cover the Salzgitter site’s current hydrogen requirements. Consequently, an important step has been taken in the direction of hydrogen-based steel production. The foundations for the plant were completed in the reporting period and preparations for the construction of the building were commenced.

In addition, investments continue to be made in the expedient optimization and expansion of existing facilities: The exchange of the machine head of Continuous Casting Line 1 will enable more flexible use of the facilities’ capacity utilization and improve the product quality. In addition, the welding machinery on Coil Line 4 is being replaced to ensure the requisite quality standards. The measure is currently in the engineering phase.

Plate / Section Steel Business Unit

		Q2 2020	Q2 2019	H1 2020	H1 2019
Order intake [1]	kt	381.7	510.8	965.5	1,035.2
Order backlog[1] on reporting date	kt			274.2	314.6
Crude steel production	kt	237.2	276.8	532.5	532.0
Rolled steel production	kt	472.5	549.3	1,010.8	1,075.3
Shipments[1]	kt	486.0	539.7	1,017.1	1,100.4
Segment sales[2]	**€ m**	**340.9**	**432.3**	**726.7**	**887.4**
External sales	**€ m**	**168.7**	**212.6**	**363.2**	**442.3**
Earnings before taxes (EBT)	**€ m**	**–22.8**	**–1.2**	**–27.0**	**0.6**

[1] Excluding the DMU Group
[2] Including sales with other business units in the Group

Market development
A comparatively stable order intake at the start of the year secured a good basis for the rolling mills right through to the second quarter. The **heavy plate market** therefore initially proved to be relatively robust in an increasingly difficult market environment. The situation changed considerably when, upon the outbreak of the pandemic, measures were introduced: While production plants in southern Europe were initially mainly affected, the international supply chains of many heavy plate customers have been subject to severe constraints since March. Demand, also from mechanical engineering and shipbuilding, the yellow goods sector, as well as steel traders dropped off rapidly and only acute requirements were serviced. Export markets slumped, and orders were canceled. Prices then started to spiral downward in May in the European heavy plate market as well, and the trend had not yet bottomed out by mid-year. In addition, pressure from low cost imports from countries outside the EU, which accelerated the eroding of the price level in Europe, increased massively. Conventional construction steels as well as the higher-grade range are impacted. Around 40% of imports currently originate from the Ukraine. Together with volumes from South Korea, North Macedonia and Russia, they account for almost 80% of all non-EU imports.

At the start of the year, low stock levels, combined with the anticipated scrap price hikes, had a positive impact on the capacity utilization of producers on the **European sections market**. As from February, dwindling demand that coincided with stockpiling by the stockholding steel trade was already being observed again and subsequently led to prices being lowered to bring inventories back to normal levels. Although the plants were initially able to keep prices stable, reluctance in placing orders for the production month of March nevertheless then caused prices to fall. Due to uncertainty about the future development of the economy, the following months saw orders placed cautiously and with a great deal of reticence. The situation forced a number of producers to cut back on their capacities in the second quarter and introduce short-time work. In the first two weeks of June, the return of southern European producers to the market led to growing pressure on prices and, for the first time, deliveries were made from the United Kingdom to Europe's core countries. In the second half of the month, buyer restraint eased somewhat as the announcement of summer vacation standstills of plants almost all at the same time induced traders to replenish their inventories with a view to securing their ability to deliver. The construction industry as the key customer sector proved to be robust in the first six months due partly to the fact that projects awarded and commenced prior to the Corona crisis were continued. However, there is less willingness to invest in new construction projects, which will impact the second half of the year.

Procurement

Steel scrap

At the start of the year Germany's scrap market was determined by rising prices that subsequently weakened from February onward. The decline in demand on the deep water market and plant closures in response to the COVID-19 pandemic exerted rising price pressure at the end of the first quarter. Prices nevertheless still edged up, boosted by the still stable order volumes of German consumers. In April, the steep decline in scrap availability, also as a consequence of the partly massive cutbacks in industrial production, slowed the demand-driven price downtrend. The following months saw a slight correction.

Business development

The **order intake** of the Plate/Section Steel Business Unit settled below the year-earlier level as all companies reported – in some cases considerable – declines in the second quarter. New orders placed with the heavy plate producers have been slowing since mid-May due to the Corona virus. The "Baltic Pipe Offshore Poland" order booked at the start of the year ensured positive basic capacity utilization at the Mülheim heavy plate company during the reporting period, but was unable to compensate for the lower volumes for trading and other tube rolling mills. Consequently, **orders on hand** dropped tangibly below the previous year's period as well. **Crude steel production** matched the year-earlier level, as opposed to **rolled steel output** that was somewhat lower. **Segment** and **external sales** fell appreciably short of the first half of 2019, accompanied by a lower **shipment tonnage**. The business unit reported a **pre-tax loss** of € 27.0 million (H1 2019: € +0.6 million). Above all, the results of the heavy plate companies dropped notably below the level posted in the previous year's period due to volumes and selling prices. Peiner Träger GmbH and the DEUMU Deutsche Erz und Metall Union Group reported positive results that nevertheless fell short of the year-earlier figures.

Investments

The investments of the Plate/Section Steel Business Unit focused on continuing the "New Heat Treatment Line" project for the Ilsenburg heavy plate producers initiated under the "Salzgitter AG 2021" growth program. The investment serves to expand the product portfolio and to achieve a stronger positioning in the higher-end grade segment. The facilities are due for commissioning by the start of 2021.

Mannesmann Business Unit

		Q2 2020	Q2 2019	H1 2020	H1 2019
Order intake	€ m	178.3	343.9	497.8	686.0
Order backlog on reporting date	€ m			347.8	461.1
Crude steel production Hüttenwerke Krupp Mannesmann (30%)	kt	218.8	327.9	535.9	660.0
Shipment tubes[1]	kt	77.8	135.3	213.2	281.8
Segment sales[2]	**€ m**	**286.0**	**440.2**	**692.3**	**887.5**
External sales	**€ m**	**198.6**	**292.0**	**494.5**	**582.3**
Earnings before taxes (EBT)	**€ m**	**–18.1**	**0.7**	**–22.7**	**9.0**

[1] Disclosure of volumes measured pursuant to IFRS 15
[2] Including sales with other business units in the Group

Market development
After a comparatively stable first quarter of 2020, steel tubes production plummeted as the year progressed. This situation was caused by the global decline in industrial activity triggered by COVID-19 and the resulting plunge in the price of crude oil and natural gas. All in all, according to the German Association of Steel Tube Producers (Wirtschaftsvereinigung Stahlrohre e.V.) output in the first half year is likely to be up to 25% lower than the 2019 figure. Demand for steel from the oil and gas, automotive and mechanical engineering sectors dwindled to virtually zero in the months of April and May, sending the production of all tube and pipe grades into notable decline. Projects for major pipelines were suspended or canceled entirely, especially in North America. The producers of seamless hot-rolled pipes and tubes as well of seamless and welded precision tubes also suffered heavy sales volume losses. The demand for medium-diameter line pipes also dropped significantly below the year-earlier level. The first signs of recovery only materialized as from June. The markets in the Far East that were the first to collapse recovered somewhat earlier.

Business development
Order intake and **orders on hand** of the Mannesmann Business Unit contracted by around one quarter in the first half of 2020 compared with the previous year's period, reflecting the market development described above caused by the Corona pandemic. The precision tubes group above all reported a significant slowdown in order activity that reached its lowest point in April, also as a consequence of cancellations. The stainless steel tubes group and the segment of medium-diameter line pipes also saw order activity drop off sharply. In view of the correspondingly lower **shipment of tubes**, **segment** and **external sales** declined notably. The Mannesmann Business Unit reported **a pre-tax result** of € –22.7 million (H1 2019: + 9.0 million) that was determined by the substantial pre-tax loss of the precision tubes group principally due to lower volumes. The results of the other companies also fell short of the previous year's period.

Outside the group of consolidated companies, order intake and orders on hand of the EUROPIPE Group (EP Group) dropped considerably below the previous year's figures, despite the "Baltic Pipe Offshore Poland" order booked in March, due to the lack of bookings placed with the US companies. The EP Group's shipments did not match the level posted in the first half of 2019, pressured by the decline in EUROPIPE GmbH's shipment volumes. All in all, the EUROPIPE Group delivered a marginally negative at-equity contribution below the previous year's figure, despite the good earnings situation of the US companies.

Investments
As part of expanding the Mexican precision tubes company at El Salto,work on sample orders for the purpose of product qualification and serial production was continued. The large cold pilger machine at the Remscheid location has been ready for production since the end of the first quarter. The measure is aimed at expanding capacities and the product range in the seamless cold finished stainless steel segment by producing larger diameters.

Trading Business Unit

		Q2 2020	Q2 2019	H1 2020	H1 2019
Shipments	kt	746.9	1,047.4	1,724.4	2,090.7
Segment sales[1)]	**€ m**	**532.3**	**795.4**	**1,240.2**	**1,609.4**
External sales	**€ m**	**525.8**	**780.4**	**1,229.2**	**1,578.3**
Earnings before taxes (EBT)	**€ m**	**–16.1**	**1.2**	**–15.8**	**4.1**

[1)] Including sales with other business units in the Group

Market development
Following an already subdued start to the year, demand on the international steel markets continued to deteriorate in the wake of the Corona pandemic. Protectionist trading measures and the market environment caused order activity in the trading business in particular to decline, with the price level remaining low due to demand. Similarly, the development in Europe’s stockholding steel trade entered into decline, above all in Germany. Margins in the stockholding business, especially with respect to strip steel products, came under strong pressure from prices drifting lower at the end of 2019 and downstream stock values.

Business development
Shipments of the Trading Business Unit dropped off sharply in the first half of 2020, caused by the decline in tonnage, above all in international trading. In conjunction with the unsatisfactory price situation, a significant decrease in **segment** and **external sales** was recorded. After breakeven in the first quarter, the **pre-tax result** (€–15.8 million) fell notably short of the level in the first half of 2019 (€ + 4.1 million). The UES Group generated positive earnings before taxes.

Investments
Maintaining and upgrading existing facilities continue to form the focus of investments by the Trading Business Unit in 2020. In addition, the measures launched as part of the “Salzgitter AG Strategy 2021” and “FitStructure 2.0” will be pursued further.

Acquisitions
With the takeover of Statendam Steel Plates, a trading company specialized in heavy plate, the Salzgitter Group has expanded its European trading network and reinforced its market presence in the Netherlands. Statendam Steel Plates B.V. was established in 2000 and supplies customers in the sectors of construction, trading, boilers and mechanical engineering, as well as in the metalworking, offshore and shipbuilding industries.

Technology Business Unit

		Q2 2020	Q2 2019	H1 2020	H1 2019
Order intake	€ m	221.2	352.0	558.4	682.0
Order backlog on reporting date	€ m	618.2	724.0	618.2	724.0
Segment sales[1)]	**€ m**	**264.4**	**323.2**	**574.7**	**657.2**
External sales	**€ m**	**264.3**	**323.1**	**574.6**	**656.9**
Earnings before taxes (EBT)	**€ m**	**–15.8**	**4.3**	**–10.6**	**16.1**

[1)] Including sales with other business units in the Group

Market development
According to the German Engineering Federation (VDMA), the Corona crisis also impacted the order intake of German mechanical engineering that dropped considerably below the year-earlier level in the first half of 2020. Domestic and international demand weakened. The great uncertainty of customers was particularly prevalent in April and May. As a result, sales in the sector did not match the previous year's level. The market for food and packaging machinery was no exception and reported a significant downturn that accelerated further in the second quarter after the already subdued start to the year.

Business development
With the order activity of the KHS Group having initially remained at a satisfactory level thanks to its good project business, the **order intake** of the Technology Business Unit was unable to decouple from the market trend as from the second quarter and settled significantly below the year-earlier level in the first half of 2020. Given the huge dent in customers' willingness to invest caused by the COVID-19 pandemic, all companies suffered declines. A similar development was reported for **orders on hand** that also dropped notably below the level posted in the first six months of 2019. **Segment** and **external sales** decreased appreciably in a year-on-year comparison, with KDS and the KDE Group recording sharp declines in sales. In the first three months of 2020, the KHS Group generated a satisfactory result, so that, despite the negative result in the second quarter, a slight pre-tax profit for the first half year was achieved. All in all, the business unit therefore reported a **pre-tax loss** of € 10.6 million (H1 2019: € + 16.1 million).

The KHS Group continues to rigorously pursue the comprehensive "KHS Future" efficiency and growth program. With a focus on reducing costs and expanding the service business, the program has already made a significant contribution to lifting profit and is aimed at promoting the development of the company in 2020 as well in the fiercely competitive and challenging market environment.

Investments
In the reporting period, the Technology Business Unit continued to focus on replacement and streamlining measures. To ensure the steady optimization of organizational workflows, IT projects in Germany and in the international companies were carried out within the KHS Group geared to further optimizing workflows. The implementation of the extensive modernization of the Bad Kreuznach site with a view to ensuring lean manufacturing was ongoing in various individual sub-projects. Additional investments at the Dortmund location to upgrade the KHS Group's production and extend its assembly operations were completed. An investment program for strategic realignment is being implemented for the Chinese market.

Roughly one year after the groundbreaking ceremony at the beginning of June 2019, the "Fabrik der Zukunft" (factory of the future) – the new production and office building of KDS in Achim – has now been completed. The investment is aimed at ensuring KDS' sustainable growth and profitability. The information and material flow, as well as the assembly process associated with this investment, are to be optimized in order to raise productivity.

Industrial Participations/Consolidation

		Q2 2020	Q2 2019	H1 2020	H1 2019
Sales[1)]	**€ m**	**149.4**	**239.0**	**354.3**	**470.1**
External sales	**€ m**	**28.7**	**47.7**	**66.7**	**91.0**
Earnings before taxes (EBT)	**€ m**	**38.8**	**0.4**	**17.4**	**55.1**

[1)] Including sales with other business units in the Group

Sales in the Industrial Participations/Consolidation segment, which are based mainly on business in semi-finished products with subsidiaries and external parties, declined substantially compared with the first six months of 2019 due to the slowdown in economic activity. **External sales** also decreased notably as against the year-earlier period. **Earnings before taxes** (€ 17.4 million; H1 2019: € 55.1 million) include a contribution of € 34.0 million from the participating investment in Aurubis AG accounted for using the equity method (H1 2019: € 56.4 million, of which € 27.8 million in income from an accounting adjustment through profit and loss in connection with the Aurubis shares acquired at an average price below the market value of the pro rata equity of the Aurubis AG shares). The results from the valuation of derivative positions made a positive contribution. The service companies that mainly operate on behalf of the Group exceeded the pre-tax profit of the year-earlier period due to one-off proceeds from the disposal of a property.

Financial Position and Net Assets

Explanations on the balance sheet

The **total assets** of the Salzgitter Group declined by € 493 million in the current reporting period compared with December 31, 2019.

Non-current assets (€+29 million) increased owing to the higher level of shares in the companies accounted for using the equity method (€+24 million). Investments in intangible assets and property, plant and equipment (€+210 million) came in above the scheduled depreciation and amortization of fixed assets (€–149 million) in the period under review. Conversely, deferred income tax assets (€–19 million) have seen a reporting-date-related decline also, for reason of lower pension provisions and non-current trade receivables (€–10 million). **Current assets** decreased by € 522 million in comparison with the last reporting date. The financial assets (€–299 million) – essentially due to the fine paid to the German Federal Cartel Office in January 2020 – and inventories (€–201 million) declined tangibly. Trade receivables, including contract assets (€–28 million), reported an only slight decrease, offset by an increase in other receivables and other assets (€+13 million).

On the **liabilities side**, pension provisions rose by € 58 million, with an actuarial rate of 1.5 % that was higher than at the end of the previous year (2019/12/31: 1.4 %). Equity decreased in particular due to the negative result (€–143 million). The equity ratio nevertheless continues to post a sound 34.4 % on the back of the decline in total assets. Non-current liabilities exceeded the previous reporting date by € 111 million in total, reflecting the increase in non-current financial liabilities (€+171 million) in particular. Current liabilities were reduced by € 461 million since other liabilities declined significantly due to the payment of the fine to the Federal Cartel Office (€–184 million). Moreover, a lower level of trade payables, including contract liabilities (€–144 million), and lower financial liabilities due to the early repayment of the convertible bond (€–143 million) were reported.

The **net financial position** (€–472 million; 2019/12/31: €–140 million) declined above all due to the aforementioned payment to the Federal Cartel Office. Cash investment, including securities (€ 482 million; 2019/12/31: € 797 million), was offset by liabilities of € 954 million (2019/12/31: € 937 million), of which € 949 million were owed to banks (2019/12/31: € 783 million). As before, assets and liabilities from leasing arrangements are not considered in the net financial position.

Net financial position

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

In € million	2020/06/30	2019/12/31
Cash and cash equivalents acc. to balance sheet	401.5	700.5
+ Certificates held for trading	0.0	0.0
+ Other investments of funds[1]	80.1	96.5
= **Investments of funds**	**481.6**	**797.0**
Financial liabilities acc. to balance sheet	1,095.5	1,067.2
– Liabilities from leasing agreements, from financing/ financial transactions and other	141.5	130.4
= **Financial liabilities of net financial position**	**953.9**	**936.8**
Net financial position	**–472.3**	**–139.8**

[1] Securities, loans excl. valuation allowances (€ 2.4 million; previous year: € 2.6 million) and incl. other cash investments reported under other receivables and other assets (€ 2.5 million; previous year: € 2.5 million)

Notes to the cash flow statement

Given a pre-tax result of €–128 million, a negative **cash flow from operating activities** of €–122 million was reported (previous year: €–26 million). Both inventories and trade payables and other liabilities declined considerably.

The **cash outflow from investing activities** of € –161 million (previous year: €–277 million) mainly reflects disbursements for capital expenditure – with the two major strategic projects progressing – in intangible assets and in property, plant and equipment (€–198 million; previous year: €–185 million). In the first half of 2019, investments in other non-current assets were still included consisting mainly of the increase in the participating interest in Aurubis AG accounted for using the equity method.

The **cash outflow from financing activities** was determined by proceeds from borrowing (€+166 million; previous year: €+638 million). This was offset by the virtually full repayment of the convertible bond issued in 2015 (€–149 million), repayments of loans granted and interest payments, bringing cash outflow from financing activities to €–13 million (previous year: € +409 million).

As a result of the negative overall cash flow, **cash and cash equivalents** (€ 402 million) decreased accordingly compared with December 31, 2019 (€ 701 million).

Employees

	2020/06/30	2019/12/31	Change
Core workforce[1]	**23,009**	**23,354**	**–345**
Strip Steel Business Unit	6,040	6,090	–50
Plate/Section Steel Business Unit	2,347	2,352	–5
Mannesmann Business Unit	4,511	4,643	–132
Trading Business Unit	1,990	2,066	–76
Technology Business Unit	5,504	5,557	–53
Industrial Participations/ Consolidation	2,617	2,646	–29
Apprentices, students, trainees	1,137	1,380	–243
Non-active age-related part-time employment	507	493	14
Total workforce	**24,653**	**25,227**	**–574**

Rounding differences may occur due to pro-rata shareholdings.
[1] Excluding executive body members

The **core workforce** of the Salzgitter Group came to 23,009 employees on June 30, 2020, representing a reduction of 345 staff members since December 31, 2019.

A total of 180 trainees were hired during the reporting period, 126 of whom were given temporary contracts. A counter effect emanated above all from members of the company going into non-active age-related part-time or reaching retirement age.

The **total workforce** comprised 24,653 employees, which is 574 less members of staff compared to December 31, 2019.

The number of **temporary staff outsourced** stood at 788 as of June 30, 2020, marking a decline of 431 persons compared with the 2019 reporting date.

Along with numerous measures designed to safeguard health, an extensive monitoring system was implemented in order to effectively deploy employment policy instruments to cushion the economic effect of the Corona pandemic. In this context short-time work is particularly important, also with a view to securing liquidity.

At the end of the reporting period, 10,269 employees of domestic Group companies were affected by **short-time work**, above all in the steel producing companies, in Mannesmann Precision Tubes GmbH, in Salzgitter Mannesmann Stahlhandel GmbH and in KHS GmbH. Another 295 employees participated in comparable short-time work programs at the international locations. Given the rising impact of the Corona pandemic, the proportion of operations running short-time work was therefore significantly increased in the second quarter.

Forecast, Opportunities and Risk Report

The results of the first three months of 2020 proved to be largely unaffected by the impact of the Corona pandemic. Since the second quarter, however, all areas of our company have been experiencing adverse effects in varying degrees of intensity. As there is no comparable precedent for this exogenous shock in recent economic history, assessing the situation going forward or the final impact of the crisis is currently not possible. The Salzgitter Group has introduced extensive measures to cushion the negative effects both on its result and its liquidity. Nevertheless, the predictable outlook for earnings has deteriorated significantly as against the the start of the year, with the result that the business units now assume the following for the remainder of the financial year 2020 compared with the previous year:

With selling prices having bottomed out at the end of 2019, the **Strip Steel Business Unit** initially saw a trend reversal in the first quarter. This reversal came to an abrupt end in mid-March, however, with a sharp downturn in order intake due to the economic impact of the Corona pandemic. Consequently, production at the Salzgitter location has been temporarily scaled back as from May and short-time work introduced. Given the low level of demand, the quotas under the European anti-dumping measures will not even come close to being exhausted and will therefore fail to deliver the desired effect across the board. We now anticipate a notable decline in sales in the financial year 2020 and a significantly negative pre-tax result.

We assume that the situation in the markets relevant to the **Plate/Section Steel Business Unit** will remain tight, with import volumes in the plate segment continuing to run at a high level. After the plate mill in Ilsenburg reported very good capacity utilization in the first half year, a slightly lower level is anticipated in the third quarter. At the Mülheim plant, production of input material for the major "Baltic Pipe" order secured basic capacity utilization through to the start of July. In the third quarter, endeavors are underway to achieve almost full utilization of the plant on the basis of smaller orders and reduced capacity. In the section steel business, the market environment is expected to remain geared to the short term and volatile. As there will be no repeat of the burdens of the restructuring provisions booked in 2019 and of impairment, notable improvements in the result are predicted. Nevertheless, we assume a high pre-tax loss for the Plate/Section Steel Business Unit, with a tangible decline in sales.

The effects of the Corona crisis on demand – also with respect to falling oil prices and the resulting downturn in the investment propensity of the gas and oil industry – have been visible since the start of the second quarter and have hit the steel tubes and pipes industry, and thus also the companies of the **Mannesmann Business Unit**, particularly hard. Given the reduced order activity from the exploration sector, we anticipate a significant drop in the demand for the large- and medium-diameter line pipes segments. Outside the consolidated group, the business situation of the EUROPIPE Group remains impacted by the German plant's unsatisfactory capacity utilization. By contrast, the American EUROPIPE companies are essentially still benefiting from bookings in the previous year that ensure capacity utilization right through to the second half of the year. Given the performance of their automotive and industrial customers, the precision tube companies expect improved capacity utilization compared with the very weak second quarter, that will, however, remain unsatisfactory over the remainder of the year. The stainless steel segment anticipates performance that will be relatively stable but nevertheless with declining tendencies due to Corona compared with the year-earlier period. We therefore predict a significant downturn in shipments and sales in the Mannesmann Business Unit, and a tangibly negative pre-tax result.

The **Trading Business Unit** expects that shipments and sales will fall notably short of the year-earlier figures in the financial year 2020 due to the impact of the COVID-19 pandemic. Shipment volumes in international trading are likely to remain under pressure from jittery markets and ubiquitous restrictive trade policies. Customer demand is also expected to continue to slow significantly in the stockholding steel trade in the months ahead. As a result, after recovering slightly in the first quarter, the margin situation will be increasingly tight. Having factored in these influences, the Trading Business Unit predicts a negative pre-tax result in the financial year 2020.

The generally reticent demand of customers resulting from the Corona crisis and restrictions on travel had a negative impact on the **Technology Business Unit**. Although the KHS Group reported a good order backlog in the first quarter of 2020, new orders, particularly in the project business, have been in a downtrend since March. At the end of the first half of 2020, however, a comparatively high level of orders on hand is still available and provides a good basis for the business unit for bridging the reluctance of customers to invest over a short-lived period. When the restrictions on economic activities are lifted, business activities could start to recover as early as the third quarter of 2020. Despite measures immediately introduced to reduce costs and raise efficiency, the loss of earnings cannot be fully compensated. The two specialist mechanical engineering companies of KDE and KDS expect a downturn in sales and earnings compared with the previous year due to the persistently weak order situation and the generally lackluster market forecast. Consequently, sales and the pre-tax result in the Technology Business Unit are expected to be lower compared to 2019.

We anticipate that the second and third quarter will likely mark the bottoming out of the current crisis. At the same time, the strength and the timescale of a feasible macroeconomic recovery in the second half of the year are subject to great uncertainty. In this volatile environment, the Salzgitter Group's development cannot be predicted in the usual way, meaning that only a rough estimate is possible.

Against this backdrop, we anticipate the following for the **Salzgitter Group** in the current financial year 2020:

- a notable reduction in sales,
- a negative pre-tax result in the low to mid-triple digit million euro range, and
- a return on capital employed (ROCE) that is tangibly below the previous year's figure.

We also make reference to the fact that further opportunities and risks from currently unforeseeable trends in selling prices, input material prices and capacity level developments, as well as changes in the exchange rates, may considerably affect performance in the course of the financial year 2020. The resulting fluctuation in the consolidated pre-tax result may be within a considerable range, either to the positive or to the negative. The dimensions of this volatility are illustrated by the following example: With around 12 million tons p.a. of steel products sold by the Strip Steel, Plate/Section Steel, Mannesmann and Trading business units, an average € 25 change in the margin per ton is already sufficient to cause a variation in the annual result of more than € 300 million. Moreover, the accuracy of the company's planning is restricted by the volatile cost of raw materials and shorter contractual durations, on the procurement as well as on the sales side.

Risk management

At the time of reporting there were no risks that could endanger the Salzgitter Group as a going concern. With regard to the individual **opportunities and risks**, we make reference to the Annual Report 2019.

The Corona pandemic also presents our company with huge challenges: massive economic fallout, demand of entire customer groups collapsing, and fact-based scenarios that are changing all the time, to mention a few. We have therefore initiated an extensive program of measures with the aim of cushioning the impact on earnings and on liquidity. These measures also include the temporary scaling back of the production volume in many locations, the introduction of short-time work, voluntary salary waivers on the part of many hundreds of managers in Germany and abroad, reducing maintenance and repair measures not required for operational purposes, stringent working capital management, as well as the cautious approval of new investments. Assessing the full impact of the Corona pandemic on our company is nevertheless not yet possible, particularly in terms of its future profitability, financial position and net assets. The potential range is of such dimensions that any exact quantification would be mere speculation. We have therefore taken three basic scenarios into consideration in planning our earnings and liquidity.

The development of prices in the sales and procurement markets, as well as of energy prices and exchange rates (above all, USD/EUR) is particularly important for the Salzgitter Group. The associated earnings effects for risks have been factored in for the companies in the current year to the extent foreseeable. In order to minimize further associated business risks, we monitor the relevant trends and take account of them in risk forecasts. This is also true of potential restrictions resulting from financial or political measures affecting international business.

Sectoral risks

Industry- and site-specific risks have existed for a number of years – from distortions to competition in the international steel markets, huge and increasing excess capacities, US special duties on steel products, and the resulting import pressure in the EU. With the shutdown of the economy in large parts of Europe in response to the outbreak of Corona and the only slow return to economic normality, these risks have intensified for the unforeseeable future. For instance, the EU's demand for steel has collapsed. Key customer sectors, such as the automotive industry, saw their production slashed by more than 80% in the second quarter of 2020. Despite the Corona crisis, non-EU countries, China, Russia and Turkey, for example, have made no effort to reduce their steel production. This situation gives rise to high risk of ongoing, significant import volumes that coincide with a substantial drop in demand. A possible instrument for averting permanent damage to the EU steel industry would be the tightening of the safeguard measures enacted by the EU Commission. These measures were introduced in response to America's protective tariffs on steel and aluminum in the summer of 2018, but have only been effective to a limited extent in view of the unduly generous assessment values and volumes, several stages of liberalization, the dropping off of demand for steel and misguided administrative courses of action. The ongoing review of the safeguards through to the start of June 2020 nevertheless resulted in only minimal technical changes and not in any radical reduction in the import quotas. There is a looming threat that importers will permanently win significant market shares at the cost of EU steel producers. The first signs of this are already visible.

Although a number of existing risks have been meanwhile overshadowed by the Corona pandemic, they nevertheless continue to play a relevant role in assessing the current situation

Many countries outside the EU have responded with their own safeguard measures for steel products in response to the US import duties, for instance. These developments are likely to hinder exports even further, causing additional redirections into the EU market. Some Group companies, such as the Plate/Section Steel Business Unit in Canada, are also directly affected. The Corona pandemic is likely to exacerbate the respective trends further and increase the risk for exports.

Other risks arise from the attempts of importers to obviate the existing trade defense measures, thereby rendering them ineffective. To counteract such practices, the flow of goods is monitored on an ongoing basis and potential breaches are passed on via Eurofer, the European Steel Association, to the EU Commission and the EU anti-corruption authority OLAF.

Upon the conclusion of the withdrawal agreement, the United Kingdom officially left the EU on January 31, 2020. There will be a transition phase through to the end of 2020 during which the United Kingdom will still be a member of the customs union and stay in the EU Single Market while remaining subject to EU law. During this period, the EU and the United Kingdom will strive to conclude a free trade agreement. Given the in any event tight timeline and potential for it to be additionally negatively impacted by the Corona pandemic, and the danger of an unregulated trading arrangement as from 2021, the considerable uncertainty surrounding Brexit continues to prevail.

Furthermore, uncertainty prevails with regard to the direct and indirect business relations with Russia, also due to the Countering America's Adversaries Through Sanctions Act (CAATSA) that entered into force in August 2017. The act provides for the following: companies deemed by the US administration to have business ties with Russian energy export pipelines may have punitive measures imposed on them by the US President in the US. After exempting investments already made at the time when the law was published from the sanctions, such as NordStream 2 and TurkStream, US Foreign Minister Pompeo announced a tightening of the law on July 15, 2020 that revokes this grandfathering with immediate effect. Independent of CAATSA, targeted measures, as part of approving the defense budget, were imposed in December 2019 on operators of cargo ships involved in the NordStream 2, Turkstream and successor projects. As part of supplementing the defense budget, a further tightening of the sanctions is now likely to be passed at short notice. These measures, along with the specific operations of laying pipelines, are also aimed at other activities associated with the construction and completion of the pipelines.

Interim Financial Statements

I. Consolidated income statement

In € million	Q2 2020	Q2 2019	H1 2020	H1 2019
Sales	1,522.7	2,232.4	3,631.0	4,526.2
Increase/decrease in finished goods and work in process/other own work capitalized	–20.7	–25.2	–57.2	1.7
	1,502.0	2,207.2	3,573.8	4,527.9
Other operating income	42.9	43.2	132.9	97.0
Cost of materials	994.6	1,443.0	2,373.3	2,938.1
Personnel expenses	407.0	448.1	846.0	890.7
Amortization and depreciation of intangible assets and property, plant and equipment	74.6	89.0	148.7	176.4
Other operating expenses	201.2	238.9	462.1	501.6
Result from impairment losses and reversal of impairment losses of financial assets			–8.9	0.6
Income from shareholdings	2.1	1.3	2.1	1.4
Result from investments accounted for using the equity method	51.6	2.1	33.3	55.1
Finance income	1.5	4.4	3.9	10.0
Finance expenses	12.6	19.8	34.8	39.2
Earnings before taxes (EBT)	**–89.9**	**19.4**	**–127.8**	**145.3**
Income tax	4.6	19.7	16.9	48.9
Consolidated result	**–101.0**	**–0.3**	**–144.7**	**96.4**
Amount due to Salzgitter AG shareholders	–101.4	–1.8	–146.1	93.4
Minority interest	0.5	1.5	1.4	3.1
Appropriation of profit				
Consolidated result	–101.0	–0.3	–144.7	96.4
Profit carried forward from the previous year	–	–	12.1	33.1
Minority interest in consolidated net result	0.5	1.5	1.4	3.1
Dividend payment	–	–29.7	0.0	–29.7
Transfer from (+)/to (–) other retained earnings	101.4	1.7	146.1	–93.4
Unappropriated retained earnings of Salzgitter AG	**0.0**	**–29.8**	**12.1**	**3.3**
Earnings per share (in €) – basic	**–1.88**	**–0.03**	**–2.70**	**1.73**
Earnings per share (in €) – diluted	**–1.87**	**–0.02**	**–2.70**	**1.64**

II. Statement of comprehensive income

In € million	Q2 2020	H1 2020	Q2 2019	H1 2019
Consolidated result	**–101.0**	**–144.7**	**–0.3**	**96.4**
Recycling				
Reserve from currency translation	–3.2	–16.7	–2.2	3.9
Changes in value from cash flow hedges	4.1	–10.3	21.9	51.0
Fair value change	4.1	–11.6	21.8	52.0
Recognition with effect on income	–	1.2	–0.4	–1.3
Deferred taxes	–	–	0.4	0.3
Changes in value of investments accounted for using the equity method	–6.0	–3.2	–1.3	0.5
Fair value change	–4.9	–4.9	–0.2	–0.2
Recognition with effect on income	–	–	–	–
Currency translation	–1.4	1.4	–1.3	0.6
Deferred taxes	0.3	0.3	0.2	0.2
Deferred taxes on other changes without effect on income	–0.1	–0.3	–	0.0
Subtotal	–5.2	–30.5	18.3	55.5
Non-recycling				
Changes in equity for financial equity instruments valued without effect on income	–	–	0.0	0.0
Fair value change	–	–	0.0	0.0
Deferred taxes	–	–	–	–
Remeasurements	–82.3	27.9	–60.3	–181.0
Remeasurement of pensions	–106.4	36.4	–87.9	–263.8
Deferred taxes	24.1	–8.4	27.6	82.8
Changes in value of investments accounted for using the equity method	10.9	10.9	–8.0	–8.0
Subtotal	–71.4	38.8	–68.3	–189.0
			–	
Other comprehensive income	**–76.6**	**8.3**	**–50.0**	**–133.5**
Total comprehensive income	**–177.5**	**–136.4**	**–50.2**	**–37.1**
Total comprehensive income due to Salzgitter AG shareholders	–177.1	–137.8	–51.8	–40.1
Total comprehensive income due to minority interest	0.5	1.4	1.5	3.1
	–176.6	**–136.4**	**–50.2**	**–37.1**

III. Consolidated balance sheet

Assets in € m	2020/06/30	2019/12/31
Non-current assets		
Intangible assets	207.1	211.6
Property, plant and equipment	2,178.4	2,131.4
Investment property	81.3	82.0
Financial assets	59.5	64.7
Investments accounted for using the equity method	1,097.1	1,072.9
Trade receivables	8.3	18.4
Other receivables and other assets	23.2	25.6
Income tax assets	0.1	0.0
Deferred income tax assets	473.0	492.3
	4,128.0	**4,099.0**
Current assets		
Inventories	2,047.0	2,248.1
Trade receivables	1,019.1	1,118.4
Contract assets	257.2	186.3
Other receivables and other assets	204.5	191.8
Income tax assets	24.4	22.6
Securities	38.9	50.9
Cash and cash equivalents	401.5	700.5
	3,992.7	**4,518.5**
Assets available for sale	3.7	0.0
	3,996.3	**4,518.5**
	8,124.4	**8,617.5**

Equity and liabilities in € million	2020/06/30	2019/12/31
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	2,726.6	2,845.2
Other reserves	0.8	23.0
Unappropriated retained earnings	12.1	12.1
	3,158.1	**3,298.7**
Treasury shares	–369.7	–369.7
	2,788.4	**2,929.0**
Minority interest	7.1	9.6
	2,795.5	**2,938.6**
Non-current liabilities		
Provisions for pensions and similar obligations	2,298.5	2,356.1
Deferred tax liabilities	72.5	72.0
Income tax liabilities	36.5	36.6
Other provisions	328.8	334.9
Financial liabilities	808.5	637.1
Other liabilities	19.4	16.8
	3,564.2	**3,453.6**
Current liabilities		
Other provisions	198.7	224.6
Financial liabilities	287.0	430.1
Trade payables	785.0	915.2
Contract liabilities	186.4	200.7
Income tax liabilities	6.7	8.6
Other liabilities	300.8	446.0
	1,764.7	**2,225.3**
	8,124.4	**8,617.5**

IV. Cash flow statement

In € million	H1 2020	H1 2019
Earnings before taxes (EBT)	– 127.8	145.3
Depreciation write-downs (+) / write-ups (–) of non-current assets	148.5	176.2
Income tax paid (–) / refunded (+)	– 5.1	– 42.4
Other non-cash expenses (+)/ income (–)	37.5	29.6
Interest expenses	32.7	39.2
Gain (–) / loss (+) from the disposal of non-current assets	– 12.1	4.2
Increase (–) / decrease (+) in inventories	189.9	– 11.1
Increase (–) / decrease (+) in trade receivables and other assets not attributable to investment or financing activities	– 0.1	– 80.0
Use of provisions affecting payments, excluding income tax provisions	– 110.2	– 105.4
Increase (+) / decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	– 275.0	– 181.6
Cash outflow / inflow from operating activities	**– 121.5**	**– 25.9**
Cash inflow from the disposal of intangible assets, property, plant and equipment and investment properties	23.2	– 0.0
Cash outflow for investments in intangible assets, property, plant and equipment and investment properties	– 198.3	– 185.1
Cash inflow from investments of funds	9.9	–
Cash inflow from the disposal of non-current assets	5.7	4.7
Cash outflow for investments in non-current assets	– 1.7	– 96.2
Cash flow from investment activities	**– 161.1**	**– 276.6**
Cash outflow in payments to company owners	–	– 29.7
Deposits from taking out loans and other financial debts	165.5	637.5
Repayment of loans and other financial liabilities	– 14.7	– 166.2
Cash outflow from repayments of loans	– 149.1	– 16.8
Interest paid	– 14.1	– 16.0
Cash outflow / inflow from financing activities	**– 12.5**	**408.7**
Cash and cash equivalents at the start of the period	700.5	555.6
Cash and cash equivalents relating to changes in the consolidated group	–	–
Gains and losses from changes in foreign exchange rates	– 3.9	1.4
Payment-related changes in cash and cash equivalents	– 295.1	106.2
Cash and cash equivalents at the end of the period	**401.5**	**663.2**

V. Statement of changes in equity

In € million	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	Currency translation
As of 2018/12/31	**161.6**	**257.0**	**−369.7**	**3,181.0**	**−6.8**
Total comprehensive income	–	–	–	−181.0	3.9
Dividend	–	–	–	–	–
Group transfers to(+)/from(–) retained earnings	–	–	–	93.4	–
Other	–	–	–	2.9	–
As of 2019/06/30	**161.6**	**257.0**	**−369.7**	**3,096.3**	**−2.8**
As of 2019/12/31	**161.6**	**257.0**	**−369.7**	**2,845.2**	**−1.1**
Total comprehensive income	–	–	–	27.6	−16.6
Basis Adjustments	–	–	–	–	–
Dividend	–	–	–	–	–
Group transfers to(+)/from(–) retained earnings	–	–	–	−146.1	–
Other	–	–	–	0.0	–
As of 2020/06/30	**161.6**	**257.0**	**−369.7**	**2,726.6**	**−17.7**

Other reserves from			Unappropriated retained earnings	Amount due to Salzgitter AG shareholders	Minority interest	Equity
Cashflow hedges	Available-for-sale financial assets	Investments accounted for using the equity method				
25.1	**20.0**	**21.6**	**33.1**	**3,322.9**	**9.1**	**3,332.1**
51.0	0.0	−7.5	93.4	−40.1	3.1	−37.1
–	–	–	−29.7	−29.7	−3.4	−33.2
–	–	–	−93.4	–	–	–
–	–	–	–	2.9	–	2.9
76.1	**20.1**	**14.1**	**3.3**	**3,255.9**	**8.8**	**3,264.7**
1.1	**17.9**	**5.0**	**12.1**	**2,929.0**	**9.6**	**2,938.6**
−10.3	–	7.7	−146.1	−137.8	1.4	−136.4
−2.9	–	–	–	−2.9	–	−2.9
–	–	–	–	–	−3.8	−3.8
–	–	–	146.1	–	–	–
–	–	–	–	0.0	–	0.0
−12.1	**17.9**	**12.7**	**12.1**	**2,788.4**	**7.1**	**2,795.5**

Notes

Segment reporting

In € million	Strip Steel		Plate/Section Steel		Mannesmann	
	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019
External sales	902.8	1,175.5	363.2	442.3	494.5	582.3
Sales to other segments	333.4	391.2	363.1	444.7	58.2	93.3
Sales to group companies that are not allocated to an operating segment	1.7	1.8	0.4	0.4	139.7	211.8
Segment sales	1,237.9	1,568.5	726.7	887.4	692.3	887.5
Interest income (consolidated)	0.1	1.1	0.0	0.0	0.5	0.5
Interest income from other segments	–	–	–	0.0	–	–
Interest income from group companies that are not allocated to an operating segment	0.0	0.0	3.1	0.1	1.5	0.6
Segment interest income	0.1	1.1	3.1	0.1	2.0	1.0
Interest expenses (consolidated)	5.7	7.5	0.5	1.5	3.2	3.5
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	7.3	10.9	1.7	2.9	3.7	4.5
Segment interest expenses	13.0	18.4	2.2	4.5	6.9	8.0
of which interest portion of allocations to pension provisions	5.4	6.2	1.2	1.4	1.9	2.1
Depreciation of property, plant and equipment and amortization of intangible assets	68.6	90.6	15.1	19.8	26.0	28.1
of which scheduled depreciation of property, plant and equipment and amortization of intangible assets	68.6	90.6	15.1	19.8	26.0	28.1
EBIT before depreciation and amortization (EBITDA)	12.4	168.2	−12.7	24.7	8.1	44.1
Earnings before interest and taxes (EBIT)	−56.2	77.6	−27.8	5.0	−17.8	16.0
Segment earnings before taxes	−69.2	60.3	−27.0	0.6	−22.7	9.0
of which resulting from investments accounted for using the equity method	–	–	–	–	−0.7	−0.3
Investments in property, plant and equipment and intangible assets	78.2	65.7	58.3	53.4	23.6	39.6

	Trading		Technology		Total segments		Industrial Participations/ Consolidation		Group
H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019
1,229.2	1,578.3	574.6	656.9	3,564.3	4,435.2	66.7	91.0	3,631.0	4,526.2
11.0	31.1	0.2	0.2	765.9	960.7	287.6	379.1	1,053.5	1,339.8
0.0	0.0	–	–	141.7	214.1	–	–	141.7	214.1
1,240.2	1,609.4	574.7	657.2	4,471.9	5,610.0	354.3	470.1	4,826.2	6,080.1
0.7	1.7	0.5	0.9	1.7	4.2	2.2	3.1	3.9	7.3
–	–	–	–	–	0.0	13.9	19.4	13.9	19.4
3.3	2.3	0.0	0.5	8.0	3.5	–	–	8.0	3.5
4.0	4.0	0.5	1.4	9.7	7.6	16.1	22.5	25.8	30.1
6.7	10.7	1.7	1.2	17.9	24.4	14.8	14.8	32.7	39.2
–	0.0	–	–	–	0.0	8.0	3.5	8.0	3.5
0.2	0.3	1.0	0.7	13.9	19.4	–	–	13.9	19.4
6.9	10.9	2.7	1.9	31.7	43.8	22.8	18.3	54.5	62.1
0.8	1.0	1.0	1.0	10.3	11.6	6.0	7.6	16.2	19.2
7.9	7.3	12.9	11.8	130.4	157.6	18.3	18.8	148.7	176.4
7.9	7.3	12.9	11.8	130.4	157.6	18.3	18.8	148.7	176.4
−5.1	18.4	4.5	28.4	7.2	283.9	42.5	69.7	49.7	353.7
−12.9	11.1	−8.4	16.7	−123.2	126.4	24.2	50.9	−99.0	177.3
−15.8	4.1	−10.6	16.1	−145.2	90.2	17.4	55.1	−127.8	145.3
–	–	–	–	−0.7	−0.3	34.0	55.3	33.3	55.1
21.8	26.0	19.2	28.0	201.2	212.6	8.6	93.9	209.9	306.6

Principles of accounting and consolidation, balance sheet reporting and valuation methods

1. The consolidated financial report of Salzgitter AG, Salzgitter (SZAG), for the reporting period from January 1 to June 30, 2020 has been prepared as a condensed report with selected notes. The report has been drawn up, as before, in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) in consideration of the requirements set out under IAS 34 for condensed interim reports.
2. In comparison with the annual financial statements as at December 31, 2019, no changes have been made in the accounting, valuation, calculation and consolidation methods applied to the interim financial statement for the period ended June 30, 2020.
3. In calculating the fair value of defined benefit obligations as of June 30, 2020, an actuarial rate of 1.5 % was applied (December 31, 2019: 1.4 %). The resulting reduction in provisions for pensions and similar obligations is reported in other comprehensive income (pension revaluation) and incurs a corresponding increase in equity.
4. In the context of the continuous monitoring of the economic and social framework conditions and the developments of the cash-generating units in the case of individual companies, the global Corona pandemic that emerged in the first quarter of 2020 and its consequences on the general economic trend were identified as a triggering event for potential asset impairment. In macroeconomic terms, the estimates of various external institutions, both worldwide and regional, in sales markets that are important for us indicate a negative development of economic growth in the mid to high single-digit percentage range. A significant recovery has been predicted for 2021. Full reinstatement of overall economic performance is only expected in 2022. In our opinion, the predictions are still fraught with numerous uncertainties. In this environment, we can at present only estimate the future development of the Salzgitter Group similarly on the basis of scenarios. In the process, we arrived at the conclusion that, despite temporary negative influences on sales and earnings, a recovery and return to original levels will take place, at least in the medium term, and that the fair value of the assets disclosed still applies. The assumptions made here are nevertheless subject to uncertainty.
   The calculations of fair value less costs to sell were carried out for this purpose, as before in accordance with the discounted cash flow method and assuming an after-tax interest rate of 7.48 % (2019: 7.97 %) for the Technology Business Unit and of 6.35 % (2019: 6.22 %) for the other business units. Other long-term negative effects emanating from the overall economic situation on key valuation parameters can fundamentally not be excluded. For example, a slowdown of 10 basis points in the uninterrupted long-term growth rate of 1.0 % compared with 2019 would call for impairment of € 45.1 million. A reduction of 10 basis points of the EBITDA margin taken into account in perpetuity would bring it to € 75.6 million.
5. The recognition of the lease liabilities assigned to financial liabilities is calculated as the present value of the lease payments to be made. In subsequent measurement, the carrying amounts of the lease liability are compounded and reduced by the lease payments remitted with no effect on income. The usage rights reported in property, plant and equipment are recognized at the cost of acquisition less accumulated depreciation and amortization and, if appropriate, any necessary impairment.

The historical cost of acquisition of the usage rights and leasing liabilities accounted for in accordance with IFRS 16 Leases are shown in the presentation below:

In € million	2020/06/30	2019/12/31
Right of use of land, similar rights and buildings, including buildings on land owned by others	110.8	94.9
Right of use of plant equipment and machinery	36.7	34.7
Right of use of other equipment, plant and office equipment	22.9	21.5
Non-current assets	**170.4**	**151.1**
Right of use of land, similar rights and buildings, including buildings on land owned by others	14.8	10.4
Right of use of plant equipment and machinery	13.5	8.0
Right of use of other equipment, plant and office equipment	11.4	8.0
Depreciation/amortization	**39.7**	**26.4**
Lease liabilities	**134.1**	**125.5**

An amount of € 112.9 million is attributable to non-current lease liabilities. Moreover, there were amounts of € 12.4 million in depreciation and amortization, € 1.6 billion in interest expenses, as well as a cash outflow totaling € 13 million in the first half of 2020.

6. In July 2020, Salzgitter AG's Executive Board and the Supervisory Board decided to dispose of an administrative property belonging to the Trading Business Unit via a sale-and-leaseback agreement. At the time of this report's publication, the notarized purchase agreement had already been signed. The sale is expected to have been brought to completion by the end of 2020
7. Funds of € 166.1 million in respect of the convertible bond of € 167.9 million issued in June 2015 by Salzgitter Finance B.V., Oosterhout (Netherlands) were paid back to the bondholders in the period through to June 5, 2020. The remaining bond liability as of June 30, 2020 (€ 1.8 million) is likely to be settled in the third quarter of the financial year.

Selected explanatory notes to the income statement

1. Sales by business segment are shown in the segment report.
2. Earnings per share are calculated in accordance with IAS 33. Basic earnings per share, calculated from the weighted number of shares of SZAG, stood at €– 2.70 in the period under review. Dilution would occur if earnings per share were reduced through the issuance of potential shares from option and conversion rights. Such rights, attached to a convertible bond, existed as of the balance sheet date. When taken into account there is no decrease in earnings per share, as a result of which these option and conversion rights do not have a dilutive effect. Diluted earnings per share amount to €– 2.70.

Disclosures on fair value

Fair value disclosures comply with the standards set out under IFRS 13 "Fair Value Measurement". A deviation between the book value and fair value resulted from the reporting of a convertible bond at amortized cost. As of June 30, 2020, the book value of the convertible bond virtually corresponded to fair value due to the low residual term.

Related party disclosures

In addition to business relationships with companies that are consolidated fully, relationships also exist with companies that must be designated as related companies in accordance with IAS 24. The category of joint operations exclusively comprises Duisburg-based Hüttenwerke Krupp Mannesmann GmbH. The category of other associated companies comprises the majority interests and joint ventures of the Federal State of Lower Saxony.

The sale of goods and services essentially comprise deliveries of input material for the manufacture of large-diameter pipes. Their volumes are shown in the table below:

In € million	Sale of goods and services	Purchase of goods and services	Receivables	Liabilities
	01/01/-06/30/2020	01/01/-06/30/2020	2020/06/30	2020/06/30
Non-consolidated group companies	20.5	12.1	11.0	2.4
Joint ventures	34.6	6.1	8.3	0.3
Joint operations	1.0	0.5	35.9	23.7
Associated companies	0.0	5.2	–	0.0
Other related parties	0.1	1.1	5.3	71.8

Information pursuant to Section 37w paragraph 5 of the German Securities Trading Act (WpHG)

This set of interim financial statements and the interim report have not been subjected to an auditor's review.

Assurance from the Legal Representatives

"We give our assurance that, to the best of our knowledge and in accordance with the accounting principles applicable to interim reporting, the interim consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and that the course of business, including the business result and the position of the Group, are portrayed in such a way in the interim Group Management Report that a true and accurate picture is conveyed and that the significant opportunities and risks of the Group's future development over the remainder of the financial year are fairly described."

Salzgitter, August 2020

The Executive Board of Salzgitter AG

Fuhrmann　　Becker　　Kieckbusch

Legal disclaimer

Some of the statements made in this report possess the character of forecasts or may be interpreted as such. They are made upon the best of information and belief and by their nature are subject to the proviso that no unforeseeable deterioration occurs in the economy or in the specific market situation pertaining to the business units, but rather that the underlying bases of plans and outlooks prove to be accurate as expected in terms of their scope and timing. Notwithstanding prevailing statutory provisions and capital market law in particular, the company undertakes no obligation to continuously update any forward-looking statements that are made solely in connection with circumstances prevailing on the day of their publication.

For computational reasons, rounding-off differences of +/– one unit (€, % etc.) may occur in the tables.

The Interim Report of Salzgitter AG is also available in German. In the event of any discrepancy, the German version shall prevail.

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