INTERIM REPORT

FIRST HALF 2023

H1

SALZGITTER AG

People, Steel and Technology

TABLE OF CONTENTS

THE SALZGITTER GROUP IN FIGURES

		H1 2023	H1 2022	+/-
Crude steel production	kt	3,135.5	3,338.8	-203.4
External sales	€ m	5,835.7	6,636.5	-800.8
Steel Production Business Unit	€ m	1,964.5	2,327.6	-363.1
Steel Processing Business Unit	€ m	1,187.0	1,012.2	174.8
Trading Business Unit	€ m	1,760.5	2,541.9	-781.4
Technology Business Unit	€ m	836.4	670.4	166.0
Industrial Participations / Consolidation	€ m	87.4	84.5	2.9
EBIT before depreciation and amortization (EBITDA)	€ m	461.0	1,138.5	-677.5
Steel Production Business Unit	€ m	194.5	637.7	-443.3
Steel Processing Business Unit	€ m	181.4	82.4	99.0
Trading Business Unit	€ m	12.4	258.1	-245.7
Technology Business Unit	€ m	52.1	31.9	20.2
Industrial Participations / Consolidation	€ m	20.7	128.4	-107.7
Earnings before interest and taxes (EBIT)	€ m	302.5	999.8	-697.3
Earnings before taxes (EBT)	€ m	242.6	970.5	-727.9
Steel Production Business Unit	€ m	83.5	558.8	-475.3
Steel Processing Business Unit	€ m	138.9	51.6	87.3
Trading Business Unit	€ m	-5.0	249.0	-254.1
Technology Business Unit	€ m	36.2	19.1	17.0
Industrial Participations / Consolidation	€ m	-10.9	92.0	-102.9
Consolidated result	€ m	191.8	781.0	-589.1
Earnings per share – basic	€	3.49	14.39	-10.89
Return on capital employed (ROCE)[1]	%	8.9	30.7	-21.8
Cash flow from operating activities	€ m	249.0	-116.3	365.3
Investments[2]	€ m	205.1	150.0	55.1
Depreciation / amortization[2, 3]	€ m	-158.5	-138.7	-19.8
Total assets	€ m	11,011.4	11,175.0	-163.6
Non-current assets	€ m	4,496.0	4,098.6	397.4
Current assets	€ m	6,515.4	7,076.5	-561.1
Equity	€ m	4,930.7	4,714.0	216.8
Liabilities	€ m	6,080.7	6,461.1	-380.4
Non-current liabilities	€ m	2,705.6	2,538.9	166.7
Current liabilities	€ m	3,375.1	3,922.2	-547.1
of which due to banks[4]	€ m	713.4	762.4	-48.9
Net financial position on the reporting date[5]	€ m	-624.4	-901.4	277.0
Employees				
Personnel expenses	€ m	-945.3	-908.0	-37.3
Core workforce on the reporting date[6]	Empl.	22,784	22,545	239
Total workforce on the reporting date[7]	Empl.	24,500	24,232	268

Disclosure of financial data in compliance with IFRS
[1] Annualized
[2] Excluding financial assets
[3] Scheduled and unscheduled write-downs
[4] Current and non-current bank liabilities
[5] Including investments, e.g. securities and structured investments
[6] Excl. trainee contracts and excl. non-active age-related part-time work
[7] Incl. trainee contracts and incl. non-active age-related part-time work

PROFITABILITY, FINANCIAL POSITION AND NET ASSETS

PROFITABILITY OF THE GROUP

		Q2 2023	Q2 2022	H1 2023	H1 2022
Crude steel production	kt	1,551.0	1,626.3	3,135.5	3,338.8
External sales	€ m	2,853.2	3,286.7	5,835.7	6,636.5
EBIT before depreciation and amortization (EBITDA)	€ m	171.0	590.3	461.0	1,138.5
Earnings before interest and taxes (EBIT)	€ m	88.3	521.0	302.5	999.8
Earnings before taxes (EBT)	€ m	59.0	505.2	242.6	970.5
Consolidated result	€ m	51.4	412.2	191.8	781.0
Return on capital employed (ROCE)[1]	%	5.0	32.0	8.9	30.7
Investments	€ m	85.7	82.8	205.1	150.0
Depreciation / amortization	€ m	–82.6	–69.4	–158.5	–138.7
Cash flow from operating activities	€ m	82.1	–101.0	249.0	–116.3

[1] Annualized

After an encouraging start to the financial year 2023, followed by a gradual deterioration in the economic environment, the Salzgitter Group delivered a presentable half-year result. **External sales** declined to € 5.8 billion (H1 2022: € 6.6 billion), due above all to the downturn in shipment volumes compared with the year-earlier period, coupled with lower average selling prices for many rolled steel products. A gratifying result in the form of **EBITDA** of € 461.0 million (H1 2022: € 1,138.5 million) and **earnings before taxes** of € 242.6 million (H1 2022: € 970.5 million) was generated. In particular, the Steel Processing and Steel Production business units, along with the Technology Business Unit, contributed to this result. At € 29.3 million, the contribution of Aurubis AG, an investment included at equity (IFRS accounting), dropped notably short of the year-earlier figure (H1 2022: € 84.3 million). The **after-tax result** came in at € 191.8 million (H1 2022: € 781.0 million), which brings **earnings per share** to € 3.49 (H1 2022: € 14.39). The return on capital employed (**ROCE**) stood at 8.9 % (H1 2022: 30.7 %). The **equity ratio** improved to a very sound 44.8 % (H1 2022: 42.2 %). **Net debt** declined by almost € 280 million year-on-year (€ –624,3 million; H1 2022: € –901.4 million). The Federal Republic of Germany and the Federal State of Lower Saxony have committed to providing funds for the SALCOS® transformation program that will be paid out depending on the investments made. By the reporting date no payments had been received from the funds applied for and eligible for disbursement (€ 60 million; H1 2022: € 0). A major part of these investment subsidies was paid back in July 2023, however.

SPECIAL ITEMS

	EBT		Restructuring		Impairment / Reversal of impairment		Other		EBT without special items	
In € million	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022
Steel Production	83.5	558.8	–	–	–	–	–	–	83.5	558.8
Steel Processing	138.9	51.6	–	–	–	–	–	–	138.9	51.6
Trading	–5.0	249.0	–	–	–	–	–	–	–5.0	249.0
Technology	36.2	19.1	–	–	–	–	–	–	36.2	19.1
Industrial Participations / Consolidation	–10.9	92.0	–	–	–	–	–	–	–10.9	92.0
Group	242.6	970.5	–	–	–	–	–	–	242.6	970.5

RETURN ON CAPITAL EMPLOYED (ROCE)

In € million	H1 2023	H1 2022
EBT	242.6	970.5
+ Interest expenses	76.6	33.1
– Interest expenses for pension provisions	31.2	13.9
= EBIT I	288.1	989.7
Total assets	11,011.4	11,175.0
– Pension provisions	1,618.1	1,460.8
– Other provisions excluding provision for income taxes	525.3	518.7
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting, derivatives	1,980.4	2,489.3
– Deferred tax claims	378.1	253.0
= Capital employed	6,509.4	6,453.2
in %		
ROCE	8.9	30.7

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 a ROCE of at least 12 % over an economic cycle that we generally define as a period of five years. ROCE came in at 8.9 % in the first half of 2023 (H1 2022: 30.7 %). Significantly lower ROCE is attributable to a considerable decline in EBIT, while capital employed has risen marginally compared with the previous year's reporting date.

More detailed explanations on the derivation of ROCE are provided in the section on the "Financial Control System" in the 2022 annual report.

EARNINGS BEFORE INTEREST AND TAXES (EBIT)/EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

In € million	H1 2023	H1 2022
EBT	242.6	970.5
+ Interest expenses	76.6	33.1
– Interest income	16.7	3.8
= EBIT	302.5	999.8
+ Depreciation / amortization[1]	158.5	138.7
= EBITDA	461.0	1,138.5

[1] Depreciation / amortization of tangible and 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. As against the year-earlier period, the downturn in sales and the lower cost of materials, coupled with a more negative balance of interest income and interest expenses, have resulted in EBIT that is markedly lower.

BUSINESS UNIT PERFORMANCE

STEEL PRODUCTION BUSINESS UNIT

		Q2 2023	Q2 2022	H1 2023	H1 2022
Order intake[1]	kt	1,188.2	980.3	2,543.9	2,567.0
Order backlog on reporting date[1]	kt	1,005.3	1,069.3	1,005.3	1,069.3
Crude steel production	kt	1,241.4	1,320.1	2,515.1	2,710.3
Salzgitter Flachstahl	kt	1,027.9	1,064.5	2,055.1	2,168.5
Peiner Träger	kt	213.5	255.6	460.0	541.7
Rolled steel production	kt	1,091.5	1,038.4	2,215.7	2,263.2
Salzgitter Flachstahl	kt	894.0	813.5	1,803.3	1,770.3
Peiner Träger	kt	197.5	224.9	412.5	492.9
Shipments	kt	1,324.7	1,368.0	2,773.2	2,873.1
Segment sales[1]	€ m	1,278.9	1,579.2	2,692.5	3,183.0
External sales	€ m	925.7	1,123.2	1,964.5	2,327.6
EBIT before depreciation and amortization (EBITDA)	€ m	58.9	306.9	194.5	637.7
Earnings before interest and taxes (EBIT)	€ m	17.0	270.5	111.0	564.9
Earnings before taxes (EBT)	€ m	3.7	268.5	83.5	558.8

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

Along with the two steel producing companies of Salzgitter Flachstahl GmbH (SZFG) and Peiner Träger GmbH (PTG), the **Steel Production Business Unit** also comprises DEUMU Deutsche Erz- und Metall-Union GmbH (DMU) as an important internal transformation partner for our ↗ SALCOS® – Salzgitter Low CO_2 Steelmaking decarbonization program. Furthermore, the business unit includes the companies of Salzgitter Mannesmann Stahlservice GmbH (SMS) and Salzgitter Europlatinen GmbH (SZEP). The product range of the business unit comprises hot-rolled strip, galvanized and coated cold-rolled strip, sections and laser-welded tailored blanks, among other products.

MARKET DEVELOPMENT

The strip steel market's rebound at the turn of the year slowed over the course of the second quarter of 2023, as especially illustrated by the spot market prices that function as an indicator. The price uptrend in the first quarter was succeeded by a another phase of declining prices in the three months thereafter. This development was principally attributable to China's ailing market, on the one hand, that is responsible for greater import pressure from the Asian region in the direction of Europe. Fortunately, the EU Commission recently extended the current anti-dumping and anti-subsidy measures on imports of hot-rolled strip steel products from China by another five years. On the other hand, the demand of some end consumers generally proved to be weak in the first six months. This group includes the construction industry, for instance, that recorded a slump in demand primarily caused by rising interest expenses. High inflation also impacted other sectors negatively. A loss of purchasing power led to weak demand for household goods manufacturers for instance, and other consumer-related industries. Steel traders also opted to keep inventories at the lowest possible level due to the increase in the cost of financing warehousing. A counter trend emanated from the significantly improved demand situation in the automotive business compared with previous years. An easing of the supply chain problems, and the effects of order backlogs at OEMs that still apply, have resulted in stable call-offs by automotive manufacturers and their suppliers.

At the start of January, the sections market briefly experienced a recovery in demand, which, however, did not result from an improved market situation. Instead, the stockholding steel trade, prompted by the low level of stocks at the turn of the year, replenished its inventories. This led to prices remaining at a good level up until halfway through the second quarter. Real demand, however, generally remained weak in the first quarter. Construction activities continued to lose momentum in the first half of 2023. Rising interest rates and generally high building costs caused an unwillingness to invest and correspondingly a lack of projects in the market. The negative market development became increasingly noticeable over the course of the year and resulted in a marked decline of prices towards the end of the second quarter.

PROCUREMENT

IRON ORE

The iron ore price quoted in the first quarter remained consistently above the 120 USD/ dmt mark and, by mid-March, had reached 133.10 USD/ dmt, the highest level seen since June 2022. Weaker-than-expected economic data from China and global demand failing to meet expectations, coupled with rising ore deliveries from Brazil, nevertheless sent prices nosediving at the start of April. The IODEX came in at 97.35 USD/ dmt on May 24, marking its lowest level since November 2022. Hopes that the Chinese government might provide stronger support for the construction sector subsequently prompted the price to rise again. At the end of June, the price was fluctuating between 110-115 USD/ dmt. IODEX settled at an average of 110.98 USD/ dmt in the second quarter, thereby dropping 19.5 % below the previous year's period.

COKING COAL

At the start of the reporting period, prices initially rose again to 390 USD/ t in mid-February. The coking coal price then followed on with a significant downward correction as consumers had procured sufficient material. In anticipation of prices declining again, and also prompted by a weaker outlook for the steel market, customers held back on buying in April, which sent the leading quotation down to 230 USD/ t. The price stabilized at this level in the following months of May and June and was only influenced in one or the other direction by isolated spot market deals. In the second quarter, the price averaged 242.77 USD/ t, which is 45.5 % less year on year.

The Salzgitter Group hedges defined iron ore and coking coal volumes in order to mitigate the procurement risks.

STEEL SCRAP

The start of the year brought a recovery on Germany's scrap market, and the demand of many domestic steel works for scrap began to climb against the backdrop of an improved situation in the steel industry compared with the previous quarter. In the second quarter, however, the market trend reversed, and prices fell in a range of between 42 and € 72/ t, depending on the grade and region. The determining factor for steel price declines in the European domestic markets proved once again to be the buying patterns of Turkish scrap steel importers. In the context of a weak sales situation, falling steel prices, and the rising dollar exchange rate, Turkish steel producers realized declining selling prices for their finished products. This scenario caused the demand of Turkish plants for steel scrap to slow and prices to drop in Germany.

BUSINESS DEVELOPMENT

Order intake of the Steel Production Business Unit generally remained at the previous year's level as the slight uptrend in incoming orders in the strip steel business compensated for the market-induced downtrend in sections. **Orders on hand** and **crude steel output** fell short of the year-earlier counterpart figures, as opposed to **rolled steel production** that virtually matched the level of the first half of 2022. Due to weaker volumes of PTG, **shipments** were lower than in the previous year's period. Following on from the price downtrend in the final quarter of 2022, the strip steel business saw selling prices stabilize in the second quarter. Compared with the previous year, the level of selling prices, both in the strip steel and in the sections business, nevertheless slipped notably, which produced a significant decline in the business unit's **segment** and **external sales**. The Steel Production Business Unit generated **EBITDA** of € 194.5 million (H1 2022: € 637.7 million) and € 83.5 million in **earnings before taxes** (H1 2022: € 558.8 million). SZFG was unable to repeat the record result of the first six months of 2022 - essentially due to selling prices and because of general cost increases. With comparatively lower scrap and energy costs, PTG's result also fell short of the year-earlier figure due to the aforementioned development. The DMU Group reported a lower pre-tax profit than in the year before due above all to slimmer margins. The earnings contributions of the other companies forming part of the business unit were also lower than in the previous year.

INVESTMENTS

With a view to securing the supply of pig iron, the relining of Blast Furnace A was approved by the Supervisory Board in the previous year and the main contract of the investment project was awarded. Emphasis was placed on preparatory work for the assembly project phase in the first half of 2023.

Increased customer requirements for galvanized high-strength and ultra-high-strength steel grades are being accommodated through the new Hot Dip Galvanizing Line 3 in Salzgitter. Construction work on the facilities was completed in 2022. Hot Dip Galvanizing Line 3 is undergoing the project phase of live production accompanied by performance tests.

SALCOS®

SALCOS® is aimed at fully converting the integrated steelworks into low-carbon crude steel production in three stages over the period up until 2033. As part of the first stage of development, an electrolyzer, a DRI plant and an electric arc furnace are to be built by the end of 2025. These facilities can be used to produce 1.9 million tons of low carbon crude steel a year, thereby replacing a blast furnace and a converter.

Through to the end of 2026, we will be investing approximately € 2.3 billion in the transformation of primary steel production. Following the signing of an administrative agreement on September 15, 2023, through which the Federal Republic of Germany and the Federal State of Lower Saxony demonstrated their commitment to the Community support of SALCOS®, and the subsequent necessary approval of state aid by the EU Commission, funding approval was awarded on April 18, 2023. This funding approval serves to support SALCOS® in its first stage of development with funds of around € 700 million from the German government and € 300 million from the federal state. Together with the funds of over one billion euros released by the company itself, the first development stage of SALCOS® has been secured.

The contract to build a direct reduction plant (DRI plant) in industrial scale on the premises of SZFG was awarded to a consortium consisting of Tenova, Danieli and the DSD Steel Group. The contract covers the engineering, delivery, assembly, and the final commissioning of the plant. The new facilities constitute the largest plant unit as part of the first development stage. The plant has an annual production capacity of a good two million tons of direct reduced iron.

As a pilot facility for SALCOS®, we had already built a hydrogen-fueled DRI plant on the Salzgitter site in a significantly reduced scale, designed for flexible use with natural gas / hydrogen. Construction work on the facilities was completed in the first quarter of 2023. The direct reduction plant is currently undergoing functional testing.

The ramping up of scrap recycling activities envisaged under SALCOS® was expedited in the period under review through DMU's takeover of Must-Metalle-Container-Recycling GmbH. The recycling company based in Goslar in Germany's Harz region is specialized in scrap and metals trading. As part of the Salzgitter Group, the company will continue to operate independently under the new name of Harzer Schrott und Recycling GmbH.

STEEL PROCESSING BUSINESS UNIT

		Q2 2023	Q2 2022	H1 2023	H1 2022
Order intake	€ m	521.1	763.8	1,223.6	1,552.3
Order backlog	€ m	867.6	1,095.7	867.6	1,095.7
Crude steel production	kt	309.6	306.1	620.4	628.6
Rolled steel production	kt	262.6	295.8	538.8	587.2
Shipments	kt	411.1	414.2	844.3	833.6
Segment sales[1]	€ m	841.6	872.8	1,708.9	1,656.2
External sales	€ m	625.0	545.5	1,187.0	1,012.2
EBIT before depreciation and amortization (EBITDA)	€ m	81.3	63.0	181.4	82.4
Earnings before interest and taxes (EBIT)	€ m	61.5	49.7	147.9	56.3
Earnings before taxes (EBT)	€ m	57.2	47.2	138.9	51.6

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

The companies producing steel tubes and pipes and the Salzgitter Group's heavy plate activities are combined under the **Steel Processing Business Unit**. The pipes and tubes portfolio covers a wide range of line pipe diameters, as well as precision steel tubes and stainless steel and nickel-based tubes. Two heavy plate mills also belong to the business unit. Along with standard grades, the Ilsenburg mill produces high-strength and sour-gas resistant plate. The competence of the mill operating out of Mülheim an der Ruhr resides above all in the production of line pipe plate for onshore and offshore pipelines in medium to large batch sizes. The business unit has its own supply of input material through its participation in Hüttenwerke Krupp Mannesmann GmbH (HKM).

HKM is reported at 30 % on a proportionate basis and is included accordingly in the order intake, sales and the result of the business unit but not in the figures for orders on hand and shipments. The participating investments in the EUROPIPE Group (50 %) and in Turkish pipes producer Borusan Mannesmann Boru Yatirim Holding A.S. (BMBYH; 23 %) are accounted for using the equity method.

As part of our active portfolio management, the Berg Pipe Group based in the US was sold to Borusan Mannesmann Pipe U.S. on April 13, 2023. In line with the best-owner principle, this measure opens up the prospect of optimized strategic development opportunities for Berg Pipe and its employees under Borusan Mannesmann's leadership and management. The result from the deconsolidation was included via Europipe GmbH, a company accounted for using the equity method. The effect of the disposal on the 2023 pre-tax result is immaterial.

There are plans to sell the shares in Borusan Mannesmann Boru Yatirim Holding A.S., held by Salzgitter Mannesmann GmbH, to Borusan Holding A.S. Contractual agreement is subject to the proviso of approval still pending by the antitrust authorities.

MARKET DEVELOPMENT

QUARTO PLATE

The start of the year 2023 saw western European plants with a good order cushion and demand rising across virtually all customer sectors. Toward the end of the quarter, demand had settled at a stable level before progressively entering a downtrend in the second quarter against the backdrop of partly high customer inventory levels. Following a steady uptrend in the heavy plate market at the beginning of the year and a sideways movement in March, prices slipped as from the middle of the second quarter until the start of June when they reached a level roughly around that of year-end 2022. Due to the progressive expansion of wind energy, demand from this sector was stable. At the outset of the second quarter, proceeding on a proposal put forward by the EU Commission, the EU member states resolved to extend the anti-dumping measures against Chinese imports of heavy plate by another five years.

At the start of February 2023, the US International Trade Commission (ITC) renewed existing anti-dumping duties on German imports of heavy plate into the US by another five years and similarly on those of another ten countries by an additional five years.

STEEL TUBES AND PIPES

The EUROPIPE group continued to report many inquiries for new projects, particularly for hydrogen and carbon pipelines. By contrast, market demand in Germany for Mannesmann Großrohr GmbH (MGR) slowed discernibly following a distinct recovery in the first quarter of 2023. In the other MGR core market in western and southern Europe demand also dropped off again to the level seen before the Russia-Ukraine war. Demand activities on the market for medium-diameter line pipe also declined, as did the number of projects reaching the awarding stage. Prompted by price expectations, the trading business remained reticent due to high inventory levels. To the exception of the automotive sector, the precision tubes market was subject to a rather weak economic momentum. In the case of seamless stainless steel tubes, market momentum slowed considerably in the second quarter. While business in the stockholding steel trade all but came to a standstill, orders were also delayed in the fundamentally stable project business, particularly in the energy and chemicals industries, due to speculations about declining prices. Only the aerospace industry reported above average inquiry activity that was, however, attributable to a catch-up effect due to orders being shelved and canceled in the context of the COVID-19 pandemic.

BUSINESS DEVELOPMENT

The **order intake** and **orders on hand** of the Steel Processing Business Unit contracted by one fifth compared with the first half of 2022. Neither the heavy plate producers nor the steel producing companies matched the previous year’s high order intake level, with the exception of the stainless steel tubes group. In the precision tubes segment, inquiry activity from the product areas of industry and energy was reported at a lower level, while bookings in the automotive business dropped only marginally below the year-earlier level that was negatively impacted by the semiconductor problem. Demand in the project business for medium-diameter line pipes initially proved to be stable at the start of the year. Market conditions increasingly deteriorated over the course of the second quarter, however. The Steel Processing Business Unit's **shipments** remained stable. In this context, the heavy plate companies and MGR almost achieved the shipment volumes seen in the first six months of 2022; the increase in medium-diameter line pipes compensated for the downtrend in precision and stainless steel tubes. **Segment sales** rose slightly year-on-year due to the improvement in the medium line pipe business; **external sales** climbed notably. The business unit generated **EBITDA** of € 181.4 million (H1 2022: € 82.4 million) and **earnings before taxes** of € 138.9 million (H1 2022: € 51.6 million), thereby significantly exceeding the previous year’s figures. Owing to the lower shipment volumes and the increase in input material costs, ILG delivered a weaker result than a year ago. All other companies – including the EUROPIPE Group, a company accounted for using the equity method, which recorded a tangibly better business situation – contributed improved earnings.

TRADING BUSINESS UNIT

		Q2 2023	Q2 2022	H1 2023	H1 2022
Shipments	kt	780.4	938.8	1,568.8	2,000.7
Segment sales[1]	€ m	850.2	1,259.6	1,774.1	2,585.7
External sales	€ m	842.2	1,239.3	1,760.5	2,541.9
EBIT before depreciation and amortization (EBITDA)	€ m	8.9	156.2	12.4	258.1
Earnings before interest and taxes (EBIT)	€ m	4.7	152.3	3.7	250.2
Earnings before taxes (EBT)	€ m	0.2	150.9	–5.0	249.0

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

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

MARKET DEVELOPMENT

Having staged a moderate recovery at the end of the first quarter of 2023, selling prices had declined again by the end of the first six months. The demand for steel was rather weak on the majority of the business unit's key markets. The global hikes in interest rates implemented by central banks put an additional damper on international trading.

BUSINESS DEVELOPMENT

Compared with the year-earlier period, **shipment volumes** of the Trading Business Unit declined notably on the back of a lackluster demand trend in the stockholding steel trade and in international trading as well as at the UES Group. Combined with the lower price level, a significant decline in **segment** and **external sales** was reported. In conjunction with average inventory prices in the stockholding steel trade that dropped with a time lag, considerable losses were recorded and were not compensated by the more stable margins of international trading's business and the UES Group. Consequently, **EBITDA** (€ 12.4 million; H1 2022: € 258.1 million) and **earnings before taxes** (€ –5.0 million; H1 2022: € 249.0 million) fell notably short of the previous year's outstanding results.

TECHNOLOGY BUSINESS UNIT

		Q2 2023	Q2 2022	H1 2023	H1 2022
Order intake	€ m	566.8	406.9	1,150.6	925.6
Order backlog on reporting date	€ m	1,474.5	1,151.4	1,474.5	1,151.4
Segment sales[1]	€ m	416.2	337.0	836.7	671.0
External sales	€ m	416.0	336.7	836.4	670.4
EBIT before depreciation and amortization (EBITDA)	€ m	24.8	12.9	52.1	31.9
Earnings before interest and taxes (EBIT)	€ m	17.0	6.1	36.7	18.1
Earnings before taxes (EBT)	€ m	16.5	6.0	36.2	19.1

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

Three manufacturers of special machinery steeped in tradition are grouped within the **Technology Business Unit**. Around 90 % of sales is generated by the KHS Group that, as a plant engineering specialist, holds a leading global position in filling and packaging technology. The KHS Group is a full-line supplier featuring a product range that covers intralogistics and processing through to the filling and packaging of beverages. The Klöckner DESMA Elastomertechnik Group (KDE Group) manufactures injection molding machinery for rubber and silicon products, while DESMA Schuhmaschinen GmbH (KDS) provides special machinery for the shoe manufacturing industry. The two companies rank as market leaders in their respective segments.

MARKET DEVELOPMENT

According to the German Engineering Federation (VDMA), the country's mechanical engineering industry got off to a weaker start to the year 2023. Order intake dropped considerably compared with the year-earlier period. This development corresponds with the recently persistently negative sentiment in the industry. Orders from abroad were more strongly impacted than domestic order intake. Order intake in the packaging machinery business also remained considerably below the previous year's level.

BUSINESS DEVELOPMENT

Running counter to the aforementioned trend in the sector, the **order intake** of the Technology Business Unit was appreciably higher year-on-year. This is principally attributable to the strong demand for the products and services of the KHS Group, while the order intake of the KDS and the KDE Group also grew considerably. As a result of this positive trend, the business unit's **orders on hand** remained at a high level. **Segment** and **external sales** outperformed the first half of 2022 by one quarter. All in all, the Technology Business Unit generated **EBITDA** of € 52.1 million (H1 2022: € 31.9 million) and **earnings before taxes** of € 36.2 million in (H1 2022: 19.1 € million) in the period under review, thereby significantly exceeding the previous year's figures.

The Technology Business Unit's efficiency and growth program consistently meshes with the Salzgitter Group's overall strategy. Extensive measures were able to contribute to the increase in revenue and profits achieved so far despite the fiercely competitive market environment, hallmarked by uncertainty. Along with continuously developing its production locations in Germany, the KHS Group's strategic focus is especially placed on expanding its international presence. With a view to strengthening customer relationships, capital expenditure is aimed at expanding global production capacities for processing customer orders and at securing after sales business, for instance by ramping up training centers worldwide.

INDUSTRIAL PARTICIPATIONS / CONSOLIDATION

		Q2 2023	Q2 2022	H1 2023	H1 2022
Sales[1]	€ m	328.1	336.1	656.9	634.3
External sales	€ m	44.3	42.1	87.4	84.5
EBIT before depreciation and amortization (EBITDA)	€ m	–3.0	51.3	20.7	128.4
Earnings before interest and taxes (EBIT)	€ m	–11.8	42.3	3.1	110.4
Earnings before taxes (EBT)	€ m	–18.7	32.6	–10.9	92.0

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

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

Sales in the Industrial Participations / Consolidation segment, which are based mainly on business in semi-finished products with subsidiaries, and **external sales** expanded slightly compared with the first six months of 2022. **EBITDA** (€ 20.7 million; H1 2022: € 128.4 million) includes a contribution of € 29.3 million (H1 2022: € 84.3 million), fully recognized in the accounts in the first quarter, from the participating investment in Aurubis AG disclosed using the equity method (IFRS accounting). **Earnings before taxes** of € –10.9 million also dropped notably below the previous year's figure (H1 2022: € +92.0 million). The results from the valuation of derivatives positions and net interest income from cash management of the consolidated group delivered a marginally negative contribution on balance (€ –0.4 million; H1 2022: € +17.3 million). The companies largely operating on behalf of the Group delivered a positive pre-tax result (€ 3.7 million) but were nevertheless unable to match the profit contribution of the previous year (€ 12.9 million) that was substantially impacted by the disposal of a piece of land.

FINANCIAL POSITION AND NET ASSETS

NOTES TO THE BALANCE SHEET

The **total assets** of the Salzgitter Group dropped by € 92 million in the first six months of 2023 compared with December 31, 2022.

Non-current financial liabilities remained roughly at the level of the previous balance sheet date at year-end 2022 (€ –14 million). The shares in the companies accounted for using the equity method declined slightly (€ –38 million). This decline was mainly attributable to reclassifying the shares in Borusan Mannesmann Boru Yatirim Holding A.S. under assets held for sale owing to the planned disposal of the shares. Investments in intangible assets and in property, plant and equipment (€ +205 million) notably exceeded the level of scheduled depreciation and amortization of fixed assets (€ –158 million) in the period under review. Deferred tax assets (€ –14 million) decreased due to the utilization of deferred tax assets on tax loss carryforwards. **Current assets** declined slightly compared with the last balance sheet date (€ –77 million). The tangible drop in inventories (€ –320 million) is offset by the increase in trade receivables including contract assets (€ +162 million), as well other receivables and assets (€ +108 million). The financial assets declined by € 61 million. The sale of Salzgitter Bauelemente GmbH that has meanwhile taken place is offset by the initial disclosure of shares in Borusan Mannesmann Boru Yatirim Holding A.S. As a result, the assets held for sale have risen by € 26 million overall compared with the last balance sheet date.

On the **liabilities side**, equity advanced slightly due in particular to the positive consolidated result (€ +80 million). Against the backdrop of a virtually negligible downturn in total assets, the equity ratio reached a very sound 44.8 % (2022/12/31: 43.7 %). All in all, non-current financial liabilities remained roughly at the level of the reference date (€ +1 million). Pension provisions remained virtually unchanged as against December 31, 2022. While other provisions increased marginally (€ +2 million), non-current financial liabilities declined slightly (€ –2 million). Current liabilities decreased by € 174 million. Whereas trade payables, including contract liabilities (€ –152 million), along with tax liabilities (€ –27 million), had dropped below the previous balance sheet date, other provisions (€ +5 million) and other liabilities (€ +4 million) increased.

At € –624 million, the **net financial position** declined discernibly compared with the level of the balance sheet date at year-end 2022 (€ –553 million). Cash investment (€ 938 million; 2022/12/31: € 1,002 million) was offset by liabilities of € 1,562 million (2022/12/31: € 1,554 million), of which € 713 million were owed to banks (2022/12/31: € 756 million). The Federal Republic of Germany and the Federal State of Lower Saxony have committed to providing funds for the SALCOS® transformation program that will be paid out depending on the investments made. By the reporting date no payments had been received from the funds applied for and eligible for disbursement (€ 60 million). A major part of these investment subsidies was paid back in July 2023, however. Payment of the remaining amount is anticipated just as promptly. As before, assets and liabilities from leasing arrangements are not considered in the net financial position. Higher trade receivables will affect the net financial position positively only when payment is made. Conversely, the lower level of inventories compared with the last reporting date has already positively impacted the net financial position.

NET FINANCIAL POSITION

Net financial position = cash investments – financial liabilities of the net financial position

In € million	2023/06/30	2022/12/31
Cash and cash equivalents acc. to balance sheet	927.6	988.4
+ Certificates held for trading	0.0	0.0
+ Other investments of funds[1)]	10.1	13.4
= Investments of funds	**937.7**	**1,001.8**
Financial liabilities acc. to balance sheet	1,700.5	1,698.3
– Liabilities from leasing agreements, from financing / financial transactions and other	138.3	143.9
= Financial liabilities of net financial position	**1,562.1**	**1,554.4**
Net financial position	**–624.4**	**–552.6**

[1] Securities, loans excl. valuation allowances (€ 6.5 million; 2022/12/31: € 10.4 million) and incl. other cash investments reported under other receivables and other assets (€ 3.6 million; 2022/12/31: € 3.0 million)

NOTES TO THE CASH FLOW STATEMENT

With a pre-tax profit of € 243 million, a positive **cash flow from operating activities** of € 249 million was reported (previous year: € –116 million). While, in comparison with the year-earlier period, the lower result had less of a positive effect on the operating cash flow, this time the change in working capital similarly also had less of a negative impact on the operating cash flow.

The **cash outflow from investing activities** amounts to € –241 million (previous year: € –78 million). Disbursements for capital expenditure on intangible assets and on property, plant and equipment (€ –261 million; previous year: € –143 million) are significantly higher than in 2022 and also reflect investments in strategic projects, including payouts of € 85 million for SALCOS®. Higher incoming payments from the disposal of other non-current assets constituted a counter trend. As per the end of June, no subsidies for the SALCOS® program had been received with a commensurate cash effect.

Disbursements made to our shareholders (dividend) and the repayment of loans and interest payments were offset by borrowing and other financial liabilities, resulting in an overall **cash outflow from financing activity** (€ –64 million; year-earlier period: cash inflow of € 123 million).

As a result of the negative overall cash flow, **cash and cash equivalents** (€ 928 million) declined accordingly compared with December 31, 2022 (€ 988 million).

EMPLOYEES

	2023/06/30	2022/12/31	Change
Core workforce[1]	**22,784**	**22,622**	**162**
Steel Production Business Unit	**7,350**	7,369	−19
Steel Processing Business Unit	**5,332**	5,341	−9
Trading Business Unit	**1,991**	1,975	16
Technology Business Unit	**5,443**	5,329	114
Industrial Participations / Consolidation	**2,668**	2,608	60
Apprentices, students, trainees	**1,071**	1,313	−242
Non-active age-related part-time employment	**645**	635	10
Total workforce	**24,500**	**24,569**	**−69**

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

As of June 30, 2023, the **core workforce** of the Salzgitter Group numbered 22,784 employees, which is 162 persons more than at the end of the financial year 2022. Taking account of the deconsolidation of Salzgitter Bauelemente GmbH, the increase in the workforce in continuing operations stood at 235 persons compared with the year-end status.

The growth in employee numbers is essentially attributable to the hiring of trainees as well as to setting about expanding the workforce as planned for 2023, particularly also in the KHS Group (+122). A total of 225 trainees were hired during the reporting period, 139 of whom were given temporary contracts. A counter trend emanated from employees reaching retirement, through switching to the non-active age-related part-time or going into immediate retirement.

The **total workforce** stood at 24,500 employees. The number of **temporary staff** outsourced stood at 1,188 on June 30, 2023, which is 48 persons more than on the previous year's reporting date. At the end of the reporting period, 251 employees (H1 2022: 156) were working **short time** in the domestic Group companies, 196 of whom at Mannesmannröhren-Werk GmbH.

FORECAST, OPPORTUNITIES AND RISK REPORT

OUTLOOK

Compared with the previous year, the business units anticipate that business in the financial year 2023 will develop as follows:

In a persistently volatile market environment that has tangibly deteriorated since the summer of 2022, and despite the uncertainty, the companies of the **Steel Production Business Unit** anticipate sound demand from automotive manufacturers on the back of well-filled order books. Starting from a high level, the cost of raw materials is likely to decline. Energy prices have eased considerably since the early autumn of 2022, but still remain greatly influenced by political decisions. Production loss from the planned relining of Blast Furnace A scheduled for the summer quarter is to be compensated through slab stockpiling, slab deliveries from companies within the Group, as well as by reactivating Blast Furnace C that has so far been out of operation. We assume that capacity utilization in the strip steel business will be virtually fully covered by demand, with selling prices remaining under pressure. Order intake at the start of 2023 did not firm up in the second quarter, while orders on hand nevertheless remain at a high level. We anticipate improving demand in the beams business for the full year 2023 that will exceed the year-earlier figure overall. Owing to the downtrend in average selling prices, we generally expect sales at a notably lower level (2022: € 4,262.7 million), as well as positive EBITDA (2022: € 946.3 million) and a pre-tax result that will nevertheless both fall considerably short of the exceptional year-earlier period (2022: € 790.9 million).

There are signs of a heterogeneous, but generally improved, development in the target markets of the **Steel Processing Business Unit** in 2023: With regard to heavy plate, we expect the outlook for market activity to brighten considerably, along with good capacity utilization. Pipe plate production is likely to benefit from the sound order booking situation for large-diameter pipes. Inasmuch, the large-diameter pipe mills are likely to see satisfactory capacity utilization in all the mills. In the medium-diameter line pipe segment we predict an increase in volumes as well. The precision tubes group anticipates higher volumes in its European mills. The stainless tubes steel business is confronted by a tight demand situation, while nevertheless benefiting notably from reduced energy costs. All in all, we forecast sales at the year-earlier level (2022: € 2,105.9 million) and EBITDA that will significantly exceed the previous year's figure (2022: € 173.1 million). The pre-tax result is also expected to considerably exceed the previous year's level (2022: € 86.2 million) that was burdened by impairment.

The business of the companies belonging to the **Trading Business Unit** is expected to enter a downtrend at a normal level compared with the previous year's high volume. Following the slight pre-tax loss in the first six months, expectations are for a moderate improvement in the operating margins and stronger demand, which should enable a return to the profit zone in the second half of the financial year 2023. The business unit is not expecting demand to pick up until the fourth quarter. All in all, we anticipate a notable decline in sales (2022: € 4,580.9 million), as well as EBITDA (2022: € 268.0 million) and earnings before taxes (2022: € 243.1 million) significantly below the year-earlier figures.

Based on a high level of orders on hand and a similarly high flow of incoming orders in the first half of 2023, the **Technology Business Unit** is predicting a tangible year-on-year increase. We continue to anticipate significant sales growth (2022: € 1,429.9 million) and considerable increase in EBITDA (2022: € 76,8 million) and in earnings before taxes (2022: € 48.0 million). The gratifying sales and earnings trend is expected to hold steady for the KHS Group in the second half of the year. Strong demand for the KHS Group's new, innovative products and steady growth in the after-sales business underpin this positive guidance. The market for the two DESMA specialist mechanical engineering companies is expected to rebound over the course of the year. Flanked by ongoing cost cutting and efficiency enhancing measures, achieving the level posted in the year-earlier period is nevertheless unlikely given the weaker development of business in the first half of 2023.

Against the backdrop of an anticipated weaker second half of the year, coupled with a persistently politically and economically volatile environment, we continue to anticipate the following for the Salzgitter Group in the financial year 2023:

/ sales of between € 11.5 billion and € 12.0 billion,
/ EBITDA of between € 750 million and € 850 million,
/ a pre-tax profit of between € 300 million and € 400 million, and
/ a return on capital employed (ROCE) notably below the previous year's level.

FORECAST FOR THE BUSINESS UNITS AND THE GROUP

			Financial year 2022	Forecast Financial Year 2023
Steel Production	Sales	€ m	4,262.7	Significantly reduced
	EBITDA	€ m	946.3	Significantly lower y/y
	EBT	€ m	790.9	Significantly lower y/y
Steel Processing	Sales	€ m	2,105.9	At year-earlier level
	EBITDA	€ m	173.1	Significantly higher y/y
	EBT	€ m	86.2	Tangibly higher y/y
Trading	Sales	€ m	4,580.9	Tangibly lower y/y
	EBITDA	€ m	268.0	Notably lower y/y
	EBT	€ m	243.1	Notably lower y/y
Technology	Sales	€ m	1,429.9	Notable uptrend
	EBITDA	€ m	76.8	Significantly higher y/y
	EBT	€ m	48.0	Significantly higher y/y
Group	Sales	€ m	12,553.3	Between € 11.5 billion and € 12 billion
	EBITDA	€ m	1,618.2	Between € 750 million and € 850 million
	EBT	€ m	1,245.4	Between € 300 million and € 400 million
	ROCE	%	20.1	Tangibly lower y/y

DENOMINATION	SALES, EBITDA AND EBT	DELTA ROCE
Stable, at year-earlier level:	Up to ± 2 %	± 1
Marginal, slight, somewhat:	± 2 % to < ± 5 %	1 to 5
Moderate, modest, more detailed description not available:	± 5 % to < ± 10	–
Tangible, considerable, notable, clear, visible:	Upward of ± 10 %	> ±5

As in recent years, please note that opportunities and risks from currently unforeseeable trends in selling prices, input material prices and capacity level developments, as well as exchange rate fluctuations, may considerably affect business performance over the course of the financial year 2023. The resulting impact on performance may be within a considerable range, either to the positive or to the negative.

RISK MANAGEMENT

At the time of reporting, we find ourselves dealing with the impact of the Russia-Ukraine war and are facing volatility on the raw materials and energy markets, with the associated higher inflation rates. At present, and to the extent foreseeable, we have factored in the effects on earnings of the companies into guidance for the current year, as far as can be estimated.

Despite reduced discernibility, there were no risks that could endanger the Salzgitter Group as a going concern as of the reporting date. With regard to the individual **opportunities and risks**, we make reference to the Annual Report 2022.

At this year's Hanover Trade Fair, we obtained the official notice from the Federal Republic of Germany and the Federal State of Lower Saxony on state funding for our SALCOS® transformation program in an amount just short of one billion euros for the first stage of development. We currently assess a financial burden in excess of the investment volume updated in March 2023 as unlikely.

GEOPOLITICAL RISKS

Russia launched its military attack on Ukraine on February 24, 2022. Concerning the Salzgitter Group, the economic uncertainties resulting from the **Russia / Ukraine war** pertain in particular to price trends and supply reliability on the procurement markets for energy and commodities and future sales prospects. The direct impact on our customers and suppliers changes periodically. Framework conditions shifting at short notice makes it impossible to reliably quantify the consequences. In terms of supply reliability, alternative suppliers have been found and we anticipate deliveries in line with requirements. The decline in sales in the war-affected regions of Russia and Ukraine is of minor significance for us.

Thanks to natural gas savings in the industrial arena and by private households as well due to a relatively mild winter, we did not see any gas shortfalls. Moreover, several LNG terminals have gone online in recent months, which has further improved the supply situation. Gas and electricity prices declined accordingly, while nevertheless remaining at a very high level by historical comparison. With a view to the coming winter, shortages and another increase in electricity prices can, however, still not be entirely ruled out.

The war in Ukraine – following on from the outbreak of the coronavirus pandemic – has once more illustrated the vulnerability of global supply chains and supply reliability to crises. What this generally means for the Salzgitter Group is that shipments and procurement risks are being subjected to even greater scrutiny in terms of their flexibility and substitutability. Such activities will not only encompass current situations alone, but also focus on potential global crisis situations with their impact on Salzgitter AG's business.

A further escalation of the conflict between the United States and China is an example of future possible crises. A significant shift in the US's perception, also in the public at large, of China as a systemic rival manifested at the latest under the Trump administration. Special tariffs imposed on certain Chinese imports at an early stage in the period of office of ex-US President Trump triggered a spiral of trade policy measures by both parties. After two years in office, current US President Biden has so far shown little aspiration to change the attitude toward China and to lift the tariffs of his predecessor.

Indeed, the US has launched a subsidy program under its Inflation Reduction Act that is designed to redirect many investments into the country, thereby reducing its dependence on China. The conclusion as to what form collateral damage will take is that huge volumes of investment in the US are likely to make the transformation of Europe's industry more difficult as manufacturing capacities and plant engineering companies will find a better investment climate on the US market.

China's support of Russia has served to exacerbate the tensions between "The West" and China. China's repeated threats regarding Taiwan have not contributed to de-escalating the situation. Consequently, a considerable risk remains of mutual sanctions being imposed at minimum or further trade barriers being set up that, in turn, could impact global supply chains and demand.

ECONOMIC RISKS

The extremely volatile prices of input raw materials, energy and preliminary products resulting from the aforementioned developments have triggered the highest **inflation rates** in Germany since the 1970s. An inflation rate of 7.9 % was quantified for 2022, with general consensus predictions still running at 6 % for 2023, and the economic research institutes assuming a more moderate version of 2 – 3 % in 2024 at the earliest. The high inflation rates have led to significant interest rate hikes by the European Central Bank that have, in turn, fueled rising financing costs of the real economy and especially of the private construction sector.

Germany's economic outlook for 2023 is commensurately weak. However, June saw most economic research institutes anticipate a slight recession (HWI: – 0.5 %) through to weak growth (IWH: 0.4 %). Private consumption and the construction economy that have so far not recovered from the high inflation and rising interest rates are a cause of concern for the research institutes. According to GfK, consumer sentiment in particular continues to hover at unprecedentedly low levels and, following moderate growth over the past eight months, dipped again for the first time in June. Without a significant recovery in private demand, the demand for steel from the segments of vehicles or household appliances and building materials could be exposed to long-term doldrums.

The prospects for Europe continue to remain stable: Contrary to initial expectations, the eurozone economy did not contract in the fourth quarter of 2022. The EU Commission raised its forecast of 0.9 % growth in March to 1.1 % in May 2023; at the outset of the year, growth was anticipated at a mere 0.3 %.

Aside from this, economic risks currently emanate from China's ailing economy. Institutes such as S+P and Goldman Sachs have revised their growth expectations for China downward. Weak consumption and a decline in the real estate market are challenging the economy. Furthermore, unemployment among young people is running at more than 20 %. In response, China's central bank resolved to implement its first interest rate cut for ten months. Further economic stimuli are at the planning stage but are likely to take effect in 2024 at the earliest. An even larger Chinese crisis would incur massive knock-on effects on the EU's economic outlook as well.

China's weak economy is negatively impacting the global steel markets. Rising steel exports from China, prompted by weak domestic demand, are indirectly translating into an increase in steel products imported at the lowest prices on the EU market and consequently in declining price levels in Europe. While Chinese steel products in the EU are largely subject to anti-dumping measures, China exports its largest surpluses to neighboring countries that, in turn, redirect their excess capacities into the EU market.

SECTORAL RISKS

In 2022, the EU member states resolved to introduce import restrictions on Russian steel products in the framework of several sanction packages. Accordingly, importing steel products of Russian origin processed in non-EU countries will be prohibited as from October 2023; importing semi-finished products will no longer be possible starting with October 2024. Risks arise from the new sanctions to the extent that the long transition periods through to autumn 2024 continue to facilitate Russian steel imports that are frequently offered at prices significantly below the customary market price level. Owing to the complexity of the directive and the difficulty in its implementation, this risk continues to prevail and may lead to distortions in the market on the back of low prices for Russian steel products.

In June 2023, EU member states decided to extend the safeguard measures through to the summer 2024. At the present point in time, prolonging the measures any further is unlikely. As a result, it will then be possible to import steel products into the EU market from July 1, 2024 onward without any restrictions by tariff quotas, which will likely drive up import volumes.

Furthermore, the reintroduction of Section 232 duties (without tariff quotas) in October 2023 is a threat looming for European exporters into the US. The agreement concluded between the EU and the US in October 2021 on the development of a "Global Sustainable Steel Agreement" (GSSA) is the background for this. In this context, the parties to the negotiations had set a deadline through to October 2023 for achieving an agreement that would introduce effective measures against non-market economy surplus capacity in the steel sector, promote the industry's decarbonization, and create green key markets. The various negotiation positions are currently still very far apart, which makes arriving at a consensus by October 2023 difficult. The loss of preferential market access to the US would considerably hamper exports again.

In December 2022, the EU member states agreed on the introduction of a Carbon Border Adjustment Mechanism (CBAM) as a future Carbon Leakage Safeguard Instrument and as a replacement for free allowances. A transition phase is to commence as from October 2023, and as from January 1, 2026, importers will need to factor in the cost of carbon similar to EU producers. Risks arise from the form that the new instrument will take, given that many detailed regulations will only be determined in the coming two and a half years and these regulations will decide on how effective the instrument will be. Consequently, material rules and regulations on product definition, certification and control mechanisms have not yet been defined.

INTERIM REPORT

CONSOLIDATED INCOME STATEMENT

In € million	Q2 2023	Q2 2022	H1 2023	H1 2022
Sales	2,853.2	3,286.7	5,835.7	6,636.5
Increase / decrease in finished goods and work in process / other own work capitalized	–36.0	82.8	–76.2	72.2
Total operating performance	2,817.2	3,369.4	5,759.5	6,708.8
Other operating income	149.1	350.2	335.2	512.3
Cost of materials	1,928.3	2,148.1	3,887.8	4,341.9
Personnel expenses	480.1	460.8	945.3	908.0
Amortization and depreciation of intangible assets and property, plant and equipment	82.6	69.4	158.5	138.7
Other operating expenses	411.4	545.9	858.2	912.6
Result from impairment losses and reversal of impairment losses of financial assets	–3.2	2.5	–6.2	2.3
Income from shareholdings	1.2	2.7	1.2	2.7
Result from investments accounted for using the equity method	26.5	20.0	62.6	74.7
Finance income	8.7	2.1	16.7	4.0
Finance expenses	38.1	17.5	76.6	33.1
Earnings before taxes (EBT)	59.0	505.2	242.6	970.5
Income tax	7.6	93.1	50.8	189.6
Consolidated result	51.4	412.2	191.8	781.0
Amount due to Salzgitter AG shareholders	49.8	410.5	189.0	778.2
Minority interest	1.5	1.6	2.9	2.8
Appropriation of profit				
Consolidated result	51.4	412.2	191.8	781.0
Profit carried forward from the previous year	–	–	60.1	45.1
Minority interest in consolidated result	1.5	1.6	2.9	2.8
Dividend payment	–54.1	–40.6	–54.1	–40.6
Transfer from (+)/ to (–) other retained earnings	–49.8	–410.6	–189.0	–778.2
Unappropriated retained earnings of Salzgitter AG	–54.1	–40.6	6.0	4.5
Earnings per share (in €) – basic	0.92	7.59	3.49	14.39
Earnings per share (in €) – diluted	–	–	–	–

STATEMENT OF COMPREHENSIVE INCOME

In € million	Q2 2023	H1 2023	Q2 2022	H1 2022
Consolidated result	51.3	191.8	412.2	781.0
Recycling				
Changes in value from currency translation	1.4	–2.4	15.8	24.9
Changes in value from cash flow hedges	–6.5	0.9	–4.1	102.1
Fair value change	–5.5	0.9	–15.1	82.6
Recognition with effect on income	–1.0	0.0	11.0	19.5
Changes in the value of investments in companies accounted for using the equity method	–12.9	–10.1	2.0	14.6
Fair value change	–9.3	–4.6	–3.0	7.9
Currency translation	–7.1	–8.8	6.1	7.8
Deferred taxes	3.6	3.4	–1.1	–1.1
Deferred taxes on other changes without effect on income	0.0	0.0	0.0	0.0
Subtotal	–17.9	–11.5	13.8	141.7
Non-recycling				
Remeasurements	9.3	–6.4	347.4	551.3
Remeasurement of pensions	12.0	–8.4	430.9	696.0
Deferred taxes	–2.8	1.9	–83.4	–144.8
Changes in the value of investments in companies accounted for using the equity method	–15.4	–13.3	17.3	17.3
Fair value change	–13.9	–11.8	5.9	5.9
Remeasurement of pensions	–0.9	–0.9	11.4	11.4
Deferred taxes	–0.5	–0.5	–	–
Subtotal	–6.1	–19.7	364.7	568.6
Other comprehensive income	–24.0	–31.2	378.6	710.3
Total comprehensive income	27.3	160.6	790.7	1,491.2
Total comprehensive income due to Salzgitter AG shareholders	25.8	157.8	789.0	1,488.4
Total comprehensive income due to minority interest	1.5	2.8	1.7	2.8
	27.3	160.6	790.7	1,491.2

CONSOLIDATED BALANCE SHEET

Assets in € million	2023/06/30	2022/12/31
Non-current assets		
Intangible assets	204.9	205.5
Property, plant and equipment	2,252.5	2,211.0
Investment property	77.4	78.1
Financial assets	34.5	38.3
Investments in companies accounted for using the equity method	1,527.5	1,565.3
Trade receivables	3.1	3.5
Other receivables and other assets	16.9	15.7
Income tax assets	1.1	–
Deferred income tax assets	378.1	392.6
	4,496.0	4,510.0
Current assets		
Inventories	3,154.2	3,474.3
Trade receivables	1,660.4	1,543.8
Contract assets	363.5	318.3
Other receivables and other assets	326.1	217.9
Income tax assets	30.9	23.6
Securities	0.0	0.0
Cash and cash equivalents	927.6	988.4
	6,462.6	6,566.3
Assets held for sale	52.8	27.1
	6,515.4	6,593.3
	11,011.4	11,103.3

Equity and liabilities in € million	2023/06/30	2022/12/31
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	4,764.1	4,585.7
Other reserves	101.8	145.5
Unappropriated retained earnings	6.0	60.1
	5,290.4	5,209.9
Treasury shares	–369.7	–369.7
	4,920.7	4,840.2
Minority interest	10.0	10.2
	4,930.7	4,850.4
Non-current liabilities		
Provisions for pensions and similar obligations	1,618.1	1,618.8
Deferred tax liabilities	197.3	195.2
Income tax liabilities	33.5	33.5
Other provisions	274.6	272.3
Financial liabilities	577.1	579.3
Other liabilities	5.0	5.2
	2,705.6	2,704.3
Current liabilities		
Other provisions	250.8	246.2
Financial liabilities	1,123.3	1,119.1
Trade payables	1,171.4	1,331.8
Contract liabilities	420.8	412.3
Income tax liabilities	23.7	51.2
Other liabilities	385.1	380.9
Liabilities associated with assets held for sale	–	7.2
	3,375.1	3,548.7
	11,011.4	11,103.3

CASH FLOW STATEMENT

In € million	H1 2023	H1 2022
Earnings before taxes (EBT)	242.6	970.5
Depreciation write-downs (+) / write-ups (–) of non-current assets	158.3	138.3
Income tax paid (–) / refunded (+)	–57.4	–57.2
Other non-cash expenses (+)/ income (–)	67.9	3.3
Interest expenses	76.6	33.1
Gain (–) / loss (+) from the disposal of non-current assets	8.5	–5.8
Increase (–) / decrease (+) in inventories	319.5	–512.2
Increase (–) / decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–255.3	–582.9
Use of provisions affecting payments, excluding income tax provisions	–122.9	–126.6
Increase (+) / decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	–188.8	23.2
Cash outflow / inflow from operating activities	249.0	–116.3
Cash inflow from the disposal of intangible assets, property, plant and equipment and investment property	0.8	10.8
Cash outflow for investments in intangible assets, property, plant and equipment and investment property	–260.9	–142.8
Cash inflow from investments of funds	–	50.0
Payments for financial investments	–0.7	–0.1
Cash inflow from the disposal of non-current assets	29.6	4.6
Cash outflow for investments in non-current assets	–9.3	–0.9
Cash outflow from investment activities	–240.5	–78.4
Payouts to company owners	–54.1	–40.6
Deposits from taking out loans and other financial debts	57.7	343.0
Repayment of loans and other financial liabilities	–44.2	–114.7
Interest paid	–23.0	–64.3
Cash outflow / inflow from financing activities	–63.5	123.4
Cash and cash equivalents at the start of the period	988.4	741.8
Gains and losses from changes in foreign exchange rates	–5.8	14.1
Payment-related changes in cash and cash equivalents	–54.9	–71.3
Cash and cash equivalents at the end of the period	927.6	684.6

STATEMENT OF CHANGES IN EQUITY

In € million	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	Currency translation
As of 2021/12/31	161.6	257.0	−369.7	3,170.4	−16.5
Total comprehensive income	–	–	–	551.3	24.9
Basis adjustments	–	–	–	–	–
Dividend	–	–	–	–	–
Group transfers to(+)/ from(−) retained earnings	–	–	–	778.2	–
Other	–	–	–	0.5	–
As of 2022/06/30	161.6	257.0	−369.7	4,500.5	8.4
As of 2022/12/31	161.6	257.0	−369.7	4,585.7	−7.2
Total comprehensive income	–	–	–	−6.4	−2.3
Basis adjustments	–	–	–	–	–
Dividend	–	–	–	–	–
Group transfers to(+)/ from(−) retained earnings	–	–	–	189.0	–
Other	–	–	–	−4.2	–
As of 2023/06/30	161.6	257.0	−369.7	4,764.1	−9.6

Other reserves from:			Unappropriated retained earnings	Amount due to Salzgitter AG shareholders	Minority interest	Equity
Cash flow hedges	Available-for-sale financial assets	Investments accounted for using the equity method				
42.9	15.0	40.5	45.1	3,346.3	10.7	3,357.0
102.1	–	31.9	778.2	1,488.4	2.8	1,491.2
−89.6	–	–		−89.6		−89.6
–	–	–	−40.6	−40.6	−4.6	−45.1
–	–	–	−778.2	–		–
–	–	–		0.5		0.5
55.4	15.0	72.4	4.5	4,705.0	9.0	4,714.0
21.5	15.5	115.7	60.1	4,840.2	10.2	4,850.4
0.9	–	−23.3	189.0	157.8	2.8	160.6
−19.0	–	–	–	−19.0	–	−19.0
–	–	–	−54.1	−54.1	−3.0	−57.1
–	–	–	−189.0	–	–	–
–	–	–	–	−4.2	–	−4.2
3.5	15.5	92.3	6.0	4,920.7	10.0	4,930.7

NOTES

SEGMENT REPORTING

In € million	Steel Production		Steel Processing		Trading	
	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022
External sales	1,964.5	2,327.6	1,187.0	1,012.2	1,760.5	2,541.9
Sales to other segments	724.4	852.7	411.3	517.5	13.6	43.7
Sales to group companies that are not allocated to an operating segment	3.6	2.7	110.6	126.5	0.0	0.0
Segment sales	2,692.5	3,183.0	1,708.9	1,656.2	1,774.1	2,585.7
Interest income (consolidated)	0.1	0.1	1.8	0.5	1.6	1.4
Interest income from other segments	–	–	–	–	–	–
Interest income from group companies that are not allocated to an operating segment	8.4	4.5	2.8	2.1	5.4	6.7
Segment interest income	8.6	4.6	4.6	2.6	6.9	8.1
Interest expenses (consolidated)	32.2	7.8	7.0	3.5	15.4	9.0
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses to group companies that are not allocated to an operating segment	3.8	2.9	6.5	3.8	0.3	0.2
Segment interest expenses	36.1	10.7	13.6	7.3	15.7	9.3
of which interest portion of allocations to pension provisions	11.7	5.3	4.2	2.2	1.6	0.7
Depreciation of property, plant and equipment and amortization of intangible assets	83.4	72.8	33.5	26.1	8.6	7.9
of which scheduled depreciation of property, plant and equipment and amortization of intangible assets	83.4	72.8	33.5	26.1	8.6	7.9
EBIT before depreciation and amortization (EBITDA)	194.5	637.7	181.4	82.4	12.4	258.1
Earnings before interest and taxes (EBIT)	111.0	564.9	147.9	56.3	3.7	250.2
Segment earnings before taxes	83.5	558.8	138.9	51.6	–5.0	249.0
of which resulting from investments in companies accounted for using the equity method	–	–	33.3	–9.6	–	–
Investments in property, plant and equipment and intangible assets	138.0	79.3	28.4	32.7	12.6	5.6

Technology		Total segments		Industrial Participations / Consolidation		Group	
H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022
836.4	670.4	5,748.3	6,552.1	87.4	84.5	5,835.7	6,636.5
0.3	0.6	1,149.7	1,414.4	569.6	549.8	1,719.3	1,964.2
–	–	114.2	129.3	–	–	114.2	129.3
836.7	671.0	7,012.2	8,095.8	657.0	634.3	7,669.2	8,730.1
1.4	1.1	5.0	3.1	11.8	0.7	16.7	3.8
–	–	–	–	11.1	7.3	11.1	7.3
0.3	1.6	16.8	14.9	–	–	16.8	14.9
1.7	2.7	21.8	18.0	22.9	8.0	44.7	26.0
1.8	1.2	56.5	21.5	20.1	11.5	76.6	33.1
–	–	–	–	16.8	14.9	16.8	14.9
0.5	0.4	11.1	7.3	–	–	11.1	7.3
2.3	1.6	67.6	28.9	36.9	26.4	104.6	55.3
1.5	0.7	19.0	9.0	12.2	4.9	31.2	13.9
15.4	13.8	140.9	120.6	17.6	18.0	158.5	138.7
15.4	13.8	140.9	120.6	17.6	18.0	158.5	138.7
52.1	31.9	440.3	1,010.1	20.7	128.4	461.0	1,138.5
36.7	18.1	299.4	889.5	3.1	110.4	302.5	999.8
36.2	19.1	253.6	878.5	−10.9	92.0	242.6	970.5
–	–	33.3	−9.6	29.3	84.3	62.6	74.7
13.4	11.3	192.4	128.9	12.6	21.1	205.1	150.0

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, 2023, 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, 2022, no changes have been made in the accounting, valuation, calculation and consolidation methods applied to the quarterly financial statements for the period ended June 30, 2023, notwithstanding the following exceptions.
3. In calculating the fair value of defined benefit obligations as of June 30, 2023, an actuarial rate of 4.0 % was applied (December 31, 2022: 4.1 %). The resulting increase in provisions for pensions and similar obligations is reported in other comprehensive income (pension remeasurement) and incurs a corresponding reduction in equity.
4. 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.

In accordance with the accounting rules for leases (IFRS 16), the historical cost of acquisition of the usage rights and leasing liabilities is shown in the following:

In € million	2023/06/30	2022/12/31
Right of use of land, similar rights and buildings, including buildings on land owned by others	138.6	136.1
Right of use of plant equipment and machinery	55.8	53.4
Right of use of other equipment, plant and office equipment	30.0	29.4
Non-current assets	**224.4**	**219.0**
Right of use of land, similar rights and buildings, including buildings on land owned by others	41.7	35.9
Right of use of plant equipment and machinery	30.2	25.9
Right of use of other equipment, plant and office equipment	20.2	18.7
Depreciation / amortization	**92.1**	**80.5**
Lease liabilities	**138.1**	**143.6**

An amount of € 117.6 million is attributable to non-current lease liabilities. Moreover, depreciation and amortization stood at € 13.4 million, interest expenses at € 1.7 million, and cash outflow totaled € 14.0 million in the first six months of 2023.

5. With regard to the impact of the Russia-Ukraine war on the Salzgitter Group, we refer to our explanations, both in the section on the result of operations and in the forecasts, opportunities and risk report.
6. Effective January 1, 2023, Salzgitter Bauelemente GmbH was sold to FALK Bouwsystemen B.V., Netherlands, and has been deconsolidated from the Salzgitter consolidated financial statements since that date.
7. Effective April 13, 2023, BERG EUROPIPE Holding Corp., a subsidiary of EUROPIPE GmbH headquartered in the US, was sold together with its holdings Berg Pipe Panama City Corporation and Berg Pipe Mobile Corporation, both also based in the US, to BORUSAN MANNESMANN PIPE U.S., INC., Houston. The result from the deconsolidation was included via Europipe GmbH, a company accounted for using the equity method.
8. There are plans to sell the shares in Borusan Mannesmann Boru Yatirim Holding A.S., held by Salzgitter Mannesmann GmbH, to Borusan Holding A.S. Contractual agreement is subject to the proviso of approval still pending by the anti-trust authorities.

9. The deconsolidation results for the three issues addressed above will not be significant in their totality in relation to this year's pre-tax result of the Salzgitter Group. Otherwise, the annual results of these participating investments were not decisive for the long-term profitability of the Salzgitter Group. The Salzgitter Group's success in the future in its current structural composition will therefore be similar.
10. In May, based on a regular shareholder resolution, Salzgitter AG distributed the dividend proposed at a prior point in time of € 1.00 per share. Taking account of treasury shares not eligible for dividend, the payout amount totaled € 54.1 million.

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 € 3.49 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 did not exist as of the balance sheet date.

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 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/-2023/06/30	01/01/-2023/06/30	2023/06/30	2023/06/30
Non-consolidated Group companies	11.5	19.0	13.4	14.8
Joint ventures	196.3	2.9	39.9	0.1
Associated companies	0.2	4.9	–	0.0
Other related parties	0.5	6.8	4.4	102.2

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 the subject of 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 2023

The Executive Board of Salzgitter AG

Groebler Becker Kieckbusch

LEGAL DISCLAIMER

For computational reasons, rounding-off difference 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.

Salzgitter AG
Eisenhüttenstraße 99
38239 Salzgitter
Germany

T +49 (0)5341 21-01
F +49 (0)5341 21-2727

Postal address
38223 Salzgitter
Germany

salzgitter-ag.com

SALZGITTER AG
People, Steel and Technology