3M

Quarterly Statement
3 Months 2020

SALZGITTER AG
Stahl und Technologie

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The Salzgitter Group in Figures

		Q1 2020	Q1 2019	+/–
Crude steel production	**kt**	**1,681.5**	**1,739.8**	**–58.3**
External sales	**€ m**	**2,108.3**	**2,293.8**	**–185.5**
Strip Steel Business Unit	€ m	566.2	598.8	–32.6
Plate/Section Steel Business Unit	€ m	194.5	229.6	–35.1
Mannesmann Business Unit	€ m	295.9	290.3	5.6
Trading Business Unit	€ m	703.4	797.9	–94.5
Technology Business Unit	€ m	310.3	333.8	–23.6
Industrial Participations/ Consolidation	€ m	38.0	43.3	–5.4
EBIT before depreciation and amortization (EBITDA)	**€ m**	**57.2**	**228.3**	**–171.1**
Earnings before interest and taxes (EBIT)	**€ m**	**–16.9**	**140.9**	**–157.8**
Earnings before taxes (EBT)	**€ m**	**–31.4**	**125.9**	**–157.3**
Strip Steel Business Unit	€ m	–6.8	46.3	–53.1
Plate/Section Steel Business Unit	€ m	–4.2	1.7	–5.9
Mannesmann Business Unit	€ m	–4.6	8.4	–13.0
Trading Business Unit	€ m	0.3	3.0	–2.7
Technology Business Unit	€ m	5.2	11.8	–6.6
Industrial Participations/ Consolidation	€ m	–21.3	54.7	–76.0
Consolidated net income/loss	**€ m**	**–43.7**	**96.7**	**–140.5**
Earnings per share – basic	**€**	**–0.83**	**1.76**	**–2.59**
Return on capital employed (ROCE)[1]	**%**	**–2.4**	**14.1**	**–16.5**
Cash flow from operating activities	**€ m**	**–142.8**	**53.6**	**–196.4**
Investments[2]	**€ m**	**94.9**	**201.5**	**–106.6**
Depreciation / amortization[2]	**€ m**	**–74.1**	**–87.4**	**13.2**
Total assets	**€ m**	**8,429.8**	**9,016.6**	**–586.8**
Non-current assets	**€ m**	**4,024.8**	**4,082.5**	**–57.7**
Current assets	**€ m**	**4,405.0**	**4,934.1**	**–529.1**
of which inventories	€ m	2,097.3	2,341.9	–244.6
of which cash and cash equivalents	€ m	464.5	444.3	20.2
Equity	**€ m**	**2,976.5**	**3,331.3**	**–354.9**
Liabilities	**€ m**	**5,453.3**	**5,685.2**	**–231.9**
Non-current liabilities	€ m	3,311.8	3,290.0	21.8
Current liabilities	€ m	2,141.5	2,395.2	–253.7
of which due to banks[3]	€ m	814.9	490.1	324.8
Net financial position on the reporting date[4]	**€ m**	**–415.4**	**108.0**	**–523.4**
Employees				
Personnel expenses	€ m	–439.0	–442.5	3.5
Core workforce on the reporting date[5]	empl.	23,308	23,683	–375
Total workforce on the reporting date[6]	empl.	25,014	25,378	–364

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

Earnings Situation within the Group

		Q1 2020	Q1 2019
Crude steel production	kt	1,681.5	1,739.8
External sales	**€ m**	**2,108.3**	**2,293.8**
EBIT before depreciation and amortization (EBITDA)	€ m	57.2	228.3
Earnings before interest and taxes (EBIT)	€ m	–16.9	140.9
Earnings before taxes (EBT)	**€ m**	**–31.4**	**125.9**
Consolidated net income/loss	**€ m**	**–43.7**	**96.7**
Return on capital employed (ROCE)[1)]	**%**	**–2.4**	**14.1**
Investments[2)]	€ m	94.9	201.5
Depreciation/amortization[2)]	€ m	–74.1	–87.4
Cash flow from operating activities	€ m	–142.8	53.6
Net financial position[3)]	**€ m**	**–415.4**	**108.0**
Equity ratio	%	35.3	36.9

[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

In the first quarter of 2020, the Salzgitter Group registered a **pre-tax loss** of €–31.4 million (Q1 2019: €+125.9 million). The notably negative impact of the Corona crisis on the economy as from mid-March had not yet had any significant effect on the marginally negative quarterly results of the steel and tubes producing business units. The Trading Business Unit reported a result at breakeven, while the Technology Business Unit delivered another pre-tax profit. Owing to the valuation effects from fluctuations in precious metal prices, the contribution (€–18.7 million; Q1 2019: €+50.2 million) of Aurubis AG, an investment included at equity (IFRS-accounting), was negative. Due first and foremost to the lower steel prices compared with the previous year, in conjunction with the downturn in shipment volumes, the Salzgitter Group's **external sales** dropped to € 2,108.3 million (Q1 2019: € 2,293.8 million). An **after-tax loss** recorded at €–43.7 million (Q1 2019: €+96.7 million) brings earnings per share to €–0.83 (Q1 2019: € 1.76) and return on capital employed to –2.4% (ROCE; Q1 2019: 14.1%). The net financial position (€–415.4 million; Q1 2019: €–108.0 million) declined above all due to the payment of a fine to the German Federal Cartel Office. The equity ratio stands at a sound 35.3% (Q1 2019: 36.9%).

Special Items / EBT Business Units and Group

	EBT		Restructuring		Impairment/ Reversal of impairment		Other		EBT without special items	
In € million	**Q1 2020**	**Q1 2019**	**Q1 2020**	**Q1 2019**	**Q1 2020**	**Q1 2019**	**Q1 2020**	**Q1 2019**	**Q1 2020**	**Q1 2019**
Strip Steel	−6.8	46.3	–	–	–	–	–	–	−6.8	46.3
Plate/Section Steel	−4.2	1.7	–	–	–	–	–	–	−4.2	1.7
Mannesmann	−4.6	8.4	–	–	–	–	–	–	−4.6	8.4
Trading	0.3	3.0	–	–	–	–	–	–	0.3	3.0
Technology	5.2	11.8	–	–	–	–	–	–	5.2	11.8
Industrial Participations/ Consolidation	−21.3	54.7	–	–	–	–		–	−21.3	54.7
Group	**−31.4**	**125.9**	**–**	**–**	**–**	**–**	**–**	**–**	**−31.4**	**125.9**

Strip Steel Business Unit

		Q1 2020	Q1 2019
Order intake	kt	1,193.1	1,138.8
Order backlog on reporting date	kt	917.8	911.5
Crude steel production	kt	1,069.1	1,152.5
Rolled steel production	kt	944.3	911.0
Shipments	kt	1,208.3	1,172.2
Segment sales[1)]	**€ m**	**748.2**	**805.3**
External sales	**€ m**	**566.2**	**598.8**
Earnings before taxes (EBT)	**€ m**	**–6.8**	**46.3**

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

Development of the European steel market

While the year 2019 was characterized by trade conflicts and the resulting global economic slowdown, fresh uncertainty and a new focus for global economic activity in 2020 emerged in the form of the Corona virus. The precautions taken by governments to slow the spread of the virus have resulted in considerable restrictions on public life, production downtime, along with delivery bottlenecks and slashed company revenues. The initially upbeat development of Europe's economy in the first quarter was therefore quashed in March. Whereas industrial orders, revenues and productions increased sharply in Germany in January, with industry registering its largest order growth for five and a half years, the outbreak of the Corona pandemic put an end to all hopes for a quick economic recovery. The steel industry has also felt the effects keenly since the end of the quarter: Order intake has dropped and customers have canceled or postponed their orders. Key customer groups such as the automotive industry and mechanical engineering halted their production, partly completely. In the first three months of the current year, automotive production and exports slumped by 20% and 21% respectively compared with the previous year. The demand for steel contracted notably across the entire delivery chain, with only construction-related sectors still continuing to perform well. The majority of European steel producers have therefore been forced to adjust their output to the changed demand situation. The global steel industry continues to be characterized by huge excess capacities that have been exacerbated further due to the slump in global demand. This applies most particularly to China: Over the course of the year to date production was even ramped up despite the Corona pandemic and vast inventories have been building up due to the lack of demand. Similar developments have also been observed in other countries such as Russia and Turkey. Consequently, deploying EU safeguard measures adjusted to current conditions to avert the threat of unfair imports and redirection effects flooding the market has become critical for Germany and Europe to maintain their status as a steel location.

Procurement

Iron ore

The benchmark price for the spot market, Platts IODEX 62% Fe CFR China, averaged 93.40 USD/dmt over the year 2019, up 35% compared with the year-earlier period. The sharp price hike was mainly attributable to the dam of a VALE mine being breached in January 2019 and the resulting shortfall in supply. The ore price started off the year 2020 at around 93 USD/dmt and initially held this level in January on the back of strong demand. Following the outbreak of COVID-19, the benchmark price had dropped below the 80 USD mark by the start of February. As the quarter progressed, the ore price fluctuated within a range of between 80 and 90 USD/dmt, impacted by global uncertainty and restrictions. As a result, the downturn in global demand for iron ore also coincided with lower supply caused by weather conditions and the Corona virus. The average price in the first quarter stood at 89 USD/dmt CFR China, reflecting an increase of 8% year on year. We hedge defined iron ore volumes in order to mitigate the price risks resulting from procurement.

Coking coal

The price of premium coking coal declined 15% in 2019 to an average of 177 USD/t FOB Australia. The trade conflict between the US and China, high coal output in Australia, import restrictions for Chinese ports and slowing steel business caused prices to drop sharply over the course of the year. As coal production and logistics initially took a greater hit from the COVID-19 pandemic in 2020 than coking plants and steelworks, the demand for coking coal traded seaward increased substantially following the Chinese New Year celebrations. Many traders and consumers ensured supplies in order to be prepared for possible shortfalls and delays in deliveries due to temporary shutdowns of the mines in some producing countries. This increased demand was met with relatively stable supply. Prices nevertheless frequently fluctuated in response to even short-lived, weather-induced disturbances to the logistics chain in Australia. Only at the end of March did prices slip significantly, following weaker demand from China as well as from India and Europe against the backdrop of coal production in Australia running at a persistently high level. The average price in the first quarter stood at 155 USD/t, down one quarter compared with the year-earlier period. We hedge defined coking coal volumes in order to mitigate the risks resulting from procurement.

Business development

The **order intake** of the Strip Steel Business Unit initially developed well at the start of the year, but dropped off considerably in the second half of March. All in all, bookings were nevertheless slightly higher than in the first quarter of 2019, with **orders on hand** remaining stable. **Crude steel production** did not match the year-earlier figure as one blast furnace has been out of operation since the summer of 2019. Slabs purchased from the associated company Hüttenwerke Krupp Mannesmann GmbH covered part of the input material requirements. **Rolled steel production** and **shipments** slightly exceeded the year-earlier level. **Segment** and **external sales** were lower year on year due to selling prices. With a significant downturn in selling prices and lower production volumes, the Strip Steel Business Unit delivered **earnings before taxes** of € –6.8 million (Q1 2019: € 46.3 million).

Investments

The Strip Steel Business Unit progressed with the strategic investment projects launched in 2019 with the aim of accommodating greater customer requirements for galvanized high-strength and ultra-high strength steel grades. In addition, investments continue to be made in the requisite optimization and expansion of existing facilities. Construction under the “Hot Dip Galvanizing Line 3” project has now entered the engineering phase. The foundations of the actual building were largely completed in the period under review and construction work has commenced on it. The exchange of the machine head of Continuous Casting Line 1 will ensure more flexible facility operations, while improving product quality. The welding machinery on Coil Line 4 is being replaced in order to meet quality demands and the project is currently at the engineering stage. In November 2019, the mandate to build a 2.2 megawatt PEM electrolyzer (PEM = Proton Exchange Membrane) was granted to Siemens Gas and Power. Consequently, an important step has been taken in the direction of hydrogen-based steel production. The electrolyzer is to be taken into operation at the end of 2020 and cover all SZFG’s current requirements for hydrogen. The electricity required is generated by seven wind turbines with an output of 30 megawatts built on the premises of the Salzgitter Group by Avacon AG and operated by the latter as from 2020.

Plate/Section Steel Business Unit

		Q1 2020	Q1 2019
Order intake [1]	kt	583.8	524.5
Order backlog[1] on reporting date	kt	369.4	337.8
Crude steel production	kt	295.3	255.2
Rolled steel production	kt	538.4	525.9
Shipments[1]	kt	531.0	560.7
Segment sales[2]	**€ m**	**385.9**	**455.1**
External sales	**€ m**	**194.5**	**229.6**
Earnings before taxes (EBT)	**€ m**	**–4.2**	**1.7**

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

Market development

The **heavy plate market** proved to be largely stable in the first quarter despite the weak start to the year. Traders replenishing their inventories and the price hikes of raw materials in the first half of January, which triggered speculation about prices rising in the medium term, led to partly high order intake at the plants. European steelworks' improved booking situation had a cushioning effect on the fierce competitive pressure in the middle of the quarter. The first plants announced moderate price increases, which temporarily resulted in a wide range of prices, especially in the standard segment. Import volumes remained at a level comparable with the year-earlier period; at the same time, the low import prices put a damper on plans to raise prices. The Ukraine remained the primary source of volumes in the period under review, followed by South Korea with strong growth, along with Indonesia and Russia. The gradual shutdown in many countries in combination with the closing of EU borders had a detrimental effect on the transfer of goods from mid-March onward. The heavy plate market was also impacted by a decline in demand. Pricing in Europe showed a disparate picture: While prices in northern Europe initially remained stable, the downturn was swifter in southern Europe due to demand.

The low level of inventories at the start of the year and the increase anticipated in scrap prices had a positive effect on producers' capacity utilization in the **European section market**. Extensive orders were placed due to the prevailing stock shortages and the realization that no further price reductions would be accepted by the plants. Demand in decline at mid-January due to large deliveries by producers resulted in the inventories of the stockholding steel trade building up again by the start of February and in the trade lowering prices in order to bring inventories down to normal levels. The plants were nevertheless initially able to keep prices stable, apart from a few minor corrections. Reticence in orders placed for the production month of March, however, subsequently led to prices being cut in order to secure capacity utilization.

Procurement

Steel scrap

At the start of the year Germany's scrap market was determined by rising prices that had nevertheless weakened by the end of January. A trend reversal took place in the following month due to Turkish consumers sourcing lower volumes. The consequences of the Corona pandemic determined the scrap market in March. After the price markups at the start of the month based on generally healthy demand, the trend reversed in the second half. The decline in demand on the deep sea market and the closure of plants put increasing pressure on prices. Prices nevertheless still edged up, boosted by the still robust order volumes of German consumers.

Business development
The **order intake** of the Plate/Section Steel Business Unit was a great deal higher than in the weak previous year's period. Especially Salzgitter Mannesmann Grobblech GmbH that benefited from the booking of the major "Baltic Pipe" order, but also the other companies, reported growth. **Orders on hand** also notably exceeded the year-earlier period. **Crude steel output** was considerably higher than in the first three months of 2019, while **rolled steel production** generally remained at the previous year's level. With a decline in shipments, **segment** and **external sales** dropped below the figures posted in the first quarter of 2019. The business unit delivered a **pre-tax loss** of €–4.2 million (Q1 2019: € +1.7 million). The DEUMU Deutsche Erz und Metall-Union-Group generated a stable pre-tax profit while the heavy plate companies and Peiner Träger GmbH reported a volume- and selling price-induced decline in the results compared with the year-earlier period.

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

		Q1 2020	Q1 2019
Order intake	€ m	319.5	342.1
Order backlog on reporting date	€ m	402.3	477.3
Crude steel production Hüttenwerke Krupp Mannesmann (30%)	kt	317.1	332.1
Shipment tubes[1]	kt	135.4	146.5
Segment sales[2]	**€ m**	**406.3**	**447.3**
External sales	**€ m**	**295.9**	**290.3**
Earnings before taxes (EBT)	**€ m**	**–4.6**	**8.4**

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

Market development
Global steel activities generally slowed somewhat during the first quarter of 2020 compared with the still very dynamic year-earlier quarter. Demand for seamless steel tubes proved to be comparatively robust, as opposed to medium line pipes and precision tubes that saw a notable decline. The large-diameter pipes business suffered from investors' ongoing reticence. The lack of project assignments resulted in low capacity utilization. The impact of the Corona crisis will only be visible in the second quarter and will hit the steel tubes industry particularly hard due to its disproportionately heavy dependence on the situation in the energy market. Around 50% of the steel tubes production continues to be absorbed by the global oil and gas market. Low oil prices lead to less drilling activity and less investment in the oil and gas industry, and therefore to lower order levels from the sector.

Business development
The **order intake** of the Mannesmann Business Unit settled below the year-earlier figure in the first three months. This was due in particular to the notable decline in order volumes for the precision tubes group that had already reported a slump in demand from the key customer sectors of automotive and the supplier industry, mechanical and plant engineering, along with the energy industry due – in part – to the impact of the Corona pandemic. Mannesmann Grossrohr GmbH (MGR) is confronted, as before, with delays in tenders and in the awarding of major projects in the European core market. The company reported a downturn in orders. Order intake remained stable in the medium line pipe segment. Order activity at the Mannesmann Stainless Tubes Group dropped off slightly. The business unit's **orders on hand** fell tangibly short of the previous year's figure. With a downturn in the volume of **tubes shipments, segment sales** declined, while **external sales** remained stable. The Mannesmann Business Unit reported **earnings before taxes** of € –4.6 million (Q1 2019: € 8.4 million). Although MGR improved its result by achieving breakeven, all other tube companies did not match the previous year's figures.

Outside the consolidated group, the order intake and orders on hand of the EUROPIPE Group (EP Group) dropped considerably below the previous year's level as a result of orders not being placed in the US and despite the "Baltic Pipe" contract that has ensured basic capacity utilization over a period of several months in the German plant. The sales and the at-equity contribution of the EP Group fell notably short of the year-earlier period, with a tangible decline in shipments.

Investments
The investment activities of the Mannesmann Business Unit in 2020 continue to focus on expansion and replacement investments. As part of expanding the Mexican precision tubes company at El Salto, ramping up production, with the corresponding serial manufacturing, is making progress. 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 through producing larger diameters.

Trading Business Unit

		Q1 2020	Q1 2019
Shipments	kt	977.5	1,043.4
Segment sales[1)]	**€ m**	**707.9**	**814.1**
External sales	**€ m**	**703.4**	**797.9**
Earnings before taxes (EBT)	**€ m**	**0.3**	**3.0**

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

Market development

Demand on the international steel markets deteriorated substantially in the period under review. The trading business in particular continued to grapple with reduced order activity as a consequence of protectionist trading measures and the prevailing market environment. The European stockholding steel trade also reported a rather subdued trend, especially in Germany. The prices in international trading settled at low level due to demand, with very little fluctuation. In the stockholding business, particularly with respect to strip steel products, margins came under pressure from the significant price declines at the end of 2019 and the subsequent stock values.

Business development

The **shipments** of the Trading Business Unit dropped below the year-earlier figures due to the downturn in the tonnage of international trading and of the UES Group. The volumes in the European stockholding steel trade remained unchanged overall compared with the first quarter of 2019. The shortfall in volumes in international trading and the unsatisfactory price situation in the stockholding steel trade compared with the year-earlier period were reflected in a notable decline in **segment** and **external sales**. On the back of margins and boosted by the result of the UES Group, the Trading Business Unit generated **earnings before taxes** of € 0.3 million that was nevertheless lower than the result posted in the first quarter of 2019 (€ 3.0 million).

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 “Fit Structure 2.0” projects were pursued further.

Acquisitions

With Salzgitter Mannesmann Staalhandel B.V.’s takeover of Statendam Steel Plates B.V., the Salzgitter-Group has expanded its European trading network and reinforced its market presence in the Netherlands. Both companies are domiciled in Oosterhout, the Netherlands. Statendam Steel Plates B.V. was established in 2000 and was previously fully privately owned. It supplies customers in the Netherlands in the construction and retail sectors, in boiler and mechanical engineering, as well as in the metalworking, offshore and shipbuilding sectors.

Technology Business Unit

		Q1 2020	Q1 2019
Order intake	€ m	337.3	330.0
Order backlog on reporting date	€ m	739.3	704.5
Segment sales[1)]	**€ m**	**310.4**	**333.9**
External sales	**€ m**	**310.3**	**333.8**
Earnings before taxes (EBT)	**€ m**	**5.2**	**11.8**

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

Market development
According to the German Engineering Federation (VDMA), order intake in the first quarter of 2020 fell substantially short of the 2019 figure. Both local and international demand has weakened. The sector's sales also dropped significantly below the year-earlier level. The market for food and packaging machinery reported significant declines as well, with orders placed from abroad dropping off in particular.

Business development
The **order intake** of the Technology Business Unit decoupled from the market trend thanks to the gratifying development in the KHS Group's project business and, in the first three months of 2020, settled at a level that was slightly higher year on year. The Klöckner DESMA Elastomer Group (KDE Group) and DESMA Schuhmaschinen GmbH (KDS) were unable to repeat the high year-earlier figures. The business unit's **orders on hand** were higher than in the year-earlier period. The **segment** and **external sales** declined compared with the first three months of 2019 and also reflected the heterogeneous development in the business unit: While the KHS Group almost matched the figure reported in the first quarter of 2019, the sales of the KDE Group and of KDS mirrored order intake. The KHS Group delivered another gratifying result and was therefore partly able to compensate for the significant declines in the results of KDS and the KDE Group. All in all, the Technology Business Unit generated a **pre-tax profit** of € 5.2 million (Q1 2019: € 11.8 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 to further optimize workflows. Implementation of the extensive modernization of the Bad Kreuznach site with a view to ensuring lean manufacturing was ongoing in various individual subprojects. Further investments were made at the Dortmund location to upgrade the business unit's production and extend its assembly operations. An investment program for strategic realignment is being implemented for the Chinese market.

At KDS, the "Fabrik der Zukunft" (factory of the future) project for the construction of office and production buildings on the existing site in Achim progressed. 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

		Q1 2020	Q1 2019
Sales[1)]	**€ m**	**204.9**	**231.1**
External sales	**€ m**	**38.0**	**43.3**
Earnings before taxes (EBT)	**€ m**	**−21.3**	**54.7**

[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 three months of 2019. **External sales** also decreased notably as against the year-earlier period. **Earnings before taxes** of €−21.3 million (Q1 2019: € 54.7 million) include a contribution of €−18.7 million from the participating investment in Aurubis AG accounted for using the equity method (IFRS accounting) (Q1 2019: € 50.2 million). In the previous year, this figure comprised € 20.0 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 shares. By contrast, the results from the valuation of derivative positions made a positive contribution. The services companies that mainly operate on behalf of the Group exceeded the pre-tax profit of the year-earlier period.

Financial Position and Net Assets

Explanations on the balance sheet

The **total assets** of the Salzgitter Group declined by € 188 million in the current reporting period compared with December 31, 2019.

The decrease in the **non-current assets** (€–74 million) is attributable in particular to the lower level of shares of the companies accounted for using the equity method (€–32 million) and of deferred income tax assets (€–42 million) – the decline essentially results from lower pension provisions compared with the last reporting date. Investments in intangible assets and property, plant and equipment (€+95 million) came in above the scheduled depreciation and amortization of fixed assets (€–74 million) in the period under review. Current assets have decreased by € 114 million in comparison with the last reporting date. Both the financial assets (€–236 million) – essentially due to the fine paid to the German Federal Cartel Office in January 2020 – and the inventories (€–151 million) declined considerably. This was offset by the sharp increase in trade receivables, including contract assets (€+250 million), which were reporting date related rather low at the year-end, and a tangible increase in other receivables and assets (€+24 million).

On the **liabilities side**, pension provisions decreased by € 155 million, with the actuarial rate of 1.8 % higher than at the end of the previous year (2019/12/31: 1.4 %). As a result, equity has advanced slightly despite the negative result (€+38 million). The equity ratio stands at a sound 35.3 %. Non-current liabilities were € 142 million lower overall compared with the previous year's reporting date. Non-current financial liabilities remained roughly at the year-earlier level (€+15 million). Current liabilities were reduced by € 84 million since other liabilities declined significantly due to the payment of the fine to the Federal Cartel Office (€–176 million). By contrast, an increase in trade payables, including contract liabilities (€+68 million), and financial liabilities (€+14 million) was reported compared with the end of the year 2019.

The **net financial position** (€–415 million; 2019/12/31: €–140 million) declined above all due to the aforementioned fine. Cash investment, including securities (€ 554 million; 2019/12/31: € 797 million), was offset by liabilities of € 969 million (2019/12/31: € 937 million), € 815 million of which 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.

Notes to the cash flow statement

Given a pre-tax loss of €–31 million, a negative **cash flow from operating activities** of €–143 million was reported (previous year: €+54 million). Trade receivables and other assets grew substantially while inventories declined, accompanied by an only slight rise in trade payables and other liabilities.

The **cash outflow from investing activities** of € –95 million (previous year: €–143 million) mainly reflects disbursements for capital expenditure in intangible assets and property, plant and equipment (€ –101 million; previous year: €–84 million). Investments in other non-current assets were included in the first quarter of 2019, consisting mainly of purchasing shares in the participating interest in Aurubis AG accounted for using the equity method.

The **cash outflow from financing activities** is determined by proceeds from borrowing (€+16 million). This was offset by repayments for loans granted and interest payments, resulting overall in a positive cash inflow of € 4 million from financing activities (previous year: €–25 million).

As a result of the negative overall cash flow, **cash and cash equivalents** (€ 464 million) decreased accordingly compared with December 31, 2019 (€ 701 million).

Employees

	2020/03/31	2019/12/31	Change
Core workforce[1)]	**23,308**	**23,354**	**–46**
Strip Steel Business Unit	6,113	6,090	23
Plate/Section Steel Business Unit	2,353	2,352	1
Mannesmann Business Unit	4,609	4,643	–34
Trading Business Unit	2,036	2,066	–30
Technology Business Unit	5,568	5,557	11
Industrial Participations/ Consolidation	2,629	2,646	–17
Apprentices, students, trainees	1,207	1,380	–173
Non-active age-related part-time employment	499	493	6
Total workforce	**25,014**	**25,227**	**–213**

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

The **core workforce** of the Salzgitter Group came to 23,308 employees on March 31, 2020, representing a reduction of 46 staff members since December 31, 2019.

A total of 129 trainees were hired during the reporting period, 87 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 25,014 employees.

The number of **temporary staff outsourced** stood at 1,038 as of March 31, 2020, which marks a decline of 190 persons compared with the 2019 reporting date.

At the end of the reporting period, 827 employees were affected by **short-time work**, mainly in the companies of Mannesmann Precision Tubes GmbH, Klöckner Desma Elastomertechnik GmbH, DESMA Schuhmaschinen GmbH and Salzgitter Automotive Engineering GmbH & Co. KG. In view of the impact of the Corona pandemic, short-time work was applied for in other companies in the second quarter.

Forecast, Opportunities and Risk Report

While the results of the first three months of 2020 remained largely unaffected by the impact of the Corona pandemic, the coming quarters will be determined by global constraints on economic activities. The companies of the Salzgitter Group are responding to varying degrees by curbing production and by short-time work, as well as by further measures designed to support earnings and liquidity. The duration of these measures will depend on how the Corona crisis develops, which is not foreseeable at present.

Compared with the previous year, the business units anticipate that business in the financial year 2020 will develop as follows:

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 end in mid-March however, with a sharp downturn in order intake due to the economic impact of the Corona pandemic. Production at the Salzgitter location will be temporarily scaled back in response as from May and short-time work will be operated. Given that demand for almost all products is generally lower, 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 discernible decline in sales in the financial year 2020 and a significantly negative pre-tax result, probably in the triple-digit million euro range.

We assume that situation in the markets relevant to the **Plate/Section Steel Business** will remain tight, with import volumes in the plate segment continuing to run at a high level. The plate mill in Ilsenburg can nevertheless report good capacity utilization for the second quarter. The Mülheim plant has secured basic capacity utilization, based on reduced capacities, through to the end of June with production of input material for the large diameter tubes order "Baltic Pipe". Regarding the section steel business, we assume that we will continue to operate in a volatile market environment geared to the short term. 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. We nevertheless assume a high pre-tax loss for the Plate/Section Steel Business Unit, with sales remaining virtually unchanged.

The impact of the Corona crisis will filter through in the second quarter and will hit the steel tubes industry particularly hard and therefore also the companies of the **Mannesmann Business Unit**. Low oil prices are resulting in less drilling activity along with lower levels of investment in the oil and gas industry, and consequently to reduced order activity from this sector. As a result, we anticipate a significant downturn in the demand for large and medium line pipes in this segment. 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 benefiting from bookings in the previous year that ensure capacity utilization right through to the second half of the year. Given the precision tubes companies' dependence on the automotive sector and industry, the situation is likely to deteriorate drastically due to the Corona virus. Conversely, the stainless steel tubes segment expects an only slight downtrend. All in all, we predict declining shipment volumes, lower sales and a negative pre-tax result for the business unit.

The **Trading Business Unit** anticipates shipments and sales that will fall short of the original estimates in the financial year 2020 due to the global constraints in connection with the Corona pandemic. Generating margins in international trading is likely to remain under pressure from jittery markets and ubiquitous restrictive trade policies. Customer demand is also expected to slow significantly in the stockholding steel trade in the months ahead. Consequently, the widening of margins seen at the start of the year also seems unlikely to continue. Having factored in these influences, the Trading Business Unit predicts a negative pre-tax result in the financial year 2020.

The Corona crisis will also impact the **Technology Business Unit**. Although the KHS Group can report a good order intake, new orders, particularly in the project business, have already been in a downtrend since March. A gratifyingly high level of orders on hand at the end of the first quarter provides the business unit with the basis for bridging a brief period of investment restraint on the part of customers. When the restrictions on economic activities are lifted, business activities could start to recover as early as the third quarter. Together with more stringent measures to cut costs and raise efficiency, endeavors are under way to match the previous year's good level. The two specialist mechanical engineering companies expect a downturn in sales and earnings compared with the previous year due to the persistently weak order situation and the generally subdued market forecast. Consequently, sales and the pre-tax profit are expected to be lower in the Technology Business Unit.

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

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

The range of feasible scenarios does not allow for exact quantification without entering into the realms of speculation.

We also make reference to the fact that furthermore, 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 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.

We see risks from the slump in demand caused by the Corona pandemic, the consequences of the ongoing global trade disputes, as well as from the United Kingdom withdrawing from the EU.

Sectoral risks
Industry-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 associated import pressure in the EU. The outbreak of the Corona pandemic, combined with the shutdown of large parts of Europe's economy, has heightened these risks for the unforeseeable future.

European demand for steel has plunged as a consequence of the Corona pandemic. Key customer sectors in particular, such as the automotive industry, are faced with declines of more than 80%. Non-EU countries such as China have not made any move to curb their steel production despite the Corona crisis but have continued to build unusually high levels of inventory. This situation gives rise to a high risk of a flood of imports from non-EU countries as soon as demand improves and the EU steel market shows signs of recovery.

A possible instrument for averting permanent damage to the EU steel industry is to tighten 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 due to several stages of liberalization, the dropping off of demand for steel and a misguided administrative course of action. A significant reduction in the quotas could be deployed as a tool for avoiding the scenario described above of a drastic increase in imports. The EU Commission is currently in the process of reviewing the existing measures.

The Corona pandemic has meanwhile overshadowed a number of existing risks that nevertheless continue to play a relevant role in assessing the current situation

For instance, along with the EU, many countries outside the EU have responded with their own safeguard measures for steel products in response to the US import duties. These developments are likely to hinder exports even further, causing additional redirections into the EU market. A number of Group companies are also directly affected by the measures, albeit to a lesser extent so far. The Corona pandemic is likely to exacerbate the respective trends and increase the risk for exports.

Further risks arise from the attempts of importers to obviate the existing trade defense measures, thus 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 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 time line and potential for it to be additionally negatively impacted by the Corona pandemic, with the resulting 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 US sanction (Countering America's Adversaries Through Sanctions Act) 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. While, in December 2019, in the context of approving the defense budget, targeted measures were imposed against the operators of vessels participating in NordStream 2, TurkStream and in subsequent projects, a number of extensive legislative proposals to widen the sanctions are competing in the US Senate.

Interim Report

I. Consolidated Income Statement

In € million	Q1 2020	Q1 2019
Sales	2,108.3	2,293.8
Increase/decrease in finished goods and work in process/other own work capitalized	–36.5	26.9
	2,071.8	2,320.7
Other operating income	90.1	51.8
Cost of materials	1,378.8	1,495.1
Personnel expenses	439.0	442.5
Amortization and depreciation of intangible assets and property, plant and equipment	74.1	87.4
Other operating expenses	260.8	260.1
Result from impairment losses and reversal of impairment losses of financial assets	–2.5	–0.5
Income from shareholdings	0.0	0.0
Result from investments accounted for using the equity method	–18.3	52.9
Finance income	2.4	5.6
Finance expenses	22.2	19.4
Earnings before taxes (EBT)	**–31.4**	**125.9**
Income tax	12.3	29.2
Consolidated result	**–43.7**	**96.7**
Amount due to Salzgitter AG shareholders	–44.7	95.2
Minority interest	1.0	1.5
Appropriation of profit		
Consolidated result	–43.7	96.7
Profit carried forward from the previous year	12.1	33.1
Minority interest in consolidated net result	1.0	1.5
Transfer from (+)/to (–) other retained earnings	44.7	–95.2
Unappropriated retained earnings of Salzgitter AG	**12.1**	**33.1**
Earnings per share (in €) – basic	**–0.83**	**1.76**
Earnings per share (in €) – diluted	**–0.83**	**1.66**

II. Statement of Comprehensive Income

In € million	Q1 2020	Q1 2019
Consolidated result	**–43.7**	**96.7**
Recycling		
Reserve from currency translation	–13.5	6.1
Changes in value from cash flow hedges	–15.3	29.2
Fair value change	–15.7	30.2
Recognition with effect on income	0.4	–0.9
Deferred taxes	–	–0.1
Changes in value of investments accounted for using the equity method	2.8	1.8
Fair value change	–	–0.0
Recognition with effect on income	–	–
Currency translation	2.8	1.8
Deferred taxes	–	–
Deferred taxes on other changes without effect on income	–0.3	0.0
Subtotal	–26.2	37.1
Non-recycling		
Changes in equity for financial equity instruments valued without effect on income	–	–0.0
Fair value change	–	–0.0
Deferred taxes	–	–
Remeasurements	110.2	–120.7
Remeasurement of pensions	142.7	–175.9
Deferred taxes	–32.5	55.2
Changes in value of investments accounted for using the equity method	–	–
Subtotal	110.2	–120.7
Other comprehensive income	**84.0**	**–83.5**
Total comprehensive income	**40.2**	**13.2**
Total comprehensive income due to Salzgitter AG shareholders	39.3	11.6
Total comprehensive income due to minority interest	0.9	1.6
	40.2	**13.2**

III. Consolidated Balance Sheet

Assets in € m	2020/03/31	2019/12/31
Non-current assets		
Intangible assets	207.0	211.6
Property, plant and equipment	2,145.0	2,131.4
Investment property	81.7	82.0
Financial assets	61.8	64.7
Investments accounted for using the equity method	1,040.5	1,072.9
Trade receivables	18.5	18.4
Other receivables and other assets	19.9	25.6
Income tax assets	0.0	0.0
Deferred income tax assets	450.4	492.3
	4,024.8	**4,099.0**
Current assets		
Inventories	2,097.3	2,248.1
Trade receivables	1,315.1	1,118.4
Contract assets	239.2	186.3
Other receivables and other assets	216.2	191.8
Income tax assets	27.1	22.6
Securities	45.7	50.9
Cash and cash equivalents	464.5	700.5
Assets available for sale	0.0	0.0
	4,405.0	**4,518.5**
	8,429.8	**8,617.5**

Equity and liabilities in € million	2020/03/31	2019/12/31
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	2,910.4	2,845.2
Other reserves	–5.4	23.0
Unappropriated retained earnings	12.1	12.1
	3,335.7	**3,298.7**
Treasury shares	–369.7	–369.7
	2,966.0	**2,929.0**
Minority interest	10.5	9.6
	2,976.5	**2,938.6**
Non-current liabilities		
Provisions for pensions and similar obligations	2,201.2	2,356.1
Deferred tax liabilities	72.6	72.0
Income tax liabilities	36.8	36.6
Other provisions	328.2	334.9
Financial liabilities	652.4	637.1
Other liabilities	20.6	16.8
	3,311.8	**3,453.6**
Current liabilities		
Other provisions	216.7	224.6
Financial liabilities	444.1	430.1
Trade payables	954.8	915.2
Contract liabilities	228.7	200.7
Income tax liabilities	8.1	8.6
Other liabilities	289.1	446.0
	2,141.5	**2,225.3**
	8,429.8	**8,617.5**

IV. Cash Flow Statement

In € million	Q1 2020	Q1 2019
Earnings before taxes (EBT)	–31.4	125.9
Depreciation write-downs (+) / write-ups (–) of non-current assets	74.0	87.3
Income tax paid (–) / refunded (+)	–3.3	–7.1
Other non-cash expenses (+)/ income (–)	74.2	3.1
Interest expenses	16.9	19.4
Gain (–) / loss (+) from the disposal of non-current assets	–1.3	2.0
Increase (–) / decrease (+) in inventories	142.4	–9.9
Increase (–) / decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–280.8	–76.6
Use of provisions affecting payments, excluding income tax provisions	–64.2	–56.9
Increase (+) / decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	–69.2	–33.7
Cash outflow / inflow from operating activities	**–142.8**	**53.6**
Cash inflow from the disposal of intangible assets, property, plant and equipment and investment properties	3.5	0.1
Cash outflow for investments in intangible assets, property, plant and equipment and investment properties	–100.9	–83.8
Cash inflow from investments of funds	0.0	–
Cash inflow from the disposal of non-current assets	3.4	2.2
Cash outflow for investments in non-current assets	–0.7	–61.7
Cash flow from investment activities	**–94.7**	**–143.2**
Deposits from taking out loans and other financial debts	15.5	–
Repayment of loans and other financial liabilities	–6.5	–18.6
Interest paid	–5.4	–6.0
Cash outflow / inflow from financing activities	**3.6**	**–24.6**
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	–2.1	3.0
Payment-related changes in cash and cash equivalents	–233.9	–114.3
Cash and cash equivalents at the end of the period	**464.5**	**444.3**

Notes

Segment Reporting

In € million	Strip Steel		Plate/Section Steel		Mannesmann	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019	Q1 2020	Q1 2019
External sales	566.2	598.8	194.5	229.6	295.9	290.3
Sales to other segments	181.1	205.5	191.1	225.3	39.7	47.8
Sales to group companies that are not allocated to an operating segment	1.0	1.0	0.2	0.2	70.7	109.2
Segment sales	748.2	805.3	385.9	455.1	406.3	447.3
Interest income (consolidated)	0.0	0.5	0.0	0.0	0.3	0.2
Interest income from other segments	–	–	–	0.0	–	–
Interest income from group companies that are not allocated to an operating segment	0.0	0.0	1.8	0.0	0.8	0.4
Segment interest income	0.0	0.6	1.9	0.1	1.1	0.5
Interest expenses (consolidated)	2.9	3.5	0.7	0.7	1.6	1.7
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	3.7	5.5	0.5	1.8	1.8	2.2
Segment interest expenses	6.6	9.0	1.1	2.5	3.5	4.0
of which interest portion of allocations to pension provisions	2.7	3.1	0.6	0.7	0.9	1.1
Depreciation of property, plant and equipment and amortization of intangible assets	34.8	45.4	7.1	9.8	12.8	13.8
of which scheduled depreciation of property, plant and equipment and amortization of intangible assets	34.8	45.4	7.1	9.8	12.8	13.8
EBIT before depreciation and amortization (EBITDA)	34.6	100.1	2.2	14.0	10.5	25.6
Earnings before interest and taxes (EBIT)	–0.2	54.7	–4.9	4.2	–2.2	11.8
Segment earnings before taxes	–6.8	46.3	–4.2	1.7	–4.6	8.4
of which resulting from investments accounted for using the equity method	–	–	–	–	0.4	2.7
Investments in property, plant and equipment and intangible assets	29.7	34.3	34.6	24.1	13.8	20.7

Trading		Technology		Total segments		Industrial Participations/ Consolidation		Group	
Q1 2020	Q1 2019	Q1 2020	Q1 2019	Q1 2020	Q1 2019	Q1 2020	Q1 2019	Q1 2020	Q1 2019
703.4	797.9	310.3	333.8	2,070.3	2,250.5	38.0	43.3	2,108.3	2,293.8
4.5	16.2	0.1	0.1	416.4	494.9	166.9	187.8	583.4	682.7
0.0	0.0	–	–	71.9	110.3	–	–	71.9	110.3
707.9	814.1	310.4	333.9	2,558.7	2,855.7	204.9	231.1	2,763.6	3,086.8
0.5	1.0	0.2	0.4	1.0	2.2	1.5	2.3	2.4	4.4
–	–	–	–	–	0.0	6.4	10.0	6.4	10.0
1.6	1.3	0.0	0.3	4.3	2.0	–	–	4.3	2.0
2.1	2.3	0.2	0.8	5.3	4.2	7.9	12.2	13.2	16.4
3.7	5.7	0.8	0.6	9.7	12.3	7.3	7.1	16.9	19.4
–	0.0	–	–	–	0.0	4.3	2.0	4.3	2.0
0.1	0.1	0.3	0.3	6.4	10.0	–	–	6.4	10.0
3.8	5.8	1.1	0.9	16.1	22.2	11.6	9.2	27.7	31.4
0.4	0.5	0.5	0.5	5.1	5.8	3.0	3.8	8.1	9.6
3.8	3.2	6.5	5.8	65.0	78.0	9.2	9.4	74.1	87.4
3.8	3.2	6.5	5.8	65.0	78.0	9.2	9.4	74.1	87.4
5.8	9.8	12.6	17.8	65.7	167.3	–8.5	61.0	57.2	228.3
1.9	6.5	6.1	12.0	0.8	89.2	–17.7	51.7	–16.9	140.9
0.3	3.0	5.2	11.8	–10.1	71.2	–21.3	54.7	–31.4	125.9
–	–	–	–	0.4	2.7	–18.7	50.2	–18.3	52.9
2.3	21.3	10.2	12.9	90.6	113.4	4.3	88.1	94.9	201.5

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 March 31, 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 March 31, 2020.
3. In calculating the fair value of defined benefit obligations as of March 31, 2020, an actuarial rate of 1.8 % 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. 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 7.92 % (2019: 7.97 %) for the Technology Business Unit and of 6.48 % (2019: 6.22 %) for the other business units. Taking account of current estimates on the earnings trend and on the basis of these calculations, we are satisfied at present with the amounts reported for the fair value of the assets disclosed and the participating investments disclosed at equity.
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	2020/03/31	2019/12/31
Right of use of land, similar rights and buildings, including buildings on land owned by others	94.5	94.9
Right of use of plant equipment and machinery	35.8	34.7
Right of use of other equipment, plant and office equipment	22.2	21.5
Non-current assets	**152.5**	**151.1**
Right of use of land, similar rights and buildings, including buildings on land owned by others	12.6	10.4
Right of use of plant equipment and machinery	11.7	8.0
Right of use of other equipment, plant and office equipment	9.7	8.0
Depreciation/amortization	**34.0**	**26.4**
Lease liabilities	**121.5**	**125.5**

An amount of € 98.4 million is attributable to non-current lease liabilities. Moreover, there were amounts of € 5.9 million in depreciation and amortization, € 0.7 billion in interest expenses, as well as a cash outflow totaling € 6.4 million in the first quarter of 2020.

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 €–0.83 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 €–0.83.

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 March 31, 2020, the book value of the convertible bond then 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 related parties 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/-03/31/2020	01/01/-03/31/2020	2020/03/31	2020/03/31
Non-consolidated group companies	11.5	6.6	12.4	2.9
Joint ventures	8.8	5.4	5.9	7.3
Joint operations	0.5	0.2	38.0	24.0
Associated companies	–	5.1	–	0.0
Other related parties	0.6	0.0	5.3	92.6

Events after the reporting period

In the period up until April 21, 2020, bondholders had declared their intention to exercise the put option for repayment at par as of June 5, 2020 in respect of € 166.1 million of the nominal amount pertaining to the convertible bond issued in June 2015 by Salzgitter Finance B.V., Oosterhout (Netherlands).

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.

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 Quarterly Statement of Salzgitter AG is also available in German. In the event of any discrepancy, the German version shall prevail.

Editorial Details and Contact

Contact
SALZGITTER AG
Eisenhüttenstraße 99
38239 Salzgitter
Germany

Postal address
38223 Salzgitter
Germany

Public Relations
Telephone: +49 (0)53 41/21-27 01
Telefax: +49 (0)53 41/21-23 02

Investor Relations
Telephone: +49 (0)53 41/21-18 52
Telefax: +49 (0)53 41/21-25 70

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