

TURNING
METALS
GREEN

Annual Report 2022

SMS group

- 4 At a glance
- 8 Foreword by Edwin Eichler
- 9 Foreword by Heinrich Weiss
- 10 A conversation with the Managing Board

04

150 years of shaping the future

- 14 Our values, our customer promise
- 26 Our mission: #turningmetalsgreen
- 33 Projects all around the world

14

Our business year in numbers

- 39 Our business in 2022
- 44 Consolidated statement of financial position
- 46 Consolidated income statement
- 47 Supervisory Board of SMS group GmbH
- 48 Supervisory Board of SMS GmbH
- 49 Contact and imprint

39

#turningmetalsgreen: Our mission, our key role

What exactly do we mean when we talk about #turningmetalsgreen? The answer is simple: we are underlining SMS group's aspirations. Metals are a vital part of many key industries. But in the fight against climate change, the metals industry must undergo an urgent transformation. That is why our task is to chart the course for the green transformation of the metals industry.

Our metallurgical know-how and technical capabilities combined with our digital expertise and our technological support and consulting services enable us to revolutionize an entire industry. That is what we focus on every day. And that is what our customers benefit from.

Our unique selling point is our holistic understanding of the industry – metallurgical, mechanical, electrical, digital, and as a life-cycle partner. This enables us to provide our customers with comprehensive support along their value chains, ultimately enhancing the quality, cost-efficiency, and timely delivery of their final products.

SMS group has been shaping the future of metals for 150 years. Now is the time to give the metals industry a sustainable, green future. It's time for #turningmetalsgreen!

Mission statement

SMS group is renowned worldwide for its forward-thinking technologies and outstanding services in the metals industry. We apply our 150 years of experience and digital know-how to continuously innovate products and processes inside and outside our industry. As a partner for the most demanding projects, SMS accompanies its customers throughout the entire life cycle of their plants, thus enabling profitable and resource-saving value chains. Our mission is to turn metals green and to advance climate-neutral and sustainable metals production.

Key figures of SMS group (2022)

Order intake	4,612 million euros
Sales	3,139 million euros
Order backlog	5,517 million euros
Employees	> 14,400

At a glance

Managing Board

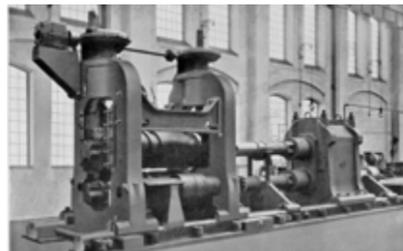
- Burkhard Dahmen Chairman & CEO
- Torsten Heising CFO
- Dr.-Ing. Thomas Hansmann CTO
- Michael Rzepczyk COO
- Prof. Dr.-Ing. Katja Windt CDO

Milestones: six dates that made SMS group



1871

Many roots – one company
Carl Eberhard Weiss establishes a forging shop



1904

Global reach and local expertise
We supply our first rolling mill to China



1952

A partner for megaprojects
Building the first integrated iron and steel plant in India



1989

Pioneering solutions
We invent the CSP® technology – a revolution in sustainability



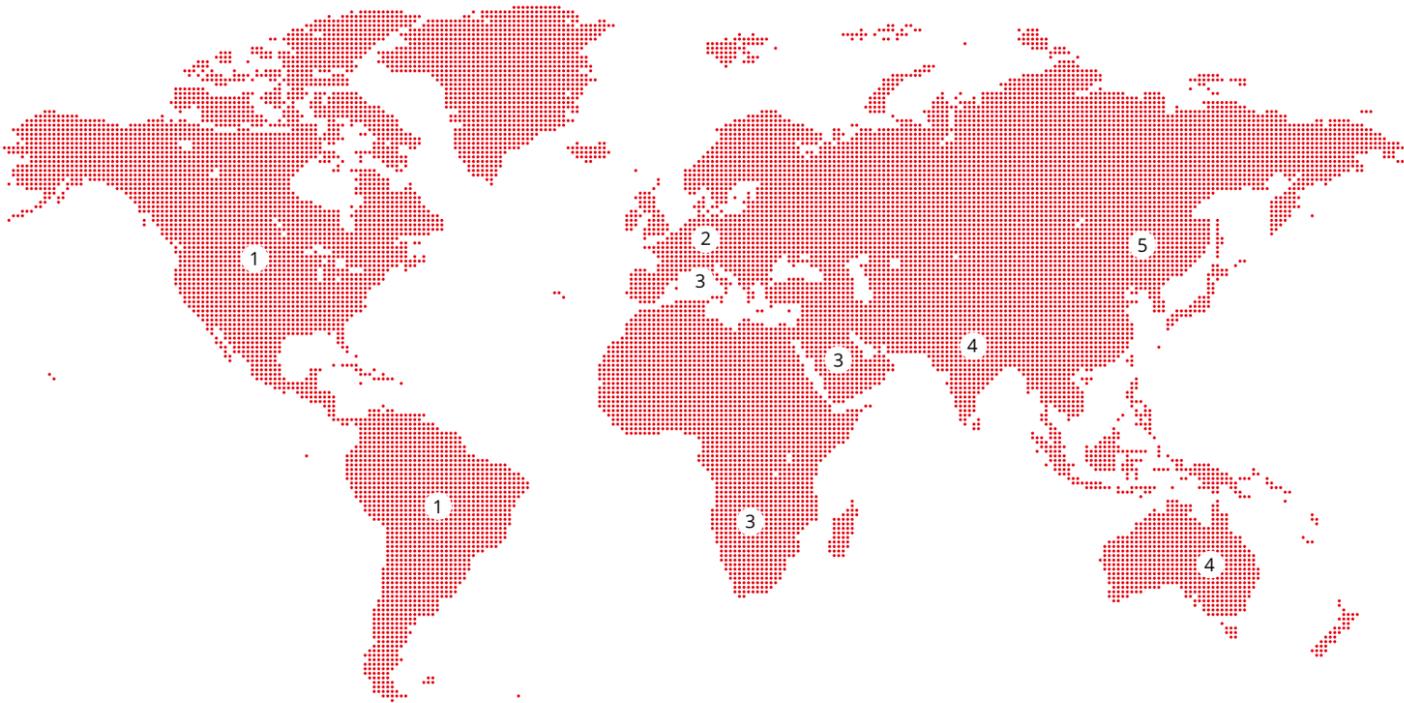
2016

Life-cycle partner
The Learning Steel Plant



2023

Mission #turningmetalsgreen
Shaping the future of metals and driving the green revolution



Our regions

SMS group has always been a truly international company. Today, we have around 100 offices and workshops in 30 countries representing more than 80 percent of global steel production.

With our regional setup, we are close to our customers to create added value and develop opportunities and growth. Our regions team up with our worldwide CoEs (Centers of Excellence) for products and for services as well as with the CoEs Implementation and Supply Chain to make our customers' projects a success.

Key facts (2022)*

1. Americas

Team members: 2,500
Order intake: 1,725 million euros
Headquarters: Pittsburgh, USA
Coverage: North, Central and South America

2. Europe

Team members: 6,800 (incl. SMS group headquarters)
Order intake: 640 million euros
Headquarters: Luxembourg City, Luxembourg
Coverage: Europe, Türkiye, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan

3. Italy, Middle East and Africa

Team members: 1,000
Order intake: 173 million euros
Headquarters: Tarcento, Italy
Coverage: Italy, Balkans, Africa, Arabian Peninsula, Middle East

4. India and Asia Pacific

Team members: 1,600
Order intake: 1,431 million euros
Headquarters: New Delhi, India
Coverage: India, Asia Pacific, Oceania

5. China

Team members: 1,000
Order intake: 212 million euros
Headquarters: Beijing, China
Coverage: China

*without industrial participations

Our Portfolio

Plants

Anyone who produces steel, aluminum or copper knows SMS group. We supply the technologies to produce and recycle all major metals and cover the entire process chain from the liquid phase to the high-quality final product.

Metallurgy

Portfolio: Plants for iron and steel making, secondary metallurgy, furnaces for non-ferrous metals, melting furnaces for aluminum, environmental technology

Casting

Portfolio: Continuous casting technology for flat and long products, casting plants for aluminum and copper

Flat products

Portfolio: Integrated casting and rolling plants, hot rolling mills, cold rolling mills, strip processing lines

Long products

Portfolio: Section and billet mills, bar and wire rod mills, tube and pipe plants and finishing plants, bright steel plants

Forging

Portfolio: Closed-die forging presses, open-die forging presses, radial forging machines, ring and wheel rolling machines, powder presses

Extrusion

Portfolio: Extrusion presses for light metal, heavy metal and steel, tube extrusion presses

Services

We support our customers with integrated services throughout the life cycle of their plants, enabling profitable and resource-efficient value creation.

Electrics and automation

Portfolio: Sensors and devices, power supply, drive systems, process automation, operation and visualization

Digitalization

Portfolio: Data infrastructure solutions, asset optimization, quality management, production planning, energy, and sustainability management

Technical service

Portfolio: Spare parts and logistics, maintenance and repairs, upgrades and modernization

Consulting and training

Portfolio: Consulting services, TECademy

Expertise

Project execution

We specialize in projects. Our experience, our worldwide teams and the comprehensive expertise of every one of our specialists go into achieving the project execution excellence our customers count on for their success.

Manufacturing

The in-house production of core components and pre-assembly in our own workshops worldwide is at the heart of our approach.

Beyond

As a technology company, we keep pushing ourselves toward new challenges. We apply our expertise to new fields and venture into new business opportunities.

Port logistics

Our joint venture Boxbay revolutionizes port logistics by bringing automated high-bay storage technology from metals production to overseas and inland ports.

Battery recycling

Closing the loop and decarbonizing battery supply chains with our metallurgical know-how is the mission of our joint venture Primobius.

Additive manufacturing

We are experts for the entire value chain of additive manufacturing, from the production of metal powders in various alloys to 3D printing and post-processing of 3D printed components.

Coating

Innovative coatings are true multitalents with enormous potential. Our Coating Competence Center develops and tests new coatings until they reach industrial maturity.

Energy from waste gases

Producing valuable energy from climate-polluting lean gases: this is the innovative approach taken by our joint venture CATALYTIC Power Solutions.



Edwin Eichler,
Chairman of the Supervisory Board of SMS group GmbH

Dear business partners,

A brutal war has been raging in Ukraine for over a year now and has fundamentally changed the world. The suffering of millions of people and countless fates touch us all every day.

As a result, the fading coronavirus pandemic is being followed by crises that include inflation, energy shortages, and additional impacts on global supply chains. These fundamental upheavals led to a kind of “divided crisis” in 2022. Regions such as Southeast Asia, South America, or countries like India are benefiting from China’s growing isolation and supply chain disruptions. In the US, this has recently resulted in the lowest unemployment rate in 50 years, while Europe is more in crisis mode yet again.

We at SMS group also saw ourselves directly exposed to these diverging developments. We have given up our business in Russia, which meant having to shoulder significant devaluations and operational losses.

Yet on the other hand, the year was characterized by an exceptionally high order intake, especially for large-scale projects. This was contingent upon the reorganization launched two years ago, which focused heavily on regional markets. Major deals in the new plant business in India and the US are especially noteworthy in this context.

What’s more, the transformation of the steel industry towards CO₂-free production is quickly picking up speed. The H2 Green Steel greenfield project in Sweden and the major order from thyssenkrupp Steel are unrivaled anywhere in the world.

Both aspects together – crises and boom regions – posed particular challenges for SMS group. On the one hand, it was important to keep an eye on costs, cash flow, and operational performance. On the other hand, our new major orders require new, additional resources.

Against this “divided” background and the restructuring projects successfully implemented in recent years, we have achieved a positive annual result.

In view of the ongoing uncertainty in the markets, continued attention must be paid to strict cost and cash flow management for the fiscal year already underway.

With our upcoming move to Mönchengladbach, the introduction of S4HANA, and our high capacity utilization in almost all areas, SMS group is in a strong position as we head into the next phase. Our integrated service business is growing above plan. The increasingly digitalized processes and market-oriented products provide a strong backbone for profitable growth.

With all these conditions in place, SMS group is continuing to become the partner of choice when it comes to decarbonization, high-tech plants, and comprehensive services.

I would like to thank all our loyal business partners today who have stayed with us in times of change and upheaval. For us, the recent major orders constitute a serious commitment to live up to this trust.

I would also like to thank all employees and management staff for their hard work and excellent performance.

It remains an exciting time!
Yours,

Edwin Eichler,
Chairman of the Supervisory Board of SMS group GmbH



Heinrich Weiss,
Chairman of the Shareholders' Committee

Dear partners and friends of SMS,

Our company can look back on a long history as a partner to the steel and metals industry. What started in 1871 as a small forging business with three employees in the Siegerland is now a global technology company with a workforce of more than 14,000 people. Decades of knowledge and experience came together to create a powerful drive for performance and innovation that draws on entrepreneurial tradition and shows the way forward.

The steel industry and its production processes and techniques have experienced a dynamic development in recent decades. Traditional steel-producing regions in Europe and the US lost their global significance, while fledgling steel industries, particularly in China and India, started to expand. More efficient and more eco-friendly technologies have increasingly replaced traditional processes. We have continually helped to shape this industry transformation with market-defining innovations.

Today, our company occupies a leading position in international mechanical engineering and plant construction for the steel, aluminum, and copper industries. We intend to continue in this role to meet the next big challenge – climate-neutral metal production. Our aim is to utilize our technologies to help bring about lasting change in the metals industry. We support our customers so that they can contribute to climate protection while continuing to operate successfully on the market.

In 1973, I took over the reins of our company from my father Bernhard Weiss. Although the industrial landscape has changed considerably since then, the success factors have always remained the same:

entrepreneurial commitment, employee motivation, ongoing technical innovation, an unconditional focus on the wants and needs of our customers, and, last but not least, an open outlook on the world – these are all values that have shaped us from the very beginning and will continue to do so.

2023 is the year in which we celebrate our company’s 150th anniversary. It is also the year in which we are relocating our traditional base from Düsseldorf to Mönchengladbach. The opening of our new Campus marks the next milestone in our company’s history. It represents another important step toward the future – and a symbol of our innovative strength.

I would like to thank our employees for their commitment over the past year and for their loyal cooperation. The entire Managing Board and I wish you all good luck and good health!

My heartfelt thanks for your trust and support.

Heinrich Weiss,
Chairman of the Shareholders' Committee

A conversation with the Managing Board

“Our teams are working to turn the processes and systems that have evolved over 150 years across all our companies into a common platform for our global collaboration.”

Burkhard Dahmen,
CEO



Burkhard Dahmen,
CEO of SMS group

Mr. Dahmen, how do you rate the 2022 financial year?

BURKHARD DAHMEN Once again, we significantly increased our order intake compared to the previous year, with our order volume now standing at 4.6 billion euros. On top of that, we have made a good start to the current year. The two major projects, H2 Green Steel and thyssenkrupp Steel, certainly stand out in this regard and allow us to make good use of our capacities. Besides this, we secured a large number of new orders from outside Europe last year, especially from India and the USA. Therefore, our new sales structure is delivering results, and we are well placed to improve our performance over the next few years.

Is SMS also on track to meet its performance targets?

BURKHARD DAHMEN Our goal is to achieve an operating result of 7 percent by 2026. We achieved our interim target in 2022, despite facing numerous challenges such as the Russia-Ukraine war and China's isolation. High inflation and the after-effects of the Covid pandemic on logistics also presented us with challenges. Yet we remain on track. At the same time, we understand that most of the work still lies ahead of us. The major orders we recently won ensure a healthy basic level of capacity utilization. Now it is all about completing these projects according to plan, in time and budget, and paying attention to profitability when selecting new projects.

Are these major orders enough to make SMS more profitable in the long term?

BURKHARD DAHMEN We need a stronger focus on our services business. That is the only way we will become more profitable. In recent years, we have laid the right foundations to be more competitive overall as a group: we have set out a clear strategy for our core business, metallurgical plant construction. We have fundamentally reshaped our organization and positioned ourselves closer to our customers. We will complete the reorganization this year. Within the framework of the new organization, we are also enhancing our processes and harmonizing our systems.

Here you are alluding to the digital transformation of the company. What does this mean for SMS?

BURKHARD DAHMEN The digital transformation represents one of the largest change processes our company has ever undergone. In October, after years of preparation, we go live with a standardized system for SMS group worldwide. Our teams are working to turn the processes and systems that have evolved over 150 years across all our companies into a common platform for our global collaboration. We are thus future-proofing our organization with harmonized work practices and a holistic view of our data. Our digital transformation will give us greater transparency, flexibility, and speed. For a company like SMS, with extremely complex products and projects, this is a huge advantage.



“Nevertheless, one of the strengths of SMS has always been that we operate as entrepreneurs, stay close to our customers, and seize market opportunities as and when they arise.”

Burkhard Dahmen,
CEO

Can you give a concrete example from project execution?

BURKHARD DAHMEN Looking ahead, if a core component from Germany is to be supplied to a construction site in the USA, but delivery is delayed at short notice, the project management team on site will not only be informed, but will automatically receive recommendations on how the plans can be adjusted and what activities can be brought forward, with the end result of keeping the project on schedule. Going forward, we will be able to see at any moment – practically at the push of a button – where costs are at risk of escalating or the timeline is in jeopardy, even with tremendously complex projects.

Where do you see the biggest challenge in terms of implementation?

BURKHARD DAHMEN The digital transformation has been very well planned and will definitely move us forward. However, it involves a large number of strategic measures, so we must rise to the overall challenge of effectively implementing all these measures in parallel. At the same time, we must not under any circumstances neglect our customer projects. This places high demands on our management team members. Nevertheless, one of the strengths of SMS has always been that we operate as entrepreneurs, stay close to our customers, and seize market opportunities as and when they arise. We need this same entrepreneurial spirit as we go about implementing our strategy.

SMS has set itself the mission of #turningmetalsgreen. How is the company faring in the decarbonization of the metals industry?

BURKHARD DAHMEN We want to be pioneers on the path to a sustainable and climate-neutral metals industry. The market for green steel is growing rapidly and practically all our customers worldwide are showing interest in decarbonization solutions. By building the world's first green steel plant for H2 Green Steel, we can demonstrate that we are the right partner to implement a bold vision.

For the construction of the direct reduction plant at thyssenkrupp Steel, we are taking overall responsibility for the engineering, procurement and installation. With a volume of over 1.8 billion euros, this order is the largest in our company's history. At the same time, this project serves as a first-class reference for the transformation of an existing metallurgical facility.

With both projects – in the greenfield as well as the brownfield environment – SMS stands for sustainable innovations and excellence in project management. However, this is only the beginning and we are now focusing on delivering outstanding execution results.

Both H2 Green Steel and thyssenkrupp Steel have opted for direct reduction using green hydrogen. What decarbonization solutions does SMS have for the conventional blast furnace method?

BURKHARD DAHMEN We offer technology solutions for every scenario. With the Blue Blast Furnace and EASyMelt, steelmakers can reduce CO₂ emissions of their existing plants by up to 50 percent. For all production processes, we have digitalization solutions that help save resources and significantly boost plant profitability. What's more, we play an important role in the circular economy. That is to say, we develop and optimize technologies to bring recyclable materials back into the economic cycle. Everyone knows that metals are prime materials for a circular economy, but recycling rates are capable of being increased further. Take aluminum, for example: recycling can reduce the carbon footprint by over 90 percent compared to primary production. Our goal is to push recycling rates to their technical limits – for steel, aluminum, and crucially for copper and all other non-ferrous metals, which are growing in importance.

“But we are also taking this anniversary year as an opportunity to give new expression to our company's values.”

Burkhard Dahmen,
CEO

How is the expansion of the services business coming along?

BURKHARD DAHMEN Our goal is set: by 2027, we aim to generate half of our turnover from services, with significantly higher margins. We are making good progress on this path, but we want to pick up the pace. To this end, we will continue to strengthen cooperation between the areas of Electrics/Automation, Technical Service, and Digital this year. While the integrated approach is already bearing fruit, we are sure that further gains can be made here. We will also consolidate individual companies within our core business in order to reduce the complexity of our organization. We want to implement simpler structures and processes, so the number of interfaces is minimized and we can act faster as an organization.

This year, SMS is celebrating the company's 150th anniversary and opening the new Campus. What do you have planned?

BURKHARD DAHMEN 2023 will be a very special year. Our founding year is 1871, so our anniversary has been delayed a little due to the Covid pandemic. We will mark this special moment with a worldwide celebration, placing our more than 14,000 employees in the spotlight. But we are also taking this anniversary year as an opportunity to give new expression to our company's values. ACT, SHARE, CARE, INNOVATE and SUCCEED are the five values that define and drive us as a family business now in its fourth generation. These are the cornerstones that enable our success, and they also represent the promise we make to our customers. This fall, we will finally celebrate the opening of the new Campus in Mönchengladbach. The Campus is an investment in the future – a clear commitment to Germany as a business location. This will elevate our way of working together to a new level, as the Campus concept supports the close integration of all areas of the company. We therefore have every reason to be positive about the current financial year.

Our values, our customer promise

Inextricably linked

A trip to the Siegerland region in South Westphalia today is like a journey through time. Located there, in one of Germany's most heavily forested areas, is one of Europe's oldest industrial sites. For centuries, the Siegerland occupied a leading position in the iron industry. Looking back, the fact that the history of today's SMS group began here was certainly no coincidence.

1871 was the year in which the first chapter of our company was written. Back then, Carl Eberhard Weiss laid the foundation stone when he set up a forging business with three employees in Siegen. Today, more than 150 years later, SMS group is one of the world's leading technology companies for the metals industry with a global workforce of more than 14,000 employees.

Our values have always been an integral part of our growth and the basis of our success. They are what distinguish us as a company, guide us, make us successful, and constitute a promise to our customers.

In 2023, SMS is celebrating its 150th anniversary – a bit later than planned due to the COVID-19 pandemic. Now is a good time to lend expression to these values once again: ACT, SHARE, CARE, INNOVATE and SUCCEED – five pillars that drive us and make us the family-owned business that we are today.

1 | 5 | 0 YEARS
of shaping
the future



Taking pride in the past while keeping our eyes firmly on the future: construction of the new SMS Campus is currently underway in Mönchengladbach. We plan to move in at the end of the year.



— Daniela Cattolico is Head of Project Procurement Metallurgy in Luxembourg.



“Our value ACT defines a key element of our corporate culture. Because ACT means acting and operating in an entrepreneurial way and also setting goals in the process. If you want to succeed as a company for over 150 years, you must define clear objectives and be able to measure your performance against them. That has always made SMS group stand out – and it is what makes us who we are today. Our clear goal is to achieve around 50 percent of turnover through our services business by 2027. By continuously working on successfully solving our customers’ problems with integrated solutions and by building long-term partnerships, we will be able to reach this goal.”

Katja Windt,
CDO of SMS group

ACT

We take ownership and are empowered

SMS group is renowned worldwide for its future-oriented technologies and outstanding service for the metals industry. ACT means that we are constantly striving to improve – and not simply settling for the status quo. In doing so, we act as a family-owned company – always responsible, meeting our customers at eye level, flexible, reliable, and above all entrepreneurial.

Our customers all over the world rely not only on our expertise as a leading plant engineering company, they also expect excellent support and guidance. This is what we stand for as the “Leading Partner in the World of Metals.” It is why we always think in the interest of our customers and take responsibility for their plants and hence for their business. To achieve this, we bring together our 150 years of metallurgical expertise and our core competencies in mechanical equipment, electrical systems, automation, and digitalization. Our aim is to provide self-optimizing, autonomous plants with an unprecedented level of performance in terms of product quality, sustainability, and safety.

The learning steel plant is a milestone and an example of our success in the pursuit of this goal. It describes our vision of a holistically connected production facility that uses intelligent pattern recognition algorithms to anticipate all kinds of

scenarios and derive recommendations from real events, and continually trains and monitors itself with artificial intelligence. The concept of the learning steel plant focuses on monitoring the plant’s condition, assuring product quality, and predictive production planning.

Keeping our eyes on the future is part of our company’s values. That is why SMS has been consistently investing in digitalization solutions for many years now. In 2016, we laid the foundation stone for our own digital division, which today employs more than 400 people around the world. With Vetta and QuinLogic, we consciously acquired companies that have developed intelligent software solutions for the steel and metals industry. Our objective is to offer these solutions to our customers in an integrated way, in order to increase the overall performance of their plants and equipment.

SHARE

“The 'Project First' approach applies to the way we collaborate globally within our company. We have organized SMS in such a way that our employees worldwide are as close as possible to our projects and therefore also to our customers. We follow a clear, three-pronged approach here: we first defined the strategy, then put the structures in place, and now we are introducing the systems. For me, our value SHARE is an important part of our corporate culture in this regard. It describes how we are creating a climate of mutual understanding and trust with our international teams of highly qualified specialists, as both aspects are vital for excellent cooperation in every project. This climate is what characterizes us at SMS and is the cornerstone of our success.”

Michael Rzepczyk,
COO of SMS group



Now that's what you call teamwork: Felipe Ferreira and Camila Jardim work for SMS group in Brazil as Communications & Marketing Analysts.

We value teamwork and global cooperation

Our company has a network of employees working together at around 100 locations across the globe. We stand for project excellence – and have diverse teams working all over the world. We all share the same goal here: we want to be the partner of choice for challenging projects and consistently harness new potential for our customers throughout the entire life cycle of their plants and equipment.

Our Center of Excellence Implementation lies at the heart of our international project excellence. For every customer project, we put together an international team that is responsible for integrated time scheduling and resource planning as well as for the smooth execution of all project phases

– from the start of the project right through to commissioning. At SMS, handling a project for a customer is like running a business for a fixed period of time, where we provide both the CEO and the whole organization. This enables us to implement the most sophisticated projects for which we supply the engineering, procurement and construction, all from a single source. This EPC (Engineering, Procurement, Construction) project expertise makes us stand out as a decisive competitive advantage for us.

To bring the way we collaborate internationally to the next level, SMS recently set the course internally with the digital transformation of the company. The goal is to achieve a harmonized way of working throughout SMS with uniform systems and processes in a common language. The harmonization of our data and process structures will make us faster, more efficient and more transparent, and will also make international collaboration easier.

CARE

We build our culture on diversity and integrity

Our employees are the beating heart of SMS. We firmly believe that businesses can only be successful if they have satisfied employees. This is exactly what motivates us as a company. Taking care of each other is therefore an integral part of our culture, which promotes respect and trust and makes the health, safety, and well-being of everyone a priority. As a family-owned company, we carry great responsibility for our employees. This also includes our commitment to promoting diversity in the workplace. Thanks to the know-how, passion and creativity of our staff from different countries, cultures and age groups, our performance and achievements are above average.

As a company with more than 150 years of history, we are proud that our employees feel strongly connected to SMS group. A large proportion of our employees have been working at SMS for many decades. As a family-owned company, we have grown to become a global player while retaining our family values and family culture. That is something we are proud of. At the same time, we are aware that we must continue to nurture this culture. Last year alone, we invested more than 1.8 million euros specifically in training programs. Giving our workforce the best possible vocational education and training is just as instrumental as focusing on occupational health and safety.



— Sanjeev Sharma is our SVP Human Resources in India.

“As a leading technology company, we carry great responsibility for a whole industry as well as for our customers and society. Yet we feel a particular obligation towards our employees, who are responsible for the lion’s share of our company’s success by investing a tremendous amount of passion and commitment. For me, the value CARE lies at the center of our corporate culture. It describes how we treat each other, communicate, and work together as one big international team.”

Torsten Heising, CFO of SMS group





— Tim Kleier works for SMS as Head of Green Steel in Germany.

INNOVATE



“Our customers can only be as good as the technical solutions we at SMS group develop for them. This means that we carry great responsibility. But it also means that we have the opportunity to be a real game changer when it comes to a sustainable metals industry. For me, the value INNOVATE describes our company’s purpose: the transformation of the metals industry is a multi-generation project and involves a great deal of work for the plant engineering and construction sector. Our task is to drive this change.”

Thomas Hansmann,
CTO of SMS group

We drive excellence and sustainable innovation

SMS group has a mission: #turningmetalsgreen. We are revolutionizing an entire industry with our technologies and blazing a trail toward a sustainable and climate-neutral metals industry. In this way, we are pursuing a challenging yet fundamentally important goal. It is only with sustainable production and efficient metal recycling capabilities that we have a chance to fight the climate crisis. We combine 150 years of plant engineering and process know-how with expertise in digitalization to create a better future.

If you want to develop innovations that have a decisive influence on society as a whole, you have to think outside the box. And we have a tradition of doing just that. The forging shop founded 150 years ago in the Siegerland region soon turned to new technologies and thus allowed innovation to happen. The Compact Strip Production (CSP) technology developed by us was already pioneering back in the 1980s and has enabled our customers to benefit from huge energy and cost savings. The fact that we at SMS group have now been commissioned to use our plant technology to build the world's first climate-neutral steel plant for H2 Green Steel demonstrates that being innovative has characterized our company throughout its entire history. Our goal is to make the impossible possible with new technologies. This also includes investing in innovations. Last year, SMS invested around 129 million euros in research and development.

By establishing an independent Innovation Hub within SMS group this year, we have been driving new areas of innovation in a targeted way. This enables us to take our innovative solutions for decarbonizing the metals industry to a new level, thus providing our customers with a competitive edge.

SUCCEED

“We are implementing orders that are always of importance for our customers and their future corporate success. These are investment decisions of a long-term strategic nature. In my perspective, the value SUCCEED represents profitability, both for our organization and for our customers. Trusting and close relationships with our customers are based on this value proposition - and they are essential for successfully implementing highly complex projects.”

Burkhard Dahmen,
CEO of SMS group



Successful together: Dirk Oedekoven (on the right), SVP Information & Quality Management, with his team.

We understand our customers and create value for them

This year, SMS group is not just looking to its 150th anniversary. We are also reflecting on our long-standing customer relationships and are proud that a large proportion of our customers have put their trust in us over many decades. Close partnerships were formed back in the last century that continue to flourish today.

We listen to our customers, understand their needs, and develop tailored solutions for them. That is why the service business is becoming increasingly important for SMS group. For a long time now, it has no longer just been a question of supplying our customers worldwide with ready-to-use plants and equipment. For us, it goes without saying that we offer our customers a reliable partnership that goes beyond the acquisition of new plants by supporting them and providing them with service solutions throughout the entire life cycle of their equipment. We always think one step ahead in the interest of our customers.

#turningmetals green

How SMS group is creating perspectives for the metals industry



Fighting the climate crisis is the biggest challenge of the twenty-first century. The technological development of our industry is inextricably linked to climate protection. Steel production accounts for a large proportion of global CO₂ emissions. By the same token, however, this also means that our industry possesses one of the biggest levers for mitigating climate change. That is because steel and metals in general remain one of the material pillars on which our world depends. The key role that steel plays in industry, transport, and construction is obvious: annual steel production is on course to rise from nearly 2 billion tons today to more than 2.5 billion tons by 2050. This also intensifies the urgency to produce steel in a way that is as climate-neutral as possible.

In simple mathematical terms, if the steel-producing countries around the world are to meet their climate commitments by 2050, a production capacity of 35 to 37 million tons will need to be decarbonized every year. Our industry, therefore, faces enormous tasks ahead. SMS group is determined to play a key role in fulfilling these tasks: We are enabling our customers to make their metal production processes gradually more sustainable. And we can provide the technologies to do this already today. This is what we call #turningmetalsgreen – and it is much more than a catchy slogan: It is our mission to secure a future worth living!

The location of one of the world's largest industrial decarbonization projects: the thyssenkrupp steel plant in Duisburg.
(Photo: thyssenkrupp Steel)



Here's what it will look like: the H2 Green Steel plant in Sweden.

Proof of Concept: H2 Green Steel

The coming years will offer impressive proof that climate-neutral steel production on an industrial scale is possible: the Swedish town of Boden, situated just south of the Arctic Circle, is the location of a fascinating lighthouse project being implemented on behalf of steel startup H2 Green Steel: the first integrated steel plant for decades to be realized in Europe as a greenfield project – and the world's first ever to use 100 percent green hydrogen to reduce its ore-based feedstock. SMS group was hand-picked as a technology partner and, with its direct reduction plant, will be supplying one of the core components of the project.

H2 GREEN STEEL AT A GLANCE

Reduction of CO₂ emissions:
up to 95 percent

Location:
Boden, Sweden, 82 kilometers south of the Arctic Circle

Planned completion of the first plant:
2025

Capacity in the first phase:
2.5 million tons per year

Capacity in the second phase:
5 million tons per year

100%

hydrogen
This is how H2 Green Steel plans to operate the plant.

Great potential, great challenges

Building entirely new plants to produce green metal will continue to be more the exception than the rule. A more important factor in the decarbonization of our industry is to outline sustainable prospects for existing facilities. After all, the integrated steelworks in operation around the world have the greatest CO₂ savings potential. Plant owners are already under intense pressure to modernize their facilities in order to meet climate protection targets and respond to the rising prices for CO₂ emissions.

Our latest major project with thyssenkrupp Steel for its Duisburg site is an impressive example of how future-proof decarbonization strategies can be put into practice here too: to this end, SMS group won the largest single order in the company's history at the beginning of 2023. This makes us a key partner for the world's first conversion of an integrated steel plant to 100 percent hydrogen-based operation on an industrial scale. Here, for the first time, we are combining a direct reduction plant with two innovative open bath furnaces. The work taking place on the current plant premises and the integration into an existing process infrastructure are considerably more challenging than a greenfield project.

To take account of the complexity of the project, SMS group is taking on the role of an EPC partner (engineering, procurement, and construction); in other words, we are supplying thyssenkrupp Steel with an overall service that includes plant design through procurement and implementation, right up to commissioning. Our "Project First" approach ensures that we consistently align our strengths across all fields of expertise and structures with the defined objectives of the customer project.

THE MODERNIZATION PROJECT AT THYSSENKRUPP STEEL AT A GLANCE

Annual CO₂ reduction:
3.5 million tons

Location:
Duisburg, Germany

Planned completion of the first plant:
2026

90,000

tons
of equipment will be needed for the new facility in Duisburg.



A bird's-eye view of the blast furnaces at the thyssenkrupp site in Duisburg. (Photo: thyssenkrupp Steel)

The new direct reduction plant will be built at the northern end of the Duisburg site.
(Photo: thyssenkrupp Steel)



It's all about location

Steelmaking has always been a demanding process, which, in addition to the required products and grades, depends on many location-related factors: What raw materials and forms of energy are available and at what price? What legal requirements have to be considered? How flexibly do production processes and capacities need to be adapted to changing market conditions? All these aspects illustrate that there can be no single, one-size-fits-all solution for our customers. The conventional blast furnace route continues to be a central element of pig iron and steel production and will remain so in many regions around the world. That is why we are developing technologies that also reduce the CO₂ emissions of existing facilities swiftly and efficiently.

With our Blue Blast Furnace, for example, we provide a transitional technology that can be integrated into the blast furnace comparatively quickly and easily and enables potential CO₂ savings of nearly 30 percent. With this process, synthesis gas, which mainly consists of carbon monoxide and hydrogen, is conveyed into the lower shaft section of the blast furnace. The synthesis gas is optimally produced using process gases from the steelmaking plant. Building on this, we also developed EASyMelt (electric assisted syngas melter), an electrified direct reduction and melting process that is used in existing iron and steelmaking plants and is also operated with synthesis gas. EASyMelt is an alternative to the direct reduction route that allows CO₂ emissions from the steelmaking process to be reduced by over 60 percent. In this way, we are able to point out perspectives for our customers that enable them to move gradually towards climate-neutral steel production. Compared with the direct reduction route, the EASyMelt technology is further characterized by significantly lower investment costs, so that in addition to the ecological motivation there is also an economic incentive to initiate the next cycle of modernization in existing plants.

30%

is the CO₂ savings potential that can be achieved with the transitional technology offered by the Blue Blast Furnace.

Further pillars, one goal

The decarbonization of production processes is crucial for the future of the steel and metals industry. Moreover, we at SMS group have identified three other pillars that play a major role in making our industry greener. These aspects are also a focus of our development efforts, where we leverage our process know-how, metallurgical expertise, and over 150 years of experience on the market.

Hydrogen

The role of hydrogen in this context cannot be emphasized enough. As an energy source, it provides the basis for the hydrogen economy and

embodies a new era in which, for the first time, we can consistently do without fossil fuels. However, a prerequisite for this is that the hydrogen itself is also produced using green energy. As experts in energy-intensive industrial processes, this is where we contribute our specialist knowledge – in both the production and integration of hydrogen into new and existing plants.

Our investment in Sunfire enables us to influence the strategic development of high-temperature electrolyzers. Not only that, we offer commercial hydrogen projects on a small and large scale – for the metals industry as well as for other industries that are difficult to electrify, for example aerospace.

Digitalization

Precise control and the intelligent management and evaluation of all metalmaking processes add up to another important aspect of decarbonization: digitalization. Artificial intelligence, digital twins for developing, implementing and optimizing plants, remote maintenance, virtual staff training, right up to fully automated “lights out manufacturing” – this all helps to optimize quality, added value, and environmental compatibility.

To this end, our automation and digitalization experts develop the right technological concepts, ranging from a single mechanical sensor to a comprehensive software suite. In this context, just as we do with decarbonization, we are there for our customers, supporting them throughout the entire life cycle of their plants and making a vital contribution to their ability to develop and compete by delivering the technology, desired service level, or customized business model.

More than

90%

of the metals are to be fed back into the value creation cycle by means of battery recycling.

Circular economy

Last but not least, we also focus our attention on the raw materials side. Because this is also an area in which our industry is under pressure to develop more sustainable concepts. In view of rising global steel production volumes and the increasing importance of scrap charging, optimizing the circular economy is a logical consequence. Metals are predestined for the circular economy. They are extremely durable and – at least theoretically – can be infinitely recycled without compromising quality.

SMS group brings in its metallurgical expertise in many areas, such as the recovery of copper and other non-ferrous metals. Together with multimetal producer and copper recycler Aurubis AG, we are making a decisive contribution to non-ferrous metal recycling. Using our technology, we are ensuring that the capacity of a plant under construction in Georgia/USA can be increased from 90,000 tons of metal scrap materials to 180,000 tons per year.

Our joint venture Primobius also shows the pivotal importance of a circular economy by tackling the complex challenges of recycling lithium-ion batteries. Primobius demonstrates how valuable metal materials can be recovered and returned to the value creation cycle with a high level of purity. Our goal is to push recycling rates to the limits of what is physically and technologically possible.



Reducing environmental impact: that is the metals industry's biggest challenge at the moment.

Projects all around the world

In recent months, SMS group has successfully booked new orders around the globe and implemented important projects. Below we present a selection of these projects.

Order in India

Cold rolling mill for wide aluminum strip

Hindalco Industries Limited, one of the world's largest aluminum companies, has placed an order with SMS group to supply a high-performance cold rolling mill for wide aluminum strip. The new facility will be built in the outskirts of Hindalco's Aditya Aluminium Unit in Lapanga in the Indian state of Odisha. Hindalco supplies the local and international markets with its aluminum products that cover the whole range of alloys, from soft to very hard aluminum grades. The first coils will be produced at the end of 2024.



Order in Spain

Aluminum profiles for tomorrow's mobility

Exlabesa, an international producer of extruded aluminum profiles, has placed an order with SMS group to supply a 71 MN short-stroke extrusion press of the front-loading design. By making this investment, Exlabesa will operate a total of 27 extrusion press lines at its nine production sites, including five state-of-the-art SMS extrusion presses. The new press will be installed at the company's Padrón site in Spain and will be the largest press in the Iberian Peninsula. The new extrusion press will be used predominantly for the production of profiles for the growing electromobility market. The company also plans to produce extruded profiles up to 620 millimeters wide for truck superstructures as well as profiles for railway carriages. In addition, this new investment will enable the Exlabesa Building Systems division to develop and implement unique architectural solutions for sophisticated custom façade projects. The plant is scheduled to go on stream at the beginning of 2024.

Order in South Korea

Building new instead of modernizing

One million tons of rebar every year: that is the goal of YK Steel in South Korea. The company had originally planned to have an existing facility from SMS relocated and modernized. However, SMS has now been commissioned to supply a new minimill for integrated melting, casting and rolling, including the complete package of electrical and automation systems. The minimill will commence operation in Dangjin in 2025.

Order in Spain

Aiming for natural gas-free production

An eco-friendly technology for steel bar production: that is the header on the order that Megasider Zaragoza awarded to SMS group. To this end, we are supplying a bar mill with eco-friendly heating technology. The plant will be designed to produce a wide range of steel bar products. In this way, SMS is supporting Megasider with the implementation of a production facility that operates without natural gas as well as with the digitalization of the plant. As a system supplier, SMS offers an integrated concept for operating the flexible burners with a digital control system. This enables the equipment to be used in a particularly eco-friendly manner.

Foundation stone laid in Germany

Sustainable battery recycling

Mercedes-Benz will be the first automobile manufacturer in Europe to operate its own battery recycling plant with hydrometallurgical treatment. This is possible thanks to technology supplied by Primobius, a subsidiary of SMS group. In this way, we are making a major contribution to closing the recycling loop and reducing resource consumption in the field of electromobility.

The foundation stone for this joint project was laid in Kuppenheim, Germany. The pilot plant will have an annual capacity of 2,500 tons. The plant will be set up in two stages: Initially, the mechanical separation equipment will be put in place by 2023. In a second step – subject to the promising discussions with the relevant authorities – the facilities for the hydrometallurgical treatment of the battery materials will be put into operation.

(Photo: Mercedes-Benz AG)



Order in China

Fully automatic eccentric press

SMS is supplying a fully automatic eccentric closed-die forging press for Jiangsu Pacific Precision Forging. Up until now, the manufacturer of precision forgings, based in the Chinese city of Taizhou, has mainly specialized in steel forging. This new investment in aluminum forging provides Pacific Precision with access to the growing automotive market segment for more lightweight designs. Commissioning of the new eccentric press is scheduled for Q2 2024.



Order in the USA

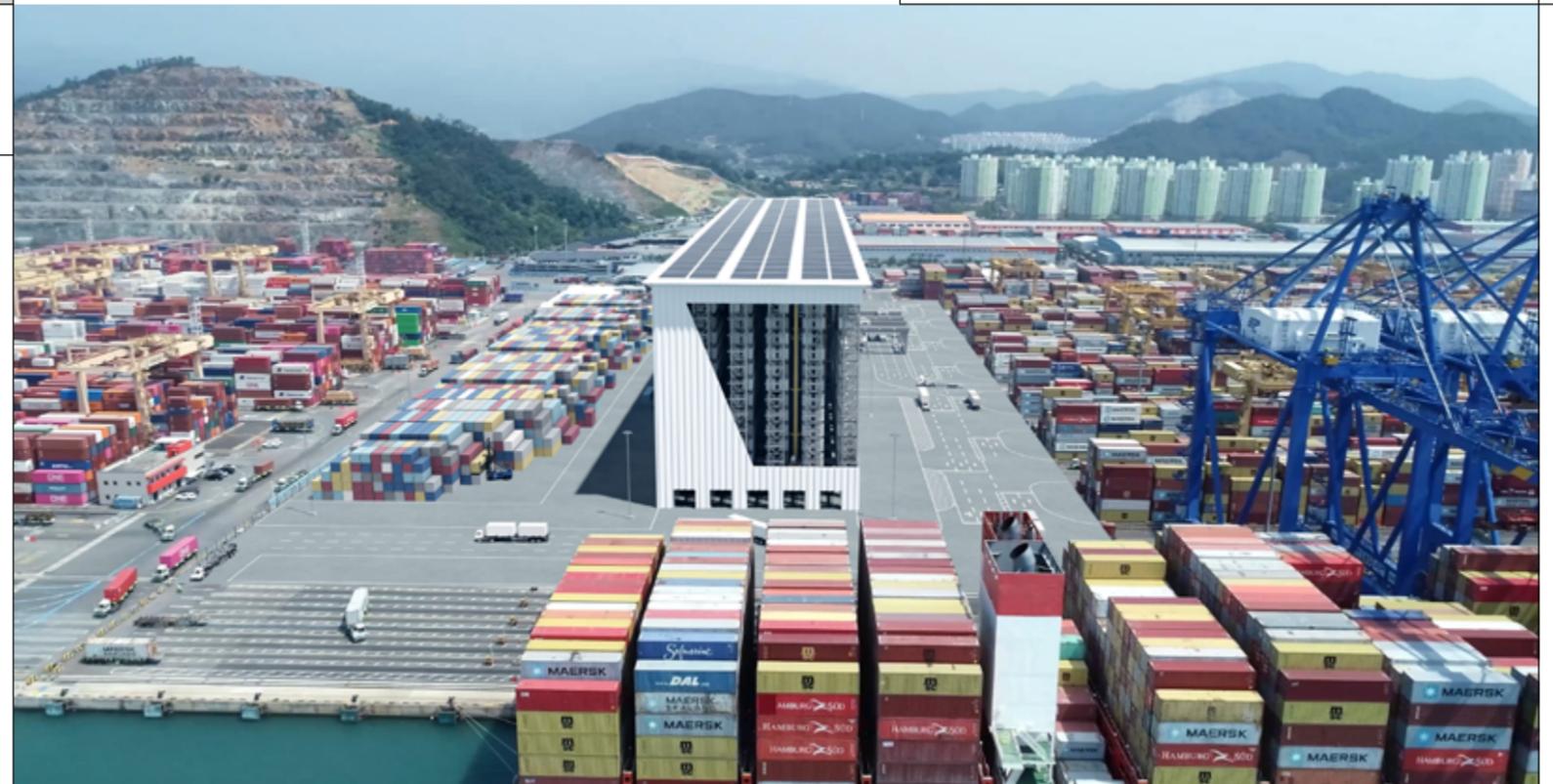
Aluminum sheet for sustainable packaging

Steel Dynamics Inc., a North American steel producer and metal recycling specialist, has been a regular customer of SMS group since the mid-1990s. Last year, this partnership was reaffirmed by a new order for a state-of-the-art flat rolling mill for aluminum. The mill will manufacture sheet for beverage can production, automotive engineering, and other industrial applications. It is designed for an annual production output of 650,000 tons. Production is scheduled to start in the first half of 2025.

Order in South Korea

High-bay storage system in the Port of Busan

Last year, we won the German Award for Supply Chain Management for our BOXBAY high-bay storage system. The high-bay storage solution combines economic advantages with ecological goals and will be a real game changer for the port of the future. With the order from DP World, our disruptive technology will now see its first practical application in the Port of Busan. The system offers direct access to every single container at any time. This means that 350,000 unproductive movements per year are no longer required. In this way, the total truck processing time is reduced by 20 percent, thus ensuring better customer service. BOXBAY is fully automated and has additional safety features. DP World also plans to operate the high-bay warehouse with solar energy, produced by photovoltaic modules on the roof of the storage system.



Order in India

High-performance hot strip mill

One of the most modern plants with the latest technology: that is the ambition ArcelorMittal Nippon Steel is pursuing at its Hazira site in India. To this end, the steel group has commissioned SMS to build a new melt shop and a high-performance hot strip mill. The order is part of the expansion project in Hazira, with which ArcelorMittal aims to produce 5.5 million tons of steel per year. The mill is to have a high level of automation to minimize dust emissions and maximize energy recovery. With a maximum strip width of 2,300 mm, the hot strip mill will be one of the widest ever built by SMS. Hot commissioning of the new melt shop and the high-performance hot strip mill is scheduled for spring 2025.

Commissioning in Greece

Largest environmental facility

It is the largest and most efficient facility of this type that SMS has installed anywhere in the world to date: Greek aluminum manufacturer ElvalHalcor S.A. has equipped its cold rolling production plant in Oinofyta, close to the Greek capital of Athens, with an Airwash™ system for exhaust air cleaning, designed and supplied by SMS. With this investment, ElvalHalcor has taken another important step towards even more sustainable aluminum production and enhanced environmental protection. Unlike mechanical separators, which only separate droplets, the Airwash™ system is able to separate and recover droplets and gaseous components. Airwash™ systems are considered particularly efficient, because a maximum amount of rolling oil can be recovered by means of absorption and distillation. The system has an exhaust air rate of up to 450,000 cubic meters per hour.



Order in the USA

Eco-friendly rebar

SMS is supplying a new rebar minimill to US steel producer Highbar LLC. The mill is to be built near Osceola, Arkansas, and will enable Highbar LLC to produce steel rebar competitively in an eco-friendly way. Equipped with Industry 4.0 digitalization solutions and AI-controlled processes, the benefits of digitalization will come to bear right from the outset in the state-of-the-art steel plant. This equipment ensures the future viability of the production facilities. What's more, the facilities are designed such that no natural gas is required during the production process. A hitherto unique solution that enables the company to achieve an extremely small carbon footprint while at the same time halving emissions compared with other leading rebar mills. The construction phase up to commissioning is scheduled to last twenty-two months.



Order in Türkiye

Europe's largest extrusion line

ASAŞ Alüminyum, one of Türkiye's largest aluminum manufacturers, is investing in extrusion technology from SMS group to produce profile sizes that currently cannot be produced anywhere else in Europe. ASAŞ has been relying on SMS group's expertise for many years and has ordered two new aluminum extrusion lines. The machines to be supplied are a 150 MN extrusion press and a 45 MN HybrEx® line. The 150 MN extrusion press will be Europe's largest extrusion line and is set to open up new opportunities for ASAŞ on the international market for extra-wide extrusion profiles. Such profiles are used, for example, in the railway industry for the construction of railway cars. As a technology partner, we have the necessary expertise to supply facilities of this size. Both plants are scheduled to go into operation in 2025.



Order in South Korea

Nickel matte conversion

Key facility for the production of nickel-based batteries: electromobility and the transition to green energy are only possible through the development and use of highly efficient battery technologies. The amount of nickel contained in these high-performance batteries is increasing all the time. Most of the nickel and nickel sulfate used here is obtained by refining ferronickel, which is usually produced in submerged arc furnaces. SMS has received an order from SNNC – a joint venture between SMSP and POSCO in South Korea – for the supply of a Peirce-Smith converter in which the ferronickel from the Gwangyang works is converted into nickel matte (a nickel-sulfite phase) in order to reduce the iron content. The intermediate product, nickel matte, is then treated hydrometallurgically in POSCO's adjacent battery plant to produce nickel and nickel sulfate. The Peirce-Smith converter to be delivered by SMS is a key equipment unit in this process chain and efficiently converts the ferronickel into high-quality nickel matte using special submerged nozzles and a liquid sulfur injection system. The plant will go into operation this year and produce 21,000 tons of nickel per year.

Order in the USA

Expansion of the first multimetal recycling plant

Together with SMS, multimetal producer and copper recycler Aurubis AG is forging ahead in the US with the expansion of the market for non-ferrous metal recycling. The signing of the contract to supply a second plant module for the new Aurubis recycling facility in Richmond, Georgia represents the next step in their strategic partnership in the global multimetal recycling sector. The additional plants will increase the capacity of the metal recycling facility in Richmond, currently under construction, from 90,000 tons of complex metal scrap materials to 180,000 tons per year.



Order in Spain

Ambitious project

Last year, SMS group and Spanish aluminum producer LatemAluminium announced their intention to collaborate in promoting sustainable aluminum production in the province of Castilla y León in northern Spain. For the newcomer's ambitious project on the aluminum market, we are supplying a state-of-the-art aluminum cold rolling mill with ancillary facilities, to be operated on a sustainable and eco-friendly basis. The cold rolling mill is part of an extensive investment project by LatemAluminium involving the design and construction of recycling plants for aluminum and aluminum alloys as well as production facilities for aluminum products in northern Spain. A melting plant for aluminum scrap recently acquired by the Spanish manufacturer is already in operation. A total of around 2,000 new jobs will be created. The new cold rolling mill, coupled with SMS's expertise, will support LatemAluminium in bringing tailor-made aluminum products to market. Production of the first coil on the new aluminum cold rolling mill is scheduled for April 2024.

Our business in 2022

Our business in 2022

- 39 Foundations
- 39 Industry-specific conditions
- 40 The year in figures
 - 40 Order intake
 - 40 Sales revenues
 - 41 Earnings before taxes (EBT)
 - 41 Net liquidity
 - 41 Employees
- 41 Some of the risks in our environment
- 42 Some of the opportunities in our environment
- 43 Outlook

39

Consolidated statement of financial position

44

Consolidated income statement

46

Supervisory Board SMS group GmbH

47

Supervisory Board SMS GmbH

48

Foundations

SMS group is a globally active group of companies in the field of mechanical and plant engineering, with a focus on the steel and non-ferrous metals industry. The family business is currently in its fourth generation of management by the Weiss family. With operations worldwide, SMS group is represented in Western and Eastern Europe, the Middle East, Africa, Asia, and North and South America. At the end of the 2022 financial year, a total of 88 fully consolidated companies in 21 countries belonged to SMS group (previous year: 91 fully consolidated companies in 22 countries).

By embracing decarbonization solutions, we aim to play a leading role in the transformation of the metals industry. We offer technologies along the entire process chain to help companies reduce their carbon footprint. For the primary route, as well as developing decarbonization solutions to produce metals using green hydrogen, we provide digital solutions for downstream energy savings. For the secondary route, we are working on a variety of customer and development projects to maximize recycling rates.

As we pursue new business areas, product innovations and a digitalization offensive, we are opening up new sources of future growth for our group. Our focus is not devoted solely to innovations in the metals business; we also seek to apply our expertise to other industrial sectors. With flexible service and digital offerings and product innovations, we complement our core business with performance-based business models (equipment as a service).

We purposefully invest in innovation: our expenditure on general developments and design enhancements to our products amounted to 129 million euros in 2022 (previous year: 96 million euros). This corresponds to 4.1 percent of our sales (previous year: 3.7 percent).

Industry-specific conditions

The war in Ukraine has severely impacted both the global economy and the development of the steel market. In a market environment dominated by the energy crisis, high inflation and rising interest rates, the global steel market was among those that stagnated in 2022.

In the European region in particular, higher fossil energy prices were the largest inflation driver. Besides the energy required for steel production, prices for iron ore and alloying elements such as nickel also rose significantly at times. After a sharp increase in 2021, steel prices climbed again at the end of the first quarter of 2022, particularly in the European region. The hot strip price in Europe increased by over 40 percent within the month of March 2022. Following the price explosion in the first half of 2022 in particular, energy and steel prices fell again towards the end of the year.

Global crude steel production declined by 4.3 percent in 2022. This was due to a sharp drop in demand owing to inflation, supply chain disruptions and the real estate crisis in China, where steel demand fell for the second year in succession (-4.0 percent). The largest declines were recorded in the CIS region (-9.2 percent), Central and South America (-7.8 percent) and the European Union including the United Kingdom (-3.5 percent). Only in Africa and Southeast Asia did steel demand increase significantly, albeit from a low level.

By contrast, installed crude steel capacity was up for the fourth year in succession. It grew slightly by 1.3 percent to 2.68 billion tons. Due to the lower production volume, global overcapacity rose to 30 percent (previous year: 26 percent).

Despite the rapid rise in energy costs, global primary aluminum production was slightly higher at around 68 million metric tons (previous year: 67 million). Differences between regions were evident: while production in Europe fell significantly (-12.5 percent), it rose in South America (+10.7 percent) and the Gulf States region (+3.1 percent). In addition, China, which already accounts for more than half of global production capacity, supported the increase in global primary aluminum volume with production growth of +4.0 percent.

The year in figures

Our key performance indicators are:

- Order intake
- Sales revenues
- Earnings before taxes (EBT)
- Net liquidity
- Number of employees

These figures developed as follows in 2022.

Order intake

With an order intake of 4,612 million euros, we significantly increased our volume for the second year in succession. This development is all the more encouraging as it came under difficult conditions. As a result of Russia's invasion of Ukraine and the international sanctions that followed, we completely discontinued our new plant business in Russia and Belarus. Existing orders with customers in Russia were canceled or suspended.

In addition, there was a noticeable reluctance to invest in the important Chinese market in the wake of the "zero Covid" policy that China pursued until the beginning of December 2022.

The continuous increase in global aluminum production is reflected in our order books. In the USA, for example, our long-standing customer Steel Dynamics Inc. has decided to move into aluminum strip production – with SMS group as its plant supply partner.

Alongside major projects and modernizations, we continue to focus on expanding our technical service, electrics/automation, and digitalization activities. With a new Integrated Assessment & Consulting approach, we are analyzing plants from a holistic perspective. This involves identifying potential to add value by enhancing productivity, quality, and reliability, as well as forming partnerships that span the life cycle of plants and equipment.

In the metallurgical plant construction business, we achieved a substantial increase of +35.2 percent to 3,090 million euros (previous year: 2,285 million euros). Firstly, this reflects catch-up effects from investment projects postponed due to the COVID-19 pandemic. Secondly, demand remains high for investments in improved plant efficiency and decarbonization solutions.

The service business also benefited from this positive development. In addition, the expansion of services such as consulting and training in the service business led to a 20.6 percent increase in order intake to 960 million euros (previous year: 795 million euros).

The order intake of our industrial equity investments improved significantly to 587 million euros (previous year: 448 million euros). This is mainly attributable to higher demand for aluminum products.

Geographically, order intake in 2022 was distributed as follows:

North America	35.7%	(Previous year: 17.2%)
India	24.4%	(Previous year: 13.0%)
Western Europe	19.5%	(Previous year: 20.5%)
Rest of Asia	8.9%	(Previous year: 2.6%)
China	6.3%	(Previous year: 13.0%)
MENA	4.5%	(Previous year: 12.4%)
Latin America	3.8%	(Previous year: 8.0%)
Africa	0.8%	(Previous year: 0.5%)
Eastern Europe	-3.8%	(Previous year: 12.8%)

Sales revenues

Sales were in line with the upward trend in order intake. They increased by 580 million euros, or +22.7 percent, to 3,139 million euros in 2022 (previous year: 2,559 million euros).

In the metallurgical plant business, sales improved from 1,469 million euros to 1,857 million euros. The service business recorded similarly high growth rates. Sales in this segment rose by 164 million euros to 880 million euros (previous year: 716 million euros). At 420 million euros, sales from industrial equity investments also developed positively, following the upturn in business in terms of order intake (previous year: 392 million euros).

Sales revenues in 2022 were distributed geographically as follows:

North America	26.4%	(Previous year: 26.2%)
Western Europe	22.7%	(Previous year: 28.7%)
China	13.5%	(Previous year: 16.0%)
India	9.7%	(Previous year: 7.3%)
Latin America	8.6%	(Previous year: 5.5%)
MENA	7.0%	(Previous year: 4.2%)
Rest of Asia	6.0%	(Previous year: 4.7%)
Eastern Europe	4.8%	(Previous year: 6.8%)
Africa	1.2%	(Previous year: 0.6%)

Earnings before taxes (EBT)

The Russian war of aggression on Ukraine, high energy prices and larger global overcapacities in steel production also put pressure on the metals industry. In this unfavorable environment, our 2022 EBT of 19 million euros was slightly higher than the adjusted prior year figure (15 million euros).

Net liquidity

Net liquidity at December 31, 2022 decreased to 501 million euros (previous year: 978 million euros). Cash and cash equivalents decreased by 67 million euros to 829 million euros. Investment securities declined by 243 million euros to 33 million euros. Conversely, non-current and current financial liabilities rose by 167 million euros to 361 million euros. This development was in line with the previous year's forecast.

Employees

In the 2022 financial year, the average number of employees¹ was 14,421 (previous year: 14,544). This means that the size of the workforce is virtually unchanged from the previous year (-123 employees/-0.8 percent). While the average number of employees in Germany decreased to 5,629 (previous year: 5,864), outside Germany it grew to 8,792 (previous year: 8,680). We made new hires predominantly in the service business. This trend has been ongoing for several years and shows that we are continuously becoming more international and service-oriented.

The average number of employees at our industrial equity investments remained stable at 2,020 (previous year: 2,064).

Some of the risks in our environment

Due to the outbreak of war in Ukraine, the Russian market will remain closed to internationally active companies for the foreseeable future. Since that time, our Russian companies have been managed by a local Russian management team that operates independently in Russia and is cut off from our technical expertise.

Future developments in this war are more uncertain than ever, and it still appears possible that the conflict could spread geographically to other countries or regions. As a swift change of course in Russian foreign policy is not foreseeable at this point in time, the absence of business activities in the region will continue due to the sanctions imposed on Russia.

The restrictive monetary policy of the European Central Bank and the Federal Reserve to curb inflation, coupled with rising procurement and energy prices, is making it difficult for our customers to finance major investments. This challenging business environment is exacerbated by the rise in global steel production overcapacities.

We purchase raw materials, consumables, supplies, components, and other input materials and services to manufacture our products. Procurement costs continued to rise in the year under review. Material, energy and logistics costs remain volatile.

Disruptions in the supply chains and the associated reduced availability of parts and materials are only expected to ease gradually. The ongoing dynamic in the logistics sector as well as supply bottlenecks for individual materials such as electronic components are likely to lead to delays in logistics chains in the short and medium term. In addition, risks arise from the unstable availability of individual energy sources (e.g. gas) and from COVID-19 developments, particularly in the Asian region.

¹ Annual average, including trainees

Economic uncertainties and geopolitical developments are likely to lead to a further market shakeout among our suppliers in the form of closures, insolvencies and mergers. We are tackling the resulting increase in procurement risks with dedicated project teams that continuously monitor supply chains, material availability and the ability of our suppliers to deliver. We are addressing increased procurement risks during order execution by stepping up the diversification of our supplier base, making thorough efforts to secure deadlines during execution, and awarding contracts on the basis of total cost analyses and risk assessments.

Cybercrime poses an ever-growing threat. In 2022 alone, it was responsible for global damages of 8.4 trillion dollars. We are therefore working continuously to raise security standards and have held mandatory e-learning sessions on the topics of IT Security and Data Protection.

From a geopolitical perspective, the Taiwan-China conflict is impacting the stability of global trade policy. Rearmament, economic sanctions, and military exercises by China in the South China Sea continue to cause uncertainty and economic damage. Further militarization of China's foreign policy could escalate the trade dispute.

Following the substantial key interest rate hikes by the Federal Reserve and the European Central Bank in 2022 due to high inflation, the future course of monetary policy in 2023 is crucial to the onward development of the global economy. Given that inflation is now slowing, more moderate interest rate increases can be expected.

China's departure from its "zero Covid" strategy at the end of 2022 and increased travel to and from China might lead to a new, contagious viral mutation that could spread to the rest of the world. The magnitude of this risk is still not reliably quantifiable.

Some of the opportunities in our environment

Crisis-resistant developments such as the transformation of the metals industry to climate-neutral processes, urbanization and the electrification of the mobility sector present us with an opportunity to strengthen our market position in the long term. Producing over 3 billion tons of CO₂ emissions per year, the steel industry is under pressure to make investments to meet the Paris climate targets.

We are among the pioneers of green steel production. As part of our #turningmetalsgreen mission, we already supply a wide range of sustainable technologies along the entire process chain for manufacturing semi-finished metal products, both for greenfield projects and for expansions of existing plants. Working with strategic partners, we develop and promote the production of green hydrogen.

The carbon footprint of a conventional blast furnace can be reduced by 30 percent through the injection of hydrogen and other measures. The team at our Center of Excellence Metallurgy is currently working on a new furnace that can cut CO₂ emissions by up to 70 percent by injecting synthesis gases with the aid of plasma torches.

Our digital solutions, such as the Viridis energy platform, also help our customers to reduce their energy consumption in downstream processes. Alongside decarbonization solutions for the primary route, our recycling facilities also contribute to reducing the carbon footprint for steel production and, in some cases, enable the transition to a circular economy.

The localization and relocation of value chains opens up great sales potential for our efficient recycling solutions, especially in regions with few natural resources. The e-waste recycling plant for Aurubis and the battery recycling plant from our joint venture Primobius for Mercedes-Benz illustrate the sales potential of these technologies.

To continue opening up new, competitive procurement markets, we are systematically developing suppliers in North and South America (Mexico, Brazil), Asia (South Korea, Taiwan, Vietnam, India, Türkiye) and Europe (Southern and Eastern Europe). The systematic development of new suppliers entails a multi-stage process involving our global supply chain network. Besides costs, this takes quality and the ability to meet delivery deadlines into account.

Outlook

The International Monetary Fund forecasts moderate global economic growth of 2.7 percent for 2023. There is currently greater divergence between the growth forecasts of industrialized nations (1.1 percent) and those of emerging and developing countries (3.7 percent). In particular, economic growth in the euro zone (projected at 0.5 percent) is being impacted and significantly weakened by high energy prices. On the whole, however, growth forecasts for 2023 are subject to uncertainty and involve downside risks. In this context, the Russian foreign policy assumes particular importance. Further price shocks for energy and raw materials, a global tightening of financing conditions, the real estate crisis in China and a resurgence of the COVID-19 pandemic would each greatly influence the future state of the economy.

For the steel industry, global overcapacities are the core unresolved structural problem. Our sales markets will remain fiercely competitive in terms of prices.

Nevertheless, we continue to see great market potential in the transformation of the steel industry towards climate neutrality, as it is one of the largest CO₂ emitters and is facing major structural changes. One expression of this potential is H2 Green Steel's declaration of intent to build the world's first climate-neutral steel mill in Sweden at a cost of over 1 billion euros. This project marks the turning point towards carbon-neutral steel production. In addition, thyssenkrupp Steel awarded us a contract for a major decarbonization project involving a hydrogen-fueled direct reduction plant after the balance sheet date.

Despite economic and trade/geopolitical uncertainties, we have a positive outlook for the 2023 financial year. A high order intake in the past financial year 2022, the steadily growing interest in our decarbonization solutions, technical innovations at our Centers of Excellence and in our new business areas all present us with growth potential for the current year.

For the 2023 financial year, we therefore expect a significantly higher order intake compared with the previous year's level and a significant increase in sales, mainly resulting from the high order intake in the 2021 and 2022 financial years. EBT is set to improve significantly. With regard to net liquidity, we anticipate a slight rise due to expected advance payments and the degree of progress in ongoing projects. The number of employees should increase slightly in 2023 on account of the high order backlog.

Consolidated statement of financial position

€ thousand	Dec. 31, 2022	Dec. 31, 2021 restated retrospectively	Jan. 1, 2021 restated retrospectively
ASSETS			
Intangible assets	322,040	323,511	334,452
Property, plant and equipment	567,967	491,620	497,586
Investment property	523,000	523,900	505,467
Shares in unconsolidated affiliated companies	9,388	5,460	4,011
Shares in investments accounted for using the equity method	346,683	69,585	68,567
Other equity investments	47,999	45,114	38,980
Investment securities	132,363	145,652	155,048
Deferred tax assets	45,692	46,725	5,382
Other non-current assets	14,223	11,323	12,052
Non-current assets	2,009,355	1,662,890	1,621,546
Inventories not including short-term contract assets	307,789	237,873	180,020
Short-term contract assets	696,830	652,373	626,082
Inventories	1,004,619	890,246	806,102
Trade receivables not including short-term contract assets	556,756	520,385	453,464
Short-term contract assets	295,287	265,139	302,722
Trade receivables	852,043	785,524	756,186
Receivables from income taxes	20,156	21,915	18,216
Other current assets	204,702	142,417	217,042
Securities	32,737	276,014	277,464
Cash and cash equivalents	829,342	896,244	741,570
Current assets	2,943,599	3,012,360	2,816,580
Total assets	4,952,954	4,675,250	4,438,126

€ thousand	Dec. 31, 2022	Dec. 31, 2021 restated retrospectively	Jan. 1, 2021 restated retrospectively
LIABILITIES			
Issued capital	52,000	52,000	52,000
Capital reserves	499,264	499,264	499,264
Retained earnings	209,692	35,920	120,697
Income and expense recognized directly in equity	19,200	14,374	-13,698
Equity attributable to shareholders of SMS GmbH	780,156	601,558	658,263
Non-controlling interests	173,156	174,753	203,776
Equity	953,312	776,311	862,039
Non-current financial liabilities	191,153	111,103	65,771
Provisions for pensions and similar obligations	572,704	768,671	787,063
Deferred tax liabilities	220,724	202,533	179,196
Other non-current provisions	70,691	96,585	92,176
Other non-current liabilities	4,925	10,578	3,520
Non-current liabilities and provisions	1,060,197	1,189,470	1,127,726
Current financial liabilities	169,587	83,271	90,676
Trade payables	448,041	371,817	366,531
Liabilities from income taxes	33,766	21,814	18,602
Short-term contract liabilities	1,152,987	1,098,913	865,207
Other current provisions	925,971	957,380	957,304
Other current liabilities	209,093	176,274	150,042
Current liabilities and provisions	2,939,445	2,709,469	2,448,362
Total liabilities	4,952,954	4,675,250	4,438,126

Consolidated income statement

€ thousand	2022	2021 restated retrospectively
Revenue	3,138,867	2,558,568
Cost of sales	-2,572,025	-2,072,111
Gross profit	566,842	486,457
Selling costs	-314,177	-280,517
General administrative costs	-152,213	-134,481
Other income	165,600	98,952
Other expenses	-225,814	-148,317
Operating result	40,238	22,094
Result from investments accounted for using the equity method	-2,458	-869
Other net investment result	972	-9,563
Net investment result	-1,486	-10,432
Earnings before interest and taxes (EBIT)	38,752	11,662
Financial income	14,274	26,949
Financial expenses	-34,125	-23,497
Net financial result	-19,851	3,452
Earnings before taxes (EBT)	18,901	15,114
Income taxes	-51,883	-11,255
Net loss/net profit for the year	-32,982	3,859
Thereof attributable to:		
Shares attributable to shareholders of SMS GmbH	-33,517	-2,966
Non-controlling interests	535	6,825

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Managing Director of
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