

# CREATING PARTNERSHIPS

# Annual Report

## 2023

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# Lifecycle Partnership

## Integrated, lifecycle solutions

From a mechanical engineering pioneer to a provider of comprehensive service solutions: over the course of our company's 150-year history, we have evolved into a lifecycle partner. No matter what life stage our customers' equipment is in, our philosophy at SMS is to find the right solution for every conceivable challenge.

With a profound understanding of the metallurgical, mechanical, electrical, and digital demands of the industry, we offer our customers a range of services that is as diverse as their needs.

For our customers, we are not a partner for a given time period, but rather a partner for life.

## Mission Statement

SMS group is renowned worldwide for its future-oriented technologies and outstanding service for the metals industry. We apply our 150 years of experience and our digital know-how to provide the industry continuously with innovative products and processes that extend beyond our core business. We are the right partner for challenging projects and support our customers throughout the lifecycle of their equipment, enabling profitable and resource-efficient value chains. Paving the way for a carbon-neutral and sustainable metals industry is our stated goal.

## Managing Board (from left to right)

Thomas Hansmann **CTO**

Fabiola Fernandez **CFO**

Jochen Burg **Chair & CEO**

Katja Windt **CDO**

Michael Rzepczyk **COO**



# a Glance



## SMS group in figures (2023)

Order intake

5,044 million euros

Sales

3,431 million euros

Order backlog

6,938 million euros

Employees

> 14,400

# Integrated Solutions



## Project Excellence

We provide solutions for greenfield and brown-field projects that integrate mechatronic production systems with advanced service concepts.

- › Feasibility studies
- › Project management
- › Design and engineering
- › Manufacturing
- › Site management
- › Commissioning
- › Finance

Our customers' requirements are highly individual. From large, multi-billion greenfield projects to solutions for optimizing systems and to self-controlled plants based on artificial intelligence. No matter what our customers' needs are, we see ourselves as their long-term partner. Which is why we offer cyber-physical solutions to increase system performance over the entire lifecycle.

As a result, we have positioned ourselves as a provider of integrated, holistic solutions.



## Operational Intelligence

In order to offer our customers even better, customized solutions, we set up a new competence center called Solutions X this year. Solutions X combines the three previous competence centers Automation, Digital, and Service into one organization. This enables us to offer our customers a complete package that includes not only products, but also services and customized solutions. This strengthens our position in the market and creates benefits for our customers by addressing their needs with a holistic approach.

We supply smart, integrated services and optimization measures to help our customers focus on their core business while keeping their plants operating at their highest level of excellence.

- › Process know-how
- › Electrics
- › Automation
- › Digitalization
- › Technical services
- › Process optimization

# #turningmetalsgreen

Metals are indispensable for a large number of key industries. But in the fight against climate change, the metals industry must change. We are committed to creating a sustainable metals industry that approaches the neutrality frontier. That's what it means when we talk about #turningmetalsgreen. We are a key player in this historic transformation. We are focusing on the two key areas of **decarbonization** and **the circular economy**.

## Selected projects and technologies



H2 Green Steel, Sweden – The world's first 100% hydrogen-based steel plant



thyssenkrupp Steel, Germany – Decarbonization of Europe's largest steel site



EASyMelt – Transforming blast furnaces into low CO<sub>2</sub> operation



Hybar, USA – A minimill powered by the sun



Aurubis, USA – The first multimetal recycling plant in the US



Mercedes-Benz, Germany – Recycling plant for lithium-ion batteries

# SMS group worldwide

## Headquarters

Mönchengladbach, Germany  
CEO: Jochen Burg



## Americas

HQ: Pittsburgh, USA  
CEO: Doug Dunworth



**32 locations**

Region Americas

## Europe

HQ: Luxembourg  
CEO: Hubertus Jakobi



**47 locations**

Region Europe

## APAC & MEA

HQ: Gurugram, India  
CEO: Marco Asquini



**22 locations**

Region APAC & MEA

## China

HQ: Beijing  
CEO: Peter Langner



**10 locations**

Region China

Founded in 1871, we have grown from a small family business into a global player with a significant influence on the development of the metals industry. Crucial to this success story was the early orientation towards global markets, our focus on technology, and our adherence to the values of a family-owned company.

# Dear colleagues, dear business partners,

In addition to the ongoing war in Ukraine, last year also saw the outbreak of fighting in the Middle East and rising tensions in Asia. At the same time, we see emerging political uncertainty in Germany as well as in a few other European countries and the US. These crises are having an impact on our company through supply chain inflation, market downturns, and changing growth prospects.

On the other hand, the trend toward decarbonizing industrial value chains continues unabated. In particular, large-scale projects involving the direct reduction of iron ore are already well underway.

The 2023 financial year brought significant changes in the managing board at SMS group. The generational change at CEO and CFO level was completed, and there was a change of CTO too. The new management team can now focus on building on our achievements so far to realize the planned increase in earnings in the coming years.

In recent years, our organizational and process flow structure was fundamentally revised. For this, I would like to thank in particular Burkhard Dahmen and Torsten Heising, who have successfully completed the necessary restructuring together with the entire managing board.

The course for the next stage in the journey has now been set. Under the leadership of Jochen Burg, the goal is to increase profitability further in order to achieve a new and sustainable level of earning power.

What is needed is consistent cost and performance management, especially against the backdrop of global crises. During any strategic restructure, in particular, the focus on costs is usually not as sharp as it should be. We now need to make up for this by acting quickly and consistently.

In addition to increasing cost awareness at all management levels, the spotlight is on concentrating more intensely on integrated solutions for our customers. Thanks to our comprehensive digitalization strategy, our metallurgy, mechanical equipment, electrical and automation systems, and services units are growing more closely together at an even faster pace.

Generative AI is expected to make new business models ready for launch even earlier and provide a more intensive alignment with the needs of our customers.



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

This trend demands that we increasingly work together in flexible, highly networked competence teams.

By collaborating in networks, hierarchies can be transformed significantly, and possibly even be replaced. This requires an open and people-focused corporate culture that, despite all the changes taking place, conveys to each and every one of us a sense of belonging and an appreciation of our family business.

In times of upheaval, leadership means having clear goals and the ability to communicate and respond to worries and fears with a caring and considerate approach.

At the same time, it is important to show the way to a changing corporate landscape with its disruptive supply chains, complex projects, and state-of-the-art technologies and methods. Bringing highly profitable solutions to market can only be achieved with a team that is highly motivated at all corporate levels.

The changes made to our managing board mean that SMS group is ideally equipped for this transformation.

I would like to express my thanks to all of our colleagues around the world for the dedication and willingness to change they have demonstrated in 2023.

I would like to thank our business partners for their commitment and loyalty – we continue to be there for you, stronger than ever!

Yours,

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

# Dear business partners, dear friends of SMS,

We are starting a new chapter in the evolution of our company, which now looks back on an impressive history spanning more than 150 years. A chapter that takes us further towards the future and consolidates our position as a pioneer and leader in the metallurgical industry.

In May, we opened our company's new SMS Campus in Mönchengladbach and celebrated our move with our employees and their friends and families. The inspiring architecture also embodies the qualities that make our company: an innovative spirit, world-class quality standards, and a strong bond with our customers, partners, and employees. The new Campus is more than just a new place to work. For us, it underlines our determination to find the best solutions for our customers every time and to set the course for a sustainable future for our industry.



**Heinrich Weiss,**  
Board of Management of the Familie Weiss Foundation

I would like to take this opportunity to thank our employees for their dedication in making SMS the success that we are. It is your commitment that enables us to support our customers as a dependable partner, even in times of change. As we stand together and look ahead, we see a future that we are shaping with confidence, firm in the belief that SMS will continue to play a leading role in the development of efficient and sustainable technologies.

Thank you for the trust you have placed in us, and I look forward to continuing our successful collaboration.

Best regards,

**Heinrich Weiss,**  
Board of Management of the Familie Weiss Foundation

# A conversation with the Managing Board

**Jochen Burg, Fabíola Fernandez, both of you have been in your new roles as CEO and CFO respectively for a few months. How did the start go for you?**

**JOCHEN BURG** I am really grateful that we all worked together very harmoniously, constructively, and smoothly in the management team from day one. Our goal was to quickly define a common direction for the future of SMS and to set the course for improved profitability for the organization as a whole. Accordingly, the first few months were intensive.

**FABIOLA FERNANDEZ** As someone from outside the company, it was important for me to gain a good overview and a proper understanding not only of the many challenges but also of the enormous potential of our company. Last year, SMS celebrated its 150th anniversary with family celebrations around the world. At the beginning, this really helped me to engage with the employees and get a feeling for what makes SMS.

**How would you rate the 2023 financial year?**

**JOCHEN BURG** 2023 was a year of change and transition. We again increased our order intake, which stood at over five billion euros. The decarbonization project for thyssenkrupp Steel Europe made a considerable contribution to this. Sales were also nine percent higher than in 2022. We are well-positioned in all areas, and the numerous projects globally are now creating the conditions for improving our financial performance.

## What are the company's owners' expectations?

**JOCHEN BURG** The clear target is seven percent EBTA by 2027. This is the lower limit compared to other companies in our industry. To achieve this, we need to increase our profitability by at least 300 million euros by 2027.

**FABIOLA FERNANDEZ** We have put in place a performance and profitability program, without the need for any consultants or large project structure. It is the top management's duty to identify and implement the necessary measures. We in the managing board evaluate and discuss these measures – and ensure they are implemented.

**JOCHEN BURG** I would like to stress that this is not about reducing the workforce. We have highly qualified employees worldwide who we require for our projects. However, we need a change in mentality across the organization and a shift towards a consistent focus on performance and a stronger cost awareness in all our business activities.



## What levers do you have to enhance SMS' performance?

**FABIOLA FERNANDEZ** We have defined four areas. One area concerns our sales. The two key questions here are how we can increase our project margins and expand our service business. Another area of focus is project handling, where we need to respond more quickly and effectively to negative deviations. Thirdly, we are examining our structures and the investment portfolio: We plan to make the sales process more efficient as well as digitalize our processes and reduce the complexity of the company. At present, there are far too many companies operating under the umbrella of SMS group. We will integrate around 30 of them. This allows us to shorten reporting lines, reduce administration, and strengthen the SMS brand. The fourth area focuses on the product portfolio and technology development. We intend to withdraw less successful products and invest in new solutions that give us a competitive advantage.

## What role does the service business play for the profitability of SMS?

**JOCHEN BURG** Building plants and machinery continues to be the foundation of our business. Going forward, however, we want to bring our customer projects more consistently in line with our service business. A project should not come to an end when the plant is accepted by the customer. The acceptance must be the starting point for an even more intensive customer relationship. The interplay between our customized projects and direct services is what we call a lifecycle partnership. This enables us to offer our customers the greatest added value. At the same time, it is the key to achieving our performance goals.

**FABIOLA FERNANDEZ** To become more profitable, we need to turn the spotlight more on our service business, because it offers stable and sufficient margins. We are continuing to pursue our goal of achieving at least 50 percent of our turnover with services by 2030.

**JOCHEN BURG** At the beginning of the year, we pooled our expertise from Electrics and Automation, Technical Service, and SMS digital in a new "Solutions X" Center of Excellence. The process chains involved in the production of metals are very complex, and we want to offer our customers integrated solutions. Depending on the customer's requirements, these solutions can combine the necessary levers comprising mechanical equipment, automation, digitalization, and technical service. In other words, Solutions X creates packages of solutions for technical sales support in the regions and in product management.

## As new Chief Technology Officer, Thomas Hansmann has also been in charge of product development since last year. What are your expectations in terms of innovation?

**JOCHEN BURG** In the past, SMS has always identified the most innovative solutions, which in many cases have brought about a transformation in the metals industry. Our ongoing objective is to differentiate ourselves from the competition through our innovations. Key areas here are decarbonization, the circular economy, and digitalization. That being said, we need to make sure that our investments in these areas contribute to safeguarding our long-term profitability. Innovation only helps us if we can earn money with it.

## SMS has committed itself to making the metals industry more sustainable. Where does the company stand in its pursuit of this mission?

**JOCHEN BURG** #turningmetalsgreen is an important component of our strategy. The decarbonization of metal production processes is a burgeoning global market. Europe is currently at the forefront of this, but we are also noting huge interest in our solutions in North America, China, and India. Depending on the region, our customers have very different requirements. With our technology portfolio, we can present a cost-effective roadmap for every challenge.

### What does this look like exactly?

**JOCHEN BURG** We have market-leading reference projects for all steel production routes: for H2 Green Steel in Sweden, we are building the world's first steel plant based solely on hydrogen. For thyssenkrupp in Duisburg, we are implementing the world's first large-scale project involving the conversion of an integrated iron and steel plant to a production facility that uses hydrogen. In cooperation with Tata Steel in India, we are testing our EASyMelt transitional technology, which enables us to significantly reduce CO<sub>2</sub> emissions from the conventional blast furnace process too.





— **Fabiola Fernandez,**  
CFO of SMS group

## SMS supports its customers in achieving their sustainability goals. Where are you with SMS' sustainability goals?

**FABIOLA FERNANDEZ** Although the concept of ESG (environmental, social and governance) is relatively new, the roots of all three aspects run deep at SMS. Just recently, we carried out a greenhouse gas inventory for SMS and we are monitoring our progress. However, ESG does not stop at environmental responsibility. We also need to ensure our employees are healthy, satisfied, and supported by transparent corporate governance and environmentally and economically sustainable investments. The Global Diversity Committee, our Code of Conduct, and the whistleblower system are just some examples of our commitment to creating inclusive and ethical workplaces around the world.

## How do you see SMS' development over the long term?

**JOCHEN BURG** We want to continue our established tradition as a family-owned company. By this I mean value-based thinking and acting, always geared toward our customers' interests. The success factors with which we have always distinguished ourselves – corporate responsibility, confidence in our talented employees, continuous technological innovation, and a global perspective – remain unchanged. I also see our family structure as a competitive advantage, as our long-term orientation and reliability are vitally important, especially when it comes to major projects.

## Finally, looking at the current fiscal year: What is your strategy and what are your priorities in the coming months?

**JOCHEN BURG** In simple terms: the direction is right, but we need to move forward even faster. This year, we are taking a big step in the digital transformation of the company with the introduction of SAP S/4HANA. Our teams now manage their processes across nations and regions using a central platform, which makes us quicker and more efficient with better analytical capabilities. Moreover, we opened our new SMS Campus in Mönchengladbach in May, which again allows us to take networked cooperation to the next level.

**FABIOLA FERNANDEZ** We can look to the future with confidence. As well as improving performance, we are also prioritizing IT security. Cyber attacks on companies are increasing all the time. We must be prepared for this. Not only that, for me it is important to promote a safe and healthy corporate culture. The key to our success lies in our unique teams and our outstanding employees. We can only achieve the best results if we ensure a safe and healthy workplace. We are good in these areas, but not yet top notch. That is precisely what we intend to change.

# Partnerships with solutions for every challenge

**For our customers, the decision to build a plant is by nature always a long-term one. That is why at SMS, we see ourselves as a partner by their side – and we mean for the whole lifecycle of the equipment. At the same time, our service offerings always reflect our promise to help our customers progress and drive their business forward.**

Today, SMS looks back on more than 150 years of history. Our roots go as far back as the offshoots of the industrial revolution. Since then, the demands placed on our industry have steadily evolved. One thing, however, has always remained the same: We have consistently pursued the goal of being the best partner for our customers – in terms of technology, cost-effectiveness, and sustainability. Today, this means that we see plants as cyber-physical systems. Our plants are thus a network of mechanical, electronic, and software-related parts that are also designed as learning systems based on corresponding AI algorithms. The focus here is always on the target parameters the customer wants to achieve, such as output, costs, lead times, and product quality.

What's more, we round out our innovative plants and systems with customized services, thereby ensuring our customers' long-term success. We call this the "lifecycle partnership", a concept with which we redefine our focus with every individual customer project.

The metal production market is global and extremely diverse. As a result, we engage with customers who have a wide variety of wants and needs. These include long-established market leaders as well as start-ups who want to revolutionize the market with their vision and innovative power. Geographically, too, the field could hardly be more diversified: our partners are based in India, China, the US, Japan, Brazil, South Korea, Türkiye, and many other countries. They are therefore subject to a vast array of market requirements, political systems, and legal frameworks. All these factors directly influence our customers' needs and define what a reliable and profitable partnership means for them.



## The driving force of decarbonization

The biggest challenge of the 21st century is the fight against climate change. For the metals industry, this means no less than the transformation to sustainable and climate-conscious production. For this reason, we support our customers not only in becoming more efficient, but also more sustainable. Customers such as H2 Green Steel are taking up this task by unconditionally exploring all the technological possibilities of climate-neutral steel production in a new steel plant in the north of Sweden. Taking an equally consistent approach is thyssenkrupp Steel, albeit within the framework conditions of a site that has been in operation for decades. Here, the existing plant at the company's Duisburg headquarters will be converted to produce more climate-neutral steel in a project worth around two billion euros. In both cases, SMS's technology and expertise play a pivotal role in achieving the ambitious objectives of these lighthouse projects.



The above examples are impressive evidence of how technologically capable we already are to work with our customers to exploit a major proportion of the CO<sub>2</sub> savings potential in the steel industry. That being said, we are aware that switching to more climate-conscious technologies in one big step is not the right solution for all of our partners. This is where the concept of the lifecycle partnership reveals its strength – with integrated solutions that can be adapted to every conceivable situation and are capable of being expanded over the long term.

## From machine manufacturer to our customers' partner

The idea of the lifecycle partnership goes hand in hand with a significant change in the focus of our customer relationships. Looking back, SMS started as a machine manufacturer: equipment was installed in the customer's works, put into operation, and the customer's personnel were trained or instructed to ensure it was operated in the best possible way. Long investment cycles and high demands in terms of plant availability, productivity, and product quality have led to new customer requirements in recent decades. To remain aligned with this, SMS has continuously expanded its service business. For example, competence centers for automation technology were soon established. This



was followed by service workshops at strategically important locations, in order to ensure a rapid supply of spare parts and efficient conditioning of wear parts for our customers. SMS expanded its process expertise and, as a partner to its customers, became increasingly integrated into their production processes.

Over the past decade, digitalization has also become a key driver in our market. It enables us to optimize our customers' plants in a way that has never been seen before. Today, digital solutions from SMS can analyze, control, and improve almost every aspect of metal production on demand: From storage and product planning to quality management to optimizing energy consumption and emissions right through to predictive maintenance using artificial intelligence. The need for human intervention is decreasing all the time, because proven, highly advanced automation and digital applications enable the intelligent connectivity of all plant components. Digital systems also open up new

perspectives when it comes to training customers' operating personnel or contact partners.

With this comprehensive expertise in plant engineering, construction, service, and digitalization that has grown over decades, SMS today has unique prerequisites for supporting customers through the entire life-cycle of their equipment and offering them a comprehensive range of well-designed services. Ultimately, this means that we build and optimize the plants that our customers use to manufacture their products. At the same time, our customers can concentrate on their core business and metal production operations that directly create added value for them.



## Individual solutions for complex challenges

The spectrum of customers using our services ranges from medium-sized companies with highly specialized portfolios to global players that cover the entire value chain – from the extraction of raw materials to the finished product. In many cases, however, the challenges they face are similar: They work in a highly complex environment characterized by overcapacities, increased demands on delivery times and quality, volatile consumer and raw material markets, changes in the world of work, and the overarching topic of decarbonization. Our task is to design our services in such a way that we can offer each individual client a customized solution that makes them more successful.

What this means can be easily explained by looking at our projects for customers such as Hybar or H2GS. These companies and projects are organized like start-ups, pursuing a central business idea and looking to bring investors on board. Just one of the many tasks involved is finding a plant engineering supplier. Our service concept enables us to support these companies far beyond the delivery of their equipment. In addition, it is important to understand that the construction of a steel plant is not a process of slow, organic growth. When a business evolves into a large company within two or three years, it also requires all the ancillary facilities, infrastructure, and maintenance capacities, including qualified staff, which are often not yet in place. In manufacturing industries, however, these are essential, as shutdowns of any kind are extremely critical. This is where we take responsibility for our customers by offering attractive perspectives with a variety of services: from identifying project-related qualification requirements for their own personnel to building and operating the workshops and infrastructure on the customer's premises.

Integration risks are another important topic, especially with regard to modernization projects within existing facilities. If a new solution is poorly integrated into the system already in place, the cost of the integration process can quickly exceed the initial investment. Moreover, these additional costs can in many cases only be assessed during the integration process itself. In the worst-case scenario, the new process never attains its full economic potential, because the planned quality or quantity cannot be achieved due to poor integration. As a supplier who provides all solutions from a single source and uses digital twins to create a virtual, three-dimensional representation of all plants and equipment for test purposes, we can effectively reduce these risks and greatly accelerate the run-up curve after construction and during the first phase of production.

## Consistently supporting our customers

When the start-up phase of a plant is complete, the focus shifts more to providing ongoing support. This is where SMS offers comprehensive technology packages that combine digital platforms and services and thus enable the provision of holistic process support. This starts with production planning and extends beyond predictive condition monitoring, which with the Genius CM system also offers the possibility of continuously monitoring the condition of individual components, right up to quality monitoring and the predictive energy management system. In practice, this means that the warranty for the core plant components can be extended, as we can guarantee significantly longer component service lives.

Thanks to our close, global service network, we can also handle technical inspections, repairs, regular component overhauls, and minor revamps for entire plants for our customers, all under our own personal responsibility. If required, we even set up workshops for this directly on our customers' works premises. Using suitably designed contract models, we also support our customers in shifting from investment costs to operating costs and thus driving their plants and equipment into the profit zone much faster. We call these types of services, where we are heavily involved in our customers' processes, integrated performance services. Alongside technical aspects, we also offer commercially attractive framework conditions for this. We firmly believe that thanks to highly advanced digital tools, state-of-the-art equipment, and our many years of experience servicing our plants and equipment, we significantly outperform our competitors. The foundation of our combined capabilities is always the integrative interlinking of process-oriented, i.e., metallurgical, knowledge with our mechanical expertise and automation technology, together with our proven competence in the field of digital forecasting. Consequently, following an initial mutual trial phase, we can usually switch over to a remuneration model that is based on production volume or plant availability. This creates a win-win situation from which SMS group and our customers benefit equally.

The service business is very different in the case of established steel, aluminum, or copper producers, who have the best possible control over their production and maintenance processes. Here, our lifecycle partnership approach is more aimed at developing concepts that counteract the gradual aging of plants and the associated rise in quality issues during production. Another area of application here may be to present solutions to meet increasingly stringent environmental regulations. The starting point for this is to conduct a detailed analysis, something for which many of our customers have barely any capacity in their day-to-day business. Here, SMS can provide comprehensive know-how and the relevant personnel to reliably identify complex, multicausal relationships. Based on a thorough analysis, we create an integrated concept that includes measures for the entire plant, if necessary. Our specialists evaluate this concept together with the customer and, as well as modernizing components, also propose additional measures for ongoing operation, such as the implementation of a condition monitoring system or targeted inspections. Here, SMS does not necessarily have to be the supplier of the individual components. Rather, our objective is to be the preferred supplier



for product quality, plant availability, and productivity. Working in conjunction with our customers, we want to develop solutions and, in doing so, establish partnerships that extend over the entire lifecycle of the plant and equipment.



## From philosophy to reality

The lifecycle partnership concept not only represents a consistent reorientation in terms of the relationship with our customers.

The internal structure at SMS group must also contribute to this strategy if we want to fulfill our performance promises. In order to focus on solutions that cover all areas instead of individual technologies, we removed the historical division between the Electrics and Automation, SMS digital, and Technical Service units at the beginning of 2024. Today, more than 2,000 experts are grouped together in a new organizational unit called “Automation, Digital & Service Solutions” – or Solutions X for short. In doing this, we create the basis for an integrated, optimally networked, and consistently customer- and solution-oriented way of working across all teams. Interfaces are reduced, communication is simplified,

and efficiency is increased. Unique synergy effects are created between mechanical equipment, automation, digitalization, and services, which we can use for the benefit of our customers. This holistic approach allows us to identify and exploit optimization potential to increase or maintain the relevant performance parameters for each individual plant – from new plants through to comprehensive modernization measures, for product quality optimization or for decarbonization – in every phase of the lifecycle. In other words, we at SMS do not see ourselves as a partner for a specific time period, but rather as a partner for life.

# Family Days





## SMS celebrates 150 years as one big family

#150yearsofshapingthefuture – 2023 was a year for commemorating our 150th anniversary. For SMS, it was the perfect occasion to come together with friends and relatives to celebrate this special moment. The SMS family came together in over 36 family celebrations held around the world.





Brazil, Vietnam, and Hilchenbach were the first to kick off the festivities, followed by numerous other locations. The Family Days celebrations were rounded off in May this year with the opening ceremony for the SMS Campus in Mönchengladbach. We take a look back at a special year and some memorable moments.



Building, Hartmann Architekten BDA



# Projects around the world

**In recent months, SMS group has successfully booked new orders around the globe and implemented important projects. A selection of these is outlined below.**

## COMMISSIONING PROJECT IN THE USA

### Innovative continuous caster

Sustainable steel for renewable energies: Together with Nucor Steel Brandenburg, SMS has opened a new, super advanced steel plant in Brandenburg, Kentucky. This greenfield project comprises one of the world's largest single-strand continuous casters that boasts an annual production capacity of 1.45 million tons of slabs in various dimensions. Nucor's focus here is on manufacturing sustainable steel products, particularly for the renewable energies sector, such as Elcyon™ heavy plate for the off-shore wind industry. An on-site SMS repair and service center ensures that servicing and maintenance are offered on a long-term basis. This milestone further strengthens the partnership between Nucor and SMS, which already spans more than 35 years.

## PROJECT IN GERMANY

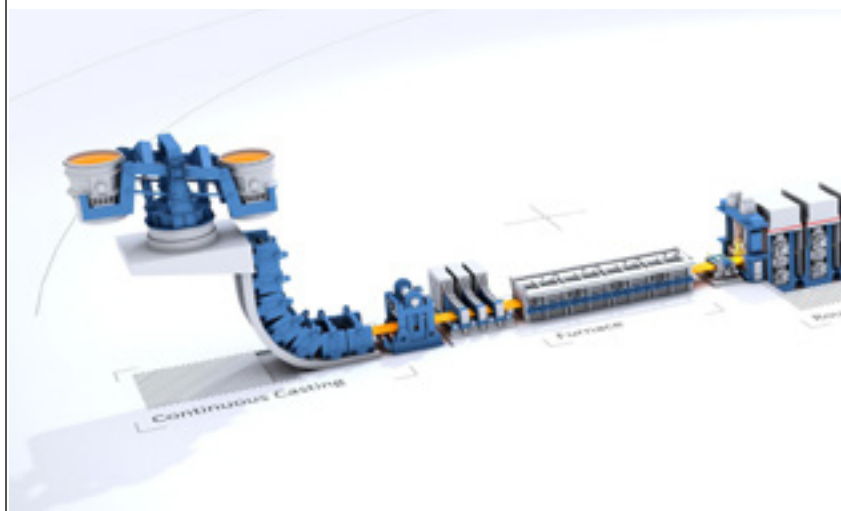
### Private 5G network for tomorrow's metallurgy

Highest data transmission rates for Industry 4.0: At its Hilchenbach site, SMS has set up a private 5G campus network for the purpose of exploring and developing real-time applications for the metallurgical industry. This network, built in cooperation with Mugler and Ericsson, provides a data rate of ten gigabits per second that enables transmission speeds ten times faster than conventional LTE networks, allowing equipment to operate more safely and flexibly with lower emissions. With funding support, SMS is banking on the benefits of 5G to meet the challenges of developing new materials and reducing energy consumption and emissions. The private 5G network opens up new approaches to solutions that are tested on an industrial scale and optimized for the global metallurgical industry.

## PROJECT LAUNCH IN THE USA

### Eco-friendly plate rolling mill

SMS is a proud partner in the implementation of the most advanced and eco-friendly plate mill at Nucor Steel in West Virginia. The groundbreaking ceremony marked a milestone in the history of West Virginia, creating over 800 permanent jobs in manufacturing and many others in the service sector. The innovative manufacturing process enables the production of sustainable steel plate with an extremely low carbon footprint. SMS is supplying crucial equipment for the works, including direct-current arc furnaces, ladle furnaces, and vacuum degassing facilities. The first heat is scheduled for Q1 2026.

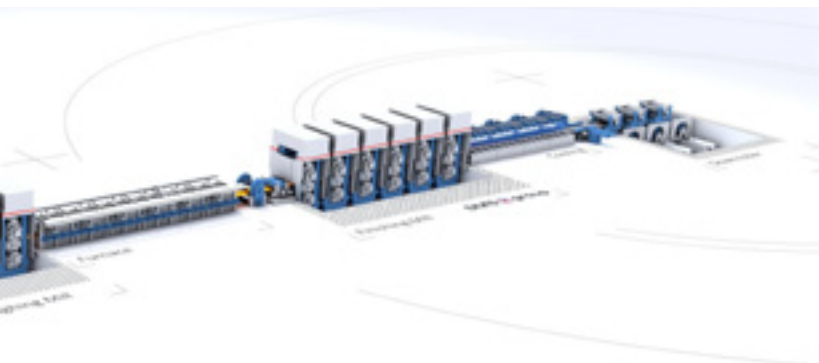


**COMMISSIONING PROJECT IN INDIA****High-performance hot strip mill**

SMS has successfully put the new high-performance hot strip mill into operation at Jindal Steel Odisha Ltd. (JSOL). Despite the challenges posed by the Covid-19 pandemic, the plant was erected in record time and is designed for an annual capacity of five million tons. Innovative rolling technologies allow a wide range of steel grades to be processed, including highly demanding variants. The plant sets new standards in terms of efficiency and environmental compatibility in steel production.

**ORDER IN INDIA****New standards in flat steel production**

With the CSP® Nexus plant for JSW STEEL (Dolvi Works), SMS is supplying a pioneering technology for flat steel production that sets new standards in productivity and flexibility. This plant is the third of its kind worldwide and boasts an annual capacity of four million tons, making it the most productive and powerful single-strand caster. Capable of producing both hot strip and plate up to a width of 2,600 millimeters on a single plant, the CSP® Nexus plant offers JSW unparalleled flexibility and opens up new market potential, especially for “green” plate. The scope of supply comprises a state-of-the-art single-strand continuous caster, roughing and finishing mills plus laminar cooling system and coiler, complemented by comprehensive automation technology and digital solutions including the SMS DataFactory, QES quality management system, and GeniusCM software. These digital tools help to optimize plant utilization and enhance overall performance. SMS will construct the plant at the Dolvi site on the west coast of the Indian state of Maharashtra and put it into operation in 2026.

**ORDER IN NORWAY****Synthetic fuels for the aviation industry**

Norsk e-Fuel has commissioned Paul Wurth, an SMS group company, to conduct a FEED study for the first e-fuel plant in Mosjøen, Norway. The plant will convert water and CO<sub>2</sub> into renewable synthetic fuels for the aviation industry, based on a technological solution from Axens and Paul Wurth. The innovative process design combines RWGS, Fischer-Tropsch, and upgrading units to achieve maximum e-kerosene production. With its electric heating system for the RWGS, Paul Wurth is going one step further to minimize energy consumption. The collaboration between Paul Wurth, SMS group, and Axens is complemented by the partnership with Sunfire and Climeworks to ensure technological leadership in e-fuel production.

**MODERNIZATION PROJECT IN INDONESIA****Partnership further strengthened**

It is just what a long-term partnership should be: PT Krakatau Steel awarded SMS the order to upgrade its hot strip mill no. 1 in Cilegon, Indonesia. The plant, originally erected by SMS in 1983, plays a central role in PT Krakatau Steel's production facility and is designed to produce 2.4 million tons per year. The order covers a state-of-the-art X-Pact® electrical and automation system, comprising level 1 and level 2 automation for the entire rolling mill. The X-Pact® Vision HMI is an advanced human-machine interface with integrated faceplate technology that enables seamless operator guidance and greater flexibility as regards maintenance. What's more, state-of-the-art mathematical level 2 models help to improve product quality.

## PROJECT IN TÜRKİYE

**Technology upgrade for greater stability**

SMS has successfully completed the technological upgrade of the hot strip complex at Çolakoğlu Metalurji in Kocaeli, Türkiye. The integrated strip control package, consisting of mechanical side guides and camera-based measuring systems, improves rolling stability and optimizes product quality. By implementing these measures, it was possible to reduce the number of unscheduled roll changes, enhance the strip surface, and lower maintenance costs and times. The installation of strip guides and center control is a game changer for Çolakoğlu Metalurji. The optimization of the rolling stability, coil structure, and strip flatness results in high-quality production and increased productivity. Thanks to the intensive preparations and cooperation, the upgrade was completed during regular shutdowns without any additional downtimes.



## START OF PRODUCTION IN CHINA

**First coil completed ahead of schedule**

Henan Yirui New Material Technology Co., Ltd. has rolled the first aluminum coil in its new hot rolling mill, equipped by SMS, two months ahead of schedule. The hot strip mill was extended to include three additional finishing stands featuring CVC® technology, aimed at achieving maximum strip quality. The mill can now produce strips in widths of up to 2,150 millimeters. The integration of used equipment into a state-of-the-art plant is an impressive example of the successful collaboration between Henan Yirui and SMS. The X-Pact® level 2 automation system guarantees efficient process control.

## ORDER IN SWEDEN

**Fossil fuel-free production by 2030**

Build one of the world's largest electric arc furnaces – that is the ambitious goal Scandinavian steelmaker SSAB has set itself. SMS has received an order to build a new 190-ton electric arc furnace at the Oxelösund site in Sweden, which will facilitate the decarbonization of steel production. The alternating-current arc furnace enables the use of direct-reduced iron and scrap. In this way, SSAB is pursuing its goal of producing almost emission-free steel grades; by around 2030, its manufacturing process will run entirely without fossil fuels. The plant will be equipped with advanced automation from SMS that includes X-Pact® SynReg and robotic applications. An X-Pact® Plug&Work test center can be used for advance testing and training for SSAB personnel. The project also includes a yard management system for efficient raw materials management, and an MES, which is currently being implemented. A digital twin will be employed for predictive maintenance.

## ORDER IN THE DOMINICAN REPUBLIC

**New rebar mill**

ECOACERO, part of the ESTRELLA Group, has placed an order with SMS to deliver a new rebar mill in the Dominican Republic. This plant will boast a production capacity of up to 400,000 tons of rebar per year and serve the growing construction industry in the region. The project, which is designed with sustainability in mind, will be realized in two phases. In the forthcoming phase, steelmaking will be integrated into the facility by constructing a steel mill with continuous caster, with scrap used as feedstock. The extensive scope of supplies and services from SMS comprises the engineering and design of the complete rebar mill as well as the supply of the mechanical and electrical equipment. The second phase consists of a highly efficient electric arc furnace (EAF), which features a more advanced burner and oxygen injection technology to reduce CO<sub>2</sub> emissions and operating costs. The plant is scheduled to go into service at the beginning of 2025.



#### PROJECT IN GERMANY

### Recycling plant for Mercedes-Benz

SMS subsidiary Primobius has officially received the order from Mercedes-Benz for a hydrometallurgical refinery facility (stage 2) for its lithium-ion battery recycling plant. This milestone rounds out Primobius' contractual agreements in connection with the construction of the pilot plant, which is currently being built on Mercedes-Benz's premises in Kuppenheim, Germany. Primobius is responsible for the engineering, equipment delivery, and installation of the fully integrated two-stage recycling plant with a capacity of 2,500 tons per year for Mercedes-Benz. Both parties also intend to undertake joint research and development activities. The hydrometallurgical refinery facility, which is the second stage in the process, is designed to attain the required capacity for processing the material produced in the upstream process.

#### COMMISSIONING PROJECT IN TÜRKİYE

### Digitalization of a blast furnace

SMS, in cooperation with Kardemir, Türkiye's oldest blast furnace operator, is demonstrating that artificial intelligence can also be used to achieve more sustainable production via the blast furnace route. The partners successfully completed the digitalization of blast furnace number 5 at the Karabük Iron and Steel Works. The introduction of BFXpert, a solution from Paul Wurth, now provides high-precision control of the thermal and chemical processes in the blast furnace. BFXpert utilizes artificial intelligence to optimize energy use and enhance the process, thus enabling Kardemir to take significant strides towards fully autonomous blast furnace operation. The integrated level 2 process control system combines comprehensive process know-how with Paul Wurth's many years of experience to master the complexity of blast furnace operation and to ensure sustainable and cost-effective production.



#### STRATEGIC PARTNERSHIP IN THE USA



### Revolution in cathode foil production

Lotte Aluminium Materials USA LLC is collaborating with SMS on the implementation of a suite of digital and logistics solutions to optimize its new production facility in Kentucky. The goal is to revolutionize the manufacture of cathode foils used in electric vehicle batteries. The package includes the DataFactory as well as the manufacturing execution system (MES) and quality execution system (QES) from SMS and can be easily integrated into third-party systems. It ensures automated job order execution and precise quality control. The solutions can be adapted to individual requirements and assist with remote production control. SMS group also provides ongoing support and servicing for trouble-free operation.

## ORDER IN GREECE

**Reducing the carbon footprint**

Enhancing operational efficiency – that is the mission behind the order ElvalHalcor S.A. has awarded to SMS. The aim is to improve energy management in the aluminum flat rolling mill in Greece using the Viridis Energy & Sustainability Suite. A further objective is to reduce the facility's carbon footprint at the same time. The Viridis Suite, consisting of the Viridis Performance and Viridis Grids modules, enables accurate modeling and monitoring of energy consumption. Automated machine learning techniques help to make consumption forecasts based on the production schedule. SMS relies on agile methods to adapt the implementation of the software to suit the operator's priorities and to produce quick and successful results. More than 70 plant components, including melting and preheating furnaces as well as hot and cold rolling mills, are integrated into Viridis Performance. ElvalHalcor is one of the world's leading manufacturers of flat-rolled aluminum, producing up to 450,000 tons per year.

## PROJECT IN GERMANY

**Greater efficiency with minimal crew levels**

SMS and Aktiengesellschaft der Dillinger Hüttenwerke have signed a cooperation agreement to enhance blast furnace charging and process control with digital modeling and logistics solutions. The use of the raw material tracker, which is based on the BFXpert software, enables advanced raw material tracking and helps to optimize furnace burden distribution. The digital models in the raw material tracker monitor the material conveying process and assist in making predictive problem analyses and identifying inefficiencies. Dillinger benefits from improved furnace bin control with minimal crew levels and is able to produce up to 10,000 tons of hot metal every day. The models help to avoid peak loads and improve handling on the conveyor belts by preventing the unwanted discharge of bulk material.



## MEMORANDUM OF UNDERSTANDING IN INDIA

**Contribution to compliance with national climate targets**

SMS and Steel Authority of India Limited (SAIL) have signed a memorandum of understanding to decarbonize steel production in India and thus contribute to achieving national climate targets. The collaboration includes SMS's technological expertise in the fields of design, engineering, and supply, with the aim of supporting SAIL in the sustainable modernization of its works. This cooperation is an important step in implementing India's ambitious strategy to achieve net zero emissions by 2070 and promotes innovation and sustainability in the steel industry.

## PROJECT IN BRAZIL

**Memorandum of understanding for green hydrogen**

Eletrobras and SMS company Paul Wurth have signed a memorandum of understanding to jointly produce green hydrogen in Brazil and use it for industrial processes. A ten-megawatt plant is being built in the immediate vicinity of a steel plant and is designed to produce green hydrogen and oxygen as well as to develop the potential for decarbonizing industrial processes. The partnership combines Eletrobras' expertise in renewable energy with SMS's many years of experience in the metals industry. This initiative is part of the commitment of both companies to promoting sustainability and developing green solutions.

**ORDER IN SWITZERLAND****A milestone in green steel production**

Swiss Steel Group is pushing ahead with its sustainability initiatives and has commissioned SMS to implement Viridis Carbon software in its Steeltec plant in Emmenbrücke, Switzerland. This step marks an important milestone in the realization of green steel production. Using the Viridis Carbon module in the Viridis Energy and Sustainability Suite, emissions from the facilities can be monitored almost in real time. The software uses robust computational models to continuously calculate the carbon footprint generated during production, which provides a transparent representation of the environmental impact of each individual product. In addition to licensing and implementing the software, the agreement covers cloud services as well as support and servicing, including user support and regular updates. The partnership between SMS and Swiss Steel Group is an example of the joint commitment to sustainable and environmentally responsible production processes in the steel industry.

**ORDER IN FRANCE****Special-purpose applications for aviation**

In mid-January this year, Aubert & Duval placed an order with SMS for a hydraulic closed-die forging press for its Pamiers site in Ariège, France. The contract is at the heart of the company's vision to make Aubert & Duval a leader in European metallurgy, particularly in the fields of aerospace, energy, and defense, and to deliver products for the next generation of aircraft. The hydraulic closed-die forging press in the four-column design to be supplied by SMS has a press force of 60 MN. Looking ahead, this will enable Aubert & Duval to manufacture particularly precise forgings such as turbine blades, shafts, and structural parts. The press is scheduled to go into operation in 2027 and will replace an older Schloemann closed-die forging press supplied by SMS, which was built in 1932. The new plant contributes to achieving Aubert & Duval's decarbonization targets, as it operates in a far more energy-efficient way than the old facility.

**AGREEMENT IN INDIA****Collaboration with EASyMelt technology**

Innovative technology for lower emissions: SMS and steel giant Tata Steel have joined forces to demonstrate the capability of SMS's EASyMelt technology to significantly reduce CO<sub>2</sub> emissions in Tata Steel's blast furnace E at its Jamshedpur site in India. The collaborative project aims to reduce CO<sub>2</sub> emissions by more than 50 percent compared to conventional blast furnace operation. EASyMelt is an advanced metallurgical solution that utilizes recycled blast furnace gas to generate synthesis gas, which is then used to reduce process emissions.



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# Our business in 2023

## General principles

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.

SMS group focuses on its core business, metallurgical plant engineering, which is divided into the new plants and services business. The core business is complemented by industrial holdings serving adjacent business areas.

Comprehensive plant and service solutions covering the entire metallurgical process chain lie at the heart of our core business. The field of metallurgical plant engineering is organized into seven Centers of Excellence (CoEs), which supply specialized services and technologies to our customers worldwide. These CoEs comprise metallurgy and environmental technology, including technologies for blast furnaces and direct reduction plants, solutions for flat and long products, forging technology, electrical and automation systems, digital innovations from SMS digital, the Technical Service unit, and the inter-divisional functions Implementation and Supply Chain Management. In order to ensure a customer-focused setup and optimized project implementation, responsibility for results and projects is shared by six regional units: the Americas, China, CIS/Russia, Europe, India & Asia Pacific, as well as Italy, Middle East and Africa. This structure enables us to serve our international customers effectively and to provide solutions that are precisely tailored to their needs.

The industrial equity investments include elexis Group and a number of other companies. They complement our core business with activities including manufacturing automation, drive technology, and quality control.

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 2023 financial year, a total of 84 fully consolidated companies in 21 countries belonged to SMS group (previous year: 88 fully consolidated companies in 21 countries). In the 2023 reporting year, CTI Systems S.à.r.l., including its subsidiaries, was sold.

SMS group plays a leading role in the transformation of the metals industry (#turningmetalsgreen). SMS group

offers technologies and decarbonization solutions along the entire process chain for reducing the industry's carbon footprint. For the primary route (blast furnaces), we provide decarbonization solutions to produce metals using green hydrogen as well as digital solutions for downstream energy savings. For the secondary route (electric arc furnaces), we are working on a variety of customer and development projects to improve recycling rates.

By pursuing new business areas, product innovations, and a digitalization offensive, SMS group is able to increase its profitability in the future. Besides driving innovation in the metals industry, SMS group seeks to apply its expertise to other industrial sectors. Flexible service offerings and digitalization services combined with product innovations allow us to complement our core business with performance-based business models (equipment-as-a-service).

In addition, SMS group holds 59.19% of the shares in Luxembourg-based Paul Wurth Real Estate S.A., which owns an investment property.

## Research and development

In 2023, our company invested a total of 151 million euros in the further development and improvement of our products, compared with 129 million euros in the previous year. This corresponds to an investment of 4.4% of our net sales in development work, compared to 4.1% in the previous year. This increase underlines our continued commitment to innovation and the ongoing optimization of our product portfolio.

Our development activities focus on initiatives and measures that can be grouped under the motto we call #turningmetalsgreen. The development of new solutions and technologies to meet climate targets and to achieve our customers' goal of net zero CO<sub>2</sub> emissions is the challenge facing SMS group that can enable us to play a significant role in transforming the global steel and non-ferrous metals industry. In this context, it is important to highlight the two major European decarbonization projects at thyssenkrupp Steel Europe (tkSE) and H2 Green Steel (H2GS), on which we are currently working. Moreover, by setting up an innovation hub at SMS group, we are pushing ahead with strategically

relevant technologies to bring them to market maturity systematically and as quickly as possible and to support the steel and non-ferrous metals industry in its transition to climate neutrality.

When it comes to further developments in process metallurgy, the integration of artificial intelligence (AI) tools is a new and challenging technology. As part of our long-term digitalization strategy, AI tools are used within our organization to optimize development processes and are also integrated into our customers' plants.

## Sector-specific conditions

Following a sharp rise in energy and raw material prices for steel production in the previous year, prices normalized again in the course of 2023, although they are still slightly above the level before the outbreak of the Ukraine war. The prices for crude oil, gas, and important alloying elements such as nickel have dropped significantly since the beginning of the year and have stabilized over recent months. This does not include prices for iron ore, which are still high and rose again toward the end of the year. This trend is being followed by the price of steel, which in the last quarter of 2023 went up by 60% in the US, among other countries.

Compared with the previous year, worldwide crude steel production stagnated at around 1.9 billion tons. This is because there was only a slight recovery in demand due to inflation, supply chain disruptions, and the real estate crisis in China. After the slump in 2021 and 2022, the demand for steel in China slightly recovered and rose in 2023 by 2.0% compared with the previous year. Demand for steel also rose again in the remaining emerging and developing countries (+4.1%). Among the industrialized nations, growth in global demand for steel (+1.8%) slowed down in 2023, particularly in European Union countries (-5.1%).

By contrast, installed crude steel capacity was up for the fifth year in succession, growing 1.3% to 2.72 billion tons. Due to stagnating production volumes, worldwide overcapacity continued to rise to over 30.3% (previous year: 29.7%).

Driven by stable demand and lower energy prices, worldwide production of primary aluminum rose for the first time to more than 70 million tons. The production slump in Western and Central Europe (-6.9%) was offset by an increase in production in North America (+4.1%) and China (+3.1%). This means that more than half of global production capacity is concentrated in China.

## The year in figures

For the third time in the company's history, and following the boom experienced in China in 2007 and 2008, an order intake volume of more than five billion euros was achieved in the 2023 fiscal year. Western Europe, in particular, contributed to the positive development thanks to the contract awarded for a major decarbonization project. Our customers took advantage of state subsidies to invest in projects promoting more climate-friendly and lower-emission technologies. Against this backdrop, one such project is the order from thyssenkrupp Steel Europe, which has a total value of more than 1.8 billion euros. Included in this major order are a direct reduction plant, two innovative melting units, and the pertaining ancillary facilities for the Duisburg site in Germany. Through this and other planned decarbonization projects, we are playing a vital role in shaping the transition to green steel production in Europe. On the North American continent, we are also part of the steady growth in worldwide aluminum production. Here, too, we are making an important contribution to sustainable production, as our plans allow the use of recycled aluminum scrap as feedstock.

However, the quality of our result was not on par with the continued positive development as regards volume. Due to higher costs incurred during the execution of long-term customer projects as well as a change of -61 million euros in the fair value of the property held as a financial investment, no significant improvement in profitability could be achieved. In addition, the positive effect on deferred tax assets due to a lower write-down on loss carryforwards could only partially compensate for the effects described above.

On October 1, 2023, we made a strategic generational change at the top level of management. Burkhard Dahmen handed over the position of CEO and Chairman of the SMS Managing Board to Jochen Burg, and Torsten Heising's position as CFO was assumed by Fabiola Fernandez on January 1, 2024.

Our key performance indicators are:

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

These developed as described follows:

## Order intake

In the 2023 financial year, SMS group's order intake volume saw a further increase and, at 5,044 million euros, exceeded the five billion euro threshold (previous year: 4,612 million euros). This corresponds to a growth figure of 9.4% compared with the previous year. This result was mainly due to the major order for thyssenkrupp Steel Europe, which with a volume of around 1.8 billion euros constitutes the largest order intake in our company's history to date. Consequently, we were able to achieve our forecast target with a significantly higher order intake level compared to the previous year.

In the metallurgical plant and equipment business, we attained a volume of 3,678 million euros (previous year: 3,090 million euros). This equates to a substantial increase of 19.0%. This essentially reflects the steadily rising demand for investments in plant efficiency enhancements and in decarbonization solutions.

At 960 million euros, order intake in the services business remained at the preceding year's high level (previous year: 960 million euros). This is due to continued high demand for offerings from our Services unit.

There was a decline in business activities in the area of industrial equity investments. In 2023, order intake dropped to 430 million euros (previous year: 587 million euros). The previous fiscal year 2022 was driven mainly by higher demand for aluminum products in Europe, a trend that was not repeated in 2023.

Geographically, SMS group's order intake in 2023 was broken down as follows:

Western Europe	53.2%	(previous year 19.5%)
North America	18.7%	(previous year: 35.7%)
India	9.5%	(previous year: 24.4%)
MENA	5.8%	(previous year: 4.5%)
Latin Amerika	4.3%	(previous year: 3.8%)
China	4.1%	(previous year: 6.3%)
Rest of Asia	3.5%	(previous year: 8.9%)
Eastern Europe	0.6%	(previous year: -3.8%)
Africa	0.3%	(previous year: 0.8%)

## Sales revenue

Sales amounting to 3,431 million euros in the 2023 financial year were up 292 million euros (previous year: 3,139 million euros, +9.3%). We regard this as confirmation of our forecast of a significant improvement in sales.

In the metallurgical plant business, sales rose from 1,857 million euros in 2022 to 2,031 million euros in 2023. Our services business also saw similar growth. Sales here were up from 880 million euros to 925 million euros. At 499 million euros, sales from industrial equity investments also developed positively, following the upturn in order intake in 2022 (previous year: 420 million euros).

Geographically, SMS group's sales in 2023 were broken down as follows:

North America	30.0%	(previous year: 26.4%)
Western Europe	24.9%	(previous year: 22.7%)
India	14.1%	(previous year: 9.7%)
China	9.8%	(previous year: 13.5%)
MENA	8.3%	(previous year: 7.0%)
Latin America	5.2%	(previous year: 8.6%)
Rest of Asia	5.1%	(previous year: 6.0%)
Eastern Europe	1.8%	(previous year: 4.8%)
Africa	0.8%	(previous year: 1.3%)

Compared to the previous year, there was a change in income taxes of 80 million euros, with tax income standing at 28 million euros. In particular, this change stems from the increase in the deferred tax result. Expenditure of seven million euros was recorded in the previous year, whereas deferred tax income of 63 million euros was generated in the year under review. This is mainly attributable to higher deferred tax assets on loss carry-forwards.

## Earnings before taxes (EBT)

Earnings before taxes (EBT) were negative in the 2023 fiscal year and amounted to -20 million euros (previous year: +19 million euros). This downturn is mainly due to the change in the fair value (-61 million euros) of the investment property of Paul Wurth Real Estate S.A. In addition, higher expenses in the field of technical development and higher sales and administration costs had a negative effect on earnings. Consequently, we were not able to achieve our forecast of a significant improvement in earnings before taxes.

## Net liquidity

Net liquidity as at December 31, 2023 (derivation below the consolidated cash flow statement) improved significantly compared to the previous year (501 million euros) and amounts to 906 million euros. Cash and cash equivalents rose from 829 million euros to 1,193 million euros, while current-asset securities of 33 million euros were at the same level as the previous year. Short- and long-term financial liabilities decreased by 41 million euros to 320 million euros. The development of our net liquidity was clearly more positive than forecast.

## Employees

The average number of employees at SMS group in 2023 was 14,474<sup>1</sup> (previous year: 14,421). Consequently, the number of employees remained almost at the same level as the previous year (+53 employees / +0.4 %). With an annual average number of employees of 5,742 in Germany (previous year: 5,629), we were able to place a specific focus on the recruitment of skilled and specialist staff. This mainly related to SMS group GmbH for processing the high order backlog and to the elaxis Group. By contrast, the number of employees abroad fell slightly from 8,792 to 8,732. We see confirmation of a slight increase in personnel, as per last year's forecast.

## Some of the risks and opportunities in our environment

In addition to the outbreak of war in Ukraine in 2022, the global security situation has worsened further due to the Israel/Gaza conflict and the continuing threat of escalation between China and Taiwan. In particular, the Israel/Gaza conflict is threatening to intensify and could lead to major regional conflicts with other parties involved in the Middle East.

The economic consequences of these conflicts were reflected in an aggravation of global logistics and procurement processes and may lead to a tense supply situation for raw materials and components in some sectors as well as to energy supply bottlenecks.

Sanctions and export control regulations in connection with the war in Ukraine continue to be updated and implemented on an ongoing basis. SMS group has decided to abandon its business in Russia. The cessation of business activities and the winding-up of our companies in Russia is being overseen by a local Russian management team, which acts independently on site and is cut off from our technical know-how. This decision reflects our clear commitment to international laws and regulations and to our contribution to a responsible global economic community.

The ongoing war in Ukraine, high interest rates, and global overcapacity in steel production are clouding prospects in the metals industry. Now that the war in Ukraine has developed into long-term trench warfare, a further loss of business on the Russian market is to be expected. Moreover, the high interest rate designed to combat inflation makes it difficult to finance large-scale projects.

Thanks to crisis-resistant trends such as the decarbonization of the steel industry or alternative drive systems in the mobility sector, companies are in a position to buck the current economic trend and tap into new sales markets. With global emissions of more than 3,200 million tons of CO<sub>2</sub> equivalent, the steel industry is one of the largest emitters of CO<sub>2</sub> in 2023. With our #turningmetalsgreen strategy, we are supporting the steel industry with the development of alternative technologies as part of large-scale projects.

In addition to global megatrends, SMS group can also directly participate in regional trends thanks to its international positioning. The technologies for individual projects in the SMS Regions are provided by our Centers of Excellence operating around the globe, which enables both a focus on individual customers and a certain degree of scalability.

SMS group purchases various types of materials, such as raw materials, consumables, supplies, components, other input materials, and services, to manufacture its products. Procurement costs, which continued to rise to different degrees across the regions in 2023, in particular due to the increase in energy and raw material prices and high wage agreements, represent a sustained procurement risk for SMS group.

<sup>1</sup> Annual average, including trainees

Despite the ongoing war in Ukraine and the Middle East conflict, 2023 saw a successive decline in the risks arising from volatility in material, energy and logistics costs as well as disruptions in supply chains (e.g., reduced parts and material availability for electronic components). In addition, the increased availability of individual energy sources (e.g., gas) and the shift away from the zero-COVID policy in China led to a normalization of the situation on the procurement markets and thus to a reduction in the global procurement risk.

However, economic uncertainties and geopolitical tensions are likely to lead to a further market shakeup 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 work to 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, including regionally, awarding contracts on the basis of total cost analyses and risk assessments, as well as making thorough efforts to ensure deadlines are met during execution. In addition, risks were further minimized by the continuous utilization and ongoing development of proprietary production capacities across the global production network.

To continue opening up new, competitive procurement markets in the future, we are 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 multistage process involving the global supply chain network. Besides procurement costs, this takes into account quality and the ability to meet delivery deadlines.

The avoidance of procurement risks resulting from human rights and environmental due diligence obligations covering SMS group's supply chains is ensured by complying with all legal requirements of the German Act on Corporate Due Diligence Obligations in Supply Chains (LkSG).

Last year saw other risks in the form of a consistently high threat of cyber crime. For the third time in a row, the financial damage caused by cyber attacks in Germany alone amounted to more than 200 billion euros. SMS group is also persistently faced with such attacks. For example, around 14 million e-mails are blocked every month. This corresponds to approximately 94 percent of all incoming e-mails. That is why IT security is one of our top priorities. Accordingly, our security standards are regularly reviewed and updated.

Moreover, artificial intelligence-related information technology also presents us with opportunities for the in-house digitalization of our corporate group. Machine learning is being integrated into more and more plants and applications, meaning it is able to contribute to improved response times, shorter downtimes and, consequently, increased productivity. Nevertheless, the San Francisco-based Center for AI Safety has warned of the risk of misinformation increasingly spreading through the use of AI tools.

Depending on how inflation rates continue to develop, the central banks plan to make targeted key interest rate adjustments as and when required. A consequence of the ECB's restrictive monetary policy is that key euro-zone countries may slip into recession. Similarly, the stubbornly high inflation and relatively high interest rates pose the risk of a global economic downturn. As a result, the central banks have already signaled that there could be room for the first rate cuts in 2024. One factor behind this assessment is that key interest rates remained unchanged in the latest interest rate decision rounds.

## Outlook

The International Monetary Fund forecasts moderate global economic growth of 2.9% for 2024. The growth forecasts of industrialized nations (+1.4%) and emerging and developing countries (+4.0%) continue to diverge considerably – as in the previous year's forecast – but are associated with risks of a downturn. Further energy price shocks caused by the potential spread of the Middle East conflict and China's weakening economy are impacting global economic growth. In addition, there is a risk of a sustained wage-price spiral due to high wage agreements resulting from high inflation. Likewise, it remains to be seen how the wars in Ukraine and Israel/Gaza will develop.

The structural core problem of the steel industry continues to exist in the form of high overcapacities worldwide, which intensified again in 2023. Due to the high competitive pressure, our sales markets will remain subject to fierce competition. This can be attributed in particular to the fact that the Russian sales market is closed to multinational companies and therefore alternative sales markets need to be opened up.

However, we continue to see great market potential in the transformation of the steel industry towards climate neutrality, as it is one of the world's biggest CO<sub>2</sub> emitters and is facing major structural changes. In Europe in particular, major decarbonization projects are supported by national investment grants or European subsidies. One example of this is the decarbonization contract awarded by thyssenkrupp Steel Europe in 2023 and the memorandum of understanding for the construction of a CO<sub>2</sub>-neutral steel plant in Sweden in 2024.

Despite economic, trade, and geopolitical uncertainties, SMS group has a positive outlook for the 2024 financial year. A high order intake in 2023, a large order backlog, the steadily growing interest in our decarbonization solutions, and technical innovations at our Centers of Excellence and in our new business areas all present SMS group with growth and profit-making potential for the current year 2024.

In addition to its large-scale projects, SMS group is continuing to drive growth in the new Center of Excellence

Solutions X. In Europe, for example, we have concluded a multi-year service agreement with H2GS for integrated operating services for the entire lifecycle of its plant as well as full plant automation.

For the 2024 fiscal year, we expect a slight drop in order intake compared to the previous year's level. On the other hand, we expect a further positive development in terms of sales. Due to the high order intake in the last three financial years, our sales level will grow significantly in 2024. We also expect a substantial improvement in consolidated earnings before taxes (EBT). We see net liquidity remaining at the 2023 level. The number of employees will increase slightly in 2024 due to the high project and work loads and the skilled personnel required for this.

# Consolidated statement of financial position

€ thousand	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021
<b>ASSETS</b>			
Intangible assets	319,289	322,040	323,511
Tangible assets	643,439	567,967	491,620
Investment property	462,000	523,000	523,900
Other non-current financial assets	529,233	536,433	
Deferred tax assets	168,265	45,692	46,725
Other non-current assets	29,182	14,223	11,323
<b>Non-current assets</b>	<b>2,151,408</b>	<b>2,009,355</b>	<b>1,662,890</b>
Inventories not including short-term contract assets	246,058	307,789	237,873
Short-term contract assets	751,407	696,830	652,373
<b>Inventories</b>	<b>997,465</b>	<b>1,004,619</b>	<b>890,246</b>
Trade receivables not including short-term contract assets	593,252	556,756	520,385
Short-term contract assets	124,044	295,287	265,139
<b>Trade receivables</b>	<b>717,296</b>	<b>852,043</b>	<b>785,524</b>
Receivables from income taxes	32,412	20,156	21,915
Other short-term (current) assets	201,711	204,702	142,417
Securities	33,112	32,737	276,014
Cash and cash equivalents	1,192,744	829,342	896,244
<b>Short-term assets</b>	<b>3,174,740</b>	<b>2,943,599</b>	<b>3,012,360</b>
<b>Total assets</b>	<b>5,326,148</b>	<b>4,952,954</b>	<b>4,675,250</b>

€ thousand	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021
<b>LIABILITIES</b>			
Subscribed capital	52,000	52,000	52,000
Additional paid-in capital	499,264	499,264	499,264
Revenue reserves/retained earnings	263,852	209,692	35,920
Income and expenses recognized directly in equity	2,672	19,200	14,374
<b>Equity attributable to shareholders of SMS GmbH</b>	<b>817,788</b>	<b>780,156</b>	<b>601,558</b>
Non-controlling interests	154,705	173,156	174,753
<b>Equity</b>	<b>972,493</b>	<b>953,312</b>	<b>776,311</b>
Non-current financial liabilities	164,167	191,153	111,103
Provisions for pensions and similar obligations	561,421	572,704	768,671
Deferred tax liabilities	275,246	220,724	202,533
Other non-current provisions	52,268	70,691	96,585
Other non-current liabilities	2,638	4,925	10,578
<b>Non-current liabilities and provisions</b>	<b>1,055,740</b>	<b>1,060,197</b>	<b>1,189,470</b>
Current financial liabilities	155,753	169,587	83,271
Trade payables	548,970	448,041	371,817
Liabilities from income taxes	44,343	33,766	21,814
Short-term contract liabilities	1,540,796	1,152,987	1,098,913
Other short-term provisions	816,650	925,971	957,380
Other current liabilities	191,403	209,093	176,274
<b>Current liabilities and provisions</b>	<b>3,297,915</b>	<b>2,939,445</b>	<b>2,709,469</b>
<b>Total liabilities</b>	<b>5,326,148</b>	<b>4,952,954</b>	<b>4,675,250</b>

# Consolidated income statement

€ thousand	2023	2022
<b>Sales revenue</b>	<b>3,431,292</b>	<b>3,138,867</b>
Total cost of sales	-2,759,864	-2,572,025
<b>Gross profit</b>	<b>671,428</b>	<b>566,842</b>
Cost of sales	-341,211	-314,177
General administrative costs	-156,938	-152,213
Other income	75,747	165,600
Other expenses	-255,706	-225,814
<b>Operating result</b>	<b>-6,680</b>	<b>40,238</b>
Result from investments accounted for using the equity method	-3,241	-2,458
Other income from investments	-6,333	972
<b>Income from investments</b>	<b>-9,574</b>	<b>-1,486</b>
<b>Earnings before interest and taxes (EBIT)<sup>1</sup></b>	<b>-16,254</b>	<b>38,752</b>
Financial income	36,404	14,274
Financial expenses	-39,757	-34,125
<b>Net financial result</b>	<b>-3,353</b>	<b>-19,851</b>
<b>Earnings before taxes (EBT)<sup>1</sup></b>	<b>-19,607</b>	<b>18,901</b>
Income taxes	28,349	-51,883
<b>Net income/net loss</b>	<b>8,742</b>	<b>-32,982</b>
Thereof attributable to		
Shares attributable to shareholders of SMS GmbH	25,941	-33,517
Non-controlling interests	-17,199	535

<sup>1</sup> Adjusted for expenses from impairment of fair value of land in Luxembourg (IAS 40)

— Adjusted other expenses	-193,690
— Adjusted operating result	55,336
— Adjusted earnings before interest and taxes (EBIT)	45,762
— Adjusted earnings before taxes (EBT)	42,409

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# Supervisory Board of SMS GmbH

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