H1

Interim Report
1st Half 2017

SALZGITTER AG
Stahl und Technologie

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Salzgitter Group Figures

		H1 2017	H1 2016[1]	+/–
Crude steel production	**kt**	**3,415.3**	**3,506.1**	**–90.8**
External sales	**€ m**	**4,616.2**	**3,967.5**	**648.6**
Strip Steel Business Unit	€ m	1,102.2	937.0	165.2
Plate / Section Steel Business Unit	€ m	537.6	366.6	171.0
Mannesmann Business Unit	€ m	569.3	502.5	66.8
Trading Business Unit	€ m	1,675.7	1,425.5	250.2
Technology Business Unit	€ m	630.1	641.7	–11.6
Industrial Participations / Consolidation	€ m	101.2	94.1	7.1
EBIT before depreciation and amortization (EBITDA)	**€ m**	**311.3**	**224.1**	**87.2**
Earnings before interest and taxes (EBIT)	**€ m**	**141.7**	**51.8**	**89.9**
Earnings before taxes (EBT)	**€ m**	**100.2**	**16.1**	**84.2**
Strip Steel Business Unit	€ m	94.2	–37.3	131.4
Plate / Section Steel Business Unit	€ m	5.7	–17.0	22.7
Mannesmann Business Unit	€ m	–2.7	9.4	–12.1
Trading Business Unit	€ m	34.6	16.5	18.1
Technology Business Unit	€ m	13.6	12.6	1.0
Industrial Participations / Consolidation	€ m	–45.1	31.8	–76.9
Consolidated net income/loss	**€ m**	**64.7**	**9.3**	**55.3**
Earnings per share – basic	**€**	**1.14**	**0.13**	**0.87**
Return on capital employed (ROCE)[2]	**%**	**7.3**	**2.1**	**5.2**
Cash flow from operating activities	**€ m**	**–72.2**	**–6.2**	**–66.0**
Investments[3]	**€ m**	**108.4**	**166.8**	**–58.4**
Depreciation/amortization[3]	**€ m**	**–169.7**	**–172.3**	**2.7**
Total assets	**€ m**	**8,611.5**	**8,330.8**	**280.7**
Non-current assets	**€ m**	**3,783.1**	**3,729.2**	**53.9**
Current assets	**€ m**	**4,828.5**	**4,601.7**	**226.8**
of which inventories	€ m	2,044.6	1,629.0	415.6
of which cash and cash equivalents	€ m	531.2	741.2	–210.1
Equity	**€ m**	**2,842.6**	**2,597.8**	**244.8**
Liabilities	**€ m**	**5,768.9**	**5,733.0**	**35.9**
Non-current liabilities	€ m	3,256.0	3,768.1	–512.1
Current liabilities	€ m	2,512.9	1,964.9	548.0
of which due to banks[4]	€ m	475.0	301.6	173.4
Net financial position on the reporting date[5]	**€ m**	**24.2**	**182.6**	**–158.4**
Employees				
Personnel expenses	€ m	–841.3	–824.2	–17.1
Core workforce on the reporting date[6]	empl.	23,296	23,367	–71
Total workforce on the reporting date[7]	empl.	25,032	25,043	–11

Disclosure of financial data in compliance with IFRS

[1] Balance sheet figures and related ratios pertaining restated due to correction of inventory for the 2015 period and earlier
[2] Annualized
[3] Excluding financial investments
[4] Current and non-current bank liabilities
[5] Including investments, e.g. securities and structured investments
[6] Excl. trainee contracts and excl. non-active age-related part-time work
[7] Incl. trainee contracts and incl. non-active age-related part-time work

Profitability of the Group and Business Units

Earning Situation within the Group

		Q2 2017	Q2 2016[1]	H1 2017	H1 2016[1]
Crude steel production	kt	1,675.7	1,730.5	3,415.3	3,506.1
External sales	**€ m**	**2,262.3**	**2,098.7**	**4,616.2**	**3,967.5**
EBIT before depreciation and amortization (EBITDA)	€ m	126.5	118.5	311.3	224.1
Earnings before interest and taxes (EBIT)	€ m	41.8	32.3	141.7	51.8
Earnings before taxes (EBT)	**€ m**	**23.1**	**12.9**	**100.2**	**16.1**
Consolidated net income/loss	**€ m**	**15.9**	**8.3**	**64.7**	**9.3**
Return on capital employed (ROCE)[2]	**%**	**4.0**	**2.8**	**7.3**	**2.1**
Investments[3]	€ m	52.7	80.7	108.4	166.8
Depreciation/amortization[3]	€ m	–84.7	–86.2	–169.7	–172.3
Cash flow from operating activities	€ m	–42.6	92.4	–72.2	–6.2
Net financial position[4]	**€ m**			**24.2**	**182.6**
Equity ratio	%			33.0	31.2

[1] Balance sheet figures and related ratios pertaining restated due to correction of inventory for the 2015 period and earlier
[2] Annualized
[3] Excluding financial investments
[4] Including investments, e.g. securities and structured investments

In an economic environment characterized by great political uncertainty and ongoing volatility in the raw materials markets, the Salzgitter Group delivered the best half-year result since 2011. The excellent performance of the Strip Steel and Trading business units, along with the continued successful implementation of the Group's internal programs, made major contributions to this result. Profit has once more increased significantly compared with the year-earlier figure despite considerable burdens from the negative valuation effects of the Aurubis bond ex-changeable into shares and currency hedging.

The Salzgitter Group's **external sales** rose by almost one fifth (€ 4,616.2 million; H1 2016: € 3,967.5 million), above all on the back of the higher average selling prices of many rolled steel products and driven mainly by the Strip Steel, Plate / Section Steel and Trading business units. **Earnings before taxes** climbed to € 100.2 million (H1 2016: € 16.1 million) and include € –24.7 million in contribution from the Aurubis investment (H1 2016: € +26.1 million) that was impacted by € –78.3 million in valuation effects from the Aurubis bond exchangeable into shares. The **after-tax result** stood at € 64.7 million (H1 2016: € 9.3 million), which brings basic earnings per share to € 1.14 (first quarter of 2016: € 0.13). The return on capital employed (ROCE) stood at 7.3 % (H1 2016: 2.1 %).

Special items/EBT business unit and Group (including discontinued activities)

		EBT		Restruc-turing		Impair-ment/ Reversal of impair-ment		Other		EBT without special effects
In € m	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016
Strip Steel	94.2	–37.3	0.0	0.0	0.0	0.0	0.0	0.0	94.2	–37.3
Plate / Section Steel	5.7	–17.0	0.0	–1.5	0.0	0.0	0.0	0.0	5.7	–15.5
Mannesmann	–2.7	9.4	0.0	–5.1	0.0	0.0	0.0	0.0	–2.7	14.5
Trading	34.6	16.5	0.0	0.0	0.0	0.0	0.0	0.0	34.6	16.5
Technology	13.6	12.6	0.0	0.0	0.0	0.0	0.0	0.0	13.6	12.6
Industrial Participations / Consolidation	–45.1	31.8	0.0	0.0	0.0	0.0	0.0	0.0	–45.1	31.8
Group	**100.2**	**16.1**	**0.0**	**–6.6**	**0.0**	**0.0**	**0.0**	**0.0**	**100.2**	**22.7**

Return on Capital employed (ROCE)

In € m	H1 2017	H1 2016[1]
EBT	100.2	16.1
+ Interest expenses	51.1	44.5
– Interest expenses for pension provisions	20.9	25.3
= EBIT I	**130.4**	**35.3**
Total assets	8,611.5	8,330.8
– Pension provisions	2,427.2	2,646.9
– Other provisions excluding provision for income taxes	511.2	602.4
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting, derivatives	1,740.0	1,349.3
– Deferred tax claims	348.5	375.3
= Capital employed	**3,584.6**	**3,356.9**
in %		
ROCE	**7.3**	**2.1**

[1] Restatement because of a correction of the stock value

ROCE is an important financial performance indicator and an integral part of the internal system of management and control. The quantitative, performance-related target set for the Salzgitter Group consists of ROCE of at least 12% over an economic cycle that we generally define as a period of five years. At 7.3%, ROCE for the first half year substantially outperformed ROCE in the first six months of 2016.

More detailed explanations on the derivation of ROCE are provided in the section on “Financial Control System” of the 2016 Annual Report.

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

In € m	H1 2017	H1 2016
EBT	100.2	16.1
+ Interest expenses	51.1	44.5
– Interest income	9.6	8.8
= EBIT	**141.7**	**51.8**
+ Depreciation/amortization[1)]	169.7	172.3
= EBITDA	**311.3**	**224.1**

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

The EBIT and EBITDA earnings ratios merely indicate the operating strength of a company set apart from its capital structure. These ratios allow management, the shareholders and interested third parties to carry out an additional analysis and assessment of a company's results, as well as facilitating approximate comparability with its peers at an operating level. Differences in taxation specific to the respective country, as well as special features concerning the structure of financing and property, plant and equipment of the individual company, can therefore be disregarded. The improvement in EBT is reflected, for instance, by depreciation and amortization settling around the previous year's level as well as by a similarly high interest income reflected in an increase in EBIT and EBITDA.

Strip Steel Business Unit

		Q2 2017	Q2 2016	H1 2017	H1 2016
Order intake	kt	1,110.3	1,224.1	2,305.3	2,415.0
Order backlog on reporting date	kt			927.6	913.3
Crude steel production	kt	999.7	1,105.8	2,136.3	2,274.6
Rolled steel production	kt	873.7	889.6	1,758.1	1,798.4
Shipments	kt	1,104.9	1,220.5	2,272.9	2,399.2
Segment sales[1)]	**€ m**	**748.0**	**616.9**	**1,479.7**	**1,225.1**
External sales	**€ m**	**553.3**	**466.8**	**1,102.2**	**937.0**
Earnings before taxes (EBT)	**€ m**	**40.5**	**–17.2**	**94.2**	**–37.3**

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

Market development

Over the period under review demand for steel improved on the global steel market that is still confronted by severe structural problems in the steel industry. Global capacity utilization remains at a very low level. The import situation in the European market remains tense since the decline in steel imports from China has been offset by an above-average increase in imports from other countries. As a result of growing protectionist tendencies in the global steel industry, the situation is exacerbated by the possibility of further effects of diverting trade on the relatively open EU market. Despite the current global uncertainties, the shift in the sentiment above all of both German steel producers and steel processors is striking. For the first time in six years, the majority of companies regard their business situation as good. The upturn in the price of steel products since the start of the year has resulted in the urgently needed widening of margins for European steel manufacturers. In addition, core indicators for the first half of 2017 present a positive picture: crude steel output and market supply have increased slightly. The order intake of EU steel processors developed moderately well.

Procurement

Iron ore

The price of iron ore has proven very volatile this year as well. While the iron ore index climbed to a new 30-month high in the first quarter of 2017, up from 95 USD/dmt, the following months saw it slip considerably to around 55 USD/dmt. By mid-July, however, the price had meanwhile recovered somewhat again to the 70 USD/dmt mark.

In order to mitigate the risks resulting from procurement, iron ore volumes in particular are hedged to secure against price risks.

Coking coal

In contrast to the index-determined ore market pricing, the quarterly prices for coking coal with benchmark quality continue to be negotiated between large producers and customers. The benchmark contract of 285 USD/t FOB for the first quarter of 2017 was concluded while still under the influence of the extremely high spot prices in December driven by events; prices softened considerably during the first quarter of 2017. Shortly before negotiations were concluded for the second quarter between Japanese steelworks and the largest coking coal producers, hurricane Debbie hit the Australian east coast at the start of April, and the picture changed radically. The mines themselves did not sustain any great damage, but the most important railway lines to the ports of loading were greatly impacted, which drove the spot price up to 300 USD/t FOB within the space of a few days. Against this backdrop, customers and producers dropped negotiations in order to await further developments. When it became clear that the railway lines would be available again much more quickly, the markets responded immediately. The spot market price halved within the space of five weeks and, by the end of May, was already being quoted at a level of below 150 USD/t FOB Australia. The shelved benchmark negotiations were resumed again in May. As customers and producers had very different ideas, however, no conventional benchmark agreement was reached. Instead, the parties agreed an index-based pricing system comprising the average prices of the first two months of a quarter plus the last month of the preceding quarter. If this new system is applied in subsequent months, this would signify that the conventional benchmark system has been replaced. At the start of the third quarter of 2017, the coking coal price stood at 163 USD/t FOB Australia.

Business development
The **order intake, shipments** and the **crude** and **rolled steel production** of the Strip Steel Business Unit dropped marginally below the year-earlier figure. By contrast, **orders on hand** remained stable, while **segment** and **external sales** surged on the back of notably higher average selling prices.

Compared with the first six months of 2016 that were negatively impacted by the import situation (€ –37.3 million), the segment generated a presentable **pre-tax result** of € 94.2 million. This performance was attributable to selling price increases for flat steel products from the EU's anti-dumping measures. A counter trend emanated from higher procurement prices for raw materials, especially coking coal. In addition, the effects from the programs of measures initiated had a positive impact.

Investments
The investment activities of the Strip Steel Business Unit are focused on new aggregates as well as on optimizing and extending the existing facilities in 2017. To this end, the following projects in particular are being progressed:

In order to strengthen its competitiveness, Salzgitter Flachstahl GmbH (SZFG) has invested a total of € 80 million in the construction of an **RH plant** for the vacuum treatment of crude steel. The production of decarburized and desulphurized steels and grades of the highest purity is intended to satisfy steadily growing customer requirements for specified metallurgic composition and ease the capacity bottleneck in secondary metallurgy. The facility was successfully taken into operation and is now in the optimization phase.

During the blowing process on the converters hot steel gas is generated and captured in a boiler system, cooled, refined and recovered for thermal reuse. The technological conversion of the cooling systems of all three **converter boilers** is to be carried out. This measure will reduce the boiler systems' energy requirements by more than 10%, and thus lower the volume of natural gas purchased externally, as well as the CO_2 emissions. Following on from converter boiler B that was upgraded in 2016, Converters A and C were converted in the first half of 2017.

Plate / Section Steel Business Unit

		Q2 2017	Q2 2016	H1 2017	H1 2016
Order intake	kt	514.3	543.4	1,100.4	1,180.4
Order backlog on reporting date	kt			315.8	372.5
Crude steel production	kt	306.2	274.4	560.2	571.2
Rolled steel production	kt	588.2	627.3	1,187.0	1,175.9
Shipments[1]	kt	577.9	622.8	1,203.2	1,158.0
Segment sales[2]	**€ m**	**434.7**	**386.9**	**885.7**	**719.6**
External sales	**€ m**	**272.1**	**181.8**	**537.6**	**366.6**
Earnings before taxes (EBT)	**€ m**	**–3.7**	**–17.5**	**5.7**	**–17.0**

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

Market development
Following a subdued start to the year, characterized by consistently high inventory levels of the stockholding steel trade with the corresponding lead times to replenish, the general demand situation on the **heavy plate market** showed a markedly positive development in the second quarter of 2017. Although many orders are placed at only short notice, this has been increasingly superseded by stable demand from the on- and offshore wind industry. A steady improvement in selling prices was therefore observed but was unable to fully compensate for the volatile cost of raw materials. Following the introduction on February 9, 2017 of anti-dumping duties of up to 74% against Chinese imports of heavy plate that are valid for five years, deliveries to Europe came to a virtual standstill. However, the volumes no longer in the market have meanwhile been almost fully replaced by imports from Ukraine, South Korea as well as India, so the import situation has not eased in terms of volume. The selling situation alone displayed consistent stability as the ruinous prices offered by Chinese manufacturers no longer applied. A decline in selling prices that essentially affects simple commercial grades has nevertheless been observed due to a renewed downturn in demand since end of May, coupled with fierce competition and the surplus capacities still prevailing in Europe.

At the start of May 2017, the US International Trade Commission (ITC) gave final confirmation of an anti-dumping duty of 22.9 % imposed on SZAG in respect of heavy plate and wide strip imports. More information can be found in the section on risk management.

On the European **sections market** the scrap price hikes observed at the beginning of the year led to an initially prompt improvement in the booking situation. However, the sales of the stockholding steel trade fell short of expectations, which resulted in a considerable increase in inventories over the course of the quarter. Consequently, order intake by the plants declined. The demand and inventory situation in the stockholding steel trade returned to normal levels at the end of the first quarter, and many European producers were able to use their capacities in the second quarter. Nevertheless, the price situation did not permit export volumes to reduce the excess supply of sections in Europe, which forced price concessions on the producers despite partly good capacity utilization.

Procurement
Steel scrap
The start of the year in Germany brought price increases on the scrap steel market of between 25 and €38/t depending on the grade and region, driven by the stronger demand of domestic consumers. In the subsequent month, prices fell within a range of between 15 and 20 €/t and then recovered again in March. As so often, the determining factor for steel price declines in the European domestic markets and the immediate subsequent recovery in prices was the buying patterns of Turkish scrap steel importers. In the second quarter of 2017, demand of the domestic steelworks was generally firm on the back of the largely good order situation. Consum-

ers nevertheless took advantage of somewhat weaker demand and prices in international trading, which led to prices declining in a range of € 10 to € 21 per ton depending on the grade and region.

Business development
The Plate / Section Steel Business Unit reported **order intake** in the first half of 2017 that had dropped below the previous year's level. In conjunction with **shipment** growth, this resulted in a lower **order backlog** than a year ago. **Rolled** and **crude steel output** remained stable, as opposed to **segment** and **external sales** that rose sharply due to selling prices and shipments.

At € 5.7 million, the segment raised the **pre-tax result** compared with the year-earlier quarter (€-17.0 million). Supported by the release of order-specific provisions, the Salzgitter Mannesmann Grobblech GmbH (MGB) contributed to this result, on the one hand, while, on the other, PTG and the DMU Group made marginally positive contributions.

Investments
In the Plate / Section Steel Business Unit, the "Plate Strategy – Finishing Section II" investment measure was commenced in 2017 as part of the "Salzgitter AG 2021" growth program. This measure is aimed at enlarging the product portfolio and achieving a stronger positioning in the higher-end grade segment.

Mannesmann Business Unit

		Q2 2017	Q2 2016	H1 2017	H1 2016
Order intake	€ m	379.1	303.0	791.0	628.3
Order backlog on reporting date[1]	€ m			455.0	412.6
Crude steel production Hüttenwerke Krupp Mannesmann (30 %)	kt	369.8	350.3	718.7	660.3
Shipments[1]	kt	166.1	136.0	321.1	257.1
Segment sales[2]	**€ m**	**443.7**	**353.2**	**860.0**	**680.7**
External sales	**€ m**	**280.0**	**259.0**	**569.3**	**502.5**
Earnings before taxes (EBT)	**€ m**	**0.3**	**3.8**	**– 2.7**	**9.4**

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

Market development
Steel tubes and pipes production increased in the first half of 2017. The production of large-diameter welded pipes in dimensions of over 16" was raised in particular due to the booking of project business. Demand from the energy industry in North America, which continued to stabilize, resulted in improved capacity utilization, particularly regarding the producers of seamless tubes. The producers of welded line pipe in diameters smaller than 406.4 mm also benefited from strong North American demand, while the development of welded precision tubes remained stable.

Business development
The **order intake** of the Mannesmann Business Unit exceeded the first half of 2016 by a quarter, and **orders on hand** rose considerably as well, which was especially attributable to Salzgitter Mannesmann Precision Tubes Group (SMP Group) and Salzgitter Mannesmann Line Pipe GmbH (MLP). Outside the consolidated group, order intake and orders on hand of the EUROPIPE Group (EP Group), a 50% participation reported at equity, dropped below the year-earlier period that was impacted by the major Nord Stream 2 project. Thanks to the booking of a follow-up order by the European Gas Pipeline Link (EUGAL), orders on hand remained at a high level.

Shipments were higher year on year. The **segment** and **external sales** of the Mannesmann Business Unit also increased compared with the year-earlier period as all product lines reported growth. Although the sales of the

EP Group outstripped the level of the previous year, shipments were lower. Due to the high delivery volumes, the German company considerably outperformed the first half of 2016, while key figures in the US ran counter to the deteriorating market situation.

The business unit reported a **pre-tax loss** of € 2.7 million (H1 2016: €+9.4 million). The medium-diameter line pipe segment and the precision and stainless steel tubes group reduced their pre-tax losses. The marginally negative result of the EP Group consolidated at equity and the positive performance of Hüttenwerke Krupp Mannesmann GmbH (HKM), however, came in below the previous year's earnings contributions.

Investments

The Mannesmann Business Unit is principally concentrating on replacement investments in 2017. This also includes, for instance, renewing the automation system of the separation plant in the Zeithain rolling mill as well as a tube cut-off unit. In addition, capital expenditure measures to raise plant performance at the SMP Group's Hamm location are ongoing, along with organizational and logistics optimization.

Trading Business Unit

		Q2 2017	Q2 2016	H1 2017	H1 2016
Shipments	kt	1,241.3	1,503.6	2,500.1	2,721.5
Segment sales[1)]	**€ m**	**841.2**	**823.4**	**1,725.8**	**1,439.2**
External sales	**€ m**	**814.0**	**819.2**	**1,675.7**	**1,425.5**
Earnings before taxes (EBT)	**€ m**	**13.0**	**18.7**	**34.6**	**16.5**

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

Market development

Against the backdrop of the anti-dumping measures in various regions and the sharp increase in the price of iron ore, prices in the international steel markets moved at a comparatively high level in the first quarter. Chinese manufacturers' announcement of scaling back capacities, accompanied by strong local demand, supported this trend in the period under review. The European market presented a disparate picture: While hot-rolled strip and heavy plate prices remained in uptrend in the second quarter, albeit with slowing tendencies, selling prices in the sections segment had already come under pressure during the first quarter.

Business development

In the period under review, the Trading Business Unit reported a **shipment** volume that had fallen below the year-earlier figure. Demand in the European stockholding steel trade remained virtually unchanged, as opposed to the shipments of international trading that were, however, determined by a low level of project business and the absence of large-scale orders. Due to the prevailing price situation, **segment** and **external sales** were nevertheless significantly higher year on year. The stockholding operations reported a healthy earnings position. Together with the positive results of international trading, which compensated for the volume shortfall through deliveries at better margins, and those of the Universal Eisen und Stahl Group (UES Group), the Trading Business Unit delivered **earnings before taxes** of € 34.6 million, thereby considerably outperforming the result of the first half of 2016 (€ 16.5 million).

Investments

As before, at the start of 2017 the focus of investments at the Trading Business remained on maintaining and upgrading existing facilities. The projects initiated by Salzgitter Mannesmann Stahlhandel GmbH (SMSD) geared to digitalizing sales processes are making headway.

Technology Business Unit

		Q2 2017	Q2 2016	H1 2017	H1 2016
Order intake	€ m	342.8	265.4	632.8	579.1
Order backlog on reporting date	€ m			629.6	622.3
Segment sales[1)]	**€ m**	**295.1**	**325.7**	**630.4**	**641.9**
External sales	**€ m**	**295.0**	**325.6**	**630.1**	**641.7**
Earnings before taxes (EBT)	**€ m**	**0.5**	**5.7**	**13.6**	**12.6**

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

Market development
According to German Engineering Federation (VDMA), new orders generally increased significantly compared with the year-earlier figure, with a surge in international demand and a slight upturn in domestic demand. The industry also reported sales growth. By contrast, the market for food and packaging machinery flatlined at the year-earlier level.

Business development
The **order intake** of the Technology Business Unit increased notably in the first half of 2017 compared with the previous year's period. New orders of the Klöckner Desma Elastomer Group (KDE Group) and of the KHS Group were higher in a year-on-year comparison while the orders placed with DESMA Schuhmaschinen GmbH (KDS) doubled. The segment's **orders on hand** settled at the level of the previous year.

Segment and **external sales** almost matched the year-earlier figures. The KDE Group and KDS reported growth as opposed to the KHS Group where sales declined slightly.

The Technology Business Unit generated **profit before taxes** of € 13.6 million in the first half of 2017 (previous year: € 12.6 million). The KDE Group and KDS outperformed the year-earlier results, while the result of the KHS Group dropped below this level due to price pressure from competition.

Under the "Fit4Future 3.0" program, launched in 2016 and rigorously implemented, activities in the specific areas of market development, procurement and service, as well as measures to maximize productivity in processing orders, assembly and commissioning were pursued. Effects from efficiency improvements of the program are already apparent.

Investments
In the first six months of 2017, the Technology Business Unit focused on replacement and streamlining measures geared to promoting its sustainable competitiveness. IT projects in Germany and in the international companies were carried out at the KHS Group to further optimize workflows. The extensive modernization of the Bad Kreuznach site to ensure lean manufacturing is being implemented in various individual subprojects.

Industrial Participations / Consolidation

		Q2 2017	Q2 2016	H1 2017	H1 2016
Sales[1]	**€ m**	**210.5**	**199.0**	**435.7**	**375.4**
External sales	**€ m**	**47.8**	**46.4**	**101.2**	**94.1**
Earnings before taxes (EBT)	**€ m**	**–27.3**	**19.4**	**–45.1**	**31.8**

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

Sales in the Industrial Participations / Consolidation segment, which are based mainly on business in semi-finished products with subsidiaries and external parties, increased year on year to € 435.7 million (previous year: € 375.3 million). **External sales** increased as well (€ 101.2 million; H1 2016: € 94.1 million).

Earnings before taxes came in at €–45.1 million, representing a significant decline compared with the year-earlier period (€+31.8 million). This figure includes the contribution of the Aurubis investment amounting to €–24.7 million (H1 2016: € 26.1 million). This contribution comprises the proportion of the company's after-tax profit (€ 53.7 million; H1 2016: € 21.9 million) attributable to Salzgitter AG (SZAG), as well as €–78.3 million in valuation effects from the Aurubis bond exchangeable into shares (H1 2016: €+4.2 million) that were clearly negative due to the sharp rise in the share price of Aurubis AG (NAAG) in the first half of 2017. Reporting-date related valuation effects of foreign exchange and derivative positions also had a burdening effect on the result. Interest income resulting from Group cash management had an offsetting effect. The pre-tax result of the Group companies not directly assigned to a business unit significantly exceeded the figure achieved in first six months of 2016.

Financial Position and Net Assets

Explanations on the balance sheet

The **total assets** of the Salzgitter Group rose by € 162 million in the current reporting period compared with December 31, 2016.

Non-current assets (€+84 million) increased owing in particular to the higher level of shares in the companies accounted for using the equity method (€ +114 million). In the reporting period, the sum total of scheduled depreciation and amortization of fixed assets (€–170 million) came in above the level of investments (€+108 million) and reduced the non-current assets. Non-current trade receivables as well as other receivables and assets increased in a year-on-year comparison (€+45 million) as opposed to income tax assets that declined (€–7 million). The growth in **current assets** (+78 million) resulted mainly from the selling price-induced higher level of trade receivables (+223 million). As a result of the increase in working capital, this was offset by lower cash and cash equivalents (€–287 million) and a decline in other receivables and other assets (€–52 million).

On the **liabilities side**, equity remained virtually the same due to the good result (€–9 million). The equity ratio has therefore stayed at the level of the previous financial year and amounts to a sound 33.0%. Non-current liabilities were € 2 million lower compared with the prior-year reporting date. Non-current other provisions increased (€+19 million) while pension provisions declined (€–22 million). Current liabilities climbed by € 173 million, mainly due to the increase in trade payables (€+77 million) as well as the higher level of other current liabilities (€+91 million).

The **net financial position** dropped to € 24 million (12/31/2016: € 302 million) above all due to the increase in working capital and non-current assets. Cash investment, including securities of € 933 million (12/31/2016: € 1,218.0 million), was offset by liabilities of € 908 million (12/31/2016: € 916 million), of which € 475 million were owed to banks (12/31/2016: € 483 million).

Net financial position

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

In € m	2017/06/30	2016/12/31
Cash and cash equivalents acc. to balance sheet	531.2	818.1
+ Certificates held for trading	250.0	250.0
+ Other investments of funds	151.4	149.9
= Investments of funds	**932.6**	**1,218.0**
Financial liabilities acc. to balance sheet	939.7	946.0
– Liabilities from leasing agreements, from financing/ financial transactions and other	31.3	29.7
= Financial liabilities of net financial position	**908.4**	**916.2**
Net financial position	**24.2**	**301.8**

Along with other key financials, the healthy net financial position of Salzgitter AG (SZAG) in a peer comparison is proof of the company's financial stability and sound balance sheet.

Notes to the cash flow statement

With a pre-tax profit of € 100 million, the cash flow **from operating activities** nevertheless stood at a negative amount of € 72 million (previous year: €–6 million), due in particular to the increase in inventories and trade receivables (€–512 million; previous year: €–68 million).

The **cash outflow from investing activities** of € 175 million (previous year: €–218 million) mainly reflects disbursements for capital expenditure in intangible assets and property, plant and equipment (€–120 million).

Interest payments, disbursements to company owners, as well as the redemption of loans constituted a **cash outflow from financing activities** of € 34 million (previous year: cash inflow €–132 million).

Owing to the negative overall cash flow, **cash and cash equivalents** (€ 531 million) declined accordingly compared with December 31, 2016.

Employees

	2017/06/30	2016/12/31	Change
Core workforce[1)]	**23,296**	**23,152**	**144**
Strip Steel Business Unit	6,123	6,062	61
Plate / Section Steel Business Unit	2,568	2,585	–17
Mannesmann Business Unit	4,709	4,731	–22
Trading Business Unit	1,961	1,914	47
Technology Business Unit	5,341	5,301	40
Industrial Participations / Consolidation	2,594	2,559	35
Apprentices, students, trainees	1,206	1,452	–246
Non-active age-related part-time employment	530	564	–34
Total workforce	**25,032**	**25,168**	**–136**

In light of prorata shareholdings, rounding differences can occur

1) Excluding the members of executive and non-executive bodies

The **core workforce** of the Salzgitter Group came to 23,296 employees on June 30, 2017, representing an addition of 144 staff members since December 31, 2016. A total of 210 trainees were hired during the reporting period, 167 of whom were given temporary contracts. A mainly counter effect emanated from members of the company going into non-active age-related part-time or reaching retirement age.

The **total workforce** comprised 25,032 employees.

The number of **temporary staff** outsourced stood at 1,250 on June 30, 2017, which marks an increase of 207 persons in a year-on-year comparison.

At the end of the reporting period no employees were affected by short-time work.

Forecast, Opportunities and Risk Report

Compared with the previous year, the business units anticipate that business in 2017 will develop as follows:

The **Strip Steel Business Unit** expects business to develop extremely well thanks to the increase in selling prices in the EU steel market. Assuming that robust demand holds steady, a notable increase in sales can be expected. Supported by the measures and impact of various programs and projects, a presentable pre-tax profit is envisaged based on the strong mid-year result, despite the sensitive market environment, including the price volatility of raw materials.

The **Plate / Section Steel Business Unit** will remain exposed to a very difficult market environment in the current financial year. Satisfactory capacity utilization is nevertheless expected for the two heavy plate producers. Hence, the production of input materials for the Nord Stream II as well as the EUGAL contracts will contribute to notable basic capacity utilization at the Mülheim mill. Moreover, the two companies will benefit from the extensive cost cutting and efficiency enhancement measures initiated in 2016. Passing on the full scope of hikes in raw material costs in a timely manner is, however, particularly challenging. Capacity utilization in the section steel business is likely to run slightly below the satisfactory level of the year-earlier period. The volatile scrap price, however, encourages speculative purchasing by customers, with the respective impact on order intake and the result. Drastic increases in grid usage fees for procuring electricity will pose an additional burden. All in all, the business unit anticipates a notable selling price- and volume-induced increase in sales as well as a result before taxes at around breakeven.

The development of the **Mannesmann Business Unit** is proving to be very disparate in 2017 as well. While the German large-diameter pipe mills report very good capacity utilization due to bookings of major orders last year and in the first quarter of 2017, the order situation on the North American market, especially in the segment of spirally welded pipe, is unsatisfactory. The segments of medium-diameter line pipe, precision and stainless steel tubes anticipate a slight recovery in margins, albeit against the backdrop of a continued, generally tight situation. Rising shipment volumes supported by higher average prices should result in substantial sales growth in the segment. In conjunction with the profit improvement programs implemented, initiated and planned, a notably improved, though still negative, pre-tax result is predicted.

In the financial year 2017, the **Trading Business Unit** anticipates marked sales growth compared with the previous year, which is first and foremost attributable to the price situation as well as an increase in the sale of preprocessed products. Additional support is to emanate from expanding the customer base in the context of stepping up the digitalization of sales. Against the backdrop of the earnings already generated, very satisfactory earnings before taxes are expected similar to the previous year.

The **Technology Business Unit** expects a stable sales and profit trend based on a high order backlog. Given the ongoing fierce price-led competition in the global project business, the KHS Group intends to focus even more strongly on profitable product segments, innovative new products and expanding its service business. Further efficiency enhancements from the “Fit4 Future 3.0” program will show effects. The prospects of the smaller specialist mechanical engineering companies are also positive. A pre-tax result at around the year-earlier level is therefore anticipated.

Against this backdrop, the **Salzgitter Group** affirms its forecast that was raised on July 27, 2017. We anticipate:

- an increase in **sales** to around € 9 billion,
- a **pre-tax profit** of between € 150 million and € 200 million, as well as
- a **return on capital employed** that is discernibly higher year on year.

We make reference to the possibility of **considerable variability** in the **consolidated results** due to the fact that the **bond exchangeable into shares** will reach **maturity** in November 2017:

As is known, Salzgitter AG (SZAG) has provided for an option of the delivery of shares and cash settlement in respect of servicing the bond issued in 2010 exchangeable into the shares of Aurubis. In the event of settling the convertible bond liability through the option of exchanging into shares, the liability recognized at fair value will be eliminated through profit and loss, taking account of the proportionate derecognition of the carrying amounts of the shares relinquished. In all probability, this would have a notably positive effect on balance on the consolidated result.

If, in contrast, the bond liability is settled through cash payment, no additional impact on earnings will result as the capitalized liability and the anticipated amount of disbursement will correspond to one another.

Similarly, **opportunities and risks** from currently unforeseeable trends in selling prices, input material prices and capacity level developments, as well as changes in the currency parity, may considerably affect performance in the course of the financial year 2017. The dimensions of this range become clear if one considers that, with around 12 million tons of steel products sold by the Strip Steel, Plate / Section Steel, Energy and Trading business units, an average €10 change in the margin per ton is sufficient to cause a variation in the annual result of more than € 120 million. Moreover, the accuracy of the company's planning is restricted by the volatile cost of raw materials and shorter contractual durations, on the procurement as well as on the sales side.

Risk management

At the time of reporting there were no risks that could endanger the Salzgitter Group as a going concern. With regard to the individual **opportunities and risks**, we make reference to the Annual Report 2016.

In terms of risks arising from strained market conditions, including the volatility of raw materials prices, the effects on the results of the companies in the current year have been factored in to the extent they can be estimated. An additional burdening effect is emanating from the numerous, often purely trade defense mechanisms from countries outside the EU that are no longer aimed solely at China but also at EU producers in equal measure. Salzgitter AG (SZAG) is directly affected by the anti-dumping proceedings meanwhile brought to a close in the US against heavy plate and wide strip imports from twelve countries, including Germany, and anti-dumping proceedings recently initiated against precision tubes imports, also from Germany among other countries.

At the start of May, the anti-dumping duty of 22.9% imposed on SZAG in respect of heavy plate and wide strip was conclusively affirmed by the US International Trade Commission (ITC) and entered into force in mid-May. For reason of the – in the opinion of the Group – unjustified decision, the Executive Board has decided to bring legal action against the imposing of the punitive tariff before the United State Court of International Trade, which was officially filed on June 23, 2017. An initial outcome is anticipated at the start of 2018. Furthermore, the Group is engaging in intense dialog with the EU Commission and the German government in order to bring parallel legal action against the imposition of the anti-dumping duty before the World Trade Organization (WTO). We remain optimistic that the EU- Commission will seek to initiate WTO proceedings in this matter.

Along with the ongoing trade defense proceedings, the US government is currently investigating whether steel imports pose a threat to national security (so-called Section 232 investigation). Much is currently under discussion, ranging from targeted import hurdles concerning a few specific products right through to general import duties on a whole range of steel products. Along with the loss of our country's own potential for exporting to the US, 232 proceedings would incur a danger of significantly diverting trade flows from non-EU countries into the EU. Such a situation could inflict extensive damage on the EU steel market that is already suffering from dumped imports. With this in mind, the European steel industry maintains close contact with the EU commission and the national governments in order to intervene promptly with adequate countermeasures.

Moreover, risks may arise through a new US sanction law ("Countering America's Adversaries Through Sanctions Act") the draft of which was ratified by the US House of Representatives and the Senate at the end of July 2017. The US-President has also fundamentally signalized his consent but has not yet signed. The act may provide for the following: companies deemed by the US administration to have business ties with Russian energy export pipelines may have punitive measures imposed on them by the US President, for instance in the form of a license prohibition in the US. Despite the fundamentally dubious nature of the extra-territorial impact of the US government's measures, we are also examining the legal ramifications for the business activities of EUROPIPE Group (EP-Group) and Salzgitter companies.

To conclude, we make reference to the geopolitical risks in Turkey. A "black list" of more than 650 companies consisting also of high-profile German DAX companies, including KHS Corpoplast GmbH (KHSCP) and Salzgitter Mannesmann Stahlhandel GmbH (SMSD), was published at the end of July 2017. According to the Turkish authorities, these companies maintained business relations with companies domiciled in Turkey that are being investigated in connection with financing terrorism. The list has meanwhile been withdrawn as a "misunderstanding" in response to political pressure. There is, however, no disputing the fact that there is growing legal uncertainty with regard to the business relations of Group companies with Turkey.

Interim Income Report

I. Consolidated Income Statement[1)]

In € million	Q2 2017	Q2 2016	H1 2017	H1 2016
Sales	2,262.3	2,098.7	4,616.2	3,954.3
Increase/decrease in finished goods and work in process/other own work capitalized	21.9	– 52.3	37.9	– 48.0
	2,284.1	2,046.4	4,654.1	3,906.2
Other operating income	68.2	59.6	142.7	102.9
Cost of materials	1,510.7	1,351.4	3,086.9	2,529.1
Personnel expenses	426.3	417.2	840.6	823.4
Amortization and depreciation of intangible assets and property, plant and equipment	84.7	86.2	169.7	172.3
Other operating expenses	312.7	235.7	615.4	474.4
Income from shareholdings	4.9	2.7	5.6	3.0
Result from investments accounted for using the equity method	18.8	14.3	51.9	35.5
Finance income	4.9	3.8	10.3	9.0
Finance expenses	23.1	22.9	51.5	44.4
Earnings before taxes (EBT)	**23.4**	**13.6**	**100.4**	**13.0**
Income tax	7.2	4.6	35.6	6.7
Consolidated result from continued operations	16.2	9.0	64.9	6.2
Consolidated result from discontinued operations	– 0.3	– 0.7	– 0.2	3.1
Consolidated result	**15.9**	**8.3**	**64.7**	**9.3**
Amount due to Salzgitter AG shareholders	14.6	7.2	61.6	7.1
Minority interest	1.3	1.1	3.0	2.2
Appropriation of profit				
Consolidated result	15.9	8.3	64.7	9.3
Profit carried forward from the previous year	–	–	21.1	15.1
Minority interests in consolidated net loss for the year	1.3	1.1	3.0	2.2
Dividend payment	– 16.2	– 13.5	– 16.2	– 13.5
Transfer from (+)/to (–) other retained earnings	– 14.6	– 7.2	– 61.6	– 7.1
Unappropriated retained earnings of Salzgitter AG	**– 16.2**	**– 13.5**	**4.9**	**1.6**
Earnings per share (in €) – basic	**0.27**	**0.13**	**1.14**	**0.13**
Earnings per share (in €) – diluted	**0.26**	**0.13**	**1.09**	**0.13**

[1)] All items of the income statement, up to and including income taxes, only pertain to continuing operations in accordance with IFRS 5. A reconciliation, including discontinued operations, can be found in the notes.

II. Statement of Comprehensive Income

In € million	Q2 2017 Total	Q2 2017 Amount due to Salzgitter AG shareholders	Q2 2017 Minority interest	H1 2017 Total	H1 2017 Amount due to Salzgitter AG shareholders	H1 2017 Minority interest
Consolidated result	**15.9**	**14.6**	**1.3**	**64.7**	**61.6**	**3.0**
Recycling						
Reserve from curreny translation	–15.6	–15.7	0.0	–15.0	–15.0	0.0
Changes in value from cash flow hedges	–34.1	–34.1	–	–43.1	–43.1	
Fair value change	–23.1	–23.1	–	1.1	1.1	
Basis adjustments	–10.4	–10.4	–	–41.7	–41.7	
Recognition with effect on income	–1.5	–1.5	–	–3.3	–3.3	
Deferred tax	0.9	0.9	–	0.7	0.7	
Change in value due to available-for-sale financial assets	0.3	0.3	–	–0.2	–0.2	–
Fair value change	0.3	0.3	–	–0.2	–0.2	
Recognition with effect on income	–	–	–	–	–	
Deferred tax	–	–	–	–	–	
Changes in value of investments accounted for using the equity method	–5.7	–5.7	–	–7.2	–7.2	
Fair value change	–0.6	–0.6	–	–0.6	–0.6	
Recognition with effect on income	–	–	–	–	–	
Currency translation	–5.3	–5.3	–	–6.9	–6.9	
Deferred tax	0.3	0.3	–	0.3	0.3	
Deferred taxes on other changes without effect on the income	–0.0	–0.0	–	–0.0	–0.0	
Subtotal	–55.2	–55.2	0.0	–65.5	–65.5	0.0
Non-recycling						
Remeasurements	–0.0	–0.0	–	–0.0	–0.0	
Remeasurement of pensions	–0.0	–0.0	–	–0.0	–0.0	
Deferred tax	–	–	–	–	–	
Changes in value of investments accounted for using the equity method	10.0	10.0	–	10.0	10.0	
Subtotal	10.0	10.0	–	10.0	10.0	–
Other comprehensive income	**–45.1**	**–45.2**	**0.0**	**–55.5**	**–55.5**	**0.0**
Total comprehensive income	**–29.2**	**–30.6**	**1.4**	**9.2**	**6.2**	**3.0**
Continuing operations		–30.2			6.4	
Discontinued operation		–0.3			–0.2	

In € million	Q2 2016			H1 2016		
	Total	Amount due to Salzgitter AG share-holders	Minority interest	Total	Amount due to Salzgitter AG share-holders	Minority interest
Consolidated result	**8.3**	**7.3**	**1.1**	**9.3**	**7.1**	**2.2**
Recycling						
Reserve from curreny translation	5.0	5.0	−0.0	−2.0	−2.0	0.0
Changes in value from cash flow hedges	20.1	20.1	–	39.9	39.9	–
Fair value change	16.9	16.9	–	29.3	29.3	–
Basis adjustments	3.3	3.3	–	10.4	10.4	–
Recognition with effect on income	0.1	0.1	–	−0.4	−0.4	–
Deferred tax	−0.2	−0.2	–	0.6	0.6	–
Change in value due to available-for-sale financial assets	0.5	0.5	–	1.1	1.1	–
Fair value change	0.5	0.5	−0.0	1.1	1.1	−0.0
Recognition with effect on income	–	–	–	–	–	–
Deferred tax	−0.0	−0.0	–	−0.0	−0.0	–
Changes in value of investments accounted for using the equity method	2.0	2.0	–	4.4	4.4	–
Fair value change	1.1	1.1	–	7.7	7.7	–
Recognition with effect on income	–	–	–	–	–	–
Currency translation	2.1	2.1	–	−2.1	−2.1	–
Deferred tax	−1.2	−1.2	–	−1.2	−1.2	–
Deferred taxes on other changes without effect on the income	0.0	0.0	–	−0.1	−0.1	–
Subtotal	27.6	27.6	−0.0	43.3	43.3	0.0
Non-recycling						
Remeasurements	−133.4	−133.4	−0.0	−266.9	−266.9	−0.0
Remeasurement of pensions	−170.0	−170.0	−0.0	−340.1	−340.1	−0.0
Deferred tax	36.6	36.6	–	73.2	73.2	–
Changes in value of investments accounted for using the equity method	−9.7	−9.7	–	−9.7	−9.7	–
Subtotal	−143.1	−143.1	−0.0	−276.6	−276.6	−0.0
Other comprehensive income	**−115.5**	**−115.5**	**−0.0**	**−233.3**	**−233.3**	**0.0**
	–	–	–			
Total comprehensive income	**−107.2**	**−108.3**	**1.1**	**−224.0**	**−226.2**	**2.2**
Continuing operations		−107.5			−229.3	
Discontinued operation		−0.7			3.1	

III. Consolidated Balance Sheet

Assets in € million	2017/06/30	2016/12/31
Non-current assets		
Intangible assets	219.8	223.3
Property, plant and equipment	2,275.1	2,343.4
Investment property	21.4	21.8
Financial assets	95.7	95.6
Investments accounted for using the equity method	774.1	660.4
Trade receivables	22.7	0.0
Other receivables and other assets	21.9	0.0
Income tax assets	3.9	0.0
Deferred income tax assets	348.5	355.1
	3,783.1	**3,699.5**
Current assets		
Inventories	2,044.6	1,842.8
Trade receivables	1,699.3	1,476.2
Other receivables and other assets	452.3	504.3
Income tax assets	22.2	26.5
Securities	78.8	82.3
Cash and cash equivalents	531.2	818.1
	4,828.4	**4,750.3**
	8,611.5	**8,449.8**

Equity and liabilities in € million	2017/06/30	2016/12/31
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	2,765.0	2,703.4
Other reserves	16.0	71.4
Unappropriated retained earnings	4.9	21.1
	3,204.4	**3,214.5**
Treasury shares	–369.7	–369.7
	2,834.7	**2,844.8**
Minority interests	7.9	7.1
	2,842.6	**2,852.0**
Non-current liabilities		
Provisions for pensions and similar obligations	2,427.2	2,449.0
Deferred tax liabilities	39.4	39.3
Income tax liabilities	74.1	67.7
Other provisions	264.1	245.3
Financial liabilities	446.2	452.4
Other liabilities	5.0	4.5
	3,256.0	**3,258.1**
Current liabilities		
Other provisions	247.2	292.5
Financial liabilities	493.5	493.6
Trade payables	1,231.0	1,154.5
Income tax liabilities	36.9	34.1
Other liabilities	504.3	365.1
	2,512.9	**2,339.7**
	8,611.5	**8,449.8**

IV. Cash Flow Statement

In € million	H1 2017	H1 2016
Earnings before taxes (EBT)[1]	100.2	16.1
Depreciation, write-downs (+)/write-ups (–) of non-current assets	169.7	172.3
Income tax paid (–)/refunded (+)	– 23.0	– 136.2
Other non-cash expenses (+)/income (–)	131.3	55.7
Interest expenses	51.1	44.5
Gain (–)/loss (+) from the disposal of non-current assets	– 11.4	3.7
Increase (–)/decrease (+) in inventories	– 217.5	125.5
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	– 294.2	– 193.2
Use of provisions affecting payments, excluding income tax provisions	– 130.2	– 130.6
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	151.8	35.9
Cash outflow/inflow from operating activities	**– 72.2**	**– 6.2**
Cash inflow from the disposal of fixed assets	17.0	0.4
Cash outflow for investments in intangible assets and property, plant and equipment	– 120.1	– 170.6
Cash inflow (+)/outflow (–) for/from investments of funds	2.5	– 50.8
Cash inflow from the disposal of financial assets	5.0	6.8
Cash outflow for investments in financial assets	– 78.9	– 4.0
Cash flow from investment activities	**– 174.5**	**– 218.2**
Cash outflow in payments to company owners	– 16.2	– 13.5
Cash inflow (+)/outflow (–) as a result of the issuing of bonds, borrowings and other financial liabilities	– 7.5	158.3
Interest paid	– 10.5	– 13.2
Cash outflow/inflow from financing activities	**– 34.2**	**131.5**
Cash and cash equivalents at the start of the period	818.1	836.2
Cash and cash equivalents relating to changes in the consolidated group	–	0.2
Gains and losses from changes in foreign exchange rates	– 5.9	– 2.2
Payment-related changes in cash and cash equivalents	– 281.0	– 92.9
Cash and cash equivalents at the end of the period	**531.2**	**741.2**

[1] The result from ordinary activities (EBT) refers to the continuing and discontinued operations in total. A reconciliation of the result from discontinued operations can be found in the notes.

V. Statement of Changes in Equity

In € million	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	Other reserves from
					Currency translation
As of 2015/12/31 non restated	**161.6**	**257.0**	**–369.7**	**2,839.8**	**9.9**
Adjustment[1]	**–**	**–**	**–**	**–55.7**	**–**
As of 2015/12/31 restated	**161.6**	**257.0**	**–369.7**	**2,784.2**	**9.9**
Total comprehensive income	–	–	–	–267.0	–2.0
Dividend	–	–	–	–	–
Group transfers to(+)/from(–) retained earnings	–	–	–	7.1	–
Other	–	–	–	1.5	–
As of 2016/06/30	**161.6**	**257.0**	**–369.7**	**2,525.8**	**7.9**
As of 2016/12/31	**161.6**	**257.0**	**–369.7**	**2,703.4**	**18.2**
Total comprehensive income	–	–	–	–0.0	–15.0
Dividend	–	–	–	–	–
Group transfers to(+)/from(–) retained earnings	–	–	–	61.6	–
Other	–	–	–	–0.1	0.0
As of 2017/06/30	**161.6**	**257.0**	**–369.7**	**2,765.0**	**3.2**

[1] Restatement because of a correction of the stock value

			Unappropriated retained earnings	Amount due to Salzgitter AG shareholders	Minority interest	Equity
Cashflow hedges	Available-for-sale financial assets	Investments accounted for using the equity method				
−33.3	**−9.4**	**13.7**	**15.1**	**2,884.8**	**8.1**	**2,892.9**
–	**–**	**–**	**–**	**−55.7**	**–**	**−55.7**
−33.3	**−9.4**	**13.7**	**15.1**	**2,829.1**	**8.1**	**2,837.2**
39.9	1.1	−5.3	7.1	−226.2	2.2	−224.0
–	–	–	−13.5	−13.5	−3.0	−16.5
–	–	–	−7.1	–	–	–
–	–	–	–	1.5	−0.3	1.2
6.6	**−8.3**	**8.4**	**1.6**	**2,590.9**	**7.0**	**2,597.9**
56.5	**−16.9**	**13.6**	**21.1**	**2,844.8**	**7.1**	**2,852.1**
−43.1	−0.2	2.8	61.6	6.2	3.0	9.2
–	–	–	−16.2	−16.2	–	−16.2
–	–	–	−61.6	−0.0	–	−0.0
–	–	–	–	−0.0	−2.2	−2.3
13.4	**−17.1**	**16.5**	**4.9**	**2,834.7**	**7.9**	**2,842.7**

Notes

Segment Reporting

In € million	Strip Steel		Plate / Section Steel		Mannesmann	
	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016
External sales	1,102.2	937.0	537.6	366.6	569.3	502.5
Sales to other segments	375.6	287.2	347.8	352.4	95.2	33.3
Sales to group companies that are not allocated to an operating segment	1.9	0.9	0.4	0.5	195.5	144.9
Segment sales	1,479.7	1,225.1	885.7	719.6	860.0	680.7
Interest income (consolidated)	0.5	0.1	0.3	0.7	0.3	0.3
Interest income from other segments	–	–	0.0	–	–	–
Interest income from group companies that are not allocated to an operating segment	0.0	0.1	0.0	0.0	0.7	0.6
Segment interest income	0.5	0.2	0.3	0.7	0.9	0.9
Interest expenses (consolidated)	7.2	8.4	1.5	1.7	3.9	4.2
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	13.0	13.4	2.7	6.7	3.4	2.9
Segment interest expenses	20.2	21.8	4.2	8.4	7.2	7.1
of which interest portion of allocations to pension provisions	6.1	7.0	1.4	1.6	2.4	2.5
Depreciation of property, plant and equipment and amortization of intangible assets	87.6	90.6	22.8	23.3	29.9	28.6
of which reversals of impairment losses	–	–	–	–	–	–
of which scheduled depreciation of property, plant and equipment and amortization of intangible assets	87.6	90.6	22.8	23.3	29.9	28.6
EBIT before depreciation and amortization (EBITDA)	201.5	75.0	32.4	14.1	33.5	44.2
Earnings before interest and taxes (EBIT)	113.9	−15.6	9.6	−9.3	3.6	15.6
Segment earnings before taxes	94.2	−37.3	5.7	−17.0	−2.7	9.4
of which result from investments accounted for using the equity method	–	–	–	–	−3.0	11.1
Investments in property, plant and equipment and intangible assets	52.5	108.8	11.7	11.2	26.5	23.5

Trading		Technology		Total segments		Industrial Participations / Consolidation		Group	
H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016	H1 2017	H1 2016
1,675.7	1,425.5	630.1	641.7	4,514.9	3,873.4	101.2	94.1	4,616.2	3,967.5
50.0	13.6	0.3	0.2	868.9	686.7	334.4	281.2	1,203.3	968.0
0.0	0.1	–	–	197.9	146.3	–	–	197.9	146.3
1,725.8	1,439.2	630.4	641.9	5,581.7	4,706.4	435.7	375.4	6,017.3	5,081.8
1.3	1.5	1.9	1.8	4.3	4.4	5.3	4.4	9.6	8.8
–	–	–	–	0.0	–	20.5	23.4	20.5	23.4
4.1	1.4	0.4	0.2	5.2	2.3	–	–	5.2	2.3
5.4	2.9	2.3	2.0	9.6	6.7	25.8	27.8	35.4	34.5
6.7	4.6	1.0	1.6	20.3	20.5	30.8	24.0	51.1	44.5
0.0	–	–	–	0.0	–	5.2	2.3	5.2	2.3
0.2	0.1	1.2	0.3	20.5	23.4	–	–	20.5	23.4
6.9	4.7	2.2	2.0	40.8	44.0	36.0	26.2	76.8	70.2
1.1	1.2	1.0	1.2	11.9	13.5	9.1	11.8	20.9	25.3
5.2	5.1	10.7	11.0	156.3	158.7	13.4	13.6	169.7	172.3
–	–	–	–	–	–	–	–	–	–
5.2	5.1	10.7	11.0	156.3	158.7	13.4	13.6	169.7	172.3
41.3	23.4	24.2	23.6	332.8	180.3	–21.5	43.8	311.3	224.1
36.0	18.4	13.5	12.6	176.6	21.6	–34.9	30.2	141.7	51.8
34.6	16.5	13.6	12.6	145.4	–15.7	–45.1	31.8	100.2	16.1
–	–	–	–	–3.0	11.1	54.9	24.4	51.9	35.5
3.3	3.3	7.4	11.2	101.4	157.9	7.0	8.8	108.4	166.8

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

1. The consolidated financial report of Salzgitter AG, Salzgitter (SZAG), for the reporting period from January 1 to June 30, 2017, has been prepared as a condensed report with selected notes. The report has been drawn up, as before, in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) in consideration of the requirements set out under IAS 34 for condensed interim reports.
2. In comparison with the annual financial statements as at December 31, 2016, no changes have been made in the accounting, valuation, calculation and consolidation methods applied to the interim financial statement for the period ended June 30, 2017.
3. In calculating the fair value of defined benefit obligations as of June 30, 2017, an actuarial rate of 1.75 % was applied, unchanged in comparison with December 31, 2016.
4. Owing to losses over many years, HSP Hoesch Spundwand und Profil Gesellschaft mit beschränkter Haftung (HSP) terminated the production of heavy section steel products, in particular sheet piling and mining sections, in December 2015. The delivery of products was, however, partly still scheduled in the beginning of 2016. Since then, the decommissioning of production sites is being carried out, which will be terminated in October 2017. HSP and all the associated sheet piling activities are disclosed as a discontinued operation in accordance with the standards laid down under IFRS 5. The results from this discontinued operation are disclosed in a separate line in the income statement, set apart from the earnings and expenses of continuing operations. The tables below include a transition of the income statement from continuing operations to an income statement that comprises both continuing as well as discontinued operations.

Result from discontinued operations

	H1 2017			H1 2016		
	Discontinued operation	Continuing operations	Total	Discontinued operation	Continuing operations	Total
In € m						
Sales	–	4,616.2	4,616.2	13.3	3,954.3	3,967.5
Increase/decrease in finished goods and work in process/other own work capitalized	–	37.9	37.9	−6.8	−48.0	−54.9
	–	**4,654.1**	**4,654.1**	**6.4**	**3,906.2**	**3,912.6**
Other operating income	2.5	142.7	145.2	0.9	102.9	103.7
Cost of materials	–	3,086.9	3,086.9	1.5	2,529.1	2,530.5
Personnel expenses	0.7	840.6	841.3	0.8	823.4	824.2
Amortization and depreciation of intangible assets and property, plant and equipment	–	169.7	169.7	–	172.3	172.3
Other operating expenses	1.9	615.4	617.3	1.8	474.4	476.3
Income from shareholdings	–	5.6	5.6	–	3.0	3.0
Result from investments accounted for using the equity method	–	51.9	51.9	–	35.5	35.5
Finance income	–	10.3	10.3	0.0	9.0	9.0
Finance expenses	0.1	51.5	51.7	0.1	44.4	44.5
Earnings before taxes (EBT)	**−0.2**	**100.4**	**100.2**	**3.1**	**13.0**	**16.1**
Income tax	–	35.6	35.6	–	6.7	6.7
Consolidated result	**−0.2**	**64.9**	**64.7**	**3.1**	**6.2**	**9.3**

The cash flow statement comprises the cash flows of the entire Group, including the discontinued operation. The table below shows the cash flows only for the discontinued operation:

Condensed cash flow statement for the discontinued operation

In € m	**H1 2017**	**H1 2016**
Cash flow from operating activities	−2.4	−3.5
Cash outflow/inflow from investment activities	–	0.2
Cash inflow/outflow from financing activities	–	−0.0
Change in cash and cash equivalents of the discontinued operations	**−2.4**	**−3.3**

Selected explanatory notes to the income statement

1. Sales by business segment are shown in the segment report.
2. Earnings per share are calculated in accordance with IAS 33. Basic earnings per share, calculated from the weighted number of shares of SZAG, came to €1.14 in the period under review. Dilution would occur if earnings per share were reduced through the issuance of potential shares from option and conversion rights. Such rights, attached to a convertible bond, existed as of the balance sheet date. When taken into account there is a decrease in earnings per share from continuing operations, as a result of which these option and conversion rights have a dilutive effect. Diluted earnings per share amount to €1.09.

Correction of prior-year accounts

Due to a retrospective correction to the value of inventory belonging to a subsidiary in the Plate / Section Steel Business Unit, the figure recognized for the 2014 period and earlier was adjusted by € 50.9 million directly in equity in accordance with the pertinent IFRS standards. In the financial year 2015, a further reduction of € 8.5 million was carried out through profit or loss. In this context, income tax liabilities of € 1.4 million were taken account of on balance, thereby correcting the equity disclosed in previous years that was too high, without effect on income.

The adjustments to the account are shown in the table below:

€ m	Issued consolidated financial statement	Adjustment	Adjusted consolidated financial statement
	2016/06/30		2016/06/30
Income tax assets	23.2	3.2	26.4
Inventories	1,688.5	–59.4	1,629.0
Equity	2,653.5	–55.7	2,597.8
Deferred income tax liabilities	27.4	–0.6	26.9

Disclosures on fair value

Fair value disclosures comply with the standards set out under IFRS 13 "Fair Value Measurement". A deviation between the book value and fair value results from the reporting of a convertible bond and a bond exchangeable into shares at amortized cost.

The calculation of fair value disclosures for non-current financial assets and liabilities not accounted for by applying fair value is always carried out by discounting future cash flows. In this instance, a term-dependent interest rate was applied that reflected the risk-free rate and the default risk derived from a peer group of the Salzgitter Group.

Book value and fair value of the bonds:

In € million	Convertible bonds and exchangeable bond	
	2017/06/30	2016/12/31
Book value	418.9	414.0
Fair value	424.0	419.1

Related party disclosures

In addition to business relationships with companies that are consolidated fully and proportionately in the consolidated financial statements, relationships also exist with associated companies recognized at equity, as well as non-consolidated subsidiaries that must be designated as related companies in accordance with IAS 24. The category of other associated companies comprises the majority interests and joint ventures of the Federal State of Lower Saxony.

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

In € million	Sale of goods and services	Purchase of goods and services	Receivables	Liabilities
	01/01/-06/30/2017	01/01/-06/30/2017	2017/06/30	2017/06/30
Non consolidated group companies	27.7	4.6	40.4	4.4
Joint ventures	154.9	104.9	36.2	6.4
Joint operations	4.6	0.7	1.1	32.8
Other related parties	–	0.6	7.1	91.6

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

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

Assurance from the Legal Representatives

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

Salzgitter, August 2017
The Executive Board of Salzgitter AG

Fuhrmann Becker Kieckbusch

Legal disclaimer

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

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

Unless otherwise indicated, all figures and corresponding information as well as the guidance include the sheet piling activities that were discontinued at the end of 2015.

The Quarterly statement of Salzgitter AG (SZAG) is also available in German. In the event of any discrepancy, the German version shall prevail.

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