H1

Interim Report
1st Half 2018

SALZGITTER AG
Stahl und Technologie

Contents

The Salzgitter Group in Figures

		H1 2018	H1 2017	+/–
Crude steel production	**kt**	**3,528.9**	**3,415.3**	**113.6**
External sales	**€ m**	**4,617.1**	**4,616.2**	**0.9**
Strip Steel Business Unit	€ m	1,242.7	1,102.2	140.5
Plate / Section Steel Business Unit	€ m	554.5	537.6	16.9
Mannesmann Business Unit	€ m	563.4	569.3	–5.8
Trading Business Unit	€ m	1,548.8	1,675.7	–126.9
Technology Business Unit	€ m	610.0	630.1	–20.1
Industrial Participations / Consolidation	€ m	97.6	101.2	–3.7
EBIT before depreciation and amortization (EBITDA)	**€ m**	**406.6**	**311.3**	**95.3**
Earnings before interest and taxes (EBIT)	**€ m**	**237.2**	**141.7**	**95.5**
Earnings before taxes (EBT)	**€ m**	**198.6**	**100.2**	**98.4**
Strip Steel Business Unit	€ m	109.7	94.2	15.6
Plate / Section Steel Business Unit	€ m	22.0	5.7	16.4
Mannesmann Business Unit	€ m	12.3	–2.7	15.0
Trading Business Unit	€ m	25.0	34.6	–9.6
Technology Business Unit	€ m	20.5	13.6	6.9
Industrial Participations / Consolidation	€ m	9.1	–45.1	54.2
Consolidated net income/loss	**€ m**	**135.4**	**64.7**	**70.7**
Earnings per share – basic	**€**	**2.45**	**1.14**	**1.31**
Return on capital employed (ROCE)[1]	**%**	**12.8**	**7.3**	**5.5**
Cash flow from operating activities	**€ m**	**170.1**	**–72.2**	**242.3**
Investments[2]	**€ m**	**135.8**	**108.4**	**27.5**
Depreciation/amortization[2]	**€ m**	**–169.4**	**–169.7**	**0.2**
Total assets	**€ m**	**8,481.7**	**8,611.5**	**–129.9**
Non-current assets	**€ m**	**3,621.9**	**3,783.1**	**–161.2**
Current assets	**€ m**	**4,859.8**	**4,828.5**	**31.3**
of which inventories	€ m	2,152.3	2,044.6	107.7
of which cash and cash equivalents	€ m	528.6	531.2	–2.6
Equity	**€ m**	**3,075.9**	**2,842.6**	**233.3**
Liabilities	**€ m**	**5,405.8**	**5,768.9**	**–363.1**
Non-current liabilities	€ m	3,281.3	3,256.0	25.2
Current liabilities	€ m	2,124.5	2,512.9	–388.4
of which due to banks[3]	€ m	460.7	475.0	–14.3
Net financial position on the reporting date[4]	**€ m**	**239.5**	**24.2**	**215.3**
Employees				
Personnel expenses	€ m	–862.3	–841.3	–20.9
Core workforce on the reporting date[5]	empl.	23,273	23,296	–23
Total workforce on the reporting date[6]	empl.	24,919	25,032	–113

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

Profitability of the Group and Business Units

Earnings Situation within the Group

		Q2 2018	Q2 2017	H1 2018	H1 2017
Crude steel production	kt	1,755.1	1,675.7	3,528.9	3,415.3
External sales	**€ m**	**2,309.6**	**2,262.3**	**4,617.1**	**4,616.2**
EBIT before depreciation and amortization (EBITDA)	€ m	213.6	126.5	406.6	311.3
Earnings before interest and taxes (EBIT)	€ m	128.7	41.8	237.2	141.7
Earnings before taxes (EBT)	**€ m**	**102.7**	**23.1**	**198.6**	**100.2**
Consolidated net income/loss	**€ m**	**70.1**	**15.9**	**135.4**	**64.7**
Return on capital employed (ROCE)[1)]	**%**	**13.9**	**4.0**	**12.8**	**7.3**
Investments[2)]	€ m	66.7	52.7	135.8	108.4
Depreciation/amortization[2)]	€ m	–84.9	–84.7	–169.4	–169.7
Cash flow from operating activities	€ m	69.5	–42.6	170.1	–72.2
Net financial position[3)]	**€ m**			**239.5**	**24.2**
Equity ratio	%			36.3	33.0

[1)] Annualized
[2)] Excluding financial investments
[3)] Including investments, e.g. securities and structured investments

In the first half of 2018, the Salzgitter Group achieved the best result in **earnings before taxes** since 2008. The figure came in at € 198.6 million, which is almost double compared with the year-earlier period (€ 100.2 million). Along with the strong performance of the Strip Steel Business Unit, all other segments contributed to this impressive development with positive results. The Salzgitter Group's **external sales** remained unchanged compared with the year-earlier level. The growth in the sales of the Strip Steel Business Unit, above all on the back of selling prices, more than compensated for the decline in the Trading Business Unit. Earnings before taxes comprise € 25.1 million in after-tax contribution from a participating investment in Aurubis AG, a company included at equity (H1 2017: € 53.7 million). The **after-tax result** stood at € 135.4 million and exceeded the previous year's figure (€ 64.7 million) significantly. Earnings per share therefore came in at € 2.45 and return on capital employed at 12.8 %. An equity ratio of 36.3 % and a net financial position that has risen to € 239.5 million (2017/06/30: € 24.2 million) form the basis of the Salzgitter Group's comfortable financial basis and sound balance sheet.

Special Items/EBT Business Units and Group

In € million	EBT		Restructuring		Impairment/ Reversal of impairment		Other		EBT without special items	
	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017
Strip Steel	109.7	94.2	0.0	0.0	0.0	0.0	0.0	0.0	109.7	94.2
Plate / Section Steel	22.0	5.7	0.0	0.0	0.0	0.0	0.0	0.0	22.0	5.7
Mannesmann	12.3	–2.7	0.0	0.0	0.0	0.0	0.0	0.0	12.3	–2.7
Trading	25.0	34.6	0.0	0.0	0.0	0.0	0.0	0.0	25.0	34.6
Technology	20.5	13.6	0.0	0.0	0.0	0.0	0.0	0.0	20.5	13.6
Industrial Participations / Consolidation	9.1	–45.1	0.0	0.0	0.0	0.0	0.0	0.0	9.1	–45.1
Group	**198.6**	**100.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**198.6**	**100.2**

Return on Capital employed (ROCE)

In € million	H1 2018	H1 2017
EBT	198.6	100.2
+ Interest expenses	45.2	51.1
– Interest expenses for pension provisions	17.8	20.9
= EBIT I	**226.1**	**130.4**
Total assets	8,481.7	8,611.5
– Pension provisions	2,418.0	2,427.2
– Other provisions excluding provision for income taxes	535.4	511.2
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting, derivatives	1,635.4	1,740.0
– Deferred tax claims	354.7	348.5
= Capital employed	**3,538.1**	**3,584.6**
in %		
ROCE	**12.8**	**7.3**

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. ROCE reached 12.8%, substantially outperforming the year-earlier figure.

More detailed explanations on the derivation of ROCE are provided in the section on “Financial Control System” of the 2017 Annual Report.

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

In € million	H1 2018	H1 2017
EBT	198.6	100.2
+ Interest expenses	45.3	51.1
– Interest income	6.7	9.6
= EBIT	**237.2**	**141.7**
+ Depreciation/amortization[1]	169.4	169.7
= EBITDA	**406.6**	**311.3**

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

The EBIT and EBITDA earnings ratios indicate the operating strength of a company set apart from its capital structure. These ratios allow 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. With depreciation and amortization settling around the previous year's level as well as a similarly high interest income, the improvement in EBT is reflected in an increase in EBIT and EBITDA.

Strip Steel Business Unit

		Q2 2018	Q2 2017	H1 2018	H1 2017
Order intake	kt	1,142.7	1,110.3	2,383.0	2,305.3
Order backlog on reporting date	kt			906.4	927.6
Crude steel production	kt	1,118.7	999.7	2,278.4	2,136.3
Rolled steel production	kt	914.1	873.7	1,821.4	1,758.1
Shipments	kt	1,207.1	1,104.9	2,404.6	2,272.9
Segment sales[1)]	**€ m**	**826.2**	**748.0**	**1,630.6**	**1,479.7**
External sales	**€ m**	**633.3**	**553.3**	**1,242.7**	**1,102.2**
Earnings before taxes (EBT)	**€ m**	**47.2**	**40.5**	**109.7**	**94.2**

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

Market development

Demand on the world's steel market staged a general recovery, and global crude steel output rose slightly in comparison with the first six months of 2017. The order intake of European strip steel producers has seen strong growth over the course of the year to date. Price increases for strip steel products have contributed to margins firming up throughout the sector, particularly in the first quarter. The stability of Europe's steel market is nevertheless fragile, as growing protectionism may endanger market equilibrium. WTO-inconsistent import duties of 25 percent on steel introduced by the US in March 2018, from which the EU, Canada and Mexico were temporarily exempted, have been in force for imports from these regions since June 1, 2018. In order to avert the threat of damage to the domestic industry through another flood of imports as a potential consequence of a redirection effect, the EU responded on July 19, 2018, by introducing provisional safeguard measures on wide range of steel and tubes.

Procurement

Iron ore

The iron ore index moved within a range of between 54 and 95 USD/dmt in 2017. Expressed as an annual average for 2017, the figure stood at approximately 71 USD/dmt. The fluctuations persisted in the first quarter of 2018. With the prospect of strong demand after the vacation period following Chinese New Year celebrations in February, prices rose initially but, by the end of the reporting period, had settled within a narrow band of between 63 and 68 USD/dmt in the wake of the weaker-than-expected developments. The average price in the second quarter came in at 65.35 USD/dmt. Inventories in Chinese ports reached a new record of around 160 million tons.

Coking coal

Pricing on the coking coal market has largely been determined by the index since the second quarter of 2017. The spot market proved to be very volatile in 2017 with prices ranging between 139.50 and 304.00 USD/t FOB Australia. Annual average spot prices settled at 187.99 USD/t. Buying restraint before the Chinese New Year, weaker-than-expected demand from China after the festive season, and only slight constraints on production and logistics due to the weather conditions in Australia caused prices to decline from 260.00 to 196.50 USD/t FOB Australia in the first quarter of 2018. The trend continued through to the end of April and bottomed out at 179.00 USD/t FOB Australia. This price level made it attractive for many Chinese consumers to procure coal from across the seas rather than on the domestic market. With demand increasing, prices also began to rise again. Additional concerns about supply bottlenecks owing to capacity problems of the Australian railway company in the most important coal mining area of Queensland had pushed prices up again by the end of June to a level of 200 USD/t FOB Australia. Prices in the second quarter averaged 190.23 USD/dmt.

Business development
The healthy demand for steel in Germany and the EU resulted in higher **order intake** and **shipments** for the Strip Steel Business Unit in comparison with the previous year's period. Similarly, **crude steel** and **rolled steel production** also increased. **Orders on hand** remained stable. **Segment** and **external sales** rose significantly, above all on the back of selling prices. Boosted by the higher selling prices of strip steel products, the segment's **pre-tax profit** that came in at € 109.7 million achieved pleasing growth compared with the first half of 2017 (€ 94.2 million). A counter trend emanated from higher procurement prices for raw materials, especially coking coal and scrap.

Investments
In the first half of 2018, the Strip Steel Business Unit focused its investments on new aggregates as well as on optimizing and extending its existing facilities. SZFG is pursuing its strategy of developing its portfolio in the direction of high and ultra-high grades by committing additional investments. With this in mind, a new hot strip slitting plant that is ideally suited to these product requirements is being installed. In addition, construction work on a new coil binding line commenced. The investment in a third hot-dip galvanizing line approved in 2017 at the Salzgitter site is in the bidding phase.

Plate / Section Steel Business Unit

		Q2 2018	Q2 2017	H1 2018	H1 2017
Order intake	kt	535.7	514.3	1,165.0	1,100.4
Order backlog on reporting date	kt			370.5	315.8
Crude steel production	kt	299.8	306.2	589.9	560.2
Rolled steel production	kt	598.9	588.2	1,210.1	1,187.0
Shipments[1]	kt	561.1	577.9	1,209.8	1,203.2
Segment sales[2]	**€ m**	**456.6**	**434.7**	**954.4**	**885.7**
External sales	**€ m**	**267.9**	**272.1**	**554.5**	**537.6**
Earnings before taxes (EBT)	**€ m**	**12.7**	**–3.7**	**22.0**	**5.7**

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

Market development
After a modest start, the market and demand situation on **Europe's heavy plate market** brightened as from the second quarter of 2018 onward. The healthy economy in Germany and in the neighboring countries has elicited sound demand from customers and consumers in the respective sectors and application areas. Imports from countries outside Germany are still significant: While Chinese imports have declined massively, deliveries from South Korea and India have almost made up for them. The selling price situation in Western Europe, especially for simple grades, is currently stable, as opposed to the project business that is dominated by international competition.

The acceleration in the placing of orders on the **European sections market** initially enabled the urgently needed price increases to be implemented. The building up of inventory by the stockholding steel trade and producers' speculations about lower prices from the falling scrap price in February led to a decline in new orders placed with the plants over the course of the year. As from mid-March, orders began to rise again on the back of somewhat brisker demand and adjustments to stocks. Producers counteracted concerns about unused capacities over the period through price concessions and bookings of export volumes.

Procurement
Steel scrap
Despite robust demand and the growing scrap requirements of domestic steelworks, prices had already dropped by around €15/t in February following an increase at the start of the year. This development was triggered by Turkish scrap importers withdrawing from the deep sea shipping market. Toward the end of the month, Turkish steelworks resumed discussions with potential sellers. After the first deals resulted in a marginal increase, prices then rose in small, but steady increments. Combined with very healthy domestic demand, this led in March to prices rising by up to €+20/t in Germany. During the second quarter, steel scrap prices declined by up to € 4/t depending on the grade compared with the first quarter despite the strong demand of domestic steel works and those in the EU region. This development was again above all attributable to prices in the deep sea market that dropped considerably, impacted by the downturn of Turkish plants' reinforced concrete prices and the strong depreciation of the Turkish lira.

Business development
In the first half of 2018, **order intake** and **orders on hand** of the Plate / Section Steel Business Unit came in above the previous year's figures. **Rolled steel production** and **shipments** settled at the year-earlier period. **Segment** and **external sales** increased, largely induced by selling prices. At € 22.0 million, the **pre-tax profit** significantly outperformed the year-earlier figure (€ 5.7 million) thanks to the gratifying increase in PTG's result. The heavy plate companies reported an overall result at the previous year's level.

Investments

The “Heavy Plate Strategy – Finishing Section 2” investment measure under the “Salzgitter AG 2021” growth program at ILG is in the implementation phase. This measure is aimed at enlarging the product portfolio and achieving an even stronger positioning in the higher-end grade segment. Selected individual projects aimed at improving the quality and process optimization are being implemented in the context of realizing efficiency measures.

Mannesmann Business Unit

		Q2 2018	Q2 2017	H1 2018	H1 2017
Order intake	€ m	383.7	379.1	766.6	791.0
Order backlog on reporting date[1]	€ m			555.4	455.0
Crude steel production Hüttenwerke Krupp Mannesmann (30 %)	kt	336.6	369.8	660.6	718.7
Shipments[1]	kt	150.0	166.1	284.2	321.1
Segment sales[2]	**€ m**	**437.9**	**443.7**	**838.3**	**860.0**
External sales	**€ m**	**292.4**	**280.0**	**563.4**	**569.3**
Earnings before taxes (EBT)	**€ m**	**10.7**	**0.3**	**12.3**	**– 2.7**

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

Market development
The first half of 2018 developed generally satisfactorily for the steel tubes industry. The healthy economy in the industrial nations, along with the sustained recovery in oil prices on the global markets, resulted in sound capacity utilization. In the US in particular, the volumes required were high, even against the backdrop of the increasing protectionist tendencies of America's trade policy. Overall demand for seamless steel tubes significantly exceeded the previous year's figures. Similarly, the manufacturers of welded steel tubes also reported good order activity. The producers of seamless and welded precision steel tubes continued to benefit from the healthy order book position of the automotive and mechanical engineering industries. The processing of a major project in the large-diameter pipes sector had a positive impact on the production figures in the segment of steel pipes in excess of 16".

Business development
The **order intake** of the Mannesmann Business Unit dropped slightly below the year-earlier period in the first six months of 2018 due mainly to the downturn in the order activity of Mannesmann Stainless Tubes Group (MST Group). By contrast, the **orders on hand** increased notably, also due to the lower **shipment volume**. Outside the group of consolidated companies, the new orders of the EUROPIPE Group (EP Group), a 50 % participation reported at equity, declined sharply. This development is above all attributable to the booking of the major EUGAL project in the first half of 2017. Orders on hand also settled appreciably below the year-earlier figure. **Segment** and **external sales** of the Mannesmann Business Unit fell slightly below the level of the previous year. With shipments remaining stable, the sales of the EP Group rose on the back of selling prices. With **earnings before taxes** of € 12.3 million (H1 2017: € –2.7 million), the business unit generated a gratifying result. The EP Group in particular reported a notable increase, while the results of the Mannesmann Precision Tubes Group (MPT Group) and Mannesmann Line Pipe GmbH (MLP) also improved significantly.

Investments
The investment activities of the Mannesmann Business Unit in 2018 are focused on expansion and replacement investments.As part of extending the **MPT Group's** Mexican precision tubes company at the El Salto location, Finishing Line 2 was installed, which has enabled serial production to begin. The investment of the **MST Group** in a large cold pilger machine at the Remscheid location is progressing according to plan. The measure is aimed at extending capacity and the product range in the seamless cold finished stainless steel segment by adding larger tube diameters. Commissioning has been scheduled for the second half of 2019. **MLP** is upgrading the seam-annealing system in the Siegen plant to improve the quality and optimize processes with a view to covering the growing qualitative requirements and extending the range of dimensions.

Trading Business Unit

		Q2 2018	Q2 2017	H1 2018	H1 2017
Shipments	kt	1,123.9	1,241.3	2,246.7	2,500.1
Segment sales[1)]	**€ m**	**811.5**	**841.2**	**1,586.6**	**1,725.8**
External sales	**€ m**	**789.0**	**814.0**	**1,548.8**	**1,675.7**
Earnings before taxes (EBT)	**€ m**	**11.3**	**13.0**	**25.0**	**34.6**

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

Market development
Demand on the international steel markets rose in the first half year of 2018. The price uptrend from the financial year 2017 largely held steady, with momentum slowing toward the end of the reporting period. Prices of the most important product groups in the European market were also on the rise.

Business development
The **shipment** volumes of the Trading Business Unit did not match year-earlier level, as the shipment of international trading was lower than in the previous year due to the lack of project business and the failure of high-volume orders to materialize. In addition, uncertainty in connection with the protectionist measures under Section 232 hampered business in the US in particular, as well as in other international trading. Similarly, the European stockholding steel trade also reported declining volumes. **Segment** and **external sales** did not repeat the previous year's figure despite the improved selling price situation due to lower volumes. Although the positive developments in the margins of the stockholding steel trade and of the Universal Eisen und Stahl Group (UES Group) were unable to repeat the high level achieved in the previous year, the business unit nevertheless generated presentable **earnings before taxes of** € 25.0 million in the first six months of 2018 (H1 2017: € 34.6 million).

Investments
Maintaining and upgrading existing facilities, as well as the measures initiated under the "Salzgitter AG 2021" strategy, form the focus of investments by the Trading Business Unit in 2018. Against this backdrop, the projects aimed at digitalizing sales processes mainly in the European stockholding steel progressed according to plan. The customer base of the digital trading activities was expanded again in the first six months of 2018. The business volume conducted via digital interfaces meanwhile accounts for almost 12 % of the German stockholding steel trade's shipments and sales.

Technology Business Unit

		Q2 2018	Q2 2017	H1 2018	H1 2017
Order intake	€ m	307.9	342.8	613.8	632.8
Order backlog on reporting date	€ m			706.3	629.6
Segment sales[1)]	**€ m**	**282.5**	**295.1**	**610.2**	**630.4**
External sales	**€ m**	**282.3**	**295.0**	**610.0**	**630.1**
Earnings before taxes (EBT)	**€ m**	**9.3**	**0.5**	**20.5**	**13.6**

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

Market development
According to the German Engineering Federation (VDMA), new domestic and foreign orders (VDMA) were considerably higher year on year. The sector also reported higher sales volumes. Order activity on the market for food and packaging machinery proved to be pleasing overall. While international business delivered strong growth, domestic business saw a noticeable decline in orders. Shipments fell slightly short of the year-earlier level.

Business development
The **order intake** of the Technology Business Unit almost achieved the year-earlier level in the first half of 2018. The new orders of the Klöckner Desma Elastomer Group (KDE Group) grew sharply as opposed to orders placed with the KHS Group and DESMA Schuhmaschinen GmbH (KDS) that declined. The segment's **orders on hand** clearly exceeded the previous year's level. **Segment** and **external sales** did not quite match the year-earlier figures. The KDE Group and KDS reported considerable growth, while sales of the KHS Group weakened notably. Thanks to the greater contributions of the two Desma companies, the **pre-tax profit** (€ 20.5 million) of the Technology Business Unit exceeded the year-earlier figure (€ 13.6 million) by 50 %. The result of the KHS Group remained stable.

"KHS Future", the updated comprehensive efficiency and growth program, was launched at the start of 2018 as a successor to the previous measures. The program is focused on lowering costs and expanding the service business and is already showing the first signs of success.

Investments
In the reporting period, the Technology Business Unit continued to focus 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. Implementation of the extensive modernization of the Bad Kreuznach site to ensure lean manufacturing was ongoing in various individual subprojects. Extensive investments geared to upgrading production and expanding assembly operations commenced at the Dortmund location. At KDS, the focus was placed on the "Fabrik der Zukunft" (factory of the future) investment approved in December 2017 and entailing the construction of office and production buildings on the existing site in Achim. The investment is aimed at sustainably ensuring KDS's growth and profitability and supports the achieving of the company's long-term goals as a technology, market and innovation leader. Productivity is also to be raised through optimizing the information and material flow and the assembly process.

Industrial Participations / Consolidation

		Q2 2018	Q2 2017	H1 2018	H1 2017
Sales[1)]	**€ m**	**214.5**	**210.5**	**465.3**	**435.7**
External sales	**€ m**	**44.6**	**47.8**	**97.6**	**101.2**
Earnings before taxes (EBT)	**€ m**	**11.5**	**– 27.3**	**9.1**	**– 45.1**

[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 € 465.3 million on the back of selling prices (H1 2017: € 435.7 million). **External sales** dropped slightly to € 97.6 million (H1 2017: € 101.2 million).

Earnings before taxes came in at € 9.1 million, and were therefore significantly higher compared with the year-earlier period (€–45.1 million). This figure includes the contribution of Aurubis AG, an investment included at equity, amounting to € 25.1 million (H1 2017: € 53.7 million). The previous year's period was additionally impacted by the negative valuation effect of the bond convertible into Aurubis shares (€–78.3 million) that was repaid in the fourth quarter of 2017 through the return of the shares. Reporting-date valuation effects of derivative positions as well as the net interest from the cash management of the consolidated group additionally underpinned the result of the first six months of 2018. The pre-tax result of the Group companies not directly assigned to a business unit dropped considerably below the figure achieved in first six months of 2017. This is essentially due to the lower result of the RSE Group that comprised income from the disposal of a non-core property in 2017.

Financial Position and Net Assets

Explanations on the balance sheet

The **total assets** of the Salzgitter Group rose by € 164 million in the current reporting period compared with December 31, 2017.

Non-current assets (€+56 million) increased owing in particular to the higher level of shares in the companies accounted for using the equity method (€+138 million). In the reporting period, the sum total of scheduled depreciation and amortization of fixed assets (€–169 million) came in above the level of investments in intangible assets and property, plant and equipment (€+136 million) and reduced the non-current assets. Deferred income tax assets declined in comparison with the previous year (€–39 million). The growth in **current assets** (€+108 million) resulted mainly from the selling price-induced higher level of trade receivables, including contract assets (€+154 million). Explanations on the contract assets to be disclosed separately for the first time in 2018 due to the application of IFRS 15 can be found under item 5 in the section on “Principles of accounting and consolidation, balance sheet reporting and valuation methods”. Inventories also increased (€+68 million). Higher working capital was offset by lower cash and cash equivalents (€–151 million).

On the **liabilities side**, equity increased slightly due to the good result (€+86 million). The higher equity ratio amounts to a sound 36.3%. Non-current liabilities were € 40 million lower compared with the prior-year reporting date. Given an actuarial interest rate of 1.50%, unchanged from the reporting date, pension reserves remained at virtually the same level (€–22 million). Non-current financial assets declined by € 12 million. Current liabilities climbed by € 118 million, mainly due to the increase in trade payables including contractual obligations (€+60 million), as well as to the growth in other current liabilities (€+64 million).

The **net financial position** dropped to € 240 million due above all to the investments in non-current assets (2017/12/31: € 381 million). Cash investment, including securities (€ 868 million; 2017/12/31: € 1,020 million), was offset by liabilities of € 629 million (2017/12/31: € 639 million), of which € 461 million were owed to banks (2017/12/31: € 471 million).

Net financial position

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

In € million	2018/06/30	2017/12/31
Cash and cash equivalents acc. to balance sheet	528.6	679.4
+ Certificates held for trading	200.0	200.0
+ Other investments of funds	139.5	140.5
= Investments of funds	**868.1**	**1,019.9**
Financial liabilities acc. to balance sheet	658.4	671.6
– Liabilities from leasing agreements, from financing/ financial transactions and other	29.8	32.1
= Financial liabilities of net financial position	**628.6**	**639.4**
Net financial position	**239.5**	**380.5**

Notes to the cash flow statement

With a pre-tax profit of € 199 million, the cash flow **from operating activities** was positive at € 170 million (previous year: €–72 million), due in particular to the substantially lower increase in working capital in comparison with the year-earlier period, along with the improved result.

The **cash outflow from investing activities** of € 276 million (previous year: €–175 million) largely reflects disbursements for capital expenditure in intangible assets and property, plant and equipment (€–143 million) and in other non-current assets (€–133 million). The latter disbursement essentially comprises the additional acquisitions of the participating investment in Aurubis AG accounted for using the equity method.

Dividend payments to our shareholders, interest payments, along with the redemption of loans constituted a **cash outflow from financing activities** of € 46 million (previous year: €–34 million).

As a result of the negative overall cash flow, **cash and cash equivalents** (€ 529 million) declined accordingly compared with December 31, 2017.

Employees

	2018/06/30	2017/12/31	Change
Core workforce[1)]	**23,273**	**23,139**	**134**
Strip Steel Business Unit	6,175	6,092	83
Plate / Section Steel Business Unit	2,466	2,479	– 13
Mannesmann Business Unit	4,623	4,638	– 15
Trading Business Unit	1,984	1,959	25
Technology Business Unit	5,419	5,386	33
Industrial Participations / Consolidation	2,606	2,585	21
Apprentices, students, trainees	1,157	1,422	– 265
Non-active age-related part-time employment	490	513	– 23
Total workforce	**24,919**	**25,074**	**– 155**

Rounding differences may occur due to pro-rata shareholdings

[1)] Excluding executive body members

The **core workforce** of the Salzgitter Group came to 23,273 employees on June 30, 2018, representing an addition of 134 staff members since December 31, 2017.

A total of 221 trainees were hired during the reporting period, 171 of whom were given temporary contracts. Besides the programs of measures, counter effects emanated above all from staff entering into non-active age-related part-time or reaching retirement age.

The **total workforce** comprised 24,919 employees.

The number of **temporary staff** outsourced stood at 1,344 on June 30, 2018, which marks an increase of 94 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 the financial year 2018 will develop as follows:

The flood of cheap Chinese imports has declined notably in the European strip steel market following on from the EU's anti-dumping measures. Import pressure, however, has increased overall due to the considerable influx from other countries such as Turkey, India and South Korea – and also because of the first redirection effects resulting from US anti-dumping duties. The market environment therefore remains sensitive. At present, however, the economic position of the **Strip Steel Business Unit** is very positive. Assuming that demand remains robust, flanked by EU safeguard measures, we anticipate sales that are significantly higher compared with the year-earlier figure and a pre-tax profit at the level of the outstanding previous year's result.

As before, the **Plate / Section Steel Business Unit** continues to be exposed to a difficult environment. The heavy plate market is still characterized by high import volumes from non-EU countries into the EU although there are signs of the situation brightening a little as the year progresses. Despite sustained volatility of scrap prices and the speculative buying patterns of customers in the sections market, we expect that Peiner Träger GmbH will continue to perform well. All three locations predict largely sound capacity utilization. The heavy plate companies continue to benefit from the extensive cost reduction and efficiency enhancing measures. In addition, the expansion of business at the Ilsenburg plant to include higher-end grades, facilitated by the more intensive use of vacuum treated input material following the commissioning of Salzgitter Flachstahl GmbH's RH plant, should show the first positive effects. All in all, the business unit anticipates moderate sales growth and a significant reduction in its pre-tax loss moving toward virtual breakeven level.

The development of the **Mannesmann Business Unit's** companies is proving to be disparate in 2018 as well. After the end of the Nord Stream 2 project, the EUROPIPE Group's large-diameter pipe mill still remains temporarily well booked with the connecting EUGAL pipeline. The recovery in the US market has improved the US steelworks' order situation. Demand in the medium-diameter line pipe segment, accompanied by higher selling prices, is likely to slow due to business in North America, falling below the exceptionally good year-earlier period. Mannesmann Grossrohr GmbH is confronted by ongoing reticence in awarding projects. The precision tubes business should benefit from the uptrend in selling prices and widening margins, while the stainless steel segment continues to operate in a harsh competitive environment and anticipates an only marginal improvement compared with the previous year. All in all, we anticipate sales of the business unit at the previous year's level, as well as a substantially improved, again positive pre-tax result. The success of the profit enhancing programs should make a contribution in this context.

The **Trading Business Unit** expects a slight downturn in sales in the financial year 2018 as the other areas will not be able to fully compensate for the subdued activities in international trading. Compared with the exceptionally successful previous year, with a temporary widening of margins, earnings are increasingly returning to normal levels. The Trading Business Unit therefore predicts a gratifying pre-tax profit that will nevertheless fall considerably short of the previous year's outstanding figure.

Based on the high level of orders on hand and good order intake, the **Technology Business Unit** expects a moderate increase in sales. In view of the fierce price-led competition for the project business, the KHS Group will rely on growth in the profitable product segments as well as on expanding its service business. In addition, the measures implemented to raise efficiency should have a positive impact. In conjunction with the promising outlook for the two specialist mechanical engineering companies of the DESMA Group, a tangible increase in pre-tax profit is expected.

Against the backdrop of uncertainty from trade policies and their possible impact, Salzgitter AG is leaving its guidance for the financial year 2018 unchanged – notwithstanding the currently positive situation of our key sales markets – and continues to anticipate

- a slight increase in sales to above the € 9 billion mark,
- a pre-tax profit of between € 250 million and € 300 million and
- a return on capital employed that is stable compared the previous year's figure.

Moreover, we make explicit reference to the fact that imponderables, including changes in the cost of raw materials, precious metal prices and exchange rates may have a considerable impact over the course of the financial year 2018. The resulting fluctuation in the consolidated pre-tax result may be within a considerable range, either to the positive or to the negative. The dimensions of this range become clear if one considers that, with around 12 million tons of steel products sold by the Strip Steel, Plate / Section Steel, Mannesmann and Trading business units, an average € 25 change in the margin per ton is sufficient to cause a variation in the annual result of more than € 300 million. Moreover, the accuracy of the company's planning is restricted by the volatile cost of raw materials and shorter contractual durations, on the procurement as well as on the sales side.

Risk management

At the time of reporting there were no risks that could endanger the Salzgitter Group as a going concern. With regard to the individual **opportunities and risks**, we make reference to the Annual Report 2017.

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.

Sectoral risks
The ongoing structural crisis in the global steel market, with massive distortions of competition in countries outside the EU, and sustained import pressure and foreign policy developments burden our business. Despite the numerous trade defense measures adopted by the EU Commission, imports into the European Union remained very high and were running at record levels in the reporting period. Other regions, such as India, South Korea or Turkey, have replaced Chinese imports that have declined due to anti-dumping duties. Suppliers with aggressive pricing, such as the Ukraine, are preventing a stronger recovery in a number of product segments, as evidenced in the heavy plate market for instance. Whether dumping and damage to the market is also the case with these imports is regularly investigated by Eurofer as Europe's umbrella organization for steel.

Especially noteworthy are the risks arising from political developments in the US. At the end of March, the US imposed protective tariffs as a result of their investigation on whether steel imports pose a threat to national security (Section 232). Following an exemption lasting two months, import duties of 25 % have been applicable to steel imports from the EU as well since June 1, 2018. The EU initially responded on June 1, 2018, by filing a lawsuit with the world Trade Organization (WTO) against this action by the US. Owing to the preceding and unsuccessful attempt to resolve the dispute before the WTO, the EU Commission also introduced import duties on US products worth € 2.8 billion as a compensatory measure. The EU remains willing to negotiate with the US, while nevertheless insisting on full exemption from the US import duties – with no quota system – as the EU countries as long-term allies and NATO partners do not constitute any danger whatsoever to the national security of the US.

The direct impact of the protective tariffs on the Salzgitter Group's US business is moderate. Along with risks for export, opportunities also arise locally for the producing companies. Risks from an additional increase in imports arise as an indirect consequence for the European steel industry: Due to the surplus capacities that exist on a global scale, the countries affected by the US protective tariffs might redirect their faltering export volumes into the EU market. In this context, the EU Commission opened a safeguard clause procedure on March 26, 2018, in order to investigate the threat of damage to the domestic industry from a flood of imports of up to 13 million tons a year. On July 19, 2018, the EU Directorate General for Trade introduced provisional safeguard measures on a wide range of steel and tubes. To the exception of seamless tubes, all Salzgitter products are covered by the measures. By the start of February 2019 at the latest, a decision must be taken on the introduction of final safeguards that would then take effect for four years.

Furthermore, Salzgitter AG (SZAG) is affected by the US trade defense measures through anti-dumping proceedings against heavy plate and wide strip imports. The Group brought an appeal before the US International Court of Trade (ITC) against the, in our view unjustified, anti-dumping duty of 22.9 % imposed in May 2017.

In the matter of US anti-dumping proceedings against cold drawn precision tubes from Germany, among other countries, the ITC ruled on May 17, 2018 that the defendants' imports have inflicted damage on the US market. The ITC finally enacted the anti-dumping duties as a consequence. Irrespective of this decision, precision tube deliveries to the US are still possible via the local companies in France, the Netherlands and Mexico.

Personnel risks

As of January 1, 2014, SZAG and its domestic Group companies carried out the examination on adjusting company pensions prescribed under Section 16 of the German Occupational Pensions Improvement Act (BetrAVG). The financial position of each individual company was definitive for the adjustment decision. Given the unsatisfactory financial situation, the pensions awarded by several Group companies were not adjusted as of January 1, 2014. A model procedure was signed with IG Metall for the purpose of reducing legal costs. Under this agreement, the decision-making principles of the legally valid model procedure are to be transferred to other employees with pension expectancies of the respective companies. As of December 31, 2017, final judgments had been made in five model proceedings. The full subsequent adjustment to company pensions that was omitted in 2014 – to the exception of final decisions on entitlement proceedings through to December 31, 2017 – would have resulted in an increase in the capitalized net pension obligation of around € 28.0 million. As of the reporting date, a final ruling had not been made in the case of only one company. The residual amount of loss is therefore now less than € 1 million.

Interim Report

I. Consolidated Income Statement

In € million	Q2 2018	Q2 2017	H1 2018	H1 2017
Sales	2,309.6	2,262.3	4,617.1	4,616.2
Increase/decrease in finished goods and work in process/other own work capitalized	10.8	21.9	29.7	37.9
	2,320.4	2,284.1	4,646.8	4,654.1
Other operating income	91.4	69.1	147.2	145.2
Cost of materials	1,508.9	1,510.7	3,013.9	3,086.9
Personnel expenses	439.8	426.7	862.3	841.3
Amortization and depreciation of intangible assets and property, plant and equipment	84.9	84.7	169.4	169.7
Other operating expenses	274.0	313.5	544.7	617.3
Income from shareholdings	4.6	4.9	4.8	5.6
Result from investments accounted for using the equity method	21.3	18.8	30.8	51.9
Finance income	3.0	4.9	6.7	10.3
Finance expenses	30.4	23.2	47.4	51.7
Earnings before taxes (EBT)	**102.7**	**23.1**	**198.6**	**100.2**
Income tax	32.6	7.2	63.3	35.6
Consolidated result	**70.1**	**15.9**	**135.4**	**64.7**
Amount due to Salzgitter AG shareholders	68.4	14.6	132.5	61.6
Minority interest	1.7	1.3	2.9	3.0
Appropriation of profit				
Consolidated result	70.1	15.9	135.4	64.7
Profit carried forward from the previous year	–	–	27.1	21.1
Minority interest in consolidated net loss for the year	1.7	1.3	2.9	3.0
Dividend payment	–24.3	–16.2	–24.3	–16.2
Transfer from (+)/to (–) other retained earnings	–68.4	–14.6	–132.4	–61.6
Unappropriated retained earnings of Salzgitter AG	**–24.3**	**–16.2**	**2.8**	**4.9**
Earnings per share (in €) – basic	**1.27**	**0.27**	**2.45**	**1.14**
Earnings per share (in €) – diluted	**1.20**	**0.26**	**2.32**	**1.09**

II. Statement of Comprehensive Income

In € million	Q2 2018	H1 2018	Q2 2017	H1 2017
Consolidated result	**70.1**	**135.4**	**15.9**	**64.7**
Recycling				
Reserve from currency translation	5.1	–0.8	–15.6	–15.0
Changes in value from cash flow hedges	10.1	–9.7	–34.1	–43.1
Fair value change	21.7	13.5	–23.1	1.1
Basis adjustments	–10.5	–22.4	–10.4	–41.7
Recognition with effect on income	–	0.3	–1.5	–3.3
Deferred tax	–1.1	–1.1	0.9	0.7
Change in value due to available-for-sale financial assets	–0.1	–0.5	0.3	–0.2
Fair value change	–0.1	–0.5	0.3	–0.2
Recognition with effect on income	–	–	–	–
Deferred tax	–	–	–	–
Changes in value of investments accounted for using the equity method	3.7	1.3	–5.7	–7.2
Fair value change	–0.9	–0.9	–0.6	–0.6
Recognition with effect on income	–	–	–	–
Currency translation	4.6	2.3	–5.3	–6.9
Deferred tax	–0.0	–0.0	0.3	0.3
Deferred taxes on other changes without effect on the income	–0.0	–0.0	–0.0	–0.0
Subtotal	18.7	–9.6	–55.2	–65.5
Non-recycling				
Remeasurements	–90.6	–0.0	–0.0	–0.0
Remeasurement of pensions	–90.6	–0.0	–0.0	–0.0
Deferred tax	–	–	–	–
Changes in value of investments accounted for using the equity method	1.2	1.2	10.0	10.0
Subtotal	–89.5	1.1	10.0	10.0
				–
Other comprehensive income	**–70.7**	**–8.5**	**–45.1**	**–55.5**
Total comprehensive income	**–0.6**	**126.9**	**–29.2**	**9.2**
Total comprehensive income due to Salzgitter AG shareholders	–2.3	124.1	–30.5	6.2
Total comprehensive income due to minority interest	1.7	2.8	1.3	3.0
	–0.6	**126.9**	**–29.2**	**9.2**

III. Consolidated Balance Sheet

Assets in € million	2018/06/30	2017/12/31
Non-current assets		
Intangible assets	209.5	218.5
Property, plant and equipment	2,183.9	2,214.8
Investment property	21.4	21.5
Financial assets	94.9	84.1
Investments accounted for using the equity method	715.2	577.5
Trade receivables	21.6	25.6
Other receivables and other assets	18.2	26.0
Income tax assets	2.5	4.5
Deferred income tax assets	354.7	393.2
	3,621.9	**3,565.9**
Current assets		
Inventories	2,152.3	2,084.5
Trade receivables	1,488.1	1,492.2
Contract assets	157.9	0.0
Other receivables and other assets	444.0	394.2
Income tax assets	19.4	24.9
Securities	69.6	76.6
Cash and cash equivalents	528.6	679.4
	4,859.8	**4,751.9**
	8,481.7	**8,317.8**

Equity and liabilities in € million	2018/06/30	2017/12/31
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	2,973.6	2,854.6
Other reserves	42.7	51.1
Unappropriated retained earnings	2.8	27.1
	3,437.7	**3,351.3**
Treasury shares	−369.7	−369.7
	3,068.0	**2,981.6**
Minority interest	7.9	8.1
	3,075.9	**2,989.7**
Non-current liabilities		
Provisions for pensions and similar obligations	2,418.0	2,440.5
Deferred tax liabilities	41.9	41.9
Income tax liabilities	88.1	97.6
Other provisions	306.9	303.5
Financial liabilities	422.0	433.8
Other liabilities	4.2	4.1
	3,281.3	**3,321.5**
Current liabilities		
Other provisions	228.5	232.3
Financial liabilities	236.5	237.8
Trade payables	1,134.1	1,169.0
Liability contracts	94.5	0.0
Income tax liabilities	27.6	28.2
Other liabilities	403.4	339.2
	2,124.5	**2,006.5**
	8,481.7	**8,317.8**

IV. Cash Flow Statement

In € million	H1 2018	H1 2017
Earnings before taxes (EBT)	198.6	100.2
Depreciation, write-downs (+)/write-ups (–) of non-current assets	169.2	169.7
Income tax paid (–)/refunded (+)	– 19.1	– 23.0
Other non-cash expenses (+)/income (–)	43.8	131.3
Interest expenses	45.3	51.1
Gain (–)/loss (+) from the disposal of non-current assets	2.6	– 11.4
Increase (–)/decrease (+) in inventories	– 38.6	– 217.5
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	– 205.1	– 294.2
Use of provisions affecting payments, excluding income tax provisions	– 123.6	– 130.2
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	96.9	151.8
Cash outflow/inflow from operating activities	**170.1**	**– 72.2**
Cash inflow from the disposal of fixed assets	1.4	17.0
Cash outflow for investments in intangible assets and property, plant and equipment	– 142.6	– 120.1
Cash inflow from investments of funds	4.0	2.5
Payments for financial investments	– 10.4	–
Cash inflow from the disposal of non-current assets	4.4	5.0
Cash outflow for investments in non-current assets	– 133.3	– 78.9
Cash flow from investment activities	**– 276.4**	**– 174.5**
Cash outflow in payments to company owners	– 24.3	– 16.2
Deposits from taking out loans and other financial debts	2.0	–
Repayment of loans and other financial liabilities	– 6.0	– 7.5
Interest paid	– 17.2	– 10.5
Cash outflow/inflow from financing activities	**– 45.7**	**– 34.2**
Cash and cash equivalents at the start of the period	679.4	818.1
Gains and losses from changes in foreign exchange rates	1.1	– 5.9
Payment-related changes in cash and cash equivalents	– 152.0	– 281.0
Cash and cash equivalents at the end of the period	**528.6**	**531.2**

V. Statement of Changes in Equity

In € million	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	Currency translation
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**
As of 2017/12/31	**161.6**	**257.0**	**–369.7**	**2,854.6**	**–9.4**
Total comprehensive income	–	–	–	0.0	–0.8
Dividend	–	–	–	–	–
Group transfers to(+)/from(–) retained earnings	–	–	–	132.4	–
Other	–	–	–	–13.4	–
As of 2018/06/30	**161.6**	**257.0**	**–369.7**	**2,973.6**	**–10.2**

Other reserves from			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				
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**
39.3	**1.5**	**19.7**	**27.1**	**2,981.6**	**8.1**	**2,989.7**
–9.7	–0.5	2.5	132.5	124.1	2.8	126.9
–	–	–	–24.3	–24.3	–3.0	–27.3
–	–	–	–132.4	–	–	–
–	–	–	–	–13.4	–	–13.4
29.6	**1.0**	**22.2**	**2.8**	**3,068.0**	**7.9**	**3,075.9**

Notes

Segment Reporting

In € million	Strip Steel		Plate / Section Steel		Mannesmann	
	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017
External sales	1,242.7	1,102.2	554.5	537.6	563.4	569.3
Sales to other segments	386.0	375.6	399.6	347.8	81.4	95.2
Sales to group companies that are not allocated to an operating segment	1.8	1.9	0.3	0.4	193.5	195.5
Segment sales	1,630.6	1,479.7	954.4	885.7	838.3	860.0
Interest income (consolidated)	0.3	0.5	0.0	0.3	0.4	0.3
Interest income from other segments	–	–	–	0.0	–	–
Interest income from group companies that are not allocated to an operating segment	0.0	0.0	0.4	0.0	1.1	0.7
Segment interest income	0.3	0.5	0.4	0.3	1.5	0.9
Interest expenses (consolidated)	13.5	7.2	1.4	1.5	3.3	3.9
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	11.9	13.0	2.4	2.7	3.9	3.4
Segment interest expenses	25.4	20.2	3.8	4.2	7.2	7.2
of which interest portion of allocations to pension provisions	5.5	6.1	1.3	1.4	1.9	2.4
Depreciation of property, plant and equipment and amortization of intangible assets	92.0	87.6	19.4	22.8	29.6	29.9
of which scheduled depreciation of property, plant and equipment and amortization of intangible assets	92.0	87.6	19.4	22.8	29.6	29.9
EBIT before depreciation and amortization (EBITDA)	226.8	201.5	44.8	32.4	47.6	33.5
Earnings before interest and taxes (EBIT)	134.8	113.9	25.4	9.6	18.1	3.6
Segment earnings before taxes	109.7	94.2	22.0	5.7	12.3	−2.7
of which resulting from investments accounted for using the equity method	–	–	–	–	9.1	−3.0
Investments in property, plant and equipment and intangible assets	59.3	52.5	24.4	11.7	32.1	26.5

Trading		Technology		Total segments		Industrial Participations/ Consolidation		Group	
H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017
1,548.8	1,675.7	610.0	630.1	4,519.5	4,514.9	97.6	101.2	4,617.1	4,616.2
37.7	50.0	0.2	0.3	905.0	868.9	367.7	334.4	1,272.7	1,203.3
0.0	0.0	–	–	195.7	197.9	–	–	195.7	197.9
1,586.6	1,725.8	610.2	630.4	5,620.2	5,581.7	465.3	435.7	6,085.4	6,017.3
1.2	1.3	1.7	1.9	3.7	4.3	3.0	5.3	6.7	9.6
–	–	–	–	–	0.0	18.9	20.5	18.9	20.5
3.7	4.1	0.4	0.4	5.7	5.2	–	–	5.7	5.2
5.0	5.4	2.1	2.3	9.3	9.6	21.9	25.8	31.2	35.4
8.8	6.7	1.1	1.0	28.1	20.3	17.2	30.8	45.2	51.1
–	0.0	–	–	–	0.0	5.7	5.2	5.7	5.2
0.1	0.2	0.6	1.2	18.9	20.5	–	–	18.9	20.5
8.9	6.9	1.7	2.2	46.9	40.8	22.9	36.0	69.8	76.8
0.9	1.1	0.9	1.0	10.5	11.9	7.3	9.1	17.8	20.9
5.1	5.2	10.7	10.7	156.7	156.3	12.7	13.4	169.4	169.7
5.1	5.2	10.7	10.7	156.7	156.3	12.7	13.4	169.4	169.7
34.0	41.3	30.6	24.2	383.9	332.8	22.8	−21.5	406.6	311.3
28.9	36.0	20.0	13.5	227.2	176.6	10.0	−34.9	237.2	141.7
25.0	34.6	20.5	13.6	189.6	145.4	9.1	−45.1	198.6	100.2
–	–	–	–	9.1	−3.0	21.8	54.9	30.8	51.9
4.9	3.3	9.0	7.4	129.7	101.4	6.2	7.0	135.8	108.4

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, 2018, 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, 2017, 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, 2018.
3. In calculating the fair value of defined benefit obligations as of June 30, 2018, an actuarial rate of 1.50 % was applied, unchanged from the last reporting date.
4. The IFRS 9 “Financial Instruments” standard has been applicable to the Salzgitter Group since January 1, 2018. This standard includes new rules on classifying and measuring financial assets. The adjustments with no effect on net income associated with the introduction of this new standard were implemented as of January 1, 2018. These adjustments result from valuation allowances anticipated on the basis of an expected loss model. They do not give rise to any significant impact on the consolidated financial statements of Salzgitter AG.
5. IFRS 15 “Revenue from Contracts with Customers” has been applicable to the Salzgitter Group since January 1, 2018. This standard is aimed at combining numerous rules and interpretations on revenue realization into one standard. Similarly, the new standard defines uniform basic principles across all sectors and all categories. The initial application was carried out in accordance with the modified retrospective method. Any effects from adopting this standard were reported at the start of the period on January 1, 2018 as an aggregate adjustment in the opening balance sheet directly in revenue reserves. In the special machine manufacturing business of the Technology Business Unit, revenue was recognized at a later point in time in the case of only a few, overall immaterial construction contracts, reported according to the percentage-of-completion method pursuant to IAS 11 up until the end of 2017, as the preconditions for revenue recognition in the accounting period pursuant to IFRS 15 were no longer fulfilled. Cases reported through to the end of 2017 in accordance with the percentage-of-completion method pursuant to IAS 11 were disclosed under trade receivables. As from 2018, receivables and liabilities that form part of revenue recognition in the accounting period pursuant to IFRS 15 are disclosed under the balance sheet items of contract assets or liability contracts . Adjustment to the year-earlier figures is not required under the qualified retrospective method applied.
6. The contingent liabilities reported as at December 31, 2017, relating to the adjustment of company pensions have essentially not been substantiated.
7. 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 December 2015. HSP and all the associated sheet piling activities were disclosed until December 31, 2017, as a discontinued operation in accordance with the standards laid down under IFRS 5. Owing to the immaterial nature in respect of the consolidated financial statements, separate disclosure is waived as of 2018 onward.

Selected explanatory notes to the income statement

1. Sales by business segment are shown in the segment report.
2. Earnings per share are calculated in accordance with IAS 33. Basic earnings per share, calculated from the weighted number of shares of SZAG, stood at € 2.45 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, as a result of which these option and conversion rights have a dilutive effect. Diluted earnings per share amount to € 2.32.

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 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 bond	
	2018/06/30	2017/12/31
Book value	159.9	157.9
Fair value	166.6	165.5

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/-06/30/2018	01/01/-06/30/2018	2018/06/30	2018/06/30
Non consolidated group companies	16.3	15.4	20.9	4.1
Joint ventures	169.5	2.6	37.0	0.2
Joint operations	1.7	0.5	52.8	28.2
Other related parties	1.2	0.2	6.7	91.1

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 2018
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.

The Interim Report of Salzgitter AG is also available in German. In the event of any discrepancy, the German version shall prevail.

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Publisher
SALZGITTER AG

Concept and Design
wirDesign Berlin Braunschweig

Editorial Office
SALZGITTER AG, Investor Relations

Translation
Baker & Company, Munich

This quarterly statement was prepared with the support of the firesys editorial system.