H1

Interim Report
1st Half 2019

SALZGITTER AG
Stahl und Technologie

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The Salzgitter Group in Figures

		H1 2019	H1 2018	+/–
Crude steel production	**kt**	**3,412.1**	**3,528.9**	**–116.8**
External sales	**€ m**	**4,526.2**	**4,617.1**	**–90.9**
Strip Steel Business Unit	€ m	1,175.5	1,242.7	–67.2
Plate/Section Steel Business Unit	€ m	442.3	554.5	–112.2
Mannesmann Business Unit	€ m	582.3	563.4	18.9
Trading Business Unit	€ m	1,578.3	1,548.8	29.4
Technology Business Unit	€ m	656.9	610.0	46.9
Industrial Participations/Consolidation	€ m	91.0	97.6	–6.6
EBIT before depreciation and amortization (EBITDA)	**€ m**	**353.7**	**406.6**	**–53.0**
Earnings before interest and taxes (EBIT)	**€ m**	**177.3**	**237.2**	**–59.9**
Earnings before taxes (EBT)	**€ m**	**145.3**	**198.6**	**–53.3**
Strip Steel Business Unit	€ m	60.3	109.7	–49.5
Plate/Section Steel Business Unit	€ m	0.6	22.0	–21.4
Mannesmann Business Unit	€ m	9.0	12.3	–3.3
Trading Business Unit	€ m	4.1	25.0	–20.9
Technology Business Unit	€ m	16.1	20.5	–4.3
Industrial Participations/Consolidation	€ m	55.1	9.1	46.1
Net income/loss for the financial year	**€ m**	**96.4**	**135.4**	**–38.9**
Earnings per share – basic	**€**	**1.73**	**2.45**	**–0.72**
Return on capital employed (ROCE)[1)]	**%**	**7.9**	**12.8**	**–4.9**
Cash flow from operating activities	**€ m**	**–25.9**	**170.1**	**–196.0**
Investments[2)]	**€ m**	**306.6**	**135.8**	**170.8**
Depreciation/amortization[2)]	**€ m**	**–176.4**	**–169.4**	**–7.0**
Total assets	**€ m**	**9,269.2**	**8,481.7**	**787.5**
Non-current assets	**€ m**	**4,118.8**	**3,621.9**	**496.9**
Current assets	**€ m**	**5,150.3**	**4,859.8**	**290.6**
Inventories	€ m	2,341.2	2,152.3	188.9
Cash and cash equivalents	€ m	663.2	528.6	134.6
Equity	**€ m**	**3,229.5**	**3,075.9**	**153.6**
Liabilities	**€ m**	**6,039.7**	**5,405.8**	**634.0**
Non-current liabilities	€ m	3,796.8	3,281.3	515.5
Current liabilities	€ m	2,242.9	2,124.5	118.5
of which due to banks[3)]	€ m	997.6	460.7	537.0
Net financial position on the reporting date[4)]	**€ m**	**–164.4**	**239.5**	**–404.0**
Employees				
Personnel expenses	€ m	–890.7	–862.3	–28.4
Core workforce on the reporting date[5)]	empl.	23,639	23,273	366
Total workforce on the reporting date[6)]	empl.	25,209	24,919	290

Disclosure of financial data in compliance with IFRS
[1)] Annualized
[2)] Excluding financial assets, as from FY 2019 incl. non-cash additions from the initial application of IFRS 16 Leases
[3)] Current and non-current bank liabilities
[4)] Including investments, e.g. securities and structured investments
[5)] Excl. trainee contracts and excl. non-active age-related part-time work
[6)] Incl. trainee contracts and incl. non-active age-related part-time work

Profitability of the Group and its business units

Profitability of the Group

		Q2 2019	Q2 2018	H1 2019	H1 2018
Crude steel production	kt	1,672.3	1,755.1	3,412.1	3,528.9
External sales	**€ m**	**2,232.4**	**2,309.6**	**4,526.2**	**4,617.1**
EBIT before depreciation and amortization (EBITDA)	€ m	125.4	213.6	353.7	406.6
Earnings before interest and taxes (EBIT)	€ m	36.4	128.7	177.3	237.2
Earnings before taxes (EBT)	**€ m**	**19.4**	**102.7**	**145.3**	**198.6**
Consolidated net income/loss	**€ m**	**– 0.3**	**70.1**	**96.4**	**135.4**
Return on capital employed (ROCE)[1)]	**%**	**2.8**	**13.9**	**7.9**	**12.8**
Investments[2)]	€ m	105.1	66.7	306.6	135.8
Depreciation/amortization[2)]	€ m	– 89.0	– 84.9	– 176.4	– 169.4
Cash flow from operating activities	€ m	– 79.5	69.5	– 25.9	170.1
Net financial position[3)]	**€ m**			**– 164.4**	**239.5**
Equity ratio	%			34.8	36.3

1) Annualized
2) Excluding financial assets, as from FY 2019 incl. non-cash additions from the initial application of IFRS 16 Leases
3) Including investments, e.g. securities and structured investments

The Salzgitter Group achieved a **pre-tax profit** in the second quarter as well, and at € 145.3 million (H1 2018: € 198.6 million) performed satisfactorily overall in the first half of 2019. All business units made positive contributions to profit. **External sales** (€ 4.5 billion; H1 2018: € 4.6 billion) were slightly lower than in the previous year's period. The main driver of this development were the volume- and price-induced declines in the Strip Steel, along with the Plate / Section Steel and the Trading business units. Included is a contribution of € 56.4 million from the participating investment in Aurubis AG accounted for using the equity method (H1 2018: € 25.1 million). This figure comprises € 27.8 million (H1 2018: € 0) in income from an accounting adjustment through profit and loss in connection with the Aurubis shares acquired in the first six months of 2019 at an average price below the market value of the pro rata equity of the shares. The **after-tax result** stood at € 96.4 million (H1 2018: € 135.4 million). Earnings per share therefore came in at € 1.73 (H1 2018: € 2.45) and return on capital employed at 7.9 % (H1 2018: 12.8 %).

Special items / EBT business units and Group

In € million	EBT		Restructuring		Impairment/ Reversal of impairment		Other		EBT without special items	
	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018
Strip Steel	60.3	109.7	–	–	–	–	–	–	60.3	109.7
Plate/Section Steel	0.6	22.0	–	–	–	–	–	–	0.6	22.0
Mannesmann	9.0	12.3	–	–	–	–	–	–	9.0	12.3
Trading	4.1	25.0	–	–	–	–	–	–	4.1	25.0
Technology	16.1	20.5	–	–	–	–	–	–	16.1	20.5
Industrial Participations/ Consolidation	55.1	9.1	–	–	–	–	–	–	55.1	9.1
Group	**145.3**	**198.6**	**–**	**–**	**–**	**–**	**–**	**–**	**145.3**	**198.6**

Return on capital employed (ROCE)

In € million	H1 2019	H1 2018
EBT	145.3	198.6
+ Interest expenses	39.2	45.2
– Interest expenses for pension provisions	19.2	17.8
= EBIT I	**165.3**	**226.1**
Total assets	9,269.2	8,481.7
– Pension provisions	2,519.3	2,418.0
– Other provisions excluding provision for income taxes	636.0	535.4
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting, derivatives	1,474.8	1,635.4
– Deferred tax claims	447.5	354.7
= Capital employed	**4,191.6**	**3,538.1**
in %		
ROCE	**7.9**	**12.8**

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. In the first half of 2019, ROCE came in at 7.9%.

More detailed explanations on the derivation of ROCE are provided in the section on “Financial Control System” of the 2018 Annual Report.

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

In € million	H1 2019	H1 2018
EBT	145.3	198.6
+ Interest expenses	39.2	45.2
– Interest income	7.3	6.7
= EBIT	**177.3**	**237.2**
+ Depreciation/amortization[1]	176.4	169.4
= EBITDA	**353.7**	**406.6**

[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 a slightly higher depreciation and amortization, EBT that was lower in the first half of 2019 is reflected in the decline of EBIT and EBITDA.

Strip Steel Business Unit

		Q2 2019	Q2 2018	H1 2019	H1 2018
Order intake	kt	1,143.6	1,144.7	2,282.4	2,383.0
Order backlog on reporting date	kt			932.4	906.4
Crude steel production	kt	1,067.6	1,118.7	2,220.1	2,278.4
Rolled steel production	kt	854.0	914.1	1,765.0	1,821.4
Shipments	kt	1,145.4	1,207.1	2,317.6	2,404.6
Segment sales[1)]	**€ m**	**763.2**	**826.2**	**1,568.5**	**1,630.6**
External sales	**€ m**	**576.7**	**633.3**	**1,175.5**	**1,242.7**
Earnings before taxes (EBT)	**€ m**	**14.0**	**47.2**	**60.3**	**109.7**

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

Market development

Growth momentum slowed across the entire euro area and industry's business expectations are dampened. Political risks, such as Brexit and trade disputes, as well as the downturn in the global economy and the struggling automotive industry put pressure on sentiment. The order intake of the European steel industry has been in decline since the start of the second half of 2018, with this trend intensifying further in the period under review. In order to counteract the risk of redirection effects caused by extraordinary tariffs of 25% imposed by the US (Section 232) on the imports of steel products from countries outside the US, the EU Commission enacted final safeguard measures in the form of tariff rate quotas as of February 2, 2019. All strip steel products are covered by the measures that will run until the summer of 2021. While the share of European strip steel producers in the EU's market supply contracted further, exports from countries outside the EU reached a record figure at the start of the year. This prompted the setting of the level of import quotas that is aligned to the high import levels of the years 2015 to 2017. An imbalance in the market has arisen from the decline in demand seen in recent months. Consequently, the competition between EU producers for capacity utilization bookings in the first half of 2019 has become fiercer, with negative effects on the development of the spot market prices that slipped again despite the increase in raw material prices. At the end of the reporting period, steel prices had begun to bottom out.

Procurement

Iron ore

At year-end 2018, demand for high-grade iron ore surged, pushing the index up to more than 75 USD/dmt. This level held steady until the dam in VALE's ore mining complex in Brazil was breached on January 25, 2019. As a result, the price lept temporarily to 95 USD/dmt and then subsequently moved sideways within a range of between 83 and 89 USD/dmt. The lack of clarity about possible capacity adjustments in Brazilian mines, in conjunction with delays in iron ore deliveries from Australia, compounded by higher demand from China, caused prices to rise again significantly as from mid-May. The average price in the first six months of 2019 stood at 92 USD/dmt, which is almost one third more than in the previous year's period. In order to mitigate the risks resulting from procurement, defined iron ore volumes are hedged to secure against price risks.

Coking coal

The pricing of coking coal was fully determined by the index for the first time in 2018. In January 2019, the price dropped below the 200 USD/t mark again for the first time since October 2018 due to slack demand from China. With market activities picking up after Chinese New Year celebrations and weather-induced production problems in Australia, prices climbed again in March. This development continued right through to May. Due to the unfavorable exchange rates, the demand of Chinese consumers for coking coal traded in US dollars declined. As a result, prices had dropped to 193 USD/t by the end of the second quarter. In the first half year, the average figure therefore stood at 205 USD/t, which is 1.5% below the level of the previous year's period. Prices are also hedged for specific volumes of coking coal.

Business development

The **order intake** of the Strip Steel Business Unit declined somewhat as it was unable to fully decouple from the downtrend that commenced in the summer of 2018 in the European steel industry. **Crude steel** and **rolled steel output** are also lower than in the previous year. **Orders on hand** were marginally higher than the year-earlier figure, while **shipments** declined slightly. As a result, **segment** and **external sales** also decreased. The business units reported a **pre-tax profit** of € 60.3 million (H1 2018: € 109.7 million). The lower performance compared with the outstanding-earlier result is largely due to higher raw material prices and the downturn in the selling prices of strip steel products.

Investments

In 2019, the Strip Steel Business Unit is focusing its investments on new aggregates as well as on optimizing and extending its existing facilities. With an investment volume at a level of around € 200 million for the "Hot Dip Galvanizing Line 3", one of the most major single investments of the last decade was started in the reporting period. The facilities will accommodate customer requirements for galvanized high-strength and ultra-high strength steel grades and constitute a key component of the Salzgitter Group's strategy that is focused on qualitative growth for the Strip Steel Business Unit.

Plate / Section Steel Business Unit

		Q2 2019	Q2 2018	H1 2019	H1 2018
Order intake [1]	kt	510.8	535.7	1,035.2	1,165.0
Order backlog[1] on reporting date	kt			314.6	370.5
Crude steel production	kt	276.8	299.8	532.0	589.9
Rolled steel production	kt	549.3	598.9	1,075.3	1,210.1
Shipments[1]	kt	539.7	561.1	1,100.4	1,209.8
Segment sales[2]	**€ m**	**432.3**	**456.6**	**887.4**	**954.4**
External sales	**€ m**	**212.6**	**267.9**	**442.3**	**554.5**
Earnings before taxes (EBT)	**€ m**	**–1.2**	**12.7**	**0.6**	**22.0**

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

Market development

Ongoing weak demand for **heavy plate** since the start of the year caused selling prices to decrease again despite the higher cost of slabs. The wider coverage of the stockholding steel trade with correspondingly high stock levels and reduced replenishment purchasing are evidence of low domestic demand. In comparison with the previous year's period, imports from countries outside the EU to Western Europe have dropped by almost 15 %, reflecting how unappealing this region's hotly contested market is. Given of the lack of major pipe projects, the heavy plate mills specialized in this business stepped up their sales activities in the commodity grade segment, which resulted in selling prices falling further. The segment of high-end grades is also increasingly affected, albeit to a lesser extent due to the limited number of suppliers.

Even though Central European steel construction companies reported good capacity utilization, demand on the **European sections market** remained very subdued and speculative during the reporting period. Consequently, producers experienced uneven capacity utilization. Although selling prices frequently came under pressure due to the tense volume situation, they were largely able to stabilize overall. Faced with the uncertainties in Europe's economic environment, many investors have delayed projects or called a complete halt to them. Seeking alternatives in export markets was virtually impossible due to the selling price levels in countries outside the EU. Moreover, the import duties imposed by the US have contributed to less volumes being exported from Europe.

Procurement

Steel scrap

As a result of the declining demand of German consumers, falling selling prices for the finished products of the steel industry and the decline in scrap steel exports, domestic scrap prices dropped within a range of 16 and €20/t at the start of the year. Brisk purchasing by Turkey in Europe, above all, in February, triggered a trend reversal and resulted in increases of between €12 and 20/t. Prices remained largely unchanged at the start of the second quarter. In May and June, prices partly decreased significantly by up to €16/t in Germany. This development was due to the weak deep sea market that was characterized by lackluster demand and declining prices.

Business development

The **order intake** and **orders on hand** of the Plate/Section Steel Business Unit dropped significantly below the level posted in the first half of 2018, due in particular to the lower volumes of the two heavy plate companies, as well as that of Peiner Träger GmbH (PTG). **Crude** and **rolled steel output** were also below the figures reported in the previous year's period. With **shipments** notably lower, **segment** and **external sales** declined year on year. In conjunction with the profit contribution of the DEUMU Deutsche Erz und Metall-Union Group, the higher pre-tax profit of PTG compensated for the negative result of the heavy plate producers. All in all, the business unit therefore reported a **pre-tax profit** of € 0.6 million (H1 2018: € 22.0 million).

Investments

The foundations for the facilities forming part of the “New Heat Treatment Line” investment at the Ilsenburg-based heavy plate producers have almost been completed. The steel construction measures have commenced. The investment launched as part of the “Salzgitter AG 2021” growth program and costing more than € 150 million serves to expand the product portfolio and to reinforce the positioning in the higher-end grade segment. The facilities are due for commissioning in 2020. Other investments of the business unit are concentrated above all on maintaining production capabilities.

Mannesmann Business Unit

		Q2 2019	Q2 2018	H1 2019	H1 2018
Order intake	€ m	343.9	383.7	686.0	766.6
Order backlog on reporting date	€ m			461.1	555.4
Crude steel production Hüttenwerke Krupp Mannesmann (30%)	kt	327.9	336.6	660.0	660.6
Shipment tubes[1]	kt	135.3	150.0	281.8	284.2
Segment sales[2]	**€ m**	**440.2**	**437.9**	**887.5**	**838.3**
External sales	**€ m**	**292.0**	**292.4**	**582.3**	**563.4**
Earnings before taxes (EBT)	**€ m**	**0.7**	**10.7**	**9.0**	**12.3**

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

Market development
The tubes and pipes business activities slowed notably in Europe during the first half of 2019. The seamless steel tubes production declined due to the lower level of exports to countries outside the EU and to demand generally weakening in Europe. Large-diameter pipe production settled significantly below the very strong year-earlier figures due to the lack of project business. Shipments of precision steel tubes settled below the previous year's figure due above all to weak demand emanating from the automotive industry. The production of mid-sized welded steel tubes was similarly in decline, but nevertheless proved to be still satisfactory.

Business development
In the first six months of 2019, the **order intake** of the Mannesmann Business Unit settled tangibly below the year-earlier figure. This development was attributable, on the one hand, to the downturn in order volumes in the automotive and industry customer sectors and, on the other, to the segment of medium-diameter line pipes that reported subdued demand in the American market, especially during the first quarter. **Orders on hand** dropped tangibly below the previous year's figure. With **shipments** remaining virtually stable, **segment** and **external sales** rose on the back of selling prices. The Mannesmann Business Unit reported a **pre-tax profit** of € 9.0 million (H1 2018: € 12.3 million). While the medium-diameter line pipe segment and the stainless steel tubes group reported growth, the at-equity contribution of the EUROPIPE Group (EP Group) was significantly lower than in the previous year's period.

Outside the consolidated group, the EP Group's order intake increased significantly as a result of a major project being booked in the US. Due to the lack of larger projects for EUROPIPE GmbH to follow on from EUGAL, however, the EP Group's order book declined considerably year on year. Against the backdrop of weaker shipments, both the sales and the earnings before taxes of the EP Group were notably lower than in the year-earlier period.

Investments
The investment activities of the Mannesmann Business Unit in 2019 continue to focus on expansion and replacement investments. As part of expanding the Mexican precision tubes company at El Salto, key aggregates such as the welding facilities, furnace and coating, as well as the drawing and straightening line were taken into operation. The serial production of tubes has already commenced, and the first customer approvals have been granted. The stainless steel group's large cold pilger machine at the Remscheid location is due for commissioning in the third quarter. The measure is aimed at extending capacities and the product range in the seamless cold finished stainless steel segment through producing larger diameters.

Trading Business Unit

		Q2 2019	Q2 2018	H1 2019	H1 2018
Shipments	kt	1,047.4	1,123.9	2,090.7	2,246.7
Segment sales[1)]	**€ m**	**795.4**	**811.5**	**1,609.4**	**1,586.6**
External sales	**€ m**	**780.4**	**789.0**	**1,578.3**	**1,548.8**
Earnings before taxes (EBT)	**€ m**	**1.2**	**11.3**	**4.1**	**25.0**

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

Market development
Demand on the international steel markets was subdued. While the trading business was confronted by economic and political uncertainty and restrictions in the wake of protectionist trade measures in the reporting period, the European stockholding steel trade experienced weak demand in combination with a stagnating selling price trend, particularly in Germany.

Business development
In this fiercely competitive environment, **shipments** of the business unit dropped below the previous year's figure due to the downturn in international trading's volumes, with sales of the stockholding steel trade remaining stable. The Universal Eisen und Stahl Group raised its tonnage. **Segment** and **external sales** settled around the previous year's level. The Trading Business Unit generated a **pre-tax profit** of € 4.1 million, which is notably lower than a year ago due to the margin situation in the stockholding steel trade (H1 2018: € 25.0 million).

Investments
Maintaining and upgrading existing facilities continue to form the focus of investments by the Trading Business Unit in 2019. In addition, the measures launched as part of the "Salzgitter AG Strategy 2021" were pursued further. Against this backdrop – and mainly in the European stockholding steel trade – numerous projects aimed at digitalizing sales processes from warehousing through to shipment, were initiated and taken forward.

Technology Business Unit

		Q2 2019	Q2 2018	H1 2019	H1 2018
Order intake	€ m	352.0	307.9	682.0	613.8
Order backlog on reporting date	€ m			724.0	706.3
Segment sales[1)]	**€ m**	**323.2**	**282.5**	**657.2**	**610.2**
External sales	**€ m**	**323.1**	**282.3**	**656.9**	**610.0**
Earnings before taxes (EBT)	**€ m**	**4.3**	**9.3**	**16.1**	**20.5**

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

The following companies were newly established in the reporting period:

- KHS Eurasia LLC, Almaty
- KHS d.o.o. Beograd, Novi Beograd

Market development
According to the statistics of the German Engineering Federation (VDMA) the sector's order intake dropped significantly below the previous year's level since demand, both domestic and international, declined notably. Orders placed in the market for food and packaging machinery also entered a steep downtrend. Although domestic order activity picked up significantly compared with the previous year's figure, this was not sufficient to compensate for the considerable weakening in international orders.

Business development
In the first half of 2019, the **order intake** of the Technology Business Unit was significantly higher than in the previous year's period. The business unit therefore successfully bucked the market trend. The KHS Group lifted its order intake in gratifying dimensions compared with the first six months of 2018. By contrast, the Klöckner DESMA Elastomer Group (KDE Group) and DESMA Schuhmaschinen GmbH (KDS) were unable to repeat the high year-earlier figures. **Orders on hand** of the business unit also increased slightly, following on from order intake. **Segment** and **external sales** were also higher than in the previous year's period. The KHS Group reported significant growth, while the shipments and the result of the KDE Group and KDS settled below the outstanding 2018 figures. The result of the KHS Group that had almost doubled compared with the previous year reflects the contribution from cost-cutting measures, as well as from positive stimulus from the selling of innovative new products. Thanks to the positive earnings trend of the KHS Group, the Technology Business Unit achieved presentable **earnings before taxes** overall, amounting to € 16.1 million (H1 2018: € 20.5 million).

The KHS Group continues to rigorously pursue the measures from its comprehensive "KHS Future" efficiency and growth program. With a focus on reducing costs and expanding the service business, the program made a significant contribution to the increase in profit already achieved and will promote the development of the company in the fiercely competitive market environment in the future as well.

Investments
In the reporting period, the Technology Business Unit continued to focus on replacement and streamlining measures. To ensure the steady optimization of organizational workflows, IT projects in Germany and in the international companies were carried out within the KHS Group to further optimize workflows. Implementation of the extensive modernization of the Bad Kreuznach site to ensure lean manufacturing was ongoing in various individual subprojects. Sizeable investments to upgrade production and expand assembly operations are taking place at the Dortmund location. An investment program for strategic realignment has been launched for the Chinese market. At KDS, the "Fabrik der Zukunft" (factory of the future) investment for the construction of office and production buildings on the existing site in Achim progressed. The investment is aimed at ensuring KDS' sustainable growth and profitability. Productivity is also to be raised through the optimization of the information and material flow and the assembly process.

Industrial Participations/Consolidation

		Q2 2019	Q2 2018	H1 2019	H1 2018
Sales[1)]	**€ m**	**239.0**	**214.5**	**470.1**	**465.3**
External sales	**€ m**	**47.7**	**44.6**	**91.0**	**97.6**
Earnings before taxes (EBT)	**€ m**	**0.4**	**11.5**	**55.1**	**9.1**

[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, settled around the level of the previous year's period while **external sales** declined moderately.

Earnings before taxes came in at € 55.1 million, thereby significantly exceeding the year-earlier figure (€ 9.1 million). This figure includes the contribution of Aurubis AG, an investment included at equity, amounting to € 56.4 million (H1 2018: € 25.1 million). The result includes € 27.8 million (H1 2018: € 0) in income from an accounting adjustment through profit and loss in connection with shares acquired in Aurubis AG in the first six months of 2019 at an average price below the pro rata equity capital. Net interest income from the cash management of the consolidated group, as well as the valuation of derivative positions, bolstered the result. By contrast, the pre-tax result of the service companies largely operating on behalf of the Group dropped considerably below the figure achieved in first six months of 2018.

Financial Position and Net Assets

Explanations on the balance sheet

The **total assets** of the Salzgitter Group rose by € 512 million in the current reporting period compared with December 31, 2018.

Non-current assets (€+283 million) increased owing in particular to the higher level of shares in the companies accounted for using the equity method (€+124 million). In the period under review, investments in intangible assets and in property, plant and equipment (€+307 million) came in above the sum total of scheduled depreciation and amortization of fixed assets (€–176 million). Investments comprise € 129 million in non-cash additions from the initial application of IFRS 16 Leases. More detailed explanations can be found in the section on "Principles of accounting and consolidation, balance sheet reporting and valuation methods" under item 4. Deferred income tax assets increased in comparison with the previous year's reporting date (€+48 million) owing to the higher valuation of pension provisions. The growth in **non-current assets** (€+229 million) resulted mainly from the higher level of cash and cash equivalents (€ +108 million), for instance in connection with issuing a new bonded loan. In addition, trade receivables, including contract assets (€+62 million), inventories (€+14 million) and other receivables and assets (€+38 million) also rose because of higher raw materials prices, among other things.

On the **liabilities side**, provisions increased by € 244 million, with the actuarial rate of 1.0% lower than at the end of the previous year (2018/12/31: 1.75%). As a result, equity has decreased slightly despite the good result (€–103 million). The equity ratio continues to be sound at 34.8%. Non-current liabilities were € 761 million higher compared with the prior-year reporting date. The bonded loan newly issued in the second quarter (€ 363.7 million) resulted in a temporary increase in total assets and liabilities, with non-current financial liabilities rising (€ +515 million), also due to the initial application of IFRS 16, as well as cash and cash equivalents. Current liabilities declined by € 146 million. While a lower level of trade payables, including liability contracts, (€–199 million) was reported, above all in international trading against the backdrop of a lower business volume, current financial liabilities increased (€+65 million) compared with the end of the year 2018.

The **net financial position** (€–164 million; 2018/12/31: € 192 million) declined above all because of the increase in working capital that was largely due to the lower level of liabilities, as well as to increasing the participation in Aurubis AG and to progressing the strategic investment projects. Cash investment, including securities (€ 984 million; 2018/12/31: € 878 million), was offset by liabilities of € 1,149 million (2018/12/31: € 687 million), of which € 998 million were owed to banks (2018/12/31: € 519 million). As before, assets and liabilities from leasing arrangements are not considered in the net financial position.

Net financial position

Net financial position = cash investments – financial liabilities of the net financial position

In € million	2019/06/30	2018/12/31
Cash and cash equivalents acc. to balance sheet	663.2	555.6
+ Certificates held for trading	200.0	200.0
+ Other investments of funds[1]	121.1	122.7
= Investments of funds	**984.3**	**878.3**
Financial liabilities acc. to balance sheet	1,298.3	718.0
– Liabilities from leasing agreements, from financing/ financial transactions and other	149.6	31.3
= Financial liabilities of net financial position	**1,148.7**	**686.7**
Net financial position	**–164.4**	**191.6**

[1] Securities, loans excl. valuation allowances (€ 2.4 million; previous year: € 2.6 million) and incl. other cash investments reported under other receivables and other assets (€ 2.5 million; previous year: € 2.5 million).

Notes to the cash flow statement

The pre-tax profit of € 145 million is offset above all by the increase in working capital, resulting in a negative **cash flow from operating activities** of € 26 million (previous year: €+170 million).

The **cash outflow from investing activities** of € –277 million (previous year: €–276 million) mainly reflects disbursements for capital expenditure in intangible assets and in property, plant and equipment (€–185 million; previous year: €–143 million) as well as in other non-current assets (€–96 million; previous year: €–133 million). The latter disbursement essentially comprises the additional acquisitions of the participating investment in Aurubis AG accounted for using the equity method.

The **cash outflow from financing activities** is determined by disbursements to our shareholders, the redemption of loans granted, as well as interest payments. This outflow is offset by proceeds from borrowing, including from the bonded loan (€ 363.7 million) issued in May 2019, resulting overall in a positive cash inflow from financing activities of € 409 million (previous year: €–46 million).

As a result of the positive overall cash flow, **cash and cash equivalents** (€ 663 million) grew accordingly compared with December 31, 2018 (€ 556 million).

Employees

	2019/06/30	2018/12/31	Change
Core workforce[1]	**23,639**	**23,523**	**116**
Strip Steel Business Unit	6,192	6,182	10
Plate/Section Steel Business Unit	2,425	2,451	–26
Mannesmann Business Unit	4,696	4,675	21
Trading Business Unit	2,121	2,109	12
Technology Business Unit	5,556	5,490	66
Industrial Participations/Consolidation	2,649	2,616	33
Apprentices, students, trainees	1,117	1,375	–258
Non-active age-related part-time employment	453	465	–12
Total workforce	**25,209**	**25,363**	**–154**

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

The **core workforce** of the Salzgitter Group came to 23,639 employees on June 30, 2019, representing an addition of 116 staff members since December 31, 2018.

A total of 217 trainees were hired during the reporting period, 148 of whom were given temporary contracts. A counter effect emanated above all from members of the company going into non-active age-related part-time or reaching retirement age.

The **total workforce** comprised 25,209 employees.

The number of **temporary staff** outsourced stood at 1,219 as of June 30, 2019, which marks a decline of 165 persons compared with the 2018 reporting date.

Expressed as an average for the first half of 2019, 317 employees were affected by **short-time work** and, by the end of the reporting period, only seven.

Following the conclusion of the five groupwide initiatives regarding the respective “Value of the Year”, work on the YOUNITED corporate mission will be continued in the form of a new initiative aimed at sustainably securing the cultural change already achieved and to shape it further. In the context of “YOUNITED 2.0”, the emphasis will be placed on key topics critical for success to be worked on by decentralized VALUE teams in individual projects to find new solutions.

Forecast, Opportunities and Risk Report

Compared with the previous year, the business units anticipate that business in the financial year 2019 will develop as follows:

The **Strip Steel Business Unit** is anticipating a moderate business development compared with the good, above-average previous year, as well as stable sales and tangible reduction in the pre-tax profit due to margins. This is attributable to an oversupply on the European steel market, on the one hand. On the other, raw material costs – especially for iron ore – should range overall above 2018 despite the foreseeable decline.

The heavy plate market is characterized by a persisting general weakness. Moreover, the lack of follow-up contracts for the delivery of input material for line pipes adds to the difficulty of the situation for the Mülheim company. In the section steel segment lower but satisfactory margins are expected after a very good previous year, accompanied by a slight decline in volumes. All in all, with sales having decreased somewhat compared with the previous year, we expect a result notably below the previous year's figure and assume a pre-tax loss for the **Plate/Section Steel Business Unit**.

In the **Mannesmann Business Unit**, the German company of the EUROPIPE Group is experiencing unsatisfactory capacity utilization. By contrast, the American Europipe companies are benefiting from order intake from 2018, as well as in the current year, and are currently booked partly well into 2020. Mannesmann Grossrohr GmbH assumes basic capacity utilization for the plant. After two very good years, the mid-sized line pipe segment expects the volumes required to settle at a normal level. The precision tube companies anticipate a market situation that is stable overall, while the stainless steel segment expects a slight improvement. With shipments declining and a moderate downturn in sales, we expect a positive pre-tax result for the business unit.

The **Trading Business Unit** anticipates slightly lower shipments and sales. The margins generated in international trading remain under pressure due to the sustained impact of ubiquitous restrictive trade policies and subdued market conditions. The stockholding steel trade reports the narrowing of margins due to a stagnating or falling sales price trend, particularly at the start of the year, in combination with lagging, rising stock values. We anticipate positive earnings before taxes for the business unit that will be visibly below the year-earlier figure.

Based on the high level of orders on hand and good order intake, the **Technology Business Unit** predicts a slight increase in sales. The KHS Group has opted for accepting orders on a selective basis, expanding the service business, as well as positive effects from the measures initiated to enhance efficiency. Starting from the very high level of the previous year, the two mechanical engineering companies of the DESMA Group anticipate a downturn in earnings. The business unit therefore generally assumes a pre-tax profit that will be above the average of the previous years, but notably lower than in 2018.

Salzgitter AG affirms its profit forecast for the financial year 2019 and anticipates:

- slightly lower sales above the € 9.0 billion mark,
- a pre-tax profit (EBT) of between € 125 million and € 175 million and
- a return on capital employed (ROCE) that is tangibly below the previous year's figure.

We make reference to the fact that imponderables, including changes in the cost of raw materials, precious metal prices and exchange rates, along with global trade policy measures, may have a considerable impact over the course of the financial year 2019. The dimensions of this range become clear if one considers that, with around 6 million tons of steel products to be sold by the Strip Steel, Plate/Section Steel, Mannesmann and Trading business units by the end of the year, an average € 10 change in the margin per ton is already sufficient to cause a variation in the annual result of € 60 million.

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 2018.

The development of prices in the sales and procurement markets, as well as of energy prices and exchange rates (above all, USD/EUR) is particularly important for the Salzgitter Group. The associated earnings effects for risks have been factored in for the companies in the current year to the extent foreseeable.

In order to minimize the impact of additional business risks resulting from the aforementioned development, we monitor the relevant trends and take account of them in risk forecasts. This is also true of potential restrictions resulting from financial or political measures affecting international business. There is a degree of uncertainty as to how this situation will develop. Risks exist as a result of the global trade disputes initiated by the USA, as well as from the United Kingdom withdrawing from the EU. Specific risks in this context are:

- The ongoing US threat of possibly levying special import duties on vehicles and vehicle parts and thus of disrupting significant global value chains.
- A further escalation of the trade dispute between the US and China, and the resulting unpredictable consequences for the global economy.
- Uncertainty regarding the future status of the United Kingdom that weighs on Europe's economy. A more severe impact of Brexit on the business of Salzgitter AG (SZAG) is nevertheless not anticipated due to the low level of direct exports.

Sector-specific risks arise from competitive distortions on the international steel market, massive excess capacities, the extraordinary tariffs imposed by the US on steel products, as well as the resulting import pressure in the EU.

The duties of 25% introduced on steel imports into the US at the end of March 2018 (Section 232) remain in force. As a consequence of the surplus capacities that exist on a global scale, the countries affected by the US protective tariffs have redirected their faltering export volumes into the EU market. Rolled steel imports therefore rose in 2018 by another 12.2% compared with 2017. In response to the redirection effects and the threat of damage to the local steel industry, the EU Commission enacted the final safeguards on February 2, 2019, through to July 2021.

The safeguard clause covers all the steel products of the Salzgitter portfolio and takes the form of a tariff rate quota. Import quotas based on the average imports in the years 2015 through 2017 apply. A duty of 25% becomes due once these quotas are exceeded. The EU Commission has provided for a gradual increase in these quotas during the term of the measures. The first increase of 5% already took place in February 2019 and then a further 5% became valid on July 1, 2019.

The generous nature of the quotas rendered the safeguards virtually impotent in the first half of 2019 and caused a great deal of pressure on volumes and prices. In addition, specific regulations in the form of quotas have prompted irrational behavior on the part of a number of importers, particularly from Turkey and China. The EU Commission is currently investigating changes to the safeguards system that are, however, only likely to take effect from October 1, 2019. If the changes required by the steel industry, namely the lowering and better distribution of the quotas, are not implemented, there is a danger that imports will increase further.

Moreover, many countries outside the EU have responded with their own safeguard measures for steel products in response to the US import duties. Hence, the Eurasian Economic Union (Russia, Kazakhstan, Armenia, Kyrgyzstan and White Russia) and Canada have also introduced safeguard measures. In India as well, further safeguard measures for the already highly protected market are a possible threat. These developments are likely to hinder exports even further, causing additional redirections into the EU market. A number of Group companies are also directly affected by the measures, albeit to a lesser extent.

Further risks arise from the attempts of importers to obviate the existing trade defense measures, thus rendering them ineffective. To counteract such practices, the flow of goods is monitored on an ongoing basis and potential breaches are passed on via Eurofer, the European Steel Association, to the EU Commission and the EU anti-corruption authority.

Furthermore, uncertainty prevails with regard to the direct and indirect business relations with Russia, also due to the US sanction (Countering America's Adversaries Through Sanctions Act) that entered into force in August 2017. The act provides for the following: companies deemed by the US administration to have business ties with Russian energy export pipelines may have punitive measures imposed on them by the US President in the US. At present, the US Senate is considering a number of competing legislative proposals aimed at extending the sanctions.

A similar degree of uncertainty – although SZAG is less affected – is emanating from the withdrawal of the US from the nuclear agreement with Iran (Joint Comprehensive Plan of Action, JCPOA) announced on May 8, 2018. In terminating JCPOA, the US has also reactivated the sanctions and, with these sanctions having already become effective at the end of June 2019, is planning to extend them. The EU Commission's intention, however, is to uphold the agreement, and it is currently working on measures to sustain trading with Iran.

The fourth period of the EU emission trading scheme will commence on January 1, 2021 and will run up until and including 2030. Thanks to the precautionary purchasing of CO_2 allowances, the shortfall estimated in the medium term following allocation for the SZAG subsidiaries subject to emissions trading has been largely compensated. After the data for our applications to be submitted by the end of June had been finally determined and externally verified in the reporting period, we announced this in the context of an insider information on June 14, 2019. Consequently, we estimate the risk of our subsidiaries and affiliated companies experiencing a shortfall in CO_2 allowances and the indirect additional cost risk from emissions trading for electricity sourced externally in the dimensions of up to € 75 million per year (previously: € 155 million per year) for the fourth emissions trading period. We view the probability of the "CO_2 emissions trading" issue occurring as generally likely. The amount of loss will also continue to hinge on the further development of the political and regulatory environment in particular. In procuring CO_2 allowances, we still keep an eye on a potential deterioration in the situation and in prices.

Legal risks
The proceedings brought forward by the German antitrust authorities against manufacturers of strip steel and heavy plate, in particular on suspicion of collusion on surcharges for grades, is still pending. Legal infringements can still not be ruled out; however, this risk has been provided for in the 2018 annual accounts.

Interim Report

I. Consolidated Income Statement

In € million	Q2 2019	Q2 2018	H1 2019	H1 2018
Sales	2,232.4	2,309.6	4,526.2	4,617.1
Increase/decrease in finished goods and work in process/other own work capitalized	–25.2	10.8	1.7	29.7
	2,207.2	2,320.4	4,527.9	4,646.8
Other operating income	43.2	91.4	97.0	147.2
Cost of materials	1,443.0	1,508.9	2,938.1	3,013.9
Personnel expenses	448.1	439.8	890.7	862.3
Amortization and depreciation of intangible assets and property, plant and equipment	89.0	84.9	176.4	169.4
Other operating expenses	238.9	274.0	501.6	544.7
Income from shareholdings	1.3	4.6	1.4	4.8
Result from investments accounted for using the equity method	2.1	21.3	55.1	30.8
Finance income	4.4	3.0	10.0	6.7
Finance expenses	19.8	30.4	39.2	47.4
Earnings before taxes (EBT)	**19.4**	**102.7**	**145.3**	**198.6**
Income tax	19.7	32.6	48.9	63.3
Consolidated result	**–0.3**	**70.1**	**96.4**	**135.4**
Amount due to Salzgitter AG shareholders	–1.8	68.4	93.4	132.5
Minority interest	1.5	1.7	3.1	2.9
Appropriation of profit				
Consolidated result	-0.3	70.1	96.4	135.4
Profit carried forward from the previous year	–	–	33.1	27.1
Minority interest in consolidated net loss for the year	1.5	1.7	3.1	2.9
Dividend payment	–29.7	–24.3	–29.7	–24.3
Transfer from (+)/to (–) other retained earnings	1.7	–68.4	–93.4	–132.4
Unappropriated retained earnings of Salzgitter AG	**–29.8**	**–24.3**	**3.3**	**2.8**
Earnings per share (in €) – basic	**–0.03**	**1.27**	**1.73**	**2.45**
Earnings per share (in €) – diluted	**–0.02**	**1.20**	**1.64**	**2.32**

II. Statement of Comprehensive Income

In € million	Q2 2019	H1 2019	Q2 2018	H1 2018
Consolidated result	**-0.3**	**96.4**	**70.1**	**135.4**
Recycling				
Reserve from currency translation	-2.2	3.9	5.1	-0.8
Changes in value from cash flow hedges	21.9	51.0	10.1	-9.7
Fair value change	21.8	52.0	21.7	13.5
Basis adjustments	–	–	-10.5	-22.4
Recognition with effect on income	-0.4	-1.3	–	0.3
Deferred tax	0.4	0.3	-1.1	-1.1
Changes in value of investments accounted for using the equity method	-1.3	0.5	3.7	1.3
Fair value change	-0.2	-0.2	-0.9	-0.9
Recognition with effect on income	–	–	–	–
Currency translation	-1.3	0.6	4.6	2.3
Deferred tax	0.2	0.2	-0.0	-0.0
Deferred taxes on other changes without effect on the income	–	0.0	-0.0	-0.0
Subtotal	18.3	55.5	18.9	-9.1
Non-recycling				
Changes in equity for financial equity instruments valued without effect on the income	0.0	0.0	-0.1	-0.5
Fair value change	0.0	0.0	-0.1	-0.5
Deferred tax	–	–	–	–
Remeasurements	-60.3	-181.0	-90.6	-0.0
Remeasurement of pensions	-87.9	-263.8	-90.6	-0.0
Deferred tax	27.6	82.8	–	–
Changes in value of investments accounted for using the equity method	-8.0	-8.0	1.2	1.2
Subtotal	-68.3	-189.0	-89.6	0.6
Other comprehensive income	**-50.0**	**-133.5**	**-70.7**	**-8.5**
Total comprehensive income	**-50.2**	**-37.1**	**-0.6**	**126.9**
Total comprehensive income due to Salzgitter AG shareholders	-51.8	-40.1	-2.3	124.1
Total comprehensive income due to minority interest	1.5	3.1	1.7	2.8
	-50.2	**-37.1**	**-0.6**	**126.9**

III. Consolidated Balance Sheet

Assets in € million	2019/06/30	2018/12/31
Non-current assets		
Intangible assets	211.9	219.4
Property, plant and equipment	2,245.3	2,120.5
Investment property	82.7	83.5
Financial assets	71.6	75.6
Investments accounted for using the equity method	1,011.8	888.3
Trade receivables	21.3	25.5
Other receivables and other assets	25.4	24.0
Income tax assets	1.3	0.1
Deferred income tax assets	447.5	399.1
	4,118.8	**3,835.9**
Current assets		
Inventories	2,341.2	2,327.5
Trade receivables	1,421.5	1,367.2
Contract assets	182.9	175.2
Other receivables and other assets	441.5	403.7
Income tax assets	22.9	24.5
Securities	70.2	67.4
Cash and cash equivalents	663.2	555.6
Assets available for sale	6.9	0.0
	5,150.3	**4,921.0**
	9,269.2	**8,756.9**

Equity and liabilities in € million	2019/06/30	2018/12/31
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	3,096.3	3,181.0
Other reserves	72.2	60.0
Unappropriated retained earnings	3.3	33.1
	3,590.3	**3,692.6**
Treasury shares	–369.7	–369.7
	3,220.7	**3,322.9**
Minority interest	8.8	9.1
	3,229.5	**3,332.1**
Non-current liabilities		
Provisions for pensions and similar obligations	2,519.3	2,275.5
Deferred tax liabilities	67.6	67.6
Income tax liabilities	37.1	36.9
Other provisions	361.3	358.4
Financial liabilities	806.1	291.1
Other liabilities	5.5	6.1
	3,796.8	**3,035.7**
Current liabilities		
Other provisions	274.7	281.4
Financial liabilities	492.2	426.9
Trade payables	1,002.2	1,130.2
Contract liabilities	179.2	250.2
Income tax liabilities	6.6	37.0
Other liabilities	288.0	263.4
	2,243.0	**2,389.2**
	9,269.2	**8,756.9**

IV. Cash Flow Statement

In € million	H1 2019	H1 2018
Earnings before taxes (EBT)	145.3	198.6
Depreciation write-downs (+) / write-ups (-) of non-current assets	176.2	169.2
Income tax paid (–)/refunded (+)	–42.4	–19.1
Other non-cash expenses (+)/income (–)	29.6	43.8
Interest expenses	39.2	45.3
Gain (-) / loss (+) from the disposal of non-current assets	4.2	2.6
Increase (–)/decrease (+) in inventories	–11.1	–38.6
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–80.0	–205.1
Use of provisions affecting payments, excluding income tax provisions	–105.4	–123.6
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	–181.6	96.9
Cash outflow/inflow from operating activities	**–25.9**	**170.1**
Cash inflow from the disposal of intangible assets, property, plant and equipment and investment properties	–0.0	1.4
Cash outflow for investments in intangible assets, property, plant and equipment and investment properties	–185.1	–142.6
Cash inflow from investments of funds	–	4.0
Payments for financial investments	-0.0	–10.4
Cash inflow from the disposal of non-current assets	4.7	4.4
Cash outflow for investments in non-current assets	–96.2	–133.3
Cash flow from investment activities	**–276.6**	**–276.4**
Cash outflow in payments to company owners	–29.7	–24.3
Deposits from taking out loans and other financial debts	637.5	2.0
Repayment of loans and other financial liabilities	–166.2	–6.0
Cash outflow from repayments of loans	–16.8	–
Interest paid	–16.0	–17.2
Cash outflow/inflow from financing activities	**408.7**	**–45.7**
Cash and cash equivalents at the start of the period	555.6	679.4
Gains and losses from changes in foreign exchange rates	1.4	1.1
Payment-related changes in cash and cash equivalents	106.2	–152.0
Cash and cash equivalents at the end of the period	**663.2**	**528.6**

V. Statement of Changes in Equity

In € million	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	
					Currency translation
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**
As of 2018/12/31	**161.6**	**257.0**	**–369.7**	**3,181.0**	**–6.8**
Total comprehensive income	–	–	–	–181.0	3.9
Basis Adjustments	–	–	–	–	–
Dividend	–	–	–	–	–
Group transfers to(+)/from(–) retained earnings	–	–	–	93.4	–
Other	–	–	–	2.9	–
As of 2019/06/30	**161.6**	**257.0**	**–369.7**	**3,096.3**	**–2.8**

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				
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**
25.1	**20.0**	**21.6**	**33.1**	**3,322.9**	**9.1**	**3,332.1**
51.0	0.0	−7.5	93.4	−40.1	3.1	−37.0
−35.2	–	–	–	−35.2	–	−35.2
–	–	–	−29.7	−29.7	−3.4	−33.2
–	–	–	−93.4	–	–	–
–	–	–	–	2.9	–	2.9
40.9	**20.1**	**14.1**	**3.3**	**3,220.7**	**8.8**	**3,229.5**

Notes

Segment Reporting

In € million	Strip Steel		Plate/Section Steel		Mannesmann	
	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018
External sales	1,175.5	1,242.7	442.3	554.5	582.3	563.4
Sales to other segments	391.2	386.0	444.7	399.6	93.3	81.4
Sales to group companies that are not allocated to an operating segment	1.8	1.8	0.4	0.3	211.8	193.5
Segment sales	1,568.5	1,630.6	887.4	954.4	887.5	838.3
Interest income (consolidated)	1.1	0.3	0.0	0.0	0.5	0.4
Interest income from other segments	–	–	0.0	–	–	–
Interest income from group companies that are not allocated to an operating segment	0.0	0.0	0.1	0.4	0.6	1.1
Segment interest income	1.1	0.3	0.1	0.4	1.0	1.5
Interest expenses (consolidated)	7.5	13.5	1.5	1.4	3.5	3.3
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	10.9	11.9	2.9	2.4	4.5	3.9
Segment interest expenses	18.4	25.4	4.5	3.8	8.0	7.2
Depreciation of property, plant and equipment and amortization of intangible assets	90.6	92.0	19.8	19.4	28.1	29.6
EBIT before depreciation and amortization (EBITDA)	168.2	226.8	24.7	44.8	44.1	47.6
Earnings before interest and taxes (EBIT)	77.6	134.8	5.0	25.4	16.0	18.1
Segment earnings before taxes	60.3	109.7	0.6	22.0	9.0	12.3
of which resulting from investments accounted for using the equity method	–	–	–	–	−0.3	9.1
Investments in property, plant and equipment and intangible assets	65.7	59.3	53.4	24.4	39.6	32.1

	Trading		Technology		Total segments		Industrial Participations/ Consolidation		Group
H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018
1,578.3	1,548.8	656.9	610.0	4,435.2	4,519.5	91.0	97.6	4,526.2	4,617.1
31.1	37.7	0.2	0.2	960.7	905.0	379.1	367.7	1,339.8	1,272.7
0.0	0.0	–	–	214.1	195.7	–	–	214.1	195.7
1,609.4	1,586.6	657.2	610.2	5,610.0	5,620.2	470.1	465.3	6,080.1	6,085.4
1.7	1.2	0.9	1.7	4.2	3.7	3.1	3.0	7.3	6.7
–	–	–	–	0.0	–	19.4	18.9	19.4	18.9
2.3	3.7	0.5	0.4	3.5	5.7	–	–	3.5	5.7
4.0	5.0	1.4	2.1	7.6	9.3	22.5	21.9	30.1	31.2
10.7	8.8	1.2	1.1	24.4	28.1	14.8	17.2	39.2	45.2
0.0	–	–	–	0.0	–	3.5	5.7	3.5	5.7
0.3	0.1	0.7	0.6	19.4	18.9	–	–	19.4	18.9
10.9	8.9	1.9	1.7	43.8	46.9	18.3	22.9	62.1	69.8
7.3	5.1	11.8	10.7	157.6	156.7	18.8	12.7	176.4	169.4
18.4	34.0	28.4	30.6	283.9	383.9	69.7	22.8	353.7	406.6
11.1	28.9	16.7	20.0	126.4	227.2	50.9	10.0	177.3	237.2
4.1	25.0	16.1	20.5	90.2	189.6	55.1	9.1	145.3	198.6
–	–	–	–	–0.3	9.1	55.3	21.8	55.1	30.8
26.0	4.9	28.0	9.0	212.6	129.7	93.9	6.2	306.6	135.8

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, 2019 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, 2018, 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, 2019.
3. In calculating the fair value of defined benefit obligations as of June 30, 2019, an actuarial rate of 1.00% was applied (December 31, 2018: 1.75%). The resulting increase in provisions for pensions and similar obligations are reported in other comprehensive income (pension revaluation) and incurs a corresponding reduction in equity.
4. IFRS 16 “Leases” that regulates the accounting of leases has been replaced by IAS 17 as well as the relevant interpretations. The transition to IFRS 16 has been effected in accordance with the modified retrospective approach. Prior year periods have therefore not been adjusted. The Group companies within the SZAG Group mainly use operating leases, which is the reason why the application of IFRS 16 will affect the net assets, financial position and results of operations. The usage rights are reported at the cost of acquisition less accumulated depreciation and amortization and, if appropriate, any necessary impairment. The cost of acquiring the usage rights is calculated as the present value of all future leasing payments plus the lease payments that are remitted on or before the term of the lease commences, as well as the cost of contracts signed and the estimated costs of dismantling or reinstating the leased asset. All leasing incentives received are deducted from the aforementioned. If the leasing payments to be included also entail the transfer of ownership and the exercising of a purchase option relating to the underlying asset at the end of the lease term, the asset will be depreciated over its useful economic life. The usage right will otherwise be written down over the term of the leasing arrangement.
   The initial recognition of the lease liability assigned to financial liabilities is calculated as the present value of the lease payments to be made less prepayments already remitted. In subsequent measurement, the carrying amounts of the lease liability are compounded and reduced by the lease payments remitted with no effect on income.
   SZAG’s incremental borrowing rate of interest is used for discounting at the time of the first-time adoption. In the case of leases classified to date pursuant to IAS 17 as operating leases, the lease liability is recognized in the present value of the remaining lease payments. By contrast, the accounting rules for lessors have remained largely unchanged, particularly with regard to the classification of leasing arrangements pursuant to IAS 17 that is still required.
   SZAG avails itself of the options under IFRS 16 according to which reporting the usage right and the lease liability can be dispensed with in the case of lease agreements with a term of up to twelve months (short-term leases) and lease agreements on low value assets.
   Leases that expire on December 31, 2019 and will not be renewed are not reported as short-term lease arrangements for reasons of simplification.
   The term of the lease is determined at the time when it commences on the basis of the non-cancellable contractual period and while including existing renewal options and termination options. Current information is taken into account in the process inasmuch as an assessment is deemed sufficiently certain. Non-lease components are identified at the beginning only for leases from the areas of real estate and vehicle fleets and are therefore not an integral part of the underlying lease payments. In calculating the incremental borrowing rate, the yield curve depending on the maturity for industrial companies in Europe that corresponds to the rating of the group of SZAG is used. In the case of foreign Group companies, the conditions specific to the country are taken into account.

The table below shows the derivation of liabilities from leases from lease agreements as of January 1, 2019:

In € million	**2019/06/30**
Right of use of land, similar rights and buildings, including buildings on land owned by others	82.1
Right of use of plant equipment and machinery	47.0
Right of use of other equipment, plant and office equipment	11.5
Non-current assets	**140.6**
Lease liabilities	**144.8**

In the presentation below on the usage rights and the lease liabilities, assets are included that were capitalized through to December 31, 2018 in the context of finance leases pursuant to IAS 17. In the first half of 2019, this resulted in the following effects on the balance sheet and on the income statement:

In € million	**2019/06/30**
Right of use of land, similar rights and buildings, including buildings on land owned by others	–4.0
Right of use of plant equipment and machinery	–11.8
Right of use of other equipment, plant and office equipment	–3.2
Depreciation/amortization	**–19.0**
Lease interest expenses	**–2.0**
In € million	
Minimum lease payments from operating leases as of December 31, 2018	187.9
Standard simplification rules, effects of discounting with incremental borrowing rate as of January 1, 2019 and reestimation of contracts	–64.5
Lease liabilities based on first-time adoption of IFRS 16 as of January 1, 2019	**123.5**
Finance lease liabilities as of December 31, 2018	29.1
Lease liabilities as of January 1, 2019	**152.5**

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 € 1.73 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 € 1.64.

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	
	2019/06/30	2018/12/31
Book value	147.4	162.0
Fair value	150.5	166.7

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 with 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/-30/06/2019	01/01/-30/06/2019	2019/06/30	2019/06/30
Non consolidated group companies	20.5	10.1	22.1	3.3
Joint ventures	27.6	5.1	18.8	0.1
Joint operations	1.1	0.5	44.4	35.0
Other related parties	0.6	13.0	3.3	98.9

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 2019

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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