

9M

Interim Report | **9 Months 2011**



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Salzgitter Group Figures

		9M 2011	9M 2010	+/-
Crude steel production¹⁾	kt	5,463.5	5,059.3	404.2
External sales	€ million	7,331.4	6,192.6	1,138.8
Steel Division	€ million	2,071.4	1,672.4	399.0
Trading Division	€ million	2,810.6	2,230.5	580.1
Tubes Division	€ million	1,299.6	1,304.0	-4.4
Services Division	€ million	355.7	301.7	54.0
Technology Division	€ million	728.4	645.5	82.9
Other	€ million	65.6	38.5	27.2
Export share	%	49.9	49.9	0.0
EBITDA²⁾	€ million	488.9	283.7	205.2
EBIT²⁾	€ million	239.0	71.3	167.7
Earnings before tax (EBT)	€ million	169.1	5.7	163.5
Steel Division	€ million	35.9	-67.6	103.5
Trading Division	€ million	53.3	63.9	-10.5
Tubes Division	€ million	59.3	17.7	41.6
Services Division	€ million	14.6	18.8	-4.2
Technology Division	€ million	-36.5	-21.0	-15.5
Others/Consolidation	€ million	42.5	-6.1	48.6
Earnings after tax	€ million	114.7	3.9	110.8
Earnings per share (undiluted)	€	2.06	0.01	2.05
ROCE³⁾⁴⁾	%	5.8	0.8	5.0
Operating cash flow	€ million	-286.1	8.5	-294.6
Capital expenditure⁵⁾	€ million	276.5	352.5	-76.0
Depreciation and amortization⁵⁾	€ million	249.8	211.0	38.8
Balance sheet total	€ million	8,936.5	8,365.0	571.5
Non-current assets	€ million	3,542.1	3,374.3	167.8
Current assets	€ million	5,394.4	4,990.7	403.7
of which inventories	€ million	2,199.2	1,673.1	526.1
of which cash and cash equivalents	€ million	933.8	1,276.2	-342.4
Equity	€ million	3,919.6	3,881.5	38.0
Liabilities	€ million	5,016.9	4,483.4	533.5
Non-current liabilities	€ million	2,996.6	2,573.4	423.1
Current liabilities	€ million	2,020.4	1,910.0	110.3
of which due to banks ⁶⁾	€ million	89.6	89.7	-0.1
Net position to banks⁷⁾	€ million	528.0	1,245.9	-717.9
Employees				
Personnel expenses	€ million	1,092.1	1,079.2	12.9
Core workforce	30/09/	23,561	23,130	431
Total workforce	30/09/	25,742	25,207	535

Disclosure of financial data in compliance with IFRS

¹⁾ In regard of the participation in Hüttenwerke Krupp Mannesmann

²⁾ EBIT = EBT + interest expense/- interest income; EBITDA = EBIT plus depreciation and amortization

³⁾ Return on Capital Employed (ROCE) = EBIT (-EBT + interest expense excluding the interest portion of allocations to pension provisions) in relation to the shareholder's equity (without calculation of accrued and deferred taxes), tax provisions, interest-bearing liabilities (excluding pensions provisions) and liabilities from financial leasing, forfeiting

⁴⁾ Annualized

⁵⁾ Excluding financial assets

⁶⁾ Current and non-current liabilities to banks

⁷⁾ Including investments, e.g. securities and structured investments

Sound profit trend in the current financial year

The Salzgitter Group achieved a considerable increase in its profit in the third quarter of 2011 compared with the year-earlier period. Its presentable performance in the first nine months of 2011 was due first and foremost to the generally favorable economic environment for rolled steel and tubes products.

Group:

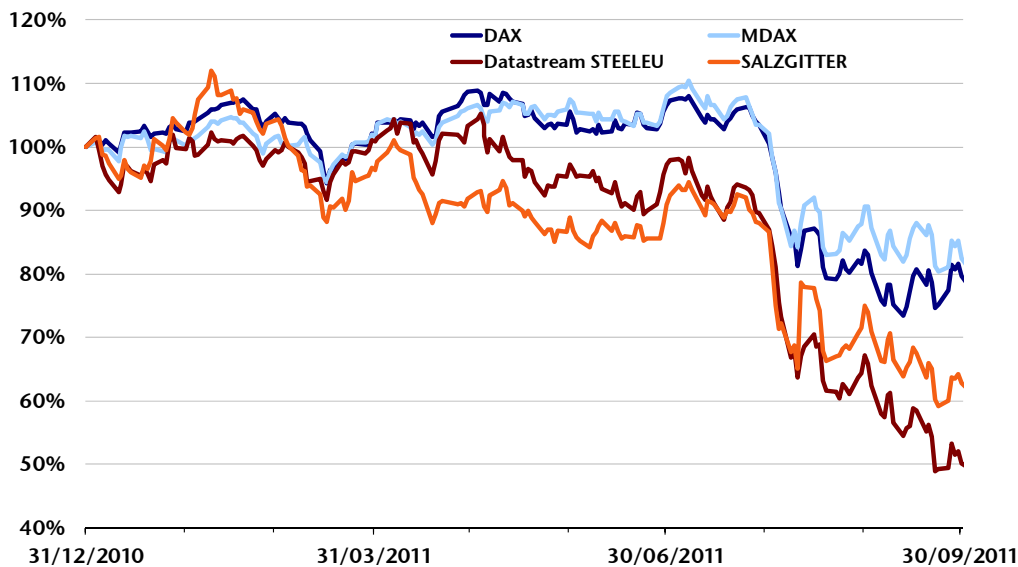
- **External sales:** growth of 18 % to € 7,331.4 million
- **Earnings before tax:** significant increase to € 169.1 million
- **Profit after tax:** € 114.7 million
- **Earnings per share (basic):** rise to € 2.06
- **Net credit balance:** in excess of € 500 million and therefore exceptionally sound balance sheet and financial position
- **Equity ratio:** 43.9 %
- **ROCE:** 5.8 %

Business performance of the divisions:

- **Steel:** demand for most products remained brisk well into the third quarter; only from September onwards, reticent order patterns in a number of customer sectors and moderate alignment of flat steel production; increase in external sales due to higher selling prices for flat steel and plate; significant increase in earnings before tax as against the year-earlier figure
- **Trading:** firm shipment volumes and selling price development in domestic business and ongoing positive trend in international trading; increase in external sales of around one quarter; very pleasing earnings before tax only marginally lower than previous year's result that was determined by exceptionally high windfall effects
- **Tubes:** healthy demand in most sub-segments; stable external sales; earnings before tax more than trebled; main contribution from precision and stainless steel tubes, both of which staged impressive turnarounds and delivered clearly positive results
- **Services:** increase in external sales mainly attributable to higher scrap prices; year-earlier earnings before tax almost matched
- **Technology:** external sales considerably higher than a year ago thanks to the recovery in KHS's project and service activities and the plastics-injection mold machinery business, notable improvement in the margins of orders recently acquired by KHS; however, settlement of projects originating in previous years exert considerable pressure on the result
- **Other/Consolidation:** substantial increase in external sales; earnings before tax comprises a very pleasing after-tax contribution of € 52.9 million from the Aurubis AG participation

Forecast for the financial year 2011: The euro crisis has resulted in greater macroeconomic risks since the summer. Demand in many product segments is nonetheless comfortable, albeit at a more modest level. Taking account of new orders placed in recent weeks, which give rise to cautious optimism, we affirm our forecast for the **Salzgitter Group's earnings before tax of around € 200 million** in the financial year 2011.

Capital market and price performance of the Salzgitter stock



Sources: Xetra closing prices DBAG, Datastream STEELEU

In the first nine months of 2011, the **international stock markets** were determined by a great degree of uncertainty and nervousness. The uptrend, which has generally held steady since the fourth quarter of 2010, continued initially until profit taking caused a marginal consolidation in February. The earthquake in Japan on March 11 resulted in a severe contraction, followed shortly thereafter by a counter movement, prompted by healthy economic data, which persisted through to May. The debate about the public finances of several countries in the euro zone which started in early summer triggered a phase of high stock market volatility. In July, stocks rallied temporarily, a movement that was, however, followed by prices tumbling rapidly in the same month as efforts on the political front to solve the meanwhile open outbreak of the euro crisis out were deemed insufficient by the capital market. The DAX had shed around 20% overall by September 30, 2011, compared with the closing price at year-end 2010; the MDAX fell by 18%.

In times of such uncertainty many investors prefer reputedly defensive investments to the detriment of the shares of companies in cyclically sensitive sectors such as the steel industry. Similar to the equity prices of our competitors, the **Salzgitter share** was therefore severely impacted by the lackluster sentiment on the stock exchanges during the reporting period. The share price had already peaked for the year to date on February 8, when it posted € 65.64. As early as April, we were given a first glimpse of the impact of the immanent discussions about the economy on steel equities: investors responded to news about industry and the economy with pronounced buying or selling activities which took on partly extreme dimensions at the end of July after the start to the euro crisis. For instance, on August 11, following the publication of the half-yearly figures and guidance, which had been revised upwards, the share price climbed by at times more than 23%, a price movement which is most unusual for an established industrial company. From this day onwards, our share outperformed the European Steel Index. It was, however, unable to generally decouple from the overall market trend despite multiple confirmation of the outlook for business and the still exceptionally sound financial position and strong balance sheet of the company. The overall

performance of the Salzgitter share in the period under review came to –27%; the steel index shed 50% of its value.

In current **analyst coverage** conducted by 22 banks, the Salzgitter share has been assessed with the following recommendations (as per September 30, 2011): 14 buy/outperform, 7 hold/market perform, 1 sell/underperform.

The **average daily turnover** of the Salzgitter share on German stock exchanges came to approximately 395,000 units at the end of the first nine months of 2011. On September 30, 2011, Salzgitter AG held in 6th place measured by turnover and took 15th place in terms of free-float market capitalization in the MDAX ranking of Deutsche Börse AG.

As part of its **capital communications work**, the Salzgitter Group made presentations at investor conferences in Hamburg, Frankfurt, London, Zurich and New York in the period under review. In addition, we held road shows in Vienna, Milan and Lugano and received visits from investors and analysts at our plants in Salzgitter, Peine and Mülheim an der Ruhr. In mid-August, the results of the first half of 2011 were presented at analysts' conferences in Frankfurt and London and discussed in detail with the capital market.

Treasury Shares

Salzgitter AG's portfolio of treasury shares came to 6,009,700 as per September 30, 2011, and therefore remains unchanged as against December 31, 2010

Information for Investors

		9M 2011	9M 2010
Nominal capital as of 30/09/	€ million	161.6	161.6
Number of shares as of 30/09/	million	60.1	60.1
Number of shares outstanding as of 30/09/	million	54.1	54.1
Market capitalization as of 30/09/ ¹⁾²⁾	€ million	1,961	2,570
Price as of 30/09/¹⁾	€	36.26	47.52
High 01/01/ - 30/09/ ¹⁾	€	65.64	74.32
Low 01/01/ - 30/09/ ¹⁾	€	32.43	46.09
Security identification number	620200		
ISIN	DE0006202005		

¹⁾ All data based on prices from XETRA trading

²⁾ Calculated on the basis of the respective closing price at the end of the period multiplied by the number of shares outstanding per this date

Earnings, Financial Position and Net Worth

Economic Environment

After a dynamic start to the year 2011, the expansion of the **global economy** has increasingly lost momentum. This development was particularly attributable to less buying power caused by the uptrend in raw materials and energy prices and to a number of emerging markets tightening their monetary policies. The individual geographical regions are still extremely diverse. Whereas the pace of growth in the emerging economies slowed at a high level, the economic development of most industrial nations was merely sluggish. Intense debates on finding a solution to the debt crisis in Europe and the USA triggered a massive breach of confidence throughout the world in July which has not yet been overcome. This was initially reflected in pronounced turbulence on the international financial markets and exerted increasing pressure on the sentiment of the business community. Against this backdrop, the International Monetary Fund (IMF) revised its forecast for global economic output downwards by 0.5% to 4.0%.

Economic growth rates in the **euro area** have also declined over the course of the year. Along with weaker global trading, the main reasons are to be found in the ongoing problematic situation in the labor markets of many member countries and the bearish sentiment of consumers and companies. A similarly dampening effect emanated from consolidation measures implemented by an increasing number of EU member states. Economic momentum within the EU community presents a disparate picture: Whereas some economies, especially of smaller countries such as Estonia or Slovakia, generally developed well, the expansion rates of Italy and Spain, for instance, were very low. By contrast, Portugal and Greece are in recession. Given that divergences within the monetary union are set to persist, IMF experts anticipate that the gross domestic product will grow by 1.8% in 2011.

The **German economy** continued to expand in the third quarter, albeit at a slower pace, buoyed above all by steady and healthy demand for the export of German industrial goods. Moreover, a stable labor market served to counteract consumer reticence caused by the uncertainty, with the result that the domestic market also provided stimulus. The German economy therefore continues to be quite robust. With the IMF assuming an increase in the gross domestic product of 2.7% in 2011, expectations for Germany are considerably higher than those placed on the other G7 nations.

		Q3 2011	Q3 2010	9M 2011	9M 2010
Crude steel production ¹⁾	kt	1,808.7	1,684.3	5,463.5	5,059.3
External sales	€ million	2,557.7	2,158.4	7,331.4	6,192.6
EBITDA ²⁾	€ million	145.5	106.6	488.9	283.7
EBIT ²⁾	€ million	62.2	32.0	239.0	71.3
Earnings before tax (EBT)	€ million	39.2	10.8	169.1	5.7
Earnings after tax	€ million	21.0	7.4	114.7	3.9
ROCE³⁾⁴⁾	%	5.8	1.6	5.8	0.8
Capital expenditure ⁵⁾	€ million	95.8	144.6	276.5	352.5
Depreciation and amortization ⁵⁾	€ million	83.4	74.4	249.8	211.0
Operating cash flow	€ million	-286.1	-140.1	-286.1	8.5
Net position to banks⁶⁾	€ million	528.0	1,245.9	528.0	1,245.9
Equity ratio	%			43.9	46.4

¹⁾ In regard of the participation in Hüttenwerke Krupp Mannesmann

²⁾ EBIT = EBT + interest paid/- interest income; EBITDA = EBIT plus depreciation and amortization

³⁾ Return on Capital Employed (ROCE) = EBIT (= EBT + interest expense excluding the interest portion of allocations to pension provisions) in relation to the total of shareholders' equity (without calculation of accrued and deferred taxes), tax provisions, interest-bearing liabilities (excluding pension provisions) and liabilities from financial leasing, forfeiting

⁴⁾ Annualized

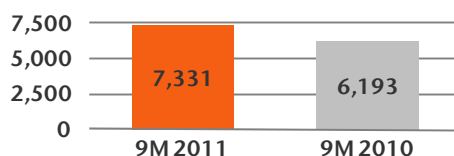
⁵⁾ Excluding financial assets

⁶⁾ Including investments, e.g. securities and structured investments

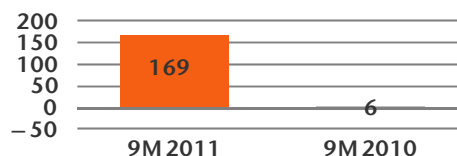
Earnings situation within the Group

The Salzgitter Group achieved a considerable increase in its profit in the third quarter of 2011 compared with the year-earlier period. Its presentable performance in the first nine months of the current financial year was due first and foremost to the generally favorable economic environment for rolled steel and tubes products. Reporting an equity ratio of 44 % and a positive net financial position of more than € 500 million, Salzgitter AG is well positioned, both in terms of a sound balance sheet and strong financial position, also after virtual completion of its extensive investment program which cost around € 2 billion.

Group-External Sales (in € million)



Group-EBT (in € million)



The Group's **external sales** rose 18 % to € 7,331.4 million (9 Months 2010: € 6,192.6 million). This development was mainly borne by the brisk activities of the Steel, Trading and Technology divisions. As a result, **earnings before tax** climbed steeply to € 169.1 million (9 Months 2010: € 5.7 million). This figure comprises € 52.9 million in profit contribution from the participation in Aurubis AG which is included at equity (9 Months 2010: € 31.8 million). The **result after tax** stood at € 114.7 million (9 Months 2010: € 3.9 million). Return on capital employed (ROCE) came to 5.8 % (9 Months 2010: 0.8 %).

Steel Division

		Q3 2011	Q3 2010	9M 2011	9M 2010
Order bookings	kt	1,167.2	1,239.5	3,690.5	3,651.8
Order backlog as of 30/09/	kt			909.2	951.5
Crude steel production	kt	1,402.8	1,313.2	4,250.6	3,918.1
LD steel (SZFG)	kt	1,100.8	1,089.9	3,491.5	3,247.2
Electric steel (PTG)	kt	302.0	223.3	759.1	670.9
Rolled steel production	kt	1,316.1	1,240.2	3,982.5	3,750.2
Shipments	kt	1,253.6	1,200.9	3,941.1	3,771.5
Sales¹⁾	€ million	972.1	845.2	2,970.5	2,343.3
External sales	€ million	704.4	590.8	2,071.4	1,672.4
Earnings before tax (EBT)	€ million	5.5	8.7	35.9	-67.6

¹⁾ Incl. sales to other corporate divisions

With its branded and special steels, the **Steel Division** is especially representative of the core competence of our Group. The six operating companies of the division, located in Salzgitter, Peine, Ilsenburg and Dortmund, produce a broad range of steel products (flat steel and sections, plates, sheets piling, components for roofing and cladding and tailored blanks). The product program caters especially for flat steel products geared to premium steel grades and qualities for use in increasingly sophisticated applications.

Market situation

Over the period up until September, **global steel production** grew by more than 8% as against the first nine months of 2010. Especially South America and South Korea reported high expansion rates on the back of newly created production capacities. Whereas the increase in China's production volume was again far above average, growth in the Western industrial nations was weaker. The capacity utilization of the 64 countries reporting as part of the World Steel Association came to 79.1% in September, which corresponds to a 3.5% rise in a nine-month comparison. Irrespective of the slowdown in global growth over the course of the year, the industry's Association anticipates that global demand will expand by 6.5% to almost 1.4 billion tons in the current year.

In the **European Union**, steel processors experienced a sharp uptrend through to the third quarter. The capacity utilization of plants reached a high level in many sectors, marking an end for the most part to the process of making up ground in the wake of the massive slump in the winter half-year of 2008/2009. However, the unavoidable slowdown in the pace of growth was stronger than expected. Greater uncertainty about the economy caused many market participants to adopt a more cautious stance, with efforts to reduce inventories. This put pressure on demand for steel despite demand running at a steady level. Accordingly, following on from a good start to the year, new orders were more modest in the subsequent months, and the production of crude steel posted a 4.3% increase compared with the previous year's figure on the reporting date. The price trend tracks the development of business in the steel industry over the course of the year. The appreciable price increases of the second quarter commanded for the quarterly business of flat steel products were offset by losses in a similar dimension in the summer. This development served to ease the still significant pressure on imports prevailing in the first half of the year.

The development of the **German steel market** mirrored events in the European market but at a much higher level. The strongest growth impetus was provided by the automotive and mechanical engineering sectors. Steel mills smelted 34.1 million tons of crude steel, which is 3.6% more than in the first nine months of 2010. With crude steel output at 3.65 million tons, the customary increase in steel production in September in comparison with the summer months failed to materialize. Nevertheless, this figure stood 10.3% above that of September 2010.

The diverging trends described in the steel markets, with strong momentum at the start of the year followed by increasing reticence in subsequent months, determined the **international procurement markets** to a great extent.

Large producers have established a quarterly pricing model in the global market for **iron ore** based on the spot prices of ore fines traded on the Chinese market. Driven by strong demand from the Far East, spot prices peaked at 193 USD/dmt DFR, China in mid-February, their highest level to date, and subsequently stabilized at around 180 USD/dmt. The Brazilian Carajas fines benchmark derived therefrom reached a record high of 175 USD/dmt FOB Brazil in the second and third quarter. Persistent anxiety about the global economy in the second half of September triggered a phase of correction which sent spot prices for iron ore down sharply.

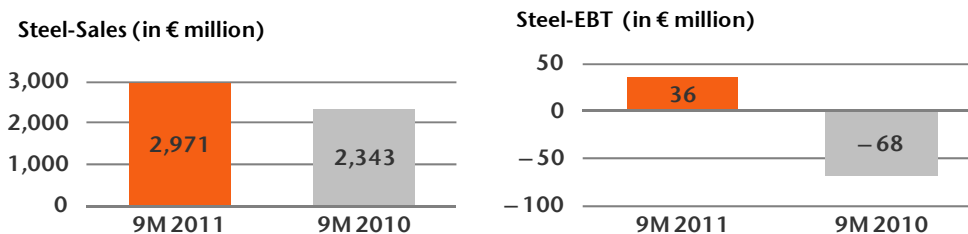
The pricing of **coking coal**, with a mix of different contractual terms, is much more varied. In April, BHP Billiton as the global market leader switched most of its contracts from a quarterly to a monthly basis. However, the majority of price agreements are concluded on terms of three months, similar to the iron ore market. The coking coal price trend was determined in the first half of 2011 by severe flooding on the east coast of Australia. Drastic curtailment in production, which led to supply shortfalls, drove the price of high-grade coking coal up steeply in the second quarter to historically high levels of 330/tFOB that were followed by only a slight decline in the summer months to 315 USD/tFOB. Similar to the iron ore trend, spot prices have fallen further in this instance as well.

At the end of 2010, **scrap prices** surged on the back of strong domestic and international demand and high grades peaked at historical levels in January 2011. Prices subsequently declined as a number of international consumers partly ceased to place any orders at all. Political unrest in North Africa and the Middle East burdened the markets additionally. Export demand stabilized only in May whereupon the scrap price edged up again. Seasonally induced lower demand caused a moderate downturn in the pricing structure at the start of the summer, followed by another decline of 10 €/t in September.

The development in the global markets for **metals and alloys** was very disparate, depending on the individual groups of materials: Quality alloys and listed metals such as zinc, nickel, copper and aluminum displayed great volatility at a high level and subsequently declined substantially in September. There were signs of a slight downtrend in the price of manganese-based bulk alloys, without a great deal of fluctuation, however.

Against this backdrop, the development of the Steel Division presented the following picture:

Consolidated **order intake** of the steel companies was above the level posted a year ago as opposed to orders in hand, which fell short of the previous year's tonnage on the reporting date. **Crude steel output** and the **production of rolled steel** reported growth. **Shipments** also exceeded the figure posted in the first nine months of 2010. The gratifying above-average increase in **segment and external sales** reflected the generally substantially higher selling price level, above all in the flat steel and plate segments. **Earnings before tax**, which were considerably higher than a year ago, comprised a special effect from the sale of the 30% stake in Thyssen Krupp GfT Bautechnik GmbH (TKBT).



More detailed explanations on the individual companies:

In the first nine months, the order intake of **Salzgitter Flachstahl GmbH (SZFG)** exceeded the year earlier figure. Owing to disproportionately high shipments in comparison to order intake, orders in hand fell marginally short of their 2010 counterpart. Production was partly running at maximum threshold due to healthy capacity utilization, which culminated in records set for crude steel production in March and for hot-rolled strip in June. Shipment prices rose appreciably through to the mid-year, with the summer months marking a decline in a similar dimension. SZFG reported excellent sales figures in the first nine months of the financial year, mainly due to selling prices that lifted earnings before tax significantly as against the year earlier period.

The favorable trend which set in at the start of the year in the **plate market** has gradually lost momentum since the summer as traders and consumers adopted a much more cautious stance. In addition, traders are attempting to restrict inventories with a view to year-end closing. Additional pressure emanated from standard grade imports, which were on the rise again, especially from Eastern Europe. Competition was also greater from non-EU countries. In contrast, the energy sector provided positive stimulus. The contract booked in September for the delivery of around 70,000 tons of plate for Meerwind, an offshore wind farm, enabled **Isenburger Grobblech GmbH (ILG)** to deliver renewed proof of its competitiveness. Thanks to its strong position in the energy business, the company achieved satisfactory capacity utilization. ILG's new orders and order book remained virtually unchanged from the year-earlier level. Both production and shipments exceeded the tonnage posted in the first nine months of 2010. The sharp increase in market prices, in conjunction with higher shipment volumes, led to considerably higher sales. Nonetheless, input materials price hikes meant that the improvement in sales only filtered through to margins to a limited extent. During the period under review, earnings before tax generated by the company were notably higher than a year ago.

In relation to capacities offered, demand in the European steel construction sector is still running at an insufficiently low level. Consequently, the capacity utilization of most steel engineers remains unsatisfactory, with sustained pressure on project prices. This situation caused a great deal of volatility and extreme short-term order patterns in the sections segment. After a promising start to the new year, demand slacked considerably from March onwards and only picked up momentum again in the middle of the second quarter. Downtime scheduled for the summer for maintenance and refurbishment work resulted in reduced capacity of the European rolling mills which were then booked. In August, order volumes rose steeply on the back of inventory replenishing and catching up effects.

New orders and orders in hand of **Peiner Träger GmbH (PTG)** settled at levels that exceeded the year-earlier period, not least due to orders for input materials being placed for the first time by sister companies. Following curtailment of the production of crude steel in the first quarter due mainly to preparations for the parallel operation of the two electric arc furnaces, the production volume rose as the year progressed. Higher shipments in a year-on-year comparison, combined with better average selling prices, led to a notable increase in sales. In comparison with the first nine months of 2010 that were burdened by restructuring expenses, the pre-tax loss was almost halved. Support also emanated from the measures implemented under PTG's streamlining program.

As order activities in the civil engineering sector – essential for sheets piling products –, had not yet reattained the pre-crisis level, **HSP Hoesch Spundwand und Profil GmbH (HSP)** sold a volume that only marginally exceeded the previous year's figure. This sector is extremely dependent on the demand of public-sector investors and is suffering from their budget constraints. The unsatisfactory capacity utilization situation at HSP necessitated short-time work, as before. Sales stagnated at the unsatisfactory level of the weak first nine months of 2010. The lack of shipment volumes and greater cost-induced burdens led to a negative pre-tax result, despite a special effect from the sale of the 30% stake in Thyssen Krupp GfT Bautechnik GmbH (TKBT).

Salzgitter Bauelemente GmbH (SZBE) raised shipments and sales in year-on-year comparison. Higher selling prices resulted in earnings before tax that were higher than a year ago.

The German automotive industry benefited from excellent domestic demand as well as from brisk export activities and reported production levels running close to maximum capacity. Consequently, **Salzgitter Europlatinen GmbH (SZEP)** achieved significant growth in shipments and sales in comparison with the third quarter of 2010 as well as a higher pre-tax result.

Trading Division

		Q3 2011	Q3 2010	9M 2011	9M 2010
Shipments	kt	1,305.0	1,085.0	3,442.9	3,266.6
Sales ¹⁾	€ million	1,096.4	864.2	2,886.3	2,353.8
External sales	€ million	1,073.4	821.4	2,810.6	2,230.5
Earnings before tax (EBT)	€ million	15.3	20.5	53.3	63.9

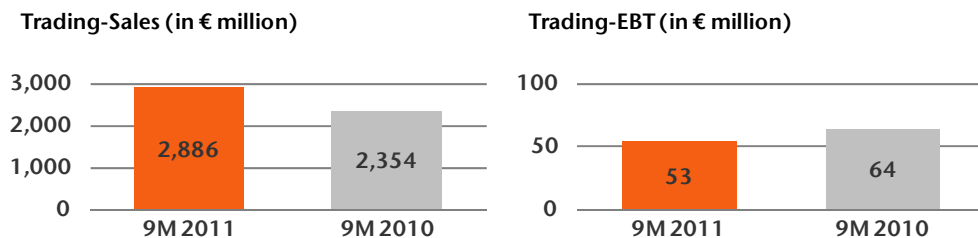
¹⁾ Incl. sales to other corporate divisions

Alongside a well-developed organization of stockholding steel trading subsidiaries in Europe, the **Trading Division** comprises four steel service center companies (SSC) specialized in flat steel products and plate, and operates a globalized international trading network. Apart from the rolled steel and tubes products of the Salzgitter Group, the division also sells the products of other German and foreign manufacturers and procures semi-finished products for the Group and external customers in the international markets

In addition to Salzgitter Mannesmann Acélkereskedelmi Kft., Budapest (SMHU), the company consolidated for the first time in the second quarter, US-based stockholding UNIVERSAL STEEL AMERICA, Inc., Houston (UESUS) was included in the Trading Division's group of consolidated companies on September 30, 2011, with retrospective effect on January 1, 2011. UESUS is headquartered in Houston and has a workforce of 84 employees. Stockholding activities are conducted at two locations (Houston and Chicago). An agreement for the acquisition of the shares in Stahl-Metall-Service Gesellschaft für Bandverarbeitung mbH (SMS) was signed on October 17, 2011. The company, which was founded in 1988, has operated cutting-edge facilities in Karlsruher Rheinhafen since 2008. The transfer of economic benefit will have been completed by the end of December (see also the section entitled Events of Significance).

After a strong start to the year, the general pace of economic growth was also reflected in subsequent months by the uptrend in the steel processing industry. This trend was primarily driven by the emerging markets of Asia, as well as Eastern Europe, Latin America and the African region. The international competitiveness of domestic industrial products boosted demand for steel products from Germany, particularly from the automotive industry as well as from the machinery and plant engineering sectors. The demand for steel by the domestic construction industry also showed the first signs of recovery. Steel sales in Germany and in a number of European countries developed very well in the first two quarters at levels exceeding those of the previous year. At the end of the first half-year, however, growing fears of a new financial crisis and the seasonally-induced weak summer months were reflected in more pronounced procurement reticence of many steel customers and stagnating prices.

The Trading Division's **shipments** marginally exceeded the year-earlier level as opposed to **segment** and **external sales** which were notably higher than their counterpart figures due to selling prices. The division delivered very pleasing **earnings before tax** of € 53.3 million. The year-earlier figure was determined by exceptionally high windfall effects.



The **Salzgitter Mannesmann Handel Group** succeeded in repeating its good performance in 2010. All in all, shipment tonnage slightly exceeded the year-earlier level on the back of healthy volumes in the stockholding steel trade and a positive trend in international trading. The price increase, especially in the spring of the reporting period, resulted in sales that were notably higher than a year ago. The pre-tax result was nonetheless lower in the first nine months of 2011 as the result in the second quarter of 2010 was determined by disproportionately high windfall effects.

The European **stockholding steel trading** companies presented a uniform picture, with trading volumes and sales higher than in the previous year. Whereas in the first quarter of 2011 nearly all stockholding steel traders reported an increase as against a year ago, from a nine-month standpoint only the companies located in Eastern Europe delivered higher figures.

In **international trading**, hot rolled flat products continued to be one of the German trading subsidiary Salzgitter Mannesmann International GmbH (SMID) key products in the steel trading volume booked. Africa ranked as SMID's main sales region, followed by Europe. The still virtually non-existent large-volume international project business and demand in the North American market which is slow to recover caused shipments to fall slightly below the year-earlier volume. Against the background of selling price hikes, sales climbed in comparison to the previous year's period and the Trading Division generated a higher pre-tax profit in comparison with first nine months of 2010.

Measured against 2010, **Universal Eisen & Stahl GmbH (UES)** has raised shipments and sales significantly and been successful in strengthening its position on the plate market. This development was attributable, among other factors, to strong demand from the mechanical engineering sector, growing demand from the offshore sector, and UES's improved stockholding offer aligned to this demand, all of which lifted the pre-tax result accordingly. UESUS, newly admitted to the group of consolidated companies, also made pleasing contributions.

The steel service center **Hövelmann & Lueg GmbH (HLG)** reported brisker business activities in the first nine months of the current year. Total processing capacities offered to the market were, however, still not fully utilized. Although shipments remained at the year-earlier level and sales exceeded those generated in the first nine months of 2010, the pre-tax result fell in comparison with a year ago due to strong pressure on prices in the automotive sector.

Tubes Division

		Q3 2011	Q3 2010	9M 2011	9M 2010
Order bookings	€ million	390.4	416.5	1,653.9	1,654.6
Order backlog as of 30/09/	€ million			1,106.7	1,012.6
Sales¹⁾	€ million	514.3	471.2	1,612.5	1,494.6
External sales	€ million	396.5	412.0	1,299.6	1,304.0
Earnings before tax (EBT)	€ million	12.6	4.5	59.3	17.7

¹⁾Incl. sales to other corporate divisions

The **Tubes Division** consists of a large number of subsidiaries and associated companies that manufacture and process welded and seamless steel tubes on four continents. The product range comprises mainly pipelines of all diameters, ranging from gas pipelines through to injection tubes for diesel engines, stainless oil field and boiler tubes, precision tubes for the automotive and machine building industries, as well as construction tubes in a variety of profiles.

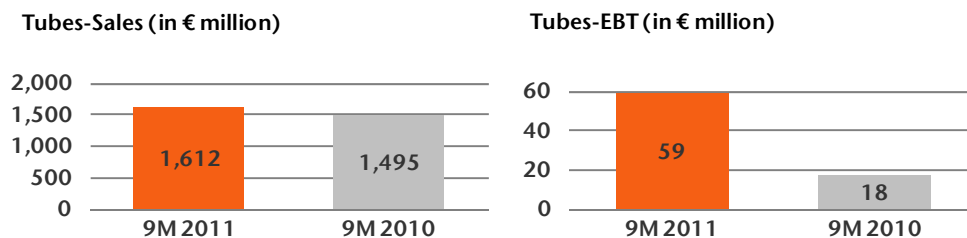
Despite the unstable political environment (debt crisis, energy debate, political unrest in North Africa and the Arab world), the capacity utilization of **steel tubes** manufacturers was generally satisfactory owing to a healthy order books, although new orders have recently declined somewhat. Demand from the energy sector in particular, especially from North America and the automotive industry, remained stable. Only welded steel tubes presented a disparate picture: Whereas the capacity utilization of a number of major tubes manufacturers traditionally engaged in the project business was a good, boosted by major contracts, producers of spiral-welded steel tubes reported excess capacities.

In the period from January to September 2011, the **order intake** of the Tubes Division remained at the previous-year's level thanks to the improved the level of selling prices and despite the lower volume of orders placed. This development is primarily attributable to the higher volume of precision and stainless steel tubes that more than compensated for the shortfall in the volume of large-diameter tubes as against the high year-earlier level while, at the same time, contributing substantially to the increase in consolidated **orders in hand**.

Despite the very gratifying development of shipments in the precision tubes segment, **tubes shipments** fell marginally below the previous year's figure due to the project-related decline in the large-diameter tube segment.

On the back of higher selling prices in almost all areas, **segment sales** of the Tubes Division exceeded the year-earlier figure. External sales remained stable.

The **pre-tax profit** generated in the first nine months of 2011 came to € 59.3 million which is more than three times the result posted a year ago, with contributions from all product segments. Precision and stainless steel tubes reported the greatest improvement with both product segments achieving an impressive turnaround and closing clearly in the black.



Business performance of the product segments:

In the **large-diameter tubes** segment, Europipe GmbH (EP) and Salzgitter Mannesmann Großrohr GmbH (MGR) booked several larger orders at good selling price conditions. Due, however, to the major Nord Stream 2 and NEL projects included in 2010, the exceptionally high order intake of the previous year was not repeated. Orders in hand therefore settled below the level in 2010. MGR collects production volumes for a large order and reported virtually no shipments, and because the US companies of EP had to contend with a market-induced slump, shipments of large-diameter tubes fell short of the previous year's period, which caused a downturn in sales as well. The large-diameter tubes segment nonetheless generated a clearly positive pre-tax profit which marginally exceeded the year-earlier figure. The result in 2010 included provisions for contingent losses in connection with project orders that were released and utilized for the most part during the processing of orders in 2010 and 2011. There were ongoing cost savings effects on the input materials front.

The order volumes of **HFI welded tubes** placed in the standard business developed well in the first three quarters of 2011 as opposed to bookings in the international project business which have as yet remained unsatisfactory due to uncertainty in the markets combined with the associated competitive pressure. New orders were slightly above the level posted a year ago accompanied by an improvement in selling prices, and orders in hand were also higher. With shipments remaining at the level seen in the first nine months of 2010, revenues rose on the back of a slight increase in selling prices. Persistently insufficient margins, however, kept the pre-tax result in the red.

Business in the **precision tubes** segment continues to be buoyed by the ongoing brisk export activities of the German and French automotive industry and strong demand from mechanical engineering and trading. In comparison to the first nine months of 2010, new orders climbed by around a fifth, also boosted by better selling prices, and orders in hand also rose sharply. Coupled with lively demand, the passing on of price increases for input materials resulted in a disproportionately high increase in sales and a pre-tax profit that significantly outperformed the year-earlier result which was burdened by accounting-related measures.

The course of business to date in the seamless **stainless steel tubes** segment continues to give rise to cautious optimism. Particularly in the oil and gas segment there have been signs of a certain recovery for some time now, substantiated by a number of public project tenders. In a year-on-year comparison, the MST Group lifted order intake and orders in hand as well as shipments and sales significantly, thereby generating a gratifying pre-tax profit.

Services Division

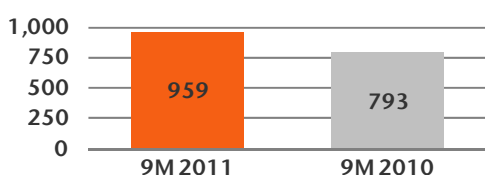
		Q3 2011	Q3 2010	9M 2011	9M 2010
Sales ¹⁾	€ million	332.9	272.7	958.9	792.7
External sales	€ million	117.0	106.4	355.7	301.7
Earnings before tax (EBT)	€ million	6.2	7.4	14.6	18.8

¹⁾Incl. sales to other corporate divisions

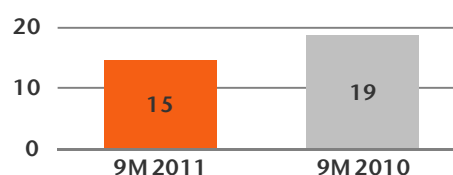
The **Services Division** comprises a number of service companies that focus primarily on demand and requirements within the Group but are equally successful in providing services to external parties. Services include the supply of raw materials, logistics, IT and personnel-related services, research and development, as well as automotive products.

In the first nine months, the division's business activities were determined by the consistently satisfactory capacity utilization of the steel companies.

Services-Sales (in € million)



Services-EBT (in € million)



In the reporting period, **segment sales** climbed by 21 % to € 958.9 million as against with the figure posted a year ago. This increase was primarily attributable to the sales growth (+35 %) generated by DEUMU Deutsche Erz- und Metall-Union GmbH (DMU), borne in the main by the significant price increases in the steel scrap segment. External sales came to € 355.7 million.

The division achieved **earnings before tax** of € 14.6 million in the period under review, almost matching the previous year's result (€ 18.8 million). Although DMU raised its profit, it was unable to compensate for the decline in the results of Salzgitter Automotive Engineering GmbH & Co. KG (SZAE) and Verkehrsbetriebe Peine-Salzgitter GmbH (VPS).

Technology Division

		Q3 2011	Q3 2010	9M 2011	9M 2010
Order bookings	€ million	251.6	222.9	706.8	691.3
Order backlog as of 30/09/	€ million			357.7	286.2
Sales ¹⁾	€ million	242.8	216.0	729.2	646.1
External sales	€ million	242.6	215.7	728.4	645.5
Earnings before tax (EBT)	€ million	-18.7	-5.4	-36.5	-21.0

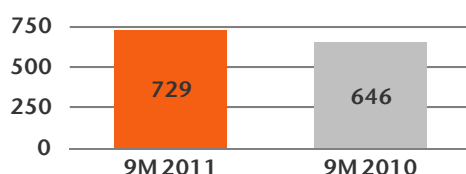
¹⁾ Incl. sales to other corporate divisions

The **Technology Division** comprises the international machinery and plant engineering activities. The KHS Group constitutes the main business line of filling and packaging technology for the beverages and food industry and is the division's sales mainstay, contributing 90 % of sales. Other companies of the division operate in the special machinery engineering business.

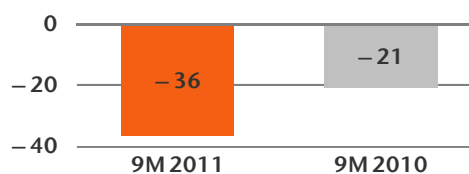
Klöckner-Werke AG changed its legal form and headquarters with effect from October 28, 2011. Since that date the company trades under the name of Salzgitter Klöckner-Werke GmbH (SKWG) and is headquartered in Salzgitter.

Despite the turbulence on the international financial markets, new orders placed with the German mechanical and plant engineering sector continued to grow and, according to the German Engineering Federation (VDMA), were 18 % higher than the year-earlier figure in the first nine months, with the third quarter reporting domestic demand as the strongest. In addition, the export business with France, the third largest market of German machine builders after China and the US, reported strong growth. Investments in food and packaging machinery also continued their swift recovery, posting strong growth as against the previous year.

Technology-Sales (in € million)



Technology-EBT (in € million)



Orders in hand of the Technology Division were marginally higher in a year-on-year comparison. The companies KHS Corpoplast GmbH (BEVCP), KHS in America and DESMA performed extremely well. The **order book** came to € 357.7 million in total, thus exceeding the year-earlier figure by a quarter.

Segment and external sales grew by 13% in comparison with a year ago. The main determinants here were the recovery in the project and service business of KHSDE coupled with the swift uptrend in the plastics and injection molding machinery business. The latter's contribution to profit was unable to compensate for the loss of the KHS Group. As a result, the accumulated loss came to at € – 36.5 million. While a notable improvement in the margins in orders recently acquired by KHS was in evidence, settlement of projects originating for the most part in previous years exerted notable pressure on the result.

KHSDE is in the process of stepping up the implementation of measures to achieve sustainable competitiveness and profitability. Among other measures, the eleven components of the extensive “Fit4Future“ strategy program are designed to make the company leaner by lowering costs, enhancing flexibility, above all in terms of capacity utilization, and reducing complexity by concentrating production and standardizing the global product program. Following the amalgamation of production sites in recent years, keg technology will now relocate from Kriftel to KHS' second largest site in Bad Kreuznach. In addition, 300 jobs are to be cut, mainly in the company's overheads.

Other/Consolidation

		Q3 2011	Q3 2010	9M 2011	9M 2010
Sales ¹⁾	€ million	55.2	47.1	147.6	137.8
External sales	€ million	23.9	12.0	65.6	38.5
Earnings before tax (EBT)	€ million	18.4	-24.9	42.5	-6.1

¹⁾ Incl. sales to other corporate divisions

Sales in the Other/Consolidation segment, which are mainly based on business in semi-finished products with subsidiaries and external parties, rose marginally to € 147.6 million during the period under review (first nine months of 2010: € 137.8 million). Buoyed by the economic environment, **external sales** rose appreciably to € 65.6 million (first nine months of 2010: € 38.5 million).

Earnings before tax came to € 42.5 million. The result includes € 52.9 million in profit after tax (first nine months of 2010: € 31.8 million) contributed by the stake in Aurubis AG (NAAG), a company consolidated at equity. This was offset by effects from the valuation of financial instruments.

The **total assets** of the Salzgitter Group had risen nearly 3% (€ +248 million) by September 30, 2011 compared with December 31, 2010. Investment in property, plant and equipment and intangible assets exceeded the level of depreciation and amortization by € 26 million. Moreover, there was an increase in the carrying amount of the shareholding in Aurubis AG due, on the one hand, to the development of business and, on the other, to raising the stake held in the company to 25%.

The increase in **current assets** (€ +153 million) consists of a volume- and price-induced growth in trade receivables (€ +450 million) and inventories (€ +469 million), together with the higher level of other receivables and assets (€ +264 million). This rise was attributable to the reclassification of investments no longer disclosed under marketable securities. The securities position was reduced accordingly (€ –301 million). In addition tax refund claims decreased (€ –89 million). Cash and cash equivalents fell (€ –641 million) owing to the combined effect of the higher level of cash requirements from the increase in working capital, with investments exceeding depreciation and amortization, and the raising of the participation in Aurubis AG.

On the liabilities side, the improved volume of business was reflected mainly by the **current liabilities** item (€ +211 million). Higher trade receivables/liabilities were accompanied by an increase in trade payables (€ +150 million) and other liabilities (€ +105 million). The **equity ratio** came to a sound 43.9%.

The increase in working capital to € 286.1 million in particular resulted in a **cash outflow from operating activities** despite the positive performance. By comparison, a positive cash flow of € 8.5 million was generated in the year-earlier period. The **net credit balance**, including investments, which are not disclosed under financial investments, had fallen to € 528.0 million by the end of the reporting period (December 31, 2010: € 1,272.2 million) owing mainly to the growth in working capital (€ 769 million). Investments worth € 1,209.5 million, including securities, were offset by liabilities of € 682 million (first nine months of 2010: € 680 million) owed to banks. The latter amount comprises € 592 million in obligations attached to convertible/exchangeable bonds.

Investments

Investments in plant, property and equipment came to € 276.5 million in the first nine months of the current financial year, which is lower than the figure posted in the year-earlier period (€ 352.5 million). Depreciation and amortization (€ 249.8 million) was a lower than the sum total of investment activity during the period under review.

Investment activity in the first nine months of 2011 was focused on the **Steel Division** where the major projects already initiated progressed according to schedule.

Following the successful completion of the "**Power Plant 2010**" project and in the final phase of the "**SZS 2012**" investment program, the focus of Salzgitter Flachstahl GmbH's (SZFG) investments in 2011 has been on the preparation and realization of plans to optimize existing facilities, securing availability and environmental protection investments.

The site for the "**Sinter Cooler Dedusting**" project is currently being prepared. The installation of a filter unit for the partial dedusting of the existing sinter cooler used in the preparation of iron ore is intended to fulfill the official requirements specified in technical guidelines for air and noise control.

The "**Top Gas Recovery Turbine for Blast Furnace B**" investment project enables energy to be recovered from the hot top gas generated through the blast furnace process. This measure will allow electricity sourced externally to be reduced by up to 57 GWh/year. With the building having been completed to schedule, the equipment and technology is now being installed.

The "**Entry Loop Accumulator Tandem Line**" is currently at the engineering stage. The tandem line is to be equipped with a continuous inflow in order to improve the output and quality of the cold-rolled strip.

Work on the **belt casting technology**, which will enable the resource-conserving manufacturing of innovative steel materials with special properties in future, is proceeding according to plan. The foundations of the "casting" production unit located in Peine have been completed, which will permit work to start on installing the equipment and technology. In Salzgitter, the old facilities are being dismantled and new foundations are being laid at the "rolling" production unit.

Thanks to the major "**PTG2010**" project, the Group's increase in demand for input material can in future be covered to a greater extent by in-house production and the purchase of slabs from external sources reduced. The parallel operation of the two electric arc furnaces went live as planned on March 22, 2011. The second electric arc furnace is currently in the ramping up phase.

HSP Hoesch Spundwand und Profil GmbH (HSP) has completed the modernization of its rolling mill and the process of investing in a **new role stand** in order to be able to manufacture the popular Z profile series. HSP has strengthened its market position by extending its product range.

The major investment project in the plate rolling mill of Salzgitter Mannesmann Grobblech GmbH (MGB), named "**Replacement of the Cross Cut Shear**" and approved in the financial year 2010, has been awarded to the supplier SMS Siemag. Detailed construction and planning are currently being carried out and the main components ordered. The date for technical implementation has been set unchanged for Easter 2013.

Salzgitter Mannesmann Forschung GmbH (SZMF) is the central research unit of the Steel and Tubes Divisions. R&D activities are concentrated on material development and processing, as well as application, coating and testing technologies. In addition to the Salzgitter Group companies, customers include external companies, for example, from the steel processing industry, automotive industry, the machine and plant engineering, energy technology, as well as the building and construction industry. SZMF's R&D expenses in 2011 are likely to remain at the year-earlier level. No important changes have been planned either as regards the number of employees.

Suitability of ferritic steel tubes for low-temperature applications

SZMF has completed an extensive test program to prove the suitability of ferritic steel tube products for the conveyance of liquid gas at low temperatures. Of particular interest was material response in the region of the weld seams in longitudinal or circumferential direction, as well as the influence of heat in the adjacent area of the weld seams. Hydraulic ring expansion tests returned positive results with regard to the burst response of ring-shaped test objects made of ferritic steel with notch on the weld seam. One of the major challenges in the course of these tests is to maintain the necessary test temperature of $-46\text{ }^{\circ}\text{C}$. To meet this requirement, SZMF has developed a cooling system that keeps the temperature at a constant level. With the help of the Finite Elements Method (FEM), it was possible to show that the degree of stress on the pipeline at laboratory conditions is more critical compared to the stress level on the real pipeline, which means that these findings can be reliably applied to the integrity tests on the future pipeline.

SZMF at the International Conference "Steels in Cars and Trucks"

Apart from researching in the field of steel products and applications, SZMF also ensures the rapid integration of the research results in industrial applications by the Group's producing companies. This means that successful R&D work also encompasses technical marketing, i.e. the presentation of latest research results with the aim of achieving the rapid industrialization of the products. The VDEh Steel Institute organized the third International Conference "Steels in Cars and Trucks (SCT)" in Salzburg that included a series of 54 lectures and several excursions. SZMF participated in this event with seven publications that presented the Steel and Tubes Divisions of Salzgitter Group as competent suppliers of an extensive product portfolio for the automotive industry. This event and its numerous contributions clearly demonstrated that steel is far from being outdated and will continue to move our world as competitive high performance material.

New Platform Solution Innofill Glass

With its Innofill Glass platform solution, KHS GmbH (KHSDE) has developed a technical basis for the construction of different electronic KHS filling systems, thereby realizing a degree of standardization that is unrivalled to date. In addition to the platform strategy, the "Hygienic Design" construction principle was consistently implemented. In order to ensure high food quality, constructive elements were designed to enable optimized cleaning processes. Complex surfaces were consistently avoided to ensure the rapid draining of liquids and convenient accessibility for cleaning processes. Consequently, the Innofill Glass solution, with its new bottle transfer frame and flangeless tube construction, is replacing the conventional filler front table. The filler turntable, transfer stars and cappers are coupled to low-wear, energy efficient direct drives. The machinery is operated and monitored using the multiple award-winning KHS Human Machine Interface (red dot award & iF award). With these strengths, Innofill Glass thus offers an extensive range of benefits: intuitive operator interface, optimized Hygienic Design, increased bottling quality, high plant availability, as well as reduced costs of maintenance, energy, water and cleaning agents. Moreover, the DRS-ZMS beer bottling system keeps oxygen pickup at an absolutely minimum level and considerably reduces CO₂ consumption.

Employees

	30/09/2011	31/12/2010	+/-
Core workforce	23,561	22,948	613
of which Steel Division	7,028	6,869	159
of which Trading Division	2,064	1,910	154
of which Tubes Division	5,586	5,528	58
of which Services Division	3,988	4,067	-79
of which Technology Division	4,731	4,408	323
of which Others	164	166	-2
Apprentices, students, trainees	1,577	1,452	125
Passive age-related part-time employment	604	627	-23
Total workforce	25,742	25,027	715

The core workforce of the Salzgitter Group came to 23,561 **employees** on September 30, 2011, which is an increase of 613 people since year-end 2010. The increase was mainly attributable to the initial consolidation with retrospective effect from January 1, 2011 of several foreign companies on June 30, 2011 and the first-time recognition of UNIVERSAL STEEL AMERICA, Inc., Houston (UESUS), which took place on September 30, 2011. Good capacity utilization also necessitated the hiring of additional staff, mainly on a temporary basis.

In the reporting period, 327 **trainees** were given permanent contracts and 279 were appointed temporarily.

Whereas at the start of the year 447 employees were still affected by short-time work, this number had fallen to 222 by the end of the third quarter.

At present the economic climate is deteriorating more swiftly than the actual economic environment, due primarily to the uncertainties related to finding a sustainable solution to the euro financial crisis dominating the news. According to current opinion, this gives rise to a certain risk that the processing industry could be exposed to severe burdens. From our standpoint, however, there are still no concrete signs of a significant downturn in the order situation of steel processing companies in the euro area. Nonetheless, stockholding steel traders in particular have adopted a very cautious stance in the face of ongoing imponderables and due to imminent year-end closing.

However, the order intake of the **Steel Division** in October was, not as poor as the general sentiment would suggest. In the near future, commodity prices are unlikely to fall as swiftly as in recent weeks, which should have a calming effect on the market environment for rolled steel products. Capacity utilization in the Steel Division will remain relatively stable through to the end of the year.

The **Trading Division** anticipates that shipments will remain at a consistent level for the remainder of 2011, that margins in stockholding steel trade will return to a normal level and that the recovery in the project business of international trading will hold steady. A very presentable result is anticipated for the year as a whole.

The positive trend to date in **Tubes Division** is expected to persist in the coming months. These circumstances are mainly attributable to good capacity utilization in the large-diameter pipes segment through to year-end and beyond and the gratifying business situation of the precision tubes segment which is benefiting from brisk order intake from the automotive and mechanical engineering industries. The division therefore anticipates sound earnings before tax in the fourth quarter as well.

The **Services Division** should generally continue to develop well in tandem with the capacity utilization of the steel companies.

The **Technology Division** predicts a continuation of the good situation of the special machinery engineering business of the KDE Group and Klöckner DESMA Schuhmaschinen GmbH. In recent months, business with beverage filling plants has reported remarkable booking volumes with a positive trend in margins. The profit improvement measures of KHS were also stepped up. The division expects an improvement in its operating results in the fourth quarter. However, it will be unable as yet to reach breakeven.

The euro crisis has resulted in greater macroeconomic risks since the summer. Demand in many product segments is nonetheless comfortable, albeit at a more modest level. Taking account of new orders placed in recent weeks, which give rise to cautious optimism, we affirm our forecast for the Salzgitter Group's **earnings before tax of around € 200 million** in the financial year 2011.

As in previous years, we make special reference to the fact that **opportunities and risks** from unforeseeable trends in selling prices, input materials and capacity utilization developments, as well as changes in currency parities and metal prices, may still affect performance considerably in the financial year 2011. Additional positive or negative effects may also emanate from structural or methodological changes, which specifically includes valuation methods defined under IFRS standards and their treatment. The resulting fluctuations in consolidated earnings before tax may be within a considerable range, either to the positive or negative.

Risk Management

As regards the individual **opportunities and risks**, we make reference to the Annual Report 2010. At the time when the report was drawn up, there were no risks that could endanger the Salzgitter Group as a going concern.

In terms of risks from the price volatility of raw materials, particularly iron ore and coking coal where delivery will be mainly based on quarterly contracts in 2011 as well, the impact on the profit of the companies has been factored in as far as possible. The market leader for coking coal has succeeded in switching contracts to pricing on a monthly basis from the second quarter of 2011 onwards. This affects around one third of the volume procured by Salzgitter AG. From today's standpoint, however, we do not expect the risk situation of the Group to change fundamentally at short notice.

Steel industry brings charges against additional burdens from emissions trading

Steel companies in German-speaking countries, including Salzgitter Flachstahl GmbH (SZFG) and Hüttenwerke Krupp Mannesmann GmbH (HKM), and the European Confederation of Iron and Steel Industries (EUROFER) brought charges against unjustified additional burdens from European emission trading before the European Court of Justice in Luxembourg on July 21, 2011. Along with an action for annulment of the European Commission's decision on regulations governing the allocation of emission certificates for the period from 2013 to 2020, the steel companies have also filed applications for the suspension of the enforcement of the Commission's decision and for the expediting of legal proceedings. The charges are directed against special regulations governing the allocation of emission certificates effective from 2013 onwards and not generally against the instrument of emission trading. The Commission is deemed to have set CO₂ benchmarks for pig iron and sinter against the requirements of Emissions Trading Directive at a level that is technically unachievable and goes against the provisions on implementation. In particular, the Commission is said to have made reductions on waste gases that unavoidably stem from steel production and are used to generate electricity, which stands in contradiction to the legal provisions. The European steel industry will face an additional burden of up to € 600 million a year. The General Court of the European Union has meanwhile rejected the appeal for suspension of the enforcement of the Commission's decision and for a decision for expedited legal proceedings in their verdicts of September 15, 2011. The decision pertaining to the pending action for annulment will now be made over the ordinary course of business which, as a rule, entails proceedings which may last up to 24 months.

HSP Hoesch Spundwand und Profil GmbH ends the joint-venture with Thyssen Krupp GfT Bautechnik GmbH

The Group company HSP Hoesch Spundwand und Profil GmbH (HSP) has formalized the end to its joint venture with Thyssen Krupp GfT Bautechnik GmbH (TKBT) in an agreement dated August 25, 2011. HSP acquired a stake of 30% in TKBT in 2003 and has sold its products exclusively via this company since that date. The existing sales agreement was annulled with immediate effect. At the same time, HSP sold its shares in TKBT to co-shareholder Thyssen Krupp. Since then HSP and Peiner Träger GmbH (PTG) have been selling their sheet piling products through their own sales organizations again.

Takeover of Stahl-Metall-Service Gesellschaft für Bandverarbeitung mbH

An agreement for the acquisition of the shares in Stahl-Metall-Service Gesellschaft für Bandverarbeitung mbH (SMS) was signed on October 17, 2011. The transfer of economic benefit will have been completed by the end of December. The acquisition of SMS will supplement existing steel service centre activities in Schwerte, North-Rhine Westphalia, through an additional location in southern Germany. The company, which was founded in 1988, has operated cutting-edge facilities in Karlsruher Rheinhafen since 2008. SMS currently has 110 employees and generated sales of € 135 million, with shipments of more than 200,000 tons, in the financial year 2010. Its customers come first and foremost from the automotive and mechanical engineering sectors, as well as the ventilation and air conditioning technology business.

Interim Financial Statements

I. Consolidated Income Statement

in € million	3rd Quarter 2011	3rd Quarter 2010	9 Months 2011	9 Months 2010
Sales	2,557.9	2,158.4	7,331.4	6,192.6
Increase/decrease in finished goods and work in process/other own work capitalized	98.6	42.7	288.2	91.4
	2,656.5	2,201.0	7,619.6	6,284.0
Other operating earnings	65.7	35.3	166.5	171.9
Cost of materials	1,950.2	1,539.1	5,496.4	4,364.6
Personnel expenses	365.2	348.7	1,092.1	1,079.2
Amortization and depreciation	83.4	74.4	249.8	211.0
Other operating expenses	264.8	244.7	761.1	761.3
Income from shareholdings	0.3	1.5	2.3	5.1
Income from associated companies	3.3	1.2	50.2	27.9
Impairment losses of financial assets	0.0	0.2	0.0	1.4
Financing income	8.6	6.9	25.6	18.2
Financing expenses	31.6	28.1	95.5	83.8
Earnings before tax	39.1	10.8	169.1	5.7
Income taxes	18.1	3.4	54.4	1.7
Consolidated net income/loss for the period	21.0	7.4	114.7	3.9
Appropriation of profit				
Consolidated net income/loss for the period			114.7	3.9
Profit carried forward from the previous year			19.3	15.1
Minority interests			3.4	3.6
Dividend payment			-17.3	-13.6
Appropriation from (+) / to (-) other retained earnings			-111.3	-0.3
Unappropriated retained earnings			2.0	1.5
Basic earnings per share (in €)	0.36	0.12	2.06	0.01
Diluted earnings per share (in €)	0.38	0.24	2.06	0.13

II. Statement of Comprehensive Income

in € million	3rd Quarter 2011	3rd Quarter 2010	9 Months 2011	9 Months 2010
Consolidated net income/loss for the period	21.0	7.4	114.7	3.9
Changes in currency translation	6.3	-18.2	-6.3	8.6
Change in value from hedging transactions				
Changes in current value recorded directly in equity	-1.2	0.1	-1.0	-2.2
Recognition of settled hedging transactions with effect on income	0.0	0.0	-0.7	2.6
Changes in value of financial assets in the "Available-for-sale assets" category				
Changes in current value recorded directly in equity	-4.3	1.6	-6.0	1.2
Deferred tax on changes without effect on income	0.1	-1.9	0.0	-1.9
Other changes without effect on income	11.2	-4.5	2.3	-8.4
Changes directly recorded in equity	12.1	-22.9	-11.8	0.0
Total comprehensive income	33.1	-15.5	102.9	3.9
Total comprehensive income due to Salzgitter AG shareholders	31.6	-17.0	99.4	0.5
Total comprehensive income due to minority interests	1.4	1.4	3.5	3.4
	33.0	-15.5	102.9	3.9

III. Consolidated Balance Sheet

Assets in € million	30/09/2011	31/12/2010
Non-current assets		
Intangible assets		
Other intangible assets	120.7	121.8
Property, plant and equipment	2,560.0	2,529.2
Investment property	24.2	24.2
Financial investments	112.4	78.9
Associated companies	572.7	488.4
Deferred income tax assets	148.5	201.6
Other receivables and other assets	3.5	3.1
	3,542.1	3,447.2
Current assets		
Inventories	2,199.2	1,730.1
Trade receivables	1,625.8	1,175.9
Other receivables and other assets	512.0	248.1
Income tax assets	46.7	135.6
Securities	76.8	377.5
Cash and cash equivalents	933.8	1,574.3
	5,394.4	5,241.5
	8,936.5	8,688.7
Equity and liabilities in € million	30/09/2011	31/12/2010
Equity		
Subscribed capital	161.6	161.6
Capital reserve	238.6	238.6
Retained earnings	3,877.6	3,785.5
Unappropriated retained earnings	2.0	19.3
	4,279.8	4,205.0
Treasury shares	-369.7	-369.7
	3,910.1	3,835.3
Minority interests	9.5	10.6
	3,919.6	3,845.9
Non-current liabilities		
Provisions for pensions and similar obligations	1,906.0	1,926.3
Deferred tax liabilities	39.0	48.3
Income tax liabilities	197.0	193.6
Other provisions	255.7	274.1
Financial liabilities	598.9	591.0
	2,996.6	3,033.3
Current liabilities		
Other provisions	425.6	444.2
Financial liabilities	133.8	128.2
Trade payables	863.4	713.3
Income tax liabilities	14.7	46.1
Other liabilities	582.9	477.7
	2,020.4	1,809.5
	8,936.5	8,688.7

IV. Cash Flow Statement

in € million	9 Months 2011	9 Months 2010
Earnings before tax (EBT)	169.1	5.7
Depreciation, write-downs (+)/write-ups (-) on fixed assets	249.9	211.7
Income tax refunded (+) / paid (-)	96.0	61.0
Other non-payment-related expenses (+)/income (-)	19.3	105.0
Interest expenses	95.5	83.8
Profit (-)/loss (+) from the disposal of fixed assets	2.2	4.3
Increase (-)/decrease (+) in inventories	-447.9	-207.5
Increase (-)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	-478.1	-327.7
Use of provisions affecting payments, excluding income tax provisions	-192.8	-194.0
Increase (+)/decrease (-) in trade payables and other liabilities not attributable to investment or financing activities	200.7	266.2
Cash flow from operating activities	-286.1	8.5
Cash inflow from the disposal of fixed assets	1.4	26.8
Cash outflow for investments in fixed assets	-280.2	-302.4
Cash inflow (+)/outflow (-) for funds	84.8	-194.7
Cash inflow from the disposal of financial assets	5.9	3.0
Cash outflow for investments in financial assets	-120.1	-26.5
Cash flow from investment activities	-308.2	-493.8
Cash inflow (+)/outflow (-) as a result of sale and repurchase of treasury shares	0.0	-10.3
Cash outflow in payments to company owners	-17.3	-13.6
Cash inflow (+)/outflow (-) as a result of the issuing of bonds, borrowings and other financial liabilities	-16.4	-3.3
Interest paid	-16.6	-6.0
Cash flow from financing activities	-50.3	-33.2
Cash and cash equivalents at the start of the period	1,574.3	1,793.0
Cash and cash equivalents referring to changes of the consolidated group	5.4	0.0
Gains and losses from changes in foreign exchange rates	-1.4	1.7
Payment-related changes in cash and cash equalities	-644.6	-518.5
Cash and cash equivalents at the end of the period	933.7	1,276.2

V. Statement of Changes in Equity

in € million	Subscribed capital	Capital reserve	Purchase/ repurchase of treasury shares	Other retained earnings	Reserve from currency translation
As of December 31, 2009	161.6	238.6	-359.4	4,097.0	-24.9
Goodwill resulting from the acquisition of minority interest				-0.6	
Total comprehensive income				0.2	8.6
Dividend					
Repurchase of treasury shares			-10.3		
Group transfers to retained earnings				0.3	
Other				0.2	
As of September 30, 2010	161.6	238.6	-369.7	4,097.2	-16.3
As of December 31, 2010	161.6	238.6	-369.7	4,108.1	-14.5
Goodwill resulting from the acquisition of minority interest				-31.8	
Total comprehensive income				-0.1	-6.3
Dividend					
Group transfers to retained earnings				111.3	
Changes to the Group of consolidated companies				24.3	
Other				0.2	
As of September 30, 2011	161.6	238.6	-369.7	4,212.0	-20.8

Changes in the value of the reserve from hedging transactions	Changes in the value reserve from available for-sale assests	Other changes in equity with no effect on income	Unappropriated retained earnings	Equity (excluding minority interests)	Minority interests	Equity
0.4	-1.8	-235.3	15.1	3,891.3	13.0	3,904.3
				-0.6	-0.2	-0.8
0.4	1.2	-10.3	0.3	0.5	3.4	3.9
			-13.6	-13.6		-13.6
				-10.3		-10.3
			-0.3	0.0		0.0
				0.2	-2.2	-2.0
0.9	-0.6	-245.6	1.5	3,867.6	13.9	3,881.5
-0.3	-6.1	-301.8	19.3	3,835.3	10.6	3,845.9
				-31.8	-1.0	-32.8
-1.7	-6.0	2.2	111.3	99.4	3.5	102.9
			-17.3	-17.3		-17.3
			-111.3	0.0		0.0
				24.3		24.3
				0.2	-3.6	-3.5
-2.0	-12.1	-299.6	2.0	3,910.1	9.5	3,919.6

Notes

Segment Reporting

in € million	Steel		Trading		Tubes	
	9M 2011	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010
External sales	2,071.4	1,672.4	2,810.6	2,230.5	1,299.6	1,304.0
Sales to other segments	899.1	671.0	75.6	123.2	311.9	190.1
Sales to Group companies that cannot be allocated to an operating segment	0.0	0.0	0.0	0.0	0.9	0.5
Segment sales	2,970.5	2,343.3	2,886.3	2,353.8	1,612.5	1,494.6
Interest income (consolidated)	2.2	0.9	4.9	5.4	1.0	0.9
Interest income to other segments	0.0	0.0	0.0	0.0	0.0	0.0
Interest income to Group companies that cannot be allocated to an operating segment	0.2	0.2	0.9	0.5	1.3	1.4
Segment interest income	2.4	1.1	5.8	6.0	2.3	2.3
Interest expenses (consolidated)	10.2	9.0	5.3	5.8	5.2	5.1
Interest expenses to other segments	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenses to Group companies that cannot be allocated to an operating segment	53.9	47.6	5.9	4.4	7.8	5.9
Segment interest expenses	64.1	56.6	11.3	10.3	13.0	11.0
of which interest portion of allocations to pension provisions	6.8	7.3	2.5	2.6	4.3	4.4
Depreciation/amortization of tangible and intangible fixed assets	171.8	135.5	8.2	7.8	32.4	33.9
thereof scheduled depreciation of tangible fixed assets and amortization of intangible assets	171.8	135.5	8.2	7.8	32.4	31.3
EBITDA	269.4	123.5	67.1	75.9	102.4	58.8
EBIT	97.6	-12.0	58.8	68.2	70.0	26.4
Earnings before tax (EBT)	35.9	-67.6	53.3	63.9	59.3	17.7
of which from associated companies	0.2	0.8	0.0	0.0	-3.0	-4.8
Investments in tangible and intangible fixed assets	181.9	299.4	9.2	4.5	40.4	22.8

Services		Technology		Total segments		Others/ Consolidation		Group	
9M 2011	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010	9M 2011	9M 2010
355.7	301.7	728.4	645.5	7,265.8	6,154.1	65.6	38.5	7,331.4	6,192.6
600.0	488.4	0.5	0.5	1,887.1	1,473.2	82.0	99.3	1,969.2	1,572.5
3.2	2.6	0.3	0.2	4.4	3.2	0.0	0.0	4.4	3.2
958.9	792.7	729.2	646.1	9,157.3	7,630.5	147.6	137.8	9,305.0	7,768.3
0.5	0.5	1.6	1.9	10.1	9.5	15.5	8.6	25.6	18.2
0.0	0.0	0.0	0.0	0.0	0.0	74.1	61.3	74.1	61.3
10.1	9.9	0.3	0.3	12.7	12.3	0.0	0.0	12.7	12.3
10.6	10.4	1.8	2.1	22.8	21.9	89.6	69.9	112.4	91.8
10.4	10.3	6.2	7.3	37.3	37.5	58.2	46.3	95.5	83.8
0.0	0.0	0.0	0.0	0.0	0.0	12.8	12.3	12.8	12.3
2.9	1.6	3.5	1.8	74.1	61.3	0.0	0.0	74.1	61.3
13.3	11.9	9.8	9.1	111.4	98.8	70.9	58.6	182.3	157.5
10.0	9.8	4.9	5.4	28.6	29.6	30.3	34.2	58.9	63.7
16.8	16.4	19.2	18.4	248.5	209.4	1.4	1.6	249.8	211.0
16.8	16.4	19.1	18.4	248.4	209.4	1.4	1.6	249.8	211.0
34.1	36.6	-9.3	4.7	463.7	299.5	25.2	-15.8	488.9	283.7
17.3	20.2	-28.5	-14.1	215.2	88.7	23.9	-17.4	239.0	71.3
14.6	18.8	-36.5	-21.0	126.6	11.7	42.5	-6.1	169.1	5.7
0.0	0.0	0.0	0.0	-2.8	-4.0	52.9	31.8	50.2	27.9
31.2	13.3	13.5	12.6	276.2	352.5	0.2	0.0	276.5	352.5

Further information

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

1. The consolidated financial report of Salzgitter AG, Salzgitter, for the reporting period from January 1 to September 30, 2011, 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 contained in IAS 34 for condensed interim reports.
2. In comparison with the annual financial statements as at December 31, 2010, no changes have been made in the accounting, valuation, calculation and consolidation methods applied to the interim financial statements for the period ended September 30, 2011.
3. For the first time, the following companies have been fully consolidated:
 - SMHU Salzgitter Mannesmann Acélkereskedelmi Kft.
 - KHSSI KHS Asia Pte. Ltd.
 - KHSJA KHS Japan Corporation
 - KDEIN Klöckner DESMA Machinery Pvt.
 - KDEUS DESMA USA, Inc.
 - UESUS UNIVERSAL STEEL AMERICA, Inc.

Selected explanatory notes to the income statement

1. Sales by division are shown in the segment report.
2. Earnings per share are calculated pursuant to IAS 33. The undiluted earnings per share based on the weighted number of shares of Salzgitter AG came to € 2.06 in the period under review. Dilution would occur if earnings per share were reduced through the issuance of potential shares from option and conversion rights. Such rights, attached to a convertible bond, existed as of the balance sheet date. When taken into account there is a decrease in earnings per share from continued business operations, as a result of which these option and conversion rights have a dilutive effect. Diluted earnings per share also amount to € 2.06.

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 and shareholdings that must be designated as related companies in accordance with IAS 24.

All business transactions with related companies are conducted on terms that also customarily apply among third parties (arm's length). Deliveries and services rendered for related companies primarily concern deliveries of filling machines for resale to KHS Machine & Equipment (Qinhuangdao) Co., Ltd. The deliveries and services rendered essentially comprise deliveries of input material for the manufacture of large-diameter pipes and precision tubes. Their volumes are shown in the table below:

in T€	Sale of goods and services	Purchase of goods and services	Trade receivables	Trade payables
	01/01- 30/09/2011	01/01- 30/09/2011	30/09/2011	30/09/2011
KHS Machine & Equipment (Qinhuangdao) Co., Ltd., Qinhuangdao (China)	19,820	0	0	0
Hüttenwerke Krupp Mannesmann GmbH Essen	1,330	451,066	144	38,348

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

The interim financial statement and interim management report have not been subjected to an auditor's review.

Financial calendar 2012

March 5, 2012	Key data for financial year 2011
March 30, 2012	Annual press conference
April 2, 2012	Analyst conference in Frankfurt/Main
April 3, 2012	Analyst conference in London
May 15, 2012	Interim report for the first quarter 2012
May 24, 2012	Ordinary Shareholders' Meeting
August 14, 2012	Interim report for the first half 2012
August 14, 2012	Analyst conference in Frankfurt/Main
August 15, 2012	Analyst conference in London
November 14, 2012	Interim report for the first nine months 2012
December 31, 2012	End of financial year 2012

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 Division companies, but rather that the underlying bases of plans and outlooks prove to be accurate as expected in terms of their scope and timing. The company undertakes no obligation to update any forward-looking statements. The official financial report for the period under review in this document is the German-language hardcopy version of the Salzgitter AG Interim Report. In case of ambiguity between this document and any other version of the interim report, information provided in the German-language hardcopy version shall supersede information provided in any other form.

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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