Annual Report 2011

SALZGITTER AG
Stahl und Technologie

Annual Report 2011

Financial Year
from January 1 to December 31, 2011

SALZGITTER AG
Stahl und Technologie

Who we are.

Salzgitter AG ranks as one of Germany's companies rooted in a long tradition. Our business activities are concentrated on steel and technology. Through its sustainable organic and external growth, our company has advanced to take its place as one of Europe's leading steel and technology groups – with external sales of around € 10 billion in 2011, a crude steel capacity of approximately 9 million tons and a workforce of around 25,500 employees. The primary objective of our company – now and in the future – is the preservation of our independence through profitability and growth.

Our Group comprises more than 200 domestic and international subsidiaries and holdings and is structured into the Steel, Trading, Tubes, Services and Technology divisions.

The share of Salzgitter AG is listed on the MDAX index of Deutsche Börse AG.

Salzgitter Group in Figures

		2011	2010	2009	2008	2007
External sales	**€ m**	**9,840**	**8,305**	**7,818**	**12,499**	**10,192**
Steel Division	€ m	2,740	2,269	1,674	3,002	2,852
Trading Division	€ m	3,904	2,958	3,039	5,622	4,385
Tubes Division	€ m	1,687	1,736	2,045	2,172	1,815
Services Division	€ m	457	413	303	519	504
Technology Division[1]	€ m	967	873	718	1,038	513
Other/Consolidation	€ m	85	56	41	146	123
Earnings before tax (EBT)	**€ m**	**202**	**49**	**– 496**	**1,003**	**1,314**
EBT by division						
Steel Division	€ m	26	– 101	– 374	546	749
Trading Division	€ m	61	71	– 128	151	213
Tubes Division	€ m	67	60	104	312	303
Services Division	€ m	20	26	8	24	40
Technology Division[1]	€ m	– 79	– 30	– 210	4	4
Other/Consolidation	€ m	107	22	103[2]	– 32[2]	5
Net income for the financial year	**€ m**	**236**	**30**	**– 387**	**677**	**905**
Balance sheet total	**€ m**	**8,800**	**8,689**	**8,052**	**8,701**	**8,406**
Non-current assets	**€ m**	**3,675**	**3,447**	**3,184**	**2,918**	**2,168**
Current assets	**€ m**	**5,125**	**5,242**	**4,868**	**5,783**	**6,238**
Inventories	€ m	2,106	1,730	1,466	2,551	2,084
Shareholders' equity	**€ m**	**4,000**	**3,846**	**3,904**	**4,346**	**4,246**
Liabilities	**€ m**	**4,800**	**4,843**	**4,147**	**4,355**	**4,160**
Non-current liabilities	€ m	3,043	3,033	2,553	2,380	2,380
Current liabilities	€ m	1,757	1,810	1,595	1,975	1,780
of which due to banks	€ m	103[3]	83[3]	95[3]	132	119
Investments[4]	**€ m**	**361**	**497**	**677**	**653**	**385**
Depreciation and amortization[4]	**€ m**	**359**	**377**	**543**	**278**	**225**
Employees						
Personal expenses	€ m	1,471	1,424	1,397	1,472	1,232
Annual average core workforce[5]	empl.	23,475	23,190	23,769	23,866	20,072
Annual average total workforce[6]	empl.	25,478	25,124	25,639	25,628	21,648
Crude steel production[7]	**kt**	**7,263**	**6,755**	**4,918**	**6,901**	**7,325**
Key figures						
EBIT before depreciation and amortization (EBITDA)[8,9]	€ m	667	540	157	1,362	1,581
Earnings before interest and tax (EBIT)[8,10]	€ m	304	160	– 411	1,072	1,351
Return on capital employed (ROCE)[11]	%	5.6	2.2	– 10.5	21.9	28.0
Cash flow	€ m	– 197	209	1,190	547	781

[1] Companies of the Technology Division consolidated as from July 1, 2007; EBT incl. effects from purchase price allocation
[2] Incl. goodwill amortization
[3] Current and non-current bank liabilities
[4] Excl. financial investments
[5] Excl. trainee contracts and excl. age-related part-time work
[6] Incl. trainee contracts and incl. age-related part-time work
[7] Incl. changed shareholding in HKM
[8] Definition changed as per 01/01/2010; adjusted retrospectively for 2009
[9] EBIT excl. depreciation and amortization (EBITDA) = EBT + interest expenses/– interest income + depreciation and amortization
[10] Earnings before interest and tax (EBIT) = EBT + interest expenses/ – interest income
[11] Return on capital employed (ROCE) = EBIT (= EBT + interest expenses excl. interest portion in transfer to pension provisions) divided by the sum of shareholders' equity (excl. calculation of deferred tax), tax provisions, interest-bearing liabilities (excl. pension provisions) and liabilities from finance leasing, forfaiting

Have you ever wished you could see into the future? Or hoped that things would take care of themselves? Well that's understandable. Although for a company, waiting for miracles is not such a good idea.

Based on some examples from this year's annual report, we would like to show you how we are applying some genuine down-to-earth strategies to systematically safeguard our future competitiveness. Small hint: we prefer to rely on professional commitment, the efficient use of resources and a considered approach to business – as opposed to miracles.

Highlights of the Financial Year 2011

JANUARY

The steel industry focuses on the topic of sustainability under the motto of "Sustainable Building – Conserving Resources" and exhibits at BAU in Munich. Salzgitter AG is represented at the world's leading trade fair for architecture, materials and systems, together with its subsidiaries Peiner Träger GmbH and Salzgitter Bauelemente GmbH.

01

FEBRUARY

Prof. Dr.-Ing. Heinz Jörg Fuhrmann takes over as Chief Executive Officer of Salzgitter AG on February 1. He has held a number of different positions in top management within the company since 1996, most recently as head of Finance and of the Technology Division. Prof. Dr.-Ing. h.c. Wolfgang Leese, his predecessor, goes into retirement after eleven successful years of service to the company. The new Chief Financial Officer is Mr. Burkhard Becker who was head of finance at KHS GmbH prior to this appointment.

02

MARCH

The Executive Board releases the Annual Report 2010 on March 25 at the Annual Results Press Conference and subsequently engages in intensive dialog with representatives of the capital markets at well attended analyst conferences in Frankfurt am Main and London. Following its successful turnaround, the Group has entered a stable uptrend.

The commissioning of the second electric arc furnace of Peiner Träger GmbH sees the crude steel capacity at the Peine location double, and the flexibility of the Group's supply of input materials is considerably enhanced.

March 7 marks the death of Dr.-Ing. Wilfried Lochte, honorary Chairman of the Supervisory Board of Salzgitter AG. For Dr. Lochte the Group's autonomy and profitability were the sacrosanct prerequisites of its entrepreneurial activity.

03

APRIL
“Smart Efficiency” is the key theme of this year’s HANNOVER MESSE. Salzgitter AG exhibits at the leading Industrial Supply Trade Fair with its showcasing of materials and resources efficiency. Our company presents Stroncoat® as one of its highlights. This zinc-magnesium hot-dip coating provides improved corrosion protection with half the layer of thickness previously required. Salzgitter Flachstahl GmbH developed this coating together with Salzgitter Mannesmann Forschung GmbH. Minimized thickness achieves zinc savings and improves resource efficiency in steel production.

04

MAY
Almost 600 shareholders and shareholder representatives attend the General Meeting of Shareholders of the Salzgitter Group on May 26. They represent 33,049,938 shares, the equivalent of 55 % of the voting capital. The items on the agenda are approved by a large majority, including the proposal for a dividend payout of € 0.32 per share.

05

JUNE
Alongside its Polish steel trading company, other companies belonging to the Salzgitter Group exhibit at Posen’s industrial trade fair, one of the most important meeting points of the economy in central and eastern Europe.

06

JULY

Steel companies from German-speaking countries, including Salzgitter Flachstahl GmbH and Hüttenwerke Krupp Mannesmann GmbH and the European Confederation of Iron and Steel Industries, bring charges before the European Court of Justice in Luxembourg against unjustified additional burdens from European emission trading. These charges are directed against the allocation of emission certificates as from the year 2013 and not generally against the instrument of emission trading.

07

AUGUST

"Was wäre die Welt ohne Stahl" ("Where would the world be without steel") – the Salzgitter Group exhibits under this motto at Hanover's IdeenExpo. More than 300,000 children and young people visit Germany's largest interactive natural sciences and technology event. Once again Salzgitter AG is one of the largest exhibitors, promoters and sponsors. The Group contributes creative ideas and workshops as well as the engagement of more than 200 employees, consisting mainly of trainees and trainers.

08

SEPTEMBER

Ilsenburger Grobblech GmbH (ILG), one of the companies belonging to the Salzgitter Group, wins a contract for the delivery of around 70,000 tons of plate for the Meerwind offshore wind farm, one of the largest single orders ILG has ever acquired. When the wind farm is commissioned at the end of 2013, 80 offshore wind turbines will supply 360,000 households with electricity. This contract of Salzgitter AG serves to demonstrate that steel as a material makes an indispensable contribution towards promoting Germany's renewable energy policy and raising resource efficiency.

KHS GmbH, a wholly-owned company of the Salzgitter Group and one of the world's three full-line suppliers of holistic system solutions in the beverages industry, presents its "Fit4Future" initiative. The company's aim is to attain technology and service leadership in conjunction with profitable growth. Utmost priority is placed on intensifying customer proximity and sharpening the company's competitive edge.

09

OCTOBER

Salzgitter AG signs a contract for the takeover of STAHL-METALL-SERVICE Gesellschaft für Bandverarbeitung mbH. This measure supplements the existing steel service center activities of the Group by adding a location in southern Germany.

The last train carrying 100 North Stream pipes leaves the EUROPIPE large-diameter pipes mill in Mülheim an der Ruhr on October 13. The North Stream Project is one of the largest and most complex offshore gas pipelines ever built. EUROPIPE GmbH was one of the main pipeline suppliers for the two sections of the pipeline, both 1,224 km long. The pipelines were manufactured over a period lasting from April 2008 to September 2011.

10

NOVEMBER

David McAllister, Minister President of Lower Saxony and guest speaker at the Group Works Council Conference, takes an unmistakably clear stand in announcing the federal state's allegiance to Salzgitter AG: "The federal state's participation in Salzgitter AG has more than proven its worth in the light of the company's performance. It will not be touched!"

KHS GmbH exhibits at Brau Beviale, the beverage industry's trade fair in Nuremberg. The trade fairs stand devotes special attention to the newly developed platform solution for filling glass bottles. Contracts were signed while the exhibition was still running.

11

DECEMBER

The last Supervisory Board meeting of the year takes place on December 15. Along with the current development of business, the Executive Board presents the corporate planning for the years 2012 to 2014. In addition, the Supervisory Board approves the "ILG 2015" investment program amounting to around € 40 million. The implementation of this program will strengthen Ilsenburger Grobblech GmbH's position in the league of European heavy plate rolling mills and enable it to produce the whole product spectrum for offshore wind tower projects.

12

Contents

B. Consolidated Financial Statements

C. Further Information

Preface by the Executive Board

Ladies and Gentlemen,

A strong domestic economy in Germany, a crisis of confidence in the euro, combined with an all-pervasive sovereign debt debacle – three or four years ago who would have thought such a constellation possible! The global economy's new centers of gravity, China, Brazil and India, along with Russia with its unparalleled wealth in energy and natural resources, are virtually unencumbered by debt in comparison – and sometimes even by ethical restraint. These nations are expanding both internally and externally on a global scale. The United States, still struggling with the aftermath of the financial crisis, is endeavoring to become largely self-sufficient in terms of its energy supply and even an exporter of natural gas, and is placing less emphasis on its geopolitical interests in the Gulf region.

We could add a few more highlights to the list. In essence, the message is that we are undergoing a period of dynamic political, societal and economic transition that varies tremendously depending on the region – and that the outcome is virtually impossible to predict.

Compared with the world's major trends, Europe's policies on energy and the environment and Germany's standalone energy policy turnaround are less important on a global scale; for us as steel manufacturers in Germany, however, the one-sided burden resulting from these policies would have a strong bearing on competitiveness. The intensification of the debate in 2011 at European, federal and regional level gives rise to cautious optimism that, at the end of the day, arguments in favor of a balance between economy, ecology and safeguarding valuable jobs will be part of the equation. Having said that, ideas that are ideologically charged and removed from economic reality and what is technically feasible are far from being off the agenda. Basic materials industries and materials research are key components of Germany's industrial value chain. We therefore strongly advocate safeguarding and strengthening Germany as an industrial location with the backbone of healthy steel manufacturing providing its most essential material.

Having largely completed a two billion euro investment program focused on its steel locations in Lower Saxony and Saxony-Anhalt, Salzgitter AG has clearly documented its commitment to the future of industry in Germany. We think we have a legitimate point when we ask for reliable framework conditions instead of hectic decisions which chop and change.

The Executive Board
(from left to right):
Peter-Jürgen Schneider,
Burkhard Becker,
Prof. Dr.-Ing.
Heinz Jörg Fuhrmann,
Johannes Nonn,
Heinz Groschke,
Wolfgang Eging

As far as our own actions are concerned, we have made progress in doing our homework. We apply ourselves here to proceeding in a low-key and unspectacular, but nonetheless consistent manner. In adopting this approach, we have achieved our forecast for the Group's pre-tax result in the financial year 2011 despite a number of non-recurrent expenses for streamlining measures. A good € 200 million in earnings before tax is four times the figure a year ago. This will allow dividend to be raised to € 0.45 per share, which is an increase of more than 40 % in comparison with 2010.

Consolidated profit in 2011 is satisfactory but could still be improved. Along with the ongoing development of successful measures, we are also working hard on stabilizing individual loss-making areas in recent years, drawing on our own resources. In our view, this is one of our primary corporate tasks. We anticipate further visible progress on the way in the current year.

Salzgitter AG is well positioned to seize the opportunities of the change processes in the markets. As the Technology Division's most important company, KHS alone holds more than 3,000 patents! Our investment and personnel policies as part of our corporate strategy are aligned to fostering innovative stimulus and to creating the space for new ideas to flourish.

We remain realists and do not make promises we cannot keep. This sets us apart from some listed companies, and we intend to keep it that way. This is why, in this year's annual report, we invite you to take a conceptual journey with a tongue-in-cheek story of how wonderful it would be if success just fell into our lap ...

Naturally, the result of the financial year 2012 will be the outcome of dedicated work. So, at this point, may we thank you – also on behalf of our committed employees – as Salzgitter AG's valued shareholders and business partners for the trust you have vested in our company.

Sincerely,

Prof. Dr.-Ing. Heinz Jörg Fuhrmann

Burkhard Becker

Wolfgang Eging

Heinz Groschke

Johannes Nonn

Peter-Jürgen Schneider

Report of the Supervisory Board

In continuation of its development in the previous year which was characterized by a steady recovery and positive uptrend, Salzgitter AG held the pace in the financial year 2011, especially in the Steel and Tubes divisions, buoyed by the generally favorable economic environment in the first six months. In the second half of the year, however, the macroeconomic risks were exacerbated by the sovereign debt crisis in the euro monetary union, which caused purchasing reluctance in various customer industries.

Monitoring and advising the Executive Board in the exercising of its management duties

The Supervisory Board received both extensive written and verbal reports on the business performance, the financial and earnings position of the company, as well as the business policy pursued. It was provided with timely and comprehensive information on the existing economic risks. The Supervisory Board held four meetings to discuss the performance, the situation and the outlook of the Group extensively with the Executive Board. Divergences between the course of business and the plans and goals defined were explained and discussed. Decisions requiring the approval of the Supervisory Board were thoroughly deliberated on. Moreover, the Chairman of the Supervisory Board maintained regular and extensive contact with the Chief Executive Officer. The current situation of the company and material transactions were discussed together.

One member of the Supervisory Board attended less than half the Supervisory Board meetings in 2011. The average attendance rate was 90 %. No conflicts of interest were brought to the attention of the Supervisory Board, neither by the Supervisory Board members nor by members of the Executive Board.

Focus of the consultations of the Supervisory Board

In accordance with the current challenges and those anticipated in the future, the supervisory and advisory activities of the Supervisory Board were focused on the key topics of releasing optimization potential and strengthening the company's competitiveness on a long-term basis through, among other measures, developing products in line with customer requirements and investing in cutting-edge machinery and facilities. Based on the reports submitted by the Executive Board on the current performance in the divisions, important projects, the likely development of the respective markets as well as the opportunities and risks and the competitive positions of individual Group companies were discussed.

We informed ourselves extensively about the impact on the Salzgitter Group of the European Commission's decision on a more limited allocation of the CO_2 certificates from 2013 onwards and on the activities initiated to protest against the allocation criteria.

Another topic was the acquisition of STAHL-METALL-SERVICE Gesellschaft für Bandverarbeitung mbH (SMSGB), a company headquartered in Karlsruhe, and the associated expansion of the existing capacities of the steel service center activities.

We approved the investment plans of Ilsenburger Grobblech GmbH (ILG) for expanding its range of products to include heavy plate and the restructuring of the Group under company law.

Work of the Committees

The topics for consultation and decisions by the entire Supervisory Board were prepared in the four committees of the Supervisory Board. The committee chairmen reported on their work at the meetings of the Supervisory Board.

Rainer Thieme, Chairman of the Supervisory Board

The **Presiding Committee** met five times in the financial year. Matters addressed in these meetings included important issues relating to the development of business and the reviewing of the employment contracts of members of the Executive Board, including the remuneration.

The **Audit Committee** met four times during the period under review. In these meetings the Committee addressed issues relating to the accounting, the effectiveness of the risk management, the internal control system and the internal audit system as well as the ongoing development of the compliance system. The members of the Committee assured themselves of the efficiency and appropriateness of the way systems are currently organized within the Group. Moreover, the financial reports compiled during the course of the year were discussed in detail with the Executive Board and key audit areas were defined for the annual auditing of the 2011 accounts. The meeting on March 9, 2012, focused on the audit conducted on the separate and consolidated 2011 financial statements. To this end, the Committee had the Executive Board and the independent auditor explain the details of the financial statements and discussed any questions which arose. Its recommendation was for the entire Supervisory Board to ratify the financial statements.

The **Strategy Committee** met once in the period under review. Together with the Executive Board, it discussed the strategy for the sustainable development and securing of the independence of the Salzgitter Group.

The **Nomination Committee** held one meeting during the reporting period to address the topic of the imminent changes to the composition of the Board from the new election of the Supervisory Board in 2013.

Audit of the Annual Financial Statements and Consolidated Financial Statements

In our meeting on March 29, 2012, we closely examined the financial statements of Salzgitter AG and of the Group, both drawn up as of December 31, 2011, as well as the joint management report on the company and the Group for the financial year 2011. Prior to this meeting, the independent auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, Germany, selected by the General Meeting of Shareholders, reviewed both sets of financial statements and issued an unqualified auditor's opinion. The auditor thereby confirmed that the accounting, valuation and consolidation carried out in the consolidated financial statements complied with the International Financial Reporting Standards (IFRS). Furthermore, as part of its assessment of the early risk detection system, the auditor ascertained that the Executive Board had taken the steps required by the German Stock Corporation Act (AktG) for the early recognition of risks that could endanger the company as a going concern.

The annual financial statements of Salzgitter AG, the consolidated financial statements of the Group, the joint management report on the company and the Group, the Executive Board's proposals for the appropriation of the retained earnings, as well as the auditor's reports were available to us for examination. The representatives of the auditor took part in the discussions of the annual financial statements and the consolidated financial statements at the Supervisory Board meeting on March 29, 2012, and elaborated on the most important findings of their audit.

Our examination of the annual financial statements, the consolidated financial statements and the joint management report did not lead to any objections. We therefore approved the findings of the auditor's review and ratified the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted. After due consideration, we gave our approval to the proposal made by the Executive Board on the appropriation of retained earnings.

Changes to the Supervisory Board

Mr. Jürgen Peters, employee representative on the Supervisory Board and Vice Chairman, laid down his Supervisory Board mandate on August 25, 2011. In his place, the competent Registry Court appointed Mr. Bernd Lauenroth as a member of the Supervisory Board. Mr. Manfred Bogen, also an employee representative, retired from the Supervisory Board on September 30, 2011. He has been replaced by the new member Mr. Frank Markowski. The term of office of Mr. Udo Pfante as employee representative ended on December 31, 2011. Mr. Bernhard Breemann took up office as his successor on January 1, 2012.

The Supervisory Board would like to thank the aforementioned members who are leaving the Supervisory Board for their huge dedication, also in the context of committee work, to promoting the development of the Salzgitter Group.

The Supervisory Board elected Dr. Hans-Jürgen Urban as Vice Chairman of the Supervisory Board and successor to Mr. Peters and as a member of the Presiding Committee and the Strategy Committee. The current members of the Supervisory Board are listed in the Management Report on the Group with reference to other mandates which they exercise.

May we thank the Executive Board and all the employees of the Group for their work and commitment in the financial year 2011.

Salzgitter, March 29, 2012

The Supervisory Board

Rainer Thieme
Chairman

Corporate Governance Report

Declaration of Conformity in the Financial Year 2011 and Corporate Governance Report

The Executive Board and the Supervisory Board view good, responsible management of the company geared to sustainable development as an important factor for the long-term success of the company. Good corporate governance fosters the trust of employees, business partners, shareholders and investors. The respective provisions of the German Stock Corporation Act (AktG) and the recommendations made by the German Corporate Governance Code (www.corporate-governance-code.de) are the fundamentals underlying corporate governance at Salzgitter AG.

2011 Declaration of Conformity with the recommendations of the German Corporate Governance Code

The Executive Board and the Supervisory Board of Salzgitter AG submitted the following declaration in respect of the recommendations of the German Corporate Governance Code, pursuant to Section 161 of the German Stock Corporation Act, on December 15, 2011:

> "Salzgitter AG has and currently continues to conform to all of the recommendations of the Government Commission on German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, with the exception of the recommendations included in 2010 in Code item 5.4.1 that specific targets should be set for the composition of the Supervisory Board.
>
> In its nominations submitted to the General Meeting of Shareholders for the election of shareholder representatives and other members, the Supervisory Board complies with all statutory requirements and all recommendations made in the Code regarding the personal qualifications for supervisory board members. It is the professional and personal competence of potential candidates – regardless of gender – that is of primary importance, in particular company-specific requirements, in ensuring that the nominees, if elected, generally possess the knowledge, skills and professional experience necessary to carry out their duties. In assessing their competence, the Supervisory Board also bears in mind the company's international activities, potential conflicts of interest, the defined age limit for Supervisory Board members, as well as diversity. At this point in time the Board does not consider it necessary to set specific targets."

Ethical standards of Salzgitter AG

Beyond the statutory requirements placed on managing companies and the recommendations of the Code, employees of the company developed a set of corporate guidelines and a corporate mission statement back in 2001 determining ethical standards for the entire Group that were subsequently approved by the Executive Board. The aspirations of the company and its employees are also formulated in this corporate mission statement under the five bywords of "Partners, Products, Processes, Personnel, Profit". You will find our Corporate Mission on the company's website at www.salzgitter-ag.de/en/Konzern/Leitbild_5P.

The shareholders of Salzgitter AG

The shareholders principally exercise their rights at general meetings of shareholders. Each shareholder of Salzgitter AG is entitled to participate in the General Meeting of Shareholders, which customarily takes place once a year, and to address the Meeting about items on the agenda, to ask pertinent questions and submit relevant motions and to exercise their voting right. Fundamental decisions affecting the company, such as changes to the Articles of Incorporation, the appropriation of annual profit, the election of shareholder representative to the Supervisory Board, the raising or lowering of capital or the selection of the annual independent auditor can only be carried out subject to approval by the General Meeting of Shareholders. We facilitate the process of shareholders exercising their voting rights without having to personally take part in the General Meeting of Shareholders: they can appoint a proxy of the company and instruct this person on how they wish to exercise their voting rights.

You can find the results of the 2011 General Meeting of Shareholders on our website under www.salzgitter-ag.de/en/Investor_Relations/Veranstaltungen/Hauptversammlung.

The Executive Board of Salzgitter AG

In accordance with legal requirements, the Executive Board manages the company under its own responsibility. Its tasks also comprise the strategic alignment and development of the company in consultation with the Supervisory Board. In carrying out these activities, the Executive Board is bound by the interests of the company and obligated to raise the value of the company on a sustainable basis. It strives to achieve the highest possible return on capital employed within the scope of the corporate purpose.

The Executive Board of Salzgitter AG is currently made up of six members who have partly functional and partly divisional responsibilities, which are specified in a schedule for the allocation of duties. The Supervisory Board has established bylaws for the purpose of regulating the cooperation in the Executive Board and for involving the Supervisory Board in business transactions. Each member of the Executive Board is assigned a portfolio of responsibilities for specific organization units.

In filling management functions within the company the Executive Board takes diversity into account based on the respective requirements of the position and also gives appropriate consideration to gender considerations, among other aspects.

The entire Supervisory Board decides upon the remuneration system applicable to the Executive Board, including the key contractual components, and determines the overall remuneration of each individual member of the Executive Board. Detailed information on the remuneration system is provided in the remuneration report, which is part of the Group Management Report, and the overall remuneration of each individual Executive Board member is disclosed.

The members of the Executive Board are liable to the company for any dereliction of duty. The company's D&O insurance provides for an appropriate deductible which accords with statutory requirements.

Working practices of the Executive Board

The Executive Board uses the following instruments, among others, in its management and control of the subsidiaries and affiliates:

- rules and regulations on reporting duties and approval requirements in corporate guidelines and the articles of association of Group companies pertaining to specific areas of business,
- defining of the Group's management principles in the guideline entitled "Management and Organization",
- obligation of all Group companies to prepare annual shipment and sales budgets as well as investment, financial and personnel planning, and the regular monitoring of progress made throughout the year,
- regular audits and special audits performed by an internal audit department,
- operating of a groupwide monitoring system for the early detection of risks and a risk management system,
- agreeing of goals and deciding of a performance-oriented remuneration component for managers and senior executives of the Group companies.

The Executive Board holds meetings and telephone conferences for the purpose of discussion. It has not currently formed any standing committees.

The Supervisory Board of Salzgitter AG

The core tasks of the Supervisory Board are to advise and supervise the Executive Board in its management of the company, to appoint members of the Executive Board and to plan their successors on a long-term basis. Certain fundamental decisions, namely those of great significance or import, may only be made with its approval.

The Supervisory Board is made up of 21 members, specifically 10 shareholder and 10 employee representatives plus one other member. This composition has been laid down under the provisions of the Co-Determination Amendment Act of 1956 applicable to the company in its current version, in conjunction with Article 7 of the company's Articles of Incorporation. The remuneration system of the Supervisory Board is described in the remuneration report, which is part of the Group Management Report. The members of the Supervisory Board are liable to the company for any dereliction of duty. The company's D&O insurance provides for a suitable deductible in accordance with the recommendation of the German Corporate Governance Code.

Working practices of the Supervisory Board

The Supervisory Board uses the following instruments in particular in performing its advisory and supervisory function:

- obligation of the Executive Board to submit regular, timely and comprehensive reports to the Supervisory Board,
- regular discussion of the planning, business development and the strategy with the Executive Board,
- determination of business activities and measures of the Executive Board which may only be carried out with Supervisory Board approval,
- obligation of the Executive Board to submit a long-term corporate plans on an annual basis and to report on the execution of such plans,
- when determining the remuneration of the Executive Board members, agreement on the variable components, geared toward the commercial success of the company and the overall performance of each individual Executive Board member.

The Supervisory Board meets a minimum of four times a year, has the Executive Board report in detail, and discusses the development of business and the situation of the company with the Executive Board.

Composition and working practices of the committees of the Supervisory Board

In order to prepare its meetings and decisions the Supervisory Board has currently formed four standing committees with the following members:

The Presiding Committee undertakes the preparatory work in connection with the appointing of Executive Board members and, in place of the Supervisory Board plenum, makes decisions on business measures requiring urgent approval. The Presiding Committee confers whenever necessary in the form of meetings or telephone conferences. The Committee is made up of the following members: Rainer Thieme (Chairman), Hartmut Möllring, Jürgen Peters (until August 25, 2011), Christian Schwandt and Dr. Hans-Jürgen Urban (since August 26, 2011).

The Audit Committee deals with the following in particular:

- the annual financial statements and the quarterly financial statements,
- the effectiveness of the internal control system, the internal audit system and the risk management system,
- issues relating to compliance with the provisions applicable to the company (corporate compliance) and
- the independence of the external auditor, the assignment of the audit mandate and the determination of key audit areas.

The Audit Committee meets at least four times a year. The Audit Committee has the Executive Board report in writing and orally on the individual issues to be discussed, as well as having representatives of the independent auditor explain the report on their audit of the financial statements at company and at Group level. The Audit Committee is made up of the following members: Prof. Dr. Hannes Rehm (Chairman), Hannelore Elze, Rainer Thieme and Helmut Weber.

The Strategy Committee is tasked with discussing the strategy of the company with the Executive Board and meets whenever required. The following are members of the Strategy Committee: Rainer Thieme (Chairman), Manfred Bogen (until September 30, 2011), Hartmut Möllring, Ulrich Kimpel (since December 15, 2011), Jürgen Peters (until August 25, 2011), Christian Schwandt and Dr. Hans-Jürgen Urban (since August 26, 2011).

The Nomination Committee, which is exclusively comprised of representatives of the shareholders, proposes suitable candidates to the Supervisory Board, which, in turn, presents its proposals to the General Meeting of Shareholders for the election of shareholder representatives to the Supervisory Board. It becomes especially active in the run-up to the new elections to the Supervisory Board and advises in a suitable capacity. Hartmut Möllring and Rainer Thieme are the members of the Nomination Committee.

Corporate Compliance

The Executive Board and the Supervisory Board views compliance with the statutory provisions applicable to the company's activities and the corporate guidelines as an important part of corporate governance. The commitment to observing and complying with legal framework conditions and ethical values is an integral part of the company's corporate mission. The obligation of managers at all levels also entails ensuring that the relevant regulations are observed in their respective areas of tasks and responsibilities. To this end, each superior must give his/her staff clear instructions as to their tasks and areas of responsibility and must document this accordingly. This responsibility includes ensuring that staff have the competences necessary for fulfilling their compliance duties and the monitoring of this compliance. The regular requesting of appropriate reports is part of guaranteeing that compliance tasks are monitored. The Executive Board has defined this process in detail in a set of corporate guidelines. The Executive Board regularly reports to the Supervisory Board on compliance.

Transparency of the company

Along with the annual report, Salzgitter AG also publishes condensed interim accounts and an interim management report at the end of the first, second and third quarter of a financial year. This ensures that our shareholders are kept informed about the business performance and the situation of the company in as timely manner as possible. The dates of publication are announced in the financial calendar posted on the company's website. Furthermore, the Executive Board explains the results of each financial year ended at an annual results press conference, reported on by the media, which takes place directly after the meeting of the Supervisory Board when the financial statements are adopted.

In addition to this, we organize regular analysts' conferences for analysts and institutional investors in Frankfurt am Main and London. Finally, the Executive Board ensures that information which could have a considerable impact on the share price is published immediately in the form of ad-hoc releases disseminated simultaneously throughout Europe. All reports and statements are available on the company's website (www.salzgitter-ag.de) in both German and English.

To the knowledge of the company, no member of the Executive Board or Supervisory Board owns a portion of the shares issued, either directly or indirectly, exceeding 1%. There are currently no share option programs or similar security-based incentive systems implemented at the Salzgitter Group.

Salzgitter, March 29, 2012

The Executive Board

Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Chairman

The Supervisory Board

Rainer Thieme
Chairman

As our employees also don't have unusual powers …

… we invest a great deal in giving them the right training. After all, competent and motivated employees are essential for a company to succeed. We aim to create a healthy and supportive working environment in which our employees benefit from continuous professional as well as personal development.
Good health is important in itself, especially for our more senior staff. From systematic back training and care programs through to technical training, we make sure that they remain with the company as long as possible, so they can pass on their valuable experience to their colleagues – and become real heroes as they do so.

I. Business and Organization

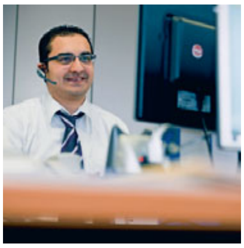
1. Group Structure and Operations

As a German company with a long tradition, the Salzgitter Group ranks among Europe's leading steel technology and plant engineering corporations. It has an annual crude steel capacity of almost 9 million tons and achieved external sales of around € 10 billion in 2011. The Group comprises more than 200 subsidiaries and affiliated companies and has a workforce of approximately 25,500 employees worldwide. Headed by Salzgitter AG as the holding company, the Group is divided into the five divisions of Steel, Trading, Tubes, Services and Technology. The Salzgitter AG share is listed on the MDAX index of Deutsche Börse AG.

Our core competences reside in the production of rolled steel and tubes products, their processing, trading in these products as well as special machinery and plant engineering.

Steel and Technology

- Steel strip
- Plate
- Sections
- Engineering
- Logistic services
- Injection molding machines
- Pipeline tubes
- Precision tubes
- Seamless steel tubes
- Stockholding trading
- International trading
- Beverage filling facilities



All the important companies of the Salzgitter Group are combined under an interim holding, a function performed by Salzgitter Mannesmann GmbH (SMG) up until December 31, 2011, and subsequently by Salzgitter Klöckner-Werke GmbH (SKWG) as from the financial year 2012. This structure allows us to carry out centralized and unrestricted financial management for the Group, among other tasks. As the management holding, Salzgitter AG manages SMG, and now SKWG, along with all associated companies. The Executive Board of Salzgitter AG is composed of the same persons as the Management Boards of SMG and SKWG. The management and control of the Group is therefore carried out by the executive bodies responsible for Salzgitter AG (Executive Board, Supervisory Board). The specific responsibilities associated with the entrepreneurial management of the divisions have been combined under the respective organization units within the holding.

Legal and economic factors of influence

As the Group's industrial production is mainly located in Germany, both the production and the associated business are subject to the legal provisions prevailing in this country, which specifically includes German tax rules and regulations and legislation on environmental protection under German and EU law.

The structure of the Salzgitter Group is shown in the chart on the next page.

Divisions

Salzgitter AG

Salzgitter Mannesmann/Salzgitter Klöckner-Werke

Steel

Salzgitter Stahl

- Salzgitter Flachstahl
- Peiner Träger
- Ilsenburger Grobblech

Salzgitter Europlatinen

Salzgitter Bauelemente

HSP Hoesch Spundwand und Profil

Trading

Salzgitter Mannesmann Handel

- Salzgitter Mannesmann Stahlhandel
  - Stahl-Center Baunatal
- Salzgitter Mannesmann International
  - Salzgitter Mannesmann International (USA)
  - Salzgitter Mannesmann International (Canada)
- Salzgitter Mannesmann Staalhandel (Netherlands)
- Salzgitter Mannesmann Stahlhandel (Poland)
- Salzgitter Mannesmann Stahlhandel (Czech Republic)
- Salzgitter Mannesmann Acélkereskedelmi (Hungary)

Hövelmann & Lueg

Universal Eisen und Stahl

STAHL-METALL-SERVICE Gesellschaft für Bandverarbeitung

Tubes

Mannesmannröhren-Werke

Europipe 50 %

Salzgitter Mannesmann Grobblech

Salzgitter Mannesmann Großrohr

Salzgitter Mannesmann Line Pipe

Salzgitter Mannesmann Precision

- Salzgitter Mannesmann Präzisrohr
- Salzgitter Mannesmann Précision Etirage (France)
- Salzgitter Mannesmann Rohr Sachsen
- Salzgitter Mannesmann Precisión (Mexico)

Salzgitter Mannesmann Seamless Tubes (Netherlands)

Salzgitter Mannesmann Stainless Tubes

Hüttenwerke Krupp Mannesmann 30 %

Borusan Mannesmann Boru (Turkey) 23 %

Business and Organization

Services

- DEUMU Deutsche Erz- und Metall-Union
- SZST Salzgitter Service und Technik
- Verkehrsbetriebe Peine-Salzgitter
- Hansaport 51%
- Salzgitter Mannesmann Forschung
- Salzgitter Mannesmann Personalservice
- Glückauf Immobilien
- **Salzgitter Information und Telekommunikation**
  - Gesis Gesellschaft für Informationssysteme
  - Telcat Multicom
  - Telcat Kommunikationstechnik
- Salzgitter Hydroforming
- Salzgitter Automotive Engineering

Technology

- KHS
- Klöckner Mercator Maschinenbau
  - Klöckner DESMA Elastomertechnik
  - Klöckner DESMA Schuhmaschinen
- Klöckner PET-Technologie
  - KHS Corpoplast
  - KHS Plasmax
- RSE Grundbesitz und Beteiligung

Parent company

Schematic diagram
as of February 2012

The five divisions are composed of independent companies which operate on a decentralized basis with a high degree of discretionary scope, carrying out their market-, location- and product-related activities under their own responsibility.

With its branded and special steels, the **Steel Division** in particular constitutes the core competence of our Group. The division's companies produce a wide range of steel products (flat steel and sections, plate, sheet piling, components for roofing and cladding and tailored blanks) for constantly evolving new areas of application at the locations of Salzgitter, Peine, Ilsenburg and Dortmund. The product portfolio caters especially for flat steel products geared to premium steel grades and qualities for use in increasingly sophisticated applications. The German automobile industry is, for instance, a major customer sector whose service and quality requirements are particularly demanding. Thanks to intensive research and development and strong customer orientation, we are in a position to develop future market potential for our creative and innovative products.

As a result of an extensive investment program, our integrated steel works in Salzgitter and the Peine mini mill will have a smelting capacity of around 7 million tons of crude steel a year in future. The three large rolled steel mills of Salzgitter, Peine and Ilsenburg rank among the most modern of their type thanks to their highly sophisticated and complex facilities and process technology. The division works in close cooperation with our trading organization, which is not only our most important sales channel but also operates in the sourcing of semi-finished products on a case-by-case basis.

The **Trading Division** comprises a tight European sales network as well as trading companies and agencies worldwide. This combination underpins the successful market presence of the Salzgitter Group with a blanket coverage supporting the optimal sales of its products and services. In this way, we ensure that we reach major customers as well as smaller and medium-size customers alike.

The following companies have been assigned to the Trading Division: the Salzgitter Mannesmann Handel Group which operates under Salzgitter Mannesmann Handel GmbH (SMHD), the plate specialist Universal Eisen und Stahl GmbH (UES), the steel service center Hövelmann & Lueg GmbH (HLG) as well as STAHL-METALL-SERVICE Gesellschaft für Bandverarbeitung mbH (SMSGB), which was acquired in the fourth quarter of 2011. The company will be included in the group of consolidated companies from the financial year 2012 onwards.

The SMHD Group has three companies which operate in the German stockholding steel trade from fifteen sales locations, eleven of which are warehouses. Six companies engage in steel trading in European countries, with an additional four active agencies. International trading is mainly handled by nine independent companies and four locations abroad managed as representative offices.

The plate specialist UES conducts its trading and processing activities mainly in Germany but also has representative offices in other European countries and in the US. The steel service center HLG, with its customized flat steel products, rounds off the range offered by the Trading Division.

The companies and holdings of the **Tubes Division**, headed by Mannesmannröhren-Werke GmbH (MRW), provides its customers with a comprehensive portfolio of steel tubes on three continents. The scope of products comprises in particular longitudinally and spiral-welded large-diameter pipes, HFI (high-frequency inductive) welded pipes, seamless and welded precision tubes and seamless stainless steel tubes. With its high-quality products of international standing, these companies occupy leading positions in the market or are even global market leaders.

The Division has its own supply of crude steel in the form of a 30 % stake in steel producer Hüttenwerke Krupp Mannesmann GmbH ([HKM], technical crude steel capacity of 6 million tons), through its own cutting-edge plate mill and the production of semi-finished material for the manufacturing of seamless tubes. This division also makes extensive use of our trading organization, both for the sale of its products and the sourcing of semi-finished products.

The range of services provided by the **Services Division** is focused primarily on requirements within the Group. However, we also offer services to external customers to generate additional contributions to the Group's profit. This also serves to ensure that the know-how of the companies is perpetually benchmarked against market requirements. With this as a basis, they conceive and realize attractive service offerings in a wide spectrum, ranging from the supply of raw materials, logistics and plant engineering through to researching and developing materials, as well as complete IT solutions. These activities are supplemented by products and services for the automotive industry.

The product and services range of the **Technology Division** is geared first and foremost to machinery and plant for the filling and packaging of beverages. The business activities of this division are concentrated in Dortmund-based KHS GmbH (KHSDE) which ranks among the global market leaders in the field of industrial filling and packaging plants. The KHS Group, managed from this location, is represented through its production sites and almost 50 service and sales outlets on all continents. The filling and packaging technology business makes up around 90 % of the division's sales. Other activities of the division are focused on the construction of special machinery.

Global presence

■ Steel Division ■ Tubes Division ■ Trading Division ■ Technology Division

The structure of the Salzgitter Group with its broad-based business activities has proven its competitive ability over the economic cycle. Along with the operational flexibility of each individual division, which fosters market and customer proximity, this structure, with its decentralized competences and responsibilities, serves to promote the development of the individual companies. Our management structure is flexible with regard to requirements for change and adjustment, making it compatible with our growth strategy as new tiers in the value chain or divisions can be integrated relatively smoothly.

The holdings are listed in the "Notes to the Consolidated Financial Statements".

2. Management and Control

The Executive Board

The members of the Executive Board of Salzgitter AG are appointed by the Supervisory Board. The Supervisory Board can rescind the appointment for an important reason. The Executive Board represents and heads up the company and manages the company's business under its own responsibility. A restriction that certain transactions may only be concluded subject to the approval of the Supervisory Board has been imposed. The General Meeting of Shareholders can only decide matters affecting the management of the Group if this has been requested by the Executive Board.

In the financial year 2011, the following members belonged to the Executive Board of Salzgitter AG:

Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Chairman since February 1, 2011
Vice Chairman until January 31, 2011
Finance until January 31, 2011
a) ▪ Aurubis AG (Chairman since October 1, 2011)
▪ EUROPIPE GmbH
▪ KHS GmbH (Chairman)
▪ Mannesmannröhren-Werke GmbH (Chairman since February 1, 2011)
▪ Nord/LB Kapitalanlagegesellschaft AG until May 18, 2011
▪ Öffentliche Sachversicherung Braunschweig
▪ Öffentliche Lebensversicherung Braunschweig
▪ Salzgitter Flachstahl GmbH until January 31, 2011
▪ Salzgitter Klöckner-Werke GmbH (formerly: Klöckner-Werke AG) (Chairman) until December 14, 2011
▪ Salzgitter Mannesmann Handel GmbH (Chairman since February 1, 2011)
▪ Salzgitter Stahl GmbH (Chairman since February 1, 2011)
▪ TÜV Nord AG
b) ▪ Ets. Robert et Cie S.A.S. (Comité de Surveillance)
▪ EUROPIPE GmbH (Shareholders' Committee)
▪ Nord/LB Capital Management GmbH until May 18, 2011 (Supervisory Board)

Prof. Dr.- Ing. h. c. Wolfgang Leese
(Chairman) until January 31, 2011
a) ▪ Aurubis AG
▪ MAN Nutzfahrzeuge AG
▪ Mannesmannröhren-Werke GmbH (Chairman) until January 31, 2011
▪ Salzgitter Mannesmann Handel GmbH (Chairman) until January 31, 2011
▪ Salzgitter Stahl GmbH (Chairman) until January 31, 2011

Burkhard Becker
since February 1, 2011
Finance
a) ▪ EUROPIPE GmbH since March 28, 2011
▪ KHS GmbH since April 1, 2011
▪ Mannesmannröhren-Werke GmbH since February 1, 2011
▪ Nord/LB Kapitalanlagegesellschaft AG since May 19, 2011
▪ Peiner Träger GmbH since June 1, 2011
▪ Salzgitter Flachstahl GmbH since February 1, 2011
▪ Salzgitter Mannesmann Handel GmbH since February 1, 2011
▪ Salzgitter Stahl GmbH since February 1, 2011
b) ▪ Nord/LB Capital Management GmbH since May 19, 2011 (Supervisory Board)

Wolfgang Eging
Tubes Division
Chairman of the Executive Board of Mannesmannröhren-Werke GmbH
a) ▪ EUROPIPE GmbH
▪ Hüttenwerke Krupp Mannesmann GmbH (Chairman)
▪ Salzgitter Mannesmann Grobblech GmbH (Chairman)
▪ Salzgitter Mannesmann Handel GmbH
▪ Salzgitter Mannesmann Line Pipe GmbH (Chairman)
▪ Salzgitter Mannesmann Präzisrohr GmbH (Chairman)
b) ▪ Borusan Mannesmann Boru Yatirim Holding A.S. (Board of Administration, Vice Chairman)
▪ EUROPIPE GmbH (Shareholders' Committee)
▪ Hüttenwerke Krupp Mannesmann GmbH (Shareholders' Committee, Chairman)
▪ Salzgitter Mannesmann Forschung GmbH (Steering Committee, Vice Chairman)
▪ Salzgitter Mannesmann Précision Etirage S.A.S. (Conseil d'Administration)

a) Membership in other supervisory boards formed subject to the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

Heinz Groschke
Trading Division
Chairman of the Executive Board of
Salzgitter Mannesmann Handel GmbH

a)
- Ilsenburger Grobblech GmbH until May 30, 2011
- KHS GmbH
- Salzgitter Flachstahl GmbH since June 1, 2011
- Salzgitter Klöckner-Werke GmbH (formerly: Klöckner-Werke AG) until December 14, 2011
- Salzgitter Mannesmann Line Pipe GmbH

b)
- EUROPIPE GmbH (Shareholders' Committee)
- Salzgitter Mannesmann (España) S. A. (Board of Administration)
- Salzgitter Mannesmann International (Asia) Pte. Ltd. (Board of Administration)
- Salzgitter Mannesmann International (Canada) Inc. (Board of Directors, Chairman)
- Salzgitter Mannesmann International (HK) Ltd. (Board of Administration)
- Salzgitter Mannesmann International (México) S. A. de C. V. (Board of Directors, Chairman)
- Salzgitter Mannesmann International (USA) Inc. (Board of Directors, Chairman)
- Salzgitter Mannesmann (Italia) S. r. l. (Board of Administration)
- Salzgitter Mannesmann Pentasteel International (India) Pvt. Ltd. (Board of Directors, Chairman)
- Salzgitter Mannesmann (Scandinavia) AB (Board of Administration)
- Salzgitter Mannesmann Trade (Beijing) Co. Ltd. (Board of Directors, Chairman)
- Salzgitter Mannesmann (UK) Ltd. (Board of Directors, Chairman)

Johannes Nonn
Steel Division
Chairman of the Executive Board of
Salzgitter Stahl GmbH

a)
- Hüttenwerke Krupp Mannesmann GmbH
- Ilsenburger Grobblech GmbH (Chairman)
- Peiner Träger GmbH (Chairman)
- Salzgitter Flachstahl GmbH (Chairman)
- Salzgitter Mannesmann Handel GmbH

b)
- ThyssenKrupp GfT Bautechnik GmbH (Advisory Council) until September 29, 2011
- Salzgitter Mannesmann Forschung GmbH (Steering Committee, Chairman)

Peter-Jürgen Schneider
Personnel
Services Division

a)
- Ilsenburger Grobblech GmbH
- KHS GmbH
- Mannesmannröhren-Werke GmbH
- Peiner Träger GmbH
- Salzgitter Flachstahl GmbH
- Salzgitter Klöckner-Werke GmbH (formerly: Klöckner-Werke AG) until December 14, 2011
- Salzgitter Mannesmann Handel GmbH
- Salzgitter Mannesmann Präzisrohr GmbH
- Salzgitter Stahl GmbH
- SZST Salzgitter Service und Technik GmbH (Chairman)
- Verkehrsbetriebe Peine-Salzgitter GmbH (Chairman)

b)
- Hansaport Hafenbetriebsgesellschaft mbH (Supervisory Board, Chairman)
- Projekt Region Braunschweig GmbH (Supervisory Board)
- Wohnungsbaugesellschaft mbH Salzgitter (Supervisory Board)

a) Membership in other supervisory boards formed subject to the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

The Supervisory Board

Rainer Thieme
Chairman
Chairman of the Management Board of Wilhelm Karmann GmbH, retired
a) ▪ Köster Holding AG
▪ Schmitz Cargobull AG until March 22, 2011

Dr. Hans-Jürgen Urban
Vice Chairman
since August 26, 2011
Member of the Management Board of Industriegewerkschaft Metall
a) ▪ Salzgitter Stahl GmbH (Vice Chairman)
▪ Treuhandverwaltung IGEMET GmbH

Jürgen Peters
Vice Chairman
until August 25, 2011
First Chairman of Industriegewerkschaft Metall, retired
▪ No membership in other governing bodies

Manfred Bogen
until September 30, 2011
Chairman of the Works Council of EUROPIPE GmbH until September 30, 2011
a) ▪ EUROPIPE GmbH until September 30, 2011
▪ Mannesmannröhren-Werke GmbH until September 30, 2011

Bernhard Breemann
since January 1, 2012
Chairman of the General Works Council of Salzgitter Mannesmann Stahlhandel GmbH
Chairman of the Works Council of Salzgitter Mannesmann Stahlhandel GmbH, Gladbeck
a) ▪ Salzgitter Mannesmann Handel GmbH

Hasan Cakir
Chairman of the Works Council of Salzgitter Flachstahl GmbH
a) ▪ Salzgitter Flachstahl GmbH
▪ Salzgitter Stahl GmbH until May 30, 2011

Ulrich Dickert
Chairman of the Works Council of Salzgitter Mannesmann Stainless Tubes Deutschland GmbH
▪ No membership in other governing bodies

Karl Ehlerding
Managing Director of KG Erste "Hohe Brücke 1" Verwaltungs-GmbH & Co.
a) ▪ KHS GmbH
▪ MATERNUS-Kliniken AG
▪ Salzgitter Klöckner-Werke GmbH (formerly: Klöckner-Werke AG) until December 14, 2011
▪ WCM Beteiligungs- und Grundbesitz-AG

Hannelore Elze
Secretary of the Management Board of Industriegewerkschaft Metall, Branch Office Düsseldorf
a) ▪ AluNorf GmbH
▪ Hydro Aluminium Deutschland GmbH (Vice Chairwoman)
▪ Hydro Aluminium Rolled Products GmbH since August 2011 (Vice Chairwoman)
▪ NORSK Hydro Deutschland Verwaltungs-GmbH (Vice Chairwoman)

Prof. Dr.-Ing. Dr. h. c. Jürgen Hesselbach
President of Technische Universität Carolo-Wilhelmina zu Braunschweig
a) ▪ Öffentliche Sachversicherung Braunschweig
▪ Öffentliche Lebensversicherung Braunschweig

a) Membership in other supervisory boards formed subject to the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

Ulrich Kimpel
Chairman of the Works Council of
Hüttenwerke Krupp Mannesmann GmbH
- No membership in other governing bodies

Dr. Dieter Köster
Chairman of the Executive Board of
Köster Holding AG
- No membership in other governing bodies

Bernd Lauenroth
since August 26, 2011
Secretary of the Management Board of
Industriegewerkschaft Metall, Branch Office
Düsseldorf
a) - Georgsmarienhütte Holding GmbH
since July 2011

Frank Markowski
since October 1, 2011
Chairman of the Works Council of Salzgitter
Mannesmann Präzisrohr GmbH
a) - Mannesmannröhren-Werke GmbH
- Salzgitter Mannesmann Präzisrohr GmbH

Dr. Arno Morenz
Chairman of the Executive Board of Aachener
Rückversicherung AG, retired
Member of the Presiding Board of DSW Deutsche
Schutzvereinigung für Wertpapierbesitz e. V.
since November 10, 2011
a) - alfabet AG (Chairman)
- Business Keeper AG (Chairman)
b) - Fidelity Funds, Luxembourg
(Board of Administration)
- FIL Investment Management GmbH
(Supervisory Board)

a) Membership in other supervisory boards formed subject to the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

Hartmut Möllring
Minister of Finance of the Federal State of
Lower Saxony
a) - Bremer Landesbank
(Vice Chairman)
- Deutsche Messe AG
- Norddeutsche Landesbank – Girozentrale
(Chairman)
b) - JadeWeserPort Logistic Zone GmbH & Co. KG
(Supervisory Board)
- JadeWeserPort Realisierungs-Beteiligungs-GmbH (Supervisory Board)
- JadeWeserPort Realisierungs GmbH & Co. KG
(Supervisory Board)

Udo Pfante
until December 31, 2011
Chairman of the Works Council of Salzgitter
Mannesmann Stahlhandel GmbH
until December 31, 2011
a) - Salzgitter Mannesmann Handel GmbH
until December 31, 2011

Prof. Dr. Hannes Rehm
President of the Hanover Chamber of Industry and
Commerce (IHK)
Chairman of the Executive Board of
Norddeutsche Landesbank – Girozentrale, retired
a) - ÖPP Deutschland AG (Vice Chairman)

Dr. Rudolf Rupprecht
Chairman of the Executive Board of MAN AG,
retired
a) - Demag Cranes AG until September 2011
- MAN AG until June 2011

Christian Schwandt
Chairman of the Group's Works Council of
Salzgitter AG
Vice Chairman of the Works Council of
SZST Salzgitter Service und Technik GmbH
a) - SZST Salzgitter Service und Technik GmbH

Dr. Werner Tegtmeier
State Secretary, retired, of the Federal Ministry of Labor and Social Affairs
a) ▪ Mannesmannröhren-Werke GmbH

Dr. Johannes Teyssen
Chairman of the Executive Board of E.ON AG
a) ▪ Deutsche Bank AG
▪ E.ON Energie AG
▪ E.ON Ruhrgas AG

Helmut Weber
Chairman of the General Works Council of KHS GmbH
a) ▪ KHS GmbH until March 31, 2011
▪ Salzgitter Klöckner-Werke GmbH (formerly: Klöckner-Werke AG) until December 14, 2011

Prof. Dr. rer. nat. Dr.-Ing. h. c. Martin Winterkorn
Chairman of the Executive Board of Volkswagen AG
Chairman of the Executive Board of Porsche Automobil Holding SE
a) ▪ Audi AG (Chairman)
▪ Dr. Ing. h. c. F. Porsche AG
▪ FC Bayern München AG
b) ▪ Scania AB (Chairman of the Supervisory Board)
▪ other mandates within the Volkswagen Group

Committees of the Supervisory Board

Presiding Committee:
Rainer Thieme, Chairman
Hartmut Möllring
Jürgen Peters until August 25, 2011
Christian Schwandt
Dr. Jürgen Urban since August 26, 2011

Audit Committee:
Prof. Dr. Hannes Rehm, Chairman
Hannelore Elze
Rainer Thieme
Helmut Weber

Strategy Committee:
Rainer Thieme, Chairman
Manfred Bogen until September 30, 2011
Ulrich Kimpel since December 15, 2011
Hartmut Möllring
Jürgen Peters until August 25, 2011
Prof. Dr. Hannes Rehm
Christian Schwandt
Dr. Jürgen Urban since August 26, 2011

Nomination Committee:
Hartmut Möllring
Rainer Thieme

a) Membership in other supervisory boards formed subject to the definition of Section 125 German Stock Corporation Act (AktG)
b) Membership in comparable domestic and foreign controlling bodies of commercial enterprises

Remuneration of the Executive Board and of the Supervisory Board

Remuneration of the Executive Board

The remuneration of the members of the Executive Board is determined in their contracts of employment. The criteria for assessing the amount of the remuneration are the tasks of the respective Board members and their own individual performance, as well as the economic situation, the success and the outlook of the company and the level of remuneration customarily paid in the comparable business environment.

Along with a fixed remuneration component, each member of the Executive Board receives a variable component. The latter is divided into two parts: one of which is results-based and calculated according to the return on capital employed (ROCE), and the other which depends on the overall performance of the individual Board member. The results-based part is capped and evaluated over a number of years, which also creates a long-term incentive to achieve good, sustainable results.

In addition, the company has agreed pension payments with members of the Executive Board. Over their respective time horizon, these payments are capped at a maximum of 60 % of the fixed remuneration. This commitment is not linked to the variable components of remuneration. In the event of a termination of Executive Board member activities due to a change of control, the Board members are entitled to settlement in the amount of overall remuneration for the remaining term of their contracts of employment. This claim is, however, limited to three years' remuneration. In the event of premature termination of Executive Board activities without an important reason, the Executive Board members are entitled to the remuneration agreed until expiry of the contract. However, in the case of contracts signed after June 2008, this entitlement is restricted to the amount of two years' remuneration (fixed and variable components). No benefits were granted or pledged by external parties to the individual members of the Executive Board in the financial year 2011 or in 2010 for their activities as Executive Board members.

Remuneration received by the individual members of the Executive Board

In €	Annual payment in 2011 (2010)				
	Fixed remuneration	Remuneration in kind	Variable remuneration	Remuneration for Supervisory Board activities in subsidiaries	Total
Prof. Dr.-Ing. Heinz Jörg Fuhrmann, Vice Chairman until January 31, 2011 Chairman since February 1, 2011	708,000 (516,000)	23,321 (27,084)	900,000 (602,000)	58,750 (71,359)	1,690,071 (1,216,443)
Prof. Dr.-Ing. h. c. Wolfgang Leese, Chairman until January 31, 2011	60,000 (720,000)	3,984 (50,359)	0 (840,000)	0 (1,000)	63,984 (1,611,359)
Burkhard Becker since February 1, 2011	385,000	13,324	385,000	8,300	791,624
Wolfgang Eging	450,000 (420,000)	20,307 (20,715)	480,000 (490,000)	900 (900)	951,207 (931,615)
Heinz Groschke	450,000 (420,000)	40,817 (44,417)	480,000 (490,000)	24,350 (31,155)	995,167 (985,572)
Johannes Nonn	420,000 (420,000)	22,194 (23,283)	420,000 (490,000)	1,600 (1,600)	863,794 (934,883)
Peter-Jürgen Schneider	450,000 (420,000)	37,853 (37,798)	480,000 (490,000)	27,250 (34,813)	995,103 (982,611)
Sum total	**2,923,000** (2,916,000)	**161,800** (203,656)	**3,145,000** (3,402,000)	**121,150** (140,827)	**6,350,950** (6,662,483)

Pension entitlement

In €	Annual payment upon pension eligibility as per 31/12/2011 (as per 31/12/2010)	Transfer to pension provisions in 2011 (2010)
Prof. Dr.-Ing. Heinz Jörg Fuhrmann[1], Vice Chairman until January 31, 2011, Chairman since February 1, 2011	540,000 (309,600)	2,264,892 (458,120)
Prof. Dr.-Ing. h. c. Wolfgang Leese[1], Chairman until January 31, 2011	(432,000)	(894,289)
Burkhard Becker[1] since February 1, 2011	252,000	1,534,227
Wolfgang Eging[1]	288,000 (252,000)	795,785 (476,852)
Heinz Groschke[1]	288,000 (252,000)	800,872 (473,133)
Johannes Nonn[1]	252,000 (252,000)	799,365 (799,365)
Peter-Jürgen Schneider[2]	118,656 (103,824)	356,288 (237,728)
Sum total	**1,738,656** (1,601,424)	**6,551,429** (3,339,487)

[1] Including a former employer's pension commitment taken over against compensation

[2] Pension entitlement as per end of contract (final age: 66)

Remuneration of the Executive Board

Each member of the Supervisory Board receives annual remuneration which consists of a fixed and a variable component that depend on the scope of activity and the responsibility of the individual Supervisory Board member and the financial position and success of the company. The fixed remuneration component comes to € 40,000 for each member of the Supervisory Board.

The variable component is geared to the success of the company in the longer term and comes to € 300.00 per full € 5 million on the portion of the pre-tax result – prior to deduction of minority interest in the consolidated financial statements of the company (EBT) – which exceeds € 150 million on average over the last three financial years (including the year when remuneration is paid).

The Chairman of the Supervisory Board receives double and the Vice Chairman one and a half times the amount from the addition of the respective remuneration components. The sum total of both remuneration components paid annually is limited to € 160,000 for the Chairman of the Supervisory Board, to € 120,000 for the Vice Chairman of the Supervisory Board and to € 80,000 for all other Supervisory Board members. Beyond this, compensation is paid for membership of the committees of the Supervisory Board as well as attendance fees.

Annual remuneration received by the individual Supervisory Board members

In €	Annual payment in 2011 (2010)				
	Fixed remunera-tion	Performance-based remu-neration	Commitee remunera-tion	Attendance fees	Total
Rainer Thieme, Chairman	80,000 (80,000)	0 (4,200)	20,000 (15,000)	7,500 (9,500)	107,500 (108,700)
Jürgen Peters until August 25, 2011, Vice Chairman	40,000 (60,000)	0 (3,150)	6,667 (5,000)	2,500 (7,000)	49,167 (75,150)
Manfred Bogen until September 30, 2011	30,000 (40,000)	0 (2,100)	3,750	2,000 (2,500)	35,750 (44,600)
Hasan Cakir	40,000 (40,000)	0 (2,100)		2,000 (2,500)	42,000 (44,600)
Ulrich Dickert	40,000 (40,000)	0 (2,100)		2,000 (2,000)	42,000 (44,100)
Karl Ehlerding	40,000 (40,000)	0 (2,100)		1,500 (2,500)	41,500 (44,600)
Hannelore Elze	40,000 (40,000)	0 (2,100)	5,000 (5,000)	3,500 (4,500)	48,500 (51,600)
Dr. Lothar Hagebölling until August 18, 2010	(26,667)	(1,400)	(6,667)	(2,500)	0 (37,234)
Prof. Dr.-Ing., Dr. h. c. Jürgen Hesselbach	40,000 (40,000)	0 (2,100)		2,000 (2,000)	42,000 (44,100)
Ulrich Kimpel	40,000 (40,000)	0 (2,100)		2,000 (2,500)	42,000 (44,600)
Dr. Dieter Köster	40,000 (40,000)	0 (2,100)		1,500 (2,500)	41,500 (44,600)
Bernd Lauenroth since August 26, 2011	16,667			1,000	17,667
Frank Markowski since October 1, 2011	10,000			500	10,500
Dr. Arno Morenz	40,000 (40,000)	0 (2,100)		2,000 (2,500)	42,000 (44,600)
Hartmut Möllring	40,000 (13,333)	0 (700)	10,000 (1,667)	5,000 (2,500)	55,000 (18,200)
Udo Pfante until December 31, 2011	40,000 (40,000)	0 (2,100)		2,000 (2,500)	42,000 (44,600)
Prof. Dr. Hannes Rehm	40,000 (40,000)	0 (2,100)	15,000 (10,000)	4,500 (4,000)	59,500 (56,100)
Dr. Rudolf Rupprecht	40,000 (40,000)	0 (2,100)		2,000 (2,000)	42,000 (44,100)
Christian Schwandt	40,000 (40,000)	0 (2,100)	10,000 (5,000)	5,000 (6,500)	55,000 (53,600)
Dr. Werner Tegtmeier	40,000 (40,000)	0 (2,100)		2,000 (2,500)	42,000 (44,600)
Dr. Johannes Teyssen	40,000 (40,000)	0 (2,100)		1,500 (1,000)	41,500 (43,100)
Dr. Hans-Jürgen Urban, Vice Chairman since August 26, 2011	48,333 (40,000)	0 (2,100)	2,083	3,500 (2,500)	53,916 (44,600)
Helmut Weber	40,000 (40,000)	0 (2,100)	5,000 (5,000)	4,000 (4,000)	49,000 (51,100)
Prof. Dr. Martin Winterkorn	40,000 (40,000)	0 (2,100)		500 (500)	40,500 (42,600)
Total	**905,000** (900,000)	**0** (47,250)	**77,500** (53,333)	**60,000** (70,500)	**1,042,500** (1,071,083)

In addition, the following Supervisory Board members received remuneration for Supervisory Board mandates of subsidiaries:

In €	Annual payment in 2011 (2010)				
	Fixed remuneration	Performance-based remuneration	Commitee remuneration	Attendance fees	Total
Manfred Bogen (MRW) since June 9, 2010, until Sep. 30, 2011	7,500 (5,833)			200 (200)	7,700 (6,033)
Hasan Cakir (SZS) until May 30, 2011	4,167 (10,000)			100 (400)	4,267 (10,400)
(SZFG)	8,000 (8,000)			300 (400)	8,300 (8,400)
Karl Ehlerding (SKWG) until December 14, 2011	10,000 (20,000)		7,466 (14,042)	1,000 (2,750)	18,466 (36,792)
(KHS)	8,000 (5,113)			1,000	9,000 (5,113)
Frank Markowski (MRW)	10,000			200	10,200
(MPR)	3,000			200	3,200
Udo Pfante (SMHD) until December 31, 2011	10,000 (10,000)			300 (400)	10,300 (10,400)
Christian Schwandt (SZST)	5,000 (5,000)			300 (400)	5,300 (5,400)
Dr. Werner Tegtmeier (MRW)	10,000 (10,000)			(300)	10,000 (10,300)
Dr. Hans-Jürgen Urban (SZS)	15,000 (15,000)			400 (400)	15,400 (15,400)
Helmut Weber (SKWG) until December 14, 2011	10,000 (20,000)		6,233 (10,000)	750 (2,000)	16,983 (32,000)
(KHS) until March 31, 2011	2,000 (5,113)			250	2,250 (5,113)
Total	**102,667** (114,059)	**0** (0)	**13,699** (24,042)	**5,000** (7,250)	**121,366** (145,351)
Sum total	**1,007,667** (1,014,059)	**0** (47,250)	**91,199** (77,375)	**65,000** (77,750)	**1,163,866** (1,216,434)

3. Corporate Governance and Declaration of Conformity

The declaration on the management of the company corresponds to the Corporate Governance Report and can be accessed under http://www.salzgitter-ag.de/en/Investor_Relations/Corporate_Governance/ at any time.

4. Employees

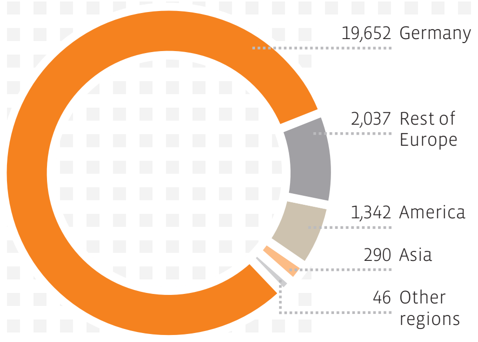
We are fully aware that our employees, with their commitment, their knowledge and their qualifications, are the basis for the success of Salzgitter AG. We have therefore made it our goal to ensure that our employees benefit from a working environment that is motivating, conducive to performance and healthy. Salzgitter AG's personnel policy is not merely geared to the current requirements, but also takes account of long-term changes in society. With this in mind, we continued to develop and work on numerous measures in 2011 to secure the competitiveness and sustainability of the Group against the backdrop of changing demographic conditions.

Trends in the workforce: Slight increase in employee numbers

As per December 31, 2011, the core workforce of the Salzgitter Group numbered 23,367 employees, which is 419 people more and corresponds to an increase of 1.8 % compared with the end of the financial year 2010. The initial consolidation of six international companies involving 289 employees in total was a major factor contributing to this increase. Moreover, in response to good capacity utilization, we raised the numbers of our workforce in several companies, mainly on a temporary basis, after having cut 430 positions throughout the Group in 2010 primarily as part of restructuring measures. Including young people with training contracts and employees in age-related part-time work, the workforce came to 25,508 employees in total.

The charts below show a breakdown of the workforce by region and division:

Regional distribution of workforce



Workforce

	31/12/2011	31/12/2010	Change
Core workforce Group[1)]	**23,367**	**22,948**	**419**
Steel Division	7,014	6,869	145
Trading Division	2,070	1,910	160
Tubes Division	5,550	5,528	22
Services Division	3,943	4,067	– 124
Technology Division	4,625	4,408	217
Holding	165	166	– 1
Apprentices, students, trainees	1,550	1,452	98
Passive age-related part-time employment	591	627	– 36
Total workforce	**25,508**	**25,027**	**481**

1) Core workforce excluding executive body members, non-active age-related part-time employees, non-active workforce members and trainees

At the end of the year we had 1,183 temporary employees, which corresponds to 4.8 % of the sum total of core workforce members and staff outsourced. While 447 employees were still affected by short-time work at the start of the year, this number had fallen to 172 by the end of the year.

Personnel expenses came to € 1,471.1 million in the financial year 2011, which is 3 % higher than the previous year and mainly attributable to wage increases from collective bargaining and the hiring of personnel.

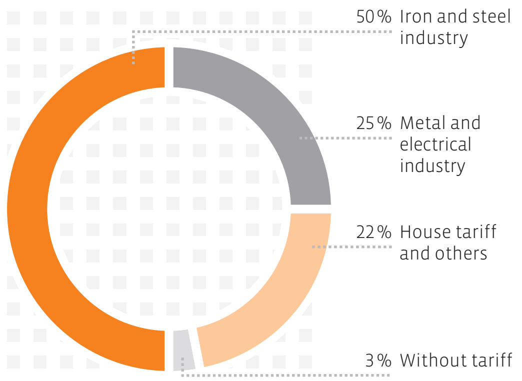
Collective wage agreements

A collective wage agreement for the west German steel industry was reached on November 22, 2011, and accepted a week later by the tariff area in the east. The agreement applies to around 50 % of the Group's employees in Germany and includes a 3.8 % percent increase in wages and salaries as from December 1, 2011. In addition, the generally permanent hiring of trainees in line with the requirements was agreed. The collective wage agreement may be terminated on February 28, 2013, at the earliest.

Compensation in the companies subject to collective bargaining in the metal and electronic industry was raised by 2.7 % on April 1, 2011, in the wake of the annual negotiation rounds of 2010. The agreement has a minimum term that runs up until March 31, 2012.

The parties to the collective wage agreement in the Trading Division agreed to the raising of real salaries (subject to collective bargaining and with extra allowances) by 2.75 % on August 1, 2011, and by 2.2 % on August 1, 2012, valid up until July 31, 2013.

Breakdown of tariffs within Group



Securing the next generation of employees
We focus on a variety of programs that are generally geared to the long-term in order to win well-qualified junior employees, especially in engineering and scientific professions. The Group's activities include the extensive support of trainees, cooperations with universities and school partnerships some of which have been fostered for more than 20 years.

On the reporting date we were in the process of training 1,366 young people in nearly 30 professions and dual study programs. The ratio of trainees in the Salzgitter Group has exceeded its own requirements for decades, which is how we secure the next generation of employees while making a contribution to society at the same time.

In the financial year 2011, we participated again in IdeenExpo, Germany's largest natural sciences and engineering event, in the capacity of sponsor and exhibitor. The event is primarily designed to attract young people who are on the verge of making a career decision as well as addressing children. Around 500 exhibits and interactive stands provide a fascinating insight into the world of natural sciences and engineering, complemented by a framework of shows and workshops. Salzgitter AG exhibited steel as a material under the motto of "Was wäre die Welt ohne Stahl" ("Where would the world be without steel"), showcased in seven different themes, and provided information on the range of professions and opportunities for joining the Group. Around 310,000 guests visited IdeenExpo this year.

Sustainable personnel policy
Back in 2005 Salzgitter AG initiated its groupwide "GO – Generation Campaign 2025" which made it one of the first large companies in Germany to adopt a systematic approach to the challenge of demographic change. Under "GO" we have set in place the necessary framework conditions as part of our personnel policy to remain competitive and retain our capacity for innovation, also in the face of changing workforce structures, and to hold our own as an attractive employer in the competition for highly qualified personnel and managers.

To supplement the existing measures, Salzgitter AG now actively addresses the topics of integrating (young) immigrants, achieving a work-life balance and promoting women. Having joined "Komm, mach MINT", the National Pact for Women in MINT Careers, in August 2011, November saw the start of our activities in arranging an information day for women studying engineering at the Salzgitter location. During the event women employed by the company reported on their experience of working life, and presentations were made on opportunities for joining the Group and professional development.

We set up a family service which, from January 2012 onwards, will advise and help the employees of the Group's domestic companies to arrange for childcare and attend to the needs of relatives who require care. In addition, we intend to establish mentoring for women junior managers and to launch a program to assist High School graduates in their choice of a career.

Occupational safety and health management
Occupational safety has been classified as a high-priority corporate goal by the Salzgitter Group, along with profitability, productivity and quality. Our responsibility for occupational safety is anchored in our duty and care for the well-being and physical integrity of all our employees, as well as the employees of partner companies, customers, suppliers and visitors. We have made great progress in achieving our aim

of avoiding all accidents, especially in the Steel, Trading and Tubes divisions. “Safety at Work – Takes Top Priority”, a joint communication campaign run by all the subsidiaries of the Tubes Division, is part of these endeavors. The campaign will run for a period of three years. In the context of cooperative contractor management, we are currently working on providing even greater support to our partner companies in their efforts to improve their responsibility for occupational safety on our sites.

Demographic change goes hand in hand with an increase in the average age of our workforce. In order to take account of this trend, the Group’s Corporate Health Management has been supplemented by introducing appropriate personnel measures. These measures include, for instance, individual career planning and a qualification methodology based on age.

We have used sick leave analyses to extend our catalog of measures for particularly relevant groups of illnesses. An especially important aspect of enhancing effectiveness was to establish a close connection with external partners. The measures are both prophylactic and therapeutic.

The new health concept for managers developed at SZST Salzgitter Service und Technik GmbH (SZST) has proven valuable and will now be applied to other companies.

Communication

In 2011 we conducted a second survey on our employees to inquire about their work situation, their satisfaction and their attitude towards the company. More than 22,000 employees in a total of 59 companies of Salzgitter AG, 17 of which were international companies, were asked to take part in the “IMPULS” survey. Participation was again at a healthy level with a response rate of 54 %.

As with the first employee survey, the analysis highlighted significant strengths such as the strong identification of our employees with the Salzgitter Group and its companies and occupational safety. Some of the verdicts of the workforce, including environmental awareness within the company, were better than the external benchmark. Since the first survey improvement is evident in a number of aspects related to communication and management style although these two areas of activities, along with other areas addressed by the employee survey, still show scope for optimization. We continue to monitor the measures drawn up and introduced to bring about further improvement and raise efficiency in order to assess progress made and to stay abreast of future developments.

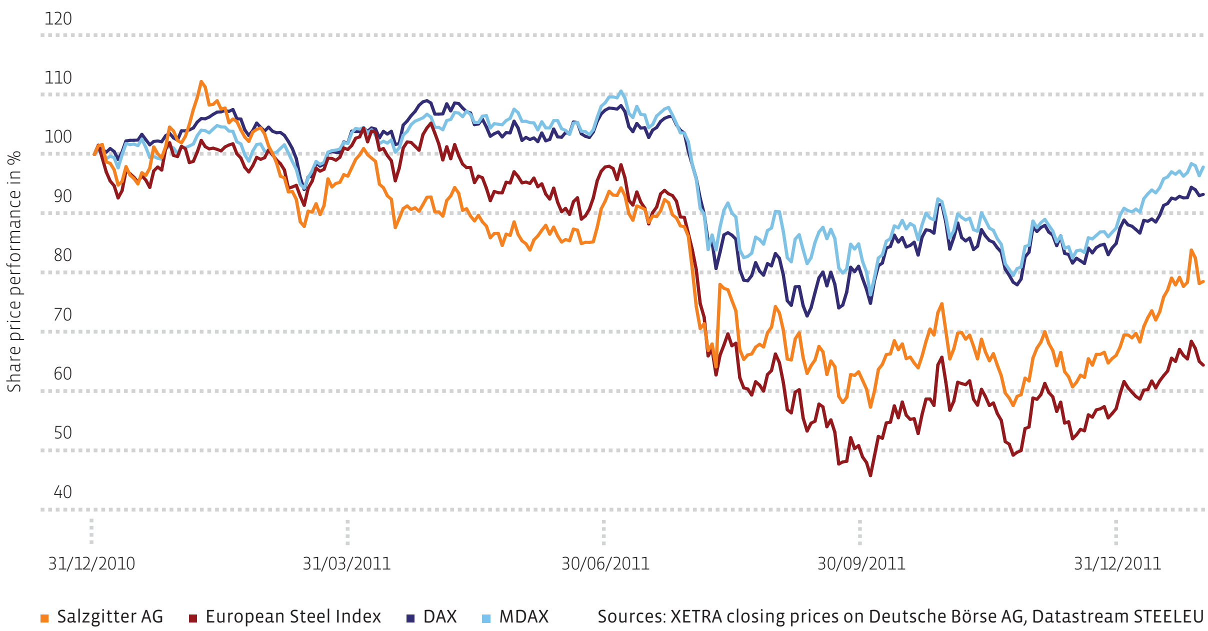
The Group forum of Salzgitter AG took place this year under the motto of “New Challenges”. On the first day, a total of 319 board members, managers and senior executives from all Group companies listened attentively to the explanations of the Executive Board on the general situation of the Group along with the Group’s financial and personnel policies. Presentations were made on innovative projects and topics from the Steel, Tubes, Trading and Technology divisions on the second day. A keynote speech entitled “Energy Policy at the Crossroads” given by Dr. Johannes Teyssen, Chairman of the Executive Board of E.ON AG, was a special and very topical highlight.

5. The Salzgitter Share

Capital Market and Price Performance of the Salzgitter Share

Several major events, with questions arising about the future development of the economy, challenged the capital markets in 2011 which, as opposed to previous years, prevented the formation of virtually any longer-term trends. Instead, a series of short-lived fluctuations set in, driven by the nature of the news released, which fueled the general apprehension. The uptrend, which commenced in the fourth quarter of 2010, held steady only up until February when profit taking initiated the first trend reversal, and the catastrophic earthquake in Japan on March 11 triggered a phase of pronounced consolidation. The countermovement which then followed also lasted only a few weeks, as the markets came under pressure from the US approaching its debt ceiling in May and the ensuing political debate. At the end of July, equities entered their steepest downtrend of the year in response to the debt crisis of a number of countries in the eurozone. As a result, profits accumulated up until this point were decimated, and the index levels in September fell way below the level posted at year-end 2010. Starting from their lowest level, prices then inched up incrementally in the fourth quarter. All in all, the DAX and the MDAX shed 15 % and 12 % respectively in the reporting period.

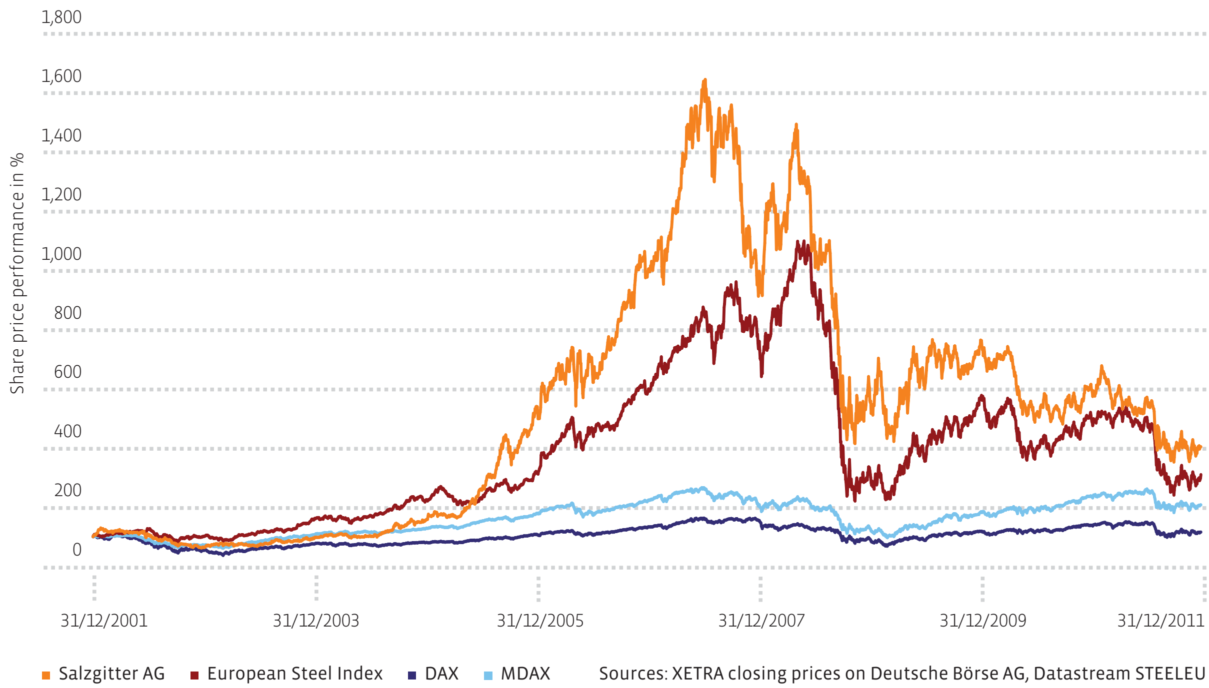
Salzgitter AG share price performance vs the European Steel Index, MDAX and DAX in 2011



Sources: XETRA closing prices on Deutsche Börse AG, Datastream STEELEU

Similar to the equities of other companies in cyclically sensitive sectors, our share was particularly strongly impacted in 2011 by the fears and expectations prevailing in the capital market about the future development of the economy. The healthy order books of most steel processing sectors enabled the share price to climb from a level € 57.77 posted at year-end 2010 to initially € 65.64 on February 8, 2011. The release of the key data for the financial year 2010 on March 7 was also well received by the investors. However, unrest in the financial markets following events in Japan, Europe and the US subsequently caused the share price of industrial equities to fluctuate sharply. The open discussion initiated at the end of July about the possible insolvency of several eurozone countries wreaked a brief wave of panic on the stock exchanges and resulted in a phase of substantial consolidation in the price of our share. In the final months of 2011, the Salzgitter share moved sideways overall, displaying a great deal of volatility. In comparison with the price posted at year-end of € 38.63 on December 31, our share lost around one third of its value in the financial year.

Salzgitter AG share price performance vs the European Steel Index, MDAX and DAX from 2002 to 2011



Sources: XETRA closing prices on Deutsche Börse AG, Datastream STEELEU

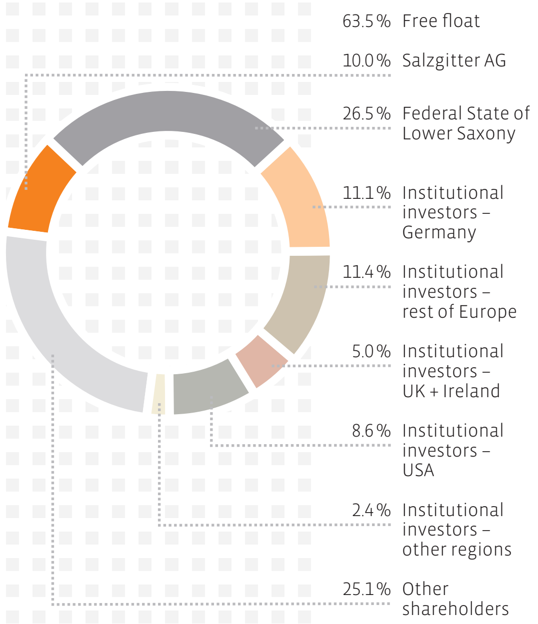
Despite the unfriendly stock market environment for steel equities in the reporting year, our share has nonetheless significantly outperformed the DAX, MDAX and the European Steel Index seen over a long-term horizon. In a 10-year comparison, the DAX has gained +14 % since December 31, 2001, whereas the MDAX (+106 %) and the European Steel Index (+207 %) achieved considerably stronger growth. Over the period from 2002 to 2011, the overall performance of the Salzgitter share comes to +304 % and, taking account of dividend of € 10.63 disbursed over this period, by as much as +415 %.

The average daily turnover of the Salzgitter share on German stock exchanges stood at around 367,000 units in the financial year 2011 and has therefore declined by 28 % compared with the year-earlier figure (510,000 units). At this point, it should be noted that Salzgitter AG was listed on the DAX up until June 21, 2010, and that daily turnover during this period was naturally substantially higher than in the first half year of 2011. The average turnover in the second half of 2011 was marginally higher than a year ago. The sum total of shares traded in the financial year 2011 came to 95 million. With an accumulated trading volume of € 4.5 billion, Salzgitter AG took 6th place in the MDAX ranking of Deutsche Börse AG on December 31, 2011. Free float market capitalization of just under € 1.5 billion put the company in 13th place measured by this criterion.

Shareholder structure

According to a survey commissioned in December 2011, the shareholder structure of Salzgitter AG has changed only slightly in comparison with year-end 2010. Apart from 10 % in treasury shares, shareholders registered in Germany, including the Federal State of Lower Saxony as a major investor, held at least 37.6 % of the Salzgitter shares, which is a slightly lower proportion than in the previous year (2010: 38.3 %). The stake held by German institutional investors declined to 11.1 % (2010: 11.8 %). The share of foreign investors rose to 27.4 % (2010: 26.7 %), while 25.1 % of our investors could not be identified. These are likely to be domestic and foreign private investors, as well as institutional investors with no reporting requirements, such as insurance companies and trust foundations. Salzgitter shares in free float remain unchanged at 63.5 %.

Shareholder structure



as per 12/2011

Treasury shares

Salzgitter AG's portfolio of treasury shares came to 6,009,700 units as per December 31, 2011, and is therefore unchanged from December 31, 2010.

Information for investors

		2011	2010	2009	2008	2007
Share capital[1]	€ m	161.6	161.6	161.6	161.6	161.6
Number of shares[1]	m	60.1	60.1	60.1	60.1	63.2
Number of shares outstanding[1]	m	54.1	54.1	54.3	54.1	56.9
Stock market capitalization[1,2]	€ m	2,089.4	3,124.6	3,716.4	2,974.8	5,806.3
Year-end closing price[1,3]	€	38.63	57.77	68.44	55.00	102.05
Stock market high[3]	€	65.64	74.32	73.40	143.88	158.90
Stock market low[3]	€	32.43	45.76	40.22	37.80	88.13
Earnings per share (EPS)[4]	€	4.31	0.55	– 7.10	12.11	15.83
Cash flow per share (CPS)[4]	€	– 3.63	21.96	22.75	9.83	13.70
Dividend per share (DPS)	€	0.45[5]	0.32	0.25	1.40	3.00
Total dividend	€ m	27.0[5]	19.3	15.1	84.1	189.7

Securities code number: 620200, ISIN: DE0006202005

[1] All data as per December 31
[2] Calculated on the basis of the respective year-end closing price multiplied by the number of shares outstanding as per December 31
[3] All data relate to prices in XETRA trading
[4] Calculated by taking account of the weighted number of average shares outstanding
[5] Subject to approval by the General Meeting of Shareholders

Dividend

The Executive and Supervisory boards propose that the General Meeting of Shareholders approve a basic dividend payment of € 0.45 per share for the financial year 2011. Based on a nominal share capital of € 161.6 million, the total dividend distribution proposed comes to € 27.0 million.

Investor Relations

The capital markets again showed lively interest in Salzgitter AG in the financial year 2011. We responded to this interest by providing a wide range of information for private and institutional investors as well as for financial analysts. We reported on the results of the financial year 2010 and of the first half of 2011 at well-attended analyst conferences in Frankfurt and London. In addition, we arranged two telephone conferences to present the reports on the first quarter and the first nine months of 2011. We also made presentations at a number of investor conferences and road shows in Germany, Europe and the US. As is customary each year, a large number of investors and analysts took the opportunity of visiting our production sites to gain first-hand information into the processes, facilities and products and to discuss the business situation and the potential of the Salzgitter Group with members of the Executive Board and other managers.

The “Freundeskreis der Aktionäre der Salzgitter AG” (circle of friends of Salzgitter AG shareholders) arranged a series of events for our private investors who were then able to gain an overview of current developments within the Group and its business environment.

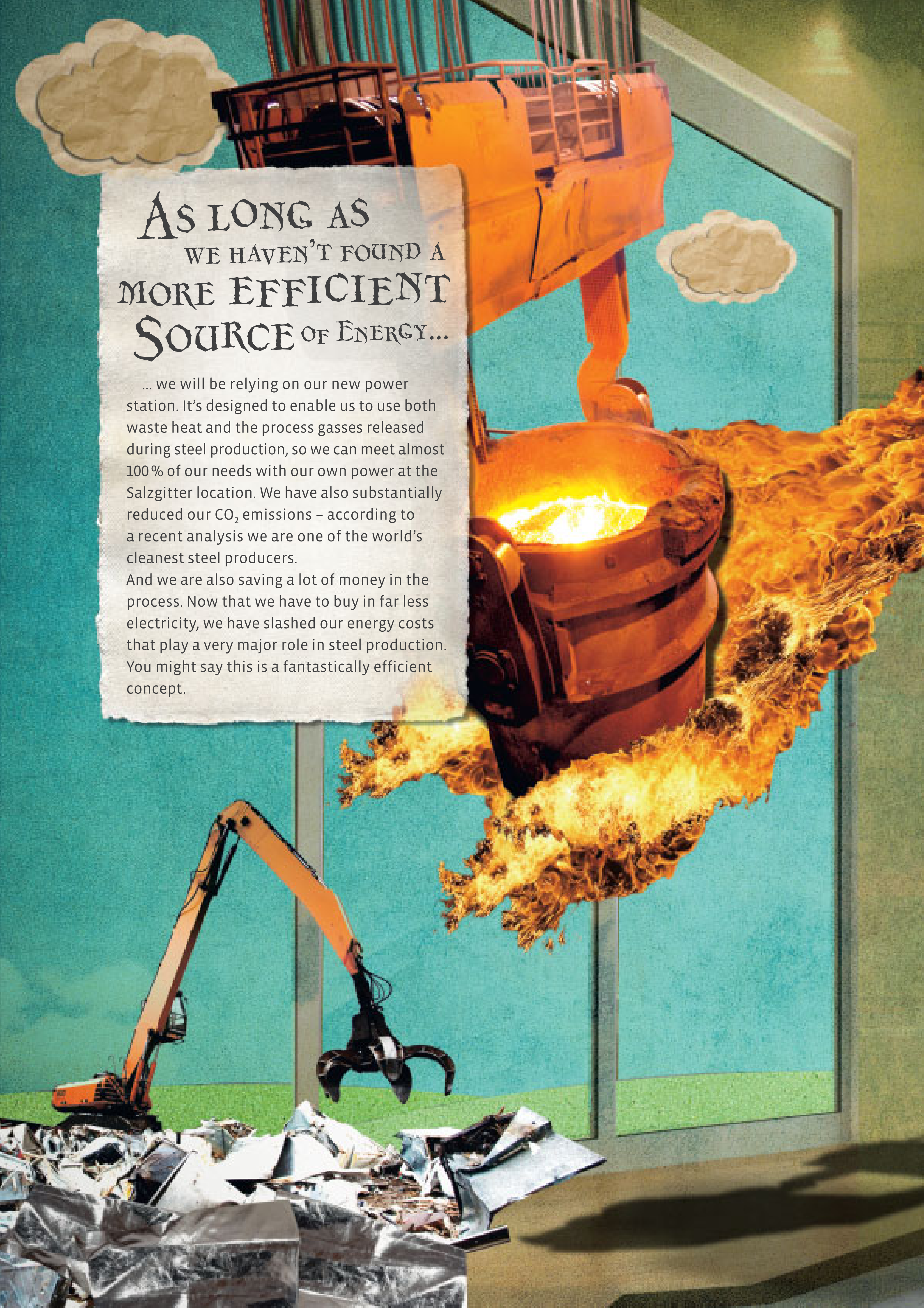
Recommendations and company reports on Salzgitter AG were issued by a minimum of 22 financial institutions in the financial year 2011. At year-end their ratings were:

- 12 buy/outperform
- 8 hold/neutral
- 2 sell/underperform

One financial institution took up the coverage of our company in 2011.

At present, the institutions listed below report regularly on the Salzgitter Group:

Bank of America/Merrill Lynch	Goldman Sachs
Bankhaus Lampe	HSBC
Berenberg Bank	Independent Research
BHF Bank	JP Morgan
Cheuvreux	Kepler Equities
Citigroup	M.M. Warburg
Commerzbank	MainFirst
Credit Suisse	Metzler
Davy	NORD/LB
Deutsche Bank	Nomura
DZ-Bank	Steubing
Equinet	UBS
EXANE BNP Paribas	WestLB



As long as we haven't found a more EFFICIENT Source of Energy...

… we will be relying on our new power station. It's designed to enable us to use both waste heat and the process gasses released during steel production, so we can meet almost 100 % of our needs with our own power at the Salzgitter location. We have also substantially reduced our CO_2 emissions – according to a recent analysis we are one of the world's cleanest steel producers.

And we are also saving a lot of money in the process. Now that we have to buy in far less electricity, we have slashed our energy costs that play a very major role in steel production. You might say this is a fantastically efficient concept.

II. Goals and Key Factors for Success

1. Management and Control of the Company, Goals and Strategy

Of primary importance at Salzgitter AG is the company's sustainable performance to the benefit of all its stakeholders. All strategic plans and the decisions and tactical measures derived therefrom are designed to exert a positive influence on the company's policy of self-determination. The overriding goal of "preserving our independence through profitability and growth" therefore remains unchanged.

Achieving financial stability and a sound balance sheet are also key prerequisites which underpin our long-term success, as is the adjustment of our company to volatilities in its key sales and procurement markets, along with the burdens anticipated from policies on energy and climate protection and demographic change in our society. The Management of Salzgitter AG recognized these challenges at an early stage and has addressed them with programs that have already partly stood the test of time. Examples include the profit improvement program, the drive to reduce non-personnel costs, as well as additional impetus from initiatives such as the Generation Campaign 2025 ("GO"), and other measures to raise energy and resource efficiency.

The natural and cardinal platform underlying all our activities has always been the compatibility of our products and production processes with the environment, combined with the prudent use of the resources deployed.

We are aware that the valuable contributions of our employees throughout the Group are a cornerstone for the realization of our goals. This is why we view the future-oriented professional development and the systematic fostering of the qualifications of our workforce in the competition for highly-qualified next-generation staff as a crucial strategic task.

In order to achieve a top-down/bottom-up synthesis between our corporate goals and the endeavors of our operating units and to safeguard a systematic method of procedure, we use a set of tried-and-tested management tools.

Management and Control System applied within the Salzgitter Group

The primary objective of our company remains the "preservation of our independence through profitability and growth". As a quantitative, performance-related target, the Group has set itself the goal of achieving a return on capital employed (ROCE) of at least 15% over an economic cycle, generally defined as a period of five years. Investigations are currently under way to establish the extent to which this target needs to be adjusted to the long-term changes in framework conditions, such as the drastic increase in capital employed due to the raw materials and energy price hikes.

ROCE shows the relationship of EBIT to capital employed and measures the return on capital employed:

$$\textbf{ROCE}\ (\%) = \frac{\textbf{EBIT}}{\textbf{Capital employed}} \times 100\,\%$$

EBIT (earnings before interest and tax), used in the calculation of ROCE, is the result before tax and interest expenses, adjusted for the interest portion of transfers to pension provisions. Interest income remains part of EBIT as it is considered to be part of ordinary activities and therefore contributes to the return on capital employed.

In € m	2011	2010
EBT	201.6	48.9
+ Interest expense	142.5	139.0
– Interest expenses for pension provisions	– 79.4	– 85.0
= EBIT	**264.7**	**102.9**

Capital employed is interest-bearing equity and debt.
This ratio is calculated by deducting pension provisions and non-interest-bearing balance sheets items from the total assets:

In € m	2011	2010
Balace sheet total	8,800	8,689
– Pension provisions	– 1,893	– 1,926
– Other provisions excluding tax provisions	– 684	– 754
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting	– 1,233	– 1,210
– Deferred tax claim	– 256	– 202
= Capital employed	**4,733**	**4,596**

Pension provisions and related interest expenses are eliminated in the calculation of ROCE, as these components cannot be influenced by management decisions in the short to medium term.

The figures used for the calculation of the ratios are taken from the consolidated financial statements as per the reporting date.

Since the ROCE target (15 %) is to be achieved within the Group as an average over the economic cycle, it is more of a medium- to long-term target. Specific strategic objectives are derived from this target for each individual division and company. These objectives are taken account of in medium-term planning – in an updated form whenever necessary.

Over the period from 2002 up until and including 2011, we exceeded our profitability target by delivering a ROCE of 16.8 %. In the year 2011, we earned a ROCE of 5.6 % (2010: 2.2 %). Upon elimination of net cash investments held at banks, ROCE from industrial operations came to 6.2 % (2010: 2.7 %).

Strategy

Growth strategy

With its focus on the growth areas of steel, tubes, trading and technology, the Salzgitter Group pursued its path of strategic development in the financial year 2011 as well. The goals associated with this development can be fundamentally classified as follows:

Internal goals:
- Optimizing quality
- Raising productivity and resource efficiency
- Eliminating bottlenecks
- Rounding off the product program
- Reducing our dependency on external deliveries and services in sensitive areas

External goals:
- Closing of gaps and optimizing the value and logistics chains
- Making attractive acquisitions in our core segments
- Selectively strengthening regional market positions
- Supplementing/extending the product program
- Industrial diversification

As before, the Group is striving to achieve annual external sales in the region of between € 13 and 15 billion. Our intention is to achieve this target – preferably through organic growth – by using our technological and industrial know-how and also, in exceptional cases, by drawing on external capacities.

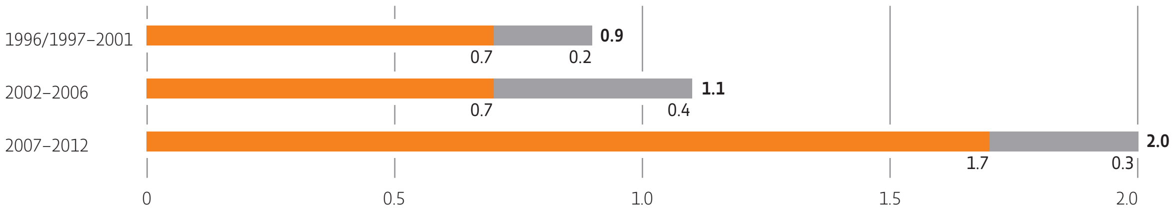
Decisive measures to promote growth in a swiftly changing international environment often incur high entrepreneurial risk. Far-reaching decisions for the future necessitating the commitment of considerable financial resources have to be made on the basis of historical data, insights and experience. Following an upbeat start to the financial year 2011, the escalation of the debt crisis in the third quarter considerably heightened probability of an economic slowdown in the key business areas of the Group. The downturn in macroeconomic production in the fourth quarter shows the degree to which the parameters relevant for decision making can change in the environment of our Group which, in turn, has a direct impact on their forecasting reliability. These circumstances have caused us to place the primary emphasis on securing the future of our Group rather than on achieving our external growth objectives.

It is our intention to shape possible consolidation processes in the sectors of steel, trading, tubes and technology which represent our key operations in the future as well without pressure to act. Our premise of not taking part in “bidding wars” or paying unrealistic prices for acquisitions still holds true.

Thanks to our foresight in building up liquidity reserves we were in a position to proceed with extensive investments at any given time. We generally adopt a conservative approach in our assumptions and criteria for reviewing and assessing investments by the Group. We are confident that the internal growth initiatives expedited in our core businesses of steel, trading, tubes and technology have left us well equipped to achieve the goals envisaged, even if there is a delay in some instances. In some cases the success of individual projects will depend on when the macroeconomic situation returns to normal levels.

Over the years from 2007 to 2012, we brought projects with an investment volume totaling € 2.0 billion to either part or full completion throughout the Group.

Groupwide investment volume 1996/1997–2012



in € billion ■ Steel Division ■ Other divisions

Strategy of the divisions

Following the difficult years of 2009 and 2010, the Salzgitter Group succeeded in improving its presentable results without, however, being able to repeat the outstanding performance achieved in the years 2006 to 2008. Uninterrupted growth in the emerging markets, which benefited Germany's export industry, coupled with the measures initiated in 2010 and vigorously continued in 2011 to sharpen our competitive edge, were factors exerting a benign influence on the recovery of our business activities.

The **Steel Division** concentrated on proceeding with implementing the extensive investment program launched in 2007, the volume of which will have reached around € 1.7 billion in total by the year 2012. These in part fully realized investments will serve to supplement our current product program, lower our costs through the improved efficiency of our facilities, reduce the volume of input material purchased externally and scale back the processing by third parties in the Steel and Tubes divisions. In the context of future investment decisions, deliberations on how we can bring about greater flexibility and optimize the way we use energy and resources are set to play an even greater role than before. For more detailed information please see the sections on "Investments" and "Environmental Protection". The commissioning of the second electric arc furnace and the restructuring program initiated in 2010 at Peiner Träger GmbH (PTG), which has already been partly realized, will enable the Steel Division to counteract the lack of stimulus from the European construction industry more effectively. A major strategic goal set by Ilsenburger Grobblech GmbH (ILG) consists of continually expanding the range of plate dimensions towards thicker and heavier plate specially destined for use in the offshore wind power business. This was primary motivation behind the application made back in 2007 for Salzgitter Flachstahl GmbH's (SZFG) Continuous Casting Line 4 which has meanwhile been built. In order to push the production of heavy plate to the limit of the Ilsenburg rolling mill's dimension capacity, modifications are to be made to the facilities and an even more effective logistics infrastructure is to be developed as part of the ILG 2015 investment initiative.

In the financial year ended, the **Trading Division** benefited from its excellent strategic positioning in the stockholding steel distribution business and from healthy domestic demand which held steady through to mid-2011. Close coordination with the export business of our production companies will remain a key aspect for the division in the future as well. The acquisition of STAHL-METALL-SERVICE Gesellschaft für Bandverarbeitung mbH (SMSGB) has strengthened our steel service center activities and extended them in the south of Germany by adding SMSGB's state-of-the-art steel service center in Karlsruhe Rhine harbor. We have plans to expand our international trading, foster existing customer relationships and support our steel mills in the procurement of input materials.

In the **Tubes Division**, we are currently in the process of reviewing potential and feasible tactical options with a view to implementation. The main business transactions in this division are focused on the energy industry's infrastructure investments and are of a typically late cyclical nature due to the industry's requirements being generally oriented towards the long term. The subsidiaries of the Group which supply the markets for the transportation of agents (media such as gas) reliant on pipelines are especially set to benefit from the fact that access to energy and water are indispensable prerequisites underpinning society's prosperity. There are specific opportunities for growth primarily outside Western Europe, although competition in the individual tubes markets has considerably intensified. To sharpen its profile, the division will continue to optimize existing structures and cooperation with the Group's international trading activities with the view to creating additional channels for sales and input material procurement.

The **Services Division** will also continue to concentrate on raising the productivity and competitiveness of its individual companies. It will combine this goal with providing support to the producing Group companies. The primary task of the division's core companies is to make services available to the Group on a non-profit basis; some of these companies also generate considerable sales volumes in business with third parties. As part of the Services Division, Salzgitter Mannesmann Forschung GmbH (SZMF) occupies a special position as regards its value for the Group: It combines research on materials, products, processes and applications at the cutting edge of technology destined first and foremost for the companies of the Steel and Tubes divisions, but also for our customers and partners.

The strategy of the **Technology Division** as part of the Group is to offer customers and partners all over the world solutions and expertise from a single source as well as the advantages of a seamless and coordinated product portfolio. In the future, even greater emphasis will be placed on the development of comprehensive innovative products for our customers encompassing the entire life cycle of a plant, from planning right through to final decommissioning. Although we have observed an upturn in demand in the business of filling and packaging technology, mainly in the emerging markets, this development has not yet reached the pre-crisis level in the European market against the backdrop of rather more moderate growth. We therefore anticipate that competition for project business in the industry will remain fierce. With this in mind, we will forge ahead with the restructuring process in the KHS Group to optimize internal business processes and sharpen the companies' competitive edge.

Management and Control Instruments

In order to manage the process geared to our objectives of boosting the competitiveness of the Salzgitter Group, the company deploys a range of management and control instruments, alongside the regular coordination of goals at Executive Board level, flanked by the respective reporting to the supervisory and controlling bodies:

- Profit Improvement Program (PIP) and
- agreeing individual goals for executives and non-tariff employees.

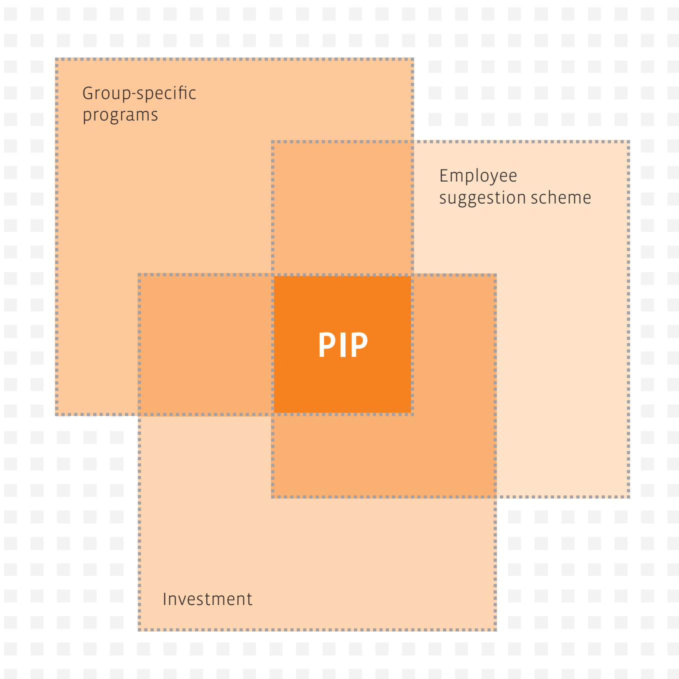
Profit Improvement Program (PIP)

We view the ongoing optimization of value-added processes as an important management task that makes a major contribution to conserving the Group's competitive edge. We place special emphasis on the systematic and consistent leverage of the existing potential in all our divisions.

To this end, we introduced the concept of our Profit Improvement Program (PIP) as a groupwide, uniform management instrument into the Salzgitter Group back in 1996. PIP combines all the explicitly defined measures designed to improve the performance and results of the Group's companies to the extent that the impact of these measures is assessable and measurable based on a set of financial ratios. All projects are subject to a stringently systematic procedure for measuring success to which binding and standardized assessment criteria are applicable.

Employees play an active part in PIP

In contrast to pure top-down approaches, the commitment of all involved under the PIP concept ensures the successful implementation of the steps agreed. Accordingly, our employees' suggestions for improvement are also incorporated into PIP. The acceptance of the program, which relies mainly on our employees' initiative rather than being driven by consultants, and their willingness to use the structures and mechanisms established to consistently improve the profitability of their own projects, therefore remains very high across all levels of management.



Start to the new PIP 4.0 program

Having brought the third PIP relaunch (PIP 3) to a successful conclusion in 2010, we implemented the successor program PIP 4.0 in the financial year 2011. This relaunch was once again fully the product of the work of the Group companies' employees. Numerous new ideas and measures that have qualified under the stringent standards set out by PIP have been incorporated into the project catalog. At the same time as the integration of the new projects, we reviewed the existing measures under PIP 3. Measures considered capable of delivering the desired effect outside the scope originally planned were retained under PIP 4.0.

A fixed time horizon has figured as a central feature of PIP in its structure to date. The completion of PIP 3 presented an opportunity for optimizing and creating a standardized catalog of criteria for use by all Group companies. Key aspects include a flexible base year and the implementation of a continuous program with no time restriction. Another new feature which we introduced was a tool for assessing a measure over its life cycle under PIP, along with the validity and maturity of both individual and aggregated potential. In the process, the concept at the heart of the profit improvement program has not changed and is reflected by the three-letter abbreviation P, I, P. Both the concept and the name have become firmly anchored in the Group's corporate culture over the years and are synonymous with the efficient and sustainable conducting of business based on the premise of initiative.

Project success stories

Within the scope of the first year under review, PIP 4.0 comprises 447 measures under way which have been assigned a monetary value. The full-year effect (FYE) associated with these measures comes to € 286 million, thereby exceeding the amount ascertained under the comparable period of PIP 3 (FYE in the first year: € 148 million).

This overall effect results from a number of different areas: activities in the sales market based on products with a higher value added and the extension of a network of sales channels deliver an FYE of € 164 million. Moreover, in the course of improving process workflows in production and administration as well as streamlining the use of material and external services, we have identified a potential of € 147 million.

A precondition for achieving the goals set for the Group partly involves an increase in expenses, such as those incurred by investments. An annual amount of € 25 million was therefore taken into account to cover depreciation and amortization and other expenses.

Current status of PIP 4.0

In € m	FYE
Increase in overall operating performance	164
Savings on expenses	147
Depreciation and amortization/interest/non-personnel expenses	– 25
Profit-related effect before tax	**286**

Non-personnel costs initiative

In order to supplement PIP, we have launched an initiative to lower costs aimed at reducing non-personnel costs which can be influenced in the short term by 10 % in all Group companies. Examples include general administration costs, along with consultancy and marketing costs. These decentralized efforts are to be flanked by activities managed on a centralized basis. If the effects of measures implemented for this purpose are deemed sustainable they will be incorporated into PIP.

Agreeing individual objectives for executives and non-tariff employees

Agreements on objectives serve to convey corporate goals and cascade them down to the level of each individual employee's personal endeavors. Salzgitter AG divides these objectives up into individual targets for executives and non-tariff employees and a collective, quantitative component reflecting the Group's goal of achieving a return of capital employed (ROCE) of at least 15 %. Part of this process is to define a target for each individual subsidiary. Individual objectives are agreed between superiors and their staff and derived from the goals of the next organization unit up in the hierarchy. Beyond this, we take care to ensure that the interaction between the various targets of the employees in their entirety has a positive impact on achieving the overriding objective of our company, which is "preserving our independence through profitability and growth".

2. Investments

As in previous years, the investments of the Salzgitter Group focused on the Steel Division in the financial year 2011. The most important projects are explained in the detailed sections on the individual divisions.

Additions to non-current assets from investments totaled € 437 million (2010: € 504 million). The amount of € 361 million in investments capitalized in property, plant and equipment and intangible assets only marginally exceeded the level of depreciation and amortization (€ 359 million). The financial assets increased by € 76 million, mainly as a result of an acquisition in the Trading Division and because of a loan to an affiliated company.

Investments/depreciation and amortization[1]

	Investments		Depreciation/amortization[2]	
In € m	Total	Of which Steel Division	Total	Of which Steel Division
2011	**361**	**233**	**359**	**249**
2010	497	410	377	275
2009	677	541	543	308
2008	653	454	278	154
2007	385	246	225	147
Total	**2,573**	**1,884**	**1,782**	**1,133**

[1] Excluding financial assets
[2] Scheduled and unscheduled write-downs

Of the investments in property, plant and equipment and intangible assets during the financial year 2011, € 233.1 million was attributable to the Steel Division, € 52.5 million to the Tubes Division and € 12.5 million to the Trading Division. The Services and Technology divisions invested € 43.8 million and € 17.1 million respectively.

Investments in property, plant and equipment and depreciation and amortization on property, plant and equipment by Division

	Investments[1]		Depreciation/amortization[1, 2]	
In € m	2011	2010	2011	2010
Steel	233.1	409.8	249.1	275.0
Trading	12.5	4.0	11.2	10.4
Tubes	52.5	36.5	48.5	41.7
Services	43.8	25.2	22.9	22.3
Technology	17.1	20.9	25.6	25.9
Other/Consolidation	2.0	0.3	1.8	1.8
Group	**361.0**	**496.6**	**359.2**	**377.1**

[1] Including intangible assets
[2] Scheduled and unscheduled write-downs

Steel Division

Following the successful completion of the "Power Plant 2010" project, and in the final phase of the "SZS 2012" program, **Salzgitter Flachstahl GmbH** (SZFG) focused on measures to optimize existing facilities, geared towards securing availability, as well as on environmental protection measures in 2011.

The purpose of the investment in the "Blast Furnace B Top Gas Recovery Turbine" was to recover energy from the hot top gas resulting from the blast furnace process. This will reduce the volume of electricity purchased externally by up to 57 GWh/year. The system technology has already been installed and, as from the second quarter of 2012, the pressure energy from the top gas can be harnessed for energy-efficient power generation.

Work on implementing the "Belt Casting Technology" project to enable the future production of innovative steel materials featuring special properties, while conserving resources, progressed in line with schedule. With the construction and civil engineering work now completed, installation of the plant technology has begun. Furthermore, the manufacturing of the key components is going according to plan.

The "Tandem Mill Entry Looper" investment measure is still under way. The tandem mill is to be supplemented by an inlet system with a welding machine and strip storage that will allow partly continuous rolling. This measure will enhance both the efficiency of the mill and the quality of products manufactured.

The engineering phase that is part of the "Sinter Cooler Dust Removal" environmental protection project has been virtually completed. The existing sinter cooler is to be equipped with a dust extraction system and connected up to a filter. This is another step on the way to sustainably reducing the emission levels of the sinter plant.

Due to the rising demand for input materials within the Group and the cost of buying in these materials trending upwards, the Executive Board made the decision in March 2010 to continue the "PTG 2010" project to allow parallel operation of the two electric arc furnaces of **Peiner Träger GmbH** (PTG) in the future. Parallel operation commenced a year later, as planned. The second electric arc furnace is currently in the ramp-up phase.

In the financial year 2011, **Ilsenburger Grobblech GmbH** (ILG) concentrated on carrying out the preparatory work for the "ILG 2015" investment project. In a first step, the input volume of thick slabs (350 mm) is to be more than doubled and the weight of the plate raised from 21 to 28 tons. The substantial increase in flame-cut plate volumes once the measure has been completed is to be covered through the installation of an additional flame cutting facility. Secondly, work has begun on the conversion necessary for a new ultrasonic unit for plate inspection.

With the commissioning of the new roll stand, **HSP Hoesch Spundwand und Profil GmbH** (HSP) has modernized the rolling mill and supplemented the sheet piling section production program by including Z piles. This extended product range is to be expanded in an ongoing manner. Additional investments, such as in the installation of new drive motors and upgrading the storage facilities, will secure the production process.

Tubes Division

The **EUROPIPE Group** invested mainly in optimizing occupational safety and in streamlining measures.

The major "Replacement of the Cut-to-Length Shear" project of **Salzgitter Mannesmann Grobblech GmbH** (MGB) has been awarded, and the main components have been ordered. Detailed construction and planning began in 2011. The technical implementation of the project has been planned for the downtime at Easter 2013.

Salzgitter Mannesmann Line Pipe GmbH (MLP) has for the most part completed work on exchanging the old hydrotester for new and more efficient facilities at its Siegen location, with the remaining work to be carried out in the near future. Alongside aspects of occupational safety, the commissioning of these facilities will take account of both the currently relevant range of products and services and their future development, examples being greater pipe wall thicknesses with higher test pressures and unit weights.

The investments of **Salzgitter Mannesmann Precision Group** were focused on the Zeithain mill (Germany) where facilities for the geometric measurement of hot-rolled tubes went on stream, as well as on the Saint Florentin pipe mill (France) where the flow of materials has been improved long-term through investments and realizing production facilities.

The gradual recovery in the market for seamless stainless steel tubes prompted the **Salzgitter Mannesmann Stainless Tubes Group** to move ahead swiftly with investments. Targeted measures have paved the way for market entry into promising areas of business which will serve to further diversify the product portfolio. With this in mind, an x-ray unit for the circumferential weld inspection necessary in the production of umbilicals was installed at the Costa Volpino location (Italy). The Montbard location (France) took a cutting-edge annealing furnace into operation that will allow the company to cater to the growing requirements placed on quality by the highly sophisticated oil and gas industry in the future as well.

Trading Division

The investment activities of the Trading Division were concentrated on modernizing existing facilities. **Universal Eisen und Stahl GmbH** (UES), for example, improved the capacities and processing capabilities in the Houston and Chicago locations of its American subsidiary. These measures will enable the company to accommodate the growing need of its customers for more services. The extension of the flame cutting operations in Chicago is primarily aimed at responding to the requirements of the local wind power and special vehicles industries.

Services Division

The first eight of a fleet of 40 locomotives in total arrived at **Verkehrsbetriebe Peine-Salzgitter GmbH** (VPS) in 2011. The locomotives are specially customized for VPS and are equipped, for example, with an air compressor with higher flow rates and an mill-grade fender suitable for steel mills. The company will now be able to handle the greater transport volumes incurred by the parallel operation of the two electric arc furnaces in Peine.

As one of Germany's largest steel scrap traders, **DEUMU Deutsche Erz- und Metallunion GmbH** (DMU) has around 400 scrap suppliers throughout the whole of Europe. By extending its scrapyard in Salzgitter, the company is expanding its logistics network.

Technology Division

The Technology Division concentrated its investments on replacement and streamlining measures with a view to sustainably improving the competitiveness of the **KHS Group**. IT projects in Germany and in the international companies were carried out to further optimize processes.

A large number of minor purchases were made with the express aim of lowering manufacturing and contract-related costs. With a view to the urgent need for larger assembly surface areas needed in the production of keg plants and in order to achieve synergy effects in personnel and non-personnel costs, KHS relocated its operations from Kriftel to Bad Kreuznach, a move which necessitated the respective conversion measures.

3. Research and Development

The business activities of Salzgitter AG are focused on sustained customer satisfaction. Our aspiration of “Leveraging Research – Creating Competitive Advantage for the Customer” necessitates genuine innovation along with the ongoing improvement of products and processes. This is how we, as a niche supplier, intend to achieve our goal of ranking among the best in steel and technology, now and in the future.

Salzgitter Mannesmann Forschung GmbH (SZMF), one of Europe’s leading steel research institutes, is the central coordinator responsible for ensuring innovation and product development in the Steel and Tubes division. The know-how of more than 75 years of research and development (R&D) from the two locations in Salzgitter and Duisburg is concentrated under the roof of this organization. SZMF works for the companies of Salzgitter AG as well as for numerous external customers in the steel processing and automotive sectors, as well as serving clients in the machinery and plant engineering, energy and construction industries.

With its concerted customer and process orientation, SZMF creates a synthesis between knowledge about products, processes and applications within the Group and the latest scientific trends from fundamental research, its own application-oriented R&D and market requirements.

We systematically foster our tight network with prestigious universities, research institutes and industrial partners, most particularly in the context of numerous national and international research projects. We view the resulting research cooperations as clearly preferable to buying in external know-how, which is also the reason that no commensurate expenses have been incurred during the reporting period.

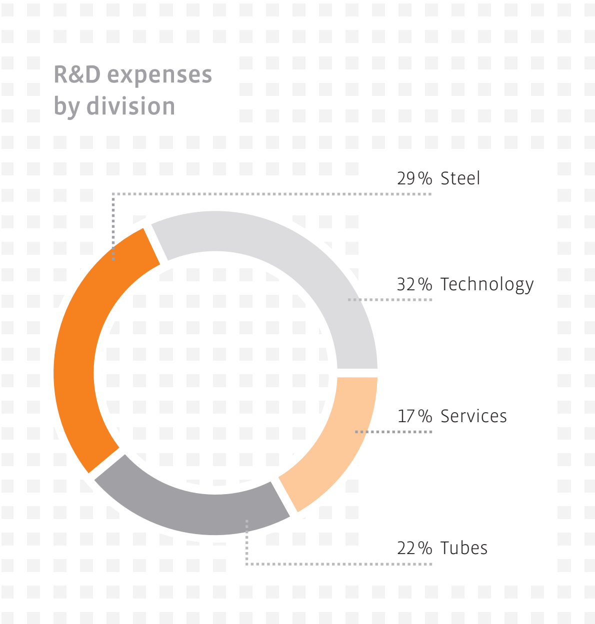
SZMF’s R&D philosophy extends far beyond the conventional development of existing products and processes: For Salzgitter Flachstahl GmbH (SZFG), for instance, roadmaps illustrate the relationship between market requirements and corporate goals, products and technologies, as well as the necessary resources, and form the basis of a systematically managed process. This process covers an entire spectrum of activities, from trend analysis through to generating ideas and assessing them for their strategic and financial significance, intellectual property analysis and the R&D activities themselves all the way through to the actual implementation of the results at an operational level. Moreover, we support our customers in analyzing and optimizing their processes by applying sophisticated testing procedures and mathematical-statistical methods, as well as actively shaping and designing the relevant norms and standards.

Tradition and innovation go hand in hand in the Technology Division as well, as R&D underpins the future viability and sustainability of products. The innovation and product development processes are consistently geared to customer and market requirements. The emphasis is on maintaining technological leadership with high-quality and cost-efficient products. The Technology Division’s subsidiaries not only focus on developing individual pieces of machinery, but increasingly on providing comprehensive, integrated system solutions from a single source. In the financial year 2011, the division delivered proof of its innovative strength as evidenced by 84 new patents and patent applications. By the end of 2011, it owned a total of 3,356 industrial property rights (including new patent applications) and 372 registered trademarks.

The latter included, the whole Group held more than 3,960 registered patents and some 1,212 trademark rights by the end of 2011.

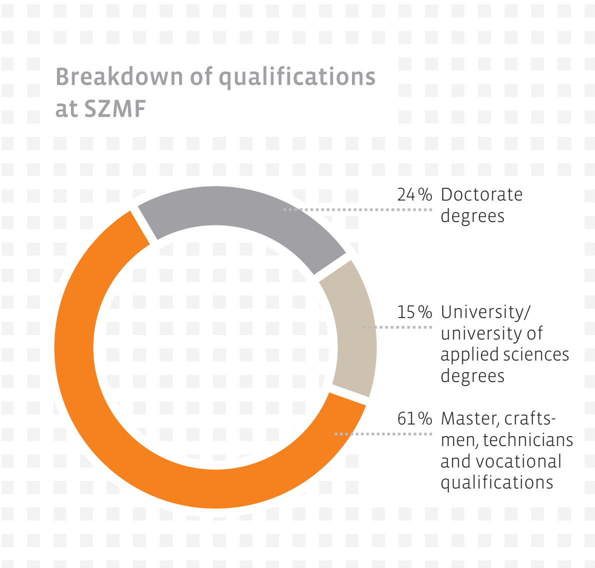
R&D Expenses

In 2011, the Salzgitter Group dedicated a budget totaling € 93.6 million to research and development and activities relating to this field, of which external customers accounted for € 14.5 million. This amount was divided up within the divisions as shown by the adjacent chart:



Moreover, Salzgitter AG invested an amount of around € 185 million in cooperation projects with other market participants and research and development institutions. R&D-related expenses contributing to value added within the Group came to 4.4 % (2010: 4.9 %).

As per December 31, 2011, 910 employees in our Group were engaged in research and development activities. Of this number 320 members of staff work at SZMF and 590 at the operating companies. This allocation underscores how strongly our R&D activities are oriented towards processes – and therefore towards our customers. The marginal increase in the number of employees in SZMF in 2011 is primarily the result of accelerated activities in the field of flat steel research. Highly qualified experts carry out their work at both SZMF locations. They have access to an extensive range of technical equipment in accredited and certified cutting-edge laboratories.



Activities at the Salzgitter location are concentrated on the development and optimization of new steels and coatings in the hot-rolled and cold-rolled products segment. They cover the entire process chain of steel production, coating and processing. In order to be able to offer not only steel but also full-line solutions, the complex further processing sequences of customers are incorporated right through to final component engineering.

The Duisburg location concentrates on the tube, section and plate segments. The company's range of expertise in the tubes segment covers welded and seamless precision tubes and line pipes right through to large pipelines. In this segment as well, numerical simulations and experimental trials are harnessed in developing new steels and processing know-how. Other areas of expertise comprise engineering analyses of materials and building component mechanics, structural mechanical and metal forming tests, along with the development and construction of non-destructive testing facilities and services encompassing standardization and industrial property rights.

R&D Focus Areas in 2011

Extensive laboratory and testing facilities are essential to the ongoing development and creation of new materials concepts. These activities are characterized, on the one hand, by a move towards increasingly more detailed analytical procedures that, for instance, enable a more exact examination of the structural composition of steels. On the other hand, there is a trend towards more application-oriented test procedures, as rising stress loads necessitate close-to-reality conditions.

We would like to explain the two trends using examples of SZMF activities in 2011.

New electron probe micro analyzer

The different solubility of alloying elements in solid and liquid condition causes segregation in the steel solidification process. This aspect is of great importance in the production and further processing of steel. High and highest strength multiphase steels are characterized by their precipitation and complex microstructures. An analytic characterization of the various phases is therefore indispensable. Surface concentrations are a significant and critical aspect, as well as metallurgical issues in material development, customer service and production sites. The diffusion of alloy elements may generate concentration profiles that have an impact on the adhesive strength of metallic coatings.

The analysis of chemical concentration distributions, ranging from micro to macro, is an important method for describing relevant material phenomena. With this in mind, a new electron probe micro analyzer with five crystal spectrometers was commissioned for SZMF and supports the descriptive analysis of the microstructures of the entire flat product portfolio, from slabs to galvanized steel sheet.

Dynamic mechanical fracture test on the “Drop-Weight Tear” (DWT) tester

In the development of pipeline steels, one of the main focus areas is maximum precision in terms of the prediction of crack arrest in bursting pipelines. The characterization of material toughness is a key factor in the reliable application of the existing models to higher strength grades. SZMF has upgraded a falling weight impact tester and expanded its functional scope for the execution of DWT tests. It is now possible to take account of the high rates of stress that develop on a bursting pipeline in the event of an accident. A laser triangulation system measures both the distance and velocity of the drop weight during the tests. In combination with the force signal recorded, these variables can be used to derive mechanical fracture parameters that quantify material toughness. Additional important information on failure can be acquired using a high-speed camera. The analysis of toughness properties under high-velocity stress conditions is a milestone in the development of improved prediction models for crack arrest.

Laboratory for high-temperature corrosion

SZMF was able to enhance its expertise in the field of heat resistant steels through commissioning two test rigs for the simulation of high-temperature corrosion processes in power generating facilities. At present, state-of-the-art coal-fired high-performance power plants achieve an efficiency of 47 % in operation, under conditions with steam temperatures at 600 °C and a pressure of 290 bar. To achieve efficiencies of more than 50 %, it will be necessary to increase the steam temperature to approximately 700 °C and operating pressure to around 350 bar, while the boiler components must be capable of withstanding these new conditions. Power plant operators as well as boiler and tube manufacturers are systematically forging ahead with the development of materials to this end.

The new test rigs at SZMF provide a solution for the systematic, experimental analysis of material response to steam and flue gas corrosion conditions under the aspect of new requirements. The horizontal furnaces operate at a temperature range from 400 to 900 °C. SZMF utilizes this new laboratory to develop high-performance materials for next-generation power plants.

Low-temperature suitability of ferritic steel tubes

SZMF has conducted an extensive test program to prove the suitability of ferritic steel tubes for liquid gas pipelines at low temperatures. Particular attention was paid to the reaction in the area of welding seams in longitudinal and circumferential direction, as well as on the adjacent heat distribution zones. Hydraulic ring expansion tests disclosed positive results with regard to the crack behavior of ring test objects of ferritic steel with a notch on the welded seam. A major challenge in these tests is compliance with the necessary test temperature of –46 °C. SZMF has developed a cooling system that maintains this temperature at a constant level.

With the help of the Finite Elements Method (FEM) it was shown that the degree of stress on the test objects under laboratory conditions was more critical compared to the real pipeline, so that the findings can be safely applied.

New Innofill Glass platform solution

The new Innofill Glass filling machine platform was developed by KHS GmbH (KHSDE) and successfully introduced on the market as a technical solution delivering an unrivaled degree of standardization achieved through the integration of different filling systems.

Along with this platform strategy, KHSDE also included the “Hygienic Design” construction principle as integrated solution. Under the aspect of food quality and maximum plant availability, specific parts of the system are designed for easy cleaning. Complex surfaces are avoided so as to ensure the rapid discharge of liquids and easy access for cleaning processes. The Innofill Glass solution replaces the standard filler front table with a new bottle transfer frame that features tubular constructions without flanges. The filler turntable, star wheel transfer systems and cappers are driven by energy-efficient direct drive systems. The KHS Human Machine Interface, which won multiple awards (red dot award & iF award), enables the convenient operation and monitoring of the machine.

Innofill Glass therefore offers a comprehensive range of advantages: intuitive user interface, optimized hygienic design, enhanced filling quality, increased plant availability and low operational costs are supplemented by considerable resources and energy savings. For more information, please see the section on "Environmental protection".

Compact keg machine for small and medium-scale companies

As a leading player on the international market in keg technology KHSDE has launched its innovative Innokeg Till CombiKeg as a compact cleaning and filling machine on the market. Kegs are barrels for beverages and are primarily used in the gastronomy sector. This new compact machine integrates interior and exterior cleaning processes, the filling process, the media tanks and also the control system and transportation. The unit has the dimensions of a 20 ft container and can be commissioned within a very short time based on the "Plug & Produce" method. Innokeg Till CombiKeg's throughput is 60 to 90 barrels per hour, and it can process kegs of different sizes (10 to 58 l). An adapter facilitates the switch from classical stainless steel kegs to disposable plastic kegs. The system is designed particularly for smaller and medium-sized companies in the brewing, soft drinks, mineral water, fruit juice and wine producing sectors.

Future Key Areas of R&D within the Group

The demands placed on steel as a construction material are steadily growing, not only as regards its properties but also in terms of processing and applications. The aspects of resource efficiency and life cycle assessment play an especially important role. In order to create innovative steel products and improve processes on an ongoing basis, we at the Salzgitter Group undertake extensive endeavors in the research and development area. This commitment is our contribution towards ensuring that steel will continue to be the most important material used in construction in the future as well. Without steel the realization of wind farms, solar power plants, geothermal plants and highly efficient gas power plants would be impossible, both today and tomorrow. Innovative steel-based concepts are also in demand in lightweight automotive construction and particularly in connection with electro mobility.

Our Technology Division stands for clearly defined values: quality, customer orientation and innovative strength. The "Fit4Future" product initiative enhances our customer relations and sharpens our competitive edge. In accordance with our ecological goals, we will continue to lower the consumption of energy, resources and materials. The modular structure of plants and machinery will remain a focal point in achieving maximum flexibility based on standardized kits. KHSDE is also committed to offering cutting-edge, highly standardized technological solutions which are also capable of catering to customer requirements in a flexible and cost-efficient manner.

Multi-year overview of R&D

		2011[3]	2010[3]	2009[3]	2008[3]	2007	2006	2005	2004	2003[4]	2002
R&D expenses	€ m	79	78	81	80	60	58	58	57	58	47
R&D employees	empl.	910	972	916	983	725	688	706	701	670	400
R&D ratio[1]	%	0.8	0.9	1.2	0.6	0.6	0.7	0.8	1.0	1.2	1.0
R&D intensity[2]	%	4.4	4.9	9.0	3.0	2.2	2.0	2.9	4.2	5.3	4.2

[1] R&D expenses in relation to Group sales
[2] R&D expenses in relation to Group value added
[3] KHS GmbH fully consolidated
[4] First-time inclusion of research-related expenses (employees) MRW

4. Environmental Protection

The German industry, which naturally also includes the steel industry, is living in ambivalent times. On the one hand, the world is unanimous in its praise: In comparison with other industrial nations, Germany has emerged particularly well from the recent economic crisis. Our companies, which are highly competitive in the international arena, have weathered the consequences well and have created stimulus decisive for the upswing and economic stability. The ongoing discussion and legislative initiatives on the climate and energy policy in 2011, however, make a different impression: The European Union, for instance, has set targets in emission trading from 2013 onwards which are partly unachievable from a technical standpoint – and which would deal a significant blow to our global competitiveness. This has prompted Salzgitter AG to file charges against these measures, together with other parties.

Conducting successful negotiations on climate protection is first and foremost the task of our politicians. The Climate Change Conference in Durban at the end of 2011 has once again shown that almost 15 years after Kyoto there is still no concrete outcome to the negotiations that would at least pave the way for establishing a level playing field for industry. From Salzgitter AG's viewpoint, it is becoming increasingly evident that the important topic in the future will be intelligent products for the effective and efficient use of energy and resources rather than establishing a set of potentially futile climate protection targets binding on business in other industrial nations, emerging and developing markets. Endeavors to master the megatrends of our time, specifically mobility, access to raw materials, water and energy, by adding to the burdens placed on Europe's basic materials industry will not be conducive to achieving the targets envisaged.

The steel industry plays a key role in sustainable development as far as actual products are concerned – in fact, the future begins with steel: Whether in the automotive sector, mechanical engineering, the energy or electronics industry, new steels and processing technologies are an integral part of resource-conserving innovations and indispensable to the success of the value chains they underpin. This is where Salzgitter AG makes a decisive contribution.

Saving on energy and CO_2 emissions through innovative continuous strip casting

The year 2011 saw the scheduled start to the construction of facilities designed to produce innovative steel products involving belt casting technology (BCT). This strip casting technology uses a fundamentally different concept in comparison with conventional continuous slab casting: Steel is cast in a thickness of 8 to 15 mm directly under inert gas on a cooled strip and then rolled. The lower casting thicknesses and the possibility of integrating rolling into the process consumes far less energy than required for continuous slab casting. The process technology, developed jointly together with the Clausthal University of Technology and SMS Siemag AG, enables the production of innovative high-performance steels. Combining extreme strength with exceptionally good ductility and lower thickness, HSD steel® (High Strength and Ductility), patented by Salzgitter Flachstahl GmbH (SZFG), is an example of this type of steel. Its outstanding properties open up considerable potential for lightweight car body design and many other areas of application that are set to become increasingly important in the medium- and long-term for electromobility as well. The BCT facilities are being integrated into the existing buildings of the Peiner Träger GmbH (PTG) electric steelworks where it is supplied with liquid steel. The near-net-shape sheet is subsequently transported to SZFG's hot-rolling mill where it is heated to rolling temperature in a new furnace, rolled and wound into coils on a coiler.

Dust removal at the SZFG sintering plant reduces emissions

Dust is a byproduct in the production of sinter. It is released both through thermally-caused lift in the surrounding air as well as by the cool flow of air from the sinter cooler. To further reduce dust emission in the future, SZFG optimizes dust removal in the sinter cooler. A pre-separator filters out any rough particles, including those that may still be hot. The remaining dust passes through a filter system especially designed to catch fine dust particles through electrostatic separation.

Growing commitment to wind power

Political will and societal consensus is behind the drive to raise the share of renewable energies in power generation. For many years now Salzgitter AG has successfully participated in the construction of wind power farms through its plate production. As early as 1996 Ilsenburger Grobblech GmbH (ILG) was delivering heavy plate and cut-to-size blanks for onshore wind turbines and, increasingly, for offshore wind farms as well. With its extensive investment program, Salzgitter AG created the preconditions at an early stage for the production of heavy plate for foundation constructions, some of which weigh more than 1,000 tons. The company manufactures slabs up to 350 mm thick as feedstock material for the production of heavy plate in its new continuous casting line at the Salzgitter site. In addition, the ILG 2015 investment plan provides for modifications to the facilities and an even more effective logistics infrastructure to be developed to push the production of heavier plate to the limits of the Ilsenburg rolling mill's dimension capacity. These are important measures enabling the Group to field premium products and participate in the growing wind energy sector.

Enhancing energy efficiency through a blast furnace top-gas recovery turbine

Construction work on a top-gas recovery turbine for Blast Furnace B began at SZFG in 2011. This turbine features a generator that transforms thermodynamic energy produced by the blast furnace's top gas into electrical energy and feeds it into the steelworks grid. The process generates just under 57 GWh of electricity a year, without any additional fuel consumption and is therefore emission-free.

KHS: guaranteeing energy-efficient procedures in the beverage filling industry

At an early stage in the development and construction of beverages filling and packaging plants at KHS GmbH (KHSDE) emphasis is placed on ensuring that customers have plants that conserve energy and that are compatible with the environment to the greatest possible extent. The Innofill Glass system, a new platform-based filling line for glass bottles, is a pertinent example. In comparison with conventional solutions, Innofill Glass saves up to 40% on the electric power needed by both the drive system and the vacuum pump individually. These savings are achieved by replacing a single standard module vacuum pump by several pumps which can be switched on or off, as required. Alongside conserving energy, water consumption can also be reduced by up to 30% in comparison with conventional solutions and, by opting for the EcoModule, by as much as 98%. The outstanding energy profile of the new Innofill Glass DRS-ZMS system won KHSDE the coveted "Energy-Efficient System Technology" TÜV certificate at the Brau Beviale trade fair in November 2011.

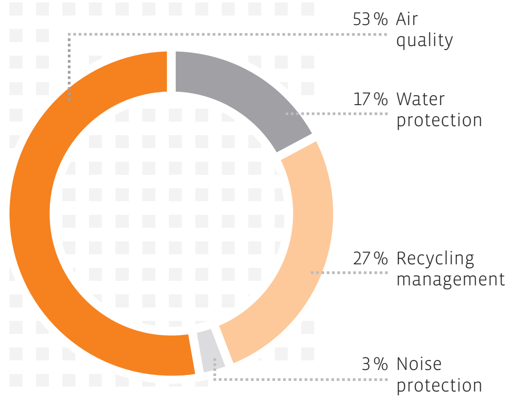
Environmental protection spend

The total spend of the Steel Division on environmental protection came to around € 177 million in the financial year 2011.

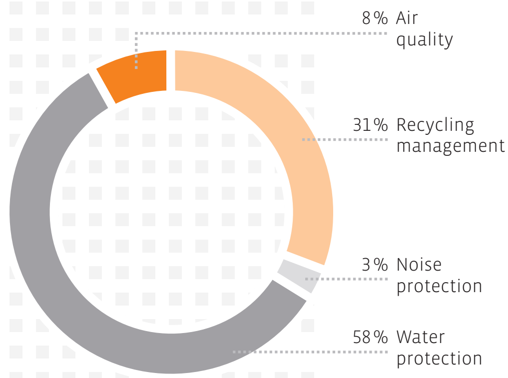
The Tubes Division's companies based in Germany spent approximately € 13 million on environmental protection.

The allocation of funds committed are shown in the charts on the right.

Environmental protection spend
Steel Division 2011



Environmental protection spend
by domestic companies
of the Tubes Division 2011



As long as steel doesn't grow on trees ...

... we need to be responsible in the way we use the raw materials required to make it. Which is why in every department we try to work as efficiently as possible and conserve energy. Of course, this is also a cost factor: We spend several billion euros every year on raw materials and energy alone.

Consequently, resource efficiency not only protects the environment, it also lowers our bills – something that we regard as truly wonderful.

III. Performance Report

1. Global Business Conditions[1)]

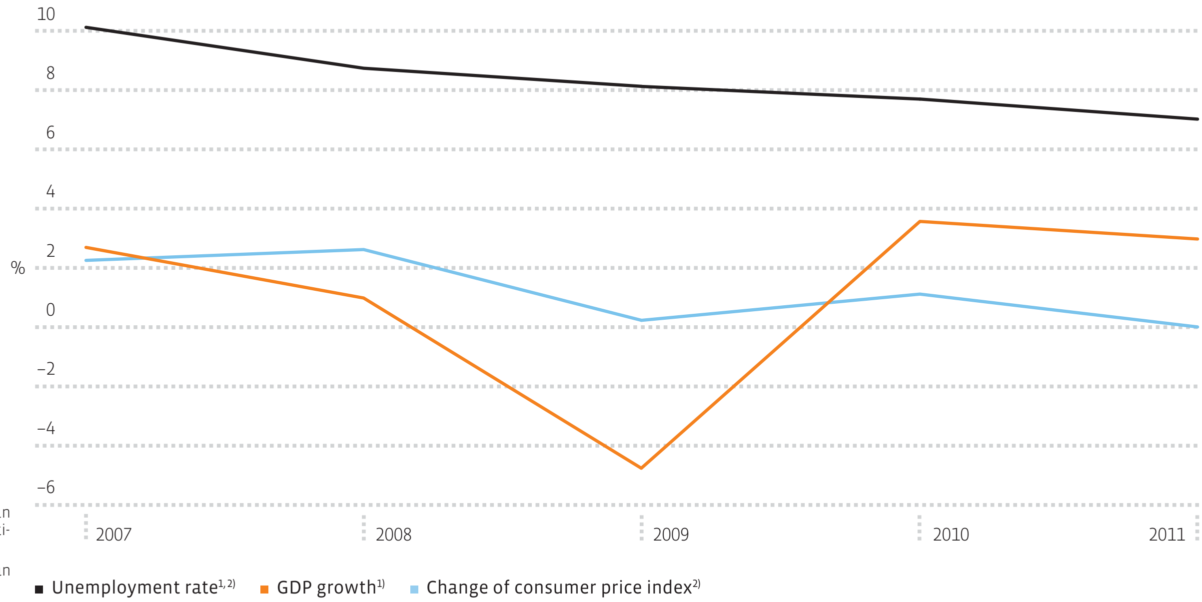
Cooling of the global economy

Following a strong first quarter, the **global economy** lost momentum over the course of 2011. The reasons lie in the raw materials and energy price hikes in particular, as well as in the tightening of the monetary policy of a number of emerging countries. Against this backdrop, different regions presented a widely diverging picture: Whereas the rate of expansion in the emerging economies slowed at a high level, growth in the economic output of the industrial nations tended to be weak. Following an increase in global production of 5.2 % in 2010, the International Monetary Fund (IMF) estimated growth at 3.8 % in 2011.

[1)] Information was obtained mainly on the basis of the following sources: International Monetary Fund (January 2012): World Economic Outlook Update, German Steel Federation (Wirtschaftsvereinigung Stahl; December 2011): Steel Market Outlook 2012/2013, Eurofer (January 2012): Economic and Steel Market Outlook 2011–2012

The economy in the **euro area** came under considerable pressure from the escalating debt crisis and, following a dynamic start to the year 2011, slowed considerably as the year progressed. An increasingly restrictive monetary policy and pronounced anxiety hampered growth, particularly in the peripheral countries. Dampened by the regressive trend of state consumption and slowing investment momentum, economic expansion in the eurozone came to a halt as the year drew to a close. The expansion of the gross domestic product stood at an overall 1.6 % (2010: 1.9 %).

Overall economic indicators – Germany



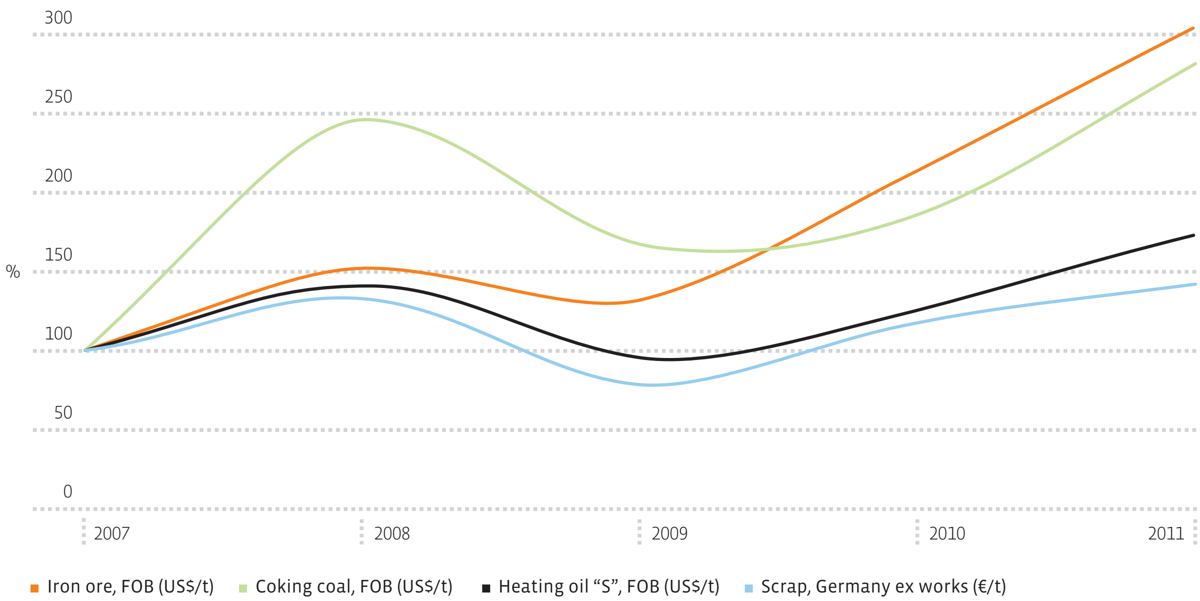
[1)] Source: German Federal Statistical Office
[2)] Source: German Central Bank

Germany's economy grew vigorously through to the fall. Domestic consumption above all experienced an upswing, although foreign trade also made a positive contribution to growth. Consumer spending rose steadily, capital expenditure accelerated, and investments in construction climbed in terms of the annual average. Uncertainty in the wake of the debt crisis had an increasingly detrimental impact on the demand of households towards the end of the year, causing macroeconomic output to stagnate with the onset of winter. The IMF reported an overall expansion in the gross domestic product of a notable 3.0 % (2010: 3.6 %) in 2011.

1.1 Procurement

A number of different factors influenced the international procurement markets over the course of 2011. Global steel output, for instance, exceeded the 1.5 billion ton threshold for the first time, with China alone producing around 700 million tons. This had a considerable impact on the demand for iron ore, coking coal, blast furnace coke and energy and sent many prices soaring. The second quarter of 2011 was notable for the fact that the prices of iron ore and coal reached record levels. By contrast, the second half of the year was dominated by persistent anxiety about the stability of the global economy which led to considerable pressure on raw material prices, above all in the final quarter.

Price development of selected raw materials and energy sources



Iron ore displays great volatility

Huge demand for iron ore from the Far East, particularly China, drove spot market prices to their highest level of 193 USD/dmt (dry metric tons) CFR China in mid-February. As the year progressed, prices stabilized at around the 180 USD/dmt mark. Following a strong phase of correction from the second half of September onwards, which caused the reference price to slump to below 120 USD/dmt, there was another trend reversal in November: growing demand from the Asian region pushed the spot market price of iron ore up to 140 USD/dmt. The quarterly prices for the Carajás fine ore reference grade, derived from the Vale model based on Chinese spot quotations of previous months, attained a record 175 USD/dmt FOB Brazil as from the second quarter of 2011 and held this level through to the end of the year.

Flooding in Australia determines the coking coal market

In the first half of 2011, developments on the global market for coking coal were determined by massive flooding on the east coast of Australia which severely hampered the coal industry as well as the infrastructure. The ensuing shortfall in supply sent the price of high-quality coking coal to a record level of 330 USD/t FOB in the second quarter. This was followed by an initially only moderate decline in prices which ultimately fell to 285 USD/t FOB as the year drew to a close. In April, global market leader BHP Billiton switched the bulk of its contracts from quarterly to monthly pricing. This move compounded the detrimental impact on forecasting reliability and accurate calculation.

General uptrend in sea freight rates

Events in the sea freight business repeatedly came under the short-term influence of exceptional circumstances in 2011: The dramatic weather conditions in Australia at the start of the year, the cataclysmic natural and nuclear disaster in Japan in March and, on top of this, the European debt crisis all made for volatile developments in the market reflected by the constant fluctuation in rates. There has, however, been a steady increase overall from the low level posted in February. The benchmark for the Tubarão–Rotterdam reference rate climbed from 7.60 USD/t to 15.00 USD/t at the end of the year.

Price fluctuations in metals and ferro-alloys

The situation on the international metal and alloy markets varied widely over the course of 2011. Whereas the prices of bulk and quality alloys rose in the first six months of 2011, bolstered by the improved economic environment and the huge increase in global demand for raw materials, the second half of the year saw a significant decline. Materials listed on the commodities exchange, such as zinc, nickel, copper and aluminum held steady at a fairly high level through to mid-September only to fall significantly thereafter.

Increase in the price of liquid reduction agents

The prices of liquid reduction agents (heavy heating oil and substitute reduction agents) were much more volatile than in the previous year. Having risen sharply at the start of the year, they again entered a slight downtrend from the second quarter onwards. During the remainder of the year, prices moved sideways within a fairly consistent bandwidth, albeit at an appreciable level. Compared with the year before, there was a sharp increase in the price of crude oil in 2011: having averaged 80 USD/barrel, it rose to 111 USD/barrel in 2011.

Huge uncertainty in the steel scrap market

Scrap prices climbed swiftly at the beginning of 2011 on the back of higher crude steel production. Political unrest in North Africa and in the Middle East triggered a price trend reversal as from the spring which persisted until May. Uncertainty in the financial markets and a contraction in European steel output in the final quarter of the year again sent scrap prices tumbling from the summer months onwards. This trend then came to a halt in December and was followed by a renewed uptrend in prices.

Slight decrease in electricity prices

The supply of electricity in the Steel Division is determined by the aspiration of securing full coverage, while taking fluctuations in the Group's own power generation into account. The option of structured procurement is used to cover any discrepancy. Compared with 2010, the average price of electricity (energy price plus statutory charges and agreed fees) for the associated mills of Salzgitter Flachstahl GmbH (SZFG)/ Peiner Träger GmbH (PTG) fell by 7 %. Here, the development of the individual components making up the electricity price varied greatly: The charge levied under the Combined Heat and Energy Act (KWKG) rose by 4 %, as opposed to the energy price and grid utilization costs which fell by 5 % and 7 % respectively. Although the regular rate charged under the German Renewable Energies Act (EEG) climbed by 72 %, in actual terms the EEG charge fell significantly by 35 % as, thanks to an increase in own electricity generation, the percentage of external electricity qualifying under the hardship clause was much higher.

Natural gas price hikes due to higher oil price

The price of natural gas purchased for the SZFG/PTG interconnected plants is linked through a sliding scale to light (HEL) and heavy (HS) heating oil with a time lag for the changes to filter through of half a year (HEL) and three months (HS) respectively. The determinant heating oil prices rose substantially compared with 2010, which caused the average price of purchasing natural gas to climb by 14.4 %.

Uneven trend in operating supplies

The trends in the operating supplies markets were uneven in 2011. Many manufacturers were processing the backlog of orders from the surge in demand in 2010 as, after the last financial crisis, not all the production capacities were taken into operation again. Materials in strong demand by the machinery and plant engineering sectors as well commanded higher prices.

Rising prices were recorded in the spot markets for operating supplies requiring large amounts of raw materials, particularly refinery products, oils, grease, metals and plastics, through to mid-year. A subsequent downturn in demand and uncertainty about the economy's future development then caused prices to fall.

Input materials – price of semi-finished products fluctuates sharply

Not all the companies of the Salzgitter Group are supplied through the Group's own metallurgy operations. They are therefore dependent on sourcing continuously casted steel input materials (semi-finished products) externally. Moreover, the Group's crude steel production capacity is organized in such a way that the volume of steel required by the rolling mills – when capacities are running high – is greater than the volume that can be produced by metallurgic operations. This is a measure intentionally taken to minimize the risk in periods when the capacity of sub-segments of rolled steel production is not fully utilized. The Technology Division buys in the cast parts and stainless steel needed for its products.

The increase in the global demand for steel products caused slab prices to rise by leaps and bounds, starting in Eastern Asia, then followed by Latin America and the region of the Black Sea. Extreme reticence on the part of buyers, along with massive destocking, was the reason for a similar decline in prices at the end of the second quarter. From the fall onwards, prices were seen to stabilize at a low level.

As before, the Tubes Division has two key options for sourcing input materials internally that can be supplemented by purchasing from strategic partners to cover any supply shortfall: The delivery volume of Hüttenwerke Krupp Mannesmann GmbH (HKM) earmarked for Salzgitter Mannesmann GmbH (SMG) is used, on the one hand, to supply Salzgitter Mannesmann Grobblech GmbH (MGB) with slabs for its plate production for the manufacturing of longitudinally welded large-diameter pipes and, on the other, to provide the precision tube companies with tube rounds for the production of seamless precision tubes. The tube companies' requirements for hot-rolled strip are mainly covered by SZFG's hot strip mill.

The Technology Division's procurement volume was marginally higher than a year ago, which was attributable firstly to the higher level of sales, and secondly to the significant increase in the price of raw materials passed on by the suppliers. Active procurement management and longer-term supply contracts served for the most part to compensate for these anticipated price hikes. Good supplier capacity utilization caused delivery bottlenecks and delays on occasion which were counteracted through an optimized order management.

The companies of the Technology Division concentrated on achieving savings in procurement with the aid of successfully standardized processes. Moreover, KHS, the division's largest subsidiary, improved its order processing by introducing electronic catalogs on its new supplier portal. In order to improve purchasing conditions, the company made intensive use of the options in the international procurement markets, with the main focus on China and Eastern Europe.

1.2 Distribution Structures

The companies of the Salzgitter Group maintain manifold supplier relationships with their customers in Germany and abroad. These relationships are characterized by their strong orientation towards the businesses and needs of the individual customers. Similar to 2010, adjusting price fixing terms on the procurement side entailed changes in 2011 in the way in which supplier relationships are set up and structured. The various forms are differentiated as follows:

Monthly and quarterly contracts

A major part of the Steel Division's delivery volumes is usually sold to customers by way of quarterly contracts. However, owing to the increasing volatility of procurement market prices in 2011 contracts concluded on a monthly basis became more important. Both the base prices as well as dimension- and grade-related markups, generally announced every quarter by the respective rolled steel manufacturers, are now negotiated and signed with a number of customers for individual months. The precision tubes companies sell their products primarily to the automotive industry, as well as to the mechanical engineering, retail and wholesale, and energy sectors. Production is tailored to the customer and relates exclusively to the respective order. Whereas a major part of deliveries in the past were based on longer-term price agreements, contracts are now realized with terms of between three and a maximum of six months and/or prices are index-linked. The terms for prices agreed in the stockholding steel trade business have also become shorter.

Longer-term contracts

Salzgitter Flachstahl GmbH (SZFG) generates part of its sales through contracts under which prices are fixed in regular negotiations for a period of time exceeding one quarter. Customer groups typical of this type of supplier relationship include the automotive industry and its suppliers, specialized manufacturers of cold rolled strip and steel service centers. The curtailing of contractual terms (duration) relating to raw materials procurement necessitated a reduction in the number of longer-term contracts. Ilsenburger Grobblech GmbH (ILG) also sells a quarter of its output through supplier agreements based on prices agreed over longer terms (for instance, the project business in tank and steel engineering and the wind offshore business). This enables us to contain the risk by having the greatest possible synchronization of matching maturity structures on the purchasing and procurement side and through price adjustment clauses. Peiner Träger GmbH (PTG) has always sold only small tonnages under such contracts.

Spot market transactions

Business transactions consisting of delivery, acceptance and payment of a defined volume of products are settled directly in the spot market. The Trading Division transacts most of its shipments through such short-term supply agreements, whereby this type of relationship with key customers in Germany and abroad has generally developed over many years. Medium and smaller steel traders which operate independently, steel construction companies, as well as mechanical and plant engineering companies are typical customer sectors.

Project deliveries

The Tubes Division supplies its customers mainly via project contracts. Alongside international pipeline projects, deliveries for newly constructed power plants and chemical plants are also taken under this type of contract. The same applies to some of the products of the Steel Division, first and foremost to sheet piling and trapezoidal profiles which are used in major civil engineering undertakings. The Trading Division acquires and supplies international projects as a stockholder and, additionally, in the role of an intermediary acting as an interface between the steel and tubes manufacturers of the Group, or producers external to the Group on the one hand and the end customers on the other. The conditions are generally valid over the whole term of the respective project; there are, however, some contracts with adjustment agreements or price adjustment clauses. The products of the Technology Division include turnkey plants and individual machinery that are manufactured to an increasingly greater degree of standardization based on individual orders.

As a matter of principle, the Salzgitter Group does not disclose contractual details such as prices, other conditions and terms (duration). Officially released spot market price information can be used for orientation purposes with many steel and tubes products, but are only valid for purely standard products that make up only a very small part of our delivery program.

The very well-balanced and diversified mix of customer relationships, which also remained virtually unchanged in the financial year 2011, allows the Salzgitter Group to use advantages in the market at short notice. In addition, it offers greater visibility in some segments with regard to the scope of orders. Customers belong to a wide variety of sectors where economic cycles do not move in parallel or partly even run counter to one another. The sales structures of the Salzgitter Group described above therefore constitute a significant basis for our profitability and stability.

2. Overall Statement by Management on the Economic Situation

The Salzgitter Group reports a sound profit trend

The Salzgitter Group has more than quadrupled its earnings before tax in comparison with a year ago. With an equity ratio of 45.5 % and a net financial position of more than € 500 million, Salzgitter AG has a sound balance sheet and an exceptionally solid financial footing, also after the completion of an extensive investment program costing around € 2 billion.

Having lifted external sales to € 9,839.5 million (2010: € 8,304.6 million; +18.5 %), the Group closed the financial year 2011 with earnings before tax of € 201.6 million. The result comprises € 39.5 million on balance in negative non-recurrent effects. Profit after tax stood at € 236.0 million (2010: € 30.0 million). The return on capital employed (ROCE) posted 5.6 % (2010: 2.2 %).

In the financial year 2012 and in subsequent years, the projects forming part of the investment program will gradually begin to release their positive impact on profit. The same applies to the streamlining measures at Peiner Träger GmbH (PTG) and KHS GmbH (KHSDE), which were implemented prudently but also in a concerted effort. At the same time, improvement potential will continue to be identified and leveraged through the Profit Improvement Program 4.0 that has been set in place in all Group companies.

To summarize: the Salzgitter Group can be regarded as very well positioned today, also in terms of benchmarking against global peer competitors. Irrespective of the current excellent basis, both management and the employees will continue to work both systematically and consistently on ensuring that the success story continues.

3. Performance and General Business Conditions of the Divisions

As the management holding company, Salzgitter AG coordinates the five divisions of Steel, Trading, Tubes, Services and Technology. In the following, the business performance of these divisions in the financial year 2011 are outlined on the basis of the annual reports of the individual companies drawn up pursuant to the International Financial Reporting Standards (IFRS).

Other/Consolidation is not a segment within the meaning of IFRS. The derivation of the sum total of segment assets and liabilities to form the consolidated balance sheet total and the derivation of the sum total of segment revenues and results to form the consolidated revenues and the earnings before tax of the Group are shown in the “Notes to the Consolidated Financial Statements”.

Steel Division

Key data		2011	2010
Order intake	**kt**	**5,082**	**5,017**
Order book	**kt**	**1,082**	**1,155**
Shipments	**kt**	**5,157**	**4,928**
Salzgitter Flachstahl[1]	kt	3,117	3,046
Peiner Träger	kt	1,009	947
Ilsenburger Grobblech	kt	775	730
Hoesch Spundwand und Profil	kt	121	111
Salzgitter Bauelemente	kt	44	37
Salzgitter Europlatinen	kt	93	72
Consolidation	kt	– 1	– 14
Division sales[2]	**€ m**	**3,883.0**	**3,173.6**
Salzgitter Flachstahl	€ m	2,956.4	2,509.9
Peiner Träger	€ m	673.4	526.8
Ilsenburger Grobblech	€ m	736.7	534.7
Hoesch Spundwand und Profil	€ m	99.2	87.6
Salzgitter Bauelemente	€ m	55.1	42.5
Salzgitter Europlatinen	€ m	98.6	69.3
Consolidation	€ m	– 736.4	– 597.2
Internal sales	**€ m**	**1,143.3**	**905.0**
External sales[3]	**€ m**	**2,739.7**	**2,268.6**
Division earnings before tax (EBT)	**€ m**	**25.7**	**–100.6**
Salzgitter Stahl	€ m	– 2.9	– 2.8
Salzgitter Flachstahl	€ m	66.8	127.8
Peiner Träger	€ m	– 51.7	– 173.6
Ilsenburger Grobblech	€ m	44.3	– 26.6
Hoesch Spundwand und Profil	€ m	– 40.2	– 26.0
Salzgitter Bauelemente	€ m	3.4	2.2
Salzgitter Europlatinen	€ m	5.4	3.9
Other/Consolidation	€ m	0.6	– 5.6
EBITDA	**€ m**	**361.7**	**262.4**
EBIT	**€ m**	**112.5**	**– 12.6**
Investments[4]	**€ m**	**233**	**410**

[1] SZFG excluding inter-company deliveries in the Steel Division
[2] Including sales with other divisions in the Group
[3] Contribution to consolidated external sales
[4] Excluding financial assets

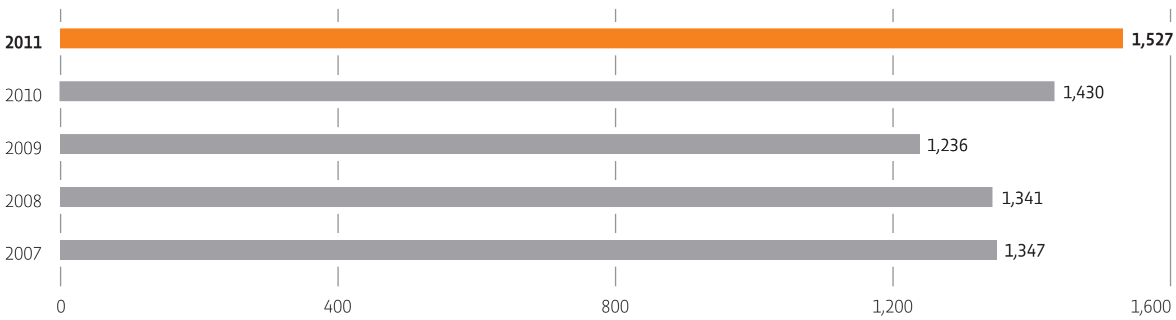
The Steel Division comprises six production companies and an intermediate holding company. The production sites in Salzgitter, Peine, Ilsenburg and Dortmund are equipped with cutting-edge plant and equipment technology that is optimized in an ongoing manner to ensure their efficiency and the quality of their products. More information on the structure and competences of the division can be found in the section on “Group Structure and Operations”. The companies assigned to this division are listed in the “Notes to the Consolidated Financial Statements” and have remained unchanged from the previous year.

The product range includes the following in particular:
- rolled steel in the form of coils (rolled strip), also known as hot-rolled coil (HRC) or cold-rolled coil (CRC) depending on the manufacturing process,
- longitudinally slit HRC,
- cut-to-length plate manufactured from HRC,
- surface-coated HRC and CRC (galvanized, organically coated),
- corrugated sheet and sandwich elements for the construction industry,
- tailored blanks (cut-to-size and welded sheet), patchwork panels and stamped blanks for the automotive industry,
- heavy plate (rolled blanks more than 3 mm thick),
- medium and heavy hot-rolled sections (beams), especially with I, H and U profiles and
- hot-rolled sheet piling products.

Steel business activities slow towards year-end

The **global production of crude steel** grew by almost 7 % to approximately 1.53 billion tons in 2011. With the exception of Japan, all steel producing countries contributed to this increase. China accounted for about half of this global growth, raising its crude steel output by almost 9 %. Growth in production in South Korea and South America was particularly vigorous due to the ramping up of crude steel capacities. The annual average capacity utilization of the 64 countries reporting to the World Steel Association came to around 80 %.

Crude steel production – world



in m tons

Source: World Steel Association 23/01/2012 (previous years adjusted accordingly)

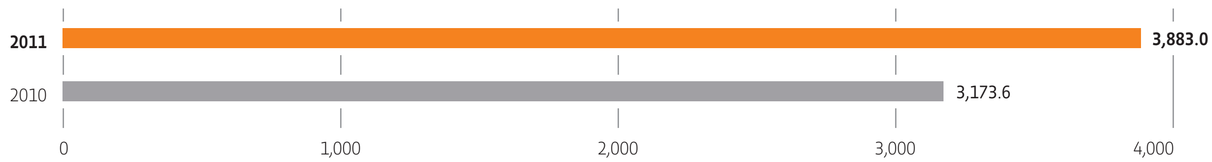
Following an initial strong expansion in the first six months of 2011, momentum in the **European steel market** slowed rapidly, braked by growing uncertainty about the economy and its deterioration. The rolled steel market supply climbed by around 6 % overall, driven also by an exceptionally sharp increase in imports from countries outside the EU. Nonetheless, the supply, which came to 159 million tons, still fell over 20 % short of the record year in 2007. Average capacity utilization in the EU settled at a low level (76 %), not least owing to a significantly negative steel trade balance. In response, several leading European steel manufacturers adjusted their production to the more reticent demand in 2011. As a result, the production of crude steel rose by just under 3 % over the year as a whole.

German crude steel output stood at 44.3 million tons, representing a marginal increase over the year-earlier volume (+1 %). A base effect was behind this development: in 2010, the domestic steel industry was able to decouple from the recession more swiftly than the rest of Europe and, in addition, the sizable increase in rolled steel imports from the EU and non-EU countries prevented any improvement. Moreover, an extremely cautious approach to orders on the part of traders and processors over the course of the year triggered a further reduction in inventories in the final quarter. The rolled steel market supply climbed by 9 % to 40.5 million tons. German producers of crude steel operated at 88 % capacity in 2011 and were therefore considerably better off than the average European and also global competitor.

Performance of the Division

The Steel Division's consolidated **order intake** posted 5,082 ktons, unchanged from the year-earlier level. There was a slight decline in **orders on hand** to 1,082 ktons by the reporting date.

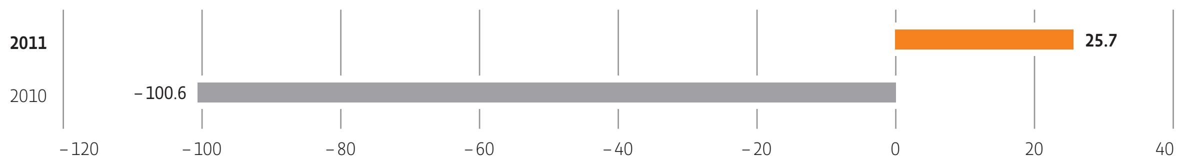
Sales



in € m

Both **segment** (€ 3,883.0 million) and **external sales** (€ 2,739.7 million) of the Steel Division rose notably thanks to higher average selling prices accompanied by greater **shipments**.

EBT



in € m

Better capacity utilization, larger shipment volumes, the lower level of non-recurrent expenses and the rigorous implementation of the streamlining program enabled the Steel Division to generate another **pre-tax profit** in 2011.

Total production volumes[1] of the most important production facilities in the Steel Division

		2011	2010	2009	2008	2007
Pig iron (SZFG)	kt	4,289	4,020	3,149	3,985	4,220
Crude steel	kt	5,659	5,201	4,073	5,340	5,663
of which SZFG	kt	4,578	4,322	3,369	4,319	4,562
of which PTG	kt	1,081	878	704	1,021	1,101
SZFG						
hot rolling mill: hot-rolled coil (HRC)	kt	3,396	3,228	2,393	3,153	3,296
cold rolling mill: cold-rolled coil (CRC)	kt	1,509	1,590	1,248	1,512	1,525
galvanizing plants: galvanized HRC/CRC	kt	1,189	1,232	1,001	1,219	1,248
strip coating plants: coated HRC/CRC	kt	221	191	195	218	228
PTG: sections/beams	kt	1,027	931	796	1,188	1,306
of which heavy beam-making mill: large sections	kt	406	381	371	527	556
of which medium section mill: other sections	kt	621	550	426	660	750
ILG: plate	kt	789	739	658	816	822
HSP: sheet pilling, mine support sections, hot-rolled bulb flats	kt	130	109	94	259	295
SZBE: profiled sheet and sandwich elements	m^2 m	3.7	3.2	2.6	4.3	4.2
SZEP: tailored blanks, patchwork panels and stamped blanks	kt	95	72	45	52	59

[1] Total production volumes comprise not only finished products (e.g. "HRC intended for sale"), but also volumes which are then processed in further production steps (e.g. "HRC as feedstock product of cold rolling")

The individual steel companies reported the following developments:

The Steel Division set a new record in its **crude steel output**, which came to 5,659 ktons thanks to the full operation of all three blast furnaces in Salzgitter and the start to the parallel operation of the two electric arc furnaces in Peine. The Group's procurement of third-party input material was reduced accordingly. Including the pro-rata volume of Hüttenwerke Krupp Mannesmann GmbH (HKM), a joint venture that is assigned to the Tubes Division, the production of crude steel within the Group came to 7,263 ktons. Compared with the year before, an increase in the **production of rolled steel** across all product groups to 5,232 ktons was recorded.

The **European flat steel market** experienced strong demand through to the fall and delivered good shipment figures. In Germany, the automotive industry and the mechanical engineering sector expanded at growth rates last seen in the mid-90s. Especially in the first half of the year, the real demand for steel as well as demand by traders were firm. Growth slowed over the remainder of the year, dampened by

Performance Report

fierce competition from imports. Similar to 2010, flat steel prices surged initially, then moved sideways and subsequently declined noticeably in the final quarter.

The **order intake** of **Salzgitter Flachstahl GmbH** (SZFG) was marginally higher as opposed to **orders on hand** which fell slightly in comparison with a year ago. The Continuous Casting Line 4 reached its full operating capacity in 2011. In conjunction with the continuous operation of the three blast furnaces, and despite moderate adjustment to production from September onwards, this resulted in an increase in **crude steel output** to 4,578 ktons. **Rolled steel production** (3,286 ktons), as well as shipments (4,210 ktons) and sales (€ 2,956.4 million) exceeded the 2010 figures. **Earnings before tax** came to € 66.8 million, which is lower than in the previous year as margins came under increasing pressure in the second half of the year from the high volume of imports and falling selling prices, accompanied by a slower easing in the cost of raw materials.

The **heavy plate market** also experienced a significant upswing at the start of the year 2011, which held steady in the second quarter as well. Positive news on the economy and the expectation of an increase in the price of raw materials led to healthy demand in the stockholding trade as well as in many customer sectors. A steady increase in selling prices was also registered in the initial months. Despite the ongoing good capacity utilization of steel processors, the markets began to lose momentum at the start of the summer. Steel traders exercised more caution owing to the considerable imports-induced increase in inventories which exacerbated the competitive environment, above all for standard grades. Economic uncertainty prevented a renewed recovery in the fourth quarter.

The **order intake** of **Ilsenburger Grobblech GmbH** (ILG) fell slightly short of the previous year's level in terms of volume. The booking of a major contract of 70 ktons in the offshore wind power business in September served once again to highlight the competitiveness of ILG in this sophisticated product segment. This is particularly applicable given the successful ramping up of plate production from 350 mm thick slabs. **Orders on hand** were slightly lower than a year ago. **Rolled steel production** (789 ktons) and shipments (775 ktons) markedly exceeded the 2010 figures. Higher selling prices, combined with larger shipment volumes, boosted **sales** substantially by more than one third. On this foundation, ILG achieved another gratifying **pre-tax profit** of € 44.3 million.

The **European sections market** continued its slow recovery in 2011, accompanied by volatile ordering patterns of trade and a relatively stable real consumption by the steel construction sector. All in all, the slight improvement in demand in European steel construction in relation to the capacity available nonetheless remained at a still unsatisfactory level. This situation continues to exert pressure on concluding contracts in the project business in particular. In the financial year 2011, **Peiner Träger GmbH** (PTG) reported **order intake** above the tonnage booked in 2010. **Orders on hand** posted 217 ktons on December 31, 2011. Following the start to the parallel operation of the two electric arc furnaces, the **production of crude steel** gradually increased in tandem with the ramping up phase and, at 1,081 ktons at the end of the year, exceeded the 2010 figure. **Rolled steel production** (1,027 ktons) and **shipments** (1,059 ktons) were also up. **Sales** climbed to € 673.4 million, boosted especially by average selling prices, which had risen on the back of scrap prices, but also because of higher shipments. After the extremely challenging market environment in 2010, margins firmed up in the period under review. These gains, coupled with the growing impact of cost cutting measures implemented as part of the PTG streamlining program, enabled the company to deliver an appreciably lower **pre-tax loss** of € 51.7 million, which was a substantial improvement in comparison with the previous year. Moreover, the 2010 annual accounts were burdened by impairment write-downs.

For the third year in a row, **demand for sheet piling** in Europe dropped below its pre-crisis level, with the European neighboring countries suffering a great deal more than the German market. **HSP Hoesch Spundwand und Profil GmbH** (HSP), where **production** came to 130 ktons, fell far short of utilizing its full capacity. As a result, the company had to implement short time work again in the financial year ended. Nonetheless, **shipment volumes** marginally exceeded the year-earlier figure. The resulting slight increase achieved in selling prices was, however, notably below the higher prices commanded by input material. Following the termination of the sales cooperation with ThyssenKrupp GfT Bautechnik GmbH (TKBT), the sale and distribution of sheet piling products were integrated into the HSP organization. The customer proximity achieved by this measure and the broader-based sheet piling range available upon completion of the new rolling mill will strengthen HSP's market position in the future. The year-on-year **increase in sales** that rose to € 99.2 million is mainly the result of the higher volume sold. The **pre-tax loss** of € 40.2 million includes impairment that was offset for the most part by the proceeds from the disposal of the 30 % stake in TKBT.

The automotive industry as one of the key customers of **Salzgitter Europlatinen GmbH** (SZEP) set a new record in the production of vehicles in Germany and was temporarily manufacturing at capacity limits. The sharp increase in **shipments** and a concurrent improvement in selling prices lifted SZEP's **sales** to € 98.6 million. **Earnings before tax** came to a pleasing € 5.4 million.

The **shipments** of **Salzgitter Bauelemente GmbH** (SZBE) were considerably higher than in the previous year. In conjunction with improved selling prices, **sales** soared by 30 % to € 55.1 million, and the **pre-tax result** came to € 3.4 million.

Trading Division

Key data		2011	2010
Shipments	**kt**	**4,724**	**4,244**
Salzgitter Mannesmann Handel Group	kt	4,273	3,844
Universal Eisen und Stahl Group[1]	kt	210	146
Hövelmann & Lueg	kt	259	267
Consolidation	kt	– 17	– 14
Division sales[2]	**€ m**	**3,988.3**	**3,108.7**
Salzgitter Mannesmann Handel Group	€ m	3,550.1	2,797.1
Universal Eisen und Stahl Group[1]	€ m	263.8	153.1
Hövelmann & Lueg	€ m	188.0	170.0
Consolidation	€ m	– 13.6	– 11.5
Internal sales	**€ m**	**84.4**	**150.5**
External sales[3]	**€ m**	**3,903.9**	**2,958.2**
Division earnings before tax (EBT)	**€ m**	**60.6**	**71.4**
Salzgitter Mannesmann Handel Group	€ m	51.0	62.9
Universal Eisen und Stahl Group[1]	€ m	11.2	7.0
Hövelmann & Lueg	€ m	– 1.6	1.6
EBITDA	**€ m**	**82.1**	**91.1**
EBIT	**€ m**	**70.8**	**80.3**
Inventories	**€ m**	**369**	**266**

[1] Initial consolidation of UESUS as per 01/01/2011
[2] Including sales with other divisions in the Group
[3] Contribution to consolidated external sales

Alongside a well-developed organization of stockholding steel trading subsidiaries in Europe, the Trading Division comprises three specialized companies, one for plate and two for flat steel products, organized as steel service center (SSC), as well as a globalized international trading network. Apart from the rolled steel and tubes products of the Salzgitter Group, it also sells the products of other manufacturers in Germany and abroad. Moreover, the division procures semi-finished products for the Group and external customers on the international markets. In 2011, the stockholding company Salzgitter Mannesmann Acélkereskedelmi Kft. (SMHU), Budapest, and UNIVERSAL STEEL AMERICA, Inc. (UESUS), Houston, were included in the Trading Division's group of consolidated companies. The economic transfer of STAHL-METALL-SERVICE Gesellschaft für Bandverarbeitung mbH (SMSGB), a company acquired during the reporting period, took place in December 2011. More information can be found under the section on "Group Structure and Operations". The individual companies are described in the "Notes to the Consolidated Financial Statements".

Robust demand, with prices falling at year-end

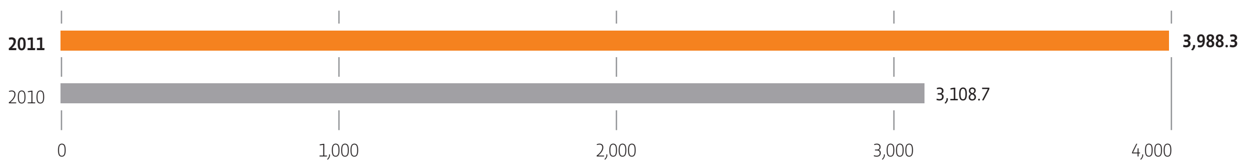
The general momentum of the global economy was reflected in the positive development of the steel processing industries at the start of the year. However, growing anxiety about a renewed flaring of the financial crisis and the seasonal dip in demand over the summer months were manifested in the purchasing restraint exercised by many steel customers from the second half of the year onwards. From a regional standpoint, the positive trend was first and foremost attributable to the healthy economic activities of the emerging markets, the economies developing in Eastern Europe and Latin America. Whereas sales activities in the African region remained stable, stimulus in the Near and Middle East was only relatively downbeat. The depreciation of the euro against the US dollar caused a decline in steel imports into the euro area and strengthened the export opportunities from this region as from the end of the second quarter.

Germany continued to play a special role: The excellent competitive standing of domestic industrial products in the global markets fostered a growing demand for steel products over long periods. Steel shipments grew in the first six months in particular and were higher overall compared with the year-earlier figure. Inventories held by the distribution sector can be assessed as moderate over the whole period under review, which initially sent prices surging on the back of healthy demand. Subsequently, prices stagnated and ultimately declined notably towards the end of the year due to the circumstances described above.

Performance of the Division

The Trading Division benefited from generally satisfactory demand. **Shipments**, which posted 4,724 ktons, were significantly above the previous year's volume. Boosted by this positive trend and by the annual average improvement in selling prices, **segment sales** and **external sales** stood at € 3,988.3 million and € 3,903.9 million respectively, thereby exceeding their counterpart figures in 2010.

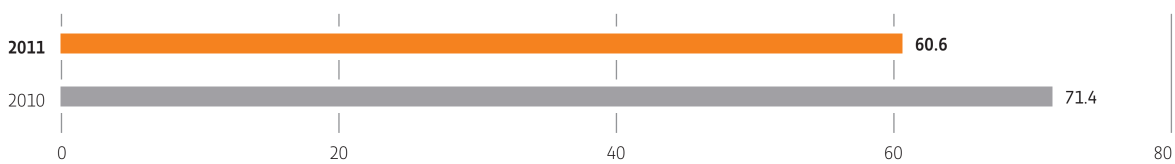
Sales



in € m

The division reported gratifying earnings before tax of € 60.6 million which fell only marginally short of the year-earlier result (€ 71.4 million) that was impacted by above-average windfall profits.

EBT



in € m

The Trading Division's companies developed as follows:

Salzgitter Mannesmann Handel Group (SMHD Group) continued to perform well in 2011, as in the previous year. Shipments were higher than a year ago owing to the good shipment tonnage of stockholding trade and the uptrend in international trading. In conjunction with an increase in prices in the spring, this led to considerable sales growth. The pre-tax result, however, was lower than the year before.

The **European stockholding companies** reported higher trading volumes than in the previous year, and sales also rose in comparison with 2010. The significant price hikes at the start of the year allowed for a significant widening of the margins in the first quarter on the back of an uptrend in volumes. The second half of the year saw shipments fall, accompanied by stagnation and subsequently even a decline in selling prices. The pre-tax result did not match the year-earlier figure that was impacted by considerable windfall effects.

In **international trading**, hot-rolled products again made up the lion's share of the steel trading volume booked by Salzgitter Mannesmann International GmbH (SMID), the division's German trading subsidiary. The African continent was the most important sales region for SMID, followed by Europe. Against the backdrop of higher shipment volumes and price-induced above-average growth in sales, the Trading Division improved its pre-tax result.

Universal Eisen und Stahl Group (UES Group) raised its shipment tonnage significantly in 2011 and strengthened its market position. Factors contributing to this success were strong demand by the German mechanical engineering industry and brisk demand in the offshore sector. Shipments and sales rose appreciably, also due to the initial consolidation of the US company. These factors of influence lifted earnings before tax appreciably as well.

The steel service center **Hövelmann & Lueg GmbH** (HLG) reported stable business activities throughout the whole of 2011. The processing capacities available were, however, not fully utilized. Accordingly, although sales were higher in a year-on-year comparison, shipments and the pre-tax result fell short of the 2010 figures owing to the great pressure on prices in the automotive sector.

Tubes Division

Key data		2011	2010
Order intake	**€ m**	**2,029**	**2,090**
Order book	**€ m**	**928**	**955**
Tubes shipment	**kt**	**1,146**	**1,169**
Europipe Group (50 %)	kt	537	615
Sz Mannesmann Großrohr	kt	23	45
Sz Mannesmann Line Pipe	kt	249	220
Sz Mannesmann Precision Group incl. Sz Mannesmann Seamless Tubes	kt	314	270
Sz Mannesmann Stainless Tubes Group	kt	22	19
Consolidation	kt	0	– 1
Division sales[1]	**€ m**	**2,179.4**	**2,001.1**
Europipe Group (50 %)	€ m	561.2	672.3
Sz Mannesmann Grobblech	€ m	591.6	561.9
Sz Mannesmann Großrohr	€ m	27.4	51.3
Sz Mannesmann Line Pipe	€ m	281.0	228.0
Sz Mannesmann Precision Group incl. Sz Mannesmann Seamless Tubes	€ m	580.1	459.1
Sz Mannesmann Stainless Tubes Group	€ m	317.1	228.1
Consolidation	€ m	– 179.0	– 199.6
Internal sales	**€ m**	**492.7**	**265.0**
External Sales[2]	**€ m**	**1,686.8**	**1,736.1**
Division earnings before tax (EBT)	**€ m**	**67.3**	**59.9**
Europipe Group (50 %)	€ m	– 8.2	51.9
Sz Mannesmann Grobblech	€ m	51.5	37.3
Sz Mannesmann Großrohr	€ m	– 4.5	– 3.6
Sz Mannesmann Line Pipe	€ m	– 5.0	– 10.9
Sz Mannesmann Precision Group incl. Sz Mannesmann Seamless Tubes	€ m	16.7	– 14.9
Sz Mannesmann Stainless Tubes Group	€ m	19.3	8.1
Consolidation	€ m	– 2.5	– 8.0
EBITDA	**€ m**	**135.4**	**115.4**
EBIT	**€ m**	**83.8**	**72.5**

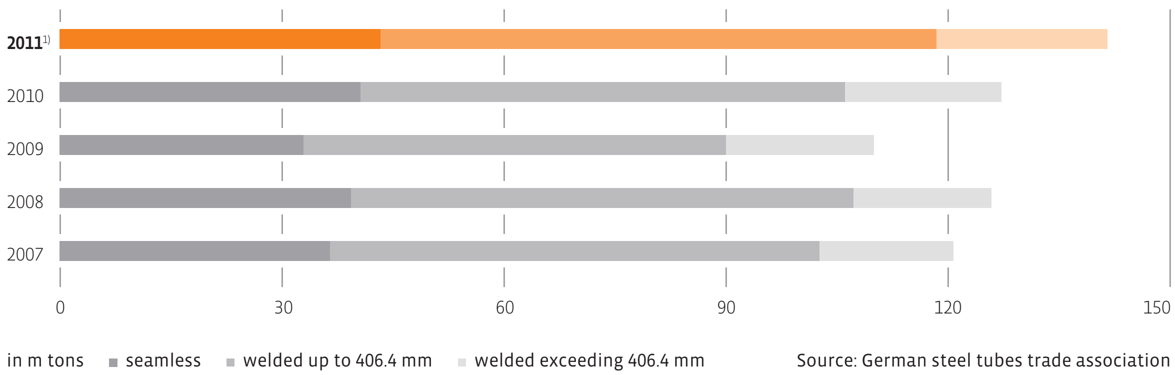
[1] Including sales with other divisions in the Group
[2] Contribution to consolidated external sales

The Tubes Division consists of a large number of subsidiaries and associated companies which manufacture and process welded and seamless steel tubes on three continents. The product portfolio comprises mainly pipelines and tubes of all diameters, ranging from gas pipelines through to injection tubes for diesel engines, stainless oil field and boiler tubes, precision tubes and cold-finished tubes for the automotive and machine building industries, as well as construction tubes in a variety of profiles. More information can be found in the section on "Group Structure and Operations". The individual companies are listed in the "Notes to the Consolidated Financial Statements".

Global steel tubes production remains on a record track

Having staged a recovery from the 2009 slump as early as 2010, global steel tubes output set a new record high of 141 million tons (+11 %) in 2011, with China's production of steel tubes posting another above-average growth (+16 %) and raising its share in global production to 48 %. Output in the rest of the world expanded by 7 % to a good 74 million tons, but nevertheless remained some 7 % below the benchmark posted in 2008.

Global steel tubes production by production method



1) Extrapolation

The global production of seamless steel tubes was up by 7 % over the year-earlier figure to approximately 43 million tons. The manufacturing of large-diameter pipes grew almost 9 % to 23 million tons. The development of welded tubes with external diameters of up to 406 mm, which reported an increase to 75 million tons (+14 %), was even more dynamic. This uptrend was driven primarily by China's still surging domestic demand, as well as by the persistently high level of requirements in the oil and gas sector in North America.

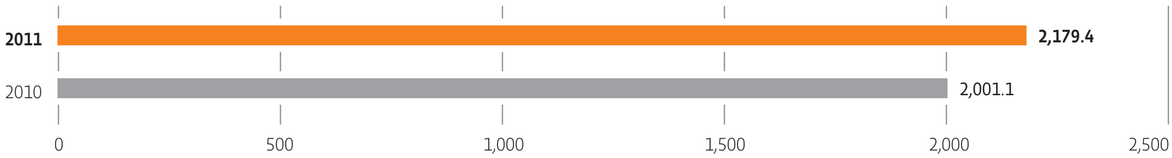
With an overall increase of 11 % in comparison with 2010, producers in the European Union (EU) reported above-average success, attaining a volume of 15 million tons. German production remained unchanged from its 2010 level. The base effect of the consistently high capacity utilization of large-diameter pipe manufacturers and the unscheduled downtime of a well-known producer in the preceding years should be taken into account in this context.

Performance of the Division

In 2011, the Tubes Division benefited from processing the backlog of a series of major large-diameter pipes projects over long stretches of the year, a healthy order book for precision tubes and a recovery in the stainless steel tubes product segment. In contrast, the HFI-welded tubes segment suffered from the difficult conditions in the market which did not permit steady capacity utilization and resulted in a partly unsatisfactory selling price quality.

The division's **new orders** remained virtually unchanged from the year-earlier level as the increase in prices almost compensated for the downturn in the volume of orders placed. The higher order intake for HFI-welded pipelines, precision and stainless steel tubes was unable to fully compensate for the lower large-diameter pipes volume compared with a year ago. As a result, **consolidated orders** on hand fell marginally short of the previous year's figure. Despite the very gratifying precision tubes shipment trend, the **overall shipment** of tubes was slightly below the 2010 tonnage owing to project-induced declines in the large-diameter pipes product segment. Improved selling prices across almost all segments boosted the **division's sales** in a year-on-year comparison. **External sales** (€ 1,686.8 million) remained virtually unchanged from the year-earlier level.

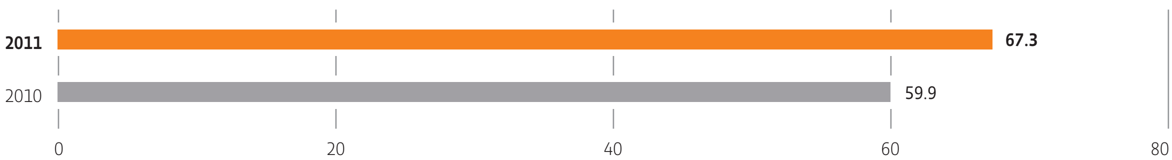
Sales



in € m

The Tubes Division delivered a **pre-tax profit** of € 67.3 million which exceeded the 2010 figures. The greatest growth was achieved by precision tubes, which staged an impressive turnaround and closed clearly in the black. The large-diameter pipes segment continued to make the largest contribution to profit.

EBT



in € m

The individual product segments reported the following developments:

The **large-diameter pipes** product segment was initially hardly affected at all by the uncertain economic environment thanks to a healthy order book and additional orders placed during the year. Having carried out the major Nord Stream II and NEL projects and subsequent follow-up orders, there was, however, a temporary gap in capacity utilization at year-end caused by difficulties in processing an order. This gap was closed for the most part in the first quarter of 2012 when the contract for the delivery of around 410,000 tons of large-diameter pipes for an Australian natural gas pipeline was won.

The **Europipe Group** did not quite match the high shipment and sales figures achieved in 2010. Against this backdrop, and due mainly to the impact of risk provisioning for inventory impairment, the company delivered a proportionate pre-tax loss of € 8.2 million.

Plate producer **Salzgitter Mannesmann Grobblech GmbH** (MGB) marginally exceeded its year-earlier shipments and sales, lifting pre-tax profit to € 51.5 million.

As **Salzgitter Mannesmann Großrohr GmbH** (MGR) produced two major orders due for actual delivery in 2012 in advance, shipment volumes and sales in the reporting year were lower compared with 2010. Accordingly, earnings before tax (€ –4.5 million) fell short of the previous year's figure.

Demand for the **HFI-welded pipes** of **Salzgitter Mannesmann Line Pipe GmbH** (MLP) generally developed well during the financial year 2011. New orders were especially gratifying in the fourth quarter, and orders on hand climbed by around one quarter compared with 2010. Shipments and sales grew considerably, although selling prices in the standard and project business came under pressure in the second and third quarter. The regular capacity utilization of the plants was not consistently ensured during this phase. As a result of these general conditions, the company delivered a negative pre-tax result of € –5.0 million which, though notably improved, nonetheless remained in the red.

The performance of the **precision tubes segment** was determined in 2011 by the ongoing boom experienced by the German and French automotive industry and strong demand emanating from the mechanical engineering sector. The order intake of the **Salzgitter Mannesmann Precision Group** once again exceeded the already strong year-earlier figure, thereby boosting orders in hand, sales and shipments alike. Due to good capacity utilization all plants were running production with additional shifts. As it was possible to pass on the increase in input material costs and, at the same time, the restructuring measures introduced in 2010 began to take effect, the precision tubes segment achieved earnings before tax of € 16.7 million, thereby staging an impressive turnaround.

After an initially modest start to the year, the **seamless stainless steel pipe and tubes** product segment of the **Salzgitter Mannesmann Stainless Tubes Group** (MST) benefited throughout the remainder of the year from the gradual recovery in the market. This was especially reflected by new and profitable orders received in the project business for the oil and gas industry. Order intake grew by a third compared with 2010. As a result, the MST Group had a comfortable cushion of orders at the end of the year that will secure good capacity utilization in all its sites through to the second quarter of 2012. Shipments and sales rose sharply in the reporting year. Including positive extraordinary effects from the liquidation of provisions, earnings before tax stood at € 19.3 million.

Services Division

Key data		2011	2010
Division sales[1]	**€ m**	**1,267.3**	**1,072.8**
DEUMU Deutsche Erz- und Metall-Union	€ m	813.1	623.3
SZST Salzgitter Service und Technik	€ m	127.6	130.9
Verkehrsbetriebe Peine-Salzgitter	€ m	106.0	105.8
TELCAT Group[2]	€ m	53.6	51.5
GESIS Gesellschaft für Informationssysteme	€ m	43.0	44.0
Hansaport Hafenbetriebsgesellschaft	€ m	39.5	38.5
Salzgitter Automotive Engineering	€ m	19.0	20.3
Salzgitter Hydroforming	€ m	38.9	30.8
Salzgitter Mannesmann Forschung	€ m	36.0	35.0
Glückauf Immobilien[3]	€ m	10.5	10.9
Consolidation	€ m	– 19.9	– 18.2
Internal sales	**€ m**	**810.0**	**659.7**
External sales[4]	**€ m**	**457.3**	**413.1**
Division earnings before tax (EBT)	**€ m**	**19.6**	**26.2**
DEUMU Deutsche Erz- und Metall-Union	€ m	4.3	4.6
SZST Salzgitter Service und Technik	€ m	0.1	0.7
Verkehrsbetriebe Peine-Salzgitter	€ m	0.6	2.5
TELCAT Group[2]	€ m	2.5	2.5
GESIS Gesellschaft für Informationssysteme	€ m	3.3	3.2
Hansaport Hafenbetriebsgesellschaft	€ m	9.0	9.8
Salzgitter Automotive Engineering	€ m	– 3.5	– 0.9
Salzgitter Hydroforming	€ m	2.5	2.6
Salzgitter Mannesmann Forschung	€ m	0.4	0.2
Glückauf Immobilien[3]	€ m	0.8	1.4
Other/Consolidation	€ m	– 0.3	– 0.4
EBITDA	**€ m**	**46.0**	**49.9**
EBIT	**€ m**	**23.1**	**27.6**

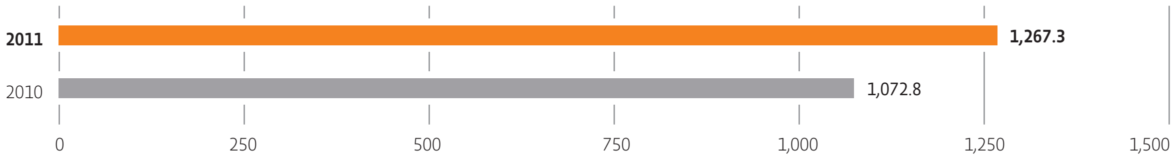
[1] Including sales with other divisions in the Group
[2] Excluding TBM
[3] Glückauf Wohnungsgesellschaft until June 30, 2010
[4] Contribution to consolidated external sales

The Services Division comprises a number of service companies that are mainly aligned to the requirements of the Group itself but are equally successful in providing services to external customers as well. The division conceives and realizes a broad-based portfolio of attractive, competitive services, from the supply of raw materials and logistics across IT and personnel services and automotive products through to research and development. More information can be found under the section on "Group Structure and Operations". The individual companies are described in the "Notes to the Consolidated Financial Statements".

The business activities of the companies, directly associated with the production of steel, depend to a great extent on the extent of the capacity utilization in the Group's steel producing companies.

Segment sales climbed by 18 % to € 1,267.3 million in comparison with 2010. This increase was principally attributable to growth achieved by **DEUMU Deutsche Erz- und Metall-Union GmbH** (DMU), which was fueled by higher steel scrap prices, and by **Salzgitter Hydroforming GmbH & Co. KG** (SZHF), which also lifted its sales. All other companies remained virtually unchanged from the year-earlier level. The **external sales** of the Services Division advanced by 11 % to € 457.3 million.

Sales



in € m

As DMU's higher level of sales was not reflected in the performance owing to narrower margins, and because the result of **Salzgitter Automotive Engineering GmbH & Co. KG** (SZAE) included positive special items in 2010, the Services Division generated a **pre-tax profit** of € 19.6 million, which is lower in a year-on-year comparison. With the exception of SZAE, all companies made contributions to profit.

EBT

in € m

Technology Division

Key data		2011	2010
Order intake	**€ m**	**1,015**	**987**
Order book	**€ m**	**436**	**353**
Division sales[1]	**€ m**	**967.7**	**873.7**
KHS Group (consolidated)[2]	€ m	858.5	792.8
KDE Group (consolidated)[2]	€ m	78.2	34.9
Klöckner DESMA Schuhmaschinen	€ m	36.7	34.2
RSE Grundbesitz und Beteiligungs-AG	€ m	5.7	5.7
Other	€ m	6.0	11.1
Consolidation	€ m	– 17.5	– 5.0
Internal sales	**€ m**	**1.1**	**0.8**
External sales[3]	**€ m**	**966.6**	**872.9**
Division earnings before tax (EBT)	**€ m**	**– 79.1**	**– 30.3**
KHS Group (consolidated)[2]	€ m	– 78.9	– 27.7
KDE Group (consolidated)[2]	€ m	5.0	– 1.0
Klöckner DESMA Schuhmaschinen	€ m	2.6	1.9
RSE Grundbesitz und Beteiligungs-AG	€ m	4.0	7.8
Other/Consolidation	€ m	– 11.8	– 11.3
EBITDA	**€ m**	**– 35.2**	**7.8**
EBIT	**€ m**	**– 60.9**	**– 19.2**

[1] Including sales with other divisions in the Group
[2] Adjusted retrospectively as per January 1, 2011, owing to initial consolidation of companies
[3] Contribution to consolidated external sales

The Technology Division of Salzgitter AG comprises mechanical engineering companies which operate worldwide. KHS GmbH (KHSDE), a company which occupies a leading international position in filling and packaging technology, accounts for the major share of sales. The KHS Group views itself as a full-line supplier, from intralogistics across processing through to the filling and packaging of beverages under one roof. Other division companies sell special machinery for the shoe industry and specialize in the manufacturing of rubber and silicon injection molding machinery. In addition, RSE Grundbesitz und Beteiligungs-AG (RSE), a company managing and developing commercial real estate in Germany, is also assigned to the Technology Division.

As an interim holding of the Technology Division, Klöckner-Werke AG (KWAG) has been a wholly-owned subsidiary of Salzgitter Mannesmann GmbH (SMG) since January 27, 2011. At an earlier date, the court with jurisdiction approved the entry of the resolution dated August 25, 2010, passed by the Annual General Meeting of Shareholders, on the transfer the shares of KWAG's minority shareholders to SMG (squeeze-out) into the Commercial Register. The minority shareholders relinquishing their shares in KWAG received a cash settlement of € 14.33 per share, and trading in the shares of KWAG was terminated. Several shareholders have applied to the court to have the settlement verified (Shareholders' Compensation Claim). This administrative decision procedure is ongoing.

Effective October 28, 2011, KWAG has changed its company name, its legal form and its headquarters. Since this date the company trades under the name of Salzgitter Klöckner-Werke GmbH (SKWG) and is headquartered in Salzgitter. As part of the reorganization of the Salzgitter Group's structure, the company has functioned as an interim holding for all the Salzgitter Group's major holdings, formerly held under SMG, since January 1, 2012.

With retrospective effect as per January 1, 2011, four additional companies of the Technology Division were included in the group of consolidated companies of Salzgitter AG:

- KHSSI KHS Asia Pte. Ltd, Singapore, Singapore
- KHSJA KHS Japan Corporation, Osaka, Japan
- KDEIN Klöckner DESMA Machinery Pvt. Ltd, Ahmedabad, India
- KDEUS KDE Sales & Service, Inc., Hebron, USA

Moreover, under an agreement dated April 12, 2011, Klöckner acquired the remaining 15 % stake in Klöckner DESMA Elastomertechnik GmbH (KDE), a company based in Fridingen, Germany. KDE has therefore become a wholly-owned subsidiary of SKWG.

More information on the companies can be found under the section on "Group Structure and Operations". The individual companies are listed in the "Notes to the Consolidated Financial Statements".

Mechanical engineering with renewed expansion

German mechanical engineering continues to chart a growth course. According to the German Engineering Federation (VDMA), the entire sector reported an increase in new orders of 10 % compared with the year-earlier figures. Both foreign demand (+9 %) and domestic business (+13 %) expanded swiftly.

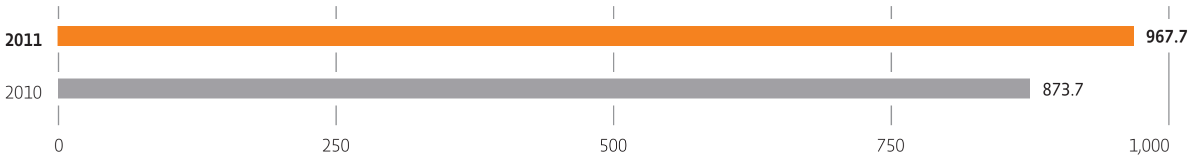
The food and packaging industry also experienced an upswing and, according to the Trade Association for Food and Packaging Machinery, grew by 10 % in 2011. With sales revenues of around 90 %, this market is central to the Technology Division. The strongest stimulus came from the Pacific region and Brazil. The anticipated increase in beverages sales, also in the context of preparations for the FIFA World Cup in 2014 and the Olympic Games in 2016, was an additional driver.

The increase in the global population, growing prosperity in the emerging markets and the strong product differentiation in saturated markets such as Central Europe or America were also factors boosting the global consumption of bottled beverages in the financial year ended. The investment environment in the markets of the special machine manufacturers that are also part of the division was similarly advantageous, and the uptrend proved stronger than originally anticipated.

Performance of the Division

Once again, the companies of the Technology Division look back on another year of growth. Following a slump in the economy in 2009 and a rapid recovery in 2010, efforts were then directed to bringing sales and margins up to the level prevailing before the crisis. **Order intake** exceeded the one billion euro threshold and was therefore higher in a year-on-year comparison. With an increase of almost a quarter, **orders on hand** settled at € 435.9 million. **Segment** (€ 967.7 million) and **external sales** (€ 966.6 million) were also substantially higher (+11 %). This growth was attributable to the brisk business of KHSDE, KHS Corpoplast and KHS's company in the US. Klöckner DESMA Elastomertechnik GmbH (KDE) and Klöckner DESMA Schuhmaschinen GmbH (KDS), the two special machinery manufacturers, also reported very pleasing growth.

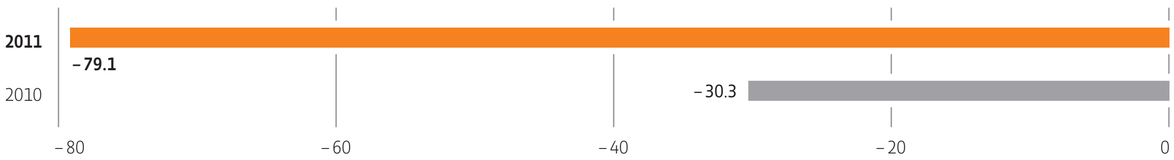
Sales



in € m

As before, pressure from competition and prices in the food and packaging machinery business remained intense. Although the quality of margins in contracts recently acquired improved, the settlement of projects mostly from previous years placed a substantial burden on the annual result of the KHS Group. In contrast, the other companies of the Technology Division generated **pre-tax profits**. The overall result of the division, which comes to € –79.1 million, includes restructuring expenses at KHSDE assignable to the Fit4Future program, as well as non-recurrent expenses of € 28.4 million for risk provisioning relating to foreign holdings.

EBT



in € m

In order to achieve sustainable competitiveness and profitability, the KHS Group stepped up the pace of its streamlining measures in the second half of 2011. The Fit4Future program launched for this purpose comprises eleven components aimed at a leaner Group, lowering costs, enhancing the flexibility with which the volatile order intake is handled, and reducing the complexity by focusing production and standardizing the global product program. In this context, 300 jobs are to be cut at KHSDE, mainly in the administration area, on the basis of a social compensation plan. In addition, following the combination of plants in recent years, keg technology is to be relocated from Kriftel to KHSDE's second largest site in Bad Kreuznach in 2012. Along with its excellent infrastructure, this location holds greater potential for smoothing demand peaks. Moreover, sufficient surface area for further expansion is available.

Other/Consolidation

The Other/Consolidation segment comprises activities that are not directly allocated to an operating division. Specifically, this includes the business of the holding companies Salzgitter AG and Salzgitter Mannesmann GmbH (SMG). As a management holding company, Salzgitter AG does not have any operations of its own. Instead it manages SMG (Salzgitter Klöckner-Werke GmbH [SKWG] since January 1, 2012), the company under which the major companies of the Salzgitter Group are held.

Sales in the Other/Consolidation segment, which are based mainly on business in semi-finished products with subsidiaries and external parties, climbed to € 200.1 million during the reporting period (2010: € 186.7 million). **External sales** also rose to € 85.3 million on the back of selling prices and a volume-induced effect (2010: € 55.9 million).

Pre-tax profit stood at € 107.4 million, which is significantly higher compared with a year ago (€ 22.3 million). The result includes € 74.2 million in after-tax profit from Aurubis AG (NAAG), a shareholding included at equity. An additional positive effect derived from interest income resulting from the cash management carried out by SMG.

4. Comparison between Actual and Forecasted Performance

At the time our annual financial statements for the financial year 2010 were released the extreme volatility of raw material costs and shorter contractual durations on the procurement and sales front hampered the reliability of forecasts pertaining to the future development of business. Moreover, the risks remained considerable, as before: alongside the foreseeable increase in the cost of raw materials, the sustainability of the uptrend in the steel and mechanical engineering markets was still subject to uncertainty. Based on the developments planned for the individual divisions, we forecast an increase in sales of between 15 % and 20 % for the Salzgitter Group and more than double the earnings before tax in 2011, both figures compared against their 2010 counterparts.

Boosted by the persistently favorable economic environment and the associated recovery in the business of almost all its subsidiaries, the Salzgitter Group reported on a good start to the new financial year after the first three months, thereby impressively confirming the turnaround following the transition year of 2010. In mid-May as well, when the figures for the first quarter were released, the reliability of a detailed forecast was still extremely problematic for the aforementioned reasons and also due to the political unrest in a number of sales regions. We nonetheless viewed the possibility of the Salzgitter Group achieving a pre-tax profit of up to € 150 million as feasible.

The upbeat performance held steady in the second quarter while, in addition, the Group was increasingly reaping the benefit of the rigorously implemented profit improvement and streamlining measures. The robust constitution of the flat steel and plate markets, combined with the successful turnaround of the precision tubes segment, prompted us to present a forecast for pre-tax profit of around € 200 million in the financial year 2011, together with our half-yearly figures, on August 11. We believed this to be justifiable even though, by this time, many business sentiment indicators had deteriorated in the course of discussions on the debt crisis in the US and the EU and the customary seasonal weakness in demand was slowing business activities in the summer months.

All in all, the Salzgitter Group benefited from the generally healthy economic framework conditions for rolled steel and tubes products in the first nine months and, by the end of September, had delivered a presentable pre-tax profit of € 169.1 million. Although the macroeconomic risks had heightened since the summer of 2011, this did not prevent demand in many product segments from remaining satisfactory, albeit modest. Despite the already identifiable signs of negative special effects, we affirmed our guidance in the fall for a pre-tax result of around € 200 million.

With earnings before tax of € 201.6 million in the financial year 2011, the Salzgitter Group has delivered a result that was ultimately in line with forecast. The result comprises € 39.5 million on balance in negative non-recurrent effects. External sales came in at € 9,839.5 million (+19 %) and therefore also ranged within the growth corridor envisaged of between 15 % and 20 %.

In view of predictions for a sustained economic recovery that the majority of economic research institutes were still forecasting in March, and given a significant upturn in deliveries to the Tubes Division, the **Steel Division** anticipated growth in both shipments and sales in 2011. At the same time, it was announced that the streamlining program in the sections segment was advancing consistently. Against this backdrop, the division predicted a positive pre-tax result in 2011. Demand for most of the Steel Division's products remained brisk well into the third quarter. Only from September onwards were there the first signs of a number of different customer sectors exercising restraint in placing orders, which necessitated moderate adjustments to the production of flat steel. Shipments and sales were nonetheless higher as against the previous year, and a pre-tax profit was generated.

The **Trading Division** initially expected shipment tonnage to rise in the stockholding steel trading business and international trading, resulting in the corresponding sales growth. Beyond this, a swift acceleration in selling prices at the start of the year, above all in the stockholding steel trading business, was expected to temporarily secure higher gross earnings. Although prices stagnated and even fell in the wake of requirements returning to normal levels over the course of the year, our outlook proved to be accurate right from the beginning of the year. The division benefited from the healthy order situation of most of the steel processing industries. The development of shipment volumes and selling prices, especially in the domestic business, was firm throughout the first six months, and there was a growing uptrend in international trading. As forecast, sales were lifted and, with earnings before tax of € 60.6 million, a profit in the mid-double-digit million range was achieved.

The **Tubes Division** began the year 2011 with expectations of unsatisfactory average selling prices in the large-diameter tubes business, originating in an old contract extending over a longer period, that would not be fully compensated by an upturn in the division's other activities. Despite the increase in shipment volumes and an improvement in selling prices anticipated in individual product segments, this prompted the division to plan for lower profit. The impressive turnaround staged by the precision tubes segment and stainless pipes doubling profits brought pre-tax profit to a considerably higher level compared with 2010.

As expected, the **Service Division's** business was determined by the healthy capacity utilization of the steel companies. Sales and profit were expected to roughly correspond to levels in 2010. The year-earlier sales figure was achieved first and foremost on the back of scrap price hikes. Narrower margins and greater expenses incurred by several companies caused the pre-tax profit to fall short of the year-earlier figure.

Against the background of a recovery in the project business, with an anticipated widening of margins, a higher volume of business in spare parts and services, combined with the growing impact of measures introduced to optimize processes and enhance efficiency, the **Technology Division** initially anticipated another improvement in the profit situation which would then make a return to breakeven feasible. Despite the positive trends in a number of regional markets and the contributions to profit of special machine manufacturers, the division did not achieve this goal in the financial year 2011. Although there was a notable improvement in the quality of the margins of contracts recently acquired by KHS, the settlement of projects from the previous years, the restructuring expenses at KHSDE and non-recurrent expenses for risk provisioning relating to holdings totaling € 28.4 million burdened the result.

As we all know, nothing's for free …

… but with a high proportion of equity capital and a sound financial structure, we have substantial liquidity to fall back on. So we are financially flexible and always able to seize market opportunities, make investments and broaden our portfolio.

This strategy has proven its worth, especially in times of crisis – partly because that's when stability is really important, but also because that's often when the best opportunities arise. But they still don't fall into our lap.

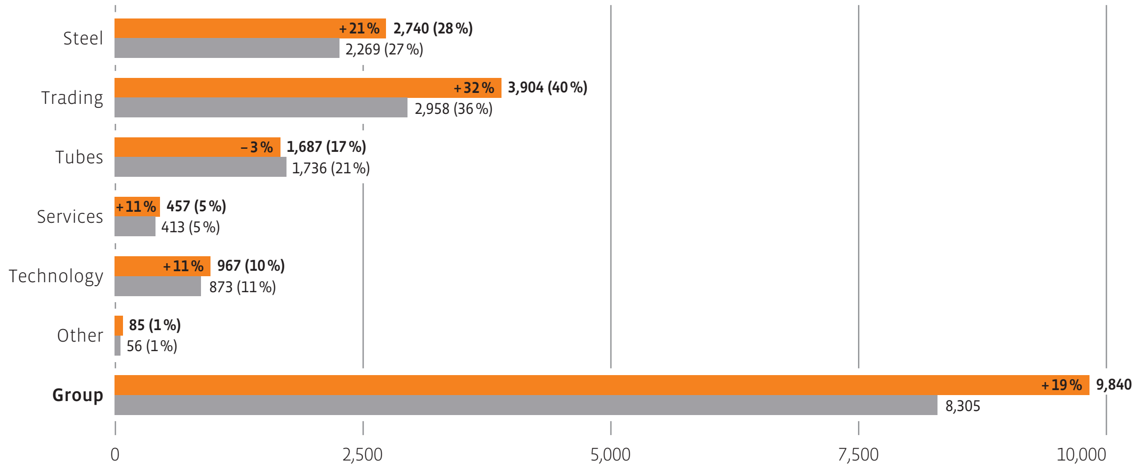
IV. Profitability, Financial Position and Net Assets

1. Profitability of the Group

The **Salzgitter Group** benefited from the generally favorable economic environment and the associated recovery in the business activities of almost all its subsidiaries in the financial year ended. Moreover, the stringently implemented profit improvement and streamlining measures supported the development of our company, enabling it to deliver earnings before tax of € 201.6 million, which is more than four times the figure posted in 2010. The result includes € 39.5 million on balance in negative non-recurrent effects. The participation in Aurubis AG (NAAG), a company included at equity, again made a pleasing contribution to this result.

External sales rose by +19 % to € 9,839.5 million, accounted for by the divisions as follows:

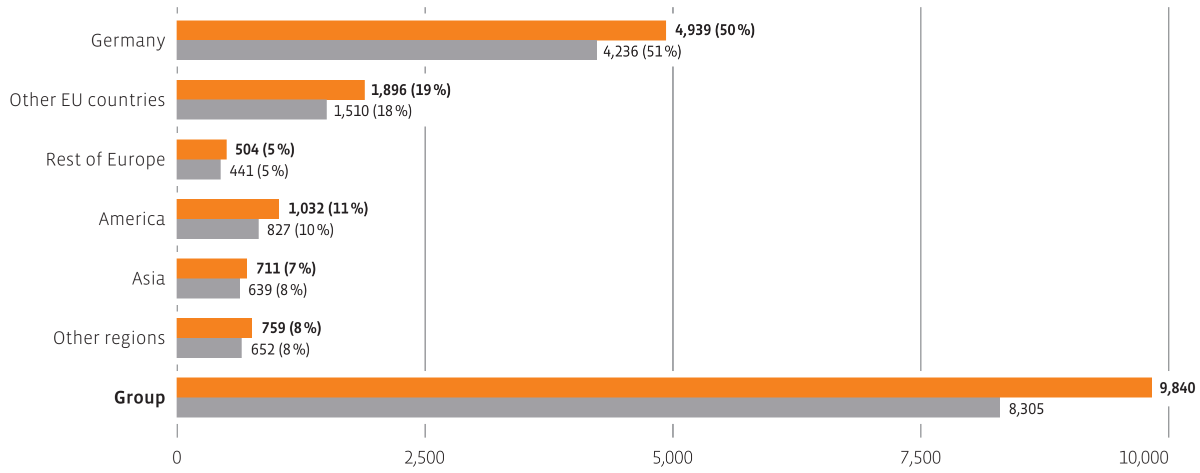
Consolidated sales by division



in € m (share in total revenues) FY 2011 FY 2010

The regional distribution of sales revenues remained unchanged for the most part: As before, the business activities of the Salzgitter Group are focused on the European Union (€ 6.8 billion; 69 % share of sales). Germany remained by far the largest single market with sales of € 4.9 billion, equivalent to a share of 50 %. It should be noted in this context, however, that many of our products are supplied to export-oriented German businesses and therefore ultimately find their way abroad.

Consolidated sales by region



in € m (share in total revenues) ■ FY 2011 ■ FY 2010

In comparison with € 48.9 million in 2010, the Salzgitter Group lifted pre-tax profit to € 201.6 million. The result includes € 39.5 million on balance in negative non-recurrent effects.

The divisions recorded the following developments:

The **Steel Division** again generated a pre-tax profit (€ 25.7 million) through higher sales volumes on the back of improved capacity utilization, a lower level of non-recurrent expenses and through the consistent implementation of the streamlining program in the sections product segment.

The **Trading Division** was boosted by overall satisfactory demand and reported a pleasing € 60.6 million in earnings before tax. The year-earlier result (€ 71.4 million) that was determined by the above-average windfall profits of the stockholding companies was, however, not matched.

The **Tubes Division** delivered a pre-tax profit of € 67.3 million, thereby exceeding the year-earlier figure, with the precision tubes segment reporting the largest increase from its impressive turnaround and closing clearly in the black. As before, the largest contribution to profit was made by the large-diameter pipes segment.

The **Services Division's** pre-tax profit of € 19.6 million was lower than in the previous year's figure as the result of Salzgitter Automotive Engineering GmbH & Co. KG (SZAE) included positive special items in 2010.

The beverages filling and packing machinery business of the **Technology Division** saw an improvement in the quality of the margins in contracts recently acquired. The annual result of the KHS Group was, however, burdened by the settlement of projects from recent years. In contrast, the other companies of the Technology Division delivered pre-tax profits. The overall result of the division, which comes to € –79.1 million, includes € 28.4 million in restructuring expenses at KHS GmbH (KHSDE) assignable to the Fit4Future program and in non-recurrent expenses for risk provisioning relating to foreign holdings.

The **Other/Consolidation** segment achieved a pre-tax profit of € 107.4 million, which is significantly higher compared with a year ago (€ 22.3 million). The earnings include € 74.2 million in after-tax profit from Aurubis AG (NAAG), a participation included at equity. An additional positive effect accrued from interest income resulting from the cash management performed by Salzgitter Mannesmann GmbH (SMG).

Results by division and consolidated net income for the year

In € m	2011	2010
Steel	25.7	– 100.6
Trading	60.6	71.4
Tubes	67.3	59.9
Services	19.6	26.2
Technology	– 79.1	– 30.3
Other/Consolidation	107.4	22.3
Earnings before tax (EBT)	**201.6**	**48.9**
Tax	– 34.4	18.9
Consolidated income[1]	**236.0**	**30.0**

[1] Including minority interests

Development of selected income statement items

The consolidated income statement is explained in detail in the “Notes to the Consolidated Financial Statements”. Selected items are explained in the following.

The higher amount disclosed under the “Increase/decrease in goods and work in process/other than work capitalized” item was primarily attributable to the sharp rise in the reporting date-related level of the Steel and Tubes divisions’ product inventories. In particular, price hikes for raw materials, semi-finished goods and steel products sourced externally, combined with the higher volume of business, caused the cost of materials to rise. Income from associated companies includes the very pleasing after-tax profit contribution made by the 25 % holding in Aurubis AG (NAAG).

Adjusted for € 34.4 million in tax income, the consolidated net profit comes to € 236.0 million. The after-tax profit which exceeds the consolidated net profit anticipated by almost € 100 million was mainly attributable to the capitalization of tax loss carryforwards and tax-exempt earnings.

Multi-year overview of earnings

In € m	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
EBT	201.6	48.9	– 496.5	1,003.4	1,313.9	1,854.8	940.9	322.8	42.5	72.5
EBIT I[1]	264.7	102.9	– 468.1	1,072.1	1,350.7	1,900.5	970.0	345.6	60.8	92.6
EBIT II[2]	304.5	159.8	– 411.3	1,026.9	1,312.4	1,891.6	1,017.4	411.1	132.2	168.1
EBITDA I[1]	627.0	482.7	100.2	1,362.3	1,581.4	2,101.8	1,186.1	666.6	309.5	314.5
EBITDA II[2]	666.8	539.7	156.9	1,317.2	1,543.1	2,092.9	1,233.5	732.1	380.9	390.0
EBT margin	2.1	0.6	– 6.4	8.0	12.9	22.0	13.2	5.4	0.9	1.5
EBIT margin I[1]	2.7	1.2	– 6.0	8.6	13.3	22.5	13.6	5.8	1.3	2.0
EBIT margin II[2]	3.1	1.9	– 5.3	8.2	12.9	22.4	14.2	6.9	2.7	3.6
EBITDA margin I[1]	6.4	5.8	1.3	10.9	15.5	24.9	16.6	11.2	6.4	6.6
EBITDA margin II[2]	6.8	6.5	2.0	10.5	15.1	24.8	17.3	12.3	7.9	8.2
ROCE %	5.6	2.2	– 10.5	21.9	28.0	47.8	38.9	24.4	4.6	7.3
ROCE % from industrial operations[3]	6.2	2.7	– 17.3	26.9	46.9	55.1	49.4	–	–	–

[1] Excluding interest expenses for pension provisions
[2] Including net interest
[3] Adjusted for the net cash position and interest income thereon

Value Added in the Salzgitter Group

The operational value added of the Group amounted to € 1,795 million in 2011; this corresponds to an increase of 12.8 % over the prior year. An amount of 86.4 % of the value added has been expended on employees. We received 1.9 % in the form of taxes and levies from the public sector (2010: –1.2 %). Lenders accounted for a portion of 2.2 %, which was marginally higher than the year-earlier figure (2.0 %). The shareholders (including treasury shares) will receive 1.5 % of the value added in the form of dividend for the financial year ended (2010: 1.2 %). An amount of € 3.35 billion from the value added has remained within the Group since 2003. In 2011, an additional € 212 million was kept within the Group and raised its value.

Value added	31/12/2011		31/12/2010	
	in € m	%	in € m	%
Sources				
Group outputs	10,555	100.0	8,897	100.0
Inputs	8,760	83.0	7,305	82.1
Value added	**1,795**	**17.0**	**1,592**	**17.9**
Allocation				
Employees	1,550	86.4	1,509	94.8
Public sector	– 34	– 1.9	19	1.2
Shareholders (dividend)	27	1.5	19	1.2
Lenders	40	2.2	32	2.0
Group	212	11.8	13	0.8
Value added	**1,795**	**100.0**	**1,592**	**100.0**

2. Financial Position and Net Assets

Financial Management

Salzgitter Mannesmann GmbH (SMG), a wholly-owned subsidiary of Salzgitter AG, carries out cash and foreign currency management principally on a centralized basis for the companies belonging to the Salzgitter Group. With effect from January 1, 2012, this function will be performed by Salzgitter Klöckner-Werke GmbH (SKWG) in the context of the Group's reorganization. Joint venture companies are not included.

The central financing of Group companies is conducted by way of granting Group credit lines in the context of Group financial transactions and, in individual cases, loan guarantee commitments. To cover the financial requirements of foreign Group companies, in particular those outside the euro area, SMG also makes use of local lending markets. At the same time, it draws on the liquidity surplus of the Group companies for financing. Supplies and services within the Salzgitter Group are settled via internal accounts. Central finance management enables us, if appropriate, to procure external capital at favorable conditions and has a positive impact on interest income. We calculate liquidity requirements through financial planning with a multi-year planning horizon and a monthly rolling liquidity planning with a six-month forecasting horizon. Funds invested, syndicated financing, medium-term bilateral credit lines and the successful placement of a convertible bond in 2009 and a bond exchangeable into a proportion of the shares held in Aurubis AG (NAAG) that was placed in 2010 guarantee that our liquidity requirements are covered.

Our international business activities also generate cash flows in a number of different currencies. In order to secure against the resulting currency risk, Salzgitter Group companies must hedge foreign currency positions at the time when they arise in accordance with Group guidelines. The Group's Internal Audit monitors compliance with these regulations. For transactions denominated in USD, which make up a major portion of our foreign currency transactions, the option of setting off sales and purchasing items (netting) is considered first within the Group. Any surplus amounts are hedged by way of forex forwards and option contracts.

Pension provisions still play a significant role in corporate financing. In light of the unchanged actuarial interest rate (4.25 %), they came to € 1,893 million (2010: € 1,926 million).

Cash flow statement

The cash flow statement (detailed disclosure in the section on the "Consolidated Financial Statements") shows the source and application of funds. The cash and cash equivalents referred to in the cash flow statement correspond to the balance sheet item "Cash and cash equivalents".

Cash and cash equivalents

In € m	2011	2010
Cash outflow/inflow from operating activties	– 196.6	208.6
Cash outflow from investment activities	– 351.6	– 672.3
Cash outflow/inflow from financing activties	– 84.8	242.3
Change in cash and cash equipments	**– 633.0**	**– 221.4**
Changes to the group of consolidated companies/changes in exchange rates	4.9	2.7
Cash and cash equivalents on the reporting date	**946.2**	**1,574.3**

The Group recorded € 197 million in negative cash flow from operating activities (2010: € 209 million). The increase in working capital, in particular due to livelier business, took up more of the company's cash funds. The lower level of cash outflow from investment activities compared with the year before reflects the final phase of the major investment projects of recent years and the reallocation of funds invested (€ +321 million). Moreover, the decline in disbursements for investments in property, plant and equipment and intangible assets (€ – 82 million) were offset by greater cash outflow for investments in financial assets (€ +74 million).

A negative cash flow from financing activities of € –85 million was recorded in the financial year 2011. This was attributable to the repayment of non-current financial liabilities (€ 20 million), the acquisition of shares from minority shareholders of Klöckner-Werke AG (KWAG), Duisburg, as well as additional minority shareholdings in Klöckner DESMA Elastomertechnik GmbH (KDE), Fridingen, (sum total € 35 million) and outgoing interest payments of € 13.0 million. In addition, we paid out approximately € 17 million, or € 0.32 per share, to the shareholders of Salzgitter AG for the financial year 2010.

From a financial standpoint, tax-induced investments and marketable securities are assigned to cash and cash equivalents. The modified cash and cash equivalents at the start of the period increase by € 378 million to € 1,952 million through the addition of this position, up from € 1,574 million. When viewing the cash flow statement in the light of the above, there are also effects on the cash outflow from investment activities. This outflow rose by € 105 million to € –456 million, up from € –352 million. Taking account of marketable securities, a sound cash and cash equivalents base of € 1,202 million was recorded on the reporting date.

Higher working capital, which climbed by € 560 million, was the main reason for the significantly lower level of net cash investments held at banks of € 508 million (2010: € 1,272 million). Cash investments, including securities (€ 1,202 million), as per the end of 2011 were offset by a marginal increase in liabilities owed to banks € 695 million (2010: € 680 million). The latter also include € 592 million in obligations attached to convertible and exchangeable bonds.

The liquidity and debt-to-equity ratios in the financial year 2011 are described in the following:

Multi-year overview of the financial position

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Solvency I (%)[1]	169	192	211	157	211	252	150	100	91	97
Solvency II (%)[2]	287	287	302	281	317	365	253	187	187	185
Dynamic debt burden (%)[3]	– 12.1	30.1	406.8	64.9	– 304.5	– 95.5	41.3	20.2	12.5	8.3
Gearing (%)[4]	120.0	125.9	106.2	100.3	98.0	101.9	169.1	278.0	268.7	261.4
Cash flow (€ m) from operating activities	– 197	209	1.190	547	781	488	468	352	223	157
Net debts to banks (€ m)[5]	– 508	– 1,272	– 1,561	– 991	– 2,115	– 2,283	– 822	– 71	56	66

$^{1)}\dfrac{\text{(current assets – inventories) x 100}}{\text{current liabilities + dividend proposal}}$

$^{2)}\dfrac{\text{current assets x 100}}{\text{current liabilities + dividend proposal}}$

$^{3)}\dfrac{\text{cash flow from operating activities x 100}}{\text{non-current and current borrowings (including pensions) – investments}}$

$^{4)}\dfrac{\text{non-current and current liabilities (including pensions) x 100}}{\text{equity}}$

[5] – ≙ cash in bank, + ≙ liabilities

Asset Position

Compared with the end of the 2010 reporting period (€ 8,689 million), the Group's total assets have risen by 1.3 % to € 8,800 million. The growth in non-current assets (€ +228 million) was mainly attributable to the increase in financial assets and deferred tax assets and the higher amount recognized for holdings in associated companies. The financing of the higher level of inventories and the increase in receivables (€ +500 million) as part of current assets reduced financial resources, including securities, to € 1,202 million (2010: € 1,952 million).

Assets and capital structure

In € m	31/12/2011	%	31/12/2010	%
Non-current assets	3,675	41.8	3,447	39.7
Current assets	5,125	58.2	5,242	60.3
Assets	**8,800**	**100.0**	**8,689**	**100.0**
Equity	4,000	45.5	3,846	44.3
Non-current liabilities	3,043	34.5	3,033	34.9
Current liabilities	1,757	20.0	1,809	20.8
Equity and liabilities	**8,800**	**100.0**	**8,689**	**100.0**

As part of non-current assets, investments in property, plant and equipment and intangible assets (€ 361 million) corresponded largely to depreciation and amortization. Working capital advanced to € 2,753 million (+25.5 %), which was mainly attributable to the volume- and value-based increase in inventories.

The equity ratio has improved marginally (45.5 %) in comparison with a year ago (44.3 %). Non-current assets rose by € 10 million as opposed to current assets which fell by € 52 million.

The actuarial interest rate applied to the calculation of pension provisions was unchanged (2010: 4.25 %). Consequently, the current financial statements do not reflect the notable influence on the balance sheet of the interest rate – formerly generally adjusted on an annual basis – used to calculate existing pension provisions.

Multi-year overview of the asset position

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Asset utilization ratio (%)[1]	41.8	39.7	39.5	33.5	25.8	23.4	35.1	45.3	51.3	52.1
Inventory ratio (%)[2]	23.9	19.9	18.2	29.3	24.8	23.7	26.6	25.5	25.0	22.8
Depreciation/ amortization ratio (%)[3]	13.5	14.2	21.3	11.7	11.7	13.9	14.5	22.6	16.8	14.3
Debitor days[4]	53.7	51.7	49.3	48.4	54.5	47.9	44.9	55.4	47.4	53.3
Capital employed (€ m)	4,733	4,596	4,457	4,886	4,829	3,974	2,496	1,418	1,308	1,258
Working capital (€ m)	2,753	2,193	1,981	3,338	2,845	2,159	1,809	1,479	1,222	1,215

[1] $\frac{\text{non-current assets x 100}}{\text{total assets}}$

[2] $\frac{\text{inventories x 100}}{\text{total assets}}$

[3] $\frac{\text{write-downs on property, plant and equipment/intangible assets x 100}}{\text{property, plant and equipment/intangible assets}}$

[4] $\frac{\text{trade receivables x 365}}{\text{sales}}$

3. Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG for the financial year 2011 have been drawn up in application of the accounting policies and valuation methods of the German Commercial Code, taking account of the supplementary provisions set out under the German Stock Corporation Act, and have been approved without qualification by the auditor PricewaterhouseCoopers, Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover. The complete text is published in the electronic German Federal Gazette.

As before, Salzgitter AG heads up the Group divisions that are responsible at the operational level as the management holding. Consequently, the profitability of the company depends on the business progress made by its subsidiaries and shareholdings and on the extent to which they retain their value.

The main associated companies are held, as before, by the wholly-owned company Salzgitter Mannesmann GmbH (SMG) with which there is no profit transfer agreement. There is, however, a contractual arrangement for the voluntary assumption of SMG's losses by Salzgitter AG.

Salzgitter AG Balance Sheet (summarized)

In € m	31/12/2011	%	31/12/2010	%
Non-current assets	**43.5**	**4.0**	**43.2**	**4.0**
Property, plant and equipment[1]	21.1	2.0	20.8	1.9
Financial investments	22.4	2.1	22.4	2.1
Current assets	**1,033.6**	**96.0**	**1,043.2**	**96.0**
Trade receivables and other assets[2]	1,033.6	96.0	1,043.1	96.0
Cash and cash equivalents	0.0	0.0	0.1	0.0
Assets	**1,077.1**	**100.0**	**1,086.4**	**100.0**

In € m	31/12/2011	%	31/12/2010	%
Equity	396.4	36.8	388.6	35.8
Provisions	376.0	34.9	397.4	36.6
Liabilities	304.7	28.3	300.3	27.6
due to banks	[0.0]		[0.0]	
Equity and liabilities	**1,077.1**	**100.0**	**1,086,4**	**100.0**

[1] Including intangible assets
[2] Including prepaid expenses and treasury shares

The receivables from the liquidity (€ 976 million) provided to the subsidiary SMG as part of a groupwide cash management continue to form the main items on the assets side. The treasury shares are disclosed separately from equity in accordance with the regulations prescribed by the German Commercial Code (HGB).

Besides equity, the liabilities side of the balance sheet reports pension obligations of € 343 million and repayment obligations vis-à-vis the Dutch issuer of the convertible bond. The equity ratio currently stands at 36.8 % (2010: 35.8 %).

Salzgitter AG Income Statement (summarized)

In € m	2011	2010
Other operating income	34.3	35.3
Personnel expenses	21.2	22.0
Depreciation/amortization[1]	1.2	1.2
Other operating expenses	25.0	22.2
Income from shareholdings	66.2	52.1
Net interest result	– 27.6	– 29.0
Earnings before tax	**25.5**	**13.0**
Tax	– 0.4	4.7
Extraordinary result	0.0	0.1
Net income for the financial year	**25.1**	**17.8**

[1] Including unscheduled write-downs on financial assets and marketable securities

Other operating income includes gains from the levying of a Group contribution and from the writing back of provisions.

Income from shareholdings is almost exclusively related to the earnings contributions received by SMG.

The company's workforce was made up of 165 employees as of December 31, 2011, which is one staff member less compared with the previous year.

Disclosures pursuant to Sections 289 para. 4 and 315 para. 4 of the German Commercial Code (HGB)

The subscribed capital consisted of 60,097,000 ordinary bearer shares with a notional value per share of € 2.69 in the capital stock on the reporting date. All shares are subject to the same rights and obligations specified under the German Stock Corporation Act (AktG).

To the knowledge of the Executive Board, the only restrictions on the voting rights or the assignment of shares on the reporting date were as follows: The company was not entitled to any voting rights from its treasury shares (6,009,700 units), and the members of the Executive and Supervisory boards were not entitled to any voting rights from their shares in respect of the resolution passed on their own ratification and discharge.

The only share in the capital exceeding 10 % of the voting rights on the reporting date was held by Hannoversche Beteiligungsgesellschaft mbH (HanBG), Hanover, which disclosed on April 2, 2002, that it was holding 25.5 % of the voting rights in Salzgitter AG; owing to the decline in the number of total shares outstanding since that date, this corresponds to voting rights of 26.5 %. The sole shareholder of HanBG is the Federal State of Lower Saxony.

There are no shares with special rights that confer powers of control. The Executive Board does not know of any employees participating in the capital who do not exercise their power of control directly.

The appointing and dismissing of members of the Executive Board and amendments to the Articles of Incorporation are carried out solely within the provisions set out under the German Stock Corporation Act (AktG).

Based on the requisite resolutions passed by the General Meeting of Shareholders, the Executive Board has the following four options of issuing or buying back shares:

- Upon approval by the Supervisory Board, the Executive Board may issue 30,048,500 new no par bearer shares against payment in cash or in kind on or before May 26, 2014 (Authorized Capital 2009), whereby a maximum of 12,019,400 units may be issued excluding the subscription rights of the shareholders (20 % of all shares issued on May 27, 2009). The 20 % cap is reduced by the proportionate amount in the capital stock to which the following relate: the option or conversion rights and the option or conversion obligations attached to the warrants, convertible bonds, profit participation rights and/or participating bonds or a combination of these instruments which have been issued, with subscription rights excluded, since May 27, 2009. On October 6, 2009, a convertible bond was issued on up to 3,550,457 new no-par bearer shares (5.9 % of the shares issued) excluding the shareholder subscription rights with conversion rights that may be exercised on or before September 27, 2016. By the reporting date there had been no shares issued since May 27, 2009, from the Authorized Capital.
- Moreover, upon approval by the Supervisory Board, the Executive Board may issue bonds in a total nominal amount of up to € 1 billion on or before June 7, 2015, and grant the holders of the respective bonds conversion rights to shares of the company in a total amount of up to 26,498,043 units (Contingent Capital 2010). Under this transaction, the subscription rights of shareholders can be excluded up to a total nominal amount of bonds to which conversion rights of up to 2,459,243 shares are attached. Bonds with conversion rights excluding shareholder subscription rights may only be issued provided that shares making up a proportion of 20 % of the capital stock, excluding subscription rights, from the Authorized Capital have not been issued since May 27, 2009. By the reporting date there had been no shares issued since May 27, 2009, from the Authorized Capital.
- On October 6, 2009, the Executive Board made use of the authorization to issue a bond in the form of a convertible bond to the exclusion of shareholder subscription rights with conversion rights pertaining to up to 3,550,457 new shares from contingent capital (Contingent Capital 2009), exercisable until September 27, 2016. By the reporting date, no holder of convertible bonds had yet exercised their conversion rights.
- The Executive Board is authorized to purchase the company’s own shares equivalent to a proportion of the capital stock of up to 10 % in the period on or before June 7, 2015, and to use these shares for all purposes permitted under the law.

There are no material agreements of the company subject to the condition of change of control following a takeover offer. In the event of a takeover offer, the members of the Executive Board have the right to terminate their contracts of employment under certain preconditions and are entitled to settlement in an amount of the total remuneration over the residual term of their respective contracts. There is, however, a cap on the maximum amount of this entitlement.

Appropriation of the Profit of Salzgitter AG

Salzgitter Aktiengesellschaft reported a net income of € 25.1 million for the financial year 2011. Taking retained earnings brought forward (€ 2.0 million) into account, unappropriated retained earnings amount to € 27.1 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that these unappropriated retained earnings (€ 27.1 million) be used to fund payment of a dividend of € 0.45 per share (based on the capital stock of € 161.6 million divided into 60,097,000 shares) and that the remaining amount be carried forward to new account.

The proposed appropriation of earnings will be adjusted accordingly in line with the company's holding of own shares on the day of the General Meeting of Shareholders, as these shares are not eligible for dividend.

As long as travelling has not become a lot easier ...

... we will be maintaining a presence outside of Germany on all continents with more than 3,700 employees. That's the only way – so far at any rate – to offer our customers the benefits of a personal service worldwide. Because even though we don't define ourselves as a global player, we want and need to understand the regional markets and offer our services. That's why – with our steel trading business in particular – we are close at hand at every important location, operating our smoothly functioning, globe-spanning network. Nevertheless, our deep roots are in Salzgitter. This is our home, and we feel a sense of responsibility towards the region and our employees. And we like to think that for such a large business, we've kept our feet firmly on the ground.

V. Risk Report

1. Risks and Opportunities Management System

In the past year our risk management system has proven its worth and effectiveness, also in the face of the economic constraints resulting from the financial and debt crisis.

While taking account of the opportunities and risks, we comment on expectations on the medium-term development of the economy and their potential impact on our company in the section on "Significant Events after the Reporting Date and Forecast".

Business activity as defined by the Articles of Incorporation makes risk taking unavoidable in many instances, as this is frequently a precondition for exploiting opportunities. All risks must, however, be containable and kept within limits by the management of the company. For our Group, foresighted and effective risk management is therefore an important and value-creating component of management that is geared towards safeguarding the company as a going concern, along with capital invested and jobs.

Differentiation between risk and opportunities management

We treat risk and opportunity management separately as a matter of principle. A separate reporting system maps, tracks and supports the monitoring of risks. By contrast, the recording and communication of opportunities forms an integral part of the management and controlling system that operates between our subsidiaries and associated companies and the holding company. The identification, analysis and implementation of operational opportunities are incumbent on the management of the individual companies. Goal-oriented measures are devised to reinforce strengths and to tap strategic growth potential together with the holding of the Group. To this end, the Group has a series of instruments at its disposal, which are described on page 63 entitled "Management and Control Instruments".

Organizational permeation

All fully consolidated companies in the Steel, Trading and Services division and, in addition, a number of non-consolidated companies are incorporated on principle into our risk management. Alongside the fully consolidated companies combined under the Tubes Division, jointly held EUROPIPE GmbH (EP) and its subsidiaries have been integrated in accordance with Salzgitter AG's guidelines. In 2011, the risk management conducted in the companies of the KHS Group as well as Klöckner DESMA Elastomertechnik GmbH (KDE) and Klöckner DESMA Schuhmaschinen GmbH (KDS), forming part of the Technology Division, was replaced by the system practiced at Salzgitter AG. RSE Grundbesitz und Beteiligungs-Aktiengesellschaft (RSE) had already been integrated into our risk management at an earlier date.

Qualified top-down rules to complement decentralized activities

Our subsidiaries and associated companies apply the risk management system autonomously. It is the task of the management holding to put guidelines in place that constitute the basis on which a uniform and adequate consideration and communication of risks can be ensured throughout the Group. We convey the concept to the companies through the guidelines. These guidelines lay down the principles through which we harmonize groupwide risk inventories and ensure the informative value for our Group. We will continue to develop our risk management system in line with the requirements on an ongoing basis.

Methodology and reports

We include risks as an integral part of our intra-year forecasting, medium-term planning and strategy discussions. With the aim of avoiding potential risks, as well as controlling, managing and mastering them and taking preventive measures, we have defined a set of different procedures, rules, regulations and tools. As a result of the high degree of transparency achieved with regard to developments that involve risk, we are able to take appropriate countermeasures and implement them in a targeted manner at an early stage.

At Salzgitter AG there is a clear demarcation between risk management and controlling that complement one another. Actual risks can therefore be handled either through the medium of controlling (for example, by way of provisioning), or through the risk management system (by taking action to overcome the risk), or by using both approaches.

We use our groupwide reporting system to ensure that management is provided with the necessary and pertinent information. The Group companies report on the risk situation in monthly controlling reports or ad hoc directly to the Executive Board. Almost all companies subject to reporting requirements use the Group database specially developed to facilitate the effective handling of data. We analyze and assess the risks at Group level, monitor them punctiliously, allocate them to risk categories and align them to our overall business situation.

For its part, the Executive Board reports to the Supervisory Board on the risk position of the Group as well as – where appropriate – on the status of individual risks. The Supervisory Board has formed an Audit Committee that is tasked with addressing issues relating to risk management in its regular meetings.

Evaluation aspects

A distinction is drawn between improbable and probable risks determined by the likelihood of their occurrence. Improbable risks are events that, after careful commercial, technical and legal consideration of the circumstances, are deemed unlikely to occur. The conditions that must be fulfilled for this judgment to stand are documented, periodically examined and updated if necessary. It is the task of controlling and internal auditing at Salzgitter AG to monitor observance of the criteria established. In the case of probable risks, loss accruing to the company from an undesirable event can no longer be ruled out. We document the quantitative extent of the calculated loss or damage in the light of all influencing factors in order to track and assess the risks.

Derivation of net loss from gross loss

In the derivation of net loss from gross loss we take account of all measures to contain loss. Provisions and impairments are handled by our Controlling, and the gross loss is reduced accordingly, a measure to which we make specific reference in our risk documentation.

With regard to the extent of loss or damage, we distinguish between major risks in excess of a gross amount of at least € 25 million and other risks involving loss or damage of less than a gross amount of € 25 million.

Risks are recorded in the internal planning and controlling system of the respective companies and communicated to the Group in accordance with the specific company reporting thresholds.

It is evident that, even if a number of major risks in a magnitude of € 25 million were to occur simultaneously, the Group would not be endangered as a going concern.

Measures to overcome risk

Measures that would need to be taken for the evaluation and overcoming of each respective risk are documented and reported on.

2. Individual Risks

Sectoral risks

Based on macroeconomic changes in the international markets, the development of the following factors are of special significance for the Salzgitter Group:

- prices in sales and procurement markets,
- the exchange rates (especially USD/EUR) and
- energy prices.

In order to minimize the associated business risks, we monitor the relevant trends and take account of them in risk forecasts. This is also valid for potential restrictions resulting from financial or political measures affecting international business.

Along with efforts to set in place healthy sales structures with sectoral and geographical diversification, we are committed to optimizing manufacturing processes and promoting the targeted growth of our Group.

We view a diversified holdings portfolio as instrumental in reducing our dependency on the strongly cyclical nature of the steel industry. We limit risks from changes in the steel and tubes markets by having a decentralized Group structure enabling swift decision-making processes which allow us to adapt rapidly to new market conditions. From today's standpoint, there are no risks identifiable from developments in the relevant sectors which could constitute a threat to Salzgitter AG as a going concern. With regard to risks arising from the current discussions on climate and energy policy, we make reference to the section entitled “Environmental Protection”.

Price risks of purchasing essential raw materials

The procurement prices of raw materials, especially iron ore and coking coal, are extremely volatile. The highest and lowest price of fine ore in 2011, for instance, was 193 USD/t and 120 USD/t respectively. Coking coal spot market prices also displayed considerable fluctuation ranging between 228 USD/t and 350 USD/t, particularly at the start of the year when prices were exacerbated by flooding in Australia as the main supplier country.

The Salzgitter Group’s fundamental approach is to pass on price fluctuations to customers through a form of natural hedging. On the procurement side, supply contracts concluded on an annual basis serve to cushion a significant part of the impact of ore initially sourced; pricing on a quarterly or monthly basis, however, predominates. The Group uses a permanent system of monitoring sales and procurement to ensure that there is congruence between the fixed-price sales and the fixed-price procurement of raw materials. This system enables changes to be recognized at an early stage so that resulting risk can be dealt with in time.

Procurement risks

We counteract the fundamental risk from supply shortfalls of raw materials (iron ore, coal) and energy (electricity, gas) by safeguarding their procurement, firstly by way of long-term framework contracts, and secondly through ensuring our supply from several regions and/or a number of suppliers. In addition, we also operate an appropriate inventory management. The assessment of our supply sources confirms our opinion that the medium-term availability of these raw materials in the desired quantity and quality is ensured. We procure our electricity mainly on a contractually secured basis if our needs exceed our own generating capacity. In order to minimize the risks of further electricity price hikes, two new 105 megawatt power-generating units have been built at the Salzgitter location and will largely serve to cover the future electrical power requirements of Salzgitter Flachstahl GmbH (SZFG). The commissioning of these new units took place in December 2010. For the reasons cited above, we believe that supply bottlenecks are unlikely, and no adverse effects are therefore anticipated.

The scheduled and punctual rail transport of iron or and coal from our overseas port in Hamburg to the Salzgitter site is also important. Our contractual partner in guaranteeing this logistics task is DB Schenker Rail Deutschland AG, the freight subsidiary of Deutsche Bahn AG. We have developed a detailed contingency plan to deal with any adverse effects, such as strikes. This plan includes foresighted stockholding and intensive coordination between DB Schenker and ourselves to keep train transport running regularly to the greatest possible extent. Another viable alternative is the more intensive use of the railway facilities owned by the Group, as well as resorting to inland waterways to transport partial shipments.

Selling risks

A risk typical of our business may also result from the sharp fluctuation in prices and volumes in our target markets. With regard to the current economic environment, we refer to the outlook for the financial year 2012 under the section entitled “Significant Events after the Reporting Date and Forecast”.

We counteract the general risk to our company as a going concern by maintaining a diversified portfolio of products, customer sectors and regional sales market.

As the effects of the economic situation on various divisions differ and therefore even partly compensate for one another, we achieve a certain balance in our risk portfolio. Thanks to our broad-based business position and flexible organization, we are also able to implement countermeasures tailored to the specific situation swiftly and effectively.

Production downtime risks

We counteract the risk of unscheduled, protracted downtime of our key plant components through regular plant and facility checks, a program of preventive maintenance measures, as well as a continuous process of modernization and investment. In order to contain other potential loss or damage, with the associated production downtime, as well as other conceivable compensation and liabilities claims, the Group has concluded insurance policies which guarantee that the potential financial consequences are curtailed, if not fully excluded. The scope and content of insurance cover is reviewed on an ongoing basis and adjusted, if necessary. We consider the probability of events occurring that are not covered by appropriate insurance – and the associated potential loss – to be low.

Legal risks

In order to exclude potential risks arising from a breach of the manifold fiscal, environmental, competition-related rules and regulations and other legal provisions we require our employees’ strict compliance. We seek extensive legal advice from our experts as well as, on a case-by-case basis, from qualified external specialists.

To coordinate the Group’s initiatives with respect to policies relating to the steel industry and its associations, as well as to ensure that these initiatives are pursued on a systematic basis, we have set up an international affairs contact desk within the Group.

In our opinion, there are no discernible material legal risks.

Financial risks

The coordination of funding and the management of interest rate and currency risks of companies financially integrated into the Group, a task assigned to Salzgitter Mannesmann GmbH (SMG), will now be performed by Salzgitter Klöckner-Werke GmbH (SKWG) from January 1, 2012, onwards. The risk horizon which has proven to be expedient is a rolling three-year period aligned to a planning framework. The guidelines issued require all companies belonging to the group of consolidated companies to hedge against financial risks at the time when they arise. For instance, risk-bearing open positions or financing in international trading must be reported to SMG/SKWG by the respective subsidiaries. SMG/SKWG respectively then decides on hedging measures, taking account of the Group's exposure at the time. On principle, we permit financial and currency risks only in conjunction with processes typical to steel production and trading (please also see the sections on "Currency risks" and " Interest rate risks").

In relation to the operating risks, the financial risks are of lesser importance.

Currency risks

Our procurement and sales transactions in foreign currencies naturally harbor currency risks. The development of the dollar, for instance, exerts a major influence on the cost of procuring raw materials and energy, as well as on selling prices in the tubes segment or in mechanical engineering, for example. Although the effects are mutually counteracting, the need for dollars for procurement activities predominates owing to the business volumes that vary greatly. We generally set off all EUR–USD denominated cash flows within the consolidated group, a process known as netting, and thereby minimize the risk potential.

To limit the volatility of financial risks, we conclude derivative financial instruments with terms whose value develops counter to our operational business. The development of the market value of all derivative financial instruments is ascertained on a monthly basis. Moreover, for the purpose of the annual financial statements, we simulate the sensitivity of these instruments in accordance with the standards laid down under IFRS 7 (see the section entitled "Notes to the Consolidated Financial Statements").

Default risks

We counter risks from our receivables by practicing stringent internal exposure management. We limit around two thirds of these risks through trade credit insurance and other collateral. As opposed to the notable curtailment of limits or even full retraction of cover by trade credit insurers two years ago, measures that, from our perspective, first and foremost affected the automotive supplier sector and customers in Eastern Europe, granting cover returned to normal levels over the course of the financial year ended. We nonetheless observe and assess the development of unsecured positions with the utmost caution and take this into account in our business.

We do not hedge translation risks arising from the converting of positions held in a foreign currency into the reporting currency, as these are of secondary importance in relation to the consolidated balance sheet. More information on this topic has been included in the Notes to the Annual Financial Statements at company and at Group level. As a result of the preventative measures, we believe that currency risks do not constitute a threat to the company as a going concern.

Liquidity risks

The management holding company monitors the liquidity situation within the Group by operating a central cash and interest management system for all the companies that are financially integrated into the Group. This system defines internal credit lines for the subsidiaries. If subsidiaries have their own credit lines, they are responsible for minimizing the associated risk themselves and for reporting on potential risks in the context of the Group management and controlling structures. Risks may also arise from the necessary capital and liquidity measures taken on behalf of the subsidiaries and holdings if their business should develop unsatisfactorily in the longer term. We do not, however, anticipate any burdens from this area of risk which could constitute a going concern risk. We counteract this risk by way of rolling financial planning. In view of the cash and credit lines available, we see no danger to our Group as a going concern at this time.

Interest rate risks

The cash and cash equivalents item, significant in relation to the balance sheet total, is exposed to interest rate risk. Our investment policy is oriented to the greatest extent possible towards low risk investment categories with a top credit rating while, at the same time, ensuring the availability of positions. In order to keep a check on the interest rate risk, we regularly conduct interest rate analyses, the results of which are directly incorporated into investment decisions. Long-term structural interest rate risk may arise from a persistent gap between the deposit interest rate and interest- and income-induced developments in pension obligations. This type of risk is currently not discernible; if – unexpectedly from today's standpoint – it should arise, the Group's robust balance sheet constitutes a good basis for corrective measures.

Tax risks

The recording and documenting of tax risks are carried out by the companies integrated into the tax group in close coordination with the holding company's tax department. Salzgitter AG, SMG and SKWG are responsible for provisioning, for example, in respect of the risks inherent in audits conducted on their tax group. Companies with independent tax liability are responsible for their own provisioning.

In the context of former government aid to border regions, the EU Commission requires Salzgitter AG to make back payments of € 17.8 million (including interest) on – from our standpoint – the legal and legitimate tax advantages accruing prior to 1995. In 2008, the European Court of Justice made a decision which went largely against the company in the second instance, but has nonetheless referred the case back to the court of first instance. The verdict of this court is anticipated in 2012. We have already remitted payment of the amount claimed by the Commission in order to avoid further interest accruing – contingent on the success of the legal action.

Personnel risks

Salzgitter AG actively competes on the market to attract qualified specialists and managers. The company counters the risk of fluctuation and the associated loss of knowledge by means of broad-based measures designed to develop its personnel. To this end, specialist career paths have been explicitly introduced with the aim of creating appropriate career prospects for our specialists. In our knowledge transfer, which is applied groupwide, we have developed an instrument that, in the case of successor staff, ensures continuity in the transfer of all knowledge-based information, contact and business connections pertaining to the respective professional activity. Moreover, we also offer attractive company pension schemes that, given the dwindling benefits under the state pension scheme, are becoming increasingly important.

We initiated the “GO – Generation Campaign 2025 of Salzgitter AG” back in 2005 against the backdrop of demographic developments with the aim of responding in good time to the impact of these developments on our Group, thereby securing our innovative strength and competitiveness also in the long term. The project is focused on the systematic preparation of all employees for a longer working life. Given our manifold measures, we believe that we are well prepared in this area of risk (see the section on “Employees”).

Product and environmental risks

We meet the challenge of product and environmental risks with a multitude of measures aimed at securing quality. Examples include:

- certification in accordance with international standards,
- continuous modernization of plants,
- ongoing development of our products and
- extensive environmental management.

More information, for instance on the legal provisions concerning energy and climate policies, can be found in the section on “Environmental Protection”.

An environmental officer appointed for the Group is tasked with centralizing and coordinating environmental and energy policy issues that affect all companies, to represent the Group externally in matters relating to the environment and energy policies and to manage individual projects affecting the whole Group.

Risks from owning land and property may arise, particularly from inherited contamination. We counteract this risk, for instance, by fulfilling our clean-up duties. In terms of financial precautions, an appropriate amount of provisions are formed. To our knowledge there are no unmanageable circumstances arising from this type of risk.

Information technology risks

We contain the risks arising in the field of information technology (IT) by developing and maintaining a knowledge base within the Group in the form of IT services in our subsidiaries. This ensures that we always remain at the forefront of technological progress.

The authority and competence granted to Group IT in matters of general policy in this area ensure the ongoing development of our groupwide IT systems and form the basis for the economic deployment of the required investment funds.

The consistent replacement of our hard- and software resources in line with the latest technology ensures that availability, maintenance and IT security are kept at the highest level. The historically evolved, heterogeneous IT structures in the Group are being gradually streamlined. The risks from this area are deemed manageable, and we estimate the probability of an adverse event occurring to be low.

Corporate strategy risks

To secure our future earnings strength, we have been investing considerable sums in recent years, especially at our Group locations in Salzgitter and Peine. In KHS GmbH, we have acquired the world's number three for beverage filling machinery. This addition to our portfolio will enable us to reduce our dependency on the "typical" steel cycle in the future.

More detailed information can be found in the sections on "Management and Control of the Company, Goals and Strategy" and "Investments".

We limit the risks arising from joint ventures in which we do not hold a majority stake by way of appropriate reporting and consultation structures, through participation in supervisory committees and through contractual arrangements. Members of Salzgitter AG's Executive Board are, for instance, represented on the supervisory board of EUROPIPE GmbH (EP) in order to ensure the transparency of our 50 % joint venture.

3. Overall Statement on the Risk Position of the Group

Evaluation of the risk position by management

Having reviewed the overall risk position of the Salzgitter Group, we can conclude that there were no risks endangering either the individual companies or the entire Group as going concerns at the time when the 2011 annual financial statements were drawn up.

The major risk for the future development of the global economy is constituted by a potential escalation of the debt crisis in the eurozone. Based on the premise that this crisis of confidence and sovereign debt can be overcome, we view the financial year 2012 with cautious optimism. At the same time, the planning security achievable, also in respect of short- and medium-term developments, has not reattained the pre-crisis level. We nonetheless consider ourselves well equipped in the current situation to master the considerably greater challenges placed on opportunity and risk management during this phase. Our business policy, which takes due account of risks and is geared towards sustainability, and our sound strategic alignment form the basis for this assessment.

The independent auditor has examined the early warning system installed at Salzgitter AG in accordance with the German Stock Corporation Act (AktG). This audit verified that the early warning system fulfils its functions and fully satisfies all requirements under company law.

As an independent authority, Salzgitter AG's Internal Audit Department examines the systems used throughout the Group in terms of their adequacy, security and efficiency and provides impetus for their further development when and as required.

Rating of the company

No official rating has been issued for Salzgitter AG by international rating agencies recognized in the capital market. From our perspective, there is currently no need for such a rating as, despite our strong, self-funded growth achieved over the years from 2004 to 2008, we have achieved an excellent financial standing in a peer comparison and have maintained this position also in the face of the financial and economic crisis.

Our own rating assessment, which was performed taking account of the customary quantitative requirements, has delivered results that are virtually identical to the ratings ascertained internally by our banks. We can therefore assume that an external valuation, that also takes account of the significant level of pension obligations, would continue to place us firmly in the investment-grade category.

Description of the main features of the accounting-related internal control system and the risk management system with respect to the (Group) accounting process (Sections 289 para. 5 and 315 para. 2 item 5 of the German Commercial Code [HGB])

To supplement the information already contained in the risk report, the main features of the internal control and risk management system implemented within the Salzgitter Group in respect of the (Group) accounting process can be described as follows:

The accounting-related internal control system is operated in cooperation with the controlling, legal, internal audit, accounting and treasury departments where the functions are clearly segregated and to which clearly delineated areas of responsibility have been assigned.

The aim is to use control mechanisms implemented to sufficiently ensure that, despite potential risks, the consolidated financial statements are drawn up in accordance with rules and regulations.

To ensure the effectiveness, efficiency and regularity of accounting and compliance with pertinent statutory provisions the control system encompasses all the necessary principles, procedures and measures.

The Executive Board is responsible for the implementation of and compliance with statutory provisions. It reports to the Audit Committee (Supervisory Board) regularly on the financial position of Salzgitter AG. The Audit Committee is also tasked with monitoring the effectiveness of the internal control system. An agreement has been made with the external auditor that the Chairman of the Supervisory Board will be informed without delay about all material findings and events connected with the auditing of the annual financial statements which are relevant to the tasks of the Supervisory Board.

The Salzgitter Group is decentralized, which means that responsibility for compliance with legal standards rests with the executive bodies of the various companies. Supervision is carried out by the holding departments.

Group Audit examines the operations and transactions relevant to the accounting of Salzgitter AG and its subsidiaries and holdings independently and on behalf of the Executive Board in observance of regulatory requirements. The planning and carrying out of the audit by Internal Audit takes account of the risks in the (consolidated) financial statements and the accounting process. These tasks are carried out by members of staff specially qualified in accounting. The basis of activities is the annual audit plan that is determined in accordance with statutory requirements. Group Audit informs the Executive Board of Salzgitter AG and the Group's external auditor of the outcome of audits by way of audit reports. Group Audit follows up on the implementation of measures and recommendations agreed in the audit reports.

Salzgitter AG's Group Accounting Department draws up the consolidated annual financial statements. Independent auditors issue an audit opinion on the financial statements of the companies included. To ensure that statutory requirements are complied with, Group guidelines are formulated on an annual basis and disseminated to the companies. These guidelines form the basis of a uniform, due and proper ongoing accounting process, both with respect to accounting as defined under the German Commercial Code (HGB), as well under the International Financial Reporting Standards (IFRS). Along with general accounting principles and methods, rules and regulations on the balance sheet, income statement, notes to the financial statements, management report, cash flow statement and segment report are first and foremost defined, taking into account the legal position prevailing within the European Union. Accounting regulations also lay down specific formal requirements relating to the consolidated financial statements. In addition to determining the group of consolidated companies, the components of the reporting packages which Group companies must prepare is similarly defined in detail. A standardized and comprehensive set of forms is used for this purpose. The Group guidelines also include explicit instructions for the presentation and processing of offsetting procedures within the Group, with the respective process for reconciling balances and the calculation of the fair value of holdings. The heads of accounting in the companies are informed about changes under the law at annual events organized by the Group.

The financial statements of the consolidated companies are recorded with the aid of a uniform IT-based workflow used throughout the Group. This workflow comprises a permissions concept, along with checking routines and check digits. These control and surveillance mechanisms have been devised for process integration as well for functioning independently of processes. A major part of this is, for instance, made up of manual process controls in application, among other things, of the principle of dual control, alongside automated IT-based processes controls. Moreover, the Group has an integrated accounting and consolidation system.

At Group level, the individual control activities ensuring the regularity and reliability of Group accounting include the analysis and, if appropriate, the correction of the individual financial statements submitted by the Group companies, including the reports submitted by the auditors and the respective discussions on the financial statements. Control mechanisms and plausibility controls already built into the consolidation software allow financial statements forms containing errors to be corrected before the consolidation process takes place.

The application of uniform, standardized measurement criteria to impairment tests is ensured by way of centralized processing for the – from the Group's perspective – individual cash generating units.

The valuation of pensions and other reserves, among other items, is also subject to uniform regulations by centrally determining the parameters applicable throughout the Group.

As we also can't work magic to reliably predict the future of the steel market…

… we rely on diversification instead. Because the markets in which we operate are subject to relatively pronounced economic fluctuations, the broad basis of our business activities – from procurement via our product ranges through to the markets we serve – helps to even out the cyclical ups and downs. This enables us to efficiently balance opportunities and risks – which is something we can gladly predict.

VI. Significant Events after the Reporting Date and Forecast

1. Significant Events after the Reporting Date

There were no events subject to reporting requirements after the reporting date.

2. General Business Conditions in the next two Financial Years

Uncertain economic outlook

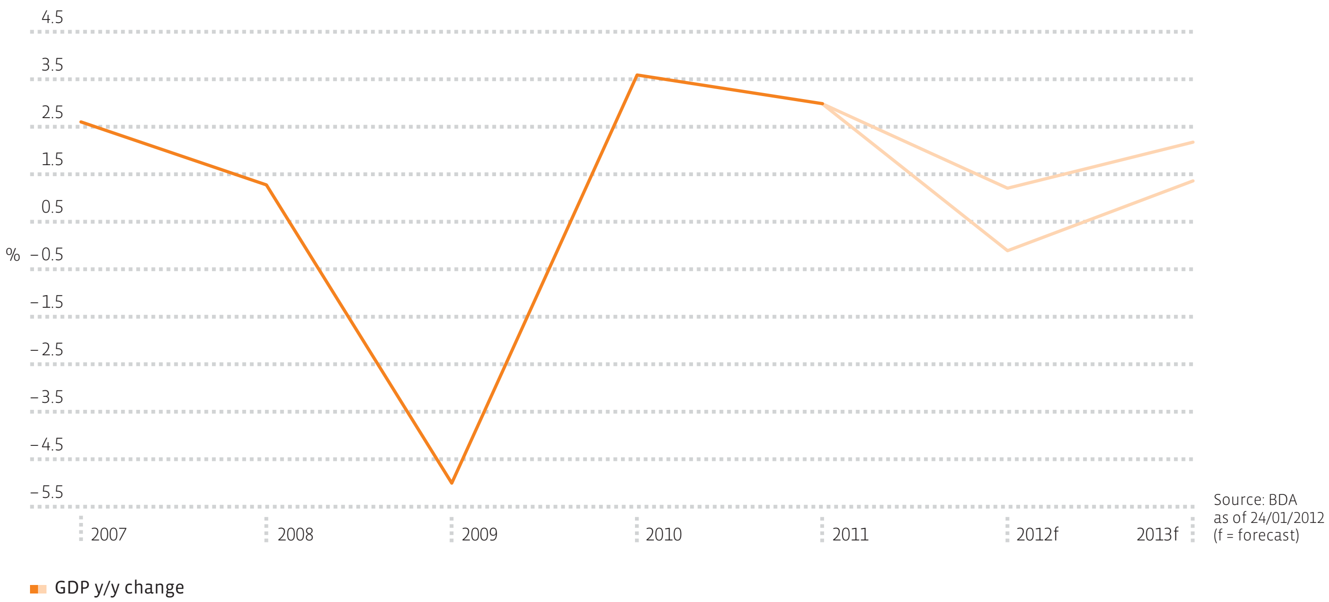
Against the backdrop of the tension in the financial markets prevailing since August 2011 and the renewed escalation of the eurozone's debt crisis, economic expectations have been repeatedly revised downwards in recent months. The enormous uncertainty and the associated risks considerably impair the reliability of forecasts on macroeconomic development in the world, Europe and Germany.

The **global economy** is generally expected to slow: In its January outlook, the International Monetary Fund (IMF), for instance, anticipates a growth rate of a mere 1.2 % in the industrialized nations in 2012 and a slight acceleration, but nonetheless still modest increase, in production (+1.9 %) in 2013. The slowdown in the industrial nations is also likely to have an impact on the activities of the emerging markets, although, if monetary policies are geared to expansion over the course of 2012, they should return to a path of stronger growth again. The IMF expects global output to grow by 3.3 % in 2012 and by 3.9 % in the following year.

Growth prospects in the **European Union** (EU) have deteriorated. The framework conditions in some EU member states – with structural problems that include high unemployment, the great pressure to consolidate public spending and partly a lack of international competitiveness – are tense even without the debt crisis. The majority of forecasts nonetheless assume that a severe recession can be averted and that the economy will pick up pace again in the second half of 2012. Whereas, in its autumn forecast for 2012, the European Commission was still anticipating lower GDP growth of 0.6 % in the EU and modest economic momentum, bringing expansion to 1.5 % in 2013, the IMF recently predicted zero growth in 2012 (–0.1 %) and an increase of 1.2 % in 2013.

Germany will also have to steer through difficult economic waters. According to most estimates, economic expansion in 2012 will slow to below 1 %. Whereas domestic demand is expected to remain firm, weaker global economic momentum, compounded by consolidation and savings measures in the eurozone, will have a dampening effect on export activities. In 2013, better preconditions for participating in an upturn in the global economy have been predicted, with growth rates anticipated in a range of between 1.4 % and 2.2 %.

GDP Germany: forecast range 2012/2013



Fundamentally positive trend holds steady in the global steel market

Global steel activities reflect the notable slowdown in the momentum of the Chinese market, which has filtered through as the result of a more contractionary monetary policy, particularly in the form of a cooling real estate market, to impact the demand for steel with a time lag. Moreover, the weakening pace of global economic growth and uncertainty in the general financial environment are braking factors. With reference to the exceptionally high level of uncertainty, the German Steel Association expects a slowdown in the expansion of crude steel production (+ 4.5 %), which accords with a moderate growth of 4.5 % in the global demand for steel to 1.46 billion tons in 2012. Both these figures are likely to rise again marginally in 2013, posting around 5 % respectively.

In contrast, at the start of February Eurofer, the European Steel Association, was predicting a slight decrease in the market supply in the **EU** for the year 2012. This assessment is based on stagnating real demand and the generally cautious ordering patterns in the distribution sector. 2013 is likely to see market supply stage a gradual recovery and rise by almost 3 %. More significant declines in the market supply will potentially be restricted to southern Europe. In anticipation of a positive balance of foreign steel trade, the EU's production of crude steel is expected to be higher year on year in 2012 (179 million tons) and to remain around the same level in 2013.

The 2012 outlook for the **German steel market** is also generally modest, albeit with occasion for cautious optimism: on the one hand, the prospects for the steel processing sectors in Germany suggest that real steel demand will stagnate at a sound level and, on the other, moderate inventory levels create a relatively favorable starting point. The steel associations therefore expect the market supply to settle at the year-earlier level (40.5 million tons) in 2012. Further growth in demand and stockpiling might then contribute to raising the market supply to around 4 % (42 million tons) in 2013. Assuming that Germany remains a net importer of steel in the period under review, expert opinion puts the production of crude steel at 44 million tons (– 1 %) in 2012 and at just under 45 million tons (+ 1 %) in 2013.

Outlook for the steel tubes market in 2012 slightly overcast

The uncertainty surrounding the global financial and debt crisis, rising volatility in the upstream raw materials markets, as well as additional capacity built up in the boom years from 2004 to 2008 throw a rather skeptical light on the prospects of the steel tubes industry in 2012. China is likely to continue its uptrend – though with more moderate growth rates. In contrast, matching the 2011 production volume would most likely count as a success for the rest of the world.

The still relatively high level of oil and gas prices should guarantee that investment activities in the energy sector remain brisk. However, major pipeline projects that are subject to a great deal of political influence may result in delays in projects being awarded. Demand in the power plant business is expected to accelerate in the medium term as a result of the nuclear catastrophe in Japan and discussions about achieving a new energy mix. Strong demand in the mechanical engineering sector, whose requirements are covered mainly by the stockholding trade, in conjunction with low inventory levels across the value chain, suggest a positive influence on the tubes industry in the first half of 2012. Automotive production, however, is likely to weaken slightly from a higher level.

The underlying trends described above are expected to persist in 2013 as well.

Moderate growth in German mechanical engineering

After two gratifying growth years, with up to double-digit gains, the German Engineering Federation (VDMA) expects zero growth in 2012. According to expert predictions, growth in the overall production of German mechanical engineering will settle at 0 % and food and packaging machinery will expand by 3 %.

Global trends, which include the increase in the global population and growing prosperity in the emerging markets and developing nations such as Brazil, India and China, will ensure above-average growth in consumption in the filling and packing technology business – not only in 2013 but also beyond. The global trend towards more PET bottles is holding steady. The saturated markets of the industrial nations, the increasingly wider variety of products and brands also hold potential for packaged beverages.

The division's machine building companies that cater to the plastics processing industry also anticipate a slight increase in production below the year-earlier level.

Leading indicators specific to the company

We systematically screen and analyze the Group's environment. This enables us to identify opportunities and risks at an early stage and respond to them in an appropriate manner. In order to assess the general macroeconomic framework conditions of the Group and the specific situation in the individual sales markets we use aggregated economic data and the knowledge of our employees in the subsidiaries operating directly in these markets. The combination of the various sources of knowledge forms the basis of our annual rolling corporate planning and sales forecasts, which we draw up for each individual subsidiary as well as at Group level. The integration of specific product and market information, such as regional differences, allows us to derive a strategy geared to success.

We can derive forecasts for shipments and sales figures for the Steel Division and also the tubes companies that maintain customer relationships in the automotive sector from sales forecasts for motorized vehicles and vehicle components, differentiated by country and region.

The performance of the individual Group companies is strongly affected by the economic activity of the construction, chemical and mechanical engineering sectors. The development of the mechanical engineering sector naturally has a direct impact on the future capacity utilization situation of the Technology Division.

There are several approaches to assessing the business activities of our large-diameter pipe companies: the majority of major pipeline projects is, for example, public knowledge many years beforehand. Beyond this, there are several key indicators, an example being the oil price, the number of active drillings worldwide (the so-called "rig count") and the total scope of exploratory drilling, as well as the consumption of oil country tubular goods (OCTG).

Particularly in an increasingly volatile environment, such as that of the steel industry, the informative value of such indicators in terms of their time horizon must be reviewed. Moreover, situations may arise in which there may be a short- to medium-term imbalance in supply and demand, for example due to excess inventories held by traders and end consumers or unfavorable situations on the import front, which temporarily distort long-term trends. Spikes in demand, driven by speculation, may also be deceptive on occasion because they cover up structural deficits in the market or may even trigger dips leading to temporary oversupply.

In view of the plethora of factors exerting an influence and the complexity of their interaction we are unable to provide reliable detailed predictions with long-term validity, neither for the individual companies nor for the Group as a whole.

Opportunities and opportunities management
The cornerstone of opportunities management is the consistent screening and analysis of the Group's environment particularly with regard to developments affecting the relevant products, technologies, markets and competition. These tasks are carried out centrally by the holding, as well as decentrally by the operating subsidiaries. The simultaneous performing of these tasks is fundamental to the swift recognition of potential opportunities and the deriving of suitable strategies to boost the company's success. This procedure enables us to leverage the existing strengths and core competencies of the companies within our Group in the preparation and execution of strategic decisions, to detect risks at an early stage and to take account of them in a responsible manner.

Salzgitter AG has encompassed all divisions in its investment activities and has set in place the prerequisites for successfully taking advantage of perceived opportunities. More detailed explanations can be found in the section on "Investments". Consistent cost management in all divisions, coupled with the ongoing optimization of product quality, is a foundation considered a matter of course for our corporate success.

Along with projects initiated to promote organic growth, we also fundamentally review external growth options in terms of their suitability for enhancing the corporate success of Salzgitter AG.

By taking over STAHL-METALL-SERVICE Gesellschaft für Bandverarbeitung mbH (SMSGB), a company with production facilities in Karlsruhe, Salzgitter AG has added to its existing steel service center activities in Schwerte and secured access to the attractive market in southern Germany.

More detailed information can be found in the section entitled "Goals and Key Factors for Success".

3. Overall Statement on Anticipated Group Performance

3.1 Planning Process

As a matter of principle, the corporate planning of Salzgitter AG takes account of the strategic goals and comprises a set of entrepreneurial measures with action embedded in the general economic environment. Consequently, it forms the basis for a realistic assessment of earnings, but, at the same time, includes the long-term aspects relating to investments and the securing of a sound balance sheet and financial stability. As a result, market expectations prevailing at the time when planning takes place, as well as the entrepreneurial measures envisaged, are incorporated into this plan, which is prepared in a process involving the whole Group: The individual goals of the subsidiaries are discussed and defined in a combination of a top-down and bottom-up approach between the respective management and the Group's Executive Board. All individual plans are then aggregated to form a plan for the entire Group. The underlying boundaries of the Group that were, by definition, the status quo at the time, may not necessarily accord with the structure of the Group at the end of the planning period. This sophisticated Group planning process is conducted once before the start of each new financial year, generally beginning in August and ending with the presentation of the insights gained that is delivered at the last meeting of the Group's Supervisory Board in the respective financial year.

3.2. Expected Earnings

Guidance on the development of the macroeconomic situation is fundamentally subject to great uncertainty. As described above, this has a direct impact on the intrinsic value and reliability of corporate planning. The following forward-looking statements on the individual divisions assume that there will be no drastic recessionary development. Against this background, the divisions anticipate that business will develop as follows in the current financial year:

Based on a stable market environment and in view of the healthy capacity utilization of most steel processing sectors and brisker deliveries to our Tubes Division, Salzgitter Flachstahl GmbH (SZFG) anticipates higher order intake in 2012. Thanks mainly to its good positioning in the wind power sector, Ilsenburg anticipates that its capacity, though not fully available due to investment activity, will be wholly taken up. The production of crude steel at Peiner Träger GmbH (PTG) is likely to expand, boosted by the parallel operation of the two electric arc furnaces. Should the long steel market stage a recovery from its still relatively low level in the financial year ended, higher shipment volumes overall can be anticipated. In conjunction with higher average selling prices, this would result in a growth in sales. The **Steel Division** has budgeted for another, marginally positive pre-tax profit in 2012. The start into the year will, however, be burdened by the lower average selling prices of the fourth quarter 2011.

Combined with higher shipment volumes in international trading, the **Trading Division** predicts an increase in sales. The inclusion of STAHL-METALL-SERVICE Gesellschaft für Bandverarbeitung mbH (SMSGB), a company acquired in 2011, into the Trading Division's group of consolidated companies, should also make a contribution to achieving this result. Assuming stable steel prices, another mid-double-digit million profit would appear to be feasible.

The **Tubes Division** is cautiously optimistic in the assessment of its development in the current financial year. Whereas demand for precision tubes should be buoyed at the start of the year again by strong demand from the automotive industry and the mechanical engineering sector, the stainless steel tubes products segment is set to benefit from uptrending activities in the oil and gas sector. Although the impact of a temporary gap in capacity utilization will determine the results of the first quarter in the large-diameter pipes segment, the pipeline projects currently under discussion would generally suggest a positive outlook. A major project was already booked in February and will enter production from April onwards. We therefore anticipate that the Tubes Division will make another contribution to profit in 2012.

The shipments and pre-tax result of the **Services Division** will benefit again from the generally good capacity utilization of the steel companies and settle around the level of the reporting period.

KHS as part of the **Technology Division** is planning for an increase in order intake based on a stable global market for filling and packaging technology. Higher sales, better selling prices and cost optimization achieved through the Fit4Future program, introduced and rigorously implemented in the past year, are expected to deliver a substantial improvement in the result over 2011. The DESMA mechanical engineering companies will be endeavoring to continue their profitable performance.

A deterioration in Europe's debt crisis is unquestionably the major risk for macroeconomic development in 2012. For this reason, making a credible statement on how the business situation will develop in the coming months is as impossible as venturing a reliable detailed earnings forecast for the **Salzgitter Group** at the current point in time. If, however, one assumes that there will be no drastic recessionary developments, we anticipate that, based on the expectations of the individual divisions, sales will remain stable at minimum, and that positive earnings before tax can be delivered in 2012. From today's standpoint, delivering a repeat of the previous year's results will be challenging, as the start to the new year appears to be marked by hampering effects on the course of business in the Steel and Tubes divisions.

As in recent years, we make reference to the fact that opportunities and risks from currently unforeseeable trends in selling prices, input materials and capacity level developments, as well as changes in the currency parity, may considerably affect performance in the course of the financial year 2012. The resulting fluctuation in the consolidated pre-tax result may, as current events show, be within a considerable range, either to the positive or to the negative. The dimensions of this range become clear if one considers that, with around 12 million tons of steel products sold by the Steel, Trading and Tubes divisions, an average € 25 contraction in the margin per ton is sufficient to cause a variation in the annual result of more than € 300 million. Moreover, the accuracy of the company's planning is restricted by the volatile cost of raw materials and shorter contractual durations, both on the procurement and on the sales side.

The **medium- and long-term outlook** is considered to be relatively intact with regard to all Group companies. As there is no reliable information whatsoever available at the current point in time about how the relevant framework conditions will develop in 2013, no detailed quantifiable outlook can be made for this financial year. Should economic conditions in our core markets remain stable, sales are likely to keep their current level and earnings should benefit from the effects of the investments and structural measures completed.

3.3 Anticipated Financial Position

Our financial reserves will be used partly to finance the investments currently being implemented and to raise working capital. As before, we consider it essential to keep cash funds available in a mid three-digit million range to ensure that, in the event of any potential crisis situation, we will not have to procure funds in the capital market to finance our operating activities. The experience of other companies has shown that, in times of economic difficulty, such measures are only possible at extremely disadvantageous interest rates.

The extensive investment program in the Steel Division has been completed for the most part. We have therefore estimated a lower investment budget (€ 298 million) for the Group in the financial year 2012 than in the previous year. Together with the carrying forward of investment amounts approved in previous years, the cash-effective portion of the 2012 budget, which comes to between € 400 and 450 million, should exceed the year-earlier level. As before, investments will be effectively triggered on a step-by-step basis and in accordance with the development of profit and liquidity.

Based on the foreseeable amount of investment, financial resources required for the financial year 2012 will be higher than depreciation and amortization, with the result that the excess amount – depending also on developments with regard to the price of raw materials and working capital – will have to be funded by the cash from operating activities and by cash funds. This is feasible from the standpoint of Group management, as sufficient leeway is given.

The financial position of our Group should be comparatively sound at the end of the year as well, particularly in view of the measures implemented in the capital markets in recent years. Further external financing measures are not currently envisaged. However, measures of this kind may become feasible and also practicable in the context of larger acquisition projects, or if there is a substantial deterioration in the general environment.

As before, the amount of dividend will be geared to the profit trend. The cyclical fluctuations typical of the sector are by nature reflected in the results of the Group on the one hand, and in its share price on the other. The separate financial statements of Salzgitter AG are decisive for the ability to pay dividend. The Salzgitter Group pursues a fundamental policy of paying out steady and attractive dividend based on the pre-requisite of achieving actual operating profit and removed from volatile reporting-date related influences. Such payment does not necessarily have to fully reflect the cyclicality of the earnings performance.

In conclusion, proof has been delivered that, thanks to its broad-based business, sound financial base and its flat and efficient organizational structures, the Salzgitter Group is comparatively well prepared to meet challenging phases. We will continue to adhere to this approach in the future. The Profit Improvement Program, which was also stringently pursued in boom times, has so far dispensed with the need for hectic cost-cutting and restructuring measures. The relaunch of the Profit Improvement Program will deliver additional contributions to the economic performance of the company in the coming years.

EVEN WE DON'T HAVE A SECRET FORMULA FOR INNOVATIVE STEELS.

Which is why we engage in extensive research and development activities. The scientists and technicians working in our experimental laboratories are constantly seeking solutions today for the problems of tomorrow. Take, for example, our HSD® steel that is both extremely strong as well as ductile.

With innovations like this, we are proactively working to help our customers overcome the challenges they face. In doing so, we are also strengthening our position as a premium supplier and keeping fit for the future. At the end of the day, we prefer to rely on hard work – and not on magic tricks.

Overview of Consolidated Financial Statements

B. Consolidated Financial Statements

I. Consolidated Income Statement

In € m	Note	2011	2010
Sales	[1]	9,839.5	8,304.6
Increase/decrease in finished goods and work in process/other own work capitalized	[2]	257.6	159.7
		10,097.1	**8,464.3**
Other operating income	[3]	357.2	348.2
Cost of materials	[4]	7,350.5	5,887.7
Personnel expenses	[5]	1,471.1	1,423.8
Amortization and depreciation	[6]	359.2	377.1
Other operating expenses	[7]	1,049.8	1,040.1
Income from shareholdings	[8]	6.4	11.3
Income from associated companies	[9]	77.5	67.5
Impairment losses on financial assets	[10]	3.1	2.7
Finance income	[11]	39.6	28.0
Finance expenses	[11]	142.5	139.0
Earnings before tax		**201.6**	**48.9**
Income tax	[12]	– 34.4	18.9
Consolidated net income		**236.0**	**30.0**
Consolidated net income for the financial year due to Salzgitter AG shareholders		233.0	29.8
Minority interests	[13]	3.0	0.2

Appropriation of profit in € m	Note	2011	2010
Consolidated net income		236.0	30.0
Profit carried forward from the previous year		19.3	15.1
Minority interests		3.0	0.2
Dividend payment		– 17.3	– 13.6
Appropriation to other retained earnings		– 207.9	– 12.0
Unappropriated retained earnings		**27.1**	**19.3**
Basic earnings per share (in €)	**[14]**	**4.31**	**0.55**
Diluted earnings per share (in €)	**[14]**	**4.22**	**0.55**

II. Statement of Comprehensive Income

In € m	2011	2010
Consolidated net income	**236.0**	**30.0**
Changes from currency translation	– 0.4	10.4
Change from hedging transactions		
Changes in current value recorded directly in equity	2.0	– 3.3
Recognition of settled hedging transactions with effect on income	– 0.7	2.6
Changes in current value recorded directly in equity of financial assets in the “Available-for-sale” assets category	– 7.9	– 4.3
Actuarial gains and losses	5.9	– 95.1
Deferred tax on current changes without effect on income	– 51.7	33.8
Other changes without effect on income	– 2.5	– 5.2
Changes in the financial year recorded directly in equity	**– 55.4**	**– 61.1**
Total comprehensive income	**180.6**	**– 31.1**
Total profit due to Salzgitter AG shareholders	177.4	– 31.4
Total profit due to minority interests	3.2	0.3
	180.6	**– 31.1**

III. Consolidated Balance Sheet

Assets in € m	Note	31/12/2011	31/12/2010
Non-current assets			
Intangible assets	[15]	120.8	121.8
Property, plant and equipment	[16]	2,533.6	2,529.2
Investment property	[17]	24.0	24.2
Financial investments	[18]	136.1	78.9
Associated companies	[19]	600.9	488.4
Deferred income tax assets	[20]	256.1	201.6
Other receivables and other assets	[21]	3.8	3.1
		3,675.3	**3,447.2**
Current assets			
Inventories	[22]	2,105.8	1,730.1
Trade receivables	[23]	1,447.3	1,175.9
Other receivables and other assets	[24]	477.3	248.1
Income tax assets	[25]	71.1	135.6
Securities	[26]	77.0	377.5
Cash and cash equivalents	[27]	946.2	1,574.3
		5,124.7	**5,241.5**
		8,800.0	**8,688.7**

Equity and liabilities in € m	Note	31/12/2011	31/12/2010
Equity			
Subscribed capital	[28]	161.6	161.6
Capital reserve	[29]	238.6	238.6
Retained earnings	[30]	3,933.1	3,785.5
Unappropriated retained earnings	[31]	27.1	19.3
		4,360.4	**4,205.0**
Treasury shares	[30]	– 369.7	– 369.7
		3,990.7	**3,835.3**
Minority interests	[32]	9.0	10.6
		3,999.8	**3,845.9**
Non-current liabilities			
Provisions for pensions and similar obligations	[33]	1,893.2	1,926.3
Deferred income tax liabilities	[20]	81.8	48.3
Income tax liabilities	[25]	207.4	193.6
Other provisions	[34]	259.6	274.1
Financial liabilities	[35]	601.4	591.0
		3,043.4	**3,033.3**
Current liabilities			
Other provisions	[34]	352.3	444.2
Financial liabilities	[36]	146.5	128.2
Trade payables	[37]	800.5	713.3
Income tax liabilities	[25]	40.6	46.1
Other liabilities	[38]	416.9	477.7
		1,756.8	**1,809.5**
		8,800.0	**8,688.7**

IV. Cash Flow Statement

(42) Cash flow statement

In € m	2011	2010
Earnings before tax	201.6	48.9
Depreciation, write-downs (+)/write-ups (–) of non-current assets	362.3	379.7
Income tax refunded (+)/paid (–)	87.4	– 51.3
Other non-payment-related expenses (+)/income (–)	– 27.8	132.6
Interest expenses	142.5	139.0
Increase (–)/decrease (+) from the disposal of non-current assets	– 3.0	10.1
Increase (–)/decrease (+) in inventories	– 354.5	– 264.5
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	– 361.2	– 132.4
Use of provisions affecting payments, excluding use of tax provision	– 274.5	– 259.6
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	30.6	206.1
Cash outflow/inflow from operating activities	**– 196.6**	**208.6**

In € m	2011	2010
Cash inflow from the disposal of fixed assets	3.2	27.4
Cash outflow for investments in intangible and fixed assets	– 363.1	– 445.5
Cash inflow (+)/outflow (–) for funds	104.8	– 214.4
Cash inflow from the disposal of financial assets	20.1	3.2
Cash outflow for investments in financial assets	– 116.6	– 43.0
Cash outflow from investment activities	**– 351.6**	**– 672.3**
Cash outflow as a result of repurchasing treasury shares	–	– 10.3
Purchase of minority interests	– 34.8	–
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	– 19.7	282.3
Interest paid	– 13.0	– 16.1
Cash outflow/inflow from financing activities	**– 84.8**	**242.3**
Cash and cash equivalents at the start of the period	1,574.3	1,793.0
Cash and cash equivalents relating to changes of the consolidated group	5.4	–
Gains and losses from changes in foreign exchange rates	– 0.5	2.7
Payment-related changes in cash and cash equivalents	– 633.0	– 221.4
Cash and cash equivalents at the end of the period	**946.2**	**1,574.3**

V. Statement of Changes in Equity

(28 to 32) Statement of changes in equity

In € m	Subscribed capital	Capital reserve	Purchase/ repurchase of treasury shares	Other retained earnings	Reserve from currency translation
Status 01/01/2010	**161.6**	**238.6**	**– 359.4**	**4,097.0**	**– 24.9**
Goodwill resulting from the acquisition of minority interests	–	–	–	– 0.6	–
Total income	–	–	–	– 0.1	10.4
Dividend	–	–	–	–	–
Repurchase of treasury shares	–	–	– 10.3	–	–
Group transfers to retained earnings	–	–	–	12.0	–
Other	–	–	–	– 0.1	–
Status 31/12/2010	**161.6**	**238.6**	**– 369.7**	**4,108.1**	**– 14.5**
First-time consolidation of group companies so far not consolidated for materiality reasons				24.3	
Goodwill resulting from the acquisition of minority interests	–	–	–	– 31.8	–
Total income	–	–	–	– 0.2	– 0.4
Dividend	–	–	–	–	–
Group transfers to retained earnings	–	–	–	207.9	–
Other	–	–	–	2.8	–
Status 31/12/2011	**161.6**	**238.6**	**– 369.7**	**4,311.1**	**– 15.0**

Change in the value of the reserve from hedging transactions	Changes in the value of the reserve from available-for-sale assets	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	– 0.1	– 0.8
– 0.7	– 4.3	– 66.5	29.8	– 31.5	0.3	– 31.1
–	–	–	– 13.6	– 13.6	–	– 13.6
–	–	–	–	– 10.3	–	– 10.3
–	–	–	– 12.0	–	–	–
–	–	–	–	– 0.1	– 2.6	– 2.7
– 0.3	**– 6.1**	**– 301.8**	**19.3**	**3,835.3**	**10.6**	**3,845.9**
				24.3		24.3
–	–	–	–	– 31.8	– 1.0	– 32.8
1.3	– 7.9	– 48.3	233.0	177.4	3.2	180.6
–	–	–	– 17.3	– 17.3	–	– 17.3
–	–	–	– 207.9	–	–	–
–	–	–	–	2.8	– 3.7	– 0.9
1.1	**– 14.0**	**– 350.1**	**27.1**	**3,990.7**	**9.0**	**3,999.8**

VI. Notes

(43) Segment reporting

In € m	Steel		Trading	
	2011	2010	2011	2010
External sales	2,739.7	2,268.6	3,903.9	2,958.2
Sales to other segments	1,143.3	905.0	84.4	150.5
Sales to Group companies that cannot be allocated to an operating segment	–	–	–	–
Segment sales	3,883.0	3,173.6	3,988.3	3,108.7
Interest income (consolidated)	4.4	2.9	6.1	6.8
Interest income from Group companies that cannot be allocated to an operating segment	0.3	0.4	0.9	0.8
Segment interest income	4.7	3.3	7.0	7.6
Interest expenses (consolidated)	17.9	23.2	8.4	10.6
Interest expenses to Group companies that cannot be allocated to an operating segment	73.8	68.0	8.7	5.7
Segment interest expenses	91.7	91.2	17.1	16.3
Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in accordance with IAS 36)	234.1	195.0	11.2	10.4
Unscheduled write-downs (impairment costs in accordance with IAS 36) on tangible assets and amortization of intangible assets[1]	15.0	80.0	–	–
Unscheduled write-downs (impairment costs in accordance with IAS 36) on financial assets[1]	–	–	–	0.4
Result for the period in the segment	25.7	– 100.6	60.6	71.4
of which income from associated companies	0.2	0.8	–	–
Material non-cash items	27.9	24.2	– 10.9	33.8
Segmental operating assets	2,981.3	2,852.1	1,260.6	883.0
of which shares in associated companies	–	1.1	–	–
Investments in property, plant and equipment and intangible assets	233.1	409.8	12.5	4.0
Segmental operating liabilities	2,292.8	2,042.9	1,153.2	880.5

Tubes		Services		Technology		Total segments	
2011	2010	2011	2010	2011	2010	2011	2010
1,686.8	1,736.1	457.3	413.1	966.6	872.9	9,754.2	8,248.9
491.5	264.4	805.4	655.8	0.6	0.6	2,525.3	1,976.3
1.2	0.6	4.6	3.9	0.5	0.2	6.2	4.7
2,179.4	2,001.1	1,267.3	1,072.8	967.7	873.7	12,285.7	10,229.9
1.4	1.4	0.9	0.8	2.5	2.8	15.3	14.7
1.7	1.9	13.4	14.4	0.3	0.3	16.6	17.8
3.1	3.3	14.3	15.2	2.8	3.1	31.9	32.5
8.3	7.5	13.9	14.4	16.1	11.6	64.6	67.3
11.3	8.5	3.8	2.2	4.9	2.5	102.5	86.9
19.6	16.0	17.7	16.6	21.0	14.1	167.1	154.2
42.9	41.7	22.9	22.3	25.6	25.9	336.7	295.3
5.6	–	–	–	–	–	20.6	80.0
3.1	1.2	–	–	–	1.1	3.1	2.7
67.3	59.9	19.6	26.2	–79.1	–30.3	94.2	26.6
3.1	–0.5	–	–	–	–	3.3	0.3
–6.5	21.4	12.8	26.1	42.7	36.8	66.0	142.3
1,312.0	1,269.1	606.7	596.6	885.5	815.1	7,046.1	6,415.9
109.6	95.3	–	–	–	–	109.6	96.4
52.5	36.5	43.8	25.2	17.1	20.9	359.0	496.4
1,000.8	1,011.9	555.3	545.5	1,364.3	1,122.0	6,366.4	5,602.8

[1] Depreciation, amortization and write-ups are reported in full in the results for the period.

Analysis of fixed assets 2011

In € m	Acquisition and production costs						
	01/01/2011	Currency translation differences	Changes in the consolidated group	Additions	Disposals	Transfers to other accounts	31/12/2011
Intangible assets							
Goodwill	51.6	–	–	–	51.6	–	–
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	297.8	–	0.2	13.1	12.6	7.7	306.2
Payments on account	7.0	–	–	0.5	–	– 6.6	0.9
	356.4	**–**	**0.2**	**13.6**	**64.2**	**1.1**	**307.1**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	1,418.6	– 1.1	6.0	17.0	12.3	23.6	1,451.8
Plant equipment and machinery	5,362.8	1.4	6.0	200.8	107.0	87.7	5,551.7
Other equipment, factory and office equipment	340.0	– 0.3	2.8	27.3	16.9	3.4	356.3
Payments made on account and equipment under construction	137.2	0.1	4.5	102.3	–	– 116.2	127.9
	7,258.6	**0.1**	**19.3**	**347.4**	**136.2**	**– 1.5**	**7,487.7**
Investment property	**30.7**	**–**	**–**	**–**	**0.2**	**0.4**	**30.9**
Financial investments							
Shares in affiliated companies	41.9	–	–	20.7	4.1	–	58.5
Shareholdings	34.0	–	–	3.0	26.9	–	10.1
Loans to affiliated companies	5.2	–	–	40.9	3.0	–	43.1
Non-current securities	24.7	–	–	3.0	1.3	–	26.4
Other loans	10.5	0.2	–	8.1	5.8	–	13.0
	116.3	**0.2**	**–**	**75.7**	**41.1**	**–**	**151.1**
	7,762.0	**0.3**	**19.5**	**436.7**	**241.7**	**–**	**7,976.8**

Valuation allowances								Book values	
01/01/2011	Currency translation differences	Changes in the consolidated group	Write-up	Depreciation in the financial year[1]	Disposals	Transfers to other accounts	31/12/2011	31/12/2011	31/12/2010
51.6	–	–	–	–	51.6	–	–	–	–
183.0	–	0.1	–	15.6	12.4	–	186.3	119.9	114.8
–	–	–	–	–	–	–	–	0.9	7.0
234.6	**–**	**0.1**	**–**	**15.6**	**64.0**	**–**	**186.3**	**120.8**	**121.8**
756.3	0.1	0.7	–	30.6	7.8	–	779.9	671.9	662.3
3,713.3	1.0	2.7	–	283.9	101.0	0.5	3,900.4	1,651.3	1,649.5
257.9	– 0.1	1.9	–	28.7	16.0	–	272.4	83.9	82.1
1.9	–	–	–	–	–	– 0.5	1.4	126.5	135.3
4,729.4	**1.0**	**5.3**	**–**	**343.2**	**124.8**	**–**	**4,954.1**	**2,533.6**	**2,529.2**
6.5	**–**	**–**	**–**	**0.4**	**–**	**–**	**6.9**	**24.0**	**24.2**
13.9	–	–	–	–	–	–	13.9	44.6	28.0
23.0	–	–	–	3.1	25.3	–	0.8	9.3	11.0
–	–	–	–	–	–	–	–	43.1	5.2
– 0.1	–	–	–	–	–	–	– 0.1	26.5	24.8
0.6	–	–	–	–	0.2	–	0.4	12.6	9.9
37.4	**–**	**–**	**–**	**3.1**	**25.5**	**–**	**15.0**	**136.1**	**78.9**
5,007.9	**1.0**	**5.4**	**–**	**362.3**	**214.3**	**–**	**5,162.3**	**2,814.5**	**2,754.1**

[1] The composition of the impairments (unscheduled amortization) contained therein is shown in item 6 of the Notes.

Analysis of fixed assets 2010

In € m	Acquisition and production costs						
	01/01/2010	Currency translation differences	Changes in the consolidated group	Additions	Disposals	Transfers to other accounts	31/12/2010
Intangible assets							
Goodwill	51.6	–	–	–	–	–	51.6
Concessions, industrial property rights and similar rights and assets, including licenses to such rights and assets	292.2	0.3	–	8.3	3.0	–	297.8
Payments on account	3.4	–	–	0.3	–	3.3	7.0
	347.2	**0.3**	**–**	**8.6**	**3.0**	**3.3**	**356.4**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	1,256.2	3.8	–	59.2	0.8	100.2	1,418.6
Plant equipment and machinery	4,698.9	5.6	–	335.9	93.9	416.3	5,362.8
Other equipment, factory and office equipment	321.4	0.9	–	22.2	9.3	4.8	340.0
Payments made on account and equipment under construction	591.0	0.2	–	70.6	–	– 524.6	137.2
	6,867.5	**10.5**	**–**	**487.9**	**104.0**	**– 3.3**	**7,258.6**
Investment property	**30.6**	**–**	**–**	**0.1**	**–**	**–**	**30.7**
Financial investments							
Shares in affiliated companies	42.5	–	–	0.4	1.0	–	41.9
Shareholdings	33.2	–	–	1.1	0.3	–	34.0
Loans to affiliated companies	5.5	–	–	–	0.3	–	5.2
Non-current securities	21.2	–	–	4.3	0.8	–	24.7
Other loans	9.8	0.5	–	1.7	1.5	–	10.5
	112.2	**0.5**	**–**	**7.5**	**3.9**	**–**	**116.3**
	7,357.5	**11.3**	**–**	**504.1**	**110.9**	**–**	**7,762.0**

Valuation allowances								Book values	
01/01/2010	Currency translation differences	Changes in the consolidated group	Write-up	Depreciation in the financial year[1)]	Disposals	Transfers to other accounts	31/12/2010	31/12/2010	31/12/2009
51.6	–	–	–	–	–	–	51.6	–	–
171.8	0.1	–	–	13.8	2.7	–	183.0	114.8	120.4
–	–	–	–	–	–	–	–	7.0	3.4
223.4	**0.1**	**–**	**–**	**13.8**	**2.7**	**–**	**234.6**	**121.8**	**123.8**
704.8	0.6	–	–	51.9	0.8	– 0.2	756.3	662.3	551.4
3,499.9	2.4	–	–	280.4	70.3	0.9	3,713.3	1,649.5	1,199.0
236.5	0.5	–	–	29.4	8.5	–	257.9	82.1	84.9
2.8	–	–	–	–	–	– 0.9	1.9	135.3	588.2
4,444.0	**3.5**	**–**	**–**	**361.7**	**79.6**	**– 0.2**	**4,729.4**	**2,529.2**	**2,423.5**
4.7	**–**	**–**	**–**	**1.6**	**–**	**0.2**	**6.5**	**24.2**	**25.9**
12.3	–	–	–	1.6	–	–	13.9	28.0	30.2
21.9	–	–	–	1.1	–	–	23.0	11.0	11.3
–	–	–	–	–	–	–	–	5.2	5.5
–	–	–	0.1	–	–	–	– 0.1	24.8	21.2
0.6	–	–	–	–	–	–	0.6	9.9	9.2
34.8	**–**	**–**	**0.1**	**2.7**	**–**	**–**	**37.4**	**78.9**	**77.4**
4,706.9	**3.6**	**–**	**0.1**	**379.8**	**82.3**	**–**	**5,007.9**	**2,754.1**	**2,650.6**

[1)] The composition of the impairments (unscheduled amortization) contained therein is shown in item 6 of the Notes.

List of shareholdings

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/ loss for the financial year in 1,000	Notices
1. Consolidated group companies							
a) Domestic							
Salzgitter Stahl GmbH, Salzgitter	SZS	EUR		100.00	240,024	0	P&L A.
Salzgitter Flachstahl GmbH, Salzgitter	SZFG	EUR	5.05	94.95	185,287	0	P&L A.
Peiner Träger GmbH, Peine	PTG	EUR	5.18	94.82	54,930	0	P&L A.
Ilsenburger Grobblech GmbH, Ilsenburg	ILG	EUR	5.37	94.63	26,213	0	P&L A.
Salzgitter Bauelemente GmbH, Salzgitter	SZBE	EUR		100.00	1,013	0	P&L A.
HSP Hoesch Spundwand und Profil GmbH, Dortmund	HSP	EUR		100.00	14,724	0	P&L A.
Salzgitter Europlatinen GmbH, Salzgitter	SZEP	EUR		100.00	4,886	0	P&L A.
Hövelmann & Lueg GmbH, Schwerte	HLG	EUR	5.10	94.90	2,999	0	P&L A.
Salzgitter Mannesmann Handel GmbH, Duesseldorf	SMHD	EUR	5.10	94.90	75,211	0	P&L A.
Salzgitter Mannesmann International GmbH, Duesseldorf	SMID	EUR		100.00	10,312	0	P&L A.
Salzgitter Mannesmann Stahlhandel GmbH, Duesseldorf	SMSD	EUR		100.00	22,892	0	P&L A.
Stahl-Center Baunatal GmbH, Baunatal	SCB	EUR		100.00	5,583	0	P&L A.
Universal Eisen und Stahl GmbH, Neuss	UES	EUR	5.10	94.90	14,975	0	P&L A.
Salzgitter Mannesmann Großrohr GmbH, Salzgitter	MGR	EUR	5.10	94.90	7,029	0	P&L A.
Mannesmannröhren-Werke GmbH, Muelheim an der Ruhr	MRW	EUR		100.00	1,018	0	P&L A.
Salzgitter Mannesmann Grobblech GmbH, Muelheim an der Ruhr	MGB	EUR		100.00	10,633	0	P&L A.
Salzgitter Mannesmann Präzisrohr GmbH, Hamm	MPR	EUR		100.00	38,356	0	P&L A.

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/ loss for the financial year in 1,000	Notices
Salzgitter Mannesmann Rohr Sachsen GmbH, Zeithain	MRS	EUR		100.00	14,665	0	P&L A.
Salzgitter Mannesmann Precision GmbH, Muelheim an der Ruhr	SMP	EUR		100.00	50,515	0	P&L A.
Salzgitter Mannesmann Line Pipe GmbH, Siegen	MLP	EUR		100.00	19,838	0	P&L A.
Salzgitter Mannesmann Stainless Tubes GmbH, Muelheim an der Ruhr	MST	EUR		100.00	15,118	0	P&L A.
Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid	MSTD	EUR		100.00	33,805	0	P&L A.
Salzgitter Klöckner-Werke GmbH, Salzgitter	SKWG	EUR		100.00	57,568	–103,199	Change of legal form
KHS GmbH, Dortmund	KHSDE	EUR		100.00	223,618	0	P&L A.
Klöckner Mercator Maschinenbau GmbH, Duisburg	KMM	EUR		100.00	102,320	0	P&L A.
Klöckner DESMA Elastomertechnik GmbH, Fridingen	KDE	EUR		100.00	3,835	0	P&L A.
Klöckner DESMA Schuhmaschinen GmbH, Achim	KDS	EUR		100.00	5,113	0	P&L A.
RSE Grundbesitz und Beteiligungs-Aktiengesellschaft, Frankfurt am Main	RSE	EUR		100.00	32,200	4,053	
Klöckner PET-Technologie GmbH, Salzgitter	SMPET	EUR		100.00	97,946	0	P&L A.
KHS Corpoplast GmbH, Hamburg	BEVCP	EUR		100.00	47,800	0	P&L A.
KHS Plasmax GmbH, Hamburg	BEVPX	EUR		100.00	1,534	0	P&L A.
DEUMU Deutsche Erz- und Metall-Union GmbH, Peine	DMU	EUR	5.10	94.90	10,699	0	P&L A.
Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter	VPS	EUR	5.10	94.90	19,784	0	P&L A.
Hansaport Hafenbetriebsgesellschaft mbH, Hamburg	HAN	EUR		51.00	5,156	0	P&L A.

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrueck	SZAB	EUR	100.00		12,966	0	
SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter	SIT	EUR		100.00	26	0	P&L A.
Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau	SZHF	EUR	100.00		12,205	2,397	
Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrueck	SZAE	EUR		100.00	167	–2,014	
Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrueck	SZAI	EUR		100.00	321	50	
GESIS Gesellschaft für Informationssysteme mbH, Salzgitter	GES	EUR		100.00	2,626	0	P&L A.
telcat Kommunikationstechnik GmbH, Salzgitter	TCG	EUR		100.00	526	0	P&L A.
Glückauf Immobilien GmbH, Peine	GIG	EUR	5.19	94.81	30	0	P&L A.
SZST Salzgitter Service und Technik GmbH, Salzgitter	SZST	EUR		100.00	250	0	P&L A.
Salzgitter Mannesmann Forschung GmbH, Salzgitter	SZMF	EUR		100.00	804	0	P&L A.
telcat multicom GmbH, Salzgitter	TMG	EUR		100.00	2,996	0	P&L A.
Salzgitter Mannesmann GmbH, Salzgitter	SMG	EUR	100.00		2,696,828	414,780	
b) Abroad							
Salzgitter Mannesmann Staalhandel B.V., Oosterhout	SMNL	EUR		100.00	76,160	6,145	
Salzgitter Mannesmann International (Canada) Inc., Vancouver	SMIV	CAD		100.00	24,525	996	
UNIVERSAL STEEL AMERICA, Inc., Houston	UESUS	USD		100.00	17,638	4,895	
UNIVERSAL STEEL AMERICA HOUSTON, Inc., Houston	USH			100.00			Financial statements integrated in UESUS

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
UNIVERSAL STEEL AMERICA CHICAGO, Inc., Gary	USC			100.00			Financial statement integrated in UESUS
Salzgitter Mannesmann Acélkereskedelmi Kft., Budapest	SMHU	HUF		100.00	2,954,340	261,004	
Salzgitter Mannesmann Stahlhandel s.r.o., Prague	SMCZ	CZK		100.00	47,096	643	
Salzgitter Mannesmann Stahlhandel sp.z.o.o., Slupca	SMPL	PLN		100.00	18,234	3,088	
Salzgitter Mannesmann International (USA) Inc., Houston	SMIH	USD		100.00	9,351	2,394	
Salzgitter Mannesmann Précision Etirage SAS, Chéu	MPE	EUR		100.00	13,746	1,054	
Salzgitter Mannesmann Seamless Tubes B.V., Helmond	MSE	EUR		100.00	10,872	1,765	
Salzgitter Mannesmann Stainless Tubes France SAS, Montbard	MSTF	EUR		100.00	41,257	3,898	
Salzgitter Mannesmann Stainless Tubes Italia S.r.l., Costa Volpino	MSTI	EUR		100.00	5,556	–8,637	
Salzgitter Mannesmann Stainless Tubes USA, Inc., Houston	MSTU	USD		100.00	18,024	3,361	
KHS USA Inc., Waukesha	KHSUS	USD		100.00	55,524	2,809	Annual financial statements IFRS
KHS Industria de Máquinas Ltda., São Paulo	KHSBR	BRL		100.00	–36,996	–38,888	Annual financial statements IFRS
KHS Mexico S.A. de C.V., Zinacantepec	KHSME	MXN		100.00	155,461	22,246	Annual financial statements IFRS
KHS Machinery Pvt. Ltd., Ahmedabad	KHSIN	INR		94.50	561,778	93,787	Annual financial statements IFRS
KHS Pacific Pty. Ltd., Tullamarine	KHSAU	AUD		100.00	2,280	2,080	Annual financial statements IFRS
KHS Manufacturing (South Africa) (Pty.) Ltd., Kramerville	KHSSA	ZAR		100.00	35,098	10,352	Annual financial statements IFRS
KHS RUS OOO, Moscow	KHSRU	RUB		99.00	39,573	4,329	Annual financial statements IFRS
KHS Asia Pte. Ltd., Singapore	KHSSI	EUR		100.00	512	45	Annual financial statements IFRS
KHS Japan Corporation, Osaka	KHSJA	JPY		100.00	191,167	10,985	Annual financial statements IFRS

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
Klöckner DESMA Machinery Pvt., Ahmedabad	KDEIN	INR		100.00	341,520	84,419	Annual financial statements IFRS
DESMA USA, Inc., Hebron	KDEUS	USD		100.00	4,018	829	Annual financial statements IFRS
Salzgitter Finance B.V., Oosterhout	SZFBV	EUR	100.00		2,572	357	
2. Non consolidated group companies **a) Domestic**							
SESTA Stahl GmbH, Duesseldorf	SSG	EUR		100.00	51	0	P&L A., financial year to 30/09/2011, financial statements not testified
SBH Stahlblechhandel GmbH, Neuss	SBH	EUR		100.00	36	2	Financial year to 31/12/2010, financial statements not testified
STAHL-METALL-SERVICE Gesellschaft für Band-verarbeitung mbH, Fellbach	SMSGB	EUR		100.00	4,079	0	P&L A., founding or purchase in financial year to 31/12/2010
SMS Stahl-Metall-Service Holding AG, Stuttgart	SMSAG	EUR		100.00	14,670	2,205	Establishment or acquisition in financial year, Financial year to 31/12/2010
SMS Immobilie Rheinhafen GmbH & Co. KG, Karlsruhe	SMSIG	EUR		100.00	1,969	525	Establishment or acquisition in financial year, Financial year to 31/12/2010
SMS Immobilie Rheinhafen Verwaltungs-GmbH, Karlsruhe	SMSIV	EUR		100.00	22	–1	Establishment or acquisition in financial year, Financial year to 31/12/2010
Hildesheimer Stahlhandel GmbH & Co. KG, Hildesheim	HSH	EUR		100.00	352	321	Financial year to 31/12/2010
Stahlhandel GmbH, Hildesheim	STI	EUR		100.00	31	2	Financial year to 31/12/2010

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/ loss for the financial year in 1,000	Notices
MRW-Qualifizierungs-gesellschaft mbH, Muelheim an der Ruhr	MQG	EUR		100.00	26	0	P&L A., financial year to 31/12/2010
RSE Projektentwicklungs-GmbH, Frankfurt am Main	RSEPE	EUR		100.00	25	0	P&L A.
SEITZ ENZINGER Noll GmbH, Bad Kreuznach	SEN	EUR		100.00	27	0	Financial year to 30/09/2011, financial statements not testified
Holstein und Kappert GmbH, Dortmund	KD	EUR		100.00	25	0	Financial year to 30/09/2010, financial statements not testified
KHS Hensen Packaging GmbH, Dortmund	HPC	EUR		100.00	220	–385	Financial year to 31/12/2010, financial statements not testified
Phoenix Immobilienverwaltungs-gesellschaft mbH & Co. KG, Frankfurt am Main	PHOI	EUR		100.00	–22,871	–4,864	Financial year to 31/12/2010
RSE Phoenix Holding GmbH, Frankfurt am Main	PHOH	EUR		100.00	29	–1	Financial year to 31/12/2010
Phoenix Office Garden GmbH, Frankfurt am Main	PHOG	EUR		100.00	29	2	Financial year to 31/12/2010
Gewerbepark Am Borsigturm GmbH, Berlin	GAB	EUR		100.00	–2,785	631	Financial year to 31/12/2010
GVG Grundbesitz- und Vermögensverwaltungs-gesellschaft mbH, Salzgitter	GVGG	EUR		100.00	102	–4	Financial year to 31/12/2010
RSE Falkenhagen GmbH, Frankfurt am Main	RSEFH	EUR		100.00	504	10	Financial year to 31/12/2010
RSE Borsiggelände GmbH, Frankfurt am Main	RSEBG	EUR		100.00	288	–9	Financial year to 31/12/2010
RSE Projektmanagement Holding-Verwaltungs-GmbH, Frankfurt am Main	RSEGG	EUR		94.00	24	1	Financial year to 31/12/2010
RSE Projektmanagement Holding GmbH & Co. KG, Frankfurt am Main	RSEPM	EUR		100.00	10	–302	Financial year to 31/12/2010
RSE Projektmanagement GmbH, Frankfurt am Main	RSEPA	EUR		100.00	–13,869	–533	Financial year to 31/12/2010
Klöckner PET International GmbH, Salzgitter	PETIG	EUR		100.00	23	0	Financial year to 31/12/2010

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
RSE Grundstücksverwaltungs-GmbH, Frankfurt am Main	RSEGV	EUR		100.00	26	–1	Financial year to 31/12/2010
KHS Corpoplast Verwaltungsgesellschaft mbH, Hamburg	CVG	EUR		100.00	27	1	Financial year to 31/12/2010
VPS Infrastruktur GmbH, Salzgitter	VPSI	EUR		100.00	25	0	P&L A., financial year to 31/12/2010
BSH Braunschweiger Schrotthandel GmbH, Braunschweig	BSH	EUR		100.00	–66	549	Financial year to 31/12/2010
Salzgitter Hydroforming Verwaltungs GmbH, Crimmitschau	SZHV	EUR	100.00		52	4	Financial year to 31/12/2010
Salzgitter Magnesium-Technologie GmbH, Salzgitter	SZMT	EUR		100.00	8,771	–479	Financial year to 31/12/2010
Salzgitter Automotive Engineering Verwaltungsgesellschaft mbH, Osnabrueck	SZAW	EUR		100.00	35	2	Financial year to 31/12/2010
Salzgitter Automotive Engineering Immobilien Verwaltungsgesellschaft mbH, Osnabrueck	SZEV	EUR		100.00	43	1	Financial year to 31/12/2010
Salzgitter Mannesmann Personalservice GmbH, Muelheim an der Ruhr	SZMP	EUR		100.00	1,049	0	P&L A., financial year to 31/12/2010
betterCALL GmbH, Salzgitter	BCG	EUR		100.00	304	43	Financial year to 31/12/2010
TELEFONBAU MARIENFELD GmbH & Co. KG, Essen-Kettwig	TBM	EUR		100.00	5,498	586	Financial year to 31/12/2010
NorthStar Telecom GmbH, Salzgitter	NST	EUR		100.00	287	31	Financial year to 31/12/2010
Salzgitter Mannesmann Dritte Verwaltungs-gesellschaft mbH, Salzgitter	SMDV	EUR		100.00	26	0	P&L A., financial year to 31/12/2010
Salzgitter Mannesmann Technik GmbH, Salzgitter	SMTG	EUR		100.00	26	1	Financial year to 31/12/2010
b) Abroad							
Salzgitter Mannesmann (Scandinavia) AB, Lulea	SMSC	SEK		100.00	1,278	–2,917	Financial year to 31/12/2010
Salzgitter Mannesmann International (México) S.A. de C.V., Mexico D.F.	SMIM	MXN		100.00	7,567	1,015	Financial year to 31/12/2010

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
UNIVERSAL STEEL HOLLAND B.V., SK Papendrecht	USN	EUR		100.00	11,038	1,288	Financial statements not testified
UNIVERSAL Aciers Sarl, Couzon au Mont d'Or	UAC	EUR		100.00	2,072	111	Financial year to 31/12/2010
UNIVERSAL OCEL spol. s.r.o., Prague	UOC	CZK		100.00	154,824	6,896	
UNIVERSAL Stal sp. z.o.o., Ruda Slaska	USP	PLN		100.00	36,661	3,779	
Salzgitter Mannesmann (Italia) S.R.L., Milano	SMIT	EUR		100.00	1,034	79	Financial year to 31/12/2010, financial statements not testified
Salzgitter Mannesmann (France) S.A.R.L., Saint Mandé	SMFR	EUR		100.00	1,389	–121	Financial year to 31/12/2010
Salzgitter Mannesmann (UK) Ltd., Harrogate	SMUK	GBP		100.00	118	602	Financial year to 31/12/2010
Salzgitter Mannesmann (Espana) S.A., Madrid	SMSP	EUR		100.00	202	–162	Financial year to 31/12/2010, financial statements not testified
Salzgitter Mannesmann International (Asia) Pte. Ltd., Singapore	SMSG	USD		100.00	4,844	62	Financial year to 31/12/2010
Salzgitter Mannesmann Trade (Beijing) Co., Ltd., Beijing	SMCN	CNY		100.00	–12	–53	Financial year to 31/12/2010
Salzgitter Mannesmann International (HK) Ltd., Hongkong	SMHK	EUR		100.00	8,237	188	Financial year to 31/12/2010
Salzgitter Mannesmann International Tehran (Private Joint Stock Company), Tehran	SMIR	IRR		100.00	–6,900	443,806	Financial year to 31/12/2010
Salzgitter Mannesmann Distributie S.R.L., Bucharest	SMRO	RON		100.00	6,043	–3,657	Financial year to 31/12/2010
Salzgitter Mannesmann Pentasteel International (India) Pvt. Ltd., Mumbai	SMPI	INR		51.00	72,336	13,806	Financial year to 31/03/2011
Salzgitter Mannesmann International do Brasil Ltda., São Paulo	SMBR	BRL		85.00	1,500	0	
Salzgitter Mannesmann Precisión S.A. de C.V., El Salto	MPM	USD		100.00	–7,149	–1,556	Financial year to 31/12/2010

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
KHS China GLM2 Co. Ltd., Shantou City	KHSGL	CNY		70.00	125,420	– 12,799	
KHS UK Ltd., Solihull	KHSGB	GBP		100.00	731	225	
KHS Machine & Equipment (Qinhuangdao) Co., Ltd., Quinhuangdao	KHSC	CNY		100.00	3,212	1,416	Annual Financial statements IFRS
KHS Machines Nigeria Limited, Lagos	KHSNI	NGN		100.00	157,868	41,337	Annual Financial statements IFRS
Klöckner Holstein Seitz S.A., Sant Cugat del Valles	KHSSP	EUR		100.00	434	66	Annual Financial statements IFRS, financial statements are not testified
KHS Skandinavien ApS, Albertslund	KHSDK	DKK		100.00	361	463	Annual Financial statements IFRS
KHS Benelux B.V., Breda	KHSNL	EUR		100.00	0	– 42	
KHS S.A.R.L., Torcy	KHSFR	EUR		100.00	554	157	Financial year to 31/12/2010, financial statements not testified
KHS s.r.o., Ceské Budejovice	KHSTS	CZK		100.00	5,602	1,655	Annual Financial statements IFRS, financial year to 31/12/2010, financial statements are not testified
KHS GmbH, Wolfwil	KHSCH	CHF		100.00	1,146	677	Annual Financial statements IFRS, financial year to 31/12/2010, financial statements are not testified
KHS Austria GmbH, Wiener Neudorf	KHSÖS	EUR		100.00	129	– 201	Financial year to 31/12/2010, financial statements not testified
KHS Makine Sanayi VE Ticaret Limited Sirket, Istanbul	KHSTK	TRY		99.90	53	17	Financial year to 31/12/2010, financial statements not testified
KHS Italia S.r.l., Pero	KHSIT	EUR		99.00	58	9	Financial year to 31/12/2010, financial statements not testified

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
KHS Ukraine OOO, Kiev	KHSUK	UAH		100.00	– 487	– 307	Annual Financial statements IFRS, financial year to 31/12/2010, financial statements are not testified
KHS Sibiu S.R.L., Sibiu	KHSRO	RON		100.00	205	– 36	Annual Financial statements IFRS, financial year to 31/12/2010, financial statements are not testified
KHS VIETNAM COMPANY LIMITED, Ho Chi Minh City	KHSVN	VND		100.00	– 650,178	– 1,222,278	Annual Financial statements IFRS, financial year to 31/12/2010, financial statements are not testified
KHS Andes S. A. S., Bogotá	KHSCO	COP		99.90	– 115,790	– 177,925	Annual Financial statements IFRS, conversion in financial year, financial year to 31/12/2010, financial statements are not testified
Kisters Limited, Solihull	KIGB	GBP		100.00	254	0	Financial year to 31/12/2010, financial statements not testified
DESMA Slovakia s.r.o., Povazska Bystrica	KDEDL	EUR		90.00	949	– 6	Financial year to 31/12/2010
DESMA Machinery & Engineering Co. Ltd., Guangzhou	KDEC	CNY		100.00	2,348	741	Financial year to 31/12/2010
DESMA Rubber Injection Machinery (Wuxi) Co. Ltd., Wuxi	DRIM	CNY		100.00	3,993	1,506	Financial year to 31/12/2010
KHS Argentinia S.A., Buenos Aires	KHSAR	ARS		95.00	432	89	Financial year to 31/12/2010
KHS AG Korea Co., Ltd., Seoul	KHSSK	KRW		100.00	534,529	– 254,473	Financial year to 31/12/2010, financial statements not testified
KHS Corpoplast Argentina S.A., Buenos Aires	BEVAR	ARS		100.00	884	– 213	Financial year to 31/12/2009

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
KHS Corpoplast Trading (Shanghai) Co., Ltd., Shanghai	BEVCN	CNY		100.00	15,063	11,944	Financial year to 31/12/2010
KHS Corpoplast (UK) Ltd., Houghton Le Spring	BEVUK	GBP		100.00	153	– 19	Financial year to 31/12/2009
KHS Corpoplast Espana SL, Sant Cugat del Valles	BEVSP	EUR		100.00	144	– 147	Financial year to 31/12/2010
KHS Corpoplast North America Inc., Flemington	BEVUS	USD		100.00	4,788	628	Financial year to 31/12/2009
Salzgitter Hydroforming s.r.o., Chomutov	HFCZ	CZK		100.00	950	– 1,707	Financial year to 31/12/2010, financial statements not testified
3. Joint Ventures proportionately consolidated							
a) Domestic							
EUROPIPE GmbH, Muelheim an der Ruhr	EP	EUR		50.00	210,022	47,042	
Muelheim PIPECOATINGS GmbH, Muelheim an der Ruhr	MPC	EUR		100.00	19,791	1,690	
b) Abroad							
EUROPIPE France S.A., Grande Synthe	EPF	EUR		100.00	6,770	706	
Berg Steel Pipe Corporation, Wilmington	BSPC	USD		100.00	100,475	– 5,361	
eb Pipe Coating Inc., Wilmington	EBPC	USD		100.00	12,048	– 283	
Berg Spiral Pipe Corporation, Wilmington	BSPM	USD		100.00	47,034	– 3,170	
BERG EUROPIPE Holding Corp., New York	BEHC	USD		100.00	183,273	– 8,151	
4. Associated companies at equity							
a) Domestic							
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	HKM	EUR		30.00	230,437	30	
Aurubis AG, Hamburg	NAAG	EUR		25.00	1,061,802	128,157	Financial year to 30/09/2011

	Abbreviation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
5. Other Shareholdings							
a) Domestic							
ERZKONTOR RUHR GMBH, Essen	ERE	EUR		33.33	107	0	Financial year to 30/09/2010
Beck & Co. Industriebedarf GmbH & Co. KG, Moenchengladbach	BIG	EUR		51.25	103	90	Financial year to 30/09/2011
Bahners GmbH, Moenchengladbach	BGN	EUR		50.00	37	2	Financial year to 30/09/2011
EUROPIPE 1. Verwaltungsgesellschaft mbH, Muelheim an der Ruhr	EPV	EUR		100.00	32	–1	Financial statements not testified
EUROPIPE Projekt GmbH, Muelheim an der Ruhr	EPP	EUR		100.00	26	–1	Financial statements not testified
Klöckner Mercator Versicherungsvermittlung GmbH & Co. KG, Dortmund	KMVV	EUR		50.00	89	217	Financial year to 31/12/2010
MEDICO-Management & Service GmbH & Co. Senioren-Pflegeheim KG, Hanover	MMS	EUR		41.90	1,271	406	Financial year to 31/12/2010
DEUTRANS Rohstoff- und Recycling-Logistik GmbH, Braunschweig	DRRL	EUR		50.00	35	6	Financial year to 31/12/2010
GVZ Entwicklungsgesellschaft Salzgitter mbH, Salzgitter	GVZ	EUR		21.43	40	1	
Wohnungsbaugesell-schaft mit beschränkter Haftung Salzgitter, Salzgitter	WBG	EUR		25.05	43,659	3,427	Financial year to 31/12/2010
WBV Wohnbau Betreuungs & Verwaltungs GmbH, Salzgitter	WBV	EUR		100.00	26	0	P&L A., financial year to 31/12/2010
b) Abroad							
TAPIOMETALL Müszaki Kereskedelm Kft., Tápiószele	TMK	HUF		29.40	190,139	–18,497	Financial year to 31/12/2010, financial statements not testified
Salzgitter (West Africa) Ltd., Lagos	SWA	NGN		40.00	49	0	No business activity, financial year to 30/09/1993, statement not testified

	Abbre-viation	Currency	Direct in %	Indirect in %	Equity in 1,000	Net income/loss for the financial year in 1,000	Notices
Borusan Mannesmann Boru Yatirim Holding A.S., Istanbul	BMB	TRY		23.00	74,325	251	Financial year to 31/03/2011
Berg Europipe Corp., Wilmington	BEC	USD		100.00	375	367	
KHS Zagora AD, Stara Zagora	KHSBU	BGN		50.00	589	24	Financial year to 31/12/2010, financial statements not testified
Impuls AD, Gabrovo	I98	BGN		15.15	2,914	– 104	Financial year to 31/12/2009
KHS AG (Thailand) Ltd., Bangkok	BEVTH	THB		49.00	47,807	8,129	Financial year to 31/12/2010

Accounting Principles

The consolidated financial statements of Salzgitter AG (SZAG) were prepared in accordance with the accounting principles stipulated by the International Accounting Standards Board (IASB) that were rendered mandatory on the reporting date by EU Directive No.1606/2002 and are based on the principle of historical acquisition cost, with the exception of certain financial instruments which are shown at fair value. The requirements of the applied standards and interpretations (SIC/IFRIC) were satisfied without exception and convey a true and fair view of the Salzgitter Group's net assets, financial position and results of operations.

Effects of new or amended standards:

Standards/Interpretation		Mandatory date	Adoption by EU commission[1]	Likely effects
IAS 32	Classification of Rights Issues	01/02/2010	yes	none
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	01/07/2010	yes	none
	Improvements 2010[2]	01/07/2010	yes	no material effects
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01/07/2010	yes	none
IAS 24	Related Parties Disclosures	01/01/2011	yes	none
IFRIC 14	Prepayments of a Minimum Funding Requirement - Amendment	01/01/2011	yes	none

[1] As of 31/12/2011

[2] Slight alterations to many standards (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) and the resultant changes.

Standards not applied early:

Standards/Interpretation		Mandatory date	Adoption by EU commission[1]	Likely effects
IFRS 7	Financial Instruments: Transfer of financial assets	01/07/2011	yes	Notes to the financial statements
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters – Amendments	01/07/2011	no	none
IAS 12	Deferred tax: Recovery of Underlying Assets – Amendments	01/01/2012	no	not foreseeable
IAS 1	Presentation of Items of Other Comprehensive Income – Amendments	01/07/2012	no	none
IFRS 7	Disclosure: Netting of financial assets and financial liabilities	01/01/2013	no	Notes to the financial statements
IFRS 10	Consolidated Financial Statements	01/01/2013	no	not foreseeable
IFRS 11	Joint Arrangements	01/01/2013	no	Income statement, balance sheet[2]
IFRS 12	Disclosures of Interests in Other Entities	01/01/2013	no	not foreseeable
IFRS 13	Fair Value Measurement	01/01/2013	no	Notes to the financial statements
IAS 19	Employee Benefits – Amendments	01/01/2013	no	Notes to the financial statements
IAS 27	Consolidated Financial Statements	01/01/2013	no	not foreseeable
IAS 28	Investments in Associates and Joint Ventures	01/01/2013	no	not foreseeable
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01/01/2013	no	none
IAS 32	Amendment: Netting of financial assets and financial liabilities	01/01/2014	no	not foreseeable
IFRS 9	Financial Instruments: Classification and Valuation	01/01/2015	no	not foreseeable

[1] As of 31/12/2011

[2] Valuation using the equity method instead of pro rata consolidation in the EP group.

As a listed parent company of a group, Salzgitter AG is obliged pursuant to Section 315a, German Commercial Code (HGB) to prepare consolidated financial statements in compliance with international accounting standards and regulations.

The consolidated financial statements are disclosed in the electronic German Federal Gazette (Bundesanzeiger). The company Salzgitter AG, entered in the Commercial Register at Braunschweig Local Court under HRB 9207, has its headquarters in Salzgitter. The address of the Salzgitter AG Executive Board is Eisenhüttenstraße 99, 38239 Salzgitter. The consolidated financial statements and the Group Management Report were approved by the Executive Board on March 1, 2012 for submission to the Supervisory Board.

The financial year of Salzgitter AG and its subsidiaries included in the consolidated financial statements generally corresponds to the calendar year. Two subsidiaries with divergent balance sheet dates prepare interim financial statements as of the Group's balance sheet date. The consolidated financial statements were prepared in euros. Unless otherwise indicated, the amounts are stated in millions of euros (€ m). There may be deviations from the unrounded amounts.

On Thursday, December 15, 2011, the Executive Board and the Supervisory Board issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders on the company's website (www.salzgitter-ag.de/en). The Declaration of Conformity is also printed in the "Corporate Governance Report" section of the Annual Report.

Consolidation Principles and Methods

The consolidated financial statements are based on the financial statements of Salzgitter AG and those of the integrated subsidiaries prepared in accordance with the accounting and valuation methods applied in a uniform manner throughout the Group and certified by independent auditors.

The consolidated financial statements include all companies whose financial and business policies Salzgitter AG is capable of determining directly or indirectly in such a way that the companies in the Salzgitter Group derive benefit from the activities of these companies. These companies are included in the consolidated financial statements as of the time when the Salzgitter Group becomes capable of controlling them. If this possibility is no longer given, these companies are excluded from the consolidated group.

Capital consolidation is carried out by setting off the acquisition cost of the shareholding against the proportionate amount of the newly-valued equity at the time when the subsidiary was purchased.

The results generated by a subsidiary that was disposed of must be included in the consolidated financial statements until the date of its disposal. This is the date on which the control of the subsidiary by the parent company comes to an end. The difference between the proceeds from the sale of the subsidiary and the book values of the assets, less the debts at the time of the sale, is recognized in the consolidated income statement. If the subsidiaries being excluded from the consolidated group were allocated goodwill that was acquired prior to October 1, 1995, the past offsetting against retained earnings without effect on income is not annulled.

IAS 31 defines a joint venture as an arrangement where two or more partners carry out a commercial activity under joint management. Joint management is defined as the contractually agreed participation in management of a commercial activity. Under IAS 31, joint ventures are included in the consolidated financial statements in accordance with the benchmark method by means of proportionate consolidation.

Shareholdings in companies in which the Salzgitter Group is able to exercise a decisive influence over financial and business policy decisions are valued in the consolidated financial statements using the equity method. If the Group is unable to exercise a decisive influence, the shares in the companies are included in the consolidated financial statements in accordance with IAS 39. The dates of admission into and departure from the group of consolidated companies valued using the equity method are determined by applying the same principles that are used for subsidiaries. The associated companies are reported using the revaluation method with their proportionate equity at the time of acquisition. The equity valuation is based on the last audited annual financial statements or, if a Group company has a financial year which deviates from that of the consolidated financial statements, the interim financial statements as at December 31.

Business combinations are accounted for in accordance with IFRS 3.4 using the purchase method. The acquirer in such cases is the entity which has gained control of the acquired company, with the result that it can derive benefits from that company. Consideration in return for an acquisition must be determined from the total fair values of the assets acquired as of the time when they changed hands, the liabilities entered into or acquired, and the equity instruments issued by the Group in exchange for the control of the acquired company. In the case of acquisitions which are less than 100 %, there is an option to disclose fully the goodwill from an acquisition in accordance with the full goodwill method, i.e. also in the amount of the proportion attributable to the minority interests. Any costs incurred in connection with the business combination must be recorded in full with effect on income when they are incurred. Subsequent changes in fair values must be adjusted against the acquisition costs, provided that the adjustments are within the valuation period. All other changes in the fair value of a conditional consideration classified as an asset or a liability must be recorded in accordance with the respective IFRS rules. Changes in the fair value of a conditional consideration which is classified as equity are not recorded. In the case of a gradual business combination, the equity interest in the acquired company previously held by the Group must be redetermined at the fair value which is valid at the time of acquisition (i.e. at the point when control was gained) and any resulting profit or loss must be reported as appropriate in the income statement. The identifiable assets, liabilities and contingencies which are acquired must – if they satisfy the requirements for reporting under IFRS 3 – be accounted for at their fair values as of the time of acquisition. The valuation period is the period from the time of acquisition to the time when the Group has received all the information about the facts and circumstances prevailing as of the time of acquisition, but no later than one year after the acquisition date.

Minority interests in the consolidated companies are reported separately within equity.

In the case of assets and liabilities denominated in foreign currency, the acquisition costs must always be reported at the exchange rate prevailing on the cut-off date when the acquisition was realized. Exchange rates are hedged as a matter of principle.

Intercompany sales, expenses and income, as well as receivables and liabilities between the companies included in the financial statements are eliminated.

Intercompany profits deriving from intercompany deliveries and services are eliminated with effect on income, taking deferred taxes into account. Intercompany deliveries and services are subject to customary market terms.

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements include the annual financial statements of 46 (previous year: 46) domestic and 26 (previous year: 18) foreign affiliated companies, all prepared as of the same reporting date.

Two domestic (previous year: two) and five foreign (previous year: five) joint ventures are included on a pro rata basis in the consolidated financial statements by means of proportionate consolidation.

The following assets, liabilities and expenses and income items (excluding income from shareholdings, net interest income and tax) are attributable to the Group on the basis of its shares in the respective joint ventures:

In € m	2011	2010
Non-current assets	94.2	96.0
Current assets	130.1	238.6
Non-current liabilities	41.1	39.2
Current liabilities	33.4	78.0
Income	460.2	364.9
Expenses	392.7	389.5

In the reporting year, two domestic shareholdings (previous year: three) over which Salzgitter AG or another Group company exercises a decisive influence are also included in the consolidated financial statements using the equity method. The shareholding in ThyssenKrupp GfT Bautechnik GmbH, Essen, which was previously included using the equity method, was sold as of September 30, 2011.

A total of 38 (previous year: 34) domestic and 47 (previous year: 55) foreign subsidiaries have not been consolidated due to their minor overall significance for the Group's net assets, financial position and results of operations.

The composition and development of the consolidated group (excluding Salzgitter AG) and the group of companies valued using the equity method is as follows:

	Status 31/12/2010	Additions	Disposals	Status 31/12/2011
Consolidated subsidiaries	**64**	**8**	**–**	**72**
of which domestic	46	–	–	46
of which foreign	18	8	–	26
Joint ventures	**7**	**–**	**–**	**7**
of which domestic	2	–	–	2
of which foreign	5	–	–	5
Associated companies	**3**	**–**	**1**	**2**
of which domestic	3	–	1	2
of which foreign	–	–	–	–

The additions relate to companies in the Trading and Technology divisions which had previously not been consolidated. The disposal concerns a joint venture in the Steel Division.

Currency Translation

In the individual annual financial statements of the Group companies, business transactions in foreign currencies are valued at the exchange rate prevailing at the time when they were first recorded. Exchange losses incurred due to the valuation of receivables and/or liabilities up to the reporting date are taken into consideration. Gains and losses resulting from changes in exchange rates are reported with effect on income.

The annual financial statements of the foreign subsidiaries are translated into euros in accordance with the concept of functional currency. Since, from the point of view of Salzgitter AG, the companies are generally independent in the execution of their business in financial, commercial and organizational terms, the respective functional currency corresponds to the currency of the country in which these companies are incorporated. At one company, the functional currency is not that of the company is incorporated; instead, the company operates its business in euros. Assets and liabilities are translated at the exchange rates prevailing on the reporting date; the positions in the income statement, and therefore the result for the year posted in the income statement, are translated at the annual average exchange rate. The resulting differences are reported without effect on income until such time as the subsidiary is sold.

A similar approach is employed when translating equity rollover for foreign countries that are reported using the equity method. Differences from the previous year's translation are offset against retained earnings without effect on income. Goodwill is reported as an asset in the reporting currency. Income and expenses are translated at annual average exchange rates, while changes in reserves are translated at the rate prevailing on the reporting date.

The most important exchange rates that serve as the basis for currency translation have developed as follows:

	Exchange rate on reporting date		Average exchange rate	
Foreign currency per € 1	31/12/2011	31/12/2010	2011	2010
Australian dollar	1.2723	1.3136	1.3484	1.4423
Brazilian real	2.4159	2.2177	2.3265	2.3314
Indian rupee	68.7130	59.7580	64.8859	60.5878
Japanese yen	100.2000	108.6500	110.9600	116.2400
Canadian dollar	1.3215	1.3322	1.3761	1.3651
Mexican peso	18.0512	16.5475	17.2877	16.7373
Polish zloty	4.4580	3.9750	4.1206	3.9947
Russian ruble	41.7650	40.8200	40.8846	40.2629
South African rand	10.4830	8.8625	10.0970	9.6984
Czech koruna	25.7870	25.0610	24.5900	25.2840
Hungarian forint	314.5800	277.9500	279.3700	275.4800
US dollar	1.2939	1.3362	1.3920	1.3257

Accounting and Valuation Principles

The annual financial statements of the subsidiaries included in the Salzgitter Group are prepared in accordance with uniform accounting and valuation principles in compliance with the standards defined by the IASB.

Assets are capitalized if the Salzgitter Group is entitled to all of the material opportunities and risks associated with their respective use. Assets are always valued at amortized cost or production cost or fair value.

Estimates and assumptions

When the consolidated financial statements were being prepared, estimates and assumptions were made which impacted the amounts and reporting of the assets and liabilities, the earnings and expenditure and the contingent liabilities that are included in the balance sheet. All the estimates and assumptions were made in order to convey a true and fair picture of the Group's net assets, financial position and results of operations. The actual values can deviate from the assumptions and estimates in individual cases. Deviations of this kind are posted to income as of the time when better knowledge becomes available.

Financial accounting of acquisitions

Goodwill is reported in the Group's balance sheet as a possible consequence of acquisitions. When an acquisition is consolidated for the first time, all identifiable assets, liabilities and contingent liabilities are reported at their respective fair values as of the acquisition date. One of the most crucial estimates made in connection with these relates to the ascertainment of the fair values of these assets and liabilities as of the acquisition date. Land, buildings and office equipment are usually valued on the basis of independent expert opinions; marketable securities are reported at their market prices. If intangible assets are identified, either recourse is taken to an independent expert report by an external valuation specialist or, depending on the type of intangible asset and the complexity of determining its fair value, the fair value is ascertained internally by applying an internationally recognized valuation technique which is generally based on the forecast of the aggregate anticipated future cash flow. These valuations are closely related to the assumptions that the management has made with regard to the future development of the respective assets' values and the assumed changes in the applicable discount rate.

Asset-side goodwill

The Group examines annually, and also additionally if there are any indications which justify such action, whether there has been impairment of any goodwill reported in the balance sheet. Should this be the case, the cash generating unit's recoverable amount (net selling price) must be estimated. This is the higher of the fair value less selling costs and the value in use. To determine the value in use, adjustments and estimates regarding the forecasting and discounting of the future cash flows are made. In the Salzgitter Group, the cash generating unit is generally the individual legal entity. In individual cases, legal entities are combined to form a group. Management is confident that the assumptions used for calculating the recoverable amount are appropriate. Any changes in these assumptions could lead to value impairments that would adversely affect the Group's net assets, financial position and results of operations.

Intrinsic value of the assets

As of every balance sheet date, the Group must estimate whether there is any concrete indication that the carrying amount of a tangible fixed asset, an investment property or an intangible asset could be impaired. Should this be the case, the recoverable amount of the asset in question is estimated. The recoverable amount is the higher of the fair value less selling costs and the value in use. To determine the value in use, the discounted future cash flows of the asset in question must be determined. The estimate of the discounted future cash flows contains fundamental assumptions concerning, for example, future selling prices and selling volumes, costs and discount rates. Although management is confident that the estimates of the relevant useful lives, the assumptions regarding the general economic framework, the development of the sectors of industry in which the Group operates and the estimates of the discounted future cash flows are appropriate, a change in the assumptions or in the prevailing circumstances could necessitate a change in the analysis. This could result in additional impairments or reversals of write-downs in the future if the trends identified by management go into reverse or if the assumptions and estimates prove to be incorrect.

Recognition of sales in the case of customer-specific contract production

Particular Group companies in the Technology Division conduct a proportion of their transactions as customer-specific contract production reported using the percentage-of-completion method, according to which sales must be shown in accordance with the extent to which the order has been completed. This method necessitates a precise estimate of the progress that has been made. Depending on the method of determining the degree of completion, the material estimates encompass the total costs of the order, the costs still to be incurred before completion, total revenues from the order, the risks that the order involves and other assessments. The management of the operating units continuously checks all of the estimates that are necessary within the scope of production orders and adjusts them if necessary.

Income tax

As the Group operates and generates income in numerous countries, it is subject to an extremely wide variety of tax laws under a multiplicity of taxation authorities. To ascertain the Group's tax liabilities worldwide, a number of fundamental assessments must therefore be made. Management is assuming that it has made a sensible assessment of fiscal imponderables. Under some circumstances, there can be no assurance that the outcome of such fiscal imponderables will correspond to the estimate. Any differences could have an impact on the tax liabilities and the deferred taxes in the period when the matter is finally decided upon.

As of every balance sheet date, the Group assesses whether the realizability of future tax benefits is sufficiently probable for the reporting of deferred tax assets. This requires management to, among other things, assess the tax benefits that arise from the available tax strategies and future taxable income, and to take other positive and negative factors into account. The deferred tax assets reported can decrease if the estimates of planned taxable income and the tax benefits attainable using the available tax strategies are reduced or if changes to current tax laws restrict the time framework or the scope of realizability of future tax benefits.

Employee benefits

Pensions and other obligations are reported in the balance sheet in compliance with actuarial valuations. These valuations are based on statistical and other factors with a view to anticipating future events. These factors encompass actuarial assumptions such as the discount rate, the expected capital yield from plan assets, expected salary increases and mortality rates. These actuarial assumptions can diverge significantly from actual developments as a result of changed market and competitive conditions and can therefore lead to a substantial change in the pensions and similar obligations and in the future expenses associated with them.

Intangible assets

Goodwill/negative goodwill from capital consolidation

The capitalized goodwill for companies acquired before October 1, 1995 that results from the capital consolidation continues to be offset against retained earnings. Goodwill acquired since October 1, 1995 is capitalized, examined annually for impairment and, if necessary, amortized.

Any negative goodwill arising will, in accordance with IFRS 3, be recognized immediately with effect on income after the net assets acquired have been revalued.

Any surplus of the acquisition cost of an associated company over the Group's share of the net fair values of the assets, liabilities and contingent liabilities of that associated company as of the acquisition date must be accounted for as goodwill. Goodwill is a component of the shareholding's book value and is not examined separately for possible impairment. Instead, the entire book value of the shareholding is examined for impairment.

Other intangible assets

Other intangible assets acquired against payment are reported at acquisition cost and amortized on a straight-line basis over the period of their likely economic useful lives, generally between 3 and 5 years.

Other intangible assets are usually amortized over a period of 5 years. The assets identified within the framework of the purchase price allocations are amortized regularly over periods of between 7 and 22 years using the straight-line method.

Intangible assets generated internally are capitalized if it is probable that their usefulness for the Group is reliable and if the acquisition or production costs can be measured with accuracy. The production costs of internally generated intangible assets are determined on the basis of directly attributable costs. Costs which are necessary for the creation, production and development of the asset so that it is in good operational condition for the purposes intended for it by the Group's management are included.

Development costs are capitalized if a newly-developed product or procedure can be clearly defined, is technically feasible and is intended for either the company's own use or marketing. Moreover, capitalization presupposes that development costs will with sufficient probability be covered by future inflows of cash and cash equivalents. The development process must be distinguished from a research phase. Development is the application of the research result and takes place before the start of commercial production or use. If the prerequisites for capitalization are not satisfied, the expenses are set off with effect on income in their year of origin.

The acquisition or production costs in question encompass all costs which are directly attributable to the development process, as well as likewise directly attributable parts of the development-related overhead costs. They are amortized from the start of production onwards on a straight-line basis over the likely economic useful life of the developed asset models.

Property, plant and equipment

Property, plant and equipment are valued at acquisition or production cost less accumulated depreciation and impairment costs. Any investment grants received are shown as a reduction in the acquisition and production costs. The residual book values and the economic useful lives are examined on every reporting date and adjusted if necessary. If the book value of an asset exceeds its estimated recoverable amount, this amount is written down. If the reasons for a write-down in previous years no longer apply, appropriate reversals of write-downs are carried out.

The production costs of internally generated property, plant and equipment are determined on the basis of directly attributable costs and estimated demolition and restoration costs.

The costs incurred in the regular maintenance and repair of property, plant and equipment are recognized as expenses. Renewal and maintenance expenses are capitalized as subsequent production costs only if they result in a material extension of the useful life or a substantial improvement or an important change in the use of the said property, plant and equipment.

Material components of property, plant and equipment that require replacement at regular intervals are capitalized as autonomous assets and depreciated over the course of their economic useful lives.

The scheduled straight-line depreciation is essentially based on the following economic useful lives:

Useful economic lives	
Buildings, including investment property	10 to 50 years
Plant equipment and machinery	5 to 30 years
Factory and office equipment	3 to 25 years

Borrowing costs

Borrowing costs which are directly connected with the acquisition, construction or manufacturing of qualified assets (assets which require a considerable period of time to bring them up to usable or saleable condition) are added to the production costs of these assets up until such time as the assets are basically available to be used or sold as intended. Income generated by the temporary investment of specially borrowed funds is deducted from the capitalizable borrowing costs until they are spent on qualifying assets.

All other borrowing costs are recorded in the period when they are incurred with effect on income.

Leases

The Group operates as both a lessee and a lessor. When leased property, plant and equipment are used, the prerequisites of finance leases in accordance with IAS 17 are fulfilled if all substantial risks and opportunities associated with ownership were transferred to the respective Group company. If a contract consisting of several components is applicable, a lease arrangement is then assumed, in accordance with IFRIC 4, if the fulfillment of the contract depends on the utilization of a particular asset and the contract regulates the transfer of this utilization right. In these cases the respective property, plant and equipment are capitalized at acquisition or production cost or at the lower net present value of the minimum lease payments and are depreciated using the straight-line method over their economic useful lives, or the shorter term of the lease agreement. Payment obligations resulting from future lease installments are discounted as liabilities.

If assets are utilized in a finance lease agreement, the net present value of the lease payments is reported as a lease receivable. The difference between the gross receivable and the net present value of the receivable is recognized as unrealized financial income. Lease income is reported for the duration of the lease arrangement using the annuity method, which results in a constant interest rate on the lease receivable.

Lease arrangements in which a material part of the benefits and risks inherent in ownership of the leased item remains with the lessor are classified as operating leases. The lease installments to be paid under these lease arrangements are recorded in the income statement for the duration of the lease arrangement using the straight-line method.

Investment property

Investment property encompasses property which is used to generate rental income or long-term value appreciation and not for production or administration purposes. This is recognized at cost in accordance with IAS 40 ("cost model"). Depreciable investment properties are depreciated over a period of 10 to 50 years using the straight-line method.

The properties are valued at cost, taking account of unscheduled depreciation. Transaction costs are included in the first valuation. The Notes to the Consolidated Financial Statements indicate the fair value of these properties, which is ascertained using internationally acknowledged valuation methods such as the DCF method or, if current market prices of comparable properties are available, is derived from those prices. The substantial part of the property portfolio is valued regularly by independent experts (max. every 5 years).

Financial assets — Categorization

Financial assets held for trading

In the Salzgitter Group, only financial assets which were classified from the outset as "Held for trading" are measured at fair value with effect on income. Derivatives are classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. The option of designating financial instruments as financial assets to be measured at fair value with effect on income when they are first reported (fair value option) is not exercised in the Salzgitter Group.

Loans and receivables originated by the company

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They arise when the Group provides a debtor directly with money, goods or services. Acquired receivables must also be classified under this heading. Loans and receivables are reported in the balance sheet under receivables and other assets.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and the ability to hold to maturity. In the financial year 2011, no use was made of this category in the Salzgitter Group.

Derivatives with documented hedging arrangements

These financial instruments are not classifiable as "Available-for-sale financial assets", as derivatives from this category are expressly excluded. They therefore systematically constitute an additional category.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that cannot be attributed to any of the other categories described above.

Financial assets — Measurement

The financial instruments are attributed to non-current assets if management does not intend to sell them within 12 months of the reporting date.

All purchases and sales of financial assets made on customary market terms are always recognized as of the settlement date in the Salzgitter Group. This is the date on which the asset is delivered to or by the Group.

Financial assets are initially reported at their fair value. Financial instruments that do not belong to the "Financial assets held for trading" category are initially reported at fair value plus their transaction costs.

Financial instruments in the "Available-for-sale financial assets", "Derivatives with documented hedging arrangements" and "Financial assets held for trading" categories are reported in the subsequent valuation at fair value. The subsequent valuation of "Loans and receivables originated by the company" and "Held-to-maturity investments" is carried out at amortized cost using the effective yield method.

The fair values of listed shares are determined on the basis of their closing prices in electronic trading. Immaterial non-listed shares are valued at their acquisition cost, as there is no price from an active market and the fair value cannot be ascertained reliably.

Forward exchange contracts are valued using the Group's own calculations. The outright rates applicable on the reporting date were determined on the basis of the ECB's reference rates for the respective currency pairings and the interest rate differences between the various terms of the forward exchange contracts. Working on the assumption of standardized terms, the interest rate differences between the actual terms were determined by means of interpolation. The information regarding the standardized terms was obtained from a standard market information system. The difference ascertained between the contractually agreed foreign exchange amount at the forward exchange rate and the cut-off date exchange rate is discounted as of the reporting date using the euro interest rate in accordance with the residual term.

The other derivatives are always valued on the basis of calculations made by the issuing banks using recognized methods (e.g. Black-Scholes, Heath-Jarrow-Morton). Embedded derivatives are measured with the help of the Black-Scholes method, with the calculation parameters being based on data from observable markets.

Unrealized profits and losses arising from changes in the fair value of financial instruments in the "Available-for-sale financial assets" category are posted to equity. If assets in this category are sold, the cumulative adjustments to fair value under equity are posted to income as profits or losses from financial assets in the income statement.

Financial assets — Value adjustment and writing off
Changes in the fair values of derivative financial instruments that do not qualify for hedge accounting are shown directly in the income statement.

As of every balance sheet date, financial assets that do not belong to the "Financial assets held for trading" category are examined to ascertain whether there are any objective indications of impairment in the respective financial asset or group of financial assets.

Impairment of financial instruments in the "Loans and receivables originated by the company" and "Held-to-maturity investments" categories are recorded with effect on income, as are write-ups.

In the case of financial instruments which are classified in the "Available-for-sale financial assets" category, a significant or permanent decline in their fair value is recorded with effect on income as impairment. Impairments of equity instruments which have been posted to the income statement are reversed with no effect on income; impairments of debt instruments are reversed with effect on income.

Financial instruments are written off if the rights to payments from the investment have expired or were transferred and the Group has essentially transferred all risks and opportunities associated with their ownership.

Financial assets — Hedge accounting

The method used to report gains or losses from derivatives depends on whether the derivative was designated a hedging instrument and, if this was the case, on the item being hedged. The Group designates derivatives either as hedging the fair value of an asset or a liability reported in the balance sheet (fair value hedge), as hedging payment flows from a transaction that is regarded as highly likely, or as hedging the currency risk inherent in a firm obligation (both cash flow hedges).

Fair value hedge

Changes in the market values of derivatives that qualify as fair value hedges are recorded in the income statement together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the market value of derivatives that are designated for hedging payment flows or the currency risk inherent in firm obligations and qualify as cash flow hedges is recognized under equity. The ineffective portion of the changes in value, on the other hand, is recognized immediately in the income statement. Amounts recorded under equity are reposted to the income statement in the period when the hedged item is recorded as earnings or expenses and in which the hedged underlying transaction is posted to income. However, when a hedged future transaction results in the recognition of a non-financial asset (e.g. inventories) or a liability, the gains or losses previously recorded under equity are transferred from equity and included in the initial valuation of the acquisition cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the requirements of hedge accounting, the cumulative gain or loss remains in equity and is not disclosed in the income statement until the underlying transaction is ultimately recognized. If the forecast transaction is no longer expected to take place, the cumulative gains or losses that were recorded directly in equity must be transferred immediately to the income statement. Movements in the reserve for cash flow hedges in equity are disclosed in the statement of changes in equity and the statement of comprehensive income.

Inventories

Inventories are stated at acquisition or production cost or the lower net selling value. Inventories are valued at average costs or individually attributed acquisition or production costs. The production costs are determined on the basis of normal capacity utilization. Specifically, the production costs include not only the directly attributable costs, but also the production-related material costs and production overheads including production-related depreciation. If a qualified asset is present, borrowing costs are capitalized as part of acquisition or production cost. If the values as of the reporting date are lower because of a fall in net realizable values, these are reported. If the net selling value of previously written-down inventories has increased, the resultant reversal of write-downs is recorded as a reduction in the cost of materials or a change in inventories.

All discernible storage and inventory risks that impact the expected net selling value are taken into account by applying properly calculated value adjustments.

Work in process and finished products, as well as raw materials internally generated, are valued at Group production cost, which, in addition to direct costs, includes the variable and fixed overhead costs that are calculated systematically or attributed.

Rights to emit CO_2 gases are reported in the balance sheet under inventories (supplies). Initial ownership of emission rights that were acquired gratuitously are recorded at an acquisition cost of € 0. Paid-for emission rights are reported at their acquisition cost. Increases in the value of the capitalized emission rights are realized only in the event of a sale. Impairments of the paid-for emission rights are reported if the market price of the emission rights falls below their acquisition cost.

Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective yield method, less impairments. An impairment of trade receivables is carried out when there is objective evidence that the Group will not be able to collect all of the amounts due. The amount of the impairment corresponds to the difference between the book value of the receivable and the net present value of the estimated future cash flows from the receivable, discounted at the effective interest rate. The impairment is disclosed in the income statement.

Customized construction contracts

Under IAS 11, the sales volume and results of every contract are determined using the percentage-of-completion method. The percentage of completion is calculated from the ratio of the contract costs so far incurred to the estimated total costs as of the respective cut-off date. Contract costs which are incurred immediately are recognized immediately with effect on income. If the result of a construction contract cannot be determined reliably, only revenues in the amount of the contract costs incurred are recorded.

Payments received on account are deducted on the assets side from the receivables from construction contracts reported under trade receivables. If the payments received on account for individual construction contracts exceed the receivables from construction contracts, the excess amount is reported under liabilities. If it seems likely that total contract costs will exceed total contract revenues, the anticipated loss is recognized as expenses immediately and, if it exceeds the contract costs already incurred, reported as a liability from contract construction.

Non-current assets held for sale

Non-current assets (or groups of assets and liabilities) are classified as held for sale and are valued at the book value or lower fair value, less selling costs, if their book value will essentially be generated by a sale rather than through continued operational use.

Provisions for pensions

The provisions for pension obligations are formed as a result of benefit plans for retirement and invalidity pensions and provisions for surviving dependents. These provisions are formed exclusively for defined benefit plans under which the company guarantees that employees will receive a specific level of provision. The provisions for pensions also include bridging payments in the event of death.

The pension obligations are valued on the basis of actuarial assumptions and calculations. The defined benefit obligations are determined using the usual projected unit credit method prescribed by IFRS. This procedure takes into account not only pensions and acquired claims that are known on the reporting date, but also the increases in salaries and pensions that may be expected in the future. The current service costs are shown as personnel expenses, the interest component of allocations to provisions as net interest income.

Actuarial gains and losses are recorded in the pension provisions with no effect whatsoever on income in the year in which they are incurred.

The material actuarial premises applied at the Salzgitter Group are as follows:

	31/12/2011	31/12/2010
Actuarial rate	4.25 %	4.25 %
Trend in salaries	2.75 %	2.75 %
Trend in pension	1.75 %	1.75 %
Staff turnover	1.00 %	1.00 %

As a result of the crisis in the financial markets/the credit crunch, there are still several market distortions that affect the yields of premium corporate bonds and consequently the actuarial interest rates derived from them. Against this backdrop the company has decided, as in the previous years, not to take bonds outside an appropriate yield band into consideration when deducing the yield curve to be applied. For this purpose, all corporate bonds comprised under the "iBoxx € Corporate AA 10+ Index" whose yield as of the balance sheet date deviated from the weighted average yield of the bonds listed in the index by more than one and a half times the standard deviation were eliminated. The average yield that emerged after this adjustment had been made, taking account of the durations of the obligations assessed, was rounded down to the next quarter of a percentage point, and therefore to an actuarial rate of 4.25%.

The application of an actuarial rate of 4.5% would have reduced the level of pension provisions by around € 55 million. Due to the offsetting of actuarial gains and losses with no effect on income, the actuarial losses would have been reduced by the same amount and equity would have increased accordingly.

The Heubeck actuarial tables (Richttafeln) 2005 G were used to value the expected mortality of the beneficiaries. As in the previous year, the actuarial tables devised by Prof. Heubeck (RT 2005 G) were adjusted to the beneficiaries listed at the Essener Verband (Essen-based association) for valuing the provisions with regard to life expectancy because this provides a more realistic valuation of the obligations for this category of persons.

Income tax

In accordance with IAS 12, deferred tax is calculated using the accounting-oriented liability method. Under this method, reductions in the tax burden and charges that are likely to arise in future are reported for temporary differences between the book values shown in the consolidated financial statements and the values attributed to assets and liabilities for tax purposes.

As of December 31, 2011, the deferred taxes of domestic corporate entities were evaluated with an overall tax rate of 30.2%, as in the previous year. This tax rate consists of the 14.4% trade tax rate that applies in the Group and the 15.8% corporate income tax (including the solidarity surcharge).

The calculation of foreign income tax is based on the laws and regulations applicable in the individual countries.

The anticipated tax savings resulting from the utilization of loss carry-forwards whose realization is expected in the future are capitalized. When capitalized assets are valued for future reductions in the tax burden, consideration is given to the probability of the expected tax benefit being realized.

Assets deriving from future reductions in the tax burden include deferred tax assets arising from temporary differences between the book values stated in the consolidated balance sheet and values attributed for tax purposes, as well as tax savings resulting from loss carryforwards whose realization is anticipated at a future date.

Deferred tax claims in a particular area of fiscal jurisdiction are offset against deferred tax liabilities in the same area if the company is entitled to offset actual tax liabilities against tax claims and the tax is levied by the same tax authority; the offsetting is carried out provided there is matching maturity.

Provided that they relate to the same geographical area of fiscal jurisdiction and their types and maturities match, income tax liabilities are set off against corresponding tax refund claims. The change in deferred income tax liabilities is explained under Note (20).

Other provisions
Provisions are formed for current obligations to third parties whose occurrence would be likely to burden Group assets. They are reported at their likely settlement amount, taking account of all the discernible risks involved, and are not offset against recourse claims. Provisions are formed only if they are based on a legal or de facto obligation to third parties.

Financial liabilities

There are two valuation categories for financial liabilities.

Financial liabilities held for trading

As the Salzgitter Group does not designate financial instruments for valuation at fair value through profit and loss when first recognized (non-application of the fair value option), only this category contains derivatives which are not shown in the hedge accounting.

Financial liabilities measured at amortized cost

When they are recognized for the first time, financial liabilities are stated at fair value less transaction costs. In subsequent periods they are always valued at amortized cost. Every difference between the amount paid out and the amount repaid is then spread over the term of the loan using the effective yield method.

Financial liabilities are classified as current liabilities if the liability is going to be settled within 12 months of the reporting date.

Income and expense recognition

Sales and other operating income from the sale of goods are recognized when performance has been rendered or assets have been furnished, and thus when the risk has been passed, in other words when the material opportunities and risks of ownership have devolved to the purchaser and the amount of realizable sales can be estimated reliably. Sales from services are recorded as soon as the service has been rendered. No sales are reported if there are material risks regarding the receipt of the counter-performance or a possible return of the goods. Apart from that, sales are reported after deduction of reductions in selling prices such as bonuses, cash discounts and/or rebates.

In the case of customized construction contracts, sales are realized in accordance with the percentage-of-completion method.

Dividends are collected when the claim has been legally accrued. Interest expenses and interest income are reported pro rata temporis. When there are changes in the consolidated group, acquired dividend claims are recorded without effect on income as part of the capital consolidation.

IAS 20 stipulates that grants may not be reported in the balance sheet until the necessary claim prerequisites have been fulfilled and it can be anticipated that the grants will actually be paid out. Grants related to assets are always reported as deductions from acquisition or production costs. Insofar as a grant related to income relates to future financial years, it is reported using the accrual method, and the component for future periods is transferred to an accrued item.

Impairment of assets (Impairment Test)

On every balance sheet date, the Group examines the book values of its intangible assets and property, plant and equipment to establish whether there are any signs of impairment. If such signs are discernible, the recoverable amount is estimated in order to determine the cost of the impairment. If the recoverable amount for the individual asset cannot be estimated, the estimate is made at the level of the cash generating unit to which the asset belongs. Unscheduled depreciation is carried out if the benefit deriving from the asset is lower than its book value. The benefit deriving from an asset corresponds to the net selling price or the capitalized earnings value, whichever is higher. The capitalized value is determined by the net present value of future cash flows attributable to the asset. If the reason for a previous unscheduled depreciation no longer applies, a reversal is carried out.

Non-current assets that are classified as held for sale are reported at the book value or the lower fair value, less disposal costs.

Financial risk management

The Group is exposed to a variety of financial risks as a result of its business activities: the market risks (including currency, interest rate and price risks), credit risk and liquidity risk. The Group's overall risk management program is focused on the unpredictability of developments on the financial markets and seeks to minimize potential adverse effects on the Group's financial position.

Risk management is carried out independently by the subsidiaries and associated companies of Salzgitter AG in accordance with guidelines approved by the Executive Board. The Executive Board issues written principles for overall risk management as well as guidelines for specific areas such as the currency risk, the interest rate and credit risk, the use of derivative and non-derivative financial instruments and the investment of excess liquidity.

Currency risk

The Group operates internationally and is therefore exposed to a currency risk based on fluctuations in the exchange rates between various foreign currencies. Currency risks arise from expected future transactions and assets and liabilities reported in the balance sheet. The risk arises when transactions are denominated in a currency that is not the functional currency of the company. The Group companies use forward exchange contracts to hedge against such risks.

In the Group, the hedging relationship between the hedging instrument and the underlying transaction, the objective of the Group's risk management and the strategy underlying the hedging transactions are documented when an effective hedging transaction is concluded. In addition, the estimation as to whether the derivatives used in the hedging relationship are highly effective in compensating for the changes in the current value or the underlying Group is examined at the start of the hedging relationship and continuously thereafter.

Credit risk

The Group has no significant potential credit risk clusters. It has trading rules and regulations and an efficient receivables management program which ensure that products are sold only to customers with an appropriate payment history. Contracts involving derivative financial instruments and financial transactions are restricted to financial institutions with prime credit standing. The Group's business policy is to limit the amount of credit exposure to any individual financial institution.

Liquidity risk

Prudent liquidity management includes holding sufficient reserves of cash and marketable securities, the availability of funding through an adequate amount in committed bilateral credit facilities and long-term consortium financing, as well as bonds and the existence of unused credit lines.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from interest-bearing liabilities. The liabilities with variable interest rates expose the Group to a cash flow interest rate risk which influences interest expenses and interest income. The fixed-interest liabilities give rise to a fair value interest rate risk, although this has an impact on the balance sheet only if the financial instruments are reported at current value. More information about Salzgitter AG's risk management is provided in the Risk Report.

Capital risk management

The Group manages its capital with the objective of maximizing the income from its shareholdings by optimizing the relationship between equity and debt. This also serves the objective of reducing the costs of capital procurement. In the process, it is ensured that all of the Group companies can operate under the going concern premise.

In order to maintain or optimize the capital structure, the Group is obliged to adjust the amount of the dividend payments, make repayments of capital to the shareholders, issue new shares or dispose of assets for the purpose of debt reduction.

The debt structure (net debt/credit) consists of current and non-current liabilities owed to banks, less cash and cash equivalents and securities.

More explanations can be found in the Group Management Report under Section IV.2. "Financial Position and Net Assets".

Notes to the Income Statement

(1) Sales

In € m	2011	2010
Breakdown by product category		
Flat rolled products	4,379.3	3,264.4
Sections	922.6	758.7
Pipes	2,291.2	2,203.2
Filling and packaging machinery	860.8	798.8
Other	1,385.6	1,279.5
	9,839.5	**8,304.6**
Breakdown by region		
Domestic	4,938.8	4,236.2
Other EU	1,895.6	1,509.6
Other Europe	503.7	440.8
America	1,031.9	826.7
Asia	710.6	639.5
Other	758.9	651.8
	9,839.5	**8,304.6**

The breakdown of sales includes an additional presentation by product category which does not correspond to segment reporting.

Sales include revenues recorded using the percentage-of-completion method amounting to € 445.4 million (previous year: € 359.3 million).

(2) Increase or decrease in finished goods and work in process and other own work capitalized

In € m	2011	2010
Changes in the inventory of finished goods	248.6	143.5
Other own work capitalized	9.0	16.2
	257.6	**159.7**

Compared with the previous year, finished goods and work in process increased substantially. The significantly higher product inventories in the Steel and Tubes divisions, in particular, were responsible for this addition.

(3) Other operating income

In € m	2011	2010
Reversal of provisions and allowances	133.8	118.8
Income from the valuation of financial derivatives and foreign currency positions	38.3	15.5
Income from exchange rate fluctuations	36.4	31.3
Reimbursements from Bundesanstalt für Arbeit	18.8	22.3
Income from write-downs of receivables	14.1	16.7
Income from the sale of associated companies	13.6	–
Ancillary operating income	12.9	14.1
Insurance compensation	10.7	7.2
Income from rights	9.6	48.4
Rental, lease and licensing income	7.5	6.0
Subsidies	6.4	8.8
Charged-on costs	4.8	9.7
Income from the disposal of fixed assets	2.4	1.9
Refund from previous years	2.0	9.2
Write-ups on current securities	0.3	2.9
Income from the sale of securities held as current assets	0.1	1.8
Other income	45.5	33.6
Other operating income	**357.2**	**348.2**

The miscellaneous other operating income comprises a large number of small amounts relating to individual items at consolidated companies.

(4) Cost of materials

In € m	2011	2010
Cost of raw materials, consumables, supplies and purchased goods	6,953.5	5,534.0
Cost of purchased services	397.0	353.7
Cost of materials	**7,350.5**	**5,887.7**

The cost of raw materials, consumables, supplies and purchased goods primarily comprise costs incurred for input materials, consumables and supplies, spare parts, energy and plant equipment.

The cost of purchased services relates essentially to sales-related wage labor and order-related transportation services.

The increase in the cost of materials is attributable primarily to higher raw materials prices and increased sales.

(5) Personnel costs

In € m	2011	2010
Wages and salaries	1,210.6	1,174.3
Social security, pension and other benefits	260.5	249.5
of which pension plans and retirement benefits	[121.8]	[117.8]
Personnel expenses	**1,471.1**	**1,423.8**

In the financial year 2011, the defined contribution plan payments in the Salzgitter Group totaled € 103.3 million (previous year: € 104.3 million). Allocations to the provisions for pensions are shown as costs of defined benefit pension plans. The allocations to provisions consist almost entirely of ongoing pension costs for employees' earned pension expectancies in the reporting year. The costs for retirement pensions do not include the compounding of the pension provisions which is shown in the financial result.

Average number of employees (excl. employees in age-related part-time employment)	2011	2010
Wage labor	14,545	14,419
Salaried employees	8,930	8,771
Group employees	**23,475**	**23,190**

Of the Group employees, 652 (previous year: 677) are accounted for by joint ventures.

(6) Amortization and depreciation

The amortization of intangible assets and the depreciation of property, plant and equipment were carried out according to schedule in the reporting year and are shown in the analysis of fixed assets. The following impairment costs were also taken into account:

In € m	2011	2010
Land and buildings	–	23.2
Plant equipment and machinery	20.4	55.6
Other equipment, factory and office equipment/equipment under construction	0.2	1.2
Impairment	**20.6**	**80.0**

The impairment costs are calculated in accordance with the standards set out under IAS 36. They were amortized on the basis of value in use or the higher net selling price.

An impairment test is carried out at least once a year for goodwill and intangible assets with indeterminate useful lives. In the case of other intangible assets with limited useful lives, however, such a test is carried out only on specific grounds. In the Salzgitter Group, the value of goodwill and intangible assets with indeterminate useful lives is basically determined by their net realizable value.

The calculation of net realizable value is based on the current plans prepared by management for the three subsequent years. The premises of the plans are adjusted to the current status of knowledge which, in turn, is based on general business and economic data, supplemented by the company's own estimates. The net realizable value was calculated using the discounted cash flow method based on an interest rate of 6.32% (previous year: 6.30%) for the Technology Division and 7.67% p.a. (previous year: 7.40% p.a.) for the other divisions.

A reduction or increase of 1% in the interest rate applied to the calculation of impairment for intangible assets and tangible fixed assets leads to a reduction of € 17.3 million (previous year: € 13.9 million) or, respectively, an increase of € 17.2 million (previous year: € 13.5 million) in total impairment.

(7) Other operating expenses

In € m	2011	2010
Selling expenses	323.7	283.0
External services and provisioning	298.2	325.6
Administrative expenses including insurance costs, fees, charges and consulting costs	103.2	95.7
Advertising/information and travel expenses	63.5	57.2
Exchange losses	42.6	40.1
Rent and leases	36.6	34.1
Valuation allowances for doubtful accounts	27.8	29.5
EDP costs	20.0	18.8
Welfare-related personnel and non-personnel expenses	16.5	17.4
Financial/monetary transaction expenses	16.1	9.9
Other taxes	14.7	12.7
Expenses from the valuation of financial derivatives and foreign currency positions	14.4	52.9
Financing risks	13.5	5.6
Loss on the disposal of fixed assets	13.1	12.5
Write-down of financial assets	10.2	–
Selling of power contracts	–	13.6
Other expenses	35.7	31.5
Other operating expenses	**1,049.8**	**1,040.1**

The "Administrative expenses including insurance costs, fees, charges and consulting costs" item includes insurance costs of € 31.7 million (previous year: € 29.5 million), expenses for fees, charges and appraisals amounting to € 13.8 million (previous year: € 15.0 million) and consulting costs of € 17.4 million (previous year: € 11.3 million). This item also includes a large number of individual transactions involving minor amounts at consolidated companies.

(8) Income from shareholdings

In € m	2011	2010
Income from profit transfer agreements	0.4	1.2
of which from affiliated companies	[0.4]	[1.2]
Income from shareholdings	6.1	10.1
of which from affiliated companies	[4.6]	[7.5]
Expenses from the assumption of losses	0.1	–
of which from affiliated companies	[0.1]	[–]
Income from shareholdings	**6.4**	**11.3**

(9) Income from associated companies

In € m	2011	2010
Income from associated companies	77.5	67.5

The income from associated companies originates largely from Aurubis AG, Hamburg, and Hüttenwerke Krupp Mannesmann GmbH, Duisburg.

(10) Impairment losses on financial assets

In € m	2011	2010
Impairment losses on financial assets	3.1	2.7

The impairment losses on financial assets in the financial year under review result primarily from the fair value of shares in three non-consolidated companies. The calculation of the useful life is based on the current plans prepared by management for the three following years. The premises of the plans are derived from the current status of knowledge. The value in use was calculated using the discounted cash flow method based on a country- and risk-specific interest rate.

(11) Financing income/Financing expenses

In € m	2011	2010
Income from loans	0.3	0.1
Other interest and similar income	39.3	27.9
of which affiliated companies	[1.6]	[1.2]
Finance income	**39.6**	**28.0**

The higher interest rate in the course of 2011 was, on average, above the rate that prevailed in 2010 and led to correspondingly higher interest income.

In € m	2011	2010
Interest component from allocations to pension provisions	79.4	85.0
Other interest and similar expenses	63.1	54.0
of which affiliated companies	[1.5]	[1.4]
Finance expenses	**142.5**	**139.0**

The increase in other interest can be attributed in particular to the higher interest rate on borrowings as of the reporting date and to compounding effects.

(12) Income tax

In € m	2011	2010
Income tax		
current tax expenses/tax income (+/–)	40.8	18.5
deferred tax expenses/tax income (+/–)	– 75.2	0.4
	– 34.4	**18.9**
of which unrelated to the reporting period	[– 8.3]	[– 5.0]
Total	**– 34.4**	**18.9**

The income tax amounting to € –34.4 million relates to earnings before tax. The income taxes from outside the reporting period relate to deferred tax income and actual tax expenses for previous years.

The increase in current income taxes results primarily from changed tax assessment bases. As a result, domestic income tax amounted to € 31.1 million. The increase in deferred tax income to € 75.2 million resulted mainly from the reassessment of the intrinsic value of deferred tax assets on loss carryforwards after the change in the structure under company law at a domestic fiscal entity.

Thanks to the utilization of tax loss carryforwards that had previously not been taken into consideration, actual tax expenses were reduced by € 2.3 million (previous year: € 1.2 million).

Future dividend payments will not incur any consequences as far as income tax is concerned. Claims amounting to € 1.0 million (previous year: € 1.1 million) are reported in the balance sheet for German companies’ corporate income tax reduction credits.

Deferred taxes amounting to € 72.6 million (previous year: € 124.3 million) were recorded for business transactions that influenced equity directly. The change in deferred taxes with no effect on income affects actuarial gains and losses in the amount of € –56.0 million (previous year: € 28.5 million).

The following deferred tax assets/liabilities reported in the balance sheet are recognized in respect of the differences between reported book values and attributed tax valuations:

In € m	31/12/2011		31/12/2010	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	13.5	10.8	8.4	11.5
Property, plant and equipment	44.6	174.7	53.9	167.1
Financial assets	0.7	0.2	0.6	2.7
Current assets	26.0	141.5	49.6	110.6
Pension provisions	95.7	–	164.3	–
Other provisions	70.9	2.7	109.5	1.6
Special account including reserves	–	4.7	–	9.2
Liabilities	30.4	3.4	31.3	18.1
Other items	63.0	7.7	44.4	5.2
Total	**344.8**	**345.7**	**462.0**	**326.0**

Summary of the capitalized tax savings from losses carried forward that may be realized in the future:

In € m	31/12/2011	31/12/2010
Corporate income tax	93.7	15.0
Trade tax	81.5	2.3
Capitalized tax savings	**175.2**	**17.3**

Development of the capitalized tax savings from losses carried forward that may be realized in the future:

In € m	2011	2010
Capitalized tax savings, January 1	17.3	2.6
Capitalization of tax savings from loss carryforwards	169.0	16.4
Valuation allowances from loss carryforwards	– 11.1	– 0.5
Use of loss carryforwards	0.0	– 1.2
Capitalized tax savings, December 31	**175.2**	**17.3**

As a result of the "minimum taxation" that was introduced in Germany in 2004 the tax loss carryforwards are offset against the ongoing tax result in full up to an amount of € 1 million but only up to 60 % thereafter.

For a number of domestic companies, no deferred taxes were capitalized for trade tax loss carryforwards amounting to € 1,370.1 million (previous year: € 1,770.5 million) and corporate income tax loss carryforwards amounting to € 1,974.1 million (previous year: € 2,167.3 million), as the possibility of their use can be regarded as unlikely from a current standpoint.

Likewise, no deferred tax assets were formed for foreign loss carryforwards without intrinsic value amounting to € 137.5 million (previous year: € 128.0 million). Of this amount, € 123.3 million (previous year: € 113.0 million) can be utilized for an unlimited period and € 14.2 million (previous year: € 15.0 million) for a limited period within the next five and 20 years respectively. In addition, no deferred tax assets were formed for deductible temporary differences amounting to € 74.5 million (previous year: € 35.5 million) for domestic and foreign companies.

Deferred tax assets amounting to € 164.7 million (previous year: € 48.2 million) were capitalized on the grounds of expected future taxable income at Group companies that incurred tax losses in the financial year under review or the previous financial year.

Reconciliation of expected and actual income tax expenses (+) and income (–):

In € m	2011	2010
Consolidated net income before income tax	**201.6**	**48.9**
Expected income tax expenses (tax rate 30.2 %)	60.9	14.8
Tax share for:		
differences between tax rates	– 0.8	4.3
effects of changes in statutory tax rates	0.2	– 0.6
tax credits	– 0.2	–
tax-free income	– 61.9	– 42.7
non-deductible tax expenses and other permanent differences	31.0	27.2
effects of temporary differences and losses		
without capitalization of deferred tax	68.0	38.4
adjustments in value of capitalization benefits	– 122.6	– 14.6
utilization of benefits not previously capitalized	– 2.3	– 1.2
tax expenses and income unrelated to the reporting period	– 8.3	– 5.0
other deviations	1.6	– 1.7
Actual income tax	**– 34.4**	**18.9**

The actual income tax benefit of € 34.4 million deviates by a total of € 95.3 million from the expected income tax expenses of € 60.9 million. This is mainly attributable to effects arising from the reassessment of the intrinsic value of deferred tax assets on tax loss carryforwards and from tax-free income. This is offset by effects from current tax losses for which no deferred taxes were included in the balance sheet, and additions of expenses which are not tax-deductible.

(13) Minority interests

In € m	2011	2010
Minority interests	3.0	0.2

The proportion of the net result for the year due to minority interests is accounted for by the following companies:

- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- KHS Machinery Pvt. Ltd., Ahmedabad, and
- KHS RUS OOO, Moscow.

Klöckner-Werke AG, Duisburg, which was still reported last year, has been excluded in the meantime due to the squeeze-out of the minority shareholders there which has since taken place. Moreover, Klöckner-Werke AG was transformed into Salzgitter Klöckner-Werke GmbH, Salzgitter, on October 28, 2011.

(14) Earnings per share

The basic earnings per share are determined in accordance with IAS 33 as the ratio of consolidated net income or loss for the financial year to which the shareholders of Salzgitter AG are entitled, to the weighted average number of no-par bearer shares in circulation during the financial year. Earnings as per IAS 33 therefore amounted to € 4.31 (previous year: € 0.55) per share.

A dilution would occur if the earnings per share were reduced by issuing potential shares from option and conversion rights. As of the balance sheet date, such rights existed in a convertible bond. If these are taken into account, however, earnings per share from continuing operations decreases, which in turn results in a dilution for these option and conversion rights. The diluted earnings per share therefore amount to € 4.22 (previous year: € 0.55).

	Shares issued	Treasury shares	Shares in circulation	Potential diluting shares
Beginning of financial year	60,097,000	6,009,700	54,087,300	3,550,457
Purchase of treasury shares	–	–	–	–
Disposal of treasury shares	–	–	–	–
End of financial year	60,097,000	6,009,700	54,087,300	3,550,457
Weighted number of shares	**60,097,000**	**6,009,700**	**54,087,300**	**3,550,457**

Earnings per share		2011	2010
Consolidated net income	in € m	236.0	30.0
Minority interests	in € m	3.0	0.2
Amount due to Salzgitter AG shareholders	in € m	233.0	29.8
Earnings per share – basic	(in €)	4.31	0.55
Diluted result	in € m	243.1	39.5
Earnings per share – diluted	**(in €)**	**4.22**	**0.55**

Notes to the Consolidated Balance Sheet

Non-current Assets

(15) Intangible assets

The development of the individual items under intangible assets is shown in the analysis of fixed assets.

Of the entire capitalized development costs, €0.2 million was subjected to scheduled amortization (previous year: €0.1 million). Total research and development costs in the reporting year amounted to €93.6 million (previous year: €92.4 million), including €14.7 million (previous year: €14.0 million) for external services.

There are no restraints on the right of ownership or disposal.

(16) Property, plant and equipment

The development of the individual items under property, plant and equipment is shown in the analysis of fixed assets.

Breakdown of property, plant and equipment at their book values:

In € m	31/12/2011	31/12/2010
Land and buildings	671.9	662.2
Plant equipment and machinery	1,651.3	1,649.5
Other equipment, plant and office equipment	83.9	82.1
Equipment under construction/payments made on account	126.5	135.3
Property, plant and equipment	**2,533.6**	**2,529.2**

The additions to plant equipment and machinery result primarily from the Steel Division's investment program.

The book values of the assets capitalized as finance leases in accordance with IAS 17 are shown in the following table:

In € m	31/12/2011	31/12/2010
Buildings	1.2	1.5
Plant equipment and machinery	65.2	71.5
Other equipment, plant and office equipment	0.6	1.1
Assets capitalized as finance leases	**67.0**	**74.1**

The amount of the reported impairment expenses is shown in Note (6).

Restraints on the right of ownership or disposal as of the balance sheet date amounted to €8.2 million (previous year: €14.4 million).

Government grants amounting to €7.1 million (previous year €3.0 million) were deducted from the acquisition costs of property, plant and equipment.

(17) Investment property

Investment property comprises undeveloped and developed land which is held to generate rental income or for the purpose of long-term value appreciation and not for production or administration purposes. The fair values determined using the DCF method in the previous years correspond to the cost amortized as of the reporting date.

The properties consist of the following:

In € m	31/12/2011	31/12/2010
Salzgitter Klöckner-Werke GmbH	19.6	19.8
RSE Grundbesitz und Beteiligungs-AG	2.1	2.0
Klöckner Mercator Maschinenbau GmbH	2.3	2.4
Investment property	**24.0**	**24.2**

Rental income amounted to €5.7 million (previous year: €5.4 million) in the reporting period. The direct operating expenses for the investment property totaled €4.4 million (previous year: €4.3 million) were basically incurred for properties that generated rental earnings in the reporting year.

As of the reporting date there were no material obligations to carry out repairs, maintenance, improvements etc.

(18) Financial assets

The development of the individual items in financial assets is shown in the analysis of fixed assets.

Breakdown of financial assets:

In € m	31/12/2011	31/12/2010
Shares in affiliated companies	44.6	28.1
Shareholdings	9.3	10.9
Non-current securities	26.5	24.7
Other loans	55.7	15.2
Financial investments	**136.1**	**78.9**

The addition to shares in affiliated companies relates to the acquisition of financial assets in non-consolidated companies.

Other loans relate largely to loans extended to non-consolidated companies and participating interests.

(19) Associated companies

In € m	2011	2010
Opening balance, 01/01	488.4	400.8
Result in current financial year	77.5	67.5
Capital increase	6.0	12.0
Additions	38.8	22.9
Disposals	– 1.4	–
Dividends	– 11.7	– 11.2
Other changes in equity	3.3	– 3.6
Book value, 31/12	**600.9**	**488.4**

The figure reported for shares in associated companies measured using the equity method increased by €112.5 million compared with the previous financial year. This resulted primarily from the companies' positive results for the year and additional acquisitions from an associated company. The fair value of Aurubis AG as of December 31, 2011, totaled €463.1 million (previous year: €451.4 million).

The Group's shares in its material associated companies are as follows:

2011 in € m	Assets	Liabilities	Income	Profit	Share (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	1,270.1	904.8	3,116.3	– 10.2	30.0
Aurubis AG, Hamburg	4,537.7	2,667.8	13,897.4	361.0	25.0

2010 in € m	Assets	Liabilities	Income	Profit	Share (%)
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	1,035.3	717.8	2,612.0	– 1.5	30.0
Aurubis AG, Hamburg	4,134.7	2,724.0	10,572.9	302.3	25.0

(20) Deferred income tax assets

If it is likely that tax benefits will be realized, they must be capitalized. Clearing is only possible if the deferred tax assets and liabilities have matching maturities and relate to the same tax authority. After offsetting, the deferred tax assets and liabilities for the financial year 2011 are as follows:

In € m	31/12/2011	31/12/2010
Deferred income tax assets	**256.1**	**201.6**
Realization within 12 months	13.3	16.9
Realization after more than 12 months	242.8	184.7
Deferred income tax liabilities	**81.8**	**48.3**
Realization within 12 months	75.1	42.8
Realization after more than 12 months	6.7	5.5
Balance of deferred tax assets and deferred tax liabilities	**174.3**	**153.3**

(21) Other receivables and other assets

The non-current receivables consist mainly of receivables from finance leases, which were as follows:

In € m	31/12/2011	31/12/2010
Total gross investment	4.2	3.4
Unrealized finance income	0.4	0.3
Book value	**3.8**	**3.1**

This position also includes the transactions from the finance leases for telecommunications equipment at two subsidiaries in the Services Division. All of the transactions have a residual term of less than five years.

Current Assets

(22) Inventories

In € m	31/12/2011	31/12/2010
Raw materials, consumables and supplies	710.8	677.5
Unfinished products	526.0	408.3
Unfinished goods or services	9.8	8.9
Finished products and goods	836.8	602.6
Payments on account	22.4	32.8
Inventories	**2,105.8**	**1,730.1**

Individual markdowns were made in the valuations of all the inventories where it is likely that the revenues realized through their sale or use will be lower than their book values. The anticipated realizable sale proceeds less costs incurred up to the time of sale are reported as the net realizable value.

If the reasons for writing down the inventories no longer apply, the write-down is reversed. In the reporting year this led to a write-up of €22.1 million (previous year: €4.8 million).

In accordance with IAS 2, inventories are valued individually or the average method is applied.

The book value of the inventories reported at fair value less selling expenses amounted to €441.5 million in the reporting year (previous year: €325.0 million).

The inventories recorded at fair value in the previous period were consumed almost in their entirety in the reporting year.

Impairments of inventories amounting to €58.8 million (previous year: €31.1 million) were posted to expenses.

There are restraints on ownership or disposal amounting to €18.1 million (previous year €0.0 million) for the reported inventories.

(23) Trade receivables

In € m	31/12/2011	31/12/2010
Receivables from third parties	1,426.5	1,143.2
Receivables from affiliated companies	19.8	25.8
Receivables from companies in which the company holds a participating interest	1.0	6.9
Trade receivables	**1,447.3**	**1,175.9**

Impairments on trade receivables amounting to €24.8 million (previous year: €16.9 million) have been carried out for all discernible individual risks, the credit risk assessed on the basis of empirical values, and particular country-specific risks.

Trade receivables are subject to restraints on ownership or disposal amounting to €10.4 million (previous year: €11.0 million). These are largely attributable to the forfaiting of receivables. For further details, please refer to Note (38), "Other liabilities".

Trade receivables include the following receivables from contract production recognized using the percentage-of-completion method:

In € m	31/12/2011	31/12/2010
Production costs including result from construction contracts	277.5	221.9
Payments received on account	– 148.3	– 120.1
Receivables from construction contracts	**129.2**	**101.8**

Receivables from construction contracts include those customized construction contracts with an asset-side balance whose production costs, taking account of profit shares and loss-free valuation, exceed the payments received on account.

(24) Other receivables and other assets

In € m	31/12/2011	31/12/2010
Other receivables from affiliated companies	91.1	49.9
of which other receivables	[91.0]	[49.8]
of which loans	[0.1]	[0.1]
Other receivables from participating interests	2.0	7.0
of which other receivables	[2.0]	[7.0]
Bond	179.2	–
Other tax refund claims	51.2	31.2
Subsidies for age-related part-time employment	12.7	22.3
Derivatives	16.5	8.3
Advances on company pensions	8.5	8.7
Assets available for sale	8.4	12.7
Deferred expenses	7.1	7.2
Other assets	100.6	100.8
Other receivables and other assets	**477.3**	**248.1**

Other receivables and other assets also include the sum of €12.7 million (previous year: €22.3 million) that did not become legally effective until after the reporting date.

Other receivables are subject to restraints on ownership or disposal amounting to €0.1 million (previous year: €0.0 million).

The current receivables from finance leases consist of the following:

In € m	31/12/2011	31/12/2010
Total gross investment	1.9	2.0
Unrealized finance income	0.3	0.3
Book value	**1.6**	**1.7**

The rental earnings are reported under other operating income.

Under operating leases, the Group essentially leases out real estate which is used commercially. The future minimum rental earnings from these contracts are:

Future rental revenues in € m	31/12/2011	31/12/2010
up to 1 year	4.3	3.7
1 to 5 years	6.3	7.8
over 5 years	1.5	2.2
Total	**12.1**	**13.7**

In the income for the reporting year, €0.7 million (previous year: €1.7 million) was reported as conditional rental income.

(25) Income tax assets

The income tax refund claims of €71.1 million (previous year: €135.6 million) which existed as of December 31, 2011, relate essentially to capital yields withholding tax claims by two domestic Group companies. This is offset by non-current income tax liabilities of €207.4 million (previous year: €193.6 million) and current income tax liabilities of €40.6 million (previous year: €46.1 million).

Refund claims are set off against tax liabilities if there is an enforceable right to set off the reported amounts against each other and the intention is to offset them in net terms. The prerequisites for this are that the tax refund claim and the tax liability both relate to the same tax authority and that the tax authority allows their offsetting.

(26) Securities

Shares are reported under securities as current financial investments, short-term time deposits and funds with an aggregate amount of €77.0 million (previous year: €377.5 million). Time deposits with a term of more than three months are reported under securities.

(27) Cash and cash equivalents

The cash and cash equivalents consist of the following:

In € m	31/12/2011	31/12/2010
Cash at banks	544.4	1,574.0
Deposits	400.0	–
Checks, cash in hand	1.8	0.3
Cash and cash equivalents	**946.2**	**1,574.3**

The time deposits shown here have terms of less than three months.

Equity

(28) Subscribed capital

The subscribed capital (share capital) remained unchanged at €161,615,273.31. The 60,097,000 no-par value shares have a notional par value of €2.69 each.

All of the shares were acquired in accordance with Section 71 para. 1 item 8, German Stock Corporation Act (AktG) on the basis of an authorization given by the General Meeting of Shareholders (2,487,355 shares authorized on May 26, 2004; 462,970 shares authorized on June 8, 2006; 2,809,312 shares authorized on May 21, 2008 and 35,600 shares authorized on May 27, 2009; 214,463 shares authorized on June 8, 2010), so that they can be used, in particular, for future acquisitions, the fulfillment of option or conversion rights from warrant-linked bonds or convertible bonds, or for issuing to employees of the company or a company affiliated to it.

The Executive Board is authorized to increase the share capital with the approval of the Supervisory Board by up to a nominal amount of €80,807,636.65, in the period up to May 26, 2014 by issuing up to 30,048,500 new no-par value bearer shares against payment in cash or kind (Authorized Capital 2009). This capital, combined and to the exclusion of the shareholders' subscription rights, may be increased only by up to €32,323,054.66 (20% of the share capital) through the issuance of up to 12,019,400 new no-par value bearer shares. The 20% ceiling is reduced by the proportionate share of the share capital to which option or conversion rights, or option or conversion obligations from warrant-linked bonds, convertible bonds, profit-sharing rights and/or participating bonds and/or combinations of these instruments which were issued since May 27, 2009, to the exclusion of subscription rights, relate. On October 6, 2009, a convertible bond was issued to the exclusion of shareholders' subscription rights with conversion rights to up to 3,550,457 new no par value bearer shares (5.9% of the share capital).

The nominal value of the convertible bonds issued by the company totaled €296,450,000 as of the reporting date. They certify an interest entitlement of 1.125% p.a. and a right of conversion into shares in the company at a price of €83.4963 per share which can be exercised up until September 27, 2016.
Moreover, the Executive Board can issue up to 3,550,457 new shares if the holders of the convertible bonds that the Company issued on October 6, 2009, make use of their conversion right which can be exercised up until September 27, 2016.

In addition, the Executive Board is authorized by a resolution of the General Meeting of Shareholders from June 8, 2010, to acquire treasury shares up to a maximum of 10% of the share capital in the period up until June 7, 2015. No use was made of this authorization in the financial year 2010.

(29) Capital reserve

Of the capital reserve, which remained unchanged at €238.6 million, the sum of €115.2 million is accounted for by a premium lodged on the occasion of a capital increase on October 1, 1970. Another €54.4 million is connected with a convertible bond issued in the financial year 2009.

As part of the divestiture agreement, certain assets were sold to Salzgitter AG by Preussag AG for €0.51 each. These assets were reported at the time of acquisition at their fair values (€49.1 million) and the differences posted to the capital reserve.

(30) Retained earnings

Retained earnings include allocations deriving from the results in the financial year or from previous years and differences resulting from the currency translation without effect on income of the financial statements of foreign subsidiaries against which, in particular, the capitalized goodwill from the capital consolidation of subsidiaries acquired up to September 30, 1995, has been offset. The retained earnings also include further components that were immediately posted to equity in accordance with the IASB regulations. Salzgitter AG's articles of incorporation do not contain any stipulations on the formation of reserves.

The retained earnings include differences from currency translation amounting to € –15.0 million (previous year: € –14.5 million). The revaluation reserve from the financial assets/financial instruments amounts to € –12.9 million (previous year: € –6.4 million). This change results from the decline in the market value of a listed Indian production company from the Tubes Division.

Under the regulations of IAS 19 "Employee Benefits", all pension commitments are reported in the balance sheet and the actuarial gains and losses are recorded directly under equity. As of the reporting date, actuarial losses of €415.4 million (previous year: €421.3 million), after deduction of deferred taxes, were recorded directly under equity.

From the associated companies there have been changes in equity not measured through profit or loss amounting to € –8.3 million (previous year: € –5.4 million).

As of the balance sheet date, Salzgitter AG held 6,009,700 treasury shares, as before. These account for an unchanged €16,161,527.33 (= 10.00%) of the share capital.

The treasury shares were deducted directly from equity in the unchanged amount of €369.7 million.

(31) Unappropriated retained earnings

Under the German Commercial Code (HGB), dividend payments to shareholders in Salzgitter AG depend on the year-end result reported under the HGB by Salzgitter AG. The unappropriated retained earnings are shown at the same level in both the consolidated financial statements of the Salzgitter Group and the financial statements of Salzgitter AG. The transition of Salzgitter AG's unappropriated retained earnings from the consolidated net income for the year is shown in the income statement.

The proposal will be made to Salzgitter AG's General Meeting of Shareholders that dividend for the financial year 2011 of € 0.45 per share (= €27.1 million based on the nominal share capital of some €161.6 million) be paid from Salzgitter AG's unappropriated retained earnings and that the remaining amount be brought forward to new account.

Based on the Salzgitter share's closing XETRA price of €38.63 on December 31, 2011, the dividend yield amounts to 1.2% (previous year: 0.6%).

If the company holds treasury shares on the day of the General Meeting of Shareholders, the proposed appropriation of profits will be adjusted accordingly at the Meeting as treasury shares are not eligible for dividends.

(32) Minority interests

This item contains the minority interests in the subscribed capital, the general reserves and the profits and losses of the Group companies reported. The minority interests in equity relate to:

- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg,
- KHS Machinery Pvt. Ltd., Ahmedabad, and
- KHS RUS OOO, Moscow.

Klöckner-Werke AG, Duisburg, which was still reported last year, has been excluded in the meantime due to the squeeze-out of the minority shareholders there which has since taken place. In addition, Klöckner-Werke AG has been transformed into Salzgitter Klöckner-Werke GmbH, Salzgitter, by way of a change in its legal form.

In the income statement, the result is reported proportionately under "Minority interests".

Non-current Liabilities

(33) Provisions for pensions and similar obligations

In Germany there is a contribution-related basic employee pension scheme embodied in law under which pension payments are made on the basis of income and contributions. Once the company has paid the relevant contributions to the state social insurance authority and to pension funds constituted under private law, it has no obligation to pay further benefits. The ongoing contribution payments are reported as expenses in the relevant period.

In the Salzgitter Group there are also defined benefit pension commitments, of which a small proportion is fund-financed. The Group's plan assets in this area consist mainly of life insurance and reinsurance policies.

With regard to the non-fund financed pension commitments, there are collective and individual commitments in Germany. The employees of the Salzgitter Group's German-based companies receive retirement pensions (collective commitment) which are essentially based on a collective Group agreement concluded in December 2006. Within the scope of the pension commitment guaranteed in this agreement, the employer pays an annual contribution into a pension account. The amount of the resultant pension component depends on the age and the annual income of the employee entitled to pension payments in the respective contribution year. When payment becomes due, the employee or his/her surviving dependents is/are entitled to a monthly pension. There are transitional rules regulating the claims to pension payments (defined benefit pension commitments) established before the collective Group agreement came into effect.

For executives of the Salzgitter Group companies there are individual pension commitments based essentially on the pension tables drawn up by the Essener Verband.

Pension commitments exist only to an immaterial extent in the Salzgitter Group's foreign companies.

The actuarial gains (–) and losses (+) developed as follows:

In € m	2011	2010
Status 01/01	421.3	326.2
Change in financial year	– 5.9	95.1
Status 31/12	**415.4**	**421.3**

The differences between the expected and actual trend (experience adjustment) are as follows (gains +/losses –):

In € m	2011	2010	2009	2008	2007
Status 31/12	**6.4**	**6.5**	**0.3**	**– 8.0**	**– 12.8**

The expenses incurred for defined benefit plans in the result for the period were as follows:

In € m	2011	2010
Current service costs (personnel expenses)	18.5	13.5
Financing expenses (interest paid)	79.4	85.0
	97.9	**98.5**

Allocations to the provisions for pensions are shown as costs of defined benefit pension plans.

The amount of provisions in the balance sheet is calculated as follows:

In € m	31/12/2011	31/12/2010	31/12/2009	31/12/2008	31/12/2007
Present value of fund-financed obligations	10.6	9.8	7.9	6.7	5.4
Fair value of plan assets	– 7.8	– 7.6	– 6.1	– 5.4	– 4.3
	2.8	**2.2**	**1.8**	**1.3**	**1.1**
Present value of not fund-financed obligations	1,890.4	1,924.1	1,855.8	1,785.7	1,790.7
Reported pension provisions	**1,893.2**	**1,926.3**	**1,857.6**	**1,787.0**	**1,791.8**

The plan assets have developed as follows:

In € m	2011	2010
Opening balance, 01/01	**7.6**	**6.1**
Expected return on plan assets	0.2	0.2
Actuarial gains/losses	– 0.1	0.8
Employer's contribution	0.5	0.5
Use/refunds	– 0.4	–
Closing balance, 31/12	**7.8**	**7.6**

The projected benefit obligations have developed as follows:

In € m	2011	2010
Opening balance, 01/01	1,933.9	1,863.7
Transfer	0.2	–
Changes in the consolidated group	0.7	–
Utilization	– 125.9	– 124.9
Actuarial gains/losses	– 6.0	95.9
Allocations	18.5	14.0
Interest added	79.6	85.2
Closing balance, 31/12	**1,901.0**	**1,933.9**

The pension provisions encompass the entire projected value of the entitlements.

(34) Other provisions

The development of the other current and other non-current provisions is shown in the following table:

In € m	Status 01/01/2011	Currency translation differences	Addition/Disposals from changes in consolidated group	Transfer
Other taxes	**12.4**	**–**	**–**	**–**
Personnel	**185.5**	**– 0.1**	**–**	**0.1**
of which anniversary provisions	[49.9]	[–]	[–]	[–]
of which for the social plan/age-related part-time employment/demographics fund	[89.8]	[– 0.1]	[–]	[0.2]
Operating risks	**159.9**	**– 0.2**	**–**	**–**
Other risks	**360.5**	**– 0.7**	**1.8**	**–**
of which markdowns/complaints	[105.2]	[– 0.3]	[0.2]	[–]
of which risks from pending transactions	[69.5]	[–]	[–]	[–]
Total	**718.3**	**– 1.0**	**1.8**	**0.1**

The comparative figures for the previous year are as follows:

In € m	Status 01/01/2010	Currency translation differences	Addition/Disposals from changes in consolidated group	Transfer
Other taxes	**11.1**	**–**	**–**	**–**
Personnel	**172.2**	**0.3**	**–**	**2.0**
of which anniversary provisions	[47.0]	[–]	[–]	[–]
of which for the social plan/age-related part-time employment/demographics fund	[84.0]	[0.1]	[–]	[–]
Operating risks	**148.3**	**0.3**	**–**	**–**
Other risks	**368.5**	**1.7**	**–**	**–**
of which markdowns/complaints	[118.3]	[0.4]	[–]	[–]
of which risks from pending transactions	[55.6]	[0.6]	[–]	[–]
Total	**700.1**	**2.3**	**–**	**2.0**

Transfers to other accounts	Utilization	Reversal	Allocation	Interest added	Status 31/12/2011
0.6	– 3.7	– 1.1	1.0	–	9.2
–	– 59.0	– 10.5	47.0	1.9	164.9
[–]	[– 3.4]	[– 0.7]	[1.6]	[0.4]	[47.8]
[–]	[– 41.7]	[– 8.7]	[26.8]	[1.0]	[67.3]
–	– 5.4	– 2.1	9.2	1.4	162.8
– 1.1	– 80.7	– 121.2	116.4	0.0	275.0
[–]	[– 32.8]	[– 34.9]	[65.3]	[–]	[102.7]
[–]	[– 17.6]	[– 37.0]	[7.2]	[–]	[22.1]
– 0.5	– 148.8	– 134.9	173.6	3.3	611.9

Transfers to other accounts	Utilization	Reversal	Allocation	Interest added	Status 31/12/2010
–	– 1.2	– 0.4	2.9	–	12.4
0.0	– 55.4	– 4.2	68.9	1.7	185.5
[–]	[– 3.8]	[– 0.1]	[6.3]	[0.5]	[49.9]
[1.0]	[– 39.7]	[– 2.3]	[46.4]	[0.3]	[89.8]
–	– 8.8	– 3.0	11.3	11.8	159.9
0.1	– 71.2	– 101.5	162.8	0.1	360.5
[0.1]	[– 31.1]	[– 44.3]	[61.8]	[–]	[105.2]
[–]	[– 12.2]	[– 23.1]	[48.6]	[–]	[69.5]
0.1	– 136.6	– 109.1	245.9	13.6	718.3

Restructuring expenses for the year totaled €16.1 million, of which €12.6 million is attributable to an increase in the provision for social plans, €1.0 million to an increase in the restructuring provisions, and €2.5 million to current restructuring expenses. The reversal of restructuring provisions amounted to €12.4 million in 2011.

The non-current other provisions were discounted at a rate of 4.50% p.a. (previous year: 4.00 %).

The allowances for employees leaving the company under the terms of semi-retirement employment contracts are capitalized as an asset worth €12.7 million (previous year: €14.7 million) and not offset against provisions.

Provisions for typical operational risks are formed for, in particular, waste disposal and recultivation obligations.

The provisions for other risks primarily comprise provisions for discounts/complaints, litigation risks, warranties and pending transaction risks.

Maturities of the other provisions:

In € m	Total 31/12/2011	Short-term	Long-term
Other taxes	**9.2**	**9.2**	**–**
Personnel	**164.9**	**54.0**	**110.9**
of which anniversary provisions	[47.8]	[–]	[47.8]
of which for the social plan/age-related part-time employment/demographics fund	[67.3]	[33.9]	[33.4]
Operating risks	**162.8**	**14.1**	**148.7**
Other risks	**275.0**	**275.0**	**–**
of which markdowns/complaints	[102.7]	[102.7]	[–]
of which risks from pending transactions	[22.1]	[22.1]	[–]
Total	**611.9**	**352.3**	**259.6**

In € m	Total 31/12/2010	Short-term	Long-term
Other taxes	**12.4**	**12.4**	**–**
Personnel	**185.5**	**55.9**	**129.6**
of which anniversary provisions	[49.9]	[–]	[49.9]
of which for the social plan/age-related part-time employment/demographics fund	[89.8]	[38.3]	[51.5]
Operating risks	**159.9**	**15.4**	**144.5**
Other risks	**360.5**	**360.5**	**–**
of which markdowns/complaints	[105.2]	[105.2]	[–]
of which risks from pending transactions	[69.5]	[69.5]	[–]
Total	**718.3**	**444.2**	**274.1**

(35) Non-current financial liabilities

In € m	31/12/2011	31/12/2010
Bonds	532.5	515.5
Liabilities to banks	5.3	5.5
Liabilities from finance lease agreements	63.6	69.9
Other borrowings	–	0.1
Financial liabilities	**601.4**	**591.0**

The liabilities from finance leases reported under non-current financial liabilities are shown in the following tables:

In € m	Residual term 1–5 years	Residual term > 5 years	31/12/2011 Total
Minimum lease payments	35.1	47.3	82.4
Finance costs	11.0	7.8	18.8
Present value of minimum lease payments	**24.1**	**39.5**	**63.6**

In € m	Residual term 1–5 years	Residual term > 5 years	31/12/2010 Total
Minimum lease payments	36.8	55.5	92.3
Finance costs	12.3	10.1	22.4
Present value of minimum lease payments	**24.5**	**45.4**	**69.9**

The non-current liabilities from lease transactions relate essentially to the leasing of plant equipment and machinery.

Current Liabilities

(36) Current financial liabilities

In € m	31/12/2011	31/12/2010
Liabilities to banks	97.4	77.6
Liabilities		
to affiliated companies	41.5	31.7
to participating interests	0.5	–
Liabilities from finance lease agreements	6.6	6.6
Other borrowings	0.5	12.3
Current financial liabilities	**146.5**	**128.2**

The liabilities from finance leases reported under current financial liabilities are shown in the following table:

In € m	31/12/2011	31/12/2010
Minimum lease payments	10.2	10.6
Finance costs	3.6	4.0
Present value of minimum lease payments	**6.6**	**6.6**

The current liabilities from lease transactions relate essentially to the leasing of plant equipment and machinery and of plant and office equipment.

(37) Trade payables

In € m	31/12/2011	31/12/2010
Liabilities		
to third parties	725.5	684.2
to affiliated companies	9.1	7.6
to participating interests	65.9	21.5
Trade payables	**800.5**	**713.3**

Trade payables include the following payables from contract production recognized using the percentage-of-completion method:

In € m	31/12/2011	31/12/2010
Payments received on account	101.4	78.3
Less production costs including result from construction contracts	59.6	52.9
Payables from construction contracts	**41.8**	**25.4**

The payables from construction contracts include contracts with liability-side balances for which the payments received on account exceed the production costs, including shares in profit and loss.

(38) Other liabilities

In € m	31/12/2011	31/12/2010
Other liabilities		
to affiliated companies	6.3	22.4
to participating interests	0.2	0.5
Other liabilities	410.4	454.8
of which payments received on account	[129.3]	[177.7]
of which to employees	[84.9]	[75.5]
of which tax	[36.0]	[30.8]
of which social security contributions	[16.1]	[17.0]
of which from forfaiting	[14.8]	[10.7]
of which derivatives	[65.2]	[83.8]
of which customer credit	[9.8]	[7.5]
of which interest deferrals	[1.7]	[1.7]
of which other liabilities	[52.6]	[50.1]
Other liabilities (current)	**416.9**	**477.7**

Of the sum total of liabilities, some €89.7 million (previous year: €53.2 million) is secured by liens and similar rights.

Of the other liabilities, €14.8 million (previous year: €10.7 million) are accounted for by liabilities that arose in connection with forfaiting programs.

With the support of Salzgitter Mannesmann Handel GmbH, Düsseldorf, Salzgitter Mannesmann International GmbH, Düsseldorf, made other non-Group external financing arrangements and sold receivables worth the equivalent of €8.4 million (previous year: €7.7 million) which continue to be reported in the company's balance sheet. In addition, Salzgitter Mannesmann International (USA) Inc., Houston, sold receivables worth the equivalent of €5.1 million (previous year: €3.0 million) as of December 31, 2011, and reported the funds received as liabilities. Klöckner DESMA Elastomertechnik GmbH, Fridingen, sold receivables amounting to €1.3 million which will continue to be reported within the company. The funds received are being reported as liabilities.

(39) Contingencies

Contingencies are potential liabilities not shown on the balance sheet which are disclosed in the amount of their fixed value on the balance sheet date. Their aggregate amount is € 128.4 million (previous year: € 140.2 million).

The contingencies include sureties and guarantees totaling € 82.5 million (previous year: € 100.5 million). Based on past experience, the probability of their being utilized can be regarded as low.

Neither Salzgitter AG nor any of its Group companies are engaged in current or foreseeable legal or arbitration proceedings that might have a significant effect on their financial position. Adequate provisions have been formed at the respective Group companies to cover potential financial burdens arising from legal proceedings or arbitration.

(40) Other financial obligations

In € m	31/12/2011		31/12/2010	
	Short-term	Long-term	Short-term	Long-term
Purchase commitments	186.6	63.2	178.9	52.0
Obligations from long-term rental agreements	42.5	272.2	40.1	284.5
Other financial obligations	582.2	427.6	705.5	545.2
Total	**811.3**	**763.0**	**924.5**	**881.7**

The other financial obligations primarily concern long-term purchasing commitments of the companies in the Steel Division whose purpose is to safeguard the procurement of input material for raw materials and sea freight. In view of the current market situation, these disclosures are relevant for assessing the financial position.

The other financial obligations arising from long-term rental and lease agreements consist of the following:

Future rental and lease obligations in € m	31/12/2011	31/12/2010
up to 1 year	42.5	40.1
1 to 5 years	94.6	93.4
over 5 years	177.6	191.1
Total	**314.7**	**324.6**

(41) Financial instruments

As of the balance sheet date on December 31, 2011, the transition of the balance sheet items to the various categories of financial instruments was as follows:

2011 in € m	Book value		
	31/12/2011	Loans and receivables originated by the company	Financial assets available for sale
Assets			
Financial assets	136.1	55.7	80.4
Other non-current receivables and assets (acc. to balance sheet €3.8 m); of which financial instruments	3.8	–	–
Trade receivables	1,447.3	1,447.3	–
Other receivables and other assets (acc. to balance sheet €477.3 m); of which financial instruments	156.1	129.6	8.4
Securities	77.0	–	47.9
Cash and cash equivalents	946.2	–	946.2
Assets financial instruments		**1,632.6**	**1,082.9**
Equity and liabilities			
Non-current financial liabilities	601.4	–	–
Current financial liabilities	146.5	–	–
Trade payables	800.5	–	–
Other payables (acc. to balance sheet €417.0 m); of which financial instruments	129.0	–	–
Equity and liabilities financial instruments		**–**	**–**

Under the “Securities” item, the money market funds acquired during the financial year are reported in the category “Financial assets available for sale”.

Valuation according to IAS 39			Valuation according to IAS 17	Fair value
Financial instruments held for trading	Derivatives with documented hedging arrangements	Financial liabilities measured at amortized cost		
–	–	–	–	144.0
–	–	–	3.8	3.6
–	–	–	–	1,447.3
15.3	1.2	–	1.6	156.7
29.1	–	–	–	77.0
–	–	–	–	946.2
44.4	**1.2**	**–**	**5.4**	
–	–	537.9	63.5	612.1
–	–	139.9	6.6	146.5
–	–	800.5	–	800.5
65.1	0.1	63.8	–	129.0
65.1	**0.1**	**1,542.1**	**70.1**	

As of the balance sheet date on December 31, 2010, the transition of the balance sheet items to the various categories of financial instruments was as follows:

2010 in € m	Book value		
	31/12/2010	Loans and receivables originated by the company	Financial assets available for sale
Assets			
Financial assets	78.9	15.2	63.7
Other non-current receivables and assets (acc. to balance sheet €3.3 m); of which financial instruments	3.1	–	–
Trade receivables	1,175.9	1,175.9	–
Other receivables and assets (acc. to balance sheet €248.1 million); of which financial instruments	161.4	138.7	12.7
Securities	377.5	150.0	185.9
Cash and cash equivalents	1,574.3	–	1,574.3
Assets financial instruments		**1,479.8**	**1,836.6**
Equity and liabilities			
Non-current financial liabilities	591.0	–	–
Current financial liabilities	128.2	–	–
Trade payables	713.3	–	–
Other liabilities (acc. to balance sheet €477.7 million); of which financial instruments	156.0	–	–
Equity and liabilities financial instruments		**–**	**–**

The market values of the non-current receivables are determined by discounting the future payment flows using the market interest rates determined as of the reporting date. Trade receivables and cash and cash equivalents usually have short residual terms and, as a result, their book values correspond to their fair values as of the reporting date. The fair value of the other receivables corresponds to the cash value of the cash flows associated with the assets. In the process, the interest rate parameters of the yield curve are taken into account. The securities are listed and are measured on the basis of the stock market price prevailing on the reporting date. The same procedure is used for listed shares under financial assets.

Trade payables and other liabilities regularly have short residual terms, and, as a result, their reported values correspond to their fair values. The fair values of non-current and current financial liabilities are determined as cash values of the payments associated with the liabilities on the basis of the yield curve and the Salzgitter AG credit spread. The book value of the derivative financial instruments corresponds to their market value.

Valuation according to IAS 39			Valuation according to IAS 17	Fair value
Financial instruments held for trading	Derivatives with documented hedging arrangements	Financial liabilities measured at amortized cost		
–	–	–	–	78.9
–	–	–	3.1	3.2
–	–	–	–	1,175.9
7.8	0.5	–	1.7	161.6
41.6	–	–	–	377.5
–	–	–	–	1,574.3
49.4	**0.5**	**–**	**4.8**	
–	–	521.1	69.9	583.8
–	–	121.6	6.6	131.9
–	–	713.3	–	713.3
83.1	0.8	72.1	–	156.0
83.1	**0.8**	**1,428.1**	**76.5**	

The proximity to the market of the data included in the calculation of fair values is shown in the following tables. Level 1 means that there is a stock-exchange or market price for the financial instrument in question. The condition for categorization in level 2 is that there is a stock-exchange or market price for a similar financial instrument, and/or that the calculation parameters are based on data from observable markets. If valuation methods whose significant input parameters do not result from observable markets are used, the ascertainment of these data is assigned to level 3.

The category "Financial assets available for sale" comprises financial assets totaling €81.3 million (previous year: €63.7 million) which are not listed on the market and for which no reliable fair value can be ascertained. In this category there are also cash and cash equivalents totaling €946.2 million (previous year: €1,574.3 million).

Fair value calculation – assets:

In € m	31/12/2011			
	Financial assets available for sale	**Financial instruments held for trading**	**Derivatives with documented hedging arrangements**	**Total**
Level 1	56.3	29.1	–	85.4
Level 2	–	15.3	1.2	16.5
Level 3	–	–	–	–
Total	**56.3**	**44.4**	**1.2**	**101.9**

In € m	31/12/2010			
	Financial assets available for sale	**Financial instruments held for trading**	**Derivatives with documented hedging arrangements**	**Total**
Level 1	198.6	41.6	–	240.2
Level 2	–	7.8	0.5	8.3
Level 3	–	–	–	–
Total	**198.6**	**49.4**	**0.5**	**248.5**

Fair value calculation – equity and liabilities:

In € m	31/12/2011		
	Financial instruments held for trading	Derivatives with documented hedging arrangements	Total
Level 1	–	–	–
Level 2	65.1	0.1	65.2
Level 3	–	–	–
Total	**65.1**	**0.1**	**65.2**

In € m	31/12/2010		
	Financial instruments held for trading	Derivatives with documented hedging arrangements	Total
Level 1	–	–	–
Level 2	83.1	0.8	83.9
Level 3	–	–	–
Total	**83.1**	**0.8**	**83.9**

To cover significant elements of the default risk and to afford access to a special information service, credit insurance cover has been arranged at the individual Group companies. For the companies in the Steel Division, the credit insurance does not extend to sales to dealers or companies in the iron and steel industry enterprises, for which global securities are arranged via the steel delcredere office.

The default risk pertaining to financial instruments stems from the category "Loans and receivables originated by the company". As of the reporting date, the default risk compared with the previous year was as follows:

In € m	31/12/2011		31/12/2010	
	Maximum default risk	Secured default risk	Maximum default risk	Secured default risk
Trade receivables	1,447.3	866.9	1,175.9	672.8
Other receivables	129.6	6.9	138.7	6.7
Financial assets	55.7	2.6	15.2	0.4
Securities	–	–	150.0	–
Total	**1,632.6**	**876.4**	**1,479.8**	**679.9**

There are also default risks in respect of financial assets held for trading in the amount of the positive market values of the derivatives and with lease receivables in the amount of the reported values for which the default risk is not secured. No commercial papers with a residual term of more than three months are shown under the securities (previous year: € 150.0 million).

The analysis of the ages of the financial instruments that are overdue, but not impaired, as of the reporting date in the amount of € 209.5 million (previous year: € 145.7 million) resulted in the following:

31/12/2011 in € m	overdue for				
	‹ 30 days	31–60 days	61–90 days	91–180 days	› 180 days
Loans and receivables originated by the company	135.8	35.5	9.8	14.7	13.7

31/12/2010 in € m	overdue for				
	‹ 30 days	31–60 days	61–90 days	91–180 days	› 180 days
Loans and receivables originated by the company	95.2	21.1	4.9	8.9	15.0

A sum of € 87.4 million (previous year: € 59.9 million) comprising overdue, non-impaired financial assets in the “Loans and receivables originated by the company” category is safeguarded with credit insurance.

Sums which are not value-adjusted and have been overdue for more than 90 days usually relate to regular customers from whom the receipt of payment, as in previous years, is not in question.

In the reporting year, the Salzgitter Group recorded impairments of assets categorized as “Loans and receivables originated by the company” in an amount of € 27.8 million (previous year: € 29.5 million) and reversals of write-downs in the amount of € 8.9 million (previous year: € 25.3 million).

An impairment of financial assets in the category “Loans and receivables originated by the company” is carried out as soon as there are any objective grounds for impairment, for example substantial financial difficulties of the debtor or breach of contract. The impairments are recognized with effect on income under other operating expenses. Reversals of impairment losses are recognized under other operating income.

It is assumed that those assets which are neither overdue nor impaired could be collected at any time.

The net results of the categories are as follows:

In € m	2011	2010
Assets/liabilities held for trading	– 0.8	– 38.6
Loans and receivables originated by the company	9.5	18.6
Available for sale	17.8	11.4
Financial liabilities measured at amortized cost	– 35.4	– 28.1
Total	**– 8.9**	**– 36.7**

The net result in the “Assets/liabilities held for trading” category primarily comprises income and expenses from the balance-sheet-date valuation of embedded derivatives, current securities and forward exchange transactions. The “Loans and receivables originated by the company” and “Financial assets available for sale” categories include interest income amounting to €34.0 million (previous year: €24.5 million). Interest expenses amounting to €31.8 million (previous year: €31.9 million) are allocated to the “Financial liabilities measured at amortized cost” category. These categories also include effects from currency translation and impairment.

In the reporting year, no gains (previous year: €0.1 million) were generated from the disposal of non-consolidated companies valued at acquisition cost. Losses from disposals amounting to €2.1 million (previous year: €0) arose in the financial year 2011. Valuation allowances of €3.1 million (previous year: €2.7 million) with effect on income were recorded for the assets in the “Available-for-sale financial assets” category in the reporting year.

For financial instruments not measured at fair value through profit and loss, the expenses incurred in financial and monetary transactions amounted to €16.1 million (previous year: €9.9 million); these were immediately recognized with effect on income.

Changes in the valuation reserve for financial instruments in the “available for sale” category developed as follows:

In € m	2011	2010
Status 01/01	– 6.1	– 1.8
Write-up without effect on income	–	1.1
Disposal	1.0	0.5
Write-down without effect on income	6.9	4.9
Status 31/12	**– 14.0**	**– 6.1**

The change in value of € 7.9 million in the financial year 2011 relates primarily to the shares in an Indian manufacturing company in the tubes industry.

In the financial year 2011, the Salzgitter Group applied hedge accounting in accordance with IAS 39 only for forward exchange contracts. In the process, it hedged the currency risks using cash flow hedges. The respective market values were as follows:

Positive market values in € m	31/12/2011	31/12/2010
Forward exchange contracts – cash flow hedges	1.2	0.5

Positive market values in € m	31/12/2011	31/12/2010
Forward exchange contracts – cash flow hedges	0.1	0.8

The underlying transactions that were secured using cash flow hedges will generally affect income within 12 months of the reporting date.

The cash flow hedge reserve, which was posted to equity with no effect on income, developed as follows:

In € m	2011	2010
Status 01/01	– 0.3	0.4
Addition	1.4	–
Disposals	–	0.7
Status 31/12	**1.1**	**– 0.3**

The effectiveness of the hedging arrangements is examined as of every reporting date. This involves comparing the cumulative changes in the value of the underlying transaction with the cumulative changes in the value of the hedging transaction. In the financial year, slight ineffectivities arose from cash flow hedges.

In the case of foreign currency receivables, rate hedging cover is provided by entering into forward exchange contracts with various banks. The relevant claims are reported at the rate agreed in each case. Hedging relationships were established for both firm obligations and expected future transactions.

The nominal volume of the derivative financial instruments comprises the unnetted total of all purchase and sale amounts, valued at the respective settlement rates. Market values were always determined on the basis of conditions that prevailed on the reporting date, using the values at which the relevant derivative financial instruments were traded or listed, without considering contrary movements in value deriving from the underlying transactions. The current value of the derivatives to be reported derives from the valuation of the hedged foreign currency amount with the difference between the rate applying when the forward contract was entered into and the forward rate on the reporting date; this amount is discounted to the reporting date in line with the residual term.

The following key interest rates were used to determine the fair values of the currency derivatives as of the end of the reporting year and the previous year:

Term	EUR interest rate (%)		GBP interest rate (%)		USD interest rate (%)	
	31/12/2011	**31/12/2010**	**31/12/2011**	**31/12/2010**	**31/12/2011**	**31/12/2010**
1 month	1.0240	0.7820	0.7702	0.5925	0.2953	0.2606
3 months	1.3560	1.0060	1.0801	0.7575	0.5810	0.3028
6 months	1.6170	1.2270	1.3758	1.0500	0.8085	0.4559
1 year	1.9470	1.5070	1.8707	1.5094	1.1281	0.7809
2 years	1.3120	1.6010	1.3230	1.4880	0.7360	0.8130
4 years	1.5470	2.2450	1.4350	2.3150	1.0300	1.7740
10 years	2.3830	3.3310	2.2600	3.5550	2.0440	3.4140

The liquidity structure of all the financial liabilities was as follows:

31/12/2011 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	800.5	–	–
Financial liabilities	151.6	615.7	2.2
Lease liabilities	10.2	35.1	47.3
Other liabilities	64.1	–	–

31/12/2010 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	713.3	–	–
Financial liabilities	132.1	556.6	15.4
Lease liabilities	10.6	36.8	55.5
Other liabilities	74.2	–	–

As of December 31, 2011, disbursements from derivatives amounting to €647.2 million (previous year: €798.4 million) are offset by payment contributions amounting to €643.5 million (previous year: €788.7 million). Derivatives have terms of less than one year.

Sensitivity Analysis

IFRS 7 stipulates that, to ensure a systematic presentation of the market price risks to which the company in question is exposed as of the reporting date, a sensitivity analysis must be prepared.

The objective of this sensitivity analysis is to determine the impact of hypothetical changes in the relevant risk variables on the company's result and equity. To determine the impact of these risk variables on the financial instruments, the effects of hypothetical changes in the risk variables on the market values and payment flows of the financial instruments in question must be determined as of the reporting date.

The Salzgitter Group is exposed to various financial risks. These, as defined by the sensitivity analysis prescribed by IFRS 7, are interest rate risks, currency risks and other price risks. For the interest rate risks, the sensitivity analysis assumes a change of 100 base points in the market interest rate. With regard to the currency risks, a fluctuation of 10% in the Group companies' respective functional currencies against the foreign currencies is assumed. The other price risks arise for the Salzgitter Group from changes in commodity prices or stock market indices. In the latter area, the impact of a 10% change in the respective quoted prices is taken into account. The sensitivities are ascertained by banks or by means of internal calculations using acknowledged methods (e.g. Black-Scholes, Heath- Jarrow-Morton). The portfolio of financial instruments as of the balance sheet date is representative of the financial year as a whole.

31/12/2011 in € m	affecting result	affecting equity	Total	affecting result	affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	– 10%	– 10%	– 10%
USD	– 14.6	– 1.4	– 16.0	16.9	1.7	18.6
GBP	0.5	–	0.5	– 0.6	–	– 0.6
Other currencies	0.3	– 1.3	– 1.0	– 0.7	1.3	0.6
Currency sensitivities	**– 13.8**	**– 2.7**	**– 16.5**	**15.6**	**3.0**	**18.6**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	– 100 bp	– 100 bp	– 100 bp
Interest rate sensitivities	**– 5.0**	**–**	**– 5.0**	**5.3**	**–**	**5.3**
Degree of sensitivity	+10%	+10%	+10%	– 10%	– 10%	– 10%
Other price sensitivities	**– 9.4**	**–**	**– 9.4**	**7.7**	**–**	**7.7**

31/12/2010 in € m	affecting result	affecting equity	Total	affecting result	affecting equity	Total
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
USD	–23.5	–	–23.5	15.6	–	15.6
GBP	0.3	–	0.3	–0.3	–	–0.3
Other currencies	1.9	–1.3	0.6	–2.4	1.3	–1.1
Currency sensitivities	**–21.3**	**–1.3**	**–22.6**	**12.9**	**1.3**	**14.2**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**0.2**	**–**	**0.2**	**–0.1**	**–**	**–0.1**
Degree of sensitivity	+10%	+10%	+10%	–10%	–10%	–10%
Other price sensitivities	**–13.7**	**–**	**–13.7**	**11.9**	**–**	**11.9**

(42) Notes to the cash flow statement

In accordance with IAS 7, the cash flow statement depicts the development in cash flows for the financial years 2011 and 2010, broken down into inflows and outflows of funds from current operating, investment and financing activities. The cash flow statement is derived from the consolidated financial statements of Salzgitter AG using the indirect method.

The cash and cash equivalents used consist of cash in hand, checks and cash at banks.

In the cash flow from operating activities, the income and expenses from fixed asset disposals have been eliminated. Interest income amounts to € 27.2 million (previous year: € 20.8 million).

The investments reported under cash flow for investment activities comprise the additions to intangible assets, property, plant and equipment, and financial investments.

In addition to numerous investments in rationalization and replacements aimed primarily at improving, renewing and preserving production plant and data processing systems, various large-scale investments were made, such as the program in the Steel Division aimed at enhancing product quality and broadening the product range.

The cash outflows for investment in financial assets relate mainly to the loan extended to HKM GmbH, the acquisition of further shares in Aurubis AG and the acquisition of the STAHL-METALL-SERVICE companies.

The acquisition of minority shareholdings is shown in the cash flow from financing activities.

The cash inflows and outflows from/for financial investments encompass a diversity of money-market and pension funds.

Interest paid is attributed solely to financing activities.

Income received from shareholdings during the financial year 2011 amounted to €16.6 million (previous year: €22.4 million).

(43) Notes on segment reporting

The segmentation of the Salzgitter Group into five divisions accords with the Group's internal controlling and reporting functions.

In the segment report, the business activities of the Salzgitter Group are assigned to the Steel, Trading, Tubes, Services and Technology divisions in accordance with the Group structure in line with different products and services. Salzgitter AG as the management holding company, the intermediate holding company Salzgitter Mannesmann GmbH, Salzgitter Finance B.V., and Aurubis AG are not assigned to any division.

The Steel Division manufactures high-quality branded steel and special steels. Its main products are hot-rolled strip and cold-rolled steel, sections and sheet piling, plate, elements for roofing and cladding, blanks and tailored blanks.

The Tubes Division is concerned primarily with the manufacture of pipeline tubes, HFI-welded tubes, precision tubes and stainless steel tubes.

The Trading Division operates a tightly-knit European sales network as well as trading companies and agencies worldwide which ensure that the Salzgitter Group's products and services are marketed efficiently.

The companies in the Services Division do most of their work for the Group. The range of services they provide includes data processing, telecommunications services, scrap dealing, the handling and storage of bulk cargo, transportation, and other services for, among other things, the automotive industry.

The Technology Division operates mainly in the filling and packaging technology segment.

Inter-segment sales are basically conducted at standard market terms such as also constitute the basis of transactions with third parties (arm's length).

Segmental operating assets and liabilities comprise the assets and debts that are required for operational purposes excluding both interest-bearing claims and income tax receivables and liabilities.

The sales are allocated geographically by the domicile of the invoice recipient.

Of the non-current assets, €2,804.7 million (previous year: €2,621.2 million) is accounted for by Germany and €194.9 million (previous year: €175.5 million) by third countries. A further €419.7 million (previous year: €448.9 million) relates to consolidated units not assigned to a segment.

In the financial year 2011, as in the previous year, no single customer accounted for more than 10% of the Salzgitter Group's sales.

The transition of total segmental assets and segmental liabilities to the Group's balance sheet total, and the transition of total segment sales and segment results to, respectively, consolidated sales and the earnings before tax are shown in the following overview:

In € m	2011	2010
Total sales of the segments	12,285.7	10,229.9
Other sales	85.3	55.9
Elimination of the sales with other segments	– 2,525.3	– 1,976.5
Elimination of the sales with Group companies not assigned to a segment	– 6.2	– 4.7
Sales	**9,839.5**	**8,304.6**

In € m	2011	2010
Total results of the segments for the period	94.2	26.6
Other results for the period	107.4	22.3
Earnings before tax	**201.6**	**48.9**

In € m	31/12/2011	31/12/2010
Total segmental operating assets	7,046.1	6,415.9
Other assets	1,419.6	1,928.4
Income tax assets	71.1	135.6
Deferred income tax assets	256.1	201.6
Deferred expenses	7.1	7.2
Statement of financial position total	**8,800.0**	**8,688.7**

In € m	31/12/2011	31/12/2010
Total segmental operating liabilities	6,366.4	5,602.8
Other liabilities	– 1,907.8	– 1,061.1
Tax liabilities	329.8	288.0
Group equity	3,999.8	3,845.9
Deferred expenses	11.8	13.1
Statement of financial position total	**8,800.0**	**8,688.7**

The remaining sales, results for the period under review, assets and liabilities are accounted for by the companies Salzgitter AG, Salzgitter Mannesmann GmbH and Salzgitter Finance B.V., which cannot be assigned to any operating segment.

The items shown under segmental assets are essentially cash and cash equivalents and those shown under segmental liabilities are largely the holding companies' pension provisions.

The participating interest in Aurubis AG is not allocated to any operating segment either.

(44) 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.

Material delivery and service relationships between companies in the consolidated group and companies related to the Salzgitter Group are depicted in the following table:

In € m	Sale of goods and services		Sale of goods and services	
	2011	2010	2011	2010
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	35.3	25.8	613.0	495.4

Outstanding items from deliveries and services arising from the purchase or sale of goods and services between companies in the consolidated group and companies related to the Salzgitter Group are as follows:

In € m	Trade receivables		Trade payables	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Hüttenwerke Krupp Mannesmann GmbH, Duisburg	0.2	7.1	65.2	21.0

The Group has a long-term loan granted to Hüttenwerke Krupp Mannesmann GmbH, Duisburg, in the amount of €40.0 million.

The deliveries and services received essentially comprise deliveries of input material for the manufacture of large-diameter pipes.

There are contingencies in relation to non-consolidated associated companies totaling €60.2 million (previous year: €42.1 million).

Remuneration paid to members of the management in key positions:

In € m	2011	2010
Salary and other current payments	10.0	11.5
Payments after termination of the employment relationship	1.0	1.1
Total	**11.0**	**12.6**

In addition, the employee representatives on the Supervisory Board who are employed in the Salzgitter Group received remuneration within the scope of their employment contract. The amounts in question corresponded to appropriate remuneration for comparable functions and tasks in the Group.

(45) Fees for the Auditor of the Consolidated Financial Statements that were reported as Expenses in the Financial Year in accordance with Section 314, para. 9 of the German Commercial Code (HGB)

In € m	2011	2010
Audits	2.0	2.1
Other certification or assessment services	0.1	0.1

In addition, expenses relating to other auditors were incurred in the amount of €0.5 million (previous year: €0.5 million) for the auditing of the annual financial statements of consolidated German-based companies and in the amount of €0 (previous year: €0.1 million) for other consulting services rendered for German-based Group companies.

(46) Significant Events occurring after the Reporting Date

Significant events occurring after the reporting date are explained in the Management Report.

(47) Waiver of Disclosure and Preparation of a Management Report in accordance with Section 264 para. 3 or Section 264 b, German Commercial Code (HGB)

The following fully consolidated domestic subsidiaries have fulfilled the conditions required under Section 264 para. 3 or Section 264 b, German Commercial Code (HGB) and are therefore exempted from disclosure of their financial statements and from the obligation to prepare a management report:

- Salzgitter Mannesmann GmbH, Salzgitter
- Salzgitter Klöckner-Werke GmbH, Salzgitter
- Salzgitter Stahl GmbH, Salzgitter
- Salzgitter Flachstahl GmbH, Salzgitter
- Peiner Träger GmbH, Peine
- Ilsenburger Grobblech GmbH, Ilsenburg
- HSP Hoesch Spundwand und Profil GmbH, Dortmund
- Salzgitter Europlatinen GmbH, Salzgitter
- Salzgitter Bauelemente GmbH, Salzgitter
- Glückauf Immobilien GmbH, Peine
- SZST Salzgitter Service und Technik GmbH, Salzgitter
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg
- SIT Salzgitter Information und Telekommunikation GmbH, Salzgitter
- GESIS Gesellschaft für Informationssysteme mbH, Salzgitter
- telcat multicom GmbH, Salzgitter
- telcat Kommunikationstechnik GmbH, Salzgitter
- DEUMU Deutsche Erz- und Metall-Union GmbH, Peine
- Salzgitter Mannesmann Forschung GmbH, Salzgitter
- Salzgitter Mannesmann Handel GmbH, Düsseldorf
- Hövelmann & Lueg GmbH, Schwerte
- Salzgitter Mannesmann International GmbH, Düsseldorf
- Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf
- Stahl-Center Baunatal GmbH, Baunatal
- Universal Eisen und Stahl GmbH, Neuss
- Mannesmannröhren-Werke GmbH, Mülheim
- Salzgitter Mannesmann Großrohr GmbH, Salzgitter
- Salzgitter Mannesmann Line Pipe GmbH, Siegen
- Salzgitter Mannesmann Rohr Sachsen GmbH, Zeithain
- Salzgitter Mannesmann Präzisrohr GmbH, Hamm
- Salzgitter Mannesmann Precision GmbH, Mülheim
- Salzgitter Mannesmann Grobblech GmbH, Mülheim
- Salzgitter Mannesmann Stainless Tubes GmbH, Mülheim
- Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid
- KHS GmbH, Dortmund
- Klöckner Mercator Maschinenbau GmbH, Duisburg
- Klöckner PET-Technologie GmbH, Salzgitter
- Klöckner DESMA Elastomertechnik GmbH, Fridingen
- Klöckner DESMA Schuhmaschinen GmbH, Achim
- KHS Corpoplast GmbH, Hamburg
- KHS Plasmax GmbH, Hamburg
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück
- Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück
- Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau

(48) Supervisory Board and Executive Board

For the discharge of their duties, the members of the Executive Board received the sum of €6.4 million (previous year: €6.7 million) in the financial year. Of this total, €3.1 million (previous year: €3.4 million) was accounted for by performance-related remuneration components.

Provisions for pension obligations to members of the Executive Board amounted to €18.3 million (previous year: €19.4 million) in the financial year. Former members of the Executive Board and their surviving dependents received a total of €1.8 million for the financial year (previous year: €1.4 million). Pension provisions totaling €26.5 million (previous year: €19.0 million) have been set aside to cover obligations to former Executive Board members and their surviving dependents.

Supervisory Board members received a total of €1.2 million (previous year: €1.2 million).

The remuneration of the individual members of the Executive and Supervisory Boards of Salzgitter AG is disclosed in Section I. 2 “Management and Control” in the “Group Management Report and Management Report on Salzgitter AG”.

(49) Assurance from the Legal Representatives

We give our assurance that, to the best of our knowledge and in accordance with the applicable accounting principles, the 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 Group Management Report that a true and accurate picture is conveyed and that the significant opportunities and risks of the Group's future development are fairly described.

Salzgitter, March 5, 2012

The Executive Board

Fuhrmann   Becker   Eging

Groschke   Nonn   Schneider

VII. Auditor's Report

Independent Auditor's Report

"We have audited the consolidated financial statements prepared by Salzgitter AG, Salzgitter – consisting of income statement, statement of recognized income and expense, balance sheet, cash flow statement, statement of changes in equity and notes – and the group management report, which is combined with the company's management report, for the financial year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report according to IFRS, as adopted in the EU, and the additional provisions stated in Section 315a para. 1, German Commercial Code (HGB) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317, German Commercial Code and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements, observing the German principles of proper accounting, and in the group management report are detected with a reasonable degree of certainty. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the condensed group management report are examined primarily on a sample basis within the framework of the audit. The audit includes an assessment of the annual financial statements of the companies in the consolidated group, the determination of the composition of the consolidated group, the accounting and consolidation principles used and significant estimates made by the Company's Executive Board, as well as an assessment of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our opinion based on the results of our audit, the consolidated financial statements are in compliance with the IFRS, as adopted by the EU, and the additional provisions stated in Section 315a para.1, German Commercial Code and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The condensed group management report accords with the consolidated financial statements and, all in all, provides an accurate picture of the Group's position and an accurate description of the opportunities and risks of future development."

Hanover, March 5, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Thomas Stieve Wirtschaftsprüfer (German Public Auditor)	Prof. Dr. Mathias Schellhorn Wirtschaftsprüfer (German Public Auditor)

I. Glossary

Business and Financial Terms

A

Asset-backed securitization (ABS)
Selling receivables with securitization on the capital market.

At equity
Method of capital consolidation with which an affiliated company's proportionate equity is valued.

C

Capital employed
The sum total of equity, tax provisions (excluding deferred tax) and interest-bearing liabilities. Equity also comprises minority interests.

Cash flow

- **from operating activities**
  Outflow/inflow of liquid funds in as much as not influenced by investments, disinvestments or financing activities.
- **from investment activities**
  Outflow/inflow of liquid funds from investment/disinvestment activities.
- **from financing activities**
  Outflow/inflow of liquid funds from financing activities: issuance/redemption of bonds, borrowing/repayment of loans, issuance/repurchase of shares etc.

Corporate Governance
The term used to describe responsible corporate management and control. In the interests of improving corporate management, the German Federal Ministry of Justice set up the Government Commission on the German Code of Corporate Governance in 2001. The Commission is tasked with enhancing the transparency of the rules of corporate management and supervision applicable in Germany and with improving the corporate charter of German stock corporations.

Cost of materials
Expenses incurred by raw materials and supplies, merchandise, spare parts, tooling and services outsourced such as energy, contract processing and internal transport costs.

Current assets
Assets not intended for use in the long-term operations of the business enterprise. Current assets include, for example, inventories and trade receivables.

D

Debt
Provisions, liabilities and deferred income.

Declaration of Conformity
Declaration by the Executive and Supervisory Boards pursuant to Section 161 of the German Stock Corporation Act (AktG) regarding the implementation of the recommendations of the Government Commission on the German Code of Corporate Governance.

Deferred taxes
Tax charges and reliefs likely to arise at a future date as a result of temporary differences between the book value applied to the consolidated financial statements and the tax valuations of assets and liabilities.

E

EBIT (Earnings before Interest, Tax)
Earnings before interest and tax payments (excluding the interest component in allocations to pension provisions).

EBITDA (Earnings before Interest, Tax, Depreciation and Amortization)
Earnings before interest and tax payments (excluding the interest component in allocations to pension provisions) and depreciation and amortization (including financial assets).

EBT (Earnings before Tax)
Earnings before deduction of tax.

Equity
Funds made available to a company by its owners as a cash payment and/or capital investment, as well as retained earnings.

External sales
The proportion of total sales accounted for by transactions with companies outside the group of consolidated companies of Salzgitter AG.

F

Forfaiting
Sale of export receivables without recourse to the previous owners of the receivables (suppliers), generally a bank.

Free float
That part of a company's capital stock that is freely traded on the stock market.

I

IAS/IFRS

“International Accounting Standards”/“International Financial Reporting Standards”: Standards to ensure international comparability in the preparation of accounts.

Impairment

Unscheduled depreciation and amortization of assets, such as, for instance, property, plant and equipment and intangible assets, in the amount by which amortized costs exceed the recoverable amount in the market.

Internal sales

The proportion of total sales accounted for by transactions with companies belonging to the group of consolidated companies of Salzgitter AG.

J

Joint venture

A business venture undertaken in cooperation between, and under the joint control of, at least two companies at arm’s length.

L

Lifo (last in, first out)

Method of valuing inventories based on their assumed sequence of consumption.

M

Market capitalization

Current market value of a listed company. Market capitalization is calculated by multiplying the share price by the number of shares. Deutsche Börse AG calculates market capitalization for index weighting purposes based on the result of share price and free float.

N

Natural hedging

Matching cash inflows and outflows and/or contractual terms (duration) in procurement and sales in order to minimize currency risk.

Non-current assets

Assets which are intended for use in the long-term operations of a business enterprise. A distinction is made between:

- **Property, plant and equipment**
  Land and buildings, technical equipment and machinery etc.
- **Intangible assets**
  Goodwill/badwill, patents, licenses, development costs etc.
- **Financial assets**
  Shares in affiliated and associated companies, participating interests, securities held as fixed assets etc.

P

Pension provisions
Provisions formed to cover retirement, invalidity and surviving dependants' pension and benefit commitments. Pension obligations are calculated using the present value of the defined benefit obligations (IFRS) or the going-concern value method (German Commercial Code [HGB]) and valued on the basis of actuarial assumptions and calculations.

Personnel expenses
Expenses incurred by wages and salaries as well as social security, pension and other benefits. These expenses do not include the interest component in allocations to pension provisions, which is reported as part of the financial result.

Profit and loss transfer agreement
A profit and loss transfer agreement is an affiliation agreement under which one company commits itself to transferring its entire profit to another company (Section 291 I German Stock Corporation Act [AktG]). The other contractual partner undertakes to compensate any annual net loss (assumption of loss pursuant to Section 302 I German Stock Corporation Act [AktG]) during the term of the agreement.

R

ROCE (Return on Capital Employed)
Ratio of EBIT to capital employed.

U

Unappropriated retained earnings
(also: profit shown on the balance sheet after appropriation to or transfer from reserves)
Profit as shown in the annual financial statements of Salzgitter AG, calculated in accordance with the German Commercial Code. Dividend paid to shareholders is determined by this result.

Technical Terms

A

Annealing furnace
Metallurgical furnace for heat treatment and annealing of metals and alloys; heated either electrically or by means of solid, liquid or gaseous fuels.

B

Beam blanks
Input material for the production of beams.

Belt casting technology (BCT)
Process for continuous casting.

Blanks
Stampings punched out of (mainly) surface-coated sheet for the automobile industry.

Blast furnace
A shaft furnace lined with heat-resistant (refractory) bricks and used by integrated steelworks to smelt pig iron from iron ore.

Bloom
An intermediate product produced from crude steel by the continuous casting process and used as an input material for the production of sections.

C

Coating
The application of a coat of zinc, organic material, paint or foil, primarily to improve the resistance of steel sheet to corrosion.

Coiler
Technical facility for coiling long steel strip in preparation for shipping for cold rolling or to other production plants.

Coke
A reduction agent required in the blast furnace to smelt pig iron out of iron ore. Coke is produced by heating specific types of coal (coking coal) in a coke oven plant under exclusion of air.

Cold rolling
Forming process at room temperature. Cold rolling is used, for example, to turn hot-rolled strip into sheet steel.

Continuous casting
A semi-continuous process for the manufacturing of slabs, blooms and tube rounds from molten steel.

E

Electric arc furnace
Unit in which steel scrap is melted using electricity producing so-called electric steel.

Elements for roofing and cladding
Components produced from profiled surface-coated sheet steel that are used in the construction industry as wall and ceiling elements and for exterior cladding.

F

Ferritic steel
Steel with special, highly homogeneous structure and good low temperature properties (low temperature toughness).

Filler carousel
Rotating machine carousel with a large number of filling heads for bottle filling.

Filler table
Transmission housing with drives and gear wheels for feeding bottles to and removing bottles from filling machines.

Finite Element Method (FEM)
Method for the numerical solution of stability problems, for example.

Flat rolled products
Flat rolled steel products are manufactured by the hot- and cold-rolling of slabs, including other work stages, as necessary. The term refers specifically to sheet steel with a thickness of less than 5 mm used mainly for the automotive and household appliance industries.

H

Heating furnace
Metallurgic furnace for heating semi-finished products to rolling temperature.

Heavy Plate
Sheet steel of at least 3 mm in thickness. Heavy plate is required mainly in the construction industry, for mechanical engineering and equipment manufacturing, ship building and large-diameter pipes.

HFI-welding
Process for creating welds on the basis of electro-magnetic induction.

Hollows
Seamless tubes used as an input material for the production of seamless precision tubes.

Hot-rolled (wide) strip
Hot-rolled and coiled steel strip used as feedstock for cold rolling or sold as an intermediate product (e.g. a wide strip).

Hot rolling
Forming process carried out at high temperatures. Different types of rolling mills are used to convert semi-finished material into hot-rolled strip, plate, sections or seamless tubes.

I

Induction heating/annealing
The term induction heating/annealing denotes the process of passing steel plate continuously through several successive inductor coils to heat them to a temperature of 1,200 °C.

L

LD steel
Oxygen steel produced out of pig iron by the **L**inz-**D**onawitz process (top blowing process).

M

Mill-grade fender

A steel crosspiece in front of the locomotives' wheels for removing foreign bodies such as scrap on the rails.

P

Pellets

Small spheres manufactured from fine-grain iron ore with the addition of water and binding agent, hardened in an oven. Pellets are used in the blast furnace along with lump ore and sinter as a source of iron.

Precision tubes

Seamless or welded steel tubes used predominantly in mechanical engineering and the automotive industry.

R

Reduction agent

Sources of carbon such as coke, coal or fuel oil used in the blast furnace process to convert iron ore (iron oxide) into pig iron.

Relining

Cladding the blast furnace with refractory material, a process repeated at intervals from ten to fifteen years.

Rolled steel

The sum total of all end products to emerge from rolling mills.

S

Sections

Long products, such as beams and sheet piles, used primarily in building construction and civil engineering.

Semi-finished goods/semis

A general term for input material made from crude steel for use in rolling mills (slabs, blooms, tube rounds).

Sheet piling

Steel sections used to secure and seal excavation pits.

Sheet steel

Uncoated sheet steel produced through cold rolling.

Sinter plant

It is the function of the sinter plant to process fine grain raw material into coarse grained iron ore sinter for charging the blast furnaces. To begin with, meticulously prepared mixtures are created consisting of fine ore, concentrates, extras and undersizes arising from screening lumpy burden components at the blast furnace. Ferriferous fine grain discharges from the production chain of the entire steel works are also put into the mixture. By igniting suitable fuel, iron ore sinter is produced by down draft process. Normally, coke breeze from screening lump coke at the blast furnace is used as fuel.

Slab

An intermediate product produced from crude steel by the continuous casting process and used as an input material for the production of flat rolled steel.

Surface-coated steel products

Products provided with a metallic or organic surface coating by special processes, for example by galvanizing or paint-coating.

T

Tailored blanks

Bonded blanks composed of sheet steel of varying shapes, qualities and properties which are welded together by laser beam. Automobile manufacturers use tailored blanks to produce press parts for vehicle construction.

Top gas

Combustible process gas which is a by-product in the production of primary materials.

Total supply

The most common form of energy supply where a customer sources all energy needs (electricity or natural gas) from a single supplier. A total supply contract defines the energy price which depends on the volume purchased but not the exact scope and intervals when energy is bought within a delivery period. The advantage is the comparatively low administrative effort envolved.

Transistor-type welding machine

Machine for longitudinal seam welding of steel tubes based on HF-welding voltage generated by power transistors.

Tube rounds

An intermediate product produced from crude steel by the continuous casting process and used as an input material for the production of seamless tubes.

Tubes

- **Welded tubes**
  Tubes made by welding plate or hot-rolled strip. A distinction is drawn between longitudinally welded tubes (where the weld seam runs along the axis of the tube) and spiral-welded tubes (where the weld seam spirals around the circumference of the tube).
- **Seamless tubes**
  Tubes made from tube rounds. After heating, a hollow body is first created by a variety of processes (including pilgering), which is then rolled and, if necessary, drawn to its final dimensions.

Turn-key plants

Complete plants, facilities and systems ready for operation.

U

Umbilical

A supply line or simply umbilical is a cable which supplies required consumables to an apparatus. Umbilical cables consist of a combination of thermoplastic hoses, steel tubes, armoured shields and carbon rods.

Further information can be accessed under the website: www.stahl-online.de

II. Financial Calendar of Salzgitter AG for 2012

March 5, 2012	Key data for the financial year 2011
March 30, 2012	Publication of consolidated financial statements for 2011 Annual Results Press Conference
April 2, 2012	Analysts' Conference in Frankfurt am Main
April 3, 2012	Analysts' Conference in London
May 15, 2012	Interim report on the first quarter of the financial year 2012
May 24, 2012	General Meeting of Shareholders in 2012
August 14, 2012	Interim report on the first half of the financial year 2012 Analysts' Conference in Frankfurt/Main
August 15, 2012	Analysts' Conference in London
November 14, 2012	Interim report on the first nine months of the financial year 2012

III. Editorial Details and Contact

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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 conditions pertaining to the companies of the various divisions, 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.

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

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