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Interim Report
9 Month 2016 ■



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Introductory notes

Unless otherwise indicated, all key figures and their explanations, as well as the guidance included in this report comprise the sheet piling activities that have been discontinued at the end of 2015.

The alternative performance ratios of EBIT, EBITDA, ROCE and the net financial position that are not defined in accordance with international accounting standards are explained in more detail in the corresponding chapter.

The comparative periods and the previous year have been adjusted due to a mandatory retrospective correction to inventories. Detailed explanations can be found in the section on “Principles of accounting and consolidation, balance sheet reporting and valuation methods.”

Salzgitter Group Figures

		9M 2016	9M 2015 ¹⁾	+/-
Crude steel production	kt	5,171.6	5,104.0	67.6
External sales	€ m	5,860.5	6,691.7	-831.2
Strip Steel Business Unit	€ m	1,389.0	1,505.6	-116.6
Plate / Section Steel Business Unit	€ m	535.9	719.0	-183.1
Mannesmann Business Unit	€ m	727.1	811.7	-84.7
Trading Business Unit	€ m	2,109.1	2,530.1	-421.0
Technology Business Unit	€ m	954.2	978.1	-23.9
Industrial Participations / Consolidation	€ m	145.2	147.1	-1.9
EBIT before depreciation and amortization (EBITDA)	€ m	336.0	305.4	30.7
Earnings before interest and taxes (EBIT)	€ m	79.5	55.1	24.4
Earnings before taxes (EBT)	€ m	21.1	15.6	5.6
Strip Steel Business Unit	€ m	-27.4	-9.5	-17.9
Plate / Section Steel Business Unit	€ m	-24.7	-41.3	16.7
Mannesmann Business Unit	€ m	2.4	8.8	-6.4
Trading Business Unit	€ m	31.7	21.0	10.7
Technology Business Unit	€ m	17.1	16.1	1.0
Industrial Participations / Consolidation	€ m	22.0	20.5	1.5
Consolidated net income/loss	€ m	14.6	3.6	11.0
Earnings per share – basic	€	0.21	0.00	0.21
Return on capital employed (ROCE)²⁾	%	2.1	1.8	0.3
Cash flow from operating activities	€ m	-2.9	172.6	-175.5
Investments³⁾	€ m	241.8	245.8	-4.0
Depreciation/amortization³⁾	€ m	-256.5	-250.3	-6.2
Total assets	€ m	8,360.0	8,418.0	-58.0
Non-current assets	€ m	3,733.6	3,582.1	151.4
Current assets	€ m	4,626.4	4,835.8	-209.4
of which inventories	€ m	1,700.4	1,841.0	-140.7
of which cash and cash equivalents	€ m	648.1	775.3	-127.3
Equity	€ m	2,628.3	2,905.3	-277.0
Liabilities	€ m	5,731.7	5,512.7	219.0
Non-current liabilities	€ m	3,775.4	3,404.2	371.2
Current liabilities	€ m	1,956.3	2,108.5	-152.2
of which due to banks ⁴⁾	€ m	297.1	320.1	-23.0
Net financial position on the reporting date⁵⁾	€ m	115.3	267.0	-151.7
Employees				
Personnel expenses	€ m	-1,231.6	-1,253.1	21.4
Core workforce on the reporting date ⁶⁾	empl.	23,356	23,688	-332
Total workforce on the reporting date ⁷⁾	empl.	25,341	25,671	-330

Disclosure of financial data in compliance with IFRS

¹⁾Restatement because of a correction of the stock value

²⁾Annualized

³⁾Excluding financial investments

⁴⁾Current and non-current bank liabilities

⁵⁾Including investments, e.g. securities and structured investments

⁶⁾Excl. trainee contracts and excl. non-active age-related part-time work

⁷⁾Incl. trainee contracts and incl. non-active age-related part-time work

Summary

The Salzgitter Group delivers sound earnings performance in the first nine months of 2016

The positive earnings trend of the Salzgitter Group has stabilized, despite the ruinous price situation for rolled steel products through to the spring due to the flood of imports. This performance is due to the profound success of the restructuring projects and the first effects of the EU anti-dumping measures. The summer quarter that is customarily impacted by planned maintenance and repair downtime and the seasonal decline in customer demand developed somewhat more modestly, in line with expectations. In the third quarter, the Strip Steel Business Unit nevertheless generated a positive pre-tax result for the first time again for more than a year

Group

- **External sales:** € 5,860.5 million
- **Pre-tax profit:** € 21.1 million, including a total of € 7.2 million for measures aimed at structural improvements
- **After-tax profit:** € 14.6 million
- **Earnings per share (basic):** € 0.21
- **Return on Capital Employed (ROCE):** 2.1%
- **Net financial position:** € 115.3 million
- **Equity ratio:** 31.4%

Development of the business units

- **Strip Steel:** selling price erosion combined with stable shipments results in reduced external sales; despite positive result in the summer quarter, pre-tax loss delivered on a cumulative basis.
- **Plate / Section Steel:** selling price- and volume-induced decline in external sales; improved pre-tax results boosted by the profit contribution of Peiner Träger GmbH and the non-recurrence of losses from the sheet piling business
- **Mannesmann:** shipment volumes and external sales in decline; earnings before taxes supported by a notable increase in the earnings contribution of the EUROPIPE Group
- **Trading:** external sales significantly lower due to steep decline in annual average selling prices and reduced shipment tonnage below the year-earlier figure; gratifying pre-tax profit on the back of higher margins of the stockholding steel trade, flanked by the positive results of international business
- **Technology:** external sales stable; pre-tax result higher year on year
- **Industrial Participations / Consolidation:** pre-tax result exceeds year-earlier figure; comprises € 16.8 million in earnings from the Aurubis investment

Guidance

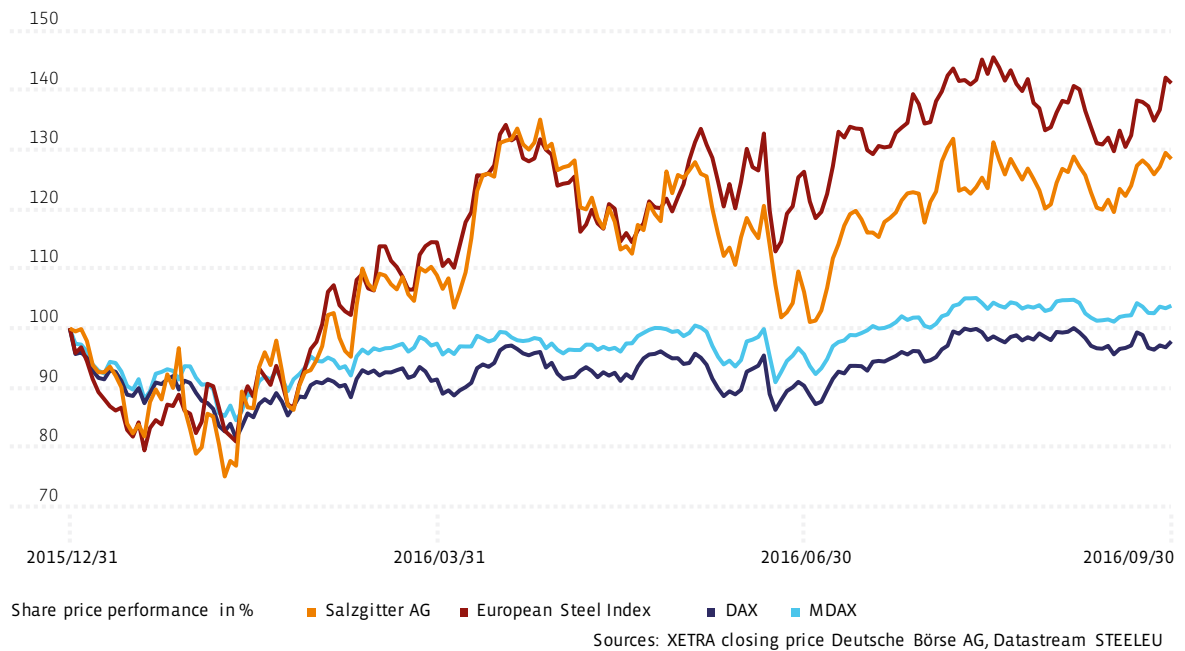
The Salzgitter Group affirms its forecast to date and continues to assume the following for the financial year 2016:

- a decline in sales to between € 8.0 billion and € 8.5 billion
- an increase in the pre-tax profit compared with the previous year (€ 4.1 million) to between € 30 million and € 60 million, and
- a return on capital employed that is marginally higher year on year (previous year: 1.9 %).

Investor Relations

Capital Market and Price Performance of the Salzgitter Share

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



In the first nine months of 2016, the **stock markets** developed in two directions: A bear market initially determined the first weeks of January, caused by concerns about China's economic development and the ongoing decline in oil prices. A counter trend triggered by several central bank decisions commenced in mid-February that partly made up for the losses previously reported. After the rally tailed off in April, a sideways movement set in that was interrupted by short-lived distortions caused by the referendum on the UK's leaving the European Union, which persisted through to the end of the reporting period. In the period under review the overall performance of the DAX stood at -2% and that of the MDAX at +4%.

The **Salzgitter share** showed an uptrend overall in the first nine months that was nonetheless accompanied by considerable volatility. Starting from the 2015 closing price of € 22.73, the share initially dropped to € 16.81 on February 9 due to the generally negative market sentiment. Following the implementation of the EU Commission's first trade defense measures to stem the flood of imports, and the positively received key data for the financial year 2015 that impressively reflected the effectiveness of the "Salzgitter AG 2015" program, the Salzgitter share peaked at the end of April at more than 80% above its lowest level. The following phase of profit taking lasted through to mid-July. This was followed an uptrend that lasted beyond the end of the reporting period. Based on a closing price of € 29.17 at the end of September, overall performance in the first nine months of 2016 stood at 28%.

During the period under review 21 banks issued the following current **analyst rankings** on the Salzgitter share (as of 09/30/2016): 10 buy/outperform, 8 hold/market perform, 3 sell/underperform.

The **average daily turnover** during the reporting period stood at almost 374,000 shares, thereby falling marginally short of the year-earlier figure (456,000 shares/day). As of September 30, 2016, Salzgitter AG (SZAG) therefore took 27th place measured by turnover and held 49th place in terms of free float market capitalization in the MDAX ranking of Deutsche Börse AG.

Capital market communication: We presented our company at investor conferences and roadshows in Germany, UK, France, Austria, Finland and the US in the first nine months of 2016. In addition, analysts and investors visited our Salzgitter site and informed themselves in discussions with representatives of the Group about the company. The results of the financial year 2015 and of the first half of 2016 were presented to the capital market at analysts' conferences in Frankfurt and London and intensively discussed. We again offered our private investors a series of information events arranged by the Freundeskreis der Aktionäre der Salzgitter AG" (circle of friends of Salzgitter AG shareholders") that met with fresh, lively interest.

Treasury shares

Salzgitter AG's portfolio of treasury shares amounted to 6,009,700 units as of September 30, 2016, unchanged from December 31, 2015, which corresponds to 10% of the shares issued.

Dividend

As before, the **dividend amount** will be geared to the profit trend of SZAG. 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. Here the separate financial statements of SZAG are decisive for the ability to pay dividend. The company pursues a fundamental policy of paying out steady and attractive dividend – removed from volatile reporting-date related influences – based on the pre-requisite of achieving actual operating profit. Such payments do not necessarily have to fully reflect the cyclicity of the earnings performance. Against this backdrop, as well as in view of the demonstrated impact of the measures implemented as part of the "Salzgitter AG 2015" program, the Annual General Meeting of Shareholders that took place on June 1, 2016 decided to distribute dividend of €0.25 per share for the financial year 2015.

Information for investors

		9M 2016	9M 2015
Share capital of 09/30	€ m	161.6	161.6
Number of shares as of 09/30	million units	60.1	60.1
Number of shares outstanding 09/30	million units	54.1	54.1
Market capitalization of 09/30 ¹⁾	€ m	1,578	1,200
Closing price as of 09/30²⁾	€	29.17	22.19
High 01/01 - 09/30 ²⁾	€	30.82	36.42
Low 01/01 - 09/30 ²⁾	€	16.81	21.01

Securities code number: 620200, ISIN: DE0006202005

¹⁾ Calculated on the basis of the respective year-end closing price multiplied by the number of shares outstanding per his date

²⁾ All data relate on prices in XETRA trading

Profitability of the Group and Business Unit

Economic environment

The **global economy** grew at a subdued pace in the first three quarters of 2016. The aftermath of the weak phase in the second half of 2015 hampered the economy at the start of the year. The first positive stimulus occurred in February with a start to the uptrend in the price of raw materials and energy carriers that had a varying impact depending on the region. Private consumption in the US remained strong, for instance, although counteracted by a moderate slowdown in capital expenditure and inventory effects. Private consumption also carried the Japanese economy, while economic policy measures stimulated China's economy. Preliminary data indicates that the UK's vote to leave the European Union (Brexit) led to a considerable slowdown in industrial production in the weeks directly after the referendum, followed by a normalization. All in all, the International Monetary Fund (IMF) currently puts global economic growth at 3.1 % in the year 2016 in its most recent October forecast.

The recovery in the **Eurozone** weakened following a favorable start. Private consumption proved to be the most important mainstay of growth during the first months of the reporting period. In France and Italy, however, consumption then slackened, causing economic momentum in these countries to slow or even come to a standstill. In contrast, Spain and the Netherlands reported strong uptrends. According to preliminary data, Brexit has not had any major impact so far. In its current outlook, the IMF revised its expectations of economic growth in the Eurozone slightly upward to 1.7 % in 2016.

Germany's moderate upswing proved to be quite robust in the period under review. Private consumption remained brisk on the back of the low level of price increases and a stable development of wages and salaries. The construction and services sectors also made a contribution, as did foreign trade, compared with capital expenditure that increased only gradually. The IMF raised its most recent forecast for German growth to 1.7 % for the full year 2016. Germany's leading economic institutes are somewhat more optimistic in their expectations of 1.9 %.

Earnings Situation within the Group

		Q3 2016	Q3 2015 ¹⁾	9M 2016	9M 2015 ¹⁾
Crude steel production	kt	1,665.5	1,582.1	5,171.6	5,104.0
External sales	€ m	1,892.9	2,162.0	5,860.5	6,691.7
EBIT before depreciation and amortization (EBITDA)	€ m	111.9	24.5	336.0	305.4
Earnings before interest and taxes (EBIT)	€ m	27.7	- 58.9	79.5	55.1
Earnings before taxes (EBT)	€ m	5.1	- 64.6	21.1	15.6
Consolidated net income/loss	€ m	5.3	- 37.7	14.6	3.6
Return on capital employed (ROCE)²⁾	%	2.2	- 5.8	2.1	1.8
Investments ³⁾	€ m	75.0	102.8	241.8	245.8
Depreciation/amortization ³⁾	€ m	- 84.2	- 83.4	- 256.5	- 250.3
Cash flow from operating activities	€ m	3.3	184.6	- 2.9	172.6
Net financial position⁴⁾	€ m			115.3	267.0
Equity ratio	%			31.4	34.5

¹⁾ Restatement because of a correction of the stock value

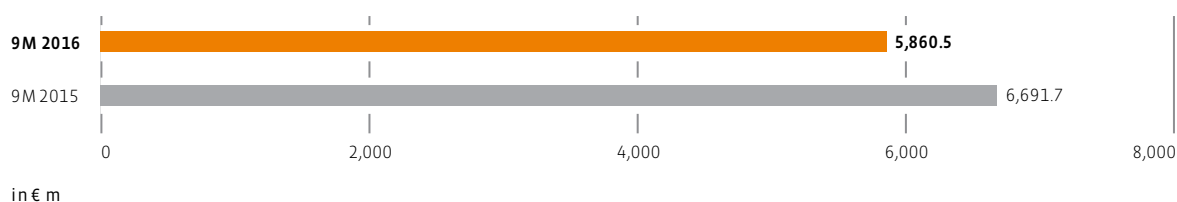
²⁾ Annualized

³⁾ Excluding financial investments

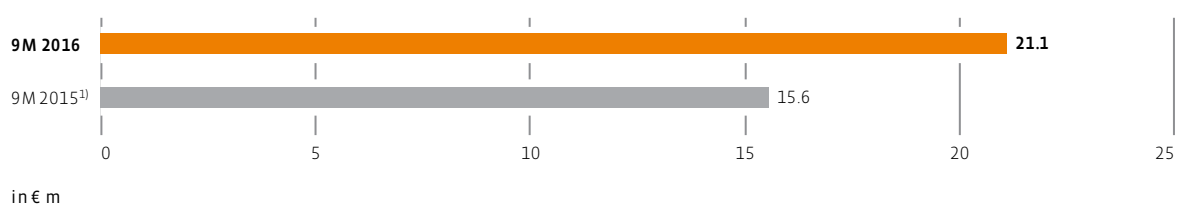
⁴⁾ Including investments, e.g. securities and structured investments

The positive earnings trend of the Salzgitter Group has stabilized, despite the ruinous price situation for rolled steel products due to the flood of imports through to the spring. This performance is based on the profound success of the restructuring projects and the first effects of the EU anti-dumping measures. The summer quarter that is customarily impacted by planned maintenance and repair downtime and the seasonal decline in customer demand developed somewhat more modestly, in line with expectations. In the third quarter, the Strip Steel Business Unit nevertheless generated a positive pre-tax result for the first time again in more than a year.

External sales



EBT



¹⁾ Restatement because of a correction of the stock value

The **external sales** of the Salzgitter Group declined to € 5,860.5 million (9M 2015: € 6,691.7 million) in the first nine months of 2016. Determining factors included the effect of the heavily subsidized Chinese imports, lower volumes in international trading, as well as the discontinuation of the sheet piling business. The gratifying **pre-tax profit** of € 21.1 million (9M 2015: € 15.6 million) comprises a total of € 7.2 million in expenses incurred by measures aimed at structural improvements (9M 2015: € -33.1 million) and € 16.8 million from the positive contribution by the Aurubis investment (9M 2015: € - 12.8 million) that, due to the revaluation of a convertible bond, had dropped € 9.3 million compared with the figure posted in the first half of 2016. Based on an **after-tax profit** of € 14.6 million (9M 2015: € 3.6 million), earnings per share amount to € 0.21 (9M 2015: € 0.00). The return on capital employed (ROCE) stood at 2.1% (9M 2015: 1.8%).

Procurement

No clear trend for ore prices

The global **iron ore market** was characterized by growing volatility over the year to date. Platts IODEX 62% Fe CFR China, the spot market's benchmark, fluctuated within a range of 40 USD/dmt and 70 USD/dmt in the first nine months. Whereas an average of 52 USD/dmt was reported in the first half year, the market picked up momentum in the third quarter and averaged around 59 USD/dmt. This trend resulted from the interplay of several factors: On the one hand, fundamental data, especially increasing excess supply, were factors against strong ore prices. The large producers in Australia and Brazil have notably ramped up their output in recent years against the backdrop of their long-standing drive to expand, which exerted huge pressure on ore prices. Moreover, the increase in Chinese imports that accounted for some 70% of seaward traded ore, fell short of expectations. On the other, the market responded quickly to rising steel prices and good production figures from China. Price fluctuations were additionally exacerbated by the growing interest of speculative investors on the market for financial instruments. It is already assumed that 2016 will see the tonnage volume of traded ore derivatives significantly exceed the physical market.

Coking coal displays clear uptrend

In contrast to the index-determined ore market pricing, the quarterly prices for **coking coal** with benchmark quality continue to be negotiated between large producers and customers. During the first quarter of 2016, production in Australia was hampered by the weather conditions, which caused volumes to decline. At the same time, stronger demand for coking coal was reported from China as the country's government closed illegal mining operations and reduced production times in other mines, with the result that more had to be imported. The spot market price rose again as from spring 2016 onwards for the first time since 2013. Whereas the benchmark concluded in the first three months still stood at 81 USD/t FOB Australia, the benchmark price climbed during the second quarter to 84 USD/t and then again to 92.50 USD/t in the third. The spot market price continued to be robust in the months of July and August, lifting the price level to more than 100 USD/t FOB Australia. Many consumers, particularly from India and Europe, had based their buying restraint on speculations of a trend reversal and were then forced into the market in September. This situation, combined with the aforementioned factors, triggered an absolute rally with prices exceeding 215 USD/t FOB Australia. As a result, the fourth quarter also closed with a dramatically higher benchmark price of 200 USD/t FOB Australia.

Price increases for metals and ferro-alloys

Prices for manganese-based **bulk alloys** increased by around 25% over the course of the year to date. Exchange-traded materials such as zinc, nickel, copper and aluminum were initially weaker compared with the average prices in 2015. Following the low levels reported in January, zinc and nickel entered a clear uptrend, tracked by aluminum and copper, albeit to a more moderate degree.

Scrap steel cheaper again following sharp price increases

At the beginning of the new financial year, the **demand** of German steelworks **for scrap steel** settled at supply levels, enabling consumers to stock up initially at unchanged or marginally lower prices. From March onward, the improved capacity utilization of a number of domestic customers resulted in greater scrap requirements. Combined with concurrently high demand from Turkish importers, this drove prices rising up from 15 to 20 €/t. During the months of April and May, the market continued to recover at an unexpectedly strong pace. Depending on the plant and grade, prices in Germany therefore rose again by 65 up to 105 €/t. From June onward, Western European processors ordered considerably lower volumes and, compounded by the additional weakening of Turkish demand, the ripple effect of exports dwindled. The high level of inventories resulted in excess supply, which caused steel scrap prices to shed between 40 and 70 €/t. Whereas, at the start of the third quarter, the downtrend persisted, prices climbed in August and subsequently stabilized at the level reached in September.

Steel market developments

Global crude steel production remained stable on the **international steel market** compared with the same period in 2015, with Chinese output settling around the year-earlier level. By contrast, India and the US, for instance, reported sharp growth as opposed to the European Union where production declined.

Despite lower crude steel production, business activity in the **EU steel market** continued its moderate uptrend. Major support emanated from the robust automotive business, which has meanwhile been joined by the pan-European recovery in construction. From a regional standpoint, the slightly greater demand in the EU 2016 resulted almost exclusively from growth in Germany. By comparison, the steel markets in southern Europe saw a counter reaction this year to the high growth rates in 2015: France is on the verge of stagnation, and the UK is set to report a decline this year. The import pressure in the EU steel market has recently eased, a development likely promoted by the various trade defense legal actions. There can, however, be no question of an end to the import prices in the EU as, on the one hand, imports from countries outside the EU have continued their uptrend over the year as a whole and, on the other, renewed signs of unfair imports into the EU market cannot be discounted, especially if the Chinese steel economy should continue to slow. There remains a latent threat to the fragile balance of supply and demand and the improved price level. The consistent deployment of political trade defense instruments is therefore indispensable.

A strong recovery in order activity was initially ascertained in the **German steel market** in the period under review. Since the summer growth has slowed in comparison to the prior year figures. This development is likely due, among other factors, to traders and processors having meanwhile replenished their stocks. Crude steel production declined in-on-year comparison, and the global steel market stagnated.

Strip Steel Business Unit

		Q3 2016	Q3 2015	9M 2016	9M 2015
Order intake	kt	1,014.7	1,022.1	3,429.8	3,392.6
Order backlog on reporting date	kt			826.5	686.1
Crude steel production	kt	1,117.2	971.7	3,391.8	3,228.8
Rolled steel production	kt	911.7	850.5	2,710.1	2,636.1
Shipments	kt	1,089.9	1,110.4	3,489.1	3,515.1
Segment sales¹⁾	€ m	587.5	617.7	1,812.5	1,985.1
External sales	€ m	452.1	475.5	1,389.0	1,505.6
Earnings before taxes (EBT)	€ m	9.9	-30.2	-27.4	-9.5

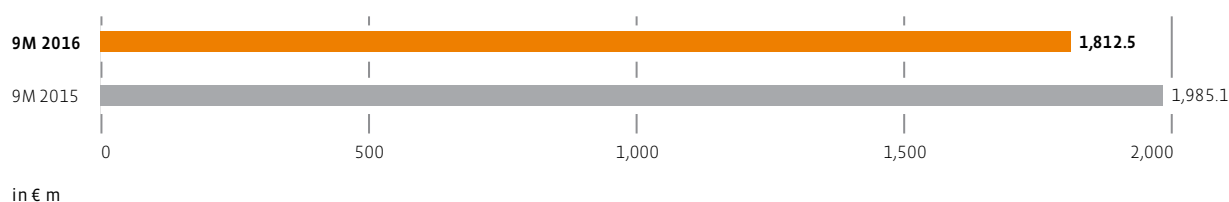
¹⁾Including sales with other business units in the Group

The core competences of the **Strip Steel Business Unit** lie in the production of steel in the fully integrated steelworks of Salzgitter Flachstahl GmbH (SZFG) and in subsequent processing to produce high-grade strip steel products. The affiliated Steel Service Centers of Salzgitter Mannesmann Stahlservice GmbH (SMS) serve the growing prefabrication requirements of our customers. The two processing companies Salzgitter Europlatinen GmbH (SZEP) and Salzgitter Bauelemente GmbH (SZBE) extend the value chain within the business unit with their customized products (tailored blanks as well as roofing and wall elements). The European automotive industry is the most important customer sector.

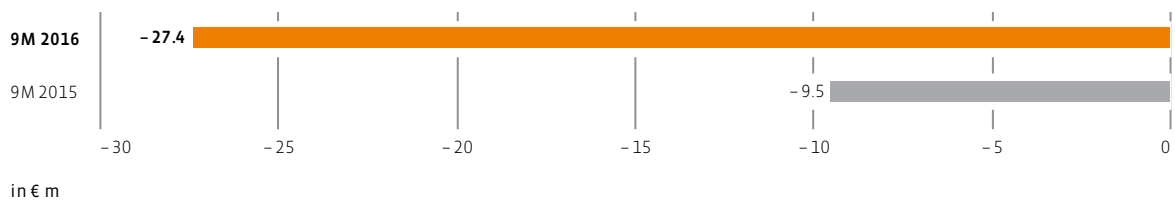
Order intake by the European steel industry improved noticeably over the year to date supported by the good business of EU steel processors, with the German automotive industry leading the way. EU **rolled steel producers** therefore reported significant order growth. Compared with the first nine months of 2015, new orders received by the German steel industry also increased over the period under review.

The **order intake** and **shipments** of the Strip Steel Business Unit remained at a virtually stable level. By contrast, orders on hand rose sharply, also attributable to comparison with the lower order backlog in the previous year due to the relining of a blast furnace. As a consequence of the ongoing selling price erosion that persisted through to the summer, caused by unprecedented record highs of imports at dumping prices, **segment** and **external sales** dropped below the prior-year period. Accordingly, the business unit delivered an accumulated **pre-tax loss** of € 27.4 million (first nine months of 2015: € -9.5 million) despite an easing on the cost front and the positive result in the third quarter.

Sales



EBT



The order intake of **Salzgitter Flachstahl GmbH** (SZFG) settled around the year earlier level. By contrast, orders on hand for strip steel products picked up significantly as the order backlog in 2015 was very low due to the relining of Blast Furnace B. Crude steel production and rolled steel production marginally exceeded the year-earlier figures. Shipments mirrored the healthy order situation and achieved the prior-year level, as opposed to sales that dropped significantly below, pressured by the notable downtrend in selling prices that persisted through to mid-year. Accordingly, SZFG reported a higher negative pre-tax result in comparison with the year-earlier result that was additionally impacted by a cost burden of € 44 million on earnings from relining the blast furnace.

Despite the intense competition, **Salzgitter Mannesmann Stahlservice GmbH** (SMS) achieved a moderate increase in shipments. Sales did not match the prior-year figure. Price increases implemented as from the second half of the year, however, delivered a marginally positive result compared with the loss sustained in the first nine months of 2015.

Shipments and sales of **Salzgitter Bauelemente GmbH** (SZBE) were higher year on year. The pre-tax result, albeit still marginally negative, improved significantly compared with the prior year period.

Despite an increase in the shipment tonnage of **Salzgitter Europlatinen GmbH** (SZEP), sales declined slightly due to lower steel prices in the period under review. Earnings before taxes also fell short of the prior-year figure.

Plate / Section Steel Business Unit

		Q3 2016	Q3 2015 ¹⁾	9M 2016	9M 2015 ¹⁾
Order intake	kt	519.0	381.8	1,699.4	1,728.7
Order backlog on reporting date	kt			389.5	382.5
Crude steel production	kt	242.5	234.2	813.7	800.4
Rolled steel production	kt	486.4	591.3	1,662.3	1,903.6
Shipments ²⁾	kt	512.4	594.6	1,670.3	1,887.6
Segment sales³⁾	€ m	351.2	431.0	1,070.8	1,379.6
External sales	€ m	169.3	218.8	535.9	719.0
Earnings before taxes (EBT)	€ m	-7.7	-21.9	-24.7	-41.3

¹⁾ Restatement because of a correction of the stock value

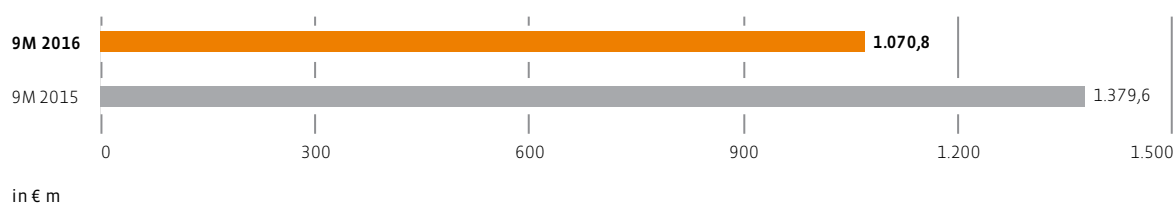
²⁾ Excluding DMU-Group

³⁾ Including sales with other business units in the Group

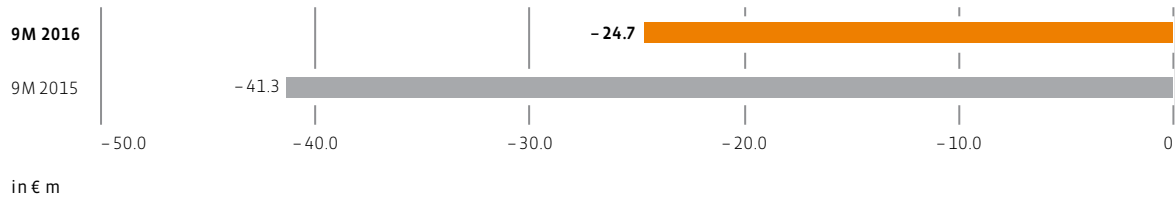
The **Plate / Section Steel Business Unit** incorporates the companies of the Group that primarily serve customers in the project-oriented construction and infrastructure sectors. The business unit comprises Ilsenburger Grobblech GmbH (ILG) and Salzgitter Mannesmann Grobblech GmbH (MGB), on the one hand, and Peiner Träger GmbH (PTG) on the other. ILG and MGB produce a wide range of high-grade plate products. Key customers include wind turbine manufacturers, heavy machinery and pipe producers, while PTG manufactures steel girders for construction and civil engineering projects. The integration of DE-UMU Deutsche Erz- und Metall-Union GmbH (DMU), together with its subsidiary BSH Braunschweiger Schrotthandel GmbH (BSH) as a scrap supplier of PTG, permits a closer and more flexible coordination of logistics processes. HSP Hoesch Spundwand und Profil GmbH (HSP) discontinued its business activities in December 2015. Due to the current market situation, capacities were adjusted to 700 kt of 1a plate at ILG in July of the current year.

The discontinuation of the sheet piling product segments, as well as developments of the plate producers that were particularly hard hit by highly subsidized cheap Chinese imports, were reflected in lower **order intake**, a downturn in **rolled steel production**, significant lower **shipment volumes**, and a decline in the **segment** and **external sales** of the Plate / Section Steel Business Unit compared with the year-earlier period. **Orders on hand** were higher in year-on-year comparison. Despite the large losses sustained by the heavy plate companies, the **pre-tax result of the business unit**, that came in at € -24.7 million (first nine months of 2015: € -41.3 million), improved in particular owing to the profit contribution of PTG and the non-recurrence of loss from the sheet piling business. This result includes €1.5 million in expenses for the first measures for structural improvements at ILG.

Sales



EBT



Whereas the first quarter of 2016 was still characterized by very weak demand and significantly reduced prices compared with the year-earlier period, sentiment in the **European heavy plate market** improved notably following the awarding of the Nord Stream 2 offshore pipeline project. As a result, customers accepted the urgently necessary price increases at the end of March – both in the standard range as well as for higher-end grades – in view of the generally reduced availability of plate in Europe and raw material prices that had begun to rise again. An important factor here was also the anti-dumping initiatives by the European Union (EU) that started to have an effect on import patterns. Following the significant increase in imports in previous months, the EU Commission set the preliminary punitive tariffs on Chinese heavy plate to an average of 70% in October, so that significantly lower import volumes can be anticipated in the near term. The potential classification of China as a “market economy”, which would have consequences for the further application of the punitive tariffs, remains an open question. An additional exacerbating effect emanated from Ukraine’s imports into the EU. The deliveries have mainly been made to Eastern Europe, England, Italy and Spain and could have a detrimental effect on prices in these markets in the medium term. This development must therefore be closely observed and analyzed on a case-by-case basis.

During the period under review, the order intake of **Ilsenburger Grobblech GmbH** (ILG) and **Salzgitter Mannesmann Grobblech GmbH** (MGB), both under uniform management, saw sharp growth compared with the year-earlier figure. This was due to the good situation of MGB as the supplier of input materials to EUROPIPE GmbH. Due to the downturn in shipment tonnage, orders on hand exceeded the prior year period. A notable decline in sales also had to be absorbed due to lower selling prices. As a result, a significant pre-tax loss was reported. This result comprised €1.5 million in expenses for the first measures aimed at structural improvements at ILG.

Trade demand in the **European section market** proved to be weak in the first weeks of the year. With real consumption stagnating at a low level, bookings almost exclusively involved replenishment. Order activity only picked up momentum upon expectations of a recovery in steel prices from the second half of February onward. The sharp increases in scrap prices between March and May 2016 were, however, only passed on with a time lag. By contrast, the consolidation of scrap steel prices that commenced in June was immediately reflected in the price of sections. At the start of the third quarter, uncertainty about how prices would develop, coupled with the lack of transparency concerning demand, led to renewed and significant reticence in placing orders. The resulting price war visibly impacted the stockholding steel trade and then ultimately filtered through to producers as well.

Order intake and orders on hand of **Peiner Träger GmbH** (PTG) were higher than the year-earlier figures. Crude steel production edged up. Rolled steel production and shipments remained stable. Substantially lower average selling prices led to lower sales; the prior year result was nonetheless significantly exceeded thanks to successful cost reductions.

In the period under review, the **DMU Group** reported a downturn in sales due to declining scrap prices. By contrast, the pre-tax result notably outperformed the year-earlier figure on the back of better margins.

Mannesmann Business Unit

		Q3 2016	Q3 2015	9M 2016	9M 2015
Order intake	€ m	276.1	324.7	904.5	967.1
Order backlog on reporting date ¹⁾	€ m			411.6	395.5
Crude steel production	kt	305.7	376.2	966.0	1,074.8
Segment sales²⁾	€ m	308.9	358.1	989.6	1,157.5
External sales	€ m	224.6	236.8	727.1	811.7
Earnings before taxes (EBT)	€ m	-7.0	5.5	2.4	8.8

¹⁾Tubes

²⁾Including sales with other business units in the Group

The Energy Business Unit has been operating under the new name of the **Mannesmann Business Unit** since August 1, 2016, which serves to underscore the quality aspiration associated with the internationally renowned Mannesmann brand. The business unit is primarily geared to serving the international project business in the sectors of energy supply and infrastructure and covers a wide range of line pipe diameters. A major pan-European supplier of precision steel tubes for automotive construction, as well as a global leading manufacturer of seamless stainless steel and nickel-based alloy tubes and pipes supplement the portfolio. Customer demand is driven by the megatrends of “water”, “energy” and “mobility”. The business unit has its own supply of crude steel in the form of a 30% stake in Hüttenwerke Krupp Mannesmann GmbH ([HKM], technical crude steel capacity of 6 million tons), and the production of semi-finished material for the manufacturing of seamless tubes. It also makes intensive use of our trading organization to procure input material and to ship its products.

The EUROPIPE Group (EP Group) is at 50%, with the proportionate after-tax result (reported at equity). It is not included in the other figures of the business unit but, given its importance, is nonetheless disclosed in the following and annotated for information purposes. HKM is reported at 30% on a proportionate basis and is included accordingly in the order intake, sales and the result of the business unit at 30%. Conversely, it is not reported in terms of orders on hand and shipments, as only tubes are disclosed here, and HKM produces input material.

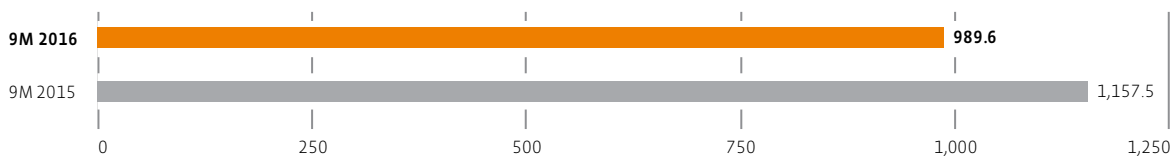
Global steel tubes market: Global steel tubes production entered a slight downtrend for the first time in years, with manufacturers having to face manifold challenges in the first nine months of year. Despite the slump in demand suffered by the energy industry in the preceding years, it still accounts for around half of the global steel tubes output. The sustained high level of surplus capacities, particularly in the Far East, placed an additional burden on the industry’s profitability. Raw materials prices on the global markets firmed up at a low level. The prices quoted for crude oil in the third quarter fluctuated between 40 and 50 USD/barrel, which at least permitted exploration activities to stabilize. North America’s rig count reported another marginal increase. No notable counter movement in response to the massive downturn in capital expenditure in the energy sector can, however, be ascertained so far. The conventional industries continued to generate robust demand, especially in the construction and automotive industries where it was particularly strong. From a German standpoint, the large-diameter pipes business performed better overall than in the very weak preceding years.

Given the downtrend experienced by the precision and stainless steel tubes group, the **order intake** of the Mannesmann Business Unit dropped below that of the previous year, as opposed to the **order book** that increased, above all on the back of the strong growth of Salzgitter Mannesmann Großrohr GmbH (MGR) due to the acquisition of several orders. Outside the consolidation group, the new orders of EUROPIPE in which a 50% stake is held rose significantly in a year-on-year comparison, and orders on hand also reported sharp growth thanks to the booking of several major projects.

Shipments did not repeat the year-earlier figure owing in particular to the lower shipment volumes of Salzgitter Mannesmann Line Pipe GmbH (MLP). The business unit's **segment** and **external sales** did not match the level achieved in the first nine months of 2015 due to declines in the precision and stainless steel tubes and medium-diameter line pipes businesses.

Supported by a notably higher, positive contribution to earnings by the EP Group, the Mannesmann Business Unit generated a **pre-tax profit** of € 2.4 million (previous year: € 8.8 million). This figure includes expenses of € 5.7 million incurred by measures aimed at structural improvements, mainly at MLP.

Sales



in € m

EBT



in € m

Business development of the product segments:

The order intake of the **EUROPIPE Group** (EP Group) settled at a considerably higher level compared with the first nine months of 2015, which was attributable above all to the booking of the Nord Stream Pipeline 2 project, as well as the TAP Offshore and Zohr Field projects of EUROPIPE GmbH (EP). Due to delays in completing the pipeline project in the Black Sea (former South Stream) and the newly booked orders, orders on hand also settled at a markedly higher level compared with the year-earlier period. Shipments and sales exceeded the prior year period, boosted by the high delivery volumes of the US companies and growth in the German company's tonnage. The EP Group delivered sound earnings before taxes overall.

Despite the persistently weak oil price and the associated fierce competition in the project business, the order intake of **Salzgitter Mannesmann Line Pipe GmbH** (MLP) achieved the year-earlier level due to the booking of standard volumes, and the orders on hand for HFI-welded tubes improved in a year on-year comparison. Shipments and sales nonetheless significantly underperformed the prior-year figures, with the result that MLP reported a higher pre-tax loss than in the previous year. The result was also burdened further by the precautionary measures taken for the restructuring program that is currently underway to adjust capacities and reduce costs further.

In the first nine months of 2016, **Salzgitter Mannesmann Großrohr GmbH** (MGR) reported double the order intake of spirally welded large-diameter pipe compared with the first nine months of 2015. The main market is Germany where projects that have long been planned are currently being realized, followed by Poland, the Netherlands and Italy. The significant upturn in orders on hand has secured double-shift capacity utilization through to the third quarter of 2017. Shipments and sales outperformed the figures achieved in the year-earlier period, while MGR delivered a marginally positive pre-tax result.

Whereas, in the precision tubes market, the automotive business continued to benefit from the order volume of export heavyweight premium German manufacturers during the reporting period, the situation in industry and in the energy sector remained extremely tense. The order intake of the **Salzgitter Mannesmann Precision Group** (SMP Group) underperformed the year-earlier figure whereas orders on hand almost matched it. Although shipments settled at the level of the first nine months of 2015, a decline in sales was sustained, due in particular to adjustments for falling input material prices and also as a consequence of huge competitive pressure, above all in the industry and the energy sector. All in all, the SMP Group reported a clearly negative pre-tax result that was lower in a year-on-year comparison.

The situation on the market of the **Salzgitter Mannesmann Stainless Tubes Group** (MST Group) did not brighten much in the third quarter of 2016 either. Weak demand, above all in areas directly or indirectly associated with oil and gas, was not compensated by the relatively high order volume of the power plant sector. The MST Group therefore reported a decline in order intake and orders on hand. Similarly, shipments and sales also dropped below the prior year figures. In contrast to the positive result of the year earlier period, the Group sustained a pre-tax loss.

Trading Business Unit

		Q3 2016	Q3 2015	9M 2016	9M 2015
Shipments	kt	1,145.3	1,466.5	3,866.8	4,236.5
Segment sales³⁾	€ m	690.5	857.4	2,129.7	2,622.7
External sales	€ m	683.6	839.8	2,109.1	2,530.1
Earnings before taxes (EBT)	€ m	15.2	3.8	31.7	21.0

³⁾Including sales with other business units in the Group

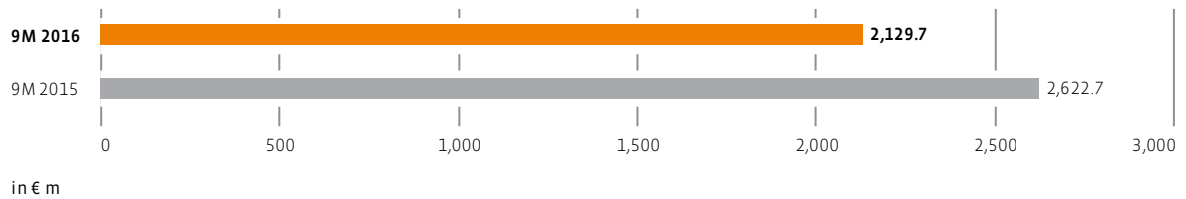
Alongside a well-developed organization of stockholding steel trading subsidiaries in Europe, the **Trading Business Unit** comprises companies specialized in plate, as well as an international trading network spanning the globe. Apart from the rolled steel, pipes and tubes products of the Salzgitter Group, it also sells the products of other manufacturers in Germany and abroad. Moreover, the Trading Business Unit procures input material for Group companies and external customers on the international markets.

The companies of Salzgitter Mannesmann International (HK) Ltd. (SMHK), Hong Kong (Hong Kong), Universal OCEL spol. s ro., Prague (Czech Republic) (UOC) und Universal-Stal Sp. z o.o., Gliwice (Poland) (USP), were included in the consolidation scope of the Salzgitter Group in the third quarter, with retrospective effect as of January 1, 2016. Along with SMHK, a company in the trading business, UOC and USP maintain stockholding operations for heavy plate within the UES Group. When drawing comparisons with the previous year, it should be noted that these companies are not included in the key data in the first nine months of 2015.

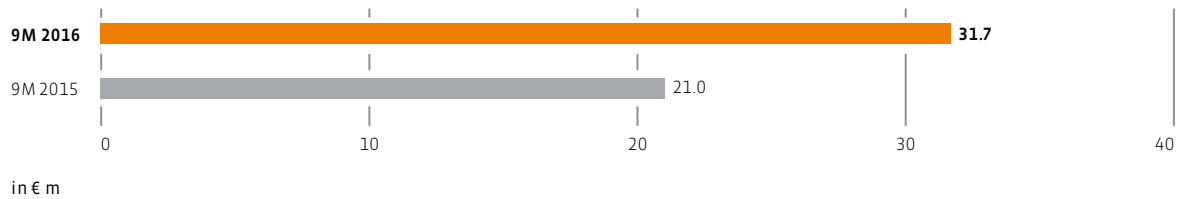
Demand proved to be generally subdued in the **international steel markets** during the reporting period. The project business that was only partly satisfactory and the volatile price situation determined the sentiment of the main sales regions. The European market presented a similar picture. As from mid-February onward, the first isolated positive effects on selling prices of the anti-dumping measures of the European Union were observed that then had a discernably positive effect on the price trend over the course of the second quarter, with momentum then slowing toward the fall. Demand in Germany remained stable overall at a nonetheless moderate level.

The Trading Business Unit reported **shipments** that dropped below the year-earlier level due, among other factors, to the lack of projects and reticent demand on the German heavy plate market. Owing to the significantly lower selling prices in annual average, **sales** dropped substantially below the prior-year figure. While the earnings situation of the stockholding steel trade remained weak during the first quarter, the following months through to and including September saw margins rise, accompanied by similarly positive results from international business, which resulted in a presentable **pre-tax profit** of € 31.7 million (first nine months of 2015: € 21.0 million). The companies newly included in the consolidated group also had a positive impact on key data.

Sales



EBT



The **Salzgitter Mannesmann Handel Group** (SMHD Group) reported a downturn in shipments in a year-on-year comparison. Moreover, lower average selling prices resulted in a disproportionate decline in sales that was mainly due to the weaker project business of international trading. By contrast, shipments of the stockholding steel trade in Europe remained virtually stable with pleasing margins. The SMHD Group therefore achieved a significant pre-tax profit that exceeded the result of the first nine months of 2015.

The market environment of the **Universal Eisen und Stahl Group** (UES Group) continued to be characterized by uneven demand, high supply levels and short delivery times, accompanied by initially generally stagnating prices that then staged a notable recovery during the second quarter. Universal Eisen und Stahl GmbH (UES) responded to these market conditions by continuing to focus on high margin areas and reducing costs. The Group's sales declined due to the lower shipment volume and weaker average selling prices. The business activities on the US market were determined by a slowdown in the order activities of the oil and gas sector. The associated price war led to margins narrowing, which was the reason why the American company delivered a loss. Together with the positive earnings effect of the newly consolidated companies, the UES Group nonetheless achieved a gratifying pre-tax profit overall at level of the year-earlier figure that was boosted by dividend income.

Technology Business Unit

		Q3 2016	Q3 2015	9M 2016	9M 2015
Order intake	€ m	396.8	351.0	975.9	905.5
Order backlog on reporting date	€ m			681.7	621.3
Segment sales¹⁾	€ m	312.6	341.9	954.5	978.6
External sales	€ m	312.5	341.8	954.2	978.1
Earnings before taxes (EBT)	€ m	4.5	1.5	17.1	16.1

¹⁾Including sales with other business units in the Group

The **Technology Business Unit** comprises internationally operating mechanical engineering companies. KHS GmbH (KHSDE), a company holding a leading international position in filling and packaging technology, represents the mainstay of sales. The KHS Group is a full-line supplier, from intralogistics through processing to the filling and packaging of beverages. Other companies of the business unit sell special machinery for the shoe industry or specialize in the manufacturing of rubber and silicon injection molding machinery.

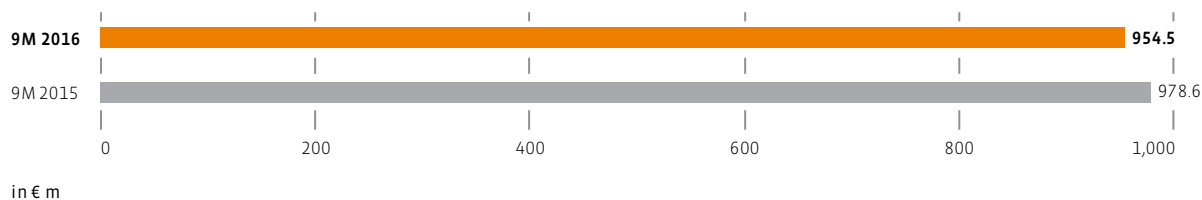
On September 30, 2016, the following companies were newly admitted to SZAG's group of consolidated companies, with retrospective effect as of January 1, 2016. When drawing comparisons with the previous year, it should be noted that these companies are not yet included the key data of first nine months of 2015. However, the overall statement on the development of the business unit would not have changed significantly if the companies had been included in the year-earlier figures.

- KHS Schweiz GmbH, Wolfwil (KHSCH)
- KHS Polska Sp.z.o.o., Warsaw (KHSPL)
- KHS Andes S.A.S., Bogotá (KHSCO)
- KHS East Africa Ltd., Nairobi (KHSEA)
- KHS Argentina S.A., Buenos Aires (KHSAR)

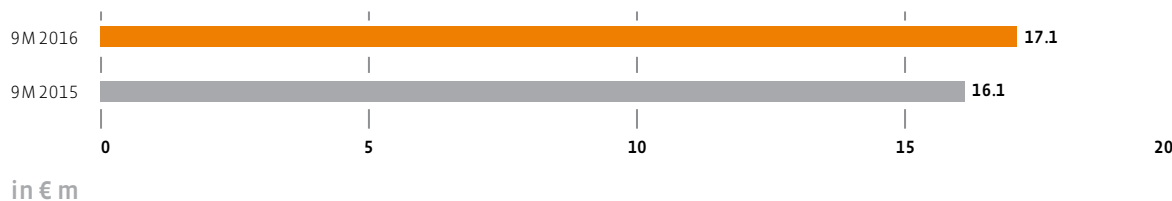
Klöckner Desma Schuhmaschinen GmbH changed its name on September 30, 2016, and is now known as DESMA Schuhmaschinen GmbH (KDS).

According to the statistics of the German Engineering Federation (VDMA), the sector's order intake marginally exceeded the previous year's levels. Domestic demand had entered a slight downtrend as opposed to international demand that reported growth. Sales of the sector staged a minimal recovery. Orders placed in the market for food and packaging machinery developed most gratifyingly. Whereas domestic order activity did not match the year-earlier figure, international orders accelerated significantly.

Sales



EBT



The **order intake** of the Technology Business Unit once again increased in comparison with the prior year figure. Whereas the order intake of the KHS Group and Klöckner DESMA Elastomer Group (KDE Group) exceeded the year-earlier figures, KDS reported a downturn in new orders. The segment's **orders on hand** were considerably higher than the level posted in the first nine months of 2015.

Segment and **external sales** fell marginally below the year-earlier level. Although KDS reported growth, the KHS Group saw a decline in sales – due to above-average project business requiring longer horizons for implementation – as did the KDE Group.

The Technology Business Unit achieved a presentable **profit before taxes** of € 17.1 million that exceeded the year-earlier level (€ 16.1 million), mainly thanks to the improved results of the KHS Group and KDS.

The KHS Group continues to rigorously pursue business development measures. The “Fit4Future 2.0” program launched for this purpose in 2015 comprises 14 components, including the topics of clarifying offers, 10 % On-Time-In-Full (OTIF), and the preference portfolio on which the program continues to focus. The realization of these intricately interconnected topics is nearly proceeding according to plan. At the same time, preparations are under way for the successor “Fit4Future 3.0” program, which will provide additional positive stimulus from 2017 onward.

Industrial Participations / Consolidation

		Q3 2016	Q3 2015	9M 2016	9M 2015
Sales ¹⁾	€ m	194.4	216.4	569.7	628.2
External sales	€ m	51.0	49.4	145.2	147.1
Earnings before taxes (EBT)	€ m	-9.8	-23.2	22.0	20.5

¹⁾Including sales with other business units in the Group

Industrial Participations / Consolidation comprises activities that are not directly allocated to a business unit. As a management holding company, Salzgitter AG (SZAG) does not have any operations of its own. Instead it manages Salzgitter Mannesmann GmbH (SMG) and Salzgitter Klöckner-Werke GmbH (SKWG) under which the major companies of the Salzgitter Group as well as the Aurubis investment are held. In addition, results of companies operating primarily within the Group as well as those of Group companies that support the core activities of the business units with their products and services are recorded here.

The **sales** of Industrial Participations / Consolidation that are generated mainly through business in semi-finished products and services provided for subsidiaries declined to € 569.7 million in the reporting period (first nine months of 2015: € 628.2 million). **External sales** (€ 145.2 million) remained virtually stable (first nine months of 2015: € 147.1 million).

Earnings before taxes of € 22.0 million exceeded the year earlier figure (first nine months of 2015: € 20.5 million) and include € 16.8 million in income from the Aurubis investment (first nine months of 2015: € -12.8 million). This figure consists of the proportionate Aurubis after-tax result as well as the valuation result of the convertible bond that largely depends on the price performance of the Aurubis share. The Group companies not directly allocated to a business unit made an overall positive contribution to profit that nevertheless fell below the earlier figures achieved in the first nine months of 2015. Valuation effects from foreign exchange transactions delivered a notably lower, but nonetheless positive result compared with the year-earlier period

Financial Position and Net Assets

Explanations on the balance sheet

The **total assets** of the Salzgitter Group rose by € 132 million in the current reporting period compared with December 31, 2015.

Non-current assets (€ +80 million) increased due to the deferred tax assets in particular (€ +87 million). The amount of scheduled depreciation and amortization of fixed assets (€ -257 million) exceeded the investments (€ +242 million) and reduced the non-current assets in the reporting period. Moreover, the shares in the companies reported at equity increased (€ +22 million). The growth in current assets (€ +52 million) resulted mainly from the higher level of trade receivables (€ +175 million) as well as of securities (€ +76 million). This was offset by lower inventories (€ -51 million) and cash and cash equivalents (€ -188 million).

On the **liabilities side**, pension provisions were valued € 309 million higher mainly as a result of the actuarial rate derived from the current level of capital market interest rates having dropped to 1.25% (December 31, 2015: 2.25%). Equity declined accordingly (€ -208 million), with the equity ratio nonetheless amounting to a sound 31.4%. Non-current liabilities were € 510 million higher compared with the prior-year reporting date. Along with pension provisions, financial liabilities increased (€ +171 million) owing in particular to the bonded loan issued in April 2016. By contrast, current liabilities declined by € 169 million due mainly to the lower deferred tax liabilities (€ -167 million) and declining trade payables (€ -77 million). Current liabilities (€ +50 million) and current other tax liabilities (€ +23 million) had an offsetting effect.

The **net financial position** declined to € 115 million (December 31, 2015: € 415 million) above all due to a precautionary tax payment as well as to the higher level of working capital. Cash investment, including securities of € 1.10 billion (December 31, 2015: € 1.22 billion) were offset by liabilities of € 985 million (December 31, 2015: € 803 million), of which € 297 million were owed to banks (December 31, 2015: € 282 million).

The still outstanding bond principal of € 53.25 million of the convertible bond issued in a volume of € 296.45 million by Salzgitter Finance B.V. (SZFBV) in 2009 was repaid on October 6, 2016. The bond's interest coupon amounted to 1.125% p.a. Upon maturity after five years, the investors requested payback of € 239.2 million, and € 4.0 million was bought back in earlier date due to a more favorable price.

Notes to the cash flow statement

Given a positive pre-tax result of € 21 million, the **cash flow from operating activities** was marginally negative at € 3 million (first nine months of 2015: € +173 million). This development was mainly attributable to the precautionary payment of deferred tax and increase in trade payables.

The **cash outflow** of €313 million **from investing activities** (first nine months of 2015: €-294 million) mainly reflects disbursements for capital expenditure in intangible assets and property, plant and equipment (€-245 million).

Cash inflow from financing activities at €126 million (first nine months of 2015: €+115 million) is largely due to the proceeds received from issuing a bonded loan. A counter trend emanated from repurchasing part of the bond as well as dividend payment.

Owing to the negative overall cash flow, **cash and cash equivalents** declined accordingly (€648 million) compared with December 31, 2015.

Investments

Investments in property, plant and equipment and intangible assets stood at € 241.8 million in the first nine months of 2016, thereby falling marginally short of the year-earlier figure (€ 245.8 million); depreciation and amortization (€ -256.5 million) were somewhat higher than in the same period in 2015 (€ -250.3 million).

The **Strip Steel Business Unit** focused its investments on new aggregates as well as on optimizing and extending its existing facilities. To this end, the following projects in particular were advanced.

The pulverized coal injection plant of **Salzgitter Flachstahl GmbH** (SZFG), successfully commissioned back in 2015, enables the substitution of oil and coke sourced externally by pulverized coal, as well as generating a positive cash flow, also against the backdrop of the steep decline in oil prices. Further work on optimizing the facilities was carried out during the reporting period.

In order to strengthen its competitiveness, SZFG has invested a total of € 80 million in the construction of Ruhrstahl-Heraeus plant for the vacuum treatment of crude steel. The production of decarburized and desulphurized steels and grades of the highest purity is intended to satisfy steadily growing customer requirements for specified metallurgic composition and ease the capacity bottleneck in secondary metallurgy. The solid construction work was concluded in the third quarter of 2016, and work commenced on the steel and plant engineering. The facilities are due for commissioning in 2017.

During the blowing process on the converters hot steel gas is generated and captured in a boiler system, cooled, refined and recovered for thermal reuse. The technological conversion of the cooling systems of all three converter boilers will have been carried out by the start of 2017. This measure will reduce the boiler systems' energy requirements by more than 10%, and thus lower the volume of natural gas purchased externally, as well as the CO₂ emissions.

Capital expenditure of the **Plate / Section Steel Business Unit** focused mainly on replacements in the first nine months of 2016. Smaller individual measures are geared toward improving the quality and optimizing processes.

The **Mannesmann Business Unit** is focusing first and foremost on replacement and supplementary investments in 2016. In France, the **Salzgitter Mannesmann Stainless Tubes Group** (MST Group) successfully commissioned a state-of-the-art leveling machine for large diameters in the third quarter of 2016. Along with organizational and logistic optimizations, investment measures to enhance the efficiency of the facilities at the Hamm location of **Salzgitter Mannesmann Precision Group** (SMP Group) are currently being implemented. The extension of the production site of the Mexican company is progressing.

Maintaining and upgrading the existing facilities continue to form the focus of investments by the **Trading Business Unit** in 2016. The projects initiated by **Salzgitter Mannesmann Stahlhandel GmbH** (SMSD) to expand the finishing capacities of the German stockholding steel trade, as exemplified by extending the flame cutting operations at the Plochingen site, have been largely completed. The projects concerning the digitalization of sales processes are also making headway: The “e-WORLD” project is aimed at enhancing the efficiency of sales and tapping the as yet unrealized potential of small customers more effectively. “e-CONNECT” links customer systems to SMSD systems based on defined standards, thereby ensuring the faster, more cost-effective and efficient exchange of information and data. The new webshop (“e-SHOP”) launched in April 2016 is designed to address additional customer groups.

In the first three quarters of 2016, the **Technology Business Unit** continued to focus on replacement and streamlining measures geared to promoting its sustainable competitiveness. IT projects in Germany and in the international companies were carried out at the **KHS Group** to further optimize workflows. To this end, since 2014 the standardizing and updating the global SAP system was progressed, and measures for further modules were initiated in the period under review. The extensive, multi-year modernization of the Bad Kreuznach location with a view to lean manufacturing which started in 2015 continued, and was supplemented by the construction of a logistics center. Due to the sustained growth of the PET business, the Hamburg and Kleve sites were strengthened through the addition of further assembly halls, and the blow mold production in Dortmund was extended.

Research and Development

Salzgitter Mannesmann Forschung GmbH (SZMF) is the central research company of the Strip Steel, Plate / Section Steel and Mannesmann business units. The R&D activities are concentrated on materials development and processing, as well as on application, coating and testing technologies. In addition to Salzgitter Group companies, customers include external companies, for example from the steel processing industry, the automotive industry, machinery and plant engineering, energy technology, as well as the construction industry.

SZMF's R&D expenses in 2016 are likely to remain at the year-earlier level.

In global demand: FreshSafe-PET®

With its newly developed KHS InnoPET Plasmax 20QS, the KHS Group is offering a coating machine specially designed for the manufacturing of smaller PET bottles. Due to its FreshSafe-PET® technology PET bottles get a wafer-thin interior glass coating. The machine processes bottle formats of 100 to 350 ml with a throughput of up to 46,000 bottles per hour. FreshSafe-PET® primarily protects sensitive beverages such as fruit juice and carbonated beverages from loss of quality and extends the preservation of their flavor and freshness. This technology enables beverage producers to sustainably raise the shelf life of the product in the bottles. The glass-coated PET bottles can be fully recycled. The Plasmax coating that is unique in the market permits savings on material costs of up to 40 % and, in addition, greater distances to be covered in distribution. A company is therefore in a position to centralize its production to the greatest extent possible, which saves on warehouse and logistics costs.

Pretex®focar® – optimized body shell for the automotive industry

With its Pretex®focar® brand, Salzgitter Flachstahl presents a new product characteristic for body shell applications in the automotive industry. Primerless coating systems are being increasingly deployed for ecological and economic reasons. Therefore, the requirements with regard to the outward appearance of the painted body shell have continually increased. In Pretex®, SZFG has had a sheet metal surface in a leading quality for many years. For Pretex®focar®, small waviness parameters, along with the customary parameters of roughness and peak count, are set systematically and reproducibly.

Cost-efficient manufacturing of jacket foundation structures for wind turbines

With the support of SZMF, Salzgitter Mannesmann Renewables (SZMR) has developed a new concept for the cost-efficient manufacturing of jacket foundation structures from prefabricated components. Up to 80 % of the manufacturing times and 30 % of the costs can be saved through the targeted use of a robot-supported manufacturing process. Together with cooperation partner ST3 Offshore (formerly Bilfinger Mars Offshore), this concept will be introduced for commercial use at an offshore wind farm. In the future, SZMR will be marketing the components as part of the Salzgitter supply chain for offshore jacket foundation structures.

Employees

	2016/09/30	2015/12/31	Change
Core workforce¹⁾	23,356	23,524	-168
Strip Steel Business Unit	6,161	6,130	31
Plate / Section Steel Business Unit	2,592	2,952	-360
Mannesmann Business Unit	4,804	4,895	-91
Trading Business Unit	1,931	1,858	73
Technology Business Unit	5,305	5,146	159
Industrial Participations / Consolidation	2,563	2,543	20
Apprentices, students, trainees	1,499	1,494	5
Non-active age-related part-time employment	486	441	45
Total workforce	25,341	25,459	-118

In light of prorata shareholdings, rounding differences can occur

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

The **core workforce** of the Salzgitter Group comprised 23,356 employees on September 30, 2016, representing a reduction of 168 staff members compared with December 31, 2015.

A total of 154 employees were recorded in the personnel statistics for the first time due to the initial consolidation of eight group companies as of September 30, with retrospective effect on January 1, 2016. Excluding these initial consolidations, the core workforce would have declined by 322 persons since the start of the year. The decline is principally attributable to the closing of HSP Hoesch Spundwand und Profil GmbH (HSP) whose workforce declined by 318 employees in the first nine months of 2016.

The **total workforce** amounted to 25,341 employees.

The number of **temporary staff** outsourced stood at 1,072 as of September 30, 2016, which marks a decline of 180 persons compared with the 2015 reporting date.

At the end of the period under review, 119 employees at Salzgitter Mannesmann Line Pipe GmbH (MLP) were affected by short-time work.

The realization of the personnel-related effects identified under the "**Salzgitter AG 2015**" program is generally proceeding according to plan. 98% of all personnel-related adjustments had been carried out by September 30, 2016.

Negotiations concerning the implementation of supplementary **efficiency programs** at Ilseburger Grobblech GmbH (ILG) and Salzgitter Mannesmann Grobblech GmbH (MGB) were brought to a close with the signing of social compensation and redundancy schemes.

Guidance, Opportunities and Risk Report

Guidance on the development of the macroeconomic situation is already fundamentally subject to a great deal of uncertainty, particularly in the current political and financial environment. The forward-looking statements below on the individual business units assume the absence of recessionary developments in Europe. Instead they are based more on the assumption of a moderate economic recovery in our persistently contested main markets.

The **Strip Steel Business Unit** anticipates a marginally negative result in the fourth quarter of 2016. Although selling prices for flat steel products will continue to rise, a shortfall in shipment volumes in December for seasonal reasons and due to the scheduled downtime of a facility will prevent breakeven from being achieved. Against this backdrop, a downturn in sales and a certain deterioration in the pre-tax result compared with the previous year has been assumed.

In the **Plate / Section Steel Business Unit** the ruinous price competition, triggered by the flood of imports in the first half of the year that the plate companies had to contend with appears to have been halted for the time being. This is clearly insufficient for the closing quarter to compensate for the losses sustained in the first nine months. A stabilizing effect emanates from the section steel segment despite the persistently difficult market environment. Also thanks to the non-recurrence of losses from the operations of HSP Hoesch Spundwand und Profil GmbH that were wound down at year-end 2015, we anticipate a significant reduction in the business unit's pre-tax loss compared with the previous year. Sales are anticipated at a notably lower level due above all to selling prices.

The companies belonging to the **Mannesmann Business Unit** report heterogeneous performance: While capacity utilization in the large-diameter pipe mills is good, order bookings in the segment of medium line pipes continue to be unsatisfactory as a result declining energy prices. As regards the precision tubes companies, the demand of automotive manufacturers remains stable; the markets of the energy and industry product segments, however, show signs of weakening. In the business segments of stainless steel tubes, the anticipated market recovery is likely to be delayed, particularly in the oil and gas sector. All in all, lower sales and a slight pre-tax loss are anticipated compared with the previous year.

The **Trading Business Unit** predicts an ongoing stabilization of price levels and demand over the remaining months of the year. All in all, the segment anticipates lower sales compared with 2015, which is mainly due to the decline in international trading's shipment tonnage and the notably weaker annual average selling prices. The temporary widening of the margins in the stockholding steel trade is nevertheless likely to lead to a higher pre-tax profit.

The **Technology Business Unit** expects a stable sales and profit trend supported by a high order backlog. In view of the continued fierce competition in the global project business, the KHS Group intends to generate innovation driven growth in profitable product segments, as well as through the additional expansion of its service business. The outlook for the two suppliers of special machinery for processing plastics is also very promising.

Against this backdrop, the **Salzgitter Group** affirms its forecast to date and continues to assume the following for the financial year 2016:

- a decline in sales to between € 8.0 billion and € 8.5 billion (previous year: € 8.6 billion),
- an increase in the pre-tax profit compared with the previous year (€ 4.1 million) to between € 30 million and € 60 million, and
- a return on capital employed that is marginally higher year on year (previous year: 1.9%).

As in recent years, please note that **opportunities and risks** from currently unforeseeable trends in selling prices, input material prices and capacity level developments, as well as changes in the currency parity, may considerably affect performance in the course of the financial year 2016. 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 Strip Steel, Plate / Section Steel, Energy and Trading business units, an average € 10 change in the margin per ton is sufficient to cause a variation in the annual result of more than € 120 million. Moreover, the accuracy of the company's planning is restricted by the volatile cost of raw materials and shorter contractual durations, on the procurement as well as on the sales side.

Risk management

With regard to the individual **opportunities and risks**, we make reference to the Annual Report 2015.

At the time of reporting there were no risks which could endanger the Salzgitter Group as a going concern. Nevertheless, the following events continue to burden us: the ongoing structural crisis in the steel market, massive distortions of competition from direct and indirect nationalization, uncertainties surrounding Brexit, the development of the Russia-Ukraine conflict, and the political imponderables in Turkey as well as in the Near and Middle East. We regard the persistently high import pressure and Germany's respective European energy and environmental policy as particularly serious factors of influence for our future development. Risks to the survival of the company may arise under certain circumstances from these scenarios. A burdening effect is meanwhile also emanating from the numerous, often purely protectionist trade defense mechanisms from countries outside the EU that are no longer aimed at China alone but also at EU producers. Salzgitter AG (SZAG) is directly affected by ongoing antidumping proceedings in the US against heavy plate and wide strip imports from twelve countries including Germany. On November 7, 2016, the U.S. Department of Commerce announced preliminary duties. SZAG was the only company to be exempted from these preliminary duties.

In terms of risks arising from strained market conditions, including the volatility of raw materials prices, the effects on the results of the companies in the current year have been factored in to the extent they can be estimated.

The risk situation associated with climate and energy policy has remained unchanged in principle from the status as most recently described. Due to the evaluation proviso under Germany's Renewable Energies Act (EEG) concerning electricity generated for own consumption, we continue to see a risk of additional burdens of up to around € 139 million a year from 2017 onward. Even though the risk appears to be mitigated by the regulation meanwhile purportedly agreed by the German government with the EU Commission, there is still the necessity of defining detailed regulations in the context of the imminent amendment to the German Renewable Energies Act (EEG). Only once these regulations become available, do we intend to adjust the risk accordingly on the grounds of cause or in terms of the scope. Furthermore, our Group will likely have to purchase CO₂-allowances for the fourth ETS trading period commencing 2021. Indirectly associated in this context is the risk of a price increase in the electricity sourced externally. In terms of these two aspects, we still assess risk to be in the order of a maximum € 155 million a year. We view the probability of occurrence of the EEG and CO₂ emissions trading issues as generally likely. The amount of loss will depend on the development of the political environment. The proposal to adjust the Emissions Trading Directive from 2021 onward put forward by the EU Commission in mid-2015 has likely increased the probability of burdens of this kind occurring.

Events of Significance

Program of measures with an overall profit potential of € 560 million

We initiated the “Salzgitter AG 2015” program back in 2012 to safeguard our competitiveness. The program will have largely been completed by the end of the year 2016. Upon implementation of this package of measures, we will have achieved a sustainable profit improvement of € 280 million a year. In conjunction with numerous other flanking measures to reduce costs and enhance efficiency in many areas of business, the aggregated overall profit potential since measures were initiated in 2012 amount to € 590 million, two thirds of which have already been realized.

“Salzgitter AG 2021” – strategic cornerstones for the further development of the Group

With our 360° Concept, we have been pursuing operational measures since 2013 aimed at lowering costs and improving efficiency, as well as specific development, innovation, motivation and qualification projects to take the development of our company further. Anchored in these endeavors, we intend to generate additional contributions to profit of more than € 200 million p.a. by 2021 from organic growth through implementing affordable investments and R&D expenses based on our “Salzgitter AG 2021” strategy. Given the economic and political framework conditions, this will take place in a qualitative approach in the sector of rolled steel production and tubes production. By contrast, in the Technology Business Unit we will be focusing on quantitative areas of growth. Within this segment, we will also be promoting external growth potential in the form of supplementing programs and technology.

In general terms, “Salzgitter AG 2021” is aimed at building up the Group’s portfolio in the area of non-steel activities with profitable growth, from the current 40% to a share of 50%.

EU steel industry defends itself against unfair imports at dumping prices

Following the imposing of provisional anti-dumping duties on cold-rolled strip products from China and Russia in February 2016, the EU Commission introduced final punitive tariffs at the start of August, having completed its investigation. The definitive duties will be 19% to 36% higher than the provisional ones. In addition, customs duties are to be levied for the first time retrospectively for the period of import registration.

Moreover, the EU commission imposed anti-dumping duties against heavy plate and hot-rolled strip imports from China at the start of October, i.e. one month earlier than expected. For heavy plate, these duties range between 65% and 74% and are therefore higher in comparison with former measures. In the case of hot-rolled strip, however, considerably lower tariffs of between only 13% and 22% were fixed although dumping of more than 100% was proven in this case as well. This is attributable to the fact that the Commission erroneously calculated the damage above the average of the year 2015. This does not, however, accord with the “threat of injury” type of proceedings applied, since actual damage only commenced in the second half of 2015. Until the final measures are imposed in the initial months of 2017, discussions with the EU commission will be necessary in order to obtain more appropriate duties.

Other ongoing litigation concerns anti-subsidy proceedings against hot-rolled strip from China and anti-dumping action against hot-rolled imports from Russia, Ukraine, Brazil, Serbia and Iran. The outcome of these proceedings is only anticipated in the coming spring.

Trade defense measures still on the rise on a global scale

An additional burden also emanates from the numerous, often purely protectionist trade defense measures in countries outside the EU. Procedures are no longer directed against China alone, but meanwhile also against EU producers. Salzgitter AG (SZAG) is directly affected by an ongoing antidumping lawsuit in the US against heavy plate and wide strip imports from 12 countries, among them Germany. On November 7, 2016, the U.S. Department of Commerce imposed preliminary duties. SZAG was the only company to be exempted from these provisional duties.

Renaming of the Energy Business Unit as the Mannesmann Business Unit

The Salzgitter Group renamed its Energy Business Unit as the “Mannesmann Business Unit“, effective August 1, 2016. This is another important step in the 16-year old success story that commenced in 2000 with the takeover of Mannesmannröhren-Werke by SZAG. Following a number of years dedicated to integration and restructuring, the name Mannesmann is to be emphasized even more strongly and systematically in the context of our tube and pipe products. Mannesmann ranks among the greatest traditional brands in German industrial history and enjoys a high international profile. For 130 years the name Mannesmann has been synonymous worldwide with steel tube and pipe of superlative quality.

Rising costs of grid fees

For some years now, consumers have been required to pay charges to grid operators to procure electricity. The transmission system operator relevant for large parts of Lower Saxony made an abrupt announcement at the end of September that it intends to raise the grid fees in a range of around 80% for 2017. The reasons given are especially the necessity of expanding the grid and the associated grid interventions. The drastic increase in the fees will place additional burden of around € 10 million next year on the steel making locations of Salzgitter and Peine in particular. Grid usage fees in other regions in which many competitors of Lower Saxony’s energy-intensive companies are located will not increase to this extent. As these costs that are ultimately attributable to Germany’s renewable energies policy are not distributed equitably throughout Germany, we fear distortions of competition.

Alternative financial performance indicators

This interim report includes the following alternative performance indicators that are not defined under international reporting standards: The following definitions and derivations are aimed at facilitating understanding and enhancing transparency.

Return on capital employed (ROCE)

$$\text{ROCE (annualized)} = \frac{\text{EBIT I}}{\text{Capital employed}/12 \times 9} \times 100 \%$$

In € m	9M 2016	9M 2015 ¹⁾
EBT	21.1	15.6
+ Interest expenses	71.1	68.3
- Interest expenses for pension provisions	38.3	35.6
= EBIT I	53.9	48.3
Total assets	8,360.0	8,418.0
- Pension provisions	2,636.0	2,314.4
- Other provisions excluding provision for income taxes	599.6	684.3
- Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfeiting, derivatives	1,363.7	1,451.2
- Deferred tax claims	390.0	313.8
= Capital employed	3,370.7	3,654.3
in %		
ROCE	2.1	1.8

¹⁾ Restatement because of a correction of the stock value

ROCE is an important financial performance indicator and an integral part of the internal system of management and control. The quantitative, performance-related target set for the Salzgitter Group consists of ROCE of at least 12 % over an economic cycle that we generally define as a period of five years. More detailed explanations on the derivation of ROCE are provided in the section on “Management and Control of the Company, Goals and Strategy” of the 2015 Annual Report.

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

In € m	9M 2016	9M 2015 ¹⁾
EBT	21.1	15.6
+ Interest expenses	71.1	68.3
- Interest income	12.7	28.8
= EBIT	79.5	55.1
+ Depreciation/amortization ²⁾	256.5	250.3
= EBITDA	336.0	305.4

¹⁾Restatement because of a correction of the stock value

²⁾Depreciation/amortization of tangible, intangible fixed assets and non-current financial assets

The EBIT and EBITDA earnings ratios show the operating strength of a company set apart from its capital structure. These ratios allow management, the shareholders and interested third parties to carry out an additional analysis and assessment of a company's results, as well as facilitating comparability with its peers at an operating level. Differences in taxation specific to the respective country, as well as special features concerning the structure of financing and property, plant and equipment of the individual company, can therefore be disregarded.

Net financial position

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

In € m	2016/09/30	2015/12/31
Cash and cash equivalents acc. to balance sheet	648.1	836.2
+ Certificates held for trading	250.0	250.0
+ Other investments of funds	201.8	131.8
= Investments of funds	1,099.9	1,218.0
Financial liabilities acc. to balance sheet	1,013.5	827.9
- Liabilities from leasing agreements, from financing/financial transactions and Others	29.0	24.8
= Financial liabilities of net financial position	984.5	803.1
Net financial position	115.3	414.9

The net financial position Salzgitter AG (SZAG) that has remained positive for many years confers a unique position of the company in a European peer group comparison within the sector. Along with other key financials, we view it as proof of our company's financial stability and sound balance sheet.

Interim Income Report

I. Consolidated Income Statement¹⁾

In € million	Q3 2016	Q3 2015 ²⁾	9M 2016	9M 2015 ²⁾
Sales	1,893.0	2,134.3	5,847.2	6,596.7
Increase/decrease in finished goods and work in process/other own work capitalized	-5.4	-53.5	-53.4	-62.6
	1,887.6	2,080.8	5,793.8	6,534.2
Other operating income	31.9	50.6	134.7	189.6
Cost of materials	1,181.9	1,398.8	3,710.9	4,359.7
Personnel expenses	407.1	403.5	1,230.6	1,209.7
Amortization and depreciation of intangible assets and property, plant and equipment	84.2	83.4	256.5	250.2
Other operating expenses	232.7	292.2	707.1	838.7
Income from shareholdings	0.0	5.6	3.0	12.7
Result from investments accounted for using the equity method	14.5	-12.3	50.0	14.8
Finance income	4.1	17.4	13.0	28.8
Finance expenses	26.6	23.1	70.9	68.6
Earnings before taxes (EBT)	5.6	-58.8	18.6	53.2
Income tax	-0.2	-26.9	6.5	11.9
Consolidated result from continued operations	5.8	-31.9	12.0	41.3
Consolidated result from discontinued operations	-0.6	-5.8	2.6	-37.7
Consolidated result	5.3	-37.7	14.6	3.6
Amount due to Salzgitter AG shareholders	4.4	-38.5	11.5	0.2
Minority interest	0.9	0.8	3.1	3.4
Appropriation of profit				
Consolidated result	5.3	-37.7	14.6	3.6
Profit carried forward from the previous year	-	-	15.1	12.1
Minority interests in consolidated net loss for the year	0.9	0.8	3.1	3.4
Dividend payment	-	-	-13.5	-10.8
Transfer from (+)/to (-) other retained earnings	-4.3	38.5	-11.4	-0.2
Unappropriated retained earnings of Salzgitter AG	-	-0.0	1.6	1.3
Earnings per share (in €) – basic	0.08	-0.72	0.21	0.00
Earnings per share (in €) – diluted	0.08	-0.72	0.21	0.00

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

²⁾Restatement because of a correction of the stock value

II. Statement of Comprehensive Income

In € million	Q3 2016			9M 2016		
	Total	Amount due to Salzgitter AG shareholders	Minority interest	Total	Amount due to Salzgitter AG shareholders	Minority interest
Consolidated result	5.3	4.4	0.9	14.6	11.5	3.1
Recycling						
Reserve from currency translation	-1.1	-1.1	-0.0	-3.1	-3.1	-
Changes in value from cash flow hedges	26.2	26.2	-	66.1	66.1	-
Fair value change	21.6	21.6	-	50.9	50.9	-
Basis adjustments	0.3	0.3	-	10.7	10.7	-
Recognition with effect on income	-0.2	-0.2	-	-0.6	-0.6	-
Deferred tax	4.5	4.5	-	5.1	5.1	-
Change in value due to available-for-sale financial assets	1.5	1.5	-	2.6	2.6	-
Fair value change	1.6	1.6	0.0	2.7	2.7	-
Recognition with effect on income	-	-	-	-	-	-
Deferred tax	-0.1	-0.1	-	-0.1	-0.1	-
Changes in value of investments accounted for using the equity method	-1.2	-1.2	-	3.2	3.2	-
Fair value change	-0.7	-0.7	-	7.0	7.0	-
Recognition with effect on income	-	-	-	-	-	-
Currency translation	-0.4	-0.4	-	-2.5	-2.5	-
Deferred tax	-0.1	-0.1	-	-1.3	-1.3	-
Deferred taxes on other changes without effect on the income	-0.0	-0.0	-	-0.1	-0.1	-
Subtotal	25.4	25.4	-0.0	68.7	68.7	-
Non-recycling						
Remeasurements	0.1	0.1	0.0	-266.8	-266.8	-
Remeasurement of pensions	0.1	0.1	0.0	-340.0	-340.0	-
Deferred tax	-	-	-	73.2	73.2	-
Changes in value of investments accounted for using the equity method	-6.7	-6.7	-	-16.4	-16.4	-
Subtotal	-6.6	-6.6	0.0	-283.2	-283.2	-
Other comprehensive income	18.8	18.8	-0.0	-214.5	-214.5	-
Total comprehensive income	24.2	23.3	0.9	-199.9	-203.0	3.1
Continuing operations		23.7			-205.6	
Discontinued operation		-0.5			2.6	

¹⁾Restatement because of a correction of the stock value

In € million	Q3 2015 ¹⁾			9M 2015 ¹⁾		
	Total	Amount due to Salzgitter AG shareholders	Minority interest	Total	Amount due to Salzgitter AG shareholders	Minority interest
Consolidated result	-37.7	-38.5	0.8	3.6	0.2	3.4
Recycling	-	-	-	-	-	-
Reserve from currency translation	-5.6	-5.6	0.1	8.3	8.3	-
Changes in value from cash flow hedges	-5.7	-5.7	-	-27.0	-27.0	-
Fair value change	-13.9	-13.9	-	-53.0	-53.0	-
Basis adjustments	11.0	11.0	-	28.4	28.4	-
Recognition with effect on income	-0.7	-0.7	-	-2.9	-2.9	-
Deferred tax	-2.1	-2.1	-	0.5	0.5	-
Change in value due to available-for-sale financial assets	-0.6	-0.6	0.0	-1.3	-1.3	-
Fair value change	-0.7	-0.7	0.0	-1.3	-1.3	-
Recognition with effect on income	-	-	-	-	-	-
Deferred tax	0.0	0.0	-	-	-	-
Changes in value of investments accounted for using the equity method	12.4	12.4	-	8.9	8.9	-
Fair value change	14.7	14.7	-	1.6	1.6	-
Recognition with effect on income	-	-	-	-	-	-
Currency translation	-0.7	-0.7	-	6.3	6.3	-
Deferred tax	-1.6	-1.6	-	1.0	1.0	-
Deferred taxes on other changes without effect on the income	0.0	0.0	0.0	-	-	-
Subtotal	0.5	0.5	0.1	-11.1	-11.1	-
Non-recycling						
Remeasurements	6.5	6.5	-0.0	91.5	91.5	-
Remeasurement of pensions	6.5	6.5	-0.0	91.5	91.5	-
Deferred tax	-	-	-	-	-	-
Changes in value of investments accounted for using the equity method	14.5	14.5	-	-13.6	-13.6	-
Subtotal	21.0	21.0	-0.0	77.9	77.9	-
Other comprehensive income	21.5	21.4	0.1	66.8	66.8	-
	-	-	-	-	-	-
Total comprehensive income	-16.2	-17.1	0.8	70.4	67.0	3.4
Continuing operations		-11.2			104.6	
Discontinued operation		-5.9			-37.7	

III. Consolidated Balance Sheet

Assets in € million	2016/09/30	2015/12/31 ¹⁾
Non-current assets		
Intangible assets	221.0	156.6
Property, plant and equipment	2,320.2	2,405.0
Investment property	21.3	21.4
Financial assets	147.2	154.6
Investments accounted for using the equity method	634.0	612.4
Deferred income tax assets	390.0	303.0
Other receivables and other assets	0.0	0.7
	3,733.6	3,653.7
Current assets		
Inventories	1,700.4	1,751.4
Trade receivables	1,671.1	1,495.8
Other receivables and other assets	447.2	416.8
Income tax assets	27.5	18.3
Securities	132.1	55.8
Cash and cash equivalents	648.1	836.2
	4,626.4	4,574.3
	8,360.0	8,227.9
Equity and liabilities in € million	2016/09/30	2015/12/31¹⁾
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	2,536.5	2,812.1
Other reserves	33.4	-47.5
Unappropriated retained earnings	1.6	15.1
	2,990.0	3,198.3
Treasury shares	-369.7	-369.7
	2,620.3	2,828.6
Minority interests	8.0	8.1
	2,628.3	2,836.6
Non-current liabilities		
Provisions for pensions and similar obligations	2,636.0	2,327.3
Deferred tax liabilities	27.5	27.6
Income tax liabilities	67.6	37.2
Other provisions	313.6	307.2
Financial liabilities	713.5	543.0
Other liabilities	17.1	23.5
	3,775.4	3,265.8
Current liabilities		
Other provisions	286.1	299.6
Financial liabilities	300.0	284.9
Trade payables	898.7	975.7
Income tax liabilities	23.7	190.6
Other liabilities	447.9	374.7
	1,956.3	2,125.5
	8,360.0	8,227.9

¹⁾Restatement because of a correction of the stock value

IV. Cash Flow Statement

In € million	9M 2016	9M 2015 ¹⁾
Earnings before taxes (EBT) ²⁾	21.1	15.6
Depreciation, write-downs (+)/write-ups (-) of non-current assets	256.5	250.3
Income tax paid (-)/refunded (+)	-140.1	-23.7
Other non-cash expenses (+)/income (-)	74.5	215.2
Interest expenses	71.1	68.3
Gain (-)/loss (+) from the disposal of non-current assets	6.0	4.0
Increase (-)/decrease (+) in inventories	60.2	108.3
Increase (-)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	-186.3	-137.7
Use of provisions affecting payments, excluding income tax provisions	-184.7	-175.0
Increase (+)/decrease (-) in trade payables and other liabilities not attributable to investment or financing activities	18.8	-152.7
Cash outflow/inflow from operating activities	-2.9	172.6
Cash inflow from the disposal of fixed assets	0.4	1.9
Cash outflow for investments in intangible assets and property, plant and equipment	-244.8	-255.4
Cash inflow (+)/outflow (-) for/from investments of funds	-73.0	-44.9
Cash inflow from the disposal of financial assets	9.7	9.4
Cash outflow for investments in financial assets	-5.6	-5.3
Cash flow from investment activities	-313.3	-294.2
Cash outflow in payments to company owners	-13.5	-10.8
Cash inflow (+)/outflow (-) as a result of the issuing of bonds, borrowings and other financial liabilities	156.0	135.5
Interest paid	-16.5	-9.8
Cash outflow/inflow from financing activities	126.0	114.9
Cash and cash equivalents at the start of the period	836.2	774.0
Cash and cash equivalents relating to changes in the consolidated group	4.4	8.1
Gains and losses from changes in foreign exchange rates	-2.3	0.1
Payment-related changes in cash and cash equivalents	-190.2	-6.8
Cash and cash equivalents at the end of the period	648.1	775.3

¹⁾ Restatement because of a correction of the stock value

²⁾ The result from ordinary activities (EBT) refers to the continuing and discontinued operations in total. A reconciliation of the result from discontinued operations can be found in the notes.

V. Statement of Changes in Equity

In € million	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	Other reserves from
					Currency translation
As of 2015/01/01 before restatement	161.6	238.6	- 369.7	2,847.8	- 2.2
Adjustment¹⁾	-	-	-	- 47.7	-
As of 2015/01/01 restated	161.6	238.6	- 369.7	2,800.1	- 2.2
Initial consolidation of affiliated companies so far not consolidated due to materiality reasons	-	-	-	6.0	-
Total comprehensive income	-	-	-	91.5	8.3
Dividend	-	-	-	-	-
Appropriation to capital reserve from convertible bond	-	18.5	-	-	-
Group transfers to(+)/from(-) retained earnings	-	-	-	0.2	-
Other	-	-	-	- 3.8	-
As of 2015/09/30 before restatement	161.6	257.1	- 369.7	2,950.1	6.1
Adjustment¹⁾	-	-	-	- 56.2	-
As of 2015/09/30 restated	161.6	257.1	- 369.7	2,893.9	6.1
As of 2016/01/01 before restatement	161.6	257.0	- 369.7	2,839.8	9.9
Adjustment¹⁾	-	-	-	- 56.2	-
As of 2016/01/01 restated	161.6	257.0	- 369.7	2,783.7	9.9
Total comprehensive income	-	-	-	- 266.9	- 3.1
Dividend	-	-	-	-	-
Group transfers to(+)/from(-) retained earnings	-	-	-	11.4	-
Other	-	-	-	2.0	-
As of 2016/09/30	161.6	257.0	- 369.7	2,536.5	6.8

¹⁾Restatement because of a correction of the stock value

			Unappropriated retained earnings	Amount due to Salzgitter AG shareholders	Minority interest	Equity
Cashflow hedges	Available-for- sale financial assets	Investments accounted for using the equity method				
-19.2	-9.4	8.1	12.1	2,867.7	7.8	2,875.4
-	-	-	-	-47.7	-	-47.7
-19.2	-9.4	8.1	12.1	2,820.0	7.8	2,827.7
-	-	-	-	6.0	-	6.0
-27.1	-1.3	-4.7	0.2	66.9	3.4	70.3
-	-	-	-10.8	-10.8	-	-10.8
-	-	-	-	18.5	-	18.5
-	-	-	-0.2	-	-	-
-	-	-	-	-3.8	-2.6	-6.4
-46.3	-10.7	3.4	1.3	2,952.9	8.6	2,961.5
-	-	-	-	-56.2	-	-56.2
-46.3	-10.7	3.4	1.3	2,896.7	8.6	2,905.3
-33.3	-9.4	13.7	15.1	2,884.7	8.1	2,892.8
-	-	-	-	-56.2	-	-56.2
-33.3	-9.4	13.7	15.1	2,828.6	8.1	2,836.6
66.2	2.6	-13.2	11.5	-203.0	3.1	-199.9
-	-	-	-13.5	-13.5	-	-13.5
-	-	-	-11.4	-0.0	-	-0.0
-	-	-	-	2.0	-3.2	-1.2
32.9	-6.8	0.5	1.6	2,620.3	8.0	2,628.3

Notes

Segment Reporting

In € million	Strip Steel		Plate / Section Steel		Mannesmann	
	9M 2016	9M 2015	9M 2016	9M 2015 ¹⁾	9M 2016	9M 2015
External sales	1,389.0	1,505.6	535.9	716.0	727.1	811.7
Sales to other segments	422.3	478.6	534.2	662.9	50.8	84.4
Sales to group companies that are not allocated to an operating segment	1.2	1.4	0.7	0.8	211.8	261.4
Segment sales	1,812.5	1,985.1	1,070.8	1,379.6	989.6	1,157.5
Interest income (consolidated)	0.1	1.7	1.0	0.3	0.4	0.3
Interest income from other segments	-	-	-	-	-	-
Interest income from group companies that are not allocated to an operating segment	0.1	0.1	0.0	0.1	1.0	0.7
Segment interest income	0.2	1.9	1.1	0.4	1.4	1.0
Interest expenses (consolidated)	16.5	12.1	2.5	2.4	6.7	7.2
Interest expenses to other segments	-	-	-	-	-	-
Interest expenses from group companies that are not allocated to an operating segment	18.8	25.7	9.8	10.4	4.4	5.4
Segment interest expenses	35.3	37.8	12.4	12.8	11.1	12.6
of which interest portion of allocations to pension provisions	10.4	9.6	2.4	2.2	4.1	3.8
Depreciation of property, plant and equipment and amortization of intangible assets	134.0	127.3	34.8	34.2	43.0	43.8
Of which scheduled depreciation of property, plant and equipment and amortization of intangible assets	134.0	127.3	34.8	34.2	43.0	43.8
EBIT before depreciation and amortization (EBITDA)	141.7	153.7	21.4	5.2	55.1	64.2
Earnings before interest and taxes (EBIT)	7.7	26.4	-13.4	-29.0	12.1	20.4
Segment earnings before taxes	-27.4	-9.5	-24.7	-41.3	2.4	8.8
of which result from investments accounted for using the equity method	-	-	-	-	10.6	-9.6
Investments in property, plant and equipment and intangible assets	147.9	126.7	17.1	29.1	41.9	44.5

¹⁾ Restatement because of a correction of the stock value

Trading		Technology		Total segments		Industrial Participations / Consolidation		Group	
9M 2016	9M 2015	9M 2016	9M 2015	9M 2016	9M 2015	9M 2016	9M 2015	9M 2016	9M 2015 ¹⁾
2,109.1	2,527.0	954.2	974.4	5,715.3	6,534.6	145.2	147.1	5,860.5	6,681.7
20.6	95.6	0.3	4.2	1,028.1	1,325.7	424.5	470.6	1,452.6	1,796.2
0.1	0.0	-	-	213.8	263.6	-	-	213.8	263.6
2,129.7	2,622.7	954.5	978.6	6,957.1	8,123.5	569.7	628.1	7,526.9	8,751.5
2.0	3.1	3.1	2.4	6.7	7.8	6.1	20.9	12.7	28.7
-	0.1	-	0.0	-	0.1	34.0	43.3	34.0	43.4
2.4	0.3	0.4	0.0	3.9	1.2	-	-	3.9	1.2
4.3	3.4	3.5	2.4	10.6	9.1	40.1	64.3	50.6	73.4
7.2	7.4	2.2	2.0	35.1	31.1	36.0	37.1	71.1	68.3
-	-	-	-	-	-	3.9	1.2	3.9	1.2
0.2	1.4	0.8	0.5	34.0	43.4	-	-	34.0	43.4
7.3	8.8	3.0	2.5	69.1	74.5	39.9	38.3	109.0	112.8
1.9	1.7	1.9	1.7	20.6	19.1	17.7	16.5	38.3	35.6
7.7	7.4	16.6	17.0	236.1	229.7	20.4	20.6	256.5	250.3
7.7	7.4	16.6	17.0	236.1	229.7	20.4	20.6	256.5	250.3
42.4	33.8	33.2	33.2	293.8	290.1	42.2	15.2	336.0	305.3
34.7	26.4	16.6	16.2	57.7	60.4	21.8	-5.4	79.5	55.0
31.7	21.0	17.1	16.1	-0.9	-4.9	22.0	20.5	21.1	15.6
-	-	-	-	10.6	-9.6	39.4	24.4	50.0	14.8
5.0	9.5	15.3	11.3	227.2	221.1	14.6	24.7	241.8	245.8

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

1. The consolidated financial report of Salzgitter AG, Salzgitter (SZAG), for the reporting period from January 1 to September 30, 2016, has been prepared as a condensed report with selected notes. The report has been drawn up, as before, in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) in consideration of the requirements set out under IAS 34 for condensed interim reports.
2. In comparison with the annual financial statements as at December 31, 2015, no changes have been made in the accounting, valuation, calculation and consolidation methods applied to the interim financial statement for the period ended September 30, 2016.
3. In calculating the fair value of defined benefit obligations as of September 30, 2016, an actuarial rate of 1.25 % was applied (December 31, 2015: 2.25 %). The resulting increase in provisions for pensions and similar obligations are reported in other comprehensive income (pension revaluation) and incurs a corresponding reduction in equity.
4. HSP Hoesch Spundwand und Profil Gesellschaft mit beschränkter Haftung (HSP; limited liability company under German law) manufactures and sells heavy section steel products, in particular sheet piling and mining sections. Despite the high level of investments, the company has been making a loss for years, due in particular to demand declining in the sheet piling market. In its meeting in June of the financial year 2015, the Executive Board therefore decided to discontinue business operations in order to avoid further negative consequences for the Salzgitter Group. Production therefore ceased in December 2015, and the products were delivered later in 2016. HSP and all the associated sheet piling activities are disclosed as a discontinued operation in accordance with the standards laid down under IFRS 5. The results from this discontinued operation are disclosed in a separate line in the income statement, set apart from the earnings and expenses of continuing operations. The income statement of the previous year was adjusted accordingly. The tables below include a transition of the income statement from continuing operations to an income statement that comprises both continuing as well as discontinued operations.

Results from discontinued operation

	9M 2016			9M 2015 ¹⁾		
	Discontinued operation	Continuing operations	Total	Discontinued operation	Continuing operations	Total
In € m						
Sales	13.2	5,847.2	5,860.5	95.0	6,596.7	6,691.7
Increase/decrease in finished goods and work in process/other own work capitalized	-6.8	-53.4	-60.3	-1.4	-62.6	-63.9
	6.4	5,793.8	5,800.2	93.6	6,534.2	6,627.7
Other operating income	1.2	134.7	135.9	1.0	189.6	190.6
Cost of materials	1.6	3,710.9	3,712.6	79.6	4,359.7	4,439.2
Personnel expenses	1.1	1,230.6	1,231.6	43.4	1,209.7	1,253.1
Amortization and depreciation of intangible assets and property, plant and equipment	-	256.5	256.5	0.1	250.2	250.3
Other operating expenses	2.1	707.1	709.2	9.0	838.7	847.7
Income from shareholdings	-	3.0	3.0	-	12.7	12.7
Result from investments accounted for using the equity method	-	50.0	50.0	-	14.8	14.8
Finance income	0.0	13.0	13.0	0.0	28.8	28.8
Finance expenses	0.2	70.9	71.1	0.2	68.6	68.8
Earnings before taxes (EBT)	2.6	18.6	21.1	-37.6	53.2	15.6
Income tax	-	6.5	6.5	-	11.9	11.9
Consolidated result	2.6	12.0	14.6	-37.6	41.3	3.6

¹⁾Restatement because of a correction of the stock value

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

Condensed cash flow statement for the discontinued operation

In € m	9M 2016	9M 2015
Cash flow from operating activities	-4.5	-9.6
Cash outflow/inflow from investment activities	0.2	-2.2
Cash inflow/outflow from financing activities	-	-
Change in cash and cash equivalents of the discontinued operations	-4.2	-11.8

Selected explanatory notes to the income statement

1. Sales by business segment are shown in the segment report.
2. Earnings per share are calculated in accordance with IAS 33. Basic earnings per share, calculated from the weighted number of shares of SZAG, came to € 0.21 in the period under review. Dilution would occur if earnings per share were reduced through the issuance of potential shares from option and conversion rights. Such rights, attached to two convertible bonds, existed as of the balance sheet date. When taken into account there is no decrease in earnings per share from continuing operations, as a result of which these option and conversion rights do not have a dilutive effect. Diluted earnings per share also amount to €0.21.

Correction to prior-year accounts

Due to a retrospective correction of a subsidiary's inventory value in the Plate / Section Steel Business Unit, the amount recognized in the balance sheet for the period of 2014 and earlier was adjusted by € 50.9 million without effect on income in accordance with the pertinent IFRS standards. In the financial year 2015, an additional reduction affecting earnings of € 8.5 million was made that was fully absorbed as of September 30, 2015.

The deferred tax assets were increased by € 3.3 million as a result of these changes.

The table below shows the adjustment in the income statement (in consideration of IFRS 5):

€ m	Issued consolidated financial statement	Adjustment	Adjusted consolidated financial statement
	2015/09/30		2015/09/30
Increase/decrease in finished goods and work in process/other own work capitalized	- 52.6	- 9.9	- 62.5
Cost of materials	- 4,361.1	1.4	- 4,359.7
Earnings before taxes (EBT)	61.7	- 8.5	53.2
Consolidated result from continued operations	49.8	- 8.5	41.3

The adjustments to the balance sheet are shown in the following table:

€ m	Issued consolidated financial statement	Adjustment	Adjusted consolidated financial statement
	2015/12/31		2015/12/31
Deferred income tax assets	299.7	3.3	303.0
Inventories	1,810.8	- 59.4	1,751.4
Equity	2,892.8	- 56.1	2,836.6

The amount disclosed for equity in the previous years has therefore been corrected on balance. The actual inventory volumes have been confirmed through stock taking.

Disclosures on fair value

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

The calculation of fair value disclosures for assets and liabilities not accounted for applying fair value is always carried out by discounting future cash flows. In this instance, a term-dependent interest rate was applied that reflected the risk-free rate and the default risk derived from a peer group of the Salzgitter Group. In deviation herefrom, the fair value (€ 259.6 million) of the convertible bond was calculated. Fair value was derived from the market value of the bond, while eliminating the embedded derivative. The embedded derivative was measured using a generally recognized method (Black-Scholes). This value depends specifically on the share price of a listed company. The calculation parameters are based on data sourced from directly and indirectly observed input factors. The fair value disclosures are therefore allocable overall to Level 2.

Book value and fair value of the bonds:

In € million	Convertible bonds and exchangeable bond	
	2015/12/31	2016/09/30
Book value	487.3	464.7
Fair value	473.3	455.8

Related party disclosures

In addition to business relationships with companies that are consolidated fully and proportionately in the consolidated financial statements, relationships also exist with associated companies recognized at equity, as well as non-consolidated subsidiaries that must be designated as related companies in accordance with IAS 24.

All business transactions with related companies are conducted on terms that also customarily apply among third parties (arm's length). The deliveries and services provided essentially comprise deliveries of input material for the manufacture of large-diameter pipes. Their volumes are shown in the table below:

In € million	Sale of goods and services	Purchase of goods and services	Trade receivables	Trade payables
	01/01/-30/09/2016	01/01/-30/09/2016	2016/09/30	2016/09/30
Non consolidated group companies	27.9	5.1	24.1	3.8
Investments accounted for using the equity method	148.3	124.1	115.6	29.8
Proportionally consolidated companies	4.7	0.7	0.7	15.1

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

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

Financial Calendar 2016/2017

November 11, 2016	Roadshow Zurich
November 21.-22., 2016	Deutsches Eigenkapitalforum Frankfurt am Main
December 7, 2016	Roadshow Amsterdam
December 8, 2016	HSBC Conference Luxemburg
January 10 - 11, 2017	Commerzbank German Investment Seminar New York
January 16 - 17, 2017	Kepler Cheuvreux German Corporate Conference Frankfurt am Main
February 28, 2017	Key data for the Financial Year 2016
March 24, 2017	Publication of the consolidated financial statement 2016 Annual Results Press Conference
March 27, 2017	Analyst Conference in Frankfurt am Main
March 28, 2017	Analyst Conference in London
May 15, 2017	Interim report on the first quarter 2017
June 1, 2017	General Meeting of Shareholders in 2017
August 10, 2017	Interim report on the first half 2017 Analyst Conference in Frankfurt am Main
August 11, 2017	Analyst Conference in London
November 14, 2017	Interim report on the first nine months 2017

Legal disclaimer

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

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

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

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Online Interim Report:

www.salzgitter-ag.com/zb-2016/9m

Publisher:

Salzgitter AG

Editorial Office:

Salzgitter AG, Investor Relations

Production:

Inhouse with FIRE.sys