H1

Interim Report
1st Half 2016

SALZGITTER AG
Stahl und Technologie

Contents

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.

Salzgitter Group Figures

		H1 2016	H1 2015	+/-
Crude steel production	kt	3,506.1	3,521.9	–15.8
External sales	€ m	3,967.5	4,529.6	–562.1
Strip Steel Business Unit	€ m	937.0	1,030.1	–93.1
Plate / Section Steel Business Unit	€ m	366.6	500.2	–133.6
Energy Business Unit	€ m	502.5	574.9	–72.4
Trading Business Unit	€ m	1,425.5	1,690.3	–264.8
Technology Business Unit	€ m	641.7	636.3	5.4
Industrial Participations / Consolidation	€ m	94.1	97.7	–3.6
EBIT before depreciation and amortization (EBITDA)	€ m	224.1	280.8	–56.7
Earnings before interest and taxes (EBIT)	€ m	51.8	113.9	–62.1
Earnings before taxes (EBT)	€ m	16.1	80.2	–64.1
Strip Steel Business Unit	€ m	–37.3	20.7	–58.0
Plate / Section Steel Business Unit	€ m	–17.0	–19.5	2.4
Energy Business Unit	€ m	9.4	3.3	6.1
Trading Business Unit	€ m	16.5	17.3	–0.7
Technology Business Unit	€ m	12.6	14.6	–2.0
Industrial Participations / Consolidation	€ m	31.8	43.7	–12.0
Consolidated net income/loss	€ m	9.3	41.3	–32.0
Earnings per share – basic	€	0.13	0.72	–0.59
Return on capital employed (ROCE)[1]	%	2.1	5.4	–3.3
Cash flow from operating activities	€ m	–6.2	–12.1	5.8
Investments[2]	€ m	166.8	143.0	23.8
Depreciation/amortization[2]	€ m	–172.3	–166.9	–5.4
Total assets	€ m	8,387.1	8,570.4	–183.4
Non-current assets	€ m	3,729.2	3,523.1	206.1
Current assets	€ m	4,657.9	5,047.3	–389.4
of which inventories	€ m	1,688.5	2,013.3	–324.8
of which cash and cash equivalents	€ m	741.2	638.3	103.0
Equity	€ m	2,653.5	2,968.7	–315.2
Liabilities	€ m	5,733.6	5,601.7	131.9
Non-current liabilities	€ m	3,768.7	3,166.4	602.3
Current liabilities	€ m	1,964.9	2,435.3	–470.4
of which due to banks[3]	€ m	301.6	341.5	–39.9
Net financial position on the reporting date[4]	€ m	182.6	178.3	4.3
Employees				
Personnel expenses	€ m	–824.2	–842.4	18.2
Core workforce on the reporting date[5]	empl.	23,367	23,542	–175
Total workforce on the reporting date[5]	empl.	25,043	25,288	–245

Disclosure of financial data in compliance with IFRS

1) Annualized
2) Excluding financial investments
3) Current and non-current bank liabilities
4) Including investments, e.g. securities and structured investments
5) Excl. trainee contracts and excl. non-active age-related part-time work
6) Incl. trainee contracts and incl. non-active age-related part-time work

Summary

Salzgitter Group delivers a pre-tax profit in the first half of 2016

Due above all to a strong second quarter, the Salzgitter Group delivered a pre-tax profit in the first half of 2016 that was boosted significantly by the contribution from the continued successful implementation of internal restructuring measures. Although the immense price pressure exerted since the fall of 2015 by cheap imports – first and foremost from China, but also from Russia and the Ukraine – is reflected in the results of the strip steel and plate segments, the profit contributions of the other business units and the Aurubis investment fully offset this effect. The first EU anti-dumping measures have caused a surprisingly sharp decline in Chinese imports since the spring of 2016, accompanied by a concurrent increase in the price level of many steel products.

Group

- **External sales:** € 3,967.5 million
- **Pre-tax profit:** € 16.1 million, including a total of € 6.6 million in expenses for measures aimed at structural improvements
- **After-tax profit:** € 9.3 million
- Earnings per share (basic): € 0.13
- **Return on Capital Employed (ROCE):** 2.1 %
- **Net financial position:** € 182.6 million
- **Equity ratio:** 31.6 %

Development of the business units

- **Strip Steel:** import-induced very low level of selling prices and shipment volumes that remained stable result in a decline in external sales and a pre-tax loss. The market recovery currently observed will only filter through to the respective financial figures in the second half of the year due to the longer-term contractual agreements of Salzgitter Flachstahl GmbH (SZFG).
- **Plate / Section Steel:** downturn in shipment volumes, combined with lower average selling prices for plate, causes a notable drop in external sales; marginal improvement in the pre-tax result due to gratifying contribution by Peiner Träger GmbH (PTG) and the non-recurrence of losses from the sheet piling business
- **Energy**: volume of pipes and tubes delivered somewhat lower compared with previous year's figure; significant increase in pre-tax profit, owing above all to better capacity utilization at the large-diameter pipes companies
- **Trading:** with shipment volumes unchanged from the previous year, external sales lower year on year due to markedly lower selling prices, expressed as a half yearly average; pre-tax profit nonetheless at a presentable level thanks to higher margins in the stockholding steel trade
- **Technology:** stable external sales; pre-tax profit falls marginally short of the prior-year figure
- **Industrial Participations / Consolidation:** earnings before taxes lower than in the year-earlier period. The result includes € 26.1 million contribution from the Aurubis investment.

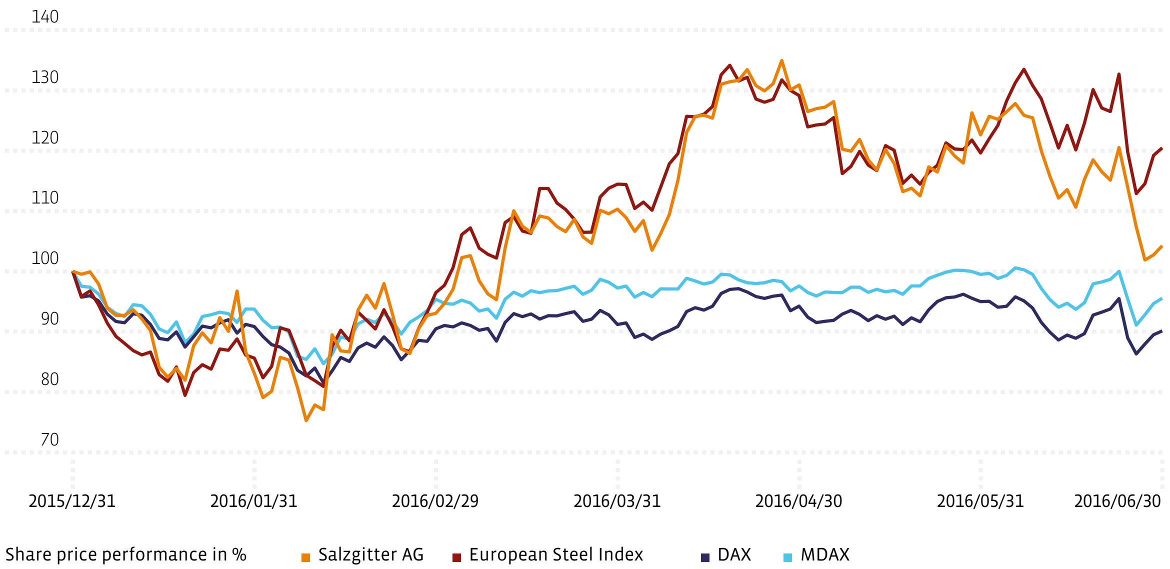
Guidance

We affirm our forecast of June 28, 2016 and assume the following for the Salzgitter Group in 2016: a decline in sales to between € 8.0 and 8.5 billion; an increase in pre-tax profit compared to 2015 (€ 13 million) to between € 30 and 60 million, which already includes the balance of around € 10 million in burdens on earnings for individual measures aimed at structural improvements and the income from the sale of assets; a return on capital employed that is marginally higher year on year.

Investor Relations

Capital Market and Price Performance of the Salzgitter Share

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



Sources: XETRA closing price Deutsche Börse AG, Datastream STEELEU

Two fundamental trends emerged on the **stock markets** during the first half of 2016: The first two months saw a consolidation phase in connection with concerns about China's economic development and the ongoing decline in oil prices. A counter trend, also triggered by several central bank decisions, emerged in mid-February that partly made up for the losses previously reported. As from April, the index moved sideways overall, displaying partly high volatility. The outcome of the referendum on the UK leaving the EU caused a great deal of turbulence at the end of the reporting period. In the period under review the overall performance of the DAX stood at –10% and that of the MDAX at –4%.

Similar to other cyclically sensitive equities, the **Salzgitter share** was impacted by the negative sentiment of the general market at the beginning of the year. Against this backdrop, our share price, pressured by the primarily import-induced downtrend in steel prices, dropped to as low as € 16.81 on February 9, down from € 22.73 at year-end 2015. The EU Commission's decision to counteract the flood of steel imports by imposing the first tariff safeguards as well as to consider further measures, along with the booking of larger-scale orders for pipes supported the share price from mid-February onward. The positive key data of the financial year 2015 that delivered impressive proof of the "Salzgitter AG 2015" program's effectiveness underpinned the uptrend that held steady through to April, which enabled the price of the Salzgitter share to peak at more than 80% above its lowest level. In the last week of the reporting period, the UK's Brexit vote triggered a massive correction. Based on a closing price of € 23.69 at the end of the reporting period, overall performance in the first half of 2016 stood at 4%.

During the period under review 20 banks issued the following current **analyst rankings** on the Salzgitter share (as of June 30, 2016): 10 buy/outperform, 6 hold/market perform, 4 sell/underperform.

The **average daily turnover** during the reporting period stood at almost 438,000, thereby falling marginally short of the year-earlier figure (465,000 shares/day). As of June 30, 2016, Salzgitter AG (SZAG) therefore took 26th place measured by turnover and held 50th place in terms of free float market capitalization in the MDAX ranking of Deutsche Börse AG.

Capital market communication: The Salzgitter Group made company presentations at investor conferences in Germany, the UK, France, Austria and the US in the first half 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 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 once again met with lively interest.

Treasury shares

Salzgitter AG's portfolio of treasury shares amounted to 6,009,700 units as of June 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 cyclicality 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

		H1 2016	H1 2015
Nominal capital as of 06/30/	€ m	161.6	161.6
Number of shares as of 06/30/	units m	60.1	60.1
Number of shares outstanding as of 06/30/	units m	54.1	54.1
Market capitalization as of 06/30/[1)]	€ m	1,282	1,734
Closing price as of 06/30[2)]	**€**	**23.69**	**32.06**
Stock market high 01/01 – 06/30[2)]	€	30.82	36.42
Stock market low 01/01 – 06/30[2)]	€	16.81	21.01

Securities identification 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 Units

Economic environment

Global economic momentum remained very restrained at the start of 2016 as the repercussions of the economic slowdown in the second half of 2015 continued to impact on most regions. The growth of the world economy only picked up momentum again in connection with the emerging recovery in energy carrier and raw materials prices from February onward. The development in the various regions proved to be disparate: The upswing in the US, for instance, recently set in again following a slowdown in the first quarter due to weather conditions. A delay of the value added tax hike planned for April, combined with an inflation-induced increase in real earnings underpinned Japan's growth. Measures from China's economic policy mitigated the negative effects of slower economic activity, while the recession scenarios in Brazil and Russia eased. The surprising outcome of the UK's referendum on leaving the EU (Brexit) had not yet had an impact during the reporting period but already affected the most recent global economic forecast of the International Monetary Fund (IMF). Despite developments that exceeded original expectations in the first half of 2016, the forecast stood at 3.1% growth, falling a little below the previous outlook.

The **Eurozone** staged a somewhat stronger recovery than originally expected through to June 2016, principally driven by consumption although investment activity also increased. The European Central Bank's decision to cut the base rate to zero percent for the first time ever supported this development. Despite markdowns to factor in the uncertainty caused by Brexit, the IMF forecasts a stronger than previously anticipated 1.6% growth in the Eurozone for the full-year 2016.

The moderate upswing in **Germany** held steady over the reporting period, initially supported mainly by private consumption that benefited from lower energy prices and the robust labor market. Following a subdued start to the year, investment activities picked up momentum, as did foreign trade. Against the backdrop of the current economic outlook, the IMF revised its growth expectations for Germany marginally upward to 1.6%.

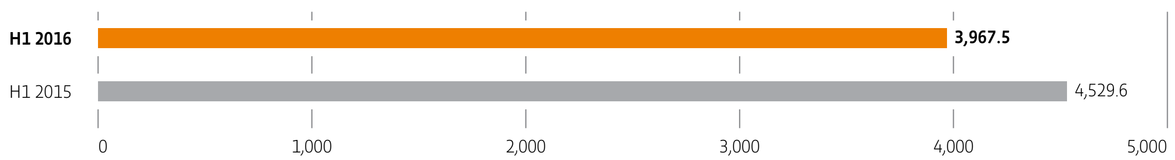
Earnings Situation within the Group

		Q2 2016	Q2 2015	H1 2016	H1 2015
Crude steel production	kt	1,730.5	1,741.3	3,506.1	3,521.9
External sales	**€ m**	**2,098.7**	**2,241.8**	**3,967.5**	**4,529.6**
EBIT before depreciation and amortization (EBITDA)	€ m	118.5	131.3	224.1	280.8
Earnings before interest and taxes (EBIT)	€ m	32.3	47.0	51.8	113.9
Earnings before taxes (EBT)	**€ m**	**12.9**	**28.4**	**16.1**	**80.2**
Consolidated net income/loss	**€ m**	**8.3**	**8.6**	**9.3**	**41.3**
Return on capital employed (ROCE)[1)]	**%**	**2.7**	**4.1**	**2.1**	**5.4**
Investments[2)]	€ m	80.7	73.5	166.8	143.0
Depreciation/amortization[2)]	€ m	–86.2	–84.3	–172.3	–166.9
Cash flow from operating activities	€ m	92.4	–54.6	–6.2	–12.1
Net financial popsition[3)]	**€ m**			**182.6**	**178.3**
Equity ratio	%			31.6	34.6

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

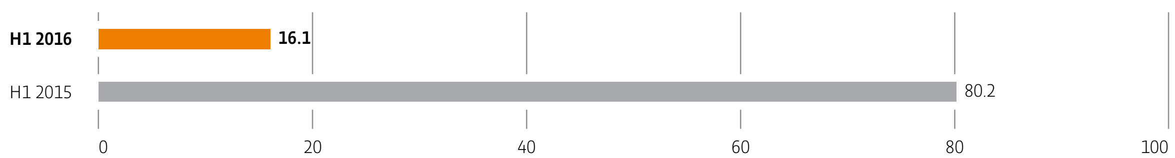
Due above all to a stronger second quarter, the Salzgitter Group delivered a pre-tax profit in the first half of 2016 that was boosted significantly by the contribution from the continued successful implementation of internal restructuring measures. Although the immense price pressure exerted since the fall of 2015 by cheap imports – first and foremost from China, but also from Russia and the Ukraine – is reflected in the results of the strip steel and plate segments, the profit contributions of the other business units and the Aurubis investment fully offset this effect. Even following another reduction in the actuarial rate applicable to pension provisions to only 1.25 %, the company continues to enjoy a sound financial basis, with an equity ratio of 32 % and a net financial position of € 183 million that is virtually unchanged year on year.

External sales



in € m

EBT



in € m

Due in particular to the extremely tense selling price situation still prevailing in the spring for rolled steel products in the European market, the Salzgitter Group's **external sales** declined to € 3,967.5 million in the first half of 2016 (H1 2015: € 4,529.6 million). **Earnings before taxes** of € 16.1 million (H1 2015: € 80.2 million) comprise a total of € 6.6 million in expenses for measures aimed at structural improvements (H1 2015: €–33.1 million), as well as € 26.1 million contribution from the Aurubis investment (H1 2015: € 16.4 million). The **after-tax result** stood at € 9.3 million (H1 2015: € 41.3 million), which brings earnings per share to € 0.13 (H1 2015: € 0.72) and return on capital employed (ROCE) to 2.1% (H1 2015: 5.4%).

Explanations on the tax rate

Income tax expenses disclosed as of June 30, 2016, amounted to € 6.7 million (first half of 2015: € 38.8 million). Owing in particular to the restricted possibility of offsetting losses and gains for tax purposes in the reporting period, the group tax rate of 42% was higher than the average anticipated tax rate of 31%.

Procurement

Ore prices stabilize following sharp increase

After the steep downturn in prices over the course of the past years, the global **iron ore market** has been showing clear signs of recovery during the reporting period right through to April. Whereas the lowest prices quoted on the benchmark index for the spot market, Platts IODEX 62% Fe CFR China, still stood at below 40.00 USD/dmt at the start of January, prices had climbed to more than 70.00 USD/dmt by mid-April. The month of May and June saw the market and iron ore prices fluctuate within a certain range around the 55.00 USD/dmt mark. In the first half of 2016, the average Platts IODEX price stood at 52.14 USD/dmt. It is interesting to note that this development took place against the backdrop of unchanged fundamental data (continued ramping up of mining capacities in Australia and Brazil and lower-than-expected ore imports from China). Generally speaking, the spot market price has tended more to follow the Chinese steel price trend rather than the supply and demand situation for iron ore.

Trend reversal for coking coal

In contrast to the index-based pricing of iron ore, quarterly prices of a benchmark nature continue to be negotiated between large producers and customers in the **coking coal market**. While production was hampered in Australia due to the weather conditions in the first quarter of 2016 to the detriment of volumes, stronger demand for coking coal was reported from China where the government ordered the closing of illegal mining operations while reducing the production time permitted in other operations, which meant that imports had to be stepped up. As a result, the market price rose for the first time for ten quarters, starting with the second quarter of 2016. Whereas the benchmark contract for the first three months of the year still stood at 81 USD/t FOB Australia, the benchmark price climbed during the second quarter to 84 USD/t, as well as in the third quarter to 92.50 USD/t. In comparison with recent years, this is nonetheless still considered a low-level. In terms of the near future, many market commentaries do not see signs of further significant price changes and anticipate prices of between 90 and 100 USD/t FOB Australia.

Metal and ferro alloys enter a phase of stabilization

Having moved sideways in the first three months of 2016, the prices of manganese-based **bulk alloys** increased notably over the course of the second quarter. Exchange-traded materials such as zinc, nickel, copper and aluminum were weaker overall in the first quarter of 2016 compared with the average prices in 2015. Following the low levels posted in January, February onward brought a discernible uptrend on the metal markets. Zinc, nickel and aluminum mirrored this trend in the second quarter as well. By contrast, copper displayed a volatile sideways movement.

Steel scrap cheaper again following sharp price increase

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 at initially unchanged or marginally lower prices. As from March, the improved utilization of a number of domestic customers fueled demand for scrap and, accompanied by greater demand from Turkish importers, drove prices up by 15 to 20 €/t. The market recovery continued during the months of April and May at an unexpectedly high level. Depending on the steelworks and grades, prices in Germany therefore climbed once again by 65 to 105 €/t. From June onward, processors in Western Europe were again ordering much lower volumes and, with Turkish demand slowing as well, momentum emanating from exports also declined. The high level of inventories led to excess supply, resulting in steel scrap prices shedding between 40 and 70 €/t again.

Steel market developments

The **international steel market** saw a year-on-year decline of around 2% in crude steel output in the first six months of 2016. With the exception of Eastern Europe and Turkey, most other steel producing regions reported lower production volumes. In China, the prior-year tonnage was marginally undercut.

Despite the UK's Brexit decision, EUROFER recently revised its annual forecast for the **EU steel market** upward, a decision due in particular to the EU's sound economy. Two different directions were observed over the course of the first six months: On the one hand, demand continued to stage its marginal recovery while, on the other, being largely covered by imports. Chinese imports that had already exerted huge pressure on the market back in 2015 entered a slight downtrend from the spring of 2016 onward against the backdrop of final anti-dumping duties on a strip steel product (cold-rolled) that have now entered into force. Furthermore, anti-dumping investigations for imposing measures on other products (hot-rolled strip and plate) are under way with a deadline in November 2016. In the meantime, however, suppliers from other regions have upped their imports to the EU market. In response, the EU Commission acted on the application of EU producers by recently initiating further dumping proceedings concerning hot-rolled strip products against five non-EU countries (Iran, Russia, Ukraine, Brazil and Serbia). Against this backdrop, domestic crude steel production dropped significantly year on year. Prices firmed up across the board. However, whether the tangible improvement in the level will hold steady over the course of the second half year remains to be seen.

The **German steel market** was initially off to a weak start to the year. Despite its subsequent impressive recovery, crude steel output in the first half-year dropped marginally below the prior-year figure, while rolled steel production contracted by 3%. The steel industry's order intake reported exceptionally strong growth in the second quarter. Having achieved a moderate increase of 3% in the first quarter of 2016, average growth in the following quarter stood at almost 20%. Orders on hand also reached a multi-year record high. Impetus emanated from within Germany and the EU countries, as well as from non-EU countries. Traders and processors replenishing their stocks played a decisive role, given that these activities had been cut back to a very low level in response to market turbulence in the fourth quarter of 2015.

Strip Steel Business Unit

		Q2 2016	Q2 2015	H1 2016	H1 2015
Order intake	kt	1,224.1	1,169.5	2,415.0	2,370.5
Order backlog on reporting date	kt			913.3	757.5
Crude steel production	kt	1,105.8	1,133.6	2,274.6	2,257.1
Rolled steel production	kt	889.6	880.1	1,798.4	1,785.6
Shipments	kt	1,220.5	1,190.2	2,399.2	2,404.7
Segment sales[1)]	**€ m**	**616.9**	**671.3**	**1,225.1**	**1,367.4**
External sales	**€ m**	**466.8**	**505.4**	**937.0**	**1,030.1**
Earnings before taxes (EBT)	**€ m**	**–17.2**	**4.1**	**–37.3**	**20.7**

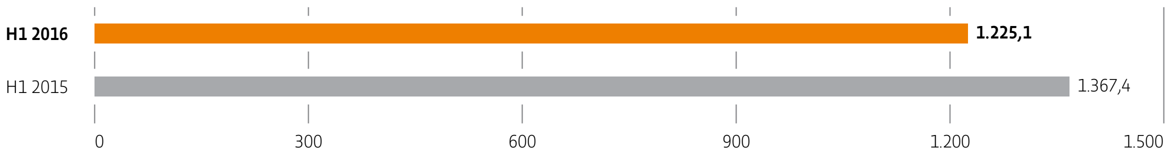
[1)] Including sales with other business units in the Group

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 finishing and processing 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.

The order intake of Europe's steel industry improved notably over the course of the year to date. One of the main drivers of this gratifying trend was the fact that EU steel processors, with the German automotive industry leading the way, held their ground well in a difficult economic environment. Along with the sound development of real demand, stock replenishing was also a contributing factor. Consequently, EU **rolled steel producers** experienced a sharp increase in orders, and the EUROFER statistics reported significant growth in **strip steel products**. The order intake of Germany's steel industry also climbed during the first six months of the year in a year-on-year comparison.

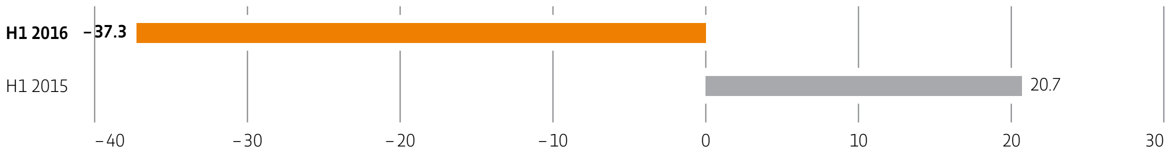
The business unit's **order intake** marginally exceeded the year-earlier figure, while **orders on hand** rose by almost one quarter, marking a new record level. **Shipments** that remained stable compared with the first six months of 2015, in combination with the very low selling prices from dumped imports, resulted in a marked decline in **segment and external sales**. Due to the longer-term contractual relations with SZFG, the aforementioned market recovery will only be reflected in the respective key financials over the course of the second half year. Lower procurement prices for raw materials had a countermanding effect on the cost front, but were nevertheless unable to compensate for the selling price issue, which culminated in a **pre-tax loss** of € 37.3 million (first half of 2015: € +20.7 million).

Sales



in € m

EBT



in € m

The order intake of **Salzgitter Flachstahl GmbH** (SZFG) slightly exceeded the year-earlier figure. By contrast, orders on hand for strip steel products increased substantially and settled above the one million ton mark. Crude steel and rolled steel production remained around the level posted in 2015. Shipments almost repeated the year-earlier figure, as opposed to sales that declined notably in a year-on-year comparison. This downturn was mainly attributable to the import-induced extremely low selling prices of orders in the first half-year largely based on longer-term contracts. The positive market trend will only be reflected over the course of the second half of 2016. SZFG was therefore unable to match the positive prior-year period result, and reported a notable pre-tax loss instead.

Although **Salzgitter Mannesmann Stahlservice GmbH** (SMS) lifted its shipments moderately, its sales substantially underperformed the year-earlier figure due to the price erosion. The pre-tax result exceeded previous year's figure, but was nonetheless still marginally negative.

The shipments of **Salzgitter Bauelemente GmbH** (SZBE) were higher year on year. The result before taxes also rose on the back of higher sales.

The shipment tonnage of **Salzgitter Europlatinen GmbH** (SZEP) increased in the period under review, as opposed to sales that contracted, pressured by the downturn in steel prices. Earnings before taxes fell only marginally short of the prior-year figure.

Plate / Section Steel Business Unit

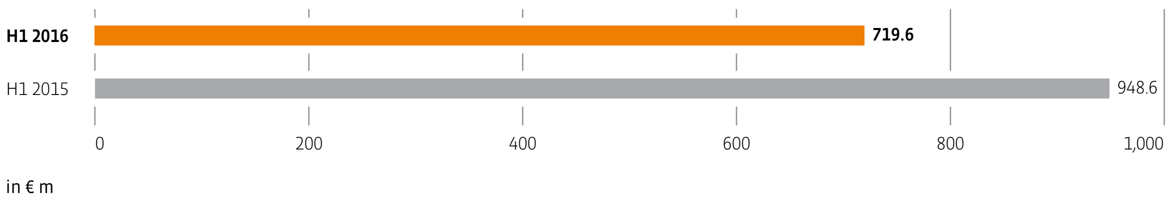
		Q2 2016	Q2 2015	H1 2016	H1 2015
Order intake	kt	543.4	733.1	1,180.4	1,346.9
Order backlog on reporting date	kt			372.5	576.5
Crude steel production	kt	274.4	285.8	571.2	566.2
Rolled steel production	kt	627.3	652.6	1,175.9	1,312.2
Shipments[1]	kt	622.8	635.0	1,158.0	1,293.0
Segment sales[2]	**€ m**	**386.9**	**472.8**	**719.6**	**948.6**
External sales	**€ m**	**181.8**	**247.0**	**366.6**	**500.2**
Earnings before taxes (EBT)	**€ m**	**– 17.5**	**– 18.8**	**– 17.0**	**– 19.5**

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

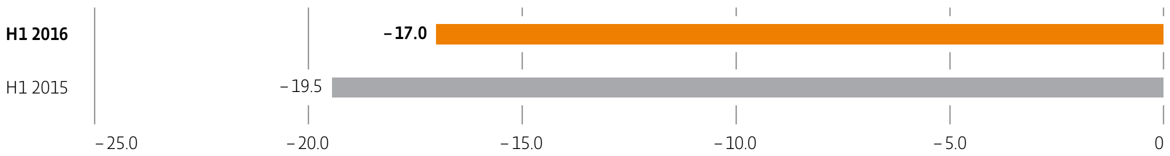
The **Plate / Section Steel Business Unit** incorporates the companies of the Group that primarily serve customers in the project-oriented construction and infrastructure sectors. The business unit comprises Ilsenburger Grobblech GmbH (ILG) and Salzgitter Mannesmann Grobblech GmbH (MGB), on the one hand, 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 DEUMU 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.

The Plate / Section Steel Business Unit's **new orders** declined over the reporting period compared with the year-earlier figure due above all to the modest order intake of the heavy plate companies as well as the discontinuation of the sheet piling product segment. As of June 30, 2016, **orders on hand** had also dropped below the previous year's level that also included project volumes ordered in 2014. **Rolled steel production** and **shipment volumes** contracted against the backdrop of the difficult environment in the plate market and the winding down of sheet pile production at the end of 2015. In conjunction with appreciably lower average selling prices in the plate business, **segment** and **external sales** declined significantly. Despite the high losses sustained by the heavy plate companies, the **pre-tax result** that came in at € –17.0 million improved compared with the first six months of 2015 (€ –19.5 million), in particular due to PTG's gratifying contribution and the non-recurrence of losses from sheet piling operations. It nonetheless remained negative and comprised € 1.5 million in expenses for first measures aimed at structural improvements at ILG.

Sales



EBT



in € m

While the first quarter of 2016 was characterized by very weak demand and prices that had fallen significantly compared with the prior-year period, the sentiment of **Europe's heavy plate market** improved tangibly after the awarding of the offshore Nord Stream 2 pipeline project. As a result, customers accepted the urgently necessary increases in selling prices 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 also included the anti-dumping initiatives of the European Union that began to have an impact on imports patterns.

Order intake of **Ilsenburger Grobblech GmbH** (ILG) and **Salzgitter Mannesmann Grobblech GmbH** (MGB), both under uniform management, dropped by almost 10 % in the period under review compared with the year-earlier figure. This development was mainly attributable to a market environment hallmarked by a high level of imports. Order intake also fell significantly below the prior-year level that still included parts of the ETC order booked in 2014, as well as the South Stream project that was suspended at the time. Shipment volumes also decreased year on year mainly due to the order situation. This development, together with the downturn in selling prices due to market conditions, caused a notable decline in sales, and a substantial pre-tax loss was reported. This figure included expenses of € 1.5 million incurred by first measures aimed at structural improvements at ILG.

Demand from the trading industry in the **European section market** was reticent in the first months of the year. As real consumption stagnated at a low level, orders were initially placed almost exclusively for the purpose of topping up stocks. Order activity only picked up momentum upon expectations of a recovery in steel prices from the second half of February onward. Passing on the sharp increases in scrap prices between March and May 2016 to the market was, however, only possible with a time lag. By contrast, the consolidation of steel scrap prices that commenced in June was immediately reflected in the price of sections.

With order intake virtually unchanged, the orders on hand of **Peiner Träger GmbH** (PTG) for the first half of 2016 dropped below the prior-year figure. Crude and rolled steel output remained stable. Shipment volumes edged up, but were nevertheless unable to compensate for the lower average selling prices, which resulted in sales contracting by around 10 %. The pre-tax profit improved in a year-on-year comparison on the back of the very good performance of the first quarter.

The **DMU Group** reported lower average selling prices overall despite the temporary sharp increase in scrap prices, and consequently suffered a decline in sales. The positive pre-tax result almost matched the figure achieved in the prior-year period.

Energy Business Unit

		Q2 2016	Q2 2015	H1 2016	H1 2015
Order intake	€ m	303.0	294.5	628.3	642.4
Order backlog on reporting date[1]	€ m			412.6	400.2
Crude steel production	kt	**350.3**	**321.9**	**660.3**	**698.6**
Segment sales[2]	**€ m**	**353.2**	**380.6**	**680.7**	**799.4**
External sales	**€ m**	**259.0**	**281.0**	**502.5**	**574.9**
Earnings before taxes (EBT)	**€ m**	**3.8**	**8.0**	**9.4**	**3.3**

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

The **Energy 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. The business unit also makes intensive use of our trading organization to procure input material and to ship its products.

Effective August 1, 2016, Energy Business Unit will be operating under the new name of the Mannesmann Business Unit. This measure serves to underscore the quality aspiration associated with the internationally renowned Mannesmann brand.

The EUROPIPE Group (EP Group) is reported at equity at 50%, with the proportionate after-tax result. 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.

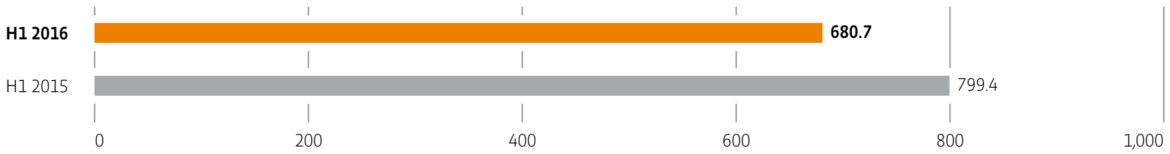
Global steel tubes market: The development of raw material prices on the global markets did not provide any support for steel tubes and pipes demand in the first six months of 2016. Initially, they contracted sharply again at the start of the year, while recovering somewhat during the second quarter. Steel scrap prices proved to be particularly volatile. Although crude oil prices increased to just under 50 USD/barrel following their decline to a multi-year low of under 30 USD/barrel in January, this has not yet contributed to improving the market situation due to the still high stock levels of crude oil and steel tubes, above all in North America. The sustained weakness in the energy sector once again impacted the producers of seamless and welded steel tubes in the medium dimension range in particular. By contrast, conventional industries proved to be robust, with demand running at satisfactory levels in the construction and mechanical engineering sectors as well. From the standpoint of German premium manufacturers in particular, the automotive industry reported good capacity utilization, mainly to the benefit of the precision tubes industry. The longitudinally- and spiral-welded line pipe project business also developed well for German manufacturers.

Due to the downtrend in the precision and stainless steel tube segment, the Energy Business Unit's **order intake** came in slightly year lower than in the previous-year period. **Orders on hand** increased on the back of the strong growth of Salzgitter Mannesmann Großrohr GmbH (MGR). Outside the consolidated group, the order intake of the EUROPIPE in which a 50% stake is held doubled thanks to the booking of several major projects; orders on hand also rose sharply.

Especially the lower **shipment** volumes of Salzgitter Mannesmann Line Pipe GmbH (MLP) caused shipments to drop below the year-earlier figure. The business unit's **segment** and **external sales** fell short year on year, as all product groups underperformed the figures of the first half of 2015.

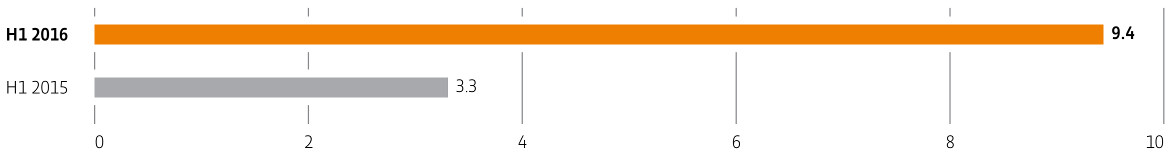
At € 9.4 million, the Energy Business Unit generated a notable increase in **profit before taxes** (previous year: € 3.3 million). This result was boosted in particular by the notable increase in the earnings contribution by the EP Group. A counter trend emanated from expenses of € 5.1 million incurred 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) significantly exceeded the previous year's level thanks above all to the acquisition of the Nord Stream 2, TAP Offshore and Zohr Field projects at EUROPIPE GmbH (EP). Due to the delay 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 increased on the back of the high delivery volumes by the US producers and growth in EP's tonnage. Despite the marginally negative result of the German company, the EP Group saw a solid profit before taxes, supported by the consistently very good earnings situation in the US.

In spite of reluctance to invest due to the persistently weak oil price and the associated fierce competition in the project business, order intake and orders on hand for the HFI-welded tubes of **Salzgitter Mannesmann Line Pipe GmbH** (MLP) remained at the level of 2015. Shipments and sales nonetheless fell significantly short of the prior-year figures, with the result that MLP reported a higher pre-tax loss than in the previous year. The result was burdened by the provisions made for the measures initiated for structural improvements. Due to the ongoing unsatisfactory demand anticipated for medium-diameter line pipes, capacity adjustments and other cost cutting measures have been planned at the Siegen and Hamm locations and are to be implemented over the course of 2016.

The booking of larger project volumes for spiral-welded large-diameter pipes in Germany, Poland and Italy has resulted in double-shift capacity utilization at **Salzgitter Mannesmann Großrohr GmbH** (MGR) through to mid-2017. Compared with the very weak previous year, order intake and orders on hand therefore rose significantly. The delivery of the tubes produced in the reporting period will, however, only be made from the second half of the year onward. Against this backdrop, shipments matched the previous year's level, as opposed to sales that were lower year on year. MGR achieved a tangibly improved result before taxes that almost reached breakeven.

In the first half of 2016, the precision tubes market presented a disparate picture: The automotive sector continued to be dominated by the good order volume of German premium manufacturers and their strong export market position. The situation of industry at large, however, remained tense, and the energy sector also showed no signs of a trend reversal. In the first six months of 2016, the new orders and orders on hand of **Salzgitter Mannesmann Precision Group** (SMP Group) dropped below the year-earlier figures. Shipments settled at the previous year's level. The sharp decrease in input material prices and tremendous competitive pressure nonetheless caused sales to decline. The "Salzgitter AG 2015" program and additional efficiency enhancing measures resulted in positive earnings contributions again. The SMP Group nevertheless delivered a negative pre-tax result overall below the prior-year figure.

As expected, the **Salzgitter Mannesmann Stainless Tubes Group** (MST Group) has not yet been able to report a recovery in the very difficult market environment characterized by weak demand over the reporting period. The freeze on investments in the oil and gas business continued unchanged. Although the capacities for producing power plant tubes and pipes are fully booked in 2016, margins are very tight. As a result, the MST Group reported lower order intake and orders on hand compared with the first six months of 2015. Shipments, sales, and the pre-tax result also fell notably short of the figures posted in the first six months of 2015.

Trading Business Unit

		Q2 2016	Q2 2015	H1 2016	H1 2015
Shipments	kt	1,503.6	1,426.9	2,721.5	2,770.0
Segment sales[1)]	**€ m**	**823.4**	**865.3**	**1,439.2**	**1,765.3**
External sales	**€ m**	**819.2**	**838.5**	**1,425.5**	**1,690.3**
Earnings before taxes (EBT)	**€ m**	**18.7**	**5.5**	**16.5**	**17.3**

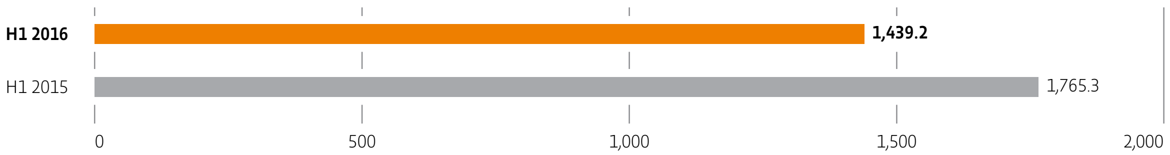
[1)] Including sales with other business units in the Group

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.

Generally subdued demand was reported in the **international steel markets** in the first half of 2016. An only partly satisfactory project business along with the volatile price situation determined sentiment on the key markets. The European market presented a similar picture. As from mid-February, the first isolated positive effects on selling prices of the anti-dumping measures introduced by the European Union were observed, which subsequently had a discernibly positive impact on the price trend over the course of the second quarter. Demand in Germany proved to be generally stable, albeit at a low level.

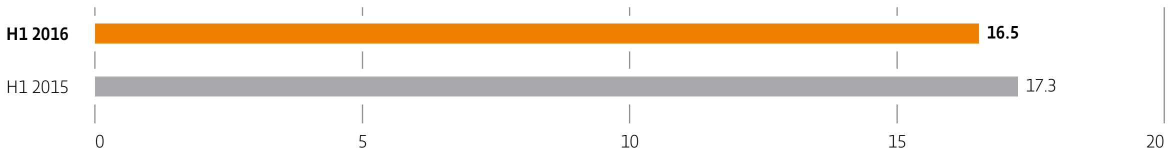
Despite the lack of project business during the period under review, the Trading Business Unit reported **shipments** that almost matched the year-earlier level. **Sales** nonetheless fell significantly short of the prior-year figure due to the markedly lower average prices in the first half-year. Although the earnings situation of the stockholding steel trade remained weak in the first quarter, in the following months higher margins – along with the also positive performance of the international business – contributed to a presentable **pre-tax profit** of € 16.5 million. This figure therefore almost repeated the result of the first six months 2015 (€ 17.3 million).

Sales



in € m

EBT



in € m

In combination with slightly lower shipment volumes of the **Salzgitter Mannesmann Handel Group** (SMHD Group) compared with the previous year's period, lower selling prices resulted in a disproportionate downturn in sales. This development was mainly attributable to international trading's project business that had not been fully invoiced as well as to the tense steel market situation in the oil and gas producing countries of Africa and the US. By contrast, the shipments of the European stockholding steel trade remained virtually stable with pleasing margins. As a result, the SMHD Group generated an impressive pre-tax profit that exceeded the result of the prior-year period.

In the first half of 2016, the shipments of the European **stockholding steel trading** companies remained virtually unchanged from the 2015 level. The pressure prevailing on market prices during the first quarter nevertheless caused sales to decline. On the other hand, the pre-tax result was markedly positive during the second quarter on the back of the price increases implemented and exceeded the year-earlier result.

In **international trading**, the project business that had not been fully invoiced, in conjunction with the slowdown in demand in Africa and the US, caused shipment volumes to decline. Together with the lower price level compared with the first half of 2015, sales dropped in a year-on-year comparison. The pre-tax profit was also lower than in the first six months of 2015.

The **Universal Eisen und Stahl Group** (UES Group) continued to operate in a market characterized by uneven demand, high supply levels and short delivery times, with largely stagnating prices that subsequently staged a notable recovery during the second quarter. Universal Eisen und Stahl GmbH (UES) met the challenge of the prevailing market conditions by continuing to focus on high margin areas, with the associated reduction in costs. The group's sales declined against the backdrop of lower shipment volumes and weaker average prices. Business activities on the US market were hampered by subdued demand in the first half of 2016, which was attributable to the oil and gas sector in particular. This scenario led to fierce price-led competition and consequently dwindling earnings, and ultimately to a negative pre-tax result. All in all, the UES Group nevertheless achieved breakeven in its pre-tax result that, however, fell short of the 2015 figure which was boosted by dividend income.

Technology Business Unit

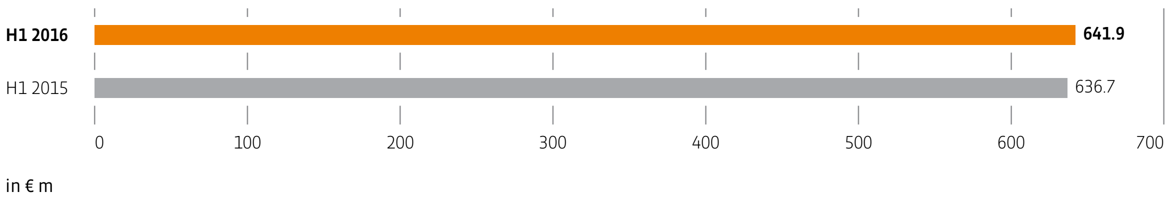
		Q2 2016	Q2 2015	H1 2016	H1 2015
Order intake	€ m	265.4	236.0	579.1	554.5
Order backlog on reporting date	€ m			622.3	555.6
Segment sales[1)]	€ m	**325.7**	**321.4**	**641.9**	**636.7**
External sales	€ m	**325.6**	**321.2**	**641.7**	**636.3**
Earnings before taxes (EBT)	€ m	**5.7**	**4.5**	**12.6**	**14.6**

[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.

According to the statistics of the German Engineering Federation (VDMA), the sector's order intake appreciably exceeded the previous year's level. Both domestic and international demand picked up significant momentum. The industry’s sales made an only marginal recovery. Order intake in the market for food and packaging machinery developed extremely well. Domestic order activity dropped notably below that of the previous year, while orders from abroad increased substantially.

Sales



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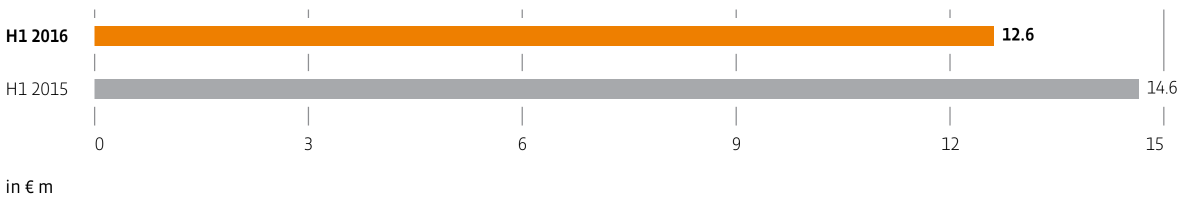

The Technology Business Unit’s **order intake** exceeded the prior-year figure in the period under review. Klöckner DESMA Elastomer Group (KDE) and the KHS Group significantly outperformed the prior-year figures, as opposed to Klöckner DESMA Schuhmaschinen GmbH (KDS), where new orders entered a downtrend. The segment’s **orders on hand** settled at a level that was appreciably higher than in the first six months of 2015.

Segment and **external sales** almost repeated the year-earlier level. While the KHS Group and KDS reported growth, the KDE Group saw its sales decline.

The Technology Business Unit achieved presentable **earnings before taxes** of € 12.6 million that – against the backdrop of the downturn in the results of KHS and the KDE Group – almost repeated the year-earlier level (€ 14.6 million). KDS's result increased in a year-on-year comparison.

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, 100% On-Time-In-Full (OTIF), and the preference portfolio on which the program continues to focus. The realization of these intrinsically interrelated topics is generally proceeding according to plan and is generating initial positive impetus.

Industrial Participations / Consolidation

		Q2 2016	Q2 2015	H1 2016	H1 2015
Sales[1)]	**€ m**	**199.0**	**208.0**	**375.4**	**411.8**
External sales	**€ m**	**46.4**	**48.7**	**94.1**	**97.7**
Earnings before taxes (EBT)	**€ m**	**19.4**	**25.0**	**31.8**	**43.7**

[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 by business in semi-finished products and services provided for subsidiaries declined to € 375.4 million in the reporting period (first half year of 2015: € 411.8 million). **External sales** (€ 94.1 million) fell slightly short of the prior-year level (€ 97.7 million).

Earnings before taxes, that came in at € 31.8 million, declined compared with the year-earlier figure (first half of 2015: € 43.7 million). This includes € 26.1 million in income from the Aurubis investment (first half of 2015: € 16.4 million) and 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 figures posted in the first six months of 2015. Valuation effects from foreign exchange transactions delivered a substantially lower, but nonetheless positive result in a year-on-year comparison.

Financial Position and Net Assets

Explanations on the balance sheet

The **total assets** of the Salzgitter Group rose by € 103 million in the current reporting period compared with December 31, 2015.

Non-current assets (€ +79 million) increased due to the income tax assets (€ +76 million) in particular. The amount of scheduled depreciation and amortization of fixed assets (€ –172 million) marginally exceeded the investments (€ +167 million) in the reporting period. Moreover, the investments accounted for using the equity method also increased (€ +15 million). The growth in current assets (€ +24 million) resulted mainly from the higher level of trade receivables (€ +170 million) and of securities (€ +53 million). A counter trend emanated from lower inventories (€ –122 million) and cash and cash equivalents (€ –95 million).

On the **liabilities side**, pension provisions were valued € 340 million higher as the actuarial rate derived from the current level of capital market interest rates had dropped to 1.25% (December 31, 2015: 2.25%). Equity declined accordingly (€ –239 million), with the equity ratio nonetheless amounting to a sound 31.6%. Non-current liabilities were € 503 million higher compared with the prior-year reporting date. Along with pension provisions, financial liabilities, resulting in particular from the newly issued bonded loan, increased (€ +171 million). By contrast, current liabilities fell by € 161 million, which is largely attributable to lower income tax liabilities (€ –156 million) as well as declining trade payables (€ –44 million). Other current financial liabilities (€ +19 million) and current other tax liabilities (€ +17 million) had a countermanding effect.

The **net financial position** dropped to € 183 million (December 31, 2015: € 415 million) first and foremost due to a precautionary tax payment, but nevertheless still remains at a comfortable level. Cash investment, including securities of € 1.17 billion (December 31, 2015: € 1.22 billion) were offset by liabilities of € 989 million (December 31, 2015: € 803 million), of which € 302 million were owed to banks (December 31, 2015: € 282 million).

Notes to the cash flow statement

With a pre-tax profit of € 16 million, the **cash flow from operating activities** came in at a marginally negative amount of € 6 million (previous year: € –12 million). The precautionary payment of income tax is offset by the decline in inventories in particular.

The **cash outflow from investing activities** of € –218 million (previous year: € –261 million) mainly reflects disbursements for capital expenditure in intangible assets and property, plant and equipment (€ –171 million).

The **cash inflow from financing activities** of € 131.5 million resulted principally from incoming payments in connection with the issuing of a bonded loan (previous year: € +135 million). A counter trend emanated from the redemption of part of the bonds and dividend distribution.

Owing to the negative cash flow, **cash and cash equivalents** declined accordingly (€ 741 million) compared with December 31, 2015.

Investments

Investments in property, plant and equipment and intangible assets stood at € 166.8 million in the first half of 2016, thereby exceeding the year-earlier figure (€ 143.0 million); depreciation and amortization (€ –172.3 million) were also higher than in the first six months of 2015 (€ –166.9 million).

The **Strip Steel Business Unit** focused its investments on new aggregates as well as on optimizing and extending its existing facilities in the first quarter of 2016. 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 steep decline in oil prices. Further work on optimizing the facility 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 a 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. Solid construction work continued in the second quarter of 2016. 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 CO_2 emissions.

The investments of **Ilsenburger Grobblech GmbH** (ILG) in the **Plate / Section Steel Business Unit** were mainly concentrated on replacement purchases in the first half of 2016. Individual measures are geared toward improving the quality and optimizing processes.

The **Energy Business Unit** is focusing first and foremost on replacement and supplementary investments in 2016. In the period under review, **Salzgitter Mannesmann Stainless Tubes Group** (MST Group) successfully integrated the extended production capabilities of the extrusion press in France. The installation of a state-of-the-art leveling machine for large diameters has also been planned for this summer. 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 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 half 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. Based on highly standardized products and processes, the extensive "Product Configurator" project launched in 2012 enables an even more effective tendering of quotations and processing of orders. The modeling of the KHS product portfolio's key components for the configurator is scheduled for completion in the third quarter of 2016. Work on the extensive modernization of the Bad Kreuznach site to ensure lean manufacturing, initiated in 2015 for implementation over a number of years, continued during the reporting period. Due to the sustained growth of the PET business, a further assembly hall will be added to the Hamburg and Kleve sites respectively. The blow mold production is also being extended for the same reason.

Research and Development

Salzgitter Mannesmann Forschung GmbH (SZMF) is the central research company of the Strip Steel, Plate / Section Steel and Energy 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.

Fuel injection pipes – more efficiency through autofrettage

The imposing of more stringent exhaust emission standards for passenger cars is forcing the manufacturers to further optimize fuel combustion. Against this backdrop, the stricter Euro 6c exhaust gas standard that enters into force in September 2017 will raise the injection pressures from 200 bar to 400 bar. With this in mind, Salzgitter Mannesmann Stainless Tubes GmbH (MST) and SZMF initiated a preproduction series to improve the fatigue strength of the stainless steel injection pipes of 8.00 mm in diameter and a wall thickness of 1.50 mm. The potential of an optimized autofrettage (strength improvement through pulsating internal pressure that can deliver greater durability with a low risk of failure) has already been identified.

High-performance steel water wheel development project

Water wheel technology is a development project of Salzgitter AG (SZAG) in joint cooperation with TU Braunschweig in the field of renewable energy applications. This innovative technology is being developed and implemented in practice with the participation of several Group companies, including Salzgitter Flachstahl GmbH (SZFG) and SZMF. The targeted improvement in efficiency and effectiveness signifies a leap forward in the technology of hydropower machines that are said to have huge potential for generating base-load capable renewable energies. The first research hydropower plant is currently being built on the Aller River in Bannetze-Hornbostel. Commissioning is scheduled for 2017.

Ground-breaking packaging solution for PET bottles

In the Nature Multipack™, KHS subsidiary NMP Systems GmbH (NMP) has launched a unique packaging innovation on the market that dispenses with conventional multipacks made of cardboard, shrink film or plastic rings. By comparison, the Nature MultiPack™ saves up to 85 % on packaging materials and up to 67 % on the energy used in production. The packs consist of PET bottles that are bonded together with specially developed adhesives and with handles that make it easy to carry them. The packaging has been robustly designed for transport and distribution logistics, and the bottles can be easily detached from the multipack. Close collaboration with Danone Waters resulted in the successful market launch of the composite system featuring the premium Evian brand in France and Belgium. The German Design Award for outstanding communication design and sustainable packaging was conferred on KHS for this innovation in February 2016.

Employees

	2016/06/30	2015/12/31	Change
Core workforce[1)]	**23,367**	**23,524**	**–157**
Strip Steel Business Unit	6,189	6,130	59
Plate / Section Steel Business Unit	2,694	2,952	–258
Energy Business Unit	4,833	4,895	–62
Trading Business Unit	1,877	1,858	19
Technology Business Unit	5,216	5,146	70
Industrial Participations / Consolidation	2,558	2,543	15
Apprentices, students, trainees	1,207	1,494	–287
Non-active age-related part-time employment	469	441	28
Total workforce	**25,043**	**25,459**	**–416**

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 23,367 employees on June 30, 2016, representing a reduction of 157 staff members compared with December 31, 2015. A total of 247 trainees were hired during the reporting period, 188 of whom were given temporary contracts. A counter effect emanated above all from members of the company going into non-active age-related part-time or reaching retirement age.

The **total workforce** amounted to 25,043 employees.

The number of **temporary staff** outsourced stood at 1,043 on June 30, 2016, which marks a decline of 395 persons in a year-on-year comparison. At the end of the reporting period no employees 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. Around 94% of all personnel-related adjustments had been carried out by June 30, 2016. Negotiations concerning the implementation of supplementary **efficiency programs** were concluded upon the signing of a compensation and redundancy scheme at Salzgitter Mannesmann Line Pipe GmbH (MLP) and a white paper drawn up for this purpose at Ilsenburger Grobblech GmbH (ILG). The respective discussions at Salzgitter Mannesmann Grobblech GmbH (MGB) have not yet been finalized.

A **pilot collective agreement** for the **metal and electrical industry** was concluded in the pay scale area of North Rhine-Westfalia on May 13, 2016, and was subsequently adopted by the rest of the Federal Republic. The agreement is valid for some 27% of the Group's domestic workforce and, following an initial three-month freeze (April until June), provides for an increase in wages and salaries and trainee allowances of 2.8% from July 1, 2016 onward, with a further rise of 2.0% as from April 1, 2017. The agreement will run until December 31, 2017.

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 renewed recessionary developments. Instead they are based more on the assumption of a moderate economic recovery in our persistently contested main markets.

Over the remainder of the year, the **Strip Steel Business Unit** anticipates an uptrend that will be attributable first and foremost to the decline in dumped Chinese imports and the associated increase in the selling prices of strip steel products. This uptrend will not, however, be able to compensate for the losses accumulated from the temporary destruction of market equilibrium. Against this backdrop, a downturn in sales and a marginal decline 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 that the plate companies had to contend with appears to have been halted for the time being. The Mülheim mill is benefiting from comparatively good capacity utilization due to the awarding of the Nord Stream 2 project. The section steel business remains exposed to a difficult market environment; short-term fluctuations in demand and scrap steel prices make forecasting more difficult. 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. Sales are anticipated at a notably lower level due above all to selling prices.

The companies of the **Mannesmann Business Unit**, renamed as of August 1, 2016 (formerly: **Energy Business Unit**), report a very heterogeneous performance: While capacity utilization in the large-diameter pipe mills is good, order bookings in the segment of medium-diameter line pipes are unsatisfactory as a result of energy prices. The precision tube companies expect stable demand from automotive manufacturers, as opposed to the markets of the energy and industry product segments that are likely to display a weaker trend. The stainless steel tubes business anticipates a gradual market recovery following initially reticent order intake during the first months of 2016. The sales and pre-tax result of the Mannesmann Business Unit are expected to settle around the 2015 level.

The **Trading Business Unit** expects the price level and demand conditions to stabilize as the financial year 2016 progresses. 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 downturn in 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 growth through profitable product segments, as well as through the additional expansion of its service business. The prospects of the smaller specialist mechanical engineering companies are also positive.

Against this backdrop, the **Salzgitter Group** affirms its forecast of June 28, 2016 and assumes the following, as before:

- a decline in **sales** to between € 8.0 and 8.5 billion (previous year - actual: € 8.6 billion),
- an increase in **pre-tax profit** compared to 2015 (previous year - actual: € 13 million) to between € 30 and 60 million, which already includes the balance of around € 10 million in burdens on earnings for individual measures aimed at structural improvements within the Group and income from the sale of assets,
- a **return on capital employed** that is marginally higher year on year (previous year: 2.1 %).

The forecast above also includes the results of the sheet piling activities discontinued at year-end 2015.

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, imponderables from Brexit, the development of the Russia-Ukraine conflict, and political uncertainties in the Near and Middle East. We regard the fundamentally high import pressure, emanating above all from China, 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.

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 described in the Annual Report 2015. 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. Furthermore, our Group will likely have to purchase CO_2-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 generally view the probability of occurrence as likely due to the nature of EEG and CO_2/emissions trading. 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 € 590 million

In a market environment continuously determined by the structural crisis in Europe's steel industry, the "Salzgitter AG 2015" program is geared to securing competitiveness. The implementation of the package of measures yielding an overall potential of more than € 200 million is proceeding according to plan and has reached an 80% implementation level. The program is scheduled to have been largely completed by the end of 2016.

Additional measures in many areas supplement the "Salzgitter AG 2015" program. Measures yielding € 260 million are due to be implemented over the years 2016 and 2017. Of these measures, more than 20% have already been implemented. Firstly, extensive cost-cutting and efficiency enhancing measures for the Ilsenburger Grobblech GmbH (ILG) and Salzgitter Mannesmann Grobblech GmbH (MGB) plants are necessary to take account of new and challenging factors in the environment. Salzgitter Mannesmann Line Pipe GmbH (MLP) is also preparing the ground for capacity adjustments and other measures to lower costs at its Siegen and Hamm locations in response to the permanently subdued demand anticipated in connection with lower energy prices. Negotiations concerning the implementation of these supplementary measures were concluded at MLP upon the signing of a compensation and redundancy scheme, and a white paper drawn up for the same purpose at Ilsenburger Grobblech GmbH (ILG). The respective discussions at MGB have not yet been finalized. Secondly, the measures pertain to the continuous profit improvement programs of individual companies as part of ongoing processes. Other projects, including investments such as the construction of a Ruhrstahl-Heraeus (RH) plant at the site of Salzgitter Flachstahl GmbH (SZFG) are focused on strengthening and expanding our business lines.

The combined profit potential since the launch in 2012 amounts to € 590 million.

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. Definitive duties will be 19% to 36% higher than the provisional ones. Furthermore, the EU Commission will levy duties retrospectively for the period of import registration (mid-December 2015 to mid-February 2016), with the respective consequences for importers. If import registration is introduced, the steps taken by the EU Commission should also have an impact on the proceedings currently under way.

Along with the anti-dumping proceedings concerning plate and hot-rolled strip initiated against China back in February, two additional proceedings were instituted by the EU Commission in May and July 2016: On May 13, 2016, an anti-subsidy action was brought against hot-rolled strip from China. This legal action runs parallel to the anti-dumping procedure that has already been launched and has been brought against the subsidies that, according to WTO law, have been unlawfully received by Chinese steel producers. Moreover, anti-dumping proceedings were initiated against hot-rolled strip imports from Russia, Ukraine, Brazil, Serbia and Iran on July 7, 2016. The outcome of both lawsuits is only anticipated in the coming spring.

The form that China's Protocol of Accession to the WTO is to take is the subject of intensive public debate under the keywords of “China’s market economy status”. Following an initial debate on July 20, 2016, the EU Commission announced that, despite the expiry of a number of provisions under the WTO Protocol of Accession in December 2016, it is working on a proposal designed to safeguard against unfair imports from China. The proposal on amendments to the general anti-dumping directive is due for submission in autumn.

European Court: special equalization scheme under the German Renewable Energies Act (EEG) for energy-intensive companies

On May 10, 2016, the European Court ruled that the European Commission's treatment of the special equalization scheme for energy-intensive companies under the German Renewable Energies Act is commensurate with state aid and rejected an action filed by the German government. Should the ruling become final, there will be virtually no scope in future for exceptions in the form of special national levies - the EEG levy being an example – for companies competing in the international arena with competitors that are not burdened by such levies.

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.

Alternative financial performance measures

This interim report includes the following alternative performance measures 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)

$$\textbf{ROCE}\text{ (annualized)} = \frac{\textbf{EBIT I}}{\textbf{Capital employed/12 x 6}} \times 100\,\%$$

EBIT I (Earnings before Interest and Taxes I)

In € m	H1 2016	H1 2015
EBT	16.1	80.2
+ Interest expenses	44.5	45.1
– Interest expenses for pension provisions	25.3	23.6
= EBIT I	**35.3**	**101.7**

Capital employed

In € m	H1 2016	H1 2015
Total assets	8,387.1	8,570.4
– Pension provisions	2,646.9	2,335.8
– Other provisions excluding provision for income taxes	602.4	657.1
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting, derivatives	1,349.4	1,506.1
– Deferred tax claims	375.3	285.9
= Capital employed	**3,413.1**	**3,785.5**

More detailed explanations on the derivation of ROCE are given on page 62f of the 2015 Annual Report.

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

In € m	H1 2016	H1 2015
EBT	16.1	80.2
+ Interest expenses	44.5	45.1
– Interest income	8.8	11.4
= EBIT	51.8	113.9
= Depreciation/amortization	172.3	166.9
= EBITDA	**224.1**	**280.8**

Net financial position

In € m	2016/06/30	2015/12/31
Investments of funds	1,171.8	1,218.0
– Bonds	486.6	520.7
– Borrower's note	201.0	0.0
– Other financial obligations	301.6	282.4
= Net financial position	**182.6**	**414.9**

Interim Income Report

I. Consolidated Income Statement[1)]

In € million	Q2 2016	Q2 2015	H1 2016	H1 2015
Sales	2,098.7	2,208.4	3,954.3	4,462.4
Increase/decrease in finished goods and work in process/other own work capitalized	– 52.3	4.8	– 48.0	– 9.1
	2,046.4	**2,213.2**	**3,906.2**	**4,453.4**
Other operating income	59.6	43.2	102.9	139.0
Cost of materials	1,351.4	1,481.3	2,529.1	2,960.9
Personnel expenses	417.2	408.9	823.4	806.3
Amortization and depreciation of intangible assets and property, plant and equipment	86.2	84.2	172.3	166.8
Other operating expenses	235.7	226.3	474.4	546.5
Income from shareholdings	2.7	0.2	3.0	7.1
Result from investments accounted for using the equity method	14.3	11.2	35.5	27.1
Finance income	3.8	4.0	9.0	11.4
Finance expenses	22.9	23.0	44.4	45.5
Earnings before taxes (EBT)	**13.6**	**48.0**	**13.0**	**112.0**
Income tax	4.6	19.8	6.7	38.8
Consolidated result from continued operations	9.0	28.3	6.2	73.2
Consolidated result from discontinued operations	– 0.7	– 19.7	3.1	– 31.8
Consolidated result	**8.3**	**8.6**	**9.3**	**41.3**
Amount due to Salzgitter AG shareholders	7.2	7.2	7.1	38.7
Minority interest	1.1	1.5	2.2	2.6
Appropriation of profit				
Consolidated result	8.3	8.6	9.3	41.3
Profit carried forward from the previous year	–	–	15.1	12.1
Minority interests in consolidated net loss for the year	1.1	1.5	2.2	2.6
Dividend payment	– 13.5	–	– 13.5	– 10.8
Transfer from (+)/to (–) other retained earnings	– 7.2	– 7.2	– 7.1	– 38.7
Unappropriated retained earnings of Salzgitter AG	**–**	**0.0**	**1.6**	**1.3**
Earnings per share (in €) – basic	**0.13**	**0.14**	**0.13**	**0.72**
Earnings per share (in €) – diluted	**0.13**	**0.14**	**0.13**	**0.72**

[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.

II. Statement of Comprehensive Income

In € million	Q2 2016 Total	Q2 2016 Amount due to Salzgitter AG shareholders	Q2 2016 Minority interest	H1 2016 Total	H1 2016 Amount due to Salzgitter AG shareholders	H1 2016 Minority interest
Consolidated result	**8.3**	**7.3**	**1.1**	**9.3**	**7.1**	**2.2**
Recycling						
Reserve from curreny translation	5.0	5.0	–0.0	–2.0	–2.0	0.0
Changes in value from cash flow hedges	20.1	20.1	–	39.9	39.9	–
Fair value change	16.9	16.9	–	29.3	29.3	–
Basis adjustments	3.3	3.3	–	10.4	10.4	–
Recognition with effect on income	0.1	0.1	–	–0.4	–0.4	–
Deferred tax	–0.2	–0.2	–	0.6	0.6	–
Change in value due to available-for-sale financial assets	0.5	0.5	–	1.1	1.1	–
Fair value change	0.5	0.5	–0.0	1.1	1.1	–0.0
Recognition with effect on income	–	–	–	–	–	–
Deferred tax	–0.0	–0.0	–	–0.0	–0.0	–
Changes in value of investments accounted for using the equity method	2.0	2.0	–	4.4	4.4	–
Fair value change	1.1	1.1	–	7.7	7.7	–
Recognition with effect on income	–	–	–	–	–	–
Currency translation	2.1	2.1	–	–2.1	–2.1	–
Deferred tax	–1.2	–1.2	–	–1.2	–1.2	–
Deferred taxes on other changes without effect on the income	0.0	0.0	–	–0.1	–0.1	–
Subtotal	**27.6**	**27.6**	**–0.0**	**43.3**	**43.3**	**0.0**
Non-recycling						
Remeasurements	–133.4	–133.4	–0.0	–266.9	–266.9	–0.0
Remeasurement of pensions	–170.0	–170.0	–0.0	–340.1	–340.1	–0.0
Deferred tax	36.6	36.6	–	73.2	73.2	–
Changes in value of investments accounted for using the equity method	–9.7	–9.7	–	–9.7	–9.7	–
Subtotal	–143.1	–143.1	–0.0	–276.6	–276.6	–0.0
Other comprehensive income	**–115.5**	**–115.5**	**–0.0**	**–233.3**	**–233.3**	**0.0**
Total comprehensive income	**–107.2**	**–108.3**	**1.1**	**–224.0**	**–226.2**	**2.2**
Continuing operations		–107.5			–229.3	
Discontinued operation		–0.7			3.1	

In € million	Q2 2015 Total	Q2 2015 Amount due to Salzgitter AG shareholders	Q2 2015 Minority interest	H1 2015 Total	H1 2015 Amount due to Salzgitter AG shareholders	H1 2015 Minority interest
Consolidated result	**8.6**	**7.2**	**1.4**	**41.3**	**38.7**	**2.6**
Recycling						
Reserve from curreny translation	–9.1	–9.2	0.1	13.9	13.9	–0.1
Changes in value from cash flow hedges	12.3	12.3	–	–21.3	–21.3	–
Fair value change	2.4	2.4	–	–39.1	–39.1	–
Basis adjustments	17.4	17.4	–	17.4	17.4	–
Recognition with effect on income	–10.1	–10.1	–	–2.2	–2.2	–
Deferred tax	2.6	2.6	–	2.6	2.6	–
Change in value due to available-for-sale financial assets	–1.6	–1.6	0.0	–0.7	–0.7	–0.0
Fair value change	–1.6	–1.6	0.0	–0.6	–0.6	–0.0
Recognition with effect on income	–	–	–	–	–	–
Deferred tax	0.1	0.1	–	–0.0	–0.0	–
Changes in value of investments accounted for using the equity method	–0.5	–0.5	–	–3.5	–3.5	–
Fair value change	–1.4	–1.4	–	–13.1	–13.1	–
Recognition with effect on income	–	–	–	–	–	–
Currency translation	–1.4	–1.4	–	7.0	7.0	–
Deferred tax	2.4	2.4	–	2.6	2.6	–
Deferred taxes on other changes without effect on the income	–0.0	–0.0	–	–0.0	–0.0	–0.0
Subtotal	1.1	1.1	0.1	–11.6	–11.6	–0.1
Non-recycling						
Remeasurements	270.0	270.0	–0.0	85.0	85.0	0.0
Remeasurement of pensions	270.0	270.0	–0.0	85.0	85.0	0.0
Deferred tax	–	–	–	–	–	–
Changes in value of investments accounted for using the equity method	–7.7	–7.7	–	–28.1	–28.1	–
Subtotal	262.3	262.3	–0.0	56.9	56.9	0.0
Other comprehensive income	**263.4**	**263.4**	**0.1**	**45.3**	**45.4**	**–0.1**
Total comprehensive income	**272.0**	**270.5**	**1.5**	**86.6**	**84.1**	**2.6**
Continuing operations		290.2			115.8	
Discontinued operation		–19.7			–31.8	

III. Consolidated Balance Sheet

Assets in € million	2016/06/30	2015/12/31
Non-current assets		
Intangible assets	212.3	156.6
Property, plant and equipment	2,339.9	2,405.0
Investment property	21.3	21.4
Financial assets	152.2	154.6
Investments accounted for using the equity method	627.4	612.4
Deferred income tax assets	375.3	299.7
Other receivables and other assets	0.7	0.7
	3,729.2	**3,650.4**
Current assets		
Inventories	1,688.5	1,810.8
Trade receivables	1,666.0	1,495.8
Other receivables and other assets	430.2	416.8
Income tax assets	23.2	18.3
Securities	108.8	55.8
Cash and cash equivalents	741.2	836.2
	4,657.9	**4,633.7**
	8,387.1	**8,284.1**

Equity and liabilities in € million	2016/06/30	2015/12/31
Equity		
Subscribed capital	161.6	161.6
Capital reserve	257.0	257.0
Retained earnings	2,581.4	2,839.8
Other reserves	14.6	–19.1
Unappropriated retained earnings	1.6	15.1
	3,016.2	**3,254.4**
Treasury shares	–369.7	–369.7
	2,646.5	**2,884.7**
Minority interests	7.0	8.1
	2,653.5	**2,892.8**
Non-current liabilities		
Provisions for pensions and similar obligations	2,646.9	2,327.3
Deferred tax liabilities	27.4	27.6
Income tax liabilities	54.4	37.2
Other provisions	307.2	307.2
Financial liabilities	713.8	543.0
Other liabilities	18.9	23.5
	3,768.7	**3,265.8**
Current liabilities		
Other provisions	295.3	299.6
Financial liabilities	304.1	284.9
Trade payables	932.0	975.7
Income tax liabilities	35.1	190.6
Other liabilities	398.4	374.7
	1,964.9	**2,125.5**
	8,387.1	**8,284.1**

IV. Cash Flow Statement

In € million	H1 2016	H1 2015
Earnings before taxes (EBT)[1)]	16.1	80.2
Depreciation, write-downs (+)/write-ups (–) of non-current assets	172.3	166.9
Income tax paid (–)/refunded (+)	– 136.2	– 23.3
Other non-cash expenses (+)/income (–)	55.7	147.5
Interest expenses	44.5	45.1
Gain (–)/loss (+) from the disposal of non-current assets	3.7	3.1
Increase (–)/decrease (+) in inventories	125.5	– 11.3
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	– 193.2	– 246.9
Use of provisions affecting payments, excluding income tax provisions	– 130.6	– 118.8
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	35.9	– 54.5
Cash outflow/inflow from operating activities	**– 6.2**	**– 12.1**
Cash inflow from the disposal of fixed assets	0.4	0.7
Cash outflow for investments in intangible assets and property, plant and equipment	– 170.6	– 153.1
Cash inflow (+)/outflow (–) for/from investments of funds	– 50.8	– 112.1
Cash inflow from the disposal of financial assets	6.8	6.7
Cash outflow for investments in financial assets	– 4.0	– 3.1
Cash flow from investment activities	**– 218.2**	**– 260.9**
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	158.3	152.2
Interest paid	– 13.2	– 6.7
Cash outflow/inflow from financing activities	**131.5**	**134.7**
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	0.2	
Gains and losses from changes in foreign exchange rates	– 2.2	2.6
Payment-related changes in cash and cash equivalents	– 92.9	– 138.3
Cash and cash equivalents at the end of the period	**741.2**	**638.3**

[1)] 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 2014/12/31 restated	**161.6**	**238.6**	**–369.7**	**2,847.8**	**–2.2**
Total comprehensive income	–	–	–	54.1	12.2
Dividend	–	–	–	–	–
Group transfers to(+)/from(–) retained earnings	–	18.3	–	–61.9	–
Other	–	–	–	–0.2	–
As of 2015/06/30	**161.6**	**257.0**	**–369.7**	**2,839.8**	**10.0**
As of 2015/12/31	**161.6**	**257.0**	**–369.7**	**2,839.8**	**9.9**
Total comprehensive income	–	–	–	–267.0	–2.0
Dividend	–	–	–	–	–
Group transfers to(+)/from(–) retained earnings	–	–	–	7.1	–
Other	–	–	–	1.5	–
As of 2016/06/30	**161.6**	**257.0**	**–369.7**	**2,581.4**	**7.9**

				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**	**2,875.5**
	– 14.1	– 0.1	5.7	– 48.1	9.7	2.4	12.1
	–	–	–	– 10.8	– 10.8	– 2.6	– 13.5
	–	–	–	61.9	18.3	–	18.3
	–	–	–	–	– 0.2	0.6	0.4
	– 33.3	**– 9.5**	**13.8**	**15.1**	**2,884.8**	**8.1**	**2,892.9**
	– 33.3	**– 9.4**	**13.7**	**15.1**	**2,884.7**	**8.1**	**2,892.8**
	39.9	1.1	– 5.3	7.1	– 226.2	2.2	– 224.0
	–	–	–	– 13.5	– 13.5	– 3.0	– 16.5
	–	–	–	– 7.1	–	–	–
	–	–	–	–	1.5	– 0.3	1.2
	6.6	**– 8.3**	**8.4**	**1.6**	**2,646.4**	**7.0**	**2,653.5**

Notes

Segment Reporting

In € million	Strip Steel		Plate / Section Steel		Energy	
	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015
External sales	937.0	1,030.1	366.6	500.2	502.5	574.9
Sales to other segments	287.2	336.3	352.4	447.9	33.3	60.5
Sales to group companies that are not allocated to an operating segment	0.9	1.0	0.5	0.5	144.9	164.0
Segment sales	1,225.1	1,367.4	719.6	948.6	680.7	799.4
Interest income (consolidated)	0.1	1.7	0.7	0.2	0.3	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	0.6	0.4
Segment interest income	0.2	1.7	0.7	0.3	0.9	0.7
Interest expenses (consolidated)	8.4	8.1	1.7	1.6	4.2	4.8
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	13.4	17.0	6.7	6.8	2.9	3.7
Segment interest expenses	21.8	25.0	8.4	8.4	7.1	8.4
of which interest portion of allocations to pension provisions	7.0	6.4	1.6	1.5	2.5	2.4
Depreciation of property, plant and equipment and amortization of intangible assets	90.6	85.1	23.3	22.7	28.6	29.1
Of which scheduled depreciation of property, plant and equipment and amortization of intangible assets	90.6	85.1	23.3	22.7	28.6	29.1
EBIT before depreciation and amortization (EBITDA)	75.0	129.1	14.1	11.3	44.2	40.1
Earnings before interest and taxes (EBIT)	–15.6	44.0	–9.3	–11.4	15.6	11.0
Segment earnings before taxes	–37.3	20.7	–17.0	–19.5	9.4	3.3
of which result from investments accounted for using the equity method	–	–	–	–	11.1	–10.1
Investments in property, plant and equipment and intangible assets	108.8	68.3	11.2	19.3	23.5	29.9

Trading		Technology		Total segments		Industrial Participations / Consolidation		Group	
H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015
1,425.5	1,690.3	641.7	636.3	3,873.4	4,431.9	94.1	97.7	3,967.5	4,529.6
13.6	74.9	0.2	0.3	686.7	920.0	281.2	314.1	968.0	1,234.1
0.1	0.0	–	–	146.3	165.5	–	–	146.3	165.5
1,439.2	1,765.3	641.9	636.7	4,706.4	5,517.4	375.4	411.8	5,081.8	5,929.2
1.5	2.3	1.8	1.5	4.4	6.0	4.4	5.3	8.8	11.4
–	0.0	–	–	–	0.0	23.4	28.4	23.4	28.4
1.4	0.3	0.2	0.0	2.3	0.9	–	–	2.3	0.9
2.9	2.6	2.0	1.5	6.7	7.0	27.8	33.7	34.5	40.7
4.6	5.0	1.6	1.4	20.5	20.9	24.0	24.3	44.5	45.1
–	–	–	–	–	–	2.3	0.9	2.3	0.9
0.1	0.7	0.3	0.3	23.4	28.4	–	–	23.4	28.4
4.7	5.7	2.0	1.7	44.0	49.2	26.2	25.2	70.2	74.4
1.2	1.1	1.2	1.2	13.5	12.6	11.8	11.0	25.3	23.6
5.1	4.9	11.0	11.4	158.7	153.2	13.6	13.7	172.3	166.9
5.1	4.9	11.0	11.4	158.7	153.2	13.6	13.7	172.3	166.9
23.4	25.2	23.6	26.2	180.3	232.0	43.8	48.9	224.1	280.8
18.4	20.3	12.6	14.8	21.6	78.7	30.2	35.2	51.8	113.9
16.5	17.3	12.6	14.6	–15.7	36.5	31.8	43.7	16.1	80.2
–	–	–	–	11.1	–10.1	24.4	37.2	35.5	27.1
3.3	6.1	11.2	6.8	157.9	130.5	8.8	12.5	166.8	143.0

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

1. The consolidated financial report of Salzgitter AG, Salzgitter (SZAG), for the reporting period from January 1 to June 30, 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 June 30, 2016, barring the following exception.
3. In calculating the fair value of defined benefit obligations as of June 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 is 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 loss-making for years, due in particular to demand declining in the sheet piling market. In June of the previous financial year, the Executive Board therefore decided to discontinue business operations in order to avoid further negative consequences for the Salzgitter Group. In December 2015, production was subsequently wound down, while the delivery of the products took place only 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.

Result from discontinued operation

	H1 2016			H1 2015		
	Discontinued operation	Continuing operations	Total	Discontinued operation	Continuing operations	Total
In € m						
Sales	13.3	3,954.3	3,967.5	67.2	4,462.4	4,529.6
Increase/decrease in finished goods and work in process/other own work capitalized	– 6.8	– 48.0	– 54.9	– 0.3	– 9.1	– 9.3
	6.4	**3,906.2**	**3,912.6**	**66.9**	**4,453.4**	**4,520.3**
Other operating income	0.9	102.9	103.7	0.8	139.0	139.8
Cost of materials	1.5	2,529.1	2,530.5	57.2	2,960.9	3,018.1
Personnel expenses	0.8	823.4	824.2	36.1	806.3	842.4
Amortization and depreciation of intangible assets and property, plant and equipment	–	172.3	172.3	0.1	166.8	166.9
Other operating expenses	1.8	474.4	476.3	5.9	546.5	552.4
Income from shareholdings	–	3.0	3.0	–	7.1	7.1
Result from investments accounted for using the equity method	–	35.5	35.5	–	27.1	27.1
Finance income	0.0	9.0	9.0	0.0	11.4	11.4
Finance expenses	0.1	44.4	44.5	0.2	45.5	45.6
Earnings before taxes (EBT)	**3.1**	**13.0**	**16.1**	**– 31.8**	**112.0**	**80.2**
Income tax	–	6.7	6.7	–	38.8	38.8
Consolidated result	**3.1**	**6.2**	**9.3**	**– 31.8**	**73.2**	**41.3**

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	H1 2016	H1 2015
Cash flow from operating activities	– 3.5	– 14.1
Cash outflow/inflow from investment activities	0.2	– 2.0
Cash inflow/outflow from financing activities	–	–
Change in cash and cash equivalents of the discontinued operations	**– 3.3**	**– 16.1**

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 € 0.13 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 € 0.13.

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 (€ 253.6 million) of a bond issued 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	2016/06/30
Book value	487.3	461.9
Fair value	473.3	444.2

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/-30/06/2016	01/01/-30/06/2016	2016/06/30	2016/06/30
Non consolidated group companies	30.1	9.6	34.1	8.8
Investments accounted for using the equity method	87.0	85.4	80.2	30.8
Proportionally consolidated companies	2.9	0.5	0.5	22.7

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

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

Assurance from the legal representatives

"We give our assurance that, to the best of our knowledge and in accordance with the applicable accounting principles, the interim consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and that the course of business, including the business result and the position of the Group, is portrayed in such a way in the interim Group Management Report that a true and accurate picture is conveyed and that the significant opportunities and risks of the Group's future development in the remainder of the year are described fairly."

Salzgitter, August 2016

The Executive Board of Salzgitter AG

Fuhrmann

Becker

Kieckbusch

Financial Calendar 2016

January 12–13, 2016	German Investment Seminar New York
January 18, 2016	German Corporate Conference Frankfurt am Main
February 26, 2016	Key data for the Financial Year 2015
March 9, 2016	Citi's Global Resources Conference London
March 18, 2016	Publication on the consolidated financial statement 2015 Annual Results Press Conference
March 21, 2016	Analyst Conference in Frankfurt am Main
March 22, 2016	Analyst Conference in London Investor Roundtable London
April 4, 2016	Metzler Dialogues Frankfurt am Main
April 21, 2016	Roadshow Munich
May 13, 2016	Interim report on the first quarter 2016
Mai 19, 2016	Roadshow Paris
June 1, 2016	General Meeting of Shareholders in 2016
June 2–3, 2016	Roadshow Vienna
July 9, 2016	dbAccess German, Swiss & Austrian Conference 2016 Berlin
August 10, 2016	Interim report on the first half 2016 Analyst Conference in Frankfurt am Main
August 11, 2016	Analyst Conference in London Investor Roundtable London
August 31, 2016	Commerzbank Sector Conference 2016 Frankfurt am Main
September 12, 2016	Credit Suisse Global Steel and Mining Conference London
September 14, 2016	dbAccess Metals & Mining Conference London
September 20. – 22, 2016	Baader Investment Conference Munich
October 17.– 18, 2016	Roadshow Boston / New York
November 10, 2016	Interim report on the first nine months 2016
November 11, 2016	Roadshow Zurich
December 8, 2016	HSBC Conference Luxemburg

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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