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Annual Report 2017

SALZGITTER AG
Stahl und Technologie

Salzgitter AG ranks as one of Germany's companies rooted in a long tradition. Our business activities are concentrated on steel and technology. Through its sustainable organic and external growth, our company has advanced to take its place as one of Europe's leading steel and technology groups – with external sales of € 9 billion in 2017, a crude steel capacity of approximately 7 million tons and a workforce of more than 25,000 employees. The primary objective of our company – now and in the future – is the preservation of our independence through profitability and growth.

Our Group comprises more than 150 domestic and international subsidiaries and holdings and has been structured into the business units of Strip Steel, Plate/Section Steel, Mannesmann, Trading and Technology.

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

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Salzgitter Group in Figures

		Total Group		Continuing operations[1]	
		2017	2016	2017	2016
Crude steel production	**kt**	**6,955**	**6,804**	**6,955**	**6,804**
External sales	**€ m**	**8,990**	**7,906**	**8,990**	**7,893**
Strip Steel Business Unit	€ m	2,160	1,815	2,160	1,815
Plate / Section Steel Business Unit	€ m	1,024	742	1,024	729
Mannesmann Business Unit	€ m	1,093	999	1,093	999
Trading Business Unit	€ m	3,230	2,855	3,230	2,855
Technology Business Unit	€ m	1,285	1,300	1,285	1,300
Industrial Participations / Consolidation	€ m	198	195	198	195
EBIT before depreciation and amortization (EBITDA)[2]	**€ m**	**707**	**476**	**707**	**464**
Earnings before interest and taxes (EBIT)[2]	**€ m**	**317**	**119**	**316**	**107**
Earnings before taxes (EBT)	**€ m**	**238**	**53**	**238**	**41**
Strip Steel Business Unit	€ m	182	–2	182	–2
Plate / Section Steel Business Unit	€ m	–58	–32	–58	–44
Mannesmann Business Unit	€ m	–6	–22	–6	–22
Trading Business Unit	€ m	71	45	71	45
Technology Business Unit	€ m	7	28	7	28
Industrial Participations / Consolidation	€ m	42	36	42	36
Net income/loss for the financial year	**€ m**	**194**	**57**	**193**	**45**
Earnings per share – basic	**€**	**3.52**	**1.00**	**3.51**	**0.78**
Return on capital employed (ROCE)[3]	**%**	**8.6**	**2.7**	**8.6**	**2.4**
Cash flow from operating activities	**€ m**	**274**	**290**		
Investments[4]	**€ m**	**287**	**352**		
Depreciation/amortization[4]	**€ m**	**–390**	**–357**		
Balance sheet total	**€ m**	**8,318**	**8,450**		
Non-current assets	**€ m**	**3,566**	**3,700**		
Current assets	**€ m**	**4,752**	**4,750**		
Inventories	€ m	2,085	1,843		
Cash and cash equivalents	€ m	679	818		
Equity	**€ m**	**2,990**	**2,852**		
Liabilities	**€ m**	**5,328**	**5,598**		
Non-current liabilities	€ m	3,322	3,258		
Current liabilities	€ m	2,007	2,340		
of which due to banks[5]	€ m	471	483		
Net financial position[6]	**€ m**	**381**	**302**		
Employees					
Personnel expenses	€ m	–1,724	–1,655		
Core workforce on the reporting date[7]	empl.	23,139	23,152		
Total workforce on the reporting date[8]	empl.	25,074	25,168		

Disclosure of financial data in compliance with IFRS
1) Without sheet piling activities
2) EBIT = EBT + interest expenses/ –interest income; EBITDA = EBT + depreciation and amortization
3) ROCE = EBIT (= EBT + interest expenses excl. interest portion in transfers to pension provisions) divided by the sum of shareholders' equity (excl. calculation of deferred tax), tax provisions, interest-bearing liabilities (excl. pension provision) and liabilities from finance leasing, forfaiting, derivates
4) Property, plant and equipment and intangible assets, excluding financial assets
5) Current and non-current bank liabilities
6) Including investments, e.g. securities and structured investments
7) Excl. trainee contracts and excl. non-active age-related part-time work
8) Incl. trainee contracts and incl. non-active age-related part-time work

Preface by the Executive Board

Ladies and Gentlemen and our Shareholders,

The year 2017 proved very successful for the Salzgitter Group – no doubt about that.

With the fourth earnings increase in a row, we reported the highest pre-tax profit since the onset of the financial market crisis. The improved situation of the steel market, first and foremost in the strip steel business, was a key factor in this context. The result achieved in 2017 also clearly evidences the effectiveness of the structural changes being implemented since 2012, and is a well-deserved reward for all the hard work. In 2017 alone, the profit improvement potential realized from the measures combined under the name of "FitStructure" totaled a good € 70 million.

Taking pleasure in what has been achieved is therefore right and proper. It would, however, be an act of negligence to rest on our laurels since there has been a great deal of change in the environment, also over the past year: New, partly unconventional personalities took over the reins of government and broke with legacy political models, making the predictability of political activity significantly more difficult. Growing protectionist tendencies across the globe, statutory overregulation on the rise and one-sided burdens from climate and energy policies, have a direct impact on Salzgitter AG. Although doubtlessly well intended, they pose a threat to the steel industry's competitiveness in Germany and in Europe. The more major consolidation projects in the European steel sector, making an appearance on the agenda for the first time in around a decade, are, so we believe, not a panacea for dealing with these topics. They will nevertheless impact the entire sector, quite apart from the companies involved, as well affecting relationships with customers and suppliers.

We proceed cautiously in this environment, but also with the requisite self-confidence. After all, for more than two decades now, ever since our IPO on June 2, 1998, our corporate strategy that is geared to the long-term success of our company has proven its worth, also when weathering greater upheavals, to the benefit of all our stakeholders. Since then, we have doubled our workforce, trebled our sales and quintupled our Group's equity, and all without an external capital increase. Twenty years ago there were not many who believed Salzgitter capable of treading this path.

Not straying from the successful path of our independence and diversification means that that stagnation is unacceptable. Instead, maintaining the momentum set in motion since 2012 has become more of a second nature to us. We therefore pursue our internal improvement programs with the same rigorousness as before. Moreover, we initiated groundbreaking investment projects in 2017 in line with our "Salzgitter AG 2021" strategy, with a third hot-dip galvanizing line in Salzgitter, the new heat treatment line in Ilsenburg, and the extension of the precision tubes mill in Mexico.

The Salzgitter Group's gratifying development is also ultimately reflected in our share price. Another increase of more than 40% over the past financial year not only marks a considerable outperformance measured against the DAX and MDAX but is also more than satisfactory when compared with the share price movements of our competitors that were partly fueled by talk of mergers.

Based on what has been achieved, we propose a dividend of € 0.45 per share, which is an increase of 50% compared with the previous year.

May we thank you, also in the name of our dedicated employees, as the valued shareholders and business partners of Salzgitter AG for the trust you have placed in our company.

Sincerely,

Prof. Dr.-Ing. Heinz Jörg Fuhrmann   Burkhard Becker   Michael Kieckbusch

Report of the Supervisory Board

The financial year 2017 proved to be a successful one overall for the Group, although performance varied very widely in the individual business units. While the Strip Steel and Trading business units benefited from the favorable market development, the earnings of the Plate / Section Steel Business Unit were clearly negative due to unsatisfactory selling prices in fiercely competitive markets and impairment. Despite expenses for structural measures, the Mannesmann Business Unit raised its result notably in comparison with the previous year but nevertheless reported a marginally negative result. The Technology Business Unit fell short of expectations, also due to burdens from the introduction of further measures to enhance efficiency.

The “FitStructure” efficiency program and the first effects of the growth program under the “Salzgitter AG 2021” strategy made remarkable contributions to improving earnings throughout the Group. In 2018, the emphasis will continue to be placed on the rigorous implementation of these programs in order to achieve satisfactory results, also in the long term.

Monitoring and advising the Executive Board in the exercising of its management duties
The Supervisory Board kept itself continuously informed about the situation of the Group and the development of business in the financial year 2017. The Executive Board informed the Supervisory Board by way of detailed written quarterly reports about the Group’s result of operations, the current financial position and the net assets, as well as about the development of the relevant markets, the course of business and the investments in the individual business units in the relevant months of the financial year. The reports also comprised information on the developments and activities in the area of human resources and detailed estimates on the opportunities and risks over the course of the year. Moreover, the Supervisory Board obtained detailed oral reports on the respective current situation of the Group and the important Group companies, as well as on material business transactions and relevant changes in four meetings. The development of business compared with corporate planning was explained to the Supervisory Board. Any deviations from planning were explained in detail, and then queried and discussed by the Board. In addition, the meetings focused on the stage reached in the implementation of the groupwide “FitStructure SZAG” efficiency program and progress made in realizing the “SZAG 2021” growth program. In this financial year as well, the Supervisory Board devoted special attention to the corporate strategy and planning. Business transactions requiring the consent of the Supervisory Board were approved by the Board after thorough examination and consultation. Furthermore, between meetings, the Chairman of the Supervisory Board was kept regularly informed by the Executive Board Chairman on current topics.

During the reporting year, the Supervisory Board convened in March, June, September and December at one meeting in each month respectively. In addition, several decisions were adopted by means of a written procedure. The attendance rate at the Supervisory Board meetings totaled 97.6%. Two Supervisory Board members did not take part in one meeting respectively. The Supervisory Board met mainly with the Executive Board attending. However, it discussed topics such as Executive Board remuneration and other matters affecting the Executive Board in the absence of Executive Board members. Regular preliminary discussions, partly with and partly without the attendance of the Executive Board, served the purpose of initial consultation on the current situation and imminent decisions. No conflicts of interest were brought to the attention of the Supervisory Board in the reporting year, either by the Supervisory Board members or by members of the Executive Board.

Focus of the consultations of the Supervisory Board
In its meeting on March 23, 2017, the Supervisory Board focused primarily on the financial statements of Salzgitter AG and of the Group, both drawn up as of December 31, 2016, as well as of the combined management report on the company and the Group for the financial year 2016. The representatives of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, the auditor selected by the General Meeting of Shareholders, explained the key findings of their audit and answered the questions put to them by the Supervisory Board members. Following a detailed examination of the documentation pertaining to the financial statements with the aid of the report of the auditor, the Supervisory Board ratified the separate and consolidated annual statements. Furthermore, the Board gave its consent to the proposed appropriation of unappropriated retained earnings and signed off its report to the General Meeting of Shareholders and the

resolutions proposed for the individual items on the agenda requiring approval by the General Meeting of Shareholders in 2017. In addition, the Supervisory Board determined the variable portion of the Executive Board's remuneration for the financial year 2016 and resolved to reappoint Mr Michael Kieckbusch as a member of the Executive Board and the company's Labor Relations Director.

In its meeting on June 1, 2017, the Supervisory Board deliberated on the development of business in the individual business units during the first months of 2017 and the progress made with the efficiency and growth program. Further topics of discussion included the new requirements under the German Commercial Code (HGB) placed on the Supervisory Board and the new and also relevant recommendations of the German Corporate Governance Code. In addition the Supervisory Board also determined the key areas for the auditing of the annual financial statements 2017 of the company and of the Group.

In its meeting on September 28, 2017, the Supervisory Board concentrated on discussing the most recent development of business, as well as the corporate strategy and a major investment project in the Strip Steel Business Unit. Following initial consultation in the Strategy Committee, the Supervisory Board discussed the strategic aspects arising for the company from the growing digitalization of the working and business world. Regarding the investment undertaking, the Supervisory Board gave its approval having carefully investigated the construction of a hot-dip galvanizing line for rolled steel strip planned by Salzgitter Flachstahl GmbH (SZFG) and one of the most significant investments for the Group's strategic development. Furthermore, the Supervisory Board had the Executive Board inform it in detail about the Group's compliance management system.

On December 7, 2017, the Executive Board presented its corporate planning for the financial years 2018 to 2020 to the Supervisory Board, and elaborated on plans for the further development of the business units. Consultations in this meeting also focused on a proposal for restructuring Executive Board remuneration prepared by the Presiding Committee with the aid of external expertise. Following a recommendation of the German Corporate Governance Code, the Supervisory Board decided on a remuneration structure for future employment contracts that provides for an essentially forward looking multi-year assessment basis for variable remuneration components. Moreover, the Supervisory Board determined objectives for its own composition, defined a competence profile for the Supervisory Board, and approved a diversity concept for the composition of the Executive Board and Supervisory Board. Finally, after discerning preparation, it concerned itself in detail, with the aid of expert external support and based on a comparison with the working practices of similar companies, with the efficiency of its own work. The members of the Supervisory Board judged the work in plenary and in the committees to be efficient overall but nevertheless decided to investigate possibilities of further improvements more closely.

Work of the Committees
In order to prepare for its consultations and decisions, the Supervisory Board has formed presiding, audit, strategy and nomination committees.

The Presiding Committee met four times in 2017. The topics of these meetings covered important questions concerning performance, considerations on the development of the Strip Steel Business Unit, including investments and adjustments appropriate in the Technology Business. The Presiding Committee drafted a proposal for restructuring the Executive Board remuneration and prepared the implementation of further new recommendations by the German Corporate Governance Code pertaining to the Supervisory Board.

The members of the Audit Committee held four meetings in the period under review. In March, they deliberated on the audit of the 2016 annual financial statements at company and at Group level by the full Supervisory Board in a prior meeting attended by representatives of the auditor. The committee recommended to the Supervisory Board that the annual financial statements and the dividend proposal be approved. In this and also in subsequent meetings, the committee dealt in detail with the independence of the auditor, in particular with the providing of non-audit services, and at the March meeting with the selection of the auditor for the annual financial statements as of December 31, 2017. The committee prepared the defining of key audit areas by the whole Supervisory Board. It had the Executive Board present the internal control system, the internal audit system and the risk management system and convinced itself of the effectiveness of these systems. The quarterly financial reporting of the Group was discussed in detail with the Executive Board before publication.

Regarding the duty of the Supervisory Board of reviewing the non-financial report to be prepared for the first time for the financial year 2017, it put its recommendation to the whole Supervisory Board that an external auditor provide support. In addition, the Board gave special consideration to the measures concerning the IT structure and IT security, as well as to issues of compliance.

The Strategy Committee met once in 2017. It discussed the topic of “Digitalization/Industry 4.0” in detail with the Executive Board, options for dealing with this topic and the measures already implemented.

The Nomination Committee met twice during the reporting period and discussed the nomination of successors, which has become necessary at Supervisory Board level. After the reporting date, it applied itself to selecting suitable candidates for the imminent new election in the Annual Meeting of Shareholders in 2018 of shareholder representatives on the Supervisory Board. The guidelines used in this instance comprised the objectives defined by the Supervisory Board for its composition, as well as the competence profile defined by the Board and the diversity concept.

Audit of the Annual Financial Statements of Salzgitter AG and Consolidated Financial Statements
In its meeting on March 15, 2018, the Supervisory Board examined the financial statements of Salzgitter AG (SZAG) and of the Group, both drawn up as of December 31, 2017, as well as the joint management report on the company and the Group for the financial year 2017. Prior to this meeting, the independent auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, Germany, selected by the General Meeting of Shareholders, reviewed both sets of financial statements and issued an unqualified auditor’s opinion. The auditor thereby confirmed that the accounting, valuation and consolidation carried out in the consolidated financial statements complied with the International Financial Reporting Standards (IFRS). Furthermore, as part of its assessment of the early risk detection system, the auditor ascertained that the Executive Board had taken the steps required by the German Stock Corporation Act (AktG) for the early recognition of risks that could endanger the company as a going concern.

The annual financial statements of SZAG, the consolidated financial statements of the Group, the joint management report on the company and the Group, the Executive Board’s proposals for the appropriation of the retained earnings, as well as the auditor’s reports were available to the Supervisory Board for examination. The representatives of the independent auditor took part in the discussions of the annual financial statements and the consolidated financial statements and elaborated on the most important findings of their audit.

Based on the final results of its own examination of the annual financial statements at company and at group level and the combined management report, the Supervisory Board did not raise any objections. The Board therefore approved the findings of the auditor’s review and ratified the annual financial statements and the consolidated financial statements. The annual financial statements are thereby adopted. We gave our approval to the proposal made by the Executive Board on the appropriation of retained earnings.

Non-financial report on the Group
Moreover, in its meeting on March 15, 2018, the Supervisory Board deliberated on the non-financial Group report that is to be submitted for the first time for 2017. Prior to this meeting, KPMG AG Wirtschaftsprüfungsgesellschaft audited the report on behalf of the Supervisory Board and issued the following audit opinion:

“Based on the audit procedures and the audit evidence obtained, we are not aware of any issues that would lead us to the conclusion that the report of Salzgitter for the period from January 1 through December 31, 2017, was not prepared in all material respects in accordance with Sections 315b, 315c in conjunction with Sections 289c to 289e of the German Commercial Code (HGB).”

Upon completion of its own examination, the Supervisory Board concurred with the findings of the audit conducted by KPMG.

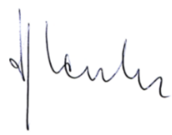
Changes to the Supervisory Board
Prof. Dr. Hannes Rehm, shareholder representative, passed away on September 1, 2017. The Braunschweig Local Court appointed Prof. Dr. Joachim Schindler to the Supervisory Board as his successor, effective November 24, 2017, over the period through to the end of the next Annual General Meeting of Shareholders. Mr. Peter-Jürgen Schneider, also a shareholder representative, laid down his mandate effective December 31, 2017. The Braunschweig Local Court appointed Reinhold Hilbers as his successor, effective January 18, 2018, over the period through to the end of the next Annual General Meeting of Shareholders The newly appointed Supervisory Board members were each familiarized with the Group's business by way of an onboarding event.

The Supervisory Board thanks Mr.Peter-Jürgen Schneider for his dedicated work on the Supervisory Board over a period of more than four years after having served the Group on the Executive Board for many years. The company owes special thanks to Prof. Rehm. He had been a member of the Supervisory Board of SZAG since 2000 and was the long-standing Chairman of the Audit Committee. In addition, he was a member of the Strategy Committee and, on occasion, of the Presiding Committee. The Supervisory Board pays tribute to the enormous dedication and the in-depth expertise of Prof. Rehm and his service to the company. His endeavors had a significant impact on the work of the Supervisory Board.

Our thanks go to the Executive Board and all the employees of the Group for their dedicated work and sound commitment throughout the financial year 2017.

Salzgitter, March 15, 2018

The Supervisory Board



Heinz-Gerhard Wente
Chairman

Corporate Governance

Declaration of Conformity and Corporate Governance Report

The corporate governance of Salzgitter AG (SZAG) is geared to ensuring the sustainable development and long-term success of the company in harmony with the principles of a social market economy and in observance of its corporate responsibility for people and the environment. This is based on the provisions set out under German stock corporation law and the recommendations laid down in German Corporate Governance Code (www.dcgk.de/en). It is therefore both intrinsically important and an obligation to ensure that the prevailing laws are complied with at all times, that generally accepted basic values in dealing with people and companies are observed, and that nature is preserved in a sustainable manner in conducting the company's business.

2017 Declaration of Conformity with the recommendations of the German Corporate Governance Code
The Executive Board and Supervisory Board submitted the following declaration in respect of the recommendations of the German Corporate Governance Code, pursuant to Section 161 of the German Stock Corporation Act (AktG) on December 7, 2017:

"In 2017, Salzgitter Aktiengesellschaft conformed – and currently continues to conform – to all of the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice and for Consumer Protection in the official section of the electronic Federal Gazette, with the exception of the new recommendation in 2017 that the multiple year assessment basis of the variable component of management board remuneration should essentially be forward looking (Code item 4.2.3 (2) sentence 3 GCGC).

In its meeting on December 7, 2017, the Supervisory Board decided that the multiple year assessment that has so far been based on the success of the last five financial years be switched to a profit plan based on the next four years respectively in new employment contracts or renewals of existing employment contracts."

Ethical standards of SZAG
Beyond the statutory requirements placed on managing companies and the recommendations of the German Corporate Governance Code, we have developed a mission statement by the name of "**YOU**NITED" for our Group. In this process, employees from all Group companies across all hierarchical levels defined a shared system of values, among other things. This system includes values such as reliability, fairness and sustainability. You will find our mission statement on our website at www.salzgitter-ag.com/en/company/mission-statement-younited.

Moreover, the Executive Board has defined a set of clear rules regulating conduct for all the Group's employees in the form of a Code of Conduct that they are to follow in carrying out their activities. This Code of Conduct also includes compliance with the law, commitment to fair competition and the rejection of corruption of any kind. In addition, these rules enable the trustful cooperation of the employees among themselves and honest dealings with one another and with business partners. The Code of Conduct can also be accessed on our website at www.salzgitter-ag.com/en/corporate-responsibility.

The shareholders of SZAG
The shareholders principally exercise their rights at general meetings of shareholders. Each shareholder of SZAG is entitled to participate in the General Meeting of Shareholders, which takes place at least once a year, and to address the Meeting about items on the agenda, to ask pertinent questions and submit relevant motions and to exercise their voting rights. Fundamental decisions affecting the company, such as changes to the Articles of Incorporation, the appropriation of annual profit, the election of shareholder representatives to the Supervisory Board, the raising or lowering of capital, or the selection of the annual independent auditor are reserved for the General Meeting of Shareholders. It also decides on the remuneration of the Supervisory Board. We facilitate the process of shareholders exercising their voting rights without having to personally take part in the General Meeting of Shareholders: They can appoint a proxy of the company and instruct this person on how they wish to exercise their voting rights.

The results of the 2017 General Meeting of Shareholders are available on our website at: www.salzgitter-ag.com/en/investor-relations/shareholders-meeting.

The Executive Board of SZAG

The Executive Board manages the company under its own responsibility in accordance with the German Stock Corporation Act. It determines the strategic direction and the future development of the company together with the Supervisory Board. In carrying out these activities, the Executive Board is bound by the interests of the company. It strives to achieve the highest possible return on capital employed within the scope of the corporate purpose. The Supervisory Board has determined that certain business transactions may only be carried out with Supervisory Board approval.

The Executive Board currently comprises three members consisting of the Chief Executive Officer, the Chief Financial Officer and the Chief Personnel Officer. The Supervisory Board has assigned each Executive Board member a portfolio of responsibilities for specific organization units and has specified the decisions for which all Executive Board members are jointly responsible. The management of the five business units is the joint responsibility of all the members. A Group Management Board is at hand to assist them. Members of this board are the three Executive Board members and one manager from each of the five business units who coordinates the activities of his respective business unit (business unit manager).

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

Diversity concept for the composition of SZAG's Executive Board

In appointing Executive Board members, the Supervisory Board gives consideration to the following:

- that the member to be appointed possesses the personal competence, skills and expertise necessary for professionally and responsibly performing their tasks; this includes, on the one hand, the specific skills and knowledge for heading up the executive portfolio in question and, on the other, the necessary leadership skills for participating in the management of both company and Group by the entire Executive Board,
- that, along with their suitability in terms of personal competence, skills and expertise, consideration is also given to age as far as possible, on the one hand in order to permit service to the company for a number of years so as to promote continuity and sustainability in corporate management and, on the other, to have both younger persons who are familiar with more recent specialist knowledge and management methods and older persons on the Executive Board who have greater professional, life and management experience represented on the Executive Board,
- that, in the case of equal suitability of personal competence, skills and expertise, as far as possible both male and female persons are represented on the Executive Board, with the Supervisory Board targeting a proportion of women of at least 30% by June 30, 2022 in the event of any future opening for a successor,
- that, along with their suitability in terms of personal competence, skills and expertise, members of the Executive Board have as wide a range of educational backgrounds as possible, including technical, business, legal and other humanistic and scientific disciplines.

Along with suitability in terms of personal competence, skills and expertise for the individual Executive Board member portfolio, and while taking account of company-specific requirements, the concept applied to the composition of the Executive Board is aimed at contributing through the greatest possible diversity to a professional and responsible performance of the management duties of the entire Executive Board.

The Supervisory Board realizes the concept of diversity in the composition of the Executive Board by taking account within the greatest scope possible of the aspects of diversity under this concept when selecting members to be appointed to the Executive Board. The search for suitable persons is incumbent upon the Supervisory Board's Presiding Committee that uses various tools to assist it in this task.

The diversity concept for the composition of the Executive Board is implemented to the highest degree possible.

Working practices of the Executive Board

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

In its management and control of the subsidiaries and affiliates, the Executive Board deploys the following instruments, while also consulting with the Group Management Board:

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

The Supervisory Board of SZAG

The core tasks of the Supervisory Board are to appoint members of the Executive Board and advise and supervise the Executive Board in its management of the company. In accordance with the law, certain fundamental decisions may only be made with its approval. It has determined that, in addition, certain types of transactions require its approval. The members of the Supervisory Board are liable to the company for any dereliction of duty. The company's D&O insurance provides for a suitable deductible in accordance with the recommendation of the German Corporate Governance Code.

Composition of SZAG's Supervisory Board

The Supervisory Board comprises 21 members, specifically ten shareholder and ten employee representatives, plus one other member. This composition has been laid down under the provisions of the Co-Determination Amendment Act applicable to the company, in conjunction with Article 7 of the company's Articles of Incorporation.

Objectives for the composition and the competence profile of SZAG's Supervisory Board

The Supervisory Board considers at least six independent shareholder representatives on the Supervisory Board to be an appropriate number. In the opinion of the Supervisory Board, the following shareholder representatives at minimum can be considered independent within the meaning of the German Corporate Governance Code: Dr. rer. pol. Thea Dückert, Karl Ehlerding, Roland Flach, Prof. Dr. Jürgen Hesselbach, Dr. Dieter Köster, Prof. Dr. Joachim Schindler, Prof. Dr. phil. Dr.-Ing. Birgit Spanner-Ulmer and Heinz-Gerhard Wente. In addition, the Supervisory Board also assesses Supervisory Board member Dr. Werner Tegtmeier – a further member of the Supervisory Board pursuant to the German Co-Determination Amendment Act – as independent.

The Supervisory Board has defined the objectives set out below as further important goals for its composition and competence profile: Along with all statutory requirements placed on the individual supervisory board members, they should possess the necessary expertise and personal competence anchored in expert knowledge, capabilities and experience, as well as in their personal suitability for assuming the tasks incumbent on them. As a whole, they must be familiar with the sectors of steel and mechanical/plant engineering. Among the members there should be persons with technical expertise, experience in managing companies and in developing corporate strategies, with knowledge of financial instruments and preferably international experience. At least one member must be specially qualified in matters of accounting and the auditing of financial statements. Similarly, at least one member must have special knowledge and experience in applying accounting standards and in internal control procedures. In the Supervisory Board's opinion, the objectives and the competence profile are fulfilled through the current composition of the Supervisory Board.

Diversity concept for the composition of SZAG's Supervisory Board

In selecting candidates for its proposals for the election of Supervisory Board members to be put forward to the General Meeting of Shareholders, the Supervisory Board gives consideration to the following:

- that the personal competence, skills and expertise necessary for professionally and responsibly performing of duties of the Supervisory Board – essentially the appointing of Executive Board members as well as the examination of the annual financial statements and management reports – are represented on the Board as a whole; this includes particularly technical expertise, experience in corporate management and the crafting of corporate strategies, knowledge of financial instruments and experience in international business with regard to the sectors in which the companies of the Salzgitter Group operate and also with respect to the management tasks of SZAG,
- along with suitability in terms of personal competence, expertise and skills, that younger persons exercising their professions as well as older persons more experienced in professional life and life in general are represented on the Supervisory Board,
- along with suitability in terms of personal competence, skills and expertise, that female and male persons are represented on the Supervisory Board, whereby the entire Supervisory Board must consist of at least 30% women and at least 30% men in accordance with legal requirements,
- along with suitability in terms of personal competence, expertise and skills, that such persons come as far as possible from the widest educational backgrounds – including technical, business, legal and other humanistic and scientific disciplines – with different professional backgrounds – including professionals from technical, business, scientific and humanistic communities.

In terms of the composition of the Supervisory Board, and while taking account of the company-specific requirements, the diversity concept is aimed at contributing to the professional and responsible performing of the duties of the entire Supervisory Board through the greatest possible diversity of the personal competences, skills and expertise represented on the Board, the educational and professional backgrounds, as well as different assessment aspects based on age and gender.

The Supervisory Board endeavors to implement the diversity concept applied to its composition by taking the aspects of this concept into account as far as possible in the election of Supervisory Board members, along with other aspects to be considered when selecting appropriate candidates for its proposals for the election of Supervisory Board members. The search for suitable candidates and their pre-selection is incumbent on the Supervisory Board's Nomination Committee that uses various tools to assist it in this task. The ultimate decision on the composition of the Supervisory Board is the province of SZAG's shareholders in the General Meeting of Shareholders.

The diversity concept applied to the composition of the Supervisory Board is implemented to the greatest extent possible.

Working practices of the Supervisory Board

The Supervisory Board meets a minimum of four times a year, has the Executive Board report in detail, and discusses the development of business and the situation of the company with the Executive Board. It takes receipt of written reports submitted by the Executive Board at regular intervals on the course of business and the performance of the company.

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

- defining the allocation of duties at Executive Board level, with clear assignment of areas of competence,
- obligation of the Executive Board to submit regular, timely and comprehensive reports to the Supervisory Board,
- regular discussion of the planning, business development and the strategy with the Executive Board,
- determination of the type of transactions and measures of the Executive Board that necessitate Supervisory Board approval,
- obligation of the Executive Board to submit a longer term corporate plan on an annual basis and to report on the execution of such a plan, and
- when determining the remuneration of the Executive Board members, agreement on the variable components, geared toward the commercial success of the company and the overall performance of each individual Executive Board member.

Working practices of the committees of the Supervisory Board
In order to prepare its meetings and decisions the Supervisory Board has currently formed four standing committees:

The Presiding Committee undertakes the preparatory work in connection with the appointing of Executive Board members and, in place of the Supervisory Board plenum, makes decisions on business measures requiring urgent approval.

The Audit Committee deals with the following above all:

- the financial reports during the year and the supervision of the annual auditing of the accounts, here mainly the independence of the external auditor
- the effectiveness of the internal control system, the internal audit system and the risk management system,
- compliance with the provisions applicable to the company (corporate compliance), and
- the assignment of the audit mandate as well as the determination of key audit areas.

The Audit Committee meets at least four times a year and has the Executive Board report in writing and verbally on the individual issues to be discussed, as well as having representatives of the independent auditor explain the report on their audit of the financial statements at company and at Group level.

The Strategy Committee consults in depth with the Executive Board on the corporate strategy whenever necessary.

The Nomination Committee, which is exclusively comprised of representatives of the shareholders, proposes suitable candidates to the Supervisory Board that, in turn, presents its proposals to the General Meeting of Shareholders for the election of shareholder representatives to the Supervisory Board.

The names of the members of the committees are listed in the section in the Group Management Report on “Management and Control/Committees of the Supervisory Board”.

Corporate compliance
The Executive Board is responsible for compliance with the relevant statutory requirements and company guidelines and acts, among other things deploying the following measures, through the Group companies with the aim of ensuring compliance (Compliance Management System):

- publication of a code of conduct binding on all employees in which the Executive Board explicitly declares its commitment to observe all laws at all times and in all places,
- issuance of a corporate guideline on “Corporate Compliance” that lays down the responsibilities and organizational duties, as well as providing all Group companies and their employees with detailed descriptions and instructions in the form of guidelines on conduct that complies with the law and the fulfilling of their compliance duties in particularly sensitive areas of the law, for instance, guidelines on the avoidance of corruption, correct behavior in competition and information on insider law,
- granting employees the option of providing confidential information on infringements of the law within the company,
- setting up a Compliance Committee as a platform for exchange and discussion of topical compliance issues and for arriving at a common consensus and decisions, for instance on changes to the compliance structure or the implementation of special compliance measures,
- carrying out of regular compliance training in order to raise the awareness of managers and employees regarding the observance of standards, to identify potential hazards and to recommend suitable courses of action,
- regular analysis of the compliance risks within the Group.

Target parameters for the proportion of women in management

In 2017, the Executive Board defined a target of 13% for the proportion of women in the first management level under the Board and 20% for women at the second management level under the Board. These quotas are to have been achieved by June 30, 2022.

During the first period for the achieving of these goals up until June 30, 2017, the Executive Board determined a target of 19% for the first management level and 17% for the second management level. On June 30, 2017, the proportion of women managers on the first management level and on the second management level stood at 13% and at 20% respectively. Falling short of the goal for the first management level is attributable to reporting date-related vacancies and to internal reporting channels that have meanwhile changed and the resulting allocation to management levels. The target for the second management level was exceeded.

In 2017, the Supervisory Board decided, in the event of an Executive Board member having to be replaced by June 30, 2022, to strive for a target of 30% in respect of the proportion of women represented on the Executive Board that currently consists of three male persons. The envisaged proportion of women on the Executive Board was not achievable by June 30, 2017, as no successor was required.

The statutory minimum requirement in respect of the Supervisory Board was adhered to during the financial year.

Transparency of the company

SZAG publishes an annual report once a year and provides a summary of the development of business on a quarterly basis as the year progresses. This ensures that our shareholders are kept informed about the situation of the company in a timely manner. The dates of publication are announced in the financial calendar sufficiently in advance for the coming financial year and posted on the company's website at: www.salzgitter-ag.com/en/investor-relations/financial-calendar. Furthermore, the Executive Board explains the results of each financial year elapsed at an annual results press conference, reported on by the media, that takes place directly after the meeting of the Supervisory Board when the financial statements are adopted

In addition to this, we organize regular analysts' conferences for analysts and institutional investors in Frankfurt am Main and London. Finally, the Executive Board reports to the general public on significant events by way of press releases and ad-hoc announcements. All reports and statements are available on the company's website at www.salzgitter-ag.com in both German and English.

Salzgitter, March 15, 2018

The Executive Board	The Supervisory Board
Prof. Dr.-Ing. Heinz Jörg Fuhrmann, Chief Executive Officer	Heinz-Gerhard Wente Chairman

Management Report

Group Management Report and Management Report, combined

Background Information on the Group

Report on the Economy

I. Company and Organization

1. Group Structure and Operations

With a crude steel capacity of more than 7 million tons, more than 25,000 employees, and external sales totaling € 9 billion in 2017, the Salzgitter Group ranks among Europe's leading steel technology and plant engineering corporations. Worldwide, the Group comprises more than 150 subsidiaries and affiliated companies.

Our core competences lie in the production and processing of rolled steel and tubes products and trading in these products. We also operate a successful business in special machinery and plant engineering.

The Group, headed by Salzgitter AG (SZAG) as the holding company, is divided into the five business units of Strip Steel, Plate / Section Steel, Mannesmann, Trading and Technology. Participating investments such as in Aurubis AG (NAAG), Europe's leading producer of copper, and our service companies operating primarily within the Group are combined under "Industrial Participations / Consolidation". More information on the individual business units is included in the section on "General Business Conditions and Performance of the Business Units".

All major companies belonging to the Salzgitter Group are combined together under the intermediate holding of Salzgitter Klöckner-Werke GmbH (SKWG). This structure allows us to carry out centralized and unrestricted financial management for the Group. As the management holding, SZAG manages SKWG, along with all associated companies, via the intermediate holding Salzgitter Mannesmann GmbH (SMG). The Executive Board of SZAG is composed of the same persons as the Executive Board of SMG and the Management Board of SKWG. The management and control of the Group are therefore carried out by the executive and supervisory bodies responsible for SZAG (Executive Board, Supervisory Board). The activities of the business units are coordinated by the heads of the business units. They are also the chief operating officers each of a large company belonging to their respective unit. The Executive Board and business unit managers form the Group Management Board. This structure ensures that the activities of the companies are directly coordinated and managed across the business units, while incorporating the respective operational expertise.

2. Management and Control

The Executive Board

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

In the financial year 2017, the following members belonged to the Executive Board of SZAG and held memberships in the following a) statutory supervisory boards and b) comparable domestic and foreign controlling bodies of commercial enterprises (as of February 26, 2018):

Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Chief Executive Officer
Non-listed consolidated companies:

a)
- Hüttenwerke Krupp Mannesmann GmbH, Duisburg (Chairman)
- Ilsenburger Grobblech GmbH, Ilsenburg (Chairman)
- KHS GmbH, Dortmund (Chairman)
- Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr (formerly Salzgitter Mannesmann Precision GmbH), (Chairman)
- Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr (Chairman), until December 21, 2017
- Peiner Träger GmbH, Peine (Chairman)
- Salzgitter Flachstahl GmbH, Salzgitter (Chairman)
- Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Chairman)
- Salzgitter Mannesmann Handel GmbH, Düsseldorf (Chairman)

b)
- Ilsenburger Grobblech GmbH, Ilsenburg, and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council, Chairman)

Other non-listed companies:
- Öffentliche Lebensversicherung Braunschweig, Braunschweig
- Öffentliche Sachversicherung Braunschweig, Braunschweig
- TÜV Nord AG, Hanover

Listed companies:

a)
- Aurubis AG, Hamburg (Chairman)

Burkhard Becker
Finance
Non-listed consolidated companies:

a)
- EUROPIPE GmbH, Mülheim an der Ruhr
- KHS GmbH, Dortmund until October 31, 2017
- Mannesmann Precision Tubes GmbH,
- Mülheim an der Ruhr (formerly Salzgitter Mannesmann Precision GmbH)
- Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr, until December 21, 2017
- Peiner Träger GmbH, Peine
- Salzgitter Flachstahl GmbH, Salzgitter since April 1, 2017
- Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr until June 21, 2017
- Salzgitter Mannesmann Handel GmbH, Düsseldorf

b)
- Ilsenburger Grobblech GmbH, Ilsenburg, and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council)
- KHS Indústria de Máquinas Ltda., São Paulo, Brazil (Advisory Council)

Other non-listed companies:

a)
- Nord/LB Asset Management AG, Hanover

Listed companies:

a)
- Aurubis AG, Hamburg

Michael Kieckbusch
Personnel
Non-listed consolidated companies:
a)
- KHS GmbH, Dortmund
- Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr, since June 6, 2017 (formerly Salzgitter Mannesmann Precision GmbH)
- Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr, until December 21, 2017
- Peiner Träger GmbH, Peine
- Salzgitter Flachstahl GmbH, Salzgitter
- Salzgitter Mannesmann Handel GmbH, Düsseldorf
- Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter (Chairman)

b)
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg (Supervisory Board, Chairman)
- Ilsenburger Grobblech GmbH, Ilsenburg, und Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council)

Other non-listed companies:
b)
- Allianz für die Region GmbH, Braunschweig (Supervisory Board)
- Industriepark Salzgitter-Watenstedt Entwicklungs-GmbH, Salzgitter (Supervisory Board, Vice Chairman)
- Wohnungsbaugesellschaft mbH Salzgitter, Salzgitter (Supervisory Board)

Group Management Board

Prof. Dr.-Ing. Heinz Jörg Fuhrmann
Chairman

Burkhard Becker
Finance

Ulrich Grethe
Strip Steel Business Unit

Michael Kieckbusch
Personnel

Prof. Dr.-Ing. Matthias Niemeyer
Technology Business Unit until October 31, 2017

Dr.-Ing. Roger Schlim
Plate / Section Steel Business Unit

Volker Schult
Trading Business Unit

Clemens Stewing
Mannesmann Business Unit

Supervisory Board

In the financial year 2017, the following members belonged to the Supervisory Board of SZAG and held memberships in the following a) statutory supervisory boards and b) comparable domestic and foreign controlling bodies of commercial enterprises (as of February 26, 2018):

Heinz-Gerhard Wente
Chairman
Member of the Management Board of Continental AG, retired, Hanover
- No membership in other governing bodies

Dr. Hans-Jürgen Urban
Vice Chairman
Chairman Member of the Management Board of Industriegewerkschaft Metall, Frankfurt am Main
Non-listed consolidated companies:
a) ▪ Salzgitter Flachstahl GmbH, Salzgitter (Vice Chairman)

Konrad Ackermann
Chairman of the General Works Council of KHS GmbH, Dortmund
Non-listed consolidated companies:
a) ▪ KHS GmbH, Dortmund

Ulrike Brouzi
Member of the Management Board of Norddeutsche Landesbank Girozentrale, Hanover
Other non-listed companies:
a) ▪ NORD/LB Asset Management AG, Hanover (Vice Chairwoman of the Supervisory Board)
b) ▪ NORD/LB Luxembourg S. A. Covered Bond Bank, Luxembourg (Supervisory Board)

Annelie Buntenbach
Managing Member of the National Executive Board of the German Trade Union Federation (DGB), Berlin
- No membership in other governing bodies

Hasan Cakir
Chairman of the Group Works Council of Salzgitter AG, Salzgitter
Chairman of the Works Council of Salzgitter Flachstahl GmbH, Salzgitter
Non-listed consolidated companies:
a) ▪ Salzgitter Flachstahl GmbH, Salzgitter

Ulrich Dickert
Chairman of the Works Council of Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid
a) ▪ Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr, until December 21, 2017

Tina Dreßen
Team Leader Warehousing Business Credit Management, Dept. of Finance, Salzgitter Mannesmann Handel GmbH, Düsseldorf
Vice Chairwoman of the Works Council of Salzgitter Mannesmann Handel GmbH, Düsseldorf, and Salzgitter Mannesmann International GmbH, Düsseldorf
Non-listed consolidated companies:
a) ▪ Salzgitter Mannesmann Handel GmbH, Düsseldorf, since March 1, 2017

Dr. Thea Dückert
Member of the Bundestag, retired
Member of the German National Council for Impact Assessment (NKR) of the German Federal Government, Berlin
Other non-listed companies:
b) ▪ Norddeutscher Rundfunk, Hamburg (Board of Administration)

Karl Ehlerding
Managing Director of KG Erste “Hohe Brücke 1” Verwaltungs-GmbH & Co., Hamburg
Listed Companies
a) ▪ Elbstein AG, Hamburg
▪ MATERNUS-Kliniken AG, Berlin
▪ WCM Beteiligungs- und Grundbesitz-AG, Frankfurt am Main
Non-listed consolidated companies:
a) ▪ KHS GmbH, Dortmund
Other non-listed companies:
a) ▪ Godewind AG, Hamburg, since November 23, 2017

Roland Flach
Chairman of the Executive Board of Klöckner-Werke AG, retired, Duisburg
Chairman of the Management Board of KHS AG, retired, Dortmund
Non-listed consolidated companies:
a) ▪ KHS GmbH, Dortmund

Gabriele Handke
Vice Chairwoman of the Works Council of Peiner Träger GmbH, Peine
Other non-listed companies:
a) ▪ Peiner Träger GmbH, Peine

Prof. Dr.-Ing. Dr. h. c. Jürgen Hesselbach
President of the Technische Universität Carolo-Wilhelmina zu Braunschweig, retired, Braunschweig
Other non-listed companies:
a)
- Öffentliche Lebensversicherung Braunschweig, Braunschweig
- Öffentliche Sachversicherung Braunschweig, Braunschweig

Reinhold Hilbers
since January 18, 2018
Minister of Finance of the Federal State of Lower Saxony (since November 22, 2017)
Other non-listed companies:
a)
- Norddeutsche Landesbank Girozentrale, Hanover (Chairman)
- Deutsche Messe AG, Hanover
- Bentheimer Eisenbahn AG (Chairman)

b)
- Kreissparkasse Grafschaft Bentheim (Board of Administration)
- KfW-Bankengruppe (Board of Administration)

Ulrich Kimpel
Chairman of the Works Council of Hüttenwerke Krupp Mannesmann GmbH, Duisburg
Non-listed consolidated companies:
a)
- Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr, since June 6, 2017, (formerly Salzgitter Mannesmann Precision GmbH)
- Mannesmannröhren-Werke GmbH, Mülheim an der Ruhr, until December 21, 2017

Dr. Dieter Köster
Managing Shareholder of HomeStead GmbH & Co. KG, Osnabrück
Chairman of the Executive Board Board of Köster Holding AG, retired, Osnabrück
Other non-listed companies:
a)
- Köster Holding AG, Osnabrück (Chairman)
- Klinikum Osnabrück GmbH, Osnabrück

Bernd Lauenroth
Secretary of the Management Board of Industriegewerkschaft Metall, Branch Office Düsseldorf
Other non-listed companies:
a)
- Georgsmarienhütte Holding GmbH, Georgsmarienhütte
- Aluminium Norf GmbH, Neuss
- Hydro Aluminium Rolled Products GmbH, Grevenbroich (Vice Chairman)
- Hydro Aluminium Deutschland GmbH Grevenbroich (Vice Chairman)

Volker Mittelstädt
Chairman of the Works Council of Ilsenburger Grobblech GmbH, Ilsenburg
Non-listed consolidated companies:
a)
- Ilsenburger Grobblech GmbH, Ilsenburg, (Vice Chairman)

b)
- Ilsenburger Grobblech GmbH, Ilsenburg, and Salzgitter Mannesmann Grobblech GmbH, Mülheim an der Ruhr (Joint Advisory Council)

Prof. Dr. Hannes Rehm
until September 1, 2017
Chairman of the Executive Board of Norddeutsche Landesbank Girozentrale, retired, Hanover
General Manager of Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover
- No membership in other governing bodies

Prof. Dr. Joachim Schindler
since November 24, 2017
Self-employed auditor
Other non-listed companies:
a)
- CORE SE, Berlin (Chairman)
- Medizinische Hochschule Brandenburg CAMPUS GmbH, Neuruppin (Vice Chairman)
- Zoologischer Garten Berlin AG, Berlin

Listed companies:
a)
- Rocket Internet SE, Berlin (Chairman of the Audit Committee)

Peter-Jürgen Schneider
until December 31, 2017
Minister of Finance of the Federal State of Lower Saxony (until November 21, 2017)
Other non-listed companies:
a)
- Bremer Landesbank, Bremen (Vice Chairman) until August 31, 2017
- Deutsche Messe AG, Hanover
- Norddeutsche Landesbank Girozentrale, Hanover (Chairman), until November 21, 2017

b)
- Kreditanstalt für Wiederaufbau, Frankfurt am Main (Board of Administration)

Univ.-Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer
Director of Production and Technology Bayerischer Rundfunk, Munich
Other non-listed companies:
b)
- Bavaria Studios & Production und Services GmbH, Geiselgasteig (Supervisory Board)
- Bayern Digital Radio GmbH, Munich (Supervisory Board)

Dr. Werner Tegtmeier
State Secretary, retired, of the Federal Ministry of Labor and Social Affairs
- No membership in other governing bodies

Committees of the Supervisory Board

Presiding Committee:
Heinz-Gerhard Wente, Chairman
Hasan Cakir
Reinhold Hilbers, since February 12, 2018
Peter-Jürgen Schneider, until December 31, 2017
Dr. Hans-Jürgen Urban

Audit Committee:
Prof. Dr. Hannes Rehm, Chairman until September 1, 2017
Roland Flach, since December 7, 2017, Chairman
Konrad Ackermann
Bernd Lauenroth
Heinz-Gerhard Wente

Strategy Committee:
Heinz-Gerhard Wente, Chairman
Hasan Cakir
Ulrich Kimpel
Prof. Dr. Hannes Rehm, until September 1, 2017
Peter-Jürgen Schneider, until December 31, 2017
Dr. Hans-Jürgen Urban

Nomination Committee:
Reinhold Hilbers, since February 12, 2018
Peter-Jürgen Schneider, until December 31, 2017
Heinz-Gerhard Wente

Remuneration of the Executive Board and of the Supervisory Board

Remuneration of the Executive Board

The remuneration of the members of the Executive Board is determined by their tasks and their own individual performance as well as by the success of the company. The amount of remuneration is based overall on the level customary in the comparable business environment.

Under the current remuneration system, remuneration consists of the following components: an annual fixed basic salary (to be paid out in equal monthly installments), supplementary benefits (consisting mainly of making a company car available for private use), variable annual remuneration, and a pension commitment. Variable remuneration depends partly on the personal performance of the individual Board member in the respective financial year and partly on the success of the company, measured by the return on capital employed (ROCE) calculated as an average of the past five years. The multi-year assessment basis has an incentive effect that promotes the sustainable development of the company. The two components of the variable remuneration are capped.

The amount of pension commitment depends on the length of service to the Group and is a maximum 60% of the fixed salary. The variable remuneration components are not relevant for pension commitments. Pension entitlement is valid when an Executive Board member reaches the age of 65. If Prof. Dr.-Ing. Fuhrmann retires from the company at its request or at his own wish after having reached the age of 59 or 61, he will be deemed eligible for payments as if he had already reached the age of 65. In the event that the company does not offer Mr. Becker a further term of office when his employment contracts expires, upon reaching the age of 61 he will be deemed eligible for payments as if he had reached the age of 65. In the event of premature termination of Executive Board member activities due to a change of control, the Board members are entitled to settlement in the amount of overall remuneration for the remaining term of their contracts of employment. This settlement is, however, capped to the value of three years of remuneration. Should Executive Board activities be terminated without an important reason, the Executive Board members are entitled to the remuneration agreed until expiry of the contract. However, this entitlement is restricted to the amount of two years' remuneration (fixed and variable components). No benefits were granted or pledged by external parties to the individual members of the Executive Board in the financial year 2017 or for the previous year for their activities as Executive Board members.

Remuneration received by the individual members of the Executive Board (benefits accorded for the year)

	Prof. Dr.-Ing. Heinz Jörg Fuhrmann CEO				Burkhard Becker CFO				Michael Kieckbusch Personnel			
In k€	**2016**	**2017**	**2017 (min.)**	**2017 (max.)**	**2016**	**2017**	**2017 (min.)**	**2017 (max.)**	**2016**	**2017**	**2017 (min.)**	**2017 (max.)**
Fixed remuneration	1,020	1,050	1,050	1,050	540	555	555	555	540	555	555	555
Benefits	18	17	17	17	24	25	25	25	41	42	42	42
Total	**1,038**	**1,067**	**1,067**	**1,067**	**564**	**580**	**580**	**580**	**581**	**597**	**597**	**597**
One-year variable remuneration[1)2)]	523	740	0	665	315	400	0	350	315	400	0	350
Multi-year variable remuneration	0	0	0	950	0	0	0	500	0	0	0	500
Total[1)]	**1,561**	**1,807**	**1,067**	**2,682**	**879**	**980**	**580**	**1,430**	**896**	**997**	**597**	**1,447**
Pension expenses[3)]	324	358	358	358	166	185	185	185	208	237	237	237
Total remuneration[1)]	**1,885**	**2,165**	**1,425**	**3,040**	**1,045**	**1,165**	**765**	**1,615**	**1,104**	**1,234**	**834**	**1,684**

[1)] With regard to the one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann, k€ 20 of his remuneration as Chairman of the Supervisory Board of the shareholding Aurubis AG were offset in accordance with the terms of his employment.
[2)] The 2017 one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann includes k€ 95 and of Mr. Becker and Mr. Kieckbusch each k€ 50 one-time annual bonus payment.
[3)] Service cost pursuant to IAS 19

Remuneration received by the individual members of the Executive Board members (income for the year)

	Prof. Dr.-Ing. Heinz Jörg Fuhrmann CEO		Burkhard Becker CFO		Michael Kieckbusch Personnel	
In k€	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Fixed remuneration	1,020	1,050	540	555	540	555
Benefits	18	17	24	25	41	42
Total	**1,038**	**1,067**	**564**	**580**	**581**	**597**
One-year variable remuneration[1)2)]	523	740	315	400	315	400
Multi-year variable remuneration	0	0	0	0	0	0
Total[1)]	**1,561**	**1,807**	**879**	**980**	**896**	**997**
Pension expenses[3)]	324	358	166	185	208	237
Total remuneration[1)]	**1,885**	**2,165**	**1,045**	**1,165**	**1,104**	**1,234**

[1)] With regard to the one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann, k€ 20 of his remuneration as Chairman of the Supervisory Board of the shareholding Aurubis AG were offset in accordance with the terms of his employment.
[2)] The 2017 one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann includes k€ 95 and of Mr. Becker and Mr. Kieckbusch each k€ 50 one-time annual bonus payment.
[3)] Service cost pursuant to IAS 19

Overall remuneration received by the active members of the Executive Board for their activities in the financial year 2017 amounted to k€ 4,564 in total (previous year: k€ 4,034).

Pensions

			Allocation to pension provision		Present value of the obligation	
In €		**Annual payment upon pension eligibility**	**according to HGB**	**according to IFRS**	**according to HGB**	**according to IFRS**
Prof. Dr.-Ing. Heinz Jörg Fuhrmann	2017	612,000[1)]	962,258	1,068,317	9,335,965	13,522,878
Chairman	2016	612,000[1)]	323,260	1,599,143	8,373,707	12,454,561
Burkhard Becker	2017	324,000[1)]	476,480	568,755	4,278,385	6,580,416
	2016	324,000[1)]	137,394	846,386	3,801,905	6,011,661
Michael Kieckbusch	2017	324,000[1)]	464,420	595,113	3,643,574	5,817,631
	2016	324,000[1)]	190,631	892,951	3,179,154	5,222,518

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

Remuneration of the Supervisory Board

Each member of the Supervisory Board receives a fixed remuneration of € 60,000 per financial year. This remuneration is double the amount for the Vice Chairman and three times the amount for the Chairman. In addition, each member receives € 5,000 for committee activities, the respective committee chairmen and members of the Audit Committee € 10,000, and the chairman of the Audit Committee € 30,000. The Chairman of the Supervisory Board and the Vice Chairman are not remunerated for membership in the committees. An attendance fee of € 500 is paid for participation in each Supervisory Board meeting; participation and decision making by way of telephone do not count as participating in a meeting.

Remuneration received by the individual members of the Supervisory Board

In €		Annual remuneration			
		Fixed remuneration	Committee remuneration	Attendance fees	Total
Heinz-Gerhard Wente,	2017	180,000	0	7,500	187,500
Chairman since 2016/04/01	2016	150,000	0	5,000	155,000
Rainer Thieme,	2017	0	0	0	0
Chairman until 2016/03/31	2016	45,000	0	2,000	47,000
Dr. Hans-Jürgen Urban,	2017	120,000	0	4,500	124,500
Vice Chairman	2016	120,000	0	4,500	124,500
Konrad Ackermann	2017	60,000	10,000	4,000	74,000
	2016	60,000	10,000	4,000	74,000
Bernhard Breemann	2017	0	0	0	0
until 2016/08/31	2016	40,000	0	1,000	41,000
Ulrike Brouzi	2017	60,000	0	2,000	62,000
	2016	60,000	0	2,000	62,000
Annelie Buntenbach	2017	60,000	0	1,500	61,500
	2016	60,000	0	1,500	61,500
Hasan Cakir	2017	60,000	10,000	4,500	74,500
	2016	60,000	10,000	4,500	74,500
Ulrich Dickert	2017	60,000	0	2,000	62,000
	2016	60,000	0	2,000	62,000
Tina Dreßen	2017	60,000	0	2,000	62,000
since 2016/09/01	2016	20,000	0	1,000	21,000
Dr. Thea Dückert	2017	60,000	0	2,000	62,000
	2016	60,000	0	2,000	62,000
Karl Ehlerding	2017	60,000	0	2,000	62,000
	2016	60,000	0	2,000	62,000
Roland Flach	2017	60,000	2,500	2,500	65,000
	2016	60,000	0	2,000	62,000
Gabriele Handke	2017	60,000	0	2,000	62,000
	2016	60,000	0	2,000	62,000
Prof. Dr.-Ing. Dr. h. c.	2017	60,000	0	2,000	62,000
Jürgen Hesselbach	2016	60,000	0	2,000	62,000
Ulrich Kimpel	2017	60,000	5,000	2,500	67,500
	2016	60,000	5,000	2,000	67,000

In €		Annual remuneration			
		Fixed remuneration	Committee remuneration	Attendance fees	Total
Dr. Dieter Köster	2017	60,000	0	1,500	61,500
	2016	60,000	0	2,000	62,000
Bernd Lauenroth	2017	60,000	16,667	4,000	80,667
	2016	60,000	10,000	4,000	74,000
Volker Mittelstädt	2017	60,000	0	2,000	62,000
	2016	60,000	0	1,500	61,500
Prof. Dr. Hannes Rehm	2017	45,000	26,250	2,000	73,250
until 2017/09/01	2016	60,000	35,000	4,500	99,500
Prof. Dr. Joachim Schindler	2017	10,000	0	500	10,500
since 2017/11/24	2016				0
Peter-Jürgen Schneider	2017	60,000	10,000	5,500	75,500
until 2017/12/31	2016	60,000	10,000	5,000	75,000
Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer	2017	60,000	0	2,000	62,000
since 2016/04/27	2016	45,000	0	1,500	46,500
Dr. Werner Tegtmeier	2017	60,000	0	2,000	62,000
	2016	60,000	0	2,000	62,000
Total	**2017**	**1,435,000**	**80,417**	**60,500**	**1,575,917**
	2016	**1,440,000**	**80,000**	**60,000**	**1,580,000**

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

In €		Annual remuneration			
		Fixed remuneration	Committee remuneration	Attendance fees	Total
Konrad Ackermann	2017	10,000	0	750	10,750
(KHS)	2016	10,000	0	750	10,750
Bernhard Breemann	2017	0	0	0	0
(SMHD)	2016	10,000	0	300	10,300
Hasan Cakir	2017	8,000	0	400	8,400
(SZFG)	2016	8,000	0	400	8,400
Ulrich Dickert	2017	10,000	0	100	10,100
(MRW)	2016	10,000	0	200	10,200
Tina Dreßen	2017	8,333	0	300	8,633
(SMHD since 2017/03/01	2016				0
Karl Ehlerding	2017	10,000	0	250	10,250
(KHS)	2016	10,000	0	750	10,750
Roland Flach	2017	10,000	0	750	10,750
(KHS)	2016	10,000	0	750	10,750
Gabriele Handke	2017	5,000	0	400	5,400
(PTG)	2016	2,917	0	300	3,217
Ulrich Kimpel	2017	10,000	0	100	10,100
(MRW)	2016	10,000	0	300	10,300
(MPT formerly SMP	2017	2,917	0	200	3,117
since 2017/06/06)	2016				0
Volker Mittelstädt	2017	7,500	0	400	7,900
(ILG/MGB)	2016	5,625	0	400	6,025
Dr. Werner Tegtmeier	2017	0	0	0	0
(MRW until 2017/12/21)	2016	5,000	0	200	5,200
(MPT formerly SMP)	2017	0	0	0	0
	2016	2,500	0	200	2,700
Dr. Hans-Jürgen Urban	2017	12,000	0	400	12,400
(SZFG)	2016	12,000	0	400	12,400
Total	**2017**	**93,750**	**0**	**4,050**	**97,800**
	2016	**96,042**	**0**	**4,950**	**100,992**
Sum total	**2017**	**1,528,750**	**80,417**	**64,550**	**1,673,717**
	2016	**1,536,042**	**80,000**	**64,950**	**1,680,992**

The employee representatives who are members of trade unions have declared that they will remit their remuneration to the Hans Böckler Foundation in accordance with the provisions of the German Trade Union Confederation.

3. Corporate Governance and Declaration of Conformity

The declaration on the management of the company corresponds to the Corporate Governance Report and can be accessed on the company's website at www.salzgitter-ag.com/en/investor-relations/corporate-governance at any time.

4. Employees

As of December 31, 2017, the core workforce of the Salzgitter Group numbered 23,139 employees, which is 13 people fewer compared with the end of the financial year 2016. This figure includes 69 employees who were included in the personnel statistics for the first time due to the initial consolidation of five Group companies.

Including trainees and employees in non-active age-related part-time work, the core workforce of the Salzgitter Group stood at 25,074 persons.

At the end of the year we had 1,106 temporary employees, which corresponded to 4.6% of the sum total core workforce members and staff outsourced and an increase of 142 persons in a year-on-year comparison.

As of December 31, 2017, no members of the workforce (empl.) were working short time.

	2017/12/31	2016/12/31	Change
Core workforce Group[1)]	**23,139**	**23,152**	**– 13**
Strip Steel Business Unit	6,092	6,062	30
Plate / Section Steel Business Unit	2,479	2,585	– 106
Mannesmann Business Unit	4,638	4,731	– 93
Trading Business Unit	1,959	1,914	45
Technology Business Unit	5,386	5,301	85
Industrial Participations / Consolidation	2,585	2,559	26
Apprentices, students, trainees	1,422	1,452	– 30
Non-active age-related part-time employment	513	564	– 51
Total workforce	**25,074**	**25,168**	**– 94**

[1)] Excluding executive body members

Regional distribution of the core workforce

		Germany	Rest of Europe	America	Asia	Other regions
Core workforce[1)]	**empl.**	**19,036**	**1,830**	**1,448**	**686**	**139**
	%	82.3	7.9	6.3	3.0	0.6

[1)] Excluding executive body members

Personnel expenses amounted to € 1,724.5 million in 2017, which is 4.2% higher than the year-earlier period. Among others, effects that lifted expenses emanated from wage increases from collective bargaining, profit participations, structural measures in the Mannesmann and Technology business units, as well as the expansion of the group of consolidated companies.

Additional elaborations of employee interests, as well as further information relevant for sustainability concerning the topics of environment and society can be found in our non-financial Group report 2017, which is available at www.salzgitter-ag.com/en/corporate-responsibility.

5. Research and Development

The Salzgitter Group's research and development (R&D) for the steel-related business units is grouped together under Salzgitter Mannesmann Forschung GmbH (SZMF). SZMF is part of a tight network with universities, research institutes and industrial partners in the context of numerous national and international research projects. We view the resulting research cooperations as preferable to buying in external know-how, which is also the reason that no commensurately high expenses have been incurred during the reporting period. In addition, SZMF actively participates in defining relevant standardizations, also in the international arena. R&D is organized decentrally for the Technology Business Unit.

The ability to innovate is our strength: This is evidenced by 6,394 patent and 1,644 trademark rights registered for the entire Group at year-end 2017 (2016: 5,924 and 1,480 respectively). Of these, 5,595 active patents and patent applications (2016: 5,238) and 572 trademark rights (2016: 587) were accounted for by the Technology Business Unit.

R&D expenses

In 2017, the Salzgitter Group spent € 102.8 million on R&D and R&D-related activities, of which € 11.6 million on behalf of external customers. A breakdown of expenses by business unit is shown in the table below:

Research and development expenses by business unit

		Group	Strip Steel	Plate / Section Steel	Mannesmann	Technology	Third party and no BU allocation
R&D expenses[1]	€ m	102.8	41.6	9.2	9.9	28.5	13.6
	%	100.0	40.5	8.9	9.6	27.7	13.2

[1] Excluding the EUROPIPE Group

As of December 31, 2017, 750 employees were engaged in R&D and R&D-related activities. Of this number, 270 members of staff work at SZMF and 480 at the operating companies. This allocation underscores how strongly our R&D activities are focused on products – and therefore on our customers.

Multi-year overview of research and development

		2017[1]	2016[1]	2015[1]	2014[1]	2013[2]	2012	2011	2010	2009	2008
R&D expenses[3]	€ m	91	85	85	87	88	82	79	78	81	80
R&D employees	empl.	750	733	767	784	828	879	910	972	916	983
R&D ratio[4]	%	1.0	1.1	1.0	1.0	0.9	0.8	0.8	0.9	1.2	0.6
R&D intensity[5]	%	4.5	4.8	4.8	5.2	7.4	5.1	4.4	4.9	9.0	3.0

[1] Excluding the EUROPIPE Group
[2] Restated
[3] R&D expenses in relation to goods and services for Group companies
[4] R&D expenses in relation to Group sales
[5] R&D expenses in relation to Group value added

R&D focus areas in 2017

The Strip Steel segment focuses on new fields of application for high-strength steels with increased formability and residual elongation. In the conventional grades segment, the emphasis is placed on developing ultra-high strength hot-rolled grades and cold-rolled multi-phase and press hardening steels with improved product properties for the automotive industry. In addition, the extremely successful SZBS800 grade that has meanwhile been adopted by a number of OEMs as the standard for chassis applications was developed further. StronSal®, a zinc-magnesium coating, was successfully qualified for body shell applications.

The development activities in the line pipe segment concentrated on the customer-centric optimization of pipe properties and on improving pipe reliability. New services relating to testing and laying techniques add benefit for the customer here. For the first time ever, 2,800 bar was achieved for diesel injection tubes. Another area of development is concerned with expanding and establishing pipe applications for conventional and renewable energy production. The development and marketing of modular concepts for the construction of foundation structures for wind turbines using Salzgitter products is being promoted in a joint cooperation with Bilfinger, and the first projects have already been booked.

In the Technology Business Unit the innovation and product development processes are consistently geared to customer and market requirements. The KHS Group concentrated its R&D activities on optimizing products in its core portfolio and on new innovative products. With “InnoPET TriBlock Aqua M”, for instance, a compact block solution for single serve formats was developed specifically for the steadily growing water market. The newly developed “InnoDry Block” in the packaging segment minimizes space and maintenance requirements while offering greater flexibility. Moreover, in order to strengthen its competitiveness, KHS is rounding off its after-sales offerings. The new KHS “Line optimization” service product, for example, is used to audit and upgrade existing machinery and equipment.

Future key areas of R&D within the Group

As part of a trend analysis in the areas of mobility, energy and raw materials, SZMF identifies potential steel applications of the future.

In the strip steel segment, new developments for the automotive sector are aimed at hot-dip galvanized multiphase steels with reduced edge cracking sensitivity and increased formability. Ultra-high strength micro-alloyed steels are further developed for the cold rolling industry, and optimized special coatings are used in the household device target segment.

The Tubes Business Unit continues to focus on the customer-oriented optimization of tube properties for specific application scenarios. Examples include line pipes for arctic regions and the laying of deep sea pipes, along with injection pipes that can withstand even greater pressures, thereby facilitating more environmentally compatible engine combustion, and variable tube wall thicknesses to support an appropriate load-bearing, light-weight optimized application.

One of the main areas of development endeavors in the heavy plate segment is to extend the product portfolio for pipe plates for the transport of corrosive media. Furthermore, work is being carried out on the industrialization of a newly developed heavy plate steel that excels through the unusual combination of strength and durability.

The Technology Business Unit is concentrating on product development, specifically with a view to lowering the lifetime costs of lines and individual machinery. In future, KHS will be offering its customers even more and increasingly sophisticated products and services that offer clear value added. A key aspect in this context is the digitalization of system solutions. KHS draws on intelligent maintenance concepts to consistently increase the availability and productivity of its systems and machinery.

II. Financial Control System

Our Group companies operate in fiercely competitive markets and in an extremely challenging sectoral environment. Against this backdrop, the Group's autonomous development and the ongoing improvement of cost structures and process efficiency are imperative. We pursue these goals with the aid of our comprehensive 360° concept explained in the 2015 annual report and the following management and control instruments:

- return on capital employed (ROCE),
- Profit Improvement Program (PIP) and
- individual objectives agreed with executives and non-tariff employees.

Along with ROCE, the Salzgitter Group uses sales and earnings before taxes as its key financial performance indicators. In this context, sales are defined as external sales, namely the proportion of overall sales generated by transactions with companies outside the consolidated group of Salzgitter AG (SZAG). Other parameters of control include order intake, shipment volumes and the development of the cash flow.

Management and control system applied within the company – ROCE

The quantitative, performance-related target set for the Group consists of a return on capital employed (ROCE) of at least 12% over an economic cycle that we generally define as a period of five years. ROCE shows the relationship of EBIT I (earnings before interest and taxes) to capital employed and measures the return on capital employed:

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

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

In € m	**2017**	**2016**
EBT	238.0	53.2
+ Interest expenses	99.7	94.6
– Interest expenses for pension provisions	–42.0	–51.2
= EBIT I	**295.7**	**96.6**

Capital employed is interest-bearing equity and debt.

We calculate this ratio by deducting pension provisions and non-interest-bearing balance sheet items from the total assets:

In € m	2017	2016
Total assets	8,318	8,450
– Pension provisions	– 2,440	– 2,449
– Other provisions excluding provision for income taxes	– 536	– 538
– Liabilities excluding bonds, bank liabilities and notes payable, liabilities from finance leasing and forfaiting, derivatives	– 1,512	– 1,524
– Deferred tax claims	– 393	– 355
= Capital employed	**3,436**	**3,584**

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

The figures used for the calculation of the ratios are taken from the consolidated financial statements (including discontinued operations). We use reporting date-related figures from the financial statements for our calculations.

Since the ROCE target (12 %) is to be achieved within the Group as an average over the economic cycle, it is more of a medium to long-term target. We derive specific strategic objectives from this target for each individual business unit and company. These objectives are taken account of in medium-term planning – in an updated form whenever necessary. In 2017 we generated an ROCE of 8.6 % (previous year: 2.7 %).

Profit Improvement Program (PIP)

We view the sustainable improvement of the Group’s competitiveness as one of our permanent management tasks to be achieved by optimizing our value chain processes on an ongoing basis. We place special emphasis here on the systematic and consistent leverage of the existing potential in all our business units. To this end, we introduced the Profit Improvement Program (PIP) as a groupwide, uniform management instrument into the Salzgitter Group back in 1996.

PIP combines all the explicitly defined measures designed to improve the performance and results of the Group’s companies, the prerequisite being that the impact of these measures is measurable and assessable, based on a set of financial ratios. All projects are subject to a stringently systematic procedure for measuring success to which binding and standardized assessment criteria are applicable.

In order to achieve our goals, we have launched a number of programs as part of the continual profit improvements in recent years. The “Salzgitter AG 2015” Group program launched in 2012, for instance, as well as the supplementary and ongoing measures that have been combined under the name of “FitStructure SZAG” since the end of 2016, place emphasis on reducing costs and enhancing efficiency. The “Salzgitter AG 2021” corporate strategy, also approved at the end of 2016, is aimed first and foremost at organic growth in high-margin product segments and at raising the proportion of sales in business apart from steel from currently 40 % to 50 %. All activities under these programs comply with the aforementioned assessment criteria.

Agreeing individual objectives with executives and non-tariff employees

Agreeing objectives connects up the corporate goals with the personal aspirations of each individual employee. Salzgitter AG divides these objectives into individual targets for executives and non-tariff employees and a collective, quantitative component. The quantitative component specifies the achieving of the Group's goal of a return of capital employed (industrial ROCE) of at least 12% groupwide, among other things. In addition, objectives for the business units and the associated companies are derived for each Group company depending on how services are integrated and the specific role within the respective business unit. The individual component of the targets is agreed between employee and superior, with the personal goals being drawn from the objectives of the organization unit next up in the hierarchy. Attention is paid to ensuring that the interaction between the various targets of all the employees has a positive impact on achieving the overall results of the Group.

III. Performance Report

1. Global Business Conditions

Economic environment[1)]

The **global economy** picked up notable momentum in 2017. The upswing was driven mainly by industrial production, in the advanced economies as well as in the emerging markets. Global trade and capital expenditure also grew. While growth rates in the US, Japan and South Korea showed a strong increase, the expansion of China's economy remained stable at a high level. Russia and Brazil emerged from recession and reported positive growth rates again. By contrast, the economic momentum of India and the UK slowed somewhat compared with the year before. All in all, the most recent survey of the International Monetary Fund (IMF) shows that the global economy grew by 3.7% in 2017, marking a significant increase measured against the previous year (2016: 3.2%).

The economy in the **euro area** expanded steadily in 2017, boosted mainly by consumption and private investment. All euro countries reported higher growth rates that, however, continued to vary depending on the region. Of the large economies, Spain and Germany performed the best, followed by France and Italy. The situation on the labor market continued to ease. The IMF currently estimates growth in the eurozone at 2.4%, significantly more than in the previous year (2016: 1.8%).

In **Germany** as well, the upswing accelerated in 2017. Industry made a major contribution to this development, posting an above-average plus compared with other sectors of the economy. This resulted in a broader basis for expansion that had formerly been underpinned mainly by consumption and the construction sector. Along with the domestic economy, stronger demand emanated from abroad. Furthermore, the highest employment figures were achieved since German reunification. The IMF put Germany's economic growth at 2.5% (2016: 1.9%). Similarly, the German Federal Statistical Office also reports 2.5%, adjusted for calendar-related influences.

[1)] Information was obtained mainly on the basis of the following sources: International Monetary Fund (January 2018): World Economic Outlook Update; ifo Economic Forecast 2017–2019; German Federal Statistical Office, February 2018

2. Overall Statement by Management on the Economic Situation

Against the backdrop of a significant improvement in the strip steel business, but a nevertheless challenging market environment, the Salzgitter Group closed the financial year 2017 with the highest pre-tax profit since the financial market crisis. This development was driven mainly by the outstanding results of the Strip Steel and Trading business units, along with notable effects from the rigorously implemented internal programs of measures. With an equity ratio of 35.9% and a net financial position that has increased to € 380.5 million, our company continues to enjoy an extremely sound balance sheet and a strong financial position.

The Group's external sales rose in the financial year 2017 mainly on the back of selling prices to € 8,990.2 million (2016: € 7,905.7 million). Earnings before taxes of € 238.0 million have more than quadrupled (2016: € 53.2 million). This amount includes a contribution of € 79.3 million from the Aurubis investment (2016: € 19.1 million) as well as a total of € –82.9 in expenses for measures aimed at improving structures under the groupwide "FitStructure SZAG" optimization program, along with impairment of the assets of Salzgitter Mannesmann Grobblech GmbH (MGB) (special items 2016: € –2.3 million). An after-tax result that stood at € 193.6 million (2016: € 56.8 million) brings earnings per share to € 3.52 (2016: € 1.00) and return on capital employed to 8.6% (ROCE 2016: 2.7%).

3. Performance and General Business Conditions of the Business Units

Strip Steel Business Unit

Key data		2017	2016
Order intake	kt	4,432	4,498
Order backlog as of 12/31	kt	893	881
Crude steel production	kt	4,492	4,563
Rolled steel production	kt	3,500	3,501
Shipments	kt	4,385	4,552
Segment sales[1]	**€ m**	**2,878.3**	**2,393.9**
Sales to other segments/Group companies	**€ m**	**–718.5**	**–579.3**
External sales[2]	**€ m**	**2,159.8**	**1,814.6**
Earnings before taxes (EBT)	**€ m**	**182.0**	**–2.3**
EBIT before depreciation and amortization (EBITDA)[3]	**€ m**	**396.9**	**212.5**
Earnings before interest and taxes (EBIT)[3]	**€ m**	**221.9**	**35.0**

[1] Including sales with other business units in the Group
[2] Contribution to consolidated external sales
[3] EBIT = EBT + interest expenses/– interest income; EBITDA = EBIT + depreciation and amortization

The core competences of the Strip Steel Business Unit reside 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 prefabrication requirements of our customers. The two processing companies Salzgitter Europlatinen GmbH (SZEP) and Salzgitter Bauelemente GmbH (SZBE) extend the value chain within the business unit with their products (tailored blanks as well as roofing and wall elements). The European automotive industry is the most important customer sector.

Market development

The global steel markets continued to be dominated by massive surplus capacities and the resulting pressure on margins. This situation was exacerbated by the ongoing high level of imports. Thanks to the European Union's anti-dumping measures, Chinese imports continued to decline. Significantly higher volumes came, however, from Turkey, India and South Korea. The selling price level was nevertheless notably higher than in the previous year. The European steel industry's order books improved in 2017. Contrary to the years before, the upswing was no longer solely dependent on the automotive and construction sectors, as mechanical engineering and the steel tubes industry also staged a recovery. The positive economic stimulus meanwhile in all countries in the euro region generated more orders for the EU's rolled steel producers. The German steel industry also registered an increase in 2017 although EU manufacturers' improved capacity utilization is still confronted by huge and unabated pressure from imports. There is therefore no alternative to the EU Commission's rigorous operation of the available trade protection instruments.

Procurement

Iron ore

The iron ore market proved to be extremely volatile over the course of 2017. Platts IODEX 62% Fe CFR China, the spot market's benchmark, fluctuated within a range of 54 USD/dmt and 95 USD/dmt. In the first three months of 2017 the iron ore index reached its highest level of 95 USD/dmt since August 2014 but had nonetheless slipped by mid-year again, dropping to 54 USD/dmt. At the start of the third quarter, huge demand from China stimulated the market again. Despite considerable stocks in China's harbors, the good capacity utilization of steel producers led to strong demand for high grade Brazilian iron ore in particular. Irrespective of the generally very liquid iron ore market, this resulted in significant price increases. The daily selling price rose by almost 50% again over the period since June and was quoted at just under 80 USD/dmt CFR at the end of August. The spot market price fluctuated between 60 and 75 USD/dmt in the fourth quarter. The annual average in 2017 stood at 71 USD/dmt CFR China, which is 22% higher year on year.

In order to mitigate the risks resulting from procurement, defined iron ore volumes are hedged to secure against price risks.

Coking coal

In contrast to the index-determined ore market pricing, the quarterly prices for coking coal with benchmark quality were negotiated between large producers and customers until the first quarter of 2017. The benchmark contract of 285 USD/t FOB for the first quarter of 2017 reflected the high spot prices in December 2016 that declined considerably in the first three months to 152 USD/t FOB. The development of the spot market suggested a benchmark price of between 150 and 170 USD/t FOB in the second quarter. Shortly before negotiations were concluded at the end of March, the impact of Hurricane Debbie changed the picture completely. The main routes to the ports of Dalrymple Bay and Hay Point were out of service for around three weeks, which pushed the spot price up to 300 USD/t FOB within a few days. Against this backdrop, customers and producers abandoned negotiations on the second quarter. When it became clear that the railway lines would be available again, the markets responded immediately. The spot market price dropped by 50% within five weeks. The shelved benchmark negotiations were resumed again in May. As customers and producers continued to have diverging opinions, however, no conventional benchmark agreement was reached. The parties subsequently agreed an index-based pricing system comprising the average prices of the first two months of a quarter plus the last month of the preceding quarter. In the third quarter, prices ceased to tumble. The start to stocking up for the winter season by Chinese and Indian consumers, coupled with long waiting time at the most important Australian coking coal terminal, drove the market prices up again markedly in the final quarter. Prices therefore settled slightly above 260 USD/t FOB Australia at the end of the year. The average price in 2017 came in at 188 USD/t FOB Australia, up 31% in comparison with the year-earlier figure.

Business development

New orders of the Strip Steel Business Unit almost repeated the record figure of the previous year and **orders on hand** also settled around the 2016 level. Rolled steel output matched the year-earlier figure, while **shipments** declined marginally compared with the previous year. SZFG produced 4,492 ktons of **crude steel**, and the facilities in the downstream process chain ran at almost full capacity. **Segment** and **external sales** increased significantly due to prices. With **earnings before taxes** of € 182.0 million, the segment lifted its result considerably, first and foremost on the back of improved selling prices (2016: € –2.3 million). In addition, the effects from the programs of measures initiated had a positive impact. A counter trend emanated from higher raw materials prices, especially coking coal.

Investments

The **Strip Steel Business Unit** is focused its investments on new aggregates as well as on optimizing and extending its existing facilities in 2017. To this end, the following projects in particular were advanced:

To strengthen its competitiveness, SZFG took an RH plant for the vacuum treatment of crude steel into operation. The plant produces decarbonized and desulphurized steels in ultra pure grades. This measure serves to fulfill steadily growing customer requirements for specified metallurgic composition, and the capacity bottleneck in secondary metallurgy has been eased.

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. In 2017, the technological conversion of the cooling systems of converters A and C was carried out, following the conversion work on Converter B completed back in 2016. This measure reduces the energy required by the boiler facilities by more than 10%, thereby reducing the procurement of natural gas and CO_2 emissions accordingly.

SZFG's strategy includes extending its portfolio in the direction of high strength and ultra-high strength grades, which involves targeted investment and enables the rising requirements placed on plant equipment to be satisfied.

The construction of a new hot strip slitting line that is ideally suited to these product requirements is in the engineering phase. Furthermore, a new coil binding line is under construction. This is used for sampling hot rolled coil and for securing cargo ready for shipment.

In order to raise sales in the profitable segment of special grades in the coming years, investments were also made in a new logistics concept. This concept comprises expanding slab adjustment, as well as additional heat boxes in which the slabs can cool more slowly so that more residual heat can be funneled into the hot strip mill. The heat boxes have already been taken into operation.

In order to satisfy increasingly sophisticated customer requirements for hot-dipped galvanized higher strength and ultra-high strength steel grades, the construction of a third hot-dip galvanizing facility was approved in September 2017. The new aggregate with a capacity of around 500 ktons per year is currently in the tendering phase and is to start production as from mid-2020.

Plate / Section Steel Business Unit

Key data		2017	2016
Order intake	kt	2,236	2,199
Order backlog as of 12/31	kt	400	390
Crude steel production	kt	1,053	1,091
Rolled steel production	kt	2,249	2,227
Shipments	kt	2,263	2,176
Segment sales[1)]	**€ m**	**1,698.6**	**1,423.4**
Sales to other segments/Group companies	**€ m**	**– 674.3**	**– 681.5**
External sales[2)]	**€ m**	**1,024.3**	**741.8**
Earnings before taxes (EBT)	**€ m**	**– 57.7**	**– 32.1**
EBIT before depreciation and amortization (EBITDA)[3)]	**€ m**	**44.9**	**26.3**
Earnings before interest and taxes (EBIT)[3)]	**€ m**	**– 49.4**	**– 19.9**

1) Including sales with other business units in the Group
2) Contribution to consolidated external sales
3) EBIT = EBT + interest expenses/– interest income; EBITDA = EBIT + depreciation and amortization

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) as well as Peiner Träger GmbH (PTG). ILG and MGB produce a wide range of high-grade plate products. The most important customers include heavy mechanical engineering, tube and pipe producers, as well as wind turbine manufacturers. PTG supplies to construction and civil engineering products throughout the whole of Europe. The integration of DEUMU Deutsche Erz- und Metall-Union GmbH (DMU) as a scrap supplier of Peiner Träger GmbH (PTG) permits logistics processes to be more closely and flexibly co-ordinated.

Market development
The markets of heavy plate, including deliveries in the large-diameter pipe sector, as well as steel girders are important for the business unit's companies.

The selling prices in the **heavy plate market** did not fully reflect the price hikes of iron ore and coking coal – and then only with a delay. Imports from non-EU countries into the EU continued to run at high level in 2017 even though Chinese deliveries declined dramatically. Volumes from countries such as South Korea and India, in turn, increased significantly, with the Ukraine remaining the largest importer of heavy plate into the EU in 2017. Due to the longer delivery periods, these imports mainly served to supply stockholding steel traders and resulted in a persistently high level of stocks and range of coverage. The development of volumes and selling prices for higher-end grades remained stable although the pressure from prices and competition was also noticeable here.

The volatile scrap price once again determined the **European sections market**. In 2017, this led to alternating phases of partly stronger, short-term demand, followed by months when the order volume was considerably lower. Market prices for scrap rose notably over the course of the year due to this development; the selling prices of sections, however, only followed suit with a long delay and, above all, not in full. Against the backdrop of a veritable explosion in spot prices for graphite electrodes, section prices increased visibly toward the end of the year. It can generally be assumed that the market situation will not change fundamentally in the future due to surplus capacity in Europe. In contrast to the heavy plate market, imports into the EU from non-EU countries do not play much of a role.

Procurement

Supply of slabs

The heavy plate companies are supplied with material within the Group by Salzgitter Flachstahl GmbH (SZFG) and Hüttenwerke Krupp Mannesmann GmbH (HKM), with SZFG ensuring supplies to ILG and HKM to MGB in particular.

Steel scrap

Steel scrap is the most important input material in the section steel business. Every year around 1.1 million tons of the material is melted into crude steel in PTG's two electric arc furnaces. The start of the year brought price increases on the German steel scrap market of between € 25 and € 38/t depending on the grade and region, driven by the stronger demand of domestic consumers. Prices declined in February and then rose again in March. The key determinant of the scrap price decline in the European domestic markets followed by their direct recovery was the buying patterns of Turkish scrap steel importers. In the second quarter of 2017, the demand of the domestic steelworks was generally firm on the back of the largely good order situation. Somewhat weaker demand and prices in international trading nevertheless led to a drop in prices. All markets reported excess demand in the summer in anticipation of prices rising and because of the lower scrap volumes available. In particular, another purchasing wave from Turkish consumers in August triggered a gradual uptrend in prices, with the situation finally normalizing at the end of September. At the start of the fourth quarter, the very high supply capacity of North American scrap dealers doing business with Turkey induced prices to fall in the international arena. In Germany as well, steel scrap prices fell initially, before picking up momentum again in the last two months due to growing global demand.

Graphite electrodes and refractory materials

The graphite electrodes required by PTG for the operation of its melting furnaces are electrodes with diameters of 700 to 800 mm. The challenge of this market lies not so much in the concentration of the producers in a particular country, but in the small number of producers of these electrode dimensions. By contrast, the European steel industry procures graphite electrodes for ladle furnaces to a very large extent virtually exclusively through dealers in China.

The prices and volumes are usually agreed in the fourth quarter for the following year. Environmental protection measures of the Chinese government have pared down capacities for graphite electrodes used in ladle furnaces since the start of 2017. Consequently, Chinese producers have canceled their delivery contracts with the dealers who, for their part, have pulled out of their contractual agreements with their customers all over the world. As from the second quarter of 2017, graphite electrodes for ladle furnaces were negotiated only between individual parties at a very high price level and with especially short commitment periods. A downturn in the price that set in in November 2017 lasted only for a brief period before prices rose again significantly at the end of the year. This period was, however, used to stock up on electrodes for 2018. The market prices for melting furnace electrodes developed for the most part accordingly.

The strained price and supply situation can be expected to persist throughout 2018. The overall volumes of melting furnace electrodes required for 2018 are provided by long-term strategic partners.

Along with production facilities for graphite electrodes, the environmental inspectors employed by the Chinese government have imposed strict environmental standards on other industrial sectors, above all on the raw materials and commodities segment, and ordered cutbacks in production as well as the temporary or permanent closure of individual operations here as well. The extraction of raw materials is made more difficult through the distribution of explosives that is stringently monitored and rationed by the government, which placed great constraints on the availability of raw materials and input materials for the production of refractory materials and ultimately led to notable price hikes.

Business development

New orders and **orders on hand** of the Plate / Section Steel Business Unit marginally exceeded the year-earlier level. While **rolled steel production** settled at the level in 2016, crude steel output was somewhat lower than in the previous year. Thanks above all to the higher tonnage of MGB, boosted by the Nord Stream 2 and EUGAL projects, **shipments** were higher year on year. **Segment** and **external sales** considerably exceeded the previous year's period on the back of both selling prices and volumes. Along with the release of order-specific provisions, the business unit's **pre-tax result** of € –57.7 million comprises impairment at MGB amounting to € –48.8 million and was therefore lower year on year (€ –32.1 million). The heavy plate companies that operated in a market environment determined by a high level of imports succeeded in substantially reducing their operating losses. PTG was unable to repeat the success of years past due to market conditions and delivered a result virtually at breakeven, on the back of the positive earnings trend in the fourth quarter.

Investments

In the Plate / Section Steel Business Unit, the "Plate Strategy – Finishing Section II" investment measure commenced in 2017 at the Ilsenburg site as part of the "Salzgitter 2021" growth program. This investment of more than € 150 million is aimed at enlarging the product portfolio and achieving an even stronger positioning in the higher-end grade segment. The contract for the essential part of the measure consisting of the new heat treatment line has already been awarded, and is scheduled for commissioning at the start of 2020.

Mannesmann Business Unit

Key data		2017	2016
Order intake	€ m	1,543	1,168
Order backlog as of 12/31	€ m	499	404
Crude steel production Hüttenwerke Krupp Mannesmann (30%)	kt	1,410	1,150
Shipment tubes	kt	658	543
Segment sales[1]	**€ m**	**1,698.1**	**1,333.0**
Sales to other segments/Group companies	**€ m**	**– 604.6**	**– 333.6**
External sales[2]	**€ m**	**1,093.5**	**999.4**
Earnings before taxes (EBT)	**€ m**	**– 5.6**	**– 22.4**
EBIT before depreciation and amortization (EBITDA)[3]	**€ m**	**69.8**	**63.5**
Earnings before interest and taxes (EBIT)[3]	**€ m**	**8.3**	**– 9.7**

[1] Including sales with other business units in the Group
[2] Contribution to consolidated external sales
[3] EBIT = EBT + interest expenses/– interest income; EBITDA = EBIT + depreciation and amortization

The Mannesmann 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 leading supplier in Europe for precision steel tubes used in automotive construction, as well as a leading global manufacturer of seamless stainless steel and nickel-based tubes supplement the portfolio. Customer demand is driven by the megatrends of “water”, “energy” and “mobility”.

With its 30% stake in Krupp Mannesmann GmbH (HKM), an integrated steel mill with an annual capacity of more than 5 million tons of crude steel, the business unit has its own supply of input material for the manufacturing of seamless tubes. In addition, it makes extensive use of our trading organization to sell its products.

The EUROPIPE Group (EP Group) is reported at 50%, with the proportionate after-tax result (consolidated at equity). 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. HKM’s orders on hand and shipments are not reported as only tubes are disclosed here.

Market development
Global steel tubes production rose to 167 million tons in 2017, close to the record set in 2015 (169 million tons). While all other parts of the world reported an increase in output figures compared with 2016, China’s production of small welded steel tubes up to 16 inches declined. With an overall output of 92 million tons and a share of 55% in the global market, China nevertheless remained a factor that determined the market. Europe’s share stood at 14 million tons, which is 8%. Worldwide, seamless tubes production, above all in the US, staged a significant recovery in line with expectations, as did that of the EU and other regions. The steel pipe production of German manufacturers totaled 3 million tons in 2017, supported by strong large-diameter pipe production.

Business development

New orders of the Mannesmann Business Unit notably exceeded the year-earlier figure since all product segments recorded growth. Mannesmann Grossrohr GmbH (MGR) and the Mannesmann Precision Tubes Group (MPT Group) in particular reported brisk order activity. Mannesmann Line Pipe GmbH (MLP) reaped visible benefit from the positive trend of the US market for welded line pipes. **Orders on hand** of the business unit were almost 25% higher year on year. Outside the consolidated group, the order intake of the EP Group declined compared with 2016 that was impacted above all by the booking of the major Nord Stream 2 project. Although orders on hand dropped below the very strong year-earlier period, they nevertheless remained at a high level. **Pipe shipments** settled significantly above the 2016 figure, which was mainly attributable to growth at MLP. **Segment** and **external sales** were also higher than in the previous year's period. The EP Group that is consolidated at equity reported overall growth in shipments and a decline in sales compared with 2016. Both figures increased substantially at EUROPIPE GmbH (EP), boosted by the current major projects, as opposed to the American companies that reported a downturn due to the market situation and political uncertainty. The Mannesmann Business Unit lifted its **pre-tax result** significantly to € –5.6 million (2016: € –22.4 million) thanks to the improved earnings performance of MLP. This figure includes € –21.0 million in expenses for measures aimed at improving the structures of the precision tubes group in Europe.

Investments

The Mannesmann Business Unit focused first and foremost on replacement and supplementary investments. At the MPT Group's Hamm location, investment measures to enhance the performance of the plants were brought to a close. The expansion of the Mexican precision tubes company began with preparations for the construction of a production building.

Trading Business Unit

Key data		2017	2016
Shipments	kt	4,635	5,038
Segment sales[1]	€ m	**3,307.6**	**2,881.0**
Sales to other segments/Group companies	€ m	**–77.7**	**–26.1**
External sales[2]	€ m	**3,229.9**	**2,855.0**
Earnings before taxes (EBT)	€ m	**70.5**	**45.2**
EBIT before depreciation and amortization (EBITDA)[3]	€ m	**85.2**	**59.4**
Earnings before interest and taxes (EBIT)[3]	€ m	**74.9**	**49.0**

[1] Including sales with other business units in the Group
[2] Contribution to consolidated external sales
[3] EBIT = EBT + interest expenses/– interest income; EBITDA = EBIT + depreciation and amortization

Alongside a well-developed organization of stockholding steel trading subsidiaries in Europe with a wide range of processing capabilities, 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 undertakes the sale of other domestic and international manufacturers' products. Moreover, the Trading Business Unit procures input material for Group companies and external customers on the international markets.

Market development

The accelerating price trend for steel products over large parts of the financial year 2017 determined the sentiment on the international steel markets. Against the backdrop of anti-dumping measures in various regions and the increase in iron ore prices in the first quarter, higher selling prices were commanded. Following a brief correction in the second quarter, the price uptrend continued, also boosted by stronger demand from within Asia, coupled with the announcement of Chinese manufacturers' intention of reducing capacities. The European market presented a disparate picture: Hot-rolled strip and heavy plate prices increased, on the one hand, in line with the development in the international markets while, on the other, section selling prices came under pressure right at the start of the year and only recovered half way through the period under review.

Business development

The **shipments** of the Trading Business Unit remained below the year-earlier level above all due to the only partly satisfactory international project business. The stockholding steel trade and the Universal Eisen und Stahl Group (UES Group) achieved stable shipment volumes in a fiercely competitive environment. The price increases in all areas nevertheless resulted in notably higher **segment** and **external sales**. The customer base in the area of digital trading activities expanded steadily in during the reporting period. Almost 10% of the shipments and sales as well as the contribution margin of the German stockholding steel trade were realized through digital interfaces in 2017. In November, the sales threshold of € 100 million was achieved in the project that has been running since year-end 2015. The stockholding steel trade and the UES Group reported a very gratifying earnings situation. Together with the positive results of international trading that offset the shortfall in volumes through deliveries with stronger margins, the Trading Business Unit generated a **pre-tax profit** of € 70.5 million, thereby significantly outperforming the very presentable result of the 2016 period (€ 45.2 million).

Investments

Maintaining and upgrading existing facilities continued to form the focus of investments by the Trading Business Unit in 2017 as well. In addition, the projects initiated by Salzgitter Mannesmann Stahlhandel GmbH (SMSD) for the digitalization of the process chain, from warehousing right through to shipment of the goods, made good progress. Trading meanwhile also uses the networking of systems to procure materials, both from within the Group network and also from external producers. SMSD uses the new "Vendor Management" component to carry out warehouse management on behalf of customers. In addition, the e-SHOP is now online in Austria and Hungary, with further rollouts planned in European countries outside Germany in the near future.

Technology Business Unit

Key data		2017	2016
Order intake	€ m	1,359	1,317
Order backlog as of 12/31	€ m	692	668
Segment sales[1)]	**€ m**	**1,285.2**	**1,300.7**
Sales to other segments/Group companies	**€ m**	**–0.5**	**–0.4**
External sales[2)]	**€ m**	**1,284.7**	**1,300.3**
Earnings before taxes (EBT)	**€ m**	**6.6**	**28.4**
EBIT before depreciation and amortization (EBITDA)[3)]	**€ m**	**29.3**	**50.4**
Earnings before interest and taxes (EBIT)[3)]	**€ m**	**7.2**	**28.1**

[1)] Including sales with other business units in the Group
[2)] Contribution to consolidated external sales
[3)] EBIT = EBT + interest expenses/– interest income; EBITDA = EBIT + depreciation and amortization

The Technology Business Unit comprises three well-established special machinery manufacturers each with a long tradition. 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 and processing through to the filling and packaging of beverages. Other companies within the business unit sell special machinery for the shoe industry or specialize in the manufacturing of rubber and silicon injection molding machinery.

The following companies belonging to the business unit were newly admitted to the group of consolidated companies of Salzgitter AG (SZAG):

- KHS Machines Nigeria Limited, Lagos (KHSNI),
- KHS Panamericana SpA, Santiago (KHSRCH),
- KHS AG (Thailand) Ltd., Bangkok (KHSTH) and
- NMP Systems GmbH, Düsseldorf (NMP).

When drawing comparisons with the previous year, consideration must be given to the fact that the figures of these newly consolidated companies were not yet included in 2016.

Market development

According to German Engineering Federation (VDMA), new orders generally grew significantly compared with the year-earlier level, with international demand in particular, but also domestic demand, picking up momentum. The sector also reported an increase in sales. Orders placed in the market for food and packaging machinery developed gratifyingly overall. Although domestic orders came in below the year-earlier figure, orders from abroad increased.

Business development

The **order intake** of the Technology Business Unit rose in 2017 compared with the previous year on the back of better figures achieved by the Klöckner DESMA Elastomer Group (KDE Group) and DESMA Schuhmaschinen GmbH (KDS). The segment's **orders on hand** also somewhat exceeded the previous year's level. Thanks to the growth of the KDE Group and of KDS, **segment** and **external sales** remained at the level achieved in 2016. The Technology Business Unit generated **earnings before taxes** of € 6.6 million, which fell short of the year earlier figure (2016: € 28.4 million). This includes expenses of € –13.1 for measures aimed at structural improvement at the KHS Group that reported a notable downturn in the result compared with the previous year due to competitive price pressure. By contrast, both KDS and the KDE Group increased their pre-tax profit substantially.

The KHS Group continues to rigorously pursue measures to develop its business. The program initiated by in 2015 for this purpose was extended in the period under review and supplemented into the “KHS Future” project. Through to 2019, the company’s development in a fiercely competitive environment is to be promoted through lowering costs and enhancing efficiency.

Investments
In 2017, the Technology Business Unit continued to focus on replacement and streamlining measures geared to promoting its sustainable competitiveness. Moreover, IT projects were carried out at the German KHS-Group KHS Group and in the international companies to further optimize workflows. The extensive modernization of the Bad Kreuznach site to ensure lean manufacturing is being implemented in various individual subprojects.

Industrial Participations / Consolidation

Key data		2017	2016
Sales	**€ m**	**890.6**	**738.7**
Sales to other segments/Group companies	**€ m**	**–692.6**	**–544.1**
External sales[1]	**€ m**	**198.0**	**194.6**
Earnings before taxes (EBT)	**€ m**	**42.2**	**36.3**
EBIT before depreciation and amortization (EBITDA)[2]	**€ m**	**80.9**	**64.2**
Earnings before interest and taxes (EBIT)[2]	**€ m**	**53.8**	**36.6**

[1] Contribution to consolidated external sales
[2] EBIT = EBT + interest expenses/ –interest income; EBITDA = EBT + depreciation and amortization

The following company has been newly admitted to the group of consolidated companies of Salzgitter AG (SZAG):

- Salzgitter Hydroforming Verwaltungs GmbH, Crimmitschau (SZHV)

Industrial Participations / Consolidation comprises activities that are not directly allocated to a business unit. As a management holding company, Salzgitter AG 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 are held. In addition, the 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.

Sales in the Industrial Participations / Consolidation segment, which are based mainly on business in semi-finished products and services with subsidiaries and external parties, increased considerably to € 890.6 million in the financial year 2017 (2016: € 738.7 million). **External sales** that stood at € 198.0 million settled around the year-earlier level (€ 194.5 million).

Earnings before taxes climbed to € 42.2 million (2016: € 36.3 million). This figure includes the contribution of the Aurubis investment amounting to € 79.3 million (2016: € 19.1 million) that above all comprises the proportionate Aurubis after-tax result (€ 91.7 million; 2016: € 51.8 million). In addition, the positive effect from the cancellation of a derivative (€ 56.9 million) attached to the Aurubis exchangeable bond following redemption in the form of shares is also included. A loss of € 63.9 million was incurred by the disposal of the Aurubis shares. Following repayment of the bond, SZAG held a stake of 16.76 % in Aurubis AG at the end of the year. Reporting-date related valuation effects of foreign currency and derivative positions burdened the result of the segment, while the pre-tax profit of the Group companies not directly assigned to a business unit doubled in comparison with the previous year. This is essentially due to the increase in profit achieved by the RSE Group that was determined by income from the disposal of a non-core property.

4. Comparison between Actual and Forecasted Performance

Given the increase in selling prices – induced by the European anti-dumping measures – primarily in the strip steel business and the further positive effects anticipated from the programs of measures and to promote growth, we assumed the following for the **Salzgitter Group** in the financial year 2017:

- an increase in sales to around € 9 billion (2016: € 7.9 billion),
- a pre-tax profit of between € 100 million and € 150 million (2016: € 53.2 million) and
- a return on capital employed (ROCE) that marginally exceeded the previous year's figure (2016: 2.7 %).

We got off to a good start to the financial year with the best quarterly result since 2008 and revised our earnings forecast upward in May to:

- a pre-tax profit of between € 125 million and € 175 million and
- a return on capital employed (ROCE) that was appreciably higher than the previous year's figure.

Due to the firming up of the gratifying earnings situation in the Strip Steel and Trading business units, and given the sound mid-year result, we adjusted our earnings forecast again at the end of July and subsequently anticipated:

- a pre-tax profit of between € 150 million and € 200 million.

In October, the Executive Board decided not to exercise the cash settlement option of the portion of the bond exchangeable into the shares of Aurubis AG due for payment as of November 2017. In conjunction with the unchanged positive performance, this allowed a further upward revision of the earnings forecast to:

- pre-tax profit of between € 175 million and € 225 million.

The Salzgitter Group closed the financial year 2017 with the highest pre-tax result (€ 238.0 million) since the financial crisis, thereby exceeding its forecast last affirmed on November 14, 2017. Sales and ROCE developed in line with the forecast.

The performance of the individual segments compared with the projected development was as follows:

Thanks to the uptrend in selling prices in the EU steel market, the **Strip Steel Business Unit** expected a more gratifying development of business. Assuming that demand remained robust, and supported by ongoing measures to reduce costs, the following was anticipated despite the partly sharp increase in raw materials prices:

- sales that were appreciably higher than in the previous year (2016: € 1.8 billion) and
- a significant improvement in the pre-tax result (2016: € –2.3 million).

Salzgitter Flachstahl GmbH (SZFG) was producing close to maximum capacity during the period under review. The notably higher price level led to a substantial increase in sales (€ 2.2 billion). The Strip Steel Business Unit lifted its result considerably, above all on the back of better selling prices, and reported an impressive pre-tax profit (€ 182.0 million).

In a persistently difficult market environment the **Plate / Section Steel Business Unit** assumed satisfactory capacity utilization for the two plate companies and positive effects from the extensive cost cutting and efficiency enhancement measures. Capacity utilization in the section steel business was expected to run at the previous year's level. Along with the persistently volatile scrap price and the resulting speculative buying patterns of customers, burdens were anticipated from the drastic increase in grid charges for sourcing electricity. Overall the business unit predicted:

- appreciable volume- and selling price-induced growth in sales (2016: € 0.7 billion) and
- a significant improvement in the pre-tax result in the direction of breakeven (2016: € –32.1 million).

Sales (€ 1.0 billion) notably exceeded the year-earlier figure. At € –57.7 million, the business unit reported a higher pre-tax loss than in 2016. Along with the release of order-specific provisions, this figure comprises impairment at Mannesmann Grobblech GmbH (MGB) amounting to € –48.8 million, without which the earnings forecast would have been fulfilled. The heavy plate companies that continue to operate in a market environment determined by a high level of imports nevertheless succeeded in substantially reducing their operating losses. Peiner Träger GmbH (PTG) was unable to match the performance achieved in the previous successful years due to market conditions.

The **Mannesmann Business Unit** predicted good capacity utilization for the German large-diameter pipes mills, also due to the bookings made in 2016. By contrast, the order situation on the North American market was expected to deteriorate. The segments of medium-diameter line pipe, precision and stainless steel tubes expected an at minimum hesitant recovery. All in all, the business unit anticipated:

- a moderate increase in sales (2016: € 1.0 billion) due to rising shipment volumes backed by a higher selling price level and
- a marked increase in the pre-tax result around breakeven (2016: € –22.4 million).

The segment's sales increased in line with expectations (€ 1.1 billion). Similarly, the pre-tax result (€ –5.6 million) rose on the back of better performance by Mannesmann Line Pipe GmbH (MLP). This figure includes € –21.0 million in expenses for measures aimed at structural improvements at the precision tubes group in Europe.

In 2017, the **Trading Business Unit** assumed a recovery in the international project business, an increase in the sale of pre-processed products and an expansion of the customer base in the context of more intensive digitalization. As, from that point in time, a repeat of the temporary widening of margins that took place in 2016 in the wake of the steel price trend could not be expected, we anticipated:

- a considerable increase in sales (2016: € 2.9 billion) and
- earnings before taxes considerably below the previous year (2016: € 45.2 million).

Thanks to the price increases in all areas, significantly higher sales (€ 3.2 billion) were reported, along with a steady expansion in the customer base of digital trading activities. The business unit generated a pre-tax profit of € 70.5 million, thereby outperforming the already very presentable result of the previous year's period.

In view of the fierce price-led competition in the project business, the **Technology Business Unit** relied on growth in the profitable product segments as well as on expanding its service business. Moreover, above all the efficiency enhancing measures introduced under the "Fit4Future 3.0" program were expected to develop their positive impact. Based on a high level of orders on hand, the following was assumed:

- stable sales trend (2016: € 1.3 million) and
- a marked increase in earnings before taxes (2016: € 28.4 million).

The sales forecast was achieved (€ 1.3 billion). Although the smaller specialist mechanical engineering companies noteably increased their earnings before taxes, the segment's figure that came in at € 6.6 million fell short of expectations, also due to € –13.1 million expenses for measures aimed at structural improvements at the KHS Group.

IV. Profitability, Financial Position and Net Assets

1. Profitability of the Group

The **Salzgitter Group** closed the financial year 2017 with the highest pre-tax profit since 2008. The excellent performance of the Strip Steel and Trading business units, along with the continued successful implementation of the Group's internal programs, made major contributions to this result. Return on capital employed stood at 8.6% (2016: 2.7%). With a net financial position of € 381 million (2016: € 302 million) and an equity ratio that had risen to 36%, the company enjoys a comfortable financial basis and sound balance sheet.

The Group's **external sales** rose substantially to € 8,990 million (2016: € 7,906 million) due to the increase in the average selling prices for steel products and were distributed as follows among the business units:

Consolidated sales by business unit

	2017		2016		
	In € m	%	In € m	%	Change
Strip Steel	2,160	24	1,815	23	19%
Plate / Section Steel	1,024	11	742	9	38%
Mannesmann	1,093	12	999	13	9%
Trading	3,230	36	2,855	36	13%
Technology	1,285	14	1,300	16	–1%
Industrial Participations / Consolidation	198	2	195	2	2%
Group	**8,990**	**100**	**7,906**	**100**	**14%**
Discontinued operations	0		13		–100%
Continuing operations	**8,990**		**7,893**		**14%**

The regional distribution of sales revenues remained virtually unchanged: As before, the business activities of the Salzgitter Group were therefore focused on the EU (€ 6,345 million; 71% share of sales). Germany remained by far the largest single market with sales of € 4,288 million, equivalent to a share of 48%. It should be noted in this context, however, that many of our products are supplied to export-oriented German businesses and therefore ultimately find their way abroad.

Consolidated sales by region

	2017		2016	
	In € m	%	In € m	%
Germany	4,288	48	3,536	45
Other EU countries	2,057	23	1,800	23
Rest of Europe	358	4	314	4
America	1,096	12	972	12
Asia	652	7	764	10
Other regions	540	6	520	7
Group	**8,990**	**100**	**7,906**	**100**
Discontinued operations	0		13	
Continuing operations	**8,990**		**7,893**	

The Salzgitter Group generated earnings before taxes of € 238.0 million (2016: € 53.2 million). This figure includes € –82.9 million in burdens on earnings from special items (2016: € –2.3 million) as well as € 79.3 million in contribution from the Aurubis investment (2016: € 19.1 million).

The bond convertible into the shares of Aurubis AG (NAAG) issued in the financial year 2010 in nominal amount of € 295.5 million matured in the fourth quarter of 2017. In October 2017, the Executive Board of Salzgitter AG (SZAG) decided not to exercise the cash settlement option of the portion still due for payment of the exchangeable bond that stood at € 265.4 million. The bond was therefore fully repaid through the granting of Aurubis shares. As a result, the derivative liability totaling € 138.5 million accounted for in connection with the cash settlement option was then due for release with effect on income. An amount of € –63.9 million from the granting of Aurubis shares recognized at equity for the purpose of servicing the outstanding bond liability ran counter to this positive earnings effect. In the financial year ended, this process resulted in a loss of € 6.9 million, adjusted for negative impact on earnings over the course of the year (€ –81.6 million) from the derivative valuation that was eliminated. After repayment of the bond, SZAG held a stake of 16.76 % in NAAG at the end of the year. SZAG therefore remains a core shareholder of NAAG and, as before, includes the company in the consolidated financial statements of SZAG as an entity accounted for using the equity method.

The business units delivered the following results:

The **Strip Steel Business Unit** raised its earnings before tax considerably to € 182.0 million, due above all to improved selling prices (2016: € –2.3 million). In addition, the performance reflects the positive effects of the programs of measures introduced. A counter trend emanated from higher raw materials prices, especially for coking coal.

The **Plate / Section Steel Business Unit** closed the year with earnings before taxes of € –57.7 million (2016: € –32.1 million). Along with the release of order-specific provisions, the result was impacted by impairment of € –48.8 million at Salzgitter Mannesmann Grobblech GmbH (MGB). While the heavy plate companies reduced their operating losses significantly, Peiner Träger GmbH (PTG) was unable to repeat the success of former years due to market conditions.

The pre-tax result of the **Mannesmann Business Unit** increased mainly on the back of the higher contribution from Mannesmann Line Pipe GmbH (MLP) (€ –5.6 million; 2016: € –22.4 million). This result was burdened by € 21.0 million in expenses for measures aimed at structural improvements at the precision tubes group in Europe.

The stockholding steel trade and the Universal Eisen und Stahl Group (UES Group) reported very satisfactory earnings positions. International trading also delivered positive results as the downturn in volume was compensated by deliveries with stronger margins. The **Trading Business Unit** therefore generated earnings before taxes of € 70.5 million that represents substantial growth compared with the already very presentable result of the year earlier period (2016: € 45.2 million).

The **Technology Business Unit** delivered a pre-tax profit of € 6.6 million (2016: € 28.4 million). The result includes € –13.1 million in expenses for measures aimed at structural improvements at the KHS Group that suffered a notable decline due to competitive price pressure. By contrast, KDS and the KDE Group achieved strong growth in their earnings before taxes.

Industrial Participations / Consolidation lifted earnings before taxes to € 42.2 million (2016: € 36.3 million). This figure includes the contribution of the Aurubis investment amounting to € 79.3 million (2016: € 19.1 million). A counter effect emanated, however, from reporting-date related valuation effects of foreign exchange and derivative positions. The pre-tax profit of Group companies not directly assigned to a business unit doubled in a year-on-year comparison, due above all to the higher result of the RSE Group that was determined by proceeds from the disposal of a non-core property.

Results by business unit and consolidated net income/loss for the year

In € m	2017	2016
Strip Steel	182.0	–2.3
Plate / Section Steel	–57.7	–32.1
Mannesmann	–5.6	–22.4
Trading	70.5	45.2
Technology	6.6	28.4
Industrial Participations / Consolidation	42.2	36.3
EBT Group	**238.0**	**53.2**
Discontinued operations	0.4	11.8
EBT from continuing operations	**237.6**	**41.4**
Taxes	44.5	–3.6
Consolidated net income/loss for the financial year[1)]	**193.6**	**56.8**

[1)] Including minority interest

Special items/EBT business units and Group (including discontinued activities)

	EBT		Restructuring		Impairment/ reversal of impairment		Other		EBT without special items	
In € m	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Strip Steel	182.0	–2.3							182.0	–2.3
Plate / Section Steel	–57.7	–32.1		–6.3	–48.8	25.0			–8.9	–50.8
Mannesmann	–5.6	–22.4	–21.0	–6.0		–15.0			15.4	–1.4
Trading	70.5	45.2							70.5	45.2
Technology	6.6	28.4	–13.1						19.7	28.4
Industrial Participations / Consolidation	42.2	36.3							42.2	36.3
Group	**238.0**	**53.2**	**–34.1**	**–12.3**	**–48.8**	**10.0**	**0.0**	**0.0**	**320.9**	**55.5**

Development of selected income statement items

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

Sales that rose in comparison with 2016 were offset in particular by the higher cost of materials due to the increase in raw materials prices. Depreciation and amortization includes impairment of € –48.8 million in the Plate / Section Steel Business Unit. The result of the companies included at equity increased significantly. The investment in NAAG made an especially gratifying contribution.

Adjusted for € 44.5 million in tax expenses, consolidated net income of € 193.6 million was recorded (2016: € 56.8 million).

Multi-year overview of earnings

In € m	2017	2016	2015[1]	2014	2013[2]	2012	2011	2010	2009	2008
EBT	238.0	53.2	4.1	−15.2	−482.8	−29.4	201.6	48.9	−496.5	1,003.4
EBIT I[3]	295.7	96.6	69.5	63.9	−422.7	59.8	264.7	102.9	−468.1	1,072.1
EBIT[4]	316.8	119.2	81.9	97.9	−393.2	98.0	304.5	159.8	−411.3	1,026.9
EBITDA[5]	707.2	476.4	422.6	483.6	138.1	462.7	666.8	539.7	156.9	1,317.2
EBT margin	2.7	0.7	0.1	−0.2	−5.2	−0.3	2.1	0.6	−6.4	8.0
EBIT margin[4]	3.5	1.5	1.0	1.1	−4.2	0.9	3.1	1.9	−5.3	8.2
EBITDA margin[5]	7.9	6.0	4.9	5.4	1.5	4.5	6.8	6.5	2.0	10.5
ROCE %	8.6	2.7	1.9	1.8	−10.5	1.3	5.6	2.2	−10.5	21.9

Values 2008 until 2012 not restated, including discontinued operations

[1] Restatement because of a correction of the stock value
[2] Restated because of first time adoption of IFRS 11
[3] Excluding interest expenses for provisions
[4] EBT + interest expenses/– interest income
[5] EBT + interest expenses/– interest income + amortization and depreciation

Reconciliation EBIT/EBITDA

In € m	2017	2016
EBT	238.0	53.2
+ Interest expenses	99.7	94.6
– Interest income	−21.0	−28.6
= EBIT	**316.8**	**119.2**
+ Depreciation/amortization[2]	390.4	357.2
= EBITDA	**707.2**	**476.4**

[1] Depreciation/amortization of tangible, intangible fixed assets and non-current financial assets

The EBIT and EBITDA performance figures indicate the operating strength of a company set apart from its capital structure. They allow an additional analysis and assessment of a company's results, as well as facilitating approximate comparability with its peers at an operating level. Differences in taxation specific to the respective country, as well as special features concerning the structure of financing and property, plant and equipment of the individual company, can therefore be disregarded. The EBIT and EBITDA figures have increased significantly due to the strong improvement in earnings performance in a year-on-year comparison.

Value added in the Salzgitter Group

The operational value added of the Group amounted to € 2,032 million in 2017, thereby providing more than full coverage for personnel expenses (€ 1,767 million). The public sector received 2.2 % in the form of taxes and levies (2016: −0.2 %). The proportion of lenders stood at 1.4 %, unchanged from the year before. A proportion of 1.3 % of value added is available for the shareholders (including treasury shares) for the financial year ended (2016: 1.2 %). In the last 15 years, an amount of € 3.0 billion from the value added has remained within the Group, with funds of € 166 million contributed to the Group in 2017.

Value added

	2017/12/31		2016/12/31	
	In € m	%	In € m	%
Sources				
Group outputs	9,670	100.0	8,246	100.0
Inputs	7,638	79.0	6,462	78.4
Value added	**2,032**	**21.0**	**1,784**	**21.6**
Appropriation				
Employees	1,767	87.0	1,707	95.7
Public sector	45	2.2	–4	–0.2
Shareholders	27	1.3	21	1.2
Lenders	28	1.4	25	1.4
Remaining within the Group	166	8.2	35	2.0
Value added	**2,032**	**100.0**	**1,784**	**100.0**

Reconciliation value added

In € m	2017	2016
Sales	8,990.2	7,905.7
Changes in inventories/other own work capitalized	179.1	–64.2
Other operating income	401.8	328.2
Income from shareholdings	6.7	3.9
Result from investments accounted for using the equity method	101.7	63.3
Financial result[1)]	–9.6	8.8
Group outputs	**9,670.0**	**8,245.8**
Cost of materials	6,029.8	5,073.9
Depreciation/amortization	390.4	357.1
Other operating expenses	1,218.2	1,030.9
Input	**7,638.4**	**6,461.9**

[1)] Excluding income from securities and loans, interest expense, allocation to pension reserves as well as excluding interest expense and similar expenses

2. Financial Position and Net Assets

Financial management

Salzgitter Klöckner-Werke GmbH (SKWG), a wholly-owned subsidiary of Salzgitter AG (SZAG), has carried out cash and foreign currency management principally on a centralized basis for the companies belonging to the Salzgitter Group since January 1, 2012. Joint venture companies are not included.

The internal financing of Group companies is fundamentally conducted through making Group credit lines available in the context of Group financial transactions and, in individual cases, external loan guarantee commitments. To cover the financial requirements of foreign Group companies, in particular those outside the euro area, the Salzgitter Group also makes use of local lending markets. At the same time, it draws on the liquidity surplus of the Group companies for financing. Supplies and services within the Salzgitter Group are settled via internal accounts. Central finance management enables us to procure external capital at favorable conditions and has a positive impact on interest income. We calculate the Group's liquidity requirements through financial planning with a multi-year planning horizon and a monthly rolling liquidity planning with a six-month forecasting horizon. Funds invested, medium-term bilateral credit lines, a syndicated credit limit of € 560 million renewed in 2017 with a five-year term, along with renewal option, as a back-up line not used, and the tapping of the bond markets guarantee that our liquidity requirements are covered. In addition, a bonded loan (Schuldschein) was issued for the first time in 2016.

Our international business activities generate cash flows in a number of different currencies. In order to secure against the resulting currency risk, Salzgitter Group companies must hedge foreign currency positions at the time when they arise in accordance with Group guidelines. Internal Audit monitors compliance with these regulations in the context of their regular tasks. For transactions denominated in US dollar, which make up a major portion of our foreign currency transactions, the option of setting off sales and purchasing items (netting) is considered first within the Group. Any surplus amounts are covered by way of hedging transactions that are customary in the market.

Pension provisions still play a significant role in corporate financing. Based on a lower actuarial interest rate (1.50%) derived from the current level of capital market rates, they amounted to € 2,440 million (2016: € 2,449 million at 1.75%). In accordance with the standards of international accounting, the effect of adjusting the actuarial interest rate was reported in the statement of comprehensive income in equity with no effect on income.

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

Cash and cash equivalents

In € m	2017	2016
Cash inflow from operating activities	273.7	290.2
Cash outflow from investment activities	–340.1	–363.6
Cash outflow/inflow from financing activities	–63.6	52.6
Change in cash and cash equivalents	**–129.9**	**–20.7**
Changes in the Group of consolidated companies/changes in exchange rates	–8.8	2.6
Cash and cash equivalents on the reporting date	**679.4**	**818.1**

The Group generated € 274 million in cash flow from operating activities (2016: € 290 million). Against the backdrop of a significant improvement in earnings, the increase in receivables and inventories placed a particular burden on the cash flow. Compared with the year-earlier period (€ 364 million), the cash outflow from investment activities (€ 340 million) mainly reflected disbursements for investments in property, plant and equipment and intangible assets as well as in other non-current assets, especially in shares of companies accounted for using the equity method. This was offset by a positive balance from payments for cash investments (€ +55 million).

The financial year 2017 resulted in an overall negative cash flow of € 64 million from financing activities (previous year: € +53 million) due to disbursements for dividends and interest as well as for the repayments of loans. The positive cash inflow of the previous year resulted mainly from the issuing of a bonded loan.

Net financial position

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

In € m	2017/12/31	2016/12/31
Cash and cash equivalents acc. to balance sheet	679.4	818.1
+ Certificates held for trading	200.0	250.0
+ Other investments of funds	140.5	149.9
= Investments of funds	1,019.9	1,218.0
Financial liabilities acc. to balance sheet	671.6	946.0
– Liabilities from leasing agreements, from financing/ financial transactions and other	32.2	29.8
= Financial liabilities of net financial position	639.4	916.2
Net financial position	**380.5**	**301.8**

The net financial position of € 381 million increased in comparison with 2016 (€ 302 million). The lower level of cash investments, including securities (€ 1,020 million), was offset by a significant decline of € 639 million in liabilities owed to banks at the end of the year (previous year: € 916 million). The latter figure includes € 168 million in nominal liabilities from bonds that have declined significantly in comparison with the previous year due to the repayment of the exchangeable bond. Obligations from finance lease are not included in the net financial position.

Investments

Additions to non-current assets from investments totaled € 292 million (2016: € 359 million). Capitalized investments from these additions in property, plant and equipment and in intangible assets (€ 287 million) were more than covered by scheduled depreciation and amortization (€ 342 million). Financial assets rose by € 5.7 million, largely due to investments in subsidiaries not included in the group of consolidated companies for reasons of immateriality. Along with the Strip Steel Business Unit (€ 126 million), a major part of the investments in property, plant and equipment and intangible assets were made in the Mannesmann Business Unit (€ 73 million) in 2017.

Depreciation and amortization includes unscheduled write-downs of € 49 million (2016: € 15 million).

Depreciation/amortization[1)]

	Investments[2)]		Depreciation/amortization[2)3)]	
In € m	**Group**	**of which Strip Steel BU and Plate / Section Steel BU**	**Group**	**of which Strip Steel BU and Plate / Section Steel BU**
2017	**287**	**166**	**390**	**269**
2016	352	213	357	224
2015	411	278	340	221
2014	270	155	382	261
2013	359	193	530	423
Total	**1,679**	**1,005**	**2,000**	**1,397**

1) Property, plant and equipment and intangible assets, excluding financial assets
2) 2013 restated
3) Scheduled and unscheduled write-downs

Investments/depreciation and amortization by business unit[1)]

	Investments		Depreciation/amortization[2)]	
In € m	**2017**	**2016**	**2017**	**2016**
Strip Steel	126.4	189.3	175.0	177.5
Plate / Section Steel	39.2	23.8	94.3	46.2
Mannesmann	72.8	87.7	61.6	73.2
Trading	8.7	7.7	10.3	10.4
Technology	20.2	21.8	22.1	22.3
Industrial Participations / Consolidation	19.4	21.9	27.1	27.6
Group	**286.7**	**352.1**	**390.4**	**357.1**

1) Property, plant and equipment and intangible assets, excluding financial assets
2) Scheduled and unscheduled write-downs

The liquidity and debt-to-equity ratios in the financial year 2017 were as follows:

Multi-year overview of the financial position

	2017	2016	2015[1]	2014	2013[2]	2012	2011	2010	2009	2008
Solvency I (%)[3]	131	123	132	116	130	156	169	192	211	157
Solvency II (%)[4]	234	201	214	196	227	262	287	287	302	281
Dynamic debt burden (%)[5]	11.6	11.6	19.8	26.0	6.8	22.0	–12.1	30.1	406.8	64.9
Gearing (%)[6]	178.3	196.3	190.0	195.4	158.9	145.1	120	125.9	106.2	100.3
Cash flow (€ m) from operating activities	274	290	448	599	141	427	–197	209	1,190	547
Net financial position (€ m)[7]	–381	–302	–415	–403	–303	–497	–508	–1,272	–1,561	–991

Values 2008 until 2012 not restated, including discontinued operations

[1] Restatement because of a correction of the stock value

[2] restated

[3] $\frac{\text{(current assets – inventories) x 100}}{\text{current liabilities + dividend proposal}}$

[4] $\frac{\text{current assets x 100}}{\text{current liabilities + dividend proposal}}$

[5] $\frac{\text{cash flow from operating activities x 100}}{\text{non-current and current borrowings (including pensions) – investments}}$

[6] $\frac{\text{non-current and current liabilities (including pensions) x 100}}{\text{equity}}$

[7] – ≙ cash in bank, + ≙ liabilities

Asset position

The Group's total assets decreased by 1.6% to € 8,318 million in comparison with the 2016 reporting date (€ 8,450 million). The decline in non-current assets (€ –134 million) resulted from the lower level of shares of the companies accounted for using the equity method (€ –83 million). Non-current assets fell as depreciation and amortization (€ 390 million) exceeded the investments (€ 292 million). This was offset by higher income tax assets (€ +43 million). Current assets correspond to the previous year's level. While inventories as well trade receivables increased (€ +242 million and € +16 million respectively), other receivables and assets (€ –110 million) and cash and cash equivalents (€ –139 million) declined.

Asset and capital structure

In € m	2017/12/31	%	2016/12/31	%
Non-current assets	3,566	42.9	3,700	43.8
Current assets	4,752	57.1	4,750	56.2
Assets	**8,318**	**100.0**	**8,450**	**100.0**
Equity	2,990	35.9	2,852	33.8
Non-current liabilities	3,322	39.9	3,258	38.6
Current liabilities	2,007	24.1	2,340	27.7
Equity and liabilities	**8,318**	**100.0**	**8,450**	**100.0**

Working capital stood at € 2,433 million (+12.4%), which is higher than the year-earlier figure.

The equity ratio (35.9 %) increased notably in comparison with the previous year (33.8 %), impacted by the good annual result. At the same time, current financial liabilities declined owing to the repayment of the exchangeable bond. Furthermore, trade payables were somewhat higher than in the previous year.

Multi-year overview of the asset position

	2017	2016	2015[1)]	2014	2013[2)]	2012	2011	2010	2009	2008
Asset utilization ratio (%)[3)]	42.9	43.8	44.4	42.1	43.9	42.5	41.8	39.7	39.5	33.5
Inventory ratio (%)[4)]	25.1	21.8	21.3	23.4	23.9	23.2	23.9	19.9	18.2	29.3
Depreciation/ amortization ratio (%)[5)]	15.9	13.9	13.3	15.3	20.7	13.6	13.5	14.2	21.3	11.7
Debtor days[6)]	61.6	68.2	63.4	66.5	57.8	54.2	53.7	51.7	49.3	48.4
Capital employed (€ m)	3,436	3,584	3,620	3,526	4,034	4,481	4,733	4,596	4,457	4,886
Working capital (€ m)	2,433	2,165	2,271	2,487	2,598	2,694	2,753	2,193	1,981	3,338

Values 2008 until 2012 not restated, including discontinued operations

1) Restatement because of a correction of the stock value

2) restated

3) $\frac{\text{non-current assets x 100}}{\text{total assets}}$

4) $\frac{\text{inventories x 100}}{\text{total assets}}$

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

6) $\frac{\text{trade receivables x 365}}{\text{sales}}$

SZAG discloses contingent liabilities in the 2017 annual financial statements that are with a risk of occurrence that is considered unlikely. Full subsequent adjustment to company pensions from an examination carried out on adjusting company pensions would result in an increase in the net pension obligation of around € 28.0 million (previous year: € 31.8 million). The valuation of a securities lending transaction that will in all probability not be utilized gives rise to an overall risk of € 104.3 million (previous year: € 0.0 million). In respect of the tax investigation ongoing since the spring of 2014, SZAG is of the opinion, as in the previous year, that there is no serious probability that claims will be asserted against the Group companies affected. For more details, we make reference to the section on “Contingencies” in the Notes to the Consolidated Financial Statements.

3. The Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG (SZAG) for the financial year 2017 have been drawn up in application of the accounting policies and valuation methods of the German Commercial Code, taking account of the supplementary provisions set out under the German Stock Corporation Act, and have been approved without qualification by the auditor PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Hanover. The complete text is published in the German Federal Gazette.

As before, SZAG as the management holding company heads up the Group's business units that are responsible at the operational level.

The main associated companies are held through the wholly-owned company Salzgitter Mannesmann GmbH (SMG) via its wholly-owned subsidiary Salzgitter Klöckner-Werke GmbH (SKWG). There are no profit transfer agreements, neither between SZAG and SMG nor between SMG and SKWG. There is however a contractual agreement on the voluntary assumption of losses.

As a non-operational holding company, SZAG is an integral part of the Salzgitter Group's management and control concept and is therefore subject to the same risks and opportunities as the Salzgitter Group. Consequently, the profitability of the company depends on the business progress made by its subsidiaries and shareholdings and on the extent to which they retain their value. The legal requirements placed on managing and controlling SZAG have been taken into account here.

Balance sheet of Salzgitter AG (condensed)

In € m	2017/12/31	%	2016/12/31	%
Non-current assets	**59.4**	**6.9**	**59.0**	**6.8**
Property, plant and equipment[1]	20.9	2.4	20.7	2.4
Financial investments	38.5	4.5	38.3	4.4
Current assets	**802.2**	**93.1**	**808.6**	**93.2**
Inventories	1.8	0.2	0.1	0.0
Trade receivables and other assets[2]	800.5	92.9	808.5	93.2
Assets	**861.6**	**100.0**	**867.7**	**100.0**
In € m	**2017/12/31**	**%**	**2016/12/31**	**%**
Equity	397.0	46.1	391.0	45.1
Provisions	263.6	30.6	282.2	32.5
Liabilities	201.1	23.3	194.4	22.4
Equity and liabilities	**861.6**	**100.0**	**867.7**	**100.0**

[1] Including intangible assets
[2] Including prepaid expenses

The receivables from the liquidity (€ 723 million) provided to the subsidiary SKWG as part of a groupwide cash management continue to form the main items on the assets side. The treasury shares are disclosed separately from equity in accordance with the regulations prescribed by the German Commercial Code (HGB).

On the liabilities side, in particular pension obligations of € 245 million as well as a residual repayment obligation (€ 168 million) in respect of the Dutch issuer of a convertible bond are disclosed, alongside equity. The equity ratio rose to 46.1% (previous year: 45.1%)

Income statement of Salzgitter AG (condensed)

In € m	2017	2016
Sales	**22.4**	**22.3**
Changes in the inventory of unfinished goods	1.6	0.0
Other operating income	25.5	23.0
Cost of materials	1.4	0.0
Personnel expenses	23.3	19.1
Depreciation/amortization[1)]	2.4	1.3
Other operating expenses	30.0	29.4
Income from shareholdings	43.5	42.5
Net interest result	– 15.0	– 10.1
Income tax	0.8	0.3
After-tax result	**21.6**	**28.3**
Other taxes	0.6	– 8.8
Net income for the financial year	**22.2**	**19.5**

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

Sales revenues largely comprise earnings from the levying of a Group contribution. Among other things, other operating income in 2017 includes the release of provisions as well as differences realized in foreign currency and derivative positions. Income from shareholdings consisted almost exclusively of the contribution to the result received by SMG. As of December 31, 2017, the company had a workforce of 158 employees.

Disclosures pursuant to Sections 289a and 315a of the German Commercial Code (HGB)

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

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

A participating interest of more than 10% of the voting rights as per the reporting date accrued to Hannoversche Beteiligungsgesellschaft Niedersachsen mbH (HanBG), Hanover, that announced in its notification on April 2, 2002, that it owned 25.5% of the voting rights in Salzgitter AG (SZAG); as a proportion of the total number of shares issued that has fallen since then, this corresponds to a share of 26.5% in the voting rights. Sole shareholder of HanBG is the Federal State of Lower Saxony.

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

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

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

- Upon approval by the Supervisory Board, the Executive Board may issue 30,048,500 new no par bearer shares against payment in cash or in kind on or before May 31, 2022 (Authorized Capital 2017), whereby a maximum of 12,019,400 units may be issued excluding the subscription rights of the shareholders (20% of all shares issued on June 1, 2017). The 20% cap is reduced by the proportionate amount in the capital stock to which the following relate: option or conversion rights and the option or conversion obligations attached to the warrants, convertible bonds, profit participation rights and/or participating bonds or a combination of these instruments which have been issued, with subscription rights excluded, since June 1, 2017.
- Moreover, upon approval by the Supervisory Board, the Executive Board may issue bonds in a total nominal amount of up to € 1 billion on or before May 31, 2022, and grant the holders of the respective bonds conversion rights to shares of the company in a total amount of up to 26,000,093 units (Contingent Capital 2017). These shareholders' subscription rights can be precluded up to a total nominal amount of bonds with which conversion rights to shares are combined, of which the pro rata amount in the capital stock may not exceed 10% of the capital stock. Bonds with conversion rights excluding shareholder subscription rights may be issued only if shares making up a proportion of 20% of the capital stock, excluding subscription rights, from the Authorized Capital have not been issued since June 1, 2017. By the reporting date no shares had been issued from the Authorized Capital since June 1, 2017.
- The Executive Board is authorized to purchase the company's own shares equivalent to a proportion of the capital stock of up to 10% in the period on or before May 27, 2020, and to use these shares for all purposes permitted under the law.

In addition, on June 5, 2015, the Executive Board made use of the authorization valid up until June 1, 2017 to issue a bond in the form of a convertible bond to the exclusion of shareholder subscription rights with conversion rights pertaining to currently up to 3,553,627 new shares from contingent capital (Contingent Capital 2013), exercisable until May 26, 2022. By the reporting date, no holder of bonds forming part of the issue had yet exercised their conversion rights.

Subject to the condition of change of control following a takeover offer, there are material agreements of the company that have the following effects:

- In the case of the convertible bond of € 168 million issued in 2015, all bondholders are entitled to request the repayment of their bonds within a certain period in the event of a change of control; moreover, should bondholders exercise their conversion and/or exchange rights within a certain period, the convertible and/or exchangeable ratio will be adjusted in application of a specific formula.
- Under a contract agreed in 2017 with a banking syndicate on a credit line of € 560 million, each syndicate bank is entitled in the event of a change of control to terminate its participation in the credit line and, if desired, to request repayment.
- Under an agreement of the shareholders of EUROPIPE GmbH, Mülheim an der Ruhr, 50% of whose shares are held by the Group, the company may, in the event of a change of control, retract shares without the consent of the shareholder affected in the event that the business activities of the third party that has attained a controlling influence stand in direct competition to the company's business activity. In place of retracting the shares, the other shareholders may request that shares are assigned to a designated purchaser.

In the event of a takeover offer, the members of the Executive Board have the right to terminate their contracts of employment under certain preconditions and are entitled to settlement in an amount of the total remuneration over the residual term of their respective contracts. There is, however, a cap on the maximum amount of this entitlement.

Appropriation of the profit of Salzgitter AG

SZAG reported annual net income of € 22.2 million in the financial year 2017. Including the profit carryforward (€ 4.9 million), unappropriated retained earnings amount to € 27.1 million.

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

If the company holds treasury shares on the day of the General Meeting of Shareholders, the proposed appropriation of profit will be adjusted accordingly at the Meeting as treasury shares are not eligible for dividend.

The dividend amount will continue to be geared to the profit trend. The cyclical fluctuations typical of the sector are by nature reflected in the results of the Group, on the one hand, and in its share price, on the other. The unappropriated retained earnings in the annual financial statements of SZAG drawn up under German commercial law are the determining factor for the ability to pay dividend and, in as much, relevant for management and control. The Salzgitter Group 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. The dividend proposal does not necessarily have to fully reflect the cyclicality of the earnings performance. Against the backdrop of the market environment currently to be expected and the dependence of the earnings of SZAG on its subsidiaries we anticipate unappropriated retained earnings for the financial year 2018 around the level of the previous year. The forecast for 2017, also based on the preceding year, was exceeded.

V. Opportunities and Risk Report, Guidance

1. Opportunity and Risk Management System

We comment on expectations of the medium-term development of the economy and the potential impact on our company, while taking account of the opportunities and risks, in the section on “Overall Statement on Anticipated Group Performance”.

Differentiation between risk and opportunity management
We treat risk and opportunity management separately as a matter of principle. A separate reporting system documents the risks and facilitates the relevant monitoring activities. By contrast, recording and communicating opportunities forms an integral part of the management and controlling system that operates between our subsidiaries/associated companies and the holding company. The identification, analysis and implementation of operational opportunities are incumbent on the management of the individual companies. Together with the holding company of the Group, goal-oriented measures are devised to reinforce strengths and to tap strategic growth potential.

Opportunities and opportunities management
The ongoing monitoring and analysis of the relevant developments affecting the products, technology, markets and competition in the environment of the Group’s companies constitute an integral part of opportunity management dedicated to the identification, seizing and realization of opportunities.

Our group and management structure that is aligned to efficient and effective structures and workflows forms an important basis for the consistent leveraging of potential. This allows us to seize market opportunities more swiftly and in a more selective manner against the backdrop of a challenging and dynamic environment.

Business opportunities are to be specifically used under the aspect of sustainable profitability. Alongside measures to promote organic growth, we also examine new business models and screen external options with regard to their potential contribution to securing the Salzgitter Group’s success. Plant productivity and efficient resource deployment are also critical to our Group’s success, as is ensuring that our products and services are clearly focused on customer and market requirements.

Opportunities arise most notably from our numerous and diverse research and development activities. More information on projects currently under way has been included in the section on “Research and Development.”

Risks and risk management
In the past year our risk management system has proven its worth and effectiveness, also in the light of the impact of Europe’s financial and debt situation and the imbalance still prevailing in a number of sub-markets for steel products, along with political imponderables.

Business activity as defined by our Articles of Incorporation makes risk taking unavoidable in many instances, as this is frequently a precondition for exploiting opportunities. As far as possible, all relevant risks must therefore be containable and kept within certain limits by the management of the company. For this reason, foresighted and effective risk management is an important and value-creating component of management that is geared toward safeguarding the company as a going concern, along with our shareholders’ capital and jobs.

Qualified top-down set of rules and regulations
It is the task of the management holding company to put guidelines in place to form the basis on which a uniform and adequate consideration and communication of risks can be ensured throughout the Group. We communicate the relevant concept to our subsidiaries and associated companies with the aid of a risk policy that sets out principles concerning the

- identification,
- assessment,
- dealing with risk,
- communication and
- documentation

of the risks based upon which the groupwide risk inventory is standardized, with the ultimate aim of guaranteeing the informative value for the entire Group. We develop our risk management system on a steady basis in response to requirements.

Identification
With risk management within the Salzgitter Group in mind, we identify situations in the business units that we have not yet incorporated – or been able to incorporate – into our planning or in our forecast. The damage or the amount of loss is based on the potential divergence from the forecast or anticipation of the result. The risk coordinators in the companies ensure that this is a continuous process. We have drawn up a checklist that can be used to identify risks. At the same time, the various situations are assigned to risk types. The categorization of the different types of risks in the Salzgitter Group consists of the following four main groups:

- general external risks,
- performance risks,
- financial risks and
- general internal risks.

In order to ensure a fundamental methodology, we record and monitor mandatory risks for a series of risks in our inventory – irrespective of the amount of loss – such as performance risks, for instance, arising from sales, procurement, stocks and production downtime. External risks comprise environmental protection risks relating to the operation of our plants as well as, more recently, risks inherent in environmental and energy policies that are particularly significant for our Group. Examples of the financial component include rolling, short-term liquidity planning, and, in the case of internal risks, evaluating information technology. Experience has shown that this selection covers the main risks in our Group's risk portfolio.

Assessment
So as to assess the risks, we generally evaluate the threat scenario, taking account of all factors of influence. In the event, provisions and valuation allowances reduce the amount of loss, which is noted in the risk documentation

Risks from fire damage, operational downtime and other damage and liabilities claims covered by our insurance policies are not recorded. Severe loss incurred by the aforementioned risks is passed to our insurance providers, with the exception of any excess. We continuously review the scope and content and make adjustments whenever necessary to ensure that our insurance cover always reflects the status quo.

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

In deriving net loss from gross loss we take account of all measures to contain loss.

We make a distinction between five categories based on the likelihood of their occurrence: three "unlikely" and two "likely". Risks in the "unlikely" categories are events that, after careful commercial, technical and legal consideration, are deemed unlikely to occur. In the case of risks in the "likely" categories, loss accruing to the company from an undesirable event can no longer be ruled out.

Dealing with risk
Measures already taken or still to be implemented for evaluating and overcoming each respective risk are documented and reported as described below.

Communication and documentation
We include all the consolidated companies of our business units in our risk management.

We incorporate risks as an integral part of our intra-year forecasting, medium-term planning. We have defined a set of different procedures, rules, regulations and tools with the aim of avoiding potential risks and of controlling and managing the risks that arise and taking preventive measures. Our internal control system that incorporates the principles of the COSO model is an integral instrument in minimizing risk. The COSO model is based on the "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of the high degree of transparency achieved with regard to developments that involve risk, we as a Group are able to take appropriate countermeasures and implement them in a targeted manner at an early stage. The conditions that must be fulfilled for these measures to be effective are documented, periodically examined and updated if necessary.

We use our groupwide reporting system to ensure that Group management is provided with the necessary, pertinent information. The Group companies report on the risk situation in accordance with reporting thresholds in monthly controlling reports or ad hoc, which they submit directly to the Executive Board. We analyze and assess the risks at Group level, monitor them punctiliously and align them to our overall business situation, especially risks requiring urgent action.

We limit the risks arising from joint ventures in which we do not hold a majority stake by way of appropriate reporting and consultation structures, through participation in supervisory committees and through contractual arrangements. Members of the Executive Board of Salzgitter AG (SZAG) are, for instance, represented on the Supervisory Board of EUROPIPE GmbH (EP), a joint venture, and Hüttenwerke Krupp Mannesmann GmbH (HKM) in order to ensure the transparency. Moreover, as of the reporting date, two Executive Board members of our company served on the Supervisory Board of Aurubis AG (NAAG), one of our participating investments.

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

2. Individual Risks

Business unit allocations
The main price and procurement risks inherent in the raw materials and energy required primarily affect the Strip Steel, Plate / Section Steel and Mannesmann business units in the Salzgitter Group. This is similarly applicable to production downtime risks relating essentially to key plant equipment and machinery such as the rolling mills. The economic risks for companies belonging to the corporate finance and fiscal group are coordinated and controlled by the management holding across all business units.

Sectoral risks

Starting with macroeconomic changes in the international markets, the trends of

- prices in sales and procurement markets,
- energy prices and
- the exchange rates (above all USD – EUR)

are particularly significant for the Salzgitter Group.

In order to minimize the associated business risks, we monitor the relevant trends and take account of them in risk forecasts. This is also true of potential restrictions resulting from financial or political measures affecting international business. Uncertainty prevails as to how this situation will develop.

The ongoing structural crisis in the global steel market, with massive distortions of competition in countries outside the EU, sustained import pressure and foreign policy developments burden our business.

Despite numerous trade defense mechanisms enacted by the EU Commission, imports into the EU remain very high. Other regions, such as India, South Korea or Turkey, have replaced Chinese imports that have declined due to anti-dumping duties. Whether dumping and damage to the market is also the case with these imports is regularly investigated by Eurofer as Europe's umbrella organization for steel.

Especially noteworthy are the risks arising from political developments in the US.

At the bidding of President Trump, the US Department of Commerce has been investigating whether steel imports pose a threat to national security (Section 232) since April 2017. A report had to be submitted to the President with potential measures by mid-January 2018. The implications of the proposals and the form that measures will take are currently not foreseeable. The risks still inherent therefore include the possibility of export opportunities closing and a considerable redirection effect from countries outside the EU into this area.

Salzgitter AG (SZAG) is also affected by two US anti-dumping proceedings directed against imports of heavy plate and wide strip and cold drawn precision tubes from Germany, among other things:

The Group brought an appeal before the US International Court of Trade against the, in our view unjustified, anti-dumping duty of 22.9% imposed on SZAG in respect of heavy plate and wide strip in May 2017. An initial outcome is anticipated in mid-2018.

In a provisional ruling in the anti-dumping proceedings against precision tubes, SZAG (after non-participation in the legal action) had an anti-dumping duty of 209% temporarily imposed on it. A final ruling of the US trade authorities on the amount of the anti-dumping duty and the question of whether German imports are damaging the US market is due in the first half of 2018. Irrespective of this decision, precision tube deliveries to the US are still possible via the local companies in France, the Netherlands and Mexico.

Other trade defense mechanisms in the US would mainly impact business in the medium line pipe segment. The likelihood of this happening is currently not foreseeable.

Furthermore, uncertainty about a new US sanctions act (Countering America's Adversaries Through Sanctions Act) prevails. Following the approval of the US Congress and signing by President Trump, the act entered into force on August 2, 2017. The act provides for the following: companies deemed by the US administration to have business ties with Russian energy export pipelines may have punitive measures imposed on them by the US President in the US.

In addition, in the domain of (foreign trade) policy, there is additional uncertainty about imminent exit of the UK from the EU and from geopolitical risks, above all in Turkey.

SZAG produces rolled steel and steel tubes, as well as focusing on trading, alongside plant and machinery engineering. This broad-based business portfolio goes some way to reducing the Group's dependency on the strongly cyclical nature of the steel industry. We limit risks from changes in the steel and tubes markets by ensuring fast decision-making processes which allow us to adapt rapidly to new market conditions.

The various efforts in the area of energy and climate policy continue to pose a threat in the form of substantial burdens that could significantly impair SZAG's competitiveness in the European and international arena.

One of the key issues of our risk assessments to date has already been retracted in the light of the amended version of the self-sufficient electricity regulation ("Eigenstromregelung") under the German Renewable Energies Act (EEG) as of January 1, 2017: This amended version ultimately rules that the exemption from the EEG levy on electricity generated for own consumption will be upheld in the future. At present, we therefore do not see any material risk from this quarter, as explained in our 2016 Annual Report.

In the context of the planned reform of EU emissions trading as from 2021, a significant shortfall in CO_2 allowances from the allocation, with a marked long-term effect, is still foreseeable for SZAG. The outcome of the trilogue negotiations held on November 9, 2017 between the EU institutions of Parliament, Council and Commission suggests an improvement in the situation anticipated for the 2021/30 period in comparison with the original proposal put forward by the European Commission in July 2015. A more precise appraisal can only be performed once detailed policies are available. Another additional indirect cost risk from emissions trading arises from electricity purchased externally. In terms of these two aspects together, we assess risk to be in the order of a maximum € 155 million a year, as before. We view the probability of occurrence of the CO_2 emissions trading issue as generally likely. The amount of loss will hinge on how the political and regulatory environment develops in the future. In the procurement of CO_2 allowances, we keep an eye on the threat of escalation in the current legal situation and prices. Beginning with the cost aspect, using all energy sources sparingly is an important aspect for us.

Price risks of essential raw materials

In 2017 as well, the development of raw materials prices on the international procurement markets was volatile, with key raw materials such as iron ore, coking coal and scrap displaying partly pronounced blips. We assume that burdens can be passed on to customers, so that we do not anticipate any risks that could constitute a threat to our company as a going concern. We fundamentally endeavor to even out fluctuations in the price of raw materials. To this end, we use hedging within a limited scope, mainly for iron ore as well as for coking coal to a lesser extent. The Group applies a permanent system of monitoring sales and procurement to ensure congruence between the fixed-price procurement of raw materials and the fixed-price sale of our products. This system enables changes to be recognized at an early stage so that any resulting risk can be dealt with in time.

Procurement risks

We counteract the general risk from supply shortfalls of raw materials (iron ore, coal) and energy (electricity, gas) by safeguarding their procurement, firstly by way of long-term framework contracts, and secondly through ensuring our supply from several regions and/or a number of suppliers. In addition, we also operate appropriate inventory management. Our assessment of our supply sources confirms our opinion that the medium-term availability of these raw materials in the desired quantity and quality is ensured. We procure our electricity largely on a contractually secured basis if our needs exceed our own generating capacity. In addition, we have established a groupwide project to sustainably enhance energy efficiency. In order to be equipped for power cuts, though infrequent, we have emergency power generators for particularly sensitive areas, such as the computer center. For the reasons cited above, we believe that supply bottlenecks are unlikely, and no adverse effects are therefore anticipated. We keep abreast of the further growth of renewable energies in order to detect potential medium-term risks to the stability of our supply.

The scheduled and punctual rail transport of iron ore and coal from the international port in Hamburg to the Salzgitter site is especially important. We have developed a detailed contingency plan to deal with any adverse effects, such as strikes. This plan includes foresighted stockholding and intensive coordination between DB Cargo and ourselves to keep train transport running regularly. Another viable alternative is the more intensive use of the railway facilities owned by the Group, as well as resorting to inland waterways to transport partial shipments. Moreover, we counteract possible constraints that could hinder the supply of materials by rail at the weekend and public holidays through closely coordinating activities with railway operators or opting to use our own means of transport more intensively.

Selling risks
A risk typical of our business may also result from sharply fluctuating prices and volumes in our target markets. In assessing the current economic environment with regard to the outlook for the financial year 2018, we refer to the section entitled "Overall Statement on Anticipated Group Performance".

We counteract the general risk to our company as a going concern by maintaining a diversified portfolio of products, customer sectors and regional sales market. As the effects of the economic situation on various divisions differ we achieve a certain balance in our risk portfolio.

Ensuring that our customers are reliably supplied is accorded a high priority. From the beginning of 2018 onward, we will therefore be running more logistics trains to our key customers through our own rail company Verkehrsbetriebe Peine-Salzgitter GmbH (VPS). This will enable us to ensure that, for a major part of our strip steel products, we will keep control over the logistics process, from production right through to handing over the products to the customer, which will also allow us to optimize storage and respond even better to customer requirements at short notice.

Financial risks
Our management holding defines the financial structure. It coordinates the funding and manages the interest rate and currency risks of companies financially integrated into the Group. The risk horizon that has proven to be expedient is a rolling period of up to three years aligned to the planning framework. The guidelines issued require all companies belonging to the group of consolidated companies to hedge against financial risks at the time when they arise. For instance, risk-bearing open positions or financing in international trading must be reported to Salzgitter Klöckner-Werke GmbH (SKWG) by the respective subsidiaries. SKWG then decides on hedging measures, taking account of the Group's exposure at the time. On principle, we permit financial and currency risks only in conjunction with processes typical to steel production and trading. Please also see the sections on "Currency risks" and "Interest rate risks". The financial risks are clearly relative when taken in proportion to the operating risks.

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

To limit the volatility of financial risks, we conclude derivative financial instruments with terms whose value develops counter to our operational business. The development of the market value of all derivative financial instruments is regularly ascertained. Moreover, for the purpose of the annual financial statements, we simulate the sensitivity of these instruments in accordance with the standards laid down under IFRS 7 (see the section entitled "Notes to the Consolidated Financial Statements"). Hedging arrangements are not disclosed as hedge accounting positions in the accounts. We use hedge accounting to cover raw materials price risks.

We do not hedge translation risks arising from the converting of positions held in a foreign currency into the reporting currency, as these are of secondary importance in relation to the consolidated balance sheet. More information can be found in the "Notes to the Consolidated Financial Statements". As a result of the preventive measures, we believe that currency risks do not constitute a threat to the company as a going concern.

Default risks

We counter our receivables risks by practicing stringent internal exposure management. We limit around two thirds of these risks through trade credit insurance and other collateral. We monitor the unsecured positions meticulously as well as evaluating and taking them into account in our business transactions.

Liquidity risks

The management holding monitors the liquidity situation within the Group by operating a central cash and interest management system for all the companies that are financially integrated into the Group. This system defines internal credit lines for the subsidiaries. If subsidiaries have their own credit lines, they are responsible for minimizing the associated risk themselves and for reporting on potential risks in the context of the Group management and controlling structures. Risks may also arise from the necessary capital and liquidity measures taken on behalf of the subsidiaries and holdings if their business should develop unsatisfactorily in the longer term. We do not, however, anticipate any burdens from this area of risk that could constitute a going concern risk. We counteract this risk by means of rolling liquidity planning. In view of the cash and credit lines available, we do not perceive any danger to our Group as a going concern at this time.

Interest rate risks

The cash and cash equivalents item so important to us is exposed to interest rate risk. Our investment policy is fundamentally oriented toward investment categories with appropriate credit ratings while, at the same time, ensuring the great availability of the assets. In order to monitor the interest rate risk, we regularly conduct interest rate analyses the results of which are directly incorporated into investment decisions. On the liabilities side of the balance sheet, another decline in the yields of first rate corporate bonds could in particular cause a further increase in the pension provisions needing to be formed. Should this risk occur – the assumption being that the scope will be limited given the already historically low interest rate level – the Group's robust balance sheet forms a sound basis for compensatory measures.

Tax risks

The recording and documenting of tax risks are carried out by the companies integrated into the tax group in close coordination with the holding company's tax department. SZAG, Salzgitter Mannesmann GmbH (SMG) and SKWG are responsible for provisioning, for example, in respect of the risks inherent in audits conducted on their tax group. Subsidiaries taxable as individual entities, above all international companies belonging to the Trading, Mannesmann and Technology business units, are responsible for their own provisioning. Provisions have been set up to cover any identifiable tax risks.

Since the spring of 2014, the Braunschweig public prosecutor's office has been investigating managers of various Group companies concerning the formation of allegedly fiscally impermissible provisions, the non-capitalization of acquisition and manufacturing costs from a tax standpoint, as well commission payments and credit notes not recognized under tax legislation. The investigation proceedings are partly still continuing. SZAG and its subsidiaries are cooperating unconditionally with the investigating authorities and have hired external attorneys to investigate the matter comprehensively. We believe that the tax returns in question submitted by the Group companies are in compliance with the statutory regulations. In view of current knowledge and taking the overall circumstances into account, there is no serious or overwhelming probability of a claim being asserted against the Group companies from these investigations.

Production downtime risks
We counteract the risk of unscheduled, protracted downtime of our key plant equipment and machinery through regular plant and facility checks, a program of preventive maintenance, as well as a continuous process of modernization and investment. In order to contain other potential loss or damage and the associated production downtime, as well as any other compensation and liabilities claims, the Group has concluded insurance policies that guarantee that the potential financial consequences are curtailed. The scope and content of insurance cover is reviewed on an ongoing basis and adjusted, if necessary. We consider the potential loss not covered by insurance to be manageable and regard it as improbable.

Legal risks
In order to exclude potential risks arising from a possible breach of the manifold fiscal, environmental, competition- and corruption-related rules and regulations and other legal provisions we require our employees' strict compliance. The Executive Board has communicated its fundamental set of values by distributing a Code of Conduct to all the Group's employees. We seek extensive legal advice from our own experts, as well as from qualified external specialists on a case-by-case basis. Comprehensive training supports the process of raising our employees' awareness of this aspect. We have set up a Compliance Management System tasked with the preventative handling of risks arising from contraventions of the law. We classify the occurrence of legal risks as improbable. For more information on the Compliance Management System, we make reference to our Corporate Governance Report.

The German antitrust authority is currently conducting investigations against manufacturers of strip steel products and heavy plate, in particular on suspicion of collusive agreement on surcharges for grades going back more than ten years and the exchange of sensitive competition-related information in the context of association activities. Companies of the Salzgitter Group are also affected. We promptly initiated an internal investigation by external experts and suspended participation in association activities as a precautionary measure. In the light of current knowledge, there are no specific grounds indicating legal infringement; infringement cannot, however, be entirely ruled out.

Personnel risks
SZAG actively competes on the market to attract qualified specialists and managers. The company counters the risk of fluctuation and the associated loss of knowledge by means of broad-based measures designed to develop its personnel. Along with the specialist careers already established, succession and talent management was introduced in 2017 with the aim of identifying and nurturing talent and successors for more advanced tasks. We use structured knowledge transfer methods in order to ensure that, in the case of successor staff, all knowledge-based information, contacts and business connections pertaining to the respective professional activity is transferred. Moreover, we also offer attractive company pension schemes that, given the dwindling benefits under the state pension scheme, are becoming increasingly important.

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

As of January 1, 2014, SZAG and its domestic Group companies carried out the examination on adjusting company pensions prescribed under Section 16 of the German Occupational Pensions Improvement Act (BetrAVG). The financial position of each individual company is definitive for the adjustment decision. Given the unsatisfactory financial situation, the pensions awarded by several Group companies were not adjusted as of January 1, 2014. A model procedure was signed with IG Metall for the purpose of reducing legal costs. Under this agreement, the decision-making principles of the legally valid model procedure are to be transferred to other employees with pension expectancies of the respective companies.

As per December 31, 2017, final rulings have been made in five model proceedings.

Full subsequent adjustment to company pensions not made in 2014 – to the exception of final rulings on claims – would result in an increase in the capitalized net pension obligation of around € 28.0 million. Of this amount, € 8.8 million would have to be reported as past service charge through profit and loss and € 19.2 million without effect on income in the context of revaluations. Transfers in companies for which the respective provisions were formed in the financial years 2015 through to 2017 have not been taken into consideration. No legal proceedings are currently pending in respect of the outcome of the regular investigation of adjustments conducted again on January 1, 2017 in accordance with Section 16 of the German Occupational Pensions Improvement Act (BetrAVG). We regard the probability of occurrence as unlikely.

Product and environmental risks

We have established the following measures, among others, for safeguarding against product and environmental risks:

- certification in accordance with international standards,
- continuous modernization of plants,
- ongoing development of our products,
- process-integrated quality assurance, and
- comprehensive environmental management.

SZAG's head of Environmental Protection and Energy Policies is tasked with centralizing and coordinating environmental and energy policy issues affecting all companies, with representing the Group externally in matters relating to these aspects, and with managing individual projects affecting the whole Group.

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

Information technology risks

In the context of the advancing digitalization of value chain processes and information technology's consistent penetration of production technology, the demands placed on the information systems deployed are growing. We counteract potential risks and guarantee the availability and security of our information systems by using cutting-edge hard- and software and ensuring the ongoing technological upgrading of our IT infrastructure.

With this in mind, the Group pursues a policy of introducing new technologies, alongside standardization projects that target historically heterogeneous IT structures, in order to satisfy constantly changing demands. Along with the necessary economic aspect, the compatibility and security of the IT systems and databases are thus guaranteed. The risks from this area are deemed manageable, and we estimate the probability of an adverse event occurring to be unlikely.

Corporate strategy risks

We invest regularly in securing our future profitability. More detailed information on the individual business units is included in the section on "General Business Conditions and Performance of the Business Units". We nevertheless see the need for restructuring for market and competitive reasons. We are addressing this in a targeted manner (reorganization of the heavy plate product segment [Ilsenburger Grobblech GmbH and Salzgitter Mannesmann Grobblech GmbH], as well as the Mannesmann product segment [in the process of implementation at the EUROPIPE Group, Mannesmann Line Pipe GmbH, Mannesmann Precision Tubes Group and Hüttenwerke Krupp Mannesmann GmbH]). We consider the risks inherent in this restructuring to be manageable.

3. Overall Statement on the Risk Position of the Group

Evaluation of the risk position by management
Having reviewed the overall risk position of the Salzgitter Group, we can conclude that there were no risks endangering either the individual companies or the entire Group as going concerns at the time when the 2017 annual financial statements were drawn up. This evaluation applies to the individual companies as well as to the Group as a whole.

Nevertheless, we continue to be burdened by the ongoing structural crisis in the global steel market, massive distortions of competition in non-EU countries and foreign policy developments. Particularly noteworthy at this juncture are the impact of measures by the US government, both decided and pending, as well as the political uncertainty surrounding the UK's leaving the EU, and uncertainties in Turkey and in the Near and Middle East. We regard the energy and environmental policy of Germany and Europe respectively, as well as ongoing huge import pressure despite the trade protection mechanisms enacted by the EU Commission, as serious factors influencing our future development. Risks to the survival of the company may arise under certain circumstances from these scenarios. The prices of important raw materials, such as iron ore or coking coal, also displayed a great deal of volatility in the year elapsed. The risk situation arising from these circumstances is contingent on passing on the potential burden to the customers.

Despite limited planning certainty, we nonetheless consider ourselves well equipped in the current situation to master the considerably greater challenges placed on opportunity and risk management during this phase. Our business policy, which takes due account of risks and is geared toward sustainability, and our sound strategic alignment form the basis for this assessment.

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

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

Rating of the company
No official rating has been issued for SZAG by international rating agencies recognized in the capital market. We uphold our opinion that there is currently no need for such a rating as companies that are not rated externally meanwhile also fundamentally have access to all the instruments of capital market financing.

Description of the main features of the accounting-related internal control system and the risk management system with respect to the (Group) accounting process (Sections 289 para. 4 and 315 para. 4 of the German Commercial Code (HGB))

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

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

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

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

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

The Salzgitter Group is decentralized, which means that responsibility for compliance with legal standards rests with the executive and supervisory bodies of the various companies. The Executive Board works towards ensuring compliance i.a. through the holding departments.

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

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

The financial statements of the consolidated companies are recorded with the aid of a uniform IT-based workflow used throughout the Group. This workflow comprises a permissions concept, along with checking routines and check digits. These control and surveillance mechanisms have been devised for process integration as well as for functioning independently of processes. A major part of this is, for instance, made up of manual process controls in application, among other things, of the principle of dual control, alongside automated IT-based processes controls. Moreover, the Group has an integrated accounting and consolidation system. At Group level, the control activities geared specifically to ensuring proper and reliable consolidated accounting comprise the analysis of the reporting packages submitted by the Group companies, taking account of the audit reports provided by the external auditors. In application of the control mechanisms and plausibility controls already established in the consolidation software, reporting packages containing errors are corrected – once the Group companies in question have been informed and respective external auditor consulted – prior to the consolidation process.

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

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

Moreover, the preparation of the management report is carried out centrally, thereby ensuring compliance with legal requirements.

4. General Business Conditions in the coming Financial Year

According to the International Monetary Fund (IMF), the **global economy** is set to grow even more strongly in 2018 than in the previous year. The upswing is to be supported by the industrial nations. A positive economic climate and a financial market deemed favorable should bolster demand, especially for capital goods. Positive stimulus is also emanating from the US tax reform for North America. The emerging markets are likely to reinforce their growth, although it is assumed that the Chinese economy will continue to return to more normal levels. All in all, the International Monetary Fund (IMF) forecasts global economic growth of 3.9% in 2018 (2017: 3.7%).

The upswing in the **eurozone** is likely to continue. Both private consumption and capital investment, as well as foreign trade should contribute to this development. However, the economic expectations of the IMF for all the large eurozone economies, with the exception of France, are below the figures extrapolated for 2017. Predictions therefore indicate a marginal slowdown in economic growth in the euro area to 2.2% in 2018 (2017: 2.4%).

Robust expansion continues to be anticipated for **Germany**. Domestic demand, boosted by growth in real wages and rising employment figures, and exports are considered to be the main drivers of this trend. Capital expenditure should also see strong growth, with a counter trend from public-sector consumption. All in all, the IMF forecasts a slight downturn in Germany's growth to 2.3% in 2018 (2017: 2.5%).

The outlook for steel, pipes and tubes markets that are relevant for the Strip Steel, Plate / Sections, Mannesmann and Trading business units is as follows:

Market outlook for steel
The recovery of the steel market, borne above all by the emerging markets, will gain a broader footing in 2018 according to the World Steel Association. An increase in the demand for steel is anticipated in all countries and regions, with the exception of China. Having come out of its deep recession, Brazil as South America's largest economy is likely to see sharp growth in market supply in 2018. The Russian steel market has also stabilized. Stronger recovery is evidenced in the areas of construction and energy, and automotive demand has recently picked up greater momentum. Generally speaking, global growth (ex. China) of 3% in the demand for steel is anticipated in 2018.

The general conditions for an ongoing recovery in demand are favorable on the EU steel market. Macroeconomic growth is broad based, spanning both sectors and regions. Sentiment in industry is good across all areas and, given the stable global economy, the prospects for the steel processing sector are sound. According to estimates by the associations, the production of steel processors in 2018 will therefore not only remain at a high level but may even see slight growth. As a result, real demand for steel in Germany and the EU will continue to be robust and will lay foundations for the anticipated growth in steel demand (+2%). An increase of 3% compared with 2017 has been forecast for the EU's crude steel output. In Germany, production should hold steady at the strong level of the previous year.

Market outlook for steel tubes
Following the partly clear signs of recovery in the previous year, moderate development can be expected in 2018. The robust economy should continue to underpin demand for steel tubes and pipes. By contrast, growing global protectionist tendencies, such as in the US, could lead to distortions in the markets. The demand for steel pipes from the energy industry should remain stable at the level already achieved again. The automotive industry and mechanical engineering remain important consumers for the steel tubes industry, in particular for the precision tubes manufacturers as well.

The machine engineering market that is relevant for the Technology Business Unit is expected to develop as follows:

Market outlook for machine engineering
The German Engineering Federation (VDMA) considers an overall increase in sales of 3% probable in 2018. Similarly, sales growth (4%) is also predicted for the food and packaging machine market in 2018. Among other factors, the positive outlook is supported by the growing global population and the need for packaged beverages and food. Regarding capital expenditure, the developed markets of Western Europe and North America are focused on solutions for raising the overall efficiency of facilities, flexibility and financial viability An uptrend (+3%) has also been assumed in 2018 for the companies in the plastics processing industry supplied by the smaller companies of the Technology Business Unit (+3%). The political situation in a number of regions remains unforeseeable at present and therefore a factor of uncertainty. Such factors include the current Brexit negotiations, the tax reform in the US and the further development in the crisis regions in the Middle East and Asia.

5. Overall Statement on Anticipated Group Performance

5.1 Planning Process

As a matter of principle, the corporate planning of Salzgitter AG (SZAG) takes account of the strategic goals and comprises a set of entrepreneurial measures with action embedded in the general economic environment. It forms the basis for a realistic assessment of earnings, but, at the same time, includes the long-term aspects relating to investments and the securing of a sound balance sheet and financial stability. Market expectations prevailing at the time when planning takes place, as well as the entrepreneurial measures envisaged, are incorporated into this plan that is prepared in a process involving the entire Group: The individual goals of the subsidiaries are discussed and defined in a combination of a top-down and bottom-up approach between the respective management, the Group's Executive Board and the heads of the business units. All individual plans are then aggregated to form a plan for the entire Group. This sophisticated Group planning process is conducted once before the start of each new financial year, generally starting in August and ending with the presentation of the insights gained that is delivered at the last meeting of the Group's Supervisory Board in the respective financial year.

5.2 Expected Earnings

Compared with the previous year, the business units anticipate that business in the financial year 2018 will develop as follows:

The **Strip Steel Business Unit** is expecting another gratifying performance based on the assumption of the raw material prices for iron ore and coking coal remaining at the level of year-end 2017 and of mostly stable selling prices in the EU steel market. Although Europe's anti-dumping measures have induced a marked decline in the flood of cheap imports from China, significant imports from other countries such as Turkey or India nevertheless continue to be registered. Thanks to the higher shipment volume, we anticipate a moderate increase in sales assuming demand remains robust and another pre-tax profit above € 100 million. Due mainly to the valuation mechanism of manufacturing costs under IFRS, this figure is likely to be notably lower than for the previous year.

The **Plate / Section Steel Business Unit** will remain exposed to a difficult market environment. While the heavy plate market continues to be characterized by high import volumes from non-EU countries into the EU and by above-average stocks and coverage, the increase in the cost of graphite electrodes has a burdening effect on the section steel segment. Moreover, the volatile scrap price is likely to prompt speculative buying patterns on the part of customers, as before. All three plants nevertheless predict that capacity utilization will remain largely sound. The heavy plate companies continue to benefit from the extensive measures to reduce costs and enhance efficiency. In addition, the expansion of business at the Ilsenburg plant to include higher-end grades – facilitated by the more intensive use of vacuum treated input material following the commissioning of Salzgitter Flachstahl GmbH's (SZFG) new RH plant – should show the first positive effects. All in all, the business unit anticipates stable sales and a significant reduction in its pre-tax loss.

We anticipate that the business of the **Mannesmann Business Unit** will develop unevenly in 2018 as well: As opposed to the American companies, capacities of the German large-diameter pipe companies of the EUROPIPE Group (EP Group) remain very well booked due to the Nord Stream 2 and EUGAL projects. In the medium-diameter line pipe segment the exceptionally high demand from North America is likely to normalize, while Mannesmann Grossrohr GmbH (MGR) continues to be confronted by the hesitant awarding of projects. The precision and stainless steel tubes segments expect business to develop well. Seen overall, we anticipate a moderate decline in sales and a significant improvement in the business unit's again positive pre-tax result. The success of the profit enhancing programs initiated should make a contribution in this context.

The **Trading Business Unit** expects moderate sales growth in 2018, resulting from a notable increase in shipments, accompanied by marginally lower prices induced by the product mix in international trading, along with stable shipment volumes and changes to the portfolio with positive effects in the stockholding steel trade.

Compared with the exceptionally successful previous year that was impacted by temporarily widening margins, the earnings level is expected to return to normal levels. The Trading Business Unit predicts a gratifying pre-tax profit that will nevertheless fall considerably short of the previous year's outstanding figure.

Based on the high level of orders on hand and good order intake, the **Technology Business Unit** predicts a moderate increase in sales. In view of the fierce price-led competition for the project business, the KHS Group will rely on growth in the profitable product segments as well as on expanding its service business. In addition, the measures implemented to raise efficiency should have a positive impact. In conjunction with the promising outlook for the two specialist mechanical engineering companies of the DESMA Group, a tangible increase in pre-tax profit is expected.

Given the good start to the new financial year, with brighter prospects in a number of business lines, the generally still challenging market conditions and ongoing positive effects from the programs of measures and to promote growth, we anticipate the following for the Salzgitter Group in 2018:

- a slight increase in sales to above the € 9 billion mark,
- a pre-tax profit of between € 200 million and € 250 million, as well as
- a return on capital employed that is stable compared to the previous year's figure.

The forward-looking statements assume the absence of renewed recessionary development in Europe. Instead, we anticipate an at minimum stable development in our fiercely contested main markets during the current financial year. 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 exchange rate fluctuations, may considerably affect performance in the course of the financial year 2018. The resulting fluctuation in the consolidated pre-tax result may 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, Mannesmann and Trading business units, an average € 25 change in the margin per ton is sufficient to cause a variation in the annual result of more than € 300 million. Moreover, the accuracy of the company's planning is restricted by the volatile cost of raw materials and shorter contractual durations, on the procurement as well as on the sales side.

5.3 Anticipated Financial Position

Our cash and cash equivalents are used partly for financing investments that are ongoing primarily in our steel and technology business. As before, we consider it essential to keep cash funds available in a mid-triple-digit million euro range to ensure that, in the event of a deterioration in the environment, we will not have to procure funds on the capital market at short notice.

An amount of € 290 million has been earmarked for our Group's capital expenditure budget in 2018. Together with the follow-up amount of around € 270 million in investments approved in previous years, the cash-effective portion of the 2018 budget should amount to a good € 500 million (2016: € 287 million). As previously, investments will be effectively triggered on a step-by-step basis and in accordance with the development of profit and liquidity.

The funds required in the financial year 2018 for foreseeable investment measures will hence exceed depreciation and amortization.

The financial position of our Group should be comparatively sound at the end of the year 2018 as well, particularly given the measures implemented in the capital markets in recent years. With a view to exploiting attractive placement conditions, external financing measures are subject to ongoing review.

All in all, it can be concluded that, owing to its broad-based business and sound financial base, the Salzgitter Group is still comparatively well prepared to meet challenging phases. We will continue to attach great importance to this in the future as well.

Consolidated Financial Statements

Overview of consolidated financial statements

I. Consolidated Income Statement

In € m	Note	2017	2016
Sales	[1]	8,990.2	7,892.9
Increase/decrease in finished goods and work in process/other own work capitalized		179.1	– 57.3
		9,169.3	**7,835.6**
Other operating income	[2]	396.3	314.9
Cost of materials	[3]	6,029.8	5,072.0
Personnel expenses	[4]	1,723.2	1,652.9
Amortization and depreciation of intangible assets and property, plant and equipment	[5]	390.4	357.1
Other operating expenses	[6]	1,214.5	1,028.0
Income from shareholdings		6.7	3.9
Result from investments accounted for using the equity method		101.7	63.3
Finance income		21.0	28.9
Finance expenses		99.5	95.1
Earnings before taxes (EBT)		**237.6**	**41.4**
Income tax	[7]	44.5	– 3.6
Consolidated result from continued operations		193.2	45.0
Consolidated result from discontinued operation	[8]	0.4	11.8
Consolidated result		**193.6**	**56.8**
Amount due to Salzgitter AG shareholders		190.3	54.2
Minority interest		3.2	2.6

Appropriation of profit in € m	Note	2017	2016
Consolidated result		193.6	56.8
Profit carried forward from the previous year		21.1	15.1
Minority interest in consolidated net loss for the year		3.2	2.6
Dividend payment		– 16.2	– 13.5
Allocations/withdrawals to/from retained earnings		– 168.1	– 34.6
Unappropriated retained earnings of Salzgitter AG		**27.1**	**21.1**
Earnings per share (in €) – basic	**[9]**	**3.52**	**1.00**
Earnings per share (in €) from continuing operations – basic	[9]	3.51	0.78
Earnings per share (in €) – diluted	**[9]**	**3.35**	**0.99**
Earnings per share (in €) from continuing operations – diluted	[9]	3.34	0.77

II. Statement of Comprehensive Income

2017 in € m	Total	Share of the Salzgitter AG shareholders	Minority interest
Consolidated result	**193.6**	**190.3**	**3.2**
Recycling			
Reserve from currency translation	– 27.6	– 27.6	0.0
Changes in value from cash flow hedges	– 17.2	– 17.2	–
Fair value change	46.6	46.6	–
Basis adjustments	– 65.3	– 65.3	
Recognition with effect on income	– 5.7	– 5.7	–
Deferred tax	7.3	7.3	–
Change in value due to available-for-sale financial assets	0.3	0.3	
Fair value change	0.4	0.4	–
Recognition with effect on income	–	–	–
Deferred tax	– 0.1	– 0.1	–
Changes in value of investments accounted for using the equity method	– 3.4	– 3.4	–
Fair value change	13.2	13.2	–
Recognition with effect on income	– 0.1	– 0.1	–
Currency translation	– 14.0	– 14.0	–
Deferred tax	– 2.5	– 2.5	–
Deferred taxes on other changes without effect on the income	0.1	0.1	– 0.0
	– 47.8	**– 47.8**	**– 0.0**
Non-recycling			
Remeasurements	– 17.2	– 17.2	0.0
Remeasurement of pensions	– 35.0	– 35.0	0.0
Deferred tax	17.8	17.8	– 0.0
Changes in value of investments accounted for using the equity method	9.5	9.5	–
	– 7.7	**– 7.7**	**0.0**
Other comprehensive income	**– 55.5**	**– 55.5**	**0.0**
Total comprehensive income	**138.1**	**134.8**	**3.2**
Continuing operations		134.4	
Discontinued operations		0.4	

2016 in € m	Total	Share of the Salzgitter AG shareholders	Minority interest
Consolidated profit or loss	**56.8**	**54.2**	**2.6**
Recycling			
Reserve from currency translation	8.4	8.4	–0.0
Changes in value from cash flow hedges	89.7	89.7	–
Fair value change	126.9	126.9	–
Basis adjustments	3.8	3.8	–
Recognition with effect on income	–0.6	–0.6	–
Deferred tax	–40.4	–40.4	–
Change in value due to available-for-sale financial assets	–7.6	–7.4	–0.2
Fair value change	2.2	2.1	0.0
Recognition with effect on income	–12.9	–12.7	–0.3
Deferred tax	3.1	3.1	–
Changes in value of investments accounted for using the equity method	9.7	9.7	–
Fair value change	5.4	5.4	–
Recognition with effect on income	1.4	1.4	–
Currency translation	3.9	3.9	–
Deferred tax	–0.9	–0.9	–
Deferred taxes on other changes without effect on the income	0.4	0.4	–0.0
	100.6	**100.9**	**–0.3**
Non-recycling			
Remeasurements	–123.4	–123.4	–0.0
Remeasurement of pensions	–165.8	–166.0	0.1
Deferred tax	42.4	42.5	–0.1
Changes in value of investments accounted for using the equity method	–9.8	–9.8	–
	–133.3	**–133.3**	**–0.0**
Other comprehensive income	**–32.7**	**–32.4**	**–0.3**
Total comprehensive income	**24.1**	**21.7**	**2.3**
Continued operations		9.9	
Discontinued operations		11.8	

III. Consolidated Balance Sheet

Assets in € m	Note	2017/12/31	2016/12/31
Non-current assets			
Intangible assets	[10]	218.5	223.3
Property, plant and equipment	[11]	2,214.8	2,343.4
Investment property	[12]	21.5	21.8
Financial assets	[13]	84.1	95.6
Investments accounted for using the equity method	[14]	577.5	660.4
Trade receivables	[17]	25.6	0.0
Other receivables and other assets	[18]	26.0	0.0
Income tax assets	[19]	4.5	0.0
Deferred income tax assets	[15]	393.2	355.1
		3,565.9	**3,699.5**
Current assets			
Inventories	[16]	2,084.5	1,842.8
Trade receivables	[17]	1,492.2	1,476.2
Other receivables and other assets	[18]	394.2	504.3
Income tax assets	[19]	24.9	26.5
Securities	[20]	76.6	82.3
Cash and cash equivalents	[21]	679.4	818.1
		4,751.9	**4,750.3**
		8,317.8	**8,449.8**

Equity and liabilities in € m	Note	2017/12/31	2016/12/31
Equity			
Subscribed capital	[22]	161.6	161.6
Capital reserve	[23]	257.0	257.0
Retained earnings		2,854.6	2,703.4
Other reserves		51.1	71.4
Unappropriated retained earnings	[24]	27.1	21.1
		3,351.3	**3,214.5**
Treasury shares		–369.7	–369.7
		2,981.6	**2,844.8**
Minority interest		8.1	7.1
		2,989.7	**2,852.0**
Non-current liabilities			
Provisions for pensions and similar obligations	[25]	2,440.5	2,449.0
Deferred income tax liabilities	[15]	41.9	39.3
Income tax liabilities	[19]	97.6	67.7
Other provisions	[26]	303.5	245.3
Financial liabilities	[27]	433.8	452.4
Other liabilities		4.1	4.5
		3,321.5	**3,258.1**
Current liabilities			
Other provisions	[26]	232.3	292.5
Financial liabilities	[28]	237.8	493.6
Trade payables	[29]	1,169.0	1,154.5
Income tax liabilities	[19]	28.2	34.1
Other liabilities	[30]	339.2	365.1
		2,006.5	**2,339.7**
		8,317.8	**8,449.8**

IV. Cash Flow Statement

In € m	2017	2016
Earnings before taxes (EBT) [1)]	238.0	53.2
Depreciation, write-downs (+)/write-ups (–) of non-current assets	390.4	332.1
Income tax paid (–)/refunded (+)	–30.4	–137.6
Other non-cash expenses (+)/income (–)	256.1	110.0
Interest expenses	99.7	94.6
Gain (–)/loss (+) from the disposal of non-current assets	–11.1	7.6
Increase (–)/decrease (+) in inventories	–262.4	–82.6
Increase (–)/decrease (+) in trade receivables and other assets not attributable to investment or financing activities	–235.8	9.0
Use of provisions affecting payments, excluding use of tax provisions	–243.6	–256.2
Increase (+)/decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	72.8	160.1
Cash inflow from operating activities	**273.7**	**290.2**

1) The result from ordinary activities (EBT) refers to the continued and discontinued business segment as a whole. A reconciliation of the result from discontinued operations can be found in Note (8) Result from discontinued operations.

In € m	2017	2016
Cash inflow from the disposal of fixed assets	28.5	2.6
Cash outflow for investments in intangible assets and property, plant and equipment	–296.9	–347.8
Cash inflows from financial investments	255.0	250.0
Cash outflows for financial investments	–200.0	–274.3
Cash inflow from the disposal of other non-current assets	14.2	11.4
Cash outflow for investments in other non-current assets	–140.9	–5.5
Cash outflow from investment activities	**–340.1**	**–363.6**
Cash outflow in payments to company owners	–16.2	–13.5
Cash inflows from taking up loans and other financial obligations	0.0	200.3
Repayment of loans and other financial obligations	–13.4	–13.2
Cash outflows for bonds	–0.1	–88.1
Interest paid	–33.9	–32.9
Cash outflow / inflow from financing activities	**–63.6**	**52.6**
Cash and cash equivalents at the start of the period	818.1	836.2
Cash and cash equivalents relating to changes in the consolidated group	4.0	4.4
Gains and losses from changes in foreign exchange rates	–12.8	–1.8
Payment-related changes in cash and cash equivalents	–129.9	–20.7
Cash and cash equivalents at the end of the period	**679.4**	**818.1**

V. Statement of Changes in Equity

In € m	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	Other reserves from currency translation
As of 2016/01/01	**161.6**	**257.0**	**–369.7**	**2,784.2**	**9.9**
Consolidated result	–	–	–	–	–
Other comprehensive income	–	–	–	–123.0	8.4
	–	–	–	–123.0	8.4
Dividend	–	–	–	–	–
Allocations contributions and withdrawals to/from capital reserve	–	–	–	–	–
Allocations/withdrawals to/from retained earnings	–	–	–	34.6	–
Initial consolidation of Group companies so far not consolidated for materiality reasons	–	–	–	6.3	–
Other	–	–	–	1.4	–0.1
As of 2016/12/31	**161.6**	**257.0**	**–369.7**	**2,703.4**	**18.2**
Consolidated result	–	–	–	–	–
Other comprehensive income	–	–	–	–17.1	–27.6
Total comprehensive income	–	–	–	–17.1	–27.6
Dividend	–	–	–	–	–
Allocations contributions and withdrawals to/from capital reserve	–	–	–	–	–
Allocations/withdrawals to/from retained earnings	–	–	–	168.1	–
Initial consolidation of Group companies so far not consolidated for materiality reasons	–	–	–	0.3	–
Other	–	–	–	–0.2	–
As of 2017/12/31	**161.6**	**257.0**	**–369.7**	**2,854.6**	**–9.4**

Cash flow hedges	Available-for-sale financial assets	Investments in companies accounted for using the equity method	Unappropriated profit	Share of the Salzgitter AG shareholders	Minority interest	Equity
–33.3	**–9.4**	**13.7**	**15.1**	**2,829.1**	**8.1**	**2,837.2**
–	–	–	54.2	54.2	2.6	56.8
89.7	–7.4	–0.1	–	–32.4	–0.3	–32.7
89.7	–7.4	–0.1	54.2	21.7	2.3	24.1
–	–	–	–13.5	–13.5	–3.0	–16.5
–	–	–	–	–	–	–
–	–	–	–34.6	–	–	–
–	–	–	–	6.3	–	6.3
–	–	–	–	1.3	–0.3	1.0
56.5	**–16.9**	**13.6**	**21.1**	**2,844.8**	**7.1**	**2,852.0**
–	–	–	190.3	190.3	3.2	193.6
–17.2	0.3	6.1	–	–55.5	0.0	–55.5
–17.2	0.3	6.1	190.3	134.8	3.2	138.1
–	–	–	–16.2	–16.2	–2.2	–18.5
–	–	–	–	–	–	–
–	–	–	–168.1	–	–	–
–	–	–	–	0.3	–	0.3
–	18.1	–	–	17.9	–0.0	17.9
39.3	**1.5**	**19.7**	**27.1**	**2,981.6**	**8.1**	**2,989.7**

VI. Notes

(36) Segment Reporting

In € m	Strip Steel		Plate / Section Steel		Mannesmann	
	2017	2016	2017	2016	2017	2016
External sales	2,159.8	1,814.6	1,024.3	741.8	1,093.5	999.4
Sales to other segments	715.0	577.7	673.5	680.5	211.9	77.1
Sales to group companies that are not allocated to an operating segment	3.5	1.6	0.8	1.0	392.7	256.5
Segment sales	2,878.3	2,393.9	1,698.6	1,423.4	1,698.1	1,333.0
Interest income (consolidated)	1.1	4.1	0.5	1.5	0.6	1.3
Interest income from other segments	–	–	0.0	–	–	–
Interest income from group companies that are not allocated to an operating segment	0.0	0.1	0.2	0.1	1.4	1.4
Segment interest income	1.1	4.2	0.6	1.6	2.1	2.6
Interest expenses (consolidated)	15.8	17.6	3.1	4.1	8.4	9.0
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	25.3	23.9	5.8	9.7	7.5	6.3
Segment interest expenses	41.1	41.6	9.0	13.8	15.9	15.3
Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in accordance with IAS 36)	175.0	177.5	45.5	46.2	61.6	58.2
Impairment of tangible and intangible assets (according to IAS 36)	–	–	48.8	–	–	15.0
Reversal of impairment of tangible and intangible assets (according to IAS 36)	–	–	–	25.0	–	–
Impairment of financial assets	–	–	–	–	–	0.0
Segment earnings before taxes	182.0	−2.3	−57.7	−32.1	−5.6	−22.4
of which result from investments accounted for using the equity method	–	–	–	–	7.8	7.1
Material non-cash items	52.7	21.9	18.2	40.8	33.7	30.0
Investments in property, plant and equipment and intangible assets	126.4	189.3	39.2	23.8	72.8	87.7

Trading		Technology		Total segments		Reconciliation		Group	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
3,229.9	2,855.0	1,284.7	1,300.3	8,792.2	7,711.1	198.0	194.6	8,990.2	7,905.7
77.6	26.0	0.5	0.4	1,678.5	1,361.7	692.6	544.1	2,371.1	1,905.8
0.1	0.1	–	0.0	397.1	259.2	–	–	397.1	259.2
3,307.6	2,881.0	1,285.2	1,300.7	10,867.8	9,332.0	890.6	738.7	11,758.4	10,070.7
2.6	2.6	3.7	4.5	8.4	13.8	12.6	14.7	21.0	28.6
–	–	–	–	0.0	–	41.4	41.4	41.4	41.4
7.5	4.0	0.9	0.7	10.0	6.3	–	–	10.0	6.3
10.0	6.6	4.5	5.1	18.4	20.1	54.0	56.2	72.4	76.3
14.2	10.2	2.6	3.4	44.1	44.4	55.6	50.2	99.7	94.6
0.0	–	–	–	0.0	–	10.0	6.3	10.0	6.3
0.3	0.2	2.6	1.3	41.4	41.4	–	–	41.4	41.4
14.4	10.4	5.2	4.8	85.5	85.8	65.6	56.5	151.1	142.3
10.3	10.4	22.1	22.3	314.5	314.6	27.1	27.6	341.6	342.1
–	–	–	–	48.8	15.0	–	–	48.8	15.0
–	–	–	–	–	25.0	–	–	–	25.0
–	–	–	–	–	0.0	–	–	–	0.0
70.5	45.2	6.6	28.4	195.8	16.9	42.2	36.3	238.0	53.2
–	–	–	–	7.8	7.1	93.9	56.2	101.7	63.3
8.4	11.5	36.7	32.2	149.7	136.3	14.3	8.5	164.0	144.8
8.7	7.7	20.2	21.8	267.2	330.2	19.4	21.9	286.7	352.1

Analysis of Fixed Assets 2017

In € m	Acquisition and production costs						
	2017/01/01	Currency translation differences	Changes in the consoli-dated group	Additions	Disposals	Transfers to other accounts	2017/12/31
Intangible assets							
Concessions, brand names, industrial property rights plus licenses and emission rights	449.8	−0.3	–	8.5	−7.6	5.1	455.6
Payments on account	1.1	–	–	3.2	−0.0	−0.2	4.2
	450.9	**−0.3**	**–**	**11.7**	**−7.6**	**5.0**	**459.8**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	1,676.8	−4.6	0.0	12.6	−3.6	12.5	1,693.7
Plant equipment and machinery	6,601.8	−8.4	1.1	130.6	−139.3	114.7	6,700.4
Other equipment, plant and office equipment	426.1	−1.8	1.0	29.4	−17.2	4.0	441.5
Payments made on account and equipment under construction	141.6	−0.8	–	102.2	−0.2	−125.4	117.4
	8,846.2	**−15.6**	**2.2**	**274.7**	**−160.3**	**5.8**	**8,953.0**
Investment property	**29.3**	**–**	**–**	**0.3**	**−2.2**	**–**	**27.3**
Financial assets							
Investments in affiliated companies	25.7	–	−2.9	5.6	–	0.3	28.6
Shareholdings	10.0	–	–	–	−0.0	−0.3	9.7
Non-current securities	0.1	–	–	–	−0.0	–	0.1
Other loans	75.5	−0.2	0.0	0.2	−14.0	–	61.5
	111.3	**−0.2**	**−2.9**	**5.7**	**−14.1**	**–**	**99.8**
	9,437.8	**−16.1**	**−0.8**	**292.4**	**−184.2**	**10.8**	**9,539.9**

Valuation allowances									Book values	
2017/01/01	Currency translation differences	Changes in the consolidated group	Write-ups in the financial year	Depreciation in the financial year[1]	Disposals	Other changes without effect on income	Transfers to other accounts	2017/12/31	2017/12/31	2016/12/31
−227.7	0.2	–	–	−14.7	2.1	–	–	−240.1	215.5	222.1
–	–	–	–	−1.1	–	–	–	−1.1	3.1	1.1
−227.7	**0.2**	**–**	**–**	**−15.8**	**2.1**	**–**	**–**	**−241.2**	**218.5**	**223.3**
−1,006.2	1.4	−0.0	–	−30.8	3.1	–	–	−1,032.5	661.3	670.6
−5,155.9	5.3	−0.1	–	−307.1	122.7	–	−10.8	−5,345.8	1,354.7	1,445.9
−340.8	1.3	−0.6	–	−34.0	16.7	–	–	−357.3	84.2	85.3
−0.0	–	–	–	−2.6	–	–	–	−2.6	114.8	141.6
−6,502.8	**8.1**	**−0.7**	**–**	**−374.5**	**142.5**	**–**	**−10.8**	**−6,738.2**	**2,214.8**	**2,343.4**
−7.5	**–**	**–**	**–**	**−0.1**	**1.8**	**–**	**–**	**−5.8**	**21.5**	**21.8**
−15.3	–	–	–	–	–	–	–	−15.3	13.3	10.4
−0.0	–	–	–	–	–	–	–	−0.0	9.6	10.0
−0.1	–	–	–	–	–	–	–	−0.1	0.0	0.1
−0.3	–	–	0.0	–	–	0.0	–	−0.3	61.2	75.2
−15.7	**–**	**–**	**0.0**	**–**	**–**	**0.0**	**–**	**−15.7**	**84.1**	**95.6**
−6,753.7	**8.3**	**−0.7**	**0.0**	**−390.4**	**146.4**	**0.0**	**−10.8**	**−7,000.9**	**2,539.0**	**2,684.0**

[1] The impairments (unscheduled amortization and depreciation) under this item are summarized under Note 5.

Analysis of Fixed Assets 2016

In € m	Acquisition and production costs						
	2016/01/01	Currency translation differences	Changes in the consoli-dated group	Additions	Disposals	Transfers to other accounts	2016/12/31
Intangible assets							
Concessions, brand names, industrial property rights plus licenses and emission rights	371.4	0.2	0.1	85.4	−8.4	1.1	449.8
Payments on account	0.3	–	–	0.9	–	−0.1	1.1
	371.7	**0.2**	**0.1**	**86.3**	**−8.4**	**1.0**	**450.9**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	1,658.2	1.1	0.1	13.7	−5.2	8.9	1,676.8
Plant equipment and machinery	6,667.1	2.1	0.8	127.4	−231.1	35.5	6,601.8
Other equipment, plant and office equipment	411.5	0.4	1.7	26.5	−17.2	3.1	426.1
Payments made on account and equipment under construction	96.4	0.2	–	97.6	−4.0	−48.5	141.6
	8,833.2	**3.8**	**2.5**	**265.2**	**−257.5**	**−1.0**	**8,846.2**
Investment property	**28.7**	**–**	**–**	**0.6**	**−0.0**	**–**	**29.3**
Financial assets							
Investments in affiliated companies	28.6	–	−4.7	1.8	–	–	25.7
Shareholdings	10.0	–	–	–	–	–	10.0
Non-current securities	37.8	–	–	4.0	−2.1	−39.7	0.1
Other loans	84.3	−0.2	–	0.7	−9.3	–	75.5
	160.7	**−0.2**	**−4.7**	**6.5**	**−11.4**	**−39.7**	**111.3**
	9,394.3	**3.8**	**−2.0**	**358.6**	**−277.4**	**−39.7**	**9,437.8**

Valuation allowances									Book values	
2016/01/01	Currency translation differences	Changes in the consolidated group	Write-ups in the financial year	Depreciation in the financial year	Disposals	Other changes without effect on income	Transfers to other accounts	2016/12/31	2016/12/31	2015/12/31
−215.1	−0.2	−0.1	–	−14.9	2.6	–	–	−227.7	222.1	156.3
–	–	–	–	–	–	–	–	–	1.1	0.3
−215.1	**−0.2**	**−0.1**	**–**	**−14.9**	**2.6**	**–**	**–**	**−227.7**	**223.3**	**156.6**
−989.5	−0.5	−0.0	8.9	−30.0	4.9	–	0.0	−1,006.2	670.6	668.7
−5,107.8	−1.4	−0.2	16.1	−283.0	220.4	–	0.0	−5,155.9	1,445.9	1,559.3
−326.8	−0.3	−1.2	–	−29.1	16.7	–	−0.0	−340.8	85.3	84.7
−4.0	–	–	–	–	4.0	–	–	−0.0	141.6	92.4
−6,428.2	**−2.1**	**−1.4**	**25.0**	**−342.1**	**246.0**	**–**	**–**	**−6,502.8**	**2,343.4**	**2,405.0**
−7.3	**–**	**–**	**–**	**−0.1**	**–**	**–**	**–**	**−7.5**	**21.8**	**21.4**
−15.7	–	0.4	–	–	–	–	–	−15.3	10.4	12.8
–	–	–	–	−0.0	–	–	–	−0.0	10.0	10.0
10.0	–	–	–	–	−0.0	1.2	−11.3	−0.1	0.1	47.8
−0.4	–	–	0.0	–	–	0.0	–	−0.3	75.2	83.9
−6.1	**–**	**0.4**	**0.0**	**−0.0**	**−0.0**	**1.3**	**−11.3**	**−15.7**	**95.6**	**154.6**
−6,656.7	**−2.3**	**−1.1**	**25.0**	**−357.2**	**248.6**	**1.3**	**−11.3**	**−6,753.7**	**2,684.0**	**2,737.5**

Basic Principles of the Consolidated Financial Statements

The Consolidated Financial Statements are based on the audited financial statements of the ultimate parent company Salzgitter AG (SZAG), as well as those of the companies to be included in these financial statements. SZAG is entered in the Commercial Register at Braunschweig Local Court, Germany, under HRB 9207 and has its headquarters in Salzgitter. The address of the SZAG Executive Board is Eisenhüttenstraße 99, 38239 Salzgitter.

Authoritative for the preparation of SZAG's consolidated financial statements are the accounting rules of the International Accounting Standards Board (IASB) that are mandatory in the European Union as of the balance sheet date, as well as the supplementary rules of Section 315e para. 1, German Commercial Code (HGB). These standards, together with the interpretations based on them, constitute the foundation for the accounting and valuation principles that must be applied uniformly throughout the Group. All of the requirements set down in these standards were fulfilled, with the result that the consolidated financial statements were prepared in compliance with the applicable accounting rules (IFRS). The consolidated financial statements of SZAG are prepared in euros. Unless otherwise indicated, the amounts are stated in millions of euros (€ million). As a result, there may be deviations from the unrounded amounts.

On December 7, 2017, the Executive Board and the Supervisory Board issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders on the company's website (www.salzgitter-ag.de). The Declaration of Conformity is also printed in the "Corporate Governance Report" section of the Annual Report.

The consolidated financial statements and the Group management report were approved by the Executive Board on March 15, 2018, for submission to the Supervisory Board. They will then be published in the German Federal Gazette.

Accounting and Valuation Principles

Effects of standards applied for the first time or amended standards

Standards/Interpretation		Mandatory date in financial year	EU Endorsement	Effects
IAS 7	Amendments – disclosure initiative	2017	yes	notes
IAS 12	Amendments – recognition of deferred tax assets for unrealized losses	2017	yes	none
IFRS 12	Annual Improvements of IFRS (cycle 2014 – 2016)	2017	yes	none

Likely effects of new and/or amended standards to be applied in the future

Standards/Interpretation		Mandatory date in financial year	Adoption by EU Commission	Likely effects
IAS 40	Amendments – Transfer of Investment Property	2018	no	none
	Annual Improvements in the IFRS (cycle 2014–2016) [1)]	2018	no	none
IFRS 2	Amendments – Classification and Measurement of Share-based Payment Transactions	2018	no	none
IFRIC 22	Foreign Currency Transactions and Advance Consideration	2018	no	none
IFRS 9	Financial instruments	2018	yes	compare with following information
IFRS 15	Revenue from contracts with customers including change in effective date and other details	2018	yes	compare with following information
IFRS 4	Amendments – Applying IFRS 9 with IFRS 4	2018	yes	none
	Annual Improvements in IFRS (cycle 2015–2017)	2019	no	none
IFRIC 23	Uncertainty over Income Tax Treatments	2019	no	none
IFRS 9	Prepayment Features with Negative Compensation	2019	no	none
IFRS 10 IAS 28	Amendments – Sale of assets of an investor and/or contribution to its associate or joint venture	2019	no	not foreseeable
IFRS 16	Leasing	2019	yes	compare with following information
IFRS 17	Insurance Contracts	2021	no	not foreseeable

1) Clarifications on the following standards (IFRS 1, IFRS 12, IAS 28); IFRS 12 mandatory application already by FY 2017

The IFRS 9 "Financial Instruments" standard must be applied for the first time as from January 1, 2018. The new standard replaces the previous Standard IAS 39 "Financial Instruments" and comprises new rules for classifying and evaluating financial assets, on the impairment of financial assets and for hedge accounting. As from the transition to IFRS 9 from January 1, 2018 onward, a reduction in shareholders' equity in the mid-single-digit millions range will be estimated. This results from a value adjustment on the basis of the expected loss model. This means that in the period of its initial application and in the subsequent periods no significant effects on the balance sheet accounting will be expected.

In accordance with IFRS 9, the classification and valuation of financial assets are determined by the business model and the structure of the agreed payment flows. Significant effects on the accounting and valuation from the changed classification of financial assets are not anticipated. The classification of financial liabilities under IFRS 9 is carried out in a manner largely similar to that of the current accounting rules in accordance with IAS 39.

The calculation of impairments to date with regard to actual losses (Incurred-losses model) will be replaced by a model for calculating impairments on the basis of the anticipated credit defaults (Expected-losses model). To implement the new rules, suitable models were developed for ascertaining the anticipated defaults of trade receivables. For trade receivables and active contractual positions, the simplified impairment model from IFRS 9 is applied and the impairments are recorded directly via the anticipated overall term. The recording of the impairments as per the new impairment model leads to an earlier capitalization of impairments.

The underlying and hedging transactions designated as a hedging relationship (hedge accounting) are managed and monitored within the scope of corporate risk management. All existing designated hedging relationships fulfill the requirements of IFRS 9. The possibility of designating risk components of non-financial items as secured underlying transactions will further reduce the existing ineffectivenesses of the hedging relationships. The new rules on the balance-sheet accounting of hedging transactions are applied prospectively.

The new IFRS 15 ”Revenue from Contracts with Customers” standard pursues the objective of bringing together the multiplicity of rules and interpretations for revenue recognition in a single standard. The new standard also establishes uniform basic principles for all sectors and all categories. The new standard is based on a five stage model that regulates the revenue from customer contracts. These revenues are either period based or to be recognized at a specific time.

IFRS 15 must first be applied to financial years that begin on or after January 1, 2018. The first-time application will be carried out in accordance with the modified retrospective method. Any transition effects at the beginning of the period as from January 1, 2018 will be recorded cumulatively as an adjustment in the opening balance sheet directly under revenue reserves. According to the analysis so far – based on the parameters defined in IFRS 15 – the following effects have been ascertained and/or confirmed as consequences of the introduction of IFRS 15:

In the special machine construction segment within the Technology Business Unit, it is assumed that only few, and in overall terms insignificant, production orders, which hitherto were reported in the balance sheet using the percentage-of-completion method in accordance with IAS 11, would require stage-by-stage revenue recognition because the requirements for time-period-based revenue recognition according to IFRS 15 were not fulfilled.

As from the transition to IFRS 15 from January 1, 2018 onwards, a reduction in shareholders’ equity in the mid-single-digit million range is estimated. Apart from the requirement to provide more substantial details about the Group’s sales revenue from contracts with customers, it is assumed that the application of IFRS 15 in the period of its initial application and in the subsequent periods will have no significant effects on the Group balance sheet and/or the consolidated statement of comprehensive income.

The new IFRS 16 ”Leasing“ standard is to be applied from January 1, 2019. In October 2017, the rules were adopted by the EU. Previously, the transfer of opportunities and risks associated with an asset was decisive for its recognition in the accounts, particularly for the lessee. In future, as a general rule, every component of the lease will have to be recognized. The fixed assets (right of use) and liabilities from lease transactions (present value of the lease installments) will increase in the lessee’s balance sheet as a result of the regulations contained in IFRS 16 with the result that the equity ratio may be lower. Instead of the lease expenditure, in future it will be the depreciation of the right of use and the interest expense that are recognized. In order to assess and implement the new rules, SZAG has set up a groupwide project. SZAG cannot yet quantify the effects of the new accounting rules, but we assume that the application of IFRS 16 will not have any significant effect on the consolidated financial statements.

Consolidation principles and methods

Subsidiaries
All of the material subsidiaries are fully integrated into the consolidated financial statements. Subsidiaries are commercial entities over which SZAG, in accordance with IFRS 10, has indirect or direct power of disposition (control) and consequently receives both positive and negative variable returns whose amounts can be influenced by the power of disposition.

These subsidiaries are included fully in the consolidated financial statements as of the time when the possibility of being controlled commences. Changes in SZAG's ownership interest in a subsidiary that do not lead to a cessation of control are shown in the balance sheet as equity transactions. If the potential for control of a subsidiary by the Group ceases, that entity is excluded from the consolidated group.

Capital consolidation is carried out by setting off the acquisition cost of the shareholding against the proportionate amount of the newly valued equity at the time when the subsidiary was purchased. Intercompany sales, expenses, and income are eliminated within the scope of consolidation, while receivables and liabilities between the companies included in the financial statements are eliminated within the scope of debt consolidation. Intercompany results deriving from intercompany deliveries and services are eliminated with effect on income, taking deferred taxes into account. Minority interest in the consolidated companies is reported separately within equity (minority interest).

Joint arrangements
Arrangements in which SZAG contractually exercises the management functions together with one or more partner entities are classified as joint arrangements in accordance with IFRS 11. In accounting for the joint arrangements in the balance sheet, a distinction is made between joint ventures and joint operations.

The distinction depends on the rights and obligations of the parties. Joint operations are characterized by the fact that the parties possess rights to the assets and have obligations for the liabilities in the arrangement, whereas the parties to joint ventures possess rights to the net assets in the arrangement. Joint ventures are accounted for using the equity method, while joint operations are included proportionally in the consolidated financial statements (proportional application of the consolidation rules).

Associated companies
According to IAS 28, moreover, participating interests in associated companies in which SZAG is able to participate in the respective financial and business strategy decisions, but where neither control nor joint management applies (significant influence), are accounted for using the equity method.

The times of admission into and departure from the group of consolidated companies accounted for using the equity method are determined by applying the same principles that are used for subsidiaries. The associated companies are reported using the revaluation method with their proportionate equity at the time of acquisition. The equity valuation is based on the last audited annual financial statements or, in the case of a financial year that diverges from the consolidated financial statements, the interim financial statements as of December 31.

Participating interests
If SZAG is unable either to exercise significant influence or to participate in the respective financial and business strategy decisions, the shares in the company are accounted for as financial assets in accordance with IAS 39.

Consolidated Group

In addition to the annual financial statements of the parent company, the consolidated financial statements include the annual financial statements of 59 (previous year: 59) domestic and 54 (previous year: 51) foreign affiliated companies. The financial year of SZAG and its subsidiaries included in the consolidated financial statements generally corresponds to the calendar year. Two companies in the domestic market are no longer part of the Group as they have merged. The additions concern two domestic and three foreign – hitherto on the grounds of immateriality – non-consolidated companies from the Industrial participations category and Technology business unit whose IFRS figures from ongoing operations were included in SZAG's consolidated financial statements for the first time in the financial year 2017. Profits or losses carried forward were recognized directly in equity.

A total of five (previous year: eight) domestic and 16 (previous year: 17) foreign subsidiaries have not been consolidated due to their minor overall significance for the Group's net assets, financial position and results of operations. Instead, they are shown as financial assets (shares in affiliated companies). Most of these companies are non-operational shell or holding companies and very small marketing or real estate companies.

As in the previous year, one domestic company is being included proportionally in the consolidated financial statements as a joint operation. The company in question is Hüttenwerke Krupp Mannesmann GmbH (HKM), Duisburg, in which Salzgitter Mannesmann GmbH has a 30% participating interest. HKM's commercial activities consist of supplying the partners with input material. For this reason, HKM's operating result is especially dependent on orders from the partners, with the result that they also assume the rights to the assets and the obligations for the liabilities.

As an associated company, Aurubis AG, Hamburg, in which Salzgitter Mannesmann GmbH has a 16.8% (previous year: 25.0%) participating interest, is accounted for using the equity method, as it was in the previous year. The significant influence of Salzgitter AG at Aurubis AG results from the former's presence on its supervisory body. Aurubis AG, for its part, holds a stake of 1.2% (previous year: 1.2%) in Salzgitter AG. There are no commercial relationships of a substantial nature between the groups. Salzgitter Mannesmann GmbH has a 50% participating interest in EUROPIPE GmbH, Mülheim. As both owners of EUROPIPE GmbH run the company jointly and have a contractual share of its net assets, this constitutes a joint venture. The EUROPIPE Group is therefore also accounted for using the equity method. The EUROPIPE Group procures input material from the Salzgitter Group.

As a part of SZAG's consolidated financial statements, the full list of shareholdings in accordance with Section 285 No. 11 HGB can be retrieved from the electronic company register www.unternehmensregister.de and under the item "Financial Reports" at http://www.salzgitter-ag.com/en/investor-relations.

Currency translation

In the individual annual financial statements of the Group companies, business transactions in foreign currencies are valued at the exchange rate prevailing at the time when they were first recorded. Exchange gains and losses incurred due to the valuation of receivables and/or liabilities up to the reporting date are taken into consideration and impact the profit and loss.

The annual financial statements of the foreign subsidiaries are translated into euros in accordance with the concept of functional currency. Since, from the point of view of SZAG, the companies generally operate independently in the conducting of their business in financial, commercial and organizational terms, the respective functional currency corresponds to the currency of the country in which these companies are incorporated. At four companies, the respective functional currency does not correspond to the currency of the country in which it is incorporated. Two companies conduct their business in euros, the others in US dollars. Assets and liabilities are translated at the exchange rates prevailing on the reporting date; the positions in the income statement are translated at the annual average exchange rate. The resulting differences are reported in the currency translation reserve in equity without effect on income until such time as the subsidiary is sold.

A similar approach is adopted when translating equity rollover for foreign companies that are included in the consolidated financial statements using the equity method. Differences from the previous year's translation are offset against retained earnings without effect on income. Income and expenses are translated at annual average exchange rates, while changes in reserves are translated at the rate prevailing on the reporting date.

Estimates and assumptions

When the consolidated financial statements were being prepared, estimates and assumptions were made that impacted the amounts and reporting of the assets and liabilities, the earnings and expenditure and the contingent liabilities that are included in the balance sheet. All estimates and assumptions were made in a way that conveys a true and fair picture of the Group's net assets, financial position and results of operations. The actual values may deviate from the assumptions and estimates in individual cases. Deviations of this kind are accounted for as of the time when better knowledge becomes available. Significant estimates and assumptions are used primarily for the following items explained below: "Impairment of intangible assets, property, plant and equipment and investment property", "Inventories", "Recognition of sales for construction contracts", "Income taxes", "Provision for pensions and similar obligations" as well as "Provisions for typical operational risks".

Impairment of intangible assets, property, plant and equipment and investment property
As of every balance sheet date, the Group must estimate whether there is any concrete indication that the carrying amount of an intangible asset, tangible fixed asset or building held as a financial investment could be impaired. Should this be the case, the recoverable amount of the asset in question is estimated. The recoverable amount is either the fair value less selling costs or the value in use, whichever is higher. The calculation is basically made at fair value less selling costs. To determine the value in use in this context, the discounted future cash flows of the asset in question must be determined. The estimate of the discounted future cash flows is based on fundamental assumptions concerning, for example, future selling prices and selling volumes, costs and discount rates.

Recognition of sales in the case of construction contracts
Ascertaining the progress made so far by the "percentage of completion method" necessitates a precise estimate of the total costs of the order, the costs still to be incurred before completion, total revenues from the order, the risks associated with the order and other assumptions.

Taxes on income
As the Group operates and generates income in numerous countries, it is subject to an extremely wide variety of tax laws under a multiplicity of taxation authorities. To ascertain the Group's tax liabilities worldwide, a number of fundamental assessments must therefore be made. The carrying of potential tax risks in the Group as a liability is effected on the basis of the best possible estimate. As of every balance sheet date, the Group, on the basis of a three-year planning period, assesses whether the realizability of future tax benefits is sufficiently probable for the reporting of deferred tax assets. Among other things, this requires management to assess the tax benefits that arise from the available tax strategies and future taxable income, and to take other positive and negative factors into account.

Provision for pensions and similar obligations
Pensions and other obligations are reported in the balance sheet in accordance with actuarial valuations. These valuations are based on statistical and other factors with a view to anticipating future events. These encompass essential assumptions on expected salary and pension increases and mortality rates.

Provisions for typical operational risks
This item mainly contains landfill obligations. In determining these very long-term obligations, assumptions must be made about future payment flows and cost increases.

Intangible assets

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

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

The assets identified within the framework of the purchase price allocations are amortized regularly over periods of between five and 19 years using the straight-line method.

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

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

Rights to emit CO_2 gases are reported under intangible assets if the intention is to use emission rights for production purposes. Initial ownership of emission rights that were acquired gratuitously are recorded at an acquisition cost of € 0. Paid-for emission rights are reported at their acquisition cost.

Property, plant and equipment

Property, plant and equipment are valued at acquisition or production cost, less accumulated depreciation and impairment costs. Any investment grants received are shown as a reduction in the acquisition and production costs. The residual book values and the economic useful lives are examined on every reporting date and adjusted if necessary.

The production costs of internally generated intangible assets are determined on the basis of directly attributable costs.

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

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

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

Useful economic lives

Buildings, including investment property	10 to 50 years
Property facilities	5 to 40 years
Plant equipment and machinery	5 to 33 years
Other equipment, plant and office equipment	3 to 20 years

Leasing

The Group operates as both a lessee and a lessor. Lease arrangements are classified as finance leases if the lease agreement transfers all major risks and opportunities in relation to the property to the lessee. Lease arrangements in which a material part of the benefits and risks inherent in ownership of the leased item remains with the lessor are classified as operating leases. As the lessor, the Group reports the object of the lease for operating leases under property, plant and equipment, and receives the full amount of the lease instalments. If a finance lease applies, it capitalizes the object of the lease as the lessee at the beginning of the term of the lease and amortizes it over the following periods. A liability is reported at the same time. In the case of an operating lease, the lessee only shows the lease instalments as an expense.

Investment property

Investment property comprises property that is used to generate rental income or long-term value appreciation and not for production or administration purposes. This property is recognized at cost in accordance with IAS 40 taking into account unscheduled depreciation (”cost model”).

Financial assets – categorization

Financial assets held for trading
Derivatives are classified as held for trading unless they are designated as documented hedging arrangements. The option of designating financial instruments as financial assets to be measured at fair value with effect on income when they are first reported (fair value option) is not exercised in the Salzgitter Group.

Loans and receivables originated by the company
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market.

Derivatives with documented hedging arrangements
These financial instruments are not classifiable as ”Available-for-sale financial assets”, as derivatives are expressly excluded from this category.

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

Financial assets – recognition and measurement

Initial and subsequent evaluation
Regular purchases and disposals of financial assets are recognized as of the trading date, the day on which the Group undertakes to purchase or dispose of an asset.

Financial assets are initially recognized at fair value.

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

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

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

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

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

The other derivatives are always valued on the basis of calculations made by the issuing banks using recognized methods (e.g. Black-Scholes, Heath-Jarrow-Morton). Embedded derivatives are measured with the help of the Black-Scholes method, with the calculation parameters being based on data from observable markets. In the event of substantial market values, the counterparty risk is taken into account by way of a credit risk discount.

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

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

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

Impairment of financial instruments in the ”Loans and receivables originated by the company” categories is recorded with effect on income, as are write-ups.

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

An impairment of financial assets in the category ”Loans and receivables originated by the company” is carried out as soon as there are any objective indications of impairment.

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

Offsetting financial instruments
Financial assets and liabilities are netted and shown as a net amount in the balance sheet only if there a legal entitlement to this, plus an intention to bring about the settlement on a net basis or, at the same time, to utilize the asset concerned in order to redeem the associated liability. The legal right to netting out may not depend on some future event and must be enforceable, both in the normal course of business and in the event of a default or an insolvency .

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

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

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

If the forecast transaction is no longer expected to take place, the cumulative gains or losses that were recorded directly in equity must be transferred immediately to the income statement.

Inventories

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

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

Construction contracts

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

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

Provision for pensions and similar obligations

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

The pension obligations are valued on the basis of actuarial assumptions and calculations. The defined benefit obligations are determined using the usual projected unit credit method prescribed by IFRS. The calculation of the actuarial interest rate applied is based on the returns from high-quality corporate bonds. This index takes account of all bonds with a minimum term of ten years that have received at least one AA rating from at least one of the leading rating agencies. In order to achieve an interest rate adequate for the duration of the obligation, an extrapolation is carried out along the yield curve of government bonds that have received at least one AAA rating from at least one of the leading rating agencies.

In contrast to this principle, pension commitments for which benefits are based on the growth of securities are, as a general rule, shown at the fair value of the underlying securities ("securities-based commitments"). To the extent that any minimum interest is guaranteed on the contributions made, a minimum, actuarially determined obligation is shown if it exceeds the current market value of the securities.

Income taxes

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

As of December 31, 2017, the deferred taxes of domestic corporate entities were evaluated with an overall tax rate of 31.0% (previous year: 30.8%). This tax rate comprises the 15.2% trade tax rate that prevails in the Group (previous year: 15.0%) and the 15.8% corporation tax rate (including solidarity surcharge; previous year: 15.8%)

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

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

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

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

Provided that they relate to the same geographical area of fiscal jurisdiction and their types and maturities match, income tax liabilities are set off against corresponding tax refund claims.

Other provisions

Provisions are formed for current legal or factual obligations to third parties whose occurrence would be likely to burden Group assets. They are reported at their likely settlement amount, taking account of all the discernible risks involved, and are not offset against recourse claims. If discounting results in any significant effect, the provisions will be made at their present value. The interest rate used will be appropriate to the term and currency and free of risk. There will be no compounding if interest rates are negative.

Financial liabilities

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

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

Derecognition
Financial liabilities are derecognized if the contractual obligations have been fulfilled, annulled or have expired.

Discontinued operations

If the shutting down of part of a company is to be classified as a discontinuation of operations, the resulting financial effects must be shown separately. In the process, the after-tax result of a discontinued operation is disclosed in the income statement and the statement of comprehensive income in a separate row of its own, as well as being shown in detail within the scope of specific explanations. This also applies to the previous year's figures. The net cash flows from current operating, investment and financing activities are also depicted separately in the supplementary explanations. The earnings per share for the discontinued operation are shown in the Notes.

Income and expense recognition

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

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

Grants are not reported in the balance sheet until the necessary claim prerequisites have been fulfilled and it can be anticipated that the grants will actually be paid out. Grants relating to assets are always reported as deductions from acquisition or production costs. Performance-based remuneration is reported as other operating income. If performance-based remuneration relates to future financial years, it is accrued appropriately.

Impairment of assets (impairment test)

On every balance sheet date at the latest, the Group examines the book values of its intangible assets and property, plant and equipment to establish whether there are any signs of impairment. If such signs are discernible, the recoverable amount is ascertained and compared with the carrying amount of the asset concerned. If the recoverable amount for the individual asset cannot be estimated, an impairment test is carried out at the level of the cash generating unit to which the asset belongs. If the carrying amount of an asset or a cash generating unit exceeds the respective recoverable amount, the asset is impaired and will be subjected to unscheduled depreciation at its recoverable amount. If the reason for a previous unscheduled depreciation no longer applies, a reversal is carried out.

Financial risk management

The Group's commercial activities expose it to a variety of financial risks: market risk (currency, interest and market price risk), credit risk and liquidity risk. The Group's overarching risk management aims to minimize the potentially negative effects of financial market developments on the Group's financial position.

Risk management is carried out independently by the subsidiaries and associated companies of Salzgitter AG in accordance with guidelines approved by the Executive Board. Management issues written principles for overall risk management, as well as guidelines for specific areas such as the hedging of currency risks, interest rate and credit risks, the use of financial instruments and the investment of excess liquidity.

Currency risk
The Group operates internationally and is therefore exposed to currency risks based on fluctuations in the exchange rates between various foreign currencies. Currency risks arise from expected future transactions and from assets and liabilities reported in the balance sheet. The risks arise when transactions are denominated in a currency that is not the functional currency of the company. At the level of the Group companies, it is generally the case that forward exchange contracts are concluded with the Group's in-house bank to hedge the calculation basis. Within the framework of the hedging strategy applicable in each case, the Group's in-house bank decides on the use of suitable financial instruments.

In the Group, the hedging relationship between the hedging instrument and the underlying transaction, the objective of the Group's risk management and the strategy underlying the hedging transactions are documented when an effective hedging transaction is concluded. In addition, the estimation as to whether the derivatives used in the hedging relationship are highly effective in compensating for the changes in the current value or the underlying is examined in the Group at the start of the hedging relationship and continuously thereafter.

Cash flow and fair value interest rate risk
The Group's interest rate risk arises from interest-bearing receivables and liabilities. The variable interest rates expose the Group to a cash flow interest rate risk that influences interest expenses and interest income. The fixed-interest liabilities give rise to a fair value interest rate risk that has an impact on the balance sheet if the financial instruments are reported at current value.

Market price risk
The Salzgitter Group counters the risk of fluctuating market prices, especially in the procurement of raw materials and energy, with medium-term price and supply contracts.

Credit risk
In respect of potential credit risks, the Group has trading rules and regulations and an efficient receivables management system that ensure that products are sold only to customers with an appropriate payment history. Contracts involving derivative financial instruments and financial transactions are restricted to financial institutions with good credit standing. The Group's business policy is to limit the amount of credit exposure in respect of the individual financial institution. As regards the financial institutions, there were no significant risk clusters in the financial year ended.

Liquidity risk
The Group's liquidity management includes an adequate reserve of cash and cash equivalents, marketable securities, and the possibility of financing with bilateral credit lines, a medium-term syndicated loan limit and capital market instruments.

Capital risk management
To reduce its capital costs, the Group pursues the objective of maximizing the earnings from its shareholdings by optimizing the relationship between equity and debt. In the process, it is ensured that all of the Group companies can operate under the going concern premise.

In order to maintain or optimize the capital structure, the Group is obliged to adjust the amount of the dividend payments, make repayments of capital to the shareholders, issue new shares or dispose of assets for purposes of debt reduction.

Notes to the Income Statement

(1) Sales

In € m	2017	2016
By product group		
Strip steel	4,392.3	3,572.5
Section steel	674.4	575.7
Pipes	1,555.6	1,341.1
Filling and packaging machinery	1,254.6	1,281.3
Other	1,113.2	1,122.3
	8,990.2	**7,892.9**
Breakdown by region		
Domestic	4,287.7	3,534.5
Other EU	2,056.9	1,788.5
Rest of Europe	357.5	314.0
America	1,096.3	972.4
Asia	651.7	764.0
Africa	517.4	495.0
Australia/Oceania	22.6	24.6
	8,990.2	**7,892.9**

The breakdown of sales includes an additional presentation by product category that does not correspond to segment reporting.

Sales include revenues in accordance with the percentage-of-completion method amounting to € 714.3 million (previous year: € 761.8 million).

(2) Other operating income

The exchangeable bond issued for shares in Aurubis AG in the financial year 2010 in a nominal value of € 295.5 million matured in the fourth quarter of 2017. In October 2017, the Executive Board of Salzgitter AG resolved not to exercise the cash payment option for the exchangeable bond whose repayment of € 265.4 million was still outstanding. The exchangeable bond in question was subsequently fully redeemed through granting Aurubis shares in a carrying amount of € 329.3 million.

The derivative liability of € 138.5 million in connection with the aforementioned cash payment option in 2017 then had to be reversed with effect on income. In contrast to this positive influence on earnings, other operating expenses were the cause of negative influencing factors during the course of the year from the derivative valuation amounting to € 81.6 million as well as € 63.9 million from the granting of Aurubis shares accounted for in the equity sum for the purpose of servicing the outstanding bond liability. An assessment made across the fiscal year resulted in a loss of € 6.9 million; in the process, the negative influence on earnings during the course of the year from the derivative valuation was eliminated.

Other operating income also comprises income from the valuation of financial derivatives and foreign currency positions as well as from the release of provisions and write-downs. Furthermore, lease income amounting to € 5.6 million (previous year: € 6.7 million) and grants amounting to € 4.4 million (previous year: € 4.1 million) are reported under this item.

(3) Cost of materials

In € m	2017	2016
Cost of raw materials, consumables, supplies and goods purchased	5,590.2	4,639.7
Cost of services purchased	439.6	432.3
Cost of materials	**6,029.8**	**5,072.0**

(4) Personnel expenses

In € m	2017	2016
Wages and salaries	1,410.5	1,368.7
Social security, pensions and other benefits	312.7	284.2
of which pension plans and retirement benefits	[137.0]	[131.1]
Personnel expenses	**1,723.2**	**1,652.9**

In the financial year, the sum total of all defined-contribution pension expenses in the Salzgitter Group totaled 105.1 € million (previous year: € 102.2 million). The service cost for defined benefit commitments in the financial year amounted to € 31.9 million (previous year: € 28.9 million).

Average number of employees (excl. employees in non-active age-related part-time employment)	2017	2016
Wage labor	13.698	13.640
Salaried employees	10.117	9.773
Group core workforce	**23,815**	**23.413**

Of the Group employees, 883 (previous year: 906) are involved in our part of the joint activities.

(5) Amortization and depreciation of intangible assets and property, plant and equipment

The scheduled depreciation and amortization comprise amortization of intangible assets and depreciation of property, plant and equipment, and are shown in the assets analysis. The following impairment losses were also taken into account:

In € m	2017	2016
Intangible assets	–1.1	–
Land and buildings	–0.7	–
Plant equipment and machinery	–40.4	–15.0
Other equipment, plant and office equipment	–4.0	–
Payments made on account and equipment under construction	–2.6	–
Impairment losses	**–48.8**	**–15.0**

The following reversals of write-downs are recorded under other operating income (2)

In € m	2017	2016
Land, similar rights and buildings, including buildings on land owned by others	–	8.9
Plant equipment and machinery	–	16.1
Reversal of impairment	**–**	**25.0**

The fair value less selling costs was calculated using the discounted cash flow method based on an after-tax interest rate of 7.24 % (previous year: 6.17 %) for the Technology Business Unit and 5.94 % (previous year: 5.22 %) for the other business units. The calculation is based on the current plans prepared by management for the three following years (Level 3 of the valuation hierarchy). The premises of the plans are adjusted to the current status of knowledge that, in turn, is based on general business and economic data, supplemented by the company's own estimates. In the process, basic assumptions are made especially in the areas of exchange rates, sales and procurement prices, and production and sales volumes.

An impairment expense in an amount of the residual carrying amounts of non-current assets resulted for the cash-generating unit Salzgitter Mannesmann Grobblech GmbH on the basis of the fraught underlying economic conditions and the resultant decline in sales.

(6) Other operating expenses

This item essentially contains expenditure for third-party services and the formation of provisions (€ 310.7 million; previous year: € 318.9 million) as well as for sales (€ 293.6 million; previous year: € 284.8 million). In addition, expenditure from operating leasing amounting to € 36.0 million (previous year: € 34.7 million) was taken into account.

Comments on the other operating expenses with regard to the effects from the reversal of the exchangeable bond by way of granting Aurubis shares can be found in the notes on other operating earnings.

(7) Taxes on income

In € m	2017	2016
Income taxes		
current tax expenses/tax income (+/–)	56.9	32.0
deferred tax expenses/tax income (+/–)	–12.5	–35.6
Total	**44.5**	**–3.6**
of which unrelated to the reporting period	[0.6]	[–1.9]

The income taxes amounting to € 44.5 million concern earnings from ordinary activities resulting from continued operations. The income taxes unrelated to the reporting period comprise deferred and actual taxes for previous years.

The increase in actual income taxes of € 56.9 million can essentially be attributed to the improved consolidated results. All in all, the actual income taxes applicable to domestic companies amount to € 35.5 million (previous year: € 14.3 million). The essential reason for the rise in deferred tax income to € 12.5 million is the use and re-estimation of the value of deferred tax assets on loss carryforwards in the controlling company in Germany.

Thanks to the availing of tax loss carryforwards that had not previously been used, the actual tax expenses were reduced by € 3.1 million (previous year: € 1.4 million).

Future dividend payments will not incur any consequences as far as income tax is concerned. Claims for credits for reducing corporation tax at German companies in the amount of € 0.0 million (previous year: € 0.2 million) are included in the balance sheet.

The following deferred tax assets/liabilities reported in the balance sheet are recognized in respect of the differences between reported book values and attributed tax valuations:

In € m	2017/12/31		2016/12/31	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	4.6	10.2	5.6	10.5
Property, plant and equipment	54.4	118.0	48.7	143.4
Financial assets	1.2	1.8	0.8	2.1
Current assets	33.2	98.6	23.8	72.3
Pension provisions	297.3	–	279.5	–
Other provisions	83.3	5.6	89.2	6.0
Special reserve with equity portion	–	2.8	–	3.2
Liabilities	22.5	10.3	7.7	6.2
Other items	3.2	0.6	9.1	0.9
Total	**499.7**	**247.9**	**464.4**	**244.6**

Summary of the capitalized tax savings from loss carryforwards that may be realized in the future:

In € m	2017/12/31	2016/12/31
Corporate income tax	52.0	52.0
Trade tax	47.5	44.0
Capitalized tax savings	**99.5**	**96.0**

Development of the capitalized tax savings from loss carryforwards that may be realized in the future:

In € m	2017	2016
Capitalized tax savings, 01/01	96.0	73.5
Changes in the consolidated group	0.0	–
Capitalization of tax savings from losses carried forward	34.5	27.5
Valuation allowances from losses carried forward	−0.4	−0.5
Use of losses carried forward	−30.6	−4.5
Capitalized tax savings, 12/31	**99.5**	**96.0**

As a result of the ”minimum taxation” that was introduced in Germany in 2004, the tax loss carryforwards are offset against the ongoing tax result in full up to an amount of € 1 million, but only up to 60 % thereafter.

For some domestic companies, trade tax loss carryforwards in an amount of € 1,478.3 million were capitalized (previous year: € 1,566.1 million) as well as corporation tax loss carryforwards € 1,815.8 million (previous year: € 1,893.0 million) had no deferred taxes capitalized for them because, from a current viewpoint, the possibility of their use is estimated to be unlikely. The tax loss carryforwards can be utilized without time restrictions.

For foreign loss carryforwards without intrinsic value in an amount of € 97.1 million (previous year: € 94.4 million) deferred tax assets were likewise not capitalized. Of this amount, € 88.6 million (previous year: € 85.0 million) can be utilized for an unlimited period of time, € 6.0 million (previous year: € 7.1 million) limited to the next five years, and € 2.5 million (previous year: € 2.3 million) limited to the next 20 years. For domestic and foreign companies, moreover, no deferred tax assets for deductible temporary differences in an amount of € 94.6 million (previous year: € 112.3 million) were formed.

In the case of Group companies that have generated tax losses in the current or previous financial year, deferred tax assets amounting to € 5.1 million (previous year: € 4.4 million) are reported as of December 31, 2017 because of anticipated future taxable income.

Reconciliation of the anticipated and income tax expenses shown (+) and/or income (–):

In € m	2017	2016
Earnings before taxes (EBT)	**237.6**	**41.4**
Expected income tax expenses (31.0 %/30.8 %)	73.7	12.7
Tax share for:		
differences between tax rates	–1.7	–0.5
effects of changes in statutory tax rates	1.9	0.0
tax credits	–4.5	–1.6
tax-free income	–32.1	–16.5
non-deductible tax expenses and other permanent differences	24.2	12.5
effects of variances and losses		
without capitalization of deferred tax	15.7	17.3
adjustments in the value of capitalization benefits	–30.7	–24.7
utilization of benefits not previously capitalized	–3.1	–1.4
tax expenses and income unrelated to the reporting period	0.6	–1.9
other deviations	0.4	0.5
Disclosed income tax expenses (+)/income (–)	**44.5**	**–3.6**

The income tax income shown of € 44.5 million from continuing operations differs from the expected income tax expense of € 73.7 million by a total of € 29.2 million. This results in particular from the effects of the reassessment of capitalized benefits and tax-free income. This is countered primarily by effects from the non-capitalization of deferred taxes and from the fiscal non-deductibility.

Due to the corporate tax reform in the USA, there will be a one-off deferred tax expense of € 2.4 million.

(8) Result from discontinued operations

HSP Hoesch Spundwand und Profil Gesellschaft mit beschränkter Haftung (HSP) ceased production of heavy section products, especially sheet piling and mine support sections, in December 2015 after years of losses. However, some of the products were not delivered until the beginning of 2016. The dismantling of the production facilities has in the meantime been completed. HSP as a company and all sheet-piling activities associated with it are reported, in accordance with the rules of IFRS 5, as a discontinued operation.

In the income statement, the results generated by this discontinued operation are shown separately in a row of their own, set apart from the income and expenditure of the continued operations.

The following tables contain a reconciliation of the income statement from continuing operations with an income statement that comprises both the continuing and discontinued operations.

2017 in € m	**Discontinued operations**	**Continuing operations**	**Total**
Sales	0.0	8,990.2	8,990.2
Increase/decrease in finished goods and work in process/other own work capitalized	0.0	179.1	179.1
	0.0	**9,169.3**	**9,169.3**
Other operating income	5.6	396.3	401.8
Cost of materials	0.0	6,029.8	6,029.8
Personnel expenses	1.2	1,723.2	1,724.5
Amortization and depreciation of intangible assets and property, plant and equipment	0.0	390.4	390.4
Other operating expenses	3.7	1,214.5	1,218.2
Income from shareholdings	0.0	6.7	6.7
Result from investments accounted for using the equity method	0.0	101.7	101.7
Finance income	0.0	21.0	21.1
Finance expenses	0.2	99.5	99.7
Earnings before taxes (EBT)	**0.4**	**237.6**	**238.0**
Income taxes	0.0	44.5	44.5
Consolidated results	**0.4**	**193.2**	**193.6**

2016 in € m	Discontinued operations	Continuing operations	Total
Sales	12.8	7,892.9	7,905.7
Increase/decrease in finished goods and work in process/other own work capitalized	–6.8	–57.3	–64.2
	5.9	**7,835.6**	**7,841.6**
	13.4	314.9	328.2
Cost of materials	1.9	5,072.0	5,073.9
Personnel expenses	2.5	1,652.9	1,655.3
Amortization and depreciation of intangible assets and property, plant and equipment	0.0	357.1	357.1
Other operating expenses	2.8	1,028.0	1,030.9
Income from shareholdings	0.0	3.9	3.9
Result from investments accounted for using the equity method	0.0	63.3	63.3
Finance income	0.0	28.9	28.9
Finance expenses	0.3	95.1	95.4
Earnings before taxes (EBT)	**11.8**	**41.4**	**53.2**
Income taxes	0.0	–3.6	–3.6
Consolidated results	**11.8**	**45.0**	**56.8**

The cash flows for the entire Group, including the discontinued operations, are shown in the cash flow statement. The following table shows the cash flows for the discontinued operations.

Condensed cash flow statement

In € m	2017	2016
Cash outflow from operating activities	–4.2	–6.9
Cash inflow from investment activities	0.0	1.2
Cash outflow from financing activities	–	–0.0
Change in cash and cash equivalents of the discontinued operations	**–4.2**	**–5.6**

(9) Earnings per share

The basic earnings per share are determined in accordance with IAS 33 as the ratio of consolidated net income or loss for the financial year to which the shareholders of SZAG are entitled to the weighted average number of no-par bearer shares in circulation during the financial year. A dilution would occur if the earnings per share were reduced by issuing potential shares from option and conversion rights. As of the balance sheet date, such rights existed in one convertible bond.

	Shares issued	Treasury shares	Shares in circulation	Potentially diluting shares
Beginning of financial year	60,097,000	6,009,700	54,087,300	3,548,407
Change	–	–	–	–
End of financial year	60,097,000	6,009,700	54,087,300	3,548,407
Weighted number of shares	**60,097,000**	**6,009,700**	**54,087,300**	**3,548,407**

Earnings per share		**2017**	**2016**
Consolidated result	In € m	193.6	56.8
Minority interest	In € m	3.2	2.6
Amount due to Salzgitter AG shareholders	In € m	190.3	54.2
from continuing operations	In € m	189.9	42.3
from discontinued operations	In € m	0.4	11.8
Earnings per share – basic	**(in €)**	**3.52**	**1.00**
from continuing operations	(in €)	3.51	0.78
from discontinued operations	(in €)	0.01	0.22
Diluted result	In € m	193.0	56.8
from continuing operations	In € m	192.6	45.0
from discontinued operations	In € m	0.4	11.8
Earnings per share – diluted	**(in €)**	**3.35**	**0.99**
from continuing operations	(in €)	3.34	0.77
from discontinued operations	(in €)	0.01	0.22

Notes to the Consolidated Balance Sheet

All of the figures pertaining to the income statement disclosed in the notes to the balance sheet include both continuing and discontinued operations. Reconciliation with the figures in the income statement and the associated notes is therefore not possible. This results particularly from the specific requirements of balance sheet reporting for a discontinued operation. A reconciliation of the published income statement of the continuing operation with an income statement, including the continuing operation, is published under Note (8) ”Result from discontinued operations“.

Non-current assets

(10) Intangible assets

Total research and development costs in the reporting year amounted to € 102.8 million (previous year: € 95.8 million) including € 11.6 million (previous year: € 9.0 million) for external services.

There are no restraints on the right of ownership or disposal.

(11) Property, plant and equipment

The book values of the assets capitalized as finance leases in accordance with IAS 17 are shown in the following table:

In € m	2017/12/31	2016/12/31
Plant equipment and machinery	30.3	36.2
Assets capitalized as finance leases	**30.3**	**36.2**

The restrictions on ownership and disposal have declined to € 4.4 million (previous year: € 4.8 million).

Government grants amounting to € 0.5 million (previous year: € 0.7 million) were deducted from the acquisition costs of property, plant and equipment. The conditions to which the public financial assistance was attached were fulfilled as of the balance sheet date.

Advance payments and assets under construction include prepayments amounting to € 13.6 million (previous year: € 6.0 million).

(12) Investment property

Investment property comprises undeveloped and developed land that is held to generate rental income or for the purpose of long-term value appreciation and not for production or administration purposes.

Rental income amounted to € 2.3 million (previous year: € 6.6 million) in the reporting period. The direct operating expenses totaled € 0.5 million (previous year: € 3.4 million) and were basically incurred for properties that generated rental earnings in the reporting year.

As of December 31, 2017, the fair value of the investment properties stood at € 22.8 million (previous year: € 37.3 million); there is no knowledge of any significant impairing factors. This fair value is calculated using the gross rental method, the discounted cash flow method and comparisons with current market values of comparable properties. Input factors used to measure the fair values include anticipated rental income, possible vacancy costs and maintenance costs. The fair values of the investment properties are assessed at regular intervals by independent experts. The valuation is based on an alternative utilization of potential, the "highest and best use method", in accordance with IFRS 13, and must be classified in Level 3 of the fair value hierarchy

(13) Financial assets

In € m	2017/12/31	2016/12/31
Investments in affiliated companies	13.3	10.4
Shareholdings	9.6	10.0
Non-current securities	0.0	0.1
Other loans	61.2	75.2
Financial assets	**84.1**	**95.6**

Other loans relate largely to a company that has been consolidated proportionally.

(14) Investments in companies accounted for using the equity method

	Aurubis AG, Hamburg		EUROPIPE Group		Total	
In € m	2017	2016	2017	2016	2017	2016
Opening balance, 01/01	539.4	505.1	121.0	107.3	660.4	612.4
Result of current financial year	91.7	51.8	9.9	11.6	101.6	63.3
Proportionate gain/loss	96.7	56.6	7.8	7.1		
Adjustments recognized in income as part of the equity method	– 5.0	– 4.9	2.1	4.4		
Dividends	– 14.6	– 15.2	–	–	– 14.6	– 15.2
Changes in shareholdings	– 194.2	–	–	–	– 194.2	–
Other changes in equity	36.7	– 2.2	– 12.4	2.1	24.3	– 0.1
Proportionate other comprehensive income	18.6	– 2.2	– 12.4	2.1		
Book value, 12/31	**459.0**	**539.4**	**118.5**	**121.0**	**577.5**	**660.4**

The changes in shareholdings contain disposals in connection with the exchangeable bond and additions from the acquisition of shares in companies that are accounted for using the equity method.

The fair value of Aurubis AG amounts to € 584.4 million (previous year: € 616.0 million).

The investments in companies accounted for using the equity method are as follows (100% figures):

	Aurubis AG, Hamburg		EUROPIPE Group		Total	
In € m	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Non-current assets	1,534.6	1,540.8	161.1	177.2	1,695.8	1,718.0
Current assets	3,097.8	2,713.6	291.0	420.4	3,388.8	3,134.0
Non-current liabilities	906.7	856.5	109.4	115.7	1,016.1	972.2
Current liabilities	1,236.5	1,298.2	104.9	234.9	1,341.3	1,533.1
Sales	11,450.4	9,539.2	1,042.0	1,147.9	12,492.4	10,687.1
Profit/loss	403.8	226.4	15.6	14.3	419.5	240.7
Other comprehensive income	44.6	– 11.4	– 24.8	4.2	19.7	– 7.2
Total comprehensive income	448.4	215.0	– 9.2	18.5	439.2	233.5
Dividends received	14.6	15.2	–	–	14.6	15.2
Share (%)	16.8	25.0	50.0	50.0		

Further summarizing financial information for joint ventures:

	EUROPIPE Group	
In € m	**2017**	**2016**
Cash and cash equivalents	42.8	53.1
Current financial liabilities	9.0	19.9
Non-current financial liabilities	–	–
Depreciation and amortization	18.0	17.8
interest income	0.5	0.1
Interest expenses	3.7	6.7
Income tax expense (–) / income (+)	**6.7**	**– 16.0**

(15) Deferred income tax assets and deferred income tax liabilities

If it is likely that tax benefits will be realized, they must be capitalized. Netting is possible only if the deferred tax assets and liabilities have matching maturities and relate to the same tax authority. After offsetting, the deferred tax assets and liabilities for the financial year 2017 are as follows:

In € m	**2017/12/31**	**2016/12/31**
Deferred income tax assets	**393.2**	**355.1**
Realization within 12 months	8.6	12.8
Realization after more than 12 months	384.6	342.3
Deferred income tax liabilities	**41.9**	**39.3**
Realization within 12 months	40.6	38.4
Realization after more than 12 months	1.3	0.9
Balance of deferred tax assets and deferred tax liabilities	**351.3**	**315.8**

Current assets

(16) Inventories

In € m	2017/12/31	2016/12/31
Raw materials, consumables and supplies	700.8	687.8
Unfinished products	556.1	444.2
Unfinished goods or services	12.0	11.0
Finished goods	372.3	315.4
Goods	418.9	367.6
Payments on account	24.4	16.7
Inventories	**2,084.5**	**1,842.8**

In the reporting period there were write-ups amounting to € 0.9 million (previous year: € 1.0 million). Inventory impairments of € 44.8 million (previous year: € 41.8 million) were posted to expenses. The book value of the inventories reported at fair value less selling costs amounted to € 396.7 million (previous year: € 366.4 million). There are restrictions on ownership or disposal amounting to € 8.8 million (previous year: € 11.0 million) on the inventories disclosed.

(17) Trade receivables

Trade receivables subject to restrictions on ownership or disposal amount to € 142.6 million (previous year: € 148.1 million). These are accounted for largely by the forfeiting and factoring of receivables. For further details, please refer to Note (28) "Current financial liabilities".

Trade receivables include the following receivables from contract production recognized using the percentage-of-completion method:

In € m	2017/12/31	2016/12/31
Production costs, including result from construction contracts	499.6	571.6
Payments received on account	– 245.6	– 343.5
Receivables from construction contracts	**254.0**	**228.1**

(18) Other receivables and other assets

The "Other receivables and other assets" item essentially comprises certificates for short-term financial investment.

Otherwise this item includes a large number of small amounts pertaining to individual transactions at the consolidated companies.

There are restrictions on ownership or disposal amounting to € 2.5 million (previous year: € 2.6 million) for the inventories disclosed.

Under operating leases, the Group essentially leases out real estate that is used commercially. The future minimum rental earnings from these contracts are:

Future rental revenues in € m	2017/12/31	2016/12/31
up to 1 year	2.6	2.9
1 to 5 years	2.1	3.7
over 5 years	3.5	0.7
Total	**8.2**	**7.3**

In the income for the reporting year, € 1.4 million (previous year: € 0.6 million) was reported as conditional rental income.

(19) Income tax assets and income tax liabilities

The non-current and current income tax assets stood at € 29.5 million (previous year: € 26.5 million) as of December 31, 2017, and concern, among other things, income tax receivables pertaining to domestic Group companies. These are offset by non-current income tax payables totaling € 97.6 million (previous year: € 67.7 million) as well as current income tax payables totaling € 28.2 million (previous year: € 34.1 million).

Refund claims are set off against tax liabilities if there is an enforceable right to set off the reported amounts against each other and the intention is to offset them in net terms. The prerequisites for this is that the tax refund claim and the tax liability both relate to the same tax authority and that the tax authority allows their offsetting

(20) Securities

Funds for short-term financial investments are shown in the total amount for securities of € 76.6 million (previous year: € 82.3 million). The term deposits shown here have a term of less than twelve months.

(21) Cash and cash equivalents

In € m	2017/12/31	2016/12/31
Cash at banks	512.9	390.7
Term deposits	166.0	426.0
Checks, cash in hand	0.5	1.4
Cash and cash equivalents	**679.4**	**818.1**

Equity

(22) Subscribed capital

The subscribed capital (share capital) remained unchanged at € 161,615,273.31. This gives a notional face value of € 2.69 per share for the 60,097,000 fully paid-in no par value shares.

As of the balance sheet date, Salzgitter AG continued to hold 6,009,700 treasury shares (= 10.00 % of the subscribed capital). At the balance sheet date the treasury shares were deducted in the unchanged amount of € 369.7 million directly from equity.

All of these shares were acquired on the basis of Section 71 para. 1 item 8, German Stock Corporation Act, based on the foundation of authorization given by the General Meeting of Shareholders (2,487,355 shares from May 26, 2004, 462,970 shares from June 8, 2006, 2,809,312 shares from May 21, 2008, 35,600 shares from May 27, 2009, and 214,463 shares from June 8, 2010), to be able to use them in particular for future acquisitions, the fulfillment of option or convertible rights from options or convertible bonds or to issue them to employees of the company or an affiliate of the company.

The Executive Board is authorized to increase the share capital with the approval of the Supervisory Board by up to a nominal amount of € 80,807,636.65, in the period up to May 31, 2022, by issuing up to 30,048,500 new no par value bearer shares against payment in cash or kind (Authorized Capital 2017). This capital, combined and to the exclusion of the shareholders' subscription rights, may be increased only by up to € 32,323,054.66, (20% of the share capital) through the issuance of up to 12,019,400 new no par value bearer shares. The 20 % ceiling is reduced by the pro-rata amount of the share capital to which option or conversion rights, or option or conversion obligations from warrant-linked bonds, convertible bonds, profit-sharing rights and/or participating bonds and/or combinations of these instruments that were issued since June 1, 2017, to the exclusion of subscription rights, relate.

On June 5, 2015, a convertible bond was issued in an overall amount of € 167,900,000 to the exclusion of shareholders' subscription rights with conversion rights to up to 3,553,627 no par value bearer shares. The total nominal value of the bonds issued by the company from this convertible bond was unchanged as of the balance sheet date. They certify an interest entitlement and a right of conversion into shares in the company at a conversion price of € 47.2475 per share that can be exercised up until May 26, 2022. The secure, irrevocable benefit of € 537,000 arising by the earliest possible time of conversion (July 25, 2015) due to the fact that the convertible bond issued in the 2015 financial year is non-interest-bearing, was paid into capital reserves in accordance with Section 272 para. 2 item 2 of the German Commercial Code (HGB).

(23) Capital reserve

Of the capital reserve amounting to € 257.0 million (previous year: € 257.0 million), € 115.2 million is accounted for by a premium lodged on the occasion of a capital increase on October 1, 1970.

As part of the divestiture agreement, certain assets were sold to Salzgitter AG by Preussag AG for € 0.51 each. These assets were reported at the time of acquisition at their fair values (€ 49.1 million) and the differences posted to the capital reserve.

The value of the equity component of the convertible bond issued on October 6, 2009, and in the meantime replaced, in a total nominal amount of € 296,450,000 stands at € 54.4 million.

The value of the equity component of the convertible bond issued on June 5, 2015 in a total nominal amount of € 167,900,000 stands at € 18.3 million. The transaction costs reported as a deduction from equity amount to € 0.2 million.

(24) Unappropriated retained earnings

Under the German Commercial Code (HGB), dividend payments to shareholders in Salzgitter AG depend on the year-end result reported by Salzgitter AG. The unappropriated retained earnings are shown at the same level in both the consolidated financial statements of the Salzgitter Group and in the financial statements of Salzgitter AG. The transition of Salzgitter AG's unappropriated retained earnings from the consolidated net result for the year is shown in the income statement.

The proposal will be made to Salzgitter AG's General Meeting of Shareholders that a dividend for the financial year 2017 of € 0.45 per share be paid from Salzgitter AG's unappropriated retained earnings and that the remaining amount be brought forward to new account. The dividend for the previous year was € 0.30 per share.

Based on the Salzgitter share's closing XETRA price of € 47.60 on December 31, 2017, the dividend yield amounts to 0.9 % (previous year: 0.9 %).

If the company holds treasury shares on the day of the General Meeting of Shareholders, the proposed appropriation of profits will be adjusted accordingly since treasury shares are not eligible for dividend.

Non-current liabilities

(25) Provisions for pensions and similar obligations

In Germany there are collective and individual commitments in the form of direct commitments made by the employer. The great majority of the employees in the Salzgitter Group's German-based companies receive retirement pensions that are essentially based on a collective Group agreement concluded in December 2006 ("Salzgitter pension"). Within the scope of the pension commitment guaranteed in this agreement, the employer pays an annual fixed percentage contribution into the employee's individual pension account. The amount of the resultant pension component depends on the age of the employee entitled to pension payments in the respective contribution year. When payment becomes due, the employee or his/her surviving dependents is/are entitled to a monthly pension – with no lump-sum option. The pension commitments granted before the collective Group agreement came into effect generally provided for pension payments dependent on the income situation upon the employee's departure from the company and/or initial receipt of pension payments (final-salary pension commitments). These entitlements were replaced within the scope of the collective Group agreement and transferred to the Salzgitter pension by means of transition arrangements. Furthermore, employees can convert part of their gross salary into pension benefits in the form of a one-time amount (deferred compensation). The amounts accumulated as part of the deferred compensation commitment will be invested in fund shares. When payment becomes due, the employee will receive the income generated by the fund shares, but no less than his deferred contributions plus guaranteed minimum interest (so-called securities-based commitment).

For executives of the Salzgitter Group companies there are individual pension commitments based essentially on the pension tables drawn up by the Essener Verband. In accordance with these pension arrangements, employees with expectant rights are allocated to a particular benefits category in line with their position in the company. The respective benefits category's maximum entitlement has generally been reached after 25 years and is earned in stages. When payment becomes due, the employee or his/her surviving dependents is/are entitled to a monthly pension with no lump-sum option.

The pension payments made to the recipients on the basis of the collective agreements are revised every three years in accordance with Section 16, German Occupational Pensions Act (BetrAVG) and, in the event of an adjustment being necessary, adjusted to the trend in consumer prices. In the individual commitments area, the pension commitment is determined annually by the Essener Verband and accepted by the company in unchanged form. An asset-liability matching procedure has been waived due to the insignificance of the plan assets. The likely cash outflows are measured within the scope of the rolling corporate plans and included in the Group's cash flow planning.

Pension commitments exist only to an immaterial extent in the Salzgitter Group's foreign companies, and where they do exist they are covered to a minor extent by plan assets (mainly insurance policies).

In addition, one company in the Salzgitter Group has a reimbursement claim against the public authorities in connection with its pension obligations. The present value of this claim is recognized under "Other receivables and other assets".

Overview of the treatment of pensions and similar obligations in the consolidated financial statements:

Balance sheet		
In € m	**2017/12/31**	**2016/12/31**
Provisions for pensions and similar obligations		
Net pension provision	2,440.5	2,449.0
Other receivables and other assets		
Reimbursement right	4.0	4.6
Consolidated Income Statement (including continuing operations)		
In € m	**2017**	**2016**
Personnel expenses		
Service cost	31.9	28.9
Finance expenses		
Net interest	42.0	51.2
Other comprehensive income		
In € m	**2017**	**2016**
Remeasurement of pensions		
Remeasurements from pension provision	– 35.0	– 166.0
Remeasurements from reimbursement right	0.0	0.1
	– 35.0	– 166.0

The net pension commitment as of December 31, 2017 is calculated as follows:

In € m	Defined benefit obligation	Plan assets	Net pension provision
As of 2017/01/01	**2,518.4**	**69.4**	**2,449.0**
Service cost			
Current service cost	37.1	3.7	33.4
Past service cost	– 1.5	–	– 1.5
	35.6	**3.7**	**31.9**
(Net) Interest expense/income	**42.5**	**0.5**	**42.0**
Remeasurements			
Experience gains (–)/losses (+)	– 51.9	–	– 51.9
Gain (–)/loss (+) from change in demographic assumptions	– 4.8	–	– 4.8
Gain (–)/loss (+) from change in financial assumptions	93.8	–	93.8
Return on plan assets excluding amounts included in interest income	–	2.2	– 2.2
	37.2	**2.2**	**35.0**
Benefits paid	**– 118.4**	**– 3.2**	**– 115.2**
Contributions			
Employers	–	1.8	– 1.8
Plan participants	0.1	0.1	–
	0.1	**1.8**	**– 1.8**
Currency translation differences	**– 0.8**	**– 0.2**	**– 0.6**
Transfers/transfers to other accounts/changes in the consolidated group	**0.2**	**0.2**	**– 0.0**
As of 2017/12/31	**2,514.8**	**74.3**	**2,440.5**

As of December 31, 2017, the plan assets are essentially made up of investment funds (€ 56.1 million) and other equity instruments (€ 0.9 million) whose present values were determined on an active market on the closing date. Plan assets also consist of insurance contracts (€ 17.3 million) the present values of which were not determined on an active market.

The net pension commitment as of December 31, 2016 is calculated as follows:

In € m	Defined benefit obligation	Plan assets	Net pension provision
As of 2016/01/01	**2,342.6**	**15.3**	**2,327.3**
Service cost			
Current service cost	28.8	–	28.8
Past service cost	0.1	–	0.1
	28.9	**–**	**28.9**
(Net) Interest expense/income	**51.7**	**0.5**	**51.2**
Remeasurements			
Experience gains (–)/losses (+)	–10.1	–	–10.1
Gain (–)/loss (+) from change in demographic assumptions	0.3	–	0.3
Gain (–)/loss (+) from change in financial assumptions	177.6	–	177.6
Return on plan assets excluding amounts included in interest income	–	1.8	–1.8
	167.8	**1.8**	**166.0**
Benefits paid	**–121.2**	**–0.5**	**–120.7**
Contributions			
Employers	–	1.1	–1.1
Plan participants	0.1	0.1	–
	0.1	**1.1**	**–1.1**
Currency translation differences	**0.6**	**–0.2**	**0.8**
Transfers/transfers to other accounts/changes in the consolidated group	**47.9**	**51.4**	**–3.5**
As of 2016/12/31	**2,518.4**	**69.4**	**2,449.0**

At the end of the current year, the existing assets in connection with the deferred compensation commitment fulfilled the criteria for plan assets. They therefore had to be netted off against the corresponding obligations at their fair value. Additions to plan assets were shown in the transfer postings in the plan assets column (€ 50.9 million). The corresponding obligations were transferred from other personnel provisions (€ 47.2 million). This effect was shown in the transfers in the present value of obligations column.

The net present value of the obligation can be allocated as follows:

In € m	2017/12/31	2016/12/31
Actual net present value of the defined benefit obligation (Germany)	**2,478.0**	**2,483.1**
of which aspirant	999.3	950.1
of which recipient	1,478.7	1,533.0
Actual net present value of the defined benefit obligation (abroad)	**36.9**	**35.4**
	2,514.8	**2,518.4**

The sensitivity of the defined benefit obligation is as follows:

In € m				2017/12/31
	Reference	Degree of sensitivity	+ Unit	– Unit
Discount rate	1.5%	0.25% points	–90.7	+96.9
Salary trend	2.75%	0.5% points	+5.6	–5.4
Pension trend	1.75%	0.25% points	+69.6	–66.7
Mortality	Heubeck 2005G/ Mod. Salzgitter	1 year	+125.6	–125.8

In € m				2016/12/31
	Reference	Degree of sensitivity	+ Unit	– Unit
Discount rate	1.75%	0.25% points	–88.0	+93.9
Salary trend	2.75%	0.5% points	+5.8	–5.5
Pension trend	1.75%	0.25% points	+72.3	–69.4
Mortality	Heubeck 2005G/ Mod. Salzgitter	1 year	+125.2	– 125.8

The sensitivity of this value is ascertained analogously to the calculation of the present value of the obligation shown in the balance sheet. In each of these process steps, one assumption is changed while the other assumptions remain the same. Possible dependencies between the assumptions are not taken into account.

The following pension payments will probably have to be made over the next 20 years:

In € m	
2018	116.3
2019	112.6
2020	113.5
2021	110.9
2022	108.5
2023– 2027	521.7
2028– 2037	899.0

The duration of the obligation's net present value according to Macaulay as of December 31, 2017 is 15.69 years.

(26) Other provisions

The development of other short-term and other long-term provisions is shown in the following table:

In € m	2017/01/01	Currency translation differences	Addition/ disposal from changes in the consolidated Group	Transfer	Transfer to other accounts
Other taxes	**12.8**	**– 0.1**	**0.2**	**–**	**–**
Personnel	**154.5**	**– 0.2**	**0.1**	**0.2**	**– 0.0**
of which anniversary provisions	[59.4]	[–]	[–]	[0.0]	[0.1]
of which for the social compensation/age related part-time employment/demographics fund	[61.2]	[–]	[–]	[0.1]	[0.8]
Operating risks	**148.8**	**– 0.1**	**0.6**	**–**	**–**
Other risks	**221.7**	**– 2.3**	**0.0**	**–**	**– 7.6**
of which price reductions/complaints	[111.1]	– 1.1	[–]	[–]	[0.2]
of which risks from pending transactions	[40.6]	– 0.2	[–]	[–]	– 7.7
Total	**537.8**	**– 2.8**	**0.9**	**0.2**	**– 7.7**

The anniversary provisions shown under personnel provisions have a duration of ten years. The restructuring expenses incurred during the year total € 36.0 million (previous year: € 12.7 million) of which € 35.8 million (previous year: € 12.5 million) are accounted for by allocations to provisions, € 0.2 million (previous year: € 0.2 million) were accounted for as current expenses for restructuring.

Provisions for typical operational risks are formed, in particular for landfill obligations, and have a duration of 14 years. The provisions for other risks primarily comprise provisions for discounts/complaints, litigation risks, warranties and risks from pending transactions.

Used	Reversal	Allocation	Compound interest	2017/12/31	Of which long-term
–4.6	**–0.2**	**2.9**	**–**	**10.9**	**2.5**
–49.8	**–5.7**	**75.3**	**1.1**	**175.4**	**121.5**
– 3.3	– 0.2	[1.9]	[0.8]	[58.6]	[53.8]
– 34.0	– 2.7	[44.2]	[0.2]	[69.9]	[38.2]
–3.8	**–8.7**	**11.3**	**1.0**	**149.1**	**141.4**
–68.6	**–54.3**	**111.6**	**0.0**	**200.4**	**38.1**
– 40.4	– 35.6	[69.6]	[–]	[103.7]	[3.1]
– 13.0	– 13.3	[12.2]	[–]	[18.6]	[3.5]
–126.8	**–69.0**	**201.0**	**2.2**	**535.8**	**303.5**

(27) Non-current financial liabilities

In € m	2017/12/31	2016/12/31
Liabilities to banks	241.6	257.4
Bonds	157.9	154.0
Liabilities from finance lease agreements	28.1	34.7
Liabilities from financing	6.3	6.4
Financial liabilities	**433.8**	**452.4**

For the convertible bonds issued on June 5, 2015 in an aggregate amount of € 167,900,000, the debt component totaled € 148.0 million. The values of the equity and debt components were determined as of the convertible bonds' date of issue.

The liabilities from finance leases reported under non-current financial liabilities are shown in the following tables:

In € m	Residual term 1 to 5 years	Residual term > 5 years	2017/12/31
Minimum lease payments	22.6	9.8	32.4
Finance costs	3.8	0.6	4.4
Present value of minimum lease payments	**18.8**	**9.2**	**28.0**

In € m	Residual term 1 to 5 years	Residual term > 5 years	2016/12/31
Minimum lease payments	26.8	13.9	40.7
Finance costs	4.8	1.2	6.0
Present value of minimum lease payments	**22.0**	**12.7**	**34.7**

The non-current liabilities from lease transactions relate essentially to the leasing of plant equipment and machinery.

Current Liabilities

(28) Current financial liabilities

In € m	2017/12/31	2016/12/31
Liabilities from factoring	138.7	144.9
Liabilities to banks	91.3	80.6
Liabilities from finance lease agreements	6.6	6.5
Other borrowings	1.2	1.6
Bonds	0.0	260.0
Current financial liabilities	**237.8**	**493.6**

Companies in Germany and abroad have made external financing arrangements outside of the Group. These trade receivables act as security for liabilities from factoring totaling € 138.7 million. The default risk and the late payment risk regarding the sold receivables continue to be borne by the companies. The receivables will continue to be shown only in the companies' balance sheets. The funds received are reported as liabilities. Due to their short terms, the book value of the receivables and liabilities corresponds to their fair value. The receivables will be assigned to the bank. In the case of sold receivables amounting to € 95.5 million, the purchaser of the receivables has the right to transfer the sold receivables to third parties, but without the reciprocal rights and obligations being infringed.

The liabilities from finance leases reported under current financial liabilities are shown in the following table:

In € m	2017/12/31	2016/12/31
Minimum lease payments	8.4	8.6
Finance costs	1.8	2.1
Present value of minimum lease payments	**6.6**	**6.5**

The current liabilities from lease transactions relate essentially to the leasing of plant equipment and machinery and of plant and office equipment.

(29) Trade payables

Trade payables amounting to € 1,169.0 million (previous year: € 1,154.5 million) include the following liabilities resulting from the percentage-of-completion method in relation to contract production:

In € m	2017/12/31	2016/12/31
Payments received on account	256.6	316.1
Production costs, including result from construction contracts	– 138.2	– 207.1
Payables from construction contracts	**118.4**	**109.0**

(30) Other liabilities

In € m	2017/12/31	2016/12/31
Liabilities to employees	109.9	89.9
Payments received on account	83.9	88.7
Tax liabilities	55.4	37.1
Liabilities from derivatives	22.0	64.6
Liabilities from social security contributions	11.9	12.3
Customer credit balances	6.8	5.0
Other liabilities	49.4	67.4
Other liabilities (current)	**339.2**	**365.1**

As well as the liabilities from factoring secured by receivables, a sum of € 31.2 million (previous year: € 37.0 million) is secured through mortgages.

”Other liabilities“ comprise a large number of small amounts pertaining to individual transactions at the consolidated companies.

(31) Contingencies

Contingencies are potential liabilities not shown on the balance sheet that are disclosed in the amount of their fixed value on the balance sheet date. Their aggregate amount is € 29.4 million (previous year: € 25.3 million).

Taking account of individual risk assessments as well as the actual contractual obligations as of the balance-sheet date, the contingencies comprise sureties and guarantees in an amount of € 17.1 million (previous year: € 18.7 million). Based on past experience, the probability of their being utilized can be regarded as low.

As of January 1, 2014, Salzgitter AG and its domestic subsidiaries carried out the audit stipulated by Section 16 of the German Company Pensions Act (BetrAVG) for the purpose of adjusting the company pension payments. The commercial situation of the respective individual company is authoritative in any decision on whether to adjust. Given the unsatisfactory financial situation, the pensions awarded by several Group companies were not adjusted as of January 1, 2014. In order to reduce procedural costs, an agreement on model procedures was concluded with the IG Metall labor union. This agreement stipulates that the decision-making principles of the legally valid model procedure should be transferred to the other company pension recipients in the companies concerned. For those companies in which the risk of an obligation to implement the company pension adjustment subsequently is regarded as improbable, full subsequent payment of the company pension adjustment as of the cut-off date of December 31, 2017 would lead to an increase of some € 28.0 million in the net pension commitment. Of this sum, € 8.8 million would be reported as past service costs with effect on earnings and € 19.2 million within the framework of the reassessments with a neutral effect on earnings.

In 2016, the German Federal Fiscal Court pronounced a judgment on securities lending, to which the Salzgitter Group has already responded by reflecting this judgment in its accounting as of December 31, 2016. During the course of 2017, the legal opinion with regard to circumstances at Salzgitter AG has took on a concrete form indicating that the risks already reported comprehensively in the balance sheet are likely to lead to outside jurisdiction. In addition, there are legal uncertainties concerning the imputation order regarding capital gains tax amounting to € 93.5 million (including interest), although outside jurisdiction is largely regarded as unlikely. As of November 8, 2017, a supreme court ruled on the fiscal recognition of profit-and-loss transfer agreements in connection with variable compensation payments to external shareholders. Salzgitter AG is affected by the possible risk of non-recognition of the fiscal unity scheme for corporate tax purposes at a subsidiary. Salzgitter AG is assuming that there is a strong possibility of a transitional period being provided by the financial administration for the not yet final assessment periods up to and including 2017. There will therefore be no balance-sheet recording of the risk (€ 10.8 million income tax including interest).

Since the spring of 2014, the public prosecutors in Braunschweig have been investigating managers in the various Group companies on grounds of suspicion concerning the formation of allegedly fiscally impermissible provisions, the non-capitalization of acquisition and/or manufacturing costs from a tax standpoint, as well commission payments and credit notes not recognized under tax legislation. The investigative procedures are partly ongoing. SZAG and its subsidiaries are cooperating unconditionally with the investigating authorities and have hired external attorneys to investigate the matter comprehensively. We believe that the tax returns in question submitted by the Group companies are in compliance with the statutory regulations. Due to the current state of knowledge and taking account of all the circumstances, there can be no serious or overwhelming likelihood of a claim being asserted against Group companies from the investigative procedures.

In other respects, neither Salzgitter AG nor any of its Group companies are engaged in current or foreseeable legal or arbitration proceedings that might have a significant effect on their financial situation.

(32) Other financial obligations

In € m			2017/12/31
	up to 1 year	**1 to 5 years**	**over 5 years**
Purchase commitments for investments (essentially property, plant and equipment)	145.6	54.0	–
Obligations from rental and leasing agreements	34.4	62.0	98.5
Other financial obligations	635.7	388.2	160.0
Total	**815.7**	**504.2**	**258.5**

In € m			2016/12/31
	up to 1 year	**1 to 5 years**	**over 5 years**
Purchase commitments for investments (essentially property, plant and equipment)	98.8	29.0	–
Obligations from rental and leasing agreements	33.4	76.3	105.9
Other financial obligations	588.6	430.5	157.8
Total	**720.8**	**535.8**	**263.7**

The other financial obligations primarily concern long-term purchasing commitments of the companies in the Strip Steel and Mannesmann business units whose purpose is to ensure the procurement of input material for raw materials and sea freight.

(33) Financial instruments

As of the balance sheet date of December 31, 2017, the transition of the balance sheet items to the various categories of financial instruments was as follows:

2017 in € m	Book value		
	2017/12/31	Loans and receivables originated by the company	Financial assets available for sale
Assets			
Financial assets	84.1	61.2	22.9
Other non-current receivables and assets (€ 26.0 million acc. to balance sheet); of which financial instruments	18.4	–	–
Non-current and current trade receivables	1,517.8	1,517.8	–
Other non-current receivables and assets (€ 394.2 million acc. to balance sheet); of which financial instruments	348.8	296.7	–
Securities	76.6	–	76.6
Cash and cash equivalents	679.4	–	679.4
Assets financial instruments		**1,875.7**	**778.9**
Equity and liabilities			
Non-current financial liabilities	433.8	–	–
Current financial liabilities	237.8	–	–
Trade payables	1,169.0	–	–
Other current liabilities (€ 339.2 million acc. to balance sheet); of which financial instruments	64.9	–	–
Equity and liabilities financial instruments		**–**	**–**

The calculation of the fair value disclosures for financial assets and debts not measured at fair value as well as for liabilities from finance lease contracts is carried out essentially by discounting future cash flows. This is performed by using a term-dependent interest rate that reflects the risk-free rate and the counterparty risk or Salzgitter Group’s counterparty default risk deduced on the basis of a peer group. The calculation parameters are based on data from directly and indirectly observable input factors. The fair value disclosures are therefore assignable to Level 2 in overall terms.

	Valuation according to IAS 39		Valuation according to IAS 17	Fair value
Financial instruments held for trading	Derivates with documented hedging arrangements	Financial liabilities measured at amortized cost		
–	–	–	–	103.7
–	18.4	–	–	18.4
–	–	–	–	1,517.8
10.4	41.6	–	–	348.8
–	–	–	–	76.6
–	–	–	–	679.4
10.4	**60.1**	**–**	**–**	
–	–	405.8	28.1	446.7
–	–	231.2	6.6	241.4
–	–	1,169.0	–	1,169.0
20.1	1.9	42.9	–	64.9
20.1	**1.9**	**1,848.9**	**34.7**	

As of the balance sheet date of December 31, 2016, the transition of the balance sheet items to the various categories of financial instruments was as follows:

2016 in € m	Book value		
	2016/12/31	Loans and receivables originated by the company	Financial assets available for sale
Assets			
Financial assets	95.6	75.2	20.4
Trade receivables	1,476.2	1,476.2	–
Other current receivables and assets (€ 504.3 million acc. to balance sheet); of which financial instruments	459.8	349.5	–
Securities	82.3	–	82.3
Cash and cash equivalents	818.1	–	818.1
Assets financial instruments		**1,901.0**	**920.8**
Equity and liabilities			
Non-current financial liabilities	452.4	–	–
Current financial liabilities	493.6	–	–
Trade payables	1,154.5	–	–
Other liabilities (€ 369.5 million acc. to balance sheet); thereof financial instruments	124.3	–	–
Equity and liabilities financial instruments		–	–

Money market funds are reported in the category ”Financial assets available for sale” under the ”Securities” position.

Trade receivables and cash and cash equivalents usually have short residual terms, and as a result their book values correspond to their fair values as of the reporting date. With regard to the fair values of derivatives, please consult ”Financial assets – recognition and measurement” in the section on ”Accounting and Valuation Principles”. The book value of the derivative financial instruments corresponds to their market value. The securities are listed on the stock market and are valued on the basis of their market price as of the balance sheet date. Listed company shares within financial asset are treated in the same way.

Trade payables and other liabilities regularly have short residual terms, and as a result their reported values correspond to their fair values.

		Valuation according to IAS 39	Valuation according to IAS 17	Fair value
Financial instruments held for trading	Derivatives with documented hedging arrangements	Financial liabilities measured at amortized cost		
–	–	–	–	114.1
–	–	–	–	1,476.2
33.7	76.7	–	–	459.8
–	–	–	–	82.3
–	–	–	–	818.1
33.7	**76.7**	**–**	**–**	
–	–	417.7	34.7	462.1
–	–	487.1	6.5	497.8
–	–	1,154.5	–	1,154.5
60.7	4.0	59.7	–	124.3
60.7	**4.0**	**2,119.0**	**41.2**	

When calculating the fair value of an asset or a liability, the Group uses observable market data as far as possible. Based on the input factors used in the calculation techniques, the fair values are assigned to different levels in the fair value hierarchy.

Level 1: listed prices on active markets for identical assets and liabilities.

Level 2: valuation parameters that are not concerned with the listed prices taken into account in Level 1, but can be observed either directly or indirectly (from the derivation of prices) for the asset or liability in question.

Level 3: valuation parameters for assets or liabilities not based on observable market data.

If the input factors used for calculating the fair value cannot be assigned to one single level, they are assigned collectively to the level that corresponds to the lowest input factor which has overall significance for the measurement process.

In the ”Available-for-sale financial assets” category, the total financial assets amount to € 22.9 million (previous year € 20.4 million). This sum includes financial assets amounting to € 22.9 million (previous year € 20.3 million) for which no reliable fair values can be ascertained because they are not listed on the market. These are shares in partnerships and corporations for which there are no intentions to sell in the near future. These assets are recognized at amortized cost. The ”Available-for-sale financial assets” category also includes securities totaling € 76.6 million (previous year € 82.3 million) as well as financial resources amounting to € 679.4 million (previous year € 818.1 million).

Fair value calculation – assets:

In € m				2017/12/31
	Financial assets available for sale	Financial instruments held for trading	Derivatives with documented hedging arrangements	Total
Level 1	76.5	–	–	76.5
Level 2	–	10.4	60.1	70.5
Level 3	–	–	–	–
Total	**76.5**	**10.4**	**60.1**	**147.0**

In € m				2016/12/31
	Financial assets available for sale	Financial instruments held for trading	Derivatives with documented hedging arrangements	Total
Level 1	82.3	–	–	82.3
Level 2	–	33.7	76.7	110.4
Level 3	–	–	–	–
Total	**82.3**	**33.7**	**76.7**	**192.7**

Fair-value determination of liabilities:

In € m			2017/12/31
	Financial instruments held for trading	Derivatives with documented hedging arrangements	Total
Level 1	–	–	–
Level 2	20.1	1.9	22.0
Level 3	–	–	–
Total	**20.1**	**1.9**	**22.0**

In € m			2016/12/31
	Financial instruments held for trading	Derivatives with documented hedging arrangements	Total
Level 1	–	–	–
Level 2	60.7	4.0	64.6
Level 3	–	–	–
Total	**60.7**	**4.0**	**64.6**

The concentration of risk with regard to trade receivables is assessed as low as the customers are based in different countries, belong to different sectors of industry and operate in largely independent markets. There are no customers from whom there are trade receivables amounting to more than 10% of the total trade receivables. The individual companies in the Group have loan insurance to cover part of the risk of bad debt.

The default risk pertaining to financial instruments stems from the ”Loans and receivables originated by the company” category. As of the reporting date, the default risk compared with the previous year was as follows:

In € m		2017/12/31		2016/12/31
	Maximum default risk	Hedged default risk	Maximum default risk	Hedged default risk
Non-current and current trade receivables	1,517.8	686.2	1,476.2	666.0
Other receivables	296.7	2.5	349.5	2.0
Financial assets	61.2	–	75.2	–
Total	**1,875.7**	**688.7**	**1,901.0**	**668.0**

There are also default risks in respect of the ”Financial assets held for trading” category in the amount of the positive market values of the derivatives, and with lease receivables in the amount of the reported values for which the default risk is not secured.

An analysis of the ages of the financial instruments in an amount of € 259.5 million (previous year: € 258.8 million) that are overdue as of the reporting date, but not impaired, produced the following result:

As of 2017/12/31 in € m	overdue for				
	‹ 30 days	31–60 days	61–90 days	91–180 days	› 180 days
Loans and receivables originated by the company	135.2	26.0	11.4	17.3	69.6

As of 2016/12/31 in € m	overdue for				
	‹ 30 days	31–60 days	61-90 days	91-180 days	› 180 days
Loans and receivables originated by the company	148.8	26.3	8.4	17.5	57.8

A sum of € 122.3 million (previous year € 130.6 million) comprising overdue, non-impaired financial assets in the ”Loans and receivables originated by the company” category is secured by credit insurance.

Sums that are not value-adjusted and have been overdue for more than 90 days usually relate to regular customers from whom the receipt of payment, as in previous years, is not in question, as well as customers whose receivables are credit insured.

In the reporting year, the Salzgitter Group recorded impairments of assets categorized as ”Loans and receivables originated by the company” in an amount of € 22.7 million (previous year € 33.7 million) and reversals of impairment and allowances in an amount of € 15.1 million (previous year € 10.8 million) for all discernible individual risks, for the credit risks assessed on the basis of empirical values and for particular country-specific risks.

An impairment of financial assets in the category ”Loans and receivables originated by the company” is carried out as soon as there are any objective indications of impairment, for example substantial financial difficulties of the debtor or breach of contract. The impairments are recognized with effect on income under other operating expenses. Reversals of impairment are recorded under other operating income.

It is assumed that the assets that are neither overdue nor impaired could be collected at any time.

The management holding monitors the Group’s liquidity situation at all of the companies integrated into the Group financial structure within the scope of central cash and interest management. Internal credit lines apply to the subsidiaries. If they have any credit lines of their own available, they are responsible for the appropriate risk minimization and report on any possible risks within the group management and controlling structures. Over and above this, risks can arise from necessary liquidity measures of the subsidiaries and affiliated companies if their business development is consistently unsatisfactory. No such risks are expected to arise for the companies as going concerns, however. The risk concentration is countered by a rolling liquidity plan. As a result of the available cash resources and credit lines, we do not currently see any threat to our Group.

The net results of the categories are as follows:

In € m	2017	2016
Assets/liabilities held for trading	17.6	29.3
Loans and receivables originated by the company	8.2	–22.3
Financial assets available for sale	1.2	15.5
Financial liabilities measured at amortized cost	–18.3	–19.3
Total	**8.3**	**3.3**

The net result in the ”Assets/liabilities held for trading” category primarily comprises income and expenses from the balance-sheet-date valuation of embedded derivatives and forward exchange contracts. The ”Loans and receivables originated by the company” and ”Financial assets available for sale” categories include interest income amounting to € 18.9 million (previous year € 20.6 million) as well as writedowns. Interest expenses amounting to € 20.4 million (previous year € 18.2 million) are allocated to the ”Financial liabilities measured at amortized cost” category. These categories also include effects from currency translation and impairment.

As in the previous year, no gains were generated from the disposal of non-consolidated companies valued at acquisition cost in the reporting year. Similar to the previous year, valuation allowances of under € 0.1 million with effect on income were recorded for the assets in the ”Financial assets available for sale” category in the reporting year.

For financial instruments not measured at fair value through profit and loss, the expenses incurred in financial and monetary transactions amounted to € 10.2 million (previous year: € 10.4 million); these were immediately recognized with effect on income.

Changes in the valuation reserve for financial instruments in the ”Available for sale” category developed as follows (before taxes):

In € m	2017	2016
As of 01/01	–16.5	–5.9
Write-up without effect on income	0.4	2.1
Disposal	–18.1	12.7
Write-down without effect on income	–	–
As of 12/31	**2.0**	**–16.5**

The Salzgitter Group applied hedge accounting in accordance with IAS 39 for forward exchange contracts, commodity futures and, to a minor extent, forward rate agreements. In the process, it hedged the currency, price and interest rate risks using cash flow hedges. The respective market values were as follows:

Positive market value in € m	2017/12/31	2016/12/31
Forward exchange contracts – cash flow hedges	–	2.8
Commodity futures – cash flow hedges	60.1	73.8

Negative market values in € m	2017/12/31	2016/12/31
Forward exchange contracts – cash flow hedges	1.9	0.1
Commodity futures – cash flow hedges	–	3.9

The underlying transactions that were secured using cash flow hedges will generally affect income within twelve months of the reporting date. The secured underlying transactions for price hedging will affect income in the financial years 2018, 2019 and 2020.

The cash flow hedge reserve, which was posted to equity with no effect on income (before taxes), developed as follows:

In € m	2017	2016
As of 01/01	81.5	−48.6
Write-up without effect on income	48.5	126.9
Write-down without effect on income	−1.9	–
Basis adjustment	−65.3	3.8
Realization	−5.7	−0.6
As of 12/31	**57.1**	**81.5**

The effectiveness of all hedging arrangements is examined as of every reporting date. In the process, the cumulative changes in the value of the underlying transaction are compared with the cumulative changes in the value of the hedging transaction. In the financial year, ineffectivities totaling € 1.2 million (previous year: € 9.0 million) arose from cash flow hedges. The ineffectivities were recognized in other operating income and other operating expenses.

In the financial year, an amount of € 65.3 million from expired forward exchange contracts was offset against the acquisition costs of non-financial assets (basis adjustment). In the previous year, an amount of € 3.8 million from expired forward exchange contracts was added to the acquisition costs of non-financial assets.

In the case of foreign currency receivables, rate hedging cover is provided by entering into forward exchange contracts with various banks. The claims reported in hedge accounting pursuant to IAS 39 are recognized at the respectively agreed rate. Hedging relationships were established both for firm obligations and for anticipated future transactions.

The nominal volume of the derivative financial instruments comprises the unnetted total of all purchase and sale amounts, valued at the respective settlement rates. Market values were always determined on the basis of conditions that prevailed on the reporting date, using the values at which the relevant derivative financial instruments were traded or listed, without considering contrary movements in the value deriving from the underlying transactions. The current value of the derivatives to be reported derives from the valuation of the hedged foreign currency amount, with the difference between the rate applying when the forward contract was entered into and the forward rate on the reporting date; this amount is discounted to the balance sheet date in accordance with the residual term.

The following key interest rates were used to determine the fair values of the currency derivatives as of the end of the reporting year and the previous year:

Term	EUR interest rate (%)		GBP interest rate (%)		USD interest rate (%)	
	2017/12/31	2016/12/31	2017/12/31	2016/12/31	2017/12/31	2016/12/31
1 month	−0.3680	−0.3680	0.4962	0.2558	1.5643	0.7717
3 months	−0.3290	−0.3190	0.5211	0.3666	1.6943	0.9979
6 months	−0.2710	−0.2210	0.5760	0.5330	1.8370	1.3177
1 year	−0.1860	−0.0820	0.7669	0.7765	2.1070	1.6857
2 years	−0.1530	−0.1560	0.7940	0.6220	2.0840	1.5190
4 years	0.1660	−0.0190	0.9710	0.7920	2.2320	1.9430
10 years	0.8780	0.6550	1.2720	1.2290	2.4190	2.4380

The liquidity structure of all the financial liabilities is as follows:

As of 2017/12/31 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	1,169.0	–	–
Financial liabilities	236.8	423.9	0.3
Lease liabilities	8.4	22.6	9.8
Other liabilities	43.4	–	–

As of 2016/12/31 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	1,154.5	–	–
Financial liabilities	498.9	412.2	19.4
Lease liabilities	8.6	26.8	13.9
Other liabilities	59.7	–	–

As of December 31, 2017, derivative financial liabilities with a term of under one year lead to disbursements of € 617.9 million (previous year: € 264.2 million), while those with a term of between one and five years lead to payouts totaling € 0.0 million (previous year: € 0.1 million). The disbursements from derivative financial liabilities for which payments on a gross basis were agreed are counterbalanced by in-payments. If these in-payments are taken into account, the payouts are substantially lower.

Netting

Salzgitter AG concludes financial futures transactions only with core banks and solely on the basis of the standardized German Master Agreement on Financial Derivatives. This agreement contains a conditional netting agreement according to which – in the event of insolvency – the party that owes the higher amount pays the difference.

Derivatives with, respectively, positive or negative market values are not netted with each other in the balance sheet. The ”not offset amount” column contains the amounts of the derivatives accounted for which do not satisfy the criteria for netting under IAS 32.42.

As of 2017/12/31 in € m

	Gross book value	Offsetting amount	Net book value	Not offset amount	Total net book value
Positive market values derivates	70.5	–	70.5	2.3	68.2
Negative market values derivatives	22.0	–	22.0	2.3	19.7

As of 2016/12/31 in € m

	Gross book value	Offsetting amount	Net book value	Not offset amount	Total net book value
Positive market values derivates	110.4	–	110.4	3.3	107.1
Negative market values derivatives	7.7	–	7.7	3.3	4.4

Sensitivity analysis

The Salzgitter Group is exposed to a variety of financial risks. These, as defined by the sensitivity analysis prescribed under IFRS 7, are interest rate risks, currency risks and other price risks. For the interest rate risks, the sensitivity analysis assumes a change of 100 base points in the market interest rate. With regard to the currency risks, a fluctuation of 10% in the Group companies' respective functional currencies against the foreign currencies is assumed. The other price risks arise for the Salzgitter Group from changes in commodity prices or stock market indices. In this case, the impact of a 10% change in the respective quoted prices is taken into account. The sensitivities are ascertained by banks or by means of internal calculations using acknowledged methods (e.g. Black-Scholes, Heath-Jarrow-Morton). The portfolio of financial instruments as of the balance sheet date is representative of the financial year as a whole.

2017/12/31	Recognized in profit and loss	Affecting equity	Total	Recognized in profit and loss	Affecting equity	Total
Degree of sensitivity	+10 %	+10 %	+10 %	– 10%	– 10%	– 10%
USD	–27.1	–23.4	–50.5	31.3	26.1	57.4
GBP	0.6	1.7	2.3	–0.7	–2.1	–2.8
Other currencies	–2.4	2.0	–0.4	2.6	–2.4	0.2
Currency sensitivities	**–28.9**	**–19.7**	**–48.6**	**33.2**	**21.6**	**54.8**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**–3.8**	**–**	**–3.8**	**4.2**	**–**	**4.2**
Degree of sensitivity	+10 %	+10 %	+10 %	– 10%	– 10%	– 10%
Other price sensitivities	**3.6**	**23.3**	**26.9**	**–3.6**	**–23.3**	**–26.9**

2016/12/31	Recognized in profit and loss	Affecting equity	Total	Recognized in profit and loss	Affecting equity	Total
Degree of sensitivity	+10 %	+10 %	+10 %	– 10%	– 10%	– 10%
USD	–32.4	–18.9	–51.3	34.7	23.6	58.3
GBP	1.1	2.5	3.6	–1.4	–3.1	–4.5
Other currencies	5.7	–	5.7	–6.4	–0.2	–6.6
Currency sensitivities	**–25.6**	**–16.4**	**–42.0**	**26.9**	**20.3**	**47.2**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	–100 bp	–100 bp	–100 bp
Interest rate sensitivities	**–4.9**	**–**	**–4.9**	**6.3**	**–**	**6.3**
Degree of sensitivity	+10 %	+10 %	+10 %	– 10%	– 10%	– 10%
Other price sensitivities	**–24.8**	**32.2**	**7.4**	**21.7**	**–32.2**	**–10.5**

(34) Notes to the Cash Flow Statement

In accordance with IAS 7, the cash flow statement depicts the development in cash flows, broken down into inflows and outflows of funds from current operating, investment and financing activities. The cash flow statement is derived from the consolidated financial statements of Salzgitter AG using the indirect method.

The cash and cash equivalents used consist of cash in hand, cheques and cash at banks and term deposits (term of under three months).

In the cash inflow from operating activities, the income and expenses from fixed asset disposals have been eliminated. Interest income amounts to € 12.7 million (previous year: € 11.3 million). Dividend income received during the financial year 2017 amounted to € 21.3 million (previous year: € 14.9 million).

The investments shown in the outflow of funds for investment activity contain the additions with effect on earnings in respect of intangible assets and property, plant and equipment as well as other non-current assets, especially investments in shares in companies accounted for using the equity method.

The additions from the first-time consolidations of companies as well as the non-cash additions to the non-current assets amount to € 3.8 million (previous year: € 10.3 million).

The cash outflows for investment in financial assets mainly concern payouts for non-current securities and for capital increases at non-consolidated companies.

The cash inflows and outflows from/for financial investments comprise bond funds and futures contracts.

In € m	As of 2017/01/01	Incoming payments total	Outgoing payments total	Of which: outgoing payments cash flow from financing activities	Additions /disposals from consolidated group changes	Currency differences	Other changes	As of 2017/12/31	Of which long term
Bonds	414.0	0.0	−0.1	−0.1	0.0	0.0	−255.9	157.9	157.9
Loans and other financial liabilities	532.0	92.8	−106.7	−13.4	−0.1	−4.4	0.1	513.7	275.9
Liabilities to banks	337.9	49.6	−50.5	−7.3	0.0	−4.3	0.0	332.8	241.6
Liabilities from factoring	144.9	43.1	−49.4	0.0	0.0	0.0	0.0	138.7	0.0
Liabilities from financing	8.0	0.0	−0.3	0.0	−0.1	−0.1	0.0	7.5	6.3
Liabilities from finance lease agreements	41.2	0.0	−6.5	−6.1	0.0	0.0	0.0	34.7	28.1
	946.0	**92.8**	**−106.8**	**−13.5**	**−0.1**	**−4.4**	**−255.9**	**671.6**	**433.8**

Other changes concerning the bonds (€ -255.9 million) essentially pertain to the disposal of the bond exchangeable into the shares of Aurubis with no with effect on earnings through the granting of shares.

(35) Notes to the Segment Reporting

The segmentation of the Salzgitter Group into five business units accords with the Group's internal controlling and reporting functions. The main decision-maker is the Executive Board.

In the segment report, the business activities of the Salzgitter Group are assigned to the Strip Steel, Plate / Section Steel, Mannesmann, Trading, and Technology business units in accordance with the Group structure in line with different products and services.

The Strip Steel Business Unit manufactures high-quality branded steel and special steels. Its main products are hot-rolled strip steel and steel sheet, sections and tailored blanks.

The companies in the Plate / Section Steel Business Unit produce a broad spectrum of high-grade plate products. Further core product areas are sections production and scrap trading.

The Mannesmann Business Unit is concerned primarily with the manufacture of line pipes, HFI-welded tubes, precision tubes and stainless steel tubes.

The Trading Business Unit operates a tightly-knit European sales network, as well as trading companies and agencies worldwide that ensure that the Salzgitter Group's products and services are marketed efficiently.

The Technology Business Unit operates mainly in the filling and packing technology segment, as well as in special machinery engineering for shoe manufacturing and elastomer production.

Companies in the Industrial Participations category mainly comprise service providers working for the Group and comply with the summary in accordance with IFRS 8.16. Some of the companies among the service units also offer their services to third-party customers. On this basis, the companies conceive and implement a broad spectrum of attractive service offerings. These encompass raw materials supplies, IT services, facility management, logistics, automotive engineering and research and development. Included in the consolidations are Salzgitter AG as the management holding company, the intermediate holding companies Salzgitter Mannesmann GmbH, Salzgitter-Klöckner- Werke GmbH and Salzgitter Finance B.V. as well as Aurubis AG.

There are no relationships with individual customers whose sales represent a significant proportion of the Group's total sales. The accounting principles are the same as described for the Group in its Accounting and Valuation principles. For an overview of sales by region, please see item (1) "Sales" in the Notes to the Consolidated Income Statement. Non-current assets are allocated to countries by their respective location, and country allocations are shown for intangible assets, tangible assets and property investments.

In € m	2017	2016
Domestic	2,297.4	2,431.5
Other EU	86.3	89.2
Rest of Europe	0.1	0.1
America	59.3	56.0
Asia	9.0	8.9
Africa	1.0	0.8
Australia/Oceania	1.9	2.0
	2,454.9	**2,588.4**

The transition of total segment sales and segment results to, respectively, consolidated sales and the consolidated result from ordinary activities is shown in the following overviews. For the transition to the operation discontinued in accordance with the rules of IFRS 5, please see the section (8) "Results from discontinued operations".

In € m	2017	2016
Total sales of the segments	10,867.8	9,332.0
Industrial Participations	400.3	391.4
Consolidation	–2,277.9	–1,817.7
Sales	**8,990.2**	**7,905.7**
Discontinued operation	0.0	12.8
Consolidated from continuing operations	**8,990.2**	**7,892.9**

In € m	2017	2016
Total results of the segments for the period	195.8	16.9
Industrial participations	25.2	12.0
Consolidation	17.0	24.3
Earnings before taxes (EBT)	**238.0**	**53.2**
Discontinued operation	0.4	11.8
Consolidated from continuing operations	**237.6**	**41.4**

The result for the period of industrial participations includes proceeds from the sale of a property in the year under review.

(36) Related party disclosures

In addition to business relationships with companies that are consolidated fully in the consolidated financial statements, relationships also exist with associated companies and shareholdings that must be designated as related companies in accordance with IAS 24. The category of joint operations includes only Hüttenwerke Krupp Mannesmann GmbH, Duisburg. The category of other related parties includes the majority shareholdings and joint ventures of the State of Lower Saxony.

The following delivery and service relationships exist between companies in the consolidated group and companies related to the Salzgitter Group:

In € m	Sale of goods and services		Purchase of goods and services	
	2017	2016	2017	2016
Non-consolidated group companies	32.7	45.3	10.7	7.5
Joint ventures	308.0	213.7	140.3	193.8
Joint operations	8.9	6.9	1.5	1.0
Companies account for using the equity method	2.1	–	–	–
Other related parties	0.1	–	1.1	1.2

Outstanding balances from deliveries and services arising from the purchase or sale of goods and services between companies in the consolidated group and companies related to the Salzgitter Group:

In € m	Receivables		Liabilities	
	2017/12/31	2016/12/31	2017/12/31	2016/12/31
Non-consolidated group companies	17.2	37.3	5.9	3.2
Joint ventures	43.2	67.4	0.2	42.6
Joint operations	1.3	1.0	34.7	14.5
Other related parties	6.6	5.9	95.5	99.5

In addition, the Group has an outstanding long-term loan of € 81.0 million (previous year: € 93.0 million) in respect of the 30 % consolidated company Hüttenwerke Krupp Mannesmann GmbH, Duisburg, in a residual amount, after consolidation, of € 56.7 million (previous year: € 65.1 million).

The sale of goods and services largely consists of the delivery of input materials for manufacturing large-diameter pipes.

Contingencies totaling € 14.6 million (previous year: € 7.3 million) exist in relation to non-consolidated associated companies.

(37) Fees for the Auditor of the Consolidated Financial Statements that were reported as expenses in the financial year in accordance with Section 314, para 9 of the German Commercial Code (HGB)

In € m	2017	2016
Audit services	2.8	2.7
Other certification or assessment services	0.1	0.2
Tax consulting services	0.0	0.1
Other services	0.0	–

Expenses relating to other auditors were incurred in an amount of below € 0.1 million (previous year: below € 0.1 million) for the auditing of the annual financial statements of consolidated German-based companies.

Payments for the audit of financial statements comprise above all fees for the audit of the consolidated financial statements as well as the legally required audits of Salzgitter AG and the subsidiaries included in the consolidated financial statements. Other assurance and audit-related activities pertained virtually exclusively for energy certifications and EMIR audits conducted on behalf of Salzgitter AG and the companies it controls. In addition, tax advisory services were provided, particularly concerning the area of transfer pricing documentation. Other services largely comprise fees for training.

(38) Significant Events occurring after the Reporting Date

There were no significant events occurring after the reporting date.

(39) Waiver of disclosure and preparation of a management report pursuant to Section 264 para. 3 German Commercial Code (HGB) or Section 264b HGB

The following fully consolidated domestic subsidiaries have fulfilled the conditions required under Section 264 para. 3 or Section 264 b of the German Commercial Code and are therefore exempted from disclosure of their financial statements and from the obligation to prepare a management report.

- Salzgitter Mannesmann GmbH, Salzgitter[1) 2)]
- Salzgitter Klöckner-Werke GmbH, Salzgitter[1) 2)]
- Salzgitter Flachstahl GmbH, Salzgitter
- Salzgitter Europlatinen GmbH, Salzgitter[1)]
- Salzgitter Bauelemente GmbH, Salzgitter[1)]
- Hövelmann & Lueg Vermögensverwaltung GmbH, Schwerte[1)]
- Salzgitter Mannesmann Stahlservice GmbH, Karlsruhe[1)]
- Peiner Träger GmbH, Peine
- Ilsenburger Grobblech GmbH, Ilsenburg
- DEUMU Deutsche Erz- und Metall-Union GmbH, Peine[1) 2)]
- Salzgitter Mannesmann Grobblech GmbH, Mülheim
- Mannesmann Verwaltung GmbH, Mülheim[1)]
- Mannesmann Grossrohr GmbH, Salzgitter[1)]
- Mannesmann Line Pipe GmbH, Siegen[1)]
- Mannesmannröhren-Werk GmbH, Zeithain[1)]
- Mannesmann Precision Tubes GmbH, Mülheim[1) 2)]
- Mannesmann Stainless Tubes GmbH, Mülheim[1) 2)]
- Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid[1)]
- Salzgitter Mannesmann Handel GmbH, Düsseldorf[1) 2)]
- Universal Eisen und Stahl GmbH, Neuss[1) 2)]
- Salzgitter Mannesmann International GmbH, Düsseldorf[1) 2)]
- Salzgitter Mannesmann Stahlhandel GmbH, Düsseldorf[1) 2)]
- Stahl-Center Baunatal GmbH, Baunatal[1)]
- KHS GmbH, Dortmund[2)]
- Klöckner DESMA Elastomertechnik GmbH, Fridingen[1) 2)]
- DESMA Schuhmaschinen GmbH, Achim[1) 2)]
- KHS Corpoplast GmbH, Hamburg[1)]
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg
- GESIS Gesellschaft für Informationssysteme mbH, Salzgitter[1)]
- TELCAT MULTICOM GmbH, Salzgitter[1) 2)]
- TELCAT KOMMUNIKATIONSTECHNIK GmbH, Salzgitter[1)]
- Glückauf Immobilien GmbH, Peine[1)]
- Salzgitter Mannesmann Forschung GmbH, Salzgitter[1)]
- Salzgitter Business Service GmbH, Salzgitter[1)]
- Salzgitter Hydroforming GmbH & Co. KG, Crimmitschau[1)]
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück[1) 2)]
- Salzgitter Automotive Engineering GmbH, Osnabrück[1)]
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück[1)]
- RSE Projektentwicklungs-GmbH, Mülheim[1) 2)]
- Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter[1) 2)]

[1)] Use was made of the option under Section 264 para. 3 to waive the preparation of Notes.
[2)] Use was made of the option under Section 291 to waive the preparation of consolidated financial statements and a group management report.

Furthermore, the company VPS Infrastruktur Salzgitter GmbH, Salzgitter, has, in accordance with Section 264 para. 3 HGB, made use of its right to waive the preparation of a management report.

(40) Disclosures on the Remuneration of the Executive Board, Supervisory Board and other Members of the Key Management Personnel

Key management personnel pursuant to IAS 24 comprises the members of Group's Executive Board and the members of the Supervisory Board. In addition to the active members of the Executive Board, the Group management comprises the heads of the Salzgitter group's five business units. In the tables below, they are referred to as "other members of key management personnel".

Remuneration from the Salzgitter Group:

In € m	Short-term employee benefits (salary and other compensation)		Post employment benefits (pension obligation)	
	2017	2016	2017	2016
Current members of the Executive Board	3.8	3.3	0.8	0.7
Members of the Supervisory Board	1.7	1.7	–	–
Other members of key management personnel	3.1	3.1	0.4	0.3

In addition, members of management in key positions received payments of € 0.5 million (previous year: € 0.0 million) due to the termination of the employment relationship.

In addition to the amounts shown, the employee representatives on the Supervisory Board who are employees of the Salzgitter Group received their salaries within the scope of their employment contracts. Their amount constituted remuneration that is appropriate for their functions and tasks in the Group.

Obligations of the Salzgitter Group:

In € m	Short-term employee benefits (salary and other compensation)		Post employment benefits (pension obligation)	
	2017/12/31	2016/12/31	2017/12/31	2016/12/31
Former members of the Executive Board	–	–	58.1	58.4
Current members of the Executive Board	1.5	1.2	25.9	23.7
Other members of key management personnel	1.3	1.2	7.2	6.4

The obligations arising from short-term employee benefits include the variable annual remuneration that is paid out in the respective subsequent year.

Payment of the aforementioned compensation in an amount of € 0.4 million (previous year: € 0.0 million) for reason of termination of the employment relationship will not be disbursed until the following year.

Former members of the Executive Board and their surviving dependents received pensions totaling € 2.8 million (previous year: € 2.6 million).

Detailed information about the remuneration of the individual members of the Executive Board and the Supervisory Board of Salzgitter AG is disclosed in the "Group Management Report and Management Report on Salzgitter AG" in Section I.2. "Management and Control".

(41) Assurance from the Legal Representatives

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

Salzgitter, March 15, 2018

The Executive Board

Fuhrmann	Becker	Kieckbusch

Audit certificate

”INDEPENDENT AUDITOR’S REPORT

To Salzgitter Aktiengesellschaft, Salzgitter

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Salzgitter Aktiengesellschaft, Salzgitter, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Salzgitter Aktiengesellschaft, which is combined with the Company’s management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the ”Other Information” section of our auditor’s report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

1. the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
2. the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the ”Other Information” section of our auditor’s report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as ”EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the ”Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

(1) Recoverability of intangible assets and property, plant and equipment

(2) Deferred tax assets in particular relating to tax loss carryforwards

(3) Pension provisions

(4) Accounting treatment and settlement of the Aurubis AG exchangeable bond

Our presentation of these key audit matters has been structured as follows:

1 Matter and issue

2 Audit approach and findings

3 Reference to further information

Hereinafter we present the key audit matters:

(1) Recoverability of intangible assets and property, plant and equipment

1 A total amount of EUR 2,433.4 million is reported in the Company's consolidated financial statements under the balance sheet items "Intangible assets" and "Property, plant and equipment". The recoverability of the intangible assets and property, plant and equipment was reviewed as of the balance sheet date by means of impairment tests in accordance with IAS 36. This measurement is based on the present value of future cash flows from the cash-generating units to which the relevant assets are allocated. The present value is calculated using discounted cash flow models on the basis of the Group's three-year operating plan prepared by the executive directors and acknowledged by the supervisory board and extrapolated on the basis of assumptions about, for example, long-term growth rates in order to portray a sustainable condition over the long term ("perpetual annuity"). The discount rate used is the weighted cost of capital for the relevant cash-generating unit. The result of this measurement depends to a large extent on the estimate by the Company's executive directors of the future cash inflows and outflows of the respective cash-generating unit and the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the methodological requirements for the impairment tests, this matter was of particular significance in the context of our audit.

2 As part of our audit, we reviewed the methodological procedure adopted for the purpose of the impairment tests and assessed the calculation of the weighted cost of capital, among other things. We evaluated the appropriateness of the future cash inflows and outflows used in the measurement by, inter alia, comparing this data with the current budgets in the three-year plan prepared by the executive directors and acknowledged by the supervisory board, and by reconciling them against general and sector-specific market expectations. We also reviewed the assumptions made by the executive directors for the purpose of their impairment assessments relating to the effects of the proposed reform of EU emissions trading from 2021. In addition, we assessed whether the costs for Group functions included in the segment reporting were properly

reflected in the impairment tests of the respective cash-generating unit. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the value of the entity calculated using this method, we also focused our testing in particular on the parameters used to determine the discount rate applied, including the weighted cost of capital, and reperformed the calculations. Furthermore, we performed our own additional sensitivity analyses for those cash-generating units with low headroom (excess of present value over the carrying amount). Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3 The Company’s disclosures relating to intangible assets and property, plant and equipment are contained in the section entitled ”Accounting and Valuation Principles” and in notes 5, 10 and 11 in the notes to the consolidated financial statements.

(2) Deferred tax assets in particular relating to tax loss carryforwards

1 Deferred tax assets of EUR 393.2 million, of which EUR 99.5 million represents tax loss carryforwards, are reported in the consolidated financial statements of the Company. Deferred tax assets are recognized on temporary differences and tax loss carryforwards to the extent that the executive directors consider it probable that taxable profit will be available in the future which will enable the deductible temporary differences and tax losses to be utilized. If insufficient deferred tax liabilities are available, forecasts of future taxable profits are determined for this purpose. These taxable profits are taken from the tax planning projections prepared by the executive directors which are derived from the Group’s multi-year plan for 2018 to 2020. In addition, there are deferred taxes on temporary differences amounting to EUR 94.6 million, relating mainly to German companies, and German trade and corporation tax loss carryforwards amounting to EUR 1,478.3 million and EUR 1,815.8 million, respectively, as well as foreign loss carryforwards of EUR 97.1 million, for which no deferred tax assets have been recognized. In the estimation of the executive directors, it is unlikely that it will be possible to utilize these amounts for tax purposes by offsetting them against taxable profits.
In our view, the accounting treatment of the deferred tax assets was of particular significance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

2 For the purposes of our audit, we involved internal specialists from our Tax Reporting & Strategy department in connection with assessing the recoverability of the tax items and the appropriateness of their accounting treatment. With their assistance, we reviewed, among other things, the internal processes and controls for recording tax matters as well as the methodology adopted for the determination, accounting treatment and measurement of deferred taxes. We further assessed the recoverability of the deferred taxes recognized in relation to tax loss carryforwards and deductible temporary differences on the basis of the Company’s internal forecasts of the future taxable earnings situation of the German tax group for income tax purposes by comparing them with the tax planning projections prepared by the executive directors and derived from the multi-year plan for 2018 to 2020, and we evaluated the appropriateness of the underlying estimates and assumptions.
Based on our audit procedures, we satisfied ourselves that the estimates and assumptions made by the executive directors are justified and adequately documented.

3 The Company’s disclosures about the deferred tax assets and tax loss carryforwards are contained in the notes to the consolidated financial statements in the section entitled ”Accounting and Valuation Principles” as well as in note 7 and note 15.

(3) Pension provisions

1 Pension provisions amounting in total to EUR 2,440.5 million (29.3% of consolidated total assets), a portion of which is funded by plan assets (mainly investment funds), are reported in the consolidated financial statements of the Company under the balance sheet item ”Provisions for pensions and similar obligations”. The pension provisions comprise the present value of the obligations amounting to EUR 2,514.8 million, net of plan assets measured at fair value of EUR 74.3 million. The obligations in Germany represent collective and

individual pension commitments in the form of direct commitments by the employer. Obligations under defined benefit plans are measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, life expectancy, and staff turnover. Furthermore, the discount rate must be determined as of the balance sheet date by reference to the yield on high-quality corporate bonds with matching currencies and consistent terms. This usually requires the data to be extrapolated, since there is an insufficient number of long-term corporate bonds. Changes to these actuarial assumptions and experience adjustments are recognized in other comprehensive income as actuarial gains or losses. Actuarial gains amounting to EUR 37.2 million arose during the reporting period. The plan assets are measured at fair value, which in turn involves making estimates that are subject to uncertainty. The return on the plan assets (excluding amounts included in net interest income) is recorded together with actuarial gains or losses in other comprehensive income as a gain or loss on remeasurement and amounted to EUR 2.2 million in the reporting period.
In our view, these matters were of particular significance in the context of our audit because the recognition and measurement of this item – which is significant in terms of its amount – are based to a large extent on the estimates and assumptions made by the Company's executive directors.

2 Our audit included evaluating the actuarial expert reports obtained and the professional qualifications of the external experts with the assistance of our pensions specialists. We also checked the calculations, among other things, of the specific features of the actuarial calculations and reviewed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with standards and appropriateness. In addition, we analyzed the changes in the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and verified their plausibility. For the purposes of our audit of the fair value of the plan assets, we obtained bank and fund confirmations.
Based on our audit procedures, we satisfied ourselves that the estimates and assumptions made by the executive directors are justified and adequately documented.

3 The Company's disclosures relating to the pension provisions are contained in the section entitled "Accounting and Valuation Principles" and in note 25 in the notes to the consolidated financial statements.

(4) Accounting treatment and settlement of the Aurubis AG exchangeable bond

1 In fiscal year 2010, the Salzgitter Group issued an exchangeable bond with a nominal amount of EUR 295.5 million; the bond is exchangeable into shares of Aurubis AG. In October 2017, the Executive Board resolved not to exercise the cash settlement option and instead to redeem the outstanding portion of the exchangeable bond (EUR 265.4 million) by surrendering shares in Aurubis AG. This resulted in a reduction in investments accounted for using the equity method amounting to EUR 329.3 million with a simultaneous reduction in the existing voting rights. As of the year-end, the Salzgitter Group holds 16.76% of Aurubis AG. Following the surrender of the shares, Aurubis AG continues to be included in the Company's consolidated financial statements as a company accounted for using the equity method. The cash settlement option right was accounted for as a separate derivative up to the date of the exchange (EUR 138.5 million) in addition to the financial liability represented by the exchangeable bond. The redemption of the exchangeable bond and the derecognition of the derivative liability, after including the reduction in the carrying amount of the investment and the measurement of the derivative during the year (EUR -81.6 million), produced a negative overall impact on EBT of EUR 6.9 million. In view of the significance for the assets, liabilities and financial performance of the Salzgitter Group of the estimate relating to the continuation of the equity method of accounting, this matter was of particular significance for our audit.

2 For the purposes of our audit, we firstly obtained an understanding of the contractual terms and conditions relating to the redemption of the exchangeable bond and on that basis verified the accounting treatment adopted by the Company, among other things. In addition, on the basis of the Company's evaluation we obtained an understanding of the executive directors' estimate relating to the continuation of the equity method of accounting, and assessed whether this conforms to the relevant accounting standards and whether it continues to be possible to exercise significant influence over Aurubis AG. Using the consolidated financial

statements of Aurubis AG, we also reviewed whether the investments accounted for using the equity method were correctly adjusted following the redemption of the exchangeable bond.
By means of these and other audit procedures, we were able to satisfy ourselves overall that the redemption of the exchangeable bond and the adjustment of the investments accounted for using the equity method are properly presented.

3 The Company's disclosures relating to the presentation and settlement of the Aurubis exchangeable bond and the adjustment of the investments accounted for using the equity method are contained in sections "2", "6" and "14" in the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

1. the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section I.3. of the group management report
2. the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comp ly, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commer cial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determine d necessary to enable the preparation of consolidated financial statements that are free from material misstat ement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Gr oup's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matt ers related to going concern. In addition, they are responsible for financial reporting based on the going concer n basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no re alistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent wit h the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the asse ts, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopt ed by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or busine ss activities within the Group to express audit opinions on the consolidated financial statements and on t he group management report. We are responsible for the direction, supervision and performance of the g roup audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the gro up management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, t he significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not expres s a separate audit opinion on the prospective information and on the assumptions used as a basis. There i s a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant ind ependence requirements, and communicate with them all relationships and other matters that may reasonabl y be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefo re the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes p ublic disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on June 1, 2017. We were engaged by the supe rvisory board on June 20, 2017. We have been the group auditor of Salzgitter Aktiengesellschaft, Salzgitter, with out interruption since financial year 1938.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report t o the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Martin Schröder."

Hanover, March 15, 2018

PricewaterhouseCoopers
GmbH
Wirtschaftsprüfungsgesellschaft

signed	signed
Martin Schröder	ppa. Stephan Hachmeyer
Auditor	Auditor

Some of the statements made in this report have the character of forecasts or can be interpreted as such. They have been made to the best of our knowledge and belief, and by the nature of things, they apply on the condition that no unforeseeable deterioration in the economy or the specific market situation for companies in the business segments occurs, and that the basis for planning and forecasting proves, as expected, to be accurate in terms of its scope and timeframe. Notwithstanding existing statutory requirements, particularly in terms of the regulations governing capital markets, the company accepts no obligation to continually update forward-looking statements which are based solely on the circumstances on the day of publication.

For computational reasons, rounding differences amounting to ± one unit (€, %, etc.) may occur in the tables.

To improve readability, we only use the male form in the present annual report. Personal designations always apply to both genders.

The annual report of Salzgitter AG is also available in an English translation. In the event of discrepancies, the German version takes precedence over the English version.

Unless indicated otherwise, all key figures and remarks associated with them as well as the outlook in the group management report include the sheet piling activities discontinued at the end of 2015.

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