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Annual Report 2018

Salzgitter AG ranks as one of Germany's companies rooted in a long tradition. Our business activities are concentrated on steel and technology. Through its sustainable organic and external growth, our company has advanced to take its place as one of Europe's leading steel and technology groups – with external sales of around € 9 billion in 2018, 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.

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The Salzgitter Group in Figures

		2018	2017
Crude steel production	**kt**	**7,039**	**6,955**
External sales	**€ m**	**9,278**	**8,990**
Strip Steel Business Unit	€ m	2,341	2,160
Plate / Section Steel Business Unit	€ m	1,026	1,024
Mannesmann Business Unit	€ m	1,119	1,093
Trading Business Unit	€ m	3,268	3,230
Technology Business Unit	€ m	1,338	1,285
Industrial Participations / Consolidation	€ m	186	198
EBIT before depreciation and amortization (EBITDA)[1)]	**€ m**	**797**	**707**
Earnings before interest and taxes (EBIT)[1)]	**€ m**	**413**	**317**
Earnings before taxes (EBT)	**€ m**	**347**	**238**
Strip Steel Business Unit	€ m	206	182
Plate / Section Steel Business Unit	€ m	25	–58
Mannesmann Business Unit	€ m	–5	–6
Trading Business Unit	€ m	51	71
Technology Business Unit	€ m	43	7
Industrial Participations / Consolidation	€ m	28	42
Net income/loss for the financial year	**€ m**	**278**	**194**
Earnings per share – basic	**€**	**5.06**	**3.52**
Return on capital employed (ROCE)[2)]	**%**	**10.3**	**8.6**
Cash flow from operating activities	**€ m**	**528**	**274**
Investments[3)]	**€ m**	**338**	**287**
Depreciation/amortization[3)]	**€ m**	**–384**	**–390**
Balance sheet total	**€ m**	**8,757**	**8,318**
Non-current assets	**€ m**	**3,836**	**3,566**
Current assets	**€ m**	**4,921**	**4,752**
Inventories	€ m	2,327	2,085
Cash and cash equivalents	€ m	556	679
Equity	**€ m**	**3,332**	**2,990**
Liabilities	**€ m**	**5,425**	**5,328**
Non-current liabilities	€ m	3,036	3,322
Current liabilities	€ m	2,389	2,007
of which due to banks[4)]	€ m	519	471
Net financial position[5)]	**€ m**	**192**	**381**
Employees			
Personnel expenses	€ m	–1,739	–1,724
Core workforce on the reporting date[6)]	empl.	23,523	23,139
Total workforce on the reporting date[7)]	empl.	25,363	25,074

Disclosure of financial data in compliance with IFRS
1) EBIT = EBT + interest expenses/ –interest income; EBITDA = EBT + depreciation and amortization
2) 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, derivatives
3) Property, plant and equipment and intangible assets, excluding financial assets
4) Current and non-current bank liabilities
5) Including investments, e.g. securities and structured investments
6) Excl. trainee contracts and excl. non-active age-related part-time work
7) Incl. trainee contracts and incl. non-active age-related part-time work

Preface by the Executive Board

Ladies and Gentlemen and our Shareholders,

The past financial year marked the twentieth anniversary of our stocklisting. At the time, very few would have believed that we could have existed in permanent independence and, above all, with such success. We have laid these doubts to rest: firstly, through our holistic approach to corporate governance, with its long-term horizon, which is also reflected by our strong financial position and sound balance sheet, and secondly through having our reliable and stable anchor shareholder at our side. Our company has spent the last 20 years evolving into a prosperous, stable and versatile group.

Similar to the year of our stocklisting, 2018 was not only determined by a series of successes for the Salzgitter Group but also by challenges and changes in the environment. Free trade maxims upheld for decades have been unwarrantedly called into question by the strong political powers that be and with questionable reasoning. In our industry, this has resulted in the feared redirection of trade flows and consequently to a new record highs for steel imports into Europe. Fortunately, the EU Commission responded with the means at its disposal and acted quickly and equally resolutely with its own stringent WTO-compliant safeguard measures. This is nevertheless only one aspect of the external challenges: While our Group's companies compete in the global arena, they are still a long way off from finding a level international playing field. Climate and energy policies feature as one of the foremost topics that are often the subject of debate bordering on hysteria rather than based on logic and fact.

Against this backdrop, the development of our Group over the past financial year is all the more presentable: earnings before taxes of € 347.3 million represent the best result for the last ten years. It's not often that one encounters such developments, especially as the sources of strength largely derive from our own measures, meaning our own original endeavors, and not from market conditions. The profit improvement potential of around € 150 million realized for the first time from programs implemented since 2013 are proof that we focus on rigorously taking the Group forward, also in years when the economy is good. A few prime examples of this in 2018 include the start to the construction of a new heat treatment line in Ilsenburg, the expansion of the El Salto precision tubes plant in Mexico and the acquisition of French specialist tubes manufacturer SOTEP.

Our share price performance was not a source of satisfaction, however: After two years of genuinely gratifying and presentable performance, our share price trend in the past financial year did not reflect the good results nor the objective successes of the Salzgitter Group. Instead, investor concerns predominated, centered around the slowdown in the global economy, the trade dispute between the US and China, discussions about the automotive industry and impending Brexit.

Taking our Group's development over the past year and the outlook for 2019 into consideration, we propose to pay dividend of € 0.55 for the financial year 2018, which represents another increase of a good 20 % compared with 2017.

May we thank you warmly, 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 over the past financial year.

Sincerely,

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

Report of the Supervisory Board

The Salzgitter Group can look back on a good financial year 2018. Earnings improved again significantly, and the Group delivered the best result since the financial and economic crisis. Along with generally more favorable market conditions, the measures carried out in recent years to achieve structural improvements had a positive impact. The Strip Steel and Plate / Section Steel business units benefited from the healthy economic activities in industry and the construction sector. The result of the Mannesmann Business Unit remained at the year-earlier level due to an accounting adjustment to the assets of the precision tubes group. The Trading Business Unit achieved another very gratifying result. The Technology Business Unit that operates in the machinery and plant engineering sector raised its earnings substantially. Fierce competition on the Group's markets that is more likely to intensify in the wake of the increase in steel imports into the EU and the slowing domestic economy will necessitate the rigorous implementation of further structural improvements in the future as well.

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 during the financial year 2018. The Executive Board informed the Supervisory Board by way of detailed written monthly 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. 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 reports on the respective current situation of the Group and the important Group companies, as well as on material business transactions and relevant changes. 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, meetings focused on the stage reached in the implementation of the groupwide "FitStructure SZAG" efficiency program and progress made in realizing the "Salzgitter AG 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, May, September and December at one meeting in each month respectively and, in addition, subsequently at a constituent meeting following the election of the new Supervisory Board by the Annual General Meeting of Shareholders. In addition, several decisions were adopted by means of a written procedure. The attendance rate at the Supervisory Board meetings totaled 92 %. One Board member did not participate in two meetings, and six members did not attend one of the meetings respectively. The Supervisory Board met mainly with the Executive Board attending. It discussed topics such as Executive Board remuneration and other matters affecting the Executive Board, however, 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, neither by the Supervisory Board members nor by members of the Executive Board.

Focus of the consultations of the Supervisory Board
In its meeting on March 15, 2018, the Supervisory Board concentrated primarily on the financial statements of Salzgitter AG and of the Group, both drawn up as of December 31, 2017, as well as on the combined management report on the company and the Group for the financial year 2017, submitted respectively by the Executive Board. The representatives of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, the auditor selected by the Annual 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 Annual General Meeting of Shareholders and the

resolutions proposed for the individual items on the agenda requiring approval by the General Meeting of Shareholders in 2018. In addition, the Supervisory Board determined the variable component of the Executive Board's remuneration for the financial year 2017 and approved the restructuring of the future Executive Board remuneration geared to the recommendations of the German Corporate Governance Code.

In its meeting on May 24, 2018, the Supervisory Board deliberated on the development of business during the year, the acquisition of the stainless steel precision tubes specialist SOTEP (Société Technique d'Etirage de Précision) by Mannesmann Stainless Tubes GmbH, the current status and the progress made with the efficiency and growth program. Other points on the agenda included business with inherent risks. In addition, the Supervisory Board also determined the key areas for the auditing of the 2018 annual financial statements of the company and of the Group by the auditor to be selected by the Annual General Meeting of Shareholders. Following the election of the new Supervisory Board by the Annual General Meeting of Shareholders on May 24, 2018, the Board held a constituent meeting on the same day in its new composition. The Chairman of the Supervisory Board and the Vice Chairman were elected, and the committees were determined and their members appointed. The Supervisory Board also approved the renewed acquisition of additional shares in the context of the participating investment in Aurubis AG.

In its meeting on September 27, 2018, the Supervisory Board concentrated on discussing the most recent development of business, the corporate strategy and the possible acquisition of competitor ArcelorMittal's strip steel production facilities in Belgium and Luxembourg. Our company submitted a bid that was, however, subsequently not successful in the context of the bidding procedure. Furthermore, the Supervisory Board discussed the stage reached in implementing the corporate strategy and, with this in mind, elaborated on the result of the Strategy Committee's meeting. Moreover, the Board resolved to proceed with its intention of switching the employment contracts in agreement with the Executive Board members to the new remuneration system decided by the Supervisory Board with effect from 2019, which reflects the most recent recommendations of the German Corporate Governance Code. Furthermore, the Supervisory Board had the Executive Board inform it in detail both orally and in writing about the Group's compliance management system and about suspected and investigated cases of violations.

On December 6, 2018, the Executive Board principally presented its corporate planning for the financial years 2019 to 2021 to the Supervisory Board, and elaborated on plans for the further development of the business units. Particular challenges were discussed. Other topics of deliberation in this meeting included the recommendations of the German Corporate Governance Code pertaining to the Supervisory Board and the issuing of the Declaration of Compliance 2018. In the case of the new Executive Board remuneration structure already be applied for the financial year 2019 in agreement with the Executive Board members, the Supervisory Board also set the criteria for assessing individual performance in 2019 and the stakeholder objectives for the performance period from 2019 to 2022. Finally, the Board decided to put the audit service provided for the auditing of the 2020 separate and consolidated financial statements in line with the new standards prevailing in the EU since 2016 on the statutory audit of public interest entities out to tender.

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 2018. Matters addressed by these meetings included important issues relating to the development of business, the corporate strategy and the election of the new Supervisory Board. The Presiding Committee also dealt with the restructuring of the Executive Board remuneration and the renewed acquisition of additional shares in Aurubis AG. Significant investments and the aforementioned possible acquisition also formed the topics of detailed discussions.

The members of the Audit Committee held four meetings in the period under review. In March, they prepared for the audit of the 2017 annual financial statements at company and at Group level in a prior meeting attended by representatives of the auditor and recommended to the Supervisory Board that the annual financial statements be approved. Similarly, and in preparation, it examined of the Non-financial Report on the Group 2017. In addition, the committee dealt with the selection of the auditor of the financial statements as at December 31, 2018. At subsequent meetings, the committee dealt in detail with the independence of the auditor, in particular with the provision of non-audit services, the audit strategy and planning. It 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. Its review also concentrated on the structure of the company's compliance system and the way it works. In addition, the Audit Committee worked on preparations for putting the 2020 annual accounts audits out for tender. The quarterly financial reporting of the Group was discussed in detail with the Executive Board before publication.

In March of 2019, the Audit Committee recommended to the full Supervisory Board after detailed pre-examinations of the Annual and Group Accounts 2018 that the accounts be adopted. Likewise, the examination of the Non-financial Report on the Group 2018 resulted in no objections.

The Strategy Committee met once in 2018. Following on from last year when the topic of "digitalization" was discussed in detail with the Executive Board, a review was conducted this year of the Executive Board's corporate strategy agreed with the Supervisory Board in 2016. The range of topics covered the analysis and deliberations of the internal and external growth right through to innovative product and application developments and on to the positive qualitative demarcation with regard to relevant competitors.

The Nomination Committee met once during the reporting period and, with regard to the election of the new Supervisory Board in the 2018 Annual General Meeting of Shareholders, discussed in much depth the appropriate composition of the Supervisory Board in the next election period and the selection of suitable candidates for the proposal of the Supervisory Board to be put to the Annual General Meeting for the election of shareholder representatives to 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 21, 2019, the Supervisory Board conducted a detailed examination of the financial statements of Salzgitter AG (SZAG) and of the Group, both drawn up as of December 31, 2018, as well as of the combined management report on the company and the Group for the financial year 2018. Prior to this meeting, the independent auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Hanover, Germany, selected by the Annual 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
In its meeting on March 21, 2019, the Supervisory Board also addressed the topic of the non-financial Group report for 2018. Prior to this, KPMG AG Wirtschaftsprüfungsgesellschaft conducted an audit on the report on behalf of the Supervisory Board and issued the following audit opinion:

"Based on the audit procedures performed and the audit evidence obtained, no matters have come to our attention that cause us to presume that the report of Salzgitter AG for the period from January 1 to December 31, 2018, has not been prepared, in all material respects, in accordance with Sections 315b, 315c in conjunction with Sections 289c through 289e of the German Commercial Code (HGB)."

Following its own examination, the Supervisory Board concurred with the findings of KPMG's audit.

Changes to the Supervisory Board
The term of office of the Supervisory Board expired at the end of the Annual General Meeting of Shareholders on May 24, 2018. Partly long-serving members retired from the Board: Dr. Thea Dückert, Mr. Karl Ehlerding and Prof. Dr. Jürgen Hesselbach as shareholder representatives, and Mr Ulrich Dickert and Mrs. Tina Dreßen as employee representatives.

The Annual General Meeting of Shareholders elected the following shareholder representatives as new members of the Supervisory Board:

- Dr. Bernd Drouven,
- Prof. Dr. Susanne Knorre,
- Mr. Heinz Kreuzer.

The other shareholder representatives were re-elected.

The following persons have been newly elected by the respective employee representative body:

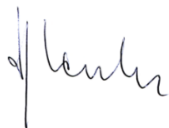
- Mrs. Christine Seemann,
- Mr. Clemens Spiller.

The other employee representatives were re-elected.

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 2018.

Salzgitter, March 21, 2019

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/home.html). 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.

2018 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 6, 2018:

"In 2018, 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 September 27, 2018, the Supervisory Board decided that, as from 2019, the current Executive Board member employment contracts should be changed in agreement with the respective Board members to ensure that the components of variable Board member remuneration are based on an assessment that is essentially forward looking."

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 "YOUNITED" 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.

At www.salzgitter-ag.com/en/investor-relations/shareholders-meeting/ the results of the 2018 General Meeting of Shareholders are available.

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 younger persons who are familiar with more recent specialist knowledge and management methods as well as 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 portfolios, 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 performing 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 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 can be considered independent within the meaning of the German Corporate Governance Code: Ulrike Brouzi, Dr. Bernd Drouven, Roland Flach, Reinhold Hilbers, Prof. Dr. Susanne Knorre, Dr. Dieter Köster, Heinz Kreuzer, Prof. Dr. Joachim Schindler, Univ.-Prof. Dr. Dr.-Ing. Birgit Spanner-Ulmer and Heinz-Gerhard Wente. In addition, the Supervisory Board also considers Supervisory Board member Dr. Werner Tegtmeier – a further member of the Supervisory Board pursuant to the German Co-Determination Amendment Act – to be 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. The objectives defined by the Board for its composition and the competence profile it has drawn up for the entire Supervisory Board have been fulfilled in the Supervisory Board proposals for the 2018 Annual General Meeting of Shareholders for the election of the new 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 as to 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 walks of life.

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 Annual 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, as well as
- agreement on the variable components for the Executive Board members.

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 in 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 the exchange on and the 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 percentage of women at 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.

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 percentage of women represented on the Executive Board that has consisted of and currently consists of three male persons.

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.

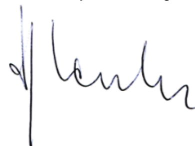
In addition to this, we organize regular analysts' conferences for analysts and institutional investors in Frankfurt am Main and London. Finally, the Executive Board reports to the general public on significant events by way of press releases and ad-hoc announcements. All reports and statements are available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

Salzgitter, March 21, 2019

The Executive Board

Prof. Dr.-Ing. Heinz Jörg Fuhrmann Chief Executive Officer

The Supervisory Board



Heinz-Gerhard Wente
Chairman of the Supervisory Board

Management Report

Group Management Report and Management Report, combined

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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, 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, 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 Annual 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 2018, 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:

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 (Chairman)
- 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:
a)
- Öffentliche Lebensversicherung Braunschweig, Braunschweig
- Öffentliche Sachversicherung Braunschweig, Braunschweig
- TÜV Nord AG, Hanover

Listed companies:
a)
- Aurubis AG, Hamburg (Chairman until March 1, 2018)

Burkhard Becker
Finance
Non-listed consolidated companies:
a)
- EUROPIPE GmbH, Mülheim an der Ruhr
- KHS GmbH, Dortmund, since November 1, 2018
- Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr
- Peiner Träger GmbH, Peine
- Salzgitter Flachstahl GmbH, Salzgitter
- Salzgitter Mannesmann Handel GmbH, Düsseldorf

b)
- Hansaport Hafenbetriebsgesellschaft mbH, Hamburg, since June 11, 2018
- 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), until February 20, 2019

Other non-listed companies:
a)
- Warburg Invest AG, Hanover (formerly Nord/LB Asset Management AG)

Listed companies:
a)
- Aurubis AG, Hamburg, until March 1, 2018

Michael Kieckbusch
Personnel
Non-listed consolidated companies:
a)
- KHS GmbH, Dortmund
- Mannesmann Precision Tubes GmbH, Mülheim an der Ruhr
- 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 and 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
Chief Executive Officer

Burkhard Becker
Finance

Ulrich Grethe
Strip Steel Business Unit

Michael Kieckbusch
Personnel

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 2018, 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:

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, until April 30, 2018
Member of the Management Board of DZ BANK AG, Frankfurt, since September 1, 2018
Other non-listed companies:
a) ▪ NORD/LB Asset Management AG, Hanover (Vice Chairwoman of the Supervisory Board) until April 30, 2018
b) ▪ NORD/LB Luxembourg S. A. Covered Bond Bank, Luxembourg (Supervisory Board), until April 30, 2018

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, until May 24, 2018
Chairman of the Works Council of Salzgitter Mannesmann Stainless Tubes Deutschland GmbH, Remscheid, until March 21, 2018
- No membership in other governing bodies

Tina Dreßen, until May 24, 2018
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

Dr. Bernd Drouven, since May 24, 2018
Member of the Management Board of Aurubis AG, retired, Hamburg
Listed companies:
a) ▪ Aurubis AG, Hamburg, until March 1, 2018

Dr. Thea Dückert, until May 24, 2018
Former Member of the Bundestag
Member of the German National Council for Impact Assessment of the German Federal Government, Berlin
Other non-listed companies:
b) ▪ Norddeutscher Rundfunk, Hamburg (Board of Administration)

Karl Ehlerding, until May 24, 2018
Managing Director of KG Erste "Hohe Brücke 1" Verwaltungs-GmbH & Co., Hamburg
Listed companies:
a) ▪ Elbstein AG, Hamburg
▪ Godewind AG, Hamburg (listed since April 2018)
▪ MATERNUS-Kliniken AG, Berlin
▪ WCM Beteiligungs- und Grundbesitz-AG, Frankfurt am Main
Non-listed consolidated companies:
a) ▪ KHS GmbH, Dortmund

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
Non-listed consolidated companies:
a) ▪ Peiner Träger GmbH, Peine

Prof. Dr.-Ing. Dr. h. c. Jürgen Hesselbach until May 24, 2018
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
Other non-listed companies:
a) ▪ Norddeutsche Landesbank Girozentrale, Hanover (Chairman)
▪ Deutsche Messe AG, Hanover
▪ Bentheimer Eisenbahn AG (Chairman), until August 13, 2018
b) ▪ 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

Prof. Dr. Susanne Knorre, since May 24, 2018
Corporate consultant
Other non-listed companies:
a) ▪ Deutsche Bahn AG, Berlin
▪ Norddeutsche Landesbank Girozentrale, Hanover
▪ RÜTTGERs Germany GmbH, Castrop-Rauxel
▪ STEAG GmbH, Essen

Dr. Dieter Köster
Managing Shareholder of HomeStead GmbH & Co. KG, Osnabrück
Chairman of the Executive Board of Köster Holding AG, retired, Osnabrück
Other non-listed companies:
a) ▪ Köster Holding AG, Osnabrück (Chairman)
▪ Klinikum Osnabrück GmbH, Osnabrück, until April 18, 2018

Heinz Kreuzer, since May 24, 2018
Chairman of the Management Board of TUI InfoTec GmbH, retired, Hanover
Other non-listed companies:
b) ▪ bosys software GmbH, Hamburg (Advisory Council – Chairman), until May 31, 2018
▪ eves_consulting GmbH, Braunschweig (Advisory Council), since June 1, 2018

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. Joachim Schindler
Self-employed auditor
Other non-listed companies:
a) ▪ CORE SE, Berlin (Chairman)
▪ Medizinische Hochschule Brandenburg CAMPUS GmbH, Neuruppin (Vice Chairman), until December 31, 2018
▪ Zoologischer Garten Berlin AG, Berlin
Listed companies:
a) ▪ Rocket Internet SE, Berlin (Vice Chairman)

Christine Seemann, since May 24, 2018
Member of the Works Council of Salzgitter Flachstahl GmbH, Salzgitter, and Chairwoman of ARGE Strip Steel Business Unit
Non-listed consolidated companies:
a) ▪ Salzgitter Flachstahl GmbH, Salzgitter until July 19, 2018

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)

Clemens Spiller, since May 24, 2018
System analyst, Chairman of the
Works Council of GESIS mbH Salzgitter location and Chairman of the General Works Council of GESIS mbH
- No membership in other governing bodies

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
Dr. Hans-Jürgen Urban

Audit Committee:
Prof. Dr. Joachim Schindler, since May 24, 2018, (Chairman)
Konrad Ackermann
Roland Flach, until May 24, 2018, (Chairman)
Bernd Lauenroth
Heinz-Gerhard Wente, until May 24, 2018

Strategy Committee:
Heinz-Gerhard Wente (Chairman)
Hasan Cakir
Dr. Bernd Drouven, since May 24, 2018
Reinhold Hilbers, since May 24, 2018
Ulrich Kimpel
Bernd Lauenroth since May 24, 2018
Univ.-Prof. Dr. Dr. Ing. Brigit Spanner-Ulmer, since May 24, 2018
Dr. Hans-Jürgen Urban

Nomination Committee:
Reinhold Hilbers, since February 12, 2018
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 remuneration system valid in 2018, remuneration consisted 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 after having reached the age of 59 or at his own wish at the age of 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 2018 or in 2017 for their activities as Executive Board members.

In 2018, the Supervisory Board approved a restructuring of Executive Board remuneration that is to apply to future Executive Board member employment contracts. This new structure reflects the most recent recommendations of the German Corporate Governance Code under which variable components should fundamentally be calculated on a multi-year basis that is essentially forward looking. Accordingly members of the Executive Board will continue to receive an annual fixed basic salary in case of new contracts (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, however, in the future will consist, on the one hand, of an annual bonus, 70% of which depends on earnings before taxes (EBT) and 30% depending on the degree to which targets set individually by the Supervisory Board are achieved; half of the bonus is only paid out after three years depending on how the share price of the Salzgitter share has performed in the respective period. On the other, additional remuneration is paid out each year, with 70% depending on the Group's return on capital employed (ROCE) over the next four years respectively and 30% on the degree to which the stakeholder targets determined by the Supervisory Board are achieved within the next four years respectively (performance cash award).

In respect of the pension scheme (pension commitment), a commitment for a pension benefit in a certain amount will no longer be made for the Executive Board members in the future (defined benefit obligation). Instead, a certain amount will be made available for each year of service as a member of the Executive Board (defined contribution commitment).

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€	2017	2018	2018 (min.)	2018 (max.)	2017	2018	2018 (min.)	2018 (max.)	2017	2018	2018 (min.)	2018 (max.)
Fixed remuneration	1,050	1,140	1,140	1,140	555	600	600	600	555	600	600	600
Benefits	17	17	17	17	25	25	25	25	42	46	46	46
Total	**1,067**	**1,157**	**1,157**	**1,157**	**580**	**625**	**625**	**625**	**597**	**646**	**646**	**646**
One-year variable remuneration[1)2)]	740	925	0	665	400	500	0	350	400	500	0	350
Multi-year variable remuneration	0	0	0	950	0	0	0	500	0	0	0	500
Total[1)]	**1,807**	**2,083**	**1,157**	**2,772**	**980**	**1,125**	**625**	**1,475**	**997**	**1,146**	**646**	**1,496**
Pension expenses[3)]	358	375	375	375	185	196	196	196	237	252	252	252
Total remuneration[1)]	**2,165**	**2,458**	**1,532**	**3,147**	**1,165**	**1,321**	**821**	**1,671**	**1,234**	**1,398**	**898**	**1,748**

[1)] With regard to the one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann, k€ 25 of his remuneration as Chairman of the Supervisory Board (2017: 20 k€) and member of the Supervisory Board of the shareholding Aurubis AG were offset in accordance with the terms of his employment.
[2)] The 2018 one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann includes k€ 285 (2017: k€ 95) and of Mr. Becker and Mr. Kieckbusch each k€ 150 (2017: 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€	2017	2018	2017	2018	2017	2018
Fixed remuneration	1,050	1,140	555	600	555	600
Benefits	17	17	25	25	42	46
Total	**1,067**	**1,157**	**580**	**625**	**597**	**646**
One-year variable remuneration[1)2)]	740	925	400	500	400	500
Multi-year variable remuneration	0	0	0	0	0	0
Total[1)]	**1,807**	**2,083**	**980**	**1,125**	**997**	**1,146**
Pension expenses[3)]	358	375	185	196	237	252
Total remuneration[1)]	**2,165**	**2,458**	**1,165**	**1,321**	**1,234**	**1,398**

[1)] With regard to the one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann, k€ 25 of his remuneration as Chairman of the Supervisory Board (2017: 20 k€) and member of the Supervisory Board of the shareholding Aurubis AG were offset in accordance with the terms of his employment.
[2)] The 2018 one-year variable remuneration of Prof. Dr.-Ing. Heinz Jörg Fuhrmann includes k€ 285 (2017: k€ 95) and of Mr. Becker and Mr. Kieckbusch each k€ 150 (2017: 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 2018 amounted to k€ 5,177 in total (previous year: k€ 4,564).

Pensions

In €		Annual payment upon pension eligibility[1]	Allocation to pension provision		Present value of the obligation	
			according to HGB	according to IFRS	according to HGB	according to IFRS
Prof. Dr.-Ing. Heinz Jörg Fuhrmann	2018	684,000[2]	3,124,920	2,314,629	12,460,885	15,837,507
Chairman	2017	612,000	962,258	1,068,317	9,335,965	13,522,878
Burkhard Becker	2018	345,600[3]	1,145,766	617,131	5,424,151	7,197,547
	2017	324,000	476,480	568,755	4,278,385	6,580,416
Michael Kieckbusch	2018	331,200[4]	903,694	376,695	4,547,268	6,194,326
	2017	324,000	464,420	595,113	3,643,574	5,817,631

[1] Including a former employer's pension commitment taken over against compensation
[2] Contractually agreed increase in the basis for calculating the annual remuneration for years of service as from October 1, 2019 to € 720,000
[3] Contractually agreed cap on 96 % on the final pension entitlement when granting a supplementary pension commitment based on defined contributions for the financial years as from 2019.
[4] Contractually agreed cap on 92 % on the final pension entitlement when granting a supplementary pension commitment based on defined contributions for the financial years as from 2019.

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. The other members of the Supervisory Board are remunerated for membership in a maximum of two 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 such as participating in a meeting.

Remuneration received by the individual members of the Supervisory Board:

		Annual remuneration			
In €		**Fixed remuneration**	**Committee remuneration**	**Attendance fees**	**Total**
Heinz-Gerhard Wente,	2018	180,000	0	5,500	185,500
Chairman	2017	180,000	0	7,500	187,500
Dr. Hans-Jürgen Urban,	2018	120,000	0	4,500	124,500
Vice Chairman	2017	120,000	0	4,500	124,500
Konrad Ackermann	2018	60,000	10,000	4,000	74,000
	2017	60,000	10,000	4,000	74,000
Ulrike Brouzi	2018	60,000	0	1,500	61,500
	2017	60,000	0	2,000	62,000
Annelie Buntenbach	2018	60,000	0	1,500	61,500
	2017	60,000	0	1,500	61,500
Hasan Cakir	2018	60,000	10,000	4,500	74,500
	2017	60,000	10,000	4,500	74,500
Ulrich Dickert	2018	25,000	0	1,000	26,000
until 2018/05/24	2017	60,000	0	2,000	62,000
Tina Dreßen	2018	25,000	0	1,000	26,000
until 2018/05/24	2017	60,000	0	2,000	62,000
Dr. Bernd Drouven	2018	40,000	3,333	2,000	45,333
since 2018/05/24	2017	0	0	0	0
Dr. Thea Dückert	2018	25,000	0	1,000	26,000
until 2018/05/24	2017	60,000	0	2,000	62,000
Karl Ehlerding	2018	25,000	0	0	25,000
until 2018/05/24	2017	60,000	0	2,000	62,000
Roland Flach	2018	60,000	18,333	4,000	82,333
	2017	60,000	2,500	2,500	65,000
Gabriele Handke	2018	60,000	0	2,000	62,000
	2017	60,000	0	2,000	62,000
Dr.-Ing. Dr. h. c. Jürgen Hesselbach	2018	25,000	0	1,000	26,000
until 2018/05/24	2017	60,000	0	2,000	62,000
Reinhold Hilbers	2018	60,000	9,167	4,500	73,667
since 2018/01/18	2017	0	0	0	0

		Annual remuneration			
In €		**Fixed remuneration**	**Committee remuneration**	**Attendance fees**	**Total**
Ulrich Kimpel	2018	60,000	5,000	1,500	66,500
	2017	60,000	5,000	2,500	67,500
Prof. Dr. Susanne Knorre	2018	40,000	0	1,500	41,500
since 2018/05/24	2017	0	0	0	0
Dr. Dieter Köster	2018	60,000	0	2,000	62,000
	2017	60,000	0	1,500	61,500
Heinz Kreuzer	2018	40,000	0	1,000	41,000
since 2018/05/24	2017	0	0	0	0
Bernd Lauenroth	2018	60,000	13,333	4,000	77,333
	2017	60,000	16,667	4,000	80,667
Volker Mittelstädt	2018	60,000	0	2,000	62,000
	2017	60,000	0	2,000	62,000
Prof. Dr. Hannes Rehm	2018	0	0	0	0
until 2017/09/01	2017	45,000	26,250	2,000	73,250
Prof. Dr. Joachim Schindler	2018	60,000	20,000	3,000	83,000
	2017	10,000	0	500	10,500
Peter-Jürgen Schneider	2018	0	0	0	0
until 2017/12/31	2017	60,000	10,000	5,500	75,500
Christine Seemann	2018	40,000	0	1,500	41,500
since 2018/05/24	2017	0	0	0	0
Univ.-Prof. Dr. Dr.-Ing.	2018	60,000	3,333	2,000	65,333
Birgit Spanner-Ulmer	2017	60,000	0	2,000	62,000
Clemens Spiller	2018	40,000	0	1,500	41,500
since 2018/05/24	2017	0	0	0	0
Dr. Werner Tegtmeier	2018	60,000	0	2,000	62,000
	2017	60,000	0	2,000	62,000
Total	**2018**	**1,465,000**	**92,499**	**60,000**	**1,617,499**
	2017	**1,435,000**	**80,417**	**60,500**	**1,575,917**

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

					Annual remuneration
In €		**Fixed remuneration**	**Committee remuneration**	**Attendance fees**	**Total**
Konrad Ackermann	2018	10,000	0	750	10,750
(KHS)	2017	10,000	0	750	10,750
Hasan Cakir	2018	8,000	0	400	8,400
(SZFG)	2017	8,000	0	400	8,400
Ulrich Dickert	2018	0	0	0	0
(MRW)	2017	10,000	0	100	10,100
Tina Dreßen	2018	10,000	0	300	10,300
(SMHD, since 2017/03/01)	2017	8,333	0	300	8,633
Karl Ehlerding	2018	10,000	0	0	10,000
(KHS)	2017	10,000	0	250	10,250
Roland Flach	2018	10,000	0	750	10,750
(KHS)	2017	10,000	0	750	10,750
Gabriele Handke	2018	5,000	0	400	5,400
(PTG)	2017	5,000	0	400	5,400
Ulrich Kimpel	2018	0	0	0	0
(MRW)	2017	10,000	0	100	10,100
(MPT, since 2017/06/06)	2018	5,000	0	200	5,200
	2017	2,917	0	200	3,117
Volker Mittelstädt	2018	7,500	0	400	7,900
(ILG/MGB)	2017	7,500	0	400	7,900
Christine Seemann	2018	4,667	0	100	4,767
(SZFG, until 2018/07/19)	2017	0	0	0	0
Dr. Hans-Jürgen Urban	2018	12,000	0	400	12,400
(SZFG)	2017	12,000	0	400	12,400
Total	**2018**	**82,167**	**0**	**3,700**	**85,867**
	2017	**93,750**	**0**	**4,050**	**97,800**
Sum total	**2018**	**1,547,167**	**92,499**	**63,700**	**1,703,366**
	2017	**1,528,750**	**80,417**	**64,550**	**1,673,717**

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. Here you will also find the disclosures pursuant to Section 289f (2) item 4 to 6 of the German Commercial Code (HGB).

4. Employees

As per December 31, 2018, the core workforce of the Salzgitter Group numbered 23,523 employees, thus 384 people more compared with the end of the financial year 2017. Five Group companies fully consolidated in the Technology and Trading business units with 252 employees in total were incorporated into the personnel statistics in the period under review for the first time. Along with the strategic expansion of the business activities, particularly in the KHS international companies, the DESMA companies and the Mexican precision tubes company, the increase in workforce numbers is also due to additional requirements to meet capacity utilization in many parts of the Group. Moreover, amendments under the law affecting employee leasing resulted in temporary staff outsourced being increasingly included in the core workforce, which has resulted in commensurately lower levels of deploying temporary staff. At the end of the year we therefore had 913 temporary employees, which corresponds to 3.7% of the sum total of core workforce members and staff outsourced. The number of temporary staff sourced externally has therefore declined by 193 compared with 2017.

Including trainees and employees in non-active age-related part-time work, the core workforce of the Salzgitter Group stood at 25,363 persons.

As of December 31, 2018, no members of the workforce were working short time.

	2018/12/31	2017/12/31	Change
Core workforce Group[1]	**23,523**	**23,139**	**384**
Strip Steel Business Unit	6,182	6,092	90
Plate / Section Steel Business Unit	2,451	2,479	–28
Mannesmann Business Unit	4,675	4,638	37
Trading Business Unit	2,109	1,959	150
Technology Business Unit	5,490	5,386	104
Industrial Participations / Consolidation	2,616	2,585	31
Apprentices, students, trainees	1,375	1,422	–47
Non-active age-related part-time employment	465	513	–48
Total workforce	**25,363**	**25,074**	**289**

[1] Excluding executive body members

Regional breakdown

		Germany	Rest of Europe	America	Asia	Other regions
Core workforce[1]	empl.	19,113	2,019	1,490	754	147
	%	81.3	8.6	6.3	3.2	0.6

[1] Excluding executive body members

Personnel expenses came in at € 1,739.5 million in 2018, representing an increase of 0.9% year on year. This growth reflects additions to the group of consolidated companies, tariff increases and profit participation, among other factors. The structural measures in the Plate / Section Steel, Mannesmann and Technology business units had a mitigating effect.

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 2018, 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 clearly preferable to buying in external know-how, which is also the reason that no commensurate 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 also applies to the reporting year: Our leading position was evidenced by 4,978 patent and 1,685 trademark rights registered for the entire Group at year-end 2018 (2017: 6,394 and 1,644 respectively). The Technology Business Unit accounted for 4,177 active patents and patent applications (2017: 5,595) and 569 trademark rights (2017: 572).

R&D expenses

In 2018, the Salzgitter Group spent € 100.3 million on R&D and R&D-related activities. The breakdown of expenses within the business units was as follows:

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	100.3	41.8	9.4	9.6	26.4	13.0
	%	100.0	41.7	9.4	9.6	26.4	13.0

[1] Excluding the EUROPIPE Group

Our innovative strength is also reflected by the number of experts we employ: As of December 31, 2018, 763 employees were engaged in R&D and R&D-related activities. Of this number, 280 members of staff work at SZMF and 483 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

		2018[1]	2017[1]	2016[1]	2015[1]	2014[1]	2013[2]	2012	2011	2010	2009
R&D expenses[3]	€ m	96	91	85	85	87	88	82	79	78	81
R&D employees	empl.	763	750	733	767	784	828	879	910	972	916
R&D ratio[4]	%	1.0	1.0	1.1	1.0	1.0	0.9	0.8	0.8	0.9	1.2
R&D intensity[5]	%	4.5	4.5	4.8	4.8	5.2	7.4	5.1	4.4	4.9	9.0

[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 2018

We have clearly defined our research and development focus areas with our sights fixed on the future: In the strip steel business, emphasis is placed on new application areas for high strength steels with better formability and residual elongation. In the field of conventional grades, the focus is on developing highest strength hot strip grades, cold-rolled multi-phase and press hardened steels with enhanced product properties for the automotive industry. A further focus is on the development of the very successful SZBS800 grade which has become the standard for chassis applications at several automotive manufacturers. Advance development projects are concerned, for instance, with AHSS steels (Advanced High Strength Steels) of the third generation. Product development and optimization are, however, not everything: Support for process optimization and raising the efficiency in the steel works, in the hot-rolling mill and in surface finishing are playing a greater role.

In the large diameter pipe and heavy plate segment, development activities are aimed at optimizing corrosion resistance (sour gas application), above all with increasing wall thickness. Product developments in the precision tube business are also characterized by close cooperation with our end customers, including hydraulic piping with improved corrosion protection and chassis components for vehicles.

The Technology Business Unit also rigorously aligns its innovation and product development processes to customer and market requirements. R&D activities in the KHS Group concentrate on optimizing products of the core portfolio as well as on new innovative products. In the fifth generation of “InnoPET Blomax”, for example, a particularly sustainable and powerful stretch-blow molder has been developed. The new “Nature MultiPack” for cans in packs of four or six saves up to 80% on plastic in the packaging segment. With a view to strengthening its competitiveness, KHS GmbH rounds up its offer in the after-sales business. In extending its portfolio for consumer goods, for instance, KHS will be offering all products from one source in future.

Future key areas of R&D within the Group

SZMF sets about identifying potential steel applications of the future as part of a trend analysis in the areas of mobility, energy and raw materials.

New developments for the automotive sector in the strip steel segment are aimed at hot-dipped galvanized multi-phase steels with reduced sensitivity to edge cracking and greater formability. High strength micro-alloyed materials concepts are being developed further for the cold roller industry and are used in the household appliances target segment.

The pipes and tubes business continue to focus on the customer-oriented optimization of product properties, examples being line pipes for arctic regions and laying pipe on the seabed, precision tubes for higher injection pressure and therefore more environmentally friendly combustion in engines, as well as variable tube wall thicknesses to support an appropriate load-bearing, light-weight optimized application.

A focal point of the development work in the heavy plate segment is the product family of wear-resistant heavy plate that is to be extended through the use of a completely new class of materials developed with an exceptionally good combination of essentially contrary properties.

The Technology Business Unit concentrates its product development on lowering the lifetime costs of lines and individual machinery. Our customers will also reap direct benefit from KHS’s strategy of offering more and improved products and services in future with clear value added. A key component here is the digitalization of system solutions. Using intelligent maintenance concepts, KHS consistently optimizes the availability and productivity of its machines and systems.

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 and by way of 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 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 (earnings before interest and taxes), 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 € million	2018	2017
EBT	347.3	238.0
+ Interest expenses	79.6	99.7
– Interest expenses for pension provisions	–36.0	–42.0
= EBIT I	**390.8**	**295.7**

Capital employed is interest-bearing equity and debt.

To calculate it, pension provisions and non-interest-bearing balance sheet items are deducted from the total assets:

In € million	2018	2017
Total assets	8,757	8,318
– Pension provisions	–2,275	–2,440
– Other provisions excluding provision for income taxes	–640	–536
– Trade payables, contractual obligations, other liabilities excluding notes payable[1]	–1,648	–1,512
– Deferred tax claims	–399	–393
= Capital employed	**3,794**	**3,436**

[1] Notes payable amounting to € 1.7 million (previous year: € 0.3 million)

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. 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 2018 we generated an ROCE of 10.3% (previous year: 8.6%).

Profit Improvement Program (PIP)

We view the sustainable improvement of our 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. We look back on a long tradition here: We introduced the Profit Improvement Program (PIP) as a groupwide, uniform management instrument into the Salzgitter Group 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 continual profit improvement 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, similarly approved at the end of 2016 and rigorously pursued, is aimed above all at organic growth in product segments with high contribution margins. Furthermore, it provides for raising the share in revenues of activities less associated with 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 up into individual targets for executives and non-tariff employees and a collective, quantitative component. Among other aspects, the quantitative component provides for achieving the Group's goal of a return on capital employed (industrial ROCE) of at least 12% on a groupwide basis. In addition, objectives for the business units and the associated companies are derived for each Group company depending on how services are interlinked 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. Meticulous 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. Business Conditions

After a very sound first half year, the pace of **global economic growth** slowed notably in 2018 as from the summer onward. Along with topics pertaining to specific countries, the increasingly protectionist trade policies of some key countries had a particularly negative effect, with trends varying depending on the region: While the expansion in the US increased notably, boosted by strong domestic demand and fiscal measures, and Russia and Brazil saw moderate economic growth, China's still impressive growth rates slowed due to the lower level of public sector investment. The UK's economy also posted slower growth rates. The International Monetary Fund (IMF) estimates overall global economic growth at 3.7% in 2018 (2017: 3.8%).

Economic momentum in the **euro area** also dropped off in the reporting period. Lower growth rates than in the previous year were already being recorded in the first few quarters that subsequently dwindled to virtually zero growth in the fall. Germany and Italy that produced negative figures were the main drivers of the slowdown in the third quarter, as opposed to the other large euro countries that were at least registering moderate increases. The IMF currently reports growth of 1.8% in the eurozone, reflecting a pronounced weakening compared with the same period the year before (2017: 2.4%).

Germany's economic development increasingly showed signs of a gradual cooling in 2018. The domestic demand proved to be the economic mainstay; by contrast, the export economy was displaying a downward tendency at an early stage, above all in terms of intra-Europe trade. The summer saw the German automotive industry wrestling with problems in certifying new vehicles in accordance with the new WLTP emissions test that was definitive for the decline in macro-economic output in the third quarter. The IMF calculated an overall economic growth of 1.5% for Germany (2017: 2.5%). Similarly, the German Federal Statistical Office also reports 1.5%, adjusted for calendar-related influences.

The information was obtained mainly on the basis of the following sources: International Monetary Fund (January 2019): World Economic Outlook Update; ifo Economic Forecast 2018-2020; World Bank (January 2019) Global Economic Prospects; German Federal Statistical Office, January 2019

2. Overall Statement by Management on the Economic Situation

The Salzgitter Group closed the financial year 2018 with the highest pre-tax profit for a decade. Along with the performance of the Strip Steel Business Unit and presentable contributions from the Trading and Technology business units, above all profit improvement potential amounting to around € 150 million, realized for the first time from internal programs of measures, contributed to this result. The financial basis and balance sheet of the Group remain sound with an equity ratio of 38.1% and a net financial position of € 191.6 million.

The Group's external sales rose in the financial year 2018 mainly on the back of selling prices to € 9,278.2 million (2017: € 8,990.2 million). Earnings before taxes increased to € 347.3 million, exceeding the year-earlier result (2017: € 238.0 million). The result comprises € –62.8 million on balance in burdens from special items (2017: € –82.9 million) and a contribution of € 44.0 million from the investment in Aurubis AG, a company included at equity (2017: € 79.3 million, including effects from the convertible bond). After-tax profit that stood at € 277.7 million (2017: € 193.6 million) brings earnings per share to € 5.06 (2017: € 3.52) and return on capital employed to 10.3% (ROCE; 2017: 8.6%).

3. Performance and General Business Conditions of the Business Units

Strip Steel Business Unit

Key data		2018	2017
Order intake	kt	4,518	4,432
Order backlog as of 12/31	kt	918	893
Crude steel production	kt	4,645	4,492
Rolled steel production	kt	3,643	3,500
Shipments	kt	4,551	4,385
Segment sales[1)]	**€ m**	**3,112.5**	**2,878.3**
Sales to other segments/Group companies	**€ m**	**–771.6**	**–718.5**
External sales[2)]	**€ m**	**2,341.0**	**2,159.8**
Earnings before taxes (EBT)	**€ m**	**205.8**	**182.0**
EBIT before depreciation and amortization (EBITDA)[3)]	**€ m**	**439.2**	**396.9**
Earnings before interest and taxes (EBIT)[3)]	**€ m**	**243.7**	**221.9**

[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 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 serve the prefabrication requirements of our customers. The processing companies Salzgitter Europlatinen GmbH and Salzgitter Bauelemente GmbH extend the value chain within the business unit with their customized tailored blanks products as well as roofing and wall elements. The European automotive industry is the most important customer sector.

Market development

Huge surplus capacities continued to prevail on the global steel markets, exerting commensurate pressure on margins. This scenario was exacerbated by the ongoing high level of imports that was considerably higher than in the previous year. The year 2018 saw massive distortions in the international steel trade: The US as world's largest steel importer has greatly impeded imports of steel products from other countries by imposing special import duties of 25% (Section 232). This measure has caused a substantial diversion of steel trade flows toward the EU. Countries such as Turkey, India and South Korea that are particularly affected by the US measures notably increased their imports into the EU. Turkish hot-rolled strip imports, for instance, almost doubled in 2018 compared with the year before. To contain the risk of redirection effects, the EU Commission enacted provisional safeguard measures in mid-2018 that were extended on February 2, 2019 through to the summer of 2021 and take the form of a tariff rate quota. The import quotas were calculated on the basis of the average imports of the years 2015 to 2017. Duty of 25% is due and payable above these quotas. All strip steel products are covered by the measures. Thanks to the generally good economic situation, the selling price level nevertheless settled notably above that of 2017 throughout the whole year, and the order situation of the European steel industry improved marginally in the year under review. Sound growth in the building and mechanical engineering sectors was juxtaposed to the slight growth of steel pipes. Production in the important automotive sector slowed considerably in the second half of the year as difficulties were experienced with certification pursuant to the WLTP emissions testing. Furthermore, the gradual increase in strip steel imports over the course of the year as a consequence of trade redirection, above all from the second half of 2018 onward, made the business environment increasingly difficult.

Procurement

Iron ore

The iron ore market proved to be less volatile over the course of 2018 compared with the year before. Platts IODEX 62% Fe CFR China, the spot market's benchmark, fluctuated within a range of 62 USD/dmt and 80 USD/dmt. Having peaked already by the end of February, prices slipped and moved within a band of between 62 and 68 USD/dmt. Daily prices rose initially up to 77 USD/dmt in the final quarter. But announcements about narrower steel margins in China and the associated rethinking in procurement caused demand for high grade ore to stagnate, sending the index down again. The average price in 2018 stood at 69 USD/dmt CFR China, which is 3% below the previous year's figure. In order to mitigate the risks resulting from procurement, defined iron ore volumes are hedged to secure against price risks.

Coking coal

The pricing of coking coal was fully determined by the index for the first time in 2018. Leading on from December 2017, the first quarter commenced with high spot prices of 260 USD/t FOB. Prices then declined through to July, displaying a great deal of volatility, to their lowest point of 172 USD/t FOB. From this time on, the demand for high grade coking coal entered an uptrend, peaking at 236 USD/t FOB in the fourth quarter. The average price in 2018 settled at 207 USD/t FOB Australia, which is 10% higher than in 2017.

Business development

The **order intake** and **orders on hand** of the Strip Steel Business Unit marginally exceeded the year-earlier figures. **Rolled steel output** and **shipments** also increased compared with 2017. SZFG produced 4,645 ktons of **crude steel**, and the facilities of the downstream process chain were running close to full capacity. **Segment** and **external sales** saw price-induced growth in particular. With **earnings before taxes** of € 205.8 million, the business unit reported notable growth above all thanks to better revenue quality (2017: € 182.0 million). In addition, the programs of measures had a positive effect, counteracted by the higher cost of raw materials and energy as well as unscheduled writedowns.

Investments

In the first half of 2018, the Strip Steel Business Unit focused its investments on new aggregates as well as on optimizing and extending its existing facilities. The portfolio is being developed in the direction of high and ultra-high grades in line with SZFG's strategy. With this in mind, we invest in a targeted way, thereby meeting the rising demands placed on plant engineering.

The hot strip slitting plant that ideally caters to these product requirements is in the assembly phase. The new coil binding line already commissioned is to be used to take samples of the hot rolled coils as well as for transport locking devices on material ready for shipment.

In order to satisfy rising customer requirements for hot-dip galvanized, high and ultra-high strength steel grades, the construction of another hot-dip galvanizing line was approved and has now been put out to tender.

An investment has been made in a new logistics concept with the aim of raising shipments in the area of high-margin special grades. This concept comprises expanding the slab adjustment as well as additional heater boxes in which the slabs can cool at a slower rate in order to be introduced with more residual warmth into the hot strip mill. The project was successfully taken into commission in the period under review.

Plate / Section Steel Business Unit

Key data		**2018**	**2017**
Order intake[1]	kt	2,189	2,236
Order backlog[1] as of 12/31	kt	384	400
Crude steel production	kt	1,077	1,053
Rolled steel production	kt	2,273	2,249
Shipments[1]	kt	2,244	2,263
Segment sales[2]	**€ m**	**1,821.8**	**1,698.6**
Sales to other segments/Group companies	**€ m**	**–795.5**	**–674.3**
External sales[3]	**€ m**	**1,026.4**	**1,024.3**
Earnings before taxes (EBT)	**€ m**	**24.8**	**–57.7**
EBIT before depreciation and amortization (EBITDA)[4]	**€ m**	**71.8**	**44.9**
Earnings before interest and taxes (EBIT)[4]	**€ m**	**32.7**	**–49.4**

[1] Excluding the DMU Group
[2] Including sales with other business units in the Group
[3] Contribution to consolidated external sales
[4] 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 and 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 is a supplier for building and civil engineering projects throughout Europe. The integration of DEUMU Deutsche Erz- und Metall-Union GmbH (DMU) as a scrap supplier of PTG permits logistics processes to be more closely and flexibly coordinated.

Market development

The markets for heavy plate – including deliveries to the large-diameter pipe sector – as well as steel girders are important for the business unit's companies.

Heavy plate

The selling prices, both for standard and higher quality grades, in the heavy plate market in Germany and in Western Europe increased over the course of the year on the back of sustainably improved market sentiment and stable demand. At around 200 ktons per month, imports from non-EU countries into Europe remained at a level in 2018 that was similar to 2017, with significant volumes again coming from the Ukraine, India, Russia and South Korea. As in the year before, the import prices for heavy plate products dropped far below the general EU level and put pressure on European producers, which prevented a more comprehensive market recovery. Owing to the high import volumes since 2015, the safeguard clauses for tariffs imposed by the EU in response to the US-imposed special import duties on steel products had virtually no impact on import activities concerning heavy plate. The international project business was characterized by much stronger competition due to the poor capacity utilization of the heavy plate mills. This situation led to unabatedly strong pressure on selling prices in this segment. Uncertainty in the export business was exacerbated by the introduction of safeguards in the Eurasian Economic Union and Canada that also responded to the US anti-dumping duties with safeguard measures to protect their domestic markets from redirection effects.

Steel sections

At the start of 2018, reticence and speculation dominated the buying patterns of customers on the European sections market. At the end of the first quarter, orders began to rise again on the back of somewhat brisker demand and adjustments to stocks. Going forward, producers were largely able to avoid gaps in capacity utilization. The summer vacation standstill of almost all plants reduced the inventories of trading so that the resulting backlog in demand allowed producers to raise the prices. The good capacity utilization induced by demand enabled the plants to stabilize prices further through to the end of the year, following another increase at the start of the fourth quarter. All in all, the market situation, dominated by excess capacities, remained tight even though, in contrast to the heavy plate market, imports from non-EU countries into the EU 28 are largely immaterial.

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

Every year around 1.2 million tons of the steel scrap that is the most important input material for the section steel business is melted into crude steel in PTG’s two electric arc furnaces. Following a decline at the start of the year that had already been made up by the first quarter, steel scrap prices remained virtually stable until the end of the second quarter. As from August, the US government’s trade policy against Turkish steel was reflected by significant price adjustments. The final quarter was marked by another price increase. Along with the sustained good demand for steel scrap, the growing restrictions on transport capacities and higher transport costs due to the extremely low level of water in Germany’s rivers also influenced scrap prices.

Business development

Order intake and **orders on hand** of the Plate / Section Steel Business Unit dropped somewhat below the previous year’s level while **rolled steel production** and **crude steel output** achieved the 2017 figures. **Shipments** also settled at the year-earlier level, with the section steel segment almost compensating for the downturn in the volumes of the heavy plate segment. **External sales** matched the previous year’s figure, which was exceeded by segment sales as a result of higher selling prices in the Group’s own trading business. The business unit generated € 24.8 million in **earnings before taxes** and achieved a much higher result compared with the previous year (2017: € –57.7 million) that was impacted by impairment (€ –48.8 million) at MGB. This performance was attributable to all the producing companies, with PTG making a very high contribution.

Investments

The groundbreaking ceremony in the Ilsenburg plant for the “New Heat Treatment Line” investment measure that commenced in 2017 took place in September 2018. The investment, launched in the context of the “Salzgitter AG 2021” growth program and costing more than € 150 million, is aimed at extending the product portfolio and gaining an even stronger position in the higher-end grade segment. After awarding the key components of the facilities in 2018, work is focused on completing the foundations. The facilities are due for commissioning in 2020. Other investments of the business unit concentrated above all on maintaining production capabilities.

Mannesmann Business Unit

Key data		**2018**	**2017**
Order intake	€ m	1,464	1,543
Order backlog as of 12/31	€ m	512	499
Crude steel production Hüttenwerke Krupp Mannesmann (30 %)	kt	1,317	1,410
Shipment tubes[1]	kt	625	658
Segment sales[2]	**€ m**	**1,726.5**	**1,698.1**
Sales to other segments/Group companies	**€ m**	**–607.9**	**–604.6**
External sales[3]	**€ m**	**1,118.6**	**1,093.5**
Earnings before taxes (EBT)	**€ m**	**–5.4**	**–5.6**
EBIT before depreciation and amortization (EBITDA)[4]	**€ m**	**98.6**	**69.8**
Earnings before interest and taxes (EBIT)[4]	**€ m**	**7.3**	**8.3**

[1] Disclosure of volumes measured pursuant to IFRS 15
[2] Including sales with other business units in the Group
[3] Contribution to consolidated external sales
[4] 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".

The business unit has its own supply of input material in the form of a 30 % stake in Hüttenwerke Krupp Mannesmann GmbH (HKM), an integrated steelworks with an annual capacity of more than 4.2 million tons of crude steel, as well as a production of semi-finished materials for the manufacturing of seamless tubes. In addition, it makes extensive use of our trading organization to source input material and to sell its products.

The participating investments in the EUROPIPE Group (EP Group; 50 %) and the Turkish tubes manufacturer Borusan Mannesmann Boru Yatirim Holding A.S. (BMB; 23 %) are included based on proportionate earnings after taxes (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.

Along with BMB accounted for using the equity method, the following company was newly included in the consolidation scope of Salzgitter AG with retrospective effect as of January 1, 2018:

- Mannesmann SOTEP Stainless Tubes S.A.S., Issoudun.

Market development
Global steel tubes and pipes production grew by almost 3 % to 173 million tons, which sets a new record. All the world's major producing regions reported another increase in production figures compared with the already very good previous year. A differentiation between the different sorts of tubes and pipes reveals a more disparate trend: The volume of seamless and small welded steel tubes produced up to 16 inches increased across the board. Large-diameter pipes that depend on projects dropped slightly below the high year-earlier figure. With an overall output of 95 million tons and a share of approximately 55 % in the global market, China nevertheless remained the determining factor in the market. European steel output edged up to 14.2 million tons, achieving a share of 8 % in the global market. The steel tubes and pipes output of German producers remained virtually unchanged at 3.1 million tons in total.

Business development

The **order intake** of the Mannesmann Business Unit fell marginally below the previous year's figure due mainly to Mannesmann Grossrohr GmbH (MGR) as hardly any relevant projects were awarded in Europe. By contrast, the segment of mid-sized line pipes continued to benefit from demand in the American market and, similar to the stainless steel tubes group, increased order intake on the back of selling prices. Given German automotive manufacturers' generally good order activity, the precision tubes group succeeded in compensating for the downturn in the semi-finished products business. Moreover, the demand for mechanical and plant engineering remained stable. Despite the significant decline at MGR, **orders on hand** settled at the 2017 level thanks to the higher results achieved by the other segments. As all parts reported lower **shipments**, the overall shipments of tubes and pipes fell short of the previous year's figure. **Segment** and **external sales** nevertheless saw a stable development bolstered by selling prices. The Mannesmann Business Unit reported a **pre-tax result** at the year-earlier level (€ –5.4 million; 2017: € –5.6 million). This result includes € –30.0 million in impairment at the precision tubes group in Europe as well as € +6 million in income from the participation in BMB, a company included for the first time using the equity method (2017: € –21.0 million in expenses for measures aimed at structural improvements). All companies improved in operational terms except for MGR.

Outside the group of consolidated companies, new orders and orders on hand of the EP Group included at equity declined notably compared with the previous year that was impacted by the major EUGAL project. Although the sales of the American companies increased, the downturn in the volumes of EUROPIPE GmbH resulted in discernibly lower shipments. Thanks to orders that commanded strong selling prices, the decline in sales was less pronounced. The EP Group closed the year 2018 with a significant increase in profit.

Investments

The Mannesmann Business Unit focused first and foremost on replacement and supplementary investments. In the mid-sized line pipe segment the seam-annealing system in the Siegen plant was upgraded in order to extend the range of dimensions to include greater wall thicknesses and improve both the quality and the processes. As part of developing the Mexican precision tubes company at the El Salto plant, the furnace was installed in 2018, along with the leveling machine and the draw bench. The investment of the stainless steel tubes group in large cold pilger machine is aimed at expanding the capacity and the product range in the seamless cold finished stainless steel segment in order to produce larger tube diameters.

Acquisitions

The reporting year saw the takeover of stainless steel specialist SOTEP (Société Technique d'Etirage de Précision) based in Issoudun, France. SOTEP is a niche supplier of cold formed seamless stainless steel tubes in the premium segment for aerospace, power plants as well as oil and gas. The acquisition of SOTEP has enabled the stainless steel tubes group to widen its product and sales market portfolio.

Trading Business Unit

Key data		2018	2017
Shipments	kt	4,478	4,635
Segment sales[1]	**€ m**	**3,346.4**	**3,307.6**
Sales to other segments/Group companies	**€ m**	**–78.7**	**–77.7**
External sales[2]	**€ m**	**3,267.7**	**3,229.9**
Earnings before taxes (EBT)	**€ m**	**50.5**	**70.5**
EBIT before depreciation and amortization (EBITDA)[3]	**€ m**	**75.9**	**85.2**
Earnings before interest and taxes (EBIT)[3]	**€ m**	**64.6**	**74.9**

[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 Trading Business Unit comprises a well-developed organization of stockholding steel trading subsidiaries in Europe with a wide range of processing capabilities, various 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.

The following company belonging to the business unit was newly admitted to the group of consolidated companies of Salzgitter AG with retrospective effect as of January 1, 2018:

- Salzgitter Mannesmann Stahlhandel Austria GmbH, Gratkorn.

Market development
The global increase in the price level at the start of 2018 lost momentum as the year progressed. On the European market as well, a slowdown in varying degrees of intensity depending on the product group materialized at the end of the reporting period. Demand on the international steel markets fell short of expectations. While the trading business was faced with growing uncertainty during the reporting period due to protectionist trading measures, the European stockholding steel trade was determined by aggressive price-led competition, especially in Germany.

Business development
The **shipments** of the Trading Business Unit fell somewhat short of the year-earlier figures as the lower level of project business and the failure of large-scale contracts in international trading to materialize had a negative impact on shipments. Protectionist measures, for instance in the US, also placed a constraint on cross-border trade. The European stockholding steel trade meanwhile reported a stable volume trend. In conjunction with a higher price level, it raised sales notably but was unable to repeat the exceptionally good result achieved in 2017 that was impacted by windfall effects. The shipments and sales of the UES Group were higher year on year. All in all, the price increases across almost all segments compensated for the lower shipment volume, bringing the business unit's **segment** and **external sales** to the level of the previous year. Although the improved result of the UES trading companies was unable to offset the development of the stockholding steel trade and international trading, the Trading Business Unit again generated respectable **earnings before taxes** of € 50.5 million (2017: € 70.5 million).

Investments

Maintaining and upgrading existing facilities continue to form the focus of investments by the Trading Business Unit in 2018 as well. Moreover, the measures launched in the context of the "Salzgitter AG Strategy 2021" were pursued further. Against this backdrop we have initiated numerous projects for the digitalization of sales processes – mainly in the European stockholding steel trade – from warehousing right through to the shipment of products; the content of these projects were developed further in the reporting year and rolled out to other companies in the stockholding steel trade. The digital sales channels were supplemented in 2018 by the "e-Auction" online platform that is used to auction a wide array of different steel products. The volume of business conducted via digital interfaces meanwhile amounts to almost 13% of the German stockholding steel trade's shipments.

Technology Business Unit

Key data		2018	2017
Order intake	€ m	1,334	1,359
Order backlog as of 12/31	€ m	697	692
Segment sales[1]	**€ m**	**1,338.7**	**1,285.2**
Sales to other segments/Group companies	**€ m**	**–0.5**	**–0.5**
External sales[2]	**€ m**	**1,338.2**	**1,284.7**
Earnings before taxes (EBT)	**€ m**	**43.1**	**6.6**
EBIT before depreciation and amortization (EBITDA)[3]	**€ m**	**64.9**	**29.3**
Earnings before interest and taxes (EBIT)[3]	**€ m**	**43.3**	**7.2**

[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. The KHS Group that holds a leading international position in filling and packaging technology represents the mainstay of sales. KHS is a full-line supplier. Its services range 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 with retrospective effect as of January 1, 2018:

- KHS FRANCE S.A.R.L., Noisy-le-Grand,
- KHS MAKINE SANAYI VE TICARET LIMITED SIRKETI, Istanbul and
- Corpoplast Beverage Equipment (Suzhou) Co. Ltd., Suzhou.

Market development

According to the German Engineering Federation (VDMA), new orders 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 in 2018 was slightly lower year on year. New orders of the KHS Group remained at the year-earlier level while the Klöckner DESMA Elastomer Group and DESMA Schuhmaschinen GmbH (KDS) were unable to repeat the high, above-average result achieved in 2017. By contrast, the business unit's **orders on hand** matched the year-earlier figure. Boosted by growth in all areas of business, **segment** and **external sales** were higher year on year. Thanks to the presentable development in the results of all three companies, the Technology Business Unit generated a gratifying **pre-tax profit** of € 43.1 million (2017: € 6.6 million), marking the best result since its formation in 2007.

The KHS Group continues to rigorously pursue measures to develop its business. The updated, comprehensive efficiency and growth program "KHS Future" was launched at the start of 2018 while the previous measures continue. With a focus on lowering costs and expanding the service business, the program has made a major contribution to lifting the result and is aimed at bolstering the company's development against the backdrop of the very competitive market environment in 2019 as well.

Investments

In the reporting period, the Technology Business Unit continued to focus on replacement and streamlining measures. In order to optimize organizational workflows, we are also carrying out IT projects at the KHS Group in Germany and in the international companies. We continued to implement the extensive modernization of the Bad Kreuznach site in various individual subprojects to ensure lean manufacturing. Comprehensive investments to upgrade production and expand assembly operations are taking place at the Dortmund location.

At KDS, the focus was placed on the “Fabrik der Zukunft” (factory of the future) investment for the construction of office and production buildings on the existing site in Achim. We are safeguarding KDS’s growth and efficiency over the long term through this investment. Productivity is also to be raised through the optimization of the information and material flow and the assembly process.

Industrial Participations / Consolidation

Key data		2018	2017
Sales	**€ m**	**910.5**	**890.6**
Sales to other segments/Group companies	**€ m**	**–724.2**	**–692.6**
External sales[1]	**€ m**	**186.3**	**198.0**
Earnings before taxes (EBT)	**€ m**	**28.4**	**42.2**
EBIT before depreciation and amortization (EBITDA)[2]	**€ m**	**46.9**	**80.9**
Earnings before interest and taxes (EBIT)[2]	**€ m**	**21.0**	**53.8**

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

The following company, accounted for using the equity method, has been newly admitted to the group of consolidated companies of Salzgitter AG (SZAG):

- Wohnbaugesellschaft mit beschränkter Haftung Salzgitter, Salzgitter.

Industrial Participations / Consolidation comprises activities that are not directly allocated to a business unit. As a management holding company, SZAG does not have any operations of its own. Instead it manages Salzgitter Mannesmann GmbH and Salzgitter Klöckner Werke GmbH 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 with subsidiaries and external parties, increased slightly to € 910.5 million in the financial year 2018 (2017: € 890.6 million). **External sales** that stood at € 186.3 million settled below the year-earlier level (€ 198.0 million).

Earnings before taxes came in at € 28.4 million in the financial year 2018 (2017: € 42.2 million). This figure includes the contribution of Aurubis AG, an investment included at equity, amounting to € 44.0 million (2017: € 91.7 million at-equity contribution from the Aurubis investment, € 79.3 million including the effects of the convertible bond). At the end of the year, SZAG held a stake of 25.5 % in Aurubis AG (December 31, 2017: 16.76 %). Reporting-date related valuation effects of foreign currency and derivatives positions also delivered a positive result. The result comprises €–38.8 million on balance in burdens from non-recurrent effects (2017: € 0.0 million), including a provision formed as a precautionary measure in connection with the known investigation of the German Federal Cartel Office ongoing since 2017 against plate and strip steel producers. The pre-tax result of the Group companies not directly assigned to a business unit increased favorably compared with the previous year's figure. The effect was mainly attributable to the improved operating results of almost all the companies.

4. Comparison between Actual and Forecasted Performance

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

- a slight increase in sales to above the € 9 billion mark (2017: € 9.0 billion),
- a pre-tax profit of between € 200 million and € 250 million (2017: € 238.0 million) and
- a return on capital employed that is stable compared the previous year's figure (ROCE: 2017: 8.6 %).

In view of the generally positive business outlook and the planned further effects of the programs of measures and to promote growth, we revised our earnings forecast upward at the end of April 2018 to a

- pre-tax profit of between € 250 million and € 300 million.

Based on the best mid-year result since 2008, and in view of the apparent course of business in the third quarter, the Salzgitter Group raised its profit and ROCE forecast in expectation of the Group's most important sales markets continuing to develop well in September. We therefore assumed the following going forward:

- a pre-tax profit of between € 300 million and € 350 million and
- a marginally higher return on capital employed of between 9 % and 11 % compared with the previous year (8.6 %).

The Salzgitter Group met its forecast, last affirmed on November 14, 2018, for its pre-tax result (€ 347.3 million) and sales (€ 9.3 billion) and ROCE (€ 10.3 %). The Strip Steel and Plate / Section Steel business units reported stronger performance than anticipated at the start of the year and, similar to the Trading and Technology business units, made gratifying contributions to the Group's highest pre-tax profit since the financial crisis. The Mannesmann Business Unit did not realize the turnaround originally envisaged due to an accounting adjustment to the assets of the precision tubes group in Europe.

In detail, the business units developed as follows in comparison with the forecast.

The **Strip Steel Business Unit** assumed raw materials costs for iron ore and coking coal at the level prevailing at the end of 2017, selling prices remaining virtually constant in the EU steel market and, as before, significant imports from other countries such as Turkey and India into the EU. Thanks to the higher shipments, the business unit anticipated continued robust demand with:

- a moderate increase in sales (2017: € 2.2 billion) and
- a pre-tax result once again in excess of € 100 million that would likely be notably lower than in the previous year (2017: € 182.0 million).

Sales rose to € 2.3 billion due to selling prices in particular. With earnings before taxes at € 205.8 million, the Strip Steel Business Unit reported appreciable year-on-year growth thanks above all to improved selling prices.

In respect of the heavy plate market, the **Plate / Section Steel Business Unit** anticipated that the high import volumes from non-EU countries into the EU would continue, along with above-average stocks and coverage, as well as ongoing speculative buying patterns of customers in the section steel business. All three locations predicted largely sound capacity utilization. In this environment, it was assumed that the heavy plate companies would continue to benefit from the comprehensive measures to lower costs and enhance efficiencies, and the expansion of business to include higher quality grades at the Ilsenburg plant was expected to deliver the first positive effects. All in all, the business unit assumed:

- sales at a stable level (2017: € 1.0 billion) and
- a significant reduction in the pre-tax loss (2017: € –57.7 million).

Sales that came in at € 1.0 billion remained at the same level as in 2017. The business unit achieved earnings before taxes of € 24.8 million and, thanks to the higher contribution of all producing companies, raised the figures considerably compared with those of the previous year that was impacted by an impairment.

The **Mannesmann Business Unit** assumed that, as opposed to the American companies, the capacities of the German large-diameter pipe companies that are part of the EUROPIPE Group would 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 was thought likely to normalize, while Mannesmann Grossrohr GmbH (MGR) would continue to be confronted by the hesitant awarding of projects. The precision and stainless steel tubes segments expected business to develop well. All in all, we anticipated:

- a marginal decline in sales (2017: € 1.1 billion) and
- a significantly improved, then positive pre-tax result of the business unit (2017: € –5.6 million).

External sales (€ 1.1 billion) and the pre-tax result (€ – 5.4 million) of the Mannesmann Business Unit settled at the year-earlier level. In operational terms, all companies with the exception of MGR reported an improvement. The result includes impairment of € –30.0 million at the precision tubes group in Europe and € +6 million in income from the participating investment in Borusan Mannesmann Boru Yatirim Holding A.S. reported at equity for the first time.

The **Trading Business Unit** expected moderate sales growth in 2018, resulting from a notable increase in shipments, accompanied by marginally lower prices due to 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 was expected to return to normal levels. The business unit therefore predicted:

- a moderate increase in sales (2017: € 3.2 million) and
- a pleasing pre-tax profit though notably lower than in the exceptional year 2017 (€ 70.5 million).

The price increases across almost all segments compensated overall for the lower shipment volumes, bringing the business unit's segment and external sales to the level of the previous year. At € 50.5 million, it again generated a respectable result that was nevertheless lower in a year-on-year comparison.

In the **Technology Business Unit** the KHS Group assumed growth in profitable product segments and a further expansion of its service business in 2018 as well against the backdrop of the fiercely contested, price-led project business. In addition, the measures implemented to raise efficiency were expected to have a positive impact. Based on the high level of orders on hand and good order intake, the Technology Business Unit predicted:

- a moderate increase in sales (2017: € 1.3 billion) and, in conjunction with the promising outlook for the two specialist mechanical engineering companies of the DESMA Group,
- a tangible increase in pre-tax profit (2017: € 6.6 million).

Sales increased thanks to growth in all areas of business measured against the previous year. Owing to the presentable earnings trend of all three companies, the Technology Business Unit generated gratifying earnings before taxes of € 43.1 million, delivering the best result since its formation in 2007.

IV. Profitability, Financial Position and Net Assets

1. Profitability of the Group

In the financial year 2018, the **Salzgitter Group** achieved the fifth increase in profit in row and the best pre-tax result of the last ten years. The Strip Steel, Plate / Section Steel, Trading and Technology business units, along with the Group's internal programs, made definitive contributions to the results.

The Group's **external sales** rose marginally to € 9,278 million (2017: € 8,990 million) due above all to the increase in the average selling prices for steel products and were distributed as follows among the units:

Consolidated sales by business unit

	2018		2017		
	In € million	%	In € million	%	Change in %
Strip Steel	2,341	25	2,160	24	8
Plate / Section Steel	1,026	11	1,024	11	0
Mannesmann	1,119	12	1,093	12	2
Trading	3,268	35	3,230	36	1
Technology	1,338	14	1,285	14	4
Industrial Participations / Consolidation	186	2	198	2	–6
Group	**9,278**	**100**	**8,990**	**100**	**3**

The regional distribution of sales revenues remained virtually unchanged: As before, the business activities of the Salzgitter Group are therefore focused on the EU (€ 6,667 million; 72% share of sales). Germany remained by far the largest single market with sales of € 4,450 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

	2018		2017	
	In € million	%	In € million	%
Germany	4,450	48	4,288	48
Other EU countries	2,216	24	2,057	23
Rest of Europe	261	3	358	4
America	1,153	12	1,096	12
Asia	714	8	652	7
Other regions	483	5	540	6
Group	**9,278**	**100**	**8,990**	**100**

The Salzgitter Group generated **earnings before taxes** of € 347.3 million (2017: € 238.0 million). The result comprises € –62.8 million on balance in burdens from special items (2017: € –82.9 million) as well as the contribution of Aurubis AG, an investment included at equity, amounting to € 44.0 million (2017: € 91.7 million at-equity contribution from the Aurubis investment, € 79.3 million including the effects of the convertible bond).

The **business units** delivered the following results:

At € 205.8 million in earnings before taxes, the **Strip Steel Business Unit** achieved notable growth thanks above all to improved selling prices (2017: € 182.0 million). This growth also reflected the effects of the programs of measures introduced, with a countereffect emanating from the higher costs of raw materials and energy and unscheduled writedowns.

The **Plate / Section Steel Business Unit** delivered earnings before taxes of € 24.8 million, which is higher compared with the previous year (2017: € –57.7 million) that was strongly impacted by an impairment of € –48.8 million at Salzgitter Mannesmann Grobblech GmbH. This performance was attributable to all the producing companies, with Peiner Träger GmbH in particular making a very high contribution.

The **Mannesmann Business Unit** reported earnings before taxes at the level of the previous year (€ – 5.4 million; 2017: € –5.6 million). The result includes € –30.0 million in impairment at the precision tubes group in Europe as well as income of € +6 million from the investment in Turkish tubes manufacturer Borusan Mannesmann Boru Yatirim Holding A.S. included at equity for the first time (2017: € –21.0 million in expenses for measures to achieve structural improvements). All companies raised their results in operational terms with the exception of Mannesmann Grossrohr GmbH.

Although the improved result of the UES trading companies was unable to offset the downtrend of the stockholding steel trade, whose exceptionally good year-earlier result was impacted by windfall effects, and of international trading, the **Trading Business Unit** again generated respectable earnings before taxes of € 50.5 million (2017: € 70.5 million).

The **Technology Business Unit** achieved gratifying earnings before taxes of € 43.1 million (2017: € 6.6 million) thanks to the presentable earnings performance of all three companies, which marks the best result since its foundation in 2007.

Earnings before taxes of **Industrial Participations / Consolidation** declined to € 28.4 million (2017: € 42.2 million). The result includes the contribution of Aurubis AG, an investment included at equity, amounting to € 44.0 million, positive reporting date-related valuation effects of foreign currency and derivatives positions, as well as € –38.8 million on balance in burdens from special items (2017: € 0.0 million). The pre-tax result of the Group companies not directly assigned to a business unit increased favorably compared with the previous year's figure.

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

In € million	2018	2017
Strip Steel	205.8	182.0
Plate / Section Steel	24.8	– 57.7
Mannesmann	– 5.4	– 5.6
Trading	50.5	70.5
Technology	43.1	6.6
Industrial Participations / Consolidation	28.4	42.2
EBT Group	**347.3**	**238.0**
Taxes	69.5	44.5
Consolidated net income/loss for the financial year[1)]	**277.7**	**193.6**

[1)] Including minority interest

Special items/EBT business units and Group

	EBT		Restructuring		Impairment/ reversal of impairment[1]		Other		EBT without special items	
In € million	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Strip Steel	205.8	182.0	–	–	–	–	–	–	205.8	182.0
Plate / Section Steel	24.8	–57.7	–	–	–	–48.8	–	–	24.8	–8.9
Mannesmann	–5.4	–5.6	–	–21.0	–30.0	–	6.0	–	18.6	15.4
Trading	50.5	70.5	–	–	–	–	–	–	50.5	70.5
Technology	43.1	6.6	–	–13.1	–	–	–	–	43.1	19.7
Industrial Participations / Consolidation	28.4	42.2	–	–	12.9	–	–51.7	–	67.2	42.2
Group	**347.3**	**238.0**	**–**	**–34.1**	**–17.1**	**–48.8**	**–45.7**	**–**	**410.1**	**320.9**

[1] Disclosure as an impairment/write-up in this overview has only been reported if the cash flows are allocated to a group of assets.

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 2017 were offset in particular by the higher cost of materials due to the increase in raw materials prices and energy costs. Writedowns essentially include impairment of € –30.0 million in the Mannesmann Business Unit. The result of the companies included at equity declined significantly. The investment in Aurubis AG in particular made a lower contribution than in the previous year. This was offset by income from two companies included at equity for the first time.

Adjusted for € 69.5 million in tax expenses, consolidated net income of € 277.7 million was recorded (2017: € 193.6 million).

Multi-year overview of earnings

In € million	**2018**	**2017**	**2016**	**2015[1]**	**2014**	**2013[2]**	**2012**	**2011**	**2010**	**2009**
EBT	347.3	238.0	53.2	4.1	–15.2	–482.8	–29.4	201.6	48.9	–496.5
EBIT I[3]	390.8	295.7	96.6	69.5	63.9	–422.7	59.8	264.7	102.9	–468.1
EBIT[4]	412.6	316.8	119.2	81.9	97.9	–393.2	98.0	304.5	159.8	–411.3
EBITDA[5]	797.2	707.2	476.4	422.6	483.6	138.1	462.7	666.8	539.7	156.9
EBT margin	3.7	2.7	0.7	0.1	–0.2	–5.2	–0.3	2.1	0.6	–6.4
EBIT margin[4]	4.5	3.5	1.5	1.0	1.1	–4.2	0.9	3.1	1.9	–5.3
EBITDA margin[5]	8.6	7.9	6.0	4.9	5.4	1.5	4.5	6.8	6.5	2.0
ROCE %	10.3	8.6	2.7	1.9	1.8	– 10.5	1.3	5.6	2.2	– 10.5

Values 2009 until 2012 not restated

[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 + depreciation and amortization

Reconciliation EBIT/EBITDA

In € million	2018	2017
EBT	347.3	238.0
+ Interest expenses	79.6	99.7
– Interest income	– 14.2	– 21.0
= EBIT	**412.6**	**316.8**
+ Depreciation/amortization[1]	384.6	390.4
= EBITDA	**797.2**	**707.2**

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

The EBIT and EBITDA earnings ratios merely indicate the operating strength of a company set apart from its capital structure. These ratios 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 ratios 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 € 2,164 million in 2018, thereby providing more than full coverage for personnel expenses (€ 1,776 million). The public sector received 3.2 % in the form of taxes and levies (2017: 2.2 %). The proportion of lenders increased to 1.7 % compared with the previous year (2017: 1.4 %). A proportion of 1.5 % of value added is available for the shareholders (including treasury shares) for the financial year ended (2017: 1.3 %). In the last 15 years, an amount of € 3.3 billion from the value added has remained within the Group, with € 249 million contributed to the Group in 2018.

Value added

	2018/12/31		2017/12/31	
	In € million	%	In € million	%
Sources				
Group outputs	9,782	100.0	9,670	100.0
Inputs	7,618	77.9	7,638	79.0
Value added	**2,164**	**22.1**	**2,032**	**21.0**
Appropriation				
Employees	1,776	82.1	1,767	87.0
Public sector	70	3.2	45	2.2
Shareholders	33	1.5	27	1.3
Lenders[1]	37	1.7	28	1.4
Remaining within the Group	249	11.5	166	8.2
Value added	**2,164**	**100.0**	**2,032**	**100.0**

[1] Component of the finance expenses item

Reconciliation of value added

In € million	2018	2017
Sales	9,278.2	8,990.2
Changes in inventories/other own work capitalized	161.6	179.1
Other operating income	257.4	401.8
Income from shareholdings	2.4	6.7
Result from investments accounted for using the equity method	74.7	101.7
Financial result[1)]	7.3	–9.6
Group outputs	**9,781.6**	**9,670.0**
Cost of materials	6,131.4	6,029.8
Depreciation/amortization	384.0	390.4
Other operating expenses	1,102.4	1,218.2
Input	**7,617.8**	**7,638.4**

[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 eight banks, a term through to July 2023, and a one-year renewal option as a back-up line not utilized, and the tapping of the bond markets guarantee that our liquidity requirements are covered. In addition, a borrower's note (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. On the basis of a higher actuarial interest rate (1.75 %) derived from the current level of capital market rates, they currently amount to € 2,275 million (2017: € 2,440 million at 1.5 %). 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 net 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 € million	2018	2017
Cash inflow from operating activities	527.8	273.7
Cash outflow from investment activities	–589.5	–340.1
Outflow from financing activities	–65.7	–63.6
Change in cash and cash equivalents	**–127.4**	**–129.9**
Changes in the Group of consolidated companies/changes in exchange rates	3.6	–8.8
Cash and cash equivalents on the reporting date	**555.6**	**679.4**

The Group generated € 528 million in cash flow from operating activities (2017: € 274 million). With an improved result, this is due in particular to the significantly lower level of working capital. Compared with the year-earlier period (€ 590 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 non-current financial assets, in particular in shares of companies included at equity.

The financial year 2018 resulted in an overall negative cash flow of € 66 million from financing activities due to dividend distributions as well as interest disbursements (previous year: € –64 million).

Net financial position

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

In € million	2018/12/31	2017/12/31
Cash and cash equivalents acc. to balance sheet	555.6	679.4
+ Certificates held for trading	200.0	200.0
+ Other investments of funds[1)]	122.7	140.5
= Investments of funds	878.3	1,019.9
Financial liabilities acc. to balance sheet	718.0	671.6
– Liabilities from finance lease agreements, liabilities from financing and other financial liabilities	31.3	32.2
= Financial liabilities of net financial position	686.7	639.4
Net financial position	**191.6**	**380.5**

[1)] Securities, loans excl. valuation allowances (€ 2.6 million; previous year: € 0.3 million) and incl. other cash investments reported under other receivables and other assets (€ 2.5 million; previous year: € 2.5 million).

The net financial position of € 192 million decreased in comparison with 2017 (€ 381 million). The lower level of cash investments, including securities (€ 878 million), was offset by a notable increase of € 687 million in liabilities owed to banks at the end of the year (2017: € 639 million). The latter figure includes € 168 million in nominal liabilities from bonds which are only recorded at their present value in the balance sheet. Obligations from finance leasing are not included in the net financial position.

Investments

Additions to non-current assets from investments totaled € 342 million (2017: € 292 million). Capitalized investments from these additions in property, plant and equipment and in intangible assets (€ 338 million) were covered by scheduled depreciation and amortization (€ 340 million). The additions to the financial assets (€ 4.1 million) largely pertained to investments in subsidiaries that are not consolidated for reason of materiality. Along with the Strip Steel Business Unit (€ 116 million), a major part of the investments in property, plant and equipment and intangible assets were made in the Mannesmann Business Unit (€ 85 million) in 2018. A purchase obligation in connection with property, plant and equipment existed in an amount of € 208 million as of the reporting date.

Depreciation and amortization includes unscheduled write-downs of € 44 million (2017: € 49 million).

	Investments[1)2)]		Depreciation/amortization[1)2)]	
In € million	**Group**	**of which Strip Steel BU and Plate / Section Steel BU**	**Group**	**of which Strip Steel BU and Plate / Section Steel BU**
2018	**338**	**195**	**384**	**235**
2017	287	166	390	269
2016	352	213	357	224
2015	411	278	340	221
2014	270	155	382	261
Total	**1,658**	**1,007**	**1,854**	**1,209**

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

	Investments[1)]		Depreciation/amortization[1)2)]	
In € million	**2018**	**2017**	**2018**	**2017**
Strip Steel	116.3	126.4	195.5	175.0
Plate / Section Steel	78.9	39.2	39.1	94.3
Mannesmann	85.0	72.8	91.3	61.6
Trading	14.8	8.7	10.7	10.3
Technology	23.6	20.2	21.6	22.1
Industrial Participations / Consolidation	19.2	19.4	25.9	27.1
Group	**337.7**	**286.7**	**384.0**	**390.4**

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 2018 were as follows:

Multi-year overview of the financial position

	2018	2017	2016	2015[1]	2014	2013[2]	2012	2011	2010	2009
Solvency I (%)[3]	107	131	123	132	116	130	156	169	192	211
Solvency II (%)[4]	203	234	201	214	196	227	262	287	287	302
Dynamic debt burden (%)[5]	22.3	11.6	11.6	19.8	26.0	6.8	22.0	–12.1	30.1	406.8
Gearing (%)[6]	162.8	178.3	196.3	190.0	195.4	158.9	145.1	120	125.9	106.2
Cash flow (€ m) from operating activities	528	274	290	448	599	141	427	–197	209	1,190
Net financial position (€ m)[7]	–192	–381	–302	–415	–403	–303	–497	–508	–1,272	–1,561

Values 2009 until 2012 not restated

[1] Restatement because of a correction of the stock value
[2] Restated
[3] (Current assets – inventories) x 100 / (current liabilities + dividend proposal)
[4] Current assets x 100 / (current liabilities + dividend proposal)
[5] Cash flow from operating activities x 100 / (non-current and current borrowings [including pensions] – investments)
[6] Non-current and current liabilities (including pensions) x 100 /equity
[7] – ≙ cash in bank, + ≙ liabilities

Asset position

The Group's total assets had risen by 5.3% to €8,757 million in comparison with the 2017 reporting date (€8,318 million). The higher level of non-current assets (€+270 million) resulted in particular from the significant increase in the shares in companies included at equity (€+311 million), including raising the investment in Aurubis AG from 16.76% at the end of 2017 to 25.50% as of December 31, 2018. Non-current assets declined as depreciation and amortization (€384 million) exceeded the investments (€338 million). Current assets have edged up in comparison with 2017 (€+169 million). While inventories as well trade receivables, including contractual assets, increased (€+243 million and €+50 million respectively), cash and cash equivalents (€–124 million) decreased.

Asset and capital structure

In € million	**2018/12/31**	**%**	**2017/12/31**	**%**
Non-current assets	3,836	43.8	3,566	42.9
Current assets	4,921	56.2	4,752	57.1
Assets	**8,757**	**100.0**	**8,318**	**100.0**
Equity	3,332	38.1	2,990	35.9
Non-current liabilities	3,036	34.7	3,322	39.9
Current liabilities	2,389	27.3	2,007	24.1
Equity and liabilities	**8,757**	**100.0**	**8,318**	**100.0**

Working capital stood at € 2,515 million (+8.0%), which is above the year-earlier figure.

The equity ratio (38.1%) increased notably in comparison with the previous year (35.9%), impacted by the good annual result. While non-current liabilities declined due especially to the decrease in pension provisions (€ –165 million) in comparison with the previous year (€ –286 million), current liabilities (€ +383 million) advanced on the back of the higher level of trade liabilities, including contractual obligations (€ +211 million).

Multi-year overview of the asset position

	2018	2017	2016	2015[1)]	2014	2013[2)]	2012	2011	2010	2009
Asset utilization ratio (%)[3)]	43.8	42.9	43.8	44.4	42.1	43.9	42.5	41.8	39.7	39.5
Inventory ratio (%)[4)]	26.6	25.1	21.8	21.3	23.4	23.9	23.2	23.9	19.9	18.2
Depreciation/ amortization ratio (%)[5)]	15.8	15.9	13.9	13.3	15.3	20.7	13.6	13.5	14.2	21.3
Debtor days[6)]	61.7	61.6	68.2	63.4	66.5	57.8	54.2	53.7	51.7	49.3
Capital employed (€ m)	3,794	3,436	3,584	3,620	3,526	4,034	4,481	4,733	4,596	4,457
Working capital (€ m)	2,515	2,433	2,165	2,271	2,487	2,598	2,694	2,753	2,193	1,981

Values 2009 until 2012 not restated

1) Restatement because of a correction of the stock value
2) Restated
3) Non-current assets x 100 / total assets
4) Inventories x 100 / total assets
5) Until 2016: write-downs on property, plant and equipment and intangible assets x 100 / property, plant and equipment and intangible assets
From 2017: (write-downs on property, plant and equipment intangible assets + investment property) x 100 / (property, plant and equipment and intangible assets + Investment property)
6) Until 2017: trade receivables x 365 / sales
From 2018: trade receivables including contract assets x 365 / sales

3. The Annual Financial Statements of Salzgitter AG

The annual financial statements of Salzgitter AG (SZAG) for the financial year 2018 have been drawn up in application of the accounting policies and valuation methods of the German Commercial Code (HGB), taking account of the supplementary provisions set out under the German Stock Corporation Act (AktG), 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. A letter of comfort has however been submitted by the respective parent company. These parent companies undertake to equip SMG and SKWG with the financial resources in the following financial year so that the obligations entered into through to the end of the respective financial year can be duly met in a timely manner.

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 € million	2018/12/31	%	2017/12/31	%
Non-current assets	**68.1**	**7.9**	**59.4**	**6.9**
Property, plant and equipment[1]	20.8	2.4	20.9	2.4
Financial investments	47.4	5.5	38.5	4.5
Current assets	**791.7**	**92.1**	**802.2**	**93.1**
Inventories	2.4	0.3	1.8	0.2
Trade receivables and other assets[2]	789.4	91.8	800.5	92.9
Assets	**859.9**	**100.0**	**861.6**	**100.0**
In € million	**2018/12/31**	**%**	**2017/12/31**	**%**
Equity	403.0	46.9	397.0	46.1
Provisions	260.7	30.3	263.6	30.6
Liabilities	196.2	22.8	201.1	23.3
Equity and liabilities	**859.9**	**100.0**	**861.6**	**100.0**

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

The receivables from the liquidity (€ 712 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 € 236 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 46.9 % (2017: 46.1 %)

Income statement of Salzgitter AG (condensed)

In € million	2018	2017
Sales	**21.9**	**22.4**
Changes in the inventory of unfinished goods	0.6	1.6
Other operating income	30.1	25.5
Cost of materials	0.5	1.4
Personnel expenses	30.7	23.3
Depreciation/amortization[1]	7.3	2.4
Other operating expenses	27.6	30.0
Income from shareholdings	51.3	43.5
Net interest result	– 5.6	– 15.0
Income tax	0.9	0.8
After-tax result	**33.1**	**21.6**
Other taxes	– 2.7	0.6
Net income for the financial year	**30.3**	**22.2**

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

Sales largely comprise income from the levying of a Group contribution. Among other things, other operating income in 2018 includes the write-ups of non-current assets as well as exchange rate differences from foreign currency and derivative positions. Income from shareholdings consisted almost exclusively of the contribution to the result received by SMG. As of December 31, 2018, the company had a workforce of 162 employees (2017 reporting date: 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 Annual 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: the option or conversion rights and the option or conversion obligations attached to the warrants, convertible bonds, profit participation rights and/or participating bonds or a combination of these instruments which have been issued, with subscription rights excluded, since 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, the Executive Board made use on June 5, 2015 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 3,568,665 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.

The disclosures pursuant to Section 289a (1) sentence 1 and Section 315a (1) sentence 1 of the German Commercial Code (HGB) on the existence of a participation / voting rights notification pursuant to Section 160 (1) item 8 of the German Stock Corporation Act (AktG) are to be found under VI. Note (16).

Appropriation of the profit of Salzgitter AG

SZAG reported annual net income of € 30.3 million in the financial year 2018. Including the profit carryforward (€ 2.8 million), appropriated retained earnings amount to € 33.1 million.

The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders that these unappropriated retained earnings (€ 33.1 million) be used to fund payment of a dividend of € 0.55 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.

As before, the dividend amount will be geared to the earnings trend of SZAG. 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, 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 2019 that are slightly below the level of the previous year. The forecast for 2018, 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 and supports the monitoring of risks. 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 companies are an integral part of opportunity management that enable us to identify, seize and realize opportunities.

Our group and management structure 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. We not only engage in measures initiated to promote organic growth but also investigate 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 as well as the clear alignment of our products and services to reflect customer and market requirements are also components that are critical to our Group’s success.

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, the risk management system has proven its worth and effectiveness from our point of view – a huge success considering the global excess capacities, record imports of steel into Europe as well as 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 contribution of management that is geared toward safeguarding the company as a going concern, along with our investors’ 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 the 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
We generally document the quantitative extent of the potential calculated loss or damage in the light of all influencing factors in order to track and assess the threat scenario. 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 that are subsequently rated in terms of the probability of occurrence 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: “very unlikely”, “unlikely”, “rather unlikely”, “likely” and “very likely”. Risks in the first three categories are events that, after careful commercial, technical and legal consideration, are deemed unlikely to occur. In the case of risks from the likely categories, loss accruing to the company from an undesirable event can no longer be ruled out.

Dealing with risk

Measures that have been and would need to be taken 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 and 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 and pertinent information. The Group companies report on the risk situation in accordance with reporting thresholds in monthly controlling reports or ad hoc, which they do directly to the Executive Board. We analyze the risks identified and assessed at Group level, monitor them punctiliously and in particular align risks with an urgent need for action to our overall business situation.

We regard risks with an amount of loss of € 25 million at minimum and with an occurrence deemed “likely” or “very likely” as material for our Group. For reasons of caution, we also include “rather unlikely” risks in this assessment.

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, a joint venture, and Hüttenwerke Krupp Mannesmann GmbH in order to ensure the transparency. Moreover, on the reporting date, one Executive Board member of our company served on the Supervisory Board of Aurubis AG, one of our participations.

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

We make reference to the fact that the following very comprehensive and detailed description of risks cannot lay claim to absolute completeness.

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.

Risks have also arisen as a consequence of the trade disputes triggered by the US, as well as by the United Kingdom's withdrawal from the EU. Risks specific to this context:

- The US threat of imposing special import tariffs on cars and car parts, where deemed appropriate, thereby disrupting important global value chains.
- An escalation of the trade dispute between the US and China and the resulting unforeseeable effects on the global economy.
- The uncertainty regarding the future status of the United Kingdom is weighing on Europe's economy. A more major impact from Brexit on Salzgitter AG's business is not anticipated due to the low level of direct exports.

Sector-specific risks are inherent in competitive distortions on the international steel market, in massive overcapacities, in US-imposed special import duties on steel products, and in the resulting import pressure within the EU.

At the end of March 2018, the US imposed protective duties as a result of their investigation on whether steel imports pose a threat to national security (Section 232). Import duties of 25% have also been applicable to steel imports from the EU since June 1, 2018. The direct impact of the protective tariffs on the Salzgitter Group's US business is moderate. Along with risks for export, opportunities also arise for the locally producing companies.

Due to the global surplus capacities, the countries affected by the US protective tariffs have redirected their faltering export volumes into the EU market. Imports into the EU therefore rose by around 3 million tons in 2018 compared with the previous year, as opposed to steel imports into the US that declined by approximately 3 million tons. Particularly noteworthy in this context is Turkey whose EU exports have soared by 66% compared with 2017. EU imports therefore reached a new record level in the reporting period.

Owing to this risk of redirection, the EU Commission opened a safeguard clause procedure on March 26, 2018, in order to investigate the threat of damage to the domestic industry from a massive increase in imports. As a result, the EU Directorate General for Trade introduced provisional safeguard measures on a wide range of steel and tubes in the summer of 2018. These measures were finally enforced based on a broad majority of the EU Member States on February 2, 2019, effective through July 2021.

The safeguard clause procedure covers all steel products of the Salzgitter portfolio and takes the form of a “tariff rate quota”. Import contingencies apply based on the average imports in the years from 2015 to 2017. Once these volume quotas have been exhausted, a duty of 25% is applied to other imports. Given the generous quotas, however, there is still a danger of high import volumes.

In addition, numerous non-EU countries have responded to the US import duties on steel products (Section 232) with defense measures of their own. The Eurasian Economic Union (Russia, Kazakhstan, Armenia, Kyrgyzstan and Belarus), Turkey and Canada, for instance, have introduced safeguard measures. This is likely to make exporting even more difficult and exacerbate the threat of trade flows being redirected into the EU market. A number of Group companies are also directly affected by the measures but not to any significant extent.

Further risks arise through importers attempting to circumvent the existing trade defense measures. To counteract practices of this kind, goods traffic is monitored on an ongoing basis and potential breaches are relayed via the European Steel Association Eurofer to OLAF to the EU’s anti-fraud office.

Uncertainty also still prevails about direct and indirect business relations with Russia, among other reasons due to the US sanctions act (Countering America’s Adversaries Through Sanctions Act) that entered into force in August 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. Several legislative proposals for extending the sanctions are currently being deliberated in the US Senate.

Uncertainty of a similar nature, though not affecting SZAG to any great extent, is the announcement by the US of withdrawing from the nuclear agreement with Iran (Joint Comprehensive Plan of Action, JCPOA) on May 8, 2018. With the termination of JCPOA, the US has also reactivated the sanctions. The EU Commission nevertheless wants to uphold the agreement and is working on measures to maintain trade with Iran.

SZAG produces rolled steel and steel tubes and also focuses on trading as well as machine and plant 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 enable us to adapt rapidly to new market conditions.

The various endeavors under energy and climate policies pose a threat in the form of ongoing, significant burdens that are highly detrimental to the competitiveness of SZAG in the European and international environment.

In the context of the imminent reform of EU emission trading from 2021 onward, a considerable shortfall in CO_2 allowances from the allocation with a long-term impact on SZAG is still foreseeable. The emissions trading directive that has meanwhile been issued indicates an improvement in the situation anticipated for the 2021/30 period compared with the proposal originally tabled by the European Commission in July 2015. The situation can only be more precisely assessed when all the necessary provisions are available. Another indirect, but additional cost risk from emission trading arises from the volume of electricity purchased externally. In terms of these two aspects taken together, we still assess risk to be in the order of a maximum € 155 million a year. We view the probability of occurrence of the “CO_2 emissions trading” issue as generally likely. The amount of loss will hinge on the further development of the political and regulatory environment. 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 2018 as well, the raw materials price trend on the international procurement markets for the determinant raw materials such as iron ore, coking coal and scrap remained volatile. We assume that burdens can be passed on to customers to the extent that we do not anticipate any risks that could constitute a threat to our company as a going concern. Burdens could arise in the medium term from cutbacks to production announced by Vale, the world's largest iron ore producer, as a consequence of the dam in Brazil collapsing in January 2019. As it is unlikely that another competitor will be able to make good the shortfall, iron ore prices have surged. 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 2019, 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 business units differ, we achieve a certain balance in our risk portfolio.

We place a high priority on ensuring reliable delivery to our customers. With this in mind, we have been operating more logistics trains, run by Verkehrsbetriebe Peine-Salzgitter GmbH, the Group's own rail company, from the Salzgitter location since the beginning of 2018 to serve important customers. This measure gives us control over the logistics process for a significant part of our strip steel products, from production right through to handing the products over to the customer. Moreover, this also enables us to optimize storage and accommodate customer requirements at short notice as well.

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 cushion 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 offset 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 essentially not disclosed as hedge accounting positions in the accounts; this method is, however, applied to hedge the price risks of raw materials.

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 monitor 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 that is significant for us is exposed to interest rate risk. Our investment policy is fundamentally oriented toward low-risk investment categories with appropriate credit ratings while, at the same time, ensuring the 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 an 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. Generally, 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 within the Group on the grounds of commission payments and credit notes not recognized under tax legislation and allegedly fiscally impermissible provisions. 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.

In 2016, the Bundesfinanzhof (Federal Finance Court) gave a judgment on securities lending in respect of which the Salzgitter Group had already arranged sufficient provisions concerning the repayment of corporate tax advantages (including interest). In this context, legal uncertainty has arisen regarding the possible repayment of accrued capital gains tax. The probability of occurrence of this risk is unlikely.

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 such loss as unlikely.

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 experts as well as, on a case-by-case basis, from qualified external specialists. Comprehensive training supports the process of raising our employees' awareness of this aspect. We have set up a compliance management system for the preventative treatment of risks from infringements of the law. We classify the occurrence of legal risks as unlikely. More detailed explanations on the compliance management system can be found in 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. As before, infringements of the law cannot be entirely excluded. The probable part of this risk was taken account of in the consolidated financial statements. Our participation in association activities has meanwhile been resumed to the extent that no concerns have been raised under antitrust law. Providing further information has been refrained from as this could in the event pose serious disadvantages to the Group in the ongoing investigations.

Personnel risks

SZAG actively competes on the market to attract qualified specialists and managers. We counteract the risk of higher fluctuation levels, a risk that has not occurred nor is foreseeable to date, with a wide range of personnel development measures. Along with the already established specialist careers, succession and talent management, dedicated to the identification and preparation of employees with high potential and successors to take on more advanced tasks was also introduced in 2017. Structured methods of knowledge transfer are used in the event of succession in order to ensure that all knowledge-relevant information is passed on, as well as contact and business connections pertaining to the respective professional activity.

Moreover, we also offer attractive company pension schemes that, given the dwindling benefits under the state pension scheme, are becoming increasingly important. We initiated the “GO – Generation Campaign 2025 of Salzgitter AG” back in 2005 against the backdrop of demographic 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 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). Given the unsatisfactory financial situation, the pensions awarded by several Group companies were not adjusted as of January 1, 2014. A final ruling has meanwhile been made on the model proceedings initiated by IG Metall against this decision, thereby eliminating the risk of loss as of the reporting date.

Product and environmental risks

In order to safeguard against product and environmental risks, we have set the following measures in place, among others:

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

Salzgitter AG’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 such matters, 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-added processes and the consistent permeation of production technology by information technology, the requirements placed on the information systems used 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.

To this end, the Group also promotes the introduction of new technologies in order to meet constantly changing requirements, alongside harmonization projects concerning IT structures that have developed organically and heterogeneously. Along with the necessary economic aspect, the compatibility and security of the IT systems and databases are guaranteed in the process. The risks from this area are deemed manageable, and we estimate the probability of an adverse event occurring to be low or 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], of the Mannesmann Business Unit [the EUROPIPE Group, Mannesmann Line Pipe GmbH, Mannesmann Precision Tubes Group and Hüttenwerke Krupp Mannesmann GmbH] as well as the Technology Business Unit [KHS 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 2018 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. At this point, special mention is made of the US threat of imposing special import duties on cars and car parts, if deemed appropriate, an escalation of the trade dispute between the US and China, as well as uncertainties surrounding Brexit. 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.

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 the sound strategic alignment of the Salzgitter Group 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. From our perspective, 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 (4) and 315 (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 are described as follows:

The aim is to use automated or manual control mechanisms to obtain sufficient assurance 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 therefore 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 has a decentralized structure. The responsibility for compliance with legal standards by the companies rests with their respective bodies. The Executive Board works towards ensuring compliance i.a. through SZAG's staff departments.

When conducting internal audits, independently and on behalf of the SZAG's Executive Board, 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. The planning and carrying out of audits by Internal Audit considers 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. Internal Audit informs SZAG's Executive Board and the Group's external auditor of the outcome of audits by way of written audit reports. Group Internal Audit follows up on the implementation of measures and recommendations agreed in these audit reports.

SZAG's Group Accounting Department draws up the consolidated annual financial statements of the Group and the separate financial statements of the parent company. Independent auditors issue an audit opinion on the major reporting packages of the companies included, as well as on 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 International Financial Reporting Standards (IFRS). Accounting policies are also defined centrally for the accounting process under the German Commercial Code (HGB). 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 so that the components of the reporting packages to be prepared by the Group companies are also defined in detail. A standardized and electronically-facilitated set of forms is used for this purpose. Group policies also comprise specific instructions on the treatment and settlement of intragroup transactions with the respective process of the reconciliation of balances. 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 pensions and other provisions, among other items, is also subject to uniform regulations by centrally determining the parameters applicable to 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 Year

In its most recent economic forecast for the **global economy**, the International Monetary Fund (IMF) predicts considerable economic uncertainty arising from changed paradigms in trading policies. Against this backdrop, momentum, above all in the industrial nations, can be expected to slow further. The stimulating effects from the tax reform in the US are likely to have run their course, while the Chinese economy is expected to maintain its strong growth albeit at a less of a pace. By contrast, business activities in the emerging markets are expected around the level of 2018. All in all, the IMF anticipates global economic growth of 3.5% (2018: 3.7%).

The IMF expects growth in the **eurozone** to slow in 2019, with private consumption likely to remain the economic mainstay. Of the large euro economies, the highest growth rates are predicted for Spain and the Netherlands. In view of the waning stimuli from monetary policy and a weakening global trade, the IMF expects growth of 1.6% in the eurozone in 2019 (2018: 1.8%).

Following the significant downturn in **Germany's** economic momentum in the second half of 2018, a rather more subdued growth rate is expected for 2019 as well. Expansion is expected to be underpinned by ongoing good business activities in the construction sector and consumer spending by private households. The latter should continue to benefit from the very good labor market, expanding real income and advantageous financing conditions. Overall, the International Monetary Fund (IMF) forecasts German economic growth of 1.3% in 2019 (2018: 1.5%).

Market outlook
We assume the following development in the markets relevant for the business units:

Steel
US demand for steel should continue to approach normal levels against the backdrop of general economic developments, while a slowdown in demand momentum is expected in China resulting from more stringent environmental legislation and economic policy objectives. By contrast, the market supply in most Asian regions and in Latin America is likely to increase. All in all, the World Steel Association predicted growth for the current year of 1.4% in the global demand for steel in its latest outlook from October 2018.

The market environment has meanwhile deteriorated. Consequently, the European steel association Eurofer assumes growth in market supply of only 0.5% in its latest forecast from January 2019. The current estimate is therefore 0.6% lower than in the preceding October forecast. Eurofer also puts production growth of steel processors at 1.5% in 2019, having previously forecasted 1.8%.

Steel tubes and pipes
Following the strong year under review, geopolitical and economic uncertainties may hamper the steel tubes and pipes market in 2019. In addition, the protectionist tendencies observed all over the world and particularly in the US may have further effects. The lack of suitable projects is likely to cause a decline in the production of large-diameter pipes. The automotive and mechanical engineering industries remain the steel tubes industry's most important demand mainstay.

Mechanical engineering:
The German Engineering Federation (VDMA) considers an overall increase in sales of 2% probable in 2019. Against the backdrop of rising global demand for packaged beverages and food, the VDMA assumes that the market for food and packaging machinery will also see slight growth. Particularly in the developed regions of Western Europe and North America, investments will focus on raising the efficiency and flexibility of facilities. The discussion conducted on a global scale about packaging waste is also placing greater emphasis on topics such as sustainability and conserving resources in the decision-making process of customers in the packaging industry. The political situation in a number of regions remains a factor of uncertainty.

5. Overall Statement on Anticipated Group Performance

Planning Process

As a matter of principle, the corporate planning of Salzgitter AG takes account of the strategic goals and comprises a set of entrepreneurial measures with action embedded in the general economic environment. 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.

Expected Earnings

Compared with the previous year, the business units anticipate that business in the financial year 2019 will develop as follows:

The **Strip Steel Business Unit** expects a more muted development of business compared with the especially good previous year and anticipates stable sales and tangibly lower earnings before taxes due to margins. Import pressure on the European steel market is likely to remain high, on the one hand while, on the other, we assume that raw materials costs, especially for iron ore, will range notably above the 2018 level.

The heavy plate market continues to be characterized by particularly high import volumes from non-EU countries into the EU. In addition, the situation is aggravated by the lack of follow-up orders at the Mülheim-based company for the delivery of pipeline input material. In the sections steel segment, margins are expected to return to a normal level following a very gratifying previous year. Overall we assume sales and earnings that will be notably below the 2017 figure and expect a pre-tax loss for the **Plate / Section Steel Business Unit.**

The development of the **Mannesmann Business Unit** will be impacted, at least in the first half of 2019, by the unsatisfactory capacity utilization of the German large-diameter pipe company belonging to the EUROPIPE Group. By contrast, the American Europipe companies will benefit from orders placed in the previous year and at the beginning of the year and, similar to Mannesmann Grossrohr GmbH, can expect further project bookings. After two very good years, the medium-diameter line pipe segment anticipates a normalization of demand. The precision tubes companies expect a generally stable situation, with the stainless steel segment seeing a moderate improvement in the market. With shipments and sales figures remaining virtually unchanged, we predict a marginally positive pre-tax result.

The **Trading Business Unit** anticipates an increase in shipments and therefore discernible sales growth in 2019. While achieving margins in international trading will remain under pressure due to the ongoing effects of ubiquitously restrictive trading policies, the declines predicted in margins in the stockholding steel trade should be at least partly compensated through business with additional value added. We anticipate earnings before taxes for the business unit that will once again be gratifying but nevertheless notably below the previous year.

Based on the high level of orders on hand and good order intake, the **Technology Business Unit** predicts a moderate increase in sales. The KHS Group will continue to operate on the basis of a selective order intake, expanding its service business and deriving additional positive effects from the measures introduced to enhance efficiency. The two specialist mechanical engineering companies of the DESMA Group anticipate that earnings will return to normal levels, with the assumption of a pre-tax profit overall that will exceed the average of previous years but will nevertheless fall notably short of the year-earlier figure.

In view of the gloomier sentiment and numerous economic and political uncertainties, we anticipate the following for the Salzgitter Group in the financial year 2019:

- a slight increase in sales to above the € 9.5 billion mark,
- earnings before taxes of between € 125 million and € 175 million and
- a return on capital employed that is tangibly below the previous year's figure.

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 2019. 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 this volatility are illustrated by the following worked example: with around 12 million tons p.a. 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 already 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.

Anticipated Financial Position

Our cash and cash equivalents are used partly for financing investments that are ongoing primarily in our strip steel, heavy plate and technology businesses. 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 € 380 million has been earmarked for our Group's capital expenditure budget in 2019. Together with the follow-up amount of around € 260 million in investments approved in previous years, the cash-effective portion of the 2019 budget should amount to a good € 500 million (2018: € 338 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 2019 for foreseeable investment measures will exceed depreciation and amortization.

The financial position of our Group should be comparatively sound at the end of the financial year 2019 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 balanced 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.

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I. Consolidated Income Statement

In € m	Notes	2018	2017
Sales	[1]	9,278.2	8,990.2
Increase/decrease in finished goods and work in process/other own work capitalized		161.6	179.1
		9,439.8	**9,169.3**
Other operating income	[2]	257.4	401.8
Cost of materials	[3]	6,131.4	6,029.8
Personnel expenses	[4]	1,739.5	1,724.5
Amortization and depreciation of intangible assets and property, plant and equipment	[5]	384.0	390.4
Other operating expenses	[6]	1,102.4	1,218.2
Income from shareholdings		2.4	6.7
Result from investments accounted for using the equity method		74.7	101.7
Finance income		15.0	21.1
Finance expenses		84.6	99.7
Earnings before taxes		**347.3**	**238.0**
Income tax	[7]	69.5	44.5
Consolidated result		**277.7**	**193.6**
Consolidated result due to Salzgitter AG shareholders		273.7	190.3
Minority interest in consolidated result for the year		4.0	3.2

Appropriation of profit in € m	Notes	2018	2017
Consolidated result		277.7	193.6
Profit carried forward from the previous year		27.1	21.1
Minority interest in consolidated result for the year		4.0	3.2
Dividend payment		– 24.3	– 16.2
Allocations to retained earnings		– 243.4	– 168.1
Unappropriated retained earnings of Salzgitter AG		**33.1**	**27.1**
Earnings per share (in €) – basic	[8]	**5.06**	**3.52**
Earnings per share (in €) – diluted	[8]	**4.80**	**3.35**

II. Statement of Comprehensive Income

In € m	2018	2017
Consolidated result	**277.7**	**193.6**
Recycling profit and loss		
Changes in value due to currency translation	2.6	– 27.6
Changes in value from cash flow hedges	19.2	– 17.2
Fair value change	27.0	46.6
Basis adjustments	–	– 65.3
Recognition with effect on income	0.8	– 5.7
Deferred tax	– 8.5	7.3
Changes in value due to available-for-sale financial assets	–	0.3
Fair value change	–	0.4
Deferred tax	–	– 0.1
Changes in value of investments accounted for using the equity method	– 4.0	– 3.4
Fair value change	– 9.5	13.2
Recognition with effect on income	–	– 0.1
Currency translation	4.2	– 14.0
Deferred tax	1.3	– 2.5
Deferred tax on other changes without effect on the income	– 1.0	0.1
	16.8	**– 47.8**
Non-recycling		
Changes in the value of equity instruments measured at their fair value with no effect on the income statement	20.0	–
Fair value change	23.1	–
Deferred tax	– 3.1	–
Remeasurements	99.6	– 17.2
Remeasurement of pensions	121.2	– 35.0
Deferred tax	– 21.7	17.8
Changes in value of investments accounted for using the equity method	5.9	9.5
	125.4	**– 7.7**
Other comprehensive income	**142.3**	**– 55.5**
Total comprehensive income	**420.0**	**138.1**
Total comprehensive income due to Salzgitter AG shareholders	**416.0**	**134.8**
Total comprehensive income due to minority interest	**4.0**	**3.2**

III. Consolidated Balance Sheet

Assets in € m	Notes	2018/12/31	2017/12/31
Non-current assets			
Intangible assets	[9]	219.4	218.5
Property, plant and equipment	[10]	2,120.5	2,214.8
Investment property	[11]	83.5	21.5
Financial assets	[12]	75.6	84.1
Investments accounted for using the equity method	[13]	888.3	577.5
Trade receivables	[16]	25.5	25.6
Other receivables and other assets	[18]	24.0	26.0
Income tax assets	[19]	0.1	4.5
Deferred income tax assets	[14]	399.1	393.2
		3,835.9	**3,565.9**
Current assets			
Inventories	[15]	2,327.5	2,084.5
Trade receivables	[16]	1,367.2	1,492.2
Contract assets	[17]	175.2	–
Other receivables and other assets	[18]	403.7	394.2
Income tax assets	[19]	24.5	24.9
Securities	[20]	67.4	76.6
Cash and cash equivalents	[21]	555.6	679.4
		4,921.0	**4,751.9**
		8,756.9	**8,317.8**

Equity and liabilities In € m	**Notes**	**2018/12/31**	**2017/12/31**
Equity			
Subscribed capital	[22]	161.6	161.6
Capital reserve	[23]	257.0	257.0
Retained earnings		3,181.0	2,854.6
Other reserves		60.0	51.1
Unappropriated retained earnings	[24]	33.1	27.1
		3,692.6	**3,351.3**
Treasury shares		– 369.7	– 369.7
		3,322.9	**2,981.6**
Minority interest		9.1	8.1
		3,332.1	**2,989.7**
Non-current liabilities			
Provisions for pensions and similar obligations	[26]	2,275.5	2,440.5
Deferred income tax liabilities	[14]	67.6	41.9
Income tax liabilities	[19]	36.9	97.6
Other provisions	[27]	358.4	303.5
Financial liabilities	[28]	291.1	433.8
Other liabilities		6.1	4.1
		3,035.7	**3,321.5**
Current liabilities			
Other provisions	[26]	281.4	232.3
Financial liabilities	[29]	426.9	237.8
Trade payables		1,130.2	1,169.0
Contract liabilities	[30]	250.2	–
Income tax liabilities	[19]	37.0	28.2
Other liabilities	[31]	263.4	339.2
		2,389.2	**2,006.5**
		8,756.9	**8,317.8**

IV. Cash Flow Statement

(35) Cash Flow Statement

In € m	2018	2017
Earnings before taxes (EBT)	347.3	238.0
Depreciation, write-downs (+) / write-ups (–) of non-current assets	371.3	390.4
Income tax paid (–) / refunded (+)	– 48.4	– 30.4
Other non-cash expenses (+) / income (–)	128.4	256.1
Interest expenses	79.6	99.7
Gain (–) / loss (+) from the disposal of non-current assets	8.8	– 11.1
Increase (–) / decrease (+) in inventories	– 198.1	– 262.4
Increase (–) / decrease (+) in trade receivables and other assets not attributable to investment or financing activities	– 83.9	– 235.8
Use of provisions affecting payments, excluding use of tax provisions	– 234.1	– 243.6
Increase (+) / decrease (–) in trade payables and other liabilities not attributable to investment or financing activities	157.0	72.8
Cash inflow from operating activities	**527.8**	**273.7**

In € m	2018	2017
Cash inflow from the disposal of non-current assets	0.9	28.5
Cash outflow for investments in intangible assets and property, plant and equipment	– 342.5	– 296.9
Cash inflow from financial investments	112.3	255.0
Cash outflow for financial investments	– 108.0	– 200.0
Cash inflow from the disposal of other non-current assets	8.8	14.2
Cash outflow for investments in other non-current assets	– 261.0	– 140.9
Cash outflow from investment activities	**– 589.5**	**– 340.1**
Cash outflow to company owners	– 24.3	– 16.2
Cash inflow from taking up loans and other financial liabilities	15.9	0.0
Repayment of loans and other financial liabilities	– 16.8	– 13.4
Cash outflow for bonds	0.0	– 0.1
Interest paid	– 40.5	– 33.9
Cash outflow from financing activities	**– 65.7**	**– 63.6**
Cash and cash equivalents at the start of the period	679.4	818.1
Cash and cash equivalents relating to changes in the consolidated group	2.6	4.0
Gains and losses from changes in foreign exchange rates	0.9	– 12.8
Payment-related changes in cash and cash equivalents	– 127.4	– 129.9
Cash and cash equivalents at the end of the period	**555.6**	**679.4**

V. Statement of Changes in Equity

In € m	Subscribed capital	Capital reserve	Treasury shares	Retained earnings	Other reserves from Currency translation
As of 2017/01/01	**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 reserves	–	–	–	–	–
Allocations / contributions and 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**
Changes in accounting methods[1]	–	–	–	– 9.1	–
As of 2018/01/01	**161.6**	**257.0**	**– 369.7**	**2,845.5**	**– 9.4**
Consolidated result	–	–	–	–	–
Other comprehensive income	–	–	–	98.5	2.6
Total comprehensive income	–	–	–	98.5	2.6
Basis Adjustments	–	–	–	–	–
Dividend	–	–	–	–	–
Allocations / contributions and withdrawals to / from capital reserves	–	–	–	–	–
Allocations / contributions and withdrawals to/from retained earnings	–	–	–	243.4	–
Initial consolidation of Group companies so far not consolidated for materiality reasons	–	–	–	– 6.3	–
Other	–	–	–	– 0.0	–
As of 2018/12/31	**161.6**	**257.0**	**– 369.7**	**3,181.0**	**– 6.8**

[1] Further explanations on the effects of the changes in accounting methods are shown in the Notes, Clause 1 and Clause 34.

			Unappropriated retained earnings	Share of the Salzgitter AG shareholders	Minority interest	Equity
Cash flow hedges	Equity instruments valuated without effect on the income	Investments accounted for using the equity method				
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**
–	– 1.5	–	–	– 10.6	–	– 10.6
39.3	**–**	**19.7**	**27.1**	**2,971.0**	**8.1**	**2,979.2**
–	–	–	273.7	273.7	4.0	277.7
19.2	20.0	1.9	–	142.3	– 0.0	142.3
19.2	20.0	1.9	273.7	416.0	4.0	420.0
–33.4	–	–	–	– 33.4	–	– 33.4
–	–	–	– 24.3	– 24.3	– 3.0	– 27.3
–	–	–	–	–	–	–
–	–	–	– 243.4	–	–	–
–	–	–	–	– 6.3	–	– 6.3
–	–	–	–	– 0.0	–	– 0.0
25.1	**20.0**	**21.6**	**33.1**	**3,322.9**	**9.1**	**3,332.1**

VI. Notes

(37) Segment reporting

In € m	Strip Steel		Plate / Section Steel		Mannesmann	
	2018	2017	2018	2017	2018	2017
External sales	2,341.0	2,159.8	1,026.4	1,024.3	1,118.6	1,093.5
Sales to other segments	768.0	715.0	794.7	673.5	228.9	211.9
Sales to group companies that are not allocated to an operating segment	3.6	3.5	0.8	0.8	378.9	392.7
Segment sales	3,112.5	2,878.3	1,821.8	1,698.6	1,726.5	1,698.1
Interest income (consolidated)	0.9	1.1	0.1	0.5	0.8	0.6
Interest income from other segments	–	–	0.0	0.0	–	–
Interest income from group companies that are not allocated to an operating segment	0.1	0.0	0.7	0.2	1.8	1.4
Segment interest income	0.9	1.1	0.8	0.6	2.6	2.1
Interest expenses (consolidated)	14.5	15.8	2.9	3.1	6.9	8.4
Interest expenses to other segments	–	–	–	–	–	–
Interest expenses from group companies that are not allocated to an operating segment	24.4	25.3	5.8	5.8	8.4	7.5
Segment interest expenses	38.8	41.1	8.7	9.0	15.3	15.9
Scheduled depreciation of property, plant and equipment and amortization of intangible assets (excluding impairment costs in accordance with IAS 36)	181.1	175.0	39.1	45.5	61.3	61.6
Impairment of tangible and intangible assets (according to IAS 36)	14.3	–	–	48.8	30.0	–
Impairment of financial assets	–	–	–	–	0.0	–
Segment earnings before taxes	205.8	182.0	24.8	– 57.7	– 5.4	– 5.6
of which resulting from investments accounted for using the equity method	–	–	–	–	17.6	7.8
Material non-cash items	43.6	52.7	14.7	18.2	11.2	33.7
Investments in property, plant and equipment and intangible assets	116.3	126.4	78.9	39.2	85.0	72.8

Trading		Technology		Total segments		Reconciliation		Group	
2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
3,267.7	3,229.9	1,338.2	1,284.7	9,091.8	8,792.2	186.3	198.0	9,278.2	8,990.2
78.6	77.6	0.5	0.5	1,870.6	1,678.5	724.2	692.6		
0.1	0.1	–	–	383.4	397.1	–	–		
3,346.4	3,307.6	1,338.7	1,285.2	11,345.9	10,867.8	910.5	890.6		
2.8	2.6	2.9	3.7	7.4	8.4	6.8	12.6	14.2	21.0
–	–	–	–	0.0	0.0	44.6	41.4		
7.9	7.5	0.9	0.9	11.4	10.0	–	–		
10.7	10.0	3.8	4.5	18.9	18.4	51.4	54.0		
20.4	14.2	2.3	2.6	46.9	44.1	32.6	55.6	79.6	99.7
0.0	0.0	–	–	0.0	0.0	11.4	10.0		
4.3	0.3	1.7	2.6	44.6	41.4	–	–		
24.7	14.4	4.0	5.2	91.5	85.5	44.1	65.6		
10.7	10.3	21.6	22.1	313.8	314.5	25.9	27.1	339.7	341.6
–	–	–	–	44.3	48.8	–	–	44.3	48.8
0.6	–	–	–	0.6	–	–	–	0.6	–
50.5	70.5	43.1	6.6	318.9	195.8	28.4	42.2	347.3	238.0
–	–	–	–	17.6	7.8	57.1	93.9	74.7	101.7
9.4	8.4	31.8	36.7	110.6	149.7	90.5	14.3	201.1	164.0
14.8	8.7	23.6	20.2	318.5	267.2	19.2	19.4	337.7	286.7

Analysis of non-current Assets 2018

In € m	Acquisition and production costs						
	2018/01/01	Currency translation differences	Changes in the consoli-dated group	Additions	Disposals	Transfers to other accounts	2018/12/31
Intangible assets							
Concessions, brand names, industrial property rights plus licenses and emission rights	455.6	– 0.1	11.7	6.8	– 11.4	1.0	463.6
Payments on account	4.2	–	–	5.6	–	– 0.1	9.7
	459.8	**– 0.1**	**11.7**	**12.4**	**– 11.4**	**0.9**	**473.3**
Property, plant and equipment							
Land, similar rights and buildings, including buildings on land owned by others	1,693.7	0.9	4.3	13.1	– 2.0	– 45.1	1,664.9
Plant equipment and machinery	6,700.4	2.6	5.7	128.4	– 101.1	48.6	6,784.6
Other equipment, plant and office equipment	441.5	0.1	1.5	35.0	– 18.2	4.1	463.9
Payments made on account and equipment under construction	117.4	1.0	0.4	148.9	– 1.0	– 63.4	203.2
	8,953.0	**4.5**	**11.9**	**325.3**	**– 122.3**	**– 55.8**	**9,116.6**
Investment property	**27.3**	**–**	**–**	**0.0**	**– 0.1**	**71.6**	**98.9**
	9,440.1	**4.4**	**23.6**	**337.7**	**– 133.7**	**16.7**	**9,688.8**

							Valuation allowances	Book values	
2018/01/01	Currency translation differences	Changes in the consolidated group	Write-ups in the financial year	Depreciation in the financial year[1)]	Disposals	Transfers to other accounts	2018/12/31	2018/12/31	2017/12/31
– 240.1	0.1	– 0.4	–	– 16.4	4.0	–	– 252.8	210.9	215.5
– 1.1	–	–	–	–	–	–	– 1.1	8.6	3.1
– 241.2	**0.1**	**– 0.4**	**–**	**– 16.4**	**4.0**	**–**	**– 253.9**	**219.4**	**218.5**
– 1,032.5	– 0.2	– 0.9	–	– 31.7	1.9	4.9	– 1,058.5	606.4	661.3
– 5,345.8	– 1.7	– 1.5	–	– 302.4	89.7	0.6	– 5,561.2	1,223.4	1,354.7
– 357.3	– 0.1	– 0.6	–	– 32.5	17.5	– 0.8	– 373.8	90.1	84.2
– 2.6	–	–	–	–	0.0	0.1	– 2.6	200.6	114.8
– 6,738.2	**– 2.1**	**– 3.0**	**–**	**– 366.6**	**109.1**	**4.8**	**– 6,996.1**	**2,120.5**	**2,214.8**
– 5.8	**–**	**–**	**12.9**	**– 1.1**	**–**	**– 21.4**	**– 15.4**	**83.5**	**21.5**
– 6,985.2	**– 2.1**	**– 3.4**	**12.9**	**– 384.0**	**113.1**	**– 16.6**	**– 7,265.4**	**2,423.4**	**2,454.9**

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

Analysis of non current Assets 2017

In € m						Acquisition and production costs	
	2017/01/01	Currency translation differences	Changes in the con-solidated 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**
	9,326.4	**– 15.9**	**2.2**	**286.7**	**– 170.1**	**10.8**	**9,440.1**

							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	Disposals	Transfers to other accounts	2017/12/31	2017/12/31	31/12/2016
– 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**
– 6,738.0	**8.3**	**– 0.7**	**–**	**– 390.4**	**146.4**	**– 10.8**	**– 6,985.2**	**2,454.9**	**2,588.4**

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 (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 (€ m). As a result, there may be deviations from the unrounded amounts.

On December 6, 2018, 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 21 March 2019, 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 40	Amendments – Transfer of Investment Property	2018	yes	none
	Annual Improvements of IFRS (cycle 2014–2016)[1)]	2018	yes	none
IFRS 2	Amendments – Classification and Measurement of Share-based Payment Transactions	2018	yes	none
IFRIC 22	Foreign Currency Transactions and Advance Consideration	2018	yes	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

[1)]Clarifications of the following Standards (IFRS 1, IFRS 12, IAS 28); IFRS 12 Application obligation from as per 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 IAS 39 "Financial Instruments" standard and comprises new rules for classifying

and evaluating financial assets, on the impairment of financial assets and for the balance-sheet treatment of hedge accounting. The transition to IFRS 9 as of January 1, 2018 results in a reduction in equity of € 6.4 million due to valuation allowances on the basis of the expected losses model.

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. There have been no significant effects on the accounting and valuation resulting from the changed classification of financial assets. The classification of financial liabilities under IFRS 9 is largely unchanged.

The model for calculating impairment losses due to anticipated loan defaults (expected losses model) replaces the previous calculation of impairment losses based on defaults that have actually occurred (incurred losses model). To implement the new rules, suitable models were developed for ascertaining the anticipated defaults on 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. The possibility of designating risk components of non-financial items as secured underlying transactions reduced the ineffectivenesses resulting from the hedging relationships. The new rules on the balance-sheet accounting of hedging transactions are applied prospectively.

Further effects resulting from the new accounting rules contained in IFRS 9 for classifying and measuring financial assets, recognizing impairment losses on financial assets and forming hedge instruments are explained in the section on “Financial Instruments”.

No comparatives have been adjusted as the modified, retrospective transition method has been used in applying IFRS 9 and IFRS 15 for the first time as of January 1, 2018.

The first application of IFRS 15 is based on the transfer of control principle. It replaces existing guidelines for recognizing sales revenues, among them IAS 18 Sales revenues, IAS 11 Construction contracts and IFRIC 13 Customer loyalty programs.

The basic concept of IFRS 15 states that the recognition and measurement of assets and sales revenues be determined by applying five steps:

- Identify the contract with the customer
- Identify separate contractual obligations
- Determine the transaction price
- Split the transaction price across the contractual obligations identified
- Realize the sales revenues when the contractual obligation is met

The first-time application was carried out in accordance with the modified retrospective method as of January 1, 2018. Any transition effects were recognized cumulatively at the beginning of the period as an adjustment in the opening balance directly under revenue reserves. The adjustments resulting from the application of IFRS 15 are split principally across the following main items:

The balance of sales revenues and inventory changes was approx. € 10 million lower. The effect on inventory led to an increase in stock of around 1%. As a result of the first-time recognition of contract assets (€ 254 million) and contract liabilities (€ 120 million), receivables and liabilities fell by largely corresponding amounts. The negative effect on earnings (after tax) resulting from this accounting change was booked directly in equity and amounted to € 6 million. These adjustments result from the special machine construction segment in the Technology Business Unit. With only a few, and in overall terms insignificant, construction contracts hitherto reported in the balance sheet using the percentage-of-completion method in accordance with IAS 11, sales are now recognized retrospectively as the requirements for period-based revenue recognition according to IFRS 15 are not fulfilled.

Maintaining the accounting method used until the end of 2017 in accordance with IAS 11 and 18 would have had no significant effect even by the end of the financial year 2018 by comparison with the current treatment in accordance with IFRS 15. Trade receivables would be no more than 1.5 % above the total shown. Inventories would also have been recognized slightly higher. Trade payables would have been reported 3.4 % higher.

The former accounting treatment would also only have resulted in a marginal change in the total made up of sales and inventory changes. In contrast to the effect at the beginning of the year, there would have been a positive effect on earnings in the mid-single-digit million euro range.

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

Standards / Interpretation		Mandatory date in financial year	EU Endorement	Likely effects
	Annual Improvements of IFRS (cycle 2015–2017)	2019	no	none
IFRIC 23	Uncertainty over Income Tax Treatments	2019	yes	none
IFRS 9	Prepayment Features with Negative Compensation	2019	yes	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
IAS 19	Amendments to IAS 19 “Employee Benefits” – plan adjustments, curtailments and settlements	2019	no	not foreseeable
IFRS 3	Amendments to IFRS 3 “Business Combinations” – Definition of Business Operations	2020	no	not foreseeable
IAS 1 IAS 8	Amendments – definition of materiality	2020	no	not foreseeable
IFRS 17	Insurance Contracts	2021	no	not foreseeable

IFRS 16 “Leases” governs the accounting treatment for lease relationships and will replace IAS 17 as well as associated interpretations. Conversion to IFRS 16 will be made in accordance with the modified retrospective approach. Accordingly, periods in previous years will not be adjusted. The Group companies in the Salzgitter AG Group mainly use operating leases, and the application of IFRS 16 will therefore affect the net assets, financial position and results of operations. Usage rights are shown at the cost of acquisition less cumulative depreciation as well as any necessary impairment. The cost of acquiring the right of use is determined by the present value of all future lease payments plus the lease payments made at or before the beginning of the lease term as well as the cost of concluding the contract and the estimated cost of dismantling or restoring the leased object. All lease incentives received are deducted from this sum. If the lease payments to be taken into account also comprise the transfer of ownership and the exercise of a purchase option on the underlying asset at the end of the lease, depreciation is applied over its useful economic life. Otherwise, the right of use is amortized over the term of the lease.

Initial recognition of the lease liabilities assigned to financing liabilities is determined by the present value of the lease payments to be made less any advance payments remitted. In the subsequent measurement, the carrying amount of the lease liability is compounded and reduced by the lease payments made with no effect on income. The country-specific, incremental borrowing rate of interest for Salzgitter AG at the time of first application is used for discounting purposes. In the case of leases hitherto classified as operating leases under IAS 17, the lease liability is recognized at the present value of remaining lease payments.

The accounting rules for lessors remain largely unchanged, however, particularly with respect to the classification of leases under IAS 17 still required.

Salzgitter AG exercises its options under IFRS 16 according to which the right of use and lease liability do not need to be recognized for lease contracts with a term of up to twelve months (short-term leases) or for lease contracts for assets of low value. For the sake of simplicity, leases that expire by December 31, 2019 and will not be extended are not shown as short-term leases.

The term of the lease is determined when it commences based on the non-cancellable term of the contract as well as taking account of existing options to extend and options to cancel. The current state of knowledge is applied in the process provided an assessment can be made with sufficient confidence. Non-lease components are only identified at the outset for lease agreements in the areas of real estate and fleet management and they therefore do not form part of the underlying lease payments. In determining the incremental borrowing interest rate, the yield curve is used as a function of the term for industrial companies in Europe corresponding to the rating of the Salzgitter AG Group. Country-specific circumstances are taken into account for foreign Group companies.

To ensure that the rules contained in IFRS 16 are correctly observed, an IT solution has been implemented to achieve a system-based presentation of lease arrangements; this solution is nearing completion. Preparations for groupwide implementation have revealed that the conversion on January 1, 2019 will probably entail the initial recognition of usage rights and lease liabilities totaling € 150 million in the consolidated balance sheet. No changes will result in earnings before taxes (EBT).

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 controled 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 interests in the consolidated companies are 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, those 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. As a general rule, 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. One equity-accounted company has a divergent financial year ending on March 31. As this is purely a holding company, developments until the Group closing date of December 31 are considered immaterial.

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 at their fair value as financial assets with no effect on income in accordance with IFRS 9.

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 59 (previous year: 54) foreign affiliated companies, all prepared as of the same reporting date. The additions concern four – hitherto on grounds of materiality – non-consolidated companies from the Trading and Technology business units whose IFRS figures from ongoing operations were included in SZAG's consolidated financial statements for the first time in the financial year 2018. Profits or losses carried forward were recognized directly in equity. Mannesmann SOTEP Stainless Tubes SAS, acquired in 2018 and now renamed, was also included in the group of fully consolidated entities for the first time. The financial year of SZAG and its subsidiaries included in the consolidated financial statements corresponds to the calendar year.

A total of six (previous year: five) domestic and 13 (previous year: 16) foreign subsidiaries have still 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 other non-current financial assets. 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 dependent in particular 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 25.5% participating interest (previous year 16.8%), is accounted for using the equity method, as it was in the previous year. 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 in 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. The following companies, specifically Wohnungsbaugesellschaft mit beschränkter Haftung Salzgitter, Salzgitter, and Borusan Mannesmann Boru Yatirim Holding A.S., Istanbul, that have hitherto not been consolidated for reasons of materiality, were consolidated for the first time in the financial year 2018 using the equity method. Wohnungsbaugesellschaft mit beschränkter Haftung Salzgitter builds, administers, supports and manages various buildings. Borusan Mannesmann Boru Yatirim Holding A.S. is a holding company

that, in turn, merely holds participating interests and does not conduct any operating business. Companies in the Salzgitter Group maintain business relationships of minor significance with both companies.

As a part of SZAG's consolidated financial statements and annual 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.

Annual financial statements are prepared in the functional currency of the individual company. A company's functional currency is defined as the currency of the economic environment in which it primarily operates. With the exception of a few companies, the functional currencies of subsidiaries correspond to the currency of the country in which the relevant subsidiary has its head office.

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", "Recognition of income and expenses", "Income taxes", "Provision for pensions and similar obligations" as well as "Provisions for typical operational and other 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 non-current 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. Comparable issues arise with purchase price allocations in acquisitions.

Income and expense recognition
Ascertaining the progress made so far in order to account for existing orders for the manufacture of machines and technical systems necessitates a precise estimate of the total costs of the contract, the costs still to be incurred before completion, total revenues from the contract, the risks associated with the contract and other assumptions. Estimates with respect to revenues, costs or progress of the contract are corrected if circumstances change. Any resulting increases or decreases in the estimated revenues or costs are recognized in profit and loss at the time when management becomes aware of the circumstances giving rise to the correction.

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 actuarial assumptions such as expected salary increases and mortality rates.

Provisions for operational and other risks
In determining obligations, assumptions must be made on future cash flows and, in the case of long-term obligations, also on cost increases. If necessary, the facts of the matter are assessed with the help of external advisors. Probabilities of occurrence are also taken into account when recognizing any possible obligation.

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 ten and 26 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 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 tangible 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 and measurement

On initial recognition, a financial asset is shown at "amortized cost", recognized "in profit or loss at its fair value" or classified "at its fair value with no effect on profit or loss".

Categorization

Business model condition and payment flow condition

In accordance with IFRS 9, the categorization and measurement of financial assets are determined by the business model and the structure of the agreed payment flows. The financial instruments are allocated to different categories on the basis of these two conditions.

Amortized cost

A financial instrument falls into the category of "at amortized cost" if the objective of the business model consists in holding a debt instrument, generating the contractual payment flows (e.g. interest income) and collecting the nominal value on maturity.

At fair value recognized in profit or loss

A financial instrument falls into the category "at fair value recognized in profit or loss" if the objective of the business model consists in holding the debt instruments or equity instruments for the short term in order to realize price gains (business model condition), and in the case of debt instruments, interest payments and principal repayments are not exclusively generated on the outstanding principal (payment flow condition). Derivatives that according to hedge accounting rules cannot be accounted for without affecting profit or loss, are also reflected in this category.

At fair value with no effect on profit or loss

A financial instrument defined as a debt instrument falls into the category "at fair value with no effect on profit or loss" if it has not been designated as "at fair value recognized in profit or loss" and the objective of the business model consists both in holding the financial assets to collect the contractual payment flows of the debt instrument and in selling the debt instrument, and the terms of the contract lead to payment flows at defined times that represent exclusively principal repayments and interest payments on the outstanding principal.

A financial instrument defined as an equity instrument falls into the category "at fair value with no effect on profit or loss" if it is not only held for the short term to realize price gains although gains and losses accumulated with no effect on profit or loss **cannot** be derecognized in profit or loss when the financial asset is derecognized (no recycling). Accumulated gains and losses not recognized in profit or loss are transferred to retained earnings. This option to measure equity instruments that are **not** to be assigned to the **"Trading"** business model with no effect on profit or loss is exercised in the Salzgitter Group. Irrespective of the above, dividends are recognized in profit or loss unless they represent the repayment of part of the cost of acquiring the equity instrument.

Derivatives that according to hedge accounting rules are accounted for without affecting profit or loss, are also assigned to this category.

No use is made in the Salzgitter Group of the option to account for financial assets or liabilities at their fair value (fair value option).

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 a financial 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 in the categories “at fair value recognized in profit or loss” and “at fair value with no effect on profit or loss” are subsequently measured at fair value. The category “at amortized cost” is subsequently measured at amortized cost using the effective interest method.

Unlisted shares in companies with no appreciable influence are measured “at fair value with no effect on profit or loss” if they are not only held for the short-term realization of price gains.

Market values are determined for forward exchange and commodity futures transactions by means of recognized actuarial methods. In the event of substantial market values, the counterparty risk is taken into account by way of a credit risk discount.

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 mainly discounted as of the reporting date using the Euribor interest rate in accordance with the residual term.

Open iron ore and coking coal swaps are measured with the aid of monthly forward prices. The future cash flows from these derivatives are discounted in accordance with their maturity. On the basis of these parameters, a market value is initially calculated for the open volume in foreign currency with no credit risk exposure. The second step is to determine a correction amount to take account of the credit risk in accordance with IFRS 13. This amount is composed of a discount for the counterparty risk (CVA = Credit Valuation Adjustment) and a premium for the company’s own default risk (DVA = Debit Valuation Adjustment). The market value in foreign currency is finally converted to EUR using the current rate of exchange.

Unrealized profits and losses arising from changes in the fair value of financial instruments in the “at fair value with no effect on profit or loss” category are posted to equity. If assets in this category defined as a debt instrument are sold, the cumulative adjustments to fair value under equity are posted to income in the income statement. If assets in this category defined as an equity instrument are sold, the gains and losses accumulated with no effect on income are not derecognized through profit or loss when the financial asset is derecognized (no recycling in other words). Accumulated gains and losses not recognized in profit or loss are transferred to retained earnings.

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

Derecognition
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 is 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.

Financial assets – accounting treatment of impairment losses

Expected losses model
The impairment model under IFRS 9 is based on the premise that the credit losses actually to be expected can be reflected as soon as financial assets are recognized.

Staged model (general approach)
Assets for which expected losses are to be reflected in accordance with the expected losses model, are assigned to one of three stages depending on possible future loss events (3-stage concept). A loss allowance is generally formed in all stages. All financial assets are to be assigned to Stage 1 when they are first recognized. Financial assets that are already impaired at the time of acquisition form an exception to this rule.

Stage 1
The extent to which expected losses are recognized depends on whether the default risk of financial assets has substantially deteriorated since their acquisition or not. If substantial deterioration applies and the default risk on the closing date is not to be rated as low, all losses over the entire term must be recognized from that moment onward (Stages 2 and 3). Otherwise, only the expected losses over the life of the receivable resulting from possible future loss events within the next twelve months are to be taken into account (Stage 1).

Stage 2
If the credit risk increases significantly after acquisition, the financial instrument is transferred to Stage 2. When calculating the loan loss provision in Stage 2, the expected losses over the entire residual term of the financial asset must be taken into account.

Stage 3
The financial asset must be assigned to Stage 3 if its credit quality has deteriorated further and there is objective evidence of impairment. Breach of contract or considerable financial difficulties on the part of the debtor may represent objective evidence, for example. The loan loss provision is calculated as in Stage 2; however, the effective interest income must then be calculated not on the gross but on the net carrying amount (after deducting the loan loss provision).

Simplified Approach

Derogations apply to trade receivables and contract assets under IFRS 15. For these assets, all expected losses over the entire life can be taken into account on acquisition of the financial instrument. The staged model is not applied as part of the simplified approach.

To calculate the expected credit losses, trade receivables and contract assets are aggregated on the basis of common credit risk characteristics. Contract assets relate to as yet uninvoiced, outstanding contractual obligations and essentially exhibit the same credit risk characteristics as trade receivables for the same types of contract. The Salzgitter Group therefore applies the same loss ratios as for trade receivables when measuring the expected losses from contract assets.

The expected loss ratios are based on external and internal credit ratings. To judge whether the default risk has increased significantly, the default risk with respect to the closing date is compared with the default risk at the time of initial recognition. Besides external credit ratings, particular weight is given to internal credit ratings and significant changes to the expected profitability and payment behavior of the debtor.

Financial instruments – accounting treatment of hedge instruments

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 hedges

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.

When a hedged future transaction results in the recognition of a non-financial asset (e.g. inventories), the gains or losses previously recognized in equity are included directly in the initial measurement of the cost of the non-financial asset (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 recognized as basis adjustment in the balance sheet or disclosed in the income statement until the underlying transaction occurs.

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 or attributed systematically.

Contract assets and contract liabilities

Prepayments received are deducted from contract assets on an order-specific basis. If the payments received on account for individual customer contracts exceed the receivables from customer contracts, the excess amount is reported under contract 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 contract liability.

For the realization of sales revenues and further assumptions regarding customer contracts, reference is made to the section “Income and expense recognition”.

Provision for pensions and similar obligations

Provisions for pensions 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 discount 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, 2018, the deferred taxes of domestic corporate entities were evaluated with an overall tax rate of 31.4 % (previous year: 31.0 %). This tax rate comprises the 15.6 % trade tax rate that prevails in the Group (previous year: 15.2 %) 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 claims in a particular area of fiscal jurisdiction are offset against deferred tax liabilities in the same area if the company is entitled to offset actual tax liabilities against tax claims and the tax is levied by the same tax authority; the offsetting is carried out 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

Categorization
Financial liabilities are categorized and measured at their amortized cost or at their fair value through profit or loss.

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 interest method.

Recognized in profit or loss at fair value
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 with a negative fair value that are not shown in the hedge accounting.

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 for the discontinued operation must also be depicted. The earnings per share for the discontinued operation must be disclosed. HSP Hoesch Spundwand und Profil Gesellschaft mit beschränkter Haftung (HSP) and all associated sheet-piling activities were reported in accordance with the rules contained in IFRS 5 as a discontinued operation until December 31, 2017. Due to its minor significance for the consolidated financial statements, it is no longer reported separately from 2018.

Income and expense recognition

Sales revenues from the sale of goods and services are recognized when power of disposal over the product or service has been transferred. Revenues must be recognized at the time when and in the amount at which contractual obligations are met. The fulfilment of contractual obligations is therefore classified by time or period. In the Salzgitter Group, power of disposal over products is transferred to the customer either on dispatch or delivery. Sales made at specific moments in time clearly predominate. Sales made over a period are of little significance and occur in services as well as in mechanical engineering. Otherwise, sales revenues from sales are recognized at the level of the price defined in the contract – after deducting any reductions such as bonuses, cash discounts or rebates. They are recognized to the extent that it is highly likely that no significant cancellation of the sales will become necessary provided there is no further uncertainty in this regard.

Sale of strip steel and plate steel, section steel products, tubes and pipes and other products

The Group sells its products in its Strip Steel, Plate / Section Steel and Mannesmann business units both directly to customers and through the trade. Revenues from sales are recognized when power of disposal has been transferred to the buyer and no unfulfilled obligations remain that might affect the customer's acceptance of the products. This is predominantly the case on delivery to the customer. Payment terms of less than twelve months are usually agreed with customers.

Revenues from sales are recognized at the level of the price defined in the contract – if applicable, after deducting any reductions such as bonuses, cash discounts or rebates. Sales revenues are only recognized to the extent that it is highly likely that no significant cancellation of the sales will become necessary provided there is no further uncertainty in this regard.

Sale of machines and technical equipment

As a general rule, the Group sells machines and technical equipment directly. Spare parts and maintenance services are also offered. Revenues from sales are recognized both by time and period.

In the case of time-related recognition, revenues from sales are recognized when power of disposal has been transferred to the buyer and no unfulfilled obligations remain that might affect the customer's acceptance of the products. This is predominantly the case on delivery to the customer.

In the case of period-related recognition, the revenues are recognized over the term of the contract to the extent that a claim for the agreed payment by the customer is established by fulfilment of contractual obligations provided the contract is structured accordingly. Payment terms of less than twelve months are usually agreed with customers. A receivable is shown on dispatch or delivery of the goods as at this point the claim for consideration is unconditional, i.e. payment will automatically become due with the lapse of time from this moment onward.

Applying IFRS 15, revenues from contracts with customers are realized as period-related sales if performance of the contract gives rise to a claim for the agreed payment by the customer. The Group provides its performance for contracts with customers on a period basis if performance gives rise to an asset with no alternative economic benefit, and an enforceable legal claim to consideration (incl. margin) for the contractual obligations fulfilled applies. Costs for the products sold and services provided are recognized at the end of the period in accordance with the stage of completion.

The input-oriented "cost-to-cost method" is used almost exclusively in the Group to determine the stage of completion as this method is best suited to reflecting the transfer of assets to the customer. The determination is based on the ratio between the costs accumulated by the closing date and the current estimate of the total costs.

Methods, assumptions and estimates are applied consistently. Losses on contracts are recognized in the period in which the latest estimate for the total costs of the contract exceeds the total contract revenues. Contract costs are estimated on the basis of project calculations, updated monthly. They also contain estimated follow-on costs.

If the sales revenues for an individual order recognized by the stage of completion exceed payments received and advance payments requested, a contract asset is recognized for the excess amount. If the revenues are lower, a contract liability is recognized. If a claim for payment is successively established against the customer for an order for which a contract asset is shown, or if the customer pays the relevant order, the contract asset is reduced accordingly and a receivable is recognized; if the company successively meets its performance obligations for an order for which a contract liability is shown, the contract liability is reduced and sales are shown.

In the Salzgitter Group, power of disposal over products is generally transferred to the customer either on dispatch or delivery to the customer in accordance with the contractually agreed delivery terms.

No major financing components are included. There are no significant obligations to take back products, provide reimbursement or similar obligations. In the case of contracts with customers containing a bundle of contractual obligations, individual sales prices are largely estimated on the basis of existing individual sales prices.

Contract assets are subject to the expected losses model contained in IFRS 9. Impairment losses are recognized at the level of the expected credit loss over the term.

In accordance with the amendment of IFRS 15, deferred tax assets amounting to € 2.7 million were recognized retrospectively effective January 1, 2018 with no effect on income.

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.

Government 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 rate 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. The Executive Board 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. 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, although this has an impact on the balance sheet only if the financial instruments are reported at current value.

The Group's risk of interest rate changes is always viewed and analyzed in connection with ongoing or planned financing measures. The use of derivative interest rate hedging instruments is only considered for existing or highly probable underlying transactions. In order to reduce the risks arising from derivative financial instruments, risks of interest rate changes are not decoupled from liquidity risks. As a general rule, market-related risks of interest rate changes are preferred to additional liquidity risks posed by asymmetric interest rate hedging transactions.

Market price risk
The Salzgitter Group counters the risk of fluctuating market prices, especially in the procurement of raw materials and energy, with price and supply contracts. Hedging is also used for ore to a limited extent and to a lesser extent also for coking coal. The analysis period for hedging is based on the medium-term three-year plan. Starting from a hedging ratio in the low to mid-double-digit range, the aim is to reduce this over the following years. A risk committee manages the risk exposure as a function of the market situation and business position and implements suitable measures.

Credit risk
In respect of potential credit risks, the Group has guidelines 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.

Preservation of Salzgitter AG's independence is the focus of its corporate policy. One prerequisite is the maintenance of a sound balance sheet and financial structure in order to secure its freedom to act at all times with regard to the operational, financial and strategic growth of the Group. This has been achieved through the increase of the equity ratio to 38.1% (previous year: 35.9%) as well as through a consistently positive net financial position. As the net financial position is of crucial importance to the Group, maintaining liquid funds in the mid-triple-digit million euro range is still regarded as indispensable to avoid any need to source money at short notice on the capital markets should the market environment become tougher.

Notes to the Income Statement

(1) Sales

In € m	2018	2017
By product group		
Strip Steel	4,617.9	4,392.3
Section Steel	796.1	674.4
Pipes	1,357.6	1,555.6
Filling and packaging machinery	1,310.7	1,254.6
Other	1,195.9	1,113.2
	9,278.2	**8,990.2**
Breakdown by region		
Domestic	4,450.2	4,287.7
Other EU	2,216.4	2,056.9
Rest of Europe	261.5	357.5
America	1,153.0	1,096.3
Asia	714.1	651.7
Africa	454.4	517.4
Australia / Oceania	28.6	22.6
	9,278.2	**8,990.2**

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

Sales revenues comprise time-related revenues amounting to € 7,888.1 million as well as period-related revenues totaling € 1,390.1 million. Time-related revenues result from the sale of goods. Period-related sales comprise work in progress for construction contracts for which a contract asset has been recognized as well as revenues for transport services in connection with time-related sales. Other services are also classified as period-related.

The amount of sales revenues comprised at the start of the period in net contract liabilities stands at € 87.8 million. Sales revenues from contractual obligations already fulfilled or partially fulfilled in earlier periods come in at € 34.7 million.

Unfulfilled (or partly unfulfilled) contractual obligations as of the end of the financial year relate to periods of no more than one year and are not disclosed, as is permitted under IFRS 15.

(2) Other operating income

Other operating income additionally contains income from the valuation of financial derivatives and foreign currency positions as well as from the reversal of provisions and allowances. Furthermore, this item also comprises lease income amounting to € 5.3 million (previous year: € 5.6 million) as well as subsidies amounting to € 5.3 million (previous year: € 4.4 million).

Other operating income in the reporting year also comprises income of € 12.9 million from the reversal of impairment of an investment property.

(3) Cost of materials

In € m	2018	2017
Cost of raw materials, consumables, supplies and goods purchased	5,694.8	5,590.2
Cost of services purchased	436.6	439.6
Cost of materials	**6,131.4**	**6,029.8**

(4) Personnel expenses

In € m	2018	2017
Wages and salaries	1,442.5	1,411.5
Social security, pensions and other benefits	297.0	313.0
of which pension plans and retirement benefits	[139.4]	[137.0]
Personnel expenses	**1,739.5**	**1,724.5**

In the financial year, the sum total of all defined-contribution pension expenses in the Salzgitter Group stood at € 105.2 million (previous year € 105.1 million). The service cost for defined-benefit commitments in the financial year amounted to € 34.2 million (previous year € 31.9 million).

Average number of employees (excl. employees in non-active age-related part-time employment)	2018	2017
Wage labor	13,765	13,698
Salaried employees	10,291	10,117
Group core workforce	**24,056**	**23,815**

Of the Group employees, 889 (previous year 883) 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	2018	2017
Intangible assets	– 0.5	– 1.1
Land and buildings	– 2.2	– 0.7
Plant equipment and machinery	– 40.1	– 40.4
Other equipment, plant and office equipment	– 1.5	– 4.0
Payments made on account and equipment under construction	–	– 2.6
Impairment losses	**– 44.3**	**– 48.8**

The fair value less selling costs was calculated using the discounted cash flow method based on an after tax interest rate of 8.02 % (previous year: 7.24 %) for the Technology Business Unit and 6.28 % (previous year: 5.94 %) 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 sale and procurement prices as well as sales volumes.

The impairment losses of € 30.0 million were accounted for in full by the cash-generating unit of the Mannesmann Precision Tubes Group (BU Mannesmann) and were the result of tough economic conditions and the ensuing drop in sales. The recoverable amount was determined to be € 213.8 million, corresponding to the fair value less costs to sell. In addition, the residual carrying amounts of two production systems from the Strip Steel Business Unit were written down as sales can no longer match the volume forecast. The resulting expenses total € 14.3 million.

(6) Other operating expenses

This item essentially contains expenditure for third-party services and the formation of provisions (€ 318.3 million; previous year: € 313.9 million) as well as for sales (€ 310.1 million; previous year: € 293.6 million). In addition, expenditure from operating leasing amounting to € 37.2 million (previous year € 36.0 million) was taken into account.

(7) Taxes on income

In € m	2018	2017
Income tax		
current tax expenses / tax income (+/–)	66.1	56.9
deferred tax expenses / tax income (+/–)	3.5	– 12.5
Total	**69.5**	**44.5**
of which unrelated to the reporting period	[– 0.0]	[0.6]

The income taxes amounting to € 69.5 million concern the result from ordinary activities (EBT). The income taxes unrelated to the reporting period comprise deferred and actual taxes for previous years.

The increase in actual income taxes to € 66.1 million can essentially be attributed to improved consolidated results. All in all, the actual income taxes applicable to domestic companies amount to € 47.9 million (previous year: € 35.5 million). The deferred tax expenses of € 3.5 million are caused among other factors by the utilization and re-estimation of the impairment of deferred tax assets on loss carried forwards 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 € 1.4 million (previous year: € 3.1 million).

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

In € m	2018/12/31		2017/12/31	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	4.0	11.3	4.6	10.2
Property, plant and equipment	49.0	98.1	54.4	118.0
Financial assets	1.4	2.7	1.2	1.8
Current assets	43.8	105.2	33.2	98.6
Pension provisions	272.4	0.1	297.3	–
Other provisions	77.8	3.3	83.3	5.6
Special reserve with equity portion	–	2.4	–	2.8
Liabilities	19.0	11.8	22.5	10.3
Other items	1.3	0.0	3.2	0.6
Total	**468.6**	**234.9**	**499.7**	**247.9**

Composition of the capitalized tax savings from loss carryforwards that may be realized in the future (at home and abroad):

In € m	2018/12/31	2017/12/31
Corporate income tax	50.3	52.0
Trade tax	47.4	47.5
Capitalized tax savings	**97.7**	**99.5**

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

In € m	2018	2017
Capitalized tax savings, 01/01	99.5	96.0
Changes in the consolidated group	0.4	0.0
Capitalization of tax savings from losses carried forward	59.4	34.5
Valuation allowances from losses carried forward	– 0.2	– 0.4
Use of losses carried forward	– 61.3	– 30.6
Capitalized tax savings, 12/31	**97.7**	**99.5**

As a result of the “minimum taxation” that was introduced in Germany from 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.

In addition, for a number of domestic companies, no deferred taxes were capitalized for trade tax loss carryforwards amounting to € 1,279.6 million (previous year € 1,478.3 million) or corporation tax loss carryforwards amounting to € 1,642.4 million (previous year € 1,815.8 million) as, from a current viewpoint, the possibility of their being used can be regarded as unlikely. The tax loss carryforwards can be utilized without time restrictions.

For foreign loss carryforwards without intrinsic value in an amount of € 106.3 million (previous year € 97.1 million) deferred tax assets were likewise not capitalized. Of this amount, € 87.8 million (previous year: € 88.6 million) can be utilized for an unlimited period of time, € 15.5 million (previous year: € 6.0 million) limited to the next five years, and € 3.0 million (previous year: € 2.5 million) limited to the next 20 years. For domestic and foreign companies, moreover, no deferred tax assets for deductible temporary differences in the amount of € 82.4 million (previous year: € 94.6 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 € 5.0 million (previous year: € 5.1 million) are reported as of December 31, 2018 because of anticipated future taxable income. No deferred tax liabilities were formed for temporary differences between the net assets and the tax base of Group companies of SZAG amounting to € 19.9 million (previous year € 18.8 million) as it is not expected that the temporary differences will reverse in the near future.

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

In € m	**2018**	**2017**
Earnings before taxes (EBT)	**347.3**	**238.0**
Expected income tax expenses (31.0 % / 31.0 %)	107.7	73.8
Tax share for:		
differences between tax rates	– 1.5	– 1.7
effects of changes in statutory tax rates	– 1.1	1.9
tax credits	– 1.7	– 4.5
tax-free income	– 23.1	– 32.1
non-deductible tax expenses and other additions	15.9	24.2
Effects of differences and losses		
without capitalization of deferred tax	26.8	15.7
Adjustments in the value of capitalization benefits	– 52.6	– 30.7
Utilization of benefits not previously capitalized	– 1.4	– 3.1
tax expenses and income unrelated to the reporting period	– 0.0	0.6
Other deviations	0.6	0.3
Disclosed income tax expenses (+) / income (–)	**69.5**	**44.5**

The income tax expense of € 69.5 million differs from the expected income tax expense of € 107.7 million by a total of € 38.2 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 non-deductibility of expenses for tax purposes.

(8) 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	–	–	–	20.258
End of financial year	60,097,000	6,009,700	54,087,300	3,568,665
Weighted number of shares	**60,097,000**	**6,009,700**	**54,087,300**	**3,568,665**

Earnings per share		**2018**	**2017**
Consolidated result	In € m	277.7	193.6
Minority interest	In € m	4.0	3.2
Amount due to Salzgitter AG shareholders	In € m	273.7	190.3
Earnings per share – basic	**(in €)**	**5.06**	**3.52**
Diluted result	In € m	276.5	193.0
Earnings per share – diluted	**(in €)**	**4.80**	**3.35**

Notes to the Consolidated Balance Sheet

Non-current Assets

(9) Intangible assets

Total research and development costs in the reporting year amounted to € 101.3 million (previous year: € 102.8 million) including € 10.8 million (previous year: € 11.6 million) for external services.

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

(10) 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	2018/12/31	2017/12/31
Plant, equipment and machinery	25.4	30.3
Assets capitalized as finance leases	**25.4**	**30.3**

The restrictions on ownership and disposal have declined to € 4.0 million (previous year: € 4.4 million) due to debt financing conditions abroad.

Government grants amounting to € 0.9 million (previous year: € 0.5 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 € 8.0 million (previous year: € 13.6 million).

(11) 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 € 5.0 million (previous year: € 2.3 million) in the reporting period. The direct operating expenses totaled € 5.4 million (previous year: € 0.5 million) and were basically incurred for properties that generated rental earnings in the reporting year.

As of December 31, 2018, the fair value of the investment properties stood at € 90.1 million (previous year: € 22.8 million); there is no knowledge of any significant impairing factors. This fair value is calculated using 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.

(12) Financial assets

In € m	2018/12/31	2017/12/31
Investments in affiliated companies	–	13.3
Financial investments	25.3	9.6
Other loans	50.3	61.2
Financial assets	**75.6**	**84.1**

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

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

	Aurubis AG, Hamburg		EUROPIPE Group		Other		Total	
In € m	2018	2017	2018	2017	2018	2017	2018	2017
Opening balance, 01/01	459.0	539.4	118.5	121.0	–	–	577.5	660.4
Result of current financial year	44.0	91.7	12.1	9.9	18.6	–	74.7	101.6
Proportionate gain / loss	33.5	96.7	11.7	7.8	18.6	–		
Adjustments with effect on the income “at-equity method”	10.5	–5.0	0.5	2.1	–	–		
Dividends	–11.3	–14.6	–	–	–2.8	–	–14.1	–14.6
Changes in shares	240.9	–194.2	–	–	–	–	240.9	–194.2
Changes in the consolidated group					7.6		7.6	
Other changes in equity	–3.2	36.7	4.8	–12.4	–	–	1.6	24.3
Proportional other income	–3.2	18.6	4.8	–12.4	–	–		
Book value, 12/31	**729.5**	**459.0**	**135.4**	**118.5**	**23.4**	**–**	**888.3**	**577.5**

The changes in shareholdings contain additions from the acquisition of shares in companies that are accounted for using the equity method.

Changes to the group of fully consolidated entities include the effects of the first-time consolidation of two companies hitherto not consolidated for reasons of materiality.

The fair value of the holding in Aurubis AG amounts to € 495.5 million (previous year: € 584.4 million). A review of the substantive value of the carrying amount (value in use model) revealed no need for a write-down.

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

	Aurubis AG, Hamburg		EUROPIPE Group		Total	
In € m	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Non-current assets	1,376.0	1,534.6	154.4	161.1	1,530.3	1,695.8
Current assets	3,040.1	3,097.8	353.0	291.0	3,393.1	3,388.8
Non-current liabilities	712.4	906.7	100.5	109.4	812.8	1,016.1
Current liabilities	1,148.6	1,236.5	136.1	104.9	1,284.8	1,341.3
Sales	9,892.1	11,450.4	953.4	1,042.0	10,845.5	12,492.4
Gain (–) / loss (+)	164.9	403.8	23.3	15.6	188.2	419.5
Other comprehensive income	– 14.0	44.6	9.7	– 24.8	– 4.3	19.7
Total comprehensive income	150.9	448.4	33.0	– 9.2	183.9	439.2
Dividends received	11.3	14.6	–	–	11.3	14.6
Share (%)	25.5	16.8	50.0	50.0	–	–

	Wohnbaugesell-schaft mbH	Borusan Mannesmann Boru Yatirim Holding A.S.	Total
In € m	**2018**	**2018**	**2018**
Non-current assets	113.8	14.8	128.6
Current assets	17.5	13.4	30.9
Non-current liabilities	58.0	0.0	58.0
Current liabilities	9.6	0.0	9.7
Sales	26.9	14.9	41.7
Gain (–) / loss (+)	2.9	14.8	17.7
Dividends received	–	2.8	2.8
Share (%)	25.1	23.0	–

Further summarizing financial information for joint ventures:

	EUROPIPE Group	
In € m	**2018**	**2017**
Cash and cash equivalents	55.7	42.8
Current financial liabilities	51.9	9.0
Non-current financial liabilities	–	–
Depreciation and amortization	17.2	18.0
Interest income	1.2	0.5
Interest expenses	2.4	3.7
Income tax expense (–) / income (+)	**– 5.4**	**6.7**

(14) 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 2018 are as follows:

In € m	2018/12/31	2017/12/31
Deferred income tax assets	**399.1**	**393.2**
Realization within 12 months	5.8	8.6
Realization after more than 12 months	393.2	384.6
Deferred income tax liabilities	**67.6**	**41.9**
Realization within 12 months	62.3	40.6
Realization after more than 12 months	5.3	1.3
Balance of deferred tax assets and deferred tax liabilities	**331.5**	**351.3**

Current Assets

(15) Inventories

In € m	2018/12/31	2017/12/31
Raw materials, consumables and supplies	748.6	700.8
Unfinished products	645.0	556.1
Unfinished goods or services	13.0	12.0
Finished goods	436.4	372.3
Goods	467.0	418.9
Payments on account	17.6	24.4
Inventories	**2,327.5**	**2,084.5**

In the reporting period there were write-ups amounting to € 1.5 million (previous year: € 0.9 million). Inventory impairments of € 46.4 million (previous year: € 44.8 million) were posted to expenses. The book value of the inventories reported at fair value less selling costs amounted to € 454.3 million (previous year: € 396.7 million). There are restrictions on ownership or disposal amounting to € 0.0 million (previous year: € 8.8 million) on the inventories disclosed.

(16) Trade receivables

Trade receivables subject to restrictions on ownership or disposal amount to € 142.7 million (previous year: € 142.6 million). These are accounted for largely by the forfeiting and factoring of receivables. For further details, please refer to Note (28) “Current financial liabilities”.

(17) Contract assets

Net contract assets fell in the reporting period from € 235.9 million to € 175.2 million. The decline relates exclusively to technical machinery and equipment in the Technology Business Unit.

(18) Other receivables and other assets

The ”other receivables and other assets” item essentially comprises certificates for current financial investment.

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

Other receivables are subject to restrictions on ownership or disposal amounting to € 2.6 million (previous year: € 2.5 million).

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	2018/12/31	2017/12/31
up to 1 year	3.0	2.6
1 to 5 years	4.1	2.1
over 5 years	3.0	3.5
Total	**10.1**	**8.2**

In the income for the reporting year, € 1.6 million (previous year: € 1.4 million) was reported as conditional rental income.

(19) Income tax assets and income tax liabilities

The non-current and current income tax refund claims existing as of December 31, 2018 amounting to € 24.6 million (previous year: € 29.5 million) largely concern capital gains tax demands of domestic Group companies. These are offset by non-current income tax payables totaling € 36.9 million (previous year: € 97.6 million) as well as current income tax payables totaling € 37.0 million (previous year: € 28.2 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 settle on a net basis. The prerequisite 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 current financial investments are disclosed in the total amount for securities of € 67.4 million (previous year: € 76.6 million). The invested funds reported here have a term of less than twelve months.

(21) Cash and cash equivalents

In € m	2018/12/31	2017/12/31
Cash at banks	351.9	512.9
Term deposits	200.0	166.0
Checks, cash in hand	3.6	0.5
Cash and cash equivalents	**555.6**	**679.4**

Equity

(22) Subscribed capital

The subscribed capital (share capital) remains unchanged at € 145,453,745.98 after offsetting against the notional value of treasury shares, corresponding to a total of 54,087,300 no-par value shares. The pro-rata amount of share capital accounted for by each individual bearer share is € 2.69 per share.

As of the reporting date, Salzgitter AG continued to hold 6,009,700 treasury shares. As before, they account for € 16,161,527.33 (= 10 %) of the share capital.

All of these shares were acquired on the basis of Section 71 (1) item 8, German Stock Corporation Act, based on authorization given by the Annual 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 27 May, 2009, and 214,463 shares from June 8, 2010), to be able to use them in particular for future acquisitions, to fulfil 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.

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 only be issued 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.

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 3,568,665 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 € 47.0484 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 the capital reserve in accordance with Section 272 (2) item 2 of the German Commercial Code (HGB).

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.

(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 Annual General Meeting of Shareholders that dividend for the financial year 2018 of € 0.55 per share be paid from Salzgitter AG's unappropriated retained earnings and that the remaining amount be brought forward to new account. Dividend for the previous year was € 0.45 per share.

Based on the Salzgitter share's closing XETRA price of € 25.57 on December 31, 2018, the dividend yield amounts to 2.2 % (previous year: 0.9 %).

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

(25) Further details of shareholders' equity

Details of the existence of a participating interest / voting rights disclosures in accordance with Section 160 (1) item 8 of the German Stock Corporation Act (AktG):

As of the 2018 reporting date, there are participating interests in Salzgitter AG that have been reported in accordance with Section 33 (1) of the new version of the German Securities Trading Act (WpHG) (Section 21 (1) of the old version) and published in accordance with Section 40 (1) of the new version of the German Securities Trading Act (WpHG) (Section 26 (1) of the old version).

Hannoversche Beteiligungsgesellschaft mbH, Hanover, Germany, informed us on April 2, 2002 that on April 1, 2002 it held 25.5 % of the voting rights in Salzgitter AG.

In addition, the State of Lower Saxony, represented by the Ministry of Finance for Lower Saxony, Hanover, Germany, has informed us that it is entitled to this 25.5 % of the voting rights in Salzgitter AG. According to the Ministry, these entire voting rights are to be attributed to the State of Lower Saxony in accordance with Section 22 (1) sentence 1 item 1 of the old version of the German Securities Trading Act.

It is noted here that due to the changes in Salzgitter AG's share capital that have now been completed, the aforementioned number of voting rights currently corresponds to a voting share of 26.48 %.

Salzgitter AG, Salzgitter, Germany announced on July 8, 2010 with respect to its treasury shares in accordance with Section 26 (1) sentence 2 of the old version of the Germany Securities Trading Act in conjunction with Section 21 (1) sentence 1 of the old version of the German Securities Trading Act that its holding of treasury shares had reached the 10% threshold on July 6, 2010. Its share of voting rights with respect to treasury shares is 10.000%. Salzgitter AG currently holds 6,009,700 treasury shares. This equates to a share of voting rights of 10.000%.

Dimensional Fund Advisors LP, Austin, Texas, USA informed us on October 1, 2015 in accordance with Section 21 (1) of the German Securities Trading Act that its share of the voting rights in Salzgitter AG, Salzgitter, Germany exceeded the threshold of 3% of the voting rights on September 30, 2015, amounting on this day to 3.004% (this corresponds to 1,805,610 voting rights). Of these, 2.90% of the voting rights (equating to 1,744,090 voting rights) are attributable to Dimensional Fund Advisors LP in accordance with Section 22 (1) sentence 1 item 6 of the old version of the German Securities Trading Act and 0.12% of the voting rights (equating to 71,499 voting rights) to Dimensional Fund Advisors LP in accordance with Section 22 (1) sentence 1 item 6 of the old version of the German Securities Trading Act in conjunction with Section 22 (1) sentence 2 of the old version of the German Securities Trading Act.

Dimensional Holdings Inc., Austin, Texas, USA informed us on October 1, 2015 in accordance with Section 21 (1) of the old version of the German Securities Trading Act that its share of the voting rights in Salzgitter AG, Salzgitter, Germany exceeded the threshold of 3% of the voting rights on September 30, 2015, amounting on this day to 3.004% (this corresponds to 1,805,610 voting rights). Of these, 3.004% of the voting rights (equating to 1,805,610 voting rights) are attributable to Dimensional Holdings Inc. in accordance with Section 22 (1) sentence 1 item 6 of the old version of the German Securities Trading Act in conjunction with Section 22 (1) sentence 2 of the old version of the German Securities Trading Act.

After the closing date, BlackRock, Inc., Wilmington, Delaware, USA informed us on January 14, 2019 in accordance with Section 33 (1) of the German Securities Trading Act that its share of the voting rights in Salzgitter AG, Salzgitter, Germany exceeded the threshold of 3% of the voting rights on January 9, 2019, amounting on this day to 3.23% (this corresponds to 1,943,029 voting rights). Of these 3.23% of voting rights (equating to 1,943,029 voting rights) are attributable to BlackRock, Inc. in accordance with Section 34 of the German Securities Trading Act. BlackRock, Inc. has disclosed that with regard to a further 0.66% it is the owner of instruments in accordance with Section 38 of the German Securities Trading Act of which 0.12% (equating to 73,736 voting rights) are to be classified as instruments under Section 38 (1) of the German Securities Trading Act and 0.54% (equating to 325,561 voting rights) as instruments under Section 38 (2) of the German Securities Trading Act.

Non-current liabilities

(26) 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	2018/12/31	2017/12/31
Provisions for pensions and similar obligations		
Net pension provision	2,275.5	2,440.5
Other receivables and other assets		
Reimbursement right	3.3	4.0

Profit & Loss

In € m	2018	2017
Personnel expenses		
Service cost	34.2	31.9
Finance expenses		
Net interest	36.0	42.0

Other comprehensive income

In € m	2018	2017
Remeasurement of pensions		
Remeasurements from pension provision	121.1	–35.0
Remeasurements from reimbursement right	–0.0	0.0
	121.1	–35.0

The net pension commitment as of December 31, 2018 is calculated as follows:

In € m	Defined benefit obligation	Plan assets	Net pension provision
As of 2018/01/01	**2,514.8**	**74.3**	**2,440.5**
Service cost			
Current service cost	39.3	3.8	35.5
Past service cost	–1.2	–	–1.2
	38.0	**3.8**	**34.2**
(Net) Interest expense / income	**36.5**	**0.5**	**36.0**
Remeasurements			
Experience gains (–) / losses (+)	–11.5	–	–11.5
Gain (–) / loss (+) from change in demographic assumptions	–22.3	–	–22.3
Gain (–) / loss (+) from change in financial assumptions	–89.7	–	–89.7
Return on plan assets excluding amounts included in interest income	–	–2.3	2.3
	–123.5	**–2.3**	**–121.1**
Benefits paid	**–115.8**	**–2.3**	**–113.5**
Contributions			
Employers	–	1.1	–1.1
Plan participants	0.1	0.1	–
	0.1	**1.1**	**–1.1**
Currency translation differences	**–0.3**	**0.0**	**–0.3**
Changes in the consolidated group	**1.3**	**0.1**	**1.3**
Transfers / transfers to other accounts	**–0.5**	**0.1**	**–0.5**
As of 2018/12/31	**2,350.7**	**75.2**	**2,275.5**

As of December 31, 2018, plan assets are essentially made up of investment funds (€ 56.7 million) and other equity instruments (€ 1.3 million) whose present values were determined on an active market on the closing date. Plan assets also consist of insurance contracts (€ 17.2 million) the present values of which were not determined on an active market.

The gain from the change in demographic assumptions relates to the change in pension provisions on the basis of the conversion to the Heubeck 2018G mortality tables.

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

In € m	Defined benefit obligation	Plan assets	Net pension provision
As of 01/01/2017	**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**

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

In € m	2018/12/31	2017/12/31
Actual net present value of the defined benefit obligation (Germany)	**2,313.1**	**2,478.0**
of which aspirant	946.0	999.3
of which recipient	1,367.1	1,478.7
Actual net present value of the defined benefit obligation (abroad)	**37.6**	**36.9**
	2,350.7	**2,514.8**

The sensitivity of the defined benefit obligation is as follows:

In € m				2018/12/31
	Reference	Degree of sensitivity	+ Unit	– Unit
Discount rate	1.75%	0.25% points	–82.4	+87.9
Salary trend	2.75%	0.5% points	+4.7	–4.5
Pension trend	1.75%	0.25% points	+63.6	–61.1
Mortality	Heubeck 2018G	1 year	+120.9	–119.5

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

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	
2019	112.8
2020	112.8
2021	109.6
2022	107.8
2023	107.4
2024–2028	504.9
2029–2038	868.7

The duration of the obligation’s net present value according to Macaulay as of December 31, 2018 is 15.34 years.

(27) Other provisions

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

In € m	2018/01/01	Currency translation differences	Addition / disposal from changes in cons. group	Transfer	Transfer to other accounts
Other taxes	**10.9**	**0.0**	**–**	**–**	**–1.5**
Personnel	**175.4**	**–0.2**	**1.0**	**–0.3**	**–0.6**
of which anniversary provisions	[58.6]	[–]	[0.4]	[–]	[–]
of which for the social compensation / age-related part-time employment / demographics fund	[69.9]	[–]	[0.6]	[0.0]	[–0.1]
Operating risks	**149.1**	**0.1**	**–**	**–**	**–**
Other risks	**200.4**	**–0.8**	**2.3**	**–**	**53.0**
of which price reductions / complaints	[103.7]	[–0.2]	[2.2]	[–]	[–8.6]
of which risks from pending transactions	[18.6]	[–0.1]	[–]	[–]	[0.5]
Total	**535.8**	**–0.8**	**3.2**	**–0.3**	**51.0**

The anniversary provisions shown under personnel provisions have a duration of ten years.

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

In the reporting year, an amount for a provision with regard to investigations by the Federal Competition Authority against the producers of strip steel products as well as plate steel was added to other risks. The Group exercises its right to refrain from further explanations as they could have seriously detrimental consequences for the Group in the ongoing investigation.

The reclassification to provisions for other risks includes a reclassification of € 59.6 million from income tax provisions. This relates to incidental tax expenses as a result of external tax audits. The reclassification of provisions for other risks to liabilities from customer credit balances in an amount of € 8.6 million relates to payment obligations resulting from agreements on sliding scale discounts from contracts with customers.

Used	Reversal	Allocation	Compound interest	2018/12/31	of which long-term
−2.3	**−0.2**	**0.9**	**–**	**7.8**	**2.2**
−48.6	**−13.9**	**49.3**	**1.3**	**163.5**	**110.8**
[−3.6]	[−0.3]	[3.4]	[0.9]	[59.4]	[54.0]
[−33.1]	[−3.9]	[33.9]	[0.2]	[67.5]	[39.6]
−4.5	**−0.2**	**12.4**	**1.2**	**158.1**	**150.0**
−63.5	**−47.7**	**166.4**	**0.3**	**310.3**	**95.4**
[−34.3]	[−32.0]	[52.2]	[–]	[83.1]	[2.2]
[−7.7]	[−4.9]	[8.4]	[–]	[14.8]	[4.7]
−118.8	**−62.1**	**229.0**	**2.9**	**639.8**	**358.4**

(28) Non-current financial liabilities

In € m	2018/12/31	2017/12/31
Liabilities to banks	100.8	241.6
Bonds	162.0	157.9
Liabilities from finance lease agreements	22.1	28.1
Liabilities from financing	6.3	6.3
Financial liabilities	**291.1**	**433.8**

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	2018/12/31
Minimum lease payments	19.3	5.9	25.2
Finance costs	2.8	0.3	3.1
Present value of minimum lease payments	**16.5**	**5.6**	**22.1**

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**

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

Current Liabilities

(29) Current financial liabilities

In € m	2018/12/31	2017/12/31
Liabilities to banks	275.3	91.3
Liabilities from factoring	142.7	138.7
Liabilities from finance lease agreements	7.0	6.6
Other borrowings	1.8	1.2
Current financial liabilities	**426.9**	**237.8**

Companies in Germany and abroad have made external financing arrangements outside of the Group. The resulting liabilities from factoring are secured by trade receivables. 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 disclosed in full 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 € 99.9 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	2018/12/31	2017/12/31
Minimum lease payments	8.5	8.4
Finance costs	1.5	1.8
Present value of minimum lease payments	**7.0**	**6.6**

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

(30) Contract liabilities

Net contract liabilities rose in the reporting period from € 113.6 million to € 250.2 million. The increase relates mainly to technical machinery and equipment in the Technology Business Unit as well as the pipes segment.

(31) Other liabilities

In € m	2018/12/31	2017/12/31
Liabilities to employees	122.4	109.9
Tax liabilities	47.6	55.4
Customer credit balances	14.3	6.8
Liabilities from social security contributions	12.9	11.9
Liabilities from derivatives	2.9	22.0
Payments received on account	–	83.9
Other liabilities	63.2	49.4
Other liabilities (current)	**263.4**	**339.2**

As well as the liabilities from factoring secured by receivables, a sum of € 34.5 million (previous year: € 31.2 million) is secured through mortgages.

Liabilities resulting from advance payments received are reported under contract liabilities in the reporting period. “Other liabilities” comprise a large number of small amounts pertaining to individual transactions at the consolidated companies.

(32) Contingencies

Contingent liabilities are existing collateral commitments for third-party liabilities that are not expected to be utilized, however. Valued on the closing date, these commitments amount to € 16.1 million (previous year: € 29.4 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 € 8.5 million (previous year: € 17.1 million). Based on past experience, the probability of their being utilized can be regarded as low.

Contingent liabilities also comprise the Group's own liabilities where the probability of occurrence involving a possible outflow of resources is less than 50 % but not entirely unlikely.

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 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 € 97.9 million (including interest), although outside jurisdiction is largely regarded as unlikely.

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 and the formation of provisions not permitted under tax rules. 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. 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.

The German antitrust authority is currently conducting investigations against producers 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. It is still not possible to rule out legal infringements and this risk has been reflected in the consolidated financial statements. We have since resumed our participation in association activities – to the extent that it has been declared safe to do so from an anti-trust perspective. As is permitted, the Group is refraining from further explanations as they could entail seriously detrimental consequences for it in the ongoing investigation.

Neither Salzgitter AG nor any of its Group companies is involved in any further ongoing or imminent court or arbitration proceedings that might have a substantial effect on its financial position.

(33) Other financial obligations

In € m			2018/12/31
	up to 1 year	1 to 5 years	over 5 years
Purchase commitments for investments (essentially property, plant and equipment)	204.0	37.0	3.6
Obligations from rental and leasing agreements	34.3	66.3	91.8
Other financial obligations	608.3	387.4	51.7
Total	**846.6**	**490.6**	**147.2**

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**

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.

(34) Financial instruments

The first-time application of IFRS 9 has no major impact on the accounting methods used by the Salzgitter Group with regard to financial liabilities and derivative financial instruments not treated as hedge accounting.

In the case of highly likely procurement transactions, definable risk components forming part of cash flow hedges can be designated as underlying transactions under IFRS 9 for treatment as hedge accounting. The Salzgitter Group avails itself of this option. Hedging transactions, underlying transactions and the management of risks are described in the course of this section.

The table on the page after next, as well as additional disclosures, explain the original measurement category under IAS 39 and the new measurement category under IFRS 9 for every class of financial assets and financial liabilities formed by the Group as of January 1, 2018. The effects of the first-time application of IFRS 9 on the carrying amounts of the financial assets as of January 1, 2018 result exclusively from the new rules on recognizing impairment losses.

The first-time application of IFRS 9 results in the following effects on the Salzgitter Group's profitability, financial position and net assets:

Participating interests categorized as available for sale under IAS 39 are held in a separate portfolio to generate dividend income. These equity investments represent investments that the Group is holding for the long term. In compliance with IFRS 9, the Salzgitter Group designated these participating interests as "fair value through other comprehensive income" at the time of its initial application. In contrast to IAS 39, the accumulated reserve from changes in fair value in connection with these investments is never reclassified to profit and loss.

The Securities item only shows fund units held for investment. These fund units were categorized as available for sale under IAS 39, and it is now mandatory to classify them at fair value through profit and loss under IFRS 9 as the payment flows from these fund units do not consist exclusively of interest payments and principal repayments. The accumulated reserve from changes in fair value existing in connection with these fund units amounting to € 2.1 million before tax (€ 1.5 million after tax) as of January 1, 2018 was reclassified to retained earnings.

Under IAS 39, hedging transactions outside of hedge accounting were designated as held for trading. Under IFRS 9, it is now mandatory to classify these hedging transactions at fair value through profit and loss as the payment flows from these transactions do not consist exclusively of interest payments and principal repayments.

Impairment losses on financial instruments have risen by a total of € 6.4 million before tax. This results from the increase in impairment losses due to the transition to IFRS 9 on January 1, 2018 and the associated requirements of the new impairment loss model (expected losses model).

Trade receivables and other receivables that were classified as loans and receivables under IAS 39, are now classified at their amortized cost. An increase in the write-downs on trade receivables of € 3.5 million (see Application of Simplified Approach) and of € 2.9 million on other receivables (see Application of General Approach) was recognized in retained earnings on transition to IFRS 9 as of January 1, 2018. Of the increase in write-downs on trade receivables amounting to € 3.5 million as of January 1, 2018, € 1.3 million was accounted for by the initial recognition of contract assets.

Reclassifications of measurement categories relate to the items Securities and Cash and cash equivalents:

Securities disclosed at fair value in the category "Available for sale" with no effect on income under IAS 39, are measured at their fair value under IFRS 9 and recognized in profit or loss.

Cash and cash equivalents disclosed at fair value in the category "Available for sale" with no effect on income under IAS 39, are measured at cost under IFRS 9.

Transition of classification and measurement of financial instruments from IAS 39 to IFRS 9:

The following table shows the measurement categories and carrying amounts under IAS 39 and IFRS 9 for each class of financial instruments.

In € m

2017/12/31 (IAS 39) 2018/01/01 (IFRS 9)	**Category to IAS 39[1)]**	**Book value acc. to IAS 39**	**Valuation effects**	**Category to IFRS 9[1)]**	**Book value acc. to IFRS 9**
Assets					
Financial assets	LaR	61.2	−2.7	At cost	58.5
Financial assets	AfS	22.9	–	FVOCIwoR	22.9
Other non-current receivables and assets (€ 26.0 m acc. to balance sheet); of which financial instruments	Hedge accounting	18.4	–	Hedge accounting	18.4
Long-term and short-term trade receivables	LaR	1,517.8	−3.5	At cost	1,514.3
Other receivables and other assets (€ 394.2 m acc. to balance sheet); of which financial instruments € 348.8 m	LaR	296.7	−0.2	At cost	296.5
Other receivables and other assets (€ 394.2 m acc. to balance sheet); of which financial instruments € 348.8 m	HfT	10.4	–	FVPL	10.4
Other receivables and other assets (€ 394.2 m acc. to balance sheet); of which financial instruments € 348.8 m	Hedge accounting	41.6	–	Hedge accounting	41.6
Securities	AfS	76.6	–	FVPL	76.6
Cash and cash equivalents	AfS	679.4	–	At cost	679.4
Assets financial instruments		**2,725.2**			**2,718.6**
Equity and liabilities					
Non-current financial liabilities	At cost	433.8	–	At cost	433.8
Current financial liabilities	At cost	237.8	–	At cost	237.8
Trade payables	At cost	1,169.0	–	At cost	1,169.0
Other current liabilities (€ 339.2 m acc. to balance sheet); of which financial instruments € 64.9 m	HfT	20.1	–	FVPL	20.1
Other current liabilities (€ 339.2 m acc. to balance sheet); of which financial instruments € 64.9 m	Hedge accounting	1.9	–	Hedge accounting	1.9
Other current liabilities (€ 339.2 m acc. to balance sheet); of which financial instruments € 64.9 m	At cost	42.9	–	At cost	42.9
Equity and liabilities financial instruments		**1,905.5**			**1,905.5**

[1)] **Abbreviations:**
AfS: Available for Sale
FVPL: Fair Value through profit and loss
FVOCIwoR: Fair Value through other comprehensive income without recycling
HfT: Held for trading
LaR: Loans and receivables

As of the balance sheet date of 31 December, 2018, the transition of the balance sheet items to the various categories of financial instruments was as follows:

2018 in € m	Book value			Valuation according to IFRS 9			Valuation according to IAS 17	
	2018/12/31	Out of scope of IFRS 7	In scope of IFRS 7	At amortized cost	At fair value (OCI)	At fair value (P&L)	At amortized cost	Fair value
Assets								
Financial assets	75.6	–	75.6	50.3	25.3	–	–	95.9
Other non-current receivables and assets	24.0	16.2	7.8	–	7.8	–	–	7.8
Long-term and short-term trade receivables	1,392.7	–	1,392.7	1,392.7	–	–	–	1,392.7
Other current receivables and assets	403.7	59.4	344.3	300.0	30.8	13.6	–	344.3
Securities	67.4	–	67.4	–	–	67.4	–	67.4
Cash and cash equivalents	555.6	–	555.6	555.6	–	–	–	555.6
Assets financial instruments			**2,443.5**	**2,298.5**	**63.9**	**81.1**	**–**	
Equity and liabilities								
Non-current financial liabilities	291.1	–	291.1	269.0	–	–	22.1	299.0
Other current liabilities	6.1	4.9	1.2	–	1.2	–	–	1.2
Current financial liabilities	426.9	–	426.9	419.8	–	–	7.0	429.8
Trade payables	1,130.2	–	1,130.2	1,130.2	–	–	–	1,130.2
Other non-current liabilities	263.4	211.0	52.4	49.5	0.3	2.7	–	52.4
Equity and liabilities financial instruments			**1,900.6**	**1,868.5**	**1.5**	**2.7**	**29.2**	

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 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 in the Fair Value column in the above table are therefore to be assigned overall to Level 2. Further information on the fair value hierarchy and the categorization of financial instruments in hedge accounting can be found in the explanations of the fair value hierarchy below.

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			Valuation according to IAS 39	Valuation according to IAS 17	
	2017/12/31	Loans and receivables / liabilities at cost	Available for sale / hedge accounting	Held for trading	At amortized cost	Fair value
Assets						
Financial assets	84.1	61.2	22.9	–	–	103.7
Other non-current receivables and assets (€ 26.0 m acc. to balance sheet); of which financial instruments	18.4	–	18.4	–	–	18.4
Trade receivables	1,517.8	1,517.8	–	–	–	1,517.8
Other receivables and other assets (€ 394.2 m acc. to balance sheet); of which financial instruments	348.8	296.7	41.6	10.4	–	348.8
Securities	76.6	–	76.6	–	–	76.6
Cash and cash equivalents	679.4	–	679.4	–	–	679.4
Assets financial instruments		**1,875.7**	**839.0**	**10.4**	**–**	
Equity and liabilities						
Non-current financial liabilities	433.8	405.8	–	–	28.1	446.7
Current financial liabilities	237.8	231.2	–	–	6.6	241.4
Trade payables	1,169.0	1,169.0	–	–	–	1,169.0
Other current liabilities (€ 339.2 m acc. to balance sheet); of which financial instruments	64.9	42.9	1.9	20.1	–	64.9
Equity and liabilities financial instruments		**1,848.9**	**1.9**	**20.1**	**34.7**	

In the previous year, fund units were disclosed in the category “Financial assets available for sale” under the “Securities” item.

Trade receivables and Cash and cash equivalents have short residual terms for the most part, 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 through profit and loss.

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

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 previous year, the “Available-for-sale financial assets” category included total financial assets of € 22.9 million. It was not possible to determine reliable fair values for these assets as they were not listed on the market. These were shares in partnerships and corporations for which there were no intentions to sell in the near future. These assets were recognized at amortized cost.

Fair value calculation:

2018 in € m	Fair value						
	At fair value without effect on income financial investments	At fair value without effect on income hedge accounting	At fair value (P&L)	Total	thereof level 1	thereof level 2	thereof level 3
Assets							
Financial assets	25.3	–	–	25.3	–	–	25.3
Other non-current receivables and assets	–	7.8	–	7.8	–	7.8	–
Other current receivables and assets	–	30.8	13.6	44.4	–	44.4	–
Securities	–	–	67.4	67.4	67.4	–	–
Assets fair value	**25.3**	**38.6**	**81.1**				
Equity and liabilities							
Other current liabilities	–	1.2	–	1.2	–	1.2	–
Other non-current liabilities	–	0.3	2.7	2.9	–	2.9	–
Liabilities fair value	**–**	**1.5**	**2.7**				

Financial assets measured at their fair value with no effect on income represent exclusively long-term holdings in companies over which the Salzgitter Group is unable to exert any significant influence. The measurement chosen through other comprehensive income with no subsequent reclassification to the income statement is regarded as appropriate as there is no intention to achieve short-term profits with these investments.

The dividends from these financial investments recognized in the financial year result exclusively from equity instruments still held by the Salzgitter Group on the closing date. The dividend income is recognized in the Group's income from shareholdings. The subsequent measurement of the equity instruments held with no effect on income also increased their carrying amounts by € 23.1 million. The carrying amounts of all financial investments as of the closing date of December 31, 2018, as well as the carrying amounts of the previous year are disclosed in the notes to items in the balance sheet.

The market value of these equity instruments was determined on the basis of parameters for which there are no observable market data. The equity instruments assigned to Level 3 and measured at fair value with no effect on profit or loss with a carrying amount of € 25.3 million constitute investments measured on the basis of the best information available on the closing date.

The main unobservable input factors for measuring the fair value of financial investments assigned to Level 3 of the measurement hierarchy consist of dividend payments and the imputed cost of capital. The fair value is determined on the basis of these input factors using a discounted cash flow method. If the cost of capital changes by +/– 1%, the fair value would fall by € 2.3 million or increase by € 3.0 million.

2017 in € m	Fair value						
	At fair value without effect on income financial invest-ments	At fair value without effect on income hedge account-ing	At fair value (P&L)	Total	thereof level 1	thereof level 2	thereof level 3
Assets							
Other non-current receivables and assets (€ 26.0 m acc. to balance sheet); of which financial instruments	–	18.4	–	18.4	–	18.4	–
Other current receivables and assets (€ 394.2 m acc. to balance sheet); of which financial instruments	–	41.6	10.4	52.0	–	52.0	–
Securities	76.5	–	–	76.5	76.5	–	–
Assets fair value	**76.5**	**60.1**	**10.4**				
Equity and liabilities							
Other current liabilities (€ 339.2 m acc. to balance sheet); of which financial instruments	–	1.9	20.1	22.0	–	22.0	–
Liabilities fair value	**–**	**1.9**	**20.1**				

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 most of the risk of bad debt.

The Salzgitter Group has three types of assets subject to the model of expected losses under IFRS 9. Besides trade receivables, these are contract assets and debt instruments measured at amortized cost. Cash and cash equivalents are also subject to impairment rules under IFRS 9, but the impairment expense identified was inconsequential.

The Salzgitter Group applies the simplified approach for all trade receivables and contract assets in accordance with IFRS 9 in order to measure the expected credit losses.

To calculate the expected credit losses, trade receivables and contract assets were aggregated on the basis of common credit risk characteristics. Contract assets relate to as yet uninvoiced, ongoing work and essentially exhibit the same credit risk characteristics as trade receivables for the same types of contract. The Salzgitter Group therefore applies the same loss ratios as for trade receivables when measuring the expected losses from contract assets.

The Salzgitter Group takes account of the probability of default at the time of assets' initial recognition as well as of any significant increase in the default risk during the reporting period. To judge whether the default risk has increased significantly, the default risk with respect to the closing date is compared with the default risk at the time of initial recognition. Besides external credit ratings, particular weight is given to internal credit ratings and significant changes to the expected profitability and payment behavior of the debtor.

Financial assets are written off if, after due consideration, deemed unrecoverable, for instance if a debtor refuses to agree a repayment plan. If loans or receivables have been written off, the company will continue to enforce its claim in order to recover the amounts due. A financial instrument is derecognized if, after due consideration, a financial asset can no longer be assumed to be partially or wholly recoverable, for example, upon the conclusion of insolvency proceedings or following judicial rulings. For these reasons, trade receivables in an amount of € 3.5 million were derecognized in the financial year.

As of the reporting date, the default risk compared with the previous year was as follows:

In € m	**2018/12/31**		**2017/12/31**	
	Maximum default risk	**Hedged default risk**	**Maximum default risk**	**Hedged default risk**
Long-term and short-term trade receivables	1,392.7	762.4	1,517.8	686.2
Other receivables	300.0	20.2	296.7	2.5
Financial assets	50.3	–	61.2	–
Total	**1,742.9**	**782.6**	**1,875.7**	**688.7**

There are also default risks amounting to the positive market values of derivatives, and with lease receivables equating to the assets reported for which the default risk is not secured.

The Salzgitter Group assigns receivables, trade receivables and contract assets to three categories that reflect the risk of default as well as the way in which any impairment loss is determined for each category. These credit ratings are aligned with the ratings of external agencies such as Standard and Poor's, Moody's and Fitch.

The rating system for assets accounted for in accordance with the general approach is as follows:

In € m	**2018/12/31**		
General approach	**Level 1**	**Level 2**	**Level 3**
High credit rating	300.0	–	–
Fair credit rating	35.9	–	–
Increased risk	14.4	–	–
Total	**350.3**	**–**	**–**

	Impairment general approach level 1		
In € m	**Gross book value**	**Credit risk**	**Net book value**
Opening balance 1/1	357.9	−2.9	355.0
Addition	–	−0.5	−0.5
Disposal	−7.6	0.7	−6.9
Closing balance 12/31	**350.3**	**−2.7**	**347.6**

The rating system for assets accounted for in accordance with the simplified approach, is as follows:

In € m		
Simplified approach	**Trade receivables gross**	**Contract assets gross**
High credit rating	820.8	49.2
Fair credit rating	505.3	126.8
Increased risk	134.7	–
Total	**1,460.8**	**176.0**

The figures shown for the various rating categories are gross carrying amounts before taking account of the credit default risk. This gross carrying amount for all trade receivables as of December 31, 2018 amounts to € 1,460.80 million. Of the entire risk provision for trade receivables amounting to € 68.2 million, € 62.3 million was accounted for by the "Increased risk" category. The remaining sum for the risk provision for trade receivables amounting to € 5.9 million results primarily from the risk provision for trade receivables in the "Fair credit rating" category.

An amount of € 792.7 million of the trade receivables was hedged against payment defaults as of the reporting date, and of this amount, € 733.8 million was accounted for by credit insurance.

As of December 31, 2018, the gross carrying amount of all contract assets amounts to € 176.0 million. Overall, there is a risk provision for contract assets amounting to € 0.9 million resulting essentially from the risk provision for contract assets in the "Fair credit rating" category.

In € m	Impairment trade receivables	Impairment contract assets
As per 01/01 acc. to IAS 39	–67.2	0.0
Adjustment IFRS 9	–2.2	–1.3
As per 01/01 acc. to IFRS 9	**–69.4**	**–1.3**
Addition	–93.0	–0.1
Utilization	3.5	0.0
Disposal	91.1	0.0
Transfer to other accounts	–0.5	0.5
Currency differences	0.0	0.0
As per 12/31	**–68.2**	**–0.9**

The balance of impairment losses and reversals of previously recognized impairment losses results in an expense of € 1.9 million.

An analysis of the ages of the financial instruments overdue as of the previous year's reporting date and amounting to € 259.5 million, 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

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

Amounts that have not been 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 previous year, the Salzgitter Group recorded impairments of assets categorized as "Loans and receivables originated by the company" in an amount of € 22.7 million and reversals of impairment and allowances in an amount of € 15.1 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" was carried out as soon as there were any objective indications of impairment, for example substantial financial difficulties of the debtor or breach of contract. 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.

Since January 1, 2018, impairments have been recognized in accordance with the impairment model in IFRS 9 (expected losses model).

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. The risk concentration is countered by a rolling liquidity plan. 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.

The net results of the categories are as follows:

In € m	**2018**
Financial instruments measured with no effect on income	36.1
Financial assets at cost	– 3.3
Equity instruments measured with no effect on income	2.4
Financial liabilities measured at amortized cost	– 35.5
Total	**– 0.3**

In € m	**2017**
Assets/liabilities held for trading	17.6
Loans and receivables originated by the company	8.2
Financial instruments – available for sale	1.2
Financial liabilities measured at amortized cost	– 18.8
Total	**8.3**

The net result of the category “Financial assets and liabilities measured at fair value with effect on income” includes essentially the effects of measuring forward currency transactions as of the closing date. Besides impairments and the effects of changes in exchange rates, the category “Financial assets measured at amortized cost” also includes interest income amounting to € 14.8 million (previous year: € 18.9 million). The category “Equity instruments measured at fair value with no effect on income” includes primarily income from shareholdings. Interest expenses amounting to € 36.8 million (previous year: € 20.4 million) are allocated to the ”Financial liabilities measured at amortized cost” category. This category also includes effects from currency translation.

For financial instruments not measured at fair value through profit and loss, the expenses incurred by financial and monetary transactions amounted to € 7.8 million (previous year: € 10.2 million); these were immediately recognized with effect on income.

Movements in the reserve for changes in the value of financial instruments in the category “Equity instruments measured at fair value with no effect on income” (previous year: “Available for sale”) are as follows after tax:

In € m	2018	2017
As of 01/01	1.5	−16.5
Transition IFRS 9	−1.5	–
Write-up without effect on income	23.1	0.4
Disposal	–	−18.1
Deferred tax	−3.1	−0.5
As of 12/31	**20.0**	**1.5**

The business model for areas of the Salzgitter Group’s business that are heavily focused on steel is exposed to volatility in the price of raw materials and in sales prices. Selected raw material hedging transactions entered into to manage raw material price risks and margin risks are accounted for using hedge accounting. Starting with the variability of raw material purchase prices in procurement contracts, the relationship between the price of raw materials and the price of steel, the time lapse between when raw material prices are set and the price of steel in the market, as well as the anomalies of the business model (throughput times, minimum stocks, batch sizes within production, etc.), all of these factors form part of the process of identifying risks. As a result of the circumstances outlined, there is a risk that the actual margin obtained may differ from the margin originally budgeted. Key management indicators including associated limits are used to manage these raw material price risks and associated margin risks in the Salzgitter Group. Taking account of these key performance indicators, a risk committee is responsible throughout the Group for initiating and selecting appropriate measures to manage risk positions and defines a hedging ratio.

The various measurement parameters pertaining to the underlying transaction and the hedging transaction are compared in order to determine the economic hedging relationships. As the measurement parameters of the underlying transaction and the hedging transaction are the same (nominal volume, price index and maturity), an economic hedge can be assumed. The following reasons may lead to the hedge becoming ineffective: a change in the payment schedule, an increase or decrease in the nominal volume or the price, or a significant change in the credit risk of one or both of the two contractual partners. The ineffectiveness of a hedging transaction is measured on the basis of the cumulative dollar offset method for each quarter, i.e. the cumulative cash flow changes of the underlying transaction are compared with the cumulative cash flow changes of the hedging transaction. Both the underlying transaction (hypothetical derivative) and the hedging transaction are measured using forward market rates and by applying the forward-to-forward method.

In the case of highly likely procurement transactions, definable risk components forming part of cash flow hedges can be designated as underlying transactions under IFRS 9. This facility is used in the Salzgitter Group to reduce the ineffectiveness of hedging relationships through commodity procurement transactions for iron ore and coking coal. As a result of the opportunity to designate definable risk components, the risk component of ship diesel no longer needs to be included when calculating the effectiveness of hedging iron ore and coking coal procurement transactions. For this reason, ineffectiveness was reduced to € 0.1 million in the financial year 2018 (previous year: € 1.2 million). Under IAS 39, it was not possible to designate individual risk components from procurement contracts for such transactions.

The Salzgitter Group applied financial year hedge accounting in accordance with IFRS 9 (previous year: IAS 39) for commodity futures (iron ore and coking coal swaps) and, to a minor extent, forward exchange contracts. In the process, it hedged the risks of changes in prices or exchange rates using cash flow hedges. The respective market values were as follows:

Positive market value in € m	**2018/12/31**	**2017/12/31**
Forward exchange contracts – cash flow hedges	2.0	0.0
Commodity futures – cash flow hedges	36.6	60.1
Total	**38.6**	**60.1**

Negative market value in € m	**2018/12/31**	**2017/12/31**
Forward exchange contracts – cash flow hedges	0.0	1.9
Commodity futures – cash flow hedges	1.5	–
Total	**1.5**	**1.9**

The underlying transactions that were secured using cash flow hedges will generally affect income within twelve months of the reporting date. The commodity future transactions will affect income in the financial years 2019, 2020 and 2021. Thanks to high effectiveness, the changes in value of the forward currency transactions are matched by almost identical underlying transactions. By comparison with the previous year, positive forward currency transactions increased by € 2.0 million and negative ones declined by € 1.9 million. Changes in the value of commodity future transactions were again reflected in almost identical underlying transactions due to the high level of effectiveness. By comparison with the previous year, positive commodity futures declined by € 23.5 million and negative ones increased by € 1.5 million.

The cash flow hedge reserve that was posted to equity with no effect on income (after tax) developed as follows:

In € m	**2018**	**2017**
As of 01/01	39.3	81.5
Write-up without effect on income	27.0	48.5
Write-down without effect on income	–	–1.9
Basis adjustment	–48.4	–65.3
Deferred tax basis adjustment	15.0	–
Realization	0.8	–5.7
Deferred tax	6.5	–17.8
As of 12/31	**25.1**	**39.3**

The volume of hedging transactions accounted for in hedge accounting as of the closing date:

2018	up to 1 year	over 1 year	Nominal volume	Average hedging rate
Hedging currency exchange risk USD	84.7	0.0	84.7	1.19
Hedging price change risk of iron ore in m t	1.3	0.9	2.3	53.29
Hedging price change risk of coking coal in m t	0.4	0.7	1.2	167.63

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 € 0.1 million (previous year: € 1.2 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 € 48.4 million (previous year: € 65.3 million) from expired forward exchange contracts was offset against the acquisition costs of non-financial assets (basis adjustment).

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 IFRS 9 (previous year: 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 or commodity price, 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 (%)	
	2018/12/31	2017/12/31	2018/12/31	2017/12/31	2018/12/31	2017/12/31
1 month	−0.3630	−0.3680	0.7303	0.4962	2.5027	1.5643
3 months	−0.3090	−0.3290	0.9124	0.5211	2.8076	1.6943
6 months	−0.2370	−0.2710	1.0347	0.5760	2.8756	1.8370
1 year	−0.1170	−0.1860	1.1703	0.7669	3.0054	2.1070
2 years	−0.1750	−0.1530	1.1565	0.7940	2.6550	2.0840
4 years	0.0630	0.1660	1.2650	0.9710	2.5730	2.2320
10 years	0.8140	0.8780	1.4270	1.2720	2.7114	2.4190

The liquidity structure of all the financial liabilities is as follows:

As of 2018/12/31 in € m	up to 1 year	1 to 5 years	over 5 years
Trade payables	1,130.2	–	–
Financial liabilities	431.5	302.2	0.1
Lease liabilities	8.5	19.3	5.9
Other liabilities	263.6	0.1	–

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 December 31, 2018, derivative financial liabilities with a term of under one year lead to disbursements of € 361.6 million (previous year: € 617.9 million), while those with a term of between one and five years lead to payouts totaling € 1.2 million (previous year: € 0.0 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 2018/12/31 in € m

	Gross book value	Offsetting amount	Net book value	Not offset amount	Total net book value
Positive market values derivates	52.2	–	52.2	3.3	48.8
Negative market values derivates	4.2	–	4.2	3.3	0.8

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 derivates	22.0	–	22.0	2.3	19.7

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.

2018/12/31	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	−39.6	−19.8	−59.4	43.1	25.2	68.3
GBP	0.5	4.4	4.9	−0.5	−5.3	−5.8
Other currencies	−3.1	1.4	−1.7	3.0	−1.8	1.2
Currency sensitivities	**−42.2**	**−14.0**	**−56.2**	**45.6**	**18.1**	**63.7**
Degree of sensitivity	+100 bp	+100 bp	+100 bp	−100 bp	−100 bp	−100 bp
Interest rate sensitivities	**−3.9**	**–**	**−3.9**	**2.2**	**–**	**2.2**
Degree of sensitivity	+10%	+10%	+10%	−10%	−10%	−10%
Coking coal	–	21.5	21.5	–	−21.5	−21.5
Iron ore	–	14.3	14.3	–	−14.3	−14.3
Others	0.4	–	0.4	−0.4	–	−0.4
Other price sensitivities	**0.4**	**35.8**	**36.2**	**−0.4**	**−35.8**	**−36.2**

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%
Coking coal	1.7	8.5	10.2	−1.7	−8.5	−10.2
Iron ore	1.7	14.8	16.5	−1.7	−14.8	−16.5
Others	0.2	–	0.2	−0.2	–	−0.2
Other price sensitivities	**3.6**	**23.3**	**26.9**	**−3.6**	**−23.3**	**−26.9**

(35) 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, 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 € 7.8 million (previous year: € 12.7 million). Dividend income received during the financial year 2018 amounted to € 16.5 million (previous year: € 21.3 million).

The investments disclosed in the cash outflow for investment activity include cash additions to intangible assets and property, plant and equipment as well as to non-current financial assets, in particular investments in shares in equity-accounted companies, as well as additions from recently acquired or newly founded companies, some of which are not consolidated for reasons of materiality, for capital increases in non-consolidated companies and for long-term securities (€ 20.1 million).

The cash inflows and outflows from/for financial investments comprise futures contracts and bond funds.

In € m	As of 2018/01/01	Cash inflow total	of which: Cash inflow from financing cash flow	Cash outflow total	of which: Cash outflow from financing cash flow	Addition/disposal from changes in consolidated group	Currency differences	Other changes	As of 2018/12/31	of which non-current
Bonds	157.9	–	–	–	–	–	–	4.0	162.0	162.0
Loan payables and other financial liabilities	513.7	192.1	15.9	–154.4	–16.8	2.2	2.2	0.2	556.0	129.2
Liabilities to banks	332.8	108.9	15.9	–69.3	–10.5	1.3	2.3	0.1	376.1	100.8
Liabilities from factoring	138.7	82.6	–	–78.5	–	–	–	–	142.7	–
Liabilities from financing	7.5	0.6	–	–0.0	–	–	–0.0	–	8.1	6.3
Liabilities from finance lease agreements	34.7	–	–	–6.5	–6.3	0.9	–0.0	0.1	29.2	22.1
	671.6	**192.1**	**15.9**	**–154.4**	**–16.8**	**2.2**	**2.2**	**4.2**	**718.0**	**291.1**

In € m	As of 2017/01/01	Cash inflow total	Cash outflow total	Of which: Cash outflow from financing cash flow	Addition / disposal from changes in consoli- dated group	Currency differ- ences	Other changes	As of 2017/12/31	of which non- current
Bonds	414.0	–	−0.1	−0.1	–	–	−255.9	157.9	157.9
loan payables 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	–	−4.3	0.0	332.8	241.6
Liabilities from factoring	144.9	43.1	−49.4	–	–	–	–	138.7	–
Liabilities from financing	8.0	0.0	−0.3	–	−0.1	−0.1	0.0	7.5	6.3
Liabilities from finance lease agreements	41.2	–	−6.5	−6.1	–	−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 in 2017 (€ –255.9 million) essentially pertain to the disposal of the bond exchangeable into the shares of Aurubis with no effect on earnings through the granting of shares.

(36) Acquisitions

On April 30, 2018, Mannesmann Stainless Tubes GmbH in Mülheim acquired 100 % of the shares in stainless steel tube producer SOTEP (Société Technique d'Etirage de Précision) headquartered in Issoudun, France. The fair value of the assets and liabilities acquired amounts to € 20 million and is mainly accounted for by customer relationships and property, plant and equipment. The consolidated Income Statement for 2018 includes income of € 11 million and a profit of € 0.3 million from SOTEP.

Founded in 1980, SOTEP is a specialist supplier of cold-finished, seamless stainless steel tubes in the premium segment in the aerospace, power plant, oil and gas industries. The company operates a plant in Issoudun in France with 65 employees, and in 2017 it generated sales in excess of € 10 million. With its acquisition of SOTEP, Mannesmann Stainless Tubes GmbH is expanding its product portfolio and sales markets.

(37) 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.

The accounting principles are the same as described for the Group in its Accounting and Valuation principles. The segment reporting does not take account of intragroup leases in accordance with IAS 17 or intragroup provisions pursuant to IAS 37. The same applies to derivatives settled within the Group pursuant to IFRS 9.

In contrast to the previous year, the effects of eliminating intercompany results for overarching group relationships are included in the supplier's segment. For the 2017 financial year, this results in an amount in the low, single-digit millions that is mainly accounted for by the Strip Steel and Plate / Section Steel business units. The profit and loss statements for individual business units therefore include the effects of eliminating intercompany results across all business units.

There are no relationships with individual customers whose sales represent a significant proportion of the Group's total sales. For an overview of sales by region, please see Note (1) "Sales" in the Notes to the Income Statement. Non-current assets are allocated to countries by their respective location, and country allocations are disclosed for intangible assets, tangible assets and property investments.

In € m	2018	2017
Domestic	2,232.1	2,297.4
Other EU	95.6	86.3
Rest of Europe	0.1	0.1
America	83.0	59.3
Asia	9.7	9.0
Africa	1.2	1.0
Australia / Oceania	1.8	1.9
	2,423.4	**2,454.9**

The transition of total segment sales and segment results to, respectively, consolidated sales and the consolidated result from ordinary activities is disclosed in the following overviews:

In € m	2018	2017
Total sales of the segments	11,345.9	10,867.8
Industrial Participations	413.4	400.3
Consolidation	–2,481.1	–2,277.9
Sales	**9,278.2**	**8,990.2**

In € m	2018	2017
Total results of the segments for the period	318.9	195.8
Industrial Participations	33.7	25.2
Consolidation	–5.3	17.0
Earnings before taxes (EBT)	**347.3**	**238.0**

(38) 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	
	2018	2017	2018	2017
Non-consolidated group companies	45.3	32.7	20.7	10.7
Joint ventures	259.0	308.0	3.1	140.3
Joint operations	4.1	8.9	1.1	1.5
Investments accounted for using the equity method	1.5	2.1	5.4	–
Other related parties	1.9	0.1	2.2	1.1

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	
	2018/12/31	2017/12/31	2018/12/31	2017/12/31
Non-consolidated group companies	42.4	17.2	3.0	5.9
Joint ventures	10.8	43.2	0.2	0.2
Joint operations	49.1	58.0	30.7	34.7
Investments accounted for using the equity method	0.5	–	0.0	–
Other related parties	2.7	6.6	102.9	95.5

Receivables from companies with joint operations include a loan receivable from Hüttenwerke Krupp Mannesmann GmbH, Duisburg, 30% consolidated, amounting to € 48.1 million (previous year: € 56.7 million) after consolidation.

The sale of goods and services largely consists of the delivery of input materials for manufacturing large-diameter pipes.

Contingencies totaling € 7.8 million (previous year: € 14.6 million) exist in relation to non-consolidated associated companies.

(39) 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	2018	2017
Audit services	2.7	2.8
Other certification or assessment services	0.2	0.1
Tax consulting services	0.0	0.0
Other services	0.0	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 to energy certifications and EMIR audits conducted on behalf of Salzgitter AG and the companies it controls. In addition, tax advisory services were provided to an insignificant extent, particularly concerning the area of transfer pricing documentation.

(40) Significant events occurring after the reporting date

There were no significant events occurring after the reporting date.

(41) Waiver of disclosure and preparation of a management report pursuant to Section 264 para. 3 of the 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 264b of the German Commercial Code (HGB) and are therefore exempted from disclosure of their financial statements and from the obligation to prepare a management report.

- Salzgitter Mannesmann GmbH, Salzgitter[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
- Salzgitter Mannesmann Grobblech GmbH, Mülheim
- DEUMU Deutsche Erz- und Metall-Union GmbH, Peine[1) 2)]
- BSH Braunschweiger Schrotthandel GmbH, Braunschweig[1)]
- 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)]

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.

- 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) 2)]
- Salzgitter Hydroforming Verwaltungs GmbH, Crimmitschau[1)]
- Salzgitter Automotive Engineering Beteiligungsgesellschaft mbH, Osnabrück[1) 2)]
- Salzgitter Automotive Engineering GmbH & Co. KG, Osnabrück[1)]
- Salzgitter Automotive Engineering Immobilien GmbH & Co. KG, Osnabrück[1)]
- RSE Projektentwicklungs-GmbH, Mülheim[1)]
- Verkehrsbetriebe Peine-Salzgitter GmbH, Salzgitter[1) 2)]

[1)] Use was made of the option under Section 264 para. 3 and Section 264b 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.

(42) 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 Board 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)	
	2018	2017	2018	2017
Current members of the Executive Board	4.4	3.8	0.8	0.8
Members of the Supervisory Board	1.7	1.7	–	–
Other members of key management personnel	3.2	3.1	0.3	0.4

In the previous year, members of key management personnel received additional payments of € 0.5 million due to the termination of an employment contract.

In addition to the amounts disclosed, 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)	
	2018/12/31	2017/12/31	2018/12/31	2017/12/31
Former members of the Executive Board	–	–	51.0	58.1
Current members of the Executive Board	1.9	1.5	29.2	25.9
Members of the Supervisory Board	–	–	–	–
Other members of key management personnel	1.5	1.3	6.0	7.2

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 of € 0.4 million for reason of termination of the employment relationship was only disbursed in the 2018 financial year.

Former members of the Executive Board and their surviving dependents received pensions totaling € 2.9 million (previous year: € 2.8 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".

(43) Assurance from the Legal Representatives

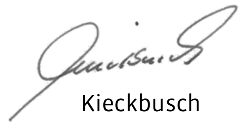
We give our assurance that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and that the course of business, including 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 fairly described.

Salzgitter, March 21, 2019

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, 2018, 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, 2018, 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, 2018. In accordance with the German legal requirements, 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 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, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, 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") 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 Consolidated Financial Statements and of the Group 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, 2018. 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

Our presentation of these key audit matters has been structured in each case 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 In the consolidated financial statements of the Company a total amount of € 2,339.9 million is reported under the “Intangible assets” and “Property, plant and equipment” balance sheet items. 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 rates of growth 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 methodology used for the purposes of performing 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. In the knowledge that even relatively small changes in the discount rate applied can have material effects on the value of the entity calculated in this way, we also

focused our testing in particular on the parameters used to determine the discount rate applied, including the weighted cost of capital, and evaluated the calculation model. 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 parameters 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, 9 and 10 of the notes to the consolidated financial statements.

(2) Deferred tax assets in particular relating to tax loss carryforwards

1 In the consolidated financial statements of the Company deferred tax assets of € 399.1 million, of which € 97.7 million represent tax loss carryforwards, are reported. Deferred tax assets are recognized on temporary differences and tax loss carryforwards to the extent that the executive directors consider it probable that taxable profits 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 2019 to 2021. In addition, there are deferred taxes on temporary differences amounting to € 82.4 million, relating mainly to German companies, and German trade and corporation tax loss carryforwards amounting to € 1,279.6 million and € 1,642.4 million, respectively, as well as foreign loss carryforwards amounting to € 106.3 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 As part 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 2019 to 2021, and we evaluated the appropriateness of the underlying estimates.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3 The Company's disclosures relating to 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 14.

(3) Pension provisions

1 In the consolidated financial statements of the Company pension provisions totaling € 2,275.5 million (26% of consolidated total assets), a portion of which is funded by plan assets (mainly investment funds), are reported under the "Provisions for pensions and similar obligations" balance sheet item. The pension provisions comprise the present value of the obligations amounting to € 2,350.7 million, net of plan assets measured at fair value of € 75.2 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 maturities. This usually requires the data to be extrapolated, since sufficient long-term corporate bonds do not exist. Changes to these actuarial assumptions and experience adjustments are recognized in other comprehensive income as actuarial gains or losses. Actuarial losses amounting to € 123.5 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 expense for 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 revaluation and amounted to € 2.3 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 As part of our audit, we evaluated, with the assistance of our pensions specialists, the actuarial expert reports obtained and the professional qualifications of the external experts, among other things. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with standards and appropriateness, in addition to other procedures. In addition, we analyzed the development of 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 assessed 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 were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3 The Company's disclosures relating to the pension provisions are contained in the section entitled "Accounting and Valuation Principles" and in note 26 of 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 comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial 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 determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic 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 with 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 of 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 controls.

- 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 assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted 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 business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group 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 group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the 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 express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is 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 independence requirements, and communicate with them all relationships and other matters that may reasonably 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 therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public 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 May 24, 2018. We were engaged by the supervisory board on June 14, 2018. We have been the group auditor of Salzgitter Aktiengesellschaft, Salzgitter, without interruption since financial year 1938.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to 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 21, 2019

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.

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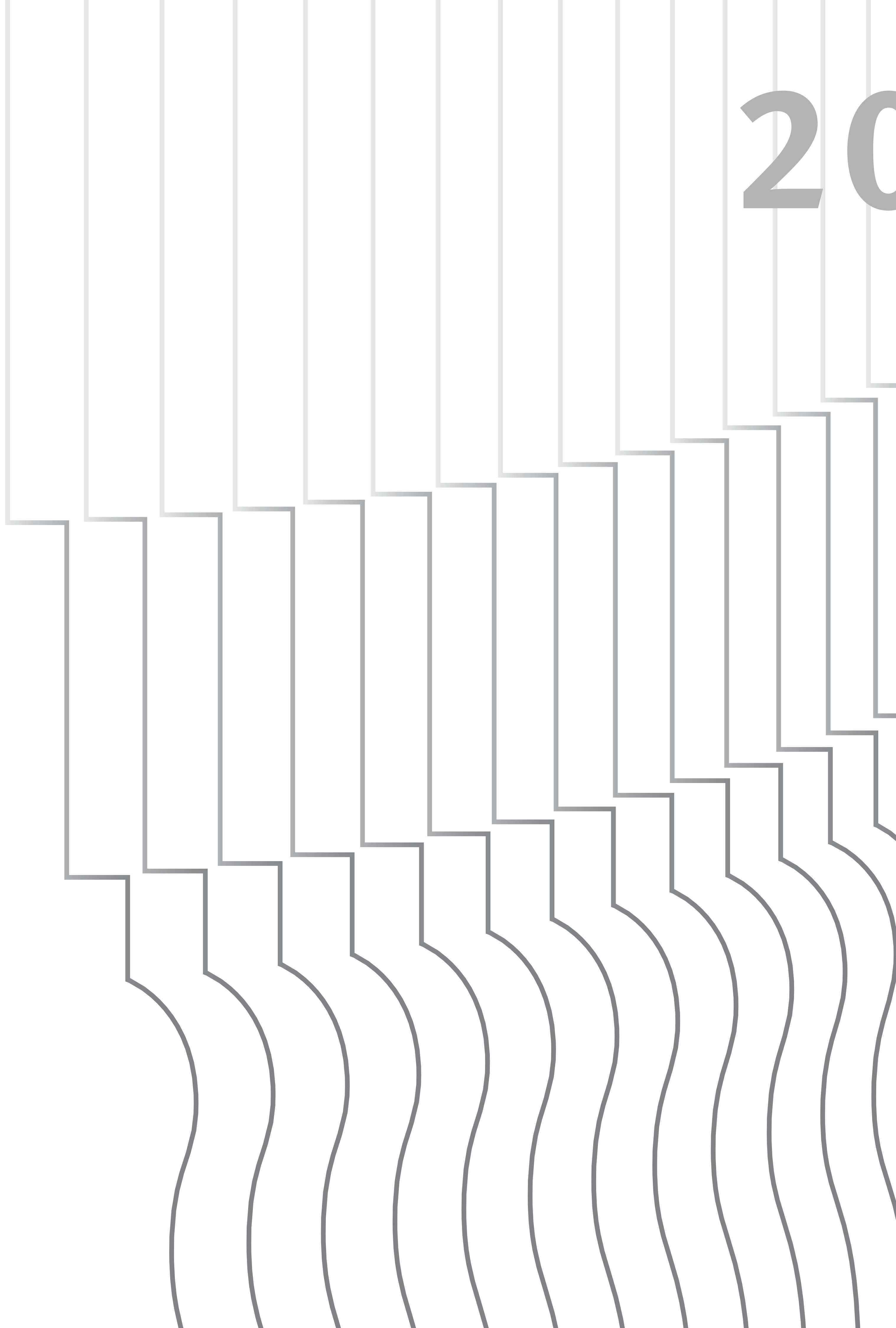
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